

# Promoting Economic Diversification and International Competitiveness in Angola

Revised, April 2016

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Report Prepared for UNCTAD

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The authors would like to thank Mussie Delelegnarega for inviting us to write this paper.

## 1. Introduction

Prior to independence in 1975, Angola had a diversified economy with thriving mining and agricultural exports and a sizeable manufacturing sector (Ecobank, 2015). Following the departure of the Portuguese colonists who managed Angola's formal economy, the adoption of Marxist-inspired economic policies, and the start of a long civil war, industries including iron ore, coffee, and manufacturing spiraled down. The escalation in the early 1990s of the simmering civil war completely devastated infrastructure and governance, leaving millions displaced and the countryside covered with land mines. The oil industry was the only sector largely unscathed by the civil war.

The sudden end of the 27-year civil war in 2002 following UNITA leader Jonas Savimbi's death opened the way to a remarkable recovery. The victorious MPLA party was magnanimous towards the UNITA fighters, allowing peace and political stability to return, under the leadership of President Jose Dos Santos. Under the highly professional management by the state-owned oil company SONANGOL in cooperation with international oil companies (de Oliveira, 2014), Angola has become the second largest oil producer in Africa after Nigeria. Angola gained global admiration as one of the hopeful "Africa Rising" countries, with an astounding annual growth rate of 17% between 2002 and 2008 driven by booming oil production at a time of high world oil prices. At the same time, Angola successfully brought down inflation from 109% in 2002 to 7.2% in 2014 and ran budget surpluses over 2010-2014. The poverty rate declined from 62% in 2001 to 37% in 2009. The slowdown of the world economy in the wake of the 2008 financial crisis has entailed a deceleration of growth in Angola to a still quite decent 4.3% over 2009-2014. Transport infrastructure has been substantially rebuilt with new roads connecting the country and a massive construction boom has reconfigured the Luanda landscape with skyscrapers and shopping malls. Angola has attracted a large volume of foreign direct investment (FDI) (\$15 billion in 2014), and accumulated some \$30 billion of foreign exchange reserves as of 2014 (WTO 2015a, 2015b).

Despite this remarkable recovery and restoration of peace and security, Angola faces grave problems. The oil-fueled growth has enabled the government to finance reconstruction activities, but has generated few employment opportunities and the vast majority of the population has benefited little from the boom. Almost all of the FDI is in the oil and gas sector. The poverty rate is still very high and Angola ranked 149<sup>th</sup> out of the 187 countries in the 2014 UNDP Human Development Index (HDI). Life expectancy at birth is a mere 51.5 years and only 42% of the population has access to drinking water. Average education is 4.7 years (UNDP, 2013). Angola has one of the highest levels of inequality in the world with a Gini Coefficient of 55.3 in 2014 (Muzima and Mendy, 2015). Luxury high rises in Luanda stand in stark contrast to sprawling urban shantytowns and widespread rural subsistence farming. Thus, even before the recent collapse in world oil prices, economic diversification was increasingly urgent.

Lower oil prices have darkened growth prospects in Angola, with the economy expected to grow at 3.8% in 2015 and 4.2% in 2016 (Muzima and Mendy, 2015). Inflation jumped to 14 % in December 2015 due to depreciation of the kwanza.

Angola's economy revolves around oil and to a lesser extent diamonds, making it the second most concentrated in the world. Until the recent decline, oil and gas accounted for about 45% of GDP, 96-98 % of exports and 75% of government revenue (CMI, 2014; WTO 2015a). Diamonds provide another 5% of GDP and 1-2% of exports. Manufacturing and agriculture account for only about 5%-7% of GDP each, despite the fact that some 70% of the population is employed in agriculture. Recently, rapid growth of some service industries, notably banking and telecommunications, have slightly reduced the oil-diamonds share of GDP and there are some glimmers of hope for the revival of commercial agriculture.

Angola's vulnerability to fluctuations in world oil prices has become painfully obvious. In addition to volatility of oil revenues, reliance on oil exposes Angola to "Dutch disease" whereby oil revenues lead to currency appreciation that crowds out other tradable goods sectors and, worse, the "resource curse" effects on corruption and rent-seeking. Moreover, as for other minerals, oil production is highly capital intensive, generating few employment opportunities and spillovers to other parts of the economy. Wise use of mineral revenue rents can be a springboard for development, as Botswana has illustrated with diamonds, but most developing countries lack the institutional resilience to resist the misuse of mineral revenues for patronage and wasteful prestige projects (UNCTAD 2008). Thus, the recent decline in oil prices could be a blessing in disguise for Angola by spurring the government to push through reforms promoting competitiveness in sectors such as agriculture, manufacturing, tourism and fishing.

Angola will soon graduate from the United Nations Least Developed Country (LDC) Status and thus lose the associated benefits in the form of trade preferences and aid. Angola has surpassed the Gross National Income (GNI) per capita threshold (US\$ 1,242) defined by the United Nations for inclusion in the LDC category. Angola will be recommended for the second time in 2018 to exit the LDCs group by 2021 (with a three year transition period). Although Angola is lagging on two other criteria-Human Asset Index (HAI) and Economic Vulnerability Index (EVI), its GNI per capita of three times the LDC threshold surpasses the level of the "income only graduation rule". Diversification, structural economic transformation and competitiveness will become more important. The current study will assist Angola in kick-starting the process of building economic resilience through diversification and improved competitiveness.

Economic diversification is difficult to achieve. Petroleum and mineral production is relatively straightforward to develop, with the assistance of multinational companies. International oil companies will operate almost anywhere in the world, even in war zones, regardless of the overall business environment. Attracting investment in labor-intensive sectors such as agriculture and manufacturing is more difficult because investors have much more choice as to where to produce and global value chains will source only in competitive locations (UNCTAD 2008; Golub, Jones and Kierzkowski

2007). Attaining international competitiveness is therefore of paramount importance for diversification. Many African countries have struggled to become competitive outside of minerals and other raw materials. Given the devastation from the civil war and the extreme dependence on oil, the task is particularly daunting for Angola. One possible approach, currently in favor with the Angolan government, involves protection of infant industries in manufacturing and agriculture. However, import-substitution does not have a good track record in Africa and is particularly problematic in Angola given the very small domestic market and the risk that protection will prop up domestic interest groups rather than economic efficiency. Instead, this document argues that an outward-oriented approach in which Angola attracts foreign capital and technology in sectors outside of oil and gas is more promising. Such an export-oriented approach requires a business environment that is attractive to international companies as well as domestic entrepreneurs. Unfortunately, despite some recent efforts, Angola is still ranked among the worst in the world in international comparisons of the business climate.

This paper reviews the opportunities for Angola to diversify its economy for sustainable growth, employment generation and poverty reduction. Section 2 provides an overview of the Angolan business climate. Section 3 focuses more specifically on trade facilitation, particularly the operation of ports and customs. Section 4 examines trade policies and regional economic integration. Sections 5-9 turn to specific sectors: agriculture and particularly coffee (section 5); fishing (section 6); tourism (section 7); manufacturing (section 8); and mining (section 9). Section 10 concludes with detailed policy recommendations.

## **2. Competitiveness and the Business Climate**

As noted in the introduction, Angola has made important strides in moving towards a market economy but growth has been heavily concentrated on oil and diamonds. Diversification requires international competitiveness. Thus, a central pillar of the Angolan government's 2013-2017 development plan is to boost competitiveness.

Competitiveness can be defined in broad or narrow terms (Turner and Golub 1997). The narrow concept of competitiveness refers to a country's costs of production and prices relative to other countries. At a macroeconomic level, that is the real exchange rate. The real exchange rate is the nominal exchange rate adjusted by domestic and foreign price indexes. A real depreciation means a decline of domestic prices relative to foreign prices when measured in the same currency, entailing improvement in price competitiveness that will boost exports and lower imports, stimulating domestic production. Conversely, a real appreciation whereby domestic prices rise relative to other countries tends to reduce the competitiveness of domestic goods. Broader concepts of competitiveness, such as those used by the World Economic Forum's *Global Competitiveness Report* rankings, refer to the general business climate. These broader concepts of competitiveness are particularly relevant for attracting foreign direct investment.

In this section we evaluate Angola's competitiveness in both the narrow and broad senses. We start with analysis of real exchange rate trends. We then turn to assessments of Angola's business climate. Finally, we examine efforts by the government to improve Angola's attractiveness to investors through investment incentives and special economic zones.

## 2.1. Price Competitiveness: the Real Exchange Rate

Macroeconomic and exchange rate policies provide a crucial backdrop for the success of industry-level and other microeconomic policies that are the main focus of this paper. It is widely accepted that maintaining stable monetary and fiscal policies, low inflation and competitive exchange rates are a necessary if not sufficient condition for sustainable growth. There is less consensus on the extent to which capital flows should be regulated and the degree of exchange rate flexibility. Countries should adopt a pragmatic approach to exchange rate policy based on country-specific circumstances (Frankel 1999). While exchange rate policies alone cannot resolve the problem facing the export sector of Angola, they are a crucial element.

Angola's dependence on oil exports makes it vulnerable to the "Dutch Disease" where booming oil exports lead to real exchange rate appreciation, undermining competitiveness of non-oil tradable goods and impeding economic diversification. Government policies, however, can mitigate Dutch Disease effects.

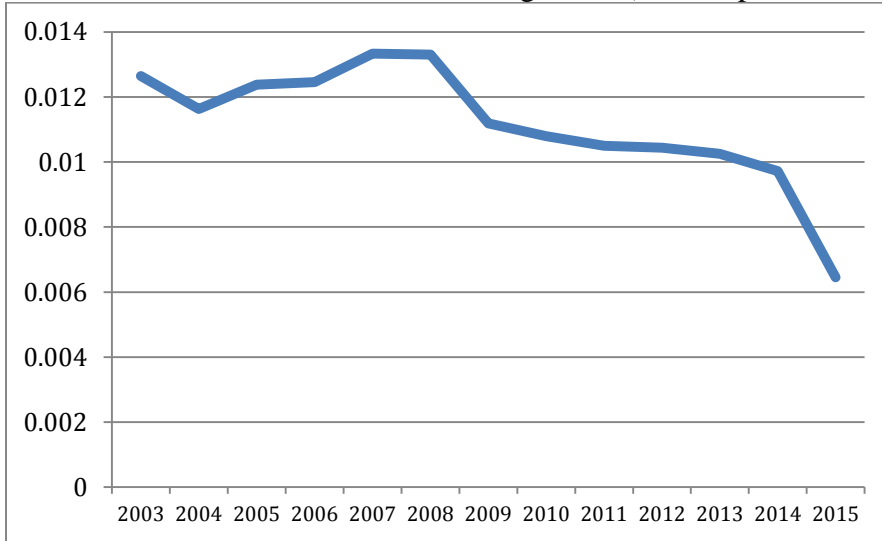
The prescriptions for limiting Dutch Disease effects during resource booms are well known but rarely applied. To prevent real appreciation, governments should limit fiscal spending and place much of the proceeds from resource revenues in foreign currency investments, i.e. build up international reserves (Brahmbhatt et al, 2010). Domestic fiscal spending should be concentrated on investments that boost competitiveness in the long run, particularly for tradable goods industries. Angola partially followed these prescriptions insofar as the international reserve position increased from \$2 billion in 2000 to \$33.2 billion in 2013. The recent crash in oil prices has entailed a drop in reserves to \$24.5 billion as of August 2015.

Angola operates a crawling peg exchange rate regime against the dollar, with the Banco Nacional de Angola (BNA) intervening in foreign exchange markets to keep the kwanza-dollar exchange rate within a band. In the first few years after the civil war, the kwanza-dollar rate was fairly stable (Figure 1). In 2009, when oil prices dropped sharply, the kwanza was devalued by about 20%. From 2010 to 2014, the kwanza was allowed to depreciate gradually. In 2015, with the collapse of oil prices, the kwanza was again devalued sharply, by about one third.

Angola's real exchange appreciated sharply over 2003-2014 as inflation in Angola outpaced the nominal kwanza depreciation (Figure 2). Angola's multilateral real effective exchange rate (REER) and the bilateral real exchange rate of the kwanza against the dollar show similar cumulative real appreciation of some 200% over the post-civil war

period, until 2015. The large devaluation in 2015 entailed a real depreciation of about 30% vis a vis the dollar and about 10% of the real effective rate, but by either measure that still leaves the real exchange rate far above its level of the early 2000s, suggesting that the exchange rate may be overvalued.

