Angola

2012

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- Angola's real GDP growth slightly increased from 3.4% in 2010 to an estimated 3.5% in 2011, driven mainly by rising oil prices, and a strong non-oil sector real growth of 7.7% which helped to offset the effects of production problems in the oil sector. Growth is projected to expand to 8.2% and 7.1% in 2012 and 2013.
- Angola continued to implement the IMF SBA program, which includes fiscal and monetary tightening and reforms to improve the exchange rate system; improved public financial management; the maintenance of a sound banking system; and fiscal transparency.
- Despite steady progress in improving social conditions since 2002, the country still faces massive challenges in reducing poverty, unemployment and increasing human development. The government continues to allocate more than 30% of its budget to social spending. This will increase by 1.6 to 33.3% in 2012, double what will be spent on defence, security and public order.

Overview

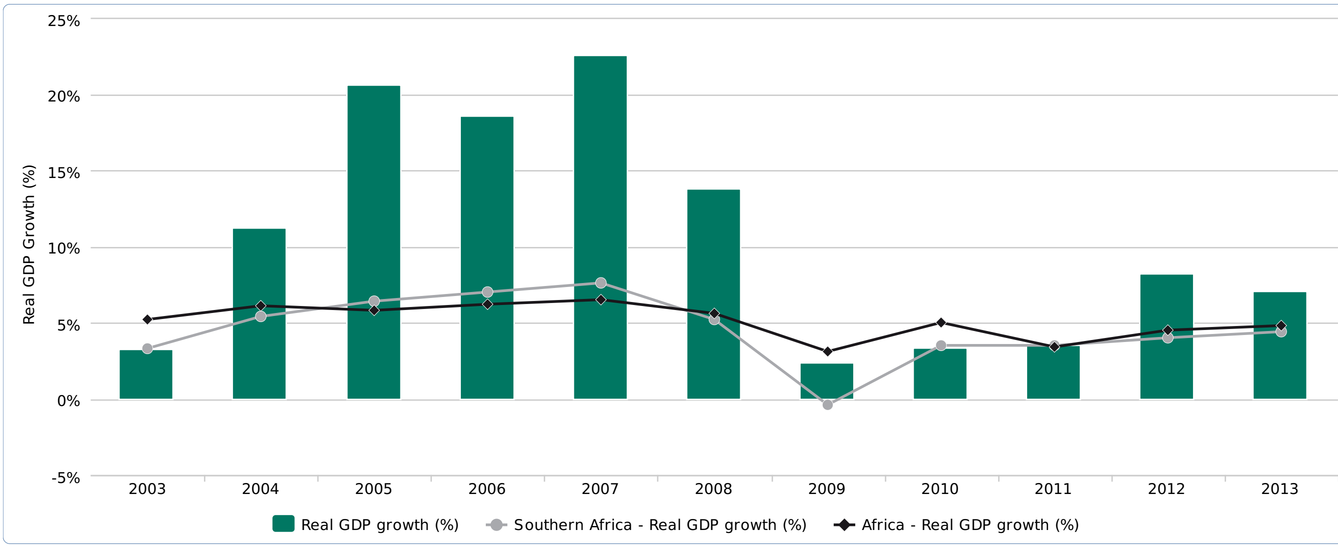
Angola is Africa's second largest oil producer, after Nigeria, producing over 1.9 million barrels per day (bpd). Since the global economic slowdown and the acute oil price drop that triggered domestic fiscal and balance of payments shocks, the country has been gradually recovering. Its GDP growth slightly increased from 3.4% in 2010 to an estimated 3.5% in 2011, driven mainly by rising oil prices and strong non-oil sector growth of 7.7% which helped to offset production problems in the oil sector. The country is expected to record GDP growth rates of 8.2% and 7.1% in 2012 and 2013 respectively. This will be driven mainly by the start of the USD 9 billion Liquefied Natural Gas (LNG) project and the expected increase of oil production to over 2 million bpd. Inflationary pressures remained high at 14.5% in 2010 and an estimated rate of 13.5% in 2011 mainly as a result of strong growth in domestic demand. However, this is projected to fall to 10.0% and 9.4% in 2012 and 2013 respectively.

During 2011, Angola continued with its main macroeconomic policy of reducing inflation, deepening international reserves, and increasing capital spending on infrastructure to promote economic diversification and poverty reduction. The country continued to implement the IMF Stand-By Arrangement (SBA) program (USD 1.4 billion in liquidity), which was signed in November 2009. The SBA aims to increase fiscal and monetary discipline; reform the exchange rate system; improve public financial management; create a sound banking system and enhance fiscal transparency. In 2011, Angola took measures to overhaul the tax regime, establish a debt management unit and manage and track the flows from the oil sector to the budget. The Central Bank (BNA) moved away from a temporary rationing exchange rate system to an auction system. A comprehensive strategy for private sector development was also drawn up. A contraction in capital expenditure and better expenditure control during 2011, allowed the authorities to make domestic arrears repayment of the USD 7.5 billion, which it had incurred since 2009.

