# ANGOLA: SYSTEMATIC COUNTRY DIAGNOSTIC

# CREATING ASSETS FOR THE POOR

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WORLD BANK GROUP
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MIGA Multilateral Investment Guarantee Agency

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## Abbreviations

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|---|---|
| AJAPRAZ | Association of Angolan Youth from the Republic of Zambia |
| AML-CFT | Anti-Money Laundering and Counter-Financing of Terrorism |
| ANS | Adjusted Net Savings |
| ATM | Automated Teller Machine |
| CACS | Councils for Social Consultations |
| CASA-CE | Broad Convergence for the Salvation of Angola - Electoral Coalition |
| CBR | Correspondent Banking Relationship |
| CNIDAH | Commission for Humanitarian Demining and Assistance |
| CUT | Single Treasury Account |
| DHS | Demographic and Health Survey |
| ECCAS | Economic Community of Central African States |
| Endiama | *Empresa Nacional de Diamantes de Angola* |
| FAO | Food and Agriculture Organization |
| FAOSTAT | Food and Agriculture Organization Statistical Databases |
| FCV | Fragility, Conflict, and Violence |
| FDI | Foreign Direct Investment |
| Ferrangol | *Empresa Nacional de Ferro de Angola* |
| FGT | Foster-Greer-Thorbecke Headcount Ratio |
| FNLA | National Front for the Liberation of Angola |
| GBV | Gender-Based Violence |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GoA | Government of Angola |
| GP | Global Practice |
| GSM | Global System for Mobile Communications |
| HDI | Human Development Index |
| I2D2 | International Income Distribution Dataset |
| IBEP | People's Well-being Inquiry |
| ICSID | International Center for Settlement of Investment Disputes |
| ICT | Information and Communication Technology |
| IDR | Integrated Data Repository |
| IFC | International Finance Corporation |
| IGF | General Inspectorate of Finance |
| IMF | International Monetary Fund |
| INAPEM | National Institute to Support Small and Medium Enterprises |
| INDC | Intended Nationally Determined Contribution |
| INE | National Institute of Statistics |
| LDC | Least-Developed Country |
| LMIC | Lower-Middle-Income Country |
| MAG | Mines Advisory Group |
| MDG | Millennium Development Goal |
| MIGA | Multilateral Investment Guarantee Agency |
| MINAGRIF | Ministry of Agriculture and Forestry |
| MPDT | Ministry of Planning and Territorial Development |

| | |
|---|---|
| MPLA | People's Movement for the Liberation of Angola |
| MSMEs | Micro, Small, and Medium Enterprises |
| NDP | National Development Plan |
| NNS | Net National Savings |
| NPA | Norwegian People's Aid |
| OECD | Organisation for Economic Co-operation and Development |
| OPDA | *Fundo do Diferencial do Preço do Petróleo* (Oil Price Differential Account) |
| OPEC | Organization of Petroleum Exporting Countries |
| PFM | Public Financial Management |
| PIM | Public Investment Management |
| PIP | Public Investment Program |
| PPP | Purchasing Power Parity or Public-Private Partnership |
| RRA | Risk and Resilience Assessment |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SCD | Systematic Country Diagnostic |
| SIGFE | Integrated Management Information System |
| SIPIP | Integrated Public Investment Management System |
| SMEs | Small and Medium Enterprises |
| SNCP | *Serviço Nacional da Contratação Pública* |
| SOE | State-Owned Enterprise |
| Sonangol | *Sociedade Nacional de Combustíveis de Angola, E.P.* |
| TFP | Total Factor Productivity |
| TVET | Technical and Vocational Education and Training |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations Children's Fund |
| UNITA | National Union for the Total Independence of Angola |
| UPA | Union of the Peoples of Angola |
| VAT | Value Added Tax |
| WHO | World Health Organization |
| WRM | Water Resources Management |

## EXECUTIVE SUMMARY

**Angola is endowed with significant natural wealth, but it will need to better manage these resources and reinvest them into other forms of capital to establish a sustainable development path.** Before independence, the country was a relatively advanced economy with diverse exports, although its population suffered under exploitative colonial rule. Decades of conflict, during the fight for independence and the civil war that followed, exacted a heavy toll on the population, infrastructure, and the economy. The end of the war in 2002 and a booming oil industry resulted in strong economic growth, but the poor saw very little benefit from this economic prosperity. The dependence on oil exports has created macroeconomic instability, and Angola has suffered periods of fiscal contraction due to fluctuations in commodity prices. Although the country has enjoyed strong gross domestic product (GDP) growth, this has been achieved by depleting natural capital for consumption, rather than reinvestment in other types of capital to generate sustainable growth. The recent change in leadership represents a window of opportunity for political and economic reform that will allow Angola to put itself on a path toward sustainable development.

**The Systematic Country Diagnostic (SCD) for Angola identifies pathways and priorities to eradicate poverty and boost shared prosperity by 2030.** After providing the historical context of Angola, the SCD applies the concept of the "Changing Wealth of Nations" and identifies four binding constraints for Angola to reach the World Bank's twin goals. Oil dependency in conjunction with a low global oil price creates macroeconomic and fiscal imbalances, constraining sustainable growth and poverty reduction in Angola. A weak private sector is unable to provide a sustained growth momentum, further constraining growth and poverty reduction. The poor remain excluded from growth, limiting realized growth, but more importantly, manifesting high poverty levels. Finally, weak governance is a cross-sectoral binding constraint contributing to unsatisfactory policy outcomes. The SCD ranks areas of intervention for each binding constraint and selects the top 10 priorities to overcome the binding constraints. With a new government in place, Angola is at a critical juncture to pursue a sustainable development path to reach poverty eradication and shared prosperity. Based on the presented analysis, the 10 prioritized areas of intervention will help reach this goal.

**Data gaps for Angola, in terms of availability, quality, and timeliness of data, make comprehensive, evidence-based decision making difficult.** Information is lacking in several key areas, including both fundamental macroeconomic and microeconomic indicators, as well as sector-specific data for agriculture, urbanization, water, and entrepreneurship. Partly due to these data gaps, key analytical work for Angola is missing. The most recent poverty estimates are from 2008, but without an accompanying Poverty Assessment. The last Country Economic Memorandum is from 2007. No Jobs Diagnostic is available. This report fills these gaps by utilizing new analytical work conducted for the SCD as well as an early draft of the Country Economic Memorandum currently under preparation.

*The people of Angola suffered more than 40 years of almost constant conflict, first in opposition to Portuguese colonial rule and later in a devastating post-independence power struggle, but now there is new hope emanating from the new President João Lourenço.*

**The Republic of Angola is rich in natural endowments and is the third-largest economy in Sub-Saharan Africa.** The country has a population of about 26 million, with over 27 percent living in the Luanda Province that is home to Angola's capital city. About 37 percent of the population live in rural areas. Angola is the second largest oil producer in Africa, after Nigeria, and owns substantial diamond deposits. The country also has major productive potential for agriculture and fisheries.

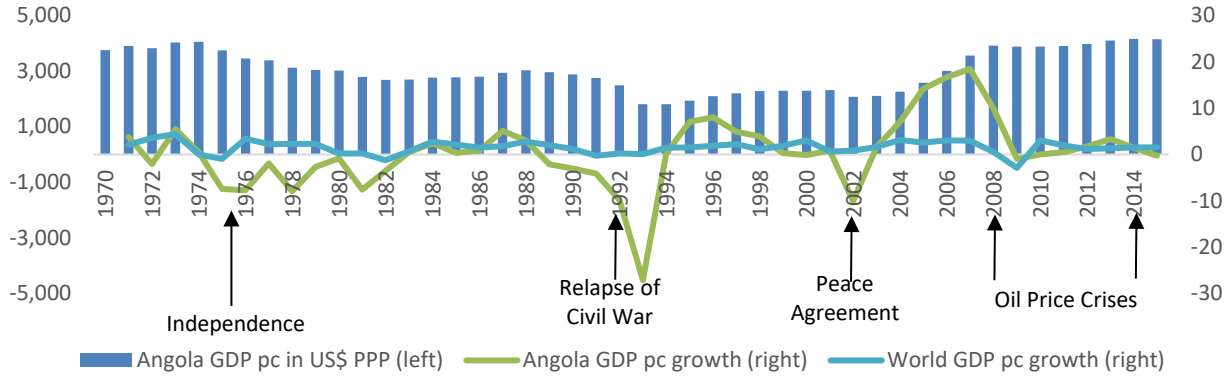
**Portuguese colonization created a thriving export economy, but Angolans worked under exploitative conditions and were excluded from the benefits of growth.** Attracted by its strong economic growth in the 1960s, Luanda became the second largest settler presence in Sub-Saharan Africa after South Africa. Local laborers were however working under exploitative conditions, and companies relied heavily on foreign workers for tasks requiring technical skills. The absence of any meaningful skills transfer created a dependency on foreign workers that is still very much evident today.

**Independence movements brought independence in 1975, but the country fell back into civil conflict soon after.** In 1974, after 13 years of war against the colonial power, a military coup in Portugal triggered the Carnation Revolution. Angola's three main military and political parties agreed to negotiate in unity with the Portuguese. The country gained independence in 1975. However, the unity government quickly fell apart and the civil war began.

**The government led by the People's Movement for the Liberation of Angola (MPLA) embraced a command-economy, inducing rapid and large-scale nationalization.** Those policies, as well as the independence war and the ongoing civil war, led to the departure of most foreign companies and their expatriate workers, who occupied most technical, managerial, and government jobs. This loss of technical and managerial experts severely damaged or eliminated most modern industrial production. Corruption and an inefficient use of public funds further disrupted economic output. Only in 1990 did the government formally abandon Marxism and declared Angola to be a social democracy.

**The cost of the civil conflict was immense, with the country's infrastructure and institutions left in shatters.** Between half a million and a million people were killed, with uncounted numbers wounded and maimed. An estimated 3.7 million people became refugees or were internally displaced, often migrating to the cities. The social costs were also enormous as an entire generation of Angolans were left without proper schooling and health care. The depopulation of the rural areas further entrenched regional disparities that began with the focus on coastal areas during the colonial period.

**Angola experienced sustained economic growth following the end of war in 2002, until a drop in international oil prices triggered an economic crisis in 2014.** Fueled by high oil production and oil prices, Angola's GDP per capita doubled from US$2,079 in 2002 to US$4,164 in 2014. The sustained growth established the Republic of Angola as the third largest economy in Sub-Saharan Africa and the second largest oil producer in Africa. However, the 2008 and the 2014 commodity price shocks showed structural weaknesses of Angolan economy due to a lack of economic diversification and consequent natural resource fiscal dependency. Since 2014, a structurally low oil price deprived Angola's growth momentum and created large macroeconomic imbalances.




*Note:* PC = per capita; PPP = Purchasing Power Parity.

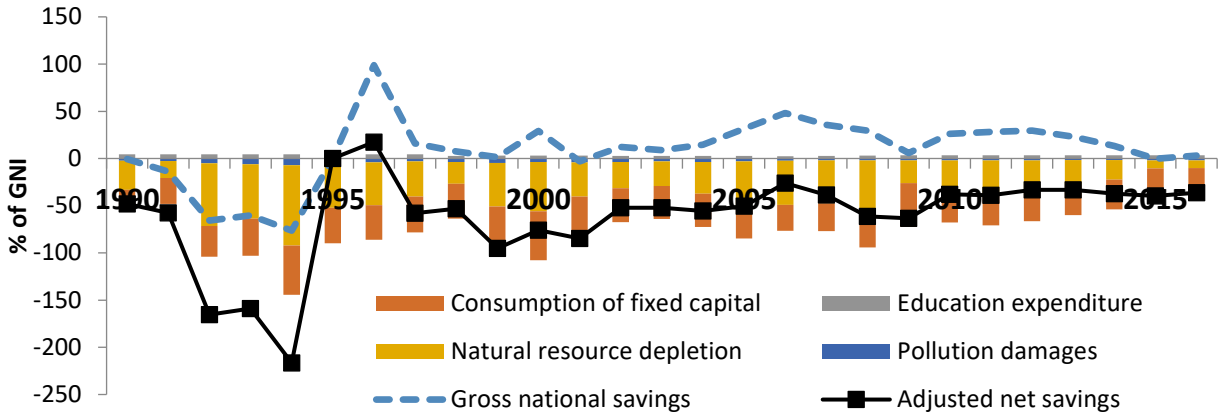
**The 38-year presidency of José Eduardo dos Santos ended in 2017, allowing a new government under the leadership of João Lourenço to tackle the imminent development challenges.** After the civil war, the victorious MPLA consolidated power extending its narrative from accomplishing independence to ending the long civil war. In September 2017, following parliamentary elections, João Lourenço was inaugurated as President, marking the first peaceful political transition since independence. His popularity has soared because of his commitment to tackling corruption and repatriating illicit financial flows, as well as delivering long-promised economic, political, and social reforms such as strengthening competition and furthering decentralization.

*Angola has the worst disinvestment rate of any Sub-Saharan African country and has relied largely on the exploitation of natural resources for growth.*

**Angola has experienced very strong growth in recent years, but this has not translated into sustainable investments to help the poor.** The main barrier for equitable, long-term growth has been the inability of the government to convert the country's considerable natural resource wealth into other forms of capital. Resources in Angola have been used to increase consumption but have not been reinvested with a view to long-term development.

**On average, countries in Sub-Saharan Africa have tended toward disinvestment.** GDP can be a misleading indicator, as asset liquidation will increase GDP while depleting the resource base of a country. The changes in the wealth of a nation are better measured by adjusted net savings (ANS), a metric that indicates whether a country is investing sufficiently today for future development. ANS is a measure of gross national saving minus depreciation of produced capital, depletion of natural capital, plus public expenditures for education. For Sub-Saharan Africa, gross national saving is estimated at just under 20 percent of gross national income (GNI) in most years. Natural resource depletion is one of the key drivers of dissaving in the region.

**Angola has the worst rate of disinvestment in Sub-Saharan Africa.** Resource-rich countries tend to have negative saving because they exploit their natural resources to increase current income, but at a cost for future development. Angola's ANS remained strongly negative for almost all years since 1990. From 1990 to 2015, it was the lowest in the region at −67.8 percent of GNI, followed by Republic of Congo at −49.8 percent and Equatorial Guinea at −38.8 percent. No Sub-Saharan African country has a worse disinvestment rate than Angola, and more than half of these countries had positive investments in their wealth between 1990 and 2015.




**Angola is still highly reliant on natural resources and is lacking human capital,[1] especially in comparison to upper-middle-income countries.** Angola's wealth composition is similar to Sub-Saharan African countries, even though it relies more on natural capital (38 percent versus 36 percent in 2014) while staying behind in human capital (41 percent versus 50 percent in 2014). Comparing Angola to its peers in terms of income, however, Angola performs considerably worse. Lower-middle and especially upper-middle-income countries rely much less on natural resources (27 percent and 17 percent in 2014) compensating with considerably higher human capital shares (51 percent and 58 percent in 2014). The absence of a considerable trend in Angola to accumulate human capital since 1995 is particularly worrisome, as countries increase their share of human capital with development.

**Poverty reduction and employment growth have not been responsive to economic expansion, creating the need of a new job-centered growth paradigm.** From 1992 to 2015, real value added increased by 229 percent, while employment increased by only 116 percent. Angola's booming oil industry contributed significantly to national output but was not able to create many new jobs. The elasticity of employment growth to economic growth was particularly low (0.13) between 2003 and 2008, when oil prices were rising and GDP growth was extremely high. The disproportionate distribution of employment and productivity across sectors is worrisome. Productivity dwindles in the sectors that concentrate the most workers—agriculture and services—and is drastically higher in capital-intensive industries that have limited capacity to generate jobs. The challenge will be to create more productive jobs for the burgeoning youth population, who are better educated and are not finding good jobs.

*A reliance on natural resource exploitation as the main driver of growth has brought excessive macroeconomic volatility to Angola, representing the first binding constraint for economic development.*

**Angola's economy is highly dependent on revenue from oil exports.** A reliance on natural resource exploitation as the main driver of growth has generated excessive macroeconomic volatility, becoming a binding constraint to economic development. A volatile economic environment makes it difficult for economic agents to make decisions about investment and resource allocation. The economic concentration around oil production, coupled with unstable oil prices, creates volatility that is passed on to key macroeconomic variables such as GDP growth, inflation, exchange rates, and debt.

**The dependence on oil is not sustainable and has limited the diversification of the country's economy, constraining growth.** Angola is currently the second largest oil producer in Sub-Saharan Africa, but its

[1] Human capital is a population's health, skills, knowledge, experience, and habits (Becker 1964). More and better investments in human capital are now widely recognized not only as having intrinsic value but as essential for growth and competitiveness. World Bank (Forthcoming)..

proven reserves are limited. In 2017, oil production reached 1.64 million barrels per day, almost on par with Nigeria's 1.66 million barrels per day. However, Angola's oil production is not sustainable as its reserves are expected to be exhausted by 2032. Oil dependence has been a lasting feature of the economy, and petroleum products have comprised between 87 percent and 98 percent of total annual exports since 1990. The dependence on oil prevents the country from enjoying the benefits of economic diversification, including trade openness and export diversification leading to higher growth.

**Oil price volatility has caused cycles of boom and bust.** From 2004 to 2008, higher oil prices generated budget surpluses and allowed for declining debt ratios. Oil revenues rose rapidly, going from 24.3 percent of GDP in 2004 to 35.2 percent of GDP in 2008. Current expenditures and investments increased significantly on the back of booming oil revenues, and investments grew by more than sixfold over that period. When oil prices fell sharply in 2008 and 2009, the instability brought by excessive oil dependence became painfully evident for Angola. The country's current revenues shrank by almost two-thirds and the current account balance flipped from a surplus of 8.1 percent of GDP to a deficit of 11.7 percent in the following year. After a second period of oil-fueled growth between 2009 and 2013, with GDP growth rates averaging 5.1 percent per year, oil prices declined in 2014 even further and remained low for a longer time. Angola's GDP growth fell to zero in 2016. The Central Bank pursued a policy mix of exchange rate devaluations and quantity controls that ended up hurting business and was ineffective in taming inflation, which peaked at 42 percent in 2016. Later, the re-pegging of the kwanza and tightening of monetary conditions were effective in controlling inflation, and it dropped below 20 percent before the end of 2018. The fiscal impact of the oil price collapse was also substantial and forced significant fiscal adjustment.

**Weak fiscal policy increases vulnerability to commodity price fluctuations, although recent fiscal consolidation efforts have had some success.** After the oil price drop in 2014, oil revenues more than halved in one year down to only 9.4 percent of GDP in 2015. Faced with a primary budget deficit, the government significantly cut current expenditures and investments. With a difficult debt situation and declining oil production, Angola needs to pursue a gradual but consistent fiscal consolidation by boosting non-oil revenues while moderately increasing selected social expenditures. The government has pursued a reduction in spending, with current expenditure as a share of GDP falling from 29.4 percent in 2014 to 20.7 percent 2017. Furthermore, inflation caused a reduction in public wages as a share of GDP and spending on subsidies was reduced. Despite this progress, expenditure composition and expenditure efficiency still have considerable room for improvement. Relative to peers, Angola still overspends on subsidies and underspends on agriculture, education, health, and social protection.

**Debt sustainability has become a challenge.** The debt-to-GDP ratio reached 65.3 percent in 2017, almost double its 2013 level. This reflected large financing gaps since 2014, but also the effect of the currency devaluation on the large share of the debt denominated in foreign currency. Debt has not only reached high levels by emerging markets standards, but the speed of accumulation, the large gross financing needs in the coming years, and the deteriorating composition have become a challenge. These risks are compounded by weak debt management practices and poor communication and transparency with the market. Currently, debt remains sustainable in a baseline scenario, but with increased risks to growth, exchange rate, oil price, and contingent liability shocks.

**The low level of tax collection imposes limitations to the revenue side of the equation.** Tax laws in Angola are complex and riddled with multiple exemptions. Compliance costs are high, as there are no mechanisms for simplified tax returns for small and medium taxpayers, who often lack the technical capacity and scale economies to understand the opaque tax code and fulfill their liabilities. The non-registration of taxpayers, especially outside Luanda, contributes to low revenue collection and the overall compliance gap. These shortcomings have resulted in a very narrow non-oil tax base for Angola. Recent reforms have substantially improved the quality of tax administration, and a value added tax (VAT) will

soon be implemented, which could potentially add revenue equivalent to about 1.6 percent of GDP in net terms.

*A lack of growth in the private sector is the second binding constraint for economic development, limiting the potential of sectors like agriculture and manufacturing.*

**Angola's private sector is defined by weaknesses concerning available inputs, factors of production, and the role of institutions.** There continue to be major impediments to large-scale foreign investment, and reforms will need to be enacted to improve competitiveness and facilitate the financing of new business initiatives. The country possesses significant non-oil endowments that were previously exploited but saw productivity plummet due to conflict. Such areas of economic potential include agriculture, mining, fisheries, manufacturing, and information and communication technology (ICT). These represent important opportunities for Angola, and a fair and freely competitive private sector can help feed their growth.

**Government influence in the productive economy is still pervasive, crowding out the growth of the private sector.** Large segments of the economy in Angola are not only controlled by state-owned interests but also by actors that are associated with political parties and the security forces. The Government of Angola (GoA) holds billions of dollars in real estate and productive assets, distributed across line ministries, or in the hands of state-owned enterprises (SOEs). The SOE sector in Angola is inefficient and has only been profitable owing to oil revenues. Without oil revenues from Angola's state-owned national oil company, the SOE sector would have posted net losses of approximately US$200 million in 2012. SOEs operate in traditional public services, such as electricity and water, but they also exist in the sectors of transportation, telecom, and media. The large presence of inefficient SOEs limits opportunities for the entry of most cost-effective private initiatives.

**The weak business climate is an impediment to private investment.** The formal private sector in Angola is small and is concentrated in commerce and services in Luanda. Foreign investment is weak outside of oil and gas—82 percent of total international investment flows between 2003 and 2017 were concentrated in oil and natural gas, while agribusiness received a mere 6 percent. Foreign investors were deterred by a restrictive visa regime and investment policy, as well as forex restrictions that impeded profit repatriation. Many of these restrictions have been relaxed, as the government steps up its efforts to attract foreign investors.

**Competitiveness is hindered by an unfavorable regulatory environment and high barriers to entry.** Angola ranked 137 out of 140 countries on the Global Competitiveness Index 2018. The economy continues to suffer from a difficult regulatory environment, a challenging macroeconomic framework, weak infrastructure, and inadequate human capital. A heavy bureaucracy creates opportunities for corruption and the discretionary application of regulations, although the newly elected President has taken concrete steps to improve the business climate. Market contestability is very low and barriers to entry are high. Firms in Angola operate with very high input costs including self-generated electricity. Market distortions through subsidies and tariffs are also common. Difficult import and export procedures undermine Angola's ability to join regional and global value chains.

**Failing and inadequate infrastructure is an impediment to economic growth.** Only 17 percent of classified and urban roads are paved, and more than 70 percent of the country's road network was in an advanced state of deterioration at the end of the civil war. The rural accessibility gap is a serious impediment to growth, as road density remains very low, feeder roads are few, and bridges are lacking. The transportation gap also makes it difficult for the country to develop regional trade and discourages its neighbors from making greater use of the country's ports. The government has committed to major public expenditure in power production to keep up with growing demand. Only an estimated 34 percent

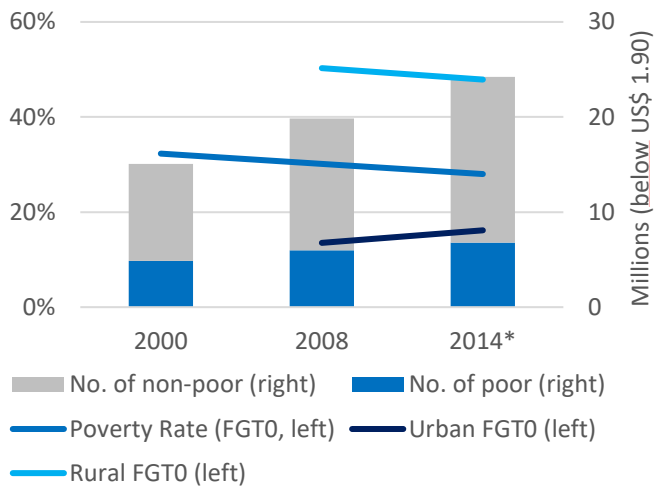
of the population has access to electricity at the national level and only 10 percent have access in rural areas. An inadequate and inconsistent power supply restricts private sector growth, as many businesses are forced to adopt a system of self-generation.

**Agriculture is a major sector of the Angolan economy, although productivity is low, and the country's abundant resources remain underutilized.** Agriculture accounted for roughly 12 percent of Angola's GDP in 2016, and in 2014, it was estimated that almost 68 percent of the country's economically active adults worked in the sector. The country has an abundance of land and water, as well as the diverse climatic and soil conditions needed to produce a large variety of foods. Of Angola's 57.4 million hectares of agricultural land, only about 8 percent to 14 percent is currently being used. Agricultural productivity is very low due to a lack of mechanization, undeveloped input markets, and poor road infrastructure. Productivity growth is being held back by a limited access to agricultural finance, an insufficient use of fertilizer, a lack of market information, and an absence of food processing facilities. Failing infrastructure limits access to both domestic and international markets.

*The exclusion of the poor from the benefits of growth is the third binding constraint for the development of Angola, as weak human capital outcomes constrain economic expansion and equity.*

**One of the strongest engines of long-run growth will be investment in human capital.** The benefits of the oil boom have accrued to only a small part of the population, and Angola will have difficulty maintaining growth rates over time if the gap continues to widen between those with and without access to socioeconomic opportunities. The productivity of Angola's future workers will be seriously impeded by shortcomings in health and education. The World Bank's Human Capital Index provides a simple, composite measure of the expected human capital of the next generation in a given country, combining indicators of survival, schooling, and health. On a scale of 0 to 1, Angola's Human Capital Index was 0.36 in 2018, pointing to weak education and health outcomes that limit the opportunities of the poor. While dimensions of, and factors behind such a low level of human capital are wide-ranged, adequate investments and delivery mechanisms in health, education, sanitation, and social protection are key ingredients.

**The poor have seen little benefit from recent economic growth, and nearly a third of Angolans still live in poverty.** In the decade after the end of the civil war, GDP per capita nearly doubled, from US$2,293 (PPP) in 2000 to US$4,164 in 2014. This impressive expansion of the economy nonetheless did very little to reduce poverty. The proportion of people living below the US$1.90 poverty line showed only a small decline, from 32.3 percent in 2000 to 28.0 percent in 2014. Rapid population growth and increasing urban poverty meant that the absolute number of poor in Angola increased from 4.9 million to 6.7 million over this period.



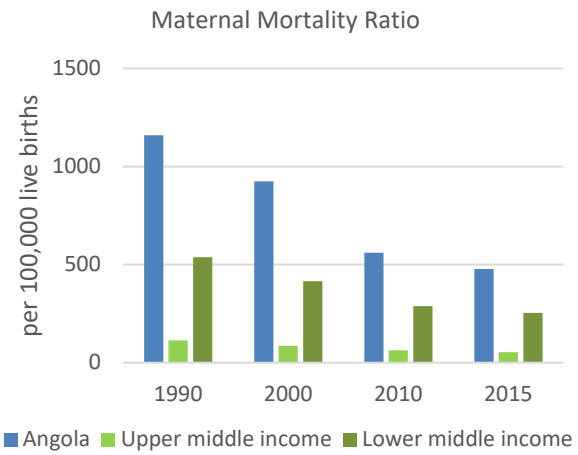

| Indicator | 2000–2005 | Most Recent | Year |
|---|---|---|---|
| Population (million) | 14.7 | 25.8 | 2016 |
| Population ≤ 20 years | 60% | 57% | 2016 |
| Fertility rate | 6.5 | 5.7 | 2016 |
| Population below poverty line US$1.90 a day | 32% | 28% | 2014 |
| Population below poverty line US$3.10 a day | 54% | 55% | 2014 |
| Life expectancy at birth | 42.4 | 52.6 | 2015 |
| Under-five mortality (per 1,000 live births) | 250 | 68 | 2015 |
| HIV/AIDS prevalence | 3.9% | 2.2% | 2015 |
| Population knowing 3 ways of avoiding HIV | 18% | 45% | 2014 |
| Adult literacy rate | 33% | 71% | 2015 |
| Maternal mortality rate | 705 | 477 | 2015 |
| Net primary school attendance rate | 56% | 84% | 2011 |
| HDI rank (of 177 countries) | 166 | 150 | 2014 |
| Gini coefficient (income, 1995) | 0.54 | 0.47 | 2014 |

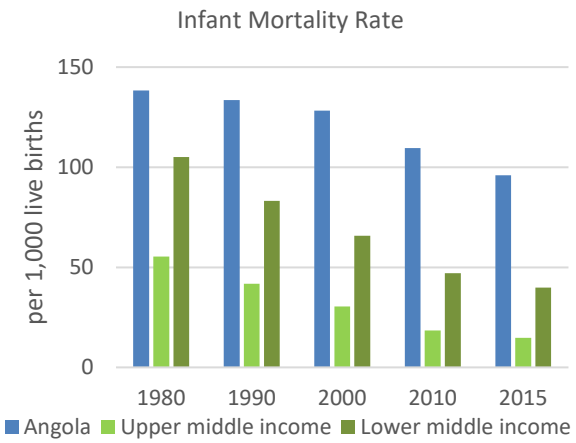
*Note:* HDI = Human Development Index. FGT= Foster-Greer-Thorbecke Headcount Ratio.

**The rural and slum populations have been particularly excluded from economic growth.** About two-thirds of the poor live in rural areas, where poverty is widespread due to weak connectivity, lack of basic services (electricity, water, sanitation, and so on), and an absence of markets. While migration to urban areas can help to improve livelihoods, the continuing increase of urban inequality shows the limitations of this solution. While slums are economically vibrant, many activities are informal and of limited productivity.

**Social protection spending in Angola has been significantly reduced and is well below levels in comparator countries.** Social protection spending decreased on average 20 percent per year, from 7.8 percent of GDP in 2010 to 2.2 percent of GDP in 2016. The bulk of this decrease came from the reduction of energy subsidies that have historically represented a large share of the national budget. Spending on social assistance (war-related pensions and transfers targeting the poor) remains weak, roughly a quarter of the level of other lower-middle income countries. While spending on benefits for veterans and victims of the war has decreased by 43 percent in real terms between 2015 and 2016, nonwar social assistance fell by 85 percent. The GoA has shown its determination to build a strong social safety net, but weak targeting continues to hinder its effectiveness.

**The rural poor continue to suffer from disproportionately bad health outcomes.** Angola's recent growth has helped improve the health of its population, but indicators still lag far behind those of other middle-income countries**.** The rural poor, in particular, still contend with very low access to health care compared to those who are able to afford private care. Access to services is also a problem, with pregnancy health checks and delivery services available in only 25 percent of rural facilities.




**Angola suffers from a scarcity of trained health care professionals, low public health expenditure, and weak investment in water and sanitation.** Angola has only 1 physician, less than 23 health care workers, and 63 nurses per 10,000 people. Rural areas are the worst hit by this scarcity, as 85 percent of health care workers are concentrated in the capital. Poor training and education contribute to low quality health care services in the country. Public health expenditure has been declining, dropping from 2.6 percent of GDP in 2013 to just 1.5 percent of GDP in 2015, and remains far behind the Sub-Saharan average of 5.4 percent. Limited access to improved water, sanitation, and hygiene services has detrimental public health consequences such as through waterborne diseases and child stunting. Nationally, only 41 percent of the population has access to basic or improved drinking water services (63 percent in urban areas and 24 percent in rural areas) and 39 percent to an improved sanitation (62 percent in urban areas and 21 percent in rural areas).

**The government commits insufficient resources to education, and low education levels limit economic opportunities especially for the rural population and women.** Despite some improvements over the last years, many children remain outside the school system, with net primary enrollment rates of only 66.4 percent for girls and 88.8 percent for boys. School attendance and school enrollment demonstrate an inequality of opportunity for the rural population as well as for women. There is a strong relationship between years of education and participation in paid employment, and investments in education can help strengthen Angola's economic development. Of workers who completed secondary school, 70.2 percent are in paid positions. In contrast, only 9.2 percent of workers without an education are engaged in paid work. Quality of education is also a problem, and the government has not committed sufficient resources to improving the situation. At about 3 percent of GDP, Angola's education spending is lower than the 4.4 percent average for Sub-Saharan Africa. More and better investments are required to meet the needs of the underfunded education system and boost the quality of the education being provided.

*Weak governance is the final, cross-cutting binding constraint for Angola, hindering institutional capacity and jeopardizing the existing fragile social contract.*

**The political system has historically been characterized by discretionary decisions, rampant corruption, and crony capitalism, constraining private sector growth and contributing to the exclusion of the poor.** Following their victory in the civil war, the MPLA governed the country with weak checks and balances in a dominant discretionary presidential system. Oil revenue windfalls allowed substantial discretionary spending, ensuring loyalty at the cost of institutional efficiency and rule of law. The result has been a weak

political system with limited accountability, low effectiveness, and rampant corruption. Together with the heritage of state-led development, this has created a form of crony capitalism in which the private sector is dominated by state-run and state-linked companies. Private sector growth has thus been constrained, due to oligopolies, barriers to entry, high operating costs, poor investor protection, and the need to pay commissions and kickbacks. The new administration has nonetheless taken some visible steps to promote competition and reclaim public funds lost due to corruption.

**Institutional centralization undermines effective service delivery.** The Angola administration remains highly centralized. A process of devolution was started in 2001 but was never completed despite the recognized necessity for a more independent administration at the local level. Limited capacity at the local level as well as ineffective coordination mechanisms constrain the decentralization process and its impact. The new administration has identified as one of its priorities the establishment of a system for the direct election of representatives at the municipal level. To complement the top-down approach of governance, efforts have been made for increased community participation in the decision-making process at the municipal and provincial levels.

**The weakness of legal institutions has a negative impact on citizens' trust.** The judiciary function in Angola is undermined by lack of adequate resources, and extensive political influence limits judicial independence. Municipal courts function in only 22 of 163 municipalities, and elsewhere crimes and conflicts are adjudicated by informal tribunals or local police. In 2014, Angola ranked extremely low on dimensions that track "undue influence" in institutions: 137/144 on judicial independence and 140/144 on favoritism in decisions of government officials. Law enforcement challenges remain widespread due to a lack of checks and balances, insufficient institutional capacity, and a culture of impunity.

