ANGOLA

2014

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- **Angola's GDP grew 5.1% in 2013, below the target figure, but a new burst is expected from 2014.**
- **Despite good economic indicators, policies are needed to lift Angolans out of poverty.**
- **Investment is needed in skills and infrastructure to improve human development.**

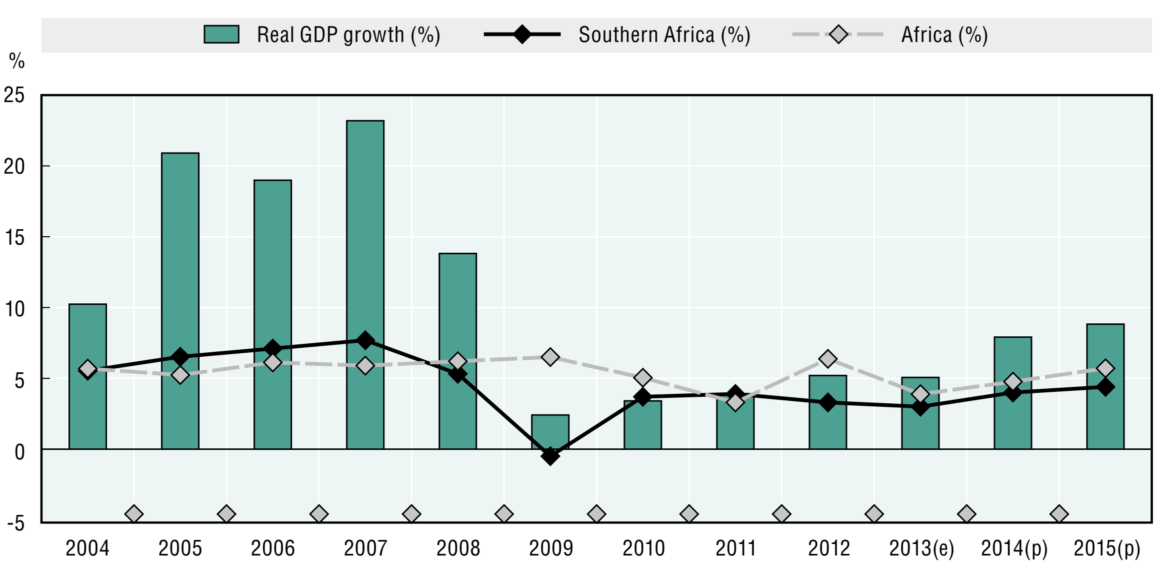
Overview

The economy of Africa's second biggest oil producer grew by 5.1% in 2013, below the hoped for 7.1%. Angola's extra gross domestic product (GDP) came mostly from the non-oil energy, agriculture, fisheries, manufacturing and construction sectors. Growth is projected to reach 7.9% in 2014 and 8.8% in 2015 as major public infrastructure investment kicks in.

Social indicators have not kept pace with the strong economy though. About 36% of the population lives below the poverty line and unemployment remains high at 26%. The government has taken steps to improve living conditions. Major investment is being made to expand access to electricity, water and transport. To boost business, financial sector policies are being modernised with the introduction of a new foreign exchange currency law for the oil sector and a mining law. Though the structural policies are positive, Angola needs to accelerate economic diversification and reduce the dependence on oil which accounts for about 46% of GDP, 80% of government revenues and 95% of Angola's exports.

Virtually all major inputs for the oil industry are imported. The country has to get a foothold in the global oil industry's value chain and broaden its participation into sectors such as liquefied natural gas, methanol and other high potential sectors. But poor roads, ports, airports and railway connections hinder efforts to reach foreign markets, and there is a poor power supply. Difficulties accessing finance and administrative barriers to free movement of goods and labour are also obstacles. The government has used the Petroleum Activity Law and local content decrees to advance national interests in the oil sector. This legal framework also serves to promote the creation of local skills through the "Angolanization" of human resources and boost the participation of local companies by giving preferential treatment to national firms in the supply of goods and services.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	5.2	5.1	7.9	8.8
Real GDP per capita growth	2.1	2.0	4.9	5.8
CPI inflation	10.3	9.3	8.3	7.8
Budget balance % GDP	8.7	2.4	-5.0	-6.9
Current account balance % GDP	9.9	5.7	4.3	4.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Angola's economic activity in 2013 was weakened by lower-than-expected oil spending and mismanagement of public debt. The 5.1% GDP growth was driven by robust non-oil activity, notably in energy (22% expansion), fisheries (10%), agriculture (9%), manufacturing (8%) and construction (8%).