Economic growth and fiscal sustainability are still highly dependent on the oil revenues. However, the oil sector is capital-intensive, lacks linkages to the real economy, and employs less than 1% of the total labour force. This constrains economic diversification and prevents much-needed job creation. The unemployment rate is estimated at around 26%, and the incidence of poverty remains high at 36%.

Despite steady progress made in improving social conditions since 2002, the country still faces massive challenges in reducing poverty, unemployment and increasing human development. The government continues to allocate more than 30% of its budget to social spending. In 2012 budgeted social expenditure will increase by 1.6% to 33.3%, double what will be spent on defence, security and public order; and education and health budgets will be increased by 10%.

Figure 1: Real GDP growth (Southern)



Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic Indicators

	2010	2011	2012	2013
Real GDP growth	3.4	3.5	8.2	7.1
Real GDP per capita growth	0.6	0.8	5.5	4.4
CPI inflation	14.5	13.5	10	9.4
Budget balance % GDP	6.8	7.3	4.7	5
Current account % GDP	8.9	13.5	10.1	9.8

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2006	2011
Agriculture, forestry, fishing & hunting	9.1	10.1
Mining and quarrying	69.7	46.9
of which oil	-	-
Manufacturing	0.9	6.4
Electricity, gas and water	-	-
Construction	0.6	8.1
Wholesale and retail trade, hotels and restaurants	10.1	16.6
of which hotels and restaurants	-	-
Transport, storage and communication	3	4.4
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	-	-
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	6.6	7.4
Public administration, education, health & other social & personal services	-	-
Other community, social & personal service activities	-	-
Other services	-	-
Gross domestic product at basic prices / factor cost	100	100

Figures for 2010 are estimates; for 2011 and later are projections.

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Angola is Africa’s second largest oil producer, after Nigeria, with an installed capacity of over 1.9 million bpd. The mining sector, dominated by oil, accounts for 47% of total GDP, while diamonds account for only 1% of GDP The non-oil sector now accounts for over 50% of GDP, with agriculture, construction and manufacturing sectors respectively accounting for 10%, 8.1% and 6.4%.

The country is gradually recovering after the global economic slowdown and the acute oil price drop that triggered domestic fiscal and balance of payment shocks. Angola’s real GDP growth increased slightly from 3.4% in 2010 to an estimated 3.5% in 2011, driven mainly by rising oil prices. However, GDP growth in 2011 did not benefit much from the effects of high oil prices as a result of oil production problems which led to an oil sector contraction of 3%.[1] Nevertheless, this was offset by the performance of the non-oil sector, which grew by 7.7%. The country is expected to record high GDP growth rates of 8.2% and 7.1% in 2012 and 2013 respectively. This will be driven mainly by the start of the USD 9 billion Liquefied Natural Gas (LNG) project and the expected increase of oil production to over 2 million bpd.

Angola's oil output is expected to recover in 2012, as oil fields come back on line and the new Pazflor deep-water field boosts potential by an additional 200 000 bpd. The oil output is estimated at 1.9 million bpd in 2012. The growth in the hydrocarbon sector was further expanded in February 2012 with the start of the new LNG plant in Soyo - a joint venture involving the state oil company of Angola - Sonangol.

Angola remains a net fuel importer, and this dependence on fuel imports is expected to continue as negotiations over the construction of a new oil refinery have stalled again. Sonangol has been now called upon to implement the project, estimated at a cost of USD 8 billion for an output of 200 000 bpd, a smaller capacity than had been discussed in previous plans.

The short-term arrears accumulation has constrained growth in the construction sector from 16.1% in 2010 to 6.8% in 2011. However, the expected increase in capital expenditure in 2012 supported by the increase in oil revenues will further expand the construction sector in 2012. The country is expected to continue with the rehabilitation of infrastructure, although the main strategic focus will shift from transport to the energy sector. Angola has an estimated hydroelectric potential of 18 000 megawatts (mw), but only an estimated 36.3% of the population has access to electric power. Lack of electricity is considered one of the main constraints to business (68% of businesses rely on private diesel generators). Government will invest approximately USD 16 billion in the energy sector between now and 2015. Angola's power demand is estimated to grow at 12% a year. The Government has ordered 10 thermal-electric power plants for 7 provinces to address this growing demand.

During 2012, the Government plans to invest in rail connections between the Benguela Port and Democratic Republic of Congo and Zambia, and the Mossames rail-line between the Namibe port and Namibia. It will rehabilitate the road connection between Lubango and Namibia. The construction of Luanda's new international airport, which is to be completed in 2014, has resumed. This will have an annual capacity of over 13 million passengers.

