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Country Economic Report 2004:5

Angola: Reaping the benefits of peace?

Foreword

This study on Angola is part of a series of annual studies, undertaken by various Swedish universities and academic research institutes in collaboration with Sida. The main purpose of these studies is to enhance our knowledge and understanding of current economic development processes and challenges in Sweden's main partner countries for development co-operation. It is also hoped that they will have a broader academic interest and that the collaboration will serve to strengthen the Swedish academic resource base in the field of development economics.

This report has been prepared by Renato Aguilar at the Department of Economics at the Gothenburg University.

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Content

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1. Introduction

During most of the nineties, namely from 1991 until 2000, the Department of Economics of Gothenburg University prepared yearly macroeconomic reports on Angola for Sida. These reports, besides a general macroeconomic survey, often discussed other items deemed to be interesting for Sida's operation in Angola. After the 2000 report thess series were interrupted for several reasons. Sida's operations in Angola were then strongly reduced and changed focused towards humanitarian issues. Also Sida reorganized its whole effort of macroeconomic reporting. Now, in 2003, theseseries of macroeconomic reports on Angola have resumed with this one covering the 2000–2003 period. This report was written by Renato Aguilar after a two week visit to Luanda from October 21 until November 4, 2003.

The period covered by the present report includes several important events but it is clearly dominated by what seems to be the beginning of an enduring and sustainable peace process. There are still unsolved military and political problems, and several sources of possible future trouble and instability can be identified. However, large scale military activity is unlikely to recommence and we can expect a gradual consolidation of peace within the foreseeable future. Thus, war and the military problems become background issues, while social and economic problems come to the foreground. The death of Jonas Savimbi, leader for the National Union for the Total Independence of Angola (UNITA), on February 2002, seems to dominate the process of peace. However, we should not forget that when government troops killed Mr. Savimbi, the military and political situation, including the international setup, had already changed significantly in favor of the Movement for the Liberation of the People of Angola (MPLA) and the government. At the time, Mr. Savimbi was fighting a desperate guerilla war back at the bushes.

Several other positive events during the period can be mentioned. Most prominently, the country benefited from a long period of high oil prices. It is difficult to say how long these prices can hold, but they have already contributed to easing the fiscal situation and the stress of the balance of payments. Also a relatively liberalized foreign exchange market has evolved since the liberalization of the exchange rate in 1999. Additional reforms eliminating the red tape faced by commercial activities contributed as well to increasing competitiveness in the domestic markets. The oil industry is under an evaluation by an independent consulting firm. The Central Bank has been audited and its accounts have improved noticeably. There has also been some progress in the improvement of budgetary procedures and collection of fiscal data. In addition, there has been some progress in the relationship with the International Financial Institutions (IFIs), and the country was able to start two Staff Monitored Programs (SMP) with the International Monetary Fund (IMF). There seems to be a somewhat interesting productive response from the domestic economy to the new post-war situation. This is especially true for agriculture, albeit it is starting at an exceedingly low level.

On the negative side, we must note that vital reforms have been delayed or simply dismissed. The government has been unable to fulfill a SMP with a reasonable performance track, which could open the way to a financed program. This is a serious setback, especially since an agreement on a financed program with the IMF would provide important support for negotiations aimed at rescheduling the external debt and alleviating the present tensions in the balance of payments. However, the two failed SMPs during this period contributed to focusing the attention on one of the most crucial problems of Angola's economic policy: the lack of transparency of both the fiscal and external accounts. Moreover, the government recognized its inability (or unwillingness) to cope with the levels of discipline and transparency implied in a program with the IMF.

The end of the war has opened new roads for Angolan politics. Elections have again found a prominent place in the agenda. The government and the MPLA are trying to delay the elections, or even to move them to 2005 and UNITA, the main party in the opposition seems to agree. Both parties, and especially the latter, need more time to adjust themselves to the new political situation. The government claims it lacks time and resources for organizing a proper and fair election. Voters must be registered and a new electoral roll must be prepared. Security and freedom of movements must be improved in the countryside before a fair election can be held. It is worth noting that besides the MPLA and UNITA, no other political parties have emerged as serious challengers able to capture a significant share of the votes. Not even the National Front of Liberation (FNL) has yet been able to revive in spite of its heavy Bakongo ethnic contents.

Once again we must issue a warning about the quality and availability of statistical data in Angola. Certainly, more statistical data are being published today and several ministries and the Central Bank publish information on their internet sites. However, the tables are seldom updated. Moreover, we often find arithmetic discrepancies in published data affecting reliability and important pieces of statistical data are absent. For example, there are no reliable estimations of the GDP from the demand side which is crucial information needed for analyzing the basic macroeconomic disequilibria. Furthermore, the national accounts, the balance of payments, and the budget data are not compatible. However, the discussions held during the 2000–2002 period in connection with the two failed SMPs led to extensive statistical work by the IMF's missions. This work identified serious discrepancies in the fiscal and the external accounts. Thus, in most areas we now have two series of estimates: the official estimates by the government and the data produced by the IMF. Due to this situation we must issue a warning, that sometimes we present some tables that are not entirely coherent with each other. Though, we have tried to keep the internal coherence in each table.

The case of Angola is interesting as it provides examples of a number of issues that have become important in the current debate on international compared economics. First of all, Angola is a case of post-conflict development. This problem has been discussed for other African countries, as well as for Central American countries. A useful reference in this field of research is Addison (2003). Secondly, Angola is also an example of a poor country richly endowed with natural resources, especially oil. Quite often, this combination of a poor underdeveloped country and a large endowment of natural resources has lead to more poverty, social and political instability, and even armed conflicts. Recently, a very small African country, São Tomé and Príncipe, found large oil reserves. Many analysts wonder about the fate of this small country, which is already showing symptoms of political instability.[1]

The outline for this study is the following; Section 2 contains a macroeconomic survey in which the main macroeconomic results during the period covered by this study are being discussed. Section 3 presents the main events of economic policy covering the same time period. Section 4 focuses on the main consequences of peace, with special emphasis on investments and growth. The report ends with a section on conclusions.

Many people helped us in the preparation of this report and it is impossible to thank all of them. However, we shall mention the invaluable help of Mr. Lars Olov Jansson, desk officer for Angola at Sida's headquarters, Ms. Harriet Pedersen at the Swedish Embassy in Luanda, Mr. Eleuterio Freire from the Ministry of Planning, and Ms. Maddalena Ramalho from the Ministry of Finance.

[1] For further reference see Kyle (2002).

2. Macroeconomic Survey

This section presents a basic macroeconomic survey discussing the main results observed during the last few years. First, growth, considering the differentiated behavior of the mining sector and the domestic part of the economy, is being discussed. Second, prices and inflation is presented and the section continues with a presentation of the balance of payments and other indicators of the external sector. Monetary statistics as well as the fiscal accounts are also studied. The section ends with a discussion on the external accounts. Thus, we have the main elements for discussing macroeconomic stability, perspectives of growth and the possible grounds for a successful poverty reduction strategy.

2.1. Growth

Angola's National Account statistics are not reliable. Methodologies are adequate and the *Instituto Nacional de Estatísticas* (INE) does a reasonable job compiling the data. However, the realities of war, an economy torn down by macroeconomic instability, and a weakly developed statistical system conspire for a poor result. The following table presents annual growth rates for the total GDP, the mining sector, and the domestic economy for the last decade. The mining sector includes the oil and the diamond sectors. Domestic economy collects the results of all non-mining activities, principally not including exports.

Table 2.1. Growth, 1993–2002

Year	GDP	Mining	Domestic
1993	-24.7	-13.2	-31.9
1994	2.5	10.6	-3.9
1995	10.5	12.0	9.1
1996	12.8	13.0	12.5
1997	6.2	5.0	7.4
1998	5.5	8.1	3.1
1999	2.7	4.7	0.7
2000	3.6	1.9	5.3
2001	5.3	1.8	8.7
2002	15.5	22.0	9.5
Average	3.4	6.2	1.2

Source: Own elaboration with data from BNA, INE, and MINFIN.

War started again in 1993 with catastrophic consequences for the economy. About half of the GDP of the agricultural sector was lost. Growth resumed the following year and the GDP continued to grow throughout the entire period, mostly because of a steady growth of the mining sector (oil and diamonds), while growth in the domestic economy was more sluggish. The GDP grew during this decade at an average annual rate of 3.4 percent, comparable to the population growth of 3.1 percent, and the domestic economy grew on average by 1.2 percent annually, albeit starting from a very low level. Thus, the domestic part of the economy, which should generate the bulk of the employment needed to reduce poverty, only recently recovered the size it had in 1992, on the eve of the last outbreak of war. Nevertheless, the mining sector, which has rather poor backwards of forward linkages to the domestic economy, grew at a healthy annual average of 6.2 percent. Thus, we can assume that in spite of a growing GDP, national incomecould actually be decreasing.[2] This issue could be easily solved if we would have had a compatible set of National Accounts estimated from the demand perspective. The lack of such a statistics is a serious obstacle for a valid analysis of the basic macroeconomic disequilibria of the Angolan economy.

[2] GDP and national income differ in that the latter excludes factor payments abroad. That is, GDP growth could be benefiting mostly oil companies and expatriate oil workers.

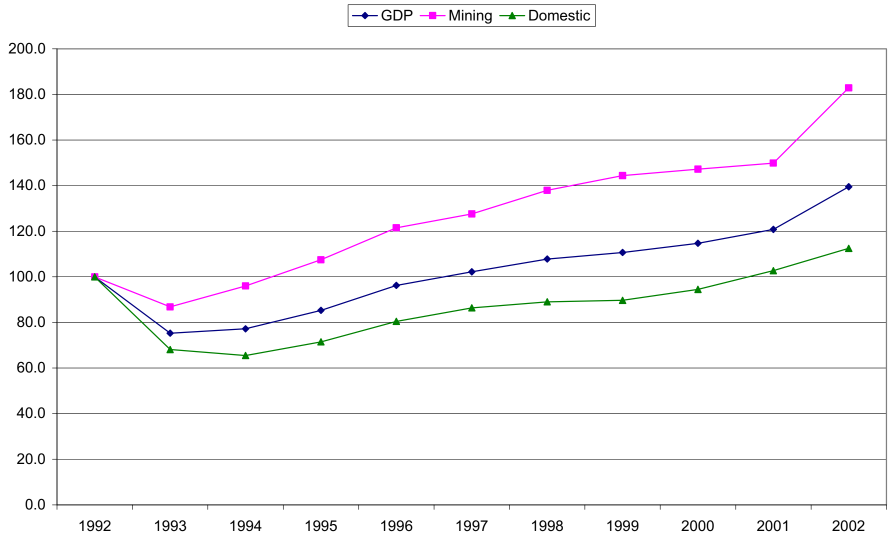

Figure 2.1. Growth, 1992–2002

The same situation is described in *Figure 2.1*, where the three series are standardized as indexes starting at a common base in 1992. The graph shows, on the one hand that mining is a quite dynamic sector explaining most of the growth during recent years. On the other hand, the domestic non-mining economy has been sluggish and only recently recovered the level from the beginning of the decade. Hence, the share of the mining sector continues to increase.

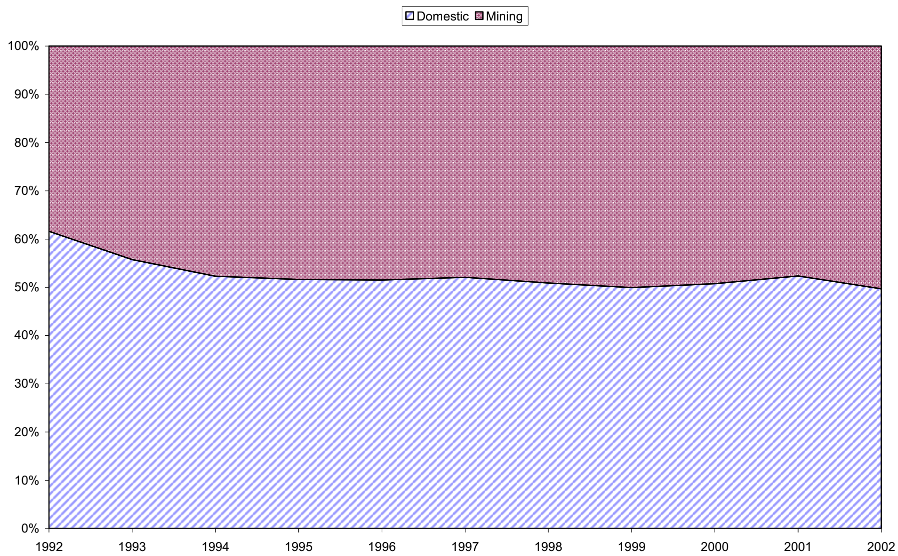

Figure 2.2. Mining and Domestic Economy, 1992–2002

Some Angolan analysts have called this process illustrated graphically (*in Figure 2.2*) the *petrolization* of Angola's economy. This is mostly related to a continuous appreciation of the local currency, the kwanza, which favors imports and discourages domestic production and exports. The appreciation of the kwanza is basically caused by the so-called *Dutch disease;* where a strong exporting sector, oil in this case, crowds out other sectors oriented to domestic production in the factor and financial markets. This effect was enhanced by erroneous policies hindering necessary devaluation that would compensate for inflation. Thus, the real exchange rate of the kwanza against the dollar and other foreign currencies became much appreciated.

However, it is important to note that a significant recovery of the domestic economy has occurred during the last few years. We can advance several hypotheses to explain this recent good performance of the domestic economy. It can certainly be a main consequence of peace. Also a sharp decrease in uncertainty and risk has induced a decline of the implicit rate of return, and many investment projects on the non-mining side of the economy have become feasible. Moreover, a number of important economic measures and reforms were either introduced or matured during the period. We must firstly mention liberalization measures in the foreign exchange market, which restored some competitiveness to domestic production. Additionaly, measures with the aim of reducing red tape for the private sector and some improvements of the financial sector are likely to have helped to trigger this recovery of the non-mining economy.

In summary, the GDP grew during the period and it is expected to continue to do so also in the medium term. The main source of growth, and in previous periods the only one, was in the oil sector. What is really new in the period covered by this report is growth in the domestic economy. The main consequence of this type of growth is that the GDP expansion did not imply an increasing national income. Thus, growth does not necessarily mean better living standards for the population.

2.2. Prices

Prices have been a major issue of concern in Angola during the nineties and the first few years of the new millenium. In general, inflation has been high. Following a typical pattern often observed during high inflation, the monthly rate of inflation has also shown a high rate of variability. However, after the reforms of 1999 and 2000, inflation as well as the variability of the monthly rate seems to be decreasing. *Table 2.2* shows these rates.

Table 2.2. Monthly Inflation, 1999–2003

	1998	1999	2000	2001	2002	2003
January	5.4	10.5	13.5	5.1	7.6	7.0
February	3.1	12.1	10.3	8.2	6.2	7.7
March	2.9	6.5	12.2	4.9	5.6	5.6
April	4.9	7.8	8.7	14.1	4.1	7.3
May	6.2	10.3	28.6	9.7	7.0	5.2
June	3.7	11.2	6.7	4.2	5.0	5.4
July	10.6	13.3	7.7	4.0	7.3	4.0
August	26.1	16.8	18.1	3.5	7.4	5.0
September	4.3	28.8	5.3	3.4	5.2	2.8
October	4.7	20.2	9.8	4.2	4.0	-
November	7.2	9.4	7.5	4.1	6.2	-
December	11.3	9.6	11.1	15.2	8.7	-
Yearly	107.3	248.2	325.0	152.6	108.9	-
CV	85.4	47.9	54.6	62.2	23.5	28.8

Source: INE.

National Institute of Statistics (INE) has computed this price index since 1990. The system of weights was reviewed in 2000. However, the index needs an updating based on a new household expenditures survey, and by extending it at least to a few urban centers outside Luanda.

Figure 2.3 illustrates quite clearly the development of inflation. The figure shows the monthly inflation rate and a three-month moving average. These series are smoother and present in a better manner the medium-term development of inflation. We can observe a decreasing trend, and annual inflation in 2003 is expected to be under 100 percent. A main hypothesis suggested by these data is that during the 1999–2000 period the character of the inflation changed, mostly as a consequence of an increasing liberalization of the foreign exchange market. In fact, until 1999–2000 Angola's inflation was mostly due to a budget trap created by the government's exchange rate policy. The official exchange rate was kept artificially at rather low levels. On the one hand, this implied a depreciation in the value of fiscal revenues which are mostly in dollars. On the other hand, public expenditures (which are mostly in kwanzas and strongly related to the parallel exchange rate) appreciated, inducing an increasing deficit to be financed by the central bank with consequent inflationary effects. Policies aimed at keeping both the official and parallel exchange rates more in line, together with other measures improving the foreign exchange market, have contributed to ease this inflationary pressure.

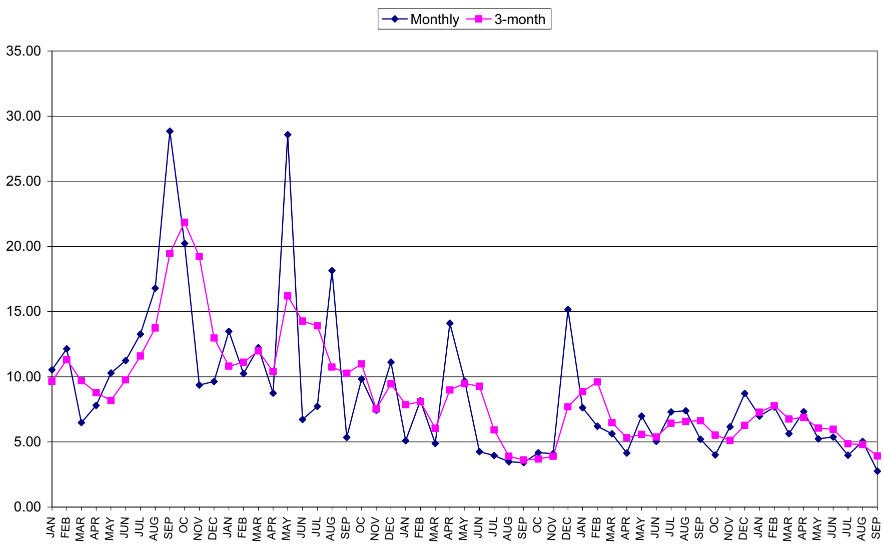

Figure 2.3. Inflation: Monthly and Moving Average Rates, 1999–2003

Other liberalizing measures have contributed to a lower inflationary level. Changes in the procedures to start new businesses and the elimination of import licenses have been important in this development. In spite of the advances mentioned above, inflation is still running too high in Angola, at rates just a bit under 100 percent yearly. This high inflationary level continues to endanger future sustainable growth of the domestic economy, and continues to be a contentious issue in the relationship with the IFIs.

2.3. Money and Monetary Accounts

Angola's monetary accounts continue to be difficult to analyze because of the complex and non-transparent relationship between the government, the financial sector, and the external sector. Thus, we can observe in *Table 2.3* a high degree of variability in net international reserves, although a general trend towards a higher level of international reserves could be emerging in the last few years. This trend is clearly related to higher oil prices. Credit to the government also shows broad oscillations, mostly reflecting the irregularity of transferences from SONANGOL (the Angolan national oil company) to the government, and to the use of Central Bank financing of the budget deficits. In contrast, credit to the private sector seems to be steadily increasing after reaching it lowest level in 1999. This is a positive signal that should be considered as accompanying the growth recovery shown by the domestic economy during the last few years. The introduction of new financial instruments made it possible to differentiate between M2 and M3 measures of money, beginning in 2001. However, we must stress that the difference between M2 and M3 is still marginal.

Table 2.3. Monetary Survey (August 2003 Prices)

	1997	1998	1999	2000	2001	2002	2003*
Net Foreign Assets	20893.1	18606.2	149201.0	214355.8	155302.7	147891.9	165358.1
– Net Int. Reserves	6109.0	-17870.5	58918.5	122742.1	55140.4	30030.8	68169.3
– Other For. Assets	14784.1	36476.7	90282.6	91613.7	100162.4	117861.1	97188.8
Credit	45693.9	49826.6	32073.0	-95008.9	-4486.5	42270.7	14384.0
– Government	19606.2	33405.2	18221.2	-110384.6	-30732.6	3251.1	-32799.9
– Private	26087.8	16421.3	13851.8	15375.7	26246.1	39019.7	47183.9
Other Assets (net)	5395.2	869.9	-79770.4	-8078.9	-15302.3	-19952.4	-22947.1
Discrepancies	0.0	0.0	0.0	-0.1	-221.0	0.0	33.0
M2	71982.3	69302.7	101503.6	111267.9	134248.4	169183.6	154450.7
Other Financial Instr.	0.0	0.0	0.0	0.0	1044.6	1026.7	2377.3
M3	**71982.3**	**69302.7**	**101503.6**	**111267.9**	**135292.9**	**170210.3**	**156828.0**

Source: BNA data.*: August.

It is important to note that real liquid assets seem to be increasing, as shown in *Table 2.3* and *Figure 2.4*. The slight decrease observed in August 2003 could be due to a monetary squeeze that took place in the first half of 2003, set up as a counter-inflationary measure. This is another positive signal that can be associated with the recovery of the domestic economy and a somewhat reduced inflationary level.

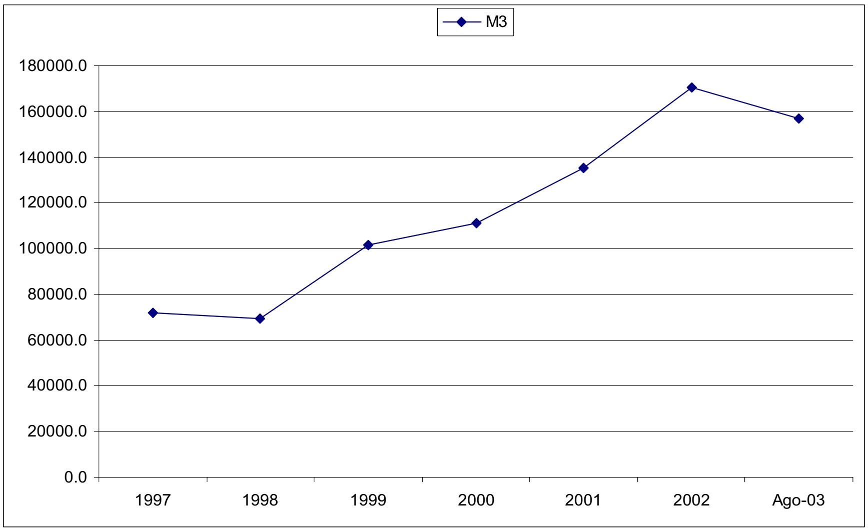

Figure 2.4. Real Liquid Assets, 1997–2003

Table 2.4 presents these data as a share of M3. Two factors become highly relevant from observing the monetary accounts in this new light. First, foreign assets have become more and more relevant in the determination of the evolution of money in Angola. That is, on the one hand domestic liquidity reflects more accurately the external position of the economy. On the other hand, the credit position of the government is erratic and unstable. This reveals the volatility and stochastic character of the relationship between the government and SONANGOL and other sources of external financing.

Table 2.4. Monetary Survey (Percentage of M3).

	1997	1998	1999	2000	2001	2002	2003*
Net Foreign Assets	29.0	26.8	147.0	192.6	114.8	86.9	105.4
Net Int. Reserves	8.5	-25.8	58.0	110.3	40.8	17.6	43.5
Other For. Assets	20.5	52.6	88.9	82.3	74.0	69.2	62.0
Credit	63.5	71.9	31.6	-85.4	-3.3	24.8	9.2
Government	27.2	48.2	18.0	-99.2	-22.7	1.9	-20.9
Private	36.2	23.7	13.6	13.8	19.4	22.9	30.1
Other Assets (net)	7.5	1.3	-78.6	-7.3	-11.3	-11.7	-14.6
Discrepancies	0.0	0.0	0.0	0.0	-0.2	0.0	0.0
M2	100.0	100.0	100.0	100.0	99.2	99.4	98.5
Other Financial Instr.	0.0	0.0	0.0	0.0	0.8	0.6	1.5
M3	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNA data. * August.

Thus, the period covered by this study includes some improvements in monetary stability. These results have had positive consequences for the financial markets, by increasing its depth. The following table shows that the real value of deposits both in kwanzas and in foreign currency has been steadily increasing. However, it is evident that deposits in foreign currency are quite more dynamic than those in kwanzas. When studying *Table 2.5* it is important to consider that the figures for 2003 extend only until August. The main conclusion is that the banking market has rapidly increased its depth during the last few years. However, this is only from the deposits perspective.

Table 2.5. Total Deposits by Currency, 2003 Prices (100)

	1998	1999	2000	2001	2002	2003[1]
Kwanzas	25.0	57.0	54.7	70.6	94.1	100.0
Forex	22.8	62.3	91.3	99.0	115.7	100.0
Total	23.4	60.7	80.4	90.6	109.3	100.0

Source: BNA.[1] August.

Table 2.6 presents details on the distribution of deposits both in kwanzas and in foreign currency. We can observe that the preference for foreign currency has decreased somewhat after reaching a high in 2000. This trend is expected to become stronger as inflation decreases, since it implied restored confidence in the kwanza. Such a development is likely to induce a decrease in the velocity of the circulation of money.

Table 2.6. Deposit Distribution by Currency, 1998–2003

	1998	1999	2000	2001	2002	2003[1]
Billion Kwanzas						
Kwanzas	104.02	1017.88	3603.87	10045.91	27511.89	46238.27
Forex	223.48	2622.79	14157.50	33182.04	79715.38	108936.86
Total	**327.50**	**3640.67**	**17761.37**	**43227.95**	**107227.27**	**155175.13**
Percentage structure						
Kwanzas (pct)	31.8	28.0	20.3	23.2	25.7	29.8
Forex (pct)	68.2	72.0	79.7	76.8	74.3	70.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNA.[1] August.

All the same, the financial market is still weak. The main reason seems to be the lack of interest shown by the banks in offering a broader range of financial services. The banks appear to be strongly focused on intermediating import operations. Buying and keeping bonds seem to be a more profitable use for their liquidity than lending it. These facts are reflected in the following table.

Table 2.7. Bank Deposits and Credit.

	Deposits	Credit	LR[1]
1998	327.5	145.5	44.4
1999	3640.7	506.4	13.9
2000	17761.4	2002.7	11.3
2001	43228.0	7771.3	18.0
2002	107227.3	25931.4	24.2
2003*	155175.1	49849.4	32.1

[1] Loan-Credit ratio. * August.

Table 2.7 shows outstanding bank loans as a percentage of deposits. Note that after reaching a minimum in 2000 this ratio has recovered sharply although it is still too low. A rather long period with a crippled financial sector has resulted in weak banks. This situation will be discussed further in Section 4.

2.4. Fiscal Accounts

In spite of progress in the quality and extension of fiscal information, there are still serious doubts about the accuracy and relevance of the published figures. The informational systems at the Ministry of Finance have slowly improved in the last few years, with the support of the IMF and other donors[3]. However, serious problems in the relationship among SONANGOL, the Central Bank, and the Ministry of Finance are still present. It seems that most problems can be tracked back to this relationship, which has been a contentious issue with the International Financial Institutions for a long period of time. Recent studies, mainly conducted by the IMF during the 2000–2002 period, have revealed large discrepancies caused by fiscal revenues and expenditures not reported in the fiscal accounts. The government argues that most of these unaccounted expenditures and revenues are simply a consequence of the well-known weaknesses of the accountancy system in the public sector. It is difficult to decide to what extent these problems really could explain the reported discrepancies. Thus, analysts are discussing two separate sets of public accounts: including or excluding the recently discovered discrepancies. Let us begin with the accounts presented by the government.

Table 2.8 shows the results of the fiscal accounts during the last few years including the first two quarters of 2003. In order to avoid the ambiguities introduced by monetary instability, this table is expressed in terms of percentage of GDP. Despite the oil taxes, still being the largest share of fiscal revenues, it is important to note that the share of non-oil taxes is increasing steadily after reaching a minimum in 2000. Several factors help to explain this development. On the one hand, improvements in the operation of the Ministry of Finance could explain the increased share of direct and indirect taxes. On the other hand, customs in Luanda has been under private management, which could explain the increased revenues from international trade taxes. However, fiscal rev-

[3] In this process Swedish aid has played an important role in the past.

enues are still strongly dependent on oil taxes. *Table A.1* in the *Statistical Appendix* shows the percentage structure of both public revenues and expenditures; and it can be seen that oil taxes are still more than three fourths of total revenues.

Table 2.8. Angola: Budget 1997–2003 (Percentage of GDP)

	1997	1998	1999	2000	2001	2002	2003-I	2003-II
Revenues	**36.4**	**26.3**	**44.3**	**49.2**	**44.5**	**44.0**	**32.8**	**38.8**
– Taxes	36.1	25.9	44.0	48.9	44.2	43.5	32.6	38.3
– Oil Taxes	30.3	18.2	38.6	43.8	35.9	33.8	25.7	28.1
– Non-Oil Taxes	5.8	7.7	5.4	5.1	8.3	9.8	6.8	10.1
– Income	1.4	2.1	1.5	1.5	2.7	2.9	1.9	3.7
– Indirect Taxes	1.6	2.4	1.9	1.8	2.4	3.4	2.5	3.5
– Int. Trade Taxes	1.9	2.2	1.3	1.4	2.2	2.4	1.7	2.1
– Other	0.9	1.1	0.6	0.5	1.0	1.1	0.8	0.9
– Non-taxes Revenues	0.3	0.4	0.3	0.2	0.3	0.5	0.3	0.5
Current Expenditures	**34.0**	**49.6**	**48.0**	**52.8**	**44.4**	**44.2**	**25.7**	**28.6**
– Wages	10.2	9.1	4.2	5.8	8.1	12.2	10.0	13.1
– Goods and Services	17.7	17.5	26.9	32.8	24.6	21.8	9.9	8.6
– Interest	2.7	6.8	5.1	6.8	5.2	4.5	1.8	2.1
– Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
– External	2.7	6.8	5.1	6.8	5.2	4.5	1.7	2.0
– Transfer	3.4	1.1	10.5	6.5	5.6	5.7	4.0	4.9
– Other (quasi-fiscal)	0.0	15.1	1.4	0.9	0.8	0.0	0.0	0.0
Current Balance	2.4	-23.3	-3.7	-3.6	0.2	-0.2	7.1	10.2
Capital Expenditures	4.7	5.9	12.8	6.1	6.4	7.9	1.7	2.5
Total Expenditures	38.7	55.4	60.8	58.9	50.7	52.1	27.4	31.1
Global Balance	-2.3	-29.1	-16.5	-9.8	-6.2	-8.1	5.4	7.7

Source: MINFIN.

It can be observed that both public revenues and public expenditures still amount to about 44 percent of GDP, which is a rather large share, especially if we consider the level of service provided by the state. However, it should be noted that both the share of expenditures and the global deficit have improved from the very large levels reached in 2000. The burden of debt and the financing of the deficit are unclear from the accounts presented by the government. These items are especially affected by the discrepancies and extra budgetary operating mentioned above. However, it is easy to see that most of the financing is made up of arrears, both domestic and external, short-term loans from abroad and Central Bank financing. The ability to obtain financing in the local capital market is still quite limited. Thus, the monetary stability is directly threaten by the large global deficit, also it worsens the external position of the country. Notice that the figures for 2003 are estimations.

Table 2.9. Budget Expenditures by Functions, 2000–2003.

	2000	2001	2002	2003 (budget)
Administration	15.5	29.1	23.3	19.0
Defence and Public Order	18.9	16.2	16.8	17.0
Social Sectors	13.7	20.3	15.9	16.0
Economic Sectors	6.3	8.1	7.0	9.0
Debt Service	45.7	26.2	37.0	39.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: World Bank

Table 2.9 presents World Bank estimates of the distribution of the budget by functions. The recent increases in Defense and Public Order expenditure can be explained by the need to police the whole national territory, expenditures in demobilization and reinsertion of ex-combatants and internally displaced persons. It is important to note the heavy burden of the external debt, which is only partially reflected in the accounts published by the government.

2.5. External Accounts

Angola's external accounts are in the core of the discussion on economic policy matters. The Central Bank has simply failed to provide reliable and timely figures. There have been some improvements but still the balance of payments figures presented here are unreliable and difficult to analyze. The statistics on the external debt are equally not reliable in spite of significant investments in training and equipment, mostly supported by the donors and the IFIs.

Table 2.10 below presents the balance of payments for the period 1997–2002. We are primarily focusing on the estimations of the IMF, which differ somewhat from the figures published by the government. The data for 2001 are preliminary and the data for 2002 are gross estimations. One main feature of this balance of payments is its stochastic character following the volatility of the oil market and the war. Programming of the balance of payments seems to be beyond the reach of the government. This leads to the use of quite expensive short term external financing, mostly in financial markets outside the mainstream and often secured by oil shipments. We can also observe the importance of exceptional financing, which in Angola's case means mostly accumulation of medium and long term arrears, and in some cases even short term ones. The scope to continue with this arrears accumulation is narrowing dangerously given the structure of the external debt.

Table 2.10. Balance of Payments, 1997–2002

	1997	1998	1999	2000	2001[1]	2002[1]
Current Account	-953	-2039	-1563	885	-253	-602
Trade Balance	2469	1412	2116	4738	3378	3169
Exports f.o.b.	5066	3491	5225	7885	6703	6760
Oil sector	4630	3047	4559	7120	5975	5914
Diamonds	407	424	629	738	688	798
Other	29	20	37	27	40	48
Imports	2597	2079	3109	3147	3325	3591
Services Balance	-3528	-3621	-3891	-4082	-3878	-4031
Credits	251	158	179	342	352	359
Debits (excluding interests)	-3272	-3135	-3422	-3773	-3680	-3870
Interests	-506	-644	-648	-651	-550	-520
Transfer (net)	106	170	212	229	247	260
Capital Account	297	681	1420	-139	545	338
Foreing Direct Investment (net)	412	1114	2471	878	1347	1445
of which, oil bonuses	0	51	935	0	450	0
Medium and Long Term (net)	100	-1363	-290	-627	-585	-750
Disbursements	1533	593	1500	1902	2196	910
Amortizations	-1433	-1956	-1790	-2530	-2781	-1660
Short term (net)	-215	930	-761	-390	-217	-357
Errors and Omissions	-153	-28	-9	-740	-1217	0
Overall Balance	**-809**	**-1386**	**-152**	**6**	**-924**	**-264**
Financing	809	1386	152	-6	924	264
Net Reserves	183	321	-639	-631	508	-132
Exceptional Financing	626	1065	791	625	416	396
Debt Rescheduling & Cap. Transfers	30	67	7	533	760	0
Debt Cancellation and Repayment	0	8	-7	-382	-854	-10
Medium and Long Term Arrears	529	747	826	382	542	467
Short Term arrears	68	243	-35	91	-32	-60

[1] Preliminary figures.

Another important feature of the balance of payments is the large net foreign direct investments, which normally exceed ten percent of GDP as shown in *Table 2.11*. The 40.6 percent figure recorded in 1999 is clearly an outlier due to the opening of new deep-water fields at that point in time. In fact, these foreign direct investments are overwhelmingly related to the oil sector, which is an enclave with quite poor backward linkages to the domestic economy. Errors and omissions that became strongly negative after 1999 are a worrisome signal, because they could reflect an increased capital flight after the foreign exchange liberalization that begun in 1999.

Table 2.11. Memoranda External Data.

	1997	1998	1999	2000	2001[1]	2002[1]
GDP (million dollars)	7675.0	6445.0	6088.0	8864.0	9472.0	10040.0
Current Account	-12.4	-31.6	-25.7	10.0	-2.7	-6.0
Public external debt (million dollars)	9706.0	10347.0	10311.0	10171.0	9600.0	9173.0
Debt/GDP	126.5	160.5	169.4	114.7	101.4	91.4
Debt/Exports	191.6	296.4	197.3	129.0	143.2	135.7
FDI/GDP	5.4	17.3	40.6	9.9	14.2	14.4

[1] Preliminary figures.

The government has not published data on the size of the public external debt since 2001, and previous data are unreliable. However, a reasonable estimation would be about 10 billion dollars which means that Angola's external debt should be about the size of its annual GDP. Moreover, this debt is less than 150 percent the size of annual exports. Thus, the problem of Angola's external debt is not its size but its structure since it is mostly made up of short term loans (mostly oil-guaranteed loans) and arrears. In fact, Angola's economy could serve this debt with relative ease if it had a more reasonable structure. In Chapter 3 we comment on what the government has done to cope with this problem.

3. Economic Policy

Economic policy in Angola during the period covered by this report has developed in four main directions. First, a main feature is the failure of two Staff Monitored Programs and the decision by the government to indefinitely postpone the attempts to start a financed program with the International Financial Institutions. Second, the government introduced limited but much needed reforms in the public sector and in the general framework affecting the private sector at the microeconomic level, together with a renewed privatization program. Third, the government strengthened its efforts to control inflation, mostly through monetary squeezes and by increasing the domestic public debt. Finally, and closely related with the anti-inflationary struggle, the government has recently introduced a campaign for restoring the confidence of the public in the kwanza and in the financial system. The government has called this a *"disdollarization"* policy.

3.1. The Conditions of Economic Policy

This period can be characterized as seemingly active in terms of economic policy. However, most of the elements that in previous periods determined policy inactivity and even policy reversals, are still present in Angola. Among these elements it is worth mentioning influential political sectors that are ideologically hostile to economic reforms and, especially against cooperation with the IFIs. One can also mention the existence of powerful and influential vested interests that strongly opposed reforms. Nevertheless, two main features of the period significantly changed the environment for economic policy, opening an window of opportunity for increased activity in this field. The first one is a long period with rather high oil prices. The second is the end of the armed conflict. In the next section we discuss the consequences and relevance of civil war and peace for the economy. Finally, we should note that the coordination among the Central Bank and the main ministries in charge of economic policy was improved when a vice Prime Minister was named coordinator of the economic team.

An important element conditioning the development of economic policy are the direct consequences of war. The final balance of war includes 4 million internally displaced persons, and the need of demobilizing and reintegrating a large number of soldiers, both from the

UNITA's Military Forces (FMU) and from Angola's Armed Forces (FAA). In order to solve these issues, the government has set up a Demobilization and Reintegration Program, with financial support from the World Bank and bilateral donors.

Table 3.1. Financing Demobilization and Reintegration.

Source	Million dollars	Percent
Government of Angola	77.0	42.8
IDA	33.0	18.4
Bilateral donors	69.7	38.8
Total	179.7	100.0

Source: World Bank.

Table 3.1 presents the financing of this program as well as the government's commitment. The large humanitarian problems associated with internally displaced persons, and the implementation of the Demobilization and Reintegration Program are naturally central issues in short and mid-term social policy. Additionally, because of the magnitude of the problems these social issues have clear connotations for economic policy. This program addresses the demobilization of about 105 thousand FMU and 33 thousand FAA ex-combatants.

HIV/AIDS is a less serious problem than in neighboring countries, and in general less important than elsewhere in Sub-Saharan Africa. The army seems to have been a main vehicle for passing on the disease, even if only one percent tested positive in Luanda. War caused the closing of international borders and decreased the mobility of the population hindering the spreading of HIV/AIDS. Thus, the government estimated the country-wide prevalence of HIV/AIDS at 8.6 percent, with antenatal mothers in Luanda testing at 8.6 percent in 2001 and commercial sex workers at 33.8 percent in 2001. Now, after the cease-fire, with more porous borders and a large number of people moving within the country, HIV/AIDS is expected to be increasing rapidly. The populations in transit are affected by several contextual factors such as condoned multiple sex partners, low use of condoms, high rates of sexually transmitted infections, and scarce treatment facilities. These factors potentially increase the risk of contagion. Thus, HIV/AIDS could become a conditioning problem for economic policy in the medium term.

3.2. The International Financial Institutions

A central topic in the debate on economic policy in the period covered by this study is Angola's relationship with the International Financial Institutions, primarily focused on the discussions with the International Monetary Fund. The period started with a Staff Monitored Program (SMP), which extended itself from April to December 2000 (including an extension). In spite of unsatisfactory performance, a new SMP was formulated for the period January to June 2001. This second program also ended in disappointing performance. However, on the one hand a few important advances were achieved under these programs. For example, the government prepared a plan to eliminate public sector arrears on the domestic debt, initiated a diagnostic study of the oil sector, and the first ever external audit of the central bank was performed. On the other hand, persistent deviations from the quantitative targets, especially the ceilings on nonconcessional external borrowing, contributed to declaring Angola's performance as unsatisfactory. Yet, the main contentious issue was scarce success in improving transparency and the quality of fiscal and external data, which is a persistent point of controversy with the IFIs and the donors. The IMF could identify large extra-budgetary revenues and expenditures. The government argues that these deficiencies are mostly the consequences of the shortcomings of ineffective accountancy practice.

After tense discussions during the first quarter of 2002, the government signaled that it was unwilling to agree on a new arrangement with the IMF because the discipline implicit in that kind of program appeared as unassailable. Since then, the IMF has limited itself to technical assistance tasks and Article IV consultations. The failure of the two SMPs and the large extra-budgetary revenues and expenditures identified by the IMF dominated the political debate during 2002 and the media frequently commented on these issues. *Table 3.2* illustrates the dimension of the problems in the fiscal accounts.

Table 3.2. Discrepancies in Fiscal Accounts, (Million Dollars).

	1999	**2000**	**2001**
	Government		
Revenues	2852	4586	3938
Expenditures	3896	4965	3762
Balance	-1044	-379	176
	IMF		
Revenues	2852	4586	3938
Expenditures	5028	5380	4669
Balance	-2176	-794	-731
Discrepancies	**1132**	**415**	**907**

Some of these discrepancies could be associated with real shortcomings of Angola's accountancy systems of the public sector. Other deviations could be easily related to military expenditures, often covered by secrecy and confidentiality. However, no systematic effort to explain these discrepancies has been made by the Governement and their large size is a clear cause of concern. In the *Statistical Appendix Table A.2* expresses these divergences as percentages of GDP. Thus, it can be seen that they were as large as 18.6 percent of the GDP in 1999.

To these problems we should add external borrowing and debt payments made directly by SONANGOL (and sometimes by other official agencies) without the control of the Ministry of Finance, the Central Bank, or both. Finally, we should add significant amounts of quasi-fiscal expenditures hidden in the accounts of the Central Bank.

Quite often these problems have been presented as serious evidence suggesting large-scale corruption. This conclusion has been a matter of controversy. However, it is quite clear that this situation, based in a non-transparent relationship among SONANGOL, the Central Bank, and the Ministry of Finance opens wide opportunities for corruption. Moreover, the failure in significantly improving the fiscal accounts and external debt accounts strongly contributes to suggesting serious problems of corruption.

In spite of a rather cold relationship between the country and the IMF, the World Bank is again active in Angola. The latter had strongly reduced its operation in the country in previous years. However, after the consolidation of peace, a new approach has emerged, a representative is again in place, and several projects, mostly related to demobilization and reinsertion, have been set up.

The failure to achieve a financed program with the IMF has a series of negative consequences for Angola that must be weighted against the advantages of the present relationship. First, Angola is excluded from an important source of cheap international financing. The money provided directly by the Fund is usually a small amount, but since larger funds provided by the World Bank and othe doners are conditioned upon the program with the IMF, the total forthcoming amount is much bigger. Thus, Angola has to continue to rely on quite expensive financing from the informal and secondary international financial markets, often through loans guaranteed with oil. This has negative consequences for the budget and for the balance of payments. Additionally, Angola, by not starting a new program with the IMF, has lost the possibility of rescheduling part of the external debt at the Paris Club. However, this is not the most severe problem of the external debt; much worse seems to be the problem caused by short-term loans guaranteed with oil. The strategy of the government for solving the issue of the external debt appears to be to reschedule through bilateral negotiations. The government seems to have had some success with this strategy in negotiations with Brazil and Portugal. However, this solution could be much more expensive than those that could be achieved in the framework of a program with the IMF. Some measures were taken aimed at improving the institutional situation of the debt; for example issuing a law[4] in 2002 introducing a framework for the public debt, which is expected to introduce a measure of order on how the debt is contracted and paid. Finally, programs with the IMF are usually useful for imposing a much needed fiscal discipline, facilitating the task of economic policy.

However, a program with the Fund implies a higher level of discipline in economic policy as well as the need to reach a number of quantitative and qualitative targets. In the case of Angola, the targets related to transparency are especially important. It is quite clear, given Angola's political structure and the groups of vested interest that are influential in the country, that by meeting these conditions the government would introduce a measure of stress that would threaten its stability. Mr. Júlio Bessa, then Minister of Finance, signaled in a speech on November 16,

[4] 10/2002. Lei Quadro da Dívida Pública.

2002, that Angola had opted for a policy of gradual reforms. Thus, the expectations of a program with the IMF are not good without significant changes in the political setup. The best chance for these changes is the incoming election as well as a stronger pressure from donors.

3.3. Reforms and Economic Structure

In spite of the shortcomings mentioned above we can note several reforms that could positively influence Angola's economic structure.

International Trade

Several reforms have aimed at the liberalization of international trade. Most relevant was the elimination of import licenses, which created strong monopolistic structures that fomented inflation, affected the evolution of prices and hindered the development of a strong private sector. In addition, import tariffs have been reduced and the tariff exceptions list has been reviewed. This list was extensive and offered plenty of loopholes for avoiding paying import tariffs. However, the review has been somewhat inconsistent, because the new law on foreign investments introduces plenty of generic exceptions quite difficult to control.

These reforms seem to have had positive effects both for the general level of competitiveness in the domestic markets and for the alleviation of inflationary pressures. The government also set the Luanda customs under private administration with Crown Agents. This measure had a clear positive effect on fiscal revenues and the government is planning to do the same with other customs.

The State and the Economy

A crucial measure aimed at reassessing the influence and participation of the state in the productive process was the commission of a diagnostic study of the oil sector with the international consulting firm KPMG. The study started after several delays, with the government complaining of the red tape at the World Bank was a main cause of these problems. Finally, the government published an executive summary in 2003, but yet no final report has appeared. Most of the oil companies have chosen to be transparent and collaborate by opening their records for the study. The final report, expected to contain much demanded hard data on the sector, could be an invaluable tool for the analysis and projections of Angola's economy. Additionally, it could serve as a good basis for improving the transparency of Angola's public sector.

The government prepared a rather ambitious Privatization Program for the 2001–2005 period, but few specific results have been observed until this date. A good example of the fate of this program is the privatization of the *"Banco de Crédito e Investimentos"* (BCI). After long discussions, the bank had been proposed for privatization since the mid-nineties, and a several-year plan was set up. The first step would be the hiring of a consultant who would prepare the privatization. However, after calling for bids for consultancy services the process was stopped due to procedural errors. Since then the privatization of the bank has made little progress.

The announcement of the final liquidation of the *"Caixa de Agricultura* *e Pescas"* (CAP) is quite encouraging. CAP was originally a savings and loans institution that was used during the eighties and early nineties to channel some oil money and donor funds for small and medium-sized investment projects in agriculture and fishing. Yet, the allocation of loans was quite non-transparent and at highly negative rates of interest and few loans were paid back at all. Thus, CAP closed its operations in the early nineties, but it was never formally liquidated. In fact, it seems to periodically have performed unexplained operations. Perhaps CAP is the most blatant example of mismanagement in the banking system, and with the failure of liquidating it has signaled an unwillingness to cope with the serious problems affecting Angola's banking and financial system.

Improving the Public Service

A few reforms and measures have targeted the improvement of the public service. Besides new efforts aimed at improving the informational system at the Ministry of Finance we must mention the first audit of the *"Banco Nacional de Angola"* (BNA); that is, the Central Bank. This is a crucial element for the improvement of the fiscal and external accounts, as well as for enhancing transparency in the public service. Significant quasi-fiscal expenditures were discovered in the accounts of the BNA. The identification of these items will improve the transparency and coverage of the fiscal accounts. Moreover, if these are being eliminated from the BNA it would help the bank to concentrate on its role as a central bank. In addition, better and audited accounts will contribute to a more effective monetary policy.

Important measures such as the set up of a Tribunal of Accounts and review of the public procurement system have been taken. However, it is too early to see any practical effects. The first time the Tribunal of Accounts refuses to acknowledge the accounts of a public agency will be a most important landmark in the evolution of Angola's public service, and it will enhance its credibility.

Efforts have been made to improve the complex relationship between the Ministry of Finance, the Central Bank, and SONANGOL. There is a persistent accumulation of arrears in the taxes that SONANGOL must pay to the government and in the fuel subsidies that the government must pay to SONANGOL. In addition, there was no uniform criterion for choosing the exchange rate that should be used when recording these operations. More important are international operations related to the external debt (mostly oil guaranteed loans) contracted or paid by SONANGOL without proper notification to or control by the Ministry of Finance or the Central Bank. It has also happened that other official agencies, notably the presidency, have operated with the BNA without the participation of the Ministry of Finance and without following proper budgetary procedures. In order to improve this complex relationship a protocol regulating the relationship between the Ministry of Finance and the BNA was signed which is expected to improve the quality and reliability of the fiscal accounts. In a further move in the direction of enhanced transparency the Ministry of Finance inaugurated a website that offers several tables with fiscal data. However, as already mentioned these data are not always reliable because of arithmetic errors. Moreover, some tables are protected by passwords that limit accessibility.

Monetary and Fiscal Policy

Inflation was a main issue for economic policy during the period of study, and some advances in inflationary control can be noted. The final figure for inflation during 2003 was under 100 percent. These results are more the consequences of a favorable environment characterized by peace and high oil prices than the effects of domestic economic policy.

Fiscal policy has been weak, but benefited from reforms and an enhanced economic activity leading to increased fiscal revenues. The main instrument has been periodic liquidity squeezes, causing the accumulation of arrears in the domestic debt. During the period, the government succeeded in finding some financing in the domestic capital market through the issuing of bonds. These measures should have contributed to limit the expansion of money and consequently inflation, but it has rather resulted in an accumulation of quite a large domestic debt affecting economic activity. The government recently set up some schemes for solving this situation, partially by issuing new bonds. It is also worth noting that on January 15, 2002, the government introduced a new law *(Lei de Execução do OGE)* setting new and harder rules for budget execution. Hopefully, these new rules will be enforced and result in improved fiscal discipline.

Monetary policy was dominated by the management of the international reserves. The Central Bank seems to have intervened several times in the foreign exchange market, reducing inflationary pressures. However, a declining dollar could also have been important in the reduction of the inflation rate. The government tried to restore confidence in the kwanza and move the public away from the dollar. The declination of the dollar against other currencies helped to reach some measure of success in meeting this target. The main measure was a change in the bank reserves, which were, until that point in time, discriminatory against the kwanza. Thus, reserves for accounts in kwanzas were reduced from 30 percent to 10 percent and reserves on accounts in foreign currencies were raised from 5 to 10 percent. While, the banks expressed their dissatisfaction with these measures, the Central Bank took additional measures aimed at further liberalizing the foreign exchange markets during 2003. The most important of these were the start of foreign exchange auctions and the free trade on foreign exchange, which until then had been limited to a narrow circle of economic agents.

3.4. The Main Issues of Economic Policy

Summing up the arguments above, economic policy in Angola is focusing more and more on a few central issues. A proper understanding of these matters, the design of convenient policies and their effective implementations are critical for the future development of the country as well as for political stability and peace.

A main problem is the external debt. Once more it is important to stress that the nature of the problem is not the size of the debt, but its structure. Angola's debt, if contracted in reasonable conditions could be served with the present level of exports. However, most of the debt is now made up of arrears and quite expensive short-term loans most often warranted by oil. The large arrears exclude Angola from cheaper formal international financial markets. The government has not succeeded in creating a relationship with the IFIs that could lead to a multilateral rescheduling of this debt. The government's strategy seems to be to seek to debt allevation by rescheduling through bilateral negotiations and this effort has shown some success in recent years. However, there are many unanswered questions regarding the cost of these partial solutions. At least two contentious issues continue to be important obstacles for solving the problem of the external debt. One of them is the lack of reliable and up-dated data on the debt. The other one is the lack of transparency in the procedures for paying debt and, especially, for contracting new debt.

The transparency problem continues to be a central problem of Angola's economic policy. Transparency is the main factor explaining why the working relationship between Angola and the IFIs has been unsuccessful since the country became a member. Most of the problem is related to the oil sector, which would need to be strongly regulated by the state. It is important to realize that there are important obstacles to a rapid and effective solution to this problem. It is likely that a drastic and rapid solution of the transparency problem would seriously affect the stability of the government and the political stability of the country. Thus, in the medium-term we can reasonably expect improvements but not a definitive solution.

Inflation has been a serious and persistent problem ever since price statistics began to be collected in 1990 and Angola has suffered from a couple of hyperinflationary events. A main cause of the high inflation was the regime of dual exchange rates that created a budget trap. This situation has been corrected in the last few years, with clear positive effects for the evolution of prices. However, the fiscal accounts still show a large deficit, and the monetary policy is accommodating with the government often recurring to central bank financing. Thus, we can still expect that inflation will continue to be high, with at least two-digit annual rates. Such a high level of inflation is demanding for growth and will continue to be a contentious issue with the IFIs.

The relationship with the IFIs and the possibility of reaching an agreement with the IMF has been a central policy issue since Angola asked for membership in the former in 1987. The World Bank has financed a number of projects in the country. However, its level of activity has varied a lot during the last few years. Conversely, the IMF has been rather active in the field of technical assistance, although all attempts to set up a financed program with the government have failed. The government and the IMF have agreed on a Staff Monitored Program in three occasions. However, in all cases the program went strongly off-track and had to be abandoned.

On the real side of the economy, the main challenge appears to be the reactivation of agriculture. This, to the pre-independence levels of activity for example, is important for several reasons. First, this is a process strongly related to the demobilization and reintegration of ex-combatants, often recruited in rural sectors. Second, it will imply needed jobs, and will therefore strongly contribute to reduce poverty. Third, Angola is today a strong importer of food. Thus, the reactivation of agriculture will contribute to alleviating the actual pressures on the balance of payments.

A main problem faced by Angola in order to start a sustainable growth process is the lack of relevant development policy. The financial system is inadequate and unable to provide medium and long term financing needed for a vigorous process of investment. There is only a small and relatively new institution (FDES) acting as a development bank. The capacity for identifying and evaluating investment opportunities is exceedingly weak, both in the public and the private sector. Therefore, it is difficult to channel the huge rents generated in the oil sector towards productive investments in the domestic economy.

4. War, Peace and Investments

Angola has suffered from a protracted war and the present period is, in fact, the longest peace period ever in Angolan history. Permanent warfare had an important role in shaping Angola's economy. Therefore it is not possible to explain the problems without referring to long period of war. The peace must be considered a crucial event that is already reshaping the whole economy. This section tries to develop a framework for the analysis of the effects of war and peace on the economy in general, and on the investment process in particular as well as on poverty and social sectors. Investments are important because a vigorous investment process is a precondition for economic growth, the development of a stronger domestic economy, and poverty reduction at least in the medium and long term.

4.1. The Economics of War

There are several immediate and obvious consequences of war (especially civil war) for the economy. To begin with, large quantities of fixed and human capital are destroyed. This was especially serious during the last spell of war in Angola, when most of terrestrial communication and transport facilities with the hinterland were destroyed; many of the most important Angolan cities were almost completely ruined after pitched battles. Economic activity was severely reduced outside a few urban centers and the GDP generated by agriculture was halved in 1993. Off-shore oil extraction saved the fate in the rest of the economy because of its unique geographic position.[5] However, UNITA succeeded in capturing most of the diamond industry that became its main source of financing.

Refugees and internally displaced people have been estimated to reach over 4 million persons, a third of the total population. In fact, civil war drastically changed the country's degree of urbanization. The destitute masses flowing into the cities became an unbearable burden for the already inadequate public services. Security worsened and criminality soared in the urban sector.

The war also reallocated resources to unproductive military uses. Financial resources diverted to the military became a serious burden for the budget and the balance of payments and many of the transparency

[5] Most of Angola's oil is off-shore.

shortcomings of Angola's fiscal and external accounts can be traced to war. In other cases the demands of war were an excuse for the lack of transparency, delays in the reforms, deficiencies and reversals in economic policy. Moreover, war captured a large share of Angola's human capital, desperately needed in the public service and productive activities.

Besides these direct effects, insecurity and risk associated to war largely increased the rate of return needed to trigger investments projects. Thus, investments were limited to the oil and diamond sectors, or to activities closely related to these sectors. Typically, investments have quite poor backwards linkages to the rest of the economy. Hence, economic growth induced by these investments is limited to the direct effects, without stimulating general economic activities. In addition, these investments generate few jobs and if any they only benefit qualified foreign workers. Thus, the contribution of these investments to national income is much lower than its contribution to GDP.

During the war there were rather few investments in the non-oil sectors of the economy, most often limited to a few sectors working in close connection to the oil industry. The State is quite ineffective and lacks the necessary capabilities for replacing private investments as an engine for growth of the domestic economy. In fact, each year an ambitious Public Investments Program is budgeted. However, the rate of execution of this program is exceedingly low and the investments often have small productive results. The most surprising feature of the Angolan economy during the period of civil war was that still, in spite of the situation described above, there was a small trickle of private investments, especially foreign direct investments. This signals the existence of many investment opportunities with a potentially high rate of return. This observation is consistent with the rapid growth in domestic economic activity observed during the last couple of years.

4.2. The Economics of Peace

One must be careful not to associate peace too strongly with the death of Jonas Savimbi on February 2002. In fact, this event culminated a longer process of the deterioration of UNITA, which was largely in retreat after serious military defeat by the government, including the capture of the rebel headquarters. This can be explained by the capacity for military organization shown by the government and by massive investments in military equipment. The political isolation of UNITA both internationally and in the domestic plane also played an important role. Repeated condemnations of UNITA's inability to comply with the Lusaka Protocol were instrumental in building up this isolation. Some of the key allies, such as South Africa and the USA, were now giving some support to the government. The government also had some success in attracting and coopting some Ombundu intellectuals and UNITA cadres. It is possible that opening extensive military operations in territories beyond the Ombundu homeland was also a serious error for UNITA, though important from a financial point of view because of the capture of diamond mining facilities.

However, the death of Mr. Savimbi opened up an opportunity for some generals and commanders to take up cease-fire and peace as an actual and feasible option. Soon after the death of its leader, UNITA ceased military operations and negotiated the resumption of the Lusaka process with the government. A military committee was formed and rapidly some level of conflict with *"UNITA Renovada"*[6] was apparent. However, a recent congress seems to have solved the conflict except for a few controversial points of financial character.

Thus, Angola's political setup has been recomposed. On one side we have the MPLA and on the other side UNITA. No other significant party has yet appeared, although there are plenty of candidates who have the potential to become a third political force. There are quite a few ideological differences between the two parties. Both are the result of the independence struggle and had, at least in the beginning, close ties to the Portuguese withdrawal. Both parties became engaged in a military and political conflict closely related to different sides during the Cold War and in the anti-apartheid struggle in South Africa. However, both parties showed some degree of flexibility and capacity to adjust themselves to changes in the international setup.

The differences between UNITA and the MPLA must not be understood as ideological but from the point of view of the system of "families" and "cultures" that is inherent from African politics. The most obvious difference is a stronger ethnic component in UNITA than in the MPLA, which has succeeded in keeping its original multiethnic origin.

These described events could suggest sustained and much needed political stability. However, we can expect a longer period with security problems at the countryside, as failures in the reinsertion process result in banditry. Nevertheless, the President has been somewhat ambiguous about his intentions of running for a new period of office. The need to select a new candidate could start a period of internal strife within the MPLA. Peace is also changing the focus of the political discussion from war to other issues. Eventually, the economic issues will take a prominent place in this discussion, which could lead to new internal conflicts both within the MPLA and the UNITA, and between them.

The main effect of peace has been a significant reduction of the rate of return that can make new investments feasible. These changes in the economic environment have already translated into a flow of new small and medium investments, stimulating growth in the domestic economy. This includes both domestic and international investments, prominently South African and Portuguese ones. A good example is the opening in October 2003 of a large supermarket in Luanda, belonging to Shoprite, the leading South African food retailer.

4.3. Developing the Private Sector

The possibility of a vigorous investment process passes necessarily through the development of a strong private business sector. This development has been weak in Angola. The narrow private sector is highly protected and closely related to the State and the party. An analogous situation could be observed in the early development of the transition economies in Eastern Europe (e.g., Aguilar 2003).

[6] UNITA Renovada was formed by those cadres who refused to follow Jonas Savimbi after military operations were resumed in 1992. These were mostly people who accepted positions in the government or assumed their mandates at the Parliament.

The private sector was opened in Angola after an MPLA congress in 1987 where it was decided to start a transition towards a market oriented economy. Several laws were issued aimed at organizing the emerging private sector. The following is a short list of the most relevant ones:

- Law 10/88, *Lei de Actividades Económicas*, a general law from 1988 regulating economic activities.
- Law 5/91, *Lei das Sociedades Financeiras*. This law from April 10, 1991, organized the activities of the financial markets. Later on, law 1/99 from April 23, 1999, reformed this sector, opening the financial market for both banking and non-banking foreign firms.
- Law 1/92, *Lei das Minas* from February 17, 1992, and law 20/92, *Lei das Pescas,* from August 14, 1992, organized these two critical sectors for the development of Angola's natural resources.
- Law 13/94, *Lei da Delimitação dos Sectores*. This law from 1994 divides the economy into sectors, reserving some economic activities for the State.
- Law 10/94, *Lei das Privatizações*. This law from August 31, 1994, formalized the non-transparent wave of privatizations that marked the start of the new market-oriented Angolan economy.
- Law 15/94, *Lei do Investimento Estrangeiro.* This law from September 23, 1994, was a first attempt to capture significant flows of foreign investments for the non-oil economy. This law was recently modified by law 1/99, from April 23, 1999, introducing the principle of non-discrimination of foreign investors. All assets are protected. In case of expropriation, the government is obliged to indemnify according to international law. Angola is a member of the Multilateral Investment Guarantee Agency (MIGA). However, the new law still keeps some tariffs exceptions favoring foreign investments.
- Law 5/97, *Lei Cambial.* This law from July 27, 1997, initiated the liberalization of the foreign exchange market and it was developed further by new regulations until the present situation with a rather open market.
- Law 8/98, *Lei Quadro da Indústria,* regulating industrial activities.
- There are several additional laws specifically regulating the oil and diamond sectors.

The Angolan company laws are firmly enrooted in the Portuguese pre-independence tradition. Several types of companies are considered within this legal framework:

- *Sociedades por Quotas, Limitada*. It requires a minimum of two shareholders, whose names must be publicly disclosed, and the shareholders are normally appointed as managers *(Sócio-Gerentes)*.
- *Sociedades anónimas de Responsabilidade Limitada, SARL.* These are public incorporated companies with a minimum of five shareholders. The disclosure of the names is optional. They need a board of directors or *administradores*, and a fiscal council. These officials do not need to be shareholders of the company.

– *Empresas em nome individual*; that is, individual enterprises.
– Cooperatives following the rules of public limited companies.

During the nineties, companies needed to follow several cumbersome registration procedures, including an operating license *(Alvará)* and an importer/exporter license *(Licença de Importador/Exportador)*. This excessive framework of regulations, often administrated in a non-transparent manner, caused the development of strong monopolistic structure in the domestic markets. Most of this red tape has recently been eliminated, implying a significantly increased level of competitiveness in Angola's domestic market.