Figure 1  
Bilateral Kwanza-US\$ Nominal Exchange Rate (Dollars per Kwanza)<sup>a</sup>

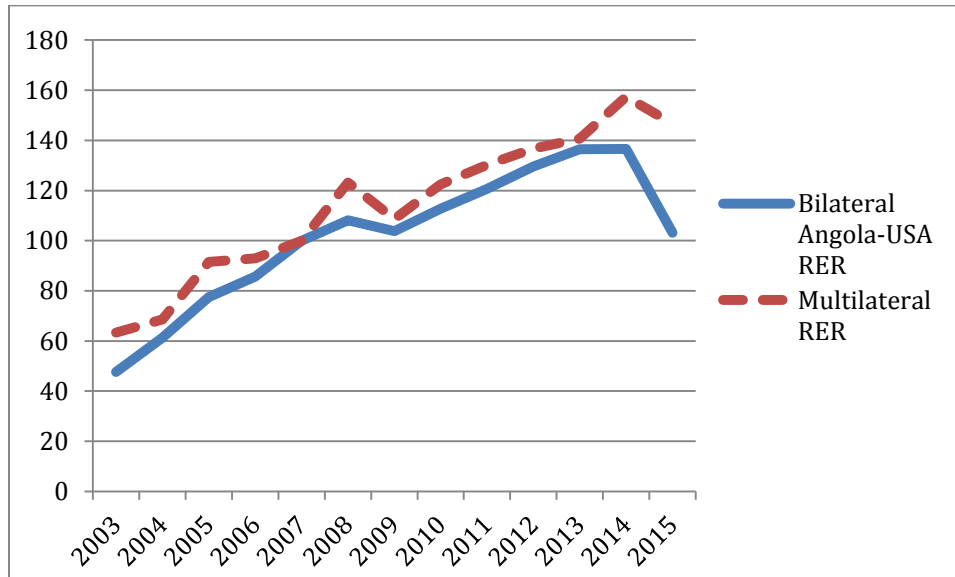


<sup>a</sup>An increase reflects appreciation of the kwanza.

Source: IMF (2015)

Figure 2

Angola Bilateral Vis a Vis USA and Multilateral Real Exchange Rates (RER)<sup>a</sup>  
2007 = 100



<sup>a</sup>Bilateral real exchange rate is based on Consumer Price Indexes. An increase reflects an appreciation.

Source: World Bank *World Development Indicators*, IMF *International Financial Statistics*, Brugel real effective exchange rate database <http://bruegel.org/2012/03/real-effective-exchange-rates-for-178-countries-a-new-database/>, and authors' calculations.

A recent study by the IMF (2015) provides further evidence of kwanza overvaluation. The IMF considers several alternative measures of the equilibrium REER, which imply an overvaluation ranging between about 10 and 50 percent. When using traditional CGER approaches, the IMF (2015) estimates that the REER is overvalued by between 10 and 30%. However, when using a current account panel regression based approach that takes into account the rate of resource depletion and the composition of Angolan exports, the degree of overvaluation of the REER is contingent on forecasts of oil prices. At oil prices as of late 2015, the REER is estimated to be overvalued by 46%, but when considering the five-year moving average of oil prices, it is estimated to be overvalued by 21%.

The spread between the parallel exchange rate and official exchange rate in Angola also indicates that the kwanza is overvalued. Following the drop in oil prices, the parallel market exchange rate spread widened from 15% in September 2014 to 65% in October 2015 (IMF, 2015), even as the BNA devalued the kwanza by 30% against the dollar during the same period. The managed kwanza/dollar rate was a central element of Angola's anti-inflationary policy between 2010 and 2014 but likely contributed to overvaluation.

## Assessment

Angola has responded to the external oil price shock appropriately by allowing the kwanza to depreciate against the dollar, while simultaneously increasing the cost of borrowing in the domestic economy to offset the inflationary pressure created by the depreciation. Nevertheless, the currency remains overvalued.

In the longer term, Angola needs to reduce dependence on oil to escape the effects of volatile oil prices and the negative impact of Dutch Disease on non-oil tradable sectors of the economy, as well as better manage windfalls when oil prices surge.

## 2.2. Angola's Business Environment

The World Bank *Doing Business* report ranks countries on the basis of the relative ease of conducting business on the basis of several categories. Angola's 2016 overall ranking is 181<sup>st</sup> out of 189 countries, a slight improvement over 2015's ranking of 183<sup>rd</sup>. Some of the rankings by topic for Angola and some comparator countries are shown in Table 1.

Table 1  
Angola and Selected Other African Countries' Rankings on the World Bank Doing Business Indicators, 2016 (1 = best, 189 = lowest)

	Angola	Botswana	Nigeria	Namibia	South Africa
Starting a Business	141	143	139	164	120
Construction Permits	108	97	175	66	90
Getting Electricity	166	122	182	76	168
Registering Property	169	70	181	174	101
Getting Credit	181	70	59	59	59
Paying Taxes	141	71	181	93	20
Enforcing Contracts	185	128	143	103	119
Resolving Insolvency	189	56	143	97	41
Trading Across Borders	181	51	182	118	130

Source: World Bank *Doing Business* 2016.

Angola's business climate is rated at or near the worst in the world in most categories. Angola ranks 181<sup>st</sup> out of the 189 countries surveyed when it comes to the ease of accessing credit, as compared to 70 for Botswana and 59 for Nigeria, Namibia and South Africa. Similarly, Angola is one of the worst countries in the world in the enforceability of contracts, ranking 185<sup>th</sup> of the 189 countries surveyed. Botswana, Namibia and South Africa also perform far better than Angola in the ease of obtaining an electricity connection. However, Angola's performance is around the same as the comparator countries on the costs of regulatory procedures required to start a business. In section 3 we examine trading costs in more detail and do not comment on them here.



The World Economic Forum’s Global Competitiveness Report also ranks countries on the quality of institutions and infrastructure. The quality of institutions is defined by the extent of property rights, protection of intellectual property, judicial independence and the strength of auditing and reporting standards. Infrastructural quality is based on the quality of roads, ports, airways and the availability of electricity. On these issues, Angola is again close to the bottom of the 144 countries covered in the 2014-15 World Competitiveness Report, as shown in Table 2.<sup>1</sup>

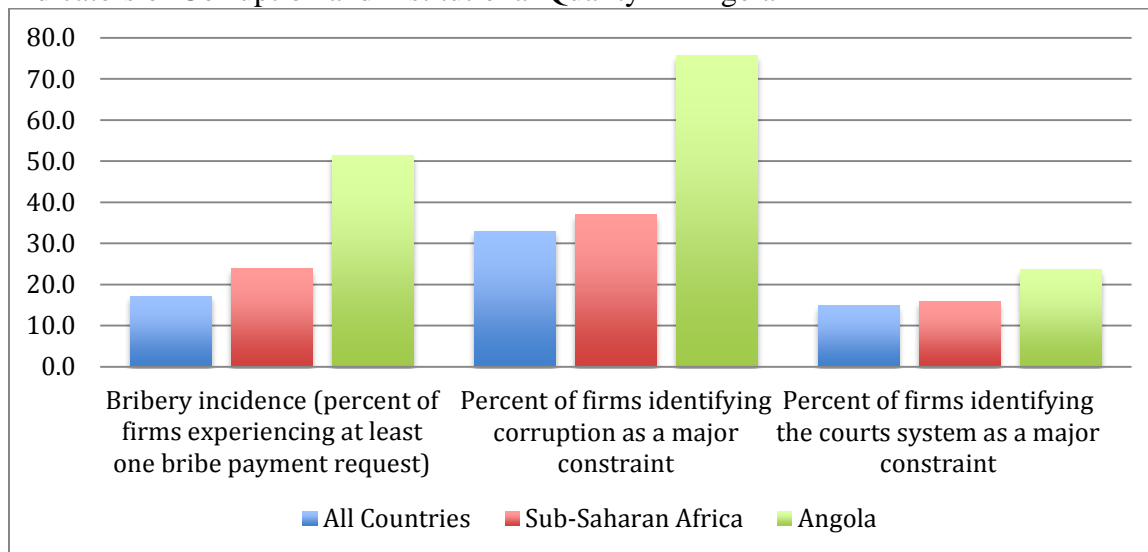
Table 2  
Angola and Selected Other African Countries’ Rankings on World Competitiveness Report’s Measures of Institutional Quality, 2014 (1 = best, 144 = lowest)

	Angola	Botswana	Nigeria	Namibia	South Africa
Institutions	143	39	129	50	36
Infrastructure	139	101	134	66	60

Source: World Economic Forum, 2014

Angola also scores poorly on international comparisons of corruption. Figure 3 shows that a larger percentage of firms viewed corruption and the legal system as a major constraint in Angola than in other countries in Africa and the rest of the world, based on the World Bank’s Enterprise Survey of 2010.

Figure 3  
Indicators of Corruption and Institutional Quality in Angola



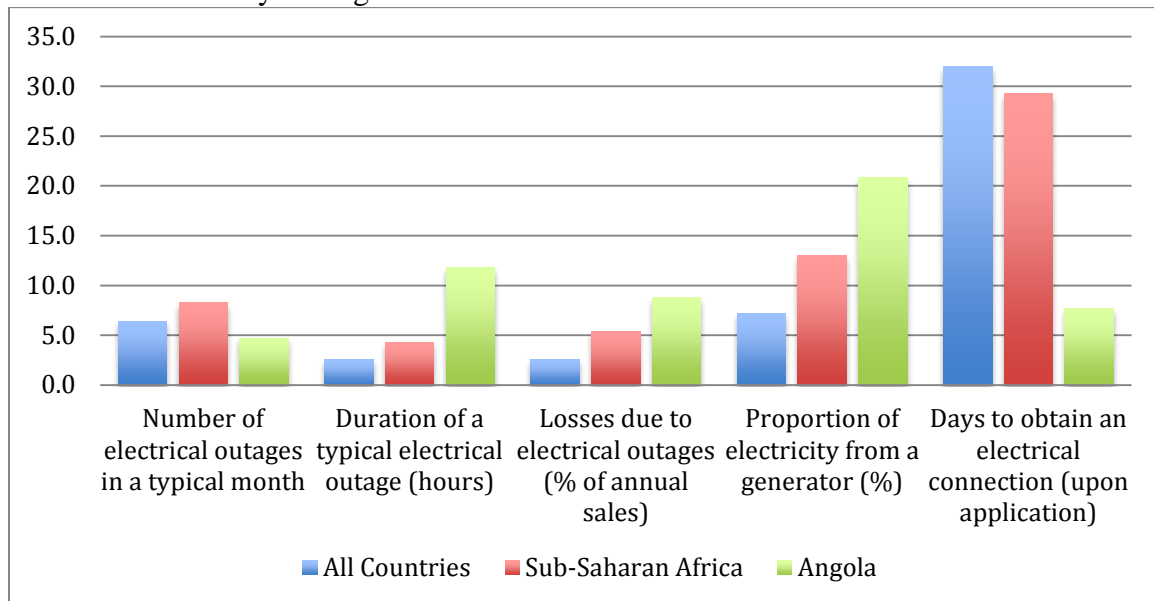
Source: World Bank Enterprise Survey (2010)

The reliability of electricity is a crucial indicator of infrastructure and governance, given the importance of electric power for all aspects of a modern economy and the public good dimensions of electricity supply. The World Bank Enterprise Survey provides several

<sup>1</sup> Angola was not included in the 2015-16 report.

indicators of the availability of electric power (Figure 4). While the number of days required to obtain an electrical connection in Angola and the number of electrical outages per month is lower than the Sub-Saharan African and global average, Angola faces longer average electrical outages and larger losses due to these outages. Thus, firms in Angola must resort more to generators than in other countries in Africa and elsewhere

Figure 4  
Access to Electricity in Angola

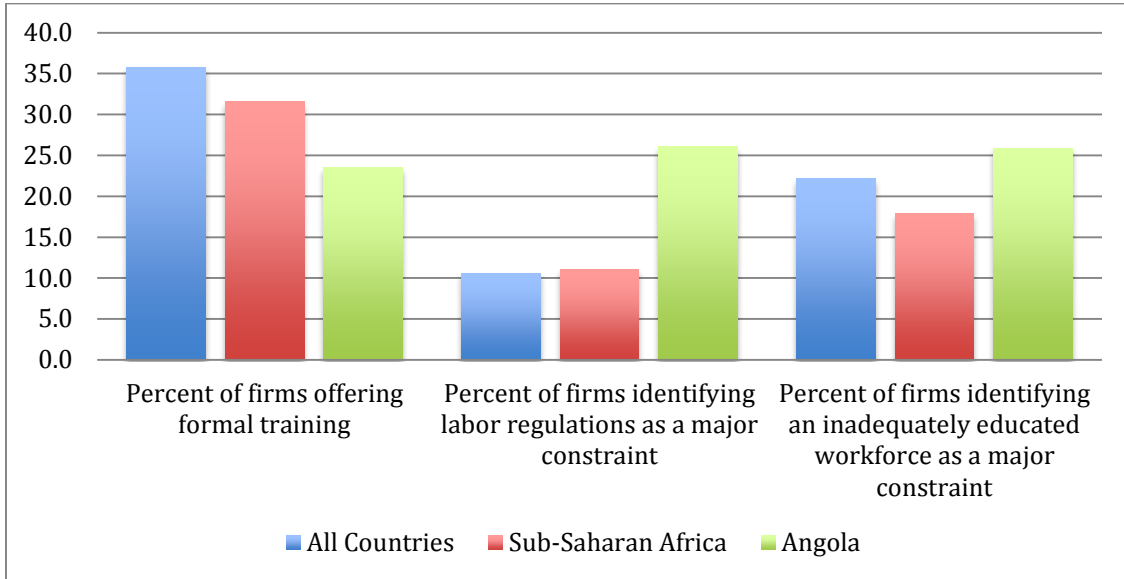


Source: World Bank Enterprise Survey (2010)

Angola’s infrastructure is deficient in other areas too (Pushak and Foster 2011). Despite a concerted effort to rebuild the road network, Angola’s roads are still rated as among the worst in the world, ranked at 138<sup>th</sup> out of 144 countries in the 2014-15 World Competitiveness Report.