The government is reforming its private sector. It has created a new institute, "Instituto de Fomento Empresarial", to support medium to large enterprises, while the Instituto Nacional de Apoio a Pequenas e Médias Empresas (INAPEM) has been restructured to focus on micro and small enterprises. In 2011, it established a program directed at fostering entrepreneurship - "Programa de Fomento Empresarial" (PFE). The PFE's objectives are to reduce poverty and unemployment and to shrink the non-oil current account deficit by lowering import dependence. The PFE with a budget of USD 700 million will foster the creation of enterprises and provide subsidized credit. Legislation to support micro to medium enterprises with fiscal and financial incentives - "Lei das Micro, Pequenas e Médias Empresas" – will be effected during 2012. A USD 30 million fund has also been created to specifically address the transformation of the informal economy in 2012.

Macroeconomic Policy

Fiscal Policy

In 2010 and 2011, the Government continued to implement the IMF SBA program, and pursued tight fiscal policies to control budgetary spending and cushion the economy against external shocks. These policies, supported by higher oil prices, allowed Angola to reverse a fiscal deficit of 4.9% of GDP in 2009 into a fiscal surplus of 6.8 and 7.3% of GDP in 2010 and 2011 respectively, while ensuring an increase in current spending, particularly on social services, education and health. The 2011 budget accommodated an enlarged National Reconstruction Program, with capital expenditure reaching nearly 10% of GDP. It also increased expenditure on social services to 31.5% of GDP, in line with the SBA floor of 30%. In 2012, the fiscal surplus is projected to decline to 4.7% of GDP on account of increased expenditures on social service and infrastructure. This will increase to 5.0 per cent of GDP in 2013.

A contraction in capital expenditure and better expenditure control during 2011, allowed the authorities to repay domestic arrears of USD 7.5 billion which had been incurred since 2009. Economic growth and fiscal sustainability are still highly dependent on oil revenues, even though the non-oil primary fiscal deficit has been constantly decreasing (reduced by 0.3 points to -22.5% of GDP in 2011).

The reduction in revenues from lower oil production was offset by the rise in oil prices, allowing for a supplementary budget increase of 1.75% of GDP in May 2011. This budget request was to accommodate the final repayment of domestic arrears, the financing of project-ready infrastructure projects and an increase in social sector funding. There was a progressive phasing-out of Sonangol's quasi-fiscal activities starting 2011, in line with the fiscal responsibility law of 2010, as part of increased transparency and accountability measures being implemented by the Government.

Overall fiscal revenue (including grants) as a percentage of GDP decreased to an estimated 42.3% in 2011 from 43.5% in 2010, due to reduced growth in oil revenues. However, the expected increase in non-oil fiscal revenues are expected will reduce the non-oil fiscal deficit from -21.9% in 2011 to -20.9% in 2012. As the country reaches peak-oil, efforts to diversify beyond oil are paramount for the country's long-term fiscal sustainability. The Government is considering the creation of stabilization funds to harvest the oil revenue windfalls. In this regard, a "Strategic Oil Infrastructure Fund" was established to finance high-priority infrastructures in 2011. However, there are still no developments on the creation of a Sovereign Welfare Fund (SWF). The 2012 legislative elections may further delay the SWF process and create added pressure for increases in public expenditure.

Table 3: Public Finances (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Total revenue and grants	37.9	46.4	45.8	50.9	34.6	43.5	42.3	40.4	39.5
Tax revenue	7.8	5.8	6.3	6.2	12.7	14.9	11.9	10.6	9.8
Oil revenue	28.9	38.0	38	41.2	19.5	26	27.9	27.4	27.3
Grants	-	-	-	-	-	-	-	-	-
Total expenditure and net lending (a)	44.9	35.5	34.4	42	39.5	36.7	35	35.7	34.5
Current expenditure	37.5	23.5	22.6	27.9	27.1	27	26	26.9	26
Excluding interest	35.2	22.0	21.5	26.4	24.9	25.8	24.9	25.5	25.4
Wages and salaries	12.4	8.6	7.9	8.6	11	9.4	8.8	8.7	8.7
Interest	2.3	1.5	1.1	1.5	2.2	1.2	1.1	1.5	0.6
Primary balance	-4.6	12.4	12.5	10.4	-2.7	8	8.4	6.1	5.6
Overall balance	-7	10.9	11.4	8.9	-4.9	6.8	7.3	4.7	5

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

The tight monetary policy pursued by the National Central Bank (BNA) in 2011 was supported by high oil prices that provided increased inflows of hard-currency. The country performed well on the three main programmatic objectives for the year: increasing gross international reserves by at least USD 1.7 billion; gradually adjusting the value of the Kwanza (AOA) in line with market fundamentals; and bringing down inflation.

Inflationary pressures remained high at 14.5% in 2010 and at an estimated 13.5% in 2011 mainly as a result of strong growth in domestic demand. However, this is projected to ease to 10.0% and 9.4% in 2012 and 2013 respectively. The BNA rediscount rate was cut from 25% to 20% in April 2011. The Kwanza maintained a smooth depreciation trend of less than 3% against the USD, with the exchange rate standing at USD 1: AOA 93.4 at the end of 2011, while the spread on the parallel market has fallen below 5%. The BNA meanwhile has eased monetary policy, reducing the reserve ratio from 30% in 2010 to 20%. This move reflects the soundness of the country's macroeconomic performance and is aimed at increasing the availability of credit to the economy. The market responded well, with the 181 days to 1-year lending interest rate reaching 14.5% in November 2011, from 16.6 in January 2011.