Increased economic growth for 2014 and 2015 is based on the assumption that oil exports will reach USD 62.9 billion (US dollars) in 2014 and USD 67.4 billion in 2015. This will depend on an average oil price of USD 98 per barrel and strong foreign direct investment which is expected to reach USD 15.7 billion in 2014, up from USD 15.1 billion in 2012. Workers remittances are projected to stabilise at USD 529 million in 2014. However, external financing payments are expected to increase from USD 5.76 billion in 2013 to USD 10.4 billion in 2014 due to a large increase in foreign borrowing to finance capital expenditure.

The risky global economy and potential oil shocks are threats to the growth projections. The slow pace of economic diversification does not help bring down the unemployment rate of 26% while Angola has a Gini income inequality coefficient of 0.586, one of the highest in the region. These are all threats to social cohesion that highlight the need for socio-economic management policies that drive development and lift Angolans out of poverty.

Angola is racing to increase oil output and maintain its position as Africa's second largest producer. Production is expected to rise from 1.8 million barrels per day (bpd) in 2013 to 2 million bpd in 2016 with new fields, notably: British Petroleum's Plutão, Saturno, Venus, and Marte complex, Cobalt International Energy's deepwater exploratory wells and Chevron's development of the Mafumeira Sul project just off the Angolan coast. But there is a risk if the exploration is delayed or if economic growth in China and the United States is lower than expected. As diversification progresses, the non-oil sector is expected to boost economic growth by expanding 9.7% in 2014 against 4.5% for the oil sector. The state is also urging oil companies to strengthen links to the rest of the economy. The crucial oil industry employs just 1% of Angolan workers.

A mining law enacted in November 2012, which cut taxes on revenues to 25% from 35%, led to significant investment from companies including diamond producer De Beers and Sumitomo Corp, which is developing an ammonia and urea plant. National Institute of Statistics data shows that diamonds account for 1% of Angola's GDP and the country is Africa's number two producer in quantity, after Botswana. It is also the world's fourth largest producer of rough diamonds. The Kimberley Process Group estimated Angola's 2012 diamond production at USD 1.16 billion. In October 2013, the Australian Lucapa Diamond Company says that in January this year it unearthed a 95.45 carat-rock, a rare white diamond, from its Lulo concession in Angola's Norte province. The Russian bank VTB Africa is reported to be willing to finance new expansion of the Catoca diamond mine to the tune of USD 207 million.

High quality soil and good water supply makes farming a valuable industry for Angola. Agriculture accounts for 11% of GDP and 70% of total employment. In 2013, farm output grew 8.6% mostly through strong growth in cereal production. Angola was once the world's fourth biggest coffee producer, but agriculture in general is held back by limited competition and processing facilities and a lack of co-operation among small farmers. According to the National Cereals Institute, Angola requires 4.5 million tonnes a year of grain but only grows about 55% of the corn it needs, 20% of the rice and just 5% of its required wheat. The government spends approximately USD 2 billion a year on agriculture with about 75% of the resources borrowed from China's Export-Import Bank. Brazil, Spain and Israel are also funding farm projects.

Manufacturing's annual growth which rose from 6.5% in 2012 to 8% in 2013 was driven by wood, cement, and electric materials production. There is a plan for a new cement plant at Lobito, with a production capacity of 500 000 tonnes a year of clinker and about 650 000 tonnes a year of cement. Investment of USD 900 million is planned at the Cassinga iron ore mine, USD 400 million for manganese projects while there will be the development of 400 000 tonnes of fertiliser production. In 2013, Japanese company Marubeni Corp announced a USD 1 billion investment to revamp three fabric plants that will employ 2 700 people. The plants are expected to start output in 2015.

Angola has used its oil windfall to promote the rapid development of other sectors, including services which currently account for 21.7% of GDP. The sector is still in its early development and in 2013 grew by 5.4% against 10% in 2012. The emerging middle class is the main growth engine. From 2011 to 2013, about USD 4.1 billion of foreign investment went into real estate, with Brazilian and Chinese companies leading the construction of new towns. The National Agency for Private Investment (ANIP) said that several multinational firms – with interests from retail to hotels – plan to establish a USD 2.5 billion commercial development project in Luanda Bay.