The World Bank Enterprise Survey also indicates that a larger proportion of firms in Angola view both labor regulations and the lack of a skilled workforce as constraints than others in Africa and worldwide (Figure 5). Furthermore, a smaller proportion of firms in Angola offer on-the-job training to their employees, which may contribute to the lack of skilled labor in the country.

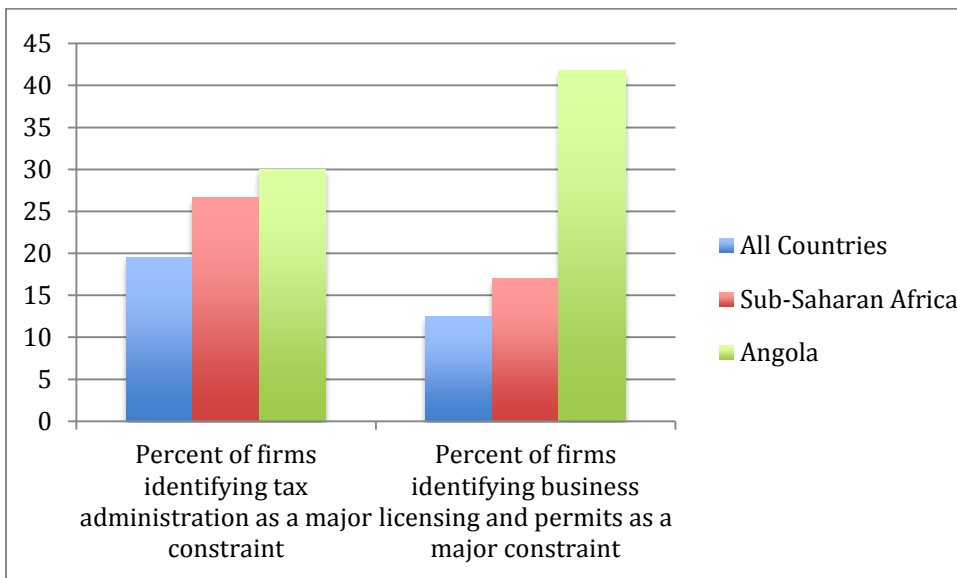
Figure 5  
Business Perceptions of Labor Market Constraints in Angola



Source: World Bank Enterprise Survey (2010)

In addition to the high level of regulation of the labor market, firms also cite regulation in other areas as a problem, as shown in Figure 6 for tax administration and business licensing.

Figure 6  
Business Perceptions of Tax Administration and Business Licensing



Source: World Bank Enterprise Survey (2010)

Foreign investors frequently report other impediments to investment in Angola. The minutes of the meetings of Angola's 2015 WTO Trade Policy Review report that the Korean representative to the WTO called attention to the years-long delays in obtaining visas for foreign investors and the problems in making foreign-exchange transfers. The US and Norwegian representatives also noted the difficulty of obtaining foreign currency for international transactions. Chile's representative refers to repeated inspections of products. China's representative decried the "multiple taxation in investment projects, complicated and lengthy company registration process, slow custom clearance and complex visa application procedures" as well as late payments by the government to foreign contractors (WTO, 2015b, p. 21).

## **Assessment**

It is understandable that Angola's infrastructure and business climate suffer from lingering effects of the civil war in areas such as education and training of workers. However, this is no reason for unusually stringent regulation of the labor market and onerous business licensing and other intrusive government measures that substantially explain Angola's poor score on many Doing Business and Investment Climate indicators. Moreover, Angola has had a large influx of funds from its oil revenues with which it could have addressed some of these issues. While large-scale investments occurred and some progress has been observed, in many cases these investments were not well designed and favored the small middle and upper income segments of the population (de Oliveira, 2014).

The deficiencies in infrastructure, particularly electric power, are not so much due to lack of investment as inefficiency (Pushak and Foster 2011). Pricing is too low and technology inappropriate. Unlike many other countries, Angola's investment in the power sector is almost entirely controlled by the government. Allowing more private sector participation could increase efficiency while reducing the fiscal burden of investment.

## **2.3. Investment Policies**

The challenge for Angola is to channel investments, especially FDI, into sectors outside of the extractive sector. There is very high concentration of FDI in mining and oil sectors at the expense of agricultural and industrial sectors of the country. This section assesses the extent to which investment policies promote private investment including FDI to sectors outside of the extractive industries.

*Investment regulations and incentives.* The Angolan government has prioritized investment in fisheries, agriculture, infrastructure development, telecommunications, energy, water, hotels and tourism (WTO, 2015a). The government also applies special investment codes to the mining, petroleum and financial sector.

In August 2015, Angola instituted a New Private Investment Law (NPIL). The NPIL does not fundamentally alter the broad structure of Angola's restrictions and incentives towards investment, but modified some of the specific regulations. The law applies to both foreign and domestic investors, with some differences in certain provisions. The stated objectives of the new law are to attract more investment by simplifying procedures and enhancing tax benefits. In practice, however, the law is a mix of simplifications and liberalizations on the one hand and some new restrictions and taxes on the other.

The main new liberalization in the NPIL is to allow foreign investments below \$1 million. In other respects, however, the NPIL tightens restrictions, specifying more detailed requirements on "partnerships" between Angolan and foreign firms. In some important sectors (electricity and water supply, hospitality and tourism, transport and logistics, construction, telecommunications and information technology, and social media), the Angolan partners must control at least 35% ownership and be involved in management. This restriction can also be applied on a discretionary basis to other industries such as agriculture and fisheries. In addition, industries that are more than 50% state-owned are not subject to the NPIL.

The NPIL involves a reorganization of institutional responsibilities. A new Investment and Export Promotion Agency (APIEX) replaced the former National Private Investments Agency (ANIP). Previously, ANIP approved investments between \$1 million and \$10 million while the President and the Council of Ministers approved investments between \$10 million and \$50 million, while investments above \$50 million were reviewed by an ad-hoc commission convened by the President. Under the new law, Ministries will review investments between \$1 million and \$10 million while the President will now handle investments above \$10 million. Thus, Ministries and the President are being given more authority relative to the investment promotion agency. A new unit will be created to assist the Ministries and the President in assessing investment projects. The nature of the investment project will determine which Ministry is responsible. This reorganization is supposed to speed up the approval process by reducing bureaucratic procedures. However, it could also reflect an internal power struggle over side-payments associated with lucrative investment projects and it remains to be seen how effectively the new system will work. Some investors express concern that the expertise ANIP developed will be lost, although most of its staff will be absorbed by APIEX.<sup>2</sup>

The state has the authority to provide tax, customs and exchange control benefits to investments, on a case-by-case basis according to some general criteria. The new law has retained the highly discretionary nature of investment incentives in Angola. Various commentators disagree on whether the provision of incentives has been made more or less discretionary and transparent in the new law. Another feature of Angola's law is that the country is divided into zones that are eligible for somewhat differing exemption periods from import taxes, capital gains taxes and property transfer taxes. The zones also

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<sup>2</sup>[http://www.cliffordchance.com/briefings/2015/12/angola\\_new\\_privateinvestmentlaw.html](http://www.cliffordchance.com/briefings/2015/12/angola_new_privateinvestmentlaw.html); <https://home.kpmg.com/xx/en/home/insights/2015/09/tnf-angola-tax-incentives-under-new-investment-law.html>; [http://www.fcblegal.com/xms/files/PDF\\_Rotate\\_Angola.PDF](http://www.fcblegal.com/xms/files/PDF_Rotate_Angola.PDF)

face different waiting periods after which profits can be repatriated (WTO, 2015a). Previously, there were three zones; under the new law there are only two. In setting the level of tax incentives, the NPIL directs the government to consider the location of the investment, its total value, the number of jobs created, the share of Angolan ownership, the extent of exporting, and domestic content.

Repatriation of profits is now allowed without restrictions, but subject to an additional tax depending on the amount repatriated relative to the amount invested directly by the company (as opposed to funds borrowed in Angola).

Angola's reliance on discretionary tax incentives is problematic. Incentives can be costly in lost fiscal revenue and spur corruption. As Fjeldstad, Jensen and Orre (2012) note in their analysis of Angola's tax system:

Although it is not uncommon that countries use the tax system to try to attract investments, research shows that tax incentives in the form of lower rates, tax holidays and exemptions, only have negligible impacts on potential investment decisions. Other factors such as the market potential, infrastructure (roads, water, and electricity), red tape, political stability and long-term predictability are most important for investors. In Angola these other factors seem overwhelming..... In this situation, generous tax incentives to specific industries and sectors are likely to lead to large revenue losses and distorted competition.

*Special Economic Zones.* Special economic zones (SEZs) are another way to stimulate industrialization: designate an area for industrial production that benefits from tax breaks and exemptions from regulations. In some cases SEZs have been successful, as in China, but in Africa have often yielded disappointing results due to general deficiencies in the business climate that the SEZs do not adequately address (Farole, 2010). Angola has made Zona Economica Especiales (ZEEs) a centerpiece of its industrialization strategy, initially in the Luanda, Benguela and Cabinda provinces (Nathan Associates, 2007). ZEEs were subsequently proposed in 2013 for the regions of Bom Jesus, Lucala, Futila and Caala (Abrantes, 2014). The main SEZ is Luanda-Bengo, with state-managed operations that eventually will be opened to private participation. ZEEs were touted as producing a range of products that would reduce Angola's dependence on imports (de Oliveira, 2014).

Critics of the ZEE strategy assert that it is unlikely to be successful in promoting industrialization for four main reasons (de Oliveira, 2014):

1. The supply of electricity is erratic and production will likely require expensive generators;
2. Several of the industries in the ZEE produce final goods that require imported inputs, which will raise costs in view of Angola's costly and slow trade logistics;
3. Products were selected on the basis of prestige rather than what Angolan firms can produce efficiently and consumers want to purchase;
4. Costs of production in the ZEE are very high.

De Oliveira's (2014) widely acclaimed book on Angola cites the Luanda ZEE as the epitome of Angola's grandiose economic projects that benefit the elites but fail in terms of efficiency and employment creation. According to De Oliveira's research, contracts to build and operate the ZEE were provided to powerful figures close to the government and military with no transparency or accountability. Also, factories were in some cases purchased second hand at very high prices with accompanying equally costly management contracts.

Regardless of the accuracy of some of the claims about insiders' roles in profiteering from the ZEE, it is clear the special economic zones work only if the business climate is generally conducive to firms producing at or close to internationally competitive levels. The success of the ZEE and Angolan diversification more generally hinges on prosaic but difficult improvements in the investment climate, as discussed above and in the next section.

### **Assessment**

Most sectors are partially open to foreign investment in Angola but face substantial obstacles in doing business. The highly discretionary and non-transparent nature of incentives in Angola could be advantageous if applied judiciously. However, it also opens the door to favoritism and corruption. There is considerable evidence that simple rules for taxes and subsidies are generally preferable, particularly in the Angolan context. In addition, subsidies and tax breaks are costly in terms of lost revenue. The effects of the NPIL are unclear as it involves some additional restrictions and retains the highly discretionary provisions of the previous system. Angola should eschew subsidies and elaborate schemes such as the ZEE in favor of improving the general business environment.

### **3. Trade Facilitation: Port and Customs**

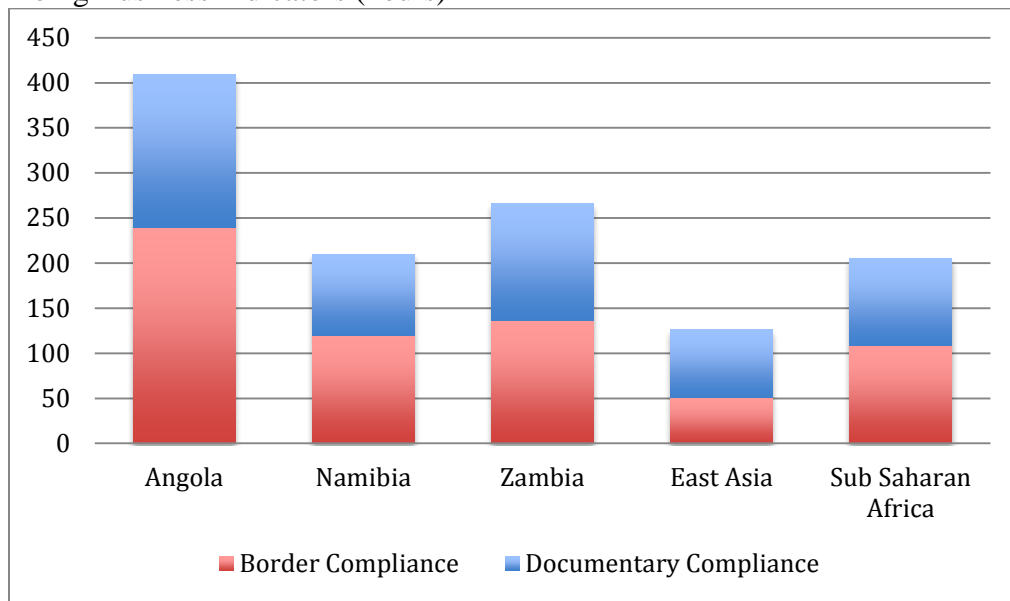
Trade facilitation is increasingly recognized as a crucial institutional determinant of global integration, along with trade policies. If ports function poorly and customs administration is corrupt, trade is inhibited and foreign investment in footloose labor-intensive industries is likely to be reduced (Golub, Jones and Kierzkowski, 2007).

As in other areas of the *Doing Business* (DB) indicators discussed above, Angola scores poorly in international comparisons of "Trading Across Borders", ranking 181<sup>st</sup> out of 189 countries in 2016, based on measures of the time and cost of importing and exporting. The World Bank has developed new and improved measures of the impediments to international trade for the 2016 edition of the DB. Figures 7-10 summarize the findings of the DB Trading Across Borders, depicting the time and cost of importing and exporting in Angola and a few other comparable countries and regions. Both time and cost dimensions are in turn broken down into border compliance and documentary compliance categories. Documentary compliance refers to the paperwork

required to complete a transaction; border compliance pertains to the time and cost associated with crossing borders. There is partial overlap in the two types of regulatory compliance because the cost of crossing a border includes the time preparing documents at the border. Thus the sum of the two types of compliance overstates the total time or cost involved, but provides a useful way to compare countries.

The DB indicators reported in Figures 7-10 suggest that exporting and importing in Angola is very costly and time-consuming even in comparison to other Sub-Saharan economies and more so relative to East Asian developing countries.

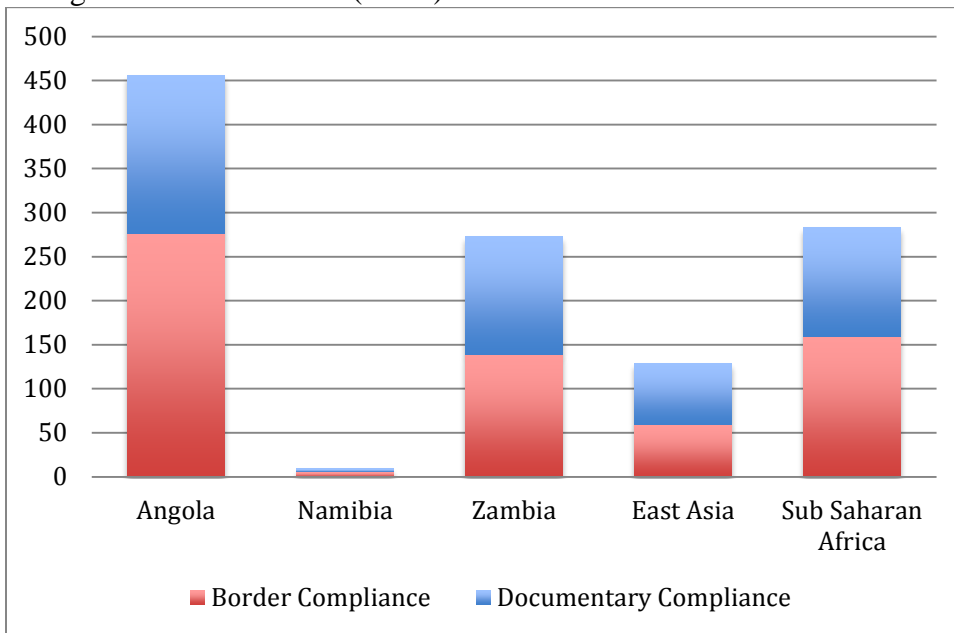
Figure 7  
Time Involved in Exporting, Angola and Comparator Countries/Regions, Based on 2016 Doing Business Indicators (hours)



Source: World Bank *Doing Business 2016*.

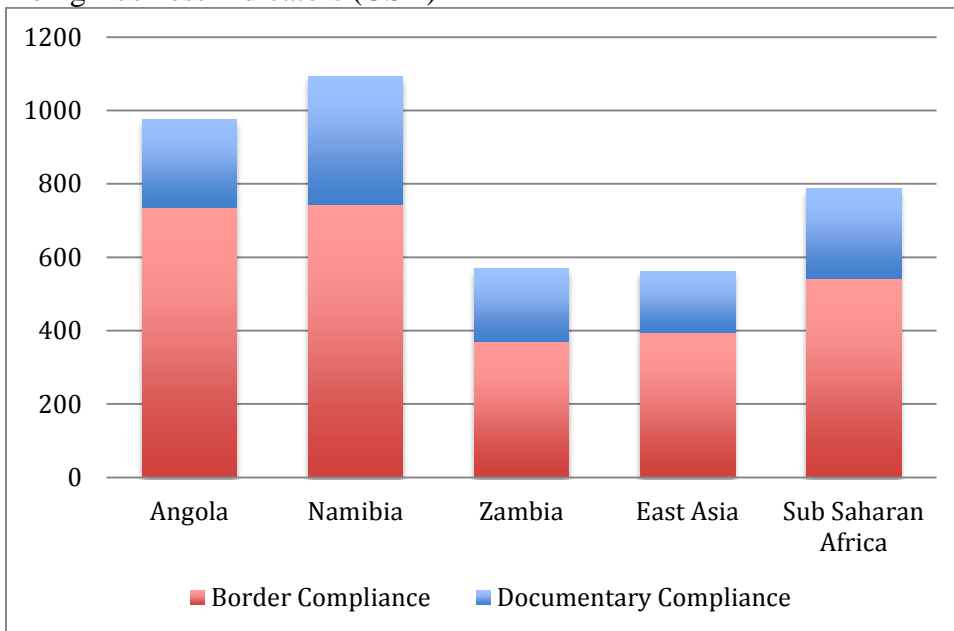


Figure 8  
Time Involved in Importing, Angola and Comparator Countries/Regions, Based on 2016  
Doing Business Indicators (hours)



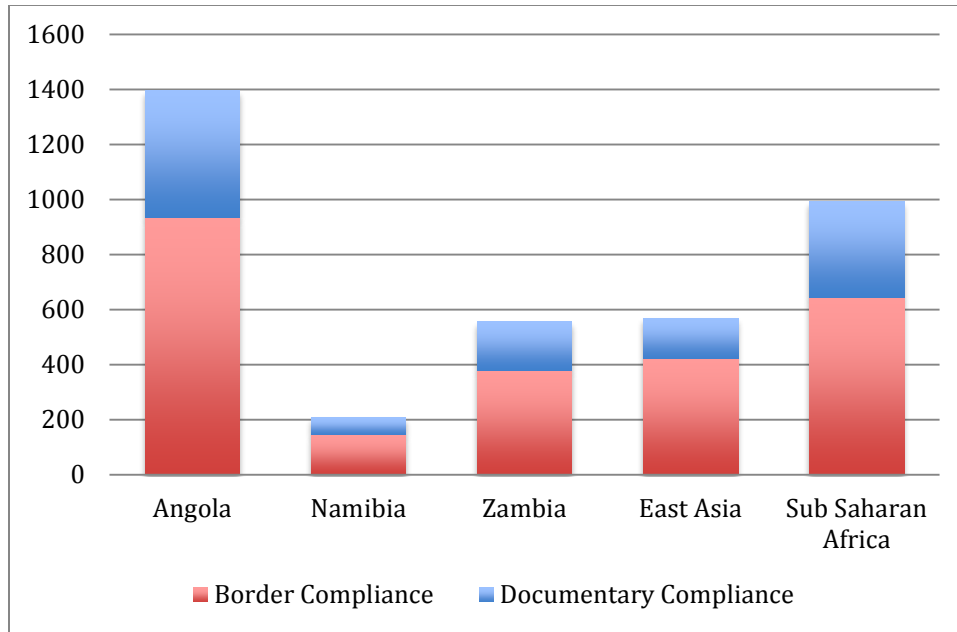
Source: World Bank *Doing Business 2016*.

Figure 9  
Cost Involved in Exporting, Angola and Comparator Countries/Regions, Based on 2016  
Doing Business Indicators (USD)



Source: World Bank *Doing Business 2016*.

Figure 10  
 Cost Involved in Importing, Angola and Comparator Countries/Regions, Based on 2016  
 Doing Business Indicators (USD)



Source: World Bank *Doing Business 2016*.

The WTO Trade Facilitation Agreement of 2013, which is still to be ratified by several members including Angola, aims to harmonize global cross-border customs procedures in order to decrease transportation costs, such as those described by the DB indicators. Since a country's commitment to improve trade facilitation is legally binding, the WTO has created the Trade Facilitation Agreement Facility (TFAF) to help LDC's implement the provisions of the agreement over the medium term. Angola has not yet ratified the Trade Facilitation Agreement and should do so in order to benefit from the TFAF.

In the following sections we examine in more detail how the functioning of ports and customs contribute to the high costs and time involved in export and import procedures.

### 3.1. Ports in Angola

The main ports in Angola are located in Luanda, Lobito, Cabinda, Namibe and Soyo. Luanda, with 11 berths, is the most important port and handles 80% of Angola imports, with a special focus on food product imports, energy trade and the general cargo and

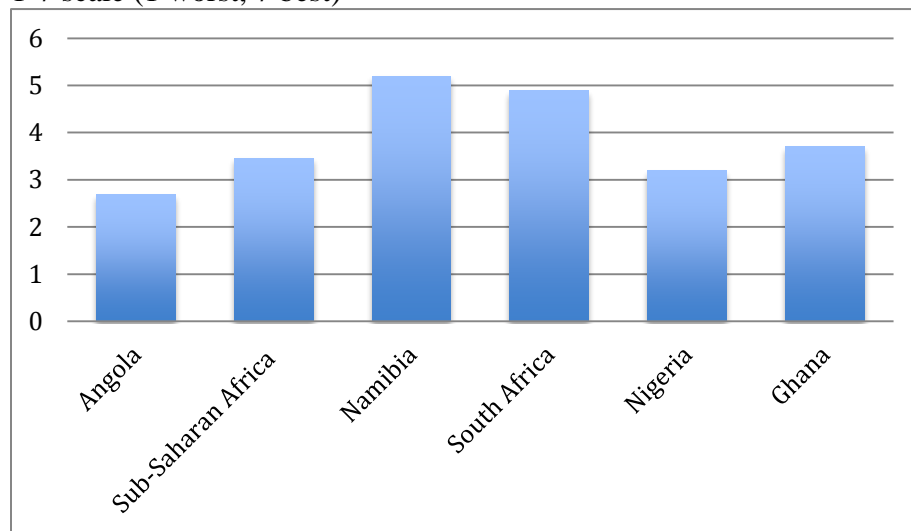
container trade.<sup>3</sup> The next most important port is located at Lobito, which has only two berths (African Development Bank, 2010).

Angolan ports, much like those in other countries in Sub-Saharan Africa are constrained by several structural factors. These include (African Development Bank, 2010):

- Volatile container volumes that often outstrip the development of port infrastructure, with capacity lagging container volume growth
- Long container dwell times cause by poor road and rail linkages into the country, which lead to ports being used for storage purposes
- Low productivity, often caused by aging equipment, insufficient storage and poor administrative oversight
- Bureaucratic management, leading to high administrative costs, overbooking of cargo by shipping lines and lack of interaction between stakeholders

International comparisons of port operations provide generally low scores for Angola's ports. The World Economic Forum Quality of Port Infrastructure (QPI) index rates a country's ports on a 1-7 scale, with a higher score indicating a better functioning port system, based on surveys. Figure 11 compares Angola's QPI to the Sub-Saharan Africa average as well as some other African countries. Angola's ports are rated more poorly than the SSA average. Even Nigeria, notorious for its port inefficiency, has a 3.2 QPI, higher than Angola's 2.7.

Figure 11  
World Economic Forum Index of the Quality of Port Infrastructure, 2014,  
1-7 scale (1 worst, 7 best)



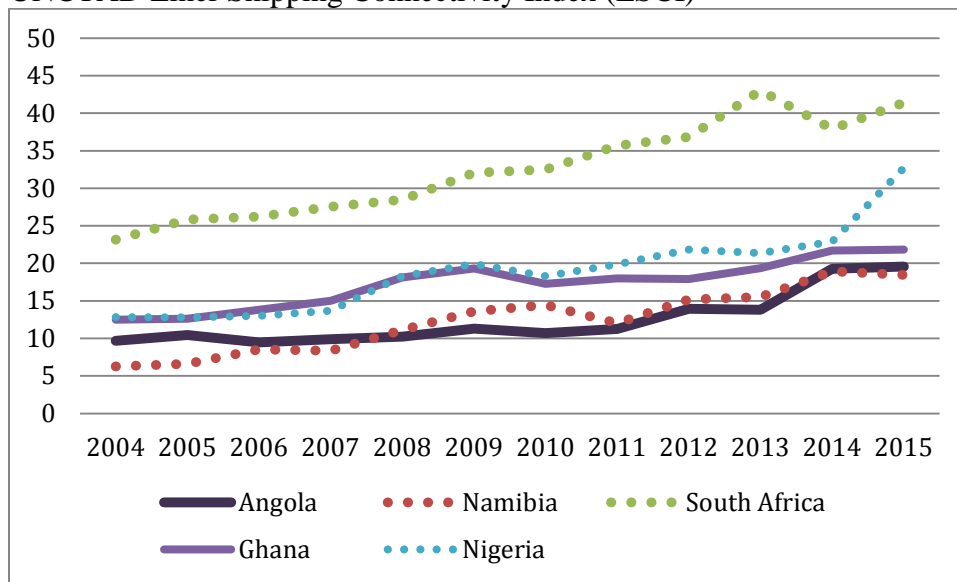
Source: World Bank, World Development Indicators.

The UNCTAD Liner Shipping Connectivity Index (LSCI) provides further evidence on Angolan ports' functioning. This LSCI measures the level of a country's integration into

<sup>3</sup> [http://www.eaglestone.eu/xms/files/IJ\\_-\\_Rebuilding\\_Angolas\\_Infrastructure\\_150114.pdf](http://www.eaglestone.eu/xms/files/IJ_-_Rebuilding_Angolas_Infrastructure_150114.pdf)

global shipping networks based on five measures – the number of ships, the container carrying capacity of the ships (in TEU), the maximum ship size, the number of services and the number of companies that deploy container ships to a country’s ports (African Development Bank, 2010). A higher score indicates that a country’s port system is better integrated into maritime trade networks. Figure 12 displays Angola’s LSCI over the period 2004-2015 compared with other Sub-Saharan African countries. While the LSCI indices for Angola, Namibia and Ghana have followed a similar trajectory, they trail those for South Africa and Nigeria.

Figure 12  
UNCTAD Liner Shipping Connectivity Index (LSCI)



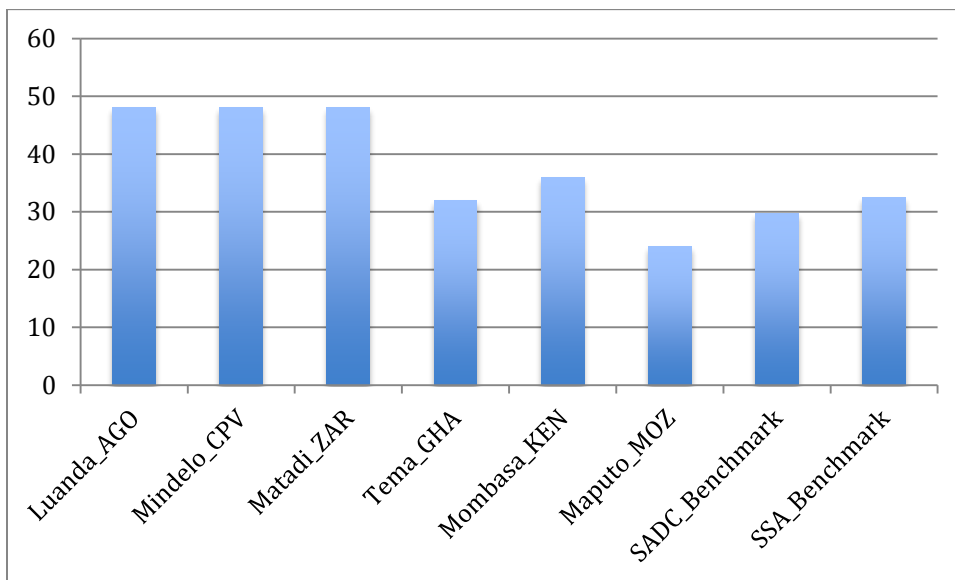
Source:UNCTAD

There are several more specific metrics to gauge port efficiency. They include the following:

- *Turnaround Time*: This is the time that cargo is in transit at the port prior to leaving the country when exported or entering the country when imported. These data are classified by the type of ship (namely tankers, bulk carriers, general cargo and container vessels). The Port of Luanda performed poorly when compared to other African ports and Sub-Sahara African and SADC benchmarks with respect to this metric, when last surveyed in 2008 (Pushak and Foster, 2011). For container vessels (the only available category for Angola), the average turnaround time in Luanda was 48 hours, as compared to approximately 29 hours in the median SADC country and 31 hours in the median Sub-Saharan African country (Figure 13).
- *Container Dwell Time*. Dwell time is defined as the average number of days that containers remain in the port. In this case, Angola’s dwell time of 12 days is better than the SSA average of 15 and roughly the same as the SADC average of 11 (Figure 14).

*Vessel and Crane Productivity.* The Luanda port performed far more poorly when it came to the hourly loading and unloading rates for containers at port berths and by port cranes. It loaded and unloaded 7 containers per hour at a berth compared to 17 for the SADC and SSA benchmarks. Similarly, cranes in the Luanda port handled 6.5 containers per hour, compared to 12 and 11 in the SADC and SSA benchmarks respectively (Figure 15). These deficiencies reflect both to the small number of cranes being operated and the lack of a trained labor force. Angola installed two new cranes at the Luanda port in 2014 and increased the level of training in the workforce, after which unloading times decreased by 80%.<sup>4</sup>

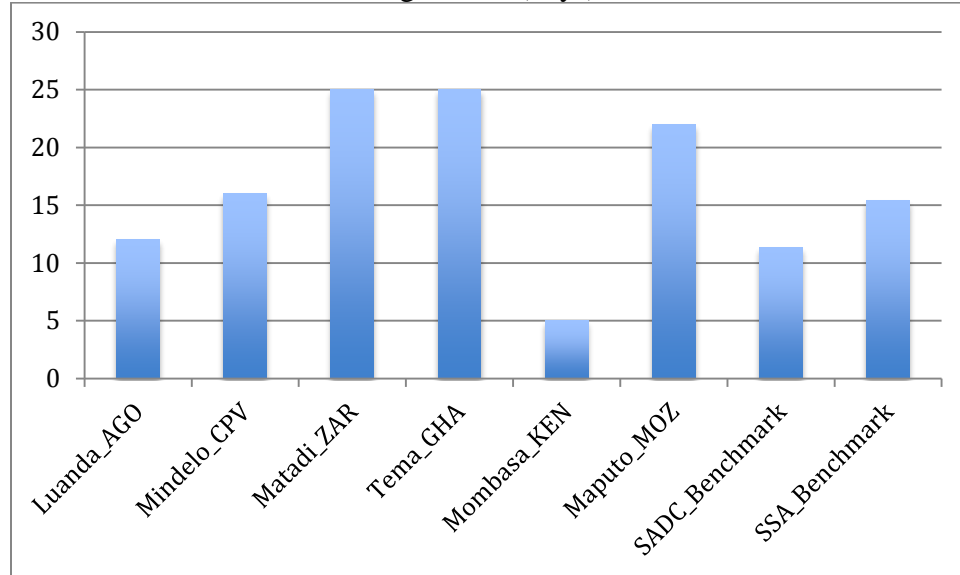
Figure 13  
Average Container Vessel Stay (turnaround time), 2008 (number of hours),



Source: World Bank (2011).

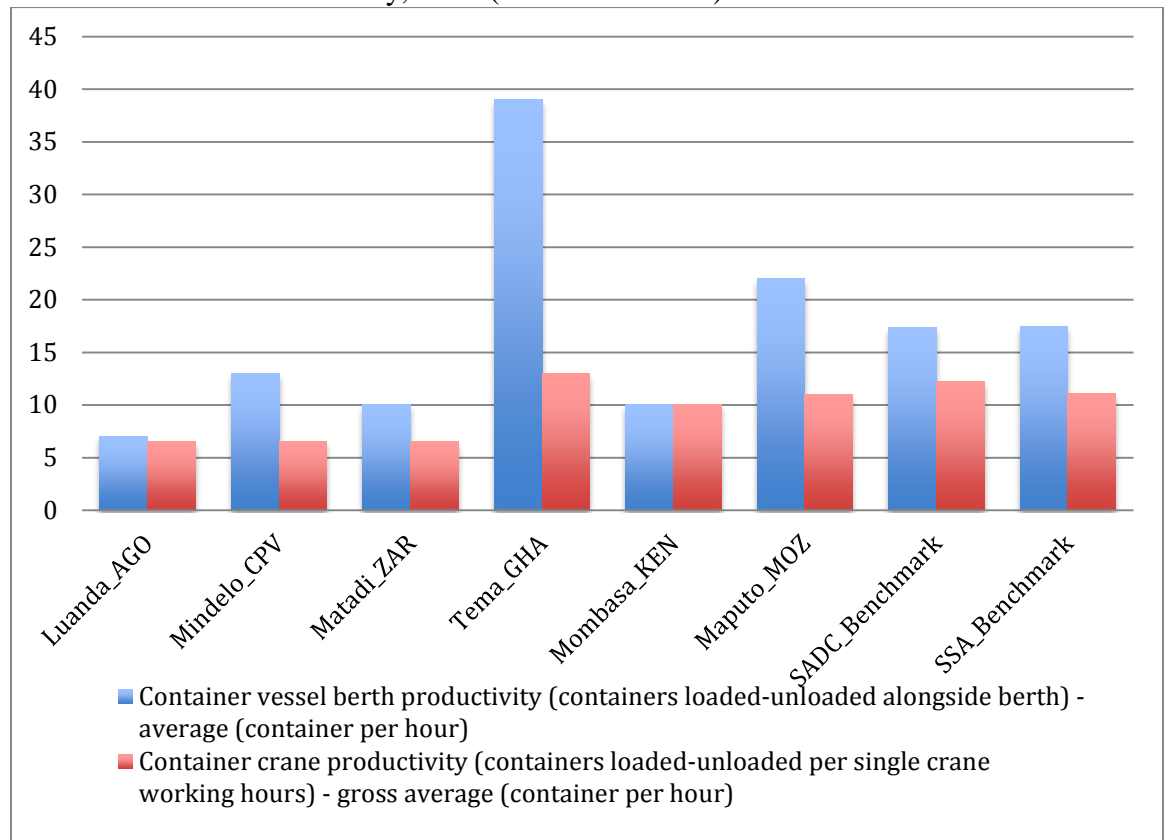
<sup>4</sup> “Waiting time at Port of Luanda reduced to three days”,  
<http://www.macauhub.com.mo/en/2014/04/28/waiting-time-at-port-of-luanda-reduced-to-three-days/>  
 “Angola upgrades port as it aims to be Africa’s busiest hub”  
<http://www.bloomberg.com/news/articles/2014-04-25/angola-upgrades-main-port-as-it-aims-to-be-africa-s-busiest-hub>

Figure 14  
 Container Dwell Time – average, 2008 (days)



Source: World Bank (2011).

Figure 15  
 Vessel and Crane Productivity, 2008 (Containers/Hour)



Source: Pushak and Foster (2011).

Angola is planning to develop three new ports, with the newest deep-water port in Cabinda opening in 2016. The government is also constructing a second port at Barra do Dande, to the north of Luanda, in order to reduce the burden on the present port. This new port is projected to serve container vessels.<sup>5</sup> As mentioned previously, Angola has invested in improving the quality of infrastructure in the Luanda port to reduce transit times for containers and increase productivity. This has resulted in tangible benefits, including vastly reduced turnaround times for vessels in the port. However, Angola's port system continues to be plagued with infrastructural and managerial constraints.

Ports in Angola operate on public port management systems where the government both owns port infrastructure and manages the day-to-day workings of ports. Landlord management systems, where the government owns port infrastructure but leaves the provision of port related services to global private operators, has become the global norm, and would be beneficial in addressing issues related to port productivity in Angola. Complete privatization is difficult to achieve in Africa, given that it involves private ownership of both port infrastructure and equipment. The private sector is unlikely to commit to long-term investments in African port infrastructure since governments will be unable to give them credible guarantees about regulation. Nevertheless, greater participation by the private sector including public-private partnerships (PPPs) in provision of port services is desirable.

### 3.3. Customs Procedures

Customs also contributes to the long transit times and high costs of exporting and importing, although some improvements have occurred.<sup>6</sup>

Customs declarations must be forwarded by an authorized clearing agent, who must be an Angolan citizen. Angola has made progress in computerizing customs procedures with the Asysuda system, and electronic recording is in operation at 35 customs offices covering the main points of commercial import across the country. Since 2009, customs declarations may also be forwarded electronically and electronic submissions accounted for over 80% of declarations in 2014. Angola's risk management mechanism for processing customs declarations provides for three channels: green (clearance with express inspection), yellow (inspection of documents) and red (inspection of documents and merchandise). The share of customs declarations in the green, yellow and red channels were 36%, 35% and 29% respectively in 2014 (WTO 2015a).

Several other reforms have speeded up customs operations. Operators who regularly import large quantities of goods are eligible for accelerated customs clearing procedures. These accelerated procedures allow for the submission of documents and payment of

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<sup>5</sup> <http://www.macaub.com.mo/en/2015/11/20/angola-creates-transport-networks-and-builds-more-ports/>.

<sup>6</sup> United States Trade Representative (USTR) "National Trade Estimate on Foreign Trade Barriers: Angola" <https://ustr.gov/sites/default/files/files/reports/2015/NTE/2015%20NTE%20Angola.pdf>

applicable taxes and duties prior to the arrival of goods. There is also an accelerated process available for goods that require rapid delivery. Angola has abolished its pre-shipment inspection requirement since June 2013.

Notwithstanding these improvements in recent years, Angolan customs administration is still viewed as slow and corrupt by several sources. The 2014 World Economic Forum’s Enabling Trade Index for “Efficiency and Transparency of Border Administration” scores countries on a 1-7 scale where 7 is the best and 1 is the lowest. Angola’s overall score is 2.8, with a ranking of 131<sup>st</sup> out of 138 countries.

Table 3 shows the breakdown of the Border Administration score for Angola and in comparison to the World Best in each category. Angola performs poorly on all categories and is often far away from best practices. For example, it takes 43 days to complete import procedures in Angola compared to only 4 in Singapore. Likewise the number of documents required to import is 9 in Angola and only 2 in several other countries. The cost to export a container is \$1,860 in Angola in contrast to \$450 in Malaysia. While it is to be expected that productivity in some activities is much lower in Angola than Singapore or Norway, there is no intrinsic reason for procedures to be more complex and costly in Angola.

Table 3  
Efficiency and Transparency of Border Administration in Angola  
Rank (out of 138 countries), Score and Comparison to Best Practices, 2014

Category (scale)	Angola		World Best	
	Rank	Score	Country	Score
Customs service index (0-1)	107	0.27	Singapore	0.97
Efficiency of clearance (1-5)	106	2.4	Norway	4.2
No. of days to import	127	43	Singapore	4
No. of documents to import	101	9	Multiple	2
Cost to import (US\$ per container)	120	\$2,700	Singapore	\$440
No. of days to export	128	40	Multiple	6
No. of documents to export	130	10	Multiple	2
Cost to export (US\$ per container)	111	\$1,860	Malaysia	\$450
Irregular payments (1-7)	127	2.2	New Zealand	6.6
Time Predictability (1-7)	130	2.5	Finland	6
Customs Transparency index (0-1)	100	0.57	Multiple	1

Source: World Economic Forum, *The Global Enabling Trade Report 2014*, p. 55.

Similarly, in the World Economic Forum’s 2013-14 Global Competitiveness Report, Angola ranked 143<sup>rd</sup> out of 144 countries in the “Burden of Customs Regulations”.

### Assessment

It appears that Angola’s continuing low scores on measures of trade facilitation despite efforts to reform is due to several features: 1) Procedures remain complex, with onerous



documentation requirements, 2) Transparency is problematic, with corruption still prevalent, as is indicated by the prevalence of irregular payments. 3) Weakness of public administration and 4) Deficiencies in infrastructure.

## 4. Trade Policy and Regional Integration

Angola has articulated a trade strategy based both on import substitution and export promotion. The long-term strategy “Angola 2025” document, completed in 2005, calls for a reduction of the overall import penetration ratio to 80% and to make the country an exporter of agricultural products. To this end, it proposes four types of measures: 1) creating competitive domestic production chains, 2) import substitution; 3) export incentives; and 4) “uncompromising policy of transitional protection...for sensitive and highly sensitive products.” (WTO 2015a, p. 21). In practice, however, Angola provides limited export promotion and recently moved to increase import protection through both tariffs and quotas and has refrained from regional trade liberalization initiatives. Thus, in practice, Angola’s trade policy is primarily oriented towards import substitution.

### 4.1. Import Taxation

In order to promote import substitution, Angola raised tariffs across the board in early 2014. In particular the tariff on imported fruits and vegetables, whether from Europe or neighboring countries, was raised to 50 percent. Table 4 shows that Angola increased the simple average tariff rate from 7.4% in 2005 to 10.9% in 2015. Moreover, as Table 5 also suggests, the dispersion of tariff rates has increased. The new Angolan tariff structure allows for rates as high as 100%.

Table 4. Angola Average Tariff Rates and Tariff Peaks, 2005 and 2015

	2005	2015
Simple Average of MFN Tariffs (%)	7.4	10.9
Domestic Tariff Peaks (% of Total Tariff Lines) <sup>a</sup>	2.7	7.1
International Tariff Peaks (% of Total Tariff Lines) <sup>b</sup>	10.5	24.9
Applied “nuisance” rates (% of Total Tariff Lines) <sup>c</sup>	38.5	56.1

<sup>a</sup>Duties exceeding three times the average tariff.

<sup>b</sup>Duties exceeding 15%

<sup>c</sup>Rates greater than zero but less than 2%.

Source: WTO (2015a)

Table 5 shows the average rates by sector. Agriculture tariffs in 2015 averaged 23.3%, more than double the 2005 level of 10.3%. Tariffs on manufactured goods rose from 7.1% to 10% over the same period.

Table 5 Average Tariff Rates by Sector, 2015

<b>By Sector</b>	Average MFN Tariff (%)
Agriculture	23.3
Fruit, Vegetables and Garden Produce	43.3
Coffee and Tea	27.7
Cereals and Associated Preparations	17.7
Sugar and Confectionary	18.6
Beverages and Tobacco	43.7
Fish and Fish Products	25
Manufacturing	10
Textiles	9
Clothing	12
Metals and Minerals	10.9
Mining	27.7
<b>By Stage of Processing</b>	
Raw Materials	20.5
Semi-Finished Products	7.8
Finished Products	10.5

Source: WTO (2015a).

Angola's tariff regime is also characterized by high average tariff rates on raw materials (20.5%) and finished products (10.5%), with lower average tariffs on semi-processed products (7.8%). High tariffs on raw material imports keep input costs high, discouraging investment in processing industries.

In some cases, the increased tariffs have pushed some of them well above Angola's tariff bindings, in violation of Angola's commitments to the World Trade Organization. For example some vegetables are subject to duties of 50%, more than triple the bound rates of 15%.

#### 4.2. Quantitative Restrictions

Angola bans the import of several used goods, notably cars, engines and tires. It is unclear what motivates this ban since Angola does not have any significant automobile industry. Used vehicles and spare parts are pervasive in Sub-Saharan Africa, catering to low and middle-income consumers for whom a new car is prohibitively expensive. The ban on used cars likely imposes a high cost on the Angolan population.

In January 2015, Angola adopted Joint Executive Decree No 22/15, which provided for the imposition of quotas on certain goods where domestic production covered over 60% of total domestic consumption. Table 6 lists the goods subject to import quotas, all of which are staple items heavily consumed by low- and middle-income households. The Angolan government plans to award import licenses to firms based on several criteria. Firms awarded licenses must import goods covered by the decree at specified entry locations.

The Angolan government has wavered in the implementation of these import quotas, however, in the face of considerable opposition from trading partners, particularly the European Union (EU). In March 2015, the EU addressed a letter to the Angolan government criticizing these quotas and asking for clarifications.<sup>7</sup> Portuguese distributors have also expressed concerns. In March 2015, it was reported in the press that the application of the quotas was “suspended”, although no official document to this effect was issued.<sup>8</sup> As of June 2015, the quotas were still not implemented. Later in the year, however, the quotas apparently were reinstated, with announcements that 11 million imported eggs were to be destroyed.<sup>9</sup>

Table 6: List of Products to be Subject to Import Quotas ,  
Announced in January 2015

Product	Quota
Edible oil (tons)	334,001
Wheat flour (tons)	99,001
Maize flour (tons)	688,000
Salt (tons)	1,000,000
Rice (tons)	457,000
Sugar (tons)	367,438
Water (hectoliters)	150,000
Non-alcoholic aerated beverages (hectoliters)	200,000
Beer (hectoliters)	400,000
Juices (hectoliters)	200,000
Eggs (billions of units)	156,000
Potatoes (tons)	70,000
Garlic (tons)	14,500
Onions (tons)	100,000

Source: WTO (2015a).

In 2015, furthermore, the Angolan government banned cement imports and established a tariff quota for horse mackerel imports.

<sup>7</sup> WTO document G/LIC/Q/AGO/1, March 30, 2015.

<sup>8</sup> <http://www.sogester.co.ao/en/?p=1562#.VoreK8ArKX1>

<sup>9</sup> <http://news.yahoo.com/angola-destroy-11-million-illegally-imported-eggs-193503056.html>

#### 4.4. Regional and Global Integration

##### *Participation in SADC*

Angola's ambivalence about trade is also reflected in its participation in regional trading groups. Angola is a member of the Southern African Development Community (SADC), one of the more effective regional groups in SSA. SADC was created by the Treaty and Declaration signed in Windhoek in 1992 and currently comprises fifteen member nations.

SADC members aimed at eventually establishing a Free Trade Area (FTA) in the region that would spur intra-regional trade and cross-border investment (Sandrey, 2013; Redvers, 2013). The creation of the FTA was supposed to lead to a customs union by 2010 and a common market by 2015. This decision was formalized in the Protocol on Trade (PoT), which was signed in 1996. The transition to an FTA involved phasing down tariffs on several products between 2001 and 2012.

SADC member countries have adopted these measures at different rates, but Angola has stayed out of the process altogether despite approving the accession to the PoT in 2002. After its government accepted the provisions of the PoT in 2002, the SADC Secretariat dispatched a team to Angola to propose a tariff reduction program, followed by an official SADC Trade Mission (Redvers, 2013). SADC officials then published a document detailing a tariff-reduction plan for Angola in 2004. The main proposals made to Angola were (Nathan Associates, 2007):

1. Reduction in Angola's tariff rates on regional imports. More specifically, tariff rates of 35% were to be lowered such that no individual tariff stood at more than 30%. Tariff rates of 2%, 5% and 10% were to be reduced to zero.
2. Higher tariff rates could be maintained on South Africa given the latter's higher level of industrial development.

Angola signed the amendments to the PoT in 2007 and 2008 but hasn't yet ratified the PoT itself or reduced barriers to intra-regional trade. In addition to refusing to implement the proposed tariff reduction regime, Angola recently raised tariff rates, as noted above. Angola remains the largest SADC economy not to have implemented the tariff reductions and customs reforms necessary to enter the FTA. It plans to make a decision about implementing these reforms by 2017 (WTO, 2015a).

Going beyond the FTA, in 2012 several members of SADC signed the SADC Protocol on Trade in Services. The Protocol aimed at the progressive liberalization in six key service sectors: communication, construction, energy-related, financial, tourism, and transport. However, to date Angola has neither signed the Protocol nor taken part in the negotiations.

The Angolan government has cited institutional obstacles in explaining its failure to participate in the FTA. It originally set up a Multi-Sector Technical Group (GTM) to spearhead PoT related negotiations and tariff rollbacks. This group comprised

representatives from various ministries including Industry, Finance, Trade and Foreign Affairs. However, cabinet reshuffles meant that the GTM quickly lost several important members and is practically defunct today (Redvers, 2013). The government has also claimed that domestic customs policy is not compatible with some clauses of the trade agreement. In the end, however, it's clear that the Angolan government is making a choice not to participate in favor of an inward-looking development strategy.

Angola is also a member of the Economic Community of Central African States (ECCAS) but the latter has not made significant progress towards regional trade liberalization.

### ***Preferential Access to Developed Country Markets***

As a least developed country (LDC) Angola benefits from preferential access to markets in Europe, the United States and Japan under the Generalized System of Preferences (GSP). In addition, Angola is eligible for the European "Everything but Arms" (EBA) and the US African Growth and Opportunity Act (AGOA) preferences. Angola's access to the European market could be jeopardized by its failure to sign an initial Economic Partnership Agreement (EPA) between the EU and SADEC members. More importantly, however, as noted in the introduction, Angola will soon have to graduate from LDC status, reducing its preferential access.

### ***Participation in the World Trade Organization (WTO)***

Angola is a founding member of the WTO and has undergone two Trade Policy Reviews (TPRs), the second of which was very recent, in September 2015. The 2015 TPR provided a useful overview of Angola's accomplishments to date and challenges ahead. The main TPR report (WTO, 2015a) noted that Angola is not in compliance with some of its WTO obligations, including the recent increases in tariffs to levels above their bound levels. In addition, Angola has not notified the WTO of its compliance with several agreements such as state trading and has not ratified the WTO's Trade Facilitation Agreement. The minutes of the main meeting (WTO, 2015b) presented a polite but spirited debate on the merits of Angola's turn towards import substitution through increased tariffs and proposed quotas. Several members noted that while Angola had made some efforts to improve the business climate, serious obstacles remained.

### **Assessment**

In many LDCs there is lack of concordance between trade policy objectives and the overall development policy strategy. This applies to Angola where inward-looking policies are unlikely to lead to sustainable diversification and competitiveness.

Angola justifies its reluctance to liberalize on the need for infant industry protection to rebuild its productive capabilities following the destructive civil war. It is true that Angola's agriculture and manufacturing were decimated by the war, but the question is whether barriers to global and regional integration will foster sustainable productivity growth in such a small economy. Infant-industry protection can at times be desirable, if

applied at moderate levels and on a temporary basis and accompanied by other measures to foster productivity and competitiveness. However, import-substitution has rarely been effective in fostering development, particularly in Africa. In most cases, high levels of protection have failed to nurture efficient domestic industries. Highly protected industries have little incentive to enhance their international competitiveness. Moreover, protection raises import prices, harming consumers and manufacturers dependent on imported inputs. In the case of basic consumer goods such as cereals and textiles, the burden falls overwhelmingly on low-income households, worsening poverty (Redvers, 2013). As in other low-income African countries with small populations and high poverty rates, Angola's consumer market is too thin to support the growth of the manufacturing sector.

In addition to the static gains from specialization according to comparative advantage, openness to trade affords dynamic gains from access to high-quality inputs, technical know-how and integration into global value chains that improve productive efficiency. The historical experience of the last 50 years has revealed that integration into the world economy is indispensable in spurring structural transformation (UNCTAD, 2008). Furthermore, import protection tends to damage export competitiveness by raising costs of inputs and contributing to real appreciation. For all these reasons most developing countries, including in Africa, have moved away from import substitution policies.

Political economy considerations in Angola also suggest caution in adopting a protectionist approach to development. As in many developing countries with fledgling institutions and weak governance, Angola already has high levels of inequality and powerful interest groups. In such a setting, protection can often be accorded to those industries with political connections rather than according to economic considerations. An outward-looking strategy based on improving the business climate to foster domestic entrepreneurs and attract foreign investment in areas where Angola has comparative advantage, particularly agriculture, might be a more viable approach to development. Efforts to diversify the economy can also include complementary actions for upgrading exports or products, which goes beyond simple considerations of value-addition. Upgrading includes improving quality, adherence to international product standards and certification regimes, branding of exports and improved handling and packaging (Golub and McManus 2008).

The rising use of import bans and quotas in Angola is particularly worrisome. Prior to 2015, Angola had few quantitative restrictions. Economists consider import quotas more detrimental than tariffs for several reasons. First, unlike tariffs, quotas do not generate revenue for the government, instead resulting in quota rents for the recipients of import licenses. Second, the availability of these quota rents tends to spur rent seeking and patronage activities, since access to a license is essentially a permission to buy cheaply and resell at a much higher price. Given the well-known problems of corruption and governance capacity in Angola, creating more opportunities for distribution of rents scarcely seems like a good idea. Third, quotas more so than tariffs entrench domestic monopoly power because they represent an absolute prohibition of foreign competition rather than just a tax on such competition.

It can be argued that Angola's high dependence on oil warrants unusual efforts to diversify, justifying import barriers. Nigeria is a case in point of the ineffectiveness and perverse effects of high levels of tariffs and quotas. Very high levels of protection in Nigeria have failed to spur industrial and agricultural diversification and have instead led to highly inefficient industries that have been undermined by smuggling of cheaper goods from neighboring countries. See Box 1 for details.

Angola's reticence to participate in SADC trade liberalization inhibits trade with larger economies in the region, particularly South Africa. Angola's exports to other SADC countries as a share of total exports are among the lowest in SADC (Redvers, 2013).

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Box 1: Nigeria's Failed Attempt to Foster Diversification Through Protection<sup>10</sup>

Following independence, Nigeria adopted an import-substitution industrialization strategy that initially succeeded in substantially diversifying its economy. While levels of protection have varied over time, industries that compete with imports have consistently benefited from high levels of protection, including a lengthy list of goods on the import prohibition list, as Table 7 illustrates. The goods subject to very high tariffs and import bans include basic consumer goods strikingly similar to those now subject to quotas in Angola (e.g., rice, sugar, textiles, clothing, poultry and used cars and tires). Also like Angola's reluctance to harmonize its trade policies within SADC, Nigeria has resisted the Economic Community of West African States (ECOWAS) initiatives to lower regional trade barriers.

Despite sustained high levels of protection, Nigerian industry has failed to thrive. Many Nigerian factories have closed or operate at low capacity.

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<sup>10</sup> This box draws on Golub (2012, 2015) and Raballand and Mjekiqi (2010).

Table 7  
Selected Import Barriers in Nigeria, 1995-2013 (tariff rates in percent or bans)

	1995	2001	2007	2013
Beer	Banned	100	Banned	Banned
Cloth and Apparel	Banned	55	Banned	Banned
Poultry meat	Banned	75	Banned	Banned
Rice	100	75	50	100
Sugar	10	40	50	60
Used Cars*	Banned	Banned	Banned	Banned
Used Tires	Banned	Banned	Banned	Banned
Vegetable oil	Banned	40	Banned	Banned

Source: Golub (2015)

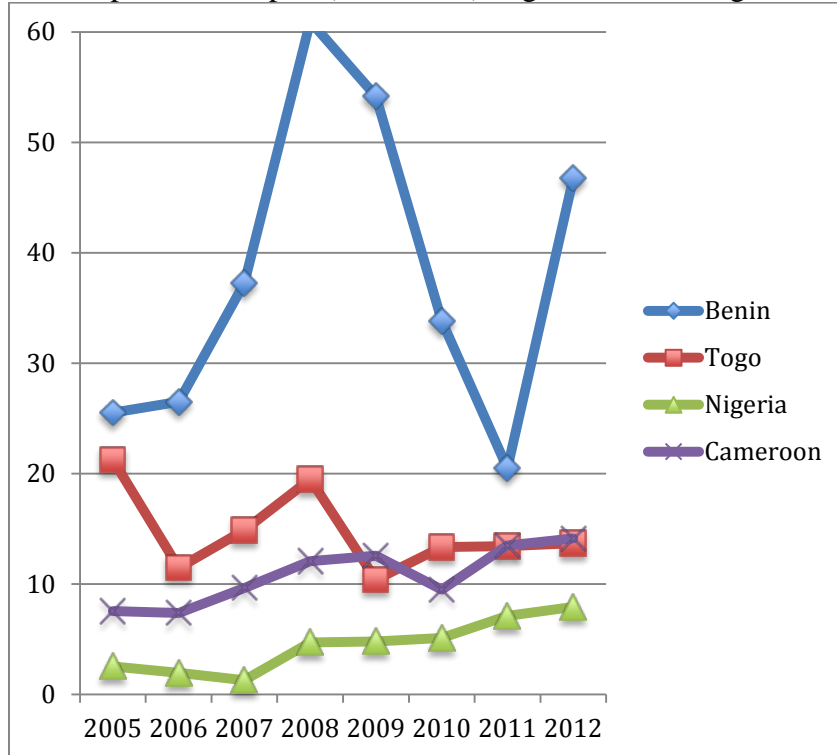
A particularly pernicious effect of Nigeria's high levels of protection has been the emergence of large-scale smuggling from neighboring countries, including Togo, Cameroon and especially Benin. The high level of smuggling can be inferred by the extraordinary level of imports into Benin, Togo and to a lesser extent Cameroon, of those goods that are most protected in Nigeria. Figure 16 shows per capita imports of rice, which is subject to high duties in Nigeria. In recent years, as Nigeria has tightened its restrictions on rice imports, instead of spurring domestic rice production, rice imports have ballooned into neighboring countries and are then diverted to Nigeria. The same occurs for other highly protected items such as used cars and fabrics. It is often alleged that high level Nigerian government officials and powerful traders are heavily implicated in the smuggling trade into their own country. The lucrative smuggling operations could help explain the persistence of these import restrictions despite their manifest failure to boost domestic production.

The underlying problem for Nigeria, like Angola, is that Dutch disease and numerous deficiencies in the business climate inhibit competitiveness of non-oil production. In these circumstances, import protection does not suffice to promote domestic industry and may be counterproductive.



Figure 16

Rice Imports Per Capita (US dollars) Nigeria, Benin, Togo, and Cameroon



Source: Golub (2015).

## 5. Agriculture

### 5.1. Overview of Agriculture

Prior to independence, Angola was a major agricultural exporter and has enormous potential in the sector. In the early 1970s, the country was self-sufficient in the production of maize, sorghum, cassava, millet and beans and an exporter of coffee, cotton, sisal and palm oil among others (FAO, 1996). Today Angola is a net importer of many of these commodities and exports minimal amounts of agricultural produce. Cassava currently is the main crop in Angola with domestic production supplying all of consumer demand, unlike rice, wheat and other cereals, which are imported in large quantities. The agricultural sector in Angola accounts for only 10% of GDP, well below most African economies, but employs close to two-thirds of the population, almost all in subsistence farming (Ecobank, 2015). A mere 10% of arable land is currently under cultivation.

The decline of commercial agriculture started with the departure of a majority of the Portuguese farmers (US Library of Congress, 1991). The Angolan government established state-controlled farms on formerly Portuguese land holdings. The failure of

state control led the government to turn farms into cooperatives in the mid 1980s. The cooperatives were not successful either largely due to the ongoing civil war, which led to widespread landmines, a rural exodus and the destruction of transport infrastructure (Nathan Associates, 2007). By 1991, cash crop production had declined to 5% of its 1975 level; subsistence farming was less affected but also fell by about 30% (FAO, 1996). Some revival in agricultural production has occurred since the end of the civil war, particularly for subsistence production of cassava and maize. Recovery of commercial agriculture in Angola has been constrained by the legacy of the war, general problems in the business climate described above, insecurity of rights to land, lack of irrigation, chronic underinvestment and an absence of adequate rural marketing channels (Ecobank, 2015). Nevertheless, a few new foreign investments, such as a banana plantation financed by China in Caxito, illustrate the vast potential of export-oriented tropical agriculture.<sup>11</sup>

Angola is divided into three main agro-climatic regions - the tropical lowlands in the north, the central highlands and the arid south. Each region is characterized by a unique soil profile and climate suitable for different crops (FAO, 1996, 2006; Kyle, 2005).

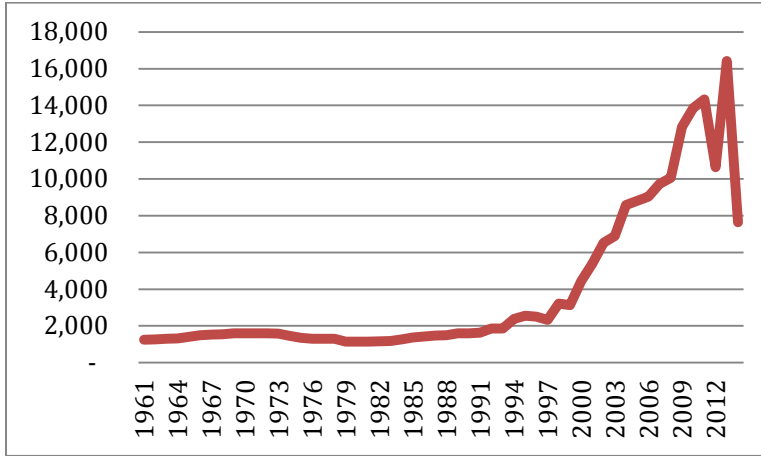
1. The Northern Lowlands have good levels of rainfall and fertile soil. The main staple crop is cassava and groundnuts, beans and maize are also grown.
2. The Central Highlands (Planalto Central) also have ample rainfall (1500-2000 mm per year) and high levels of sunlight, along with moderate temperatures. The staple crop is maize along with beans and potatoes.
3. The Semi-Arid South has a dry season and rather infertile soils so the main occupation is livestock rather than agriculture although maize, sorghum, cowpeas and cassava are grown. 95% of Angola's livestock is raised in this area (FAO, 2006).

Cassava and maize are the two main locally-produced staple crops. Figures 17 and 18 show a strong recovery in these two crops since the end of civil war. Rice production has also increased but remains low (Figure 19). A large amount of maize is still imported and rice imports far exceed production. Angola also imports all of its sizeable wheat consumption. In an encouraging development, fruit production (mainly bananas) has increased sharply (Figure 20), and the government's objective is for Angola to become a fruit exporter (MINAGRI, 2014). However, no export agriculture has emerged yet and coffee production, as discussed below, has not recovered at all.

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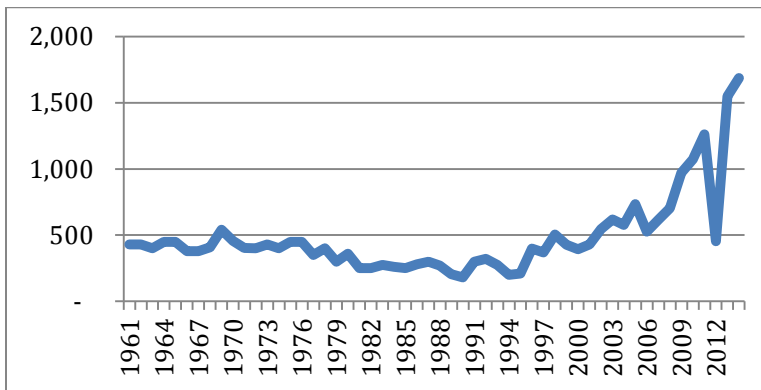
<sup>11</sup> Angola's blooming banana plantations offer new hope for farming”  
<http://www.reuters.com/article/angola-agriculture-idUSL5N0Y620620150519>

Figure 17  
Cassava Production, thousand tons, 1961-2014



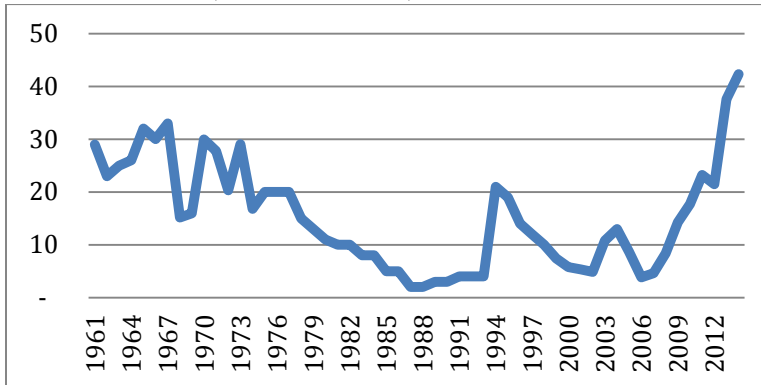
Source: FAOSTAT

Figure 18  
Maize Production, thousand tons, 1961-2014



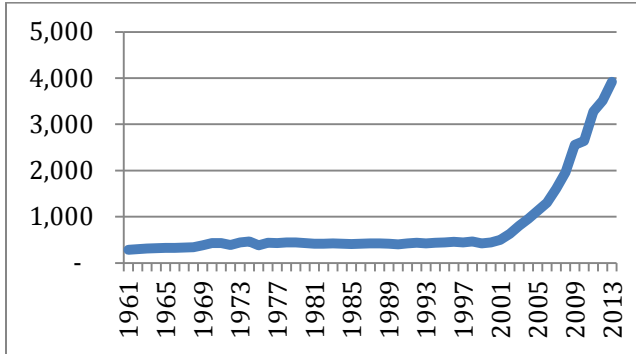
Source: FAOSTAT

Figure 19  
Rice Production, thousand tons, 1961-2014



Source: FAOSTAT

Figure 20  
Fruit Production, thousand tons, 1961-2014

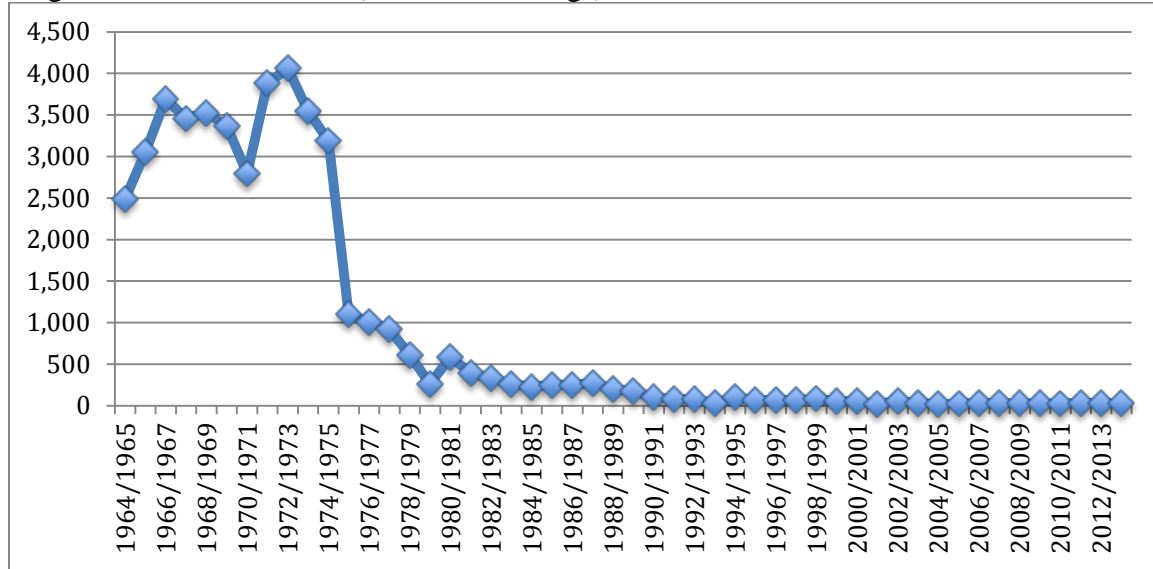


Source: FAOSTAT

## 5.2. Angola's Coffee Sector

To arrive at a better diagnosis and recommendations for export agriculture we focus in more detail on the coffee sector. Figure 21 shows the dramatic rise and fall of coffee production in Angola. In the decades before independence, coffee production rose sharply and Angola became the fourth largest coffee producer in the world (LMC International, 2000). At that time, coffee production was dominated by large Portuguese-owned plantations, which accounted for 70% of Angolan output (Odour, 2005). The Portuguese also organized and provided credit to smallholders. The sector was well structured and productivity was high, at between 450 and 520 kg/hectare. Angolan Robusta coffee was known for his high quality and pleasant taste. The bulk of production was exported, earning foreign exchange for Angola and providing income and employment to large numbers of people, directly and indirectly.

Figure 21  
Angola Coffee Production (1000 60 KG Bags), 1964-2013



Source: : USDA Foreign Agricultural Service.

Even more so than the rest of agriculture, the coffee industry unraveled in 1975 when most plantations owners fled the country and the government nationalized the farms. The inexperience of the new managers, reduced supplies of inputs and exodus of labor led to an 80% collapse of yields to 80kg/hectare. In 1983, the government set up two state-run units, Cafangol and Uigemex, to market and export coffee (LMC International, 2000). However, this structure was dismantled in 1992 when the government liberalized the coffee industry, distributing plantation land to small-scale farmers and allowing private sector participation in the marketing and export of coffee. The civil war precluded any recovery, however. So far, despite the return of peace in 2002, production and export of coffee remains at a very low level.

The sector today consists overwhelmingly of many small landholders and private marketers, which operate alongside Cafangol and Uigemex. Coffee produced in Angola largely comes from the Robusta strain (produced in the provinces of Uige, Kwanza Norte, Kwanza Sul, Bengo and Cabinda), with small pockets of Arabica being grown in Benguela, Bie and Huambo (Odour, 2005).

Small landholders sell dried cherries to intermediaries at farmgate prices. These intermediaries, mostly traders, process the cherries and transport them to exporters in urban centers. Middle and larger landholders often process the dried cherries themselves and directly market the green coffee produced to exporters (Odour, 2005).

The Coffee industry in Angola is overseen by the National Coffee Institute (INCA), a subsidiary of the Ministry of Agriculture. It is responsible for researching and implementing cropping and processing technologies, providing technical assistance to producers, and maintaining common standards for the export of coffee. It performs these three functions through a network of experiment stations, technical brigades and certification agencies (Ministry of Agriculture, 2013). INCA is also responsible for

setting minimum prices for coffee at both farmgate and export levels. The prices are set so that each group of market participants (producers, traders and exporters) receive one-third of the export price (Odour, 2005). Prices are established for both dried cherries and green coffee for both the Robusta and Arabica varieties. The Coffee Development Fund (FDC) provides financial assistance to producers in the sphere of internal marketing, production, and professional training.

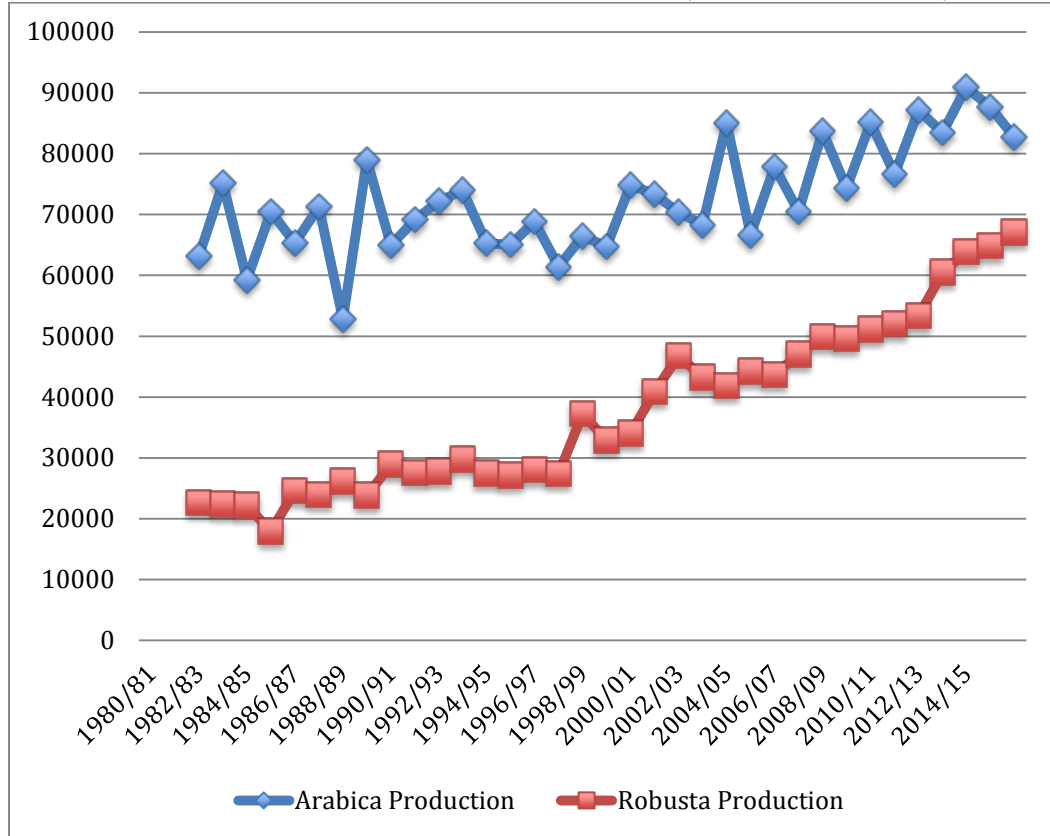
Notwithstanding the lack of recovery so far, coffee has immense potential in Angola due to numerous competitive advantages:

1. The underutilization of arable land resources well suited for coffee cultivation.
2. Rising demand in the Middle East, Europe and North America.
3. Angola's agro-climactic zones facilitate the cultivation of both Robusta and Arabica, the two major varieties of coffee sold on international markets.
4. Improved organization would yield large productivity gains in the coffee sector.
5. Angola's coffees remain recognized for their quality.

Angola is well positioned to take advantage of recent trends in global coffee markets. The two main varieties of coffee traded on global markets are Arabica and Robusta. Arabica is considered the superior of the two and is produced across East and Central Africa and South and Central America, with Brazil being the largest producer. Robusta, considered inferior in flavor, is produced across South East Asia, with Vietnam the largest producer (Gro-Intelligence, 2014). Robusta production has been growing much faster than Arabica production. This long-term trend has been attributed to several factors, including the adverse impact of the financial crisis on Arabica consumption in Europe and America, the rise of Asia as a consumer of coffee and the increased demand for instant coffee across the globe (BNP Paribas 2014, Gro-Intelligence, 2014). American coffee companies, which formerly specialized in expensive Arabica-derived coffees, have now begun to shift towards Arabica-Robusta blends. While the global coffee market is growing as a whole, growth in developed economies seems to be spurred by population growth while growth in emerging markets is spurred by income growth (BNP Paribas 2014). Given that these emerging markets seems to prefer cheaper Robusta varieties, global demand for Robusta has been rising faster than the global demand for Arabica (Figure 22).

Figure 22

Global Arabica Vs Robusta Production, 1980-2014, (1000 60 KG BAGS)



Source: USDA Foreign Agricultural Service.

With analysts predicting that consumers in emerging markets are unlikely to substitute towards the more expensive Arabica variety for the next decade, Angola has a golden opportunity to resuscitate the value chain that made the country the second largest Robusta producer globally prior to independence.

Vietnam provides a role model for revitalization of Angola’s coffee sector. Currently the second largest Robusta producer globally, Vietnam revived its coffee sector in the 1980s. Vietnam’s coffee sector was operated by State Owned Coffee Collectives (SOCCs), which were divided among families upon liberalization in 1986 (Tran, 2009). These families are entitled to pass down these plots from one generation to another, but must turn it over to the state if no longer used for growing coffee (Tran, 2009). Farmers are free to market their coffee. The only restrictions are that the land must be used exclusively for coffee cultivation, and that equipment and inputs that are purchased with state assistance cannot be re-sold. An administrative team runs each of the SOCCs and is responsible for ensuring that the SOCC meets output targets. They are also responsible for the targeted provision of extension services, inputs, storage and processing facilities and insurance on behalf of the government (Tran, 2009). Finally, and perhaps most significantly, the SOCC allows farmers to borrow at lower rates by lowering the credit risk associated with lending to small landholders. Angola’s nascent banking system has

been wary of extending credit to the agricultural sector, given that is predominantly comprised of small farms, but this could change if farmers were grouped together. Vietnam's Coffee Value chain is rather similar to Angola's with small farmers selling dried coffee cherries to intermediaries, who then process and re-sell to exporters (multinationals, domestic private firms or joint ventures). However, export licenses are much harder to come by in Angola. This is reflected in the fact that the number of active exporters in Angola shrank from 14 in the 1990s to just 5 in 2005 (Odour, 2005). Vietnam, in contrast, has 150 active exporters (World Bank, 2011). In 2006, the International Coffee Organization (ICO) and the Common Fund for Commodities (CFC) began a pilot project applying Vietnam's successful strategies to relocate displaced farmers in the Kwanza Sul region to small plots in abandoned coffee estates.

Rwanda is another role model for development of high quality coffee exports. In Rwanda, interventions at every stage in the coffee value chain have successfully been carried out by donor agencies such as USAID. USAID's comprehensive action plan involved assessing market potential, promoting cooperatives and private sector partnerships as well as processing and marketing assistance (USAID, 2006). Foreign investment has also contributed importantly. Coffee and other commercial agriculture such as tropical fruit would also benefit from an integrated approach to the value chain, assistance from donors and participation by foreign investors.

### **Assessment**

Angola has enormