

MAIN REPORT

Angola: Diagnostic Trade Integration Study



NATHAN
ASSOCIATES INC.

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SUBMITTED TO

World Bank
USAID

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UNDER CONTRACT NO.

World Bank 7134881
USAID PCE-I-00-98-00016-00
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Acronyms and Abbreviations

AfDB	African Development Bank
AGOA	Africa Growth and Opportunity Act
ANIP	Agência Nacional de Investimentos Privados
BIVAC	Bureau of Inspection Valuation Assessment & Control
BNA	Banco Nacional de Angola
CEMP	Customs Expansion and Modernization Program
DFID	Department for International Development (UK)
DTIS	Diagnostic Trade Integration Study
ECP	<i>Estratégia de Combate à Pobreza</i>
EDA	Estacao de Desenvolvimento Agrario
EDEL	Empresa de Distribuição de Electricidade de Luanda
EITI	Extractive Industries Transparency Initiative
ENAMA	Emresa Nacional Angolana de Mecanizacao Agricola
ENDIAMA	Empresa de Diamantes de Angola
ENE	Empresa Nacional de Electricidade
EPA	Economic Partnership Agreement
EPAL	Empresa Pública de Águas de Luanda
EU	European Union
FAO	Food and Agriculture Organization
FAS	Fundo de Acção Social
FDES	Fundo de Desenvolvimento Económico e Social
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GEPE	Directorate of Planning and Studies
GDP	gross domestic product
GSA	Gabinete de Seguranca Alimentar
GII	Directorate for International Interchange
IIA	Instituto de Investigacao Agronomica
IANORQ	Instituto Angolano de Normalizaco e Qualidade
IDR	Inquérito de Despesas e Receitas
IMF	International Monetary Fund

INCA	Instituto Nacional do Cafe
INE	Instituto Nacional de Estatísticas
IPZ	industrial processing zone
ISO	International Standards Organization
ISPS	International Ship and Port Facility Security
MECANAGRO	State Agricultural Machinery Company
MFN	most favored nation
MICS	Multiple Indicator Cluster Survey
MINADER	Ministry of Agriculture and Rural Development
MOC	Ministry of Commerce
MPLA	Movimento Popular para a Libertação de Angola
NEPAD	New Partnership for Africa's Development
OECD	Organization for Economic Development and Cooperation
OPEC	Organization of Petroleum Exporting Countries
SADC	Southern African Development Community
SSA	sub-Saharan Africa
TBT	technical barriers to trade
TRIPS	Trade Related Intellectual Property Rights
UNDP	United Nations Development Program
UNITA	União Nacional para a Independência Total de Angola
WHO	World Health Organization
WTO	World Trade Organization

1. Introduction

Rationale for the Study

The primary goal of this Diagnostic Trade Integration Study (DTIS) is to provide a plan for reactivating Angola's productive sectors that reduces the country's reliance on imports while enabling the restoration of export capacity in the medium to long term. Executing such a plan will involve investing in the rehabilitation of infrastructure destroyed by war and making and adjusting policies that affect the institutional underpinnings of a market economy, as well as incentives for exporting and importing. This goal is inextricably linked with the overriding need to create jobs and alleviate poverty identified in the government of Angola's long-term poverty reduction plan, the Estrategia de Combate a Pobreza (ECP). This study

- Evaluates Angola's trade performance and identifies sectors that hold promise for rehabilitation;
- Identifies weaknesses in the trade policy environment – tariff structure, nontariff measures, export incentives, customs administration, trade facilitation--and suggests measures to improve that environment;
- Describes how the relationship between oil-induced macroeconomic distortions identified in the World Bank's Country Economic Memorandum (forthcoming) and the rehabilitation of productive sectors will influence the extent to which Angola can reactivate domestic production in the short term and export nonmineral goods in the medium to long term;
- Describes the extent to which reactivation of investment and production in trade-related sectors will depend on infrastructure rehabilitation and rebuilding, as well as improvements in the business environment;
- Describes what the agriculture, manufacturing, tourism, and fisheries sectors will need to achieve their potential;
- Identifies how Angola can better use its involvement in regional and international trade agreements to increase trade-related growth.

- Identifies institutional constraints on trade, including institutional linkages and authorities, and the capacity of entities to formulate and implement trade policy; and
- Describes how growth in trade-related sectors can alleviate poverty (i.e., how reactivating production in trade-exposed sectors such as agriculture can boost the incomes of the poor).

Socioeconomic Context and Recent Economic History

With a natural resource base that can support a wide range of economic activities, Angola has the capacity to be an exemplar of economic success in Africa. With a total territory of 1,246,700 square km and a population of 15 million, it is sparsely populated. Abundant arable land, much of it uncultivated, is capable of supporting rainfed agriculture, and variations in altitude permit the growth of tropical and temperate zone crops. Known for its oil and diamonds, Angola has other mineral resources as well, such as iron, quartz, ornamental stones, and phosphates. It is likely that more minerals will be discovered when the country's mineral potential is fully explored.¹

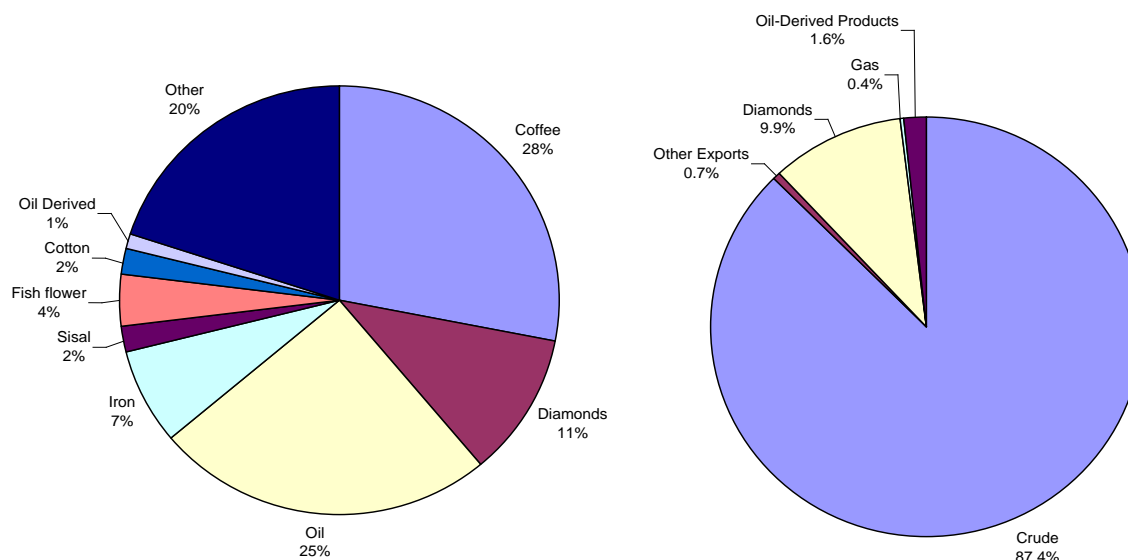
As a colony of Portugal, for nearly 500 years Angola served the needs of Portugal. The cycles of the colonial economy were determined by exports—first slaves, then primary commodities such as rubber and coffee. Before Angola gained independence from Portugal in 1975, it was known as an agricultural producer, not an oil exporter. It was the world's fourth-largest exporter of coffee and one of the largest exporters of staple foods in sub-Saharan Africa—exporting more than 400,000 metric tons of maize annually. These grain exports were produced almost exclusively by smallholders using traditional technologies. Oil had not yet achieved the high production levels of the 1980s and thereafter (Figure 1-1). Today, the economy is heavily dependent on oil, a capital-intensive sector with few linkages to other parts of the economy and little impact on employment. After 1973, the structure of the economy changed substantially as the mining and service sectors increased their share in GDP (Table 1-1).

Dislocations caused by the post-independence wars have severely affected the population and the economy. As farmers fled the wars, rural and agricultural economies collapsed and urbanization increased sharply. More than one million people lost their lives during the civil war, 4.3 million fled to the cities, and 400,000 people sought refuge in neighboring countries. More than 45 percent of the population became concentrated in urban areas, more than half of them in Luanda (Adauta de Sousa, 2003).

¹ This section draws on the World Bank's Country Economic Memorandum for Angola (forthcoming).

Figure 1-1

Composition of Angolan Exports in 1972 and in 2001-2003 (average)

**Table 1-1**

Composition of GDP by Sector, 1966–2004

Sector	1966	1970	1987	1996	2004
Agriculture, forestry and fishery	14.2	9.0	12.6	7.0	9.1
Industry	22.2	29.6	57.5	67.8	58.1
Mining	6.3	10.7	51.0	61.2	49.8
Manufacturing	8.7	10.7	3.7	3.4	4.2
Electricity and water	0.9	0.9	0.3	0.0	0.0
Construction	6.3	7.3	2.5	3.1	4.0
Services	63.6	61.4	29.9	25.2	32.8
Transport and communications	6.3	5.9	2.7	0	0
Commerce	34.0	30.3	7.2	15.0	15.4
Other services	23.3	25.2	20.0	10.1	17.5

SOURCES: IV Plano de Fomento 1974-1979, Angola; Perfil Estatístico, 1988-1991; "Angola: An Introductory Review," World Bank, January 1991; data provided by Angolan authorities to IMF and World Bank.

War also destroyed the country's infrastructure, directly and through 20 years of neglected maintenance. Roads have been especially affected; many areas are now isolated from the rest of the country. The World Bank has estimated that restoring the road and bridge network, without which little rural activity is feasible, will take \$4 billion (Diamonds Human Security 2004). In addition, much of the country's manufacturing capacity has also been destroyed or rendered inoperable.

In 1976, all 300,000 Portuguese settlers, who monopolized skilled jobs, departed abruptly, and Angola still suffers the effects of this exodus. Three decades may seem adequate for a new

generation to be educated to replace them, but the nearly continuous conflict since then has prevented this from occurring to the degree necessary. School attendance remains low—75 percent in cities and 50 percent in rural areas—while the fraction of students reaching Grade 5 is half the 67 percent average for sub-Saharan Africa. Not surprisingly, literacy ratios are also low, especially for females. Persistent underemployment, especially among the young, hampers skill acquisition and retention and feeds the potential for social strife. Wage surveys indicate that families have little incentive to invest in education beyond basic levels because doing so is unlikely to increase income enough to justify the expense (Adata de Sousa et al. 2003, 35). Such low levels of human capital formation constrain the scope of economic diversification and the productivity required to compete in the global economy.

Growth and Internal Balance

GDP per capita is relatively high, approximately \$970 in 2003, and the IMF projects that it will reach \$1,305 in 2005. Distribution, however, is extremely skewed. According to the government, well over two-thirds of Angolans subsist on less than \$2 per day, a fact mirrored in the sectoral distribution of both GDP and labor, where less than 10 percent of value added (in agriculture) is produced by more than two-thirds of the workforce.

Angola's recent GDP growth is closely linked to growth in the oil sector (see Table 1-2). During the many years of conflict, manufacturing in rural areas was impossible and cities were cut off from both sources of supply and potential markets for manufactures. Now that hostilities have ended, non-oil sectors are growing slowly while oil remains dominant. If sustained, the recent jump in the price of oil to more than \$60 per barrel will provide additional growth for the sector.² In fact, oil has accounted for at least half of GDP in recent years, and this percentage will climb steeply as new production comes on line and if world prices remain high. Among other sectors, services are important, while agriculture and manufacturing account for a small share of GDP. These sectors have shown a high growth rate in recent years as economic reactivation has proceeded from the extremely low level of activity of the immediate post-conflict period.

In the past five years, there has been a positive evolution in macroeconomic indicators as Angola has achieved stability, with sustained GDP growth, a reduction in inflation, stability in the exchange rate, and an increase in international reserves, which reflects an increase in the confidence of international investors and demonstrates a favorable investment climate for investments in the non-oil productive sectors. This can contribute to the development and diversification of exports, as can be seen in Table 1-2.

² Data collection systems are deficient, particularly outside Luanda, making reported figures difficult to rely on. The government's statistical network is largely nonexistent outside major cities, with even the size of the population a subject of debate. Oil production estimates are better known, though the disposition of oil receipts is a point of contention between the government and international lending institutions. Huge diversions have been alleged but verifying such claims is difficult. Recent moves toward transparency are welcome but do little to improve the quality of historical information.

Table 1-2
Selected Economic Indicators, 2001-2006

Indicator	2001	2002	2003	2004	2005	2006
Real GDP growth (%)	3.1	14.4	3.4	11.7	20.6	26.9
Inflation (%)	116.1	105.6	76.5	31.0	18.5	10.0
Real exchange rate	80	72	58	49	40	
Fiscal balance/GDP (%)	-6.1	-7.4	-7.8	3.4	4.0	-4.9
Current account/GDP (%)	-14.9	-1.4	-5.2	4.2	8.2	
External debt/GDP (%)	81.3	81.0	61.2	45.3	32.6	11.3

Notes: Real exchange rate measured at year end; 2006 uses projected figures.

SOURCE: BNA

As the table shows, economic growth has had an increasing trend since 2002, attaining a growth rate of 14.4 percent in GDP, falling somewhat in 2003, but regaining its upward trend in 2004 and 2005, with strong growth of 11.7 percent and 20.6 percent respectively. This salutary performance of GDP continued to be strongly influenced by the oil sector, which grew 13.9 percent in 2004 and 19.7 percent in 2005. The growth in the non-oil economy in 2004 was 9.1 percent and 10.4 percent in 2005. Of particular importance was the growth in the agricultural and fishing sectors as well as civil construction, manufacturing and services.

Since the 1990s, Angola has weathered hyperinflationary episodes followed by stabilization and control policy packages and renewed inflation. These cycles were caused by monetization of fiscal deficits. When spending fueled by oil receipts proved unsustainable after a period of growth—either because oil receipts, production, or prices declined—the government printed money or borrowed against future oil receipts. This cycle was broken in mid-2003 when the government instituted a new policy package to bring inflation under control and to restore confidence in the national currency. This process is described in detail in the forthcoming World Bank Country Economic Memorandum but it is clear that the government's goal has been largely achieved, with monthly inflation now in the low single digits; annual average inflation in 2005 was 18.6 percent (down from 28.7 at the beginning of the year) and the goal is to continue lower it in 2006.

Table 1-2 shows the fiscal balance as a percent of GDP, where it can be seen that the deficit in the fiscal accounts of the government were very high until the recent surge in oil production. In the immediate aftermath of the war the government was reluctant to make strong fiscal adjustments given the need for expenditures on rehabilitation and rebuilding of infrastructure. But the current high price of oil and increased production have largely solved the government's deficit problem—at least for the time being. The government has made progress in implementing a new monitoring system for fiscal expenditures and has accepted the validity of recommendations in the World Bank's review of public expenditure management.

Subsidies and Price Controls

In 2003, the IMF focused on the high level of subsidies in Angola, which accounted for some 3.3 percent of GDP in 2002. Two classes of subsidies were identified: operational subsidies to loss-making public companies, which amounted to 0.5 percent of GDP, and price subsidies granted to public utilities to compensate for low tariffs, valued at 2.8 percent of GDP. In addition, the IMF noted that certain recapitalization payments to state-owned enterprises might really be considered operational subsidies.

The principal price subsidies in Angola noted in 2003 were for fuel, electricity, and water. Gasoline and kerosene prices in Angola in January 2003 were reported to be roughly one-quarter the world price. Electricity tariffs charged by EDEL, the supplier in Luanda, were 0.4 percent of the cost of production, and those charged by ENE, responsible for distribution outside Luanda, were 65 percent of the cost of production. Official tariffs for water in Luanda were so low that the public water company could neither carry out adequate maintenance nor extend the water supply to the expanding unserved periurban areas; only about 56 percent of the population of Luanda and 32 percent of the population of other urban areas received piped water from the mains, and only between 2 percent and 15 percent of total production and distribution of water was received as revenue.

These subsidy practices were highly regressive: limited availability of utilities generated large informal markets in which prices were significantly higher, which provide good business for private operators and were used generally by the poorest people.³

A number of goods are subject to fixed prices or controls on price margins at the producer, wholesale, or retail level. Fixed prices currently cover bread and petroleum products; controls on margins cover a variety of goods for use in agriculture, as well as other basic supplies, textiles, clothing, shoes, and medicine. In December 2005, the World Bank finalized a comprehensive report that analyzed these subsidies and formulated recommendation for phasing them out.⁴ Key recommendations included the need to use savings from the phase-out to ameliorate the impact of subsidies on the poor and vulnerable. These palliative measures could take a variety of forms, but are necessary to ensure political acceptance of the reforms. In addition, the water sector requires infrastructure investments and management reforms before subsidies can be phased out.

External Sector

With respect to external debt, the ratio of the external debt expressed as a percentage of GDP has improved significantly—from 100.6 percent in 2000 to 61.2 percent in 2003. The improvement observed in the external debt ratios in the medium-to-long term is estimated to

³ IMF (2003a) and Aguilar (2001).

⁴ "Assessing the Impacts of Phasing Out Fuel and Utility Price Subsidies."

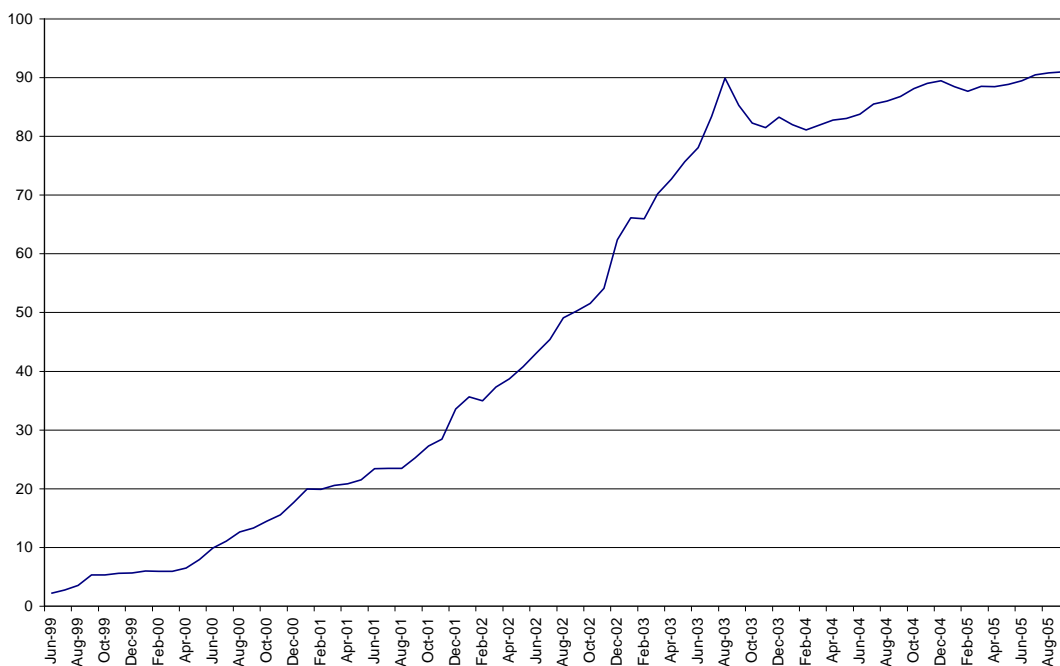
have continued, declining from 45.3 percent of GDP in 2004 to 32.6 percent in 2005. This can be explained not by the reduction in the stock of debt, which has increased slightly, but by the increase in GDP as expressed in U.S. dollars. The new methodology for accounting for the debt (with the new UNCTAD computerized system, DMFAS) permits only medium- and long-term estimates. The stock of external debt including oil-backed debt is equivalent to US\$8.889 billion as of end-2004, according to available information.

Angola's relatively high indebtedness is the result of oil-backed borrowing and three decades of large external debt. Its external debt is about \$8 billion, of which about \$1 billion is short term. Thanks to the country's high level of exports, though, it is relatively secure in its ability to service debt: the current debt service ratio is about 20 percent and the ratio of debt to GDP about 50 percent. Angola's ability to benefit from future increases in production, however, is limited by the commitment of oil revenue to debt service. Balancing this is the fact that progress is being made in rehabilitating productive capacity and infrastructure generally, as is discussed below in this report.

Relations with international organizations were uneven throughout the episodes of inflation and stabilization. In the past year, however, the government has shown a renewed determination to achieve stability. Recent announcements about oil-related receipts mark a break with the past and could, if continued and extended sectorwide, provide a basis for a sustained move to a more transparent mode of operation.

Figure 1-2 shows the evolution of the exchange rate in the past five years. Of particular interest is the clear change as of August 2003. The more stable exchange rate since that time reflects government efforts to stabilize the economy together with a strong inflow of foreign exchange.

Figure 1-2
Kwanza–U.S. Dollar Exchange Rate



With a stable nominal exchange rate and a decelerating rate of inflation, in the past years the real value of the kwanza increased significantly. This was not a deliberate objective of the government but the result of a combination of factors, internal and external. The mechanisms by which these outcomes occurred are beyond the scope of this paper and are discussed more fully in the World Bank's forthcoming Country Economic Memorandum. However, the resulting exchange rate has strong implications for efforts to promote exports or import-competing activities since the stable nominal exchange rate implies constant prices for traded goods (exports or imports) while Angolan producers face escalating costs and narrowing (or nonexistent) profit margins if inflation continues to increase their costs.

PATTERN OF TRADE

Sectoral Distribution of Exports and Imports

The large majority of Angolans are not involved in and do not benefit directly from the country's exports. Most export revenue derives from oil and gas, directly benefiting the national treasury but affecting poverty only insofar as poverty alleviation is a priority in the government's budget. An extreme enclave economy, the oil sector is of no help in alleviating poverty directly. For example, workers and inputs, including much of the food consumed by workers, are imported. And the effect of employing local labor in diamond mines is small relative to the population in general.⁵ Urban coastal populations depend on imports for much of their subsistence needs because links between coastal markets and productive areas in the interior are still weak. Production of manufactures on the coast has not yet recovered from the effects of the civil war. Agricultural producers in the interior are largely isolated from import and export markets, though this situation has improved somewhat in the past two years. Thus, urban populations are entirely dependent on imports for all needs—food, manufactures, and consumer durables. In contrast, rural populations are still largely reliant on their own production for subsistence needs. Few rural inhabitants participate in national markets as either producers or consumers.

Trade Partners and Regional Integration

Historical trade figures make it clear that Angola's integration into regional trade is limited. The vast majority of trade is conducted with the European Union and the United States, with South Africa accounting for approximately 10 percent of the total trade in recent years. Given Angola's potential as a food exporter and the status of other SADC countries as food importers, opportunities for expanding regional trade exist, though of course this depends not only on food deficits but also on overall economic growth in the countries in this region.

⁵ This section draws on Chapter VI of the World Bank's Country Economic Memorandum for Angola (forthcoming).

Oil and diamonds dominate Angola's exports, accounting for 93 percent and 6 percent of merchandise exports, respectively, in recent years (Table 1-3). Items such as stones, sand, and fish make up the remaining 1 percent. With limited refining capacity, almost all exported oil is crude oil.⁶ Meanwhile coastal cities import everything, even products in which the country has a comparative advantage. Merchandise imports account for about 30 percent of GDP, and the trade account overall generates a large surplus—averaging 40 percent of GDP. This is offset by payments for services related to investment in the oil sector and interest charges on short-term external debt. Whether the current account generates a deficit or surplus depends on the price of oil.

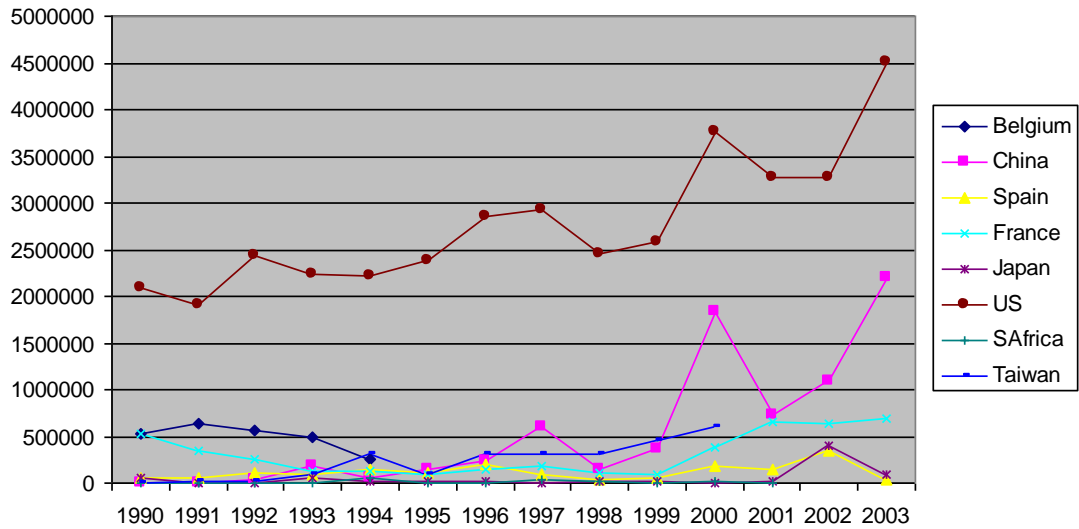
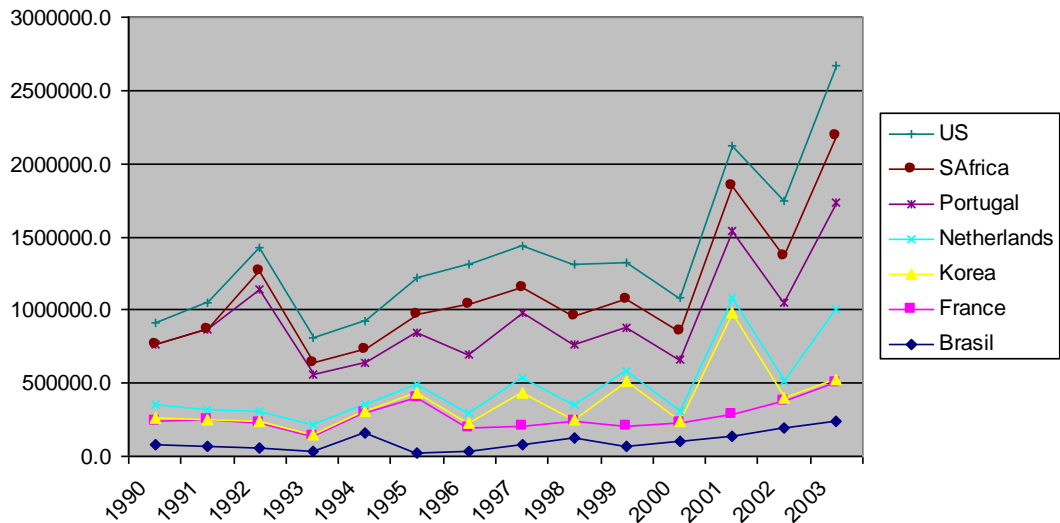
Table 1-3
Trends in Merchandise Trade

	1995	1996	1997	1998	1999	2000	2001	2002	2003
U S \$ (0 0 0)									
Total exports	3,753	4,993	4,768	3,825	4,829	7,927	6,881	8,030	9,486
Total imports	1,734	1,930	2,316	2,047	2,055	2,023	3,238	2,886	4,161
Trade balance	2,019	3,063	2,452	1,778	2,774	5,904	3,643	5,144	5,325
P E R C E N T O F G D P									
Total exports	74.5	66.3	62.1	59.3	79.3	89.5	72.6	71.4	71.9
Total imports	34.4	25.6	30.2	31.8	33.7	22.8	34.2	25.7	31.5
Trade balance	40.1	40.7	31.9	27.5	45.6	66.7	38.4	45.7	40.4
C O M P O S I T I O N O F E X P O R T S (P E R C E N T)									
Crude oil	90.4	91.1	89.2	85.9	85.1	88.9	88.9	90.5	94.0
Refined oil	3.1	2.2	1.5	2.0	1.9	2.1	1.7	1.7	1.9
Diamonds	4.4	5.1	6.9	9.2	11.5	7.7	8.2	6.3	3.2
Others	2.1	1.6	2.4	2.9	1.5	1.3	1.2	1.5	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: IMF *Direction of Trade, Comtrade*.

The identity of Angola's export partners is of less interest than the identity of its import partners (Figures 1-3 and 1-4). Oil and gas markets are truly globalized—the product is fungible and the country of destination less important than the fact of sale in the international market.

⁶ Oil is exported largely under long-term contracts with particular countries. This is usually done with oil-backed loans that commit oil production to the repayment of the loans.

Figure 1-3*Main Export Partners, 1990-2003***Figure 1-4***Main Import Partners, 1990-2003*

Almost half of Angola's exports are shipped to the United States and a quarter to China, which seems to be gaining some of the market share that until 1999 belonged to the United States. The European Union accounts for about 20 percent of merchandise exports. Among import sources, the European Union has the largest share (50 percent), followed by South Africa (13 percent), and the United States (10 percent). The United States, South Africa, and Portugal are the primary sources of goods and services (Figure 1-4). However, if the European Union is regarded as a single entity, it is the main source of imports for Angola, with the United States in second place and South Africa in third. South Africa is important for regional integration because it is the de facto anchor and center of gravity of regional trade

organizations such as SADC. Taking into account Angola's potential as a food exporter and potential investments in the agricultural sector, there are possibilities for regional trade expansion, depending on food deficits in the region and economic growth more generally.

Exports of oil and diamonds are projected to increase substantially. Such an increase may not affect overall growth much or do much to reduce poverty unless the resulting revenue is used more productively and the policy environment is improved significantly to assist the economy in diversifying.

REVENUES FROM TRADE

The share of tax revenue from foreign trade (imports and exports) to total tax revenue stood at 28 percent, or 2.2 percent of GDP in 2003; between 2000 and 2003 tax revenue from foreign trade rose almost twenty-fold.⁷ Customs revenues are increasing rapidly. Table 1-4 shows that revenue in 2005 from general customs duties will be about US\$100 million and from import duties almost US\$400 million. Revenue from fines is also growing fast. The increase in revenues is promoted not only by improved enforcement but also by mechanisms such as the fact that Customs officials benefit from an increase in general customs duties and fines.

Table 1-4

Customs Revenues 2003-2005 (in US\$)

Source	2003	2004	2005 (month 1-8)
Import duties	224,699,803	696,497,206	236,926,029
Export duties	5,051,213	7,881,549	842,520
Customs services	64,600,362	86,132,616	64,941,340
Fines (50%)	3,904,602	5,241,503	6,041,367

SOURCE: Customs data.

Total revenue collected by the Customs Administration, including consumer taxes, increased from US\$215.45 million in 2000 to US\$828.173 million in 2004. More than 80 percent of the revenues are collected by Customs in Luanda.

⁷ IMF (2005), *Angola: Selected Issues and Statistical Appendix Country Report No.05/125*, April.

2. Trade and Poverty

Export Production and Poverty

The historical record of low-income countries that have succeeded in negotiating the transition to middle- or high-income economies demonstrates unequivocally the importance of international trade in growth and development. Integration into global markets on both the export and import sides gives access to opportunities that bring not only growth, but also access to productivity improvements that form the basis of modern technologies for sectors such as manufacturing and agriculture. Further integrating Angola into the world economy is also the most effective way to alleviate the extreme poverty that afflicts the majority of Angola's citizens, 60 percent of whom live in rural areas. Linking their incomes to the production of goods and services that can be sold domestically and internationally holds promise for the foreseeable future. Accordingly, the strategy for trade expansion must be based on a clear picture of the nature of poverty in Angola and the potential of the poor to join the economy. In drawing that picture, we emphasize rural inhabitants far more than in other recent discussions of Angola's growth potential. This is in accord with the government's poverty reduction strategy, the *Estrategia de Combate a Pobreza*, which identifies rural inhabitants as suffering the most and whose potential for economic growth must be exploited to the fullest to achieve the strategy's goals. The urban poor are also important because they will provide the labor force for Angola's industrial and service sectors.⁸

⁸ Economists continue to debate the nature of the relationship between growth, trade, and poverty. One view, such as expressed by Dollar and Kray (D. Dollar and A. Kray 2002 "Growth is Good for the Poor" *Journal of Economic Growth* 7, 195-225), is that poverty alleviation is crucially dependent on growth and that growth is closely related to trade. This is also the view that predominates among international institutions such as the IMF, the World Bank, and the WTO. An opposing view (for example, Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," NBER Macroeconomics Annual, 2000) takes a much more skeptical view of these relationships. In this view the ability of trade and growth to alleviate poverty depends on the nature and composition of the growth. Angola illustrates this point: GDP growth and trade affect poverty differently when growth is driven by, for example, oil exports, than when growth is broad-based. This report is neutral in the theoretical debate but can be taken as supporting both the importance of growth and trade to poverty alleviation and the need to take a nuanced view of what *kind* of growth and trade can most effectively achieve this goal.

The huge population movements associated with the wars and their immediate aftermath make relying on existing surveys of living conditions difficult. Social indicators (Table 2-1) still reflect conditions prevailing during the war period, but they nonetheless call for urgent improvements in the livelihoods of the poor and vulnerable. According to both the 2001 IDR and the 2002 MICS, more than two-thirds of the population live on less than US\$2 per day and most Angolans lack access to basic health care. About one in four Angolan children dies before their fifth birthday, 90 percent falling to malaria, diarrhea, or respiratory tract infections. The maternal mortality rate (1,800 per 100,000 births) is one of the highest in sub-Saharan Africa, and three in five people do not have access to safe water or sanitation.

Table 2-1

Basic Poverty and Social Indicators, 2004

Indicator	Angola
Population (million)	14.7
Population ≤ 20 years	60%
Population below poverty line	68%
Life expectancy at birth (years)	42.4
Under-five mortality (per 1,000 live births)	250
HIV/AIDS prevalence	3.9%
Population who know where to get an HIV test	23%
Population correctly stating 3 main ways to avoid HIV infection	17%
Adult illiteracy rate	33%
Maternal mortality rate per 100,000 live births	1,800
Net primary school attendance rate (1-4th grade)	56%
Human Development Indicators rank (out of 177 countries)	166
GDP/capita rank (out of 177 countries)	128
Gini coefficient (income, 1995)	0.54
Gini coefficient (income, 2001)	0.62

SOURCES: IDR 2000/1; UNICEF 2003; UNAIDS 2004; UNDP 2005:1, 5.

According to official statistics, the rate of HIV/AIDS prevalence is relatively low, affecting an estimated 3.9 percent of adults (UNAIDS 2004).⁹ But these estimates rely on a limited number of surveillance centers and it is likely that the true rate of infection is substantially higher. In addition, the isolation of many Angolans during the recent war probably helped keep the infection rate down, but this is likely to change now that normal movement is possible.

⁹ The low estimate is 1.9 percent and the high estimate is 9.4 percent.

Net primary school enrollment is a very low 56 percent, suffering from late entries into school and high repetition and drop out rates. About 33 percent of the population is illiterate, and in rural areas illiteracy can be as high as 50 percent.

Inequality, Rural Poverty, and Agriculture

According to 2001 survey data, while 62 percent of all Angolans lived in poverty, about 95 percent of rural residents were impoverished. The survey found substantial evidence of severe poverty; the average poor person's income was 33 percent below the poverty line, which is lower than in most other Southern African countries (American University 2002). Again, this gap is more than twice as high in rural areas. According to the United Nations, the intensity of poverty is increasing.¹⁰ In the Human Development Index for 2004, Angola was ranked 166 out of 177, far lower than its ranking on GDP per capita. This disparity is due to high oil and diamond income and the high concentration of expenditures financed by mineral income, which results in a highly skewed income distribution.¹¹ Furthermore, the household budget survey (IDR) of 2001 shows that income inequality rose throughout the 1990s, from a Gini coefficient of 0.54 to 0.62,¹² making Angola one of the most unequal countries in the world in terms of income distribution.¹³

Inequality as measured by asset holdings is also high. Using an asset scale estimated on the basis of MICS data (the survey did not collect information on consumption or income), the survey found that assets are highly concentrated in urban areas: only 8 percent of the urban population was in the lowest quintile as measured by holdings of assets and durable goods, but 44 percent of the rural population was in this quintile.¹⁴ Likewise, only 2 percent of the rural population was in the upper quintile. Households with larger asset holdings are much more likely to be in the capital region, or the Western and Southern regions, although the latter region also has one of the highest concentrations of low asset holders. This region is very heterogeneous; Cunene province has 41 percent of its population in the lowest group, while Namibe has the same amount in the highest quintile. Assets most likely to be held are radios (76 percent in Luanda, 28 percent in rural areas) and bicycles (9–10 percent outside Luanda). Few have cars outside Luanda.

The extreme asset poverty of rural areas indicates that though massive recapitalization must precede growth in agriculture or the rural economy, it is also true that this recapitalization can be expected to generate very high returns in such a capital-scarce situation. Social as well as

¹⁰ UNICEF (2003), UNDP (2005: 5).

¹¹ UNDP (2005: 6).