Table 2. **GDP by sector (percentage)**

	2008	2012
Agriculture, hunting, forestry, fishing	6.8	10.2
of which fishing		
Mining	59.0	47.0
of which oil	57.9	46.0
Manufacturing	5.0	6.6
Electricity, gas and water		
Construction	5.2	7.8
Wholesale and retail trade, hotels and restaurants	14.2	16.0
of which hotels and restaurants		
Transport, storage and communication	3.7	4.3
Finance, real estate and business services		
Public administration, education, health and social work, community, social and personal services	6.1	8.1
Other services		
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The expansionary fiscal policy pursued in 2013 aimed to promote growth, employment and macroeconomic stability. Despite a reduction in international oil prices, the state budget had a surplus worth 0.3% of GDP in 2013. Expenditure execution of 92% was satisfactory, but absorption capacity remains weak, mainly in capital expenditure, due to delays in external funding, contracting and implementation constraints. Medium-term, fiscal policy will remain expansionary with capital expenditure increasing by 38%, according to finance ministry projections for the 2014 state budget. This will lead to an overall fiscal balance deficit of 5% of GDP in 2014. Debt indicators remain sustainable with external debt averaging 20.4% of nominal GDP in 2013 up from 19.5% in 2012. Domestic debt remained stable at 9.5% of nominal GDP in 2013. The government also paid arrears in the construction sector and related to the 2010 and 2011 fiscal years. Consistent with the fiscal expansion, the public sector wage bill increased from 23% of public receipts in 2012 to 27% in 2013.

Public investment financed from domestic resources as a percentage of fiscal revenues also increased from 15% in 2012 to 20% in 2013 owing to expanded investment in hydroelectric power, telecommunications, and large-scale agricultural projects. Fiscal receipts as a percentage of GDP declined as a result of volatile oil prices and slow growth in oil revenues. The government plans to reduce dependence on oil taxes from 81% of total revenues in 2012 to less than 70% in 2014 and increase non-oil tax revenues from 6.6% of GDP in 2012 to 9.6% of GDP in 2014, as economic diversification progresses.

The 2014 budget uses a benchmark oil price of USD 98 per barrel which is close to the International Monetary Fund's World Economic Outlook projection. This leaves no room for downside risks. Nonetheless, the government is responding to global economic uncertainties by accumulating significant international reserves. In the medium term, public spending prioritises investment in education (6%) and health (4%), infrastructure rehabilitation and stimulus to agriculture production (19.5%). The government aims to strengthen social assistance interventions.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**44.1**	**43.5**	**48.8**	**45.8**	**42.5**	**38.4**	**36.2**
Tax revenue	6.7	6.6	6.1	5.6	5.7	5.9	6.0
Oil revenue	36.0	34.2	40.2	38.5	35.0	30.8	28.5
Total expenditure and net lending (a)	**34.9**	**37.9**	**38.6**	**37.1**	**40.1**	**43.4**	**43.1**
Current expenditure	29.5	28.2	29.9	25.8	28.0	30.5	30.3
Excluding interest	27.3	27.1	29.0	24.9	26.5	29.6	29.6
Wages and salaries	10.0	9.4	9.0	8.5	8.4	8.1	7.7
Interest	2.2	1.2	1.0	1.0	1.5	0.8	0.7
Capital expenditure	5.5	9.7	8.6	11.2	12.1	13	12.8
Primary balance	**11.4**	**6.7**	**11.2**	**9.7**	**3.9**	**-4.2**	**-6.2**
Overall balance	**9.2**	**5.6**	**10.2**	**8.7**	**2.4**	**-5.0**	**-6.9**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Angola's monetary policy focused in 2013 on ensuring inflation and exchange rate stabilisation and resilience to external shocks. The National Bank of Angola (BNA) cut its main interest rate by 25 basis points three times in the year. It ended 2013 with a policy rate of 9.25%. Favourable monetary policy trends led to an annual expansion of credit-to-the-economy which averaged 21.13% on an annual basis, though this was down from the 2012 level of 30%. Most of the credit growth went on commercial activities. Consumer price inflation fell from 9% in 2012 to 7.7% at the end of 2013, the lowest figure in two decades. Inflation remains high and is mostly driven by consumer goods and logistical services. In the short-term inflation will remain within the BNA target of 7-9%.