The private sector has created several organizations aimed at promoting their interests as well as business activities. Most prominent is the *Angola Chamber of Commerce and Industry* (ACCI). This institution was set up in 1988 by the state, mostly on the basis of state owned enterprises, when the private sector was still exceedingly small. SONANGOL, Angola Telecom, and TAAG are among the most prominent enterprises included in the ACCI. In 1999 it had 100 members, reaching 600 registered members today, of which 88 percent do not pay fees. Among its main achievement is an agreement in 2001 with the Ministry of Petroleum and SONANGOL favoring the penetration of Angolan companies in the oil sector.

Another central organization of the private sector is the *Industrial Association of Angola* (AIA). Founded in 1930, this is the traditional institution representing private industrial and commercial interests in Angola and it provides a rather influential lobby for private activities. This association was interrupted during the 1976–1992 period. Today the AIA has 1018 members and publishes a monthly bulletin called "The Compact." Two trade fairs are organized annually under the sponsorship of these organizations: The *International Trade Fair of Luanda*, FILDA (usually held in July), and the *National Production Fair in November,* FENAPRO. There are also a few regional fairs, held irregularly.

Besides these large institutions there are several smaller ones with different levels of activity. The main ones include: *Association of Young Entrepreneurs* (AJEA), *Group of Angolan Entrepreneurs* (GEA), *Association of Women Entrepreneurs of Luanda* (ASSOMEL), *Association of Women Entrepreneurs of Cabinda* (ASSOMECA), *Provincial Association of Small and Medium Enterprises of Cabinda* (APMECA), *Commercial and Industrial Association of Ilha de Luanda* (ACIIL), *Comercial and Industrial Association of Luanda* (ACOMIL).

At a first glance this could appear to be a relatively well organized and dynamic private sector. However, there are several unsolved problems that cripple its development and prevent investments. First, the legal framework is still too weak, and the enforcement of contracts is difficult (and sometimes impossible). In spite of current efforts in the training of judges and lawyers, as well as the revision of the legal framework, rapid advances in this field are not to be expected. Second, there are many crucial ownership problems still unsolved. In the urban sector a lot of real estate has an unclear legal status, with incomplete or non-existent nationalization procedures after the independence, *de facto* allocation without proper legal procedures, potential claims by the original Portuguese owners etc. Many households do not have proper titles to their homes. In the countryside, the state simply owns all land without a clear framework for allocating it to private farmers. A land law has been subject to discussions in the Parliament for more than a decade but has not yet been finalized. This law introduces quite limited property rights and fails to create a strong private agriculture. Naturally, this contributes strongly to the non-existence of formal rural credit.

4.4. The Financial System and Investments

Another important instrument for developing a strong investment process is an adequate financial and banking system. Angola has a weak and shallow financial market with narrow banking activities, especially in the provinces. *Table 4.1* shows the distribution of deposits among the banks operating in Angola's financial market.

Table 4.1. Total Deposits by Banks (Percentage Structure)

	1998	1999	2000	2001	2002	2003[1]
State Owned Banks	**37.8**	**34.6**	**28.3**	**32.8**	**31.5**	**29.1**
BCI[2]	19.7	20.7	13.6	13.5	9.3	6.9
BPC	18.2	13.9	14.8	19.4	22.2	22.2
Private Banks	**62.2**	**65.4**	**71.7**	**67.2**	**68.5**	**70.9**
BAI	8.1	14.0	30.0	25.5	27.5	24.6
BCA	0.0	1.3	1.6	2.9	2.2	1.7
BFE	30.7	32.4	25.7	25.8	25.2	26.0
BPA	8.3	5.3	3.3	3.0	2.0	2.4
BTA	15.1	12.3	11.1	9.7	7.7	10.5
SOL	0.0	0.0	0.0	0.2	1.2	1.7
BESA	0.0	0.0	0.0	0.0	2.6	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BNA.[1] August. [2] See Table A.3 for the names of the banks.

There are two large state owned banks operating in Angola as of 2003, with about 30 percent of the deposits. One of them, BCI is set for privatization. There are seven private banks, including two large Portuguese banks, Banco de Fomento Exterior and Banco Totta de Angola, which hold about 37 percent of the deposits. Recently a new regional private bank, Banco Keve, has opened in Luanda (the names of these banks can be found in *Table A.3* in the *Statistical Appendix*).

The range of financial services offered by these banks is limited because of lack of interest by the banks and a low level of public confidence on the financial system. High levels of inflation for a long period of time have also contributed to limiting the scope of the activity of the banking system. Today most banks seem to focus on financing and providing services for import operations. Although the banks have recently appeared to be expanding their activities to a wider range of financial activities.

In fact, the banking and financial system was devestated as a consequence of an ill-fated currency changeover in 1990. This operation included the confiscation of a large share of the private financial savings, destroying the confidence of the public in the banking system. A weak legal framework and the difficulties in enforcing contracts have strongly reduced the use of non-cash system of payments such as for example bank checks. The general insecurity and the problems of enforcing contracts have reduced loans to a narrow circle of clients closely related to the bank and mostly to the financing of imports. In fact, until a few years ago the rates of interest were fixed by the Central Bank well below their market levels, further reducing the interest of the bank in lending money. In addition, today when the banks start to expand their lending activities, they lack well-trained staff for qualifying credit and monitoring projects.

4.5. Development Instruments

A main weakness of Angola's economy is the lack of financial instruments for economic development. This is especially important today, after the consolidation of peace, when developing a strong and dynamic private sector has become an urgent target. The only institution that can be identified as addressing this role is FDES (Fundo de Desenvolvimento Económico e Social). There was a previous institution, CAP (Caixa de Agricultura e Pescas), already in liquidation, that had been designed to promote investment in fishing and agriculture. The performance of the CAP was clearly unacceptable and it was unable to recover most loans. Consequently, its capital rapidly disappeared, including financing from the donors. The main reason seems to have been bad or total lack of credit qualification, lack of protection against inflation, and highly negative real rates of interest. As a consequence the CAP has been set for liquidation during a long period.

This newly developed credit institution, FDES, is a *"rara avis"* belonging to the narrow group of the few reasonably transparent and auditable public institutions in Angola. The main and original aim of this institution was to channel part of the large oil revenues to support investment in the private sector. In the beginning, the FDES would receive 150 million USD from oil bonuses in 2000. However, only 30 million has been disbursed until now and the government seems to be reluctant to assign new money to the FDES.

The FDES, created in May 2000, reformulated several previous institutions like *Fundo de Apoio ao Empresariado Nacional* (FAEN), *Fundo de Desenvolvimento das Pescas* (FADEPA), *Fundo de Desenvolvimento Agrícola* (FADA), *Instituto de Apoio às Pequenas e Médias Empresas* (INAPEM). These were small autonomous funds, often with financial problems that were contributing to the transparency problems in the fiscal accounts.

FDES aims mostly at small and medium sized firms with loans ranging from 10 to 500 thousand USD. Very large projects are avoided as well as micro-projects. The latter are avoided because there are no adequate financial institutions to intermediate these loans. Banco Sol, originally aimed at micro-enterprises is reorienting itself because of the high cost of microfinance. The lending activity is carried out through commercial banks and is organized in three lines: the blue line aimed at transport, industry and civil construction sectors; the green line aimed at agriculture and animal farming and fisheries; and the yellow line for operating financing. The following table presents the distribution of the loans granted by FDES.

Table 4.2 FDES Outstanding Loans by Economic Sector

Economic Sector	No of Projects	No of Employment	Outstanding Loan USD	K/L[1]	K/P[2]
Agriculture	36	1292	4002327	3098	111176
Building & Construction	16	672	3457042	5144	216065
Industry	40	1003	6934112	6913	173353
Fishing	51	1262	12240054	9699	240001
Transport	30	328	8374561	25532	279152
Total	**173**	**4557**	**35008096**	**7682**	**202359**

[1] Capital-labor ratio.
[2] Capital-project ratio.

FDES has lent 35 million USD in 173 projects, generating about 4557 jobs. This last figure is the project estimate and not necessarily the actual result. However, from *Table 4.2* it is seen that FDES has positively contributed to increasing formal employment. Investment per job is on average 7682 USD varying between about three thousand USD for agriculture and 25 thousand for transport. This last sector appears, quite clearly, as the most capital intensive. The average size of the projects is about 20 thousand USD. Note that the figures in *Table 4.2* present only the direct employment effects. As these investments have especially strong linkages with the domestic economy, we can expect that the total effect on employment is much larger than this estimation. Moreover, these investments, albeit small, must be producing positive effects on the national income and reduction in poverty.

Table 4.3 below presents the relative structure of FDES lending. *Tables A.4* and *A.5* in the *Statistical Appendix* present the geographical distribution of this lending. The tables are difficult to read because they do not reflect the demand for investment credit, but rather policy in terms of sectoral and geographic targets set by FDES itself. This could explain, for example, the low share of building and construction in the total portfolio, although it seems to be a quite dynamic sector. The strong concentration of loans in Luanda is not surprising, but the large share in Benguela suggests that a strong investment and development process is taking place in this city, which is the country's second largest urban concentration. Kwanza Sul is another strong target for FDES' investments. It is too early to see a geographical pattern of development in these figures.

Table 4.3. FDES Outstanding Loans (Percentage Structure)

Economic Sector	No of Projects	No of Employment	Outstanding Loan USD
Agriculture	20.8	28.4	11.4
Building & Construction	9.2	14.7	9.9
Industry	23.1	22.0	19.8
Fishing	29.5	27.7	35.0
Transport	17.3	7.2	23.9
Total	100.0	100.0	100.0

Source: FDES.

The arrears rate reached a threatening 50 percent at the beginning of the operation. However, the analysis of them showed that they were mostly due to delayed projects and could be solved by an extended grace period. Today FDES has shifted to a system with larger and differentiated grace periods improving the recovery rate. The institution is about to start enforcing a few contracts using legal measures.

FDES operates mostly through commercial banks, and well-known weaknesses of the financial system (mainly the scarcity of adequate credit information and analysts) are serious obstacles for its work. The intermediating banks can seldom monitor the financed projects and loans are guaranteed by mortgages on fixed assets and collaterals. Land can not be accepted as a guarantee because of the ownership rights problems, seriously limiting lending activities to agriculture.

There are a few other institutions that bear some development responsibilities. However, they are quite weak and poorly financed. Examples are the *"Novo Horizonte"* program, supporting microenterprises, and the *"Instituto Nacional de Emprego e Formação Profissional"* (National Institute for Employment and Trade Education) under the Ministry of Public Administration, Employment and Social Security. This institute has 33 training centers throughout the country.

5. Conclusions

During the last few years Angola has benefited from two factors that eased the enormous pressures that the economy had been suffering in previous periods. One of them is the peace that appeared to be definitely consolidated after the death of Jonas Savimbi in February 2002. The other factor is a rather long period with high oil prices due to war and instability in Iraq, as well as a slower than expected recovery of oil output in that country.

Peace seems to be consolidated, especially after the last UNITA congress that apparently solved the contradictions between the political and the military branches of the party. Thus, no threats to peace and political stability are apparent in the short term. However, one should be more cautious about the medium and long term perspectives of a durable peace. Several important problems must be solved before peace becomes ensured. First, the serious social problems caused by internally displaced persons and especially by the demobilization and reinsertion of thousands of ex-combatants must be solved or, at least, strongly alleviated. Second, the government must create the conditions for effective economic policy that will contribute to the solution of the problems that seriously threaten the economy. Third, an effective and stable political system must be set up allowing for democratic, responsible, transparent and effective governance.

High oil prices have now been sustained for three years in a row. These prices could be supported by world economic recovery and a sluggish Iraqi recuperation. However, in the medium and long term oil prices could be threatened by dollar depreciation, high long term substitution elasticities in the main industrialized economies and technological changes. Some alternative sources of energy seem to be approaching to the profitability breaking point, at least for some niche applications.

Thus, Angola has had two or three years of positive economic development with GDP growth, including satisfactory development of the domestic economy, and possibly, some relief of the social problems. The outlook of the oil industry is good and the GDP is expected to continue to grow in the medium term.

The government has had only limited success in taking advantage of this relatively positive environment for advancing in solving the country's economic problems. On the positive side we could note a reduction of inflation (2003 closed under 100 percent), that the foreign exchange market has been liberalized, liberalizing measures in international trade, and changes in the regulations of domestic trade, which strongly improved the degree of competitiveness in domestic markets. Peace and these reforms explain a significant rate of growth of the domestic economy and, especially a rather vigorous response in agriculture.

In spite of the positive environment faced by Angola during the last few years, the main economic problems are still present. First, it should be noted that Angola continues to have a quite serious fiscal problem. The country needs to expand its taxation basis in order to obtain non-oil fiscal revenues. There is still an ample space for reducing government expenditures, especially by eliminating generalized and regressive subsidies. However, Angola's fiscal problem is not basically one of inadequate expenditures and revenues but one of lack of control over the fiscal process. The most controversial and important aspect of the fiscal situation, closely associated to deficient and inadequate control of expenditures and revenues, is the poor transparency of the fiscal process. The situation has evolved in such a manner that transparency problems have become the main controversial issue with the IFIs and the donors. Transparency also affects the external debt, because of financial operations outside proper budget procedures. At the core of this transparency problem is the complicated relationship between the Ministry of Finance, SONANGOL, and BNA (the Central Bank). Information and data are not flowing adequately among these institutions, and the lack of transparency is evident.

Looking at marginal markets for external financing often guaranteed by oil, is simply too expensive and onerous for Angola. Therefore, the relationship with the IMF must be reconstructed. However, the reconstruction of this relationship demands some advances in transparency that requires some changes in the political setup. It is possible that these changes could evolve from the incoming electoral process.

High inflation is a clear consequence of the problems mentioned above. In spite of some advances in the anti-inflationary struggle, it is expected that the country will suffer from high inflation for another few years, with stronger surges of high instability in prices if oil markets return to a situation with lower prices.

Angola lacks proper institutions and instruments to pursue an active development policy aimed at a rapid growth of the domestic economy which would contribute to poverty reduction. The financial and banking system of today is simply too weak. There is only one small institution lending in the medium and long term, which is an essential task for developing an investment process leading to a growing domestic economy. Angola needs to develop mechanisms that capture some of the oil rents and redirect them to productive investments, protecting them from the budget. An example of this policy is the creation of strong development banks, financed by the oil rents.

Besides the economic problems mentioned above, Angola faces severe social problems that must be addressed in the short term. The most important of these issues are to solve the problems of demobilization and reinsertion of the ex-combatants and internally displaced persons, as well as a minimal reconstruction of the infrastructure destroyed during the war. Some success has been observed in this regard, mostly with the support of the World Bank and other donors, and as a result of a stronger response by the local population than, especially in the rural sector.

In the medium and long term the problems of education and health must also be addressed. These two sectors have been traditionally problematic in Angola and deteriorated further during the war. In fact, these sectors became strongly dependent on the assistance from donors. The end of the war contributed to heavily extend the dimension of the problems by an increase in the geographical surface and populations to be covered. No strong and broad enough initiatives could be observed in these sectors.

For a long period of time economic integration in Southern Africa has been observed with interest as opening new ways and possibilities for economic development. However, no specific economic results have yet been achieved and the involved countries are still discussing general political problems. Rather than an economic integration of Southern African countries, what is appearing is some kind of integration of the individual countries with South Africa, caused by the asymmetry of the South African economy to the rest of the members of the group.

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A. Statistical Appendix

Table A.1. Budget 1997–2003 (percentage structure)

	1997	1998	1999	2000	2001	2002	2003-I	2003-II
Revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Taxes	99.1	98.4	99.4	99.5	99.3	99.0	99.2	98.6
Oil Taxes	83.3	69.1	87.2	89.1	80.6	76.8	78.4	72.5
Non-Oil Taxes	15.8	29.2	12.2	10.4	18.7	22.2	20.8	26.1
Income	3.8	7.8	3.5	3.0	6.2	6.5	5.7	9.5
Indirect Taxes	4.3	9.1	4.3	3.6	5.3	7.7	7.7	8.9
Int. Trade Taxes	5.3	8.3	3.0	2.7	5.0	5.5	5.1	5.3
Other	2.4	4.0	1.4	1.1	2.2	2.5	2.3	2.3
Non-taxes Revenues	0.9	1.6	0.6	0.5	0.7	1.0	0.8	1.4
Current Expenditures	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Wages	30.0	18.4	8.7	10.9	18.3	27.7	38.9	45.7
Goods and Services	52.1	35.3	55.9	62.1	55.4	49.3	38.6	30.0
Interest	8.0	13.7	10.5	12.8	11.8	10.2	7.1	7.3
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3
External	8.0	13.7	10.5	12.8	11.8	10.2	6.8	7.0
Transfer	9.9	2.1	21.8	12.4	12.6	12.8	15.4	17.0
Other (quasi-fiscal)	0.0	30.5	3.0	1.8	1.9	0.0	0.0	0.0

Source: MINFIN.

Table A.2. Discrepancies in Fiscal Accounts (percentage GDP)

	1999	2000	2001
	Government		
Revenues	46.9	51.8	41.0
Expenditures	64.0	56.1	39.2
Balance	-17.2	-4.3	1.8
	IMF		
Revenues	46.9	51.8	41.0
Expenditures	82.6	60.8	48.7
Balance	-35.8	-9.0	-7.6
Discrepancies	**18.6**	**4.7**	**9.5**

Table A.3. Commercial Banks in Angola (2003)

State Owned Banks	
BCI	Banco de Crédito e Investimentos
BPC	Banco de Poupança e Crédito
Private Banks	
BAI	Banco Africano de Investimentos
BCA	Banco Comercial de Angola
BFE	Banco de Fomento Exterior
BPA	Banco Portugues do Atlântico
BTA	Banco Totta de Angola
SOL	Banso Sol
BESA	Banco do Espírito Sando de Angola
BK	Banco Keve

Table A.4. FDES Outstanding Loans by Province.

Province	No of Projects	No of Employment	Outstanding Loan USD	K/L[1]	K/P[2]
Bengo	6	323	2402769	7439	400461
Benguela	31	711	7455182	10485	240490
Bié	2	29	438480	15120	219240
Cabinda	8	207	1499732	7245	187467
Cunene	5	208	1131483	5440	226297
Huila	12	331	2038528	6159	169877
Kuando Kubango	1	24	49500	2063	49500
Kwanza Norte	4	81	661204	8163	165301
Kwanza Sul	20	738	3032816	4110	151641
Luanda	73	1646	13876902	8431	190095
Lunda Norte	1	26	45069	1733	45069
Lunda Sul	1	45	452943	10065	452943
Malange	1	13	433326	33333	433326
Moxico	4	75	220504	2940	55126
Namibe	4	100	1269658	12697	317414
Total	173	4557	35008096	7682	202359

[1] Capital-labor ratio
[2] Capital-project ratio.Source: FDES.

Table A.5. FDES Outstanding Loans by Province (Percentage Structure).

Province	Projectsnr.	Employmentnr.	Outstandingdollars
Bengo	3.5	7.1	6.9
Benguela	17.9	15.6	21.3
Bié	1.2	0.6	1.3
Cabinda	4.6	4.5	4.3
Cunene	2.9	4.6	3.2
Huila	6.9	7.3	5.8
Kuando Kubango	0.6	0.5	0.1
Kwanza Norte	2.3	1.8	1.9
Kwanza Sul	11.6	16.2	8.7
Luanda	42.2	36.1	39.6
Lunda Norte	0.6	0.6	0.1
Lunda Sul	0.6	1.0	1.3
Malange	0.6	0.3	1.2
Moxico	2.3	1.6	0.6
Namibe	2.3	2.2	3.6
Total	100.0	100.0	100.0

Source: FDES.

B. Acronyms

ACCI	Angola Chamber of Commerce and Industry
ACIIL	Commercial and Industrial Association of Ilha de Luanda
ACOMIL	Commercial and Industrial Association of Luanda
AIA	Industrial Association of Angola
AIDS	Acquired Immuno-Deficiency Syndrome
AJEA	Association of Young Entrepreneurs
APMECA	Provincial Association of Small and Medium Enterprises of Cabinda
ASSOMEL	Association of Women Entrepreneurs of Luanda
ASSOMECA	Association of Women Entrepreneurs of Cabinda
BNA	Central Bank, Banco Nacional de Angola.
CAP	Caixa de Agricultura e Pescas.
FAA	Angolan Army Force
FADA	Fund for the Development of Agriculture
FADEPA	Fund for the Development of Fishing
FAEN	Fund for the Support of National Entrepreneurs
FDES	Economic and Social Development Fund
FENAPRO	National Production Fair
FILDA	The International Trade Fair of Luanda
FMU	UNITA Military Force
FNL	National Front of Liberation.
GEA	Group of Angolan Entrepreneurs
GDP	Gross Domestic Product
HIVIDAIFIs	Human Immuno-deficiency VirusInternational Development AssociationInternational Financial Institutions
IMF	International Monetary Fund
INAPEM	Institute for the Support of Small and Medium Enterprises
INE	National Institute of Statistics
I-PRSP	Interim Poverty Reduction Strategy Paper
MIGA	Multilateral Investment Guarantee Agency
MINFINMPLA	Ministry of FinanceMovement for the Liberation of the People of Angola
NGO	Non-Governmental Organization

SADC	Southern Africa Development Community
SMP	Staff Monitored Program
SONANGOL	The Angolan National Oil Company
UNITA	National Union for the Total Independence of Angola

C. Country Economic Reports

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.

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