Also, in accordance with the amended Foreign Exchange Law, domestic banks will be obliged to hold a minimum of 80% of their capital in Kwanzas by the end of 2012. The credit increase was mostly based on increased short-term credits, revealing difficulties with longer-term financing in the economy. As part of the reforms undertaken by BNA, a new regulatory framework for monetary policy together with a Monetary Policy Committee was created. The framework introduced a reference lending rate: the BNA rate. At its first meeting in October 2011, the committee announced a benchmark target rate of 10.5%. The BNA will maintain the monetary policy goal of containing inflation around 10% 2012.

Economic Cooperation, Regional Integration & Trade

In 2011 Angola assumed the 1-year rotational presidency of the Southern Africa Development Community (SADC). It is leading the regional integration agenda that is focused on infrastructure and energy.

Oil represented 97.5% of the country's exports in 2010, followed by diamonds (2%) and gas and coffee (0.5%). The February 2012 Economist Intelligence Report shows that in 2010, China accounted for 43.1% of Angola's exports, followed by the USA (23.2%), India (9.2%), France (4.0%) and others (20.5%). The report also shows that Angola's imports in 2010 continued to originate from Portugal (17.9%), followed by China (14.3%), USA (9.2%), Brazil (6.8%), and others (51.7%).

In 2011 gross international reserves are estimated to have reached USD 21.3 billion, covering 5.3 months of imports, which is 23% above the previous year. This is mainly due to improved oil production and high oil prices during 2011. The current account balance improved from 8.9% of GDP in 2010 to 13.5% of GDP in 2011. This is projected to stabilize around 10% of GDP in 2012 and 2013.

Angola's trade regime is liberal and the average tariff low. The simple average MFN applied tariff is 7.3% (one of the lowest in Africa) with six non-zero bands ranging from 2% to 30%. 100% of Angola's tariff lines are bound under the WTO with an average bound rate of 59.2%. There are no duty-free lines (except for coins), but duty concessions are available to investors. The average tariff on agricultural products is 10% and 6.9% on non-agricultural products. The highest rates of 20% and 30% apply to about 10% of tariff lines. Imports are subject to import duties, consumption tax and other charges. Non-tariff barriers on imports are minimal but have been increased to protect national production (of mackerel and cement, among others). Export duties affect a few products and there is no export incentives system. Angola has acceded to the SADC Trade Protocol but has not signed the SADC FTA launched in 2008.

Clearing imports through the ports and customs in Angola is a slow, complicated and uncertain process. Angola ranks 142 out of 155 countries in the World Bank's Logistics Performance Index, largely due to deficiencies in customs. It is also ranked 139 out of 142 countries on the 2011/12 Global Competitiveness Index. Since 2001, the Government has been taking steps to update customs legislation and modernize the customs administration, with impressive results: while allegations of corruption remain frequent, trade laws and regulations were published, import documentation requirements were simplified and customs clearances in all borders were computerized. Consequently, the collection of customs revenue has significantly increased.

Table 4: Current Account (percentage of GDP)

	2003	2006	2007	2008	2009	2010	2011	2012	2013
Trade balance	28.9	51.1	50.8	51	24.1	39.1	33.7	35.9	47.2
Exports of goods (f.o.b.)	68.1	70.5	73.4	75.9	54.1	61.3	58.6	59.3	63.7
Imports of goods (f.o.b.)	39.3	19.4	22.6	24.9	30	22.2	25	23.5	16.6
Services	-22.4	-13.3	-20.4	-25.9	-24.6	-20.1	-28.2	-23.9	-27.1
Factor income	-12.4	-12.1	-14.5	-16.3	-9	-9.6	-8.9	-8.2	-10
Current transfers	0.7	-0.4	-0.4	-0.2	-0.5	-0.5	-0.4	-0.3	-0.3
Current account balance	-5.2	25.2	15.6	8.5	-10	8.9	-3.8	3.5	9.8

Figures for 2010 are estimates; for 2011 and later are projections.

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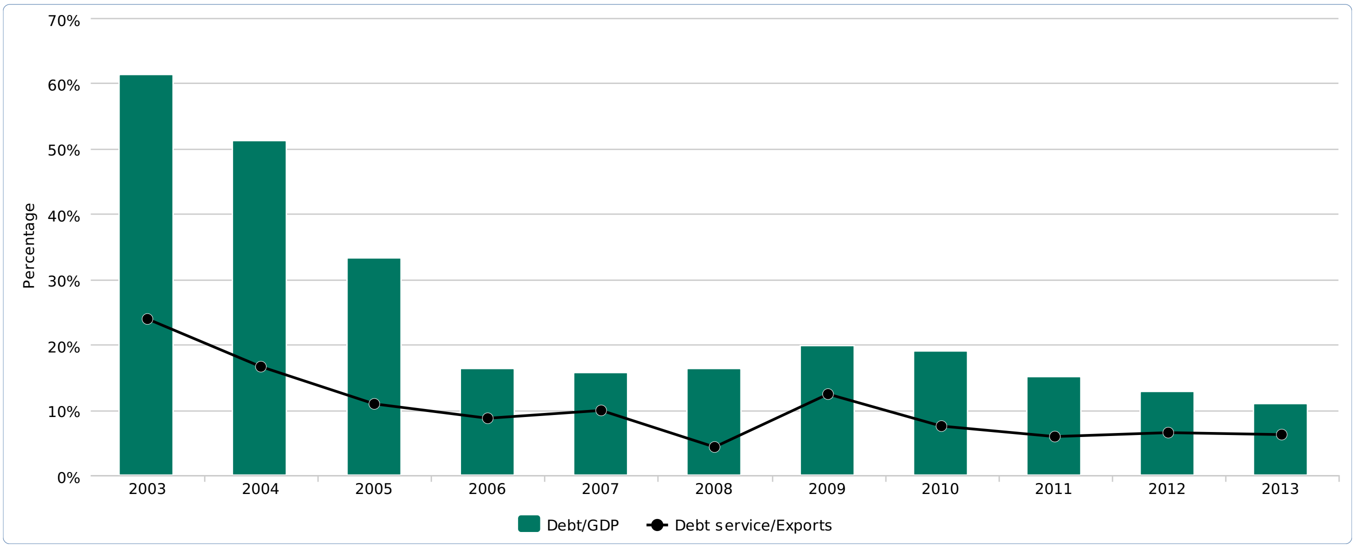
Debt Policy

The 2009 IMF Debt Sustainability Analysis (DSA) showed that Angola's risk of debt distress is moderate. The external public debt-to-GDP ratio declined from 19% in 2010 to 15.9% in 2011, while the overall public debt-to-GDP ratio declined from 35.0% in 2010 to 29.9% in 2011. Oil revenues and increasingly higher non-oil revenues will maintain debt ratios below their respective thresholds in the medium to long term. It is projected that the overall public debt will decline from 24.7% in 2012 to 13.7% of GDP in 2015. Moody's has rated Angolan sovereign debt at Ba3, and S&P upgraded the rating for Angolan foreign currency debt to BB- in 2011. The short-term domestic arrears generated by the 2008/09 BOP crisis, estimated at USD 7.5 billion in 2010, were finally fully repaid in 2011. Most of the debts were repaid in cash during 2010 and 2011, although USD 1.14 billion in exchange rate-linked bonds with a 7% coupon, and a maturity of three to five years were issued to settle part of the short-term bank debt.

The authorities approved a new public-private partnerships (PPP) law in 2010 and created a PPP unit at the Ministry of Economy in 2011. This is aimed at developing major infrastructure projects and leveraging public resources. However, the regulatory framework for the PPP unit is yet to be approved.

In 2011, the government completed a debt management strategy and established a Debt Management Unit (DMU). The DMU will play a key role in managing both domestic and external debt and avoid the crowding-out of credit to the private sector.

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Figures for 2010 are estimates; for 2011 and later are projections.

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Economic & Political Governance

Private Sector

The government faces challenges in improving the business environment for private sector development. The 2012 Doing Business (DB) Report shows that Angola's ranking fell by one position to 172nd out of 183 countries and is the lowest in the SADC region. Angola continues to perform poorly in enforcing contracts and starting a business. However, reforms are currently underway to simplify the process of starting business through "Enterprise One-Stop Shops"; and to improve access to credit through subsidized interest rates and state credit guarantees to businesses. Angola has implemented an electronic property registration system to improve property registration; and has also improved access to credit and electricity. The implementation of several micro-credit programs, providing over USD 60 million to 35 000 farmers and reforms to foster entrepreneurship by providing incentives to Micro, Small and Medium Enterprises (MSMEs) are expected to further improve the credit indicator. However, the approval of the new legislation package on private investment regulation is expected to have a negative impact on the business environment as it represents a fundamental shift in FDI policy, from a more open regime to a stricter one, including more rigid regulation of fiscal incentives, subsidies and profit repatriation.

A program is in place to integrate informal businesses into the formal economy through registration, improved credit access, the establishment of co-operatives and the recognition of micro-enterprises as legal entities. Other areas with on-going reforms include contract enforcement, property transfer, the regulatory framework, and the judicial system. Licensing in the trade sector has been simplified; however a broader review of licensing processes towards increased deregulation is due in 2012.

Financial Sector

Angola's banking system comprises 23 commercial, regional, development and specialized banks. The banking coverage expanded by 22.1% in 2010, reaching 51% of Angola, with 70 bank branches per million people. However, 20% of the banks hold 80% of financial assets, while only 11% of the population has a bank account. In 2011 Angola conducted a public campaign for financial literacy aimed at increasing social inclusion and reducing the currency outside of the banking system.

The government initiated reforms in 2011 to improve access to credit. Subsidized interest rates and state credit guarantees (up to 80%) are planned for implementation in 2012. Micro credit is also increasingly being offered by commercial banks. In addition, a credit bureau is being created. Non-performing loans rose in 2010 from 2.6% in 2009 to 7.1%, triggered in part by the financial distress of firms that were owed substantial sums by the government. However, these debts were settled in 2011 leading to a decline of non-performing loans to 2.5%. There has been a progressive de-dollarization of the economy, reducing foreign currency risk. The new legal framework on foreign currency for the oil sector, approved at the end of 2011, requires oil companies that operate in the country to make payments in local currency, using banks based in Angola.

Insurance and pension funds markets have been evolving in both products and players, with occupational and car insurance now being a legal requirement. As of 2010, 7 insurance companies with an estimated premium volume of USD 800 million have been set up. In 2009 there were 19 pension funds, representing only 0.52% of GDP. A capital market commission was founded in 2005 and a legislative framework is being put in place to create a more competitive financial market and pave the way for the establishment of a stock exchange.

Public Sector Management, Institutions & Reform

The Economic Commission's Technical Group and the Economic Commission (comprised of the Ministers of Economy, Planning, Finance and the Governor of the Central Bank) coordinated the implementation of the IMF SBA program. Angola is improving its financial management tools, and has several programs in place to enhance transparency and control over expenses. It has introduced quarterly financial plans for line ministries' outlays to ensure that only budget-approved projects are implemented. The government started to publish regular quarterly budget execution reports in 2011, with the 2010 final budget accounts being published with less than a year of delay. National accounts are audited by Ernst & Young, which is also supporting the government on improving budget execution efficiency and transparency.

The Government is implementing a complete overhaul of project budgeting, appraisal and monitoring capacity to increase and achieve enhanced development outcomes. During 2011, the government undertook a restructuring of the Ministry of Economy, and created a new Institute for Public Enterprises to strengthen oversight of public enterprises and create a new regulatory framework. Public enterprises are now required to supply quarterly reports to the Institute and to produce externally audited annual accounts that are made public.

In 2011, Angola, under the IMF's SBA program, took measures to overhaul the tax regime by publishing tax reform strategy and developing a legal framework and the associated legislation. This is now under consideration by the national assembly. The tax program is a multi-year project, aimed at modernizing tax administration, improving tax compliance, broadening the tax base while scaling back tax exemptions, and putting in place efficient legal processes for handling tax cases. During 2010, Angola established a debt management unit, implemented measures to manage and track the flows from the oil sector to the budget and developed a comprehensive strategy for the private sector. The Central Bank, BNA, moved away from temporary rationing system to auctioning approach and the state oil company, Sonangol continued to post its external audited accounts on its website.

Natural Resource Management & Environment

The Ministry of Environment was created in 2008, and has already produced extensive legislation such as an Environmental Framework law, and decrees on Environmental Impact Assessment and emission of Environmental licences. There is also a National Action Plan for Biodiversity 2007-12. The Government is implementing a support project for the environmental sector, piloting clean energy solutions, green growth development policies and climate change mitigation. The AfDB is to assist in the preparation of a Master-Plan for the power sector, including clean and renewable energy.

Angola is a signatory of the Kyoto protocol, and a participant of the COP17 conference. A national strategy for the implementation of the protocol is currently underway, spearheaded by a designated Carbon Emissions Authority which was created in 2010, with 5 projects being selected during 2011. As a member of SADC, Angola is also implementing the guidelines for the Regional Water Policy and Regional Strategy. It also signed an MOU on the Okavango-Zambezi Treaty, with Botswana, Namibia, Zambia and Zimbabwe. Angola is part of a trans-frontier initiative with DRC and the Republic of Congo, and the participation of Gabon, for the conservation of the Maiombe Forest, an initiative financed by the European Union.

Several Angolan universities offer degrees on Environmental Engineering, while two technical institutes offer courses in this field, and a university solely dedicated to the sector is under consideration. Two vocational courses on Renewable Energies are also being designed by the Government – Solar Energy Technician and Wind Energy Technician - reflecting the growing concern with environmental issues.

Political Context

Since the end of civil war in 2002, Angola has maintained peace and security. Reconstruction is being sustained by a boom in global oil prices, and the country is emerging as a regional power. President José Eduardo dos Santos has ruled since 1979, and his party, the MPLA, remains the dominant force in Angolan politics based on three main factors: living up to its promise to deliver peace to a war-weary nation, using oil rents to rehabilitate the major economic and social infrastructure destroyed during the war, and promoting fairly political dialogue with its political opposition. These factors ensure that MPLA will retain its dominant position for the foreseeable future. The only cloud on the political horizon is the question of who will succeed President dos Santos.

Given the central place that the MPLA occupies in Angola, a disorderly transition would destabilize not just the party but also the country as a whole. Much will depend upon the President's ability to manage a gradual transition of power. The main dynamics that could lead to instability in Angola lie in the real capacity of the government to address the rampant poverty still experienced by the majority of Angolans, especially in the cities, exacerbated by an expanding gap between rich and poor. The government skilfully manages grievances with a mixture of threats and welfare handouts. These challenges will continue in the next legislative election year of 2012 and could impact the soundness of the government's political and economic decisions.

Social Context & Human Development

Building Human Resources

Despite steady progress in improving social conditions since 2002, the country still faces massive challenges in reducing poverty and increasing human development. Angola ranks 148th out of 187 countries in the Human Development Index. In line with the IMF SBA program, the government continues to allocate more than 30% of its budget to social spending. In 2012 budgeted social expenditure will increase by 1.6% to 33.3%, double what will be spent on defence, security and public order. Education and health budgets will be increased by 10%. After about 30 years of neglect during the civil war, education has seen heavy public investment. The government has also expanded vocational/technical education to address massive skill shortages.

The government has strong commitment to health sector investment, namely in infrastructure. However, it is still plagued by severe shortages of skilled human resources and widespread corruption, resulting in reduced access and poor services to the population. Currently, only 30% of the population has access to government health facilities. Recent data shows good progress over the last 10 years in several areas. Life expectancy at birth has been revised upwards to 52 from 46 in 2000; maternal mortality decreased from 880 to 610 deaths in 100 000 live births; under-five infant mortality rate decreased 21.2 to 16.1%; and prevalence of underweight children under 5 decreased from 37 to 27.5%.

Following the detection of 33 polio cases in 2010, after the disease had been declared eradicated in 2005, a strong program to re-eradicate it was put in place in 2011. Five polio cases were reported in 2011. Angola's fight against malaria has been predominantly focused on prevention with significant contributions from international NGOs such as USAID's President's Malaria Initiative (PMI). Malaria accounts for an estimated 11% of mortality in children under the age of five, 25% of maternal mortality, and represents the major cause of mortality, illness, and absence from work and school. With an estimated 2% of the adult population HIV positive, Angola has the lowest rate of HIV prevalence in southern Africa. This could be largely explained by the about 30-year war that constrained population mobility. However, there are risks that the economic boom will lead to an increase in the rate of prevalence. There is a National Strategy Plan on HIV/AIDS (2007-10), and a comprehensive HIV/AIDS law to protect the rights of people living with HIV/AIDS (PLWHA). Although centres in Angola's 18 provincial capitals provide antiretroviral therapy (ATR) only 24% of HIV infected people are currently receiving ART.

Poverty Reduction, Social Protection & Labour

Angola's society is one of the most unequal in the world, with a GINI coefficient of 0.586 in 2009. Economic growth is mostly concentrated in Luanda, which produces about 75% of the GDP and has a third of the population. The government is building social housing in Luanda to address the dire housing situation and to relocate families living in high-risk areas. However, this will have limited impact given that well over 1 million people are estimated to live in these areas. The 2008/09 socio-economic survey shows that 36.6% of the population is living on or below the poverty line of USD 2/day. This figure rises to 58.3% in the rural population, compared with 18.7% in urban areas. Other disparities between urban and rural populations include: (i) access to electricity (66.3 to 8.6%), (ii) regular access to water supply (59.7 to 22.8%), and (iii) sanitation (84.6 versus 31.1%).

The large share of oil in GDP growth has created limited employment opportunities in the country. Unemployment has remained high, averaging an estimated 26% since 2007. Many current jobs are in the informal economy, with no regulation or benefits. An ambitious law to support entrepreneurs of MSMEs came into effect in 2012 and is expected to incentivize new business creation and reduce unemployment to an estimated 20%.

As a result of the growing skill mismatch on the labour market, most of the skilled workers in Angola are "imported" from overseas. There are quotas for employment of Angolan citizens (with some enforcement exceptions in sectors like construction, which has a big share of Chinese unskilled labour). The labour contracts tend to be short term and most of the SMEs face difficulties in enforcing contracts. Overall, Angola ranks poorly in the 2012 DB Report at 178th on Employing Workers, the lowest in sub-Saharan Africa.

The government has put in place public policies to stimulate employment – inaugurating vocational training centres, many in the rural areas, liaising with the private sector for training and internship programs, and putting in place a First Job Strategy Act. Angola has also ratified all eight ILO core conventions. Together with the improvements in labour standards, the government introduced a social security and retirement protection scheme for wageworkers in the formal sector and a minimum wage, which are reviewed annually by a three-party committee (government, unions and employers). The government also recognizes the importance of civil society, with different network spaces for coordination and discussion of social issues and with social coordination committees organized both at regional and national levels.

Gender Equality

Gender inequality remains a key development challenge. According to WEF's Global Gender Gap Index, Angola ranked 106 in 2009. Women constitute 52% of the population and 24% of Angolan households are headed by women. The median age at which women have their first child is 18 and women have on average 2.7 children. An estimated 9.8% of Angolan men (12 years or older) live with more than one wife. Only 51.9% of women 15 years and older are literate (against a national average of 65.6%), but this is expected to improve as 75.4% of girls (6 to 11 years) are currently enrolled in primary school (the national average is 76.3%). Girls constitute 50.5% of enrolled students at primary school level and 50% at secondary school level. The recent quota system helped to increase the political representation of women by 30% for senior positions in government. Women now make up 44% of parliamentarians, the second highest in SADC after South Africa, but still only 1.2% of local government, SADC's lowest rate.

In spite of this progress, no national policy has been approved to mainstream gender in national policies, and there are still legislative provisions that discriminate against women, as well as legislative gaps in certain areas, including violence against women.

Thematic analysis: Promoting Youth Employment

The country has enjoyed high rates of economic growth since 2002. However, this growth has largely been driven by capital-intensive projects, specifically offshore oil extraction, which has created limited employment opportunities. Despite the recent emergence of growth in non-oil sub-sectors, namely agriculture, fishing, construction and banking, the economy has failed to generate sufficient employment. Between 2009 and 2011 approximately 600 000 jobs were created, primarily in agriculture (191 074), commerce (121 037), construction (90 337) and public service (92 218). Efforts to diversify the economy have also brought to the fore a severe lack of qualified workers.

Unemployment is high, averaging 26% since 2007, and many work in agriculture or in the informal economy. The country's population is growing fast, with19 million inhabitants up from 14 million ten years ago. An estimated 47.7% of the population is 14 years or younger. The country hasn't undergone a census in 40 years (a new census is going to take place in 2013) and employment data is practically non-existent or imprecise, especially given the weight of the informal economy. The Informal Economy Reconversion Program is expected to help clarify the definition of employment, improving the meaning of employment data. Youth employment figures are also not available.

The fragile state that emerged from 27 years of civil war has profound social handicaps. An entire generation was adversely affected, deprived of access to basic services (i.e. education, health) vital for social development and economic growth. Education has seen heavy public investment – reform of the curricular program, expansion of the duration of free mandatory primary education to 6 years, and large investment in infrastructure of the school network. However, more than 75% of teachers never received the necessary training and only 54% of students enrolled complete primary school. There is still a grave lack of secondary schools especially considering the boom in demand, with an average growth of 18.6% per year in the last ten years in number of students enrolled at this level. A program to address this need by building at least one secondary school per Province has now resumed.. The young population of Angola is eager to learn, motivated by seeing how the few in the previous generations who received a university education have been compensated with jobs and a better life, and surrounded by a visibly fast-growing job market that still relies on workers from overseas.

Tertiary education has also experienced exponential growth, with enrolment in higher education growing by more than 50% a year since 2002, to 140 000 in 2011. This was made possible by an increased number of courses offered by private institutions, the majority of which are not tailored to the job market needs. There has also a decline in the quality of education as a result of weak regulatory frameworks to oversee these institutions. With the deficient knowledge base brought forward from their secondary education, students who make it to the tertiary level are largely unable to proceed into technical fields like medicine, engineering, or other scientific or mathematical disciplines.

Indeed much unemployment is unskilled but there is now also a growing number of unemployed youth with diplomas that are not tailored to the needs of the country. In 2010 there were 107 000 students enrolled in colleges and universities around the country, a number that grew to 140 000 in 2011. The number of graduates in 2010 was approximately 6 000, up from 304 in 2003. Of this number, nearly 50% graduated with degrees in the Social Sciences.

To address the massive skills shortages government has also expanded vocational/technical education with the support of a Chinese credit line. Between 2006 and 2009, 34 new technical schools were built and equipped throughout the country. Enrolment in these schools has seen an average growth rate of 12.9% per year since 2001. In 2010 there were 197 000 students enrolled in vocational/technical courses. These courses and other programs aim to bridge the gap between labour supply and labour demand. Even though they are not limited to youth, the country's demographics naturally turn the majority of these programs into youth employment programs. State training centres and other employability programs are also available to anyone over the age of 14. One program specifically targeted at first job creation is the "Civil Construction Training Centre". This is a government partnership with several private companies in the construction sector, where construction companies train and hire students. This centre has been considered a success and is now being expanded with Japanese support to accommodate more students and further courses.

Entrepreneurship is also increasingly seen as a job creation route for youth. A training facility for the provision of training and support for entrepreneurs has been established in Luanda, with UNDP support. Program participants are provided with office space and equipment for six months, the initial setup period of their venture. Plans are underway to replicate this initiative in other provinces.

Notes

[1] In February 2010, Angola produced 1.953 million bpd, surpassing Nigeria's production and making it the continent's largest producer. However, technical problems crippled production capacity during the second half of 2011. This reduced the average production to 1.69 million bpd for the year.