Angola's currency, the Kwanza (AOA) remained stable, supported by the accumulation of foreign reserves. It depreciated by 1.5% against the USD, closing the year at USD 1 to AOA 97.6. The rate spread between the informal and formal exchange markets widened in late 2012 and early 2013 to nearly 10% because of anxieties over a new foreign exchange law and excess liquidity, but have since narrowed to 4%, due to a policy discouraging use of the US dollar – de-dollarisation – enforced in July 2013. Market interest rates have decreased significantly. The 181 day-to-1 year maturity lending interest rate fell from 14.5% in 2012 to less than 13% by December 2013. Nonetheless, the average spread between lending and deposit rates remains high at 8.4%.

The central bank will keep the focus on inflation in its monetary policy in 2014 to reduce uncertainty and contribute to a more effective financial system. Consolidation of monetary policy management and the de-dollarisation of the foreign exchange market, through the implementation of a new oil foreign exchange law, is expected to be deepened in 2014 with new measures to tighten foreign exchange exposure and credit limits, and to streamline and tighten import regulations. Full legislation on de-dollarisation is expected to be adopted.

Economic co-operation, regional integration and trade

Angola has improved economic co-operation with other Southern African Development Community (SADC) members and made efforts to negotiate an economic partnership agreement with the European Union. Angola is also eligible for trade preferences under the US Africa Growth and Opportunity Act. Investment is being made in air, sea, rail and road links to boost integration in SADC and Central African markets. Despite these efforts, free movement of people and goods remains constrained and clearing imports through Angolan ports and customs is slow.

Both the current account and trade balances deteriorated during 2013 due to lower-than-expected oil revenue growth. This has highlighted the lack of export diversification. Angola is China's top African supplier of crude oil. China buys 44% of Angola's total oil exports and bilateral trade between the two countries exceeded USD 120 billion in 2010. The country's imports are predominantly machinery and metal equipment, vehicles and transport materials, and food. In the medium term, the current account surplus is expected to be significantly affected by a projected decline in oil prices. Net international reserves are projected to close the year at a record high of USD 35.6 billion, equivalent to eight months of imports. In addition, foreign investment inflows will further increase to USD 15.7 billion in 2014, mainly channeled to the oil industry, real estate, construction, hotels and tourism. OECD Development Assistance Committee data indicates that net official development assistance declined from USD 300 million in 2002 to USD 200 million in 2011. Short-term capital transfers also declined from USD 11.5 million in 2008 to less than USD 2.3 million in 2012.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	55.8	40.1	45.2	44.4	39.1	32.8	30.2
Exports of goods (f.o.b.)	85.4	60.4	64.6	63.0	57.6	51.2	47.5
Imports of goods (f.o.b.)	29.6	20.2	19.4	18.6	18.5	18.4	17.3
Services	-23.4	-21.7	-22.0	-22.4	-22.8	-20.5	-18.1
Factor income	-14.3	-9.8	-9.3	-10.9	-8.9	-7.7	-7.8
Current transfers	0.1	-0.5	-1.3	-1.3	-1.8	-0.3	-0.3
Current account balance	**18.2**	**8.1**	**12.6**	**9.9**	**5.7**	**4.3**	**4.0**