**Gender gaps in Angola are large and the challenges are significant.** Women have lower access to productive inputs such as land and credit, both important for success as entrepreneurs and farmers. Women in Angola are often only able to access land through their husbands or sons, and they are less likely than men to borrow money to start or expand a farm or business. On a positive note, women are relatively well represented in political institutions. As of the 2017 elections, 31 percent of seats in the National Assembly were occupied by women, ranking Angola 47 worldwide. Finally, gender-based violence (GBV) is a persistent problem. About one-third of women in Angola have experienced physical violence at some point in their lives, with 22 percent experiencing it during the past year alone. The economic costs of GBV are high, including costs related to health care, earnings, productivity, taxes, and justice. While the government has enacted reforms to support victims of GBV, most interventions are aimed at the response and not prevention.

**The social contract is increasingly under stress from the oil price crisis and the growing demands of the youth.** Angola's social contract has been based on low-level equilibrium in which everyone was better-off owing to the end of violence after 27 years of civil war. Large revenues from oil allowed the government to fund this status quo through large public investments, especially in infrastructure, but without implementing the reforms required for a more inclusive and sustainable development path. A more youthful population with more than 50 percent below the age of 15 has hardly any direct memories of the civil war. The idea that a middle-class status was within reach for many was promoted through government commitments to economic diversification, job creation, and social housing. With the oil crisis dashing these expectations, the youth increasingly demand better opportunities to escape poverty. Increasing competitiveness in successive elections points to dissatisfaction, with the MPLA's results declining from 82 percent in the parliamentary elections of 2008 to 61 percent in 2017.

**The change in leadership represents a window of opportunity for a structural transition.** The legitimacy of the government could be strengthened through a progressive transformation of the long-standing closed, discretionary political system and its lack of accountability. Joao Lourenço has been leading the

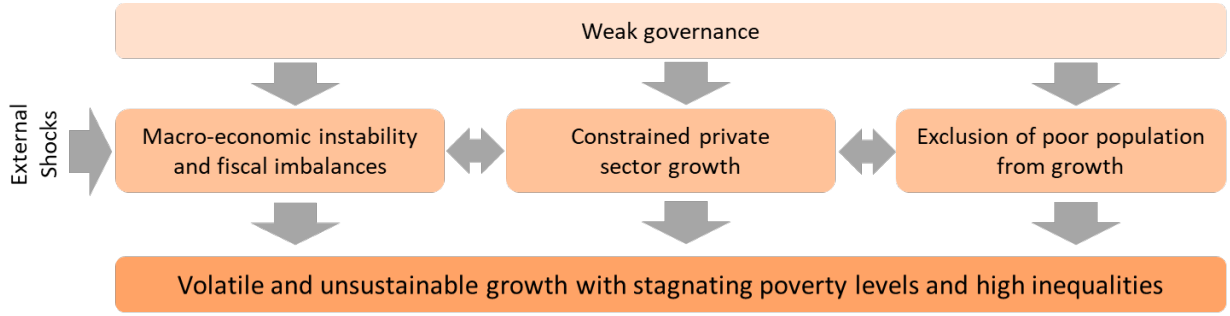
GoA since September 2017, and the new leadership has already taken several promising and potentially far-reaching steps to improve governance. These include new initiatives that aim to relax the control of the media, clamp down on monopolies, promote transparency in the public sector, modernize and privatize SOEs, improve the business regulatory environment, eliminate broad-based subsidies in favor of targeted social assistance, and complete political decentralization with an eye to improved service delivery.

*The binding constraints can be addressed through development pathways that work synergistically to help reach the twin goals of poverty reduction and shared prosperity by 2030.*

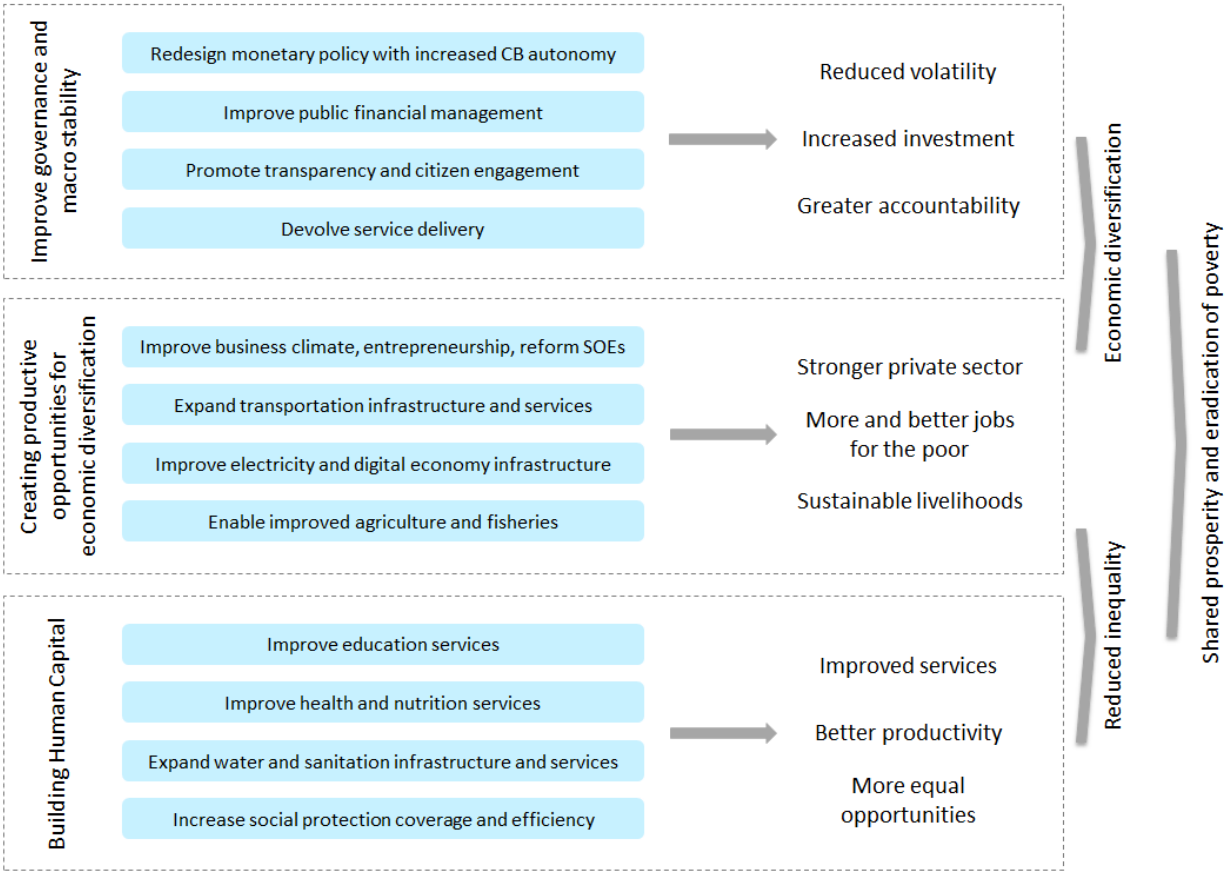
**Angola must embark on a new inclusive and sustainable development trajectory accumulating wealth instead of depleting it.** In 2014, Angola's economy was relying on natural capital to contribute a share of 38 percent, as opposed to only 20 percent produced capital and 41 percent human capital. In 2015, oil accounted for 95 percent of exports, further emphasizing the dependence on natural capital. Given that its limited oil reserves are expected to be exhausted in the next decade, Angola cannot continue to consume its natural wealth in this way.

**Economic diversification and capital accumulation will be crucial for lessening resource dependence and fostering growth.** Angola has the potential to develop other non-oil industries including agribusiness, fisheries, mining, and manufacturing. To capitalize on these areas of potential economic expansion, government policies will need to create incentives for industry growth, such as a better business climate, improved competitiveness, access to finance, and a reasonable tax burden with low compliance costs. Capital accumulation will be fundamental to establishing a sustainable growth path. Greater investment in produced capital, including power, transport, and water infrastructure, will serve to increase productivity and foster both domestic and international trade in the long run. Greater investments in human capital, notably more effective public education, health care, sanitation, and social protection services, will also be essential for increasing labor force participation and boosting productivity. The goal for Angola should be to convert its natural wealth in an environmentally conscious way into assets for the poor, in more sustainable forms of wealth, to create an inclusive society on a sustainable development path.

**Better governance is key to a more sustainable economy.** Weak governance holds Angola at a low-level equilibrium and is at the core of Angola's challenge to reach the twin goals of ending extreme poverty and boosting shared prosperity. It has led to macroeconomic instability and fiscal imbalance, as the economy presently lacks the diversification necessary to act as a buffer against external shocks, notably commodity price fluctuations. Inadequate governance has contributed to weak private sector growth, given that the private sector is dominated by state-led enterprises and suffers an inefficient regulatory framework. Weak governance has also exacerbated the exclusion of the poor from the benefits of growth, as widespread social inequality has not been seriously addressed and the poor continue to be limited in their participation in productive economic activities and their access to quality basic services. Given where Angola starts from, it will take time to move from a discretionary to a rules-based system.



**Angola's four binding constraints can be addressed through three identified development pathways.** A pathway of improving governance and macroeconomic stability seeks to create an environment conducive to long-term growth, both through better economic management and the empowering of a broader range of economic and political agents. A pathway of creating productive opportunities for economic diversification aims to overcome structural obstacles for job creation and quality employment so that the poor may enjoy a more meaningful and rewarding participation in the economy, while unlocking the productive potential of undeveloped industries. A pathway of building human capital will use public investment and better services, helping reduce persistent structural inequalities that have been impeding long-term growth while increasing the productive potential of the labor force. These three development pathways will work together to lift the binding constraints and move Angola toward becoming a more inclusive economy on a sustainable development path.




*Note:* CB = Central Bank

**Stronger governance and the pursuit of policies to increase macroeconomic stability can together create a solid foundation for economic diversification and social development.** Better economic management will be essential for promoting domestic and foreign investment, as well as enhancing the efficiency of the economy. Macroeconomic stability has been profoundly shaken by external shocks twice in the past 10 years, and greater safeguards will need to be built to ensure economic resilience. Economic reforms can also activate a virtuous cycle toward better governance, as the improvement of livelihoods will translate into power gains for the poor. The four identified priority areas of intervention for improving governance and macro stability are redesign monetary policy with increased Central Bank autonomy, improve public financial management (PFM), promote transparency and citizen engagement, and devolve service delivery.

**Creating productive opportunities for private sector investment and entrepreneurship will contribute to economic diversification and ultimately sustainable development.** Lifting barriers to entry can lead to the creation of new businesses and the expansion of existing industries, which will in turn generate more and better jobs for the poor while diversifying the economy. Many of Angola's poor are stuck in a low-level economic equilibrium, participating in activities with limited productivity. The private sector can offer sustainable opportunities to escape poverty by creating more and higher quality jobs but can only do so in an environment where doing business is easy. The four identified priority areas of intervention for creating productive opportunities for economic diversification are improve the business climate and foster entrepreneurship as well as reform SOEs, expand transportation infrastructure and services, improve electricity and digital economy infrastructure and services, and enable improved agriculture and fisheries.

**A renewed focus on building human capital will be essential for boosting productive capacity in the long run as well as promoting economic diversification.** Better services, including health care and clean water, will help boost human capacity both in the short and medium term, by raising productivity and creating employment opportunities for the poor. In the longer term, the betterment of children's educational attainment and health increases the accumulation of human capital during critical life cycle stages. Working together, such human capital initiatives can help break poverty cycles that trap poor households in the same socioeconomic stratum from one generation to the next. The four identified priority areas of intervention for building human capital are improve education services, improve health and nutrition services, expand water and sanitation infrastructure and services, and increase social protection coverage and efficiency to address shocks and boost human capital.

**Addressing gender gaps will require a comprehensive strategy with targets across various sectors and will also include intangible goals such as shifting gender norms and biases.** If not addressed, customs, beliefs, and behaviors that disempower women can work against progressive and well-intended policies to promote women's equality. Existing customary law reduces women's chances of accessing credit, as land is often required as collateral, thus reducing opportunities for entrepreneurship and growth. Gender roles concerning child care also have a negative impact on women's economic empowerment, as the expectation that women must care for children hinders their participation in the labor force. Better data on gender gaps will be needed to develop targeted policies, including information on the types of challenges women face, such as the time spent on unpaid and domestic work, and understanding their needs in terms of child care and safe transportation and infrastructure.

**Developing a capacity for adaptation and building resilience to climatic shocks are essential components of future economic growth in Angola.** Planned economic diversification will include a broader use of natural capital, implying that Angola must be particularly careful to think sustainably and maximize its climate change readiness. By investing in preparedness, Angola will be better able to predict and manage the potentially destabilizing impacts of climate change, as well as create opportunities for economic growth. Initiatives could include climate-smart agriculture and landscape management, investment in technical innovations, climate-smart health care, and new public and private investments in renewable energy. Climate change awareness may also help prevent the depletion of Angola's resource base by promoting a more sustainable management of natural capital in the long term. As the poor are disproportionately affected by climate change, they stand to gain the most from these adaptations.

# A. CONTEXT AND HISTORY

1. **The Republic of Angola is the seventh-largest country in Africa, located in the south-west of the continent.** Angola is bordered by Namibia to the south, the Democratic Republic of Congo to the north and east, Zambia to the east, and the Atlantic Ocean to the west. The enclave Province of Cabinda has borders with the Republic of the Congo and the Democratic Republic of Congo. Angola has a population of about 26 million, with over 27 percent living in Luanda Province that is home to Angola's capital city, Luanda. About 37 percent of the population live in rural areas. Population density with 20 people per square kilometer is very low, making it difficult to reach many rural areas.

2. **Angola is rich in natural endowments including carbons, agricultural land, and a long coast line.** With oil reserves of 9.5 billion barrels, Angola has the second-biggest crude oil reserve in Sub-Saharan Africa, after Nigeria with 37 billion barrels. Estimates for new discoveries—some of them onshore— are around an additional 2.2 billion barrels. Diamond mine reserves are estimated between 60 million and 110 million carats, comparing well with the largest reserves in Africa, the Democratic Republic of Congo (150 million carat). Angola is conducting an exhaustive national geo-mineral survey, but preliminary results have already identified large iron ore deposits along the border with the Democratic Republic of Congo. Angola also has great potential in agriculture with its 59 million hectares of agricultural area. With long stretches of coastal areas, Angola also has a large potential for fisheries.

3. **Once a Portuguese colony with a strong economy, opportunities for social advancement available to local populations were extremely limited.** In the 19th century, Luanda was one of the most developed cities outside Europe, with many active trading companies exporting palm and peanut oil, wax, timber, ivory, cotton, coffee, cocoa, and many other products. Its strong economic growth, based on abundant natural resources and a well-developed infrastructure, attracted more Portuguese settlers in the early 20th century, and in the 1960s, Angola had the second largest settler presence in Sub-Saharan Africa after South Africa. At the same time, local laborers were working under exploitative conditions described as "virtually state serfdom" that did not allow them to produce enough food for themselves.[2]

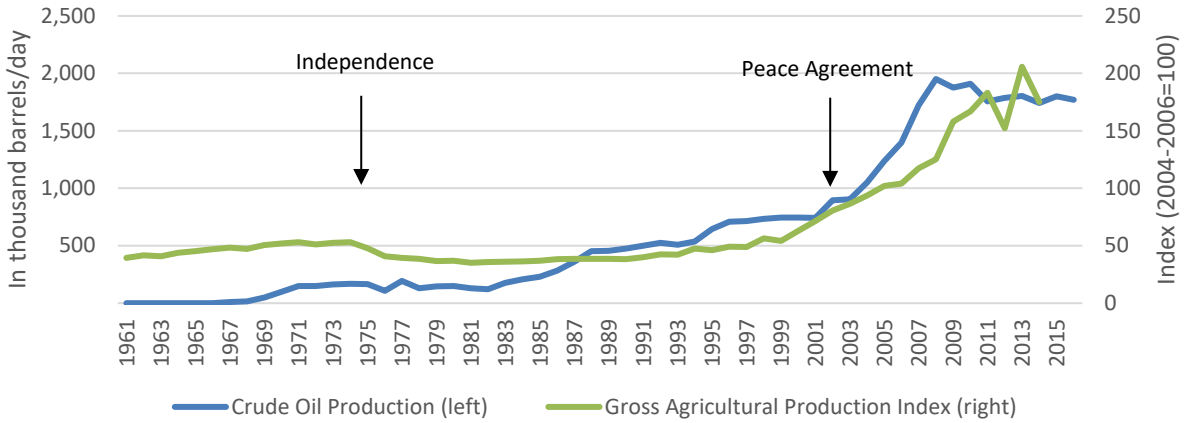
4. **Liberation movements emerged beginning in 1961, leading to a war that ultimately resulted in the political independence of Angola.** Triggered by the exploitative colonial administration, insurgent labor movements and nationalist groups formed in most Portuguese colonies including Angola. The Angolan War of Independence began in 1961 with attacks in the north of the country by the Union of the Peoples of Angola (UPA). Despite the anti-colonial roots of the conflict, it was characterized by significant violence between ethnic groups that would undermine a unified independence movement for decades to come. Lasting until 1974, these 13 years of war ended only after a military coup triggered the Carnation Revolution in Portugal. By the end of the conflict, the three main liberation movements —People's Movement for the Liberation of Angola (MPLA), National Union for the Total Independence of Angola (UNITA), and the UPA/National Front for the Liberation of Angola (FNLA)—agreed to negotiate in unity with the Portuguese, culminating in independence in 1975. Yet, the internal peace did not last long.

5. **At the time of independence, Angola was a net exporter of iron, oil, and a variety of agricultural and fishery products, mainly through foreign companies.** Iron ore production was 5.7 million tons per year in 1974, comparable to the levels produced by Mauritania (5.9 million tons) and South Africa (4.7 million tons). Oil production surpassed coffee as Angola's largest export in 1973 with a production of 162,000 barrels per day (Figure A.1). However, coffee remained the most important cash crop. Agricultural production also included cassava and cotton produced in the north, maize from the central highlands, and

[2] Edward Ross cited in Ball (2005).

livestock in the south. Fisheries produced more than 300,000 tons annually. While production was impressively high, companies relied heavily on foreign workers for tasks requiring technical skills, with local workers limited to low skill tasks. The absence of any meaningful skills transfer, typical of most colonial relationships in Africa, created a dependency on foreign workers that is still very much evident today.

**Figure A.1. Oil and Agricultural Production in Angola from 1961 to 2015**




*Source:* U.S. Energy Information Administration and Minerals Yearbook; Food and Agriculture Organization (FAO) Global Statistical Yearbook.

6. **Shortly after Angola's independence, the country fell into 27 years of civil conflict that crippled the formation of efficient institutions coupled with large-scale loss of human capital.** When Angola gained independence from Portugal in 1975, power was relinquished to a government, which had a seasoned military leadership but hardly any exposure to politics through civil institutions. Soon after the civil war started that lasted until 2002. An entire generation of Angolans got caught in this conflict, which resulted in the lack of proper education and lack of acquisition of skills to access productive jobs.

7. **During the civil war, the MPLA-led government embraced a command-economy inducing rapid and large-scale nationalization, amid a large exodus of most skilled workers.** Those policies, as well as the independence war and the civil war, led to the departure of most foreign companies and their mostly Portuguese expatriate workers, who occupied the majority of technical, managerial, and government jobs. By 1976, less than a hundred university graduates were left in the country to run the state apparatus and the economy. This exodus of technical and managerial knowledge severely damaged or eliminated most modern industrial production.[3]

8. **The cost of the civil conflict was immense, leaving the country's infrastructure and institutions in shatters**. Between half a million and a million people were killed, with uncounted numbers wounded and maimed. An estimated 3.7 million people became refugees or were internally displaced, often migrating to the cities. In 1992, after a failed peace agreement and general elections, conflict re-erupted at a larger and more brutal scale, affecting cities and regions that were previously spared, such as Luanda. The costs to maintain such a long conflict were massive. About 80 percent of the road network was left in extremely poor condition, the rail network barely functioned, electricity distribution was limited and unreliable, and water and sanitation services were poor in both urban and rural areas. It also created a generation of Angolans raised in an environment with institutions and trust in shatters.

[3] Ferreira 1999.

9. **The conflict further fueled regional disparities within Angola with neglected rural areas becoming largely depopulated by forced displacement.** Since the colonial period, coastal areas were prioritized to the detriment of other areas inland. The war deepened these inequalities as some locations became intense conflict areas while others remained mostly peaceful. Most urban areas were under control of the MPLA-led government and offered safety and sometimes public services albeit at a low level. Rural areas were often subject to intense fighting, forcibly displacing millions, of whom many sought shelter in cities creating a large urbanization wave.

10. **Large-scale deployment of landmines made the return to areas of origin too dangerous.** An estimated 20 million landmines were planted in Angola between 1975 and 2002. The number of casualties from landmine incidents is estimated to be around 100,000, of which 80,000 survived the incident. Especially in rural Angola, mines prevented the use of land for agriculture or housing and made roads insecure thus disrupting markets and service delivery.

11. **With the end of war in 2002, Angola experienced sustained economic growth in most years until 2014 when a drop in international oil prices triggered large macroeconomic imbalances due to Angola's oil dependency.** Fueled by high oil production and oil prices, Angola's GDP per capita doubled from US$2,079 in 2002 to US$4,164 in 2014. The sustained growth established the Republic of Angola as the third-largest economy in Sub-Saharan Africa and the second-largest oil producer in Africa. However, the 2008 and the 2014 commodity price shocks revealed the structural weaknesses of the economy due to a lack of economic diversification and the fiscal dependency on oil. Since 2014, a structurally low oil price interrupted Angola's growth momentum and created large macroeconomic imbalances.

12. **Though the government achieved relative success in rebuilding the country after the civil war, its efforts to diversify the economy have failed thus far.** The country still imports almost everything from agricultural products to consumer and capital goods. In 2017, agricultural and food imports accounted for 29.3 percent of imports, while oil accounted for 87.6 percent of exports. Although the output share of agriculture and construction has increased in recent years, the manufacturing industry still only represents roughly 3 percent of GDP.

13. **The MPLA established a political equilibrium based on its ability to maintain peace relative to the violence experienced during the civil conflict.** The political settlement that originated at the end of the civil war guaranteed an overall improvement of security, institutional environment, and better living conditions compared to the years of the civil conflict. The victorious MPLA, led from 1979 to 2017 by President José Eduardo dos Santos, consolidated power throughout the accumulation and redistribution of wealth to sustain the new elite. Therefore, despite the GDP growth of the first 2000s, large inequalities across the population remained, with a Gini coefficient increase from 0.43 in 2008 to 0.47 in 2014. The system was accepted until recently by the population, having been traumatized by the civil war and fearing the return of violence.

14. **Angola held parliamentary elections in August 2017, marking the first peaceful political transition since independence.** The MPLA secured more than 60 percent of the vote, while the main opposition party UNITA took just under 27 percent. As the MPLA's top candidate, João Manuel Gonçalves Lourenço replaced José Eduardo dos Santos as President for Angola. Almost one year after elections, the popularity of the new President has soared because of his commitment to tackling corruption and repatriating illicit financial flows; to reducing control of the media; and to delivering long-promised economic, political, and social reforms such as strengthening competition and investment and deepening decentralization.

15. **The new government faces formidable challenges to sustainably reduce poverty and boost shared prosperity.** As identified in the subsequent chapters, Angola's oil dependency creates macro-

economic imbalances while constrained private sector growth and limited human capital curtail economic opportunities, especially for the poor. Weak governance adds to these binding constraints, allowing for elite capture and exclusion. These binding constraints must be lifted to allow an opportunity for reducing poverty and boosting shared prosperity in a sustainable manner. The Systematic Country Diagnostic (SCD) identifies these binding constraints and proposes priorities to lift them.[4]

16. **The analysis acknowledges data gaps in terms of both availability, quality and timeliness of data, making comprehensive, evidence-based decision making difficult.** Information is lacking in several key areas, including both fundamental macroeconomic and microeconomic indicators, as well as sector-specific data for agriculture, urbanization, water, and entrepreneurship. Cross-cutting analyses of themes including gender and climate change are similarly hampered by a lack of data. Richer statistics would serve to inform the government's policies, in addition to allowing the close monitoring of programs and a measurement of their degree of efficacy.

17. **Partly due to data gaps, key analytical work for Angola is missing.** The most recent poverty estimates are from 2008, but without an accompanying Poverty Assessment. The last Country Economic Memorandum is from 2007. No Jobs Diagnostic is available. This report fills these gaps by utilizing new analytical work conducted for the SCD (including new poverty estimates and a poverty profile based on structural imputations and a new Jobs Diagnostic 'lite') as well as an early draft of the Country Economic Memorandum currently under preparation.

[4] The 'Constraints Analysis for the Angola Systematic Country Diagnostic' presents in more detail the identification of constraints while the 'Background Papers for the Angola Systematic Country Diagnostic' compiles new analytical work undertaken for this report.

## B. ANGOLA'S WEALTH

### *Understanding growth in Angola*

#### *GDP GROWTH CAN DRIVE SUSTAINABLE DEVELOPMENT, BUT ONLY IF WEALTH IS WELL MANAGED*

18. **National prosperity is determined by a country's total assets and not only its income.** GDP measures the monetary value of goods and services produced in a country but ignores changes in the underlying asset base. Although GDP is the most widely used indicator concerning the health of national economies, it can provide misleading signals as to whether a country is on a sustainable development trajectory. This is because GDP does not reflect the depreciation and depletion of assets, whether investment and the accumulation of wealth are keeping pace with population growth, and whether the mix of assets is consistent with a country's development goals.

19. **Asset liquidation increases GDP but also depletes the resource base of a country and diminishes prospects for sustainable development.** The proper management of a country's endowments is a necessary condition for sustained economic growth. Although the sale of assets will temporarily boost income, it can at the same time reduce the country's future ability to generate revenue, especially if the income boost is used for consumption rather than investment. In the mid-1980s, several resource-rich countries exploited their natural capital, often in the form of oil, to increase consumption, but with little or no investment in intangible forms of capital, like education and health.[5] Angola's past oil-driven development trajectory with strong growth but poor performance in development indicators suggests a similar development failure.

20. **Angola has experienced very strong growth in recent years, but this has not translated into sustainable investments to help the poor.** The main barrier for equitable, long-term growth has been the inability of the government to convert the country's considerable natural resource wealth into other forms of capital. Resources in Angola have been used to increase consumption but have not been reinvested with a view to long-term development. This liquidation of assets is particularly acute in Angola, with a negative savings rate much larger than in other Sub-Saharan African countries that also rely heavily on the exploitation of natural resources. The government has tended to invest more in highly visible, populist projects, such as energy subsidies and unproductive public sector jobs, as opposed to development projects that will have a meaningful and lasting impact on the lives of the poor.

**Box 1. The Changing Wealth of Nations Concept**

**The World Bank's 2005 publication "Where is the Wealth of Nations?" offered a broader approach to measuring economic prosperity.** Just as the value of a private company is best understood by looking at both its income statement and its balance sheet, this new concept of national wealth considers both the stock and the flow of country's total assets. "Where Is the Wealth of Nations?" introduced the idea of wealth as a complementary indicator to GDP for monitoring sustainable development in a country.[6] This more inclusive metric considers natural capital (land, oceans, and subsoil resources), produced capital (machinery, buildings, equipment, and infrastructure), as well as intangible assets including human, entrepreneurial, social, and institutional capital.

**The Changing Wealth of Nations concept shifts the focus from short-term GDP growth toward sustainable development and the long-term management of assets.** Changes in GDP indicate simply whether a country's income is growing, whereas changes in wealth indicate the prospects for maintaining an asset base over the long term. Wealth accounting shows positive progress only if the rents from nonrenewable resources are reinvested

[5] Repetto et al. 1989.
[6] Hamilton et al. 2005.

in physical, human, and social capital, leading to meaningful development in the long run. Even where there is positive GDP growth, developing countries tend to under-invest rents and thus, deplete rather than accumulate wealth. The Changing Wealth of Nations concept helps demonstrate that sustainable development is about managing a broad portfolio of assets while considering how those assets might be exploited in the future.[7]

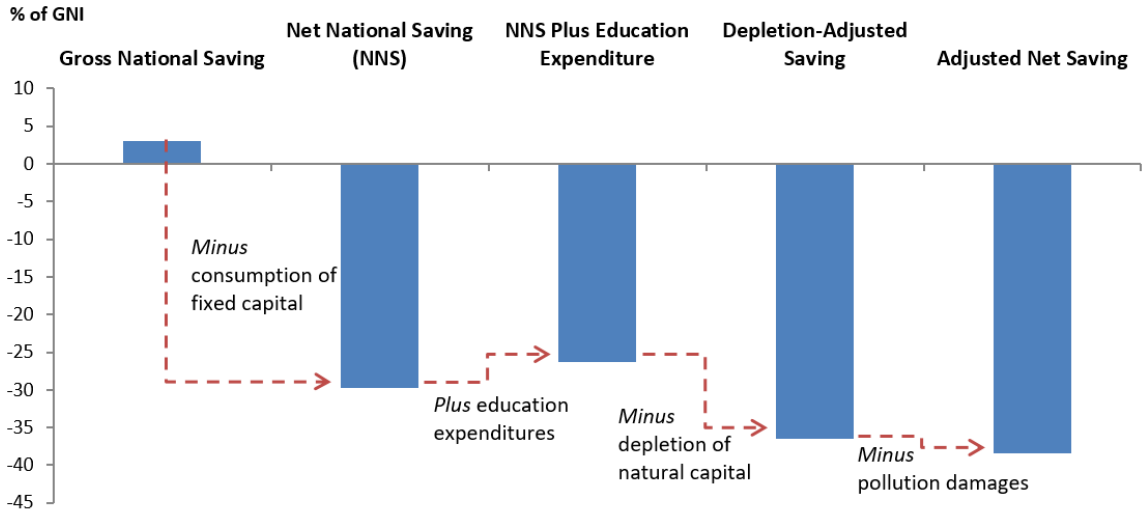
**Global wealth grew significantly between 1995 and 2014 but per capita wealth did not.** Analysis in the World Bank's 'The Changing Wealth of Nations 2018' shows that middle-income countries are catching up (largely due to rapid growth in Asia) but that inequality in overall wealth persists. Several low-income countries experienced a decline in per capita wealth because population growth outpaced investment. Although GDP growth in many Sub-Saharan African countries matched that of other regions, in many cases, GDP growth was not sufficient to keep up population growth. A rapidly growing, younger population can create the opportunity for a "demographic dividend." However, this can only be realized if investment is sufficient to provide each potential new worker with the same (or more) human, natural, and produced capital. High population growth rates make meeting this goal more challenging.[8]

### *ANGOLA HAS BEEN DEPLETING ITS ENDOWMENTS*

21. **The changes in the wealth of a nation are measured by adjusted net savings, answering the question whether a country is investing sufficiently today for future development.** Adjusted net savings (ANS) is a measure of gross national saving, minus consumption of fixed capital, plus public expenditures for education, minus depletion of natural capital, minus pollution damages (Figure B.1).[9] ANS thus measures the portion of national income that is not consumed by the private and public sectors, adjusted positively to reflect investment in human capital, and adjusted negatively to reflect the depreciation of produced capital and the depletion of natural resources. Negative ANS suggests that a country is running down its capital stocks and thereby possibly reducing future social welfare. Positive ANS indicates that a country is adding to its wealth and thus its future well-being. The changes for each form of wealth can be measured by summing up estimates of natural, produced, and human capital.[10] The estimation of human capital, however, requires specific and detailed household survey data, which is not available for Angola. Therefore, statistical imputation techniques are used to infer changes in the shares of capital.[11]

[7] Lange, Wodon, and Carey 2018.
[8] Lange, Wodon, and Carey 2018.
[9] Carey, Sahnoun, and Wodon 2018..
[10] The natural wealth account includes energy (oil, gas, hard and soft coal) and minerals, agricultural land (crop and pastureland), forests (timber and some nontimber forest products), and protected areas. Produced capital comprises machinery, buildings, equipment, and residential and nonresidential urban land. Net foreign assets sum the country's external assets and liabilities. Human capital is measured following the approach by Jorgenson and Fraumeni (1992).
[11] Because of a lack of appropriate household survey data for Angola in the World Bank's International Income Distribution Dataset (I2D2) database, instead of relying on household surveys and Mincerian wage regressions to estimate human capital, human capital was estimated for Angola using a simple cross-country panel model relating human capital wealth (in log) to GDP per capita (in log) and educational attainment. This may entail (possibly substantial) measurement error, but overall, the composition of wealth for Angola that results from these assumptions do not seem unreasonable in comparison to those for the overall region.

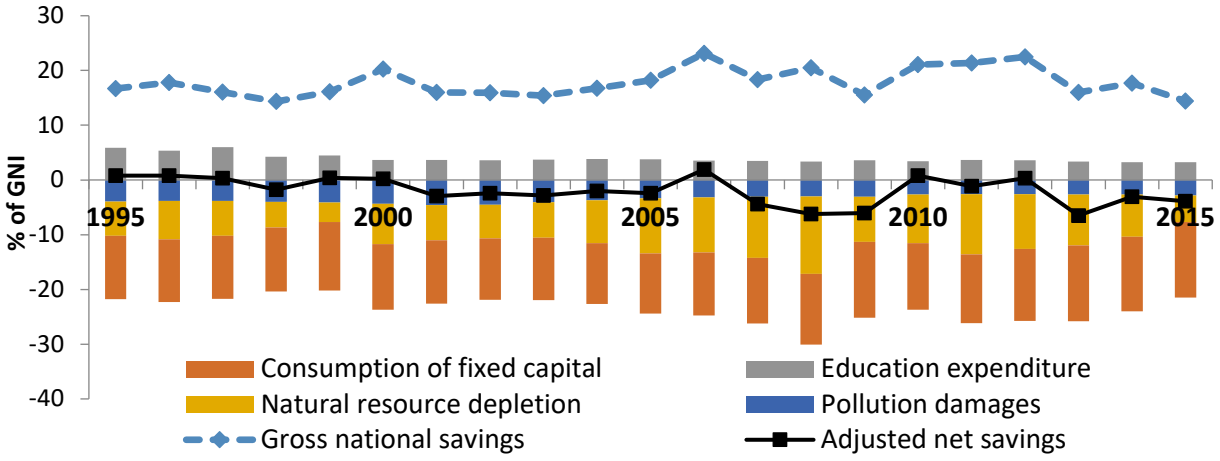
**Figure B.1. Estimating ANS for Angola (2015)**




*Source:* Authors' calculations.

22. **On average, countries in Sub-Saharan Africa have tended toward disinvestment.** For the region, gross national saving is estimated at just under 20 percent of GNI in most years (Figure B.2). After considering the depreciation of fixed assets, natural resource depletion, losses due to pollution, and the benefit from spending for education, the average ANS rate for Sub-Saharan Africa tends to be negative. On average, the consumption (depreciation) of fixed assets is about as large as half of gross national saving, with a similar negative contribution due to natural resource depletion. The losses due to pollution are smaller, as is the positive contribution to saving represented by spending on education. Clearly, natural resource depletion is one of the key drivers of negative ANS in the region.

**Figure B.2. Trends in ANS for Sub-Saharan Africa from 1995 to 2015**

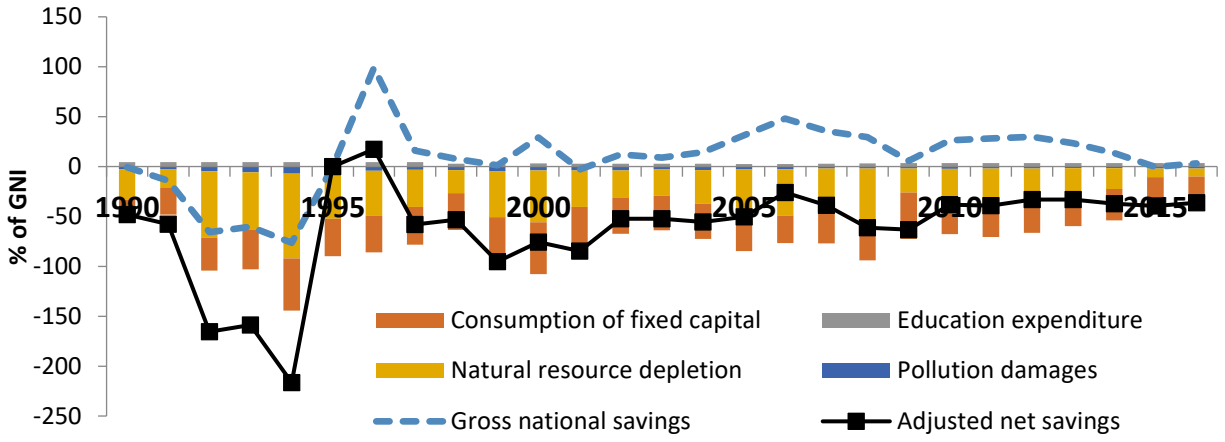



*Source:* Authors' calculations.

23. **The situation is even worse in Angola, with ANS remaining strongly negative for almost all years since 1990.** Gross national saving varied from year to year, but on average was only 9.3 percent of GNI over the time horizon (Figure B.3). ANS in Angola is deeply negative, estimated at −63.6 percent from 1990 to 2016. Over the last decade, the estimate has improved somewhat to reach −42.4 percent. This rate of disinvestment is unprecedented, even for resource-rich countries within Sub-Saharan Africa. Angola's

disinvestment measured by ANS from 1990 to 2015 is the lowest in the region at −67.8 percent, followed by Republic of Congo at −49.8 percent and Equatorial Guinea at −38.8 percent (Table B.1).[12] These latter two countries are also resource rich, followed by several other resource-rich and fragile states, including Sierra Leone (−19.0), Sudan (−18.0), and Togo (−11.0). Resource-rich countries tend to have negative saving because they exploit their natural resources to increase current income, but at a cost for future development. While no Sub-Saharan African country has a worse disinvestment rate than Angola, more than half of the countries had positive investments in their wealth between 1990 and 2015.

**Figure B.3. Trends in ANS for Angola from 1990 to 2016**




*Source:* Authors' calculations.

[12] The estimate for Angola in Table B.1 is slightly different from the previously stated estimate due to the different period and the fact that there have been slight revisions in data since estimates in Table B.1 were computed for Angola as well as other African countries.

**Table B.1. Typology of Countries Classified by ANS[13]**

| | Higher Dissaving (Below −8%) | Some Saving or Dissaving (From −8% to +8%) | | Higher Saving (Above 8%) |
|---|---|---|---|---|
| **Not resource rich** | Burundi (−30.3)<br>Gambia, The (−11.1)<br>Malawi (−9.7) | Benin (1.4)<br>Burkina Faso (2.1)<br>Comoros (−2.1)<br>Eritrea (4.0)<br>Guinea-Bissau (−7.8)<br>Kenya (−5.7)<br>Lesotho (1.8) | Mauritius (6.9)<br>Rwanda (−0.2)<br>Senegal (3.3)<br>Swaziland (3.8)<br>Uganda (−5.8)<br>South Africa (1.7)<br>Zimbabwe (7.9) | Cabo Verde (18.8)<br>Ethiopia (9.1)<br>Namibia (10.3) |
| **Resource rich and stable** | Angola (−67.8)<br>Congo, Rep. (−49.3)<br>Equatorial Guinea (−38.8)<br>Guinea (−8.1) | Cameroon (−1.4)<br>Ghana (0.8)<br>Gabon (−4.3)<br>Mauritania (4.8)<br>Mozambique (0.5) | Niger (−0.8)<br>Nigeria (−2.6)<br>Tanzania (5.7)<br>Zambia (5.3) | Botswana (28.5) |
| **Resource rich and fragile or conflict** | Liberia (−8.2)<br>Sierra Leone (−19.0)<br>Sudan (−18.0)<br>Togo (−11.0) | Central African Republic (3.6)<br>Chad (−3.8) | Madagascar (1.3)<br>Mali (2.7) | Côte d'Ivoire (8.3) |

*Source:* Carey, Sahnoun, and Wodon (2018) revised with authors' calculations.

24. **Pressures for public spending in resource-rich countries help explain their strongly negative annual net savings.** Typically, greater resource revenue can create a deficit bias and reduce public savings. Examples of spending pressures are energy subsidies, unproductive public sector jobs, and higher public sector wages. Most energy subsidies are not only inefficient but also regressive in countries where the less wealthy do not own cars nor do they consume or have access to electricity.[14] Public sector employment is typically large in resource-rich countries in the region. Evidence shows that pay increases for government employees during a boom are almost impossible to reverse. More generally, spending that leads to increases in consumption is hard to reverse, because habits are formed, and political resistance is high. By contrast, fluctuations in investment are easier to manage.

25. **The 'curse' affecting resource-rich countries is not a destiny for all such countries.** For example, Botswana is often mentioned as an example of a resource-rich economy that has been highly successful in promoting long-term growth and poverty reduction. It has successfully recovered and invested rents, including outlays for human capital. While there have been challenges in diversifying the economy and building a business-friendly environment to promote investment, Botswana has sound macroeconomic policies that have helped reduce short-term pressures to increase public spending inefficiently.

### *NATURAL RESOURCE EXPLOITATION HAS BEEN THE MAIN ENGINE OF GROWTH*

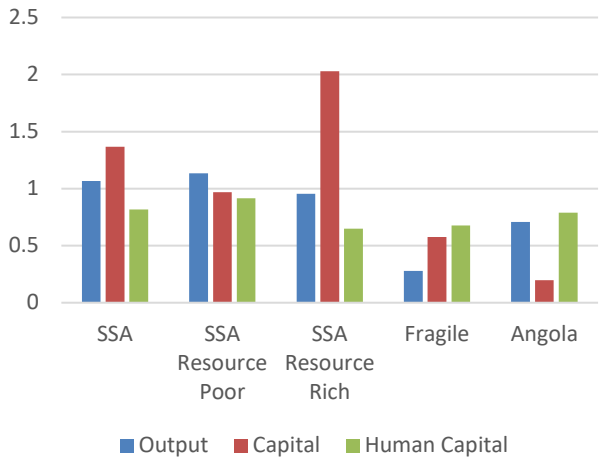
26. **Despite the strong pattern of dissaving, Angola has enjoyed significant annual GDP growth.** This expansion of the economy has been driven mainly by capital accumulation rather than increases in productivity. Nonetheless, this growth of capital was outstripped by the depletion of natural resource wealth, resulting in the negative ANS rate discussed earlier. The average annual growth of GDP per worker

[13] Data are not available for a few countries, including the Democratic Republic of Congo, São Tomé and Príncipe, Somalia, and South Sudan. For some countries, data are available only for selected years between 1990 and 2015. Countries are considered as having higher dissaving (negative saving) if ANS is below 8 percent and higher saving if ANS is above 8 percent. The threshold of 8 percent is somewhat arbitrary, but conclusions would not fundamentally change with a slightly higher or lower threshold and using this type of threshold helps to visualize and categorize countries.

[14] Specifically, for Angola, see Pape et al. (2016).

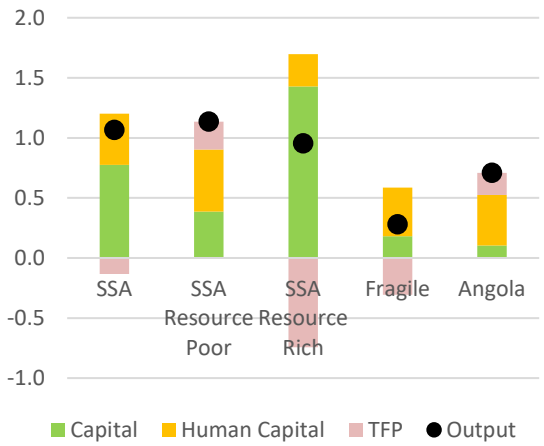
in Angola during the period from 1961 to 2014 was 0.7 percent. This was lower than the average for Sub-Saharan Africa (1.07 percent) but better than a typical fragile country in Sub-Saharan Africa (0.28 percent). Over this same period, human capital growth in Angola was comparable to the regional average, whereas physical capital growth was substantially lower (Figure B.4). This is partly explained by the long civil war period (1975–2002), during which a substantial part of Angola's infrastructure was destroyed. In Angola, total factor accumulation has been the main driver of growth, rather than gains in total factor productivity (TFP). Of the average GDP growth per worker of 0.7 percent, 0.1 percentage points were attributable to gains in physical capital and 0.4 percentage points to gains in human capital (Figure B.5).[15] The contribution of TFP to growth per worker in Angola was negative during 1961 to 1977 and 1978 to 1995, but became positive from 1996 to 2014.

**Figure B.4. Growth of Output per capita and Factor Accumulation, 1961–2014**




*Source:* Data from the Penn World Table 9.0 (Feenstra, Inklaar, and Timmer 2015).
*Note:* SSA = Sub-Saharan Africa.

**Figure B.5. Source of Growth, 1961–2014**




*Source:* Data from the Penn World Table 9.0 (Feenstra, Inklaar, and Timmer 2015).
*Note:* SSA = Sub-Saharan Africa.

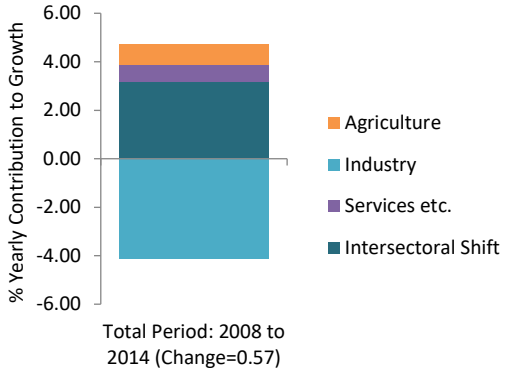
27. **Productivity growth can be better understood by accounting for natural resource wealth as a type of capital.** Productivity growth is typically measured as the difference between the growth of output and the growth of factor inputs. Traditional measures of TFP only consider capital and labor as inputs but applying the Changing Wealth of Nations concept and using natural resource wealth as an input can alter measured productivity growth.[16] Over the period from 1996 to 2014, the average annual growth of GDP per worker in Angola was 4.0 percent, with 3.0 percent attributed to increasing TFP. When natural resources are considered as an additional type of physical capital, the contribution of TFP shrinks to 1.6 percent. The contribution of physical capital on the other hand increases to 1.9 percentage points of annual growth compared to 0.5 percent under conventional growth accounting. This demonstrates that without growth in available natural resources, annual growth per worker in Angola would have been about 1.4 percentage points lower between 1996 and 2014.[17]

28. **Labor productivity in Angola is growing very slowly.** It increased at an annual rate of only 0.57 percent between 2008 and 2014. The agriculture and the service sectors added 0.85 and 0.69 percentage

[15] World Bank 2018a.
[16] Adamopoulos et al. 2017.
[17] Calderón and Cantú 2018.

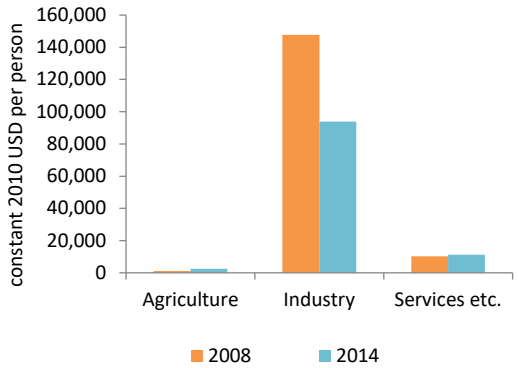
points respectively, to overall labor productivity. Conversely, a fall in productivity in the industry sector reduced the overall rate of annual labor productivity growth by 4.1 percentage points (Figure B.6). Gains in labor productivity came mostly from the movement of workers across sectors, as labor shifted to services from agriculture, the least productive sector of the economy. The service sector increased its employment share by 9.9 percentage points from 2008 to 2014. Output per worker in that sector grew by 11 percent over the same period (Figure B.7).

**Figure B.6. Annual Contribution to per capita Value Added by Sector**




*Source:* World Bank 2017b.

**Figure B.7. Value Added per Worker by Sector, 2008–2014**




*Source:* World Bank 2017b.

29. **Poverty reduction and employment growth have not been responsive to economic growth, as most value added growth has come from rising oil exports and this boom did not translate into more jobs in this or other sectors.** From 1992 to 2015, real value added increased by 229 percent, while employment increased by only 116 percent.[18] Angola's booming oil industry contributed significantly to national output but was not able to create many new jobs. The elasticity of employment growth to economic growth was particularly low (0.13) between 2003 and 2008, when oil prices were rising, and GDP growth was extremely high. This discrepancy was reduced in later years, with the elasticity of employment growth to economic growth achieving the relatively high level of 0.80 between 2009 and 2015, a period during which the average annual value added growth slowed to 4.5 percent. Net job creation between 2008 and 2014 was on average 256,400 per year, with jobs being added in the categories 'other activities', public administration, and construction. In contrast, the agriculture, manufacturing, transport, and communications sectors all lost jobs over that period.[19]

30. **Angola needs a new growth paradigm, one that is more job rich.** The additional value added from oil price increases did not translate into jobs and therefore, the gains were not equitably distributed. Like other resource-rich countries in Africa, the disproportionate distribution of employment and productivity across sectors in Angola is worrisome. Productivity is low in the sectors that concentrate the most workers—agriculture and services—and is drastically higher in capital-intensive industries that have limited capacity to generate jobs. The challenge is to create more productive jobs for the burgeoning youth population, who are very large in number, better educated, and not finding good jobs. Younger workers are more likely to be working in unpaid jobs and less likely to be working in paid employment than workers ages 25–64.

[18] World Bank 2018d.
[19] World Bank 2017b.

## *Macroeconomic instability and fiscal imbalance*

31. **A reliance on natural resource exploitation as the main driver of growth has brought excessive macroeconomic volatility to Angola, becoming a binding constraint to economic development.** A volatile economic environment makes it difficult for economic agents to make decisions about investment and resource allocation. This volatility comes from the high economic concentration on oil production and from the volatile oil prices, which is passed on to key macroeconomic variables such as GDP growth, inflation, external accounts, exchange rates, and debt. Furthermore, macroeconomic policies such as fixed exchange rate have often acted to slow the rebalancing of the economy, adding to the problems created by macroeconomic volatility. Ensuring macroeconomic stability thus requires good management of both fiscal and monetary policy, as well as the build-up of fiscal and external buffers.

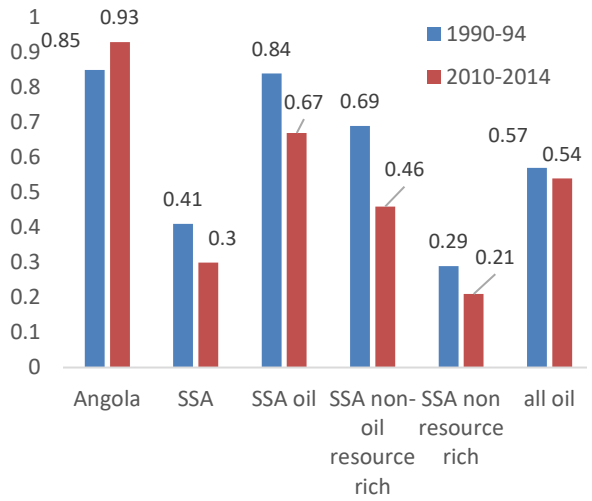
### *OIL DEPENDENCE IS A SOURCE OF MACROECONOMIC INSTABILITY IN ANGOLA*

32. **Angola is currently the second-largest oil producer in Sub-Saharan Africa, but its proven reserves are limited.** In 2017, oil production reached 1.64 million barrels per day, almost on par with Nigeria's 1.66 million barrels per day.[20] Most of Angola's oil reserves are offshore, with these fields representing almost 75 percent of production. The state-owned enterprise (SOE) *Sociedade Nacional de Combustíveis de Angola, E.P.* (Sonangol) is the sole concessionaire for oil and gas in the country, but foreign companies are active through joint ventures. Fossil fuel extraction is the central pillar of public finance in Angola, with oil consistently representing most of the government revenues. However, this overwhelming contribution of oil exploitation to the Angolan economy is not sustainable. According to the OPEC, Angola's proven oil reserves in 2016 were 9.52 billion barrels, compared with 37.45 billion barrels in Nigeria. Angola's petroleum endowment is expected to be exhausted by 2032 if the current rate of production is maintained. The country also has significant natural gas deposits, with proven reserves of 308.1 billion cubic meters in 2016, compared with Nigeria's 5,475.2 billion.

33. **The oil and gas industry dominates the Angolan economy and represents almost the totality of exports.** Oil and gas represented 21.4 percent of GDP in 2016, followed by services at 48.2 percent, and industry (excluding oil) at 22.3 percent. Oil dependence has been a lasting feature of the economy, and petroleum products have comprised between 87 percent and 98 percent of total annual exports since 1990. Angola shows the largest degree of export concentration measured by the Herfindahl index[21] (Figure B.8). Although other countries in the region have been diversifying over time (less product concentration), Angola's level of diversification has been falling. Angola has however made progress in terms of diversifying its export destinations, as the Herfindahl index of market concentration has declined in recent years (Figure B.9). Trade openness, export diversification, and reduced dependency on natural resources have been shown to be positively related to growth. Closing the gap for product concentration to the regional Sub-Saharan Africa average would increase growth per worker by about 3.3 percent per year.[22]

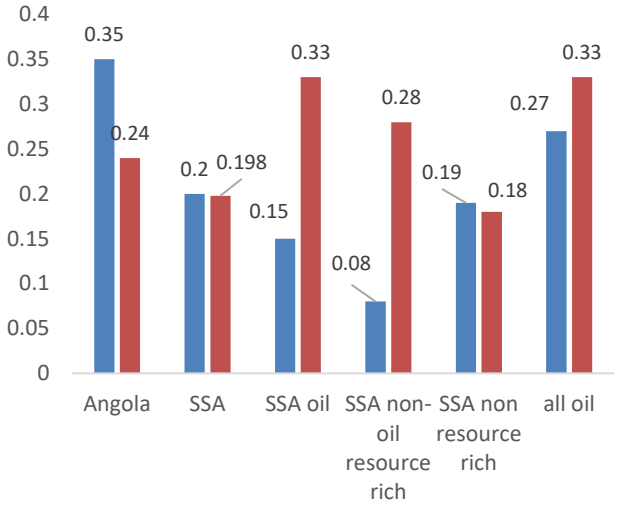
[20] OPEC 2018.
[21] The Herfindhal index can be used to measure the concentration of exports by product and market and is thus an inverse measurement of export diversification.
[22] Calderón and Cantú 2018.

**Figure B.8. Product Concentration in International Trade**




*Source:* Calderón and Cantú 2018.

**Figure B.9. Market Concentration in International Trade**

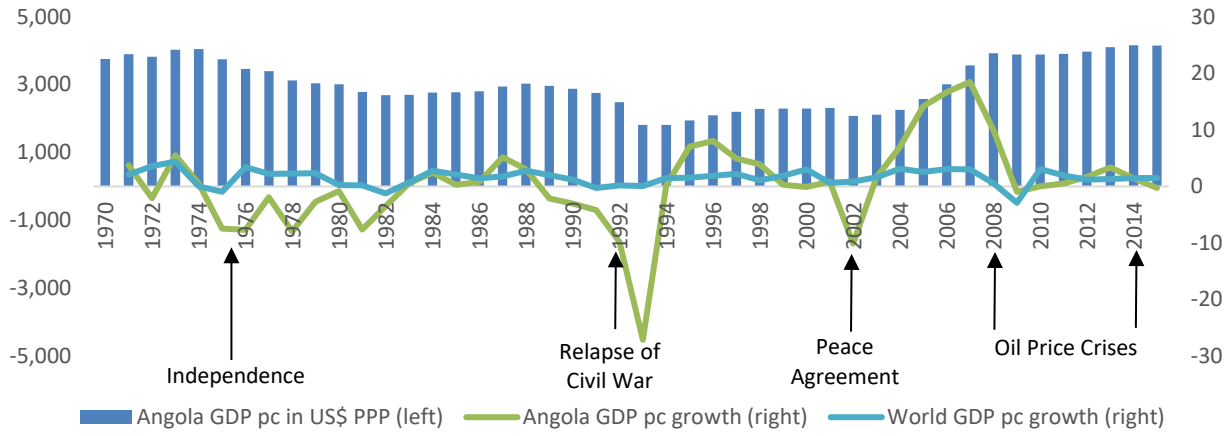



*Source:* Calderón and Cantú 2018.

### *OIL PRICE VOLATILITY HAS CAUSED CYCLES OF BOOM AND BUST*

34. **Fueled by high oil production, Angola embarked on a growth path in 2004 to rebuild the devastated country.** Higher oil revenues and the successful implementation of several stabilization programs led to the improvement of fiscal outcomes. Oil production, more than doubled from 750,000 barrels per day in 2001 to almost 2 million barrels per day in 2008. GDP per capita rose dramatically between 2004 and 2008, when the Angolan economy posted an average growth rate of 12.5 percent (Figure B.10). Inflation gradually declined, from over 240 percent in 2001, to average of 12.4 percent annually between 2006 and 2008. The exchange rate even showed a slight nominal appreciation in this period. In line with the government's vision to rebuild Angola as a modern country after the war, the government spent over US$100 billion on public investments, of which 30 percent was for roads and bridges. These projects created employment while at the same time contributing to economic growth.

**Figure B.10. GDP per capita in US$ PPP (2010; left) and GDP per capita Growth**

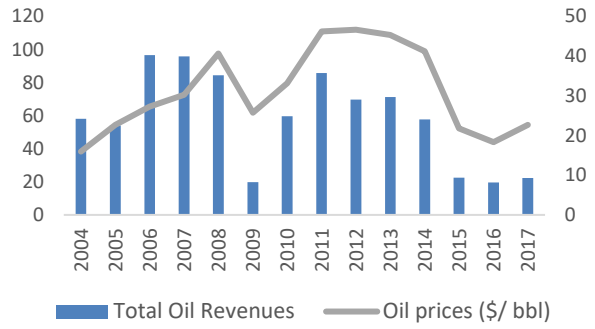



*Source:* World Bank Data.

35. **From 2004 to 2008, higher oil prices generated budget surpluses and allowed for declining debt ratios.** Oil revenues rose rapidly, going from 24.3 percent of GDP in 2004 to 35.2 percent of GDP in 2008. This drove an increase in the country's current revenues from 32.5 percent of GDP to 44.9 percent of GDP, when oil revenues accounted for close to 80 percent of this number. The overall buoyancy of the economy also helped non-oil revenues increase somewhat, and they moved from 8.1 percent of GDP in 2004 to 9.4 percent in 2008. Current expenditures and investments increased significantly on the back of booming oil revenues, and investments grew by more than sixfold from 2.2 percent of GDP in 2004 to 14.1 in 2008. In parallel, debt-to-GDP ratios declined from 52 percent of GDP to 16.6 percent. This virtuous fiscal cycle was only possible due to the substantial oil windfall.

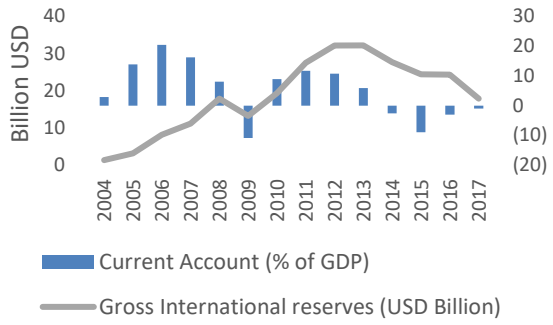
36. **Oil prices fell sharply in 2008 and 2009, and the instability brought by excessive oil dependence became painfully evident for Angola.** From July to December 2008, oil prices dropped by 69 percent and Angola's oil revenue plummeted (Figure B.11). The country's current revenues shrank by almost two-thirds, and the current account balance flipped from a surplus of 8.1 percent of GDP to a deficit of 11.7 percent in the following year (Figure B.12). A primary budget surplus of 10 percent of GDP in 2008 became a deficit of 7 percent in 2009. This crisis led Angola to ask the International Monetary Fund (IMF) for a standby credit. The country partially implemented some measures to improve budgetary transparency and the management of public finances. However, the quick recovery of oil prices made structural reforms lose momentum.

**Figure B.11. Oil Prices (US$ per bbl, LHS) and Oil Revenues (% of GDP, RHS), 2004–2017**




*Source:* Ministry of Finance, Angola.

**Figure B.12. Current Account Balance (% of GDP) and Gross International Reserves (US$)**




*Source:* Angolan National Bank.

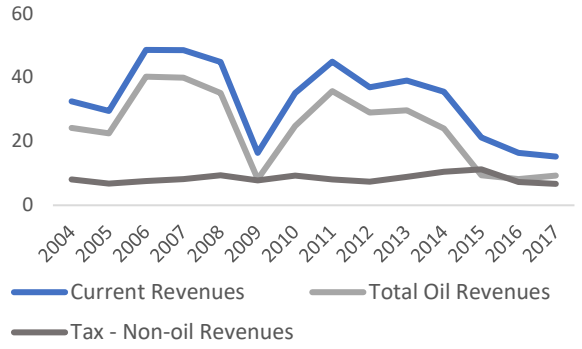
37. **From 2010 to 2014, Angola experienced a second period of oil-fueled growth.** GDP growth rates averaged 5.1 percent per year, while current revenue and public investment, as a share of GDP, averaged 38.3 percent and 10 percent of GDP, respectively. Angola took advantage of this rebound to build several macroeconomic buffers: international reserves reached US$32.2 billion in 2012, the debt-to-GDP ratio was kept below 40 percent, and several oil funds were set up as fiscal stabilizers. The exchange rate was also tightly managed, and inflation dropped to single digits for the first time in modern history.

38. **A sustained decline in oil prices began in 2014 and had a much stronger impact on the Angolan economy than the previous drop.** Oil prices fell by 42.3 percent from July to December 2014. In contrast to the drop six years earlier, prices declined further and remained low for a longer time. Angola's GDP growth fell to zero in 2016. The Central Bank pursued a policy mix of exchange rate devaluations and quantity controls that ended up hurting business and was ineffective in taming inflation, which peaked at 42 percent in 2016. The fiscal impact of the oil price collapse was also substantial and forced significant fiscal adjustment. Following the 2008 crisis, Angola tried to reduce its exposure to price fluctuations by creating an Oil Price Differential Account (*Fundo do Diferencial do Preço do Petróleo,* OPDA) managed by the National Bank of Angola. Resources are deposited in the OPDA when actual oil revenues exceed budgeted revenues, and resources are withdrawn in times of need. Nonetheless, this mechanism proved insufficient to balance the budget during the prolonged drop in oil prices in 2014. OPDA assets were about US$4.5 billion in 2014, but estimates indicate that by July 2017, this figure may have fallen below US$800 million.

39. **Excessive oil dependence and falling oil prices translated into external account imbalances and misalignments in the real exchange rate.** Foreign exchange inflows are dependent on the exports of oil, whose price is notably volatile. This volatility is translated to the current account that requires large exchange rate movements to be rebalanced, causing disruption to businesses and inflationary pressures. The situation is made worse because the government favored fixed or semi-fixed exchange rate regimes to control inflation, which slowed the adjustment process of the current account deficit. In 2014, the government imposed sizable foreign exchange controls to ease pressures on the kwanza. This in turn gave rise to a significant spread between the official and the parallel exchange market rate that reached over 200 percent in 2016. To contain inflationary pressures, the kwanza was repegged in April 2016, and monetary conditions were tightened. Foreign exchange pressures nonetheless persisted and estimates for the real exchange rate overvaluation ranged from 20 percent to 50 percent in this period. International reserves continued to decline, reaching an eight-year low of about US$14 billion in December 2017.

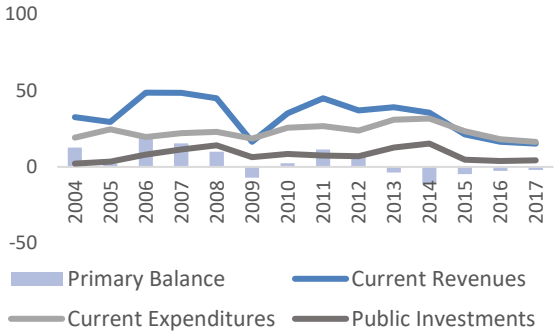
40. **The Central Bank adopted a new exchange rate regime in 2018, as the existing exchange rate and monetary policy framework proved to be unsustainable.** The exchange rate misalignment and depleting foreign reserves prompted the Central Bank to abandon the peg to the U.S. dollar and ease currency controls in January 2018. In the new system, the economy's benchmark exchange rate is determined through auctions, although kept within trading bands that are not publicly disclosed. The new exchange rate regime has introduced some exchange rate flexibility and led to a depreciation of about 33 percent against the euro in the first month. This adjustment has to some extent corrected the overvaluation of the real exchange rate that persisted under the fixed regime, and Angolan authorities have stated their view that the exchange rate is now close to fundamentals. These measures can limit the pace of the exchange rate depreciation in the short run, but they also create uncertainty about the scope for exchange rate fluctuation. The spread between the official and parallel exchange rates has been narrowing since the adoption of the new regime. The gap between the two exchange rates was only 33 percent in July 2018, down from 61 percent six months prior.[23]

**Figure B.13. Current Revenues: Oil versus Non-Oil (% of GDP), 2004–2017**




*Source:* Ministry of Finance, Angola.

**Figure B.14. Revenues, Expenditures, and Primary Balance, 2004–2017 (% of GDP)**




*Source:* Ministry of Finance, Angola.

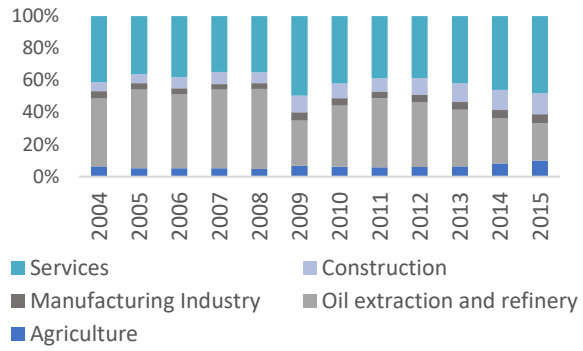
### *WEAK FISCAL POLICY INCREASES VULNERABILITY TO COMMODITY PRICE FLUCTUATIONS*

41. **Oil price volatility translates to strong fiscal consolidation needs, making fiscal policy procyclical in Angola.** After the oil price drop in 2014, oil revenues more than halved in one year down to only 9.4 percent of GDP in 2015 (Figure B.13). Faced with a primary budget deficit of 10.8 percent of GDP in 2014, the government cut expenditures in goods and services and public investments. Current expenditures were slashed from 31.7 percent of GDP in 2014 to 23.4 in 2015, and investments dropped even more substantially from 15.3 percent to 4.6 percent of GDP (Figure B.14). The government also reformed fuel subsidies and increased taxes.

42. **Reliance on oil revenues exposes public budgets to commodity price volatility and contributes to fiscal imbalance.** A sustainable provision of public goods and services is instrumental for development and shared prosperity. With a difficult debt situation and declining oil production, Angola needs to pursue a gradual but consistent fiscal consolidation. At the same time, the country is facing the need to scale up social expenditures and improve the effectiveness of social services. The share of the oil sector in GDP has been decreasing since 2011, and Angola will need to focus on boosting investment and productivity in other sectors going forward (Figure B.15).

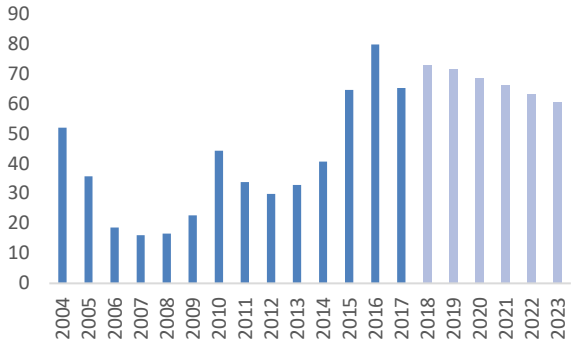
[23] Mendes and Wallace 2018.

**Figure B.15. GDP Sectorial Composition, 2004–2015 (% of GDP)**




*Source:* National Institute of Statistics (INE), Angola.

**Figure B.16. Public Debt (% of GDP), 2004–2023**

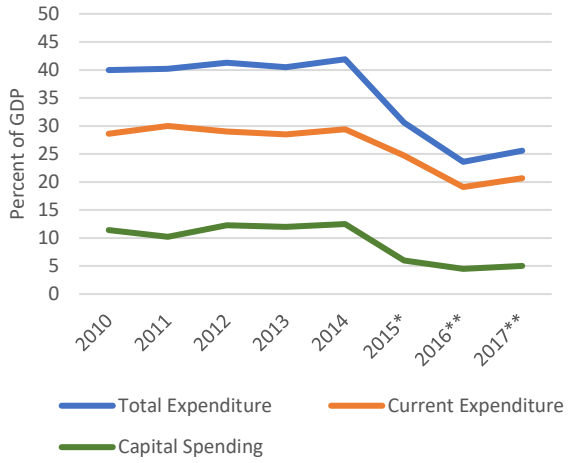



*Source:* IMF.

43. **Debt sustainability has become a challenge.** The debt-to-GDP ratio reached 65.3 percent in 2017, almost double its 2013 level (Figure B.16). This reflected large financing gaps since 2014, but also the effect of the currency devaluation on the large share of the debt denominated in foreign currency. Angola's debt profile is almost evenly split between domestic and external debt. However, the maturity of the domestic debt is shorter than the external debt and the average tenure of the domestic debt has declined as the government sought to issue more domestic debt in recent years. Most of Angola's external debt is held bilaterally by China and Chinese banks. These loans are collateralized by oil exports and its service has consumed more than 60 percent of oil revenues in 2016. Angola has tapped the capital market twice since 2015 with two Eurobond issuances in a move to obtain more competitive and transparent debt terms. Debt has not only reached high levels by emerging markets standards, but the speed of accumulation, the large gross financing needs in the coming years, and the deteriorating composition have become a challenge. These risks are compounded by weak debt management practices and poor communication and transparency with the market. Currently, debt remains sustainable in a baseline scenario, but with increased risks to growth, exchange rate, oil price, and contingent liability shocks.

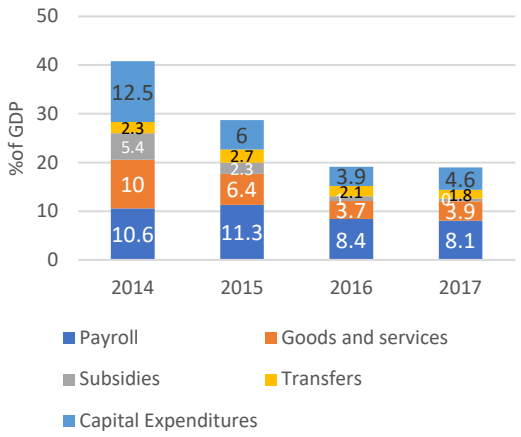
44. **Fiscal consolidation efforts have had some success.** Current expenditure as a share of GDP was reduced from 29.4 percent in 2014 to 20.7 percent 2017 (Figure B.17). The Government of Angola (GoA) cut capital expenditures dramatically, from 12.5 percent of GDP in 2014 to 4.6 percent in 2017 (Figure B.18). Furthermore, inflation caused a reduction in public wages as a share of GDP. The civil service payroll represents about half of the wage bill, while wages for military personnel and for public safety and security forces (the national police, border control, and firefighters) each account for roughly a quarter.

**Figure B.17 Government Expenditure**




*Source:* IMF Article IV, 2017.

**Figure B.18. Primary Expenditure Composition, 2014–2017**




*Source:* Ministry of Finance, Angola.

45. **Spending on subsidies has also been reduced, although several potentially inefficient subsidies remain.** The government implemented a gradual fuel subsidy reform in 2014 and 2015. Prices of diesel, gasoline, asphalt, and light and heavy fuel oil were all liberalized. LPG and kerosene domestic prices were increased but remain subsidized at around 40 percent and 10 percent, respectively. These reforms succeeded in shrinking government spending on subsidies, down to 0.8 percent of GDP in 2016 from a peak of 7.8 percent in 2011. Nonetheless, despite the devaluation of the local currency and the gradual recovery of international oil prices, no fuel price adjustment has been made since 2015. This has led to the emergence of implicit fuel price subsidies that are not reflected into the government budget. The social impact of the remaining subsidies is highly questionable, as they tend to favor the richest households: only 10 percent of fuel price subsidies accrue to the bottom 40 percent.[24] The same situation is experienced in the electricity and water sectors, where applied tariffs are far from covering the costs. Furthermore, direct transfers to SOEs to cover operational costs and salaries continue to consume a significant share of the central government budget and on average, were worth 0.9 percent of GDP per year between 2013 and 2016.

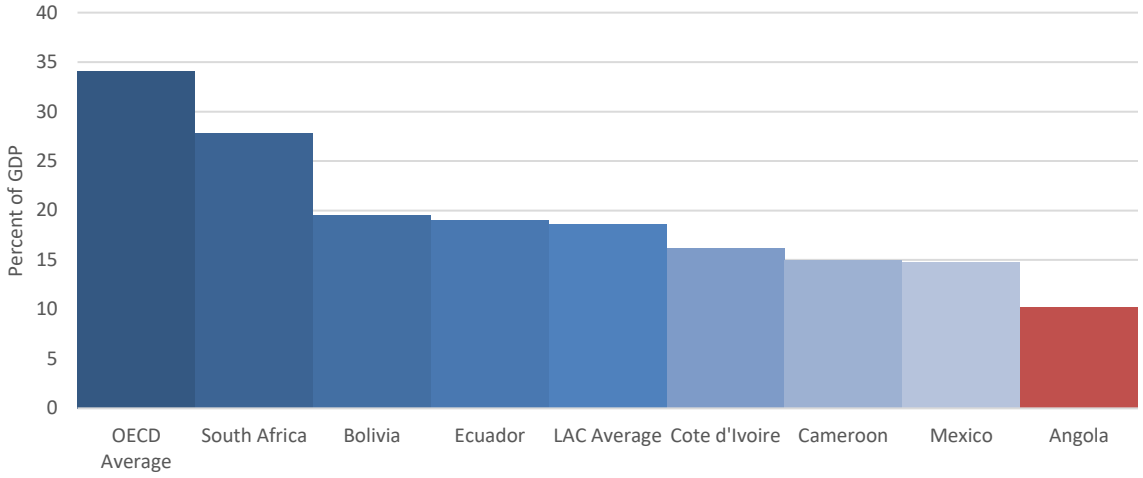
46. **Despite this progress, expenditure composition and expenditure efficiency still have considerable room for improvement.** Relative to peers, Angola still overspends on subsidies and underspends on agriculture, education, health, and social protection. Total health expenditures in Angola were at 3.3 percent of GDP in 2014, while the average for Sub-Saharan Africa was 5.5 percent. Substantial evidence points to inefficient resource use. For instance, health posts and municipal hospitals are not always functional, and staff are frequently absent. While there is significant room for increasing efficiency, social expenditures will nonetheless need to be increased for Angola to achieve its ambitious targets in universal primary education and social protection. More fiscal consolidation is necessary but should remain mindful of longer-term development objectives. For example, the government is preparing further subsidy reform while simultaneously expanding the targeted social safety net.

47. **The low level of tax collection imposes limitations to the revenue side of the equation.** Tax laws in Angola are complex (the personal income tax regime has multiple tax rates and 12 income brackets) and are riddled with multiple exemptions. Compliance costs are high, as there are no mechanisms for

[24] Pape et al. 2016.

simplified tax returns for small and medium taxpayers, who often lack the technical capacity and scale economies to understand the opaque tax code and fulfill their liabilities. The average required in Angola for a business to comply with the three major annual taxes is 287 hours, compared with the Organisation for Economic Co-operation and Development (OECD) countries.[25] Moreover, despite the adoption of a unique taxpayer identification number, the single revenue authority lacks the administrative capacity to update and maintain the taxpayer register. This non-registration of taxpayers, especially outside Luanda, contributes to low revenue collection and the overall compliance gap. Audits to ensure taxpayer compliance are performed manually and are confined almost exclusively to desk audits, making them inefficient and ineffective. These shortcomings have resulted in a very narrow non-oil tax base for Angola (Figure B.19).

**Figure B.19. Tax Revenue, Non-oil, 2014**




*Source:* Angola PER, 2016.

48. **Recent reforms have substantially improved the quality of tax administration, and a value added tax (VAT) will soon be implemented.** A new tax reform program has brought some improvements in tax policy and administration to boost non-oil tax revenue. The single tax authority was created in 2014 and it has recently focused its strategy on measures to enhance voluntary compliance, detect new potential taxpayers, and strengthen tax auditing efficiency. Moreover, in 2016, the tax regimes for income tax and indirect taxes were partly revised with a focus on simplification, expanding the tax base, reducing distortions, and enhancing equity. Reforms in tax policy and tax administration should aim at further broadening the tax base and strengthening taxpayer compliance. Angola currently has a consumption tax with rates ranging from 2 percent to 80 percent applicable on both imports and locally produced commodities. However, it is one of the nine countries in Africa without a VAT. Angola is in the process of introducing a VAT, which could potentially add revenue equivalent to about 1.6 percent of GDP in net terms.[26]

[25] World Bank 2017c.
[26] World Bank 2018d.

***INEFFECTIVE PUBLIC SECTOR MANAGEMENT REDUCES SPENDING EFFICIENCY***

49. **Public financial management (PFM) practices have improved in recent years, but significant weaknesses remain.** With the 2010 constitution as the legal framework, the government has undertaken reforms to strengthen budget preparation processes. [27] These initiatives include the full implementation of the government's Integrated Management Information System (SIGFE), the creation of an Integrated Public Investment Management System (SIPIP), and the establishment of the Treasury Single Account (CUT). Efforts were also made to make budget information available to the public and audit the annual consolidated state account. However, there is still a need to expand the coverage of the budget to include extra-budgetary funds and SOEs. It will also be important to adopt a multiannual perspective and strengthen the integration of the recurrent budget and the investment budget. These issues are evident in the consistent problem of domestic payment arrears, which totaled 3 percent of GDP in 2016.

50. **A lack of oversight and accountability contribute to a dysfunctional public procurement system.** Despite improvements made through the 2016 legal and regulatory framework, internal and external controls of the public procurement system have not been sufficiently implemented. The updated public procurement law is applicable to the central and local government as well as the SOEs, with the *Serviço Nacional da Contratação Pública* (SNCP) as the oversight body for the public procurement system in Angola. However, the SNCP is involved in procurement transactions and cannot objectively oversee them. The procurement system still lacks a dedicated and independent entity in charge of the quality review of procurement processing. Moreover, the PFM internal control entity lacks sufficient capacity in procurement and does not provide systematic reviews. An e-procurement system is under development, with the aim of identifying and preventing frequent contract revisions and cost overruns.

51. **The public investment management (PIM) system remains weak, despite advancements in recent years.** A 2015 IMF technical assistance report listed 56 suggested areas of improvement for PIM, including poor preparation of projects, duplication of efforts, lack of estimates for maintenance costs, and cost over-runs. Prefeasibility studies are often lacking, and sectoral ministries do not always provide the minimum information required for their proposals. Project execution is also frequently jeopardized by weaknesses in the implementation phase. About 80 percent of contracts are not competitively awarded, while projects and contracts often undergo significant adjustments while already being executed. Expenditure controls are weak, and some contracts are fully paid without being fully implemented. There is no requirement for the evaluation of project completion outcomes. The government has nonetheless made efforts to improve PIM practices, through the preparation of manuals for project appraisal and monitoring, as well as a new project template for investment projects under the 2017 Public Investment Program (PIP) cycle.

52. **Tax fraud in the Angolan administration is common and can hurt the profitability of private business.** Undocumented extra payments or bribes in connection with annual tax payments are widespread. In 2008, Angola's tax courts were ruled unconstitutional, leaving companies with no legal recourse to dispute taxes levied by the Ministry of Finance other than to refer to the ministry itself. Legislation that criminalizes bribing public officials is not in line with the United Nations Convention Against Corruption. The scope of corruption-related crimes needs to be widened beyond categories such as bribery, embezzlement, money laundering, and fraud. Provisions for the protection of witnesses need to be introduced. An insufficient capacity to handle complex financial crimes, together with weak cooperation between relevant authorities, creates significant operational weaknesses. These shortcomings are exacerbated by inadequate information systems and databases, which prevents the

[27] Jensen and Paulo 2011

exchange and triangulation of information. Nonetheless, some highly visible actions have been taken, including multiyear prison sentences handed down in August 2018 to former employees of the General Tax Administration for money laundering and corruption.[28]

## *Weak private sector growth*

53. **A lack of growth in the private sector remains an important binding constraint for Angola.** Although public investment can greatly improve services, private sector development is often the main engine of growth for emerging economies and can be an important driver of poverty reduction. Business-led initiatives are often important sources of investment and innovation, enabling productivity gains and generating better quality jobs. Before entering these markets however, private investors need assurances that the business environment is fair and that the risks are acceptable. They also require reliable public infrastructure to reduce costs and increase the efficiency of operations. A weak business climate presents a barrier to private sector development and can be caused by artificial barriers to entry, unfair competition, and improper regulation. Angola's private sector is defined by weaknesses concerning available inputs, factors of production (labor, skills, and capital), and the role of institutions. There continue to be major implements to large-scale foreign investment, and reforms will need to be enacted to improve competitiveness and facilitate the financing of new business initiatives. The country possesses significant non-oil endowments that were previously exploited but saw productivity plummet due to conflict. Such areas of economic potential include agriculture, mining, fisheries, manufacturing, and information and communication technology (ICT). These represent important opportunities for Angola, and a fair and freely competitive private sector can help feed their growth. Angola's economy is relatively large for the region and its population growth is very high, suggesting the potential for strong domestic demand of goods and services in the future.

### *THE WEAK BUSINESS CLIMATE IS AN IMPEDIMENT TO PRIVATE INVESTMENT*

54. **The formal private sector is small and is concentrated in commerce and services in Luanda.** In 2017, almost 22,000 micro, small, and medium enterprises (MSMEs) were registered with National Institute to Support Small and Medium Enterprises (INAPEM), of which 75 percent were microenterprises. Despite the economic crisis of the last years, the number of new business entries continued to grow, suggesting that many sectors are still underdeveloped and offer opportunities for high returns. The size of the informal economy is estimated at about 60 percent and is concentrated in commerce and services. It is estimated that food retail is up to 80 percent informal.

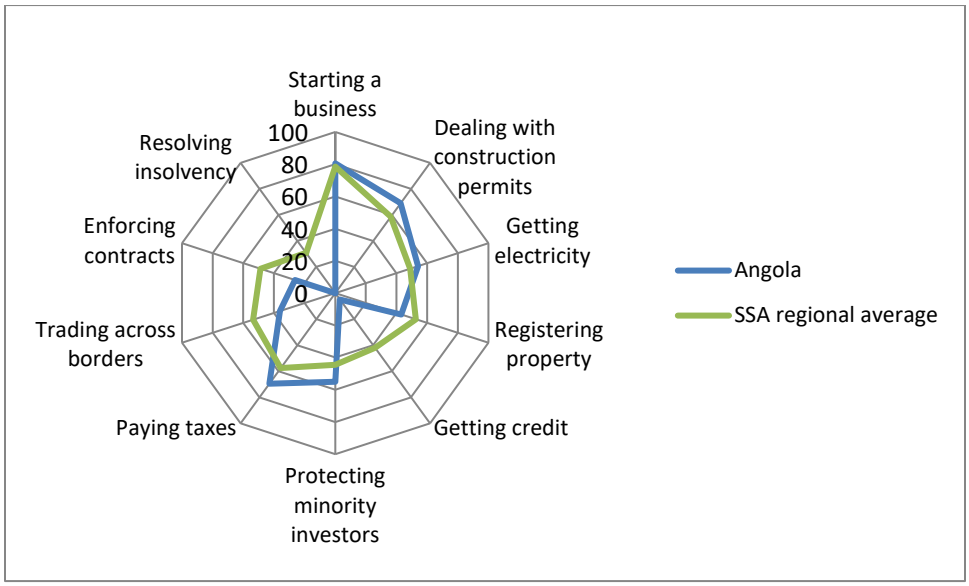
55. **Government influence in the productive economy is still pervasive, crowding out the growth of the private sector.** Large segments of the economy in Angola are not only controlled by state-owned interests but also by actors that are associated with the political party in power and the security forces. The GoA holds billions of dollars in real estate and productive assets, distributed across line ministries, or in the hands of SOEs. Sonangol is Angola's state-owned national oil company. To secure and extend revenues, the MPLA concentrated its human expertise and organizational resources in the oil sector, creating Sonangol in 1976. It is Sub-Saharan Africa's largest corporation and was able to contract oil-backed loans when the Angolan state itself was shut out of access to international finance. In this context, Sonangol became the center of vast quasi-fiscal operations amounting to half the Angolan budget in the late 1990s and early 2000s. The SOE sector in Angola is inefficient and has only been profitable owing to oil revenues. Without Sonangol, which made up 91 percent of total SOE revenues in 2012, the SOE sector

[28] Agencia Angola Press 2018.

would have posted net losses of approximately US$200 million in that year. SOEs operate in traditional public services, such as electricity and water, but they also exist in the sectors of agriculture, transportation, telecom, and media. The large presence of inefficient SOEs limits opportunities for the entry of more cost-effective private initiatives.

56. **Competitiveness is hindered by an unfavorable regulatory and institutional environment for the private sector.** Angola ranked 137 out of 140 countries on the Global Competitiveness Index 2018.[29] A difficult regulatory environment, a challenging macroeconomic framework, weak infrastructure and inadequate human capital—are all factors contributing to Angola's relatively low competitiveness. Obtaining approvals and permits is burdensome, and there is little information sharing among government entities, resulting in confusion and duplicate requests. A heavy bureaucracy creates opportunities for corruption and the discretionary application of regulations. The impact of this challenging regulatory and institutional environment is illustrated by Angola's ranking of 173 out of 190 economies in the Doing Business 2019 report. Angola remains behind the regional average on several indices, including trading across borders, enforcing contracts, and resolving insolvency (Figure B.20). Nonetheless, the country has been making gradual but very consistent progress in the rankings, up from 175 in 2018 and 182 in 2017. Despite Angola's poor track record concerning competitiveness, the newly elected President João Lourenço has been very vocal in his anti-corruption rhetoric and has already taken concrete steps to improve the business climate.

**Figure B.20. Ease of Doing Business Scores**[30]




*Source:* World Bank, Doing Business 2019.

57. **Market contestability is very low and barriers to entry are high.** Firms operate with very high input costs, including high costs for imported tools and materials. The lack of reliable electricity from the state utility means that firms are forced to operate individual generators at a very high cost. It is common for expatriates to represent between 10 percent and 25 percent of staff in technical and management positions in large- and medium-size firms. Large profit margins are necessary to survive in such a high-cost

[29] Schwab 2018.

[30] The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190. *Source:* Doing Business database.

and high-risk environment and entering the market can be even more difficult. A lack of forex to import inputs and equipment has hurt investment plans, and credit to the private sector has dried up. Due to the underdevelopment of the supply chain in a range of industries, many companies have been forced to backward integrate to be able to provide their own inputs, including training, packaging, component manufacturing, and electricity generation. Although some businesses accumulated reserves during the boom years, the cost of overcoming operational hurdles consumes resources that could otherwise be used for diversification into other markets or products. Market distortions through subsidies and tariffs are also common. In 2014, certain import tariffs were raised by between 30 percent and 50 percent to protect existing local industries (including cement, beverages, and agricultural goods). Some prices are also fixed and subsidized, including petroleum products, water, electricity, voice telephony, and postal services. A competition law was passed in April 2018 and envisions the establishment of a competition authority.

58. **Foreign investment is weak outside of oil and gas.** Foreign direct investment (FDI) inflows to Angola have been relatively stable with an average of US$15 billion per year from 2012 to 2016, a strong performance in comparison to the region—82 percent of total international investment flows between 2003 and 2017 were concentrated in oil and natural gas, while agribusiness received a mere 6 percent. Foreign investors have been deterred by a restrictive visa regime and investment policy. Continued forex restrictions impede profit repatriation, thus acting as a further disincentive for FDI. The new government in office since September 2017 has passed a new investment law removing restrictions to foreign ownership such as the minimum participation of domestic shareholders in key sectors.

59. **Although there are significant opportunities for joining regional and global value chains, difficult and uncertain import and export procedures undermine potential gains from market integration.** Angola is a member of the Southern African Development Community (SADC), although it has not ratified the SADC Trade Protocol or signed the SADC draft Protocol on trade in services. Furthermore, it has not joined the Southern African Customs Union (SACU) which aims at reducing trade barriers among countries in the region.[31] Angola ranks 139 of 180 countries in the Logistics Performance Index, which measures the efficiency of international supply chains. Its regional peers such as South Africa (20), Mozambique (84), and Zambia (114) fared better. Angola underperforms in the customs indicator index, with a global ranking of 157 out of 180.[32] Completing requirements to import and export takes longer and is costlier in Angola than the regional average. For example, the cost to import in Angola in terms of border compliance is US$935 against the Sub-Saharan average of US$662.[33] Licensing procedures for each shipment, linked to tracking the flow of foreign exchange, add to the time and cost of trade.

60. **Angola has the third largest financial sector in Sub-Saharan Africa, but it remains exposed to systemic risks.** The financial system is dominated by banks, which represent approximately 97 percent of assets in the sector. Despite an increase in the number of banks over the past several years, the system remains concentrated, with the top five banks accounting for 63 percent of sector assets. The state has a significant role in the banking sector, both through direct ownership of banks and through Sonangol, which holds a significant stake in six banks. Additionally, there are considerable ownership stakes held in banks by politically connected persons. Financial sector vulnerabilities have been on the rise with nonperforming loans increasing to 28.8 percent in December 2017, up from 10 percent in 2013. Jurisdictional risk, weaknesses in Angola's anti-money laundering and counter-financing of terrorism (AML-CFT) legal framework, and reduced risk appetite by global banks have contributed to a loss of direct U.S. dollar Correspondent Banking Relationships (CBRs) in 2016. Most sectors were affected by the

[31] U.S. International Trade Administration 2018.
[32] Arvis et al. 2016.
[33] World Bank 2017c.

withdrawal of direct U.S. dollar CBRs, including the supply of food and medicine. Nonetheless, U.S. dollar clearing has been made possible through subsidiaries of Angolan banks in Portugal and South Africa that take on the role of a correspondent bank. The lack of a robust bank resolution framework and financial safety nets limits crisis preparedness and perpetuates weaknesses in the national financial system. There is an urgent need to complement the financial institutions law by operationalizing bank resolution options, creating a deposit guarantee fund, and introducing corrective measures for banks in distress.

61. **There are large disparities in access to finance across regions, types of businesses, and gender.** Even though Angola has a relatively high number of automated teller machines (ATMs) and commercial bank branches per capita, the percentage of adults with a transaction account in a financial institution is less than 30 percent. Women and adults in rural areas have even more restricted access, respectively, only 22 percent and 18 percent. Mobile payments have not been taken up, mostly due to a lack of interest from the dominant telecom player. Luanda, with 27 percent of the population, accounts for 90 percent of total credit and 95 percent of total deposits in the entire country. These factors contribute to an extremely low level of financial literacy at only 15 percent of adults.

62. **The laws governing land ownership are cumbersome and are an obstacle for the expansion of the real estate market.** The procedures for obtaining concessions, regularization, and transfers are expensive and time-consuming. Most rural parcels are not formally registered and do not appear in any database. The boundaries of community land, and of land under concession, are generally not formally mapped and recorded, causing frequent disputes. The lack of legal regulation and the limited availability of information about land ownership are fundamental obstacles to the development of this sector. There is a severe shortage of serviced land and affordable housing in cities, and undocumented land occupation is widespread. The combination of fast urban growth with serious bottlenecks in the formal supply of urban land has led to skyrocketing real estate prices in major cities. This has created a severe shortage of affordable urban housing, and consequently, undocumented land occupation has become commonplace. Many Angolan cities have expansive unplanned settlements called 'musseques', where population density is very high. The bulk of these dwellings receive limited public services, and forced evictions happen often. The private sector has been reluctant to invest in urban real estate, due to the weak land tenure system and the lack of legislative reforms necessary for a functional land market.

### *FAILING AND INADEQUATE INFRASTRUCTURE IS AN IMPEDIMENT TO ECONOMIC GROWTH*

63. **Angola's transportation network is inadequate and in dilapidated condition.** By the end of the civil war, more than 70 percent of the country's road network was in an advanced state of deterioration. National road density is only 29 km per 1,000 $km^2$ and only about 17 percent of classified and urban roads are paved. The rural accessibility gap is a serious impediment to growth, as road density remains very low, feeder roads are few, and bridges are lacking. The growth of domestic trade remains hindered by the limited connectivity between provinces. The transportation gap also makes it difficult for the country to develop regional trade and discourages its neighbors from making greater use of the country's ports. Angola is seeking to become a rail transportation hub among the countries of the SADC, and railway infrastructure is being rehabilitated with this goal in mind. As of 2011, 69 percent of the country's existing rail network was out of operation. Some railway lines have been rehabilitated but freight continues to congest the road network, especially around the capital. Ports are the main pathway for the import and export of cargo, with Luanda handing over 70 percent of the country's imports. Major expansion of the ports has been undertaken in recent years through public funding and PPPs, though operational issues remain including the multiplicity of fees.

64. **The government has committed to major public expenditure in power production to keep up with growing demand.** Total annual electricity generation nearly tripled between 2007 and 2015, with hydroelectric plants representing more than half of total production. Nevertheless, the electricity generated cannot reach the final user in a reliable manner because the transmission and distribution network also needs significant investment for upgrading and expansion. The transmission network is composed of three non-interconnected subsystems that cannot share their loads. As a result, power losses have remained consistent at around 30 percent of total production since 2010 and access to electricity remains low.[34] Increasing urbanization, coupled with insufficient investment in electrical infrastructure, has meant that the proportion of the population with access to electricity is declining. Electricity meters are lacking, and billing systems are inadequate. Tariffs are well below average cost of production, and the lack of revenue has limited the ability of the state utility to expand its network and provide household connections to new customers. The three major national grids have no connection between them and cannot share their loads. An inadequate and inconsistent power supply restricts private sector growth, as many businesses are forced to adopt a system of self-generation. Recognizing these pressing needs, the government has launched a long-term plan to bring electricity to 60 percent of the population by 2025 though major investments in new generation capacity (hydro-electric and solar power stations) and new transmission and distribution infrastructure with the involvement of private sector.[35] The Southern Africa Power Pool, an SADC initiative to create a shared electrical grid between countries, currently counts Angola as a nonoperating member. Connections to this common grid are expected to be established through Namibia and the Democratic Republic of Congo.[36] Angola is also member of the Central Africa Power Pool, which is a specialized institution of the Economic Community of Central African States (ECCAS), with prospects to export to the Republic of Congo and Democratic Republic of Congo in the medium term.

65. **Air transportation in Angola remains underdeveloped but is growing.** There are 31 airports in the country with paved runways. The country's busiest airport is the Quatro de Fevereiro International Airport just outside Luanda, serving both international and domestic airlines. A new international airport is under construction near Luanda and should be completed by 2019. This is expected to become a major regional transportation hub, with a capacity of 13 million passengers per year and including a cargo terminal with an annual capacity of 35,000 tons. TAAG Angola Airlines E.P. is the national airline of Angola, serving 12 domestic, 10 regional, and 6 intercontinental destinations. The company is state owned and faces little competition. In 2014, TAAG signed a ten-year management contract with the Emirates Group with plans to increase passenger volume and help develop Luanda as a regional transportation hub. The contract was terminated prematurely in 2017 as forex restrictions meant that Emirates had difficulty repatriating its revenues.

### *SEVERAL ECONOMIC SECTORS SHOW STRONG POTENTIAL FOR GROWTH*

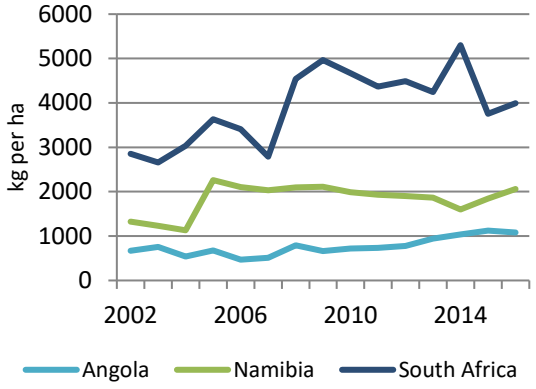
66. **Agriculture is a major sector of the Angolan economy, although the country's abundant resources remain underutilized.** Agriculture accounted for roughly 12 percent of Angola's GDP in 2016, and in 2014, it was estimated that almost 68 percent of the country's economically active adults worked in the sector. The country has an abundance of land and water, as well as the diverse climatic and soil conditions needed to produce a large variety of foods. The main crops include cassava, corn, beans,

[34] An estimated 34 percent of the population has access to electricity at the national level and only 10 percent have access in rural areas.
[35] International Finance Corporation was recently invited to deploy its Scaling Solar initiative.
[36] U.S. Commercial Service 2017.

potatoes, sweet potatoes, soy, and bananas, with other agricultural products being livestock, coffee, manioc, rice, vegetables, and fruits. Of Angola's 57.4 million hectares of agricultural land, only about 8 percent to 14 percent is currently being used.[37] Agricultural output declined dramatically after independence and during the civil war, shifting toward subsistence agriculture and away from cash crops. The total value of Angola's agricultural exports in 2013 was only 8.5 percent of the value of its exports in 1974, the year before the country won its independence.

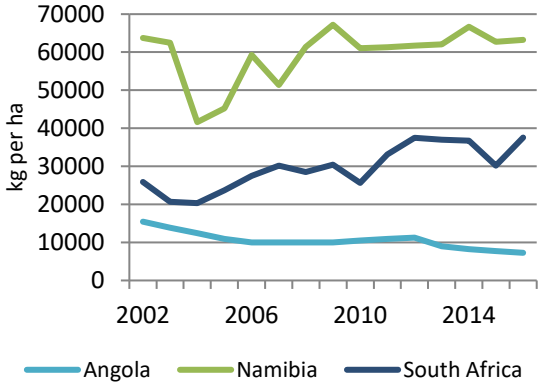
67. **Agricultural productivity is very low due to a lack of mechanization, undeveloped input markets, and poor road infrastructure.** National agricultural output is well below demand, and Angola imports more than half of its food. Most agricultural output in Angola is produced by small-scale family farms, and the country's productivity levels are very low compared to neighboring Namibia and regional leader South Africa (Figure B.21 and Figure B.22). Productivity growth is being held back by a limited access to agricultural finance, an insufficient use of fertilizer, a lack of market information, and an absence of food processing facilities. Failing infrastructure limits access to both domestic and international markets and a lack of electricity provision in rural areas raises the cost of production and conservation/transformation due to the necessity of running gas generators. Markets for seeds, fertilizers, tools, machinery, and other agricultural inputs are poorly developed. Most agricultural inputs and technologies are imported and remain beyond the reach of most farmers and agribusiness SMEs, in part due to a lack of access to foreign exchange. Agriculture credit programs have been created but only 2 percent of farmers have used them, and they have not yet reached the smallholder segment. The Ministry of Agriculture and Forestry (MINAGRIF) provides extension services, but there is only one extension officer for every 5,722 producers, compared with one officer for 1,000 producers in Nigeria. Higher temperatures and potentially lower mean annual precipitation due to climate change could reduce agricultural productivity even further. Mean annual temperatures in Angola increased by 1.5°C from 1960 to 2006, while annual rainfall has decreased by an average of 2.4 percent per decade over that period. Some climate models suggest that crop yields in Angola will decline by 5 percent by the 2020s (compared with 1990 levels), and by 10 percent by the 2050s.[38]

**Figure B.21. Maize Yields**




*Source:* Food and Agriculture Organization Statistical Databases (FAOSTAT).

**Figure B.22. Wheat Yields**




*Source:* FAOSTAT.

68. **Angola is a major exporter of diamonds and has considerable non-diamond mineral resources that are insufficiently exploited.** In 2016, the country was the world's fourth largest diamond producer.

[37] Tomas 2013.
[38] Parry, Rosenzweig, and Iglesias 2004.

Diamonds are Angola's second biggest export after oil, with export volume usually surpassing US$1 billion per year. The government maintains strict control of the diamond industry. The government is the sole concessionaire in the mining sector and the SOE *Empresa Nacional de Diamantes de Angola* (Endiama) holds exclusive diamond mining rights in the country. In exchange for the granting of mining rights to other producers, the state receives a share of mining revenue through joint ventures or production-sharing arrangements. The economic importance of diamonds is nonetheless dwarfed by fossil fuel extraction. The contribution of the entire mining subsector to Angola's GDP was only 1 percent in 2013. Angola has considerable non-diamond mineral resources, but they are poorly exploited. Subsoil resources in the country include iron, gold, copper, zinc, lead, manganese, and phosphate. Despite these wealth of deposits, Angola's current non-diamond mining products include only quarried building materials and manufactured cement.[39] Exports of cement, granite, and marble totaled US$76.6 million in 2016, representing 6.3 percent of non-oil exports.[40]

69. **The fisheries industry generates a significant portion of Angola's non-oil exports, but production for the domestic market needs to be expanded.** The sector accounted for 3.5 percent of GDP in 2015 with 96.2 percent of that contribution coming from marine fisheries. The main marine resources include sardinella, horse mackerel, shrimp, crabs, sea breams, swordfish, squid, and octopus. Fishing is a major source of livelihood for Angolans, with 150,000 people working in the sector, including jobs in fishing, gathering, processing, and selling. In 2015, fisheries exports were US$384 million, accounting for 11.3 percent of all non-oil exports that year.[41] Principal marine exports include shrimp, tuna, and crab, as well as fish meal. Stock assessments indicate that species important for food security and exports are fully or overexploited or are showing reductions in overall biomass. Horse-mackerels are estimated to be exploited at a level 15 percent above the maximum yield per recruit. Biomass indices of demersal fish for 2016 show a reduction of 22 percent in the overall biomass compared to 2015.[42] Fish are an important food resource for Angola, accounting for roughly 25 percent of total animal protein intake in the country. Domestic production cannot keep up with local demand, and imports of fish were estimated at US$180 million in 2011. Domestic and international trade in fish and fish products is hampered by a lack of processing and storage facilities. Products from artisanal fisheries are consumed locally, with little infrastructure and poor hygiene and handling conditions in landing sites.

70. **Angola's manufacturing sector remains underdeveloped and consumers continue to rely on imports.** In 2014, it accounted for 5 percent of total value added, half the share of agriculture, although manufacturing's share of total employment was below 2 percent. The manufacturing sector includes processed foods, textiles, processed metals, and cosmetics, but a national focus on the oil industry has left it grossly underdeveloped. Furthermore, existing manufacturing enterprises relied heavily on government subsidies and an uncompetitive market environment to get started. Most of these firms require imported inputs and foreign labor to operate, providing little domestic employment and few linkages with the local economy. Unreliable access to energy raises production costs and poor transportation infrastructure limits access to domestic and international markets. The GoA has been pursuing an import substitution strategy to strengthen the market for domestically manufactured goods. The Ministry of Economy launched an official 'Made in Angola' certification in 2012, and in 2016, the label was applied to at least 860 locally manufactured products, especially food produced in various regions of the country. However, past diversification initiatives including export promotion, import substitution, and

[39] Bermúdez-Lugo 2016.
[40] Data from Banco Nactional Angola statistics online.
[41] African Development Bank 2015.
[42] World Bank 2018b.

discretionary investment incentives (for example, subsidized credit, tax breaks) for specific products were not transparent and only had limited success.

71. **Despite its small size, Angola's manufacturing sector boasts a high rate of productivity.** Value added per worker in manufacturing is 3 times higher than the services sector and 20 times higher than in agriculture. However, weak investment in manufacturing has led to a decrease in output and labor in this activity. Over the period 2008 to 2014, employment levels in manufacturing decreased, whereas job creation was mainly driven by the service sector. An expansion of manufacturing could potentially mean the creation of accessible, productive jobs even for workers with low levels of schooling. Experience in other countries has shown that with reasonable investment in skills training and support to formal firms in this sector, manufacturing offers a window of opportunity to absorb new workers. At present, formal firms in manufacturing only account for 13 percent of the total number of firms and encompass only 10 percent of total employment. Nonetheless, such an expansion of the manufacturing labor force would be contingent on overcoming other barriers to growth, such as a competitive environment, and access to infrastructure services such as electricity, transport, and ICT.

72. **The ICT sector has shown remarkable growth, and there is significant potential for further expansion.** The liberalization of the telecommunications market in 2001 triggered rapid expansion, but mobile phone use continues to lag Angola's regional peers. Mobile phone penetration reached 55 subscribers per 100 population in Angola in 2016, compared with 74 in Sub-Saharan Africa overall, and 142 in South Africa. The Angolan mobile market is dominated by a duopoly between Unitel and Angola Telecom's Movicel, but a new unified licensing regime introduced in mid-2017 will allow for the entry of a new player. Angola Telecom will also be partially privatized, with the government declaring its intention to sell a 55 percent stake in the company. Despite the improving health of the mobile phone sector, access to high-speed Internet remains a challenge. The number of mobile broadband subscribers rose from 2.7 per 100 people in 2010 to 22.3 per 100 people in 2016, although this remained below the regional average of 28 per 100 people.[43] The fixed broadband market, aiming to serve households and enterprises including government agencies, is still largely dominated by Angola Telecom, and the subscription rate was only 0.5 per 100 people in 2016. The government has taken up steps to improve access to high-speed Internet, but results have been limited. Angola connected with the undersea international cable SAT-3/WASC in 2002, and all provincial capitals have been linked by optical fiber cables since 2012. The availability of high-speed Internet is a prerequisite for Angola to participate in the growing digital economy, offering jobs, opportunities for youth, and economic output. The sector reforms being considered by the GoA in the telecom sector are meant to improve competition and market structure, reduce cost of telecom services, and expand connectivity (that is, penetration) throughout the country.

[43] GSM Association 2017.

## C. POVERTY AND EQUITY

73. **The exclusion of the poor from the benefits of growth is a major binding constraint for the development of Angola.** The postwar increase in national output has brought with it higher levels of inequality, as the benefits of the oil boom have accrued to only a small part of the population. Angola will have difficulty maintaining growth rates over time if the gap continues to widen between those with and without access to socioeconomic opportunities. One of the strongest engines of long-run growth will be investment in human capital, including knowledge, skills, competencies, and work experience throughout the whole population. Reducing inequalities of opportunity can also help reinforce political stability and social cohesion, both important conditions for long-run economic development. The improvement of livelihoods in Angola should focus on the betterment of health, education, and labor standards throughout the population and not only a simple increase in total wealth. Failing to invest in human capital, notably among women and the rural poor, would be a major impediment for Angola's sustainable growth. Recognizing this fact, the government established a medium-term National Development Plan (NDP) 2018–2022 that outlines a road map for a more diversified and inclusive growth model. The effective implementation of this plan and similar policies will be necessary to ensure that the poor also benefit from growing prosperity in Angola.

74. **The productivity of Angola's future workers will be seriously impeded by shortcomings in health and education.** The World Bank's Human Capital Index provides a simple, composite measure of the expected human capital of the next generation in a given country. It is defined as the amount of human capital that a child born today can expect to achieve given the current risks of poor health and poor education currently in his or her country. The Human Capital Index has three components: survival, schooling, and health. The survival component is measured using the under-five mortality rate. The schooling component is the years of schooling a child can expect to obtain by age 18, combined with a measure of quality derived from relative performance on international student achievement tests. The health component combines the rate of stunting of children under age 5 and the adult survival rate, defined as the proportion of 15-year-olds who will survive until age 60. A country in which a child born today can expect to achieve both full health (no stunting and 100 percent adult survival) and full education potential (14 years of high-quality school by age 18) will score a value of 1 on the index. Angola's Human Capital Index was 0.36 in 2018, pointing to weak education and health outcomes that limit the opportunities of the poor. This index number indicates that the productivity as a future worker for a child born today in Angola is 64 percent below what could have been achieved with complete education and full health. Most of the country's regional peers fared better on the Human Capital Index, with Namibia scoring 0.43 and South Africa scoring 0.41. Of the 45 countries classed as lower-middle income in the dataset, Angola is ranked fourth from the bottom, coming ahead of only Nigeria, Mauritania, and Côte d'Ivoire.[44] While dimensions of, and factors behind such low level of human capital are wide-ranging, adequate investments and delivery mechanisms in health, education, sanitation, and social protection are key ingredients.

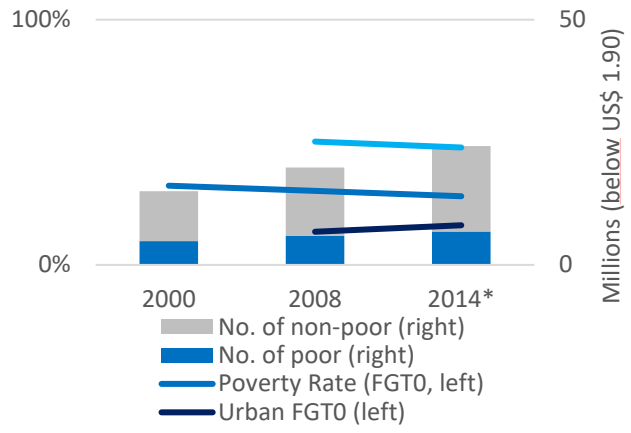
### *The poor have seen little benefit from recent economic gains*

75. **Despite considerable economic growth, nearly a third of Angolans still live in poverty.** National output rose dramatically in the decade following the end of the civil war. GDP per capita nearly doubled, moving from US$2,293 (PPP) in 2000 to US$4,164 in 2014. This impressive expansion of the economy nonetheless did very little to reduce poverty. The proportion of people living below the US$1.90 poverty

[44] World Bank 2018c.

line showed only a small decline, from 32.3 percent in 2000 to 28.0 percent in 2014 (Figure C.1). Rapid population growth and increasing urban poverty meant that the absolute number of poor in Angola increased from 4.9 million to 6.7 million over this period. Angola's poverty rate remains remarkably high for a lower-middle-income country (LMIC). However, despite the lack of any meaningful reduction of poverty, several key development indicators have improved, including life expectancy, under-five mortality, and maternal mortality (Table C.1).

**Figure C.1. Percentage and Number of Population Living below US$1.90 PPP (2011)**




*Source:* People's Well-being Inquiry (IBEP) 2008.
*Note:* (*) estimated by a structural model using IBEP 2008 and Census 2014 data.

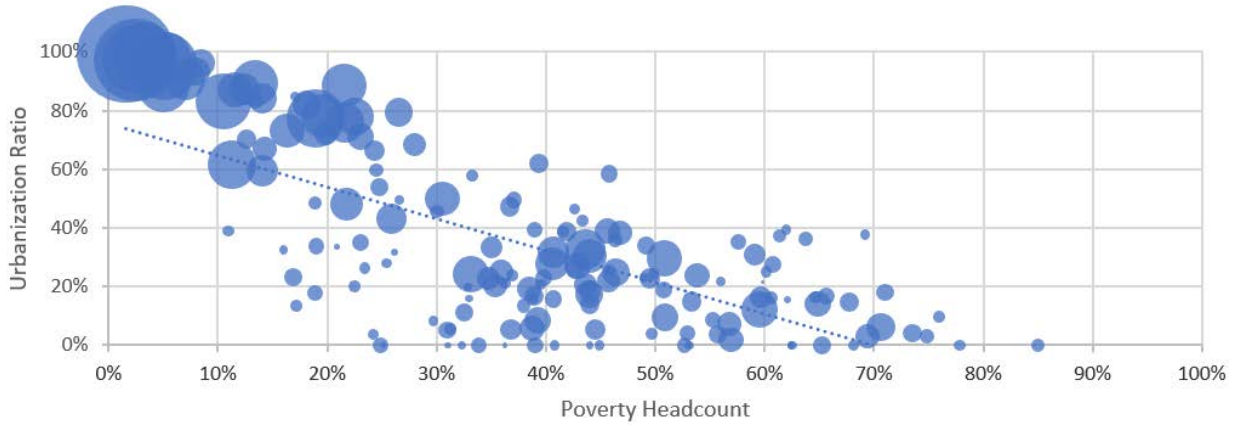
**Table C.1. Progress in Development Indicators**

| Indicator | 2000–2005 | Most Recent | Year |
|---|---|---|---|
| Population (million) | 14.7 | 25.8 | 2016 |
| Population ≤20 years | 60% | 57% | 2016 |
| Fertility rate | 6.5 | 5.7 | 2016 |
| Population below poverty line US$1.90 a day | 32% | 28% | 2014 |
| Population below poverty line US$3.10 a day | 54% | 55% | 2014 |
| Life expectancy at birth | 42.4 | 52.6 | 2015 |
| Under-five mortality (per 1,000 live births) | 250 | 68 | 2015 |
| HIV/AIDS prevalence | 3.9% | 2.2% | 2015 |
| Population knowing three ways of avoiding HIV | 18% | 45% | 2014 |
| Adult literacy rate | 33% | 71% | 2015 |
| Maternal mortality rate | 705 | 477 | 2015 |
| Net primary school attendance rate | 56% | 84% | 2011 |
| HDI rank (of 177 countries) | 166 | 150 | 2014 |
| Gini coefficient (income, 1995) | 0.54 | 0.47 | 2014 |

*Source:* Integrated Data Repository (IDR) 2000; United Nations Children's Fund (UNICEF) (2003); Census 2014; World Bank; UNAIDS (2014); United Nations Development Program (UNDP) (2005, 2015); Authors' calculations.

76. **Recent economic gains have failed to reach the rural population.** One in two rural people live in poverty compared with one in six urban people. Large areas of the country are disconnected from urban centers. This weak connectivity and an absence of markets in rural areas contribute to a strong correlation between rates of poverty and a lack of urbanization (Figure C.2)—64 percent of Angola's poor live in rural areas. In 2014, poverty varied between 2 percent and 5 percent in Luanda's five most urban municipalities. Conversely, the poverty headcount was 85 percent in the completely rural municipality of Kuroka in the south. A large part of Angola's population has endeavored to escape poverty by migrating to urban areas, in search of better livelihoods, greater opportunities, and improved services.

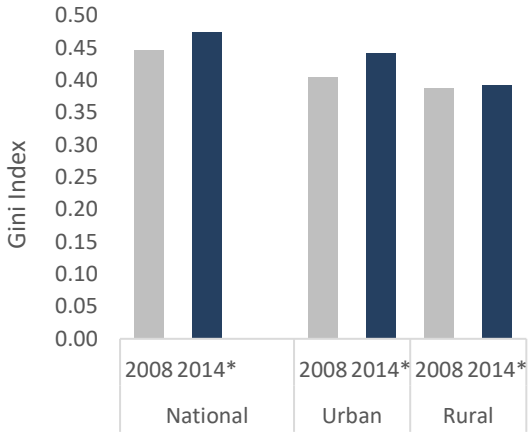
**Figure C.2. Urbanization, Poverty, and Population Share (size of circle) in 2014, by Municipalities**




*Source*: Authors' calculations.

77. **Inequality in Angola is getting worse, driven by rising inequality in urban areas.** The country's Gini coefficient, which provides a measure of inequality ranging from 0 (completely equal) to 1 (completely unequal), increased from 0.43 in 2008 to 0.47 in 2014. Over this period, the Gini remained constant for rural areas at 0.39, but it increased from 0.40 to 0.44 for urban areas (Figure C.3). Even though Angola exhibits a very clear urban-rural divide, inequality within urban areas and within rural areas was even stronger. Within-group inequality explained 81 percent and 82 percent of inequality in Angola in 2008 and 2014, respectively (Figure C.4). The recent increases in urban inequality almost completely offset the poverty reduction achieved through growth, one of the reasons that poverty reduction was minimal between 2008 and 2014. Growth favored the nonpoor while the poor, especially in rural areas, were left behind. This reflects the country's lack of effective pro-poor policies, and a failure to invest adequate resources to address the needs of the rural population.

**Figure C.3. Evolution of Inequality**




*Source:* Authors' calculations.

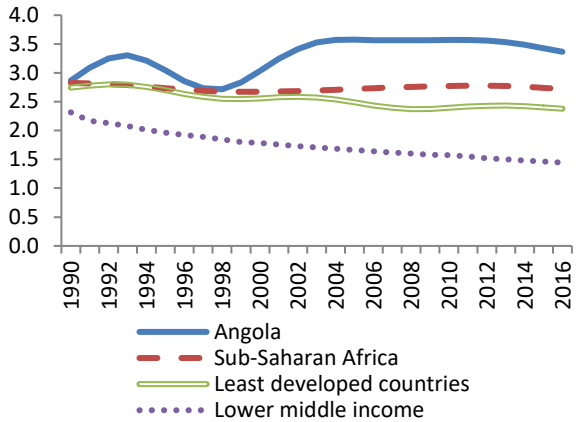
**Figure C.4. Inequality Decomposition for Urban/Rural**


*Source:* Authors' calculations.

78. **High fertility rates are a barrier to women's economic empowerment and prevent Angola from enjoying a demographic dividend.** Angola has the third-highest fertility rate in the world, with women having six children on average (eight in rural areas). The adolescent fertility rate is also the third highest in the world, after Mali and Niger, at 162 births per 1,000 women ages 15 to 19. Around 30 percent of

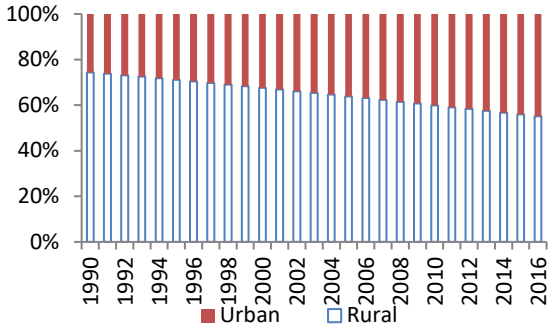
teenagers in Angola have already become mothers, thus significantly reducing their opportunities for education and ultimately for wage employment. Around 30 percent of girls are married by age 18, and high rates of child marriage have been shown to worsen health outcomes and prevent girls from obtaining an education. Angola's annual population growth rate increased toward the end of the civil war and remains more than twice that of LMICs (Figure C.5). Angola has the opportunity to benefit from a demographic dividend, in which a country experiences a boost in economic growth owing to low dependency ratios and a large working age population. More than half of Angola's population are younger than 20 years, creating a very high youth dependency ratio of 93 percent. A drop in the fertility rates would reduce the number of young dependents relative to the working population and allow for an increase in income per capita, as well as a greater participation of women in the workforce.

**Figure C.5. Population Growth Rates**




*Source:* World Development Indicators.

**Figure C.6. Urban and Rural Population (percentage)**




*Source:* World Development Indicators.

79. **Urban prosperity has not been shared with the residents of slums.** Angola's population is 28.8 million, making it the 12th most populous country in Africa. The urban population has grown very quickly at an annual average of 5.7 percent since 1990, compared with only 2.2 percent for rural areas. By 2016, 45 percent of the population lived in urban areas (Figure C.6). However, more than half (55.5 percent) of urban dwellers live in overcrowded, underserviced, and insecure slums. While slums are economically vibrant, many activities are informal and of limited productivity. The lack of sanitation, education, and health facilities has numerous negative impacts. Women and girls need to spend significant amounts of time collecting water, which can prevent them from attending school or expose them to risk of sexual assault. Illnesses and diseases spread rapidly, with diarrhea often the leading killer for children under five years. Luanda increasingly suffers from recurrent flood events, sea-level rise, increasing temperatures, and greater precipitation extremes will further aggravate climate and disaster risk. This will be particularly true for the most vulnerable urban communities as they have little means to prepare, cope, and recover from shocks.[45] Slum dwellers have often been ignored by authorities and are excluded not only from the benefits of development but also from political processes. The GoA has nonetheless shown clear signs of a new commitment to better harness the benefits of urbanization. This includes the preparation of a National Urban Policy, the announcement of the gradual decentralization of urban management functions and municipal elections planned for 2020.

80. **Social protection spending has been reduced and is not well targeted toward the poor.** Social protection spending decreased from 7.8 percent of GDP in 2010 to 2.2 percent of GDP in 2016. The bulk

[45] Leal Filho 2018.

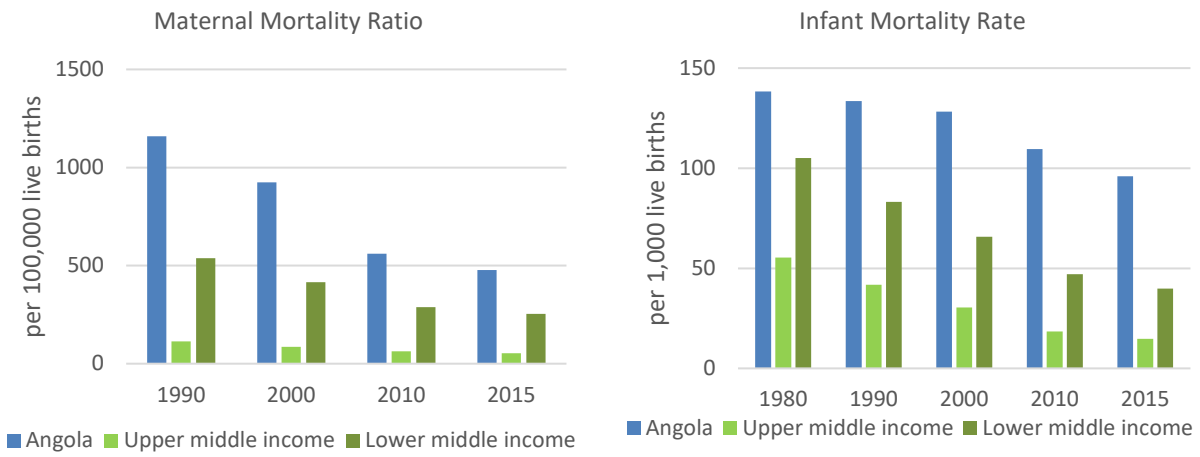
of this decrease came from the reduction of energy subsidies (including both subsidies and support for SOEs) that have historically represented a large share of the national budget. The government began to enact subsidy reform in September 2014, reducing spending on subsidies from 5.9 percent of GDP in 2013 to 1 percent of GDP in 2016. Following the reform, subsidies were no longer the largest category of social protection public expenditures, with 70 percent being spent on contributory pensions and other social insurance, 19 percent on energy subsidies, and 8 percent on social assistance.[46] Spending on social assistance (including war-related non-contributory pensions and transfers targeting the poor and vulnerable) was also reduced over this period, although less dramatically, and accounted for 0.2 percent of GDP in 2016. Social assistance spending became even less targeted toward the poor, while war-related program expenditure decreased by 43 percent in real terms between 2015 and 2016, non-war social assistance fell by 85 percent. The links between social protection and human capital are critical, while water, sanitation, health, and education systems provide the supply-side of services, effective social protection instruments can work to strengthen the demand side by helping households, especially the poor and most disadvantaged, invest in the utilization of these services. By protecting the vulnerable against shocks, social protection can also help preserve human capital investments, preventing coping strategies (school dropouts, postponing health treatments) that may have irreversible negative consequences on the poor's assets. The GoA has shown its determination to further reduce broad-based subsidies and build a strong social safety net. However, weak targeting and inadequate investment continue to hinder the effectiveness of social protection programs in the country.

## *The rural poor suffer from disproportionately bad health outcomes*

81. **Angola's recent growth has helped improve the health of its population, but indicators still lag far behind those of other middle-income countries.** Angola's rates of infant mortality and mortality of children under five years remain among the highest in the world. Infant mortality dropped to 96 deaths per 1,000 live births in 2015, but this is still much higher than the average of 15 for upper-middle-income countries (Figure C.7). The maternal mortality rate has also been steadily decreasing but remains more than eight times the average of 57 for upper-middle-income countries. Life expectancy in Angola has increased dramatically since 1990, rising from 41.7 years to 61.5 in 2016 but still falls below the average for the least-developed countries (64.4 years) and LMICs (67.9 years; Figure C.8). Preventable death from communicable diseases has also decreased to 61.8 percent in 2015; however, this is still almost double that of LMICs (Figure C.9). More than one in three children are stunted, with the rate of stunting around 3 percentage points higher than the Sub-Saharan African average.

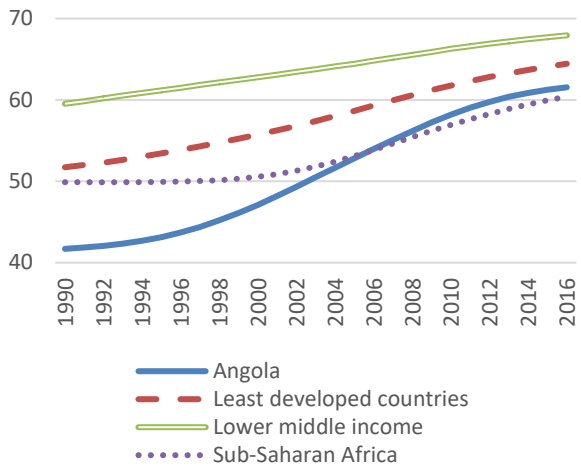
[46] World Bank (forthcoming).

**Figure C.7. Health Indicators for Angola and its Income Peers**



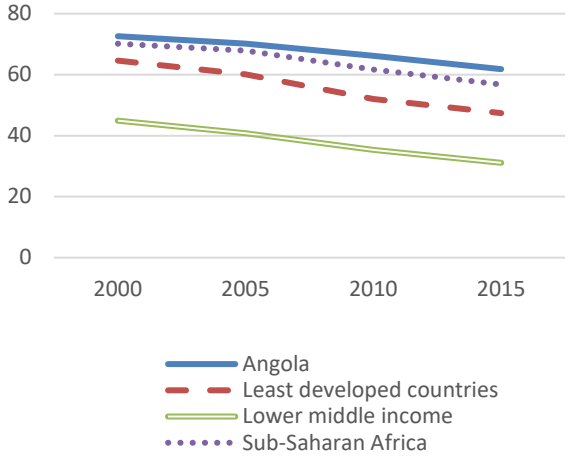

*Source:* World Development Indicators from the World Bank.

**Figure C.8. Life Expectancy (years)**




*Source:* World Development Indicators.

**Figure C.9. Death from Communicable Diseases (percentage of deaths)**




*Source:* World Development Indicators.

82. **The rural poor still contend with very low access to health care compared to the wealthy.** The richest Angolans can afford private care, while poor households often forgo treatment due to prohibitive costs. In 2015–2016, only 34 percent of women in the poorest quintile attended four or more prenatal visits, compared with 88 percent of women in the wealthiest quintile. Access to these services is also a problem, with pregnancy health checks and delivery services available in only 25 percent of rural facilities. Catastrophic health spending is more common among wealthier households, indicating that poor households may not be able to afford treatment even in extreme situations. Failing infrastructure and underdeveloped supply chains limit the availability of drugs and vaccines in rural areas. This drives up the cost of health care for the rural population, increasing out-of-pocket spending on medication and reducing access to treatments for life-threatening conditions such as tuberculosis, malaria, and rabies. Malaria infection rates are ten times higher in rural areas compared to urban areas, and climate change could lead to a substantial increase in malaria prevalence in the Angolan highlands by the 2080s. Stagnating low health indicators for Angola's indigenous peoples, the San, are particularly worrisome.

83. **The disempowerment of women in Angola leads to disproportionately bad health outcomes.** Low female empowerment is associated with high fertility rates, early childbearing, and low birth spacing —all of which are linked to worse maternal health outcomes. Among rural women, 44 percent have problems accessing care because they are unable to obtain household permission. For others, a lack of decision-making agency causes delays in accessing health care that can contribute to poorer health outcomes. Around 25 percent of women do not participate in decisions regarding their own health care, and roughly 20 percent of women reported experiencing physical violence in the last 12 months, primarily committed by the current husband or partner. Low levels of empowerment are also a risk factor in the spread of HIV, as there can be a correlation between negative economic shocks and choosing to engage in unprotected transactional sex. The country's HIV infection rate increased to 1.9 percent in 2016, and women represent 59.7 percent of those living with the virus. Among infected people, antiretroviral therapy coverage is low. In 2016, only 22 percent of people living with HIV were being treated, far below the Sub-Saharan African average of 53 percent.

84. **Angola suffers from a scarcity of trained health care professionals, and the problem is most acute in rural areas.** It ranks as one of the weakest countries for human resources in the health sector, and the situation is not improving. Angola has only 1 physician, less than 23 health care workers, and 63 nurses per 10,000 people. Rural areas are the worst hit by this scarcity, as 85 percent of health care workers are concentrated in the capital. Poor training and education contribute to low quality health care services in the country.

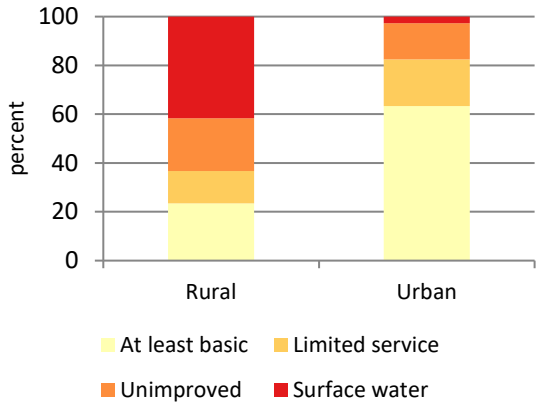
85. **Although public health expenditure is necessary to help the poor, it is low and has been declining since 2014.** Health spending increased almost four times between 2000 and 2014, but the trend was reversed when spending cuts in 2014 and 2015 led to real reductions of 19 percent and 39 percent respectively.[47] Health expenditure as a percentage of the country's GDP also declined, from 2.6 percent in 2013 to just 1.5 percent in 2015, far behind the Sub-Saharan average of 5.4 percent. This weak financing poses a critical threat to health access and outcomes, mainly for the poorest Angolans. Private and external contributions to health care are the lowest in the region. Angola's share of current health expenditures funded from external sources (foreign transfers from donors and international NGOs) is 2.8 percent, much lower than the Sub-Saharan African average (12.9 percent) or least developed countries (18.0 percent). In Angola, out-of-pocket expenditure amounts to over 30 percent of total health expenditure, many times that of neighboring countries such as Namibia (6 percent) and Botswana (6.8 percent). While household expenditure can be used to help supplement public spending, it also typically exacerbates unequal access to health care for the poor due to prohibitively high costs. For women, cost is cited as the most significant barrier to health care access.

86. **Weak public investment in water and sanitation contributes to negative health outcomes for the poor.** Limited access to improved water, sanitation, and hygiene services has detrimental public health consequences such as through waterborne diseases and child stunting. Angola's indicators for access to water and sanitation missed the 2015 Millennium Development Goals (MDGs) targets, and still rank low among comparable peer countries. Nationally, only 41 percent of the population has access to basic or improved drinking water services. However, access for the urban population is much higher at 63.3 percent, compared to only 23.5 percent for the rural population (Figure C.10). Nationally, only 39 percent of the population has access to an improved sanitation service. The same urban-rural gap persists, with 62 percent of the urban population having access to a basic sanitation service, compared to only 21 percent of the rural population (Figure C.11). Open defecation remains prevalent in rural areas. As of 2015, only 37 percent of Luanda's 7 million people benefited from piped service from the network, while

[47] World Bank 2017a.

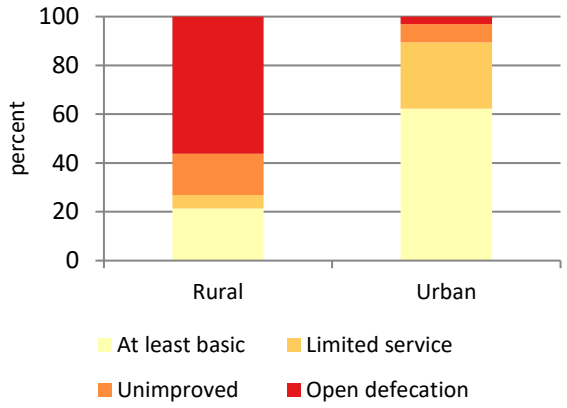
another 22 percent got water from public standpipes. Hydraulic losses are estimated at 30 percent, whereas commercial losses from unbilled or uncollected tariffs exceed 70 percent. Those living in the vast unserved urban and peri-urban areas do not have access to direct connections and rely primarily on the unsafe and expensive service of private tanker trucks. A tariff setting and regulation reform, coupled with the elimination of operational subsidies, is expected to become effective in 2019. More generally, the lack of clarity in the institutional setup of the sector, the relatively weak capacity of the civil service, and the absence of a sound regulatory framework have proven to be significant barriers in implementing a comprehensive national strategy to improve water and sanitation services.

**Figure C.10. Access to Water (2015)**




*Source:* World Health Organization (WHO) and UNICEF.

**Figure C.11. Access to Sanitation (2015)**




*Source:* WHO and UNICEF.

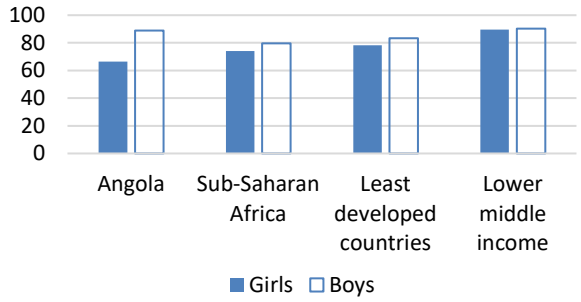
## *Low education levels limit economic opportunities, especially for women*

87. **Levels of education remain low, leading to worse economic outcomes.** School enrollment increased sharply from 2.2 million students in 2004 to 10 million in 2016. Nonetheless, many children remain outside the school system, with net primary enrollment rates of only 66.4 percent for girls and 88.8 percent for boys (Figure C.12). Although these rates for primary school are similar to the average for Sub-Saharan Africa, Angola lags far behind its regional peers in terms of secondary school enrollment (Figure C.13). Beyond simple enrollment rates, Angola is also weaker than its peers in terms of educational outcomes. A child in Angola who starts school at age 5 can expect to complete 7.9 years of school by his or her 18th birthday, whereas this number is 9.3 for South Africa, and 10.7 for Kenya. There is also a considerable gap in terms of quality of education. Using harmonized test scores to adjust for differences in attainment, the average Angolan child will complete 4.1 learning-adjusted years of school, as compared to 5.1 for South Africa and 7.8 for Kenya.[48] Although low quality is the key issue afflicting primary schools, limited access is the main problem for secondary and Technical and Vocational Education and Training (TVET) schools. This recent growth in public education has done little to improve the situation of the adult population that experienced a lack of schooling when they were young. Around 35 percent of women and 30 percent of men have only attended primary school. There is a strong relationship between years of education and participation in paid employment, and investments in education can help strengthen

[48] World Bank 2018c.

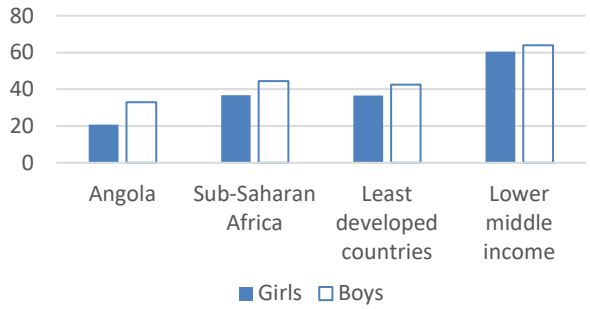
Angola's economic development. Of workers who completed secondary school, 70.2 percent are in paid positions. In contrast, only 9.2 percent of workers without an education are engaged in paid work.

**Figure C.12. Primary School Enrollment (net, percentage of primary school age children, 2011)**




*Source:* World Development Indicators.

**Figure C.13. Secondary School Enrollment (gross, 2011)**



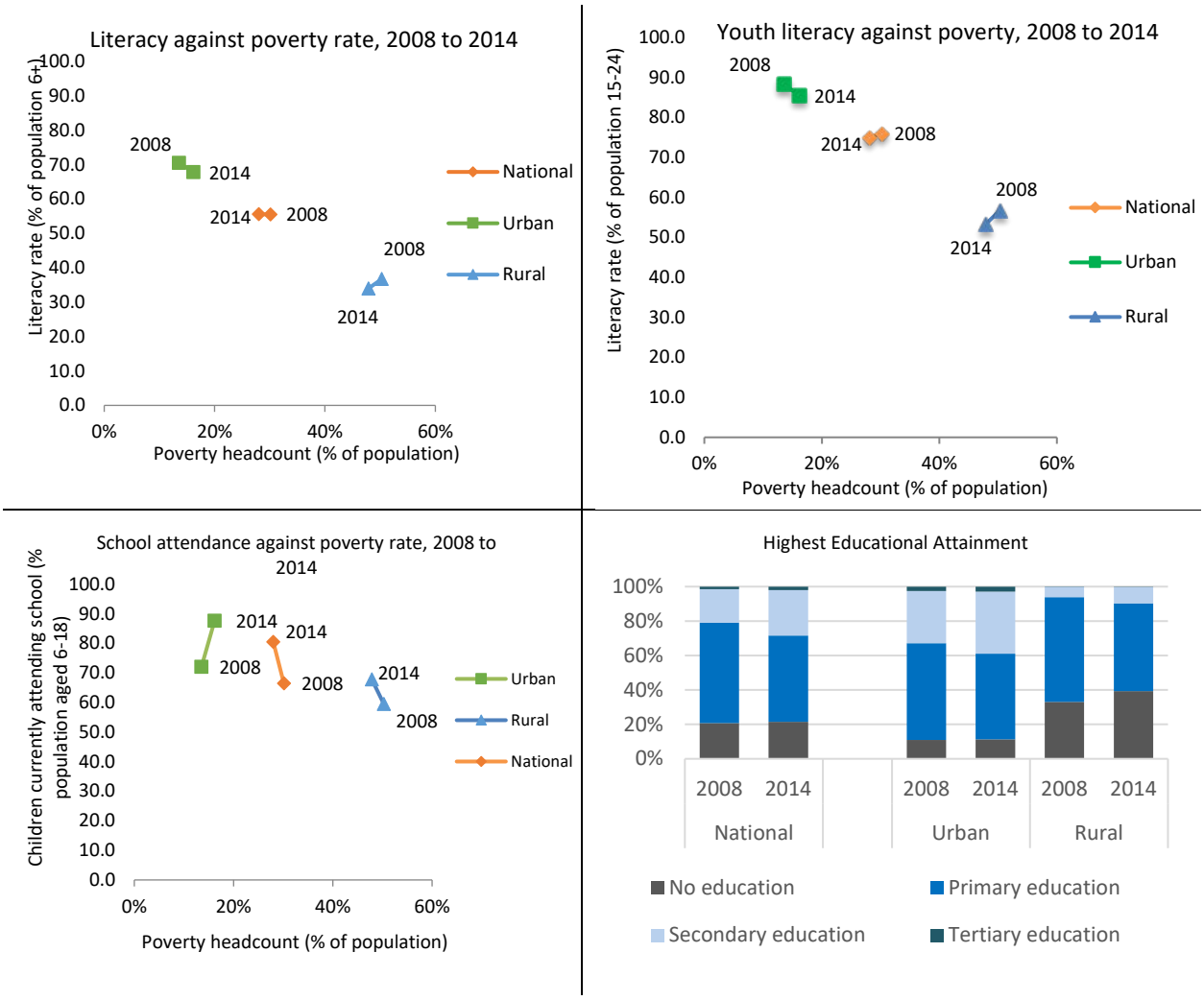

*Source:* World Development Indicators.

88. **The government has not committed sufficient resources to improving the quality of education.** Between 2010 and 2013, education expenditures grew as the government hired new teachers and undertook extensive school construction projects. Public spending on education reached a high of 4.1 percent of GDP in 2013. This level was dragged down by the oil price crisis, with public education spending decreasing by 24 percent from 2013 to 2014, and by a further 10 percent from 2014 to 2015. At about 3 percent of GDP, Angola's education spending is lower than the 4.4 percent average for Sub-Saharan Africa.[49] External funding by donors is limited, largely due to Angola's lower-middle-income group status. In 2015, of the development aid given to Angola, only 3 percent was allocated to the education sector. Greater expenditure is required to meet the needs of the underfunded education system and boost the quality of the education being provided. Furthermore, the centralized decision-making structure in the education system makes it challenging to plan even at the municipal level, as schools do not see their budgets but only the goods they receive. A lack of trained teachers, high pupil-to-teacher ratios, and insufficient hygiene facilities pose supply-side barriers. From 2002 to 2006, the number of schools increased by 143 percent, and 70,000 new teachers were recruited. Of those teachers, an astounding 75 percent were not formally trained. Even with the addition of teachers, a high pupil-to-teacher ratio of 42.5 (2011) leaves many teachers overwhelmed. While the ratio is consistent with neighboring countries, it is much larger than LMICs.

89. **School attendance and school enrolment demonstrate an inequality of opportunity for the rural population.** Literacy rates have stagnated since 2008 at a worryingly low level of 56 percent. The urban-rural divide is striking, with the rural literacy rate of 34 percent only half the urban literacy rate of 68 percent (Figure C.14). The youth (ages 15 to 24) literacy rate stagnated around 75 percent since 2008 even though school attendance increased from 66 percent in 2008 to 80 percent in 2014. Large inequality of opportunity is manifested in the urban-rural divide of school attendance with an urban rate of 88 percent compared to a rural rate of only 68 percent. This lack of opportunity to attend education will continue to disproportionately disadvantage the rural population, a divide that is already visible in the higher educational attainment for the urban population. Sharp inequalities among income groups are also present in post-primary school enrollment rates. Less than 10 percent of young people from the poorest households are enrolled in post-primary schools versus 76 percent of those from households in the top income quintile.

[49] World Bank 2017a.

**Figure C.14. Literacy (read and write), School Attendance, and Highest Educational Attainment**[50]

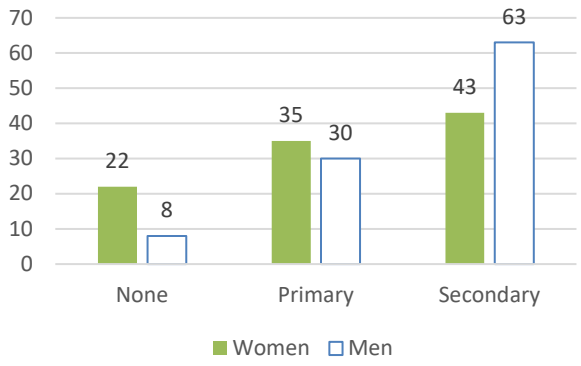



*Source:* IBEP 2008 and Census 2014.

90. **Women have less access to education than men.** Among people ages 15 to 49, 22 percent of women have no formal education, while this is true of only 8 percent of men. A similar gap exists for secondary education, with only 43 percent of women attaining this level compared to 63 percent of men (Figure C.15). Among the current student-age population, gender gaps are the largest in rural areas where only 6 percent of girls (12–18 years) attended school, compared to 11 percent of boys. Without an education, many women find themselves trapped in agricultural employment and informal work. Completing secondary education doubles women's chances of achieving the median salary. The GNI per capita for women is US$5,497, significantly lower than US$8,169 for men.

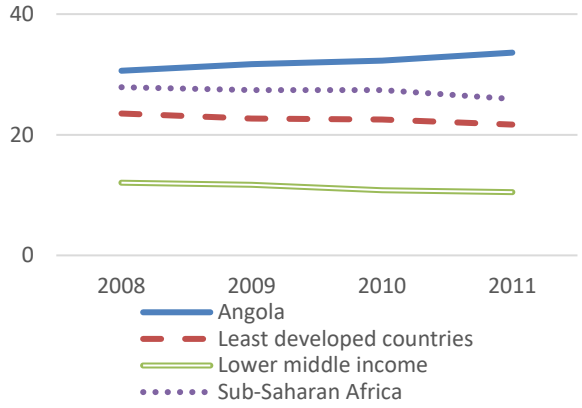
[50] Due to rural-urban migration, the population shares are not constant between 2008 and 2014. This allows the aggregate estimate to stay constant despite a drop in both rural and urban indicators.

**Figure C.15. Highest Level of Education (ages 15–49)**




*Source:* Angola Multiple Indicator and Health Survey.

**Figure C.16. Girls Not in Primary School (percentage)**




*Source:* World Development Indicators.

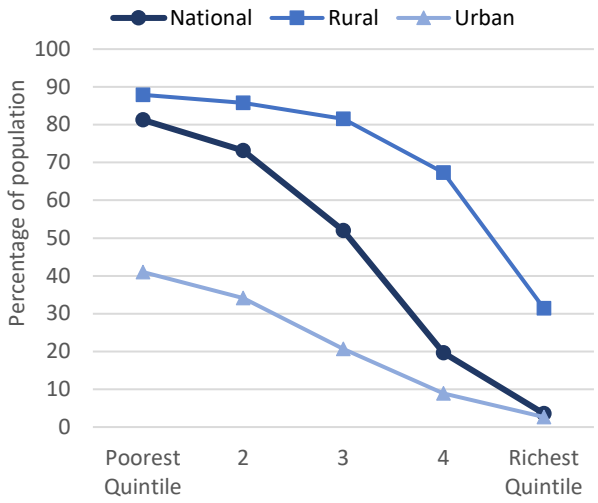
91. **Differing social norms with respect to boys and girls contribute to the gender gap in enrollment.** Unlike Sub-Saharan Africa and least-developed countries (LDCs), the percentage of primary-age girls out of school in Angola has been increasing (Figure C.16). Although primary school fees have been eliminated in Angola, households must still buy school supplies and in some cases, subsidize teacher salaries. Social norms prioritize the education of boys as returns on investment for girls tend to be lower. Child marriage is culturally accepted and presents a barrier to girls' participation in education as well as worsening health outcomes. In Angola, 8 percent of girls are married by age 15 and 30 percent of girls are married by age 18.

92. **Investing in education for women can help reduce fertility rates and boost economic prosperity.** In addition to increasing opportunities for paid employment, education can promote economic development by tempering high population growth. Women in Angola without an education have on average 7.8 children whereas women with at least a secondary diploma have 4.5 children. The prevalence of teenage parenting is much higher among women without an education (58 percent) compared to those with a secondary education or more (25 percent). Education leads to better job and earnings prospects, which are also correlated with lower fertility levels. Educated women also tend to delay childbirth until a later age and raise healthier children. When mothers have no education, only 16 percent of the children are vaccinated, compared with 51 percent of children who are born to mothers with at least a secondary education.

## *The rural poor remain largely self-employed in the agriculture sector*

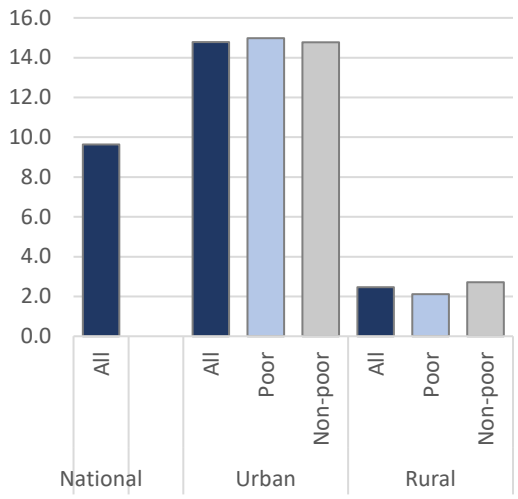
93. **Most of the poor in rural areas continue to rely on agriculture as their main source of income.** Livelihood strategies including sources of food and income differ widely between livelihood zones, often along wealth status lines. Agriculture is the main economic activity for 88 percent of the poorest rural households, compared to only 41 percent of the poorest households in urban areas (Figure C.17). Agricultural output is produced mostly by small farmers, covering more than 80 percent of cultivated land. This widespread reliance on agriculture means that rural unemployment is virtually nonexistent. Urban unemployment stood at 14.8 percent in 2014, in contrast to the rural unemployment rate of only 2.5 percent (Figure C.18). Richer households rely less on agriculture both in urban and rural settings, demonstrating the low profitability of this activity. The dominance of the low-productivity agriculture sector is a stumbling block for improving the situation of the poor and the growth of the Angolan economy as a whole.

**Figure C.17. Agriculture as Main Industry**




*Source:* Census 2014.

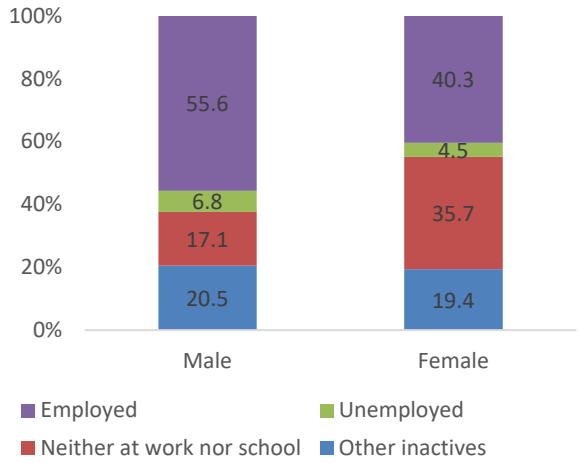
**Figure C.18. Unemployment Rate, 2014**




*Source:* Census 2014.

94. **A low labor force participation rate is an impediment to development.** Of the population that is of working age, 47 percent are inactive (neither working nor seeking work). Women participate in the labor force much less than men do, with employment rates of 40 percent and 56 percent, respectively (Figure C.19). The share of women who are neither at work nor at school is 36 percent, more than double the corresponding share of men. Nearly half of the working-age population is not active in the labor market, meaning that a significant potential economic force is not being used. The low labor force participation rate, combined with a high share of dependents in the economy, continues to represent a challenge for Angola's economic development.

**Figure C.19. Labor Force Participation by Gender, ages 15–64**




*Source:* Census 2014.

**Figure C.20. Employment Types, and by Gender, Age 15–64**


*Source:* Census 2014.

95. **While the self-employment rate is very high, this is driven by subsistence agriculture rather than entrepreneurship.** Sixty-three percent of people engaged in agriculture are self-employed, and the sector represents 43 percent of the Angolan labor force. The service sector is the largest sector, claiming 51

percent of the country's labor force, whereas industry claims only 6 percent. In the economy as a whole, the highest share of employment type is self-employment, at 52 percent (Figure C.20). Angola's low level of educational attainment and the preponderance of self-employment in subsistence agriculture are both causes of persistently low labor productivity.

96. **Social norms and unequal access to education contribute to strong gender gaps in employment.** Women are mostly self-employed (63 percent) and their jobs are concentrated in the agricultural sector. However, better and more secure jobs are generally provided by the service and industry sectors. Only 24 percent of nonagricultural wage employees are women. Furthermore, women are paid only 40 percent of what men earn for similar work. Angola's gender gap in education partly explains the gender gap in employment. Time constraints also play a role, with social norms dictating that women take on greater responsibility for domestic tasks including child care.

## D. GOVERNANCE

97. **Weak governance is a cross-cutting binding constraint in Angola, hindering institutional capacity and jeopardizing the existing fragile social contract.** The structures and processes that provide core state functions are horizontal aspects of development that can yield positive spillovers for other forms of capital accumulation. When effective, institutions can foster social trust in the government and reinforce shared norms and values that facilitate cooperation within or among groups. Acute forms of social exclusion like social, ethnic, gender, or regional-based exclusion are correlated with lower levels of trust and civic engagement. Also, trust underwrites different kinds of transactions whether they are private, social, economic, or political in nature. Safeguarding and building on institutional capacity and social trust gains is a priority without which productive activity and inclusive development are unlikely to take hold, especially in a sustainable manner.

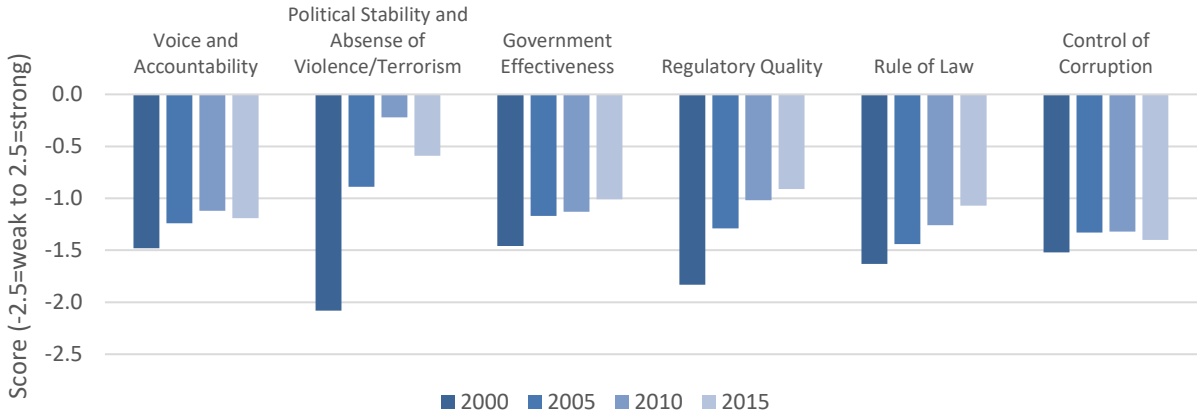
98. **Following the victory of the civil war, the MPLA governed the country with weak checks and balances in a dominant discretionary presidential system.** Since 2002, the MPLA established itself as the party of stability and peace, with weak checks and balances in a dominant discretionary presidential system. The first postwar legislative elections were held in 2008, in which the MPLA won 82 percent of the popular vote and an absolute majority in the National Assembly. In 2010, a constitutional change replaced direct presidential elections with the automatic nomination of the leader of the party with the most parliamentary seats. Democratically elected political representatives composing the National Assembly have the power to propose, pass, and refuse laws elaborated by the executive. In practice, however, the National Assembly merely approves presidential decrees and executive decisions. The House rules allow opposition representatives limited time to voice their opinion, and the MPLA has, given its dominance, little incentive to engage in a constructive dialogue with the opposition. The President remains the ultimate arbiter of political decisions, as he directly appoints the cabinet as well as members of special commissions created to handle priority initiatives. Nonetheless, political competition in Angola is has been growing steadily, with the MPLA capturing only 61 percent of the popular vote in the 2017 elections. Although the party still holds an absolute majority in the national assembly, it controls only 150 seats, far fewer than the 191 it controlled following the 2008 elections.

99. **Oil revenue windfalls over the years allowed substantial discretionary spending ensuring loyalty at the cost of institutional efficiency and rule of law.** Relations are highly personalized as opposed to being governed by impersonal rules of the game. This weakens institutions across the board. The members of courts and commissions are appointed by the President, jeopardizing the independence of the judiciary branch from the executive. The Supreme Court, the Constitutional Court, the State Attorney General, and the Ombudsman of Justice are often perceived as being appointed by political loyalty. Investigations are routinely opened or closed arbitrarily, creating the impression of undue political influence.

100. **Governance of the resulting political system is weak with limited accountability, low effectiveness, and rampant corruption.** Across all dimensions, Angola's system is weak, with only one exception in providing political stability. Furthermore, improvements in these dimensions from 2000 to 2015 are marginal and— more importantly—exclude control of corruption, which remains at the same level as in 2000 (Figure D.1). Compared internationally, the indicators are among the weakest 20 percent of all countries. Corruption remains rampant, with Angola ranking 164 out of 176 in Transparency International's Corruption Index. From 2002 to 2015, US$28 billion from government budgets remain unaccounted for while Angolan companies and individuals have invested US$189 billion overseas in often

opaque transactions.[51] The new administration has nevertheless made important strides toward reclaiming public funds lost in this way. A law entered into force in June 2018 that allows for coercive repatriation of financial resources resulting from unlawful operations, preceded by a 180-day amnesty that allows Angolans to repatriate such funds without fear of prosecution.

**Figure D.1. Governance Indicators for Angola from 2000 to 2015**




*Source:* World Bank.

101. **The personalized political system together with the heritage of state-led development created a form of crony capitalism such that the private sector is dominated by state-run and state-linked companies.** The economy is firmly under control of a small group of people close to the former President, many of them former or current generals in the army. Public companies, or companies led by the MPLA-trusted entrepreneurs dominate critical economic sectors, including the oil sector, diamond mining, banking, and telecommunications. More generally, once a certain threshold of profitability is reached, economic sectors in Angola become dominated by entrenched oligopolies of enterprises connected directly or indirectly to members of the ruling elite. Several explicit measures were in place to protect these businesses from outside competition, including a required minimum level of Angolan participation in foreign investments, preferred access to finance in government connected banks, and protection on imports. The new government has taken some visible steps to promote competition, notably a 2018 law that scrapped the requirement that at least 35 percent of the capital for new investment projects had to come from Angolan partners.[52]

102. **This form of crony capitalism makes it difficult for outsiders to participate profitably in the economy.** This is largely due to the preponderance of informal factors such as the politically connected nature of business in Angola. These translate into high operating costs, weak rule of law, poor investor protection, the routine payment of commissions and kickbacks, and the existence of entrenched, politically connected oligopolies which benefit from government protections and programs. Availability of financial services is extremely limited, ranking Angola 143 out of 144 countries.[53] The evolving banking system remains cautious about lending to the private sector because of high credit risk, lack of enforceable collateral, and legal protection. Instead, banks concentrate their assets in high rate government securities. The resulting high cost of finance is a major obstacle to the development of the private sector.[54]

[51] Catholic University of Angola's Center for Studies and Scientific Research.
[52] The relaxation of these restrictions under the new law does not however apply to investments in oil, mining, and financial institutions, as those domains are governed by sector-specific legislation.
[53] Schwab and Sala-i-Martin 2015.
[54] World Bank 2017d.

**Box 2. Fragility, Conflict, and Violence**

**Violent conflict can significantly reduce trade and economic growth, as well as restrict the range of options available to national governments in pursuit of poverty reduction.** Globally, there is a strong correlation between conflict and enduring poverty, and by 2030, more than 60 percent of the world's poor will live in countries affected by fragility and high levels of violence.[55] Given its history of colonization and civil war, any analysis of Angola's economy must pay attention to the causes and consequences of fragility, conflict, and violence (FCV). Risk and Resilience Assessments (RRAs) are a tool for understanding the FCV dynamics in a given country as well as identifying existing factors of resilience and showing how they can be reinforced. A new RRA for Angola was prepared by the World Bank Group, both to inform this SCD and to provide programmatic advice to the World Bank's Country Management Unit. The RRA identified five main structural drivers of FCV in Angola that jeopardize growth and poverty reduction. It further identified four risk factors that may serve as potential triggers for renewed FCV going forward.

**Angola's history includes multiple structural drivers of FCV that underlie the balance between entertaining the entrenched elite and embracing social and economic change.** First, of paramount importance is Angola's legacy of civil war and trauma that has contributed to the country's stark inequality and lack of adequate human capital. Second, inequality across Angola is exemplified by highly skewed access to resources with more than half of the population living in poverty, as well as regional imbalances. This is most evident in the rural-urban divide, which manifests itself not only in rural poverty rates that are triple those of urban areas but also in inequality in endowment and opportunity with the rural population substantially more disadvantaged. A third important structural driver of FCV in Angola relates to the country's relatively weak institutional framework with highly personalized relations (as opposed to impersonalized relations following rules and laws) which facilitates corruption and clientelism. The fourth structural driver is a historically restrictive system that has stifled civil liberties, including freedom of expression, political participation, and voice and accountability. Fifth, in the last decade, Angola's overreliance on extractive resources (in particular, oil, but also diamonds and other mineral resources) has generated macroeconomic volatility but also has negatively shaped domestic institutions and economic power, skewing it in favor of the elite that controls these resources (as exemplified by the SOEs like SONAGOL, which experts describe as a "state within a state"). The Cabinda enclave also presents a potential challenge to stability, given the continued existence of a political movement calling for independence from Angola. The FLEC-FAC, an armed separatist group, remains a threat and a power struggle within its ranks that led to more than 50 deaths in 2016.

**These identified structural drivers give rise to several specific risks and potential triggers for further FCV going forward.** One major risk relates to Angola's demographic situation, which calls for a speedy response to the growing number of young Angolans who require education and skills training, and who are eager to have a political voice. Angola's youth are also key to restarting the non-oil economic sectors, which require input from an adequately educated workforce. Another risk is the improper management of rapid urbanization, a consequence of Angola's high population growth and history of civil war. In combination with the risks related to demography, rapid urbanization presents a real possibility of instability exacerbated by Angola's lack of decentralization and absence of basic service provision to the poor. A final risk relates to Angola's oil dependency, which presents the country with a difficult macroeconomic situation, exacerbated by high indebtedness that has the potential to develop into a genuine macroeconomic crisis in the short term.

## *Institutional centralization undermines effective service delivery*

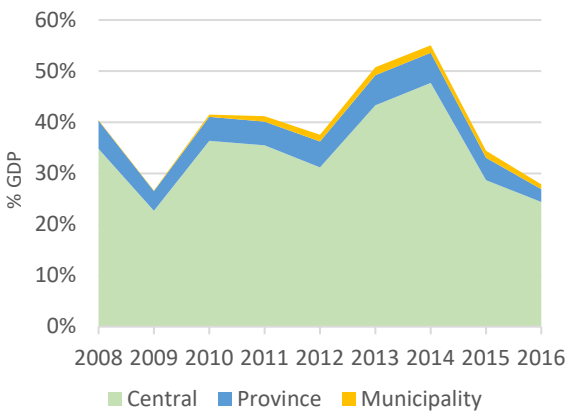
103. **Angola administration operates in a highly centralized structure.** Angola is a unitary state with two levels of subnational government including 18 provinces and 163 municipalities. The 2010 constitution recognizes sub-municipal entities, such as 'traditional authorities'. The competences

[55] United Nations and World Bank 2018.

allocated to each level of government are defined in the Constitution, the 2007 Local Administration Law, and the 2010 Law on the Organization and Functioning of the Local State Administration Authorities. According to this legal framework, provinces are responsible for the promotion and orientation of socioeconomic development, provincial planning, social support, education, health care, environment protection, and so on. They also play a role in the execution of decisions made by central authorities regarding regional and local matters and supervise public institutes and companies of provincial and local relevance. Municipalities are responsible for municipal and urban planning, agriculture and rural development, primary health care, education, municipal police, water and sanitation, and so on. These responsibilities are not always clearly defined, thus creating risks of concurrent competencies. Municipalities are further divided into 532 communes for administrative purposes.

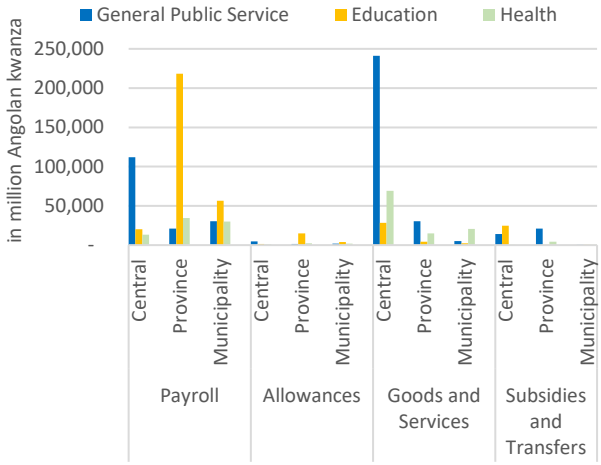
104. **Angola's process of administrative deconcentration was never completed despite recognized necessity for a more independent administration at the local level.** Decentralization was launched end of 2001 with the approval of the Strategic Plan for Deconcentration and Decentralization, envisaging a gradual process of decentralization, that will first go through deconcentration until it culminates with the creation of autonomous local municipalities. Deconcentration has progressed very little however. The functions assigned to the municipal administrations are confined to the maintenance of some already existing government activities, and resources are limited and managed at the provincial level. For the most part, the deconcentration process was put on hold due to a lack of willingness and capacity of policy makers. Thus, municipal administrations do not perform any functions with respect to the development and implementation of economic and social plans for their constituencies. As a matter of fact, expenditures are strongly concentrated within the central government, with the central entities spending 24.4 percent of GDP in 2016, while the provincial governments and municipalities accounted only for 2.5 and 0.9 percent of GDP, respectively (Figure D.2). Provincial governments formally account for more than half of education spending, although provinces have no autonomy over the specific use of these resources. These expenditures are mainly related to teachers' salaries, which are channeled through the provincial directorates of the Ministry of Education (Figure D.3). In 2016, the provinces accounted for 63 percent of the civil service wage bill.

**Figure D.2. Expenditure Trends by Level of Government in Kz, 2008–2016**




*Source:* Ministry of Finance, Angola.

**Figure D.3. Disaggregated Recurrent Expenditure by Level of Government in Kz, 2016**




*Source:* Ministry of Finance, Angola.

105. **Limited capacity at the local level as well as ineffective coordination mechanisms constrain the decentralization process and its impact.** Two examples help characterize the limited capacity and

ineffective coordination mechanisms. In the public health system, provincial governments have the responsibility to manage the provinces' networks of health services. However, the limited administrative and technical capacity at the local level remains a weakness with an inadequate distribution of trained health staff such as 0.08 doctors per 1,000 inhabitants and 0.01 midwives per 1,000 inhabitants. In education, only 34 percent of schools receive the expected number of textbooks and in rural areas, teacher absenteeism rates climb as high as 54 percent as a result of inefficient planning and use of resources. Provincial directorates of education (*Delegação Provincial de Ensino*) submit budget proposals to the Ministry of Finance in parallel to the Ministry of Education's submission of their own budget proposal to the Ministry of Finance. As the Ministry of Finance sets expenditure limits for both local and central budget proposals, it must consolidate all budget submissions but often creates redundancies and fails to ensure complementarity.

106. **The new administration has identified as one of its priorities the establishment of a system for the direct election of representatives at the municipal level.** Currently, the only elected executive official in the country is the President, who is elected indirectly and has the power to appoint all provincial governors. Under the new administration, the strengthening of local government is seen as critical to improve the efficiency of public services and to strengthen state-building by enhancing the effectiveness and legitimacy of the state. As a first step, the government approved a new decentralization legal and regulatory framework in early 2018.

107. **To complement the top-down approach of governance, efforts have been made for increased community participation in the decision-making process at the municipal and provincial levels.** Since 2009, civic engagement increased by the introduction of the Councils for Social Consultations (CACS) as a forum between the state and civil society at the provincial and municipal levels of government. These councils de jure are intended to work as oversight committees. However, their effectiveness remained limited as the final decision of any policy in the sphere of the province and municipality is at the discretion of the Provincial Governor. Similarly, at the municipal level, citizen participation has increased in the last years but downward accountability is very limited since the Municipal Administrator is appointed, not elected.[56]

## *Citizens trust suffers from opacity in institutions*

108. **The judiciary function in Angola is undermined by lack of adequate human resources and infrastructures.** In general, courts are hampered by a lack of trained legal professionals, as well as insufficient infrastructure, and a large backlog of cases. Municipal courts function in 22 of 163 municipalities. Elsewhere, crimes and conflicts are frequently adjudicated by informal tribunals, or by local police.[57] Angola ranks 140 out of 144 countries on efficiency of the legal framework in settling disputes and 141 out of 144 countries on efficiency of the legal framework in challenging regulations.

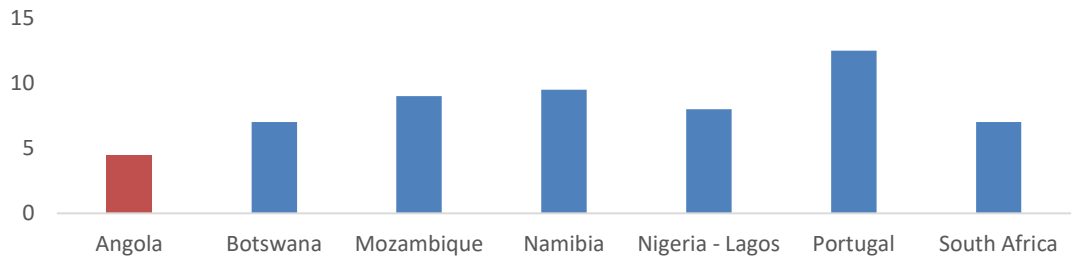
109. **Extensive political influence and a system highly dependent on the executive limits judicial independency.** In 2014, Angola ranked extremely low on dimensions that track "undue influence" in institutions: 137/144 on judicial independence and 140/144 on favoritism in decisions of government officials.[58] The President appoints Supreme Court judges to life terms without legislative input. Several

[56] Felicio and Yilmaz 2009.
[57] Freedom House 2016.
[58] Schwab and Sala-i-Martin 2015.The dimension "favoritism in decisions of government officials" indicates to what extent government officials in a country show favoritism to well-connected firms and individuals when deciding on policies and contracts? [1 = always show favoritism; 7 = never show favoritism].

examples of judicial abuse and lack of due process arose in 2015, including the arbitrary arrest and irregular legal proceedings involving young political activists accused of plotting rebellion, among many. The government has regularly used criminal defamation laws and other abusive legal provisions to silence journalists.[59] There is no effective protection against unjustified imprisonment, lengthy pretrial detention, extortion, or torture. In August 2015, the Parliament approved a controversial new law that gave authorities greater discretion to extend pretrial detention.

110. **Angola is not part of many international organizations providing dispute settlement services, which could have compensated for the lack of judicial effectiveness.** Angola is not a signatory to the United Nations New York Convention, the World Bank's International Center for Settlement of Investment Disputes (ICSID), or the United Nations Convention on the International Sale of Goods. However, Angola is a member of the Multilateral Investment Guarantee Agency (MIGA), and past MIGA efforts to resolve foreign investment disputes in Angola have proven successful. Legal fees are high to the point that most businesses avoid taking commercial disputes to court. Angola ranks 186 out of 190 on contract enforcement, with a time lapse between filing a complaint and receiving restitution taking an average of 1,296 days, at an average cost of 44.4 percent of the claim (Figure D.4).

**Figure D.4. Quality of Judicial Processes Index in Angola and Comparator Economies**




*Source:* Doing Business report 2017.

111. **Law enforcement challenges remain widespread in Angola due to a lack of checks and balances, insufficient institutional capacity, and a culture of impunity.** Practices of nepotism, cronyism, and patronage pervade procurement, rendering the procurement process opaque and corrupt. The oil and mining sector in Angola are considered especially high-risk areas for corruption. Patronage networks generally govern the way business is conducted in Angola with many Angolan companies functioning as front organizations for government officials whose integrity and accountability are frequently questioned by observers. Corruption is widespread within the Angolan police. Police officers frequently supplement their income through the extortion and solicitation of bribes from the public.[60] Impunity for violent abuses and arbitrary arrests by security agents against members of the civil society has been common and affects citizens' trust in institutions.[61] Therefore, it is not surprising that Angola ranks 129 out of 144 countries in 2014 measuring reliability of police services. Moreover, on measuring the cost that crime and violence impose on businesses, Angola ranks 114 out of 144 countries, as reliability on police enforcement of law and order is very low.[62]

112. **The defense and security of Angola's citizenry is one of the main priorities enumerated in the country's NDP.** On top of its official troops active in service (estimated at 107,000), the Angolan Army

[59] Human Rights Watch 2015.
[60] United States Department of State 2009.
[61] Human Rights Watch 2015.
[62] Schwab and Sala-i-Martin 2015.

capability is enhanced by an estimated 10,000-person paramilitary force responsible for the security of the President and another 10,000 persons in the Rapid Reaction Police force responsible for internal security. The Angolan security sector includes intelligence services such as the Internal Information Services, the Directorate for Information and State Security, Military Intelligence and External Intelligence.[63] Like in many other African countries there is an important presence of private security services. In Angola, the government requires all foreign investors to provide their own security through private contractors. There are also notable state interests in private security companies, as in Alpha Five in Angola, which was founded by the government.[64]

## *Weak land rights impede urban and rural development*

113. **In rural areas, land is held by the government, but prevailing customary law creates uncertainties for land tenure which discourage investments.** The law provides the opportunity to transform customary land holdings into legal rights, with equal rights and protection for men and women. However, state institutions lack the capacity to implement the law in a transparent and accountable manner. Over 4 million people were internally and externally displaced during the war, creating competing claims between the internally displaced persons and returnees, and those who had owned the land in the pre-war period. Due to increasing demand for agricultural land, customary law does not sufficiently protect agricultural households from arbitrary decisions, thus limiting investments in soil improvement.[65]

114. **The problem of landmines in Angola heavily affects rural development and land availability.** Angola is one of the most heavily mine-contaminated countries in the world. As a signatory of the Ottawa Treaty, Angola has committed to clearing its landmines by 2025. Progress has been slow and the demining process has focused mainly on clearing areas designated for infrastructure projects. In this sense, agricultural areas have been neglected and landmines have been a daily threat of injury or death to Angola's rural poor. The struggle to find safe land to grow food and build houses has heavy repercussions on food security in the most affected areas. All Angolan provinces were affected, but areas in the east, southeast, and center were the worst hit, while the locations of randomly laid or clustered landmines were not systematically recorded. The country's Commission for Humanitarian Demining and Assistance (CNIDAH) supported by mine action charity the HALO Trust, the Mines Advisory Group (MAG), and Norwegian People's Aid (NPA) have collectively helped clear 56 percent of known landmine-contaminated land since the end of the civil war. However, funding cuts and the government's fiscal imbalance threaten the continuation of this work.[66]

115. **The majority of Angola's urban population lives in informal settlements without legal protection.** Angola's laws neither adequately protect people from forced eviction nor enshrine the right to adequate housing or compensation. In 2014, the authorities forcibly evicted an estimated 17,500 people from their homes in Luanda. Most evictions were carried out without prior notice or adequate compensation, and many with excessive use of force by police, armed forces, and government agents. In January 2014, the authorities demolished 2,000 houses in Luanda's central Chicala-Quilombo neighborhood. The government provided alternative housing to 700 families and moved an estimated 6,000 people to land plots without any infrastructure 80 km away. Most of the displaced live in improvised shelters with limited access to social services and drinking water. In two further large-scale forced

[63] Vines and Weimer 2011.
[64] Abrahamsen and Williams 2006.
[65] The Lutheran World Federation 2016.
[66] Lawson 2017.

evictions in Luanda without prior notice or compensation, authorities left an estimated 7,500 residents homeless in 2014.

## *Gender gaps are a major challenge*

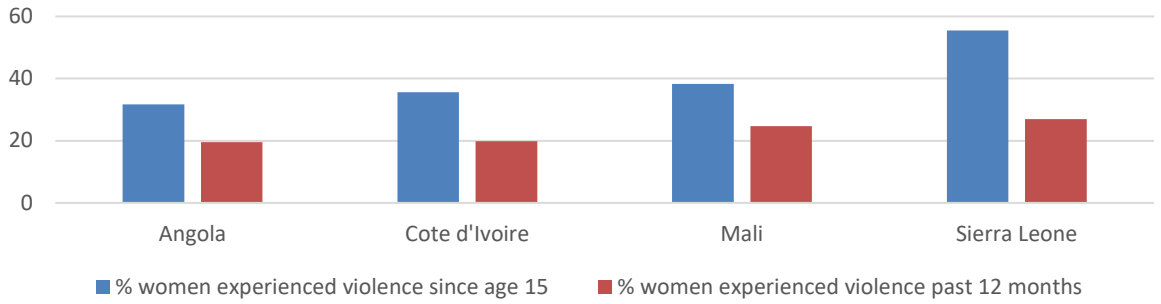
116. **Gender gaps in Angola are large and the challenges are significant, especially compared to countries at a similar income level.** These gender gaps impede Angola's ability to reduce poverty and increase shared prosperity. Gender discriminatory social norms negatively affect the contributions of social capital, by reducing women's ability to benefit from networks, which are vital sources of information and influence, and impeding their participation in formal and informal decision-making processes and bodies.

117. **As of the 2017 elections, 31 percent of seats in the National Assembly were occupied by women, ranking Angola 47th worldwide for proportion of women in Parliament.**[67] This representation rate is significantly higher than the average in any other income group. It is a common feature among Sub-Saharan countries in a post-civil war context, for which political participation of women tripled in the last decade.[68] Particularly, it is an important asset to Angola. These women hold power to advocate policies and legislation oriented to social inclusion and rights of women.

118. **Women have lower access to productive inputs, such as land and credit, required for success as entrepreneurs and farmers.** While statutory law in Angola provides for gender equality in property and inheritance rights, women's lack of knowledge of their rights and the preponderance of customary law means that, in practice, women have less access to land. Although customary law varies by ethnic group and region, women are often only able to access land through their husbands or sons, with their rights depending on their reproductive capacity. One study, for example, finds that only 23 percent of widows still had access to land owned by their deceased husbands.[69] Women's access to land has key implications for women as farmers and entrepreneurs. Evidence indicates that weaker land tenure security reduces incentives to make productive investments in land, with potentially critical impacts on agricultural productivity.[70] Moreover, land and other immovable property is an important source of collateral that is often necessary to access credit. The latest data from the World Bank's Global Financial Inclusion Index shows that women in Angola were less likely than men to borrow money to start, operate, or expand a farm or business (2.6 percent versus 4.5 percent). As female-headed households are usually headed by widows, divorced women, or those with an absent migrant husband, they tend to have fewer members—specifically, they have less access to household male adult farm labor. This may have a negative impact on women farmers' productivity relative to their male counterparts: across studies in six Sub-Saharan African countries, the Leveling the Field report finds that labor (both access and returns to labor) is the most important factor underlying gender gaps in agricultural productivity, with negative consequences for household incomes, food security, and overall economic growth.[71] Women farmers have less access to extensions services, seeds, other inputs, as these tend to be delivered through associations and cooperatives in which only husbands are members.[72] Finally, women have less access to profitable commercial farming, representing only 25 percent of commercial farmers compared to 70 percent of subsistence farmers.

[67] Data from the Inter-Parliamentary Union, retrieved November 13, 2018. The ranking considers the lower houses of parliament in bicameral democracies as well as the sole houses in unicameral democracies.
[68] Hughes and Tripp 2015.
[69] Nielsen 2008.
[70] Goldstein and Udry 2008.
[71] World Bank and ONE Foundation 2014.
[72] IFAD 2017.

**Figure D.5. Indicators on Prevalence and Acceptance of Gender-Based Violence (GBV) in Angola and Selected Countries**

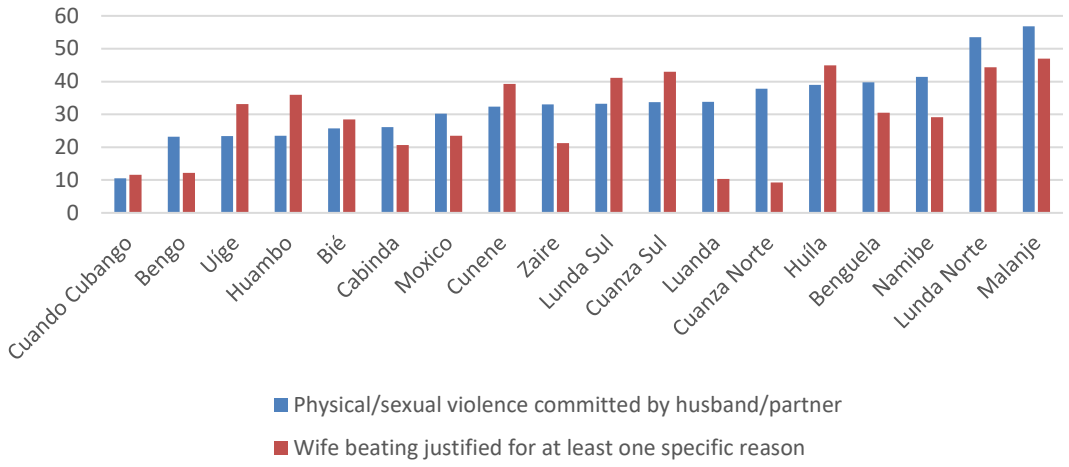



*Source:* Demographic and Health Survey (DHS).

119. **However, GBV is a persistent problem in society with high rates of women who experience violence.** About one-third of women have ever experienced physical violence, with 22 percent experiencing it during the past year alone. These rates are comparable to those in other post conflict and fragile countries, including Mali, Sierra Leone, and Côte d'Ivoire (Figure D.5). However, depending on the source, estimate GBV levels can be as high as 78 percent of women, who have experienced some form of violence since the age of 15, and 62 percent of women living in poor suburbs around Luanda having experienced abuse during the past year.[73] The majority of the violence women experience in Angola is domestic violence but with large variations in its prevalence by region. While 34 percent of women overall have experienced violence committed by a husband or partner, over 50 percent of women in Malanje and Lunda Norte were subject to violence, compared to 11 percent in Cuando Cubango (Figure D.6). These regional variations reflect the high percentage of women saying that wife beating is justified for specific reasons. Economic costs of GBV are high, including costs related to health care, earnings, productivity, taxes, and justice.

[73] United States Department of State 2009.

**Figure D.6. Victims of GBV**




*Source:* DHS.

120. **The government has enacted reforms to support victims of GBV, though there is limited evidence on interventions aimed at prevention, as opposed to response.** A domestic violence law was passed in 2011. This law entitles victims to financial, legal, and medical support. Significantly, the law defined domestic violence as a 'public crime', meaning that third parties can report incidents. During the year following the introduction of the domestic violence law, there was a 70 percent increase in the number of domestic violence cases reported, suggested that the law may have encouraged more victims to seek justice. The government has also established a special court for domestic violence and a helpline.

## *Limitations to civil society hinder civic engagement*

121. **Angola's civil society is dominated by government local actors, but it recently acquired some degree of independence.** After initial skepticism about civil society in the early 1990s, the MPLA started promoting loyal civil society actors as well as the cooptation of existing non-state actors such as churches.[74] These civil society actors absorb activism to establish regime presence covering a wide range of geographical and social areas. This narrows the space for truly independent social society actors while feeding into the power asymmetries between state and non-state actors. Angola scores lower than its subregion on access to information and openness, due to insufficient operationalization of the Freedom of Information Law and the limited availability of public information on legislative processes, financial records of SOEs and political party financing. Operationalizing the law will require notably the creation of a central agency or office in charge of answering information requests.

122. **Media and civil society operate in a highly restrictive environment.** Few independent media outlets have national reach, leaving government-owned media as the most widely accessed news sources. While there is only one daily newspaper, *Jornal de Angola*, many private weekly newspapers provide news coverage and often-critical commentary.[75] Printed media see the widest degree of space for dissenting opinion, but with a readership of less than 5,000 copies for the most popular publication, they provide a very limited impact. The radio is the media with the highest degree of control and with the broadest audience, especially in rural areas. For example, Radio Ecclesia, a formerly more critical, Catholic Church-

[74] Vidal and Andrade 2008.
[75] De Oliveira 2017.

affiliated broadcaster, has been waiting for a permit to broadcast outside Luanda for a decade. A partial loophole in this media landscape was, until recently, Portuguese satellite TV, which was widely watched in Angola. However, following the broadcasting of a documentary by SIC Notícias on the fall of Portugal's Espírito Santo Group in March 2017, which contained important revelations pertaining to the Angolan elite, the two satellite providers in Angola ended access to this intermittently critical channel.

123. **However, increased access to Internet is contributing to greater awareness among the public, especially the youth, with prospects for increasing demand and pressure for responsiveness.** Capacity for collective action has remained weak especially among the predominantly poor and under educated rural population. Although few people have Internet access outside of urban areas, about 7 million of Angolans have Internet access, with over half of that on Facebook. Social media is also used by diaspora Angolans to express political views that are often critical of the government. With the partial exception of the 2011–2015 youth demonstrations that mobilized very small numbers, social media have rarely been used for political mobilization. However, the government has made attempts at limiting the political uses of social media and civil society through restrictive laws. In a recent positive development in July 2017, the Angolan Constitutional Tribunal dismissed a presidential decree designed to monitor the registration and financial support of civil society organizations, arguing that the National Assembly, rather than the presidency, is mandated to regulate civil society activities.

## *The social contract is vulnerable*

124. **The existing social contract is increasingly under stress as a result of the oil price crisis and growing demands by the youth.** Angola's social contract for the past 20 years has been based on a low-level equilibrium in which everyone was better off owing to the end of violence after 27 years of civil war. Large revenues from oil allowed the government to fund this status quo with large public investments, especially in infrastructures, but without implementing necessary structural reforms to promote a more inclusive and sustainable development path. The oil price crisis threatens this status quo as the government can no longer financially sustain it. In addition, more than 50 percent of Angolans are below the age of 15 and hardly have any direct memories of the civil war. The expectations of young Angolans are different from past generations. The message that a middle-class status was within reach for many was promoted through government commitments to economic diversification, job creation, and social housing.[76] With the oil crisis dashing these expectations, the youth increasingly reject the elite rhetoric justifying the status quo and demand changes to provide better and more equal opportunities that would allow them to escape poverty.

125. **The contestation of the current social contract embodied by the MPLA manifested itself in the increasing competitiveness of alternative parties.** The election in August 2017 showed a further decline of support for the MPLA, with the party capturing only 61 percent of the vote as compared to 82 percent in 2008. Opposition parties are gaining mobilization capacity based on the dissatisfaction of the youth, contributing to larger voting shares of 27 percent for UNITA and 10 percent for Broad Convergence for the Salvation of Angola - Electoral Coalition (CASA-CE) in 2017. In addition to Cabinda Province, the MPLA did not win a majority of votes in its heartland of Luanda, a significant setback for this primarily urban party. However, the MPLA still maintains an absolute majority in Parliament, sufficient to change the constitution.

126. **The government has recognized the importance of the youth and implemented initiatives to gain their trust.** These include organizations close to the presidency such as Association of Angolan Youth

[76] De Oliveira 2015.

from the Republic of Zambia (AJAPRAZ) and Movimento Nacional Espontâneo, as wells as the youth wing of the MPLA, JMPLA, which is also very active among Angolan diaspora. It further extends to the networks controlled by those loyal to the former President such as Bento Kangamba, who has a large followership in the Palanca neighborhood of Luanda. The existence of these many levers shows the importance given to youth dynamics, but their effectiveness is questionable in the present, volatile context. However, widespread forms of anti-system mobilization around youth have not yet emerged as change factors in Angolan politics, and the ruling party managed to contain youth's frustrations so far.

127. **Together with the change in leadership after the elections, a window of opportunity for a structural transition exists in Angola.** The legitimacy of the government could be strengthened through a progressive transformation of the long-standing closed, discretionary political system and its lack of accountability. The new President Joao Lourenço is leading the GoA since September 2017 and was elected party leader at the MPLA's extraordinary congress in September 2018, replacing Mr. Dos Santos who stepped down after holding the position for nearly four decades. Lourenço might use his strengthened position to transform the system, and the new leadership has already taken several promising and potentially far reaching steps to improve governance. These include new initiatives that aim to relax the control of the media, clamp down on monopolies, promote transparency in the public sector, modernize and privatize SOEs, improve the business regulatory environment, eliminate broad-based subsidies in favor of targeted social assistance, and complete political decentralization with an eye to improved service delivery.

## E. DEVELOPMENT PRIORITIES

### *The need for diversification and capital accumulation*

128. **To achieve sustainable development, countries need to transform natural resources into more enduring forms of capital.** The Changing Wealth of Nations concept shows that while the liquidation of natural capital can boost GDP in the short term, a country cannot develop its economy solely by relying on nonrenewable resources and ignoring the importance investing in produced capital and human capital. While natural capital accounts for 47 percent of the wealth of low-income countries, it represents less than 3 percent of the wealth of the most advanced countries. The importance of natural capital drops rapidly as a country develops because shares of produced capital and intangible capital increase at a much faster pace than natural capital. Even though its share of national wealth is smaller, the value of natural capital in high-income countries is in fact above the average for low-income countries in absolute terms.

129. **Angola is still overwhelmingly focused on exporting its natural capital while failing to build up more sustainable forms of capital, and in doing so, creates vulnerabilities.** In 2014, Angola's economy was relying on natural capital for a share of 38 percent, as opposed to only 20 percent produced capital and 41 percent human capital. Such a wealth composition is consistent with other low-income countries and LMICs. In 2015, oil accounted for 95 percent of exports, further emphasizing the dependence on natural capital. The dependence created a vulnerability to oil price shocks, sending Angola into crisis in 2008 and 2014.[77]

130. **Even more concerning, Angola continues to deplete its wealth.** The Changing Wealth of Nations concept shows that Angola's ANS rate has remained strongly negative for 25 years, at one point disinvesting on average 68 percent of GNI every year. Given that its limited oil reserves are expected to be exhausted in the next decade, Angola cannot continue to consume its natural wealth in this way. In other countries, positive ANS has been seen to be a strong predictor of positive development outcomes. Wealth accounting emphasizes the need for economic diversification and sustainable capital accumulation, through appropriate governance structures delivering sound macroeconomic policies as well as a stable environment for investment and business, while nurturing the creation of human capital.

131. **Economic diversification will be crucial for lessening resource dependence and fostering growth.** Resource dependence can be mitigated through appropriate monetary and fiscal policies, investments in human capital and infrastructure, as well as an encouraging business climate.[78] As has been the experience in other countries, the exploitation of nonrenewables in Angola has taken the form of highly capital-intensive mining operations that do not generate many jobs or support livelihoods across the broader population. Angola has the potential to develop other non-oil industries including agribusiness, fisheries, mining, and manufacturing. To capitalize on these areas of potential economic expansion, government policies will need to create incentives for industry growth, such as a better business climate, improved competitiveness, access to finance, and a reasonable tax burden with low compliance costs. Market competition will need to be promoted and the state should rethink its role as a regulator and enabler of private activity. While growth experiences are heterogeneous, common elements of successful policy interventions include building on a country's endowments and expanding underlying capability, as well as addressing market failures and increasing trade integration. Tight

[77] For example, in 2008, the oil price drop of 69 percent in six months from July to December 2008 created a budget deficit of 7 percent of GDP—due to a reduction of government revenues by almost two-thirds, GDP growth shrank from 11.2 percent in 2008 to 3.4 percent in 2009 and created a current account deficit of 11.7 percent, while the nominal exchange rate depreciated by 18 percent. The oil price drop in 2014 exposed the same vulnerability but over a prolonged period of low oil prices.

[78] Alsharif, Bhattacharyya, and Intartaglia 2016; Van Eeghen et al. 2014.

monetary policy and fiscal discipline are fundamental to ensure long-term price stability and to diversify economic dependency. Sustainable long-term economic growth requires economic diversification with increased investments in human capital and infrastructure.

132. **Economic diversification must also avoid risks of indirect carbon dependence.** Even though the oil reserves in Angola are expected to last for more than another decade, the volatile oil price emphasizes Angola's vulnerability to external price shocks. In addition to supply-side increases lowering the international oil price, a global carbon transition away from fossil fuels to renewable energy is expected to gain momentum, with a potentially large and sustained impact on oil price. While oil reserves are a comparative advantage for Angola, the risk of a carbon transition serves as a warning that the country should foster economic diversification independent of oil revenues. Furthermore, diversification must avoid increased carbon risk through fossil- fuel-linked industries, skills, and infrastructure. Also, carbon-rich countries should seek to diversify their portfolios away from assets whose value may be positively correlated with their fossil fuel reserves or other state assets linked to fossil fuel prices, such as nationally owned resource companies. In the face of carbon risk, diversification becomes an even greater imperative for carbon-rich countries to ensure that the loss in tax revenues, jobs, and other benefits from resource extraction becomes a relatively minor event for their economies.

133. **Capital accumulation will be fundamental to establishing a sustainable growth path including the poor.** Greater investment in produced capital, including power, transportation, and water infrastructure, will serve to increase productivity and foster both domestic and international trade in the long run. The accumulation of produced capital would create a virtuous cycle in which private sector growth leads to further investment. Greater investments in human capital, notably more effective public education, health care, sanitation and social protection services will also be essential for increasing labor force participation and boosting productivity. A lack of investment in these areas has been a primary source of the exclusion of the poor from the benefits of growth and building human capital would help narrow the gap between urban and rural. Investing in human capital can be a springboard for diversification of national wealth and the economy, reducing the dependence on natural capital of many countries and the commodity-driven boom-and-bust cycles common to so many low- and middle-income countries. The accumulation of human capital has been a key factor in economic growth, sustainable development, and the reduction of poverty.[79] Providing an explicit measure of human capital contributes greatly to making wealth accounts more useful for monitoring progress and for policy analysis.

134. **Angola should embark on a new inclusive and sustainable development trajectory accumulating wealth instead of depleting it.** Angola needs to improve its policy framework to embed the principle of converting resource rents into other productive assets so that strategic development paths are enabled, rather than dominated, by natural resources. The policy framework must be designed to be inherently pro-poor as inclusivity is not a natural feature of Angola's past growth experience. Lasting poverty is still widespread, especially in rural areas. Hence, the goal for Angola should be to convert its natural wealth in an environmentally conscious way into assets for the poor, embodied in more sustainable forms of wealth (produced, human and social) to promote an inclusive society on a sustainable development path. Whereas historically the country's economy had been based on exploitative use of labor and natural resources, future goals can include a more sustainable exploitation of this capital (Table E.1). By converting wealth into assets for the poor, Angola can, in parallel, achieve more equitable development, as well as spur growth for the future.

[79] World Bank 2011.

**Table E.1. Evolution of Angola's Wealth**

| | **1600 - Portuguese Colonization** | **1975 - Independence, Civil War, and Command Economy** | **2002 - Peace with Social Contract Based on the End of the Civil War** | **2017 - Inclusive Structural Transition with a Renewed Social Contract** | ***2030 - Eradicated Poverty and Shared Prosperity*** |
|---|---|---|---|---|---|
| Natural Wealth | Starting depletion of diamonds and oil | Continued exploitation of diamonds and oil | Continued exploitation of diamonds and oil | Transformation of natural capital into intangible capital | *Conservation and transformation of natural capital into intangible capital* |
| Produced Wealth | Increased agricultural production; building of infrastructure | Destruction of infrastructure agricultural production | Restoration of infrastructure and economic production | Improved agricultural productivity and more productive 'good' jobs | *High production by a diversified economy robust against external shocks* |
| Intangible Wealth | Exploitative labor arrangements start deteriorating human and social capital | Massive deterioration of human and social capital due to the civil war | Large inequalities, low education, and health indicators and reliance on a dominant discretionary presidential system | Accumulation of human, social, and institutional wealth by improved education and health services as well as improved governance | *Transformation into a knowledge-based society with high educational and health standards in a sustainable democracy* |

135. **Given the new government's focus on reforms, there is an opportunity for forging a new social contract.** The political structure was characterized by power asymmetries in which power was concentrated within the presidency and a small circle of well-connected elites, leaving the population without meaningful representation. The newly elected president has declared his intention to fight corruption and enact reforms. He has already sent strong signals by replacing persons in key positions, including the Governor of the Central Bank, the chief of the state oil company, and the head of the sovereign wealth fund, and by launching reforms that aim to promote greater transparency, competition, and private investment. In the context of reduced oil prices and sunsetting oil production, such reforms are the only option for offering youth a better future while avoiding disruptive political changes.

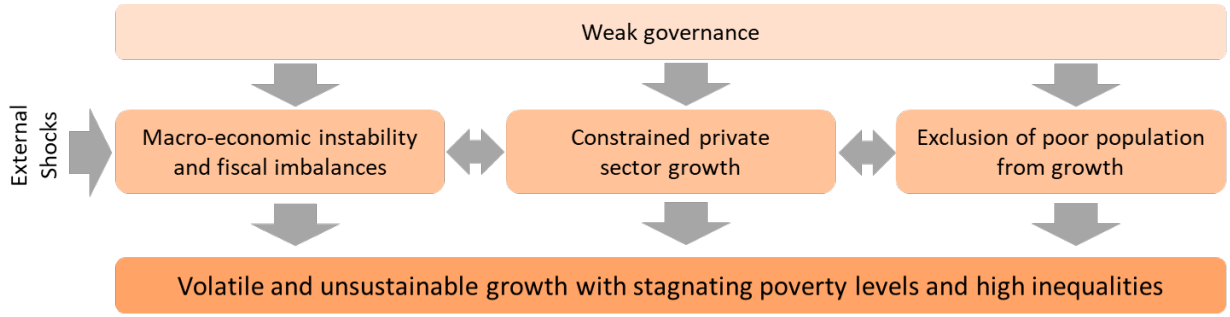
136. **Angola's underlying structural drivers of FCV can be best addressed through an approach that considers political, economic, and social realities in parallel.** Angola's new leadership under President João Lourenço has already sent strong signals that it will change course considerably. Replacing the current system with one allowing increased political competition should lead to increased voice, accountability, citizen engagement, and a healthier private sector. To address current risks of FCV, the government will need to follow through with much-needed reforms, including decentralization, better services for the poor, anti-corruption efforts, and a stronger civil society.

## *Binding constraints and effective prioritization*

137. **Weak governance is the core binding constraint for Angola's development, giving rise to the symptomatic binding constraints of macroeconomic instability and fiscal imbalance, weak private sector growth, and the exclusion of the poor from the benefits of growth.** Weak governance holds

Angola at a low-level equilibrium and is at the core of Angola's challenge to reach the twin goals of ending extreme poverty and boosting shared prosperity. Weak governance has contributed to a situation of macroeconomic instability and fiscal imbalance, as the economy presently lacks the diversification necessary to act as a buffer against external shocks, notably commodity price fluctuations. Inadequate governance has also contributed to weak private sector growth, given that the private sector is dominated by state-led enterprises and suffers an inefficient regulatory framework. Weak governance has also exacerbated the exclusion of the poor from the benefits of growth, as widespread social inequality has not been seriously addressed and the poor continue to be limited in their participation in productive economic activities and their access to quality basic services. Given where Angola starts from, it will take time to move from a discretionary to a rules-based system. These three binding constraints combine to perpetuate existing poverty and make growth unsustainable (Figure E.1).

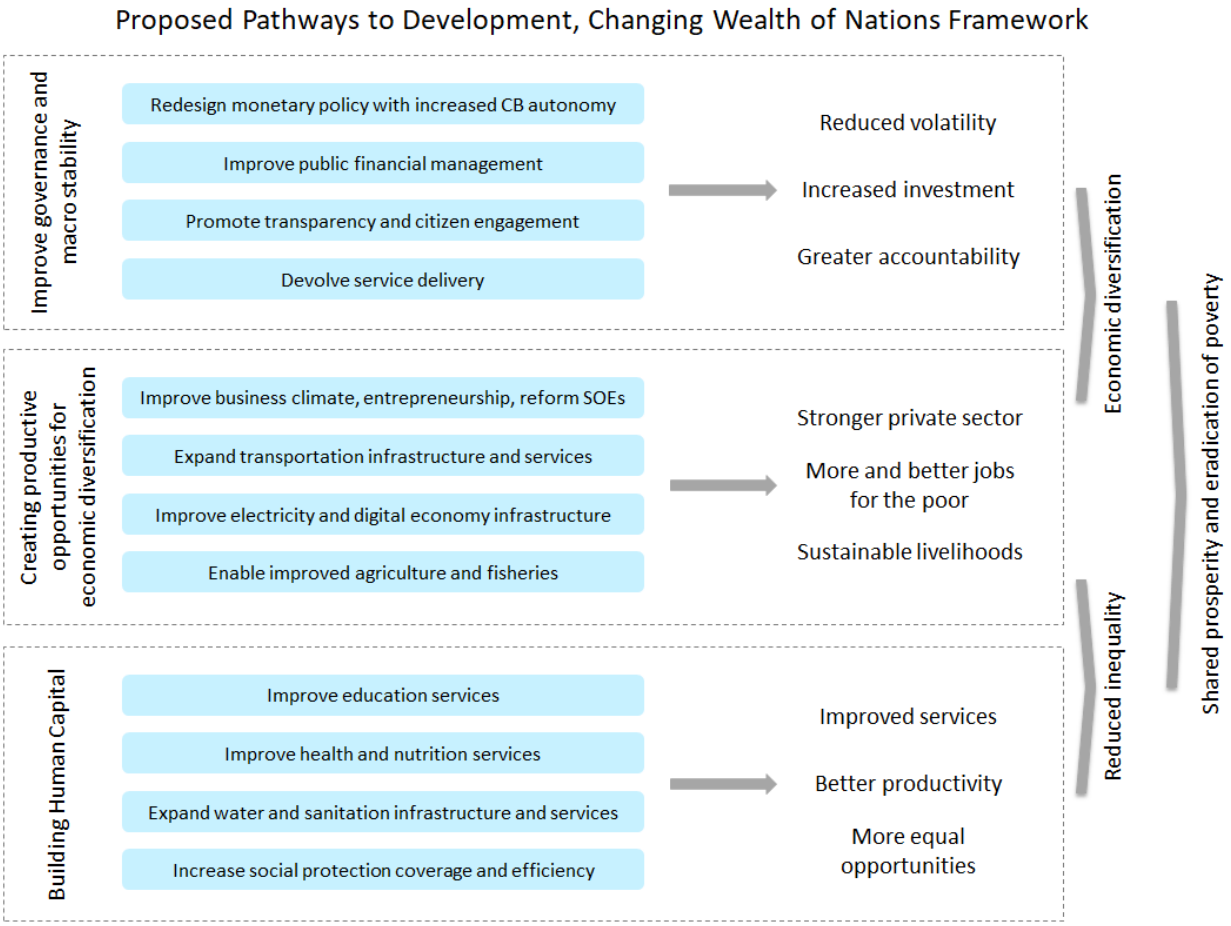
**Figure E.1. Binding Constraints to Reach Shared Prosperity and Poverty Eradication**




138. **The Changing Wealth of Nations concept makes it easier to identify the key binding constraints that are roadblocks to growth.** A more narrow approach limited to GDP would only consider the annual flow of national revenue. Using wealth accounting helps to determine which binding constraints are impeding the sustainable management of natural capital, long-term investments in produced capital, and the development of intangible assets that will generate positive conditions for growth in the future. The lifting of the four identified binding constraints would not only boost GDP, but crucially would contribute to the improved management of wealth and the reinvestment of assets into forms of capital that will help in the long run. More than mere barriers to equitable income growth, the identified binding constraints are barriers to equitable long-term wealth accumulation. Thus, the Changing Wealth of Nations concept underscores areas of intervention that will produce consequential change for the poor in terms of both assets and development indicators.

139. **Angola's four binding constraints can be addressed through three identified development pathways.** A pathway of improving governance and macroeconomic stability seeks to create an environment conducive to long-term growth, both through better economic management and the empowering of a broader range of economic and political agents. A pathway of creating productive opportunities for economic diversification aims to overcome structural obstacles for job creation and quality employment so that the poor may enjoy a more meaningful and rewarding participation in the economy, while unlocking the productive potential of undeveloped industries. A pathway of building human capital will use public investment and better services, helping to reduce persistent structural inequalities that have been impeding long-term growth while increasing the productive potential of the labor force. These three development pathways will work together to lift the binding constraints and move Angola toward becoming a more inclusive economy on a sustainable development path (Figure E.2).

**Figure E.2. Proposed Pathways to Development**




140. **Potential areas of intervention have been identified and ranked for each pathway according to their potential impact.** The systematic diagnostic of the identified binding constraints reveals 30 potential areas of intervention that can be considered by policy makers and other national and international stakeholders to promote Angola's development. The areas of intervention can be grouped by the development pathways and ranked according to their potential impact they could have in lifting the identified binding constraints (Table E.2). The top four areas of intervention for each pathway are prioritized and described in more detail.

**Table E.2. Ranking of Areas of Intervention by Development Pathway**

| Rank | **Improving Governance and Macro Stability** |
|---|---|
| 1 | Redesign monetary policy with increased central bank autonomy |
| 2 | Improve public financial management |
| 3 | Promote transparency and citizen engagement |
| 4 | Devolve service delivery |
| 5 | Improve judicial system and increase independence |
| 6 | Increase revenues by broadening tax base and compliance |
| 7 | Expand formal data collection and data availability |
| 8 | Introduce stronger anti-corruption mechanisms |
| 9 | Increase efficiency of public investments |
| 10 | Ameliorate government coordination |

| Rank | **Creating Productive Opportunities for Economic Diversification** |
|---|---|
| 1 | Improve the business climate, foster entrepreneurship and reform SOEs |
| 2 | Expand transportation infrastructure |
| 3 | Improve electricity and digital economy infrastructure |
| 4 | Enable improved agriculture and fisheries |
| 5 | Promote foreign direct investment |
| 6 | Remove inefficient public subsidies |
| 7 | Formalize land rights and tenure system |
| 8 | Plan and regulate urban settlements |
| 9 | Establish a working PPP framework |
| 10 | Increase effectiveness of insolvency regime |

| Rank | **Building Human Capital** |
|---|---|
| 1 | Improve education services |
| 2 | Improve health and nutrition services |
| 3 | Expand water and sanitation infrastructure |
| 4 | Increase social protection coverage and efficiency |
| 5 | Create family planning initiatives to ease demographic transition |
| 6 | Improve labor standards |
| 7 | Launch interventions to build skills and foster entrepreneurship |
| 8 | Attract greater donor investment for human capital |
| 9 | Improve public health communication and management |
| 10 | Further landmine clearance |

## *Improving governance and macro-stability*

141. **Stronger governance and the pursuit of policies to increase macroeconomic stability can together create a solid foundation for economic diversification and social development.** The implementation of the government's ambitious reform program will require an expanded capacity for problem analysis, project design, and project implementation. This new capacity can diffuse both vertically and horizontally throughout the government, through cross-learning, staff movements, and competition. For all programs focused on strengthening governance, the function rather than the form of institutions should be considered rather than the hasty creation of highly visible but ineffectual institutions. Better economic management will be essential for promoting domestic and foreign investment, as well as enhancing the efficiency of the economy as a whole. Macroeconomic stability has

been profoundly shaken by external shocks twice in the past 10 years, and greater safeguards will need to be built to ensure economic resilience. Economic reforms can also activate a virtuous cycle toward better governance as the improvement of livelihoods will translate into power gains for the poor. These empowered agents can then use their increased influence in the policy arena to modify rules and further improve governance, notably at the municipal level. The four identified priority areas of intervention for improving governance and macro-stability are redesign monetary policy with increased Central Bank autonomy, improve PFM, promote transparency and citizen engagement, and devolve service delivery.

***REDESIGN MONETARY POLICY WITH INCREASED CENTRAL BANK AUTONOMY***

142. **The monetary policy framework should be strengthened around a new nominal anchor that is safeguarded by an even more autonomous Central Bank.** A clear nominal anchor and tighter monetary policy can help reduce inflationary pressures. This would also address, at least in the short run, the economic and financial distortions associated with negative real interest rates. Recent developing country experiences suggest that an inflation targeting regime is an effective nominal anchor. Although this would be one policy to consider, such a strategy demands fairly advanced institutional capacity and may be overambitious at the present time. The credibility and transparency of the monetary authorities and the monetary policy framework is essential for managing expectations and inflation dynamics under a more flexible exchange rate regime.[80] Expected inflation, and consequently actual inflation, tends to be higher if the credibility of the monetary authority is weak. The genuine and observable autonomy of the Central Bank is paramount to credible monetary policy, as it insulates monetary policy from short-term political pressures. De facto autonomy and transparency have increased significantly under the current Central Bank Governor over the past year, as demonstrated by new monetary policy and exchange rate measures, and efforts must be made to preserve these improvements and take them further. Transparency is fundamental to Central Bank accountability, and information should be made publicly available that allows for an assessment of whether the actions of the Central Bank are being consistent with its mandate. A clear communication policy will also be crucial for guiding the expectations of market participants and bring them in line with the Central Bank's objectives. If adopting a floating regime proves to be unfeasible in the short run, one other option would be to peg the kwanza to a basket composed of some currencies (such as those of major trading partners) and the export price of oil. Such a basket peg would simultaneously deliver automatic accommodation to terms of trade shocks, while retaining the credibility-enhancing advantages of a pegged regime by allowing the exchange rate to act as the nominal anchor. [81]

143. **Angola's exchange rate should continue to move toward a more flexible regime, with little to no foreign exchange restriction.** Currency controls were relaxed in January 2018, which was an important step, but the benchmark exchange rate is still kept within non-disclosed trading bands, thus preserving a degree of uncertainty about the scope for exchange rate fluctuation. For an oil-dependent country that is subject to a high degree of volatility in the terms of trade, the exchange rate should act as a shock absorber. The currency should depreciate when the price of oil declines, cushioning the shortfall in oil receipts on government revenues. In other words, Angola's exchange rate regime should act counter-cyclically to deliver a high correlation between the real exchange rate and the exogenous price of oil. The increased exchange rate flexibility from a floating regime reduces the need for local prices to fluctuate with the price of oil, thus insulating the domestic economy from commodity price volatility and creating additional space for monetary policy to adjust based on domestic conditions. Additionally, the Central Bank has recently moved to a more transparent system for making foreign exchange available for banks,

[80] Fraga, Goldfajn, and Minella.
[81] World Bank 2018d.

which is a welcome step. However, existing foreign exchange restrictions continue to hamper private sector development and should be eventually lifted once the macro environment is conducive for that.

***IMPROVE PUBLIC FINANCIAL MANAGEMENT***

144. **PFM practices need to be strengthened to increase the impact of public expenditure.** Ensuring that allocated funds are delivered predictably to frontline units has a positive impact on service delivery and the livelihoods of the poor, more generally. In Angola, PFM can be greatly improved by having realistic revenue projections and strong cash management practices. Spending on goods and services should be subject to thorough efficiency analysis to determine the necessary levels of funding to sustain the government's priority programs. Project implementation and assessment should be linked to performance indicators. For public sector employment, merit and performance-based pay, recruitment and management systems would help align wages to productivity and make the provision of public goods more efficient. The GoA has already initiated several reforms in PFM, also targeting budget management practices at the subnational level. Progress has been made in aligning deconcentrated governments with PFM national practices in several areas, including the creation of public procurement units and substantial capacity building on expenditure management.

145. **Procurement practices should be improved to increase the efficiency of capital expenditure.** Effective policies enable better use of government budgets and are therefore an essential element of poverty reduction. The government should promote the use of competitive procurement for public investment projects and limit the use of direct negotiation, to ensure a truly competitive process and good value for money. Recently, procurement procedures have been strengthened at the local level, and municipal administrations now carry out their own public contracting below certain monetary thresholds. Another key reform is the planned integration of a procurement model in Angola's SIGFE, to help ensure fiduciary compliance and reduce opportunities for corruption. Moreover, the e-governance procurement system should be approved and deployed, and the profile of public procurement should be defined, including performance indicators for contracting entities. Finally, the government should gradually discontinue its pre-approval of procurement contracts.

***PROMOTE TRANSPARENCY AND CITIZEN ENGAGEMENT***

146. **Transparency should be improved in government processes to facilitate the fight against corruption and increase public accountability.** Angola has a number of anti-corruption and control institutions, a category which can include the Auditor General, the General Inspectorate of Finance (IGF), the General Inspectorate of State Administration, and the Supreme Court. While several control institutions have been strengthened in recent years, giving them more resources and greater autonomy could significantly improve outcomes. For example, the IGF oversees the internal control system of the state's financial administration but is housed within the Ministry of Finance. Greater transparency for control institutions would not only make them more effective in fighting corruption, but also in accomplishing their mission of increasing public accountability. For example, the Auditor General performs external audits across government bodies, but it is not clear if it has carried out audits of any municipalities. The government should strengthen anti-corruption laws to shift away from a "pedagogical" approach toward a more punitive one that would hold public officials legally accountable for the mismanagement of public resources, a shift that is already under way. One key reform is the planned integration of procurement processes under Angola's SIGFE. This will increase transparency and fiduciary compliance, thereby reducing opportunities for corruption.

**Mechanisms of community participation that facilitate contestability by citizens' groups can help balance influence in the policy-making process.** These vertical accountability initiatives include citizen monitoring and oversight of public sector performance, access to and dissemination of information, public compliance, and grievance redress mechanisms. With the support of the Social Action Fund, some social accountability mechanisms have been put in place to get feedback from local populations, mainly on the procurement and implementation of capital projects. Given the rapid rate of urbanization in Angola and spread of informal settlements, collaboration with these populations will be essential to ensure that policy making and development projects meet their needs.

#### *DEVOLVE SERVICE DELIVERY*

147. **The GoA will need to follow through on its commitment to devolve political power to lower levels.** Strengthening local government is critical to improving the efficiency of public services and to enhancing the legitimacy of the state. Governance in Angola is still characterized by a strong top-down approach, and operational coordination between the three levels of government is severely lacking. The government has nonetheless started the process of decentralization, slowly enlarging the service delivery functions and financial resources of the municipalities. Recent legal changes include the establishment of a new local financial regime, a new assignment of responsibilities, and new intergovernmental equalization fiscal transfers. The Ministry of Territorial Administration and State Reforms developed a Strategic National Plan for the Administration of Territory 2015–2025 that defines the pathways of the decentralization process. It focuses on territorial reorganization, political decentralization, administrative decentralization, and citizen participation. Municipal elections will be essential for providing voice and participation, as well as holding local officials more accountable. Local elections are scheduled to take place in 2020, and the present municipal administrations will become autonomous local governments holding executive and legislative powers.

148. **Core service delivery functions need to be further decentralized to increase efficiency and ensure that services are adapted to local needs.** The current assignment of service delivery responsibilities lacks clarity and includes a significant overlap of functions between provinces, municipalities, and line ministries. This has led to an inefficient and unaccountable provision of services. Assigning a single scope of functions to all municipalities might lead to substandard services in some localities, given the great disparities in their ability to perform specific functions. With more autonomy, municipalities would be free to seek intermunicipal arrangements and partner with the private sector to provide certain services. Expenditure in Angola remains strongly concentrated, and the country has a single consolidated budget for the central and provincial governments. Although municipalities submit their draft budgets to the provinces, final negotiations take place between provinces and the central government only, often resulting in budgets that are disconnected from municipal needs. More than 90 percent of municipalities' expenditures are financed through central government-shared taxes and transfers. More budgetary autonomy would allow provincial and municipal governments to design and implement programs better tailored to the needs of their populations.

## *Creating productive opportunities for economic diversification*

149. **Generating new opportunities for private sector investment and entrepreneurship will contribute to economic diversification and ultimately sustainable development.** The emergence of a larger private sector remains limited by the dominance of SOEs and trusted entrepreneurs, as well as other barriers to entry. Lifting these barriers can lead to the creation of new businesses and the expansion of existing industries, which will in turn generate more and better jobs for the poor, while diversifying the

economy. Many of Angola's poor are stuck in a low-level economic equilibrium, participating in activities with limited productivity. They are self-employed in agriculture or are working in precarious service jobs with earnings insufficient to provide for the needs of their families. Instead of emphasizing the creation of public sector jobs, the government should focus on enabling a vibrant private sector that will invest in industries where poor households earn their living, as well as promoting initiatives to boost productivity. The private sector can offer sustainable opportunities to escape poverty by creating more and higher quality jobs but can only do so in an environment where doing business is easy. The four identified priority areas of intervention for creating productive opportunities for economic diversification are improve the business climate and foster entrepreneurship as well as reform SOEs, expand transportation infrastructure and services, improve electricity and digital economy infrastructure and services, and enable improved agriculture and fisheries.

### *IMPROVE THE BUSINESS CLIMATE, FOSTER ENTREPRENEURSHIP, AND REFORM SOEs*

150. **Angola will need to improve the existing business climate to generate confidence among potential investors and to reduce transactional costs.** Improvements to the land ownership system would help to generate a transparent and efficient land market. By addressing problems with land allocation and procedures for obtaining and transacting land-use rights, the government can facilitate asset collateralization for smallholders and encourage investments in real estate. Angola should also promote efficient contract enforcement, to foster the rapid growth of small firms and encourage them to invest. The state should move away from direct credit provision toward promoting a more conducive environment for access to finance through enhanced credit information systems, expansion of collateral and guarantee options, streamlining of business insolvency processes, and greater financial education and literacy. Greater access to credit for enterprises would support economic and social development by creating a more vibrant private sector and improving their efficiency would help avoid capture. Private and public investments in mobile payments would promote financial inclusion for the unbanked in both rural and urban areas and should help close the gender gap in financial inclusion. It would also facilitate inclusive private sector growth, by lowering transaction costs and opening up rural markets.

151. **There is a narrow but strong base of entrepreneurs in Angola, as well as significant opportunities for future market development.** Major potential for expansion exists in agribusiness and associated food processing and retail but also in enabling sectors such as digital services, mobile banking, and transportation. Market development can be promoted by reviewing existing regulations (for example, foreign investment, procurement, and trade) to ensure that they create a level playing field, as well as strengthening capacity for implementation and enforcement. Simplifying and streamlining requirements to import and export goods while reducing fees will be critical for facilitating more competitive domestic production. This would greatly impact the agricultural sector since most inputs are imported. Limited access to credit remains a roadblock for business development and Angola needs better credit information infrastructure and an enhanced debt recovery framework. The country also needs a modern bankruptcy legal framework that would ensure an orderly process for the reorganization or liquidation of insolvent entities. This would not only help banks reduce nonperforming loans but also help expand access to finance by strengthening banks' confidence in a clear process for insolvent borrowers.

152. **A more professional and efficient management of SOEs would allow for a better use of public resources and generate positive spillover effects in service delivery.** The government needs to establish a clear vision through a SOEs ownership policy, both to strengthen SOE leadership and to inform potential restructuring. Performance indicators and targets should be developed, against which SOEs can be regularly assessed and held accountable. These mechanisms would help establish clear strategies and targets for SOEs, thus mitigating fiscal risks and providing critical information to the governmental

authorities. Performance targets could eventually evolve into performance agreements between SOE boards and the government. Finally, the true cost of public service obligations, including direct and indirect subsidies, should be reflected in the public budget. Financial transparency for SOEs is essential to making the fiscal burden more manageable and more predictable and would help to increase public trust in the management of these entities.

153. **Diagnostic reviews and sector viability analysis of natural monopolies can help identify enterprises with fiscal risks and lead to the privatization of SOEs not requiring state ownership.** Rather than selecting 'winners' or 'winning' industries and sectors, the government should assess its engagement on a case-by-case basis and consider withdrawing in favor of private sector entries. Diagnostic reviews targeting SOEs that are structurally loss making and posing fiscal risks should cover cost-effectiveness of service delivery, fiscal sustainability, the adequacy of legal and regulatory frameworks, as well as governance practices. These reviews should lead to the restructuring and performance improvement programs, including the potential for the partial or complete privatization of SOEs for which state ownership is not justified. With particular regard to SOEs' exploitation of natural monopolies, legislation should be introduced to eliminate monopolies and create a sector regulator. A clear and flexible public-private partnership framework should be operationalized at the national level. Opening up those sectors to private sector participation through concessions or PPPs can crowd-in private investments, bring in technical expertise, and take advantage of more efficient operators.

### *EXPAND TRANSPORTATION INFRASTRUCTURE AND SERVICES*

154. **The classified road network should be expanded to increase domestic and international connectivity.** Unpaved primary and critical roads need to be upgraded using standards appropriate for traffic loads, and new feeder roads and bridges should be built. In parallel, the government should complete the ongoing modernization program for highways and railways. Better road connectivity would open new domestic markets for agriculture, fisheries, and manufacturing, as well as decrease the cost of doing business. Angola can capitalize on its strategic geographic location as an access point for surrounding—often landlocked—countries. Reinforcing regional economic corridors would help unlock the potential for private sector activities. Although levels of public investment in roads have been high in the past decade, more will be required. Public spending on road building not only raises economic output, but also creates jobs, notably for unskilled workers, leading to multiplier effects in the economy.

155. **The adoption of a sustainable strategy for road maintenance will be essential for preventing the further deterioration of the road network.** The current maintenance framework to preserve both existing and planned road assets is neither efficient nor sustainable. The primary and critical road network and associated maintenance standards need to be defined. This will allow an estimation of the financial resources required for regular upkeep. The rehabilitation efforts for transport infrastructure require a modern asset management system in addition to adequate financing. The new Road Fund (*Fundo Rodoviario*) covers only a small part of the total network and relies mostly on transfers from the state budget. The government should establish a sustainable financing mechanism for the Road Fund using revenues from road user charges rather than strict dependence on budgeted expenditure. Proper regulation and monitoring of road use including axel weight control can also help increase the longevity of the road network.

156. **The further development of railways, ports, and airports will also be essential to strengthen regional economic links and boost trade.** The impact of recent investments to develop railway lines will depend on the capacity of neighboring countries to upgrade their infrastructure and operations. The government needs to continue with its efforts to promote more private sector involvement in rail

transportation and consider supporting the operations of some part of the network with concessions. Expansion of ports must continue, both through public and private investment, notably in connection with rail lines that provide connect to the coast with exporting areas, including mining. Greater competition and greater investment in the aviation industry can be encouraged, for maximum economic benefit to accrue from the opening of the new Luanda airport. Inefficient public procurement procedures can be streamlined, and the gradual decentralization of such projects to provincial and municipal governments needs to be considered.

### *IMPROVE ELECTRICITY AND DIGITAL ECONOMY INFRASTRUCTURE AND SERVICES*

157. **Major public investment in electricity infrastructure will be necessary to lift barriers to growth and economic diversification.** Improvements in electricity generation and transmission generate positive knock-on effects for the development of other sectors of the economy. Increased demand due to a growing urban population will need to be addressed by upgrading existing power generation stations and building new ones. New transmission lines and interconnections need to be created to ensure that the load can be shared between the major national grids. Public-private partnerships can continue to be a solution to increase generation capacity and bring power to remote areas not covered by the main national networks. The operational and commercial efficiency of the current utilities should be significantly improved. Inadequate transmission and distribution systems that cause energy losses and unreliable electricity service to customers will need to be modernized and expanded. Electricity tariffs must be adjusted periodically through a transparent sector regulation to reflect the real cost of service with targeted initiatives in place to help the poor gain access to this service. Metering and billing systems for domestic and commercial customers will need to be improved to create a more consistent revenue stream for the utility companies. Recognizing these needs, the GoA has launched a long-term plan to bring electricity to 60 percent of the population by 2025 and to carry out the necessary institutional reforms.

158. **For Angola to fully benefit from the growing global digital economy, major public and private investments in telecommunications infrastructure will be required.** The country will need to further modernize its digital infrastructure to expand connectivity, promote a competitive market for the ICT sector to improve quality of service and reduce costs, and support training for high-level IT skills among the youth. The wide availability of high-speed Internet will be a prerequisite for Angola to develop a significant information economy. The GoA can prioritize the development of broadband by using a mix of policy reforms, public-private partnerships, and a supportive environment for private sector investment, including FDI. The government needs to carry through with its plan to attract private participation in Angola Telecom to allow for greater competition and increased sector performance. Although the government has been actively promoting the use of ICT in government services through the National Centre for Information Technology, more can be done to automate public administration and promote access to information. The government can also consider a policy review of the ICT sector, with a focus on infrastructure, digital services, cybersecurity, and the digital economy, to inform the country's policy makers on policy reforms necessary to further develop the sector.

### *ENABLE IMPROVED AGRICULTURE AND FISHERIES*

159. **A flourishing agricultural sector will contribute to the diversification of the economy and make Angola more resilient against future external shocks.** The agricultural sector accounts for about 11 percent of GDP in Angola. It contributed considerably to GDP growth with a growth rate of 10 percent in 2014. The sector is also a substantial provider of employment for the rural population. Small farmers are the main contributors to agricultural production with more than 80 percent of cultivated area. While the

agricultural sector has suffered significantly from the past instability and civil war, it is now one of the main drivers of growth and can contribute significantly to the reduction of poverty in Angola. Larger growth in this sector will diversify the economy and reduce the dependence on oil, thus making Angola more resilient against external shocks like the current drop in oil prices.

160. **The government needs to enable better and improved agricultural extension services, while the private sector can offer agricultural inputs.** Increased land use, productivity, and agribusiness investment can help to allow for sustainable livelihoods for the rural poor. The large majority of rural households engage in agricultural activity, but outputs are limited, and any surpluses are insufficient to escape poverty. Improved extension services coupled with better access to markets can improve productivity and output. Market access can be improved by exploiting opportunities for rural-urban links and synergies connecting smallholder agriculture with larger agricultural businesses and developing their associated value chains. The depreciated exchange rate contributes to a conducive environment to expand production and enhance value chains with imports being more expensive making local production competitive although at the cost of more expensive imported inputs.

161. **Access to targeted agrifinance services for smallholder farmers should be improved to foster agricultural productivity.** The availability of agriculture credit needs to increase its reach of the smallholder segment of the population. Easier credit access enhances farmers' abilities to invest in technologies and inputs they need to increase yields and incomes while reducing hunger and poverty. Therefore, the government needs to focus on improved capacity building within financial institutions and ensure the crowding-in of private financial capital to help develop finance markets for the agricultural sector as part of an effort to expand sector investments, specifically the expansion of value chains. Programs should ensure delivery of expertise and technical assistance to build capacity of smallholders as well as small and medium agribusinesses, build links between smallholders and agribusinesses, and develop 'bankable' business plans. Reforms related to leasing, collateral registry, and warehouse receipts are directly relevant to the agriculture sector, as are risk-sharing guarantees. These include risk mapping and improved access to crop insurance. Improved broadband Internet infrastructure and better access to information will help ensure delivery of these services at all levels

162. **Dependence on food imports must be reduced by enabling the expansion of the agricultural sector and its productivity.** More public funds need to be dedicated to reducing barriers to entry, increasing domestic food processing capacity, and promoting private sector-led mechanization. This requires a gradual approach to import tariff reduction on agricultural inputs, with clear transition support plans for farmers to adapt to new market signals within or outside the agriculture sector. Weak incentive structures for investments in agribusinesses need to be remedied by reforming agriculture input support policies from distortionary toward non-distortionary subsidies. Increased domestic food processing capacity and mechanization can be favored by heavier involvement of the private sector. This can be accomplished through privatization to encourage agribusiness investments in large-scale production, agro-processing, storage and warehouse facilities, development of logistics cold chains, and irrigated perimeters.

163. **The long-term viability and productivity of fisheries can be promoted through improved research, community projects, and private investments, while ensuring sustainability of the fishery sector.** To ensure the sustainability of fish stocks, better data collection, in particular for artisanal fisheries, will be required, in addition to more research and regional cooperation. More rigorous monitoring and management standards need to be implemented. Greater investments are needed in fisheries surveillance systems and quota enforcement. The use of bottom trawls must be reduced to limit damage to marine ecosystems. Greater resources need to be dedicated to study the potential impacts of climate change on fish reproduction and migration. The lack of domestic trade networks for fish products can be

addressed through the promotion of cold storage networks and canneries. Government microcredit programs to support small fish processing and marketing for artisanal fisheries can be expanded. The artisanal fishing sector could be developed through community projects to increase safety, efficiency, and marketability, as well as initiatives to reduce post-harvest losses. Coastal and inland aquaculture can be expanded, with the government creating the necessary conditions and an investment climate that will allow for private capital to enter this market.

## *Building human capital*

164. **A renewed focus on building human capital will be essential for boosting productive capacity in the long run as well as promoting economic diversification.** Allocating more resources to education and social protection will have a direct impact on economic growth, by increasing labor quality and raising labor force participation rates. Having a larger pool of skilled workers to draw on will help firms improve their competitiveness and capacity to innovate. Better services, including health care and clean water, will help boost human capacity both in the short and medium term, by raising productivity and creating employment opportunities for the poor. In the longer term, the betterment of children's educational attainment and health increases the accumulation of human capital during critical life cycle stages. Working together, such human capital initiatives can help break poverty cycles that trap poor households in the same socioeconomic stratum from one generation to the next. The four identified priority areas of intervention for building human capital are improve education services, improve health and nutrition services, expand water and sanitation infrastructure and services, and increase social protection coverage and efficiency to address shocks and boost human capital.

### *IMPROVE EDUCATION SERVICES*

165. **Increasing the supply and quality of both preschool education and secondary education are essential to support long-term economic growth.** Investing in early childhood development can increase the efficiency of education resources by improving school readiness, lowering repetition rates, and reducing the need for remedial education later. These efforts can be complemented by interventions to increase parental education and public awareness of the importance of early education and nutrition, particularly among poor households. Additionally, expanding secondary-school access and increasing graduation rates is vital to provide the economy with a skilled labor force. Angola needs to implement complementary strategies to expand secondary education: exploring alternative service-delivery mechanisms, promoting more private schooling, increasing the availability of TVET schools with special emphasis on targeted employment sectors, and shifting resources from the tertiary to the secondary level. Public-private partnerships in education can be encouraged as a complement to increased government expenditures.

166. **Greater investments in teacher training and human resources management will be paramount to improving the quality of primary and secondary education.** Given the high number of unqualified teachers in the system, greater resources must be allocated for training. For in-service teachers, a national database with information on teachers' qualifications needs to be established. In-service training programs can then be implemented targeted on underqualified teachers. An effective new model for primary education has been the development of a national training program that is certified and aligned with the Teacher Career Ladder, incentivizing teachers to actively participate in training programs. Based on the positive outcomes from this program, it can be expanded, and a similar model can be developed for other education levels. A better policy on teacher deployment can help align the distribution of secondary school teachers and classrooms within provinces and can leverage scarce physical and human

resources. The current inspection system needs to be revamped to be closer to the school level and include mechanisms to increase transparency and monitor overall service delivery.

### *IMPROVE HEALTH AND NUTRITION SERVICES*

167. **Major investment is required to boost the quality and accessibility of primary health care, especially in poor communities and rural areas.** Financial support needs to be focused on programs with demonstrably high value for money with respect to health outcomes. In the short term, results-oriented investment cases need to be made for priority issues such as reproductive, maternal, neonatal, pediatric, and adolescent health. These targeted plans can be supported through a revised national primary health care strategy, as well as an increase in external resources for the health sector. Disease prevention, through a focus on epidemiological surveillance and training for health care professionals, can greatly improve outcomes. The reactivation of the community development agents program can improve primary health care effectiveness and reduce human resources gaps. Potential synergies for private sector engagement in the health care sector need to be explored. Incentives for investment can be generated for subsectors such as diagnostics, private clinics and hospitals, with the government retaining responsibility for the approval and quality monitoring of private health care providers.

168. **Innovative financing and management strategies can be employed to generate efficiency gains in the health sector.** Performance-based financing schemes can be used as tools to modify the behavior of health providers and administrators. This approach has been shown to increase both the quality and utilization of health care services, as well as giving individual facilities more autonomy over their expenditure decisions. A strengthening of financial management capacity is a necessary condition for the implementation of this model and a well-designed pilot project can be an essential first step. Another strategy for efficiency gains can be the recentralization of pharmaceuticals procurement, which has the potential to generate large savings for the system and for private households. Given past challenges, the management of the pharmaceutical supply chain needs to be explored as a potential area for public-private partnerships. Finally, improving the quality and availability of administrative statistics can help sharpen the focus of the health care system on outcomes and reinforce monitoring and evaluation more generally.

169. **Undernutrition remains a significant problem in Angola with far-reaching implications for health and education.** In 2015, 38 percent of children under five years were stunted, impairing their growth and development due to chronic undernutrition. Stunting has significant long-term health impacts and can undermine cognitive development. Targeted programs to identify and treat malnutrition, notably those based in public schools, can be a highly cost-effective intervention leading to positive health and education outcomes. This can be complemented by interventions to increase parental education and public awareness of the importance of adequate nutrition, particularly among poor households, potentially leveraging the community development agents and safety net programs.

### *EXPAND WATER AND SANITATION INFRASTRUCTURE AND SERVICES*

170. **Defining and implementing a national strategy for improving access to water and sanitation services will be crucial for ensuring adequate service provision and supporting social development.** Limited access to improved water, sanitation and hygiene services has detrimental public health consequences, for example by increasing the prevalence of waterborne diseases and their negative health impacts. The significant gap between urban and rural access to improved water and sanitation facilities can only be remedied through a coordinated national strategy. In rural areas, this plan must include the creation of new protected water sources, the building of small-scale water supply systems, and support

for the installation of household latrines.[82] Significant water and sanitation service shortfalls also persist in urban areas. A plan to improve service among urban populations can include the rehabilitation of wastewater treatment plans, the installation of new sanitation systems, and the creation of shared water distribution sites. The lack of clarity in the institutional setup of the sector, the relatively weak capacity of the civil service, and the absence of a sound regulatory framework also need to be addressed.

171. **Better and more integrated water resources management will be essential to mitigate against shocks and promote the efficient use of resources.** The hydropower subsector dominates water management and unilaterally dictates water releases in most basins, which can disrupt critical downstream use of the resource. In recent years, even basins with historically high precipitation have experienced severe droughts, and this has adversely affected hydropower for major urban centers. A stronger and more integrated water resources management (WRM) approach can help ensure that water allocation attends to the needs of different sectors. To allow for the possibility of designing and implementing a national water-use strategy, state institutions involved in WRM will require a clearer definition of roles and responsibilities. A regulatory framework can be established with sufficient checks and balances to limit political influence, and basin plans need to be operationalized to provide oversight on water use and allocation. Irrigation expansion needs to be carefully designed with water resources availability in mind. There is a need to provide more systematic oversight on the management of the increasing numbers of hydraulic structures, some of which are privately operated.

***INCREASE SOCIAL PROTECTION COVERAGE AND EFFICIENCY***

172. **The effectiveness of Angola's social protection system needs to be increased, through harmonization, better coordination, and decentralization.** Widening the coverage of social protection programs will not only help safeguard against shocks but also serve to boost human capital by providing new skills. The government needs to reduce fragmentation by providing strategic and operational coherence to the range of existing social protection programs. One or two broad flagship programs could be prioritized and rolled out progressively, allowing for smaller programs to be harmonized under its umbrella in the future. Social safety net programs can be enhanced with productive inclusion activities such as adult literacy and skills training. A unified household targeting instrument based on objective criteria needs to be created to allow for outreach, intake, registration, and the determination of potential eligibility for social programs. Decentralizing the administration of social protection programs can improve reach and create accountability for the poor and vulnerable. Most of the poor are living in rural areas and including social protection in ongoing decentralization initiatives can help to connect with these vulnerable populations more directly. A more local implementation of the programs will also facilitate gathering feedback from beneficiaries, thus enhancing accountability.

173. **A poverty-targeted flagship cash-transfer program can reduce poverty, improve welfare, and promote development outcomes.** Impact evaluations in Zambia, Kenya, Malawi, and South Africa have shown that besides reducing poverty, cash transfers can have other positive impacts such as better agricultural productivity, increased self-employment, and enhanced health status. In Angola, the existing food-based and school feeding programs represent 86 percent of total social assistance spending, while cash programs only account for 14 percent of total spending and are targeted mainly to war veterans. A new national program needs to be launched to target poverty in a transparent way, using a unified social registry and substantially increasing coverage. International experience suggests that well-designed cash transfers with adequate social communication strategies, proper incentives, and close follow-up can

[82] The GoA has already prioritized this type of intervention by creating 3,302 new water points and 1,113 small water supply systems from 2007 to 2017, bringing improved service to a total of 4 million beneficiaries.

tackle dropouts, especially among adolescent girls, teenage pregnancy, and similar changes that currently constrain equity in Angola. Regressive social norms have a strong negative impact on education and training outcomes for girls, and the implementation of gender-smart social protection policies could help address these imbalances and promote more equitable growth in human capital.

## *Cross-cutting themes*

174. **In addition to the core binding constraint of weak governance, gender and climate change will also complement all of the development pathways as cross-cutting themes.** Gender gaps are a cross-cutting challenge for Angola, affecting many aspects of human capital development and economic growth. Similarly, climate change poses a cross-cutting risk and there is a need to enact climate-smart interventions across sectors.

### *GENDER*

175. **Gender is a cross-cutting topic that affects multiple forms of wealth and capital.** The widespread prevalence of gender inequality and gender gaps are significant impediments to economic growth. For example, gender gaps can lead to unequal access to resources such as agricultural inputs, which have large and long-term impacts on household incomes and structural transformation. Human capital is also negatively affected by gender gaps particularly in the areas of labor, education, and health. More importantly, reducing gender inequality in turn reduces fertility rates, which promotes economic growth by balancing the dependency ratio. Addressing gender gaps will require a comprehensive strategy with targets across various sectors and will also include intangible goals such as shifting gender norms and biases to empower women and boost their participation in education and employment.

176. **Existing social norms negatively affect women's participation in all productive activities.** Customs, beliefs, and behaviors that disempower women drive gender gaps in many parts of the Angolan society and economy. If not addressed, these deeply entrenched norms can work against progressive and well-intended policies to promote women's equality. For example, women in the agricultural sector have less access to land not because of the formal legal code but rather because of the continued importance of customary law. Such barriers to ownership also reduce women's chances of accessing credit, as land is often required as collateral, thus reducing opportunities for entrepreneurship and growth. Health access is also affected by social norms, with some women going untreated because they require permission from their husbands. Social norms also affect the prevalence of GBV, with larger problems manifest in regions where such behavior is normalized. Gender roles concerning child care also have a negative impact on women's economic empowerment, as the expectation that women must care for children hinders their participation in the labor force.

177. **Better data on gender gaps will be needed to develop targeted policies.** Existing data is limited in terms of both volume and quality. There is currently a lack of detailed analysis and primary research on gender gaps in Angola, with the partial exception of education and health. The new agricultural census expected to be released in 2019 may help to make up for the shortfall. Furthermore, the existing data are largely limited to labor force participation rates. Instead, data must include information on the types of challenges women face, such as the time spent on unpaid and domestic work and understanding their needs in terms of child care and safe transportation and infrastructure.

### *CLIMATE CHANGE*

178. **Developing a capacity for adaptation and building resilience to climatic shocks are essential components of future economic growth in Angola.** Environmental changes may include mean temperature increases, modified rainfall patterns, sea-level rise, alterations of oceanic acidity and temperature, as well as shifts in the habitat ranges of plants and animals. Climatic shocks may include droughts and flooding, as well as other extreme weather events. Ecological and social systems are interdependent, and any environmental change or shock is liable to simultaneously affect multiple sectors of the economy. Planned economic diversification will include growing sectors such as agriculture, fishing, and mining that utilize Angola's abundant natural capital. The broader use of natural capital implies that Angola must be particularly careful to think sustainably and maximize its climate change readiness. In 2016, Angola was ranked 171 out of 191 countries in terms of readiness for climate change and improvements need to be made in this area.[83] Angola has nonetheless created several climate adaptation plans including the *Angola National Adaptation Programme of Action* in 2011, as well as the Intended Nationally Determined Contribution (INDC) in 2015, both of which were prepared under the United Nations Framework Convention on Climate Change. [84] By investing in preparedness, Angola will be better able to predict and manage the potentially destabilizing impacts of climate change.

179. **Preparing for climate change can create opportunities for economic growth.** Climate-smart agriculture and landscape management can help address land degradation and increase productivity, thereby, contributing to better food security and incomes. Problems related to increasing variability in rainfall can be mitigated by promoting agricultural investment in zones that are projected to have greater climactic stability. Investment in technical innovations such as promoting the use of drought-tolerant seeds or the creation of new irrigation systems can enhance productivity and limit susceptibility to variations in rainfall. Climate-smart health care strengthens health sectors and communities by ensuring access to clean and reliable energy, water, and transport. New public and private investments in renewable energy create jobs. Despite the increased exposure of coastal populations to climate shocks, the continuing trend of urbanization in Angola represents an opportunity for better preparedness. Projects to build climate-friendly infrastructure such as sewage and piped water benefit from economies of scale in areas where population density is high. Climate change awareness may also help prevent the depletion of Angola's resource base by promoting a more sustainable management of natural capital in the long term.

180. **As the poor are disproportionately affected by climate change, they stand to gain the most from these adaptations.** Improving sustainability and productivity in the agricultural and fisheries sectors have the most immediate impact on people for whom these are subsistence activities. The poor are more likely to live in unplanned urban settlements and flood-prone areas, and consequently, any investments made to improve this infrastructure will benefit them directly. National initiatives to increase access to clean water and improved sanitation facilities have the greatest impact for the rural poor, given that they are the population most lacking in these services. Investments in adaptive capacity with respect to climate-related illnesses issues would generate better access to health care in rural areas more generally.

[83] Notre Dame University's Global Adaptation Initiative produces a country index that measures a country's vulnerability to climate change in combination with its readiness to improve resilience.
[84] Ministry of Environment 2011; Republic of Angola 2015.

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