¹² A recent study by Adauta de Sousa *et al* (2003, 38) estimates that the national Gini coefficient is higher than the 0.62 recorded for Luanda.

¹³ Evidence presented in the 2006 World Development Report (p. 86) suggests that higher initial inequality means that growth reduces poverty by a lesser amount than it would in the absence of income inequality.

¹⁴ Unequal access to assets and services is an important constraint to market efficiency, as failures in the market for credit, insurance, land and human capital result in underinvestment by the poor, overinvestment by the rich and a less efficient economy (see WDR, 2006, Chapter 5).

private capital has been extremely depleted, but relatively small investments can often result in large increases in productivity and output. (See Chapter 9 for an analysis of some possibilities in agriculture, manufacturing, tourism and fisheries.) In terms of trade, this is extremely important. Agriculture is not only Angola's largest source of traded output outside mining, but also the source of livelihood of most poor Angolans. Agriculture accounts for 8 percent of GDP, while farming, livestock, and artisanal fishing employ more than two-thirds of the workforce (UNDP 2005: 17).¹⁵ Indeed, as noted, even after the huge migrations of refugees from the countryside to the cities, about 60 percent of Angola's population still lives in rural areas and more than 70 percent depend on agriculture and rural activities for income and food.

For the foreseeable future, most rural Angolans will continue to rely on agriculture for subsistence. Improving agricultural productivity will improve general welfare. Small-scale farming, however, faces significant obstacles, such as the lack of inputs—for the most vulnerable this includes labor—as well as difficult access to markets. In almost all cases, farmers cultivate only a small part of their arable land, and yields are low. Access to land may be one the most important assets of the rural poor. Access to land has been under increasing pressure since the war as internally displaced people, demobilized soldiers, and other returnees enter the market for land. The presence of landmines and other unexploded ordnance further affect access and undercut food production in general and marketed surplus in particular.

Boosting agricultural productivity and improving the livelihoods of millions of Angolans will require a concerted program of government investment throughout the country and policies that promote agricultural growth. Access to primary health care and education, to rural credit and agricultural extension programs, and to seeds, fertilizers, and utilities (e.g., access to water in the south) must all be improved. Roads and transport options also must be improved. The government has made some progress in expanding the road network. Most investment, however, has concentrated on primary roads “which bridge space rather than open it,” rather than secondary or tertiary roads that are more useful to small-scale farmers who need to reach local markets (Auty 2005).

In addition to the on-farm and infrastructural improvements noted above, it is essential to underline the need for reactivation and development of the commercial network that links the various economic agents. After a near-total disappearance after independence and during the ensuing conflict, these trading networks are only now starting to reestablish themselves. This will be a key element of any reactivation of the rural economy.

¹⁵Angola's coast is very favorable to fishing, with great potential for both artisanal and industrial fishing. At independence, Angola was the second-largest fish exporter in Africa, and even in 1985 produced 400,000 tons. Overfishing, mainly illegal and unregulated fishing by large foreign fishing vessels, has resulted in a rapid depletion of stocks and put the livelihoods of many coastal villages at risk.

Urban Poverty

A well designed rural development strategy is important but the desperate needs of urban areas must not be neglected. Approximately 40 percent of Angolans live in urban areas, of which about 60 percent—or 20 to 25 percent of the total population—live in Luanda. According to UN statistics, the urban population is likely to grow to 44 percent by 2015 and to 53 percent by 2030.¹⁶ Why this rapid urbanization? The war and dismal livelihoods of rural areas pushed people toward cities less affected by war, even as the perception of better opportunities, peace, and even anonymity pulled them to cities.

Most new residents have settled in the periurban *musseques* and occupy a significant part of what used to be mostly industrial and farming areas. Living conditions are extremely poor: people live in overcrowded settlements with no sanitation or solid waste management. Residents, especially the very poor, find inequalities in access to services very frustrating. That rural inhabitants choose (or are forced) to migrate to live in such conditions signals the need to improve life in rural areas. One benefit of rural development will be a diminution in the “push” factors that fuel rural-to-urban migration.

Poverty Reduction, Economic Growth, and Trade Expansion

Angola’s oil wealth affords it the wherewithal to reduce poverty and realize the country’s potential for trade. Although direct service provision will be a part of any successful poverty alleviation strategy, the goal of trade expansion relates to the other pillar of poverty reduction: economic growth. Growth in nonmineral sectors will be particularly important in diversifying trade and improving the livelihoods of the poor.

Growth in nonmineral sectors can be achieved by increasing exports, substituting for imports, and supplying services to a growing economy and households with growing income. Most Angolans work in the agricultural sector, so restoring production in this sector is important. At present, agricultural development is severely hampered by the lack of infrastructure and market institutions, so an immediate goal should be to rebuild these. Public and private investment in infrastructure can also generate jobs in the construction and trade sectors.

Reactivating the rural economy will require overcoming the collapse of the normal circulation of goods and services between cities and rural producing areas. Demand for domestically produced agricultural surplus is very low because (1) rural inhabitants subsist on what they grow, (2) costs for transporting domestic surplus to coastal cities are high, and (3) domestic surplus cannot compete effectively with imports. Farmers are stuck in a low-price low-volume trap, a situation exacerbated by the natural climatic and environmental risks that low-tech, rainfed agricultural producers face. These risks are especially dangerous because they

¹⁶ Cited in Jenkins *et al* (2002: section 2.2).

are covariate. This means that the whole community suffers simultaneously, undermining the possibility for mutual support. Opportunities to earn income in the nonagricultural private sector outside the large cities are extremely limited, and this is unlikely to change soon.

To support the rural economy and thereby increase the range of products available in cities, the government could complement an agricultural support package with a public works program employing low-skill laborers. Such a program would provide productivity-enhancing improvements in public capital goods (e.g., roads) while injecting cash into the local economy and stimulating general demand. When the rural economy has stabilized in an area, the public works program can be phased out and programs to support nonfarm micro- and small enterprises introduced. There has already been some success with pilot microcredit projects for rural women. Land issues will also be important, as reflected in the forthcoming Land Law.

In urban areas, government policies and programs can improve the opportunities of the whole labor force, but especially middle- and low-income households, by reducing the costs of doing business. Such costs are associated with capital, nonexistent or poorly functioning infrastructure, insecure tenure, government interactions (i.e., taxes, fees, access to public services such as customs), and access to productive assets (e.g., land and buildings, information). The government's antipoverty program needs to address these constraints. The government could be aided in prioritizing issues by small business cooperatives or associations organized for this purpose.

The record of low-income, mineral-exporting countries in achieving pro-poor growth is dismal, especially in Africa. Nonetheless, the example of Indonesia shows that it can be done. Key elements of Indonesia's success include managing the inflow of foreign currency to ensure a competitive domestic sector (avoiding "Dutch disease"), supporting rural infrastructure and the rural nonfarm sector by using oil revenues to finance labor-intensive infrastructure projects in rural areas, supporting a better business environment for urban microenterprises, and providing infrastructure and social services in poor areas as well as in upper-income and industrial areas.¹⁷

¹⁷ See Timmer (2005) for an elaboration of these points.

3. Oil and Macroeconomic Incentives

Oil Dependence and Real Exchange Rate

Angola is now more dependent on oil than any other country in sub-Saharan Africa and most other countries as well. The country's reliance on oil income is extreme even when compared to countries in the Persian Gulf (Table 3-1). For decades, oil revenues have made up half or more of GDP, conditioning and distorting every other macroeconomic variable. Although the country's dependence varies with world oil prices, and has sometimes decreased, it will rise sharply in the next few years as new production comes on line.

Table 3-1

Mineral Income as Percent of Government Revenue and GDP in Mineral Exporting Countries

Country	Nonrenewable Resource Revenue as Percent of Government Revenue	Nonrenewable Resource Exports as Percent of GDP
Chile	8.6	10.1
Kuwait	59.3	39.7
Norway	14.4	12.1
Oman	77.3	35.9
Papua New Guinea	11.4	27.9
Venezuela	58.2	19.1
Angola	84.0 ^a	48.5 ^b

^aAngola revenue is the average of 1996-2003;

^bAngola exports as percent of GDP is the average of 2002 and 2003.

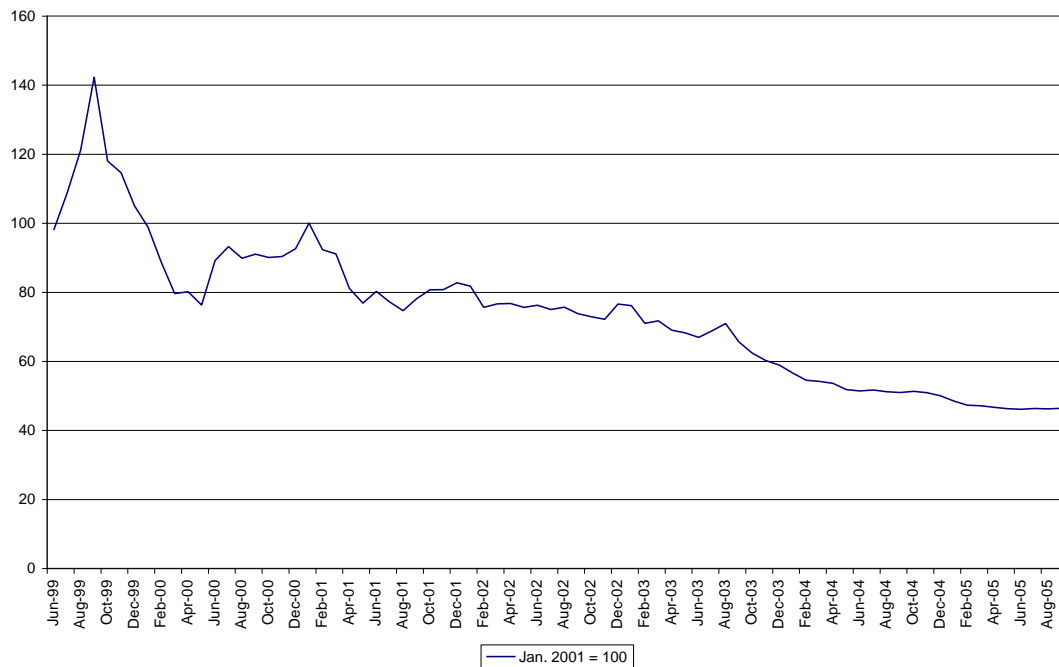
SOURCE: Non-Angolan figures taken from Davis, Ossowski & Fedelino Eds. *Fiscal Policy Formulation and Implementation in Oil Producing Countries*, IMF 2003, p. 275.

This extreme dependence on mineral income has led to a pattern of economic problems known as the “resource curse” or the “paradox of plenty,” a syndrome common to countries that receive large inflows of foreign exchange relative to their economies. While oil is not always the source of the problem, it has been the most common source since the first oil shock of the early 1970s. In Angola, the problem is worsened somewhat by diamond earnings. In relation to the potential for expanding trade, one aspect of this syndrome is of particular importance: Dutch Disease.¹⁸

Large inflows of foreign exchange from oil exports put upward pressure on an oil-producing country’s exchange rate that can, when coupled with inflation in domestic prices, result in an appreciation of the real exchange rate. The trend toward appreciation in Angola has caused the real value of the kwanza to rise by more than half since the end of 2000 (Figure 3-1). Large revenue flows also expand domestic demand relative to the country’s ability to supply that demand as domestic expenditures grow based on oil income. The demand expansion, in turn, increases the price of nontraded goods, causing a further appreciation of the real exchange rate. The combination of these two effects results in an often dramatic decline in the competitiveness of non-oil exports, a shift in domestic resources from those sectors to the nontraded goods sectors, and erosion of diversity and balance in the domestic economy.

Figure 3-1

Real Kwanza–U.S. Dollar Exchange Rate



¹⁸ This “disease” is named for the problems experienced by the Netherlands following the discovery and initial exploitation of vast domestic reserves of natural gas.

The tendency of nonmineral exports to stagnate in oil-producing countries could cast a pall over the prospects for trade integration in non-oil sectors in the country (see Exhibit 3-1 for a discussion of attempts by Nigeria and Indonesia to maintain non-oil exports.) However, there are reasons for optimism in Angola. First, revenues from oil and diamond exports may cause distortions but also present opportunities. They can be invested to improve the competitiveness of other economic sectors. This relates directly to the need to rehabilitate the economy and thereby alleviate poverty. Second, the destruction that accompanied the long war has masked the potential of the Angolan economy to produce efficiently and competitively for world markets. What smallholders could do with little assistance and low technology in the 1970s can now be done with the help of productivity-enhancing investments in infrastructure and technological improvements.

Exhibit 3-1

Maintaining Non-oil Exports in Oil-rich Countries:: Lessons from Nigeria and Indonesia

<p>As Angola develops a strategy for managing its oil revenue to promote growth and alleviate poverty, it is instructive to examine the experiences of two other oil exporters that faced similar issues.</p> <p>Nigeria's efforts to maintain its non-oil exports in the face of oil-induced currency appreciation did not succeed. Nigeria concentrated its investments in large agriculture projects that had disappointing results. The government devoted a large portion of its spending on agriculture to fertilizer subsidies rather than investments in infrastructure or agricultural services such as research, extension, and education. Extreme appreciation of the real exchange rate contributed to a collapse of agricultural production when imported grains became cheaper than local production even in farming zones themselves. At the same time, smallholder production faltered as a result of longstanding neglect of needed technological improvements. Consequently, Nigeria – once Africa's leading agricultural exporter – became its leading agricultural importer.</p> <p>Indonesia's efforts to maintain export revenues</p>	<p>emphasized similarly focused on agriculture, but targeted rural infrastructure, technology, and high-yielding crop varieties. Important policies included the following:</p> <ul style="list-style-type: none"> • Long-term and sustained focus on development of the agriculture sector. • Large public investment in agriculture – more than 20 percent of public investment in the initial years of the Indonesia's oil boom. This money was put into research and extension as well as into infrastructure. • Government encouragement of the use of fertilizer produced domestically using petrochemical feedstocks. <p>These policies produced significant and sustained increases in non-oil exports and reductions in rural poverty. There, as in Angola, a majority of the poor live in rural areas. Indonesia emphasized rice, its staple crop; Angola could follow the same strategy for its staple crops. Yields of maize as well as various horticultural crops could increase substantially using existing technologies.</p>
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Rehabilitation of Angolan Production of Tradable Goods

Even if it were possible to do so, simply avoiding excessive appreciation in the real exchange rate would not rehabilitate production of traded goods in Angola. In sectors where imports undercut domestic production in terms of delivered prices, it will be difficult or impossible to rehabilitate domestic activity. Production will always shift into activity that promises the highest profits (apart from subsistence production of foodstuffs). In the past two years in Angola, this shift has been increasingly toward nontraded goods.

Because Angola is a major oil exporter and will remain a major oil exporter in the immediate future, the national currency will remain strong and the real exchange rate will tend to appreciate. The effects of oil export on Angola's currency are inevitable if oil income is spent inside the country. It is possible, however, for government policy to affect profit calculations in ways that encourage efficiency, growth, and poverty alleviation. If profit calculations cannot be influenced on the output side because of the effects of large mineral exports, then it will be necessary to influence them on the input side to achieve the goals of the ECP. Indeed, this has already begun with the large program of road building and rehabilitation undertaken since the end of hostilities in 2002. Roads not only open up potential markets for producers but also lower the cost of inputs used by producers. Productivity in general can be enhanced by improving the public goods and services that have fallen into extreme disrepair or that became unavailable during the war.

In addition, productivity improvements in individual enterprises can also do much to boost profit margins for producers of traded goods. Details differ by sector, but great progress is possible. For example, agriculture is the most important sector in terms of share of labor force and potential for export growth—yet on-farm technological progress has not been possible for 30 years. Yields in Angola are well below those of neighboring countries even though agroclimatic conditions in Angola are superior.

Another possible response to a lack of competitiveness in domestic production in the face of cheap imports is to impose tariffs. The government is aware of this option, though it is not favored by economists because of other countries' long history of failure with "import substitution." In fact, the dismal history of import substitution has generated much literature in the economics profession and provides ample reason to be skeptical that such a tactic could promote growth. If, in some selective cases, it is necessary to raise tariffs temporarily to support reactivation of production and increase employment, the decision has to be made carefully on the basis of detailed cost studies and the increase should not exceed the target maximum rate of 25 percent. Given that the tariff option is available, though, we must mention the following considerations:

- Many sectors in which Angola has potential comparative advantage are now at near zero levels of production so virtually *any* rehabilitation is likely to result in some import substitution even in the absence of a strategy of "import substituting industrialization" as conventionally understood.

- The destruction of much of Angola's infrastructure, marketing links, and economic institutions during decades of war means that it is legitimate to view many productive sectors as possessing characteristics of an "infant industry." However, the level of protection already offered by the current structure of tariffs, consumption taxes, and other taxes is quite substantial. Any perceived need to further increase incentives could therefore be addressed by lowering tariffs on inputs rather than raising taxes on outputs.
- The social and political costs of allowing sectors that employ more than two-thirds of the population to not reactivate are huge. These costs must be balanced against the cost of protectionist inefficiencies before a conclusion as to the correct course of action can be reached. Even larger are costs to consumers who would pay higher prices for protected domestic output than they currently do for imports that have become relatively cheaper as the real value of the Kwanza has risen over the past several years. Given that those who would stand to lose as a result of farmers' gains are concentrated in urban areas, there are obviously social and political considerations on both sides of the equation. But only one traded good sector, maize, has a high level of imports, a large number of smallholder producers, and a low (3 percent) tariff on imports. Only in the case of this commodity can one thus make a reasonable case for increasing protection somewhat -- *if* cost studies indicate that this is necessary after all measures to reduce production costs have been implemented.
- The government has stated its intention to enter the SADC regional free trade area. This means that it will eventually be required to eliminate its tariffs on imports from the other SADC nations. This guarantees that any current levels of protection of particular sectors will be temporary, at least vis-à-vis other SADC members.

These concerns are discussed further in Chapter 6.

4. Infrastructure and Public Services

Damage to infrastructure from the long civil war is extreme by any standard and will take many years—even decades—to rebuild. The effects of this on international trade are profound, not only preventing potential export production areas from shipping to ports, but also isolating major population centers on the coast from the bulk of the domestic economy, leading coastal areas to rely on imports for virtually all necessities. Table 4-1 shows the extent to which Angola lags behind its neighbors in basic infrastructure.¹⁹

After the end of hostilities in 2002 and progressive normalization of government operations, the government and donors have joined forces in major rehabilitation initiatives to rebuild Angola's infrastructure. The World Bank, the EU, and China are major contributors to the rebuilding effort, particularly for road and rail corridors. The work will take a long time and cannot solve all microeconomic issues in the short term.

Public services suffered from the long conflict as well, not just because services were targeted during the hostilities but also because of deterioration from a lack of maintenance and upkeep for years, as well as the flight of trained personnel from the war and the low wages of government work. Infrastructure-dependent services such as water, electricity, and sanitation suffered, and other services such as maintenance of basic law and order, or more specialized services such as agricultural extension were also affected and have yet to be re-extended to many areas.

Rehabilitation of infrastructure and services is required for reasons beyond trade integration, but they are nevertheless a necessary condition for reactivation of nonmineral exports. At the same time, rehabilitation of coast-interior transport links will also expose producers in the interior provinces to import competition. The following sections detail some important considerations regarding infrastructure and public services.

¹⁹ This section draws on "Solucões Privadas para a Infraestrutura em Angola," World Bank 2005 as well as contributions from the WTO and a background paper written for this study by Rene Meeuws

Table 4-1*SADC Infrastructure Indicators, by Human Development Rank (High, Medium, Low)*

HDI ^a Rank	Country	Access to Safe Water (% population)			Access to Sanitation (% population)			Electricity (kWh per capita per annum)	Telephones per 1,000 population (2000)		
		Rural	Urban	Total	Rural	Urban	Total		Fixed	Cell	Total
H I G H											
47	Seychelles								235	320	555
M E D I U M											
67	Mauritius								235	151	386
107	South Africa	70	99	87	80	92	87	3,587	114	190	304
122	Namibia	71	100	83	20	93	62	1,022	63	47	110
125	Swaziland							576	32	33	65
126	Botswana	88	100	90	41	91	55	755	93	123	216
128	Zimbabwe	69	99	79	32	96	52	715	18	23	41
132	Lesotho	57	91	62	35	56	38	188	10	10	20
L O W											
151	Tanzania	58	92	66	83	98	86	45	5	5	10
153	Zambia	10	81	38	57	94	71	609	8	9	17
155	DR. Congo	26	89	42	6	53	18				
161	Angola	22	46	31	27	62	40	69	5	2	7
163	Malawi	40	95	47	1	18	3	71	4	5	9
170	Mozambique			63			54	40	4	2	6

^aHuman Development Indicators

SOURCE: SADC, Compiled from World Bank (2005), Country Framework Report – Private Solutions for Infrastructure in Angola.

Transport

The transport infrastructure suffered immensely from the war. Roads and bridges were destroyed, leaving many communities isolated for many years. Railway infrastructure and rolling stock were devastated. Airport runways and other airport infrastructure were destroyed as well. Not only was most of the infrastructure damaged, but rehabilitation and maintenance were not carried out. Lack of maintenance alone would have resulted in an extremely deteriorated state even without war-related destruction.

Most of the transport infrastructure therefore has to be built up again from scratch. One problem is that many landmines are still undiscovered and are very likely to have been placed on or near transport infrastructure in rural areas. Therefore, the government of Angola, with the assistance of the international donor community, is making great efforts to clear mines from priority areas.

There is almost no long-distance road transport, not only because of the poor condition of the road infrastructure, but also because there are still few goods to be traded. Production for the market has just begun, and many marketplaces still have empty shelves. The railways still do not transport significant cargo, serving only passengers on a very small scale. Most long-distance transport is carried out by aircraft, which is expensive. And ports are in need of new investment.

ROADS

Most of the road network in Angola was built before independence in 1975. The classified road network consists of 72,323 km of roads: 7,777 km of paved roads; 28,018 km of gravel roads; and 36,528 km of earth roads (see Table 4-2). Much of the road network has received little or no maintenance because many roads are in former war zones and have carried little or no traffic. It is difficult to estimate the real condition of the road network in Angola because the scarce resources of the National Institute of Roads in Angola (INEA) do not permit assessment of the situation in the entire country and because there are still about 13 million landmines hidden throughout the country. In addition, more than 300 bridges of varying lengths and capacities have been destroyed and are in need of urgent rehabilitation.

Table 4-2

Condition of the Paved Road Network

Condition	Kilometers	Percent
Regular	943	11.9
Bad	2,285	28.7
Very bad	4,725	59.4
Total	7,953	100.0

SOURCE: INEA, 2005.

In 2002 the government approved a program of emergency repair and reconstruction of roads. During the first phase, from 2002 until September 2004, basic repairs were to create the minimum conditions for traffic at a cost of US\$55 million (US\$45 million for roads and US\$10 million for bridges). The second phase, which is underway now, envisages improving regional connections with the main roads and is budgeted at US\$171 million.

INEA was created by Decree 28/90, which stipulates that INEA is responsible for planning and managing the primary road network—88 percent of which is in bad or very bad condition—and for the operation of the Road Fund, under the umbrella of the Ministry of Public Works. INEA had a staff of 1,339 in 2003, of which 873 permanent staff and 466 on a contract basis.

Construction of new roads stopped in 1974, and between 1974 and 1999 hardly any road works were carried out. Maintenance of roads started again in 1991, but from 1996 to 2003 maintenance activities declined. Provisional rehabilitation began in 2000.

A road fund was established by Decree 27/94 to halt the deterioration of the roads forming the trunk network but it is not yet operational. It is important to establish the road fund as a mechanism for financing road rehabilitation and maintenance. An important step was the recent introduction of a new vehicle tax for motorcycles, private cars, and commercial vehicles (US\$30-60 per year for private cars and US\$75-105 for commercial vehicles). The tax is part of a larger initiative to reform the fiscal system in Angola. The promotion of the road tax emphasizes that part of the revenues will be used for roads, telecommunications, and road safety, but much more is needed. INEA proposes increasing fuel taxes, with all proceeds going directly to the road fund. It is also important to note that the road fund should be fully accounted for in the unified budget.

The General Government Program 2005-2006 emphasizes the needs of transport infrastructure, identifying 4,194 km of roads for rehabilitation, the construction of 2,000 m of bridges, and the rehabilitation of 17 bridges. Projects rehabilitating international road links to the Democratic Republic of Congo and Zambia were submitted to the COMESA Secretariat in 2003-2004 for feasibility studies. China also supports the rehabilitation of the road network. In addition, the World Bank has started an Emergency Multisector Recovery Project in six provinces, which includes a component devoted to roads.

It is important to elaborate an integrated long-term investment program for the development of the road sector in Angola. If the government transferred a substantial part of the revenues from the export of petroleum products and diamonds for the development of transport infrastructure, by creating for instance an Infrastructure Fund, cofinancing by donors (European Union, African Development Bank, World Bank, bilateral cooperation) would be facilitated. The economic development of agriculture, livestock, and industry and the production of commodities for the domestic and international markets require infrastructure and transport.

INEA is taking the first steps in prioritizing interventions in the Angolan road network.

Though traffic has increased from the near-zero level of the war years, long-distance road transport is still an arduous, costly, and time-consuming undertaking. An 18 wheel truck that transports goods 1,250 km from Luanda to Dundo in the northeast of the country cannot make the round-trip in seven days, and will have no backload from Dundo to Luanda. The truck has to take 1,250 liters of fuel from Luanda because gas supply along the road is unreliable. It is not surprising that the cost of this type of transport is high: US\$3,500 (down from US\$5,500 in 2002/2003 because of heavy competition). A 423 km trip from Luanda to Malange costs US\$2,500.

RAILWAYS

Angola has three railway companies: Luanda Railway Company; the Benguela Railway Company; and the Moçamedes Railway Company. The companies fall under the responsibility of the newly created National Institute of Railways of Angola.

The state-owned Luanda Railway Company operates the Luanda Railway from Luanda to Malange. In 1978 the Luanda Railway Company carried more than 4 million passengers. Nowadays, the railway hardly functions: in 2001, it carried only 754,000 passengers and 51,265 metric tons of cargo. It has a staff of 800. Some parts – between Luanda (Mussequé) and suburban areas as far as Viana (35 km) and between Luanda and Dondo (180 km) – carry passengers. The rail link with the port is not yet operational but is being rehabilitated (2005/2006).

The Benguela Railway Company was Belgian owned until 2001. It is now state-owned. The total length is 1,340 km, passing from the port of Lobito through Benguela, Huambo, and Kuito (Bié) to Luau on the border with the Democratic Republic of Congo. In the 1950s and 1960s this railway line played an important role in the carriage of exports and imports to inland countries and Angola's central region. Damage to the railway infrastructure closed the international mineral and national freight traffic business to the central inland region of Huambo and Bié. At present it operates only on the Benguela-Lobito link (30 km) and Sta Iria, Huambo and Caala (96 km), transporting mostly passengers. In November 2005, the president of Angola announced that within one to two years the railway line between Lobito, Benguela, and Bié would become operational. Though no plans exist to rehabilitate the link with Zambia because of high costs and the sparse population of eastern Angola, rehabilitation is a possibility for the future.

The Moçamedes Railway Company is also state owned. It has 987 km of track between Namibe and Menongue in Cuando-Cubango province. Two branches run from this railway line to Chiange (120 km) and Kassinga (110 km), but neither is operational. The Kassinga line used to transport iron from the mines, which in the period 1964-1975 produced 5 million metric tons of iron ore per year, but ceased operations in 1975. Traffic has returned to normal between Namibe and Matala via Lubango (320 km). Moçamedes Railway Company has about 1,400 staff.

It is difficult to estimate the rolling stock available for the three companies. The latest figures are shown in Table 4-3 but are probably optimistic.

Traffic on the three railways is light. The railway companies do not cover or just barely cover their operating costs without taking into consideration depreciation of the rail infrastructure, the rolling stock, and buildings and offices.

Table 4-3*Rail Rolling Stock by Company*

Item	Status	Company			Total
		Luanda	Benguela	Moçamedes	
Locomotives	Existing	19	126	25	170
	Available	4	9	13	26
Carriages	Existing	85	39	25	149
	Available	4	13	13	30
Wagons	Existing	580	2,128	883	3,591
	Available	261	750	586	1,597

SOURCE: Ministry of Transport.

The three railway systems face similar problems. Large segments of track cannot be used because of destroyed or damaged bridges and mined tracks. The rolling stock and motive power have exceeded their economic life or have been cannibalized. Large sums of money will be needed to rehabilitate and maintain locomotives, upgrade rolling stock, and check electrical equipment and signaling systems. Spare parts and special supplies are lacking. Track infrastructure is weak, and many stations and supply centers have been abandoned. The total cost to remove these constraints has been estimated at more than US\$4 billion.

In 2003 the Council of Ministers Permanent Commission approved the Program of Rehabilitation of Angola's Railways, which aims at recovering Luanda Railway tracks between Zenza and Lucala (150 km), Moçamedes Railway tracks Namibe-Lubango-Matala (424 km), and Benguela Railway tracks from Lobito to Luau (1,273 km). The rehabilitation of these 1,847 km includes the removal of mines, reconstruction and repair of bridges (Luinha, Lucala, Bero, Giraul, Cubal, Catumbela, and many others), and the acquisition of rolling stock and other equipment. This program is supported in the 2005-2006 General Program of the Government, which also mentions the need to purchase new rolling stock.

The Chinese government has expressed its interest in assisting the government of Angola in implementing this program. France and Germany have also shown interest in the rehabilitation of the railways in Angola. The three railway tracks are expected to be given to an independent operator as a concession in the coming years, following the example of Mozambique and Tanzania.

PORTS

Port Services

Angola has four main ports: Luanda, Lobito, Malongo, and Namibe. Soyo is also important for the oil industry, and the port of Cabinda serves the northernmost province. Plans to construct roll-on/roll-off container terminals at Luanda and Lobito have been developed but

have not been implemented. There are two terminals at the Luanda port; Unicargas (container and general cargo) and Multiterminals, for general cargo.²⁰

Angola introduced the International Ship and Port Facility Security (ISPS) code of the International Maritime Organization on July 1, 2004.²¹ The National Directorate of the Merchant Marine is in charge of strengthening security at Angolan ports.

On September 1, 2004, Angola introduced fixed tariffs and compulsory inspections on vessels calling at all its ports. The measure followed the creation of a new directorate with responsibilities focusing on meeting international ship safety and security. The fees depend on the type of vessel, with liquefied natural gas (LNG) carriers facing the highest fees at US\$760.

Shipping

Maritime traffic rights to and from Angola are regulated by Council of Ministers Decree No. 19/94 of May 20, 1994, and Joint Executive Decree No. 68/95 of the Ministries of Economy and Finance and of Transport and Communications. Cargo to or from Angola must be shared between national and international ship owners on a 40-40-20 basis, set out in the UNCTAD Convention on Liner Conferences (Geneva Convention of 1974 regarding the Code of Conduct of Maritime Conferences). Ship owners, importers, and exporters with an interest in shipping to or from Angola must register with the National Council of Carriers by January 31 of each year. They must communicate that they are carrying cargo to or from Angola to the National Council of Carriers or to its representatives abroad at least 10 days in advance for cargo-sharing purposes.

The National Council of Carriers may allocate cargo among various ship owners, taking into account freight quantity and quality forecasts; technical and commercial information and documentation regarding the ship owners, importers and exporters; and the monthly programs of ship rotation presented by ship owners.

If national ship owners are not in a position to carry a cargo, the National Council of Carriers may authorize the cargo be granted to foreign ship owners that are parties to maritime conferences based on good-faith agreements or to third-party ship owners that grant advantageous conditions.

The National Council of Carriers or its representative abroad issues embarkation certificates for goods reserved for national ship owners and exemption orders granting carriage rights to

²⁰ OT Africa Line online information. Available at: <http://www.otal.com/angola/index.htm#luanda>.

²¹ The ISPS Code enables the detection and deterrence of security threats in an international framework, establishes roles and responsibilities, enables collection and exchange of security information, provides a method for assessing security, and ensures that adequate security measures are in place. It requires ship and port facility staff to gather and assess information, maintain communication protocols, restrict access, prevent the introduction of unauthorized weapons, provide the means to raise alarms, put in place vessel and port security plans, and ensure that training and drills are conducted (Lloyd's Register online information "What is the ISPS Code?" Available at http://www.lr.org/market_sector/marine/maritime-security/what_is_ISPS_code.htm).

foreign ship owners. Customs services may not unload any good without an embarkation certificate or exemption order.

All ship owners that ship goods to or from Angola must, in principle, pay a commission to the National Council of Carriers. This commission is fixed at US\$0.05 per ton of liquid cargo, US\$5.00 per ton of dry cargo in bulk or in bags, US\$100 per 20-foot container, and US\$200 per 40-foot container. Goods in transit are excluded from this obligation.²² According to the authorities, this charge is not currently applied on import shipments.

Traffic

The volume of cargo handled by the ports has increased substantially in the past few years. Between 1999 and 2001 cargo increased from 3.0 million tons to 4.8 million tons. It has increased more in the past several years though data are only available for Luanda. The increase of incoming cargo poses serious problems for port capacity. In particular the Port of Luanda has enormous problems with its installed capacity.

The port is a natural harbor where the seaward shelter provided by Luanda Island and the bay provide secure anchorage for vessels of nearly any size. The maximum draught at the access channel is 9.5 meters and at the quays 9.5–10.0 meters, except the local traffic terminal Cabotang (3.5–5.5 meters). The port has seven berths with a total length of 2,738 meters and approximately 25 cranes on the quays, which include 3-ton and 10-ton lift cranes. It has one mobile crane with a capacity of 20 tons. Eighteen warehouses in the port area provide 55,000 square meters of covered space. The total land space is 792,219 square meters. The port has set up a second line terminal for administrative handling of imported vehicles.

The traffic of general cargo in the Port of Luanda has grown from 1.87 million tons in 1999 to 3.19 million tons in 2004 and 2.01 million tons in the first six months of 2005. Container cargo amounted to 2.03 million tons in 2004.

The imbalance between incoming and outgoing trade flows is enormous. In 2004, 88 percent of flows were incoming and only 12 percent outgoing. About 7 percent of all traffic in 2004 was cabotage and 93 percent import or export. In 2004, the Port of Luanda handled 235,411 containers, corresponding to 2,034,977 tons. Only 6,344 full containers were embarked.

The Port of Luanda has drawn up a 10-year investment program to provide for the expected increase in traffic and improve the efficiency of port operations. This program is estimated to cost US\$150 million. The port will be developed in two phases. The first two years will concentrate on quay and stacking areas, while the second phase will focus on improving handling equipment. A minimum of two gantry cranes and one mobile harbor crane will need to be installed. The former operator, however, disputes the outcome of the tender procedure, and the court has not made a decision yet. It is expected that the system of concessions of the port will soon be applied in other ports of Angola as well.

²² Joint Executive Decree 68/95, Article 10.

Another constraint on port operations relates to port access. The Port of Luanda is in the center of the city, which seriously constrains its growth in the medium and long terms. Therefore, new sites will need to be developed north of the present site. Construction of a new container terminal in Cacuaco, about 20 km from Luanda, and the development of a dry port in Viana, 30 km from Luanda, are planned.

AIRPORTS AND AVIATION

Angola's civil aviation is governed by the Law on Civil Aviation (Law 3/00 of April 20, 2000). A draft regulation for domestic air transport is in the pipeline. International flights must land at an international airport. Regular international flights to and from Angola are subject to bilateral or international agreements.²³

Two international airlines are registered in Angola: TAAG, the state-owned national carrier, with domestic scheduled services from Luanda and international scheduled flights to Harare, Lisbon, Johannesburg, London, Rio de Janeiro, São Tomé, and Windhoek; and Sonair, a subsidiary of SONANGOL, operated by the U.S. company World Airways, which offers only one international route, to Houston, Texas, for member companies of the U.S.-Africa Energy Association.²⁴ TAAG is Angola's only member of the International Air Transport Association.

The National Airport and Air Navigation Development Company (ENANA), which was formed in 1980, is responsible for maintaining airports and providing basic facilities at each airport site. It is also responsible for providing airport safety services. ENANA manages 18 airports and air navigation for all airports and employs more than 1,400 workers. A standard secondary national airport employs between 10 and 20 ENANA staff. Seven more are under the control of the provincial governments; mining companies operate five airports; and six airports are used by the air force.

Most airports were built in the 1960s to meet the aviation needs of that period. The growth in demand for aviation since then has not been accompanied by corresponding investments in airport infrastructure. Runways are now too short and have poor geometry for modern aircraft and have rough surfaces and weak underground substructure. Maintenance is backlogged.

Demand for aviation services was high in 2000. Luanda Airport handled 1,405,125 departing passengers, of which more than 1 million had a domestic destination. Cargo transported from Luanda to the provinces amounted to 446,142 tons in 2000. The 10 provincial airports handled 438,808 passengers and 139,130 tons of cargo in 2000. The cessation of hostilities in 2002 resulted in a marked decrease in both passenger and cargo transport.

²³ Law 3/00, Article 30.

²⁴ *Afrol News*, July 31, 2004, "Luanda, Malabo strengthen link with US oil capital". Available at <http://www.afrol.com/articles/10288>), and <http://www.sonairsarl.com/>.

ENANA has prepared a National Development Plan of the Airports Network based on preliminary traffic forecasts, which is very difficult to predict in post-war situations. It expects that Luanda Airport will have 2 million passengers and provincial airports 580,000 passengers in 2005. The National Development Plan of the Airports Network includes a program for the development of civil aviation facilities in six airports totaling US\$45 million; US\$35 million for a new aerial navigation system; and emergency rehabilitation for the airports of Luena, Huambo, Negage, Uige, Ondjiva, Saurimo, Kuito, Lobito, and Menongue with a total cost of US\$36 million.

There are severe constraints in the aviation sector. International flights, mainly operated by TAAG, South African Airlines, TAP Portugal, Air France, and Brussels Air are normally fully booked in advance.

CONSIDERATIONS FOR TRANSPORT DEVELOPMENT

A long-term integrated transport infrastructure investment program is urgently needed. Priorities must be set for the next 10 years. Plans for the construction and rehabilitation of transport infrastructure should include mechanisms to guarantee regular maintenance or investments made will be lost to deterioration. All stakeholders should be consulted in setting priorities: industry, agriculture and livestock sector, fisheries, mining, commerce, transport industry, education, and health. The program must be an integrated program taking into consideration the needs of all stakeholders.

The trunk road network and the main transport infrastructure corridors must have top priority. These correspond in part to the railway network. Investments in infrastructure in these corridors may boost regional development. At the same time attention should be paid to developing rural areas, developing rural infrastructure, and establishing links between rural infrastructure and the core infrastructure network.

Water, Electricity, and Telecommunications

WATER

Water supply remains a major problem in Luanda and other cities, with access available according to location. The recent household survey performed under the auspices of the World Bank (MICS) confirms that prices vary widely across the area, with the city center being best served and the informal *musseques* on the outskirts lacking infrastructure and relying on expensive trucked supplies. Piped water is available almost exclusively in higher-income areas but is nevertheless heavily subsidized compared to the informally supplied peripheral areas. Similar situations exist in other cities.

Although Angola is well endowed with water resources, the UN Human Development Report for 2004 indicated that 62 percent of Angola's population did not have sustainable access to an improved water source in 2002.²⁵

Water, along with energy and communications, is used in virtually every aspect of manufacturing and often is a vital input to industrial processing. No data were available on access to water for the manufacturing sector; however, if the water situation in Luanda is any indication of the state of this utility in Angola, public water supply poses a major constraint to manufacturing. Lack of a reliable water supply seriously constrains the location of potential manufacturing enterprises to urban areas. Manufactures are limited to either expensive inner city locations with adequate supplies or places where pumps can be installed for self-supply. Such places are limited in the dry coastal plain. The state of affairs in the water sector is due to reasons similar to those affecting other utilities (i.e., underinvestment, lack of maintenance, unprofitable operations, and inadequate subsidy). This report therefore concludes that water supply, particularly in urban and suburban areas, constitutes a major handicap to the manufacturing sector in Angola.

ELECTRICITY

EDEL is responsible for electricity supply to Luanda and Empresa Nacional de Electricidade (ENE) is responsible for 15 provinces in the rest of the country. Both operate under the tutelage of the Ministry of Energy and Water and are subject to government price controls. These prices do not even cover operating costs, and with the difficulties in collecting revenue brought on by war and other causes, ENE and EDEL have required subsidies from the government to stay in operation. No significant new generation capacity has been constructed apart from hydroelectric capacity on the Kwanza River. Efficiency is poor, with transmission and other losses amounting to as much as 20 percent of power generated. Damage to distribution networks remains an issue in many areas, and the difficulties in extending the network constrain investment in areas beyond the current coverage area. Self-supply is required, resulting in high-cost supplies for manufacturers who opt for this.

It is estimated that only 15 percent of Angola's population has access to electric power, and for those who do have electricity blackouts occur frequently. Electricity production in 2002 was about 1.707 billion kilowatts per hour (kWh), and consumption was estimated at 1.587 billion kWh.²⁶ The Ministry of Energy and Waters has projected that \$500 million is necessary to rebuild infrastructure for electricity.

More than two-thirds of Angola's electricity is generated from hydroelectric sources. The Matala dam on the Cunene River is the main source of electricity in southwest Angola. The Cambambe dam (180 MW) on the Kwanza River and the Mabubas dam (17.8 MW) on the

²⁵ United Nations Human Development Report, 2004

²⁶ CIA, World Factbook 2005.

Dande River are the main suppliers of power to the central and western regions. Diesel generators provide most electricity in the north of the country.

Angola intends to recover the productive capacity of ENE, the state-owned electric utility, by rehabilitating its hydropower stations. Gove, a nonfunctioning station, is expected to be rebuilt following a February 2003 agreement with Namibia to jointly rehabilitate the dam. Construction of a new Cunene River dam at Epupa Falls has also been proposed.

A Brazilian construction company has partially completed the construction of a hydroelectric facility at Capanda on the Kwanza River. Work on the 520 MW plant began in the mid-1980s but was suspended because of the war. The first of four planned hydraulic turbines began generating electricity in January 2004. When completed, the Capanda project will nearly double Angola's current electricity-generating capacity.²⁷

TELECOMMUNICATIONS

As with other infrastructure, Angola's telecommunications were heavily damaged by the civil war. Although current data on the telecommunications sector are not available, one source indicates that in 2003, 96,300 landline and some 130,000 mobile telephones were in use.²⁸ With an estimated population of about 13.5 million inhabitants, this works out to just 1.6 percent of the population with a telephone. Fixed-line and international access telephony is held as a monopoly by the parastatal Angola Telecom, while mobile telephony and Internet services have recently been opened to competition. Two additional companies have been awarded licenses to operate mobile phone service in Angola. They are located primarily in Luanda, but these companies claim to have plans to expand mobile services to other parts of the country. As can be expected, telephone penetration is highly biased toward Luanda, with more than 70 percent of lines in that region. The rest of the country has limited telephone coverage. Access to the Internet, which depends primarily on the landline system, is even more limited. Internet coverage is still negligible – in 2002, a mere 41,000 users.²⁹

²⁷ Information gathered from the Ministry of Energy and Waters and various secondary sources.

²⁸ CIA, World Factbook 2005.

²⁹ CIA, World Factbook 2005.

5. Trade Institutions and Capacity

Angola's trade regime has been considerably liberalized since 1999 and is still in the process of reorganization and modernization.

The customs tariff is Angola's main trade policy instrument. A revised operational Customs Tariff was introduced in February 2005, reducing the simple average MFN applied rate from 8.8 percent to 7.4 percent. The maximum applied duty rate has been reduced to 30 percent, with a six-step rate structure. Angola's entire customs tariff is bound at ceiling *ad valorem* levels under GATT 1994. Applied tariffs remain considerably below the ceiling levels bound in the World Trade Organization (WTO). All imports are also subject to a consumption tax of 2 percent, 10 percent, 20 percent or 30 percent, and a number of other border charges on an *ad valorem* basis; there are no WTO binding commitments on these lines.

Angola views trade liberalization as a means to secure the foundations for sustainable economic growth and to support the ongoing reform program aimed at, *inter alia*, poverty reduction. The authorities have nevertheless raised some tariffs in the past two years and have said that this is needed, at least in the short to medium term, as a stage in promoting reconstruction of agriculture and industry. Some duties were raised in 2005 to harmonize Angola's rates with other SADC countries; in addition, various tariff concessions are in force for investors and industries, mitigating the effects of the tariff structure and increasing effective protection. This report takes a skeptical view of broad based import substitution policies as a route to sustained growth but does support increasing production incentives in the short to medium term by phasing in tariff reductions on inputs. Doing so will provide some effective protection to trade-exposed sectors that are being rehabilitated and reactivated.

Angola maintains no quotas, tariff quotas, or tariff preferences, despite its membership in SADC. Import bans and licensing under "special import regimes" are in force for certain products. Angola has no antidumping, countervailing, safeguard, or competition legislation, though the new tariff structure in Decree 2/05 is intended to discourage imports of artificially cheap imports.

Angola maintains nearly 50 state-owned enterprises in several economic sectors; a privatization and commercialization process is under way, controlled by a specialized office

in the Ministry of Industry. Angola is not a signatory to the WTO's Plurilateral Agreement on Government Procurement.

Angola is taking steps to apply international or regional (SADC) standards to some manufactures and food products, although human capacity and skills for implementation, as well as technical capacity, are lacking. A specialized agency (Codex Angola) has been established to set and monitor food standards. Packaging and labeling recommendations are in force for foods, pharmaceuticals, cosmetics, and chemical products.

Export duties at 10 percent and 20 percent affect a few products; according to the authorities, this is to discourage their export, principally to protect flora, fauna, and the environment. There are also various export bans and licensing procedures, including the Kimberley process for diamonds.

Trade Agreements and Preferential Access Arrangements

Angola participates in a number of trade agreements. It is a member of SADC and benefits from nonreciprocal preferential treatment from many industrialized countries under the Generalized System of Preferences (GSP), including the EU's Everything But Arms initiative and the U.S. Africa Growth and Opportunity Act (AGOA). Angola is a signatory to the Cotonou Agreement and, with some SADC members, is negotiating a reciprocal economic partnership agreement (EPA) with the European Union that will replace the Cotonou Agreement. Angola does not yet fully participate in SADC's Trade Protocol and has not been able to take advantage of any preferential arrangements because of its lack of capacity to produce and its lack of competitiveness. It is essential therefore to remove the supply-side constraints to benefit fully from these preferential arrangements.

WORLD TRADE ORGANIZATION

Angola is a founding member of the WTO, having become a member in November 1996. By virtue of this membership it is a party to all multilateral trade agreements concluded in the WTO framework. Angola is planning to create a national executive secretariat for the WTO, an administratively autonomous multisectoral committee with a Ministry of Commerce official as chair. Angola participates in the Integrated Framework sponsored by the WTO; the present study is the first phase of this process.

At recent WTO Ministerial Conferences, Angola expressed its belief in trade liberalization for establishing secure foundations for sustainable economic growth and poverty reduction; it noted however, that, despite developed countries' pledges to facilitate the integration of least-developed countries into the multilateral trading system, the prospects for least-developed countries' development remain bleak. Angola welcomed the decision on the TRIPS Agreement and public health but is concerned that the Doha Declaration mandate has still not been fulfilled in certain areas of importance to least-developed countries. Angola takes the

view that opening markets alone does not constitute the solution to the sociopolitical, economic, and financial problems that hinder progress in Africa, and it seeks a balanced conclusion to the Doha Round. Angola has urged all WTO member states to engage in constructive commitments and undertakings so that the Doha negotiations make an effective contribution to development. It has also urged developed countries to provide more effective support in the implementation of the Final Act of the Uruguay Round.³⁰

The Angolan government has made note of industrialized countries' lack of progress in reducing trade-distorting policies in agriculture and manufacturing. With two-thirds of Angolans relying on agriculture for sustenance, Angola's poverty reduction strategy emphasizes agricultural growth and exports to elevate rural populations beyond their current welfare status. Angola therefore has called on all members of the WTO to

- Abolish export subsidies that allow developed country producers to undercut the agricultural exports of developing countries or affect their production negatively;
- Abolish the practice of imposing higher tariffs on more processed forms of goods; and
- Reduce domestic support such as export credits to producers that give producers an edge in competition with developing-country producers.

This call to action makes clear Angola's support of the goals of the most recent round of talks under the WTO. Elimination of subsidies by developed countries as envisioned by the Doha Round talks would go a long way toward enabling achievement of the government's stated goals in this area.

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Angola is a founding member of SADC and has stated its intention to enter the SADC trade protocol, which has the ultimate goal of creating a free trade area in southern Africa. As a SADC less-developed country, it will negotiate a tariff reduction schedule vis-à-vis South Africa and other SADC members to be completed by 2012. Angola's membership in SADC demonstrates the country's commitment to a growth strategy that is open to its regional neighbors and promotes mutually beneficial trade in the region.

Angola, however, must negotiate as advantageous an accession plan as possible, given that the long war has destroyed its ability to compete in various sectors. Protecting these sectors while rehabilitating production will be essential for any plan to integrate Angola into the SADC system. Its situation is somewhat different from that of Malawi, Mozambique, Tanzania, and Zambia – the MMTZ countries – none of which suffered the level of destruction of their productive base that Angola has suffered. Even Mozambique's civil war is much further in the past and destroyed less of the industrial base, partly because it was so much less developed than Angola's. As of the writing of this report, levels of effective protection that are

³⁰ WTO documents WT/MIN(01)/ST/69, November 11, 2001 and WT/MIN(03)/ST/95, September 12, 2003.

in place or might be needed to ensure the viability of certain industries cannot be specified because analytical requirements are lacking. Such analyses require knowledge of the cost structure of production in activities of interest and this knowledge has not yet been ascertained for Angola.

A 2004 report by the SADC secretariat regarding Angola's accession³¹ found that immediate tariff reduction was preferable in all cases, but it assumed that the 2002 structure of production was a reasonable basis from which to extrapolate. This ignores the effects of war-related destruction and the need to rehabilitate industries and sectors in which Angola has a potential advantage. Indeed, in 2002 much of Angola's industrial and agricultural production was still at a complete standstill, making an updating of this information a priority. The authorities have made some preliminary moves in the direction recommended by the SADC secretariat, as shown by the reduction in the maximum rate from 35 percent to 30 percent. Further reductions would seem to be implied by the government's stated intention to liberalize but have not yet been made concrete.

Angola's status as a least-developed country makes it advisable to make two tariff reduction offers, one to South Africa and one to the other SADC countries. Clearly, South Africa is more important in terms of competition for nascent manufacturing sectors both because of the range of products produced in South Africa and because the existing restrictive rules of origin in SADC can result in South Africa being the source of Angolan imports even if there are lower-cost producers in other countries. The 2004 SADC secretariat report notes that the MMTZ arrangement on textile and clothing does not offer any potential benefits because the United States has designated Angola as an AGOA-eligible country, with duty-free and quota-free access to the U.S. market for some products. The report goes on to note that Angola should aim at substantial relaxation of SADC rules of origin so that the type of concessions won by the MMTZ countries can be extended to other sectors.

The 2004 report concludes with the following specific recommendations:

- Angola should reduce tariff rates of 2 percent, 5 percent, and 10 percent to zero upon implementation of the trade protocol.
- All 35 percent tariff rates should be reduced to not more than 30 percent at the beginning of the tariff phase-down schedule. (This has been accomplished in Decree 2/05.)
- *For South Africa*
 - All remaining tariff lines (except the short positive list mentioned below) should be assigned to Category B (with tariff rates of 20 percent and 30 percent) and reduced to zero within one to six years, beginning in January 2006, so that by 2008 at least 50 percent of these tariff lines have zero tariff.

³¹ "Angola and the Implementation of the SADC Protocol on Trade" SADC Secretariat, April 2004

- A short positive list of sensitive products should be identified and assigned to Category C. These items should not exceed more than 10 percent of Angola's imports from South Africa and this designation should not extend beyond 2012.
- *For the differentiated offer*
 - All remaining tariff lines (except the short positive list mentioned below) should be assigned to Category B (i.e., tariff rates of 20 percent and 30 percent) and should be reduced to zero within one to three years beginning in January 2005.
 - A short positive list of sensitive products should be identified and assigned to Category C. These items should not exceed more than 10 percent of SADC imports. The duties on the items should be phased out by 2012.

These recommendations appear reasonable. The suggestion to reduce the lowest tariff bands to zero as soon as practicable would not change protection or revenue very much, according to the report. Higher taxes and fees will remain in effect, and the low tariff levels mean low levels of revenue foregone upon their elimination.

The 35 percent bands have already been reduced to 30 percent. Further reductions in these bands could take place in the future, although the government may want to plead exigent circumstances to lengthen the time allowed to make such reductions. This consideration applies to the rest of the recommendations regarding the offer to South Africa and offer to the rest of SADC countries.

COTONOU AGREEMENT AND EPA NEGOTIATIONS

Angola is a member of the Africa Caribbean Pacific (ACP) group of countries and participated with SADC in the Cotonou Agreement with the European Union. This agreement provides for a negotiation process that Angola is pursuing as a member of SADC. Currently, Angola benefits from the provisions of the European Union's Everything but Arms (EBA) trade preferences. However, deciding the extent to which Angola can or should participate in an economic partnership agreement with other SADC countries calls for careful study. At the present, only very preliminary work has been done, making this a priority area for technical assistance in the immediate future. The Government has made clear its desire to have performed a study of economic and financial impact of such an agreement to help it define its negotiating strategy within the region and with the EU.

Angola's options with respect to an EPA are to negotiate jointly with other SADC countries (this appears to be the intention of the government at the present time); to negotiate with some other set of countries; or to opt out entirely. It is worth noting that no ACP country has yet decided to opt out. It is unlikely that Angola would choose to join one set of countries as a free trade area but to align with a different set for the purposes of an EPA, thus making negotiating as part of SADC the likeliest course of action. Nevertheless, it should not be considered a foregone conclusion and merits further study.

AFRICAN GROWTH AND OPPORTUNITY ACT

Angola is also a beneficiary of AGOA and is one of the three largest exporters to the United States from sub-Saharan Africa. Diversifying what is an almost 100 percent oil-and-mineral-based trade will be the primary challenge of the coming years. AGOA will permit Angola to market various light manufactures to the U.S. market without impediments or barriers. The main task for Angola will be to reactivate capacity and produce to the specifications and quality required to penetrate the U.S. market. As noted, however, the strong Kwana limits possibilities to activities where Angola's competitive advantage (and profit margins) are strong enough to counter the adverse exchange rate incentives.

Trade-related Institutions and Capacity Building

The Economic Cabinet, which is chaired by the Deputy Minister to the Prime Minister, implements trade policy and coordinates the activities of ministries responsible for different aspects of trade policy.³² The Ministry of Commerce (MOC) oversees external and internal trade policy. It shares this responsibility with the Ministry of Industry (MOI), which, for example, handles SADC-related issues. Several other ministries are involved in formulating, negotiating, and implementing trade policy. These include the Ministry of Planning, the Ministry of Finance, and the Central Bank, which are responsible for the long-term and macroeconomic aspects of trade policy. The Ministry of Finance, in which the Directorate-General of Customs is situated, manages tax policy, including tariffs. Sectoral ministries involved in trade policy development and implementation include the Ministry of Agriculture and Rural Development, the Ministry of Culture, the Ministry of Fisheries, the Ministry of Industry, the Ministry of Transport, the Ministry of Public Works, the Ministry of Geology and Mines, the Ministry of Petroleum, the Ministry of Urbanism and the Environment, the Ministry of Science and Technology, the Ministry of Foreign Affairs, and the Ministry of Tourism.³³

While many challenges exist for improving trade policy formulation, the number of ministries and institutions that are already involved in trade policy provides hope that central coordination, capacity building, and financial assistance can significantly strengthen Angola's ability to formulate and implement trade policy. Such rationalization needs to occur not only in core institutions but also in other ministries and in the trade policy coordinating mechanisms, such as the multi-sectoral committees. Ministries also need to build staff capacity; despite large payrolls, the number of staff trained in trade matters is limited.

In addition, data on trade needs to be improved and made available on a timely basis to be useful for analysis. Indeed, the knowledge base for trade outside of the oil sector is seriously lacking, hampering the ability to formulate and implement policy. Curricula on economics

³² World Trade Organization, *Trade Policy Review of Angola, 2006*.

³³ World Trade Organization, *Trade Policy Review of Angola, 2006*.

and trade policy needs to be developed (or borrowed from universities that have trade policy curricula) and implemented in universities. And the ability of the private sector to discuss trade reform and advocate reforms needs to be strengthened.

The following paragraphs examine in detail Angola's institutions involved in trade policy formulation and implementation, describe trade-related technical assistance provided to Angola, describe major constraints on trade policy formulation, and provide recommendations for technical assistance that could be useful in building trade capacity.

MINISTRY OF COMMERCE

As mentioned, the MOC oversees external and internal trade policy—and shares this responsibility with the MOI, which handles SADC-related issues. MOC formulates and implements trade policy under delegation of the Council of Ministers, the government's highest executive body. At present, trade policy is coordinated through various ad-hoc committees and committees formed for specific purposes, such as for SADC, WTO, or EPA negotiations.

Approximately 600 people³⁴ work at MOC in seven directorates or offices: the Office of the Minister, Legal Department, Secretary General, Directorate of Planning and Studies (GEPE), Directorate for Inspection, Directorate for International Interchange (GII), and the Directorate of National Trade. In addition to the directorates, which primarily formulate policy, MOC has divisions that implement policy: the Institute for Export Promotion, the Trade Development Fund, the Commercial Protection Institute, the Laboratory for Quality Control, and a National School for Commerce, which is extremely weak and has no curriculum related to international trade. All report directly to the minister. The MOC lacks resources to coordinate everyone who needs to be involved in trade policy formulation and implementation. Lack of Internet access, computers, faxes, and even phones makes simple coordinating tasks difficult.

The GEPE provides research and analysis to support policy formulation by the Directorate of National Trade and the GII. No strategic framework guides these directorates, but the new Mechanism for the Examination of Trade Policy for Angola could be the basis for a guide.³⁵ The report that resulted from this study provides an initial analysis of the need for institutional reform in trade policy formulation in Angola. A rationalization of MOC directorates and of directorate functions and staff could help to make the ministry more efficient.

³⁴ The MOC has started reducing redundant and/or unproductive staff at MOC, 300 in the past year but it is important to recognize that staff reductions cannot substitute for the considerable amount of investment needed in both human capacity and physical working conditions..

³⁵ The MPEC was completed with the assistance of an external consultant funded by UNDP.

Directorate of International Exchange

The GII consists of the Department for Bilateral Cooperation, the Department for International Economic Organizations, and the Administrative Office. GII has final responsibility for trade negotiations, including the WTO Doha Round and bilateral negotiations, except SADC negotiations.³⁶ Angola has decided to negotiate an EPA with the European Union along with six of its SADC partners—the Southern Africa Group—and will lead the agricultural market access and fisheries (resource management aspects) negotiations for the group.

GII is the coordinating agency for the Integrated Framework. According to Angola's WTO Trade Policy Review with Angola's answers to advance written questions for the Trade Policy Review Body meeting of February 2006,³⁷ GII staff need training in specializations (e.g., English, agriculture, services, rules of origin); analytical skills for devising alternative responses to negotiation issues and for monitoring progress in negotiations; and in negotiation techniques, including training through simulation. GII receives minimal technical assistance from UNDP. The European Union has offered significant assistance through various support mechanisms, but has not been able to implement assistance because of a lack of commitment from MOC and GII—a result of a general lack of capacity to respond to the offers combined with the seemingly low political priority assigned to non-oil trade issues.

Directorate of National Trade

Working directly with the MOC's provincial and district offices, the Directorate of National Trade has six departments: study and planning, licensing, internal trade, external trade, trade-related services for businesses, and an administrative section. Through its licensing function the directorate also focuses on internal trade. It disseminates information on Angola's trade agreements to the provinces, and keeps producers informed of historical and current market prices and conditions for certain commercial products.

The Directorate of National Trade's staff have very little training in trade and economics. They need training in commercial policy, market research, export promotion, and trade negotiations. The directorate also requires technical assistance in computerizing licensing procedures and records, and analytic support for market research and utilization of preferential trade agreements.

MINISTRY OF INDUSTRY

The MOI has almost the exact same structure and mandate as MOC, which creates overlapping, unnecessary, and conflicting mandates between the ministries. MOI has approximately 700 personnel in seven departments: the Office of the Minister, Legal Department, Secretary General, Directorate of Planning and Studies (MOI/GEPE), Directorate for Inspection for Industry, Directorate for International Exchange (GIE), and the Directorate

³⁶ The MOI handles SADC negotiations.

³⁷ This document is forthcoming as WT/TPR/M/158/Add.1

of National Industry. As with MOC, MOI's GEPE provides research and analysis to support trade policy formulation by GIE and DNC. The Institute for Industrial Property (IAPI); Angola Institute for Quality, Standards, and Normalization; and Institute for the Development of Angolan Industries all report directly to the Minister of Industry. Each of these quasi-independent institutes requires additional assistance to be effective. A rationalization of directorates and of directorate functions and staff could help to make the Ministry more efficient.

Directorate of National Industry

The Directorate of National Industry formulates and implements industrial policy, develops policy related to small- and medium-sized industries, and administers textile and clothing quotas under SADC. It is also responsible for informing the industrial sector of opportunities arising from trade agreements and arrangements. The Directorate of National Industry has primary responsibility for developing and implementing Angola's reindustrialization strategy. It does not receive technical assistance. Its top technical assistance needs are training in (1) trade agreements, especially rules of origin; (2) the performance of inspections as required by trade agreements; and (3) analytical skills to monitor Angola's performance under various trade agreements.

Directorate for International Exchange

GIE handles international issues as they relate to industry, including preferential trade arrangements, such as the African Growth and Opportunity Act (AGOA). It also has final responsibility for SADC trade negotiations. MOI/GIE appears to coordinate closely with MOC/GII on trade negotiations, as personnel from both offices often appear together during negotiations. Nevertheless, further consolidation of functions between the two offices may be necessary for efficient formulation and implementation of trade policy. The MOI/GIE is receiving technical assistance from UNDP. A Brazilian trade adviser was just hired for six months to assist with SADC-related matters, including finalizing Angola's tariff phase-down offer. GIE has also requested financing for two international advisers to help facilitate the Multi-Sectoral Technical Group for the Negotiation and Implementation of the SADC Protocol, and to help with SADC and EPA issues

While MOI/GIE staff have substantial knowledge of SADC issues, the ineffectiveness of public-private dialogue and interministerial coordination curtails its ability to implement commitments under SADC. For example, since the Multi-Sectoral Technical Group was created in 2004—and later expanded it to cover EU EPA issues—the irregularity of meetings and an inability to take decisions have rendered the group almost ineffective. Angola's National Committee for SADC, at the Ministry of Planning, is also involved with SADC issues. Again, rationalization between these two departments, and with the MOC, could help make implementation of the SADC Trade Protocol more rapid and effective.

Angola Institute for Quality and Standards

The Angola Institute for Quality and Standards (IANORQ), whose objective is the elimination of technical barriers to trade between nations and promotion of quality in products and services, was established as a statutory body under the jurisdiction of the MOI in 1996. It is responsible for developing rules and regulations on product quality and safety, for metrology, accreditation, and certification. It is also the WTO enquiry point for the Agreement on Technical Barriers to Trade. Economies of scale can be achieved if IANORQ is joined with MOC's standards office.

IANORQ, with a staff of 20, is just beginning work on standardization. It is elaborating standards in a few areas, such as cement and food products (e.g., fruits and vegetables) and recently drafted a policy and legislative framework on "standards for standards," which has yet to be gazetted and implemented.³⁸ The framework proposes the use of international standards and the establishment of seven technical committees on standards development.

IANORQ is working in the SADC Standardization, Quality Assurance, Accreditation and Metrology program, which seeks to eliminate TBTs between member states and to promote quality in production processes. Despite this involvement, IANORQ still faces difficulties with conformity assessment and accreditation of standards processes used by the private sector. As IANORQ's laboratories are not yet accredited, private sector firms need to go to other laboratories, usually outside of Angola, to obtain service or accreditation, or both. This can delay accreditation and make it more expensive.

IANORQ still has difficulties in evaluating standardization because it has no laboratory facility for microbiological testing or analysis. In the area of measures, IANORQ has a small laboratory with equipment for large masses and volumes and is performing verification and adjustment of scales and pumps for fuels in the country. In order for IANORQ to comply with the WTO TBT Agreement and to supply the services the private sector requires (e.g., certification of standards used in production of goods, metrology of equipment used in production), it needs new equipment, new labs, and training in standards formulation, metrology, accreditation, and maintenance of equipment. IANORQ has mentioned that a new site could also help it meet its objectives.

According to IANORQ, government coordination should be improved so that standards that help industry produce goods for local, regional, and international markets can be developed. The Ministry of Agriculture is responsible for sanitary and phytosanitary standards (SPS), but clear SPS regulations and practices do not seem to exist. Furthermore, the MOC's standards department is not functioning efficiently because of human and financial capacity constraints. More coordination and communication, and perhaps even a rationalization of functions between trade-related institutions, especially those involved with standards, could help Angola help its private sector meet and implement international standards. At the present

³⁸ Southern Africa Trade Hub, *Angola and the Implementation of the SADC Protocol on Trade*, p. 17, April 2004.

time, potential users exhibit little awareness of these services or of the need to develop Angolan norms and standards to help industry in products for local, regional, and international markets.

Institute for the Development of Angolan Industry

IIDA, a quasi-independent agency of the MOI and the link between Angola's industries and the ministry, implements industrial policy. It analyzes how to improve industrial competitiveness, devises policy responses to boost competitiveness, analyzes possible incentives for industries, works to make the business environment attractive to foreign investors, and helps build industry capacities through training centers. It can also assist industry in accessing credit. For example, IIDA was recently instrumental in devising a duty exemption system for industrial products that are exported. IIDA could benefit from an adviser to train staff in English and industrial competitiveness and to help local industries participate in international trade fairs.

Angolan Institute for Industrial Property

Created in 1996, IAPI is under the jurisdiction of the MOI. Its 25 personnel are responsible for protection of industrial property rights (e.g., registering trademarks, issuing patents).³⁹ Since its inception, IAPI has received more than 15,000 requests to register trademarks and industrial designs as well as various patent applications, all related primarily to the oil industry.

Angola has been a member of the World Intellectual Property Organization (WIPO) since 1985 and a signatory to the WTO's Trade Related Intellectual Property Rights Agreement (TRIPS) since 1996. It is not, however, a signatory to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, or the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. As Angola develops economically and increases its capacity to enforce intellectual property protection, it may wish to consider becoming a signatory to these conventions.⁴⁰

Angola does not have a separate industrial property tribunal or copyright tribunal; offenses are to be tried in the main court system. So far, no case on industrial property infringement has been recorded. Enforcement of intellectual property rights remains weak. Coordination between IAPI and Customs is weak, especially at border posts; judges, lawyers, and police

³⁹ Copyrights are under the jurisdiction of the Ministry of Education and Culture in the National Directorate of Entertainment and Copyright.

⁴⁰ The main law governing the protection of intellectual property in Angola is Law No. 3/92 of February 1992, which provides protection for patents, trademarks, industrial designs, utility models, appellations of origin, and geographical indications. Copyrights are governed by Law 4/90 of March 1990 and Decree No. 14/88 of June 1988. IAPI is revising Law 3/92 to make it compliant with the TRIPS Agreement. At the time of writing, Law 3/92 was revised with assistance from WIPO and with some assistance from the Portuguese Institute of Intellectual Property. The revised law has been submitted to the WTO for a legal opinion and to the Council of Ministers for final approval. While the law submitted for approval improves on Law 3/92, it is incomplete, especially on the topic of geographical indications.

officers have received very little training; and journalists seem to have little understanding of intellectual property protection and rarely report infringements.

In addition, Angola's educational institutions do not provide instruction about intellectual property.⁴¹ The little training that is provided is in the form of short courses in other countries. General IPR training is provided in Portugal, and training in IPR enforcement for judges, prosecutors, Customs officials, and police is provided in the United States through the U.S. Patent and Trademark Office (USPTO).

Lack of English fluency is a major constraint in building capacity for intellectual property protection. Much training material, including laws, is in English. If more IPR-related technical assistance is provided to Angola, training should focus on those who enforce IPR (e.g., judges, lawyers, customs officials, police), as well as journalists and policymakers. At the same time, resources for interpretation/translation and for training in English might be considered. Specifically for IAPI, training on the application process and the issuing of patents and compulsory licenses could be provided. In the past, IAPA has made such requests of donors but has not yet received technical assistance.

MINISTRY OF FINANCE

The Ministry of Finance is involved in trade policy formulation and implementation. It sets the macroeconomic policy framework and tax policy, including tariff levels.

National Directorate for Customs

DNA is responsible for implementing the WTO Customs Valuation Agreement (CVA), certifying the origin of exports, and verifying the origin of imports. Since the introduction of market-based reforms, Customs has been simplifying procedures by eliminating import and export licenses and introducing a simplified import document, the *Documento Unico (DU)*, which is to be prepared and submitted to Customs by a licensed Customs Broker along with the original invoice and an original of the bill of lading or airway bill.

Customs is currently receiving assistance from the Crown Agents and a project designed to modernize its procedures (See Chapter 7). Customs must be represented in trade negotiations such as those for SADC, EPA, and WTO. It has devised a comprehensive set of requests for technical and financial assistance, including assistance in implementing the WTO CVA, classifying products, conducting audits and investigations, conducting internal audits, reducing corruption, and with rules of origin. It has also requested training in English.

⁴¹ See official submission by Angola to the World Intellectual Property Organization (WIPO), www.wipo.org/about-ip/en/ipworldwide/pdf/ao.pdf

Bureau of Studies and International Economic Relations

The Bureau of Studies and International Economic Relations conducts macroeconomic studies, analyzes trade and economic statistics, and assists with preparation of the national budget. The Bureau receives technical and financial assistance and was designated by the Government as the organ to choose candidates for training when, as per the usual practice, the WTO invited the Angolan authorities to nominate candidates to attend the WTO Trade Policy course in Geneva in 2006. This is a sign that it has capable economists who can and should be trained in trade—in contrast to the lack of capacity at ministries that handle trade policy and WTO matters and which should be the ones sending staff to WTO courses. The U.S. Agency for International Development (USAID) provides support through a fiscal management program that helps produce monthly reports on financial statistics. The Bureau also has a consultant who provides assistance in analyzing economic and trade statistics. There is no formal assistance on trade policy, although the bureau head says that such assistance is important and welcome. While the Bureau has some capacity for trade policy it needs much more to participate in trade policy formulation and implementation.

Coordination with other ministries appears to be weak or even non-existent. Because of its close relationship with the Ministry of Finance and the Ministry of Planning and Development, the Bureau can significantly affect trade policy formulation, especially through economic and trade studies. As trade policy dialogue improves, it will be important to work closely and collaboratively with this Bureau.

MINISTRY OF PLANNING

The Ministry of Planning is responsible for national development planning and for monitoring and evaluating economic trends and policies. The 2005-2006 Government Plan, the Plan 2025, and the Strategy for Combating Poverty (ECP) are all developed at the Ministry of Planning. In addition, the Office for Regional Economic Integration (Gabinete de Integração Económica Regional) and the Angola SADC Secretariat are at the Ministry of Planning. Thus, the Ministry of Planning should coordinate and collaborate closely with MOC, especially for implementation of the Integrated Framework. At the time of this writing, it appeared as if little, if any, coordination had been achieved between the Ministry of Planning and MOC. Three principal departments at the Ministry of Planning should be much more engaged in formulating and implementing trade policy: the Department for Planning and Studies, the National Institute for Statistics (INE), and the Angola SADC Secretariat.

Department for Planning and Studies

The Department for Planning and Studies conducts most of the Ministry's economic and trade analysis. It works closely with and receives funding and assistance from the World Bank, the EU, and UNDP, including for two projects: one on improving financial management and the other on multisectoral reconstruction of the economy. The department appears to be well funded and well capacitated. Its capacity building needs are not as great as needs at other

ministries, especially MOC and MOI. But, given its ability to conduct trade-related analysis as well as its impact on the ECP and national development plans, it must become more involved in trade-related dialogue and implementation of the Integrated Framework.

National Institute for Statistics

INE collects, assembles, and makes import and export data available to government officials, then to the interested public. Data availability and accuracy need to be improved. It can take up to six months or more before data are available, and then data cover only value. Because data are not disaggregated, it is impossible to determine whether imports that entered under preferential duties were exempt or paid the full rate. Trade policy analysis, including the effect of the SADC Agreement, requires timely, disaggregated data. INE and DGA need to better coordinate data assembly and analysis to expedite release for analysis.

Angola SADC Secretariat

The Angola National Committees for SADC (CNS) was created in 2003 to help coordinate, supervise, and implement SADC policies, strategies, and programs at a national level; to answer questions about SADC; and to facilitate the sharing of information between SADC and Angola, ensuring input for SADC regional programs and ensuring that SADC decisions are implemented in Angola. With a full-time staff of 16, it helps promote the participation of Angolan actors in SADC activities. In coordination with the MOI, it created a multisectoral group of ministries involved in management of the economy. All SADC decisions are communicated via the CNS.

The CNS is a good example of an over-resourced and underperforming agency. Although all SADC members must have a national committee and although Angola's CNS staff seems well informed and capable, the size, budget and number of staff used to keep it functioning is perhaps excessive, especially given Angola's budgetary and resource constraints. Despite more than three years of research and the support of the CNS and the MOI, Angola has not been able to submit a tariff offer, a strong sign of redundancy. In addition, the plethora of actors involved in trade policy formulation and implementation exacerbates coordination problems, a situation the CNS only compounds. A rationalization of the CNS to include its and the MOI's SADC responsibilities under the scope of MOC may be warranted.

The CNS has indicated that it could benefit from more technical and financial assistance. While the Brazilian consultant contracted to assist MOI will also provide assistance to the CNS, other experts could further assist, given a general rationalization of its tasks and resource use. USAID's Southern Africa Global Competitiveness Hub assisted CNS in preparing a report on implementing the SADC Trade Protocol in Angola.

MINISTRY OF FOREIGN AFFAIRS

The Ministry of Foreign Affairs has two departments involved in international trade policy: the Department for Multilateral Cooperation and the Legal Department. The Department for

Multilateral Cooperation follows all trade negotiations such as WTO, SADC, and EPA, as well as bilateral negotiations. In addition to the head and deputy of the department, two capable people conduct the day-to-day work. The department warrants attention for future trade capacity building. In addition to ensuring that it is invited to short-term trade training, it will be important to conduct studies with and share information with this department. The department identified a lack of English skills and a lack of understanding of technical trade issues as major obstacles.

The Legal Department also follows trade-related negotiations and agreements, conducting legal analysis before any commitments are made in the multilateral trading system. Before Angola signs and implements trade agreements, this department provides a legal opinion. Because of its potential influence on trade policy, it should be brought into the scope of trade capacity building.

Recommendations for Strengthening Trade Institutions and Processes

Ministries involved in trade policy operate in an environment of overlapping and redundant jurisdictions with unclear lines of authority. Rationalizing responsibilities could go far in making better use of scarce resources. Ministries also need to build trade capacity of staff; despite large payrolls, only a few people understand trade issues. In addition, inadequate and unreliable trade and investment data hamper policy decisions. Data on trade needs to be improved and made available on a timely basis to be useful for analysis. Curricula on economics and trade policy needs to be developed (or borrowed from universities that have trade policy curricula) and implemented in universities. And the ability of the private sector to discuss trade reform and advocate reforms needs to be strengthened. The following recommendations are intended to assist Angola in rationalizing its system for formulating and implementing trade policy to achieve economies of scale.

Establishing National Committees

Trade policy formulation and implementation and participation in the international trading system necessitate national committees. For example, SADC, the Integrated Framework, the Joint Integrated Technical Assistance Project, EPAs, and the WTO all require the creation of national committees. In many developing countries, individuals who are asked to serve on these committees are usually the same. What is proving useful is forming one overarching committee on trade, whose members also deal with issues related to other programs or negotiations, or both, as necessary. Angola has a National Executive Secretariat as a mechanism for the government to interact with the WTO.

CREATE A NATIONAL TRADE STRATEGY

Angola should create a national trade strategy to guide pro-poor trade reform. Developing a national trade strategy will require

- High-level endorsement of trade as central to the country's development strategy;

- Effective coordination among ministries with unifying goals of reducing transaction costs, increasing competitiveness, and increasing exports;
- Intensive collaboration and consultation between the public and private sectors;
- Developing and prioritizing goals and the actions for achieving them; and
- Creating a mechanism for ensuring accountability for and assessment of progress.

Furthermore, a national trade strategy should provide an institutional framework for bringing a variety of ministries, agencies, and private sector entities into the trade policymaking process.

ESTABLISH HIGH-LEVEL SUPPORT FOR TRADE POLICY REFORM

Trade policy formulation and implementation must be promoted from the highest levels. Presidential affirmation of the importance of trade as a vehicle for economic growth and poverty reduction would signal that Angola is seeking to reduce red tape and lower high transactions costs borne by producers and potential exporters. It would also send a strong signal about future policy direction to local and foreign investors. This could be followed by a campaign to foster appreciation among mid-level government officials of how trade liberalization can lead to pro-poor growth.

Officials involved in Customs, inspections, tax policy and collection, business registration, labor, land, and other matters often do not understand how their actions affect exports and employment. For example, it is common that small irregularities in documentation delay transactions related to imports, exports, and business licenses. When businesses cannot complete their transactions in a timely manner, the resulting delays and inefficiencies reduce their profitability, costing jobs, tax revenues, and foreign exchange earnings. Rather than restricting trade, official activities can actually facilitate trade once officials are aware of the sum effect of their activities on business—and once trade facilitation is backed by a high-level mandate for change.

RATIONALIZE DEPARTMENTS DEALING WITH TRADE POLICY AT DIFFERENT MINISTRIES

The sheer number of ministries and institutions involved in trade policy creates a complex and often confusing system. To ensure predictability and certainty about who handles what in trade policy, it is recommended that each important trade function be clearly delegated to one ministry to clarify lines of authority and responsibility. For example, the MOC would be the logical place to centralize trade policy formulation and coordination. However, the importance of the MOI to various aspects of trade policy must be recognized as well. Creating a clear division of labor between these entities under the direction of an interministerial council capable of mandating action would greatly assist in the creation of a coherent trade policy.

CREATE A HIGH-LEVEL INTERSECTORAL COMMITTEE ON TRADE

Angola would benefit from establishing a mechanism for making government-wide trade policy decisions on a continuous basis. Multilateral, regional, and bilateral negotiation strategies must be integrated, and conflicts between ministerial mandates as they affect international trade must be resolved. Angola's major trading partners—South Africa, the EU, and the United States—have long recognized the value of a coordinated trade policy and have coordinating mechanisms in place. In fact, most major trading nations have a single entity with authority to conduct trade policy. The mandate of a coordinating unit must be strong enough to overcome the propensity of busy ministries not to consider trade policy objectives outside their jurisdiction.

There is overlap and redundancy in the trade policy coordinating mechanisms. The MOC has primary responsibility for trade policy formulation, but other ministries (such as MOI on SADC issues) also participate. At present, the MOC and MOI form intersectoral coordinating committees when issues arise. This lack of a formal intersectoral process that handles multiple issues simultaneously (e.g., SADC, EPA, the Integrated Framework) wastes resources and time.

The MOC/GII is supposed to create and lead the IF National Steering Committee. It also has the responsibility to lead the WTO Trade Committee. The SADC Multi-Sectoral Committee for EPAs as well as the SADC National Committee is led by the MOI/GII. The number and complexity of issues each of these committees needs to handle necessitates multiple meetings. The time and effort it takes to organize and meet in each of these committees expends precious time and resources unnecessarily. It would be advisable to consider uniting the mandates of these various entities under a single interministerial committee such as that proposed here.

In addition to the growing number of negotiations and agreements, is the growing number of substantive areas that go far beyond the traditional matters of tariffs, quotas, and trade remedies. Angola's international trade rights and obligations extend to new trade agreement rules in textiles, agriculture, SPS measures, intellectual property rights, and services. In addition, the competitive position of Angola's producers is affected by a wide range of government policy and practices: customs practices, labor law, VAT refund practices, company registration. Many different ministries and government agencies establish and administer these policies. Angola's international trade is significant enough for it to establish a mechanism that will enable it to make government-wide trade policy decisions on a continuous basis.

It is recommended that one high-level committee on trade be established to coordinate and recommend decisions on trade-related issues to the Deputy Prime Minister. The IF National Steering Committee might be able to formalize the various intersectoral committees into one trade policy coordination committee.

BOOST TRAINING AND STRENGTHEN HUMAN CAPACITY

Angola's trade-related institutions suffer from very limited human capacity, poor interministerial coordination, and weak organizational structure. Although numerous ministries are involved peripherally in international issues, often focusing or specializing in one area, the depth of each ministry's knowledge of trade-related subjects can be significantly improved. Technical assistance tasks that would benefit Angola include (1) increasing awareness of the WTO in the government and the private sector; (2) building capacity of individuals and institutions implementing trade agreements, especially mid-level and technical officials in agriculture, customs, fisheries, and industry; (3) improving quality control and consumer protection through better equipment and staff training; (4) providing assistance and training to identify and overcome problems in accessing external markets; (5) providing assistance to make local laws and decrees conform with WTO agreements; and (6) providing assistance in preparing for and participating in WTO negotiations.

Training is needed to build public and private sector capacity to analyze policy options and participate in trade policy deliberations and negotiations. A greater understanding of the benefits and obligations of WTO, regional, and bilateral agreements is also necessary if Angola is to continue to integrate into the multilateral trading system. Subjects important to Angola that have been identified include agriculture, services, trade preferences, rules of origin, standards, competition policy, safeguards and antidumping, IPR, customs issues (e.g., post-clearance audit, rules of origin) and negotiations. Management skills in the private sector also need to be improved so it can respond better to trade opportunities. Individual firms and business associations could benefit from training in market analysis, accounting, language, business, and financial planning.

Human capacity in the public sector poses another challenge. Turnover is high and skills and experience limited. Training must therefore be considered a long-term structural problem, one that requires interventions at many levels. Because skill levels in government are not only weak but also sparsely distributed, on-the-job training must be provided while undergraduates and graduate students are trained.

Trade and economics training in Angola is seriously lacking (Exhibit 5-1). Basic skills—such as computer training, English language, and writing—can be developed in many different

Illustrative Trade-related Training

WTO structure and overview of agreements (goods agreements, services, TRIPS, TPRM)

Dispute settlement mechanisms

Trade remedies (safeguards, antidumping, countervailing duties)

Economics of trade liberalization

Agriculture

Technical barriers to trade; sanitary and phytosanitary measures

Customs valuation, rules of origin, preshipment inspection, import licensing

Trade-in services

Regional trade agreements

Market access negotiations, negotiation techniques

Built-in agenda, Singapore agenda, new issues

centers across the country. But training in skills required of trade specialists is very limited in Angola. Universities in South Africa are providing short-term and master's-level programs.⁴² These programs are reasonably priced; the master's programs cost less than 20 percent of equivalent programs in the United States. They are also taught in English, a language essential for anyone wishing to work in the region or on WTO-related matters.

Exhibit 5-1

Trade-related Training in Angola

Angola has very little if any higher education in trade and economics. A few universities, such as Catholic University, Lusiada, Augustino Neto and Superior Institutes such as Piaget and ISPRA, offer some training in economics and business. The Catholic University has received contracts from the World Bank to perform economic and data analysis, and in that respect, if deemed appropriate, might be the best place to develop a graduate course in trade policy. The Ministry of Commerce also has a Trade School, but is not

offering much training because of financial constraints much training. If trade capacity building is to have an enduring effect on current and future generations of policymakers and the private sector, trade-related technical assistance should be provided to at least one university in Angola. For instance, a Masters-level course in international trade might be developed in conjunction with another university in South Africa, Brazil, or Portugal.

The assessment team believes that funding should be made available so Angolan government officials can attend trade training programs in South Africa. Training should be available to staff of the MOC, MOI, and selected staff in other ministries that are involved in international trade issues. University scholarships should be made available to promising university graduates who, in return for such scholarships, would be required to spend some time working at the MOC, MOI, and other agencies when they complete training. Because managers do not want to give up their best and most productive staff for long-term training, using consultants as replacements for long-term staff should be considered. Technical assistance to Angola's trade policy institutions thinly covers needs even in MOI, which currently receives most of such assistance.

IMPLEMENT INTERNATIONAL TRADE AGREEMENTS AND SIGN INTERNATIONAL CONVENTIONS

Angola should finalize its tariff phase-down offer immediately and submit it to SADC. It should also continue to evaluate the benefits of signing free trade agreements with countries

⁴² The Universities of Natal-Durban, Cape Town, and Stellenbosch have master's programs in trade, funded by USAID, as of this year. Twice each year, the University of Cape Town also offers a two-week executive course on Trade Negotiations: Applied International Trade Bargaining. See www.commerce.uct.ac.za/tarpgog.

that offer such negotiations; free trade agreements could bring significant gains to Angolan consumers and the industrial sector. The SADC Secretariat studies discussed above indicate that South African exports could meet a wide spectrum of Angolan needs in manufacturing and consumer goods where domestic production has yet to be rehabilitated. Angola should also request the technical assistance to implement various WTO agreements, such as the SPS/TBT Agreement, the CVA, and TRIPS; and to submit its commitments in the WTO's General Agreement on Trade in Services. For intellectual property, it should consider signing the Paris, Rome, and Berne conventions.

STRENGTHEN THE PRIVATE SECTOR'S ABILITY TO ENCOURAGE TRADE POLICY REFORM

The private sector is the immediate beneficiary of a trade-led growth strategy. Such a strategy is, after all, meant to increase producers' access to foreign markets while improving their capacity to supply those markets—markets with far greater purchasing power than domestic markets. Private sector input on trade policy will be critical. The private sector should build its trade policy capacity and begin to articulate its positions on policy and seek to have the government create an environment conducive to business operations and trade. Labor unions should also be included in public-private consultation. At present, most Angolan producers are accustomed to an environment in which the main constraints are on the production side, but in which competition from imports is always present. As production rehabilitation proceeds, private interest groups will likely lobby for protection as is common elsewhere. Resisting this pressure while doing all that can be done to boost the profitability of export activities will be the challenge for the future.

One potential channel for private sector input into trade policy is the Angolan Chamber of Trade and Industry. The chamber has more than 500 businesses as direct members and represents more than 3,000 businesses through its trade association membership. The chamber already organizes training for its members, so it might be possible to piggyback training on the WTO, SADC, EPAs, economics, and trade policy formulation onto Chamber of Trade and Industry training to reach a larger segment of the private sector and more businesses. This would be more effective than focusing on other business associations alone.

An annual public-private sector conference on trade and the business environment could prove a useful forum for inventorying obstacles to trade development, monitoring progress, and seeking consensus on trade policy reform.

STRENGTHEN DATA COLLECTION, DISSEMINATION, AND ANALYSIS

Data is scarce in Angola and collection and dissemination are inconsistent. Trade and investment data, especially trade statistics, are neither adequate nor reliable. Volume data on exports and imports can be obtained only from original sources and even then common units

of measurements are not always used. Data provided by different government ministries and departments are often contradictory or inconsistent. This hinders

- Analysis of export performance generally, as well as in markets in which Angola receives preferential access (e.g., under the SADC Trade Protocol);
- Identification of changes in the volume of imports that affect the health or competitiveness of domestic industries;
- Forecasting of trends in trade;
- Analysis of trade policy options; and
- Adequate support services for exporters and importers.

Some trade information is available from the INE, the Central Bank and Customs, but the private sector is either unaware of it or does not know how to use it. Statistics on foreign markets, even such large, data-rich markets as the United States and Europe, are even scarcer.

6. Trade Barriers

Tariffs

Angola applies MFN treatment to all its trading partners. Angola's tariff, like its import system overall, has been considerably revised and liberalized since May 1999, when a new tariff code (*Pauta Aduaneira*) based on the Harmonized System (1996 version) was introduced. At that time, the maximum duty rate was cut from 135 percent to 35 percent.

The latest tariff schedule for imports and exports, based on HS 2002, with a maximum rate of 30 percent, was introduced in 2005 under Decree-Law No. 2/05.⁴³ According to the authorities, the objectives of the new tariff schedule are to

- Align the tariff structure with that of the HS 2002, according to the requirements of the WTO and the World Customs Organization;
- Revise duties to protect national production without harming the interests of consumers and guarantee the supply of essential goods at competitive prices;
- Protect national industry from dumping practices; promote, as a strategy and with comparative advantage as a guide, a gradual process of substitution for imports of essential goods and to relaunch exports from non-oil sectors;
- Grant tariff benefits to the productive sectors of the economy and create fiscal equity.

Specifically, the new tariff structure seeks to reduce tariff rates that affect imports of raw materials; maintain or slightly increase tariffs on finished goods that can be acquired locally in acceptable quantity and quality; impose minimum rates on essential goods and intermediate products that are not produced locally or whose production levels do not satisfy local needs; and impose maximum rates on used goods not incorporated in local products.⁴⁴

⁴³The 2005 tariff (in .pdf) is available at http://www.ita.doc.gov/td/tic/tariff/country_tariff_info.htm#Angola.

⁴⁴ Information supplied by the Angolan authorities.

MFN TARIFF BINDINGS

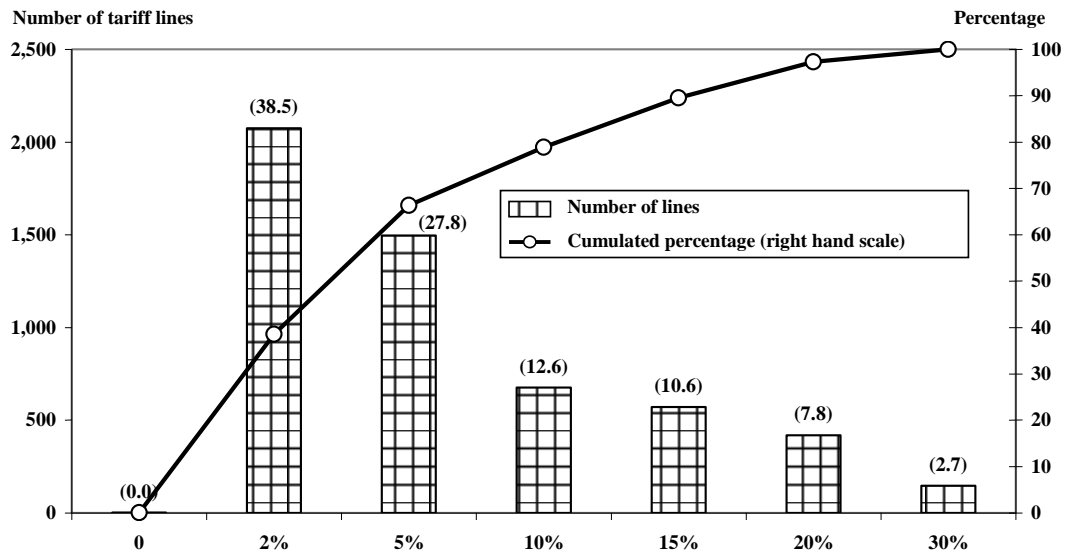
All of Angola's customs tariff is bound in its GATT 1994 schedule (Schedule CXXIX). The arithmetic average of bound rates is 59.1 percent. Duties on agricultural products (WTO definition) are bound mostly at a ceiling of 55 percent, with a few lines bound at lower rates of 10 percent or 15 percent. Tariff bindings on industrial products are generally set at a ceiling level of 60 percent, with a few rates at 80 percent. Such ceiling bindings, while legally valid in the WTO system, give considerable scope for tariff increases well above the current low levels of most of Angola's applied tariffs.

TARIFF DISPERSION AND AVERAGES

Angola's applied tariff has six bands of 2 percent, 5 percent, 10 percent, 15 percent, 20 percent and 30 percent. No lines are duty-free. The tariff follows the HS at the 8-digit level. Out of the 5,384 tariff lines in the schedule, 66 percent (3,570 lines) are rated at 2 percent or 5 percent; 38.5 percent (2,074 lines) are at 2 percent and classifiable as "nuisance rates" (Figure 6-1). The two highest rates of 20 percent and 30 percent jointly apply to 10.5 percent of tariff lines, or 565 lines.

Figure 6-1

Breakdown of Applied MFN Duties, 2005



Note: Angola has 5,384 tariff lines; the figures in parentheses correspond to the percentage of total lines

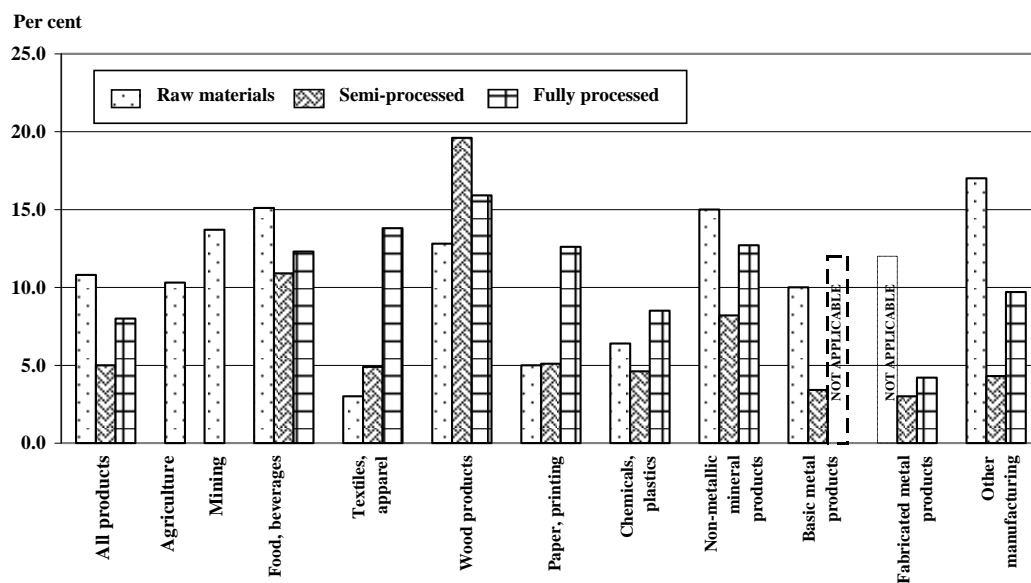
SOURCE: WTO Secretariat calculations, based on data provided by the Angolan authorities.

The simple average MFN applied tariff in 2005 is 7.4 percent by major sector (WTO definition), the average tariff on agricultural goods is 10 percent (compared with a bound average of 52.6 percent), and that on nonagricultural goods 6.9 percent (compared with 60.1 percent bound average).

TARIFF ESCALATION

The structure of Angola's tariff gives a diverse pattern of tariff escalation and, presumably, of effective protection (see Figure 6-2). That is, for a given activity, low or no protection of inputs coupled with higher protection of outputs implies a potentially higher profit margin, while high tariffs on inputs and low or none on outputs would reduce or even eliminate domestic producers' profit margins. On the basis of 2-digit level ISIC headings, the only sector with a distinct pattern of tariff escalation is textiles and clothing. Overall, tariffs de-escalate between the first and second stages of processing, and escalation between the second and third; but this is not consistent among sectors at this level.

Figure 6-2
Tariff Escalation by ISIC Two-Digit Industry



Note: The calculations take no account of tariff concessions.

SOURCE: WTO Secretariat estimates, based on data provided by the Angolan authorities.

DUTY AND TAX CONCESSIONS

A wide range of import duty concessions is available to investors in Angola. A general scheme is available to investors in priority regions, and separate schemes are available to investors in the oil, diamond, and mining industries. These concessions are linked to the priority development zones defined in Angola's investment policy and to the contribution of investment projects to the development of these zones. The breadth and depth of import duty exemptions mean that virtually any investor may import goods required for production and capital equipment, as well as some products for end use, duty free. (See Chapter 8 for a discussion of these exemptions.)

TARIFF PREFERENCES

At present, Angola gives no tariff preferences to imports from any source. Application SADC Trade Protocol would require Angola to give preferential treatment to goods from SADC; and the preferential requirements agreed to during the EPA negotiations with the European Union remain to be seen.

ASSESSMENT OF TARIFF SYSTEM

Overall, the Angolan tariff is likely to provide domestic producers in selected sectors with high levels of effective protection (see Exhibit 6-1)⁴⁵ Most tariffs on industrial inputs, capital goods, and equipment are low, or at “nuisance” levels (2 percent or 5 percent). In addition, substantial duty-free concessions are available to investors in priority zones, as well as to the oil and mining industries. The combination of low tariffs and concessions means that most investors pay little or no customs duty on inputs, equipment, and capital goods for at least the initial period (up to 10 years) of their activities, and in the oil and mining industries for the duration of their activities. At the other extreme, a number of sensitive domestic final goods, including certain construction goods, are taxed at relatively high nominal duty rates of 20 percent or 30 percent. Because of the low duties and tariff concessions on goods used in production, the effective protection of added value is, in these areas, likely to be many times higher than the nominal rates of duty on the final goods would imply.

Nontariff Measures

PRESHIPMENT INSPECTION

Preshipment inspection of goods destined for Angola has been in force since 1980. The regime was revised, under Decree 34/02 of June 28, 2002 and Dispatch 192/02 of August 9, 2002, and a new preshipment inspection agency (BIVAC International) was appointed by contract until the end of 2005. The contract has been extended for 2006.

Under Decree 34/02, all goods imported by juridical (collective) persons, of a c.i.f. value of US\$5,000 or more, are subject to preshipment inspection; for personal imports, the floor level is US\$10,000.⁴⁶

⁴⁵ Effective protection is a measure of the protection provided to an industry by the entire structure of tariffs, taking into account the effects of duties on inputs as well as on outputs. See Corden, W. Max (1966).

⁴⁶ BIVAC Data Sheet, Pre-shipment Inspection of Imports for Angola. Available at : <http://www.bivac.com/webapp/servlet/FileServlet?mode=preview&downloadfile=/693ANGOLA+Data+sheet+Rev+7.pdf>.

Exhibit 6-1*Import Duties, Effective Rate of Protection, and Economic Efficiency*

The effective rate of protection (ERP) measures the extent to which import duties shelter inefficient domestic producers from import competition. Consider a domestic firm that produces cooking oil worth \$100 per unit in the world market. If the import duty on cooking oil is 25 percent, then the firm can charge the equivalent of up to US\$125 in local currency and still compete against imports in the domestic market.

Suppose the firm uses imported inputs that cost \$60 in the world market, bearing an average duty rate of 2.5 percent, the cost of the inputs in the domestic market is \$61.5. This firm can meet or beat import competition as long as the margin between the output price and the cost of imported inputs does not exceed \$125 - \$61.5 = \$63.5, the domestic value added, or VAd. In the world market, competitive producers convert the same inputs into cooking oil with a value added margin of VAW = \$100 - \$60 = \$40.

The ERP is the difference between VAd and VAW, expressed as a fraction of the latter, which represents the international competitive standard. In this case, the ERP is

$$\text{ERP} = (\$63.5 - \$40) / \$40 = 59\%$$

This is called the effective rate of protection, because it shows the extent to which domestic production is protected, in the sense that the transformation process can operate at 59 percent higher cost (in this example) than international rivals and still compete in the domestic market. The level of the ERP depends on the duty rates applied

to imported outputs and the respective inputs. The ERP also depends strongly on the domestic content of the production activity. The following calculations show how powerful the protection effect can be, assuming the same duty rates as given above:

Domestic content	ERP
20%	115%
40%	59%
60%	40%
80%	31%
100%	25%

The lessons here are somewhat remarkable. First, the tariff differentials in place in Angola can shelter highly inefficient activities. Second, protective tariffs favor investments with low domestic content; this distortion discourages the development of backward linkages. Third, very high levels of protection can be delivered without reducing the duty on imported inputs to zero.

In Angola, very little manufacturing production has a high percentage of domestic content. Thus, in some cases, effective protection could be increased by simply reducing tariffs on inputs—rather than increasing tariffs on imports overall, as some suggest—in accord with a general policy favoring liberalization.

Estimating ERPs accurately in Angola will require detailed cost studies that identify precise proportions of domestic and imported inputs for individual products. Such studies will be a basis for future policy analysis and formulation .

Note: Domestic content is defined as the difference between the value of the product and the cost per unit of imported inputs (valued at world market prices).

SOURCE: Nathan Associates Inc., 2004.

In order to issue a clean report of findings, BIVAC requires the trader to supply the final commercial invoice and transport document, plus any of the other specific documents mentioned above. A non-negotiable inspection report is issued to the importer if inspection

reveals non-compliance and discrepancies are not corrected, or if complete documentation is not delivered by the exporter within 30 days following the inspection.⁴⁷

Customs aims to phase out preshipment inspection gradually as capacity is built up to apply the WTO Agreement on Customs Valuation.⁴⁸ The authorities state that the capacity of customs to establish the value and classification of goods is being strengthened through intensive training of technical staff; this includes training in post-import inspections and audit of goods.

CUSTOMS VALUATION

As of the time of the WTO Trade Policy Review meeting in February 2006, Angola was using the Brussels Definition of Value and the concept of “normal price” contained in it as the basis for its customs valuation.⁴⁹ Normal price may be generally accepted as the value contained in the relevant import document or as the value when the goods are delivered to the purchaser at the port or at the entry point to Angolan territory. Import duties are based on the c.i.f. value of goods at the point of entry.

The authorities note that, under Articles I and II of the Brussels Declaration of Value, the preshipment inspection agency establishes the value of goods on the basis of the price paid or to be paid. In case of disagreement, value is established in relation to identical or similar goods exported to Angola from the same country of origin or by the same exporter. According to BIVAC, there were 10,084 overinvoiced shipments from March 2002 to October 2004, valued at US\$18.6 million, and 10,166 undervalued shipments, valued at US\$95.6 million.

A new Customs Law (or Customs Code) incorporating the provisions of the WTO Customs Valuation Agreement was approved by the Council of Ministers in May 2005 and by the National Assembly in August 2005. The new code will enter into effect 90 days after the publication of the corresponding decree-law in the official gazette (*Diário da República*). The entry into force of the new code will enable the adoption of the WTO valuation method; a customs valuation unit has been established to support this process.

RULES OF ORIGIN

Angola has one set of rules of origin for imports from all sources—all are treated on an MFN basis. The 2005 customs tariff specifies that products are considered to originate in a country if they are “wholly obtained” in that country (minerals extracted, plants grown, animals born and products obtained from such animals, products of hunting and fishing, products extracted from the soil or subsoil, residues and scrap from wholly obtained products, goods

⁴⁷ BIVAC Data Sheet, Pre-shipment Inspection of Imports for Angola.

⁴⁸ Decree 05/04 of 15 January 2004 and Addendum of 11 May 2004.

⁴⁹ Decree-Law 2/05, Article 6. Normal price is defined as the price that would obtain, at the moment of examination by customs, in a free transaction between an independent buyer and seller.

produced from previously mentioned products or on factory ships registered in the country, goods of which 25 percent of the cost of production is accounted for in the country, or goods that have undergone the last stage of processing in the country). When production of a good is undertaken in two or more countries, the originating country is the last country where “economically justifiable transformation” took place resulting in a new product or a major stage in its production. Additional added value of less than 25 percent does not grant originating status. Operations aimed at conservation and other simple operations are not regarded as economically justifiable transformation.⁵⁰

The customs regulations require imported goods to be accompanied by documentary proof of origin, in the form of a certificate of origin or equivalent document, issued by a responsible organization in the country of origin and presenting adequate guarantees.⁵¹

Participation in the SADC Trade Protocol will require Angola to apply SADC rules of origin when it submits a tariff reduction plan for SADC-origin goods. Similarly, participation by SADC in an EPA with the European Union will require the adoption of appropriate origin rules. Angola’s rules of origin are thus likely to become more complex in the future.

OTHER LEVIES AND CHARGES

In addition to import duties, all imports are subject to the consumption tax (*imposto de consumo*), which is signaled in the Customs Code along with import duties on a line-by-line basis. The rates of consumption tax are 2 percent, 10 percent, 20 percent and 30 percent. The vast majority of goods are charged 10 percent; the 20 percent and 30 percent rates are applicable mainly to “luxury” goods (e.g., certain jewelry, larger engine-capacity cars), while the 2 percent rate is applicable to a variety of “basic” goods (e.g., soaps, but not detergents) or in some cases, input goods or machinery for industry. The authorities state that the 2 percent rate is applied to equipment destined for the promotion of reindustrialization in Angola, while the 10 percent rate is applied mainly to items for domestic use and other machinery whose manufacture in Angola is possible. The differentiation in consumption tax rates reinforces the effective protection given by the tariff structure. Because most goods have to be imported, the consumption tax is effectively another tax on imports. Most imports are finished goods, though, so tax cascading is minimized—but cascading could become a significant problem in the future. In addition, bureaucratic and monitoring requirements associated with a VAT are too onerous to implement at present, but this too could change as domestic production is reactivated.

⁵⁰ Decree-Law 2/05, Articles 20 and 21.

⁵¹ Decree-Law 2/05, Article 22.

OTHER DUTIES

Other duties are in force:

- Stamp duty of 0.5 percent of the c.i.f. value of goods (customs value) (Decreto Executivo 71/04 of July 9)
- General customs fee of 2 percent of the customs value (Decree-Law 11/01)
- Personal emoluments of 1 percent of customs value for consignments valued below Kz 700,000; a fixed rate of Kz 1,800 for goods valued between 700,000 and 1,800,000; and a fixed rate of Kz 200,000 for goods valued above 1,800,000
- “Subsidies” for transport and movement of goods and Customs staff (*Subsidios de Transportes e Deslocações*)—for goods arriving by sea, Kz 0.35 per kg, with a minimum of Kz 15,000 and a maximum of Kz 28,000; and goods arriving by air, Kz 12.80 per kg, with a minimum of Kz 4,500 and a maximum of Kz 9,000.

Angola has not undertaken any binding commitments concerning “other duties and taxes” in its WTO tariff schedule.

IMPORT PROHIBITIONS AND LICENSING

Article 30 of the Tariff Code of 2005 specifies goods that are prohibited from import. Article 31 specifies goods that are subject to a special import approval regime. These measures have been put in place for health, security, and safety purposes.

STATE ENTERPRISES

Angola’s principal law governing public enterprises is Law No. 9/95 of September 15, 1995. Angola has not notified to the WTO any state-trading activities undertaken by entities within the meaning of Article XVII:4(a) of the GATT 1994. Angola maintains over 60 state-owned enterprises involved in trade-related activities in manufacturing, engineering, utilities, trading, finance, broadcasting, and telecommunications.

GOVERNMENT PROCUREMENT

Angola is not a signatory to the WTO’s Plurilateral Agreement on Government Procurement. The authorities have provided no information on government procurement procedures and practices. According to published sources,⁵² the government of Angola solicits bids for supplies and services in local and international publications 15 to 90 days before the bids are due. Bid documents are normally obtained from a specific government ministry, department, or agency for a nonrefundable fee. Completed bids, accompanied by a specified security deposit, are usually submitted directly to the ministry in question. The same source also

⁵² USTR 2005.

comments that “the bidding process often does not meet international standards of objectivity and transparency. In addition, information about government projects and tenders is not often readily available from the appropriate authorities, and the interested parties must spend considerable time on research.”

STANDARDS AND OTHER TECHNICAL REQUIREMENTS

Standards activities in Angola, except those relating to animal health and phytosanitary conditions, are under the authority of the Angolan Institute for Standardization and Quality (IANORQ), established in October 1996.⁵³ The objectives of IANORQ are to coordinate and manage standardization activities in order to formulate standards and related documents. Its activities are devolved to technical committees, and it participates in subcommittees of Codex Angola. IANORQ covers all areas of standards, quality assessment, certification, and metrology.

IANORQ is a correspondent member of the International Organization for Standardization (ISO) and a member of the Affiliate Country Program of the International Electrotechnical Commission (IEC). As a member of SADC and SADCAS, Angola participates through IANORQ in the SADC Program in Standardization, Quality Assurance, Accreditation and Metrology. The objectives of this SADC quality program are “the progressive elimination of technical barriers to trade amongst the Member States and between SADC and other regional and international trading blocs, and the promotion of quality and of an infrastructure for quality in the Member States.”⁵⁴ So far, standards for 19 products have been harmonized,⁵⁵ and SADC has adopted ISO guidelines for testing and calibration, accreditation of certification bodies, environmental systems, and others. Angola is adopting some ISO standards, but implementation of SADC harmonized standards is limited by the lack of translation of the relevant standards into Portuguese.⁵⁶

Angola is working to establish an accreditation body; so far there is no regulation covering accreditation issues. A national accreditation focal point has been nominated. IANORQ has taken on the responsibilities of and is acting as the national enquiry point for standards. The authorities state that they will notify this to the WTO.

During 2002–2004, draft national standards were formulated by IANORQ on salt, wheat flour, maize meal, wheat and maize in grains, early and main-crop potatoes, milk powder, butter, margarine, sunflower oil, natural mineral waters, and salted dried fish, including *bacalhau*.

⁵³ Decree 31/96.

⁵⁴ Information available at <http://www.sadc-sqam.org/regionalsqam/sqamobjectives.html>.

⁵⁵ These are common cements; masonry cements; tires and retread tires for motor vehicles and trailers; canned fish, their products, and mollusks; canned crustaceans; frozen fish, products, and mollusks, frozen lobsters and products, and frozen shrimps, langoustines, and crabs; electrical installations; child restraints; safety belts; road signs; door and window frames; refrigerants; and safety signs in buildings and factories. For the complete list, see SADC online information. Available at: http://www.sadcstan.co.za/Sadcstan_Projects.aspx.

⁵⁶ SADC online information. Available at: http://www.sadcstan.co.za/Harmonized_Standards.aspx.

Draft legislation was drawn up on labeling and technical specifications of products in Portuguese and conditions for marketing of meat and meat products, fish and fish products, and bread and bread products.

Sanitary and Phytosanitary Measures

Angola joined the FAO Codex Alimentarius in 1990. In relation to sanitary and phytosanitary measures, the authorities established the unit Codex Angola in the Ministry of Agriculture and Rural Development in 2003.⁵⁷ The director of the National Directorate of Internal Trade in the Ministry of Commerce is the president of Codex Angola, and the director of IANORQ is the deputy president. Codex Angola's objectives are to protect consumer health; watch over the harmonization of international norms and standards; ensure fair practices in trade in food products; and promote and coordinate for Angola work by governments, international organizations, and NGOs in the field of food standards. Within the country, its tasks are to give technical support and inputs to food standards and technical regulations; be a bridge between the agricultural and food industry, producers, traders and consumers; and assist the government in taking political and technical decisions in the field. To that end, provincial Codex committees have been established in Cabinda, Benguela, Húila, Namibe, and South Kwanza.

Public health measures are regulated by Law No. 5/87, which establishes the Ministry of Health as the principal ministry responsible. The law refers to WHO standards for poisons and tolerated levels of pesticides or other chemicals in foods.

In recent years, Codex Angola has prepared proposals to adopt general international principles on food hygiene; a memorandum on policy for genetically modified organisms and a proposal for the Council of Ministers on a regulation concerning imports and use of genetically modified seeds and grains; and proposals on the use of food additives, inspection and certification of foods, iodized salt, wheat flour, maize and millet meals, and sunflower oil. Codex Angola also has organized conferences on food regulations and quality control of consumption goods as well as genetically modified organisms.⁵⁸ It has evaluated the capacity of analytical laboratories in Angola, presented to the government proposals on consumer protection and safety and proposals for improving the distribution systems for meat, fish, bread, and related products.

Angola has notified Codex Angola as its national notification authority on sanitary and phytosanitary measures to the relevant WTO committee.⁵⁹

Despite these efforts, much remains to be done in bringing forward sanitary and phytosanitary regulations and improving Angola's capacity to apply such provisions. At the first general assembly of Codex Angola, held February 28, 2005, the following needs were

⁵⁷ Decree No. 58/2003 established the National Committee for the Codex.

⁵⁸ Information supplied by the authorities.

⁵⁹ See WTO document G/SP/NNA/8.

identified: the need for all members of the Codex network to involve themselves actively; the urgent need to formulate national standards on food products; the need to reinforce the financial standing of the Codex secretariat; the urgent need to improve the technical capability of subcommittee members; the need to create further provincial committees for Codex Angola; the need to improve communication with social institutions, producers, traders, and consumers; the need to reinforce the capacity of laboratories; the need to establish a rapid alert system for confiscation of contaminated or unsafe goods; and the need to cooperate more closely with regional and international bodies.

The meeting made a number of recommendations aimed at strengthening the technical and human capacity of Angolan laboratories; rationalizing travel spending and ensuring proper accounting and adequate reporting; creating practical mechanisms for controlling genetically modified organisms entering the country; strengthening the structure of work on additives, contaminants, and pesticide residue in food products, and on residues of veterinary medicaments; establishing a subcommittee on food labeling; and publishing guidelines for factory or farm inspections. It also recommended that Angola deposit its instrument of acceptance of the Cartagena Protocol on Biosafety.⁶⁰

At the second anniversary meeting of Codex Angola, the president of the National Committee emphasized five main concerns: the level of contraband, counterfeit, and sale of suspect food products in the country; absence of laboratory analysis capacity for additives, contaminants, and hormones; absence of up-to-date food standards in national legislation; exemption of many food products from preshipment inspection; and the lack of a national headquarters for Codex Angola. He sought the creation of a network of national reference laboratories, accredited at the national and international levels, closer cooperation with FAO-Codex Alimentarius; strengthening of national capacity, including through training; and the publication and application of international sanitary and phytosanitary standards.⁶¹

Marking, Labeling, and Packaging

According to BIVAC, labeling in Portuguese is advisable for foodstuffs, perfumes and cosmetics, pharmaceuticals, and chemicals. It is recommended that individual packages of relevant products state the following mandatory information:⁶²

- **Foodstuffs**—product name, producer's name, batch reference, conditions of storage, production and validity dates, fat composition, capacity, alcohol percentage, and other information. The remaining shelf life should be six months (five months for marketing and one month for transportation).
- **Pharmaceuticals**—name of the manufacturer, label, name of the product, basis quantity of the contents, batch number, origin, and manufacture and validity dates on each retail

⁶⁰ DNCI online information. Available at: <http://www.dnci.net/codex/noticias.asp>.

⁶¹ Presentation by Dr. Gomes Cardoso, President of the National Committee of Codex Angola, 30 May 2005.

⁶² Despatch 192/02, Appendices 1-4.

package. The remaining shelf-life for medicines should be no less than 50 percent of the total shelf life of the product, with a minimum of six months.

- *Cosmetics and perfumery products* – manufacturer’s name, brand name, percentage of alcohol, description, suppliers/sellers, dates, and other such information. Protective packages must be marked with “Fragile” or “Glass” or other such markings.
- *Chemicals* – name of the product, chemical content, capacity, handling recommendations, International Maritime Dangerous Goods code for dangerous products,⁶³ gross and net weights, importer’s name, and destination.⁶⁴

Export Incentives

Angola has no export processing zones, export subsidies, or official export promotion body.

⁶³ IMO online information. Available at: http://www.imo.org/Safety/mainframe.asp?topic_id=158.

⁶⁴ See BIVAC Data Sheet, Pre-shipment Inspection of Imports for Angola. Available at: <http://www.bivac.com/webapp/servlet/FileServlet?mode=preview&downloadfile=/693ANGOLA+Data+sheet+Rev+7.pdf>.

7. Trade Facilitation

Customs Administration

The Customs Administration in Angola (*Direcção Nacional das Alfandegas*) is part of the Ministry of Finance. It has 783 working officials, of which 427 are in the Luanda region; the other 356 are in the North region (Cabinda), South Central region (Lobito) and the South region (Namibe). Plans are to transform the Customs Administration into an Institute with independent legal standing and financial autonomy.

Before September 2000, the Angolan Customs Administration lacked direction and was burdened with inefficient and ineffective systems and procedures. Its ability to collect revenue, detect fraud and evasion, and facilitate legitimate trade had been severely reduced. The public and private sectors alike considered the Customs Administration to be inefficient, ineffective, and poorly managed. A lack of confidence in Customs resulted in an increase in bureaucratic procedures that still failed to address the basic problem of controlling the movement of goods across the country's borders. Shortfalls in revenue collection were a particular problem. According to the port authorities and the customs administration, 80 percent of delays in clearing goods in the port of Luanda are now due to delayed payments from importers. At the airport this is about 60 percent. The incorrect completion of the *Documento Unico* causes delays in 7 percent of cases at the port, and in 14 percent of cases at the airport of Luanda.

The government decided to implement the Customs Expansion and Modernization Program (CEMP) to rationalize the country's revenue administration. The main objectives of the program were to increase revenues while facilitating the clearance process and reducing transaction costs for both Customs and traders. An independent firm, Crown Agents, was awarded the five-year contract to manage operations of the National Directorate of Customs and support implementation of the CEMP. The Crown Agents technical assistance had the following main objectives:

- Develop the technical skills of customs staff at all levels
- Advise on improvements in customs legislation, systems, and procedures

- Implement a computerized customs processing and management information system
- Recommend improvements to terms and conditions of employment for customs staff
- Institute measures to increase accountability and transparency in customs operations
- Invest in infrastructure, tools, and equipment required by customs staff.

The Ministry of Finance established the Technical Unit for Customs Modernization to manage and monitor the CEMP. Ownership of the program remains with the Minister of Finance, and the unit reports to the office of the Minister of Finance.

Before the CEMP, 119 customs-related laws developed by the Portuguese between 1931 and 1967 were still in force. The CEMP included the following components to modernize customs legislation:

- Redrafting into a consolidated Customs Code
- New legislation complying with WTO valuation requirements and the creation of a new Customs Code and its implementing regulations
- Transition from Brussels Definition of Value to WTO valuation methods
- Termination of the preshipment inspection scheme and the passing of responsibility for valuation back to Angola Customs
- Valuation training for customs staff and traders.

The new Customs Code complying with international regulations has been approved. It introduces many changes that affect customs operations and relations with business, such as a new method of valuation (consistent with the WTO Agreement on Customs Valuation), a dispute settlement mechanism, and better definition of customs offenses.⁶⁵

Customs clearance procedures have been streamlined, simplified, and speeded up since 2000 through

- Introduction of a single administrative document – the first SADC country to do so according to Angolan authorities;
- Adoption of the Harmonized System of tariff classification;
- Implementation of a computerized processing system and the adoption of risk-based controls for selective physical examination;
- Clarification of customs legislation;
- Enhancement of skills and technical knowledge among customs staff; and
- Reduction in the opportunity for customs corruption.

Shipping agents, importers, and exporters have stated in interviews that the new customs procedures are workable and do not negatively affect the business environment.

⁶⁵ SADC is also preparing a customs code for member states, but a first analysis finds that Angola's code is more up to date than the proposed SADC code.

Systems and procedures for the import and export of commodities have been made transparent and simplified. Flexible anti-smuggling teams have been selected and trained to detect commercial smuggling. These teams have developed intelligence systems to determine risk and identify potential under-declaration and smuggling. They do not operate from fixed customs points but from areas of greatest revenue risk so that their presence cannot be predetermined by local staff or trade interests. The element of surprise and unpredictability is a considerable deterrent to illegitimate traders.

Customs has ambitious plans to develop electronic clearance procedures. A new information technology system will be installed. The Technology Information Management System developed by Crown Agents is already in use in some areas, including the Airport Cargo Center at 4th February International Airport in Luanda. Much dissemination of information and training is needed for importers, exporters, clearing agents, and other inspection authorities to make efficient use of the information technology adopted by the National Directorate of Customs. Angolan Customs' goal of operating a single window for clearing goods can be achieved only when the other participants in the process have the same skills, attitude, and means and are willing to cooperate.

Registration and Documentation Requirements

TRADE REGULATIONS

Angola is a member of the WTO and SADC. It recently agreed to adhere to the SADC Free Trade protocol that seeks to facilitate trade by harmonizing and reducing tariffs and establishing regional policies on trade, customs, and methodology, but is discussing ways to implement it gradually. It is reviewing the need to reduce tariffs and nontariff barriers but is proceeding slowly. Targets are 85 percent of commodities with zero tariff in 2008 and 98 percent with zero tariff in 2012.

Importers and exporters established in Angola must register with and obtain a license from the Ministry of Commerce⁶⁶ and have a valid taxpayer's card.⁶⁷ Goods of more than US\$1,000 in value must be cleared through an official forwarding agent.

The *documento unico* – single document – introduced by Crown Agents in 2002 has reduced the number of forms that Angolan customs requires and the time required for processing the paperwork from an average of 25 days to 5 days. However, the time spent by clearing agents (*despachantes*) providing the information can vary greatly and has a substantial impact on the time it takes for goods to clear customs. The role of the clearing agent is becoming outdated and a study of alternative methods for clearing goods is recommended.

⁶⁶ Decree No. 29/00.

⁶⁷ Ministry of Finance, Decree No. 29/92.

For imports under \$100, shipments are processed immediately, although Customs has the right to inspect the contents against the invoice if the value declared is felt to be insufficient. For imports over \$100, Customs analyzes the paperwork and inspects approximately 30 percent of all imports on the basis of risk profiling.

There are no foreign trade zones or free ports in Angola. However, in 2002 the government established a bonded warehouse for basic foodstuffs where selected foreign traders who regularly import into Angola can deposit products to sell directly to the Angolan market. The plan is to spread this concept to other areas of the country.

IMPORT PROCEDURES

Only individual persons or companies that have a license from the Ministry of Trade may import. They also must have certification of payment from the National Directorate of Taxes of the Ministry of Finance.

Most goods, depending on their value, are subject to preshipment inspection. Some goods require preshipment inspection regardless of value: yachts and other pleasure boats or vessels, sport vessels; goods imported by government institutions or public entities; scrap; radio telephone, radio telegraph, and television transmitters in some cases; and other goods specified by Customs.

The services of an Official Clearing Agent are required for goods with a value of more than US\$1,000.

The following documents are needed for the clearance of goods:

- Customs clearing document – the “single document” – purchased at the *Imprensa Nacional* for about US\$10 and normally completed by the Official Clearing Agent in the name of the importer
- Commercial invoice
- Proof of ownership, such as a bill of lading for sea-borne merchandise or an invoice for air freight
- Clear findings report for goods subject to preshipment inspection
- Various certificates depending on the type of commodity, such as sanitary certificate (meat products) and phytosanitary certificate (vegetables, food products) such as a certificate of fumigation for used clothing.
- Certificate of the National Council of Shippers of Angola.

A clearance time of 48 hours is targeted. Goods may remain 30 days at the airport and 60 days in the port, after which an auction may be held to sell the goods. (Decreto Executivo conjunto 12/95 of April 28, 1995)

Various other taxes must be paid, as noted in Chapter 6:

- General customs services (Decreto Executivo 11/01 of 23 November) evaluated as 2 percent of the total declared value (c.i.f.) for imports and 1 percent for exports.
- Stamp tax (0.5 percent)
- Personal customs services are taxed at varying rates according to the value of the shipment (1 percent for goods valued up to Kz. 700,000; a fixed tax of Kz. 1,800 for goods valued at Kz. 700,000–1,800,000; and 0.1 percent for goods valued at more than Kz. 1,800,000)
- Consumption tax of 2–30 percent
- Transport costs of up to Kz. 6,000.

EXPORT PROCEDURES

With few exceptions, there are no controls on exports, but goods must be registered for statistical purposes. Antiquities and collectibles, diamonds, petroleum products, and other specific goods may require an export certificate. Export customs duties were abolished recently.

Trade Financing

A major constraint identified by importers and exporters is the lack of an efficient banking system and financing options. The high interest rates charged by local banks are a significant disincentive to potential borrowers and may be one of the biggest hindrances to business in Angola. The lack of a dedicated system for trade finance means that export businesses—and most other businesses—must rely on their own resources or on financing from outside of Angola.

The tax system includes some provisions to stimulate investment (see Chapter 5). The government lowered some taxes, including business taxes, customs duties, and excise taxes in 1999/2000, but the tax level remains high. The consumer tax (value-added tax) ranging from 2 percent to 30 percent is paid on goods manufactured and imported into Angola. Corporate profits are taxed at 35 percent while profits from agriculture activities are taxed at 20 percent. A 10 percent withholding tax is charged on dividends and royalties. Capital gains are taxed at 15 percent. Taxes on contracts are 3.5 percent for construction and 5.25 for all other contracts. Personal income tax ranges from 4 percent to 15 percent. Notary taxes and other fees remain high and are not clearly identified.

An assessment of commercial conditions by government-appointed lawyers in 2001 concluded that the absence of a transparent, objective tax system is a serious obstacle to attracting investment. The assessment notes that inefficient implementation of the laws and regulations aggravate the negative impact of the tax system. The government recently announced its intention to channel a significant portion of oil revenue (as much as 5 percent) through a newly constituted government development bank. While it is a good idea to direct oil earnings toward productive investments, it is not yet clear how investment decisions will

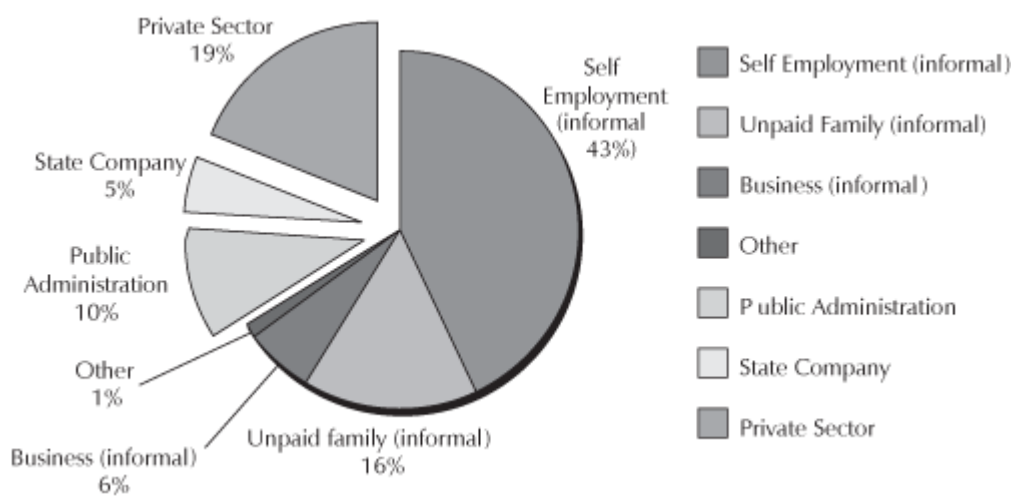
be made in this new financial entity, nor who will make them. The history of government-sponsored investment banks in other countries does not inspire optimism. Common problems include the inability of such banks to successfully channel funds to activities that have the highest returns given the political pressures to which they are inevitably subject. In addition, providing investment funds to such entities through the government budget deemphasizes savings mobilization and leads to dependence on fiscal transfers that militate against long-term financial sustainability. Angola's own experience with the *Caixa de Credito Agropecuario e Pescas* demonstrates the relevance of these observations for Angola itself.

8. Private Sector Development

As in many other African countries, private sector in Angola has been most active in the mineral sectors. Companies in the oil sector are modern and sophisticated but coexist with an informal sector of homegrown firms that operate outside the legal framework. In effect, Angola has two private sectors with distinct operating procedures and characteristics. For example, approximately 65 percent of businesses in urban areas are in the informal sector and self-employment leads the informal categories, accounting for 43 percent of economic activity (see Figure 8-1).⁶⁸

Figure 8-1

Importance of Informal Employment in the Urban Economy



SOURCE: Cain (2004).

According to an INE enterprise census carried out in 2002 and made public in 2004, 19,119 private firms in Angola employ about 340,000 people.⁶⁹ Of those firms, 14,484 (75 percent)

⁶⁸ According to research on the causes of growth of the informal sector, excessive bureaucracy and government intervention in the market are the main culprits.

⁶⁹ This is the only source of information on Angola's private sector.

employ from 1 to 9 people. Luanda and the frontier zones are the country's center of economic activity and of international trade. Luanda comprises not only the major demand center, but also the center for decision making, production, and international trade. Fifty-five percent of Angola's firms are in the capital region, while the provinces of Benguela, Kwanza-Sul, Huíla, Cabinda, and Huambo together account for 26.6 percent. The other 12 provinces account for 30 percent of firms, but they are disconnected from the markets of Luanda and Benguela by the lack of linkages beyond these large economic poles.

Angola's prospects for growth in international trade are inextricably intertwined with the growth of its general economy. Angola's laws now treat most domestic and foreign-owned businesses the same, making investment promotion incentives, for example, available equally to all. This is a marked change from the past, when Angola's ruling party espoused a development strategy based on state control. This strategy together with the war severely limited the extent to which the private sector was able to grow or willing to invest in growth. The present challenge is to carry through on the government's stated policy of embracing a market economy led by private sector growth.⁷⁰ This will require exploiting opportunities in and overcoming weaknesses in a number of areas, such as infrastructure, the environment for investment, and the credit and banking system.

Infrastructure

Most of Angola's infrastructure is in extreme disrepair. While the private sector must take the lead in productive investments, the government must make complementary investments in public goods as a prerequisite to substantial and sustained private sector-led growth. This is particularly true for transport; the lack of roads, for example, is isolating the agricultural sector, one of Angola's largest potential producers of tradable goods. Urban infrastructure has also deteriorated dramatically. The streets in most urban areas have collapsed and sewage and drainage systems are not working. The fixed-line telephone system is antiquated, very limited in coverage, and prone to service interruptions, while the two small cellular networks, largely servicing the capital, are unable to meet demand and are deficient compared to other countries in the region and the world.

Inefficiency in service provision by state-owned enterprises is widespread. Most infrastructure service providers must make do with inadequate prices and therefore operate at a loss. Costs overwhelm revenues, and enterprises depend on subsidies from central government. Subsidies cover varying proportions of both capital and operating expenses, are not targeted, and do not provide any incentive for improving efficiency. A recent household survey commissioned by the World Bank to investigate the incidence of subsidies and the satisfaction of the population with public services painted a dismal picture. Large percentages of respondents found the services minimally satisfying. More than 50 percent of households

⁷⁰ This chapter draws on Chapter V of the World Bank's Country Economic Memorandum (forthcoming).

surveyed were minimally satisfied with roads and sewage while about 30 percent were minimally satisfied with schools, electricity provision, health center services, home tap water service, and public transportation. In sum, few households enjoy publicly provided services even though many agree that these services are very important.

The task of rebuilding infrastructure has been run almost entirely by the government or donors. In its Country Economic Memorandum, the World Bank reports that telecommunications is the only infrastructure sector for which Angola has established a regulatory body. Some other sectors use management contracts that have been fairly successful (e.g., water supply in Soyo and Caxito, solid waste collection in Luanda, terminal operations in the port of Luanda, ground handling services in Luanda airport). New concession contracts are being formulated for solid waste collection and terminal operations in the port, a concession was recently awarded to Alrosa in the electricity sector, and four new fixed-line licenses are being issued in the telecommunications sector. It is possible and probably beneficial for the private sector, however, to become involved directly in rebuilding and reconstruction to build local capacity for independent operation (e.g., using local contractors to build roads can boost the capability of the civil construction sector).

Foreign Direct Investment

In 2003, Angola was Africa's third largest recipient of foreign direct investment (US\$1,415 billion),⁷¹ following Morocco and Equatorial Guinea. According to a recent report by the OECD,⁷² three phenomena are driving this investment: (1) the discovery of new oil fields; (2) the increasing cost-effectiveness of deep-water exploration given high oil prices; and (3) the strategic interest of U.S. businesses and nontraditional OECD partners, such as China and India, in the energy potential of the South Atlantic. Chevron Texaco, for example, has earmarked \$11 billion for investment over the next five years. But large corporations in Angola, particularly in the oil sector, tend to operate as enclaves, importing most employees and inputs. The rest of the economy attracts very little FDI because of institutional constraints and economic risks.

INSTITUTIONAL CONSTRAINTS

Perhaps the single biggest obstacle to FDI in Angola is corruption—a problem common in resource-rich, low-income countries. Recent research, for example, has shown that the quality of a host country's institutions matter a lot to potential investors.⁷³ These institutions involve

⁷¹ United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2004: The Shift Towards Services*. New York and Geneva: 2004.

⁷² See OECD (2005).

⁷³ Collier, P. and A. Hoeffler (2005), "Resource Rents, Governance, and Conflict," *Journal of Conflict Resolution*, 9:625-33; Hausmann, R., D. Rodrik and A. Velasco (2005), "Growth Diagnostics," presented at the 2005 PREM Week, The World Bank, Washington; Fosu, A. and S. O'Connell (2005), "Explaining African Economic Growth: The Role of Anti-Growth Syndromes," presented at the Annual Bank Conference on Development,

the checks and balances that underpin democracy, the laws of contract and property, and the regulatory mechanisms that underpin the market economy. In a country with weak institutions, the absence of checks and balances leaves corruption unrestrained, and corruption impedes economic development by generating inefficiencies that block entry and competition.

Angola performs poorly in an international comparison of perceptions of institutional quality among oil-rich countries; that these perceptions endure even though the government has been simplifying and reforming the regulatory framework demonstrates the challenge of promoting investment outside of the oil and diamond sectors. To consolidate its pro-market economic policy stance, the government committed itself in 2002-2003 to overhauling the legislative framework for private sector activity. That framework was based on Portuguese commercial codes that date back to 1888. Of Angola's nine laws and various decrees that constitute the legal framework for private investment in infrastructure, one was revised in 2002 and four are legislative instruments passed in 2003: the Law on the Delimitation of the Sectors of Economic Activity (revised in May 2002), the Private Investment Law, the National Private Investment Agency Law, the Law on Tax and Customs Incentives for Private Investment, and the Voluntary Arbitration Law (all passed in April 2003). A Land Tenure Law was passed in 2004 to clarify property rights and customary tenure.

Even with these reforms, investors still face substantial risks. Provisions in sectoral laws, for example, enable the state to nationalize assets when it deems it in the country's interest to do so. Though the foreign investor is guaranteed the right to compensation if nationalization occurs, in accordance with international law and international dispute resolution procedures this is still a big problem. In addition, regulatory frameworks are largely undeveloped. The only existing infrastructure regulatory body (telecommunications sector) does not have enough autonomy from government. Without a more robust legal framework for infrastructure regulation, the risk of political intervention in the granting of licenses and concessions and the determination of prices is high.

ECONOMIC RISKS AND INCENTIVES

Investors also face purely economic risks when investing in a country with a history of unstable exchange rates, high and variable inflation, and a series of changing economic policy packages. Angola has done much to address these risks, such as stabilizing exchange rates over the past two years, but investor perceptions change slowly. Macroeconomic stability must continue as it is a prerequisite for attracting investment.

Dakar, Senegal; Rodrick, D., A. Subramanian and F. Trebbi (2002), "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development" Harvard University, mimeo; Rodrick, D. (1999), "Institutions for High Quality Growth: What They Are and How to Acquire Them," Harvard University, mimeo.

Taxes

Angola's tax rates are high compared to those of other SADC countries. The main legislation is the Law on Taxation Policy and Levels (Law No. 5/99). A series of other laws exist for specific taxes. Rates can be changed only by amending laws. Corporate profits are taxed at 35 percent while profits on agriculture, forestry, or cattle-raising attract the only concessional corporate tax rate of 20 percent. Public enterprises are subject to taxation of profits at the corporate rate (35 percent) as well as other taxes. A tax on contracts is levied at the rate of 3.5 percent for construction, improvement, and repair of fixed assets, and at 2.5 percent for all other contracts. Personal income tax rates on salaries and wages, bonuses, and benefits range from 4 to 15 percent. Contributions to social security are compulsory; the employee contribution is 3 percent and the employer contribution is 8 percent.

Tariffs and Trade Controls

As discussed in Chapters 6 and 7, Angola's trade regime is relatively open, with a simple average of applied most favored nation (MFN) tariff of 7.5 percent.⁷⁴ There are no quantitative restrictions on international trade and no incentives for exports. All trade activities must be licensed, but licenses are granted almost automatically. Certain products (e.g., transmitters, receivers, explosives, plants, fruits, seeds, drugs) can be imported only by ministerial permit. There is no export incentives system in place (e.g., duty drawback, bonded warehousing, export processing zones) but oil and mining sectors inputs are exempt from import duties and the general incentive system for investments applies equally to all sectors, trade-related and otherwise.

BUSINESS ENVIRONMENT AND TRADE PROCEDURES

The business environment in Angola is still challenging. According to the World Bank's 2006 *Doing Business Report: Creating Jobs*, Angola ranked last out of 155 countries surveyed. Among factors contributing to this ranking is the fact that it takes an average of 146 days to establish a company in Angola, more than twice the regional average. Licensing is time-consuming and costly. Meeting all licensing and permit requirements takes about 326 days—nearly a year. The tax to be paid as percentage of the gross profit is half of the regional average and less than in the OECD. The average import requires 10 documents, 28 signatures, and 64 days, which is comparable with the requirements of other countries in the region.

Costs of Doing Business

While recent reforms have done much to alleviate the bureaucratic burden of import and export procedures, reforms are still needed in other parts of the economy. Restrictive labor

⁷⁴ A new tariff regime was introduced in March 2005. The details of this regime were not available when this report was written. Expected changes include reduction in the maximum rate from 35 percent to 30 percent; increase in tariff rate for products in which Angola has comparative advantage; reduction of tariff rates for raw materials and intermediate and capital goods; and elimination of tariffs on exports.

laws, cumbersome property registration procedures, and a costly and insecure business environment inflate the cost of doing business. As illustrated by the World Bank's 2006 *Doing Business Report: Creating Jobs*, Angola is ranked 135th in a sample of 155 countries. Constraints include (1) labor market rigidities, (2) the time and cost of starting a business, (3) access to and cost of finance, and (4) contract enforcement. These constraints hamper entry into and competition in the formal economy, encourage informality, and fuel rent-seeking practices. Angola needs to create an encouraging environment for private sector investment. Exhibit 8-1 shows Angola's scores on indicators describing the ease of doing business.

Exhibit 8-1

Doing Business Scores, 2006

Starting a Business		Protecting Investors	
Procedures (number)	14	Extent of disclosure index (0-10)	5
Time (days)	146	Extent of director liability index (0-10)	6
Cost (% income per capita)	642.8	Ease of shareholders suits index (0-10)	6
Min. capital (% inc. per capita)	485.4	Strength of investor protect index (0-10)	5.7
Dealing with Licenses		Paying Taxes	
Procedures (number)	15	Payments (number)	30
Time (days)	326	Time (days)	656
Cost (\$ income per capita)	1674.7	Total tax payable (% of gross profit)	32.5
Hiring and Firing Workers		Trading Across Borders	
Difficulty of hiring index (0-100)	33	Documents for export (number)	...
Rigidity of hours index (0-100)	80	Signatures for export (number)	...
Difficulty of firing index (0-100)	80	Time for export (days)	...
Rigidity of employment (0-100)	64	Documents for import (number)	...
Hiring costs (% of salary)	8	Signatures for import (number)	10
Firing costs (weeks of salary)	62	Time for import (days)	64
Registering Property		Enforcing Contracts	
Procedures (number)	7	Procedures (number)	47
Time (days)	334	Time (days)	1,011
Cost (% of property value)	11.1	Cost (% of debt)	11.2
Getting Credit		Closing a Business	
Strength of legal rights index (0-100)	3	Time (years)	6
Depth of credit info index (0-100)	4	Cost (% of estate)	22
Public registry coverage (% adults)	2.9	Recovery rates (cents on the dollar)	0.6
Private bureau coverage (% adults)	0.0		

The time required to register a business in Angola is significantly longer than the regional average. It is not surprising that many entrepreneurs do not register their companies, thereby contributing the growth of the informal sector. It is equally difficult to enforce a contract; in calendar days, it takes 1,011 days to resolve a dispute starting from the moment a plaintiff files a lawsuit in court until settlement or payment. Dispute resolution among Angola's

neighbors and potential competitors takes much less time—in Zambia 274 days; in Namibia, 270; and in Botswana, 154.

As these data and the country's general ranking suggest, Angola is among the most difficult countries in which to do business. All 10 categories measured by the World Bank's 2006 *Doing Business Report: Creating Jobs* greatly affect the manufacturing sector. Though Angola recently adopted a fee-for-service fast track alternative to expedite business formation, it still takes a long time and costs considerable sums of money to open a business. Using normal administrative channels, without expediting assistance, it takes about 146 days. Measured as a multiple of per capita income, it costs almost 6.5 times or more than US\$6,500 to form a limited liability company.⁷⁵ Licensing business operations is even more cumbersome and costly, requiring almost 11 months of time and effort and costing more than 16 times the income per capita. Registering property also takes about 11 months and costs more than 11 percent of the property value. Investor protection is not high when compared to similar countries and obtaining credit is equally difficult.

Some indicators, however, improved in 2006. The hiring index decreased from 44 to 33 points, and the firing index decreased from 100 to 80. Firing costs decreased the most, falling from 116 weeks of salary to 62 weeks. Getting credit showed mixed results. On the one hand, the cost per capita to create collateral decreased from 6.9 percent to 3 percent in gross terms,⁷⁶ and the credit information index fell from 4 to 2.9 points. On the other hand, public registry coverage of credit and legal rights of borrowers and lenders worsened from 2004 and 2005, the years in which data were actually collected though reported in 2005 and 2006. And it is becoming more difficult to close a business. The number of years to close a business increased from 4.7 to 6, the percentage cost to the estate went up from 18 percent to 22 percent and recovery rate of liabilities came down by half, from 1.2 cents to the dollar in 2004 to 0.6 cents the dollar in 2005, respectively.

Credit and Banking System

An oft-cited constraint on private sector development is the lack of adequate credit and other financial services. In 2005, 12 commercial banks were operating in the country. Two were state owned (BPC and BCI), five were foreign owned (BFA, BCP, BTA, Novo Banco, and BESA), three were majority owned by domestic residents (BRK, BSOL, and BAI), and one bank was equally divided between resident and foreign owners (BCA). In 2005 the total assets of the two state-owned banks represented 31 percent of the total assets of the banking system. In

⁷⁵ Per capita in Angola in 2005 as reported in the World Bank's *Doing Business 2006* and other sources was more than US\$1,000.

⁷⁶ This number should be interpreted with caution as per capita income rose almost 30 percent during the year primarily as a result of the spike in oil revenue. Hence, in weighted terms, the per capita cost to create collateral did improve but only on the order of 25 percent and not the 56 percent that gross figures seem to indicate.

⁷⁶ MINADER/FAO (2004); CIA (2005).

2004 there were three offices of representation (Equator, Paribas, and Banco Rural Europa). There are now five such offices, with the addition of the State Bank of India, Standard Bank, and the Bank of Brasil, while the Banco Rural Europa has ended activities in the country. In December 2005 the two state banks represented 31 percent of assets, 17 percent of own funds, 31 percent of deposits, 34 percent of credit, and 65 percent of loans paid. In 2002, loans to commercial entities corresponded to Kz 10,435,047,000, (US\$167,320 equivalent), or 7.4 percent of the total assets of the two commercial banks (evaluated as Kz 140,694,655,000, and at an exchange rate of 62.36559, equivalent to US\$2,255,966). The credit extended to companies and individuals depends on the ability to pay and the respective incomes of the borrowers.

With the short-term interbank interest rate at 96 percent in 2003, commercial loans carried annual interest rates of about 100 percent (for similar-length loans, credit to private individuals was at a rate of 103.44 percent, while for businesses it was 93.41 percent). Rates fell to 70.42 percent by the end of 2004, and to 46.87 percent in 2005, which leads to a presumption of further decreases as the rate of inflation continues to fall in 2006. Nevertheless, the cost of finance remains an important constraint on the development of Angola's private sector, and smaller businesses are likely to be constrained the most. All these factors have constrained the ability of businesses to invest in the technology and skills necessary for productivity and competitiveness.

Recent initiatives for improving credit have not yet had a significant impact. In 2000, the authorities set up a credit institution, *Fundo de Desenvolvimento Economico e Social* (FDES), to channel some of Angola's oil revenues to support investment in the private sector. FDES channels loans ranging from \$10,000 to \$500,000 through commercial banks to mostly small and medium-sized enterprises. FDES was supposed to receive \$150 million from oil "bonuses" in 2000, but as of mid-2004 only \$30 million had been disbursed. FDES has financed 170 projects—averaging about \$20,000—mainly in transport and fishing and generating more than 4,500 jobs. Its activity has been hindered by the scarcity of financial resources and the weaknesses of the financial system through which it operates. The intermediating banks, for example, have not been able to adequately monitor projects because of poor credit information and analysis.

Microfinance has also received attention recently. At least two banks have programs to loan money to small enterprises. According to a report by the OECD and the AfDB, Novobanco, a micro-finance bank active in other Southern African countries, has developed financial instruments and a system of credit lines that bypass red tape hampering access to finance for established businesses.⁷⁷ In the three months after opening in Luanda in September 2004, Novobanco had extended more than 120 credit lines totaling \$600,000 (the average loan was \$5,000, maturing in three to five years, with a monthly interest rate of 4 percent), almost entirely to clients in the trade sector. Such a successful uptake was made possible by the

⁷⁷ See the chapter on Angola in *African Economic Outlook*, OECD (2005).

flexible formula offered to small entrepreneurs. That formula includes a no-fees account with no minimum balance, informal guarantees (house assets and a guarantor), and a close relationship with loan officers. The officers assess portfolio quality and monitor clients, for which they are paid performance-related salaries. The report notes that the USAID-financed scheme lacks a technical assistance component, which is considered a prime requirement for small business development. The report also notes that other recent initiatives have combined lines of credit to small businesses with training and technical assistance. In particular, a local bank, Banco Sol, has started financing individual businesses from its traditional clientele, requiring informal collateral and relying on international NGOs to provide clients with monitoring and assistance.

All of Novo Banco's portfolio consists of microcredits, with four categories of lending:

- Micro express, with loans up to US\$1,000
- Micro enterprise, with loans from US\$1,000 to US\$10,000
- Small, with loans from US\$10,000 to US\$25,000
- Medium, with loans from US\$25,000 to US\$40,000

In September 2004, the credit portfolio of Novo Banco amounted to Kz 20,663,659, which, at an exchange rate of 85.799946, is equivalent to US\$240,836. The interest rates charged, the term of operations, and the facility in terms of flexibility and reduced bureaucracy in loans to small enterprises are important characteristics of Novo Banco confirmed by the most recent inspection conducted in February 2006. The credit portfolio of Banco Sol in December 2005 amounted to Kz 2,454,466,034, which corresponded to 1.75 percent of the total market, but of which only 10 percent was directed toward microcredit (Kz 245,446,603).

Investment Promotion

To promote investment in Angola, the government offers national and foreign investors a variety of incentives. Incentives apply to domestic investments greater than \$50,000 and to foreign investments greater than \$100,000. Sectors particularly important to the rehabilitation of the economy, as well as investments in particular regions, are eligible for incentives. Oil, diamonds, and other minerals are subject to their own regulations. Angola recently undertook several reforms directly related to business operations. These include

- Passing an investment law that treats foreign and domestic firms equally, with some exceptions;
- Enacting in 2004 a commercial code to replace the 1888 commercial code and the 1901 law on limited-liability companies (requires some additional provisions to be fully effective);
- Establishing the National Private Investment Agency (ANIP); and
- Creating a one-stop registration office for companies (Guichê Único).

The 2003 Private Investment Base Law established ANIP. Private investors, foreign or domestic, present an investment project and upon approval receive a Certificate of Registration. This is needed to start a business, and is processed quickly, with approval granted automatically if a decision is not made within 30 days. ANIP is also responsible for implementing investment incentives that it grants according to the sector and geographic destination of the proposed investment. Investments up to \$5 million must be approved by ANIP, and ANIP must make a decision within 15 days of the submission of required documentation. Investments greater than \$5 million must be approved by the Council of Ministers as well as ANIP; a decision on these investments must be rendered within 30 days. ANIP also promotes Angola as a destination for investment from abroad and within the country. It has developed various investment guides in print form and on its website.

Reporting to the Council of Ministers, the one-stop registration office, Guiche Unico, has yet to show practical results. A constraint on the office is the delay in the publication of new firms in the *Diário da República* due to lack of representatives from the national official press in the office. Ostensibly, investors can meet all bureaucratic requirements (licenses, permits) through the office, greatly simplifying the process of approval and reducing the time spent on fulfilling legal requirements. Though it claims to facilitate the formation of limited companies and corporations within 30 days for a fee of US\$300, Guiché Unico has not entirely achieved its goals. Anecdotal information suggests that it takes 2 to 3 months to complete bureaucratic requirements in most cases, despite the pressure on the public notary and civil registration where the greatest bottlenecks occur, especially the former. Delays have led to numerous complaints that the Guiché is not delivering services within the time frame promised. Rather than being a true one-stop-shop, it seems that it simply shepherds paperwork for the party wishing to create a company. The same bureaucratic paperwork is required and the same official expenses are incurred, plus the additional US\$300 fees for the Guiché.

The Law on Tax and Customs Incentives to Private Investment (Law 17/03) contains fiscal incentives for private investors in Angola. Priority is given to the following sectors:

- Farming and cattle-breeding
- Processing industry
- Fishing and derivatives industry
- Civil construction
- Health and education
- Road, railroad, port, airport, telecommunications, energy and water infrastructure
- Heavy cargo and passenger equipment.

For purposes of concession of tax and customs incentives for investment operations, the country is divided into three development zones:

- Zone A – Province of Luanda, the capital-municipalities of the Provinces of Benguela, Huíla, Cabinda and the Municipality of Lobito;

- Zone B – Remaining municipalities of the provinces of Benguela, Cabinda and Huíla and Provinces of South-Cuanza, Bengo, Uíge, North-Cuanza, North-Luanda and South-Luanda.
- Zone C – Provinces of Huambo, Bié, Moxico, Cuando, Cubango, Cunene, Namibe, Malanje and Zaire.

Investment operations are exempt from customs duties and fees (except stamp duty and fees levied on services and on goods and equipment used in launching and developing an operation, including heavy and technological vehicles for a certain period depending on the Zone). For investments in Zone A, the period of exemption is three years; in Zone B, four years; and in Zone C, six years. Investments in goods incorporated into or consumed directly in the production of other goods are exempt from customs duties and fees (except stamp duty and other fees for the provision of services) for five years from the date that production – including test runs – begins. Profits are exempt from industrial tax for 8 years in Zone A, 12 years in Zone B, and 15 years in Zone C.

Privatization

After an initial spate of sales, privatization has stalled, though significant sales are planned for the near future. In 1989, GARE (Gabinete de Redimensionamento Empresarial/Cabinet of Enterprise Redimensioning) was created to coordinate and execute a two-phase privatization program. During Phase 1, 1990-2000, 409 companies were restructured and partially or completely privatized, yielding about US\$100 million. Phase 2, 2001-2005, involved about 90 public companies, most of which had been involved in Phase 1. Those companies were in the following sectors: fishing, trade, hotels and tourism, transport, agriculture, manufacturing, oil, geology and mining, electricity and water, communication, and financial. Official data indicates that revenue volume in Phase 2 peaked in 2002 at about US\$14 million. In the first six months of the current year, the state collected US\$2.5 million from the privatization of eight companies. So far, Phase 2 has collected US\$20.5 million. Four beer companies – CUCA, NOCAL, N'GOLA, and EKA – were to have been privatized by December 2005.

Intellectual and Industrial Property Rights

The Ministry of Industry is responsible for enforcing patents and trademarks, while the Ministry of Education and Culture is responsible for enforcing copyrights. Angola is a signatory to the World Intellectual Property Organization Convention and has accepted the Patent Cooperation Treaty and the Paris Convention for the Protection of Industrial Property. It is also a signatory to the Berne Convention for the Protection of Literary and Artistic Works. As an LDC, Angola is taking advantage of the extended implementation time allowed for implementation of the WTO Agreement of Trade Related Aspects of Intellectual Property Rights.

Environmental Protection

Angola's basic environmental law was passed in 1998 and seeks to protect the country's environmental heritage and biodiversity. Accordingly, it provides for environmental assessment of infrastructure and industrial projects. Angola is a party to the Convention on Biological Diversity, the International Convention on the Conservation of Atlantic Tuna, and the UN Convention to Combat Desertification. It has ratified the UN Framework Convention on Climate Change, and the Vienna Convention and the Montreal Protocol on the Protection of the Ozone Layer.

9. Potential of Key Sectors

Agriculture

Agriculture, including livestock and forestry, accounts for about 8 percent of Angola's GDP. The main crops are bananas, plantains, sugarcane, coffee, sisal, maize, cotton, manioc (tapioca), tobacco, and vegetables; livestock and forest products could also become significant⁷⁸ as Angola has considerable agricultural potential. Of the country's area of 124 million hectares, 54 million are pasture land and 35 million are arable. Of the three main agricultural and ecological zones, one is dependent on seasonal rains, the second is a transitional zone suitable for growing drought-resistant crops, and the third is an arid zone that would require substantial irrigation for agriculture. Areas of rain forest are substantial as is the country's hydrological and hydroelectric potential.

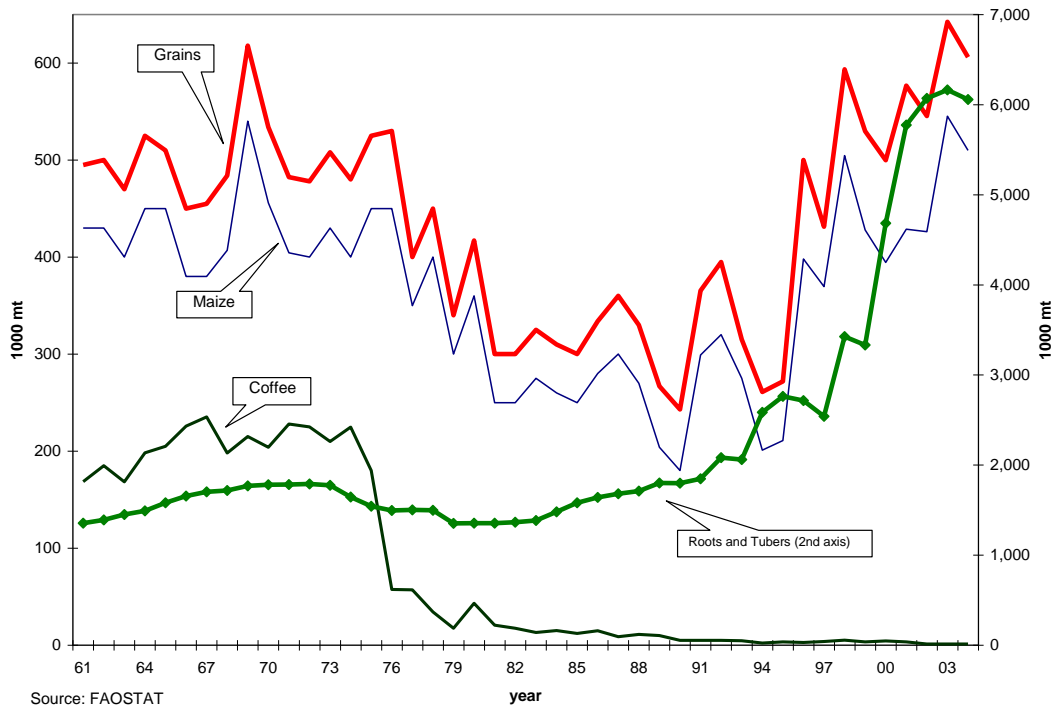
Before independence, Angola was a major agricultural producer, self-sufficient in food, and a substantial exporter of many crops. At present, it has no formal agricultural exports, and even informal cross-border trade with interior countries is insignificant given the sparse populations along the eastern borders and the distance between these borders and major production areas. The damage caused by the civil war forced the country to become a major net importer of food and agricultural products and a recipient of food aid, although such needs are now declining.⁷⁹ Figure 9-1 shows the history of production of major crops from the early 1960s to the present. Staple grains were adversely affected during the war but coffee production was the most severely affected, dropping to near zero. Roots and tubers were less affected and have grown dramatically in recent years, especially cassava. The presence of landmines in certain areas of the country, despite the demining program, has stymied rural

⁷⁸ MINADER/FAO (2004); and CIA (0005).

⁷⁹ World Food Program (WFP) projections for 2005 suggest the need to raise food resources (cereals, oils, pulses, and others) valued at US\$83.6 million. But the WFP's efforts are concentrated on return and resettlement through the transport of persons and repair of infrastructure, as well as programs conducted with other UN agencies in areas such as agricultural production, beneficiaries' access to markets and services, primary education, and HIV/AIDS awareness (WFP 2004).

rehabilitation, although again, progress is being made.⁸⁰ Production has lagged far behind population growth, which is why this sector needs to be revived.

Figure 9-1
Historical Production of Major Crops 1960–2003



Currently, most agricultural production (an estimated 80 percent) is subsistence or small scale, using manual or low technologies and with low productivity; 18 percent of output is estimated to come from medium-sized farms and only 2 percent from commercial farming.⁸¹ If infrastructure is reconstructed, however, commercial farming holds considerable promise.

Rural poverty is widespread. Malnutrition affects 50 percent of the population, and infant mortality is high; 78 percent of rural families are counted as “poor,” and 70 percent as “extremely poor.”⁸² The “delocalization” of the population (i.e., movement from rural villages and towns to urban areas) has exacerbated rural poverty by diminishing productive capacity and access to food. The rebuilding of destroyed rural infrastructure and the rebuilding of the countryside (together with the demining program) are therefore government priorities.⁸³

⁸⁰ See, for example, ICBL (2004), which estimates that more than 20 million square meters (4,500 square kilometers) were cleared of landmines between 1999 and 2003.

⁸¹ See MINADER/FAO (2004), section 3.4.

⁸² Compared with 61 percent and 10 percent, respectively, in urban centers (MINADER/FAO, 2004). See Chapter I for definitions of “poor” and “extremely poor.”

⁸³ See MINADER/FAO (2004).

TRADE IN AGRICULTURAL GOODS

Before independence the highland provinces produced enough staple grains to feed the entire country and to export. Since independence, these exports have fallen to zero and large quantities of imported food are needed to feed a population that has tripled. The national food balance in basic staples has swung from a surplus to a deficit in all crops but cassava. Angola still depends heavily on food imports to satisfy basic needs (Table 9-1). The Port of Luanda handles the largest volume of traded agricultural goods, but Lobito is also important and likely to become more so when the railroad to Huambo is completed.

Trade Policy

Tariff Protection. The nominal average rate of tariff protection for “agriculture, forestry, hunting and fishing” as defined in the International Standard Industrial Classification (ISIC) is 10.3 percent, with average rates for the subsectors “agriculture and hunting,” “logging,” and “fishing,” at 8.2 percent, 20 percent, and 18.9 percent, respectively. Peak rates of 30 percent are applied to items in Harmonized System chapters 5 (products of animal origin), 9 (coffee, tea, maté, and spices), 21 (miscellaneous edible preparations), 22 (beverages, spirits, and vinegar), and 44 (wood and articles of wood).

Agricultural inputs are still subject to tariffs, although some only at a nuisance level. Nevertheless, when various taxes are combined even a nuisance tax is more than a nuisance. For example, most agricultural implements and machinery are subject to five taxes of 2 percent or less that add up to 8 percent. The total tax burden rises to 26.5 percent when other typical taxes are added (e.g., stamp tax, 0.05 percent; custom service duty, 5 percent; port charges—EP14 and EP17—estimated at 3 percent; transport charges, 10 percent). In principle some agricultural inputs are exempt from some taxes, but in practice even “automatic” exemptions require substantial delays and bureaucratic footwork.

Nontariff Border Protection. Angola’s 2005 Customs schedule bans imports of animals and byproducts from areas affected by epizootic diseases, of plants from areas affected by epiphytic diseases, and of genetically modified or transgenic seeds or grains, except those supplied for food aid programs. Decree No. 92/04 of December 2004 strengthened Angola’s legislation regarding genetically modified organisms (GMOs) supplied for food aid. The decree says that the Ministry of Agriculture must grant permission for such imports and that GM grains and seeds entering the country as food aid must be milled immediately on arrival.⁸⁴

Export Taxes and Restrictions. An export tax of 20 percent is levied on hides and skins, and a tax of 10 percent on exports of unworked ivory. Angola is not a member of CITES. Exports of animals, parts, and animal products are subject to permission from the “competent authorities,” and exports of fodder are subject to export permits.

⁸⁴ IRINNEWS.ORG (2004). See also *Science in Africa*, “Angola bans genetically-modified seed,” April 2004 (<http://www.scienceinafrica.co.za/2004/april/angolagm.htm>).

Table 9-1

Angola Food Balance Sheet, Crop Year 2002-2003, Marketing Year 2003-2004 (tons)

Availability/ Purpose	Cereals					Other			
	Maize	Millet/ Sorghum	Rice	Wheat	Total cereals	Beans	Groundnuts	Cassava (fresh prod.)	Potatoes and Sweet Potatoes
Total availability	628,684	88,090	14,831	5,000	736,605	234,408	60,849	6,647,758	817,524
Initial stocks	10,000	5,000	4,000	5,000	24,000	2,000	2,000	20,000	5,000
Commercial sector	4,000	0	4,000	5,000	13,000	1,000	1,000	0	0
Producer stocks	6,000	5,000	0	0	11,000	1,000	1,000	20,000	5,000
Total production (2002-2003)	618,684	83,090	10,831	0	712,605	232,408	58,849	6,627,758	812,524
Utilization	717,360	200,419	243,827	225,225	1,386,830	320,792	67,567	3,082,992	830,156
Human consumption	641,496	186,343	239,059	213,225	1,280,123	302,922	61,059	1,339,952	703,228
Other uses	65,864	9,076	768	0	75,707	15,870	4,508	1,723,040	121,928
Seed	16,369	2,429	551	0	19,349	10,263	4,508	0	29,760
Feed	6,187	2,493		0	8,680	0	0	689,216	27,166
Losses	43,308	4,155	217	0	47,679	5,607	2,354	1,033,824	65,002
Final stocks	10,000	5,000	4,000	12,000	31,000	2,000	2,000	20,000	5,000
Imports	88,676	112,328	228,996	220,225	650,225	86,384	6,718		12,633
Surplus								3,564,776	
Exports	0	0	0	0	0	0	0	0	0
Deficit	88	44	6.1	2.2	53	73	90	216	98

SOURCE: MINADER.

SADC and Future Trade

Angola's prospects for international trade in agricultural goods will be strongly affected by opportunities presented by its entry into Southern African Development Community (SADC). SADC countries will in effect be open to Angolan exports while Angola's market will, subject to negotiation, remain protected for a number of years before internal trade barriers are eliminated vis a vis other SADC countries. Given food shortages chronic in several SADC countries and Angola's potential to be a food exporter, Angola's agricultural producers might have a bright future. In addition, SADC countries will be negotiating as a unit with the European Union for preferential access to the European market. Insofar as Angola is a party to this negotiation and can take advantage of its provisions, it will gain substantial new opportunities. The European market, however, has far more exacting product quality and phytosanitary standards than what Angolan producers are accustomed to. Accessing this lucrative market will require greater investment and time.

CHALLENGES IN THE AGRICULTURE SECTOR

Natural Resource Base

Angola is blessed with a varied climate and numerous areas suitable for cultivation of tropical and semi-tropical crops. The central highlands, the country's traditional breadbasket, however, are experiencing problems with soil fertility. Indeed, a main constraint on agriculture there is the lack of soil amendments needed to increase yields. Fortunately, many smallholders in the central highlands are familiar with fertilizers, having used them since the extension efforts of the 1970s, though at a much reduced level since independence. This means that extension services need not be as ambitious as they would have to be in many other sub-Saharan African countries. Water is another constraint. Many parts of the country, including the central highlands, need water control measures. While full scale irrigation systems are unlikely to be cost-effective even if funds were available to construct new perimeters, less aggressive measures, such as small catchments, holding ponds, and tanks and ditches, can do much to boost productivity. At the same time, commercial agriculture will not be possible in some areas, particularly on the coast and in the south, without irrigation. The government wants to rehabilitate irrigation systems in such situations, but has not embarked on new construction because of high costs.

Real Exchange Rate and Macroeconomic Context

Appreciation of the real exchange rate due to large inflows of oil and diamond revenue poses a serious challenge to the agricultural sector. If the national currency were weaker, the prices of imported foodstuffs would be higher. At present, however, cheap imports tend to depress prices for local producers and the profitability of agricultural activities, sometimes even to the point of becoming negative. Appreciation in a resource-rich country such as Angola may be inevitable, so domestic producers need to improve productivity and efficiency to remain profitable. Possibilities for reducing on and off-farm agricultural unit costs abound, though,

because Angola (1) has better rainfall than many of its neighbors, (2) has substantially lower yields, and (3) has been cut off from technological advances in new varieties or other areas for decades. Cutting costs will take time, so protection of agricultural trade should be reduced only as productivity improvements are realized. The key question is whether productivity gains can be large enough to offset the disadvantages posed by the strong currency and high transport costs. And this question can be answered only when the cost structure of production is established through accurate crop budget analyses.

The government's "hard kwanza" policy has finally stabilized the macroeconomy enough that producers and consumers have some confidence in their cost-benefit calculations. Such stability is important not only for investment and production but also for fostering growth in credit markets, lack of credit being a big bottleneck in the agricultural sector.

A final consideration is the national budget allocation for agricultural investment and related expenditures. At present the allocation is estimated to be 4 percent, well below the NEPAD recommendation of a 10 percent minimum for rural development.⁸⁵ Given the government's stated commitment to achieving this goal in implementing the ECP, together with the ability of the oil sector to provide the resources to do so, there is every reason to expect that activities needed to support agricultural development can be launched in the coming years.

Transport Infrastructure

Road construction is crucial to the rehabilitation of the agricultural sector. Even if nothing else were done, reestablishing access and market contact for isolated populations would be a vast improvement. The government and major donors have already embarked on a program to rehabilitate primary trunk roads and important railroad routes to the interior. Such rehabilitation is a prerequisite for the export of farm products and to ensure that producers have access to inputs and consumer goods. The current road project has a tertiary road component, but it is limited in geographical scope and should be considered a pilot project for a later, more ambitious effort. Indeed, many smallholders live in areas that are almost inaccessible because roads and bridges have been neglected for decades. In many cases, even a small investment could open up large areas for integration into the national and international markets.

Recapitalization

Decapitalization in public goods such as roads and railroads has its counterpart in the decapitalization of farms. Smallholders and large producers alike lack machinery and draft animals. Traditionally, the southern region of Angola provided draft animals for other areas, particularly the central plateau, but years of war and deprivation have resulted in a near total loss of the animal population across large areas. Bovines provide animal traction and are likely to be many producers' largest single asset. Development of animal traction will necessarily take time.

⁸⁵ See Country Economic Memorandum (forthcoming).

Marketing

After independence, rural marketing in Angola disappeared as traders who dominated the sector returned to Portugal. These traders provided consumer goods to smallholders, bought surplus production, and provided invaluable services by extending informal credit for agricultural inputs as well as consumer goods. Then, years of warfare and concomitant destruction of roads, widespread use of landmines, and destruction or deterioration of other marketing infrastructure—such as warehouses—prevented the rebirth of a viable marketing system. Many rural producers either fled to cities and refugee camps or reverted to a subsistence mode of production with few or no market linkages. The nonexistence of a well structured system of marketing allows the intervention of a large number of informal traders, such as retailers, wholesalers, transporters/carriers, to link producers and consumers.

Input Markets

In addition to reflecting marketing problems, the high prices of agricultural products reflect high transportation costs, producers' weak organization, and the high cost of inputs such as fertilizer. Of all inputs, fertilizers are probably the most important, yet have been subject to much government interference and mismanagement not only in Angola but around the world. Growth of a viable private supply system will be key in increasing the output of staple grains. The feasibility of domestic fertilizer production should be investigated given the abundance of feedstocks from oil production (most natural gas found with oil is simply flared off) and rising demand in Angola and surrounding countries.⁸⁶ Other inputs such as tools and machinery also suffer from weak distribution systems. Remaining trade barriers should be eliminated to give agricultural profit margins the highest level of effective protection possible consistent with the government's commitment to lower tariffs in general.

The government has committed itself to market-led development, meaning that it will not engage in marketing or distribution of inputs. Accordingly, it has divested itself of many state-run operations. Yet the tendency to turn to the government for things that in the past were done by parastatal organizations persists. The state's agricultural machinery company, MECANAGRO (formerly ENAMA) is re-extending itself into rural areas after decades of absence and the cessation of farm activities. Reports from the central provinces indicate that it has a poor record in timeliness of services, but that the private importation of farm equipment faces bureaucratic inhibitions.

The challenge lies in promoting the growth of private input suppliers while supporting producers in the interim. A voucher system could be useful in this regard. Smallholders (or larger farmers) could use vouchers to purchase fertilizers or other inputs from private suppliers. A voucher system would introduce a temporary subsidy via the pricing of the vouchers while guaranteeing a market for inputs. In the past, low demand in the countryside and sporadic distribution of free inputs deterred private suppliers from engaging in large-

⁸⁶ Previous studies have not recommended such production, but recent price increases indicate that these studies should be reexamined.

scale marketing. Such systems, however, are vulnerable to corruption and the potential for this should be carefully considered before a system is designed or implemented.

Land Tenure and Farm Size

Angola's agricultural sector has long been divided between large commercial farms and small family farms. Small farms depend largely on traditional manual implements and technology while commercial farms use modern machinery and inputs. The majority of Angolans reside in the family farm sector but the commercial sector is capable of generating large surpluses in a relatively short time. Table 9-2 shows the marked differences in yields obtained in the commercial and family sectors.

Table 9-2

Yield per Hectare (kg)

Crops	Commercial	Family
Coffee	433.1	280.1
Rice	900.0	1184.8
Maize	1288.9	466.3
Potatoes	5841.6	2405.6
Cotton	998.0	1138.8

SOURCE: *Agricultural current statistics, 1970/71 (MIAA)*.

Creating an environment conducive to agricultural productivity and marketing will support small as well as large farms. Building roads or initiating policies that promote the growth of private markets benefits all farmers. Any realistic vision of the future of agriculture in Angola includes a mix of large and small farms, all of which are increasingly oriented toward production for the market.

Large mechanized farms may present an easier path to quick increases in output, but they do not promote rural development if they operate as enclaves that exclude the rural population that lives at a subsistence level. At the same time, Angola's smallholders can again become capable of supplying food to urban areas and producing for the export market. They did both before independence⁸⁷, and with a technological level no different from what they use today. What then is the role of large farms in a strategy for reintegrating Angola into world agricultural markets?

- Many large farmers are well positioned to respond quickly to market incentives given their good market linkages and access to capital;
- Large farms can be "growth poles" for nearby small farmers, assisting with market access for input and output;

⁸⁷ Pre-independence exports of maize of 400,000 MT per year were produced almost entirely by smallholders.

- Large farms often have access to investment funds and are less reliant on the as-yet poorly developed credit markets.

If small farms are to provide an adequate standard of living for farm families and produce a small marketable surplus, they will likely have to be about 5 hectares, given soil and climate conditions in the planalto. (Significant growth beyond this would require larger farms, perhaps about 10 hectares.) This size necessarily implies reliance on animal traction or some other land-using and labor-saving technology. Draft animals are well known in these areas, though the animal population was much reduced during long years of conflict and dislocation. A survey of farm size would provide the basic knowledge that is lacking in this area.

Land Tenure and Titling

The legal framework for land tenure is somewhat unclear, as is the legal framework in other areas affecting agriculture. A new land law came into force in 2005 but regulations have not yet been written. Those regulations will determine how the law actually affects agricultural producers.

Under current law, Angolan smallholders cannot obtain freehold tenure. They may have usufruct rights to land for 45 years and can renew this title once for a total of 90 years. Authorities may grant land concessions to private citizens, and they have done this in some instances. Legal issues, however, have little relevance to small farmers not directly displaced by large grants. Officially recognized tenure is nonexistent for small family farmers. Instead, local traditional authorities, *sobas*, allocate land among families in a particular area. But official registration is rare even for larger landholders, given the intricacies of procedures and the weakness of supporting bureaucratic structures.

Various studies of land registration and cadastre note extreme weakness in managing the land registration system at the central and provincial levels.⁸⁸ Accordingly, any initiative to improve Angola's land tenure and titling system should involve technical assistance for mapping and registration systems and for participatory approaches to ensure that the rights of all stakeholders are respected.

Credit

Rural credit was a casualty of the disappearance of the rural marketing system at independence. At present, most of the countryside lacks any financial services. Outside of Luanda, Angola's 41 bank branches are all in provincial capitals.⁸⁹ While most of the coastal provinces have five or six banks with offices in the provincial capital, only the Banco de Poupança e Crédito and the Banco de Comércio e Indústria—both state-owned⁹⁰—have

⁸⁸ See "Land Tenure Study," World Bank Economic Sector Work, Angola, 2004.

⁸⁹ *O Sistema Financeiro e de Crédito Rural em Angola*. Robert Telleria and Isabel Monteiro, Working Paper No.9, TCP/ANG/2907, FAO, January 2004.

⁹⁰ BCI was programmed for privatization in 2003, but this did not occur.

anything resembling a national network. As a result, only one or two banks serve most provincial capitals in the interior. Commercial bank activity is limited largely to short-term trading loans, with agriculture and livestock together accounting for approximately 1.3 percent of loans.

Several government and nongovernmental agencies supplement the formal banking system with microfinance programs, such as those operated by the Ministry of the Family and Promotion of Women or the Development Workshop. Banco Sol is also active in microcredit, and a new bank supported by USAID and ChevronTexaco—Novo Banco—has been approved and will begin operations soon. Nevertheless microcredit in Angola is poorly developed. The Development Workshop, which operates the country's largest microcredit program, reaches less than 4,000 clients and has a portfolio of less than US\$500,000, all in urban Luanda and Huambo. Rural microcredit operations are almost completely undeveloped. The absence of legislation on microfinance has left the few active agencies in a legal vacuum, and rendered the acquisition of capital more difficult. Negative real interest rates due to low deposit rates and continuing inflation discourage savings mobilization in the medium to long term.

A variety of NGOs have helped promote the use of credit among Angola's farmers. Banco Sol has been a pioneer in linking with NGOs in lending to small farmers. Credit, where successful, has been linked to input purchase and has not been contracted independently. Repayment has been contractually linked to marketing proceeds, rather than leaving responsibility for repayment directly with farmers. Successful programs involve farmer associations, thus solving the problem of adverse selection and providing economies in administration. Replicating these successes can promote investment and involvement in the market. Even under the best of circumstances, however, rural financial market growth is a long-term endeavor.

Credit for rural marketing enterprises and other small businesses, such as agricultural implement manufacture or food processing, also need financing and capital investment. The formal sector is unlikely to extend credit to such enterprises on its own in the near future given its general weakness and lack of experience in lending in such areas. Extending the microcredit initiatives cited above to small businesses engaged in marketing, transport, farm implement manufacture, or food processing on a small scale could be useful.

Yields, Seeds, and Research

Angolan yields are far below their potential; only cassava productivity is on par with other countries in the region (Table 9-3). Relatively small investments could boost yields significantly given Angola's favorable growing conditions. Higher-yielding varieties as well as disease-resistant varieties of important crops and improved crop rotation could significantly increase smallholders' incomes. Unlocking this potential will require conducting applied research and providing extension services that disseminate improved technologies. Much of the needed research is adaptive; off-the-shelf varieties and technologies are readily accessible and can be adapted to Angolan conditions within a relatively short time. The cost-benefit ratios of such a strategy represent a major opportunity. Currently, such efforts are

constrained by the weakness in research and extension institutions, but the potential gains make strengthening of these entities a top priority. One initiative that could assist in plant improvement research would be the collection and preservation of local crop seed varieties. This is particularly important given the wide dissemination of commercial varieties through the food distribution and other programs of the past years.

Table 9-3

Comparative Yields for Key Crops, 2003

Crop	African Developing (kg/ha) ^a	Angola ^b (kg/ha)	Comparative Performance (percent)
Maize	1,423	550	39
Cassava	8,835	8,850	100
Millet	703	350	50
Groundnut	855	390	46
Beans (dry)	608	220	36
Coffee (green)	448	19	4

^a FAOSTAT April 2004.

^b FAO/WFP Crop and Food Supply Assessment Mission to Angola, 2003 (except coffee, from FAOSTAT).

Extension

To assist in the adoption of new technologies and other inputs, extension services need to be market oriented. This will require a variety of initiatives at all levels, especially the field level closest to the farmers: the EDAs or local extension stations of the national extension service, the Instituto de Desenvolvimento Agrario. As the presence of the EDAs is rebuilt, the core functions of the Instituto must also be strengthened so it can support the units and break away from its top-down mode of operation, shifting from information propagation to information gathering. In addition, extension needs to be linked to research at the macro and micro levels, perhaps through a linkage committee.

Extension services can reach more farmers through farmer associations. If associations are independent of the government, individual farmer interests can be given greater weight in market transactions on the input and output sides. Associations can also make communication and outreach much more efficient and provide an entry point for extension and credit activities. In credit in particular, associations present a mechanism overcoming the monitoring and information problems inherent in such efforts.

REACTIVATING AGRICULTURE AND AGRICULTURAL TRADE

Redevelopment of Angola's rural sector faces serious challenges. Macroeconomic stability is important to general economic progress, but certain policies, particularly the maintenance of a

strong exchange rate in an inflationary situation, constrain agricultural development. From the point of view of the Ministry of Agriculture, it is important to correct the exchange rate in accordance with the inflation rate so the rate of increase in costs for domestic producers is matched by an increase in the price of the imported goods with which they are competing.⁹¹ Other constraints are the level and prices of imported food, often externally subsidized; domestic price subsidies and profit margin controls that discourage rural trade; damaged road and rail links and limited rural infrastructure; inadequate storage capacity; and inadequate financial and credit systems for rural production and commerce.

Controls on profit margins are particularly problematic, and are a holdover from the regulatory system developed under the centrally directed model of economic development. Officially enforced by the Ministry of Commerce, regulated margins on wholesale and retail trade, officially though not routinely enforced, can be used by local authorities to control traders in their areas. Eliminating these regulations would benefit all private sector activities as well as agriculture.

Institutions

The Ministry of Agriculture and Rural Development (MINADER) is responsible for agricultural, livestock, and forestry rural development. Three national institutes are under the ministry. The Institute for Agricultural Research (IIA), based at Huambo, works closely with the University Faculty of Agrarian Sciences, has 12 research stations, and makes its research and its technologies available to extension workers. The Institute for Veterinarian Investigation (IIV), also in Huambo, was responsible for animal health and animal-based research through a network of provincial veterinary stations before the war. Most stations were severely damaged or put out of action by the war. The Instituto de Desenvolvimento Agrario encourages the development of small farmers through a network of extension workers. The Ministry is also the tutelary agency for a number of public enterprises. The challenge for the government lies in revitalizing these institutions in the face of new policy choices, and determining what could be better done by or in conjunction with the private sector. In all cases, a shortage of skilled and trained people will be a constraint. Improved salaries and working conditions will be important incentives for improving this situation in the future.

Policy Reform and Priorities

MINADER, with support from the FAO, is pursuing the government's agricultural redevelopment strategy.⁹² That strategy comprises crop, livestock, and infrastructure redevelopment relating to family (subsistence) farms and large-scale, commercial farms. Priorities include food security, reactivation of the agrarian economy, institutional strengthening, and development of sustainable natural resources.

⁹¹ MINADER/FAO (2004).

⁹² MINADER/FAO (2004).

To date, the government has devoted insufficient resources to intervene heavily in the agrarian sector. Consequently, it is seeking to create policies, strategies, and resources that stimulate private participation and revitalize public institutions. The stated policy is for the government to concentrate on basic functions, intervening only where the private sector is unlikely to invest because of lower returns or higher risks.

Nevertheless, even judging by this standard, government investment in the smallholder sector has been very low. Small farmers cannot be expected to invest in research, extension, and education, but returns on government expenditures in these areas are likely to be extremely high, though long-term. Accordingly, there is a strong case to be made for sharply increasing in spending on agricultural support services.

Though the government has stated its desire to leave decisions about what and how much to produce to the private sector, it must still invest in public goods (water, electricity, communications, bridges, roads, etc.) that will promote particular regions or products. And given the government's program of road building and investment in services such as extension, the prospects for individual products to become important exports or substitutes for imports should be examined.

The government has stated the following objectives for agriculture for the immediate future:

- Contribute to the food needs of the country;
- Increase food production by rehabilitating the productive capacity of small farmers and the enterprise sector involved in agriculture, animal production, and forestry;
- Promote marketing for the trading of agriculture products and commercial exchange among, rural, peri-urban, and urban areas;
- Create the right incentives for the establishment of commercial farming.

Export and Import Substitution

In describing the main problem facing Angolan agriculture, an FAO study published in 1986⁹³ says that "the shortage of marketed production in response to the increase of demand for food is, to large extent, the result of stagnation or the decline of labor productivity." This stagnation was the result of various factors—the war's disruption of production and marketing, lack of investment, major shortages of inputs— and continued through the end of the war in 2002 and persists in many areas. As in other post-conflict countries, reactivation of high-value crops to meet domestic urban demand will be the first order of business for Angola's rehabilitated agriculture sector. Angola, however, could also become a significant regional supplier of staple grains, particularly given the importance of maize in the local economy (food and animal feed) and its history as a major export. Prospects for former export crops, such as coffee, are less clear given the marked changes in international markets and the conditions of production in Angola. Achieving these goals will require improving on-farm

⁹³ *Les politiques d'incitation et d'approvisionnement en facteurs de production, Annexe V.*

technology to reverse decades of neglect and investing in infrastructure; most demand centers are also ports through which trade flows will pass. Trade policy, except possibly with regard to maize, is unlikely to be the limiting factor for growth in these areas.

CONCLUSIONS

Angola needs to (1) feed a population that has increased 300 percent in the past 30 years and (2) pursue its potential for exporting agriculture products. It can do both if it invests in infrastructure to enable access to markets and increases yields from their current extremely low levels. Angola should also use its membership in SADC to export agricultural products to SADC members who suffer chronic food shortages. It must take care, however, to phase in SADC tariff reductions so the agriculture sector has maximum opportunity to boost its productivity to competitive levels and to ensure that food-related legislation and regulations are harmonized with those of the SADC region.

Manufacturing

Given the dilapidated state of Angola's manufacturing sector and the reliance on imports to satisfy capital and consumer needs, sector reactivation must concentrate on the domestic rather than the export market for the near term. One component of Angola's sector reactivation strategy is "import substitution." The history of literally dozens of other countries shows that import substitution can spur growth in the short term but is likely to result in stagnation and inefficiency in the long term. Thus, the reactivation strategy must aim to prepare the sector for producing for the export market in the medium to long term if these entirely predictable problems are to be avoided. Even now, the needs and requirements of the international market should be considered. Because internal pressure will weigh heavily on the side of reducing reliance on imports, a phased approach may be best; as the sector revives to meet domestic needs it will prepare to enter the export market by producing goods that meet the quality standards and technical specifications of that market. The success of such an approach depends on improvement in the physical infrastructure and supply chain that support manufacturing and the business environment, especially the legislative and regulatory framework that affects private sector development. As with agriculture, the disincentives of a strong real exchange rate constrain reactivation.

SECTOR HISTORY

Angola's manufacturing sector experienced its peak before independence on November 11, 1975. The sector's share of GDP in 1974 was almost 30 percent.⁹⁴ Figures from the Ministry of Industry⁹⁵ indicate that the sector was growing at a rapid annual rate of 22 percent in 1974.

⁹⁴ Alves da Rocha, Manuel Jose, *Os Limites do Crescimento Economico em Angola* (2001).

⁹⁵ IDIA, Ministry of Industry data.

The sector played a major role in supplying basic and consumer goods to the “Portuguese Empire.” The sector, and the economy as a whole, took a steep dive when the Portuguese colonial business community deserted the country en masse at independence. Agricultural production upstream in the supply chain of agro-processing also lost its knowledge and labor base and was further disrupted by the civil war that ended in 2002.

With few exceptions, the manufacturing sector continued to decline for nearly 20 years, reaching its second lowest point in 1994. Since 1995 the steady decline has reversed, with the sector showing small incremental growth until bottoming out in 2000. In his 2001 study, Alves da Rocha demonstrated how the industrial index tumbled from a base of 100 in 1974 to 24.32 in 1989, then to 11.14 in 2000. In 1974 the sector represented 29.6 percent of GDP; in 1989, 7.2 percent; and in 2000 a mere 3.3 percent.⁹⁶ Since registering growth of almost 1 percentage point in 2001, the sector has been oscillating between 3 percent and 4 percent per annum. As Table 9-4 shows, the share of manufacturing in GDP is quite low when compared to other sectors. Fluctuating between a low of 3.0 percent and a high of 6.3 percent, sector output has been seesawing for most of the past decade. In comparative GDP terms, Angola’s manufacturing sector places the country in the lower half of SADC countries, although in absolute terms this ranking will be slightly higher.⁹⁷

Table 9-4

Manufacturing in Relation to Other Sectors 1996 – 2004 (percent)

Sector	1996	1997	1998	1999	2000	2001	2002	2003	2004
Manufacturing	3.4	4.4	6.3	3.2	3.0	3.9	4.1	3.7	4.8
Ag/Silviculture/Fisheries	7.0	9.0	13.0	6.3	5.9	8.2	8.8	7.9	9.7
Mining	61.2	52.3	43.2	66.0	66.5	57.4	61.0	51.9	54.8
Oil and gas	57.9	47.9	37.7	57.8	60.1	53.5	55.4	49.0	52.0
Others	3.3	4.4	5.4	8.2	6.4	3.9	5.6	ND	2.8
Electricity	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.2
Construction	3.1	4.1	6.2	3.1	2.8	3.6	3.8	3.5	4.7
Trade and commerce	15.0	16.1	19.3	14.8	14.3	15.4	15.7	15.0	13.8
Other services	8.2	11.7	10.6	6.4	7.3	9.3	11.8	15.5	12.0
GDP (at market prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: BNA Annual Economic Report; MinPlan; IMF; OECD Africa Economic Perspectives, 2004/2005.

As of September 2005, 243 manufacturing units were registered in the industrial cadastre.⁹⁸ Manufacturing activities are counted in units because one company may have more than one manufacturing unit in various parts of the country. In most cases, manufacturing activities are carried out in standalone enterprises. Table 9-5 presents manufacturing units in the industrial

⁹⁶ Alves da Rocha, *et al.*

⁹⁷ Alves da Rocha, *et al.*

⁹⁸ According to analysis of data from the Ministry of Industry.

cadastre by subsector. Most of registered units are concentrated in the processed food and beverage subsectors. Together, they account for almost 38 percent of units. The next six subsectors—textiles and garments, chemical and bottled gases, metal products, plastics, and pipes—together account for about 85 percent of registered units. As bleak as this situation appears, one must keep in mind that close to 39 percent of these registered units were not operating in September 2005. Table 9-6 presents the cumulative outputs of manufacturing units in equivalent dollar terms⁹⁹ from January to September 2005.

Table 9-5

Registered Manufacturing Units by Subsector, September 2005

Activity	Number	Percentage
Processed foods	53	21.81
Beverages	39	16.05
Tobacco	4	0.01
Textiles and garments	33	13.58
Shoes	4	0.01
Woodworking	9	0.04
Paper and books	4	0.01
Chemical and bottled gases	33	13.58
Plastics and pipes	20	8.23
Nonferrous minerals	4	0.01
Metal products	26	10.70
Machinery and equipment	2	0.0
Electrical equipment and supplies	6	0.02
Transport equipment	2	0.0
Total	243	100 ^a

^a Rounded percentage

SOURCE: Compiled from data obtained from GEP, Ministry of Industry

⁹⁹ Kwanza-to-US\$ exchange rate 85:1.

Table 9-6*Output of Manufacturing Units by Subsector, January-September 2005*

Activity	US\$ Million	Percentage
Processed foods	234.2	41.4
Beverages	130.8	23.1
Tobacco	6.9	0.01
Textiles and garments	1.0	0.0
Shoes	0.0	0.0
Woodworking	2.6	0.0
Paper and books	0.3	0.0
Chemical and bottled gases	7.1	0.01
Plastics and pipes	6.4	0.01
Non-ferrous minerals	108.8	19.2
Metal products	67.1	12.0
Machinery and equipment	0.0	0.0
Electrical equipment and supplies	0.9	0.0
Transport equipment	0.0	0.0
Total	565.1	100 ^a

^a Rounded percentage

SOURCE: Compiled from data obtained from GEP, Ministry of Industry

CHALLENGES IN THE MANUFACTURING SECTOR

Reactivating Angola's manufacturing sector will require overcoming institutional and physical barriers. Institutional challenges involve governance, public administration, public and private institutions, business enterprises, labor relations, and corruption. Infrastructure not destroyed by war has been severely neglected: bridges, roads, rails, hydroelectric plants, power plants, and power transmission lines. Socioeconomic infrastructure—schools, training facilities, and hospitals and clinics—was also neglected and has not kept pace with the demands of urban migration. Rural refugees placed inordinate pressure on urban infrastructure intended to accommodate a fraction of the present population. The government is undertaking major rehabilitation and development tasks; for example, most of a recent US\$1.0 billion loan from China will be used for infrastructure development.

Existing infrastructure cannot meet current needs, much less expected demands. Infrastructure constraints preclude market linkages and supply chain operations. Producers produce less than they could otherwise because of inadequate supply and distribution channels; no one invests in supply and distribution channels because of the paltry flow of goods. Breaking this vicious cycle will require public-private planning and coordination to enable strategic investment that stimulates and supports increased production. Each subsector has plans for infrastructure development and some work has begun. Installation and provision of services will take time and will constrain economic growth for a while. Thus,

efforts to expand infrastructure capacity in all areas to meet rising needs in areas of growth, in particular those required to support growth in manufacturing, should be redoubled.

REINDUSTRIALIZATION PLAN

According to local investment data, the manufacturing sector attracts the most investors outside of the petroleum sector. Since 2003, it has been the fastest growing nonpetroleum sector in number of investment approvals and volume of investments.¹⁰⁰ The number of manufacturing investments approved over the past three years has grown almost exponentially, from US\$8.3 million in 2002 to \$50.9 million in 2003, to \$155.8 million in 2004 and \$141 million in the first half of 2005.¹⁰¹ The vast majority of manufacturing ventures are planned for greater Luanda. About 90 percent of investment is foreign direct investment (FDI). Portugal is the top source of FDI, followed by South Africa, China, United Kingdom, France, and India. According to sources at the Ministry of Industry, this interest is due to the country's plan for the industrial sector, "Reindustrialization of Angola." Led by the Ministry of Industry, this plan seeks to make the country an industrial powerhouse in Southern Africa. Conceived as far back as the late 1990s, the plan gained momentum with the advent of peace in 2002.

Plan Purpose and Strategy

The purpose of Angola's industrial policy and strategy is to

- Revive the industrial sector and transform it into the main engine of economic growth;
- Develop an efficient market economy based on a dynamic private sector;
- Enhance sustainable industries that make greater use of domestic resources;
- Promote exports and gradually reduce imports; and
- Ensure balanced growth alongside the extractive resources sector.

The private sector is expected to become the engine of industrial development and growth in a market economy; and FDI is expected to bring in capital, technology, know how, and markets and to build the capacity of local human resources. The ultimate aim is to integrate Angola into SADC to take advantage of its 250 million-strong market.

The Ministry of Industry, which is defining strategy policies and the regulatory framework, has crafted an approach based on four objectives:

- Develop labor-intensive manufacturing of basic goods to improve income distribution, purchasing power, and savings
- Expand production of traded goods in selected manufacturing sectors to replace current near-total reliance on imports (e.g., soft drinks, textiles and garments, dairy products,

¹⁰⁰ In 2004, however, the construction sector increased more than ninefold to US\$2.2 billion over 2003 figures of \$24.3 million.

¹⁰¹ For 2004 figures, see ANIP's Angola E As Oportunidades de Investimento (Luanda). Figures for 2005 figures are from personal communication with ANIP.

fisheries products, cereal milling, vegetable oil production, animal feed, rice milling, rubber and lumber products, construction materials, woodworking, fertilizers, plastics)

- Develop manufacturing in areas with comparative advantages (e.g., petroleum-based products, nonferrous minerals, timber products, tobacco, semiprecious stones, vegetable oils)
- Develop manufacturing in areas with competitive advantages (e.g., petrochemical products, steel and aluminum smelting, LNG and methanol production, ammonia, industrial fertilizers)

The Ministry has devised three programs—(1) restore manufacturing infrastructure, (2) reconstitute human resources, and (3) integrate the private sector—and six subprograms:

- Develop competitive export industries;
- Develop industries that produce traded goods capable of replacing current imports;
- Industrial promotion and support to small and medium enterprises;
- Develop infrastructure to enable business relocation;
- Recuperate competitive industries; and
- Strengthen capacity in the Ministry of Industry.

Implementation

To implement the plan, the Ministry of Industry is assuming the following preconditions:

- Basic network of roads and railways covering entire country;
- Airports in all principal cities;
- Good installed capacity at the principal seaports;
- Access to low-cost electricity;
- Good network of waterways;
- High population growth with high proportion in pre-working ages;
- Large labor pool (56 percent of population).

Clearly, then, the industrialization plan depends on various other plans for infrastructure being implemented. Of these preconditions, major current shortcomings are in roads and rail, airports, and seaports. As noted, these are not small tasks but are clearly prioritized not only by this report but by the government.

The reindustrialization strategy is expected to be implemented in two phases. During Phase 1, economically viable industrial plants that can compete with other companies in a market economy will be rehabilitated and enhanced. In Phase 2, modern and competitive enterprises that can generate sustainable jobs and make use of substantially more domestic natural resources will be created.

Industrial Processing Zones

The Ministry of Industry envisages the creation of three strategically located industrial processing zones (IPZs) or development poles with tax-free privileges. These have been in

planning since 1998. The IPZs will be large infrastructure complexes that promote industrial development in an environmentally responsible manner. Objectives for IPZs include

- Creating many new jobs,
- Attracting foreign investment,
- Increasing technology transfer,
- Boosting value added to domestic production, and
- Being local and national magnets for economic development.

The Ministry intends to make land available in the IPZ through 40- to 60-year leases. Public utilities and services are expected to be provided at attractive rates. The Ministry claims that three IPZs are in various stages of development, from advanced planning to start-up:

- The IPZ in Viana in Luanda Province is 20 kilometers from the city center and consists of 8,000 hectares.
- The IPZ in Catumbela, Benguela Province, consists of 2,100 hectares.
- The IPZ in Fútila, in Cabinda Province, has an area of 2,345 hectares.

No IPZs yet exist and no legislation has been passed for this type of industrial infrastructure. A committee headed by Sonangol and the South Korean Group, Samsung, is undertaking to work together to create the first IPZ in Lobito, Benguela Province. Important Angolan industrial companies such as Lobinave, Sonamet, and Encime are expected to relocate to the IPZ in the near term. An oil refinery is also envisaged for a later date.

Given the poor performance of IPZs elsewhere in Africa and the world, it would be wise to move slowly before implementing any proposal. Experimental arrangements in Tanzania, Malawi, Zambia, and Mozambique have been costly and have not lived up to expectations.

ANALYSIS OF REINDUSTRIALIZATION STRATEGY

Angola's manufacturing sector is dilapidated, strewn with old and obsolete plant and machinery, lacking industrial managers and a trained industrial workforce. "Reindustrialization" does not truly capture the challenges facing the sector.

The reindustrialization strategy is predicated on an import substitution model and pays little attention to export opportunities. Indeed, considering Angola's reliance on imports of consumer and capital goods, its manufacturing history, resource endowment, moderate market size, and manufacturing potential, import substitution policies are likely to achieve some success in the very short run. But import substitution is rarely successful over a long period. It carries risks and requires at least three conditions to succeed:

- *An internal market size that permits the economies of scale necessary for profitable manufacturing.* Angola has a population of about 13.5 million but its high poverty rate limits purchasing power to far less than half the population.
- *Modern technology, manufacturing efficiency, innovation, and a trained and productive workforce.* These are the factors of competitiveness but are scarce in Angola today.

- *Skilled workers, adequately trained and capable of high productivity output and innovation through research and development.*

These conditions do not exist at this stage of Angola's transition to a market economy. Should the government decide that a strategy of import substitution is the best option to revive the sector, Angola is likely to experience substantial problems in the medium term as has been the case in every country where the preconditions for success described above were not in place. In considering the next steps for promoting manufacturing it is imperative that the strategy chosen also position the country to become an exporter in the foreseeable future. This can be done by promoting investment in technology and know how, training workers to become more productive, and introducing standards for manufactured goods that meet requirements of international markets.

In aiming for the production of basic and consumer goods for the domestic market, the strategy for reactivating the manufacturing sector is more of a vision than a requirement. Unless Angola intends to hold on to state-owned enterprises, private investors will increasingly have the last word on where, when, and to what market segments investments go.¹⁰² Investors want to make a profit and gain the highest possible return on their investments. They will invest in market segments that promise the greatest return on the investment. Consequently, goods will only be produced for the domestic market if private investors believe that that market is more profitable than the export market.

Angola plans to join the SADC free trade area agreement. In effect, this will give Angola the entire SADC region as a potential market for domestic production. In return, Angola must open its own markets after a certain period of time during which it will enjoy tariff-free exports without having to compete with foreign-manufactured imports.

Finally, it should be noted that most of the subsectors highlighted by the government as having potential for increased production are not labor-intensive. This indicates that manufacturing cannot be expected to make a significant contribution to employment generation, nor can it be expected to have a significant impact on poverty.

NEW TARIFF SCHEDULE

Angola has been applying international and regional (SADC) trade standards to some manufactures and food products sectors. In 1996 it introduced the Harmonized System and adopted a new tariff code in May 1999. Since then, its tariff schedule and import system have been revised and liberalized. Customs duties have fallen from a maximum rate of 135 percent to 30 percent. Thus, Angola's latest revision of its tariff schedule has greatly reduced the tariff band, ostensibly creating a low barrier to entry of imports.

The new structure has created an "artificial" incentive for production in the manufacturing sector by (1) reducing tariff rates that affect imports of raw materials for the sector; (2)

¹⁰² The government has repeatedly stated its intention to divest itself of these companies.

maintaining or slightly increasing tariffs on finished goods that can be acquired locally in acceptable quantity and quality, thereby indirectly stimulating local production (these increases were for the purpose of harmonizing Angola's bands with those of other SADC countries); (3) imposing minimum rates on essential goods and intermediate products that are not produced locally or whose production levels do not satisfy basic needs; and (4) imposing maximum rates on used goods not incorporated in local products with the aim of having a beneficial impact on ecology and minimizing imports of spare parts, thus also reducing hard currency expenditure.

Though Angola's maximum tariff rate is low by developing country standards, one likely effect is moderate effective protection for domestic producers in certain sectors. Most tariffs on industrial inputs, capital goods, and equipment are low and considered nuisances (2 percent or 5 percent). In addition, substantial duty-free concessions are available to investors in IPZs and depressed regions. The combination of low tariffs and concessions means that most investors pay little or no customs duty on inputs, equipment, and capital goods for at least an initial period, depending on the location of their activities. At the other extreme, some sensitive domestic goods, including certain construction goods, are taxed at high nominal duty rates of 20 percent or 30 percent to stimulate local production.

Angola's new tariff schedule has a general stimulating impact on manufacturing, at least in the short run. On the one hand, because of low duties and tariff concessions on goods used in production, the effective protection of value added is likely to be higher than the nominal rates of duty on the final goods would imply. This is advantageous, especially for the production of finished goods that use raw materials and imported inputs. Only a few areas, however, appear shielded by the new tariff schedule.

That Angola has lowered its tariff and duties barriers before reactivating the manufacturing sector will pose an even greater challenge for manufacturing in an economy dominated by imports. The biggest threat to manufacturing in Angola is likely to be importers of manufactured goods, not other manufactures. This is especially true in segments where trade margins are used (i.e. production, wholesale, retail) because middlemen prefer to "push" imported goods where there is no imposed margin as opposed to domestic goods. But from the perspective of competitiveness, lower import barriers are de facto incentives that will stimulate competition and efficiency in the sector. Indeed, less efficient producers will likely succumb in this competitive environment, while those that survive and thrive will do so because of their efficiency.

This is the normal course of affairs in a market economy. Its novelty in Angola will result in some complaints and some pain but the ultimate result will be beneficial. This is particularly so in light of SADC accession. Once they have a much larger regional market in which to sell, manufacturers will benefit significantly from achieving efficient production and adhering to international standards.

RECOMMENDATIONS

Angola imports everything, including products in which it has a comparative advantage. Merchandise imports account for about 30 percent of GDP. Because Angola is the second largest oil exporter in sub-Saharan Africa, its trade account has generated an average surplus of about 40 percent in the past decade. This large trade balance notwithstanding, Angola ran a current account deficit from 1975 until 2000, when it had a surplus of US\$637 million. The negative trend returned in 2001 through 2003 until 2004 when it appears to have turned positive. This sudden upturn appears to be due to the sharp increase in oil prices.

No precise data on the volume of manufactured goods entering Angola exist, but the volume is enough to inspire the Ministry of Industry and economic experts to suggest that production for the domestic market is the logical starting point for reactivating the sector in the near and medium term. The ministry's strategy is focused on an inward-looking manufacturing sector with little attention to exports. Some researchers, however, argue that a strategy directed at the domestic market should mark a transition toward a strategy that emphasizes exports. The reliance on imports to meet domestic needs, the country's production potential, and pent up demand seem good reasons for starting with a manufacturing strategy directed first at the domestic market then the export market.

Challenges in reactivating the sector abound. The following recommendations are intended to help overcome these challenges.

- ***Accelerate replacement of infrastructure and build modern and efficient infrastructure.*** Infrastructure services need to be rehabilitated and modernized to support efficient production and distribution. This will entail investments in infrastructure units and systems and years of planning and building. All sectors that provide infrastructure services should be targeted to provide a comprehensive and seamless supply chain coupled with a multimodal transport system that moves goods and people efficiently. The power, water, and communications sectors, as well as civil construction, will also need to be improved.
- ***Improve the business enabling environment.*** The environment for investment and operations must be purged of bad administrative practices and red tape rooted in decades of state intervention and mismanagement of productive units. Steps already taken to improve the legislative and regulatory framework for investment and business creation do not address fully the difficulty of doing business in Angola.
- ***Carry out a comprehensive investment climate assessment.*** Problems in the business value chain need to be pinpointed and concrete improvements recommended.
- ***Combat corruption in the business environment.*** Widespread corruption needs to be uprooted to cut onerous costs of doing business and to remove the rent-seeking parallel economy that prevails in the public sector.
- ***Review the new tariff and duties schedule and make adjustments necessary to support a competitive manufacturing sector.*** According to experts, Angola's recent revision of its tariff and duties schedule has lowered thresholds across the board. The current structure

should be reviewed to identify tariffs and duties on inputs that can be reduced to support traded goods production in the manufacturing sector for the near and medium term.

- ***Introduce quality as a requirement for awarding incentives in the investment promotion legislation.*** Investment objectives listed in the Law on Tax and Customs Incentive to Private Investment are mainly quantitative but should explicitly encourage investors to strive for quality products.
- ***Adopt quality standards and specifications to guide manufacturers.*** Angola should adopt high standards in product design and production to meet international market requirements. Doing so will benefit domestic consumers and help prepare manufacturers for export markets.
- ***Adopt a human resources training plan to support the sector.*** The sector lacks a managerial class and skilled laborers; successive waves of inflation over 20 years have pumped up wages, making them high by African standards. In Luanda, for example, wages in the manufacturing sector range from US\$150-\$180 per month. In Benguela, wages are between US\$100-\$130. Managers and workers need to be trained to assume leadership and to achieve the productivity required for a dynamic manufacturing sector.

Tourism

Like many of its neighbors who are developing lucrative tourism sectors, Angola has a diverse climate ranging from desert and savannah to tropical forests, miles of undeveloped coastline, and a unique cultural heritage. In the mid to long term, the tourism sector presents tremendous opportunities as the country recovers from the civil war, rehabilitates infrastructure, restores security, and reawakens interest among tourism operators, businesses, and tourists. Immediate steps for opening the sector's potential include (1) reforming the regulatory environment, (2) rebuilding infrastructure and reconnecting transport networks, and (3) ensuring security throughout the country.

POLICY AND REGULATORY ENVIRONMENT

The tourism sector suffers from strong state intervention that impedes new private sector investment. The Ministry of Tourism and Hotels was created in 1994 and is in charge of tourism policies. Despite government intentions and declarations supporting a market economy, the regulatory framework for the tourism sector is still very interventionist. Law 6/97 governs most functions of the Ministry of Tourism. These functions include

- Promoting sustainable activities in national tourist areas that can benefit the economic and social development of local communities,
- Identifying and organizing tourism sites on the basis of public interest and priority intervention,

- Promoting internal, regional, and international tourism, and
- Promoting and mobilizing financing and foreign investment.

Functions of the National Institute of Tourism Promotion, established by Decree 62/97 under the umbrella of the Ministry of Tourism, include

- Preparing organizational and financial projects, including the physical organization of potential tourism products, and
- Helping promote national interest by integrating domestic and foreign private capital to implement rational and integrated projects in tourism segments already being explored.

Law 54/97 regulates the establishment and licensing of travel agencies and Law 66/75 regulates the establishment and licensing procedures for hotels, restaurants, and similar businesses.

The legal and institutional framework encourages restrictive practices that create opportunities for corruption. Under the current framework, the government completely controls policymaking, planning, and regulates the building and operation of tourist facilities. The level of control limits competition; impedes the development of new privately owned hotels, restaurants, and other tourist infrastructure; and prevents private initiatives to promote tourism or develop tourism destinations. Several trade associations, such as the Association of Travel Agencies and Tour Operators (AAVOTA), the Association of Hotel Managers (AADHA), and the Association of Hotelkeepers and Caterers (HORESIL), are active in reforming the regulatory framework. They are working to support their members in ensuring service quality and promoting dialogue with government institutions such as the Ministry of Tourism and Hotels and the Institute of Tourism Promotion.

RESOURCES

An inventory of tourism resources carried out by KPMG and the Ministry of Tourism and Hotels was made public in late August 2005 and presented the following findings.

Regional Organization and Population

Angola's 18 provinces consist of 168 municipalities. Its population is about 15 million and is growing 2.8 percent per year. Population density is low—only 11.49 inhabitants per square kilometer. More than 70 percent of Angolans live in five provinces—Luanda, Benguela, Huambo, Bié, Uíge, and Malange. The average age is 20, and more than 50 percent are younger than 19. Pressure on the labor market is strong as the supply of unskilled labor grows continuously because of deficiencies in the education system.

Natural Resources

Angola is a vast country with desert in the southwest and tropical forests in the north. The coastal plain reaches 200 kilometers in the north and about 15-20 kilometers in Benguela. High plateaus in the center descend smoothly to the south and the north. The Canda,

Nambuagongo, and Pungu Andongo mountains are in the north; the Cuando and Quembo ranges in the east reach an altitude of 1,500 meters. The highest altitudes are 2,620, 2,582, and 2,554 meters with Moco, Mepo and Lubange mountains in the south east covering the provinces of Huambo, Bié, and Huíla. From north to south, Angola has one of the most beautiful landscapes in Africa, with mountains, bays, high plateaus, the sea, and water falls. The country's 37 protected areas—game parks, beaches, forests, national parks—cover 188,650 square kilometers, or 15.1 percent of the national territory.

Angola has two seasons: the dry season from May to August and the rainy season from September to April. The northwest is tropical dry, the southwest is tropical desert, and the interior varies from tropical humid to very temperate. The seaside is very hot, averaging 35-40°C. Vegetation and wildlife are also diverse: dense and humid forest, open and closed forests, savannas with and without trees, dry deserts, 920 bird species, and several very rare species such as the giant black sable and white rhino in the interior.

Angola has nearly 1,650 km of natural beaches from the northern border with Congo to the southern border with Namibia. Major rivers include the Cubango (975 km), the Kwanza (960 km), the Cunene (945 km), and the Cuando (750 km). Some rivers have famous waterfalls, such as Kangadala in Malange and Ruacaná in Malange and Cunene. These resources hold promise for watersport, beach, and river-based tourism. Fishing and sailing are already popular among Angolans and its few foreign visitors. Other sports such as rafting, camping, snorkeling, and scuba diving are also promising.

Cultural and Historical Resources

Angola's cultural and historical sites are centuries old. Sites with high potential for tourism include monuments to the history of slavery and Angola's Catholic Portuguese heritage that date to the 15th and 16th centuries. Vestiges of the Congo Kingdom in the city of M'Banza Congo and surrounding Zaire Province date from the 5th century. The museums, monuments, historic and architectonic buildings, and archaeological stations found throughout Angola could also attract tourists. Surrounding infrastructure and site maintenance will of course need to be improved. Other attractions include ethnic artwork, ceramics, handicrafts, trade exhibitions, traditional cuisine, musical instruments, locally produced fabrics, sculptures, masks, dancing, theatre, religion, and cultural events.

Accommodation and Restaurants

In 2004, Angola's accommodation supply consisted of 10,000 rooms and 11,452 beds. The occupancy rate was 96 percent. Lodging ranges from guesthouses to big international hotels categorized by the Ministry of Tourism and Hotels as 1-4, 1-3, and 1-2 stars. In category 1-4 are about 48 hotels licensed at the end of 2004 with a capacity of 2,667 rooms and 3,682 beds. Luanda accounts for more than 60 percent of capacity, and has much better accommodations than other cities. Domestic firms with international recognition include Serafim L. Andrade, which runs the Hotel Trópico and the Alvalade; the Equador Group, which owns the Continental Hotel; and a Portuguese company that runs President Hotel-Meridien. In

category 1-3 are around 136 smaller hotels (pensões) providing 6,691 rooms and 7,054 beds; quality is much lower than that provided by the bigger units. Category 1-2 comprises bed and breakfasts providing 621 rooms and 716 beds. Patrons are usually low-income Angolans moving between provinces for very short stays. Restaurants, pubs, and similar businesses have grown considerably. In 2004, the number of registered restaurants was 5,691 compared to 5,544 in 2003. A significant number of hotels and restaurants are still state run and need rehabilitation. Delays in privatization combined with burdensome bureaucratic procedures limit the involvement of the private sector. Again, Luanda has the highest density of restaurants as it is the largest and safest market.

Travel Agencies, Tour Operators, and Rental Services

Angola's 42 private travel agencies provide a variety of services to domestic and international customers, from ticket and hotel reservations to passenger assistance, and visa requests. Most firms have some degree of foreign ownership or capital because of the lack of local credit. Car rental services exist, but many travel agencies and other businesses (e.g., hotels) offer rentals in service packages.

Competition with SADC Countries

SADC includes countries with a long history of tourism: South Africa, Seychelles, Swaziland, Zambia, Mauritius, Namibia, Zimbabwe, Botswana. From 1990 to 2001, Angola accounted for an average of less than 2 percent of tourists entering SADC countries; South Africa took in 30 percent and Zimbabwe 18 percent. To become competitive in the region, Angola will have to offer similar tourism experiences at competitive prices. Angolan travel agencies may be well served in forging partnerships with travel agencies in neighboring countries and with regional travel agencies to create packages that allow visitors to the region to add a week or more to visit Angola. Because of their proximity, Namibia's and Botswana's tourist circuits could be a target for Angola's tour groups in creating such packages. In addition, most tourists in Mozambique and Zambia are South Africans. South African firms and individuals are a major source of business for Angola and are a logical target for building tourism in Angola.

PRODUCTS

Tourism demand is met by marketing a wide range of services that form an industry supply chain. A healthy tourism industry can benefit other firms and sectors along this chain, including farmers, transportation providers, handicraft makers, and artisans. The supply chain in Angola is missing links because of weak infrastructure and excessive government involvement.

Demand is still very low and the country has not yet recovered from war. Between 1990 and 1995, the number of tourists visiting Angola dropped significantly but has since been increasing, growing 45 percent between 1995 and 2000. The number of tourists jumped to 194,329 in 2004, an increase of 82 percent over 2003. About 52 percent of tourists are from

Europe, mainly Portugal. Other origins include Brazil, South Africa, Zimbabwe, and Mozambique. Business tourism is by far the largest segment because of business opportunities since the war ended. Recreational and leisure tourism are almost nonexistent. Seventy four percent of tourists visiting Angola in 2004 were transported by air and 24 percent by road. Tourists in Angola face their biggest problems with accommodation and transport. In 2004, hotel occupancy rates reached 96 percent with average stays of 8 nights. Most hotels in Luanda are overbooked and it can be difficult to get rooms even in lower quality hotels. Prices are also high compared to most SADC countries and do not reflect quality.

Reliable statistics on tourism's contribution to GDP do not exist. Data from the Ministry of Tourism and Hotels are inconsistent and scattered because the ministry relies on other sources, such as immigration authorities and hotels. Tourism's contribution, however, can be gauged by revenues declared to the authorities (Table 9-7). Because of Angola's relaxed fiscal and accounting regulations, it is believed that this contribution is certainly much higher than \$97 million per year. And figures in Table 9-7 do not include other aspects of the industry (e.g., carriers, caterers, car rental agencies).

Table 9-7

Tourism's Gross Revenues in 2004 (US\$ million)

Activity	Revenue	Percentage
Hotels	64.5	66.5
Restaurants	3.1	3.2
Travel agencies	29.4	30.3
Total	97.0	100.0

Since the war's end, the government has embarked on a plan to restructure the tourism sector and rehabilitate hotel and restaurants. The plan, which includes a revision of the regulatory and legal framework to promote private sector participation, provides for the mobilization of funding for investment projects. In this regard, the Ministry of Tourism and Hotels has defined priority zones for tourism:

- Short-term – Provinces of Luanda, Cabinda, Bengo, Benguela, Kwanza Sul, Namibe, Huila and Cunene.
- Medium-term – Provinces of Zaire, Uíge, Kwanza Norte, Malange, Huambo and Bié.
- Long-term – Provinces of Lunda Norte, Lunda Sul, Moxico and Kuando Cubango.

These priorities are based on the destinations of most tourists (mostly coastal cities), the natural and human resources of each province, and private sector dynamics. Despite the aggressive dynamism of the private sector, which has been investing every year in the construction of attractions in Luanda, Sumbe, Benguela and Huíla, the government has not

yet implemented the plan. It has hired a consulting firm to prepare a Master Plan. Exhibit 9-1 summarizes the status and potential of Angola's tourism sector:

Exhibit 9-1

Tourism Sector Strengths, Weaknesses, Opportunities, and Threats

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Political willingness to prioritize the sector • Institutional reforms in the Ministry of Tourism and Hotels • Experience in international business tourism as Luanda provides 60% of national capacity in hotels • Climate diversity • Balanced and well preserved environment • White sand beaches • Sea with pleasant temperatures, low waves and rich sea life • Diverse landscape • Ecological attractions • Game parks with diverse wildlife and vegetation • Navigable rivers rich in fish • Important ethnographic and cultural assets • Friendly people <p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Complete and lasting peace • International trends of tourism • Regional integration through SADC • Domestic market demand • International market demand • Construction of new beach resorts • Greater emphasis on eco and adventure tourism • Nautical sports • Rehabilitation and protection of game reserves 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Weak capacity of government institutions • Weak regional governments • Weak national economic base Difficult access to most regions • Weak and irregular supply of basic infrastructure, (e.g., water, sanitation, energy, communication) • Some polluted beaches • Weak private sector • Short supply of accommodation • High prices • Low skilled labor • Absence of training in quality • Poor and bureaucratic public intervention and promotion • Weak financial system • Visa restrictions • Air transport expensive and in short supply • Poor condition of regional airports • Low intervention of travel agencies • Travel agencies biased toward out-going movements <p>THREATS</p> <ul style="list-style-type: none"> • Weak capacity of the Ministry of Tourism and Hotels to facilitate and promote tourism • Land mines and lack of security outside of Luanda and other major cities • Setbacks in decentralization and promotion plans of Ministry of Tourism • High incidence of poverty and malaria • High prices • Competition from other SADC countries • Bad image from a long war
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TOURISM MASTER PLAN

As stated in the government's economic program, the industry must develop products and diversify to attract more tourists. The Ministry of Tourism and Hotels hired a consultant to carry out a diagnostic study of the sector and present a master plan for tourism development. The plan addresses proposes strategic policies with specific objectives:

- Structure and diversify tourism products

- Attract major investments
- Increase supply of good quality accommodations
- Promote SMEs in the sector
- Provide better skills for the labor force
- Increase domestic consumption of tourism products
- Launch, consolidate, and increase supply of tourism products in the international market.

The plan is to be implemented from 2005 to 2013 through a variety of programs and will likely cost about \$21 million (Table 9-8). The plan seems very ambitious as the Ministry of Tourism and Hotels has no human or financial resources to implement it. Likewise, the plan does little to address constraints in the policy and enabling environment that impede private sector growth and innovation. Problems related to visa regulations, infrastructure, business start-up and registration, land use, property rights, and investment restrictions and red tape are not addressed in the detail necessary to promote sector development.

Table 9-8

Tourism Master Plan Programs and Projects

Programs	Objectives	Projects	Time Frames
Management capacity building	Build capacity of Ministry of Tourism and Hotels to handle tourism policies at the macro-level	Review and modernize the legal framework	ST
		Create a Tourism Board	ST
		Establish a Regional Forum	MT
		Requalify competencies for Ministry staff	ST
Planning	Provide a medium to long term framework to avoid anarchical development	Establish territorial /spatial occupation models	ST
		Define and create tourism development areas	MT
Promotion	Establishment of Guidelines to promote, support and attract investments	Attract investments	ST
		Fund tourism projects	MT
		Support SMEs	MT
Structuring and diversification of tourism supply	Structuring of tourism products based on the stock of natural and cultural resources	Business tourism	ST
		MICE tourism (meetings, incentives, Congresses and Events)	MT
		Sea and nautical tourism	ST
		Eco and adventure tourism	ST
		Cultural tourism	ST
Marketing	Establishment of information and marketing procedures to advertise Angola and provide a good image of the country	Domestic tourism	ST
		International tourism	MT, LT
		Angola Tourism Stock Exchange	LT
		Strategic Marketing Plan	MT

Notes: ST – short term (3 years); MT – medium term (4-6 years); LT – long term (7-8 years).

No donor are yet involved in the sector. The International Trade Chamber (ITC) is supporting a market survey in Angola to assess the potential of service exports and may mobilize funding to support training in service trade associations.

RECOMMENDATIONS

Angola's tourism sector holds great promise. It must first, however, overcome the effects of war on its international image, environment, and population and improve its tourism experience and packages. Attracting tourists but not satisfying them will only hurt Angola's reputation. The following steps are recommended to build the industry over the short, medium, and long term:

- ***Attract leisure and recreational tourists in the short to medium term.***
 - Reconstruct and renovate roads, railways, airports connecting major cities and tourist attractions, and urban infrastructure (roads, sidewalks, utilities) in Luanda, Benguela, Lubango, Huambo.
 - Facilitate transit to and within Angola by easing visa requirements, making flights more reliable and frequent, and improving local and regional transport (taxi, bus, car).
 - Empower the private sector to lead sector growth by privatizing accommodations and making it easier register and operate a business.
 - Increase supply and diversity of tourism products by increasing the number of international quality accommodations in Luanda and other major cities, by making it easier to reserve hotel rooms and cars, and by facilitating arrangements for tour packages from within and outside of Angola.
- ***Address the tourism needs of the large expatriate community working in Angola for the oil and diamond sectors.*** At present, these visitors stay in Luanda or their worksite (e.g., Cabinda, Soyo), but could very well use weekends and vacations to see more of the country. Addressing the needs of this market segment will help the tourism industry build relationships with particular countries, such as Portugal, South Africa, Brazil, France, UK, and the United States, making it easier for visitors from those countries to plan holidays and developing the country's reputation for tourism.
- ***Attract investment by providing basic infrastructure and reforming policies.*** Angola must still undertake massive reconstruction, but resources are inadequate. Structural problems in the economy further limit private investment and deter foreign investors. Meanwhile, business opportunities in accommodation, game, adventure, and ecotourism exist in and outside Luanda languish. Provinces like Kwanza Sul, Benguela, Huila, and Namibe that have natural and cultural attractions could attract large investment flows if the government addresses basic problems with water, energy, telecommunications, and roads and reformulates the regulatory and legal framework. Providing basic infrastructure and a market friendly environment can attract domestic and international investors to the sector.

- *Implement measures to reduce bureaucratic disruption and opportunities for graft or corruption as these may affect tourism.* Procedures for tourists entering and exiting the country should be streamlined and transparent, as should procedures that affect tourists while they are in Angola.

The Tourism Master Plan is a step in the right direction, but if other ingredients to promote private sector and market competitiveness are not in place, the plan will be a mere political exercise.

Fisheries

Angola's coast benefits from the junction of the Benguela Current and the warmer waters of the tropical Atlantic, an area described as "one of the world's major eastern-boundary current systems rich in pelagic and demersal fish populations, driven by intense coastal upwelling."¹⁰³ Before independence, a large industrial fishing sector had developed in the southern coastal ports of Benguela, Namibe, and Tômbwa. The war diminished the sector, though activity is still considerable. Fish consumption is estimated to be 15.5 kg per head per year, and the internal market for fresh, dried or otherwise processed fish, is considerable. In addition, Angola exports fish and fish products to Congo (D.R.), the Republic of Korea, Spain, and Japan. Foreign vessels, largely from China, Korea, and Spain, leased to or in joint ventures with Angolan enterprises, fish the waters. Under the new Law on Aquatic Biological Resources and related regulations, foreign vessels may not fish in Angolan water; hence leasing or joint ventures are the norm.

RESOURCES AND EXPLOITATION

The coastline of Angola is 1,650 km long with a shelf area to 200 m of about 51,000 sq km. The main influence on conditions off the coast is the cold Benguela current, which flows north along the southern part of the coast. The Angolan current carries warm equatorial waters south. These diverging currents create a strong upwelling system that supports high primary production of marine resources.

In 2004, the FAO reported that overfishing and hydroclimatic changes had greatly reduced the fisheries potential, now estimated to be about 360,000 tons per year, consisting of 285,000 tons of small pelagic species (chiefly mackerels and sardinellas) and 55,000 tons of demersal species (including 7,000 tons of deepwater shrimp). The Ministry of Fisheries supervises and monitors fishing activities, except for high-seas tuna fisheries, by satellite link. All vessels must be equipped with the monitoring system. Angola also has three fishery protection vessels and collaborates in protection with Namibia and South Africa under a SADC regional agreement.

¹⁰³ Lankester (2002). Varieties available in Angolan waters include horse mackerel, sardinellas, hake, and tuna (large and small), as well as shrimps and rock lobster.

Two species of horse mackerel dominate volume and demand in the domestic market. One species is shared with Namibia, while the other is found only in Angolan waters. The combined biomass of the species has fluctuated widely with changes in hydroclimatic conditions. From 700,000 tons in 1987 the biomass declined to 60,000 tons in 1995 (when El Nino was present), but recovered to 500,000 tons in 1996. Angolan scientists estimate that the biomass in 2005 is 400,000 tons. A high percentage of juvenile fish caused the government to ban the capture of horse mackerels by vessels using mid-water trawls. The goal was to allow fish to grow to sizes at which they would spawn (18-20 cm). This ban started in 2003 and was still in effect in 2005. Total allowable catches (TACs) for these species have been reduced; to compensate, imports of horse mackerel (140,000 tons 2004; 30,000 tons 2005) have been permitted. Angola shares one species of sardine with Namibia and has two species of sardinella. The biomass for these species for 2006 has been estimated at 360,000 tons. Angolan scientists consider that these resources are healthy.

Demersal resources (e.g., groupers, breams, snappers) had a biomass of 83,000 tons in 2005 and are considered healthy by Angolan scientists. Shrimp resources are considered stable. The biomass of deep-water crabs is not known. Tuna used to be taken by the national pole and line fleet. However, canneries are reported to have closed for lack of raw material. No species of tuna are included in the TACs at present.

In 1989, the TAC was 295,500 tons; in 1990, 307,500 tons; in 2002, 253,200 tons; and in 2005, 277,800 tons.

FISH SUPPLIES

Size of Catch

Total catches declined from 424,700 tons in 1986 to 322,500 tons in 1989. In 1999 total catches were 202,500 tons, increasing to 283,500 tons in 2002 and dropping to 242,000 tons in 2003 and 231,500 tons in 2004. By far the largest share of the catch of foreign vessels was that of the Angola-USSR Joint Fishing Expedition. These vessels, which use mid-water trawls that are not permitted in Angolan fisheries, are no longer fishing in Angolan waters. Catches by species of the national fleet show that the principal pelagic species (horse mackerels, sardines) were taken chiefly off the provinces of Namibe and Benguela and that between them these two species accounted for 41 percent of total catches in 2004.

Fishing Effort

In 2004, the national fleet was composed of 6,160 vessels: 34 percent in Luanda, 28 percent in Benguela, and 18 percent in Cabinda. The fleet consisted of 109 industrial vessels 20 meters long or more (1.8 percent); 199 semi-industrial vessels 14-20 meters long (3.3 percent); and 5,852 artisanal vessels up to 14 meters long (95 percent). Six percent of the industrial vessels were not operational, as were 35 percent of the semi-industrial fleet and 1 percent of artisanal vessels. The industrial fleet consists mostly of foreign vessels, many of which are modern and in good condition. The semi-industrial vessels, which are mostly Angolan, are usually too old

to keep well maintained and owners often lack resources to buy spare parts or replace damaged or obsolete equipment.

FISHERIES IN THE NATIONAL ECONOMY

Food Supply, Employment, and Balance of Payments

The annual per capita supply of fish to the domestic market declined from 18.4 kg in 1989 to 15.9 kg in 2003 and to 15.5 kg in 2004 (see Table 9-9). Annual consumption of fish shortly before independence, when the population was about 5 million, was on the order of 26 kg per capita. In 2001, fish accounted for about one-third of the per capita supply of animal protein in Angola.

Table 9-9

Annual Supply of Fish to the Domestic Market, 1989 and 2003–2004

Year	Fresh and frozen (000 tons)	Salted and dried (000 tons)	Others (000 tons)	Total (000 tons)	Population (millions)	Supply per capita (kg/year)
1989	100.9	39.7	26.9	167.5	9.1	18.4
2003	169.2	36.6	10.6	216.4	13.6	15.9
2004	148.9	39.6	26.7	215.2	13.9	15.5

The government reports that direct employment in fisheries increased from 21,600 persons in 1989 to 31,500 persons in 2004, with sharp increases in employment in the private sector and in artisanal fisheries (see Table 9-10). Using a much broader definition of employment, the FAO estimates that fisheries employed 235,000 persons in 2002. Employment is concentrated in capture (86 percent in 2004, up from 42 percent in 1989), while boat repair, processing, and distribution employ about 4,500 to 7,500, a marked decline from the more than 52,000 so employed in the 1980s.

Table 9-10

Employment in Fisheries by Type of Entity, 1989 and 2003–2004 ('000 persons)

Type of Entity	1989	2003	2004
State	13.8	N/a	N/a
Cooperatives	1.2	N/a	N/a
Private sector	1.2	7.1	11.0
Artisanal	5.5	20.4	20.5
Total	21.6	27.5	31.5

Fishing and fish processing account for about 3 percent of GDP. In 1989 the contribution of the sector to the balance of payments was negative to the extent of US\$9.3 million, but by 2003 the value of exports was almost double the value of imports. Exports in 2004 had a value of US\$10.5 billion, of which almost 92 percent came from oil and oil derivatives, leaving about US\$850 million of non-oil exports (Afrol News). This source reported Angolan fisheries exports in 2004 as almost US\$12 million, accounting for 0.11 percent of total exports and 1.4 percent of non-oil exports.

Inland Fisheries and Aquaculture

Inland fisheries are traditional throughout Angola, which has many rivers and ponds. Little information is available on the extent of such activity, but FAO (2004) estimates that more than 150,000 men and women are involved in catching, processing, and marketing of fish. Catches are estimated at about 10,000 tons per year, while the potential is believed to be for catches of 50,000 tons per year or more. Tilapia (cacusso) and catfish (bagre) dominate inland catches. The main gear types used are nets, traps, and handlines. Wooden canoes (pirogas) are the principal vessel.

Aquaculture has not yet had a significant impact on food availability or incomes. Reliable and current data on aquaculture are not available. It is reported that a joint venture, between local and Brazilian partners, is going to farming tilapia for the domestic market in Bengo. There is talk of the farming shrimp in Bengo.

Exports and Imports

Exports of fish and fisheries products are charged an export tax of one percent of the FOB value. Export details are presented in Table 9-11. The principal export markets are Spain (shrimp, crab), Japan (crab), Korea (fish), and Namibia (fish meal). Export products are often trans-shipped at sea and so are not registered as Angolan exports. In 2002-2003, Angola voluntarily suspended fisheries exports to the EU to avoid a ban for sanitary reasons. Efforts were made to bring installations into compliance. A laboratory capable of a wide range of tests (water, resources, quality control, biological, chemical, oceanographic), provided by Spanish Cooperation, was installed at the National Institute of Fisheries Research (INIP). Since exports to the EU started again, only one shipment has been rejected (crab legs with incorrectly applied sulphites). INIP's designation as Competent Authority has been transferred to the National Directorate of Infrastructure and Market Research .

The Ministry of Fisheries reports imports of horse mackerel from Mauritania, Namibia, South Africa, and Mauritius; imports were authorized to compensate for lower TACs. Angolans prefer horse mackerel 20-25 cm; bigger sizes are hard to sell. Imports of canned fish and fish meal are a concern of Ministry of Commerce, from which statistical information was not available. Imports of live, fresh, and frozen fish and fisheries products are taxed at 35 percent, while prepared and canned products are charged 20 percent of the CIF value.

Table 9-11*Exports of Principal Fish and Fisheries Products, 2004-2005*

Species	Quantity (tons)	Value (US\$ million)	Value (Euro million)
2 0 0 4			
Fish and mollusks	7,729	15.5	
Shellfish	459	3.2	
Crab	604	4.2	
Fishmeal	5,366	Unclear	
Total	14,805	23.3	
2 0 0 5 (1 S T H A L F)			
Fish	1,902	2.7	
Molluscs	749	1.4	
Shrimp (gamba)	1,039		
Shrimp (alistado)	8,566	4.5	
Crab	229	1.1	0.2
Crab products	1,603	5.8	
Total	14,715	5.5	4.7

Processing

Most landings, especially from artisanal and inland fisheries, are understood to be marketed fresh, often in whole round form, but sometimes also as fillets, steaks, or other cuts. Processing includes freezing, salting and drying, and meal processing. Frozen processing is still important but has declined, as has meal processing; salting and drying have increased (see Table 9-12). Processing and other shore facilities, though not surveyed for this study, are reported to be old and in poor condition.

Table 9-12*Processed Fish Products (tons)*

Method	1997	2000	2001	2002	2003	2004
Frozen	27,222	49,580	57,821	43,886	36,173	48,624
Salting and drying	8,097	5,818	6,917	10,070	12,200	13,196
Canning	1,165	3	1	20	0	4
Fish meal and oil	1,409	20,651	7,938	4,448	2,732	5,993

GOVERNMENT JURISDICTION AND LEGISLATION

Regulatory Agencies

Angola adopted the Law on Aquatic Biological Resources in October 2004.¹⁰⁴ The law aims to establish “regulatory measures that seek to guarantee the sustainable conservation and utilization of the aquatic biological resources existing in the waters under the sovereignty of the Angolan State, as well as general bases for the exercise of activities related to them, particularly fishing and aquaculture activities.”¹⁰⁵

It covers territorial waters, the Exclusive Economic Zone, tidal waters, estuaries, and inland waters. It also covers the activities of Angolan vessels on the high seas or (without prejudice to the laws of other states) when fishing in waters under other States’ jurisdiction. New regulations adopted in 2005 govern concession of fishing rights; scientific research into fishery resources in Angolan waters; fish farming; fishing in general; and taxation of fisheries.¹⁰⁶ New laws and decrees established the structure of the Ministry of Fisheries, the Institute for Development of Artisanal Fisheries and Aquaculture (IPA), and the National Institute for Fisheries Research.¹⁰⁷

Under the October 2004 Law, the Ministry of Fisheries fixes TACs for each species annually. TACs are carried forward year by year unless changes in the levels of biomass have been verified. TACs may be reduced by executive decree if new data show risk of reduction, extinction, or nonrenewal of species or zones, or in an emergency. Fish quotas are attributed as percentages of TACs for each species or zone, subject to payment of a periodic charge. Quotas may be reduced proportionally if TACs are reduced; they may also be increased if new boats are purchased or other improvements made, to the extent the overall TAC is not already exhausted.

Fishing rights in Angola’s EEZ may be granted, individually or collectively, to nationals or foreigners if they are associated with nationals in companies with majority Angolan ownership.¹⁰⁸ Without prejudice to the provisions of the UN Convention on the Law of the Sea, the SADC Fisheries Protocol, or other international agreements to which Angola is party, the law provides that Angolans shall have preferences for fishing rights. Rights in territorial waters are granted to Angolan or other SADC nationals with which there is reciprocity. Concessions may be extended to fishing companies from other SADC states with which reciprocity exists. Rights for artisanal fishing and on international rivers or inland waters under Angolan jurisdiction are granted only to Angolan nationals.

Fishing rights are granted for a period of 20 years, and may be transferred with the approval of the Ministry. Rights are allotted by open competition; however, preference is given to Angolan nationals and to those who have land-based processing and sale installations.

¹⁰⁴ Law 6-A/04, which replaces the previous Law on Fisheries (Law 20/92).

¹⁰⁵ Law 6-A/04, Article. 2.

¹⁰⁶ Decrees 14/05, 38/05, 39/05, 41/05, and 43/05.

¹⁰⁷ Decree-Law 3/05, Decree 45/05, and Decree 47/05.

¹⁰⁸ Law 6-A/04, Articles 40-62.

Owners of rights may use fish quotas as credit guarantees, with the authorization of the Ministry. The Ministry licenses Angolan flag vessels for fishing on the high seas. Attribution of high-seas fishing licenses to foreign flag vessels is forbidden; as is transshipment of catch at sea.¹⁰⁹

To monitor fisheries, the Ministry may use fishing diaries, monthly information books, fisheries observation programs, local community observation programs, and continuous monitoring equipment. Captains must keep on-board fishing diaries, monthly information books, the fishing certificate for the ship, the seaworthiness certificate, and an authenticated copy of fishing rights title.¹¹⁰ Catches must be unloaded in Angolan ports unless otherwise agreed in the fishing rights title. All cargoes must be declared, even those transhipped at sea. As noted above, a satellite tracking system has been introduced.

The new act puts in place a highly comprehensive system to manage and monitor fisheries in Angola's waters out to the EEZ of 200 nautical miles.¹¹¹ Its effectiveness in preserving fish stocks and managing fisheries for the mutual benefit of Angolans and foreign partners will depend on the effectiveness of management and monitoring mechanisms. This will depend on human, shipping, and technical resources available in Angola or with international assistance

Agreements with Nations and Regional Bodies

Multilateral. Angola has ratified the United Nations Convention on the Law of the Sea.¹¹² It has not ratified the agreement relating to Part XI of the Convention which deals with exploitation of mineral resources on or under the ocean floor, or the agreement for the implementation of the provisions of the convention relating to the conservation and management of straddling fish stocks and highly migratory stocks.

Angola is a member of the International Convention for the Conservation of Atlantic Tunas (ICCAT), an intergovernmental fishery organization. ICCAT compiles fishery statistics from its members and from all entities fishing for these species in the Atlantic; coordinates research, including stock assessment, for members; develops scientifically based management advice; and provides a mechanism for contracting parties to agree on management measures.¹¹³

Regional. Angola is a signatory to the South East Atlantic Fisheries Organization (SEAFO) convention, providing for a management regime ensuring long-term conservation and sustainable use of fish resources on the high seas of the South East Atlantic Ocean. The convention entered into force in April 2003 after the deposit of instruments of ratification by Namibia and Norway and approval by the European Communities. SEAFO will be

¹⁰⁹ Law 6-A/04, Articles 118, and 123.

¹¹⁰ Law 6-A/04, Articles 143 and 145.

¹¹¹ As defined in United Nations Convention on the Law of the Sea, Part V. Available at: http://www.un.org/Depts/los/convention_agreements/texts/unclos/part5.htm.

¹¹² Ratification date: December 5, 1990. See UN at http://www.un.org/Depts/los/reference_files/status2005.pdf.

¹¹³ ICCAT has 41 contracting parties. See ICCAT at: <http://www.iccat.es/contracting.htm>.

responsible for imposing and maintaining the regime by establishing and implementing conservation and management measures. The headquarters of SEAFO, in Namibia, was opened in March 2005. The Ministry of Fisheries and Marine Resources of Namibia is the interim secretariat.¹¹⁴

Angola is an observer in the Fisheries Commission for the Eastern Central Atlantic Region (CECAF/COPACE/CPACO), a subsidiary body of the FAO, whose secretariat is based in Accra, Ghana. CECAF was created in 1967 to promote optimum use of living aquatic resources through proper management and development of fisheries and fishing operations, and the improvement of processing and marketing. Although it has been important in research and development for the developing coastal states of the region, it has no regulatory function.¹¹⁵

As a SADC member, Angola adheres to the SADC Fisheries Protocol. The protocol establishes a type of most-favored nation clause between SADC and other fishing nations.¹¹⁶ It does not rule out preferential treatment for SADC vessels; as noted, Angola's national law provides for preferential access for SADC vessels to Angolan fishery resources.

In June 2005, Angola and Namibia concluded a bilateral agreement in SADC for training cooperation in fishing and aquaculture; Namibia will offer training facilities for Angolan crews and officers (to operate industrial and semi-industrial fishing vessels), for fisheries inspectors and observers (including presence on Namibian fisheries protection vessels), and for aquaculture technicians, resulting in internationally recognized certificates.

Inter-regional. Angola maintained a fisheries agreement with the European Communities between 1987 and 2004. The two sides have been in negotiation since its expiry, but the EC broke off negotiations in June 2005, on the grounds that Angola's proposal for a new agreement, made in the light of the new legislation, was too restrictive.¹¹⁷ Currently there is no agreement in force.¹¹⁸ In the absence of an agreement, European (mainly Spanish) ship owners have established association agreements with Angolan enterprises. Ten shrimp fishing vessels are permitted to operate in Angola waters for export to the EC. For tuna fishing, operators have established agreements with the Ministry of Fisheries, which accords fishing rights. The deepwater fleet has been reduced from 48 to 35 vessels.

¹¹⁴ Members of SEAFO are Angola, the European Communities, Iceland, Korea, Namibia, Norway, South Africa, the United Kingdom (on behalf of St. Helena and its dependencies of Tristan da Cunha and Ascension Island), and the United States. See SEAFO online information. Available at <http://www.seafo.org/>.

¹¹⁵ CECAF has 33 members. Angola, Portugal, Russia and the UK are observers. See FAO at http://www.fao.org/fi/body/rfb/CECAF/cecaf_home.htm.

¹¹⁶ Article 10 of the Protocol states: 1. State Parties shall, subject to their respective national laws, cooperate in the establishment of harmonized minimum terms and conditions for access by non-SADC-flag fishing vessels to their fisheries resources; 2. the terms and conditions under which SADC-flag vessels fish in the waters of other SADC States shall be no less favorable than those in paragraph 1; and 3. State Parties may consider the joint negotiation of foreign fishing access agreements with a regional or sub-regional dimension, in particular with regard to highly migratory species. See TRALAC at <http://www.tralac.org/scripts/content.php?id=449>.

¹¹⁷ Ministerio das Pescas, Noticias, June 22, 2005, "UE decidiu romper negociações com Angola". Available at <http://www.angola-minpescas.com/Home.aspx?tab=1&tab2=1&news=110>.

¹¹⁸ Europa op.cit.

Protection Against Illegal, Unreported and Unregulated Fishing

Angola is a participant in the regional Monitoring, Control and Surveillance (MCS) Program of SADC and the EU. The program started in June 2002 and will end in April 2006. It is the view that the marine fisheries resources of the region are at risk of overexploitation, threatening the environment and undermining the societies and economies that depend on these resources. The objective of the program is to improve management of marine resources by establishing a national capability for efficient, cost-effective and sustainable MCS and establishing mechanisms for effective regional cooperation.

The extent of illegal, unreported, and unregulated fishing in Angolan waters is difficult to determine.

Tariff Protection

Angola's tariffs on fresh fish are high, reflecting protection of the sector. On an HS basis, 94 of 96 tariff lines for fresh, chilled or frozen fish (HS chapter 03) are taxed at 20 percent, with consumption tax adding another 10 percent; for most processed fish, the tariff is 15 percent, again with consumption tax at 10 percent.

Health and sanitary regulations on fisheries are in Decrees No. 297/96, on preparation and sale of salt for human consumption; 13/99, establishing standards of production and quality inspection for fish products; 14/99, establishing a regular inspection program for fishing vessels and fish processing plants; Executive Decree 37/02, approving a monitoring system for health and sanitary quality of fish products; and Joint Executive Decree 44/02, establishing chemical and microbiological standards for analysis of fish products. A further regulation on health and sanitary requirements for fish products, including fish farming, is in process of being published.

EVALUATION

Advantages

The abundance of marine fisheries resources in Angola provides a solid base for development. In the years immediately before independence annual catches were normally about 300,000 to 600,000 tons per year. In recent years, catches have been 200,000-300,000 tons per year, the result of conservation measures imposed by the government. Fisheries may yield higher catches in the years to come if measures taken to permit the recovery of certain resources succeed. Others argue that overfishing and hydroclimatic changes have greatly reduced the fisheries potential, which has now been estimated to be about 360,000 tons.

Angola's potential lies not in developing unexploited marine resources (except for offshore tunas), but in taking advantage of resources already being fished. Developing currently underused inland fisheries resources and aquaculture also holds promise.

Angola has fine natural harbors that provide excellent protection and make it possible for fishing vessels to lie alongside jetties to unload their catches. As petroleum producer, Angola

should not have difficulty supplying the fishing industry with diesel fuel provided that refinery facilities are available. Angola's road system, when in good condition, is considered adequate for transporting fish from principal ports to distribution centers in coastal and inland provinces. Finally, the traditional production of salted and dried fish makes it possible to supply the remote areas with minimal investment in distribution facilities.

Constraints

However well managed, fisheries for small pelagic species, which constitute the bulk of Angola's production, are subject to wide swings in resources as hydroclimatic conditions vary. The fishing industry imports almost all inputs, except labor, diesel fuel, electricity, and fresh water—though the supply of water and electricity are unreliable in some ports. Luanda, which is undoubtedly the principal source of domestic demand for fish, does not have a dedicated wholesale fish market.

Potential for Growth and Market Share

In market terms, Angola has two groups of species: low-value pelagic fish and high-value demersals. The small pelagic species make up by far the greatest part of the Angolan catch. These are chiefly horse mackerels (*trachurus spp*) and sardinellas (*sardinella spp*). The principal export markets for horse mackerels are West African countries in the Gulf of Guinea, especially Nigeria and the Ivory Coast, Cameroon, Liberia and others. The fish are normally sold frozen in whole round form in blocks of 10 or 20 kg. The size of the fish and the quality of the packaging are important in these markets. In general, bigger fish command higher prices.

Major sources of supply to these African markets are Western European fisheries, chiefly of Atlantic mackerel (*scomber scombrus*). The Netherlands, especially, has a fleet of very large and efficient mid-water trawlers that freeze catches onboard, so that they can offer mackerel of excellent quality at low prices.

There is little demand for frozen sardinella exports, though sardinellas are one of the species used in the production of Angolan salted and dried fish, some of which has traditionally been exported to neighboring countries.

Canned tuna was produced in Angola, but it is reported that canneries have closed for lack of raw material. It is highly unlikely that Angolan canners could compete in export markets with FOB prices of less than US\$20 per case of 48 x 6.5 oz. cans of chunk light meat tuna in brine from canners in Thailand and other Southeast Asian countries. Angolan canners also used to produce small quantities of horse mackerel in 15 oz. cans. It is unlikely that Angolan canners could compete in export markets with FOB prices of US\$10 or less per case of 24 x 15 oz. cans of jack mackerel in brine from Peruvian canneries.

The principal demersal resources are hakes (*merluccius spp*), breams, deepwater shrimp, and deepwater crab. These species in the past were frequently caught by foreign vessels and transshipped at sea for delivery to European markets. Although the catches took place in

Angolan waters, the shipments were not considered exports from Angola and did not appear in Angolan export statistics.

Product Preparation

Handling at Sea. The major part of the catch consists of small pelagic species. Since the ban of mid-water trawling, these fish are now mostly caught by purse-seine vessels, almost none of which have any mechanical means of conservation onboard. Neither do they use ice. Fish handled in this way will not normally be of a quality suitable for export, except possibly when processed into fish meal. Most of the mid-water trawlers, as well as trawlers catching demersal species, freeze their catches at sea. Provided they have been correctly handled, fish and crustaceans frozen at sea should normally be acceptable for export. In some cases, products frozen at sea fetch prices that are higher than prices obtained for the same products processed in a shore facility.

Processing. Even though production of frozen fish reached 57,821 tons in 2001 and 48,624 tons in 2004, it was reported that companies were very inefficient. The advisability of rehabilitating or expanding capacity or constructing new facilities will depend on a detailed review of facilities.

Salting and drying processes are primitive and unhygienic, but meet the requirements of buyers in other African countries. The recent increase in production is reportedly due to rising investment in artisanal fisheries. Displaced persons looking for subsistence activity in coastal areas are also involved in salting and drying.

The three existing canneries are reportedly run down, with old technology. They have problems in obtaining fish, tin plate, and other materials. Even if refurbished, their economic viability will be questionable. As with freezing facilities, detailed study is required to assess the viability of rehabilitation or new construction.

One company in the province of Namibe produces fish meal and fish oil. The installations are reportedly in very poor condition. Production declined from 16,046 tons in 2000 to 2,128 tons in 2003, but recovered to 5,367 tons in 2004.

INAIP has studied losses due to the failure to process heads, guts and other offal, which are the residues of the salting and drying. Losses are also incurred when by-catch are dumped. These losses have not been defined in terms of value or quantity. Poor disposal of residue and by-catch are causing environmental problems such as contamination and odor. Small fish meal plants could be installed to process residue and by-catch.

Competitive Position of Exporters

Costs. In considering the viability of exporting fisheries products, one must compare the cost of inputs in Angola with the cost of the same inputs in countries with which Angolan exporters must compete. A detailed comparison of such costs is beyond the scope of this report, but Angola is not likely to have competitive advantages in this regard. Many countries

have much cheaper and more productive labor. Angola's diesel fuel is subsidized so it is cheap in international terms.

Freight. Traditional transportation links exist with EU and other export markets. Given that currently (2005) almost all cargo is inbound (principally, food and beverages) and very little is outbound. There should, therefore, be no difficulty in arranging reefer containers for the export of shrimp and other high-value products.

Incentives. Many countries provide incentives to encourage the development and growth of export industries. These may take the form of assistance in capital investment (long-term loans at preferential interest rates, exemption from duty on imported equipment and materials); in operations (assistance in marketing, access to working capital at preferential interest rates, assistance in the negotiation of freight rates); and in subsidizing export prices (exemption from import duties, tax holidays, cash payments). The National Agency for Private Investment (ANIP) was created to facilitate and stimulate private investment in Angola. Fishing and derivatives are included in the list of sectors with priority for investment.

Disincentives. Angolan exporters of fisheries products must pay export duties of one percent of FOB value and other charges.

RECOMMENDATIONS

- *Establish fisheries export clusters by subsector.* Because Angola's fisheries industry is composed of distinct supply chains (export, import, domestic), establishing a general cluster may not be practical. It will be best to explore clusters by subsector. An initial cluster might consist of individuals involved in exports of fish and fisheries products who are capable of discussing policy issues. The cluster could discuss opportunities for improvement in this part of the supply chain, such as professionalization of the fisheries export business, export market research and development, development and installation of a fisheries database, arrangements for pre-export financing and upgrading of the fleet to improve fish quality. To determine the feasibility of and commitment to establishing an export fisheries cluster, meetings with the Ministry of Fisheries and exporters are recommended. If discussions indicate that a cluster is feasible, the next step would be determine what proposed participants think of the cluster and how willing they are to participate. If cluster formation is deemed feasible, technical assistance should be provided to establish and sustain a cluster.
- *Establish a pre-export revolving fund.* Export fisheries lack working capital. Establishment of a pre-export revolving fund or other form of export financing is worth considering. This could be discussed in the cluster, should one be formed.
- *Study means to reduce losses.* The installation of small fish meal plants to process residue and by-catch into fish meal is being considered. Whether raw material can be brought to the plants in good condition to ensure that high quality fish meal is produced, and whether production will be able to compete in price with imported fish meal remains to be seen. If meal of competitive quality and price can be produced, it can replace imported meal. It is

recommended that assistance be provided to INAIP to study the question of losses and identify ways to reduce them, which could lead to the development of valuable products from current waste.

- ***Identify needs for salt production.*** Angola used to export salt but now imports it. Some projects for recuperation of salt production areas have been undertaken, but much of the equipment is obsolete. If salt production can be increased sufficiently, Angola can cease to import salt and begin to export it again. Assistance in identifying what is needed to upgrade and increase the production of salt is recommended.
- ***Design system for collecting market information.*** The Ministry of Fisheries recently set up a National Directorate of Infrastructure and Market Research to collect information on fish prices. State entities used to distributed fish and fisheries products and were required to report on their activities. Now that the marketing is largely in the hands of the private sector, such information is no longer available to the authorities. The National Directorate of Infrastructure and Market Research should be assisted in designing and implementing a system for collecting and processing fish prices and other market information.
- ***Study feasibility of wholesale fish market.*** In almost every country, developed or developing, wholesale fish markets are an integral part of the domestic market. Angola does not have such markets. It is recommended that assistance be provided to study the need for and the feasibility of wholesale fish market(s) in Angola.

10. Donor Assistance

Angola has long received humanitarian and emergency aid, particularly food aid, to cope with war-induced dislocation and food shortages. Development assistance was simply not practical in insecure zones. As the war ended in 2002 and resettlement became a priority, a substantial portion of emergency shipments were changed into resettlement assistance (e.g., seeds and tools) to help refugees reestablish themselves and to help demobilized troops reintegrate into society and the economy. The government's longstanding inability to reach agreement with the IMF precluded large-scale multilateral and bilateral development assistance for many years. The IMF's approval was withheld pending resolution of the country's macroeconomic instability and the outstanding issue of accounting for oil revenue. These issues have been resolved, but IMF approval has not yet concretized in the form of a Staff Monitored Program or other official, mutually agreed instrument. Nevertheless, major donors have undertaken a variety of initiatives given Angola's obvious progress, the cessation of war, and the reestablishment of government administration throughout the national territory.

Table 10-1 summarizes the main vehicles for donor assistance. The European Commission and the World Bank are by far the largest donors followed by UNICEF, though European and American bilateral donors have a significant presence. Table 10-1 focuses on development aid in general; amounts presented still include a substantial share of what emergency and resettlement aid, as well as projects with varying degrees of relation to trade.

Only a few donors are providing, or have the capacity and interest to provide, trade capacity building in Angola. The UNDP, which manages the IF Trust Fund, has been able to provide additional trade-related assistance to Angola. As noted earlier, it provided a six-month contract for an external adviser to assist with SADC- and EPA-related issues. UNDP remains interested and willing to fund additional trade and economic capacity building activities. Likewise, the EU has an interest in funding trade capacity building in Angola. Through its Trade.com program, it can put a trade adviser in a ministry (e.g., Ministry of Commerce) (Hub and Spoke program). Obtaining this assistance would require only a letter of request from the Ministry of Commerce.

Table 10-1*Development Assistance to Angola from Major Donors (Excluding Humanitarian Aid)*

Country or Institution	Period	Amount (\$ million)	Sectors Targeted
B I L A T E R A L A I D			
France	2004-05	10	Agriculture, education, social reinsertion, geology and mining
Germany	2004-06	8	Basic health, vulnerable groups
Italy	2004-05	36	Basic health and education, water and sanitation, strengthening civil society
Netherlands	2004-05	4	HIV/AIDS, human rights
Norway	2004	9	Basic education, public sector efficiency, strengthening civil society
Portugal	2004-05	30	Basic health, basic and higher education, professional training
Spain	2004	8	Vulnerable groups, basic health, water and sanitation
Sweden	2004	7	Basic health, infrastructure, human rights
Switzerland	2004-05	3	HIV/AIDS, basic health, political governance
United Kingdom	2004-06	36	HIV/AIDS, water and sanitation, transparency and accountability
United States	2004-05	21	Agriculture, health, democracy, private sector development
M U L T I L A T E R A L A I D			
AfDB	2005	1	Basic education, fisheries health, social reinsertion, environment
EC	2004-07	300	Basic education, basic health, infrastructure
FA	2004	4	Strengthening local government, environmental management
IFAD	2004-05	<1	Food security
OHCHR	2004-07	4	Human rights
UNDESA	2004-07	2	Public sector efficiency
UNDP	2005-07	12	HIV/AIDS, transparency and accountability, strengthening civil society
UNESCO	2004-07	9	Basic education, environment management, knowledge and innovation
UNFPA	2004-07	17	HIV/AIDS, basic health, public sector efficiency
UNHABITAT	2004-07	3	Strengthening local government, environment management
UNHCR	2004-07	2	HIV/AIDS, targeted intervention for refugees
UNICEF	2004-07	90	HIV/AIDS, basic education, basic health
UNIFEM	2004-07	0.2	HIV/AIDS, strengthening civil society
World Bank	2004-07	331	Basic social services, social reintegration, HIV/AIDS, macroeconomic management and capacity building, infrastructure rehabilitation and private sector development
WH	2004-06	14	HIV/AIDS, basic health, water and sanitation

SOURCE: World Bank Survey December 2004.

The EU will be financing a full-time trade adviser for the MOC through the Train for Trade Program. In December 2005, UNCTAD did an evaluation and project proposal that will put the adviser in Angola by June 2006. Under this program, trade training modules have been

developed and are ready for implementation. The US\$4.8 million 4-year project is set to begin in 2006. The EU will also finance an EPA impact study for the Ministry of Industry beginning in early 2006. The EU can also finance trade capacity building assistance for the Multi-sectoral group for SADC and EPA, but is waiting for a letter from the Minister of Industry requesting the assistance.

The WTO undertook Angola's first Trade Policy Review in February of 2006 and has undertaken 90 technical assistance activities with Angolan participation from 1998 through 2005. These activities included

- WTO Trade Policy Clinic in 2004
- Creating a national WTO reference center in the Ministry of Commerce in 1998 (and updating the center in 2004);
- A national seminar on WTO agreements in 2000;
- Seminars on agriculture, TRIPS, services, and SPS measures (the last for the Portuguese-speaking African countries as a group) in 2002; and
- A technical mission on antidumping measures, competition policy, and SPS, as well as a national seminar on negotiating techniques in 2003.

Angolan officials participated in WTO regional or global technical assistance activities in Africa, in Geneva, and elsewhere. In 2004, the WTO conducted a trade policy clinic and a national workshop on the Doha Development Agenda and on customs questions in Angola.

Overall, the amount of trade-related technical assistance available for Angola is impressive. The problem, however, is that much potential assistance is not accessed because the government is unable to respond quickly enough to mobilize the assistance. Where requests are made, assistance is provided (e.g., the SADC adviser and the long-term adviser for MOC).

Trade-related assistance from the Integrated Framework will also increase the amount of technical assistance available. It will be important that an IF facilitator be identified to ensure that available funds are used effectively and efficiently.

Other donors, such as USAID and the UK's Department for International Development (DfID), are providing trade capacity building assistance to the region, but not in Angola. Part of the problem stems from the fact that these donors have not been engaged in trade-related discussions and have not been approached at high enough levels to provide such assistance. For example, DfID funds Overseas Development Institute fellows to provide assistance to ministries in developing countries. Many fellows are in the region and provide excellent trade-related support to government institutions, but none is in Angola. The USAID-funded Southern Africa Global Competitiveness Hub is another potential partner for building trade capacity. Assistance can be requested through USAID/Angola.

The Action Matrix in this report indicates how donor assistance will figure in Angola's efforts to integrate its economy into the global marketplace. The need for assistance in infrastructure rehabilitation is especially strong and is already being addressed. Roads are particularly

important given their extremely degraded condition and the isolation of much of the countryside. Assistance in refurbishing trade-related laboratories and other structures will also be important. Angola will need such facilities to fully meet world market requirements for product quality and to comply with phytosanitary regulations. Capacity building and training are needed in a variety of areas, especially customs enforcement and port operations. Here, improvements need to be substantial and will require training and capacity building to bring Angola up to world standards. Similarly, in business and entrepreneurial activities, the workforce needs training and capacity building to operate in an international business environment.