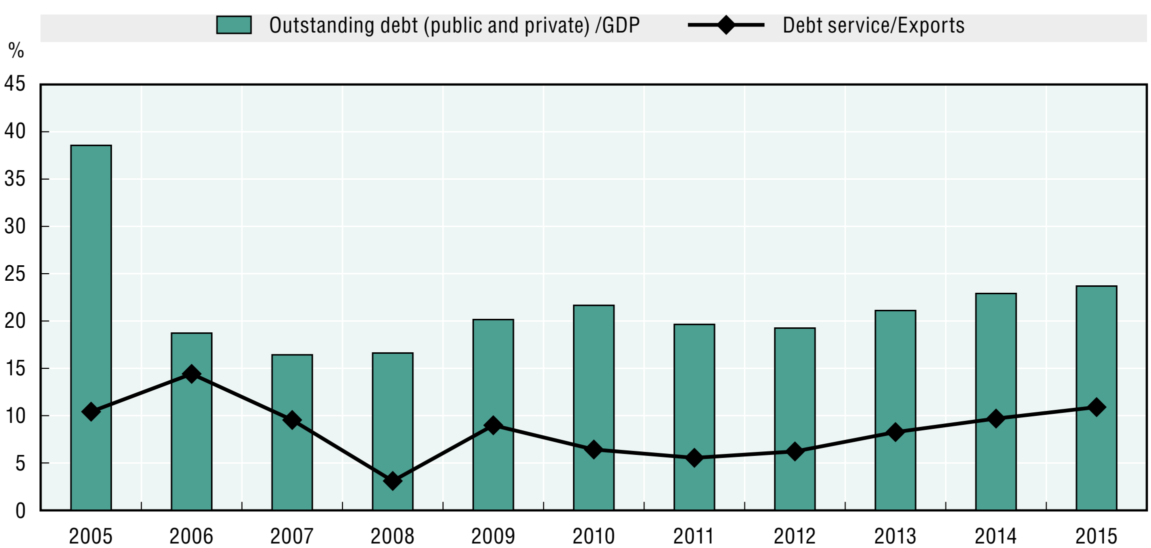
Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Angola's external debt and public debt (covering general government and major state owned enterprises) appear sustainable. The IMF classifies Angola as a moderate risk for debt distress but the external (21.1% of GDP) and domestic debt (10% of GDP) levels are vulnerable to oil price and growth shocks. Most of Angola's external debt is owed to commercial banks (13% of GDP), official creditors, including the IMF (7.1% of GDP) and other private sector entities (0.4% of GDP). In 2013, the government borrowed an estimated USD 5.7 billion for large infrastructure projects. This was raised through 20-year treasury bills and traditional lines of credit for exports and public investment programs. In 2014, foreign borrowing is expected to increase to USD 10.4 billion, mainly through credit lines for capital expenditure financing. Therefore, Angola's total public debt ratio is projected to increase from 31% of GDP in 2012 to 32.9% in 2014.

The government has sought to ensure that terms for new borrowing are sustainable in the long-term. According to a 2012 IMF report, the finance ministry's debt management unit has clear channels of communication and independent access to economic ministries. The unit is co-ordinating the preparation of a medium-term debt strategy to be integrated in the budget to make sure macroeconomic policies are in line with the 2001 IMF Government Finance Statistics Manual. It has also co-ordinated the country's debt management framework, including the settlement of 2010 and 2011 external arrears, with the central bank's external debt unit. Management of state liabilities has been improved by ensuring a better distribution of the maturity periods for domestic debt. With these developments, ratings agency Fitch in 2013 maintained its Angolan country debt rating at BB- with a positive long-term outlook for local and foreign currency ratings. Standard and Poor's affirmed the rating for Angolan foreign and local currency credit ratings at BB-/B.

Figure 2. **Stock of external debt and debt service**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Angola's business environment has not kept pace with international developments. The country ranked 179th out of 189 in the World Bank's 2014 *Doing Business* report. Angola also placed 178th on the ease of starting a business, below most regional competitors. According to the *Doing Business* report, it takes 66 days and 8 procedures to start a business in Angola at an average cost of 105% of income per capita. It also takes 12 procedures and 204 days to get a construction permit. Other factors affecting the business environment include a poorly educated work-force, bureaucracy, access to financing and the inadequate infrastructure.

The government carried out some major reforms on regulations impacting business operations in 2013, including: i) the introduction of a 10% consumption tax levy on oil companies;

ii) a presidential decree to reduce and eliminate the custom tax burden on imported goods used as main inputs for national production, including some food products; *iii)* the approval of laws to regulate stock and debt market operations.

In the medium term, significant changes to the 2000 Labour Law are expected to cover minimum wage requirements, the social security system and determining employees' contributions and benefits.

The government has made significant investment in Angola's infrastructure and business environment. Energy reforms are expected to cost USD 13 billion by 2025. Work to link three major national railways (Benguela, Moçâmedes and Luanda) is underway. Plans are being prepared for a deep sea port north of the capital Luanda and for a Bus-Rapid Transit (BRT) in the Luanda region. The national airline, TAAG Angola Airlines, and the Civil Aviation Authority are among state entities being restructured.

Financial sector

Angola's financial sector is highly concentrated. The top five banks account for 77% of total assets. Banking coverage expanded from 22% in 2010 to 51% of the country's area in 2012 though it is still concentrated in Luanda. The percentage of adults with access to formal banking services increased from 13.5% in 2011 to 22% in 2012 as the bank network expanded and publicity campaigns had an effect.

The banking system's capital adequacy ratio remained strong at 18.3% in 2013, well above the 10% minimum requirement. Nonetheless, the IMF's 2012 Financial Stability Assessment Programme highlighted significant weaknesses, notably constraints in banking supervision, the existence of structural and operational risks, inadequate bank corporate governance, high dollarisation, and liquidity shifts linked to large oil sector transactions. Non-performing loans rose sharply from 2.5% in 2012 to 6.7% in 2013. According to the central bank, this reflects classification errors by domestic banks as well as problematic loans.

Angola has fully implemented six of the Basel Core Principles on banking supervision and partially implemented 16 others. It is not compliant to three principles on maintaining a specific capital ratio, governance principles and principles dealing with cross-border issues.

In 2009, there were three pension fund management companies operating and 19 pension funds (13 closed and 6 open) in Angola. In 2010, Angolan pension funds saw a turnover of USD 320 million, with annual contributions of USD 42 million. Since then, the system has witnessed rapid growth because of the introduction of a compulsory pension contribution regime. Although the liberalisation of the market for private pension funds has created some dynamism, the penetration rate of pension funds and microfinance institutions is still less than 1% of GDP.

Public sector management, institutions and reform

Until 2010, the finance ministry, planning ministry and central bank were the main institutions designing and implementing economic policies. Despite international efforts to boost capacity, these bodies remain short of professional staff able to collect data and formulate economic policy. As a result, Angola's ministries have historically had limited steering capacity and have been very cautious about implementing policy.

Inadequate public sector salaries have traditionally impacted the performance of civil servants but wages and standards have improved and state institutions are more efficient.

A 2007 law introduced local Consultative Social Councils (CACS) across the country which have enabled a participatory decision-making process. These include the creation of budget units at local level. Political parties with a seat in parliament and other associations can take part in the councils. The 2010 constitution further establishes a gradual introduction of municipal elections.

The long awaited first local elections will be a milestone in furthering decentralisation and local government. It is expected that the 2014 General Census will also strengthen resource allocation at local level.

The weak enforcement of intellectual property rights has discouraged investment in innovative or proprietary technology. Although Angolan law provides basic protection, the National Assembly is working to strengthen existing legislation and state capacity. Despite these efforts, Angola scores a low 2.4 on the World Economic Forum's Intellectual Property Protection Index which has a sliding scale of 1 to 7. In comparison Brazil and South Africa score 3.5 and 5.5 respectively.

Natural resource management and environment

In Angola, protection of the environment and natural resources is constitutionally recognised as a duty of the state, which is responsible for formulating environmental strategies, policies and laws as well as engaging in international and national programmes to protect the environment and promote sustainable use of natural resources. A 1998 Environmental Framework Law lays down guiding principles for the prevention and combat of pollution, and standards to protect the environment. The 2013 state budget allocated 2.1% of fiscal receipts for environmental protection, including research and environmental biodiversity management. Over the last decade, Angola has developed comprehensive environmental legislation regarding water resources, petroleum, mining, and land management, and has increased engagement with regional and international partners. The African Development Bank is supporting the government in biodiversity management through the establishment of pilot centres. The government also signed, in February 2013, a joint biodiversity management initiative with the United Nations Development Programme (UNDP).

Angola's ecological system is fragile and vulnerable to climate change. Key challenges include soil degradation, deforestation, air pollution and loss of biodiversity. All these have important implications for sustainable livelihoods. According to the United Nations' 2013 Millennium Development Goals (MDGs) report, the country is unlikely to achieve the goal on environmental sustainability. And Angola is yet to join the Extractive Industries Transparency Initiative (EITI), a move that would contribute to greater transparency and accountability in the management of natural resources.

Political context

A 2012 legislative election contributed to the consolidation of democracy in Angola. The verdict of the National Elections Commission was challenged by three opposition parties but their complaints were dismissed by the Constitutional Court due to lack of evidence. The elections were ruled free and fair by observers from the African Union (AU) and SADC. Since the approval of a new constitution in 2010, a number of measures have been taken to increase parliament's efficiency, including setting up a research service to analyse the legislative processes.

Political violence is not a substantial risk to Angola's economy, but the authorities have often given a tough response to civil demonstrations. Angola's national security has improved significantly however and Angola's rating on the safety and rule of law indicator on the Ibrahim Index of African Governance improved by 8.7 percentage points between 2007 and 2013. Overall, Angola is one of the most improved countries on the index with its rating rising 18.5 percentage points since the index was launched in 2000. In September 2013, Angola ratified the UN Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty. The country also ratified the protocol on the elimination of all forms of racial discrimination, against torture and other forms of cruel treatment and degrading punishment as well as the protocols relating to the convention on economic, social and cultural rights.

Social context and human development

Building human resources

Angola has made substantial progress towards many of the millennium goals, but challenges remain, especially turning economic growth into jobs, better services and poverty alleviation. The country is not expected to reach the target on universal primary education as the net enrolment rate and completion rate are at 85% and 46% respectively. This slow progress can be linked to the low share of the education budget devoted to primary schools (about 29%) which falls below both the regional average of 46% and the 50% defined to achieve the education for all initiative set up by the UN Educational and Cultural Organisation (UNESCO). Angola's secondary enrolment is also low at 32%. Gender parity in education is relatively high with a 0.81 ratio of girls to boys but remains below the sub-Saharan average of 0.91. There are efforts to improve educational infrastructure with 50 new high schools built and 18 660 teachers recruited in 2013. More than 240 000 teachers have entered the education system over the past four years.

The country is on-track to achieve the MDG on cutting infant mortality with the rate reduced from 111.8 in 2000 to under 96.8 per thousand live births in 2012. Angola is also on-track to achieve the maternal mortality goal as the ratio has been cut from 890 in 2000 to less than 450 per 100 000 live births in 2012. Despite the relatively low HIV prevalence rate (2.1% in 2012), Angola will not meet the goal on combating HIV/AIDS, tuberculosis, malaria and other diseases. Malaria still accounts for more than a quarter of deaths in Angola each year. Tuberculosis has increased from 270 in 2000 to 310 per 100 000 people in 2012.

Health sector reforms are being carried out to cut HIV/AIDS, malaria and tuberculosis infections. Angola recently completed Phase II of a five-year, USD 38 million malaria grant from the Global Fund to Fight AIDS, Tuberculosis and Malaria and has started the implementation of a new five-year USD 78 million grant. Under a joint programme between the Angolan government and the UN Children's Fund (UNICEF), the World Health Organisation and the Food and Agriculture Organisation started in June 2013, more than 27 inpatient facilities and 307 outpatient treatment centres were opened in 10 provinces and have screened more than 248 000 children.

Poverty reduction, social protection and labour

In the decade after the end of Angola's civil war, from 1975 to 2002, growth averaged more than 11% per year and progress was made on a variety of fronts – yet Angola still ranks 148th out of 187 countries in the 2013 UNDP Human Development Index. According to the 2013 edition of the Integrated Household Survey and Population Well-Being Report, national poverty has been reduced from 68% in 2001 to 37% of the population. Poverty incidence is three times higher in rural areas (58%) than in urban areas (19%) however. The poor are less likely to have access to adequate housing. Only 30% of the poor – against 51% of non-poor – have access to clean drinking water and there are similar figures for proper sanitation (40% and 72%, respectively) and electricity (14% and 57%, respectively). Only 5% of the poor have access to all three of these three key infrastructure services, while for the non-poor the proportion rises to 32%.

The country lacks a comprehensive social safety network but the government attaches importance to developing social systems to shield vulnerable social groups against poverty. The 2013 budget allocated 11.1% of fiscal receipts to social protection programmes.

Public funding for subsidies stood at USD 7.2 billion in 2013, of which USD 5 billion went on energy subsidies. Given the strong economic growth, there appears to be the conditions for a more ambitious social assistance agenda, including scaling up social transfer programmes to tackle poverty. Despite increased resources, social protection in Angola is fragmented, uncoordinated, poorly implemented with ineffective targeting and efficiency. According to a 2013 UNICEF assessment, it is estimated that the richest 50% of Angolan households receive 70% of government social assistance benefits. Moreover, the reported number of beneficiaries covered by social safety nets remains limited. Reported data indicates that in 2012, about 100 000 people were covered by food basket programs. The system also covered 100 000 victims of calamities, 36 000 children affected by HIV/AIDS, 41 720 people who received transport for the disabled, 10 000 micro-cooperatives and 6 000 refugees that have been integrated into the society.

The government has established an institutional framework for entrepreneurship development and job creation through the Ministry of Employment and Social Security. The ministry's data indicates that professional training capacity has increased significantly and now stands at 159 000 trainees in more than 460 centres. In 2013, the vocational training programme generated 110 000 new jobs, notably in the energy (39 000), transport (29 000), and construction (24 000) sectors. The government currently allocates one-third of the budget to social areas to reduce poverty and reach the most vulnerable people.

Gender equality

According to the 2013 MDG report, Angola is on-track to achieve the gender equality and women's empowerment goal. The proportion of women in parliament has more than doubled from 16% in 2000 to 38% in 2012. However, challenges persist with the prevailing inequality in female-male participation in the labour force. According to the World Bank's World Development Indicators, 64.1% of women aged between 15 and 64 participated in the labour force compared to 78% of men. The share of women employees is comparatively high in the public sector and banking system, in some instances well above 50%, but women are practically absent in other domains. Domestic violence, which was considered pervasive, particularly in urban areas, is now a crime and punished by law. Angola has ratified the Convention of the Elimination of All Forms of Discrimination against Women (CEDAW) as well as the African Charter on Women's Rights and SADC Protocol. A National Gender Policy drawn up by the Ministry of Family and Promotion of Women was approved in late 2013 by presidential decree.

Thematic analysis: Global value chains and industrialisation in Africa

Before independence in 1975, Angola possessed a diversified economy with strong agricultural and manufacturing bases. The civil war caused major upheavals and the economy became mostly dependent on oil, diamonds and other minerals. Angola's involvement in the global oil value chain has been limited with only underwater umbilicals, risers and flowlines made locally. Other key activities performed at local level include systems, equipment, pipes and valves installation, construction and services and drilling services. The oilfield service sector injected USD 51 billion into the economy from 2004 until 2010. However, only about 1% of Angolan workers are in the oil industry. Moreover, most activities in the oilfield value chain are global. Currently, Angola produces 1.8 million barrels of crude a day and refines about 39 000 barrels per day against total domestic demand for 85 000 barrels each day. The country exports 90% of its oil production, primarily to China (44%) and the United States of America (25%) according to petroleum ministry sources.

Despite the fact that all material inputs are imported, there are opportunities for Angola to enhance its position in the global value chain and broaden its participation into sectors such as liquefied natural gas, methanol, power gas transmission and gas-to-liquids. Investment in these industries could generate jobs and promote the emergence of higher value-added activities. According to a 2013 African Development Bank study, Angola is more likely to integrate into the oil and gas value chain and play a catalytic role at regional level by: *i)* major investment in liquefied natural gas; *ii)* adopting a phased approach to developing oil and gas downstream industries, starting with high impact projects to demonstrate Angola's viability; *iii)* additional investment in fertilisers, methanol and gas-to-liquid downstream industries; *iv)* improving the regulatory framework by ensuring stable transparent regulations, encourage transparency and address capital gain taxes.

The major obstacles to developing these industries are the inadequate transport infrastructure, difficulties in access to international infrastructure (roads, ports, airports and railways connecting to foreign markets), inadequate and unreliable power supply, difficulties in access to finance, volatile trade flows resulting from fluctuating global commodity prices and strategy changes by multinational enterprises. Also the business environment is not yet conducive to regional integration due to administrative barriers to free movement of goods and labour. Weak capacity in local manufacturing and a lack of specialised oil industry skills limit the development of links between oil service activities and the rest of the economy.

Because of the barriers to entering the oil and gas global value chain, the government has introduced legislation to unleash oil and gas downstream transformation industries, create jobs and ultimately contribute to poverty alleviation efforts. The Petroleum Activity Law assigns the sole ownership of Angola's hydrocarbon resources and mining rights to the Angolan state. Under the law, Sonangol, the state oil company, is the concessionaire of Angola's oil industry and sole owner of mining rights. Other entities may access Angolan hydrocarbon resources only in partnership with Sonangol and through concession and production sharing agreements. The government has also used the Petroleum Activity Law and local content decrees to promote the creation of local skills through the "Angolanization" of human resources. They also aim to increase the participation of local firms in global markets by giving preferential treatment to national firms in the supply of goods and services.

To stimulate a greater local input, the Angolan government could consider policy measures such as:

- Balance support given to different sectors. The government could give the same fiscal and financial incentives to all local firms involved in different parts of the oil industry and prioritise the setting up of research and development activities alongside the promotion of national enterprises, which is the main focus of current policy. The government could pick 'champion' local manufacturing firms to enter the supply industry and encourage the development of knowledge networks between suppliers and manufacturers and clients.
- Invest more in training at higher technical level in the general education and training system and at petroleum institutes to fill capacity gaps at this level.
- The petroleum ministry and Sonangol (the regulators of the oil sector) should work more closely on policy with the industry and economy ministries which are leading Angola's industrialisation and diversification agendas.
- Clear policy implementation mechanisms to enable policy efficiency and stamp out potential channels of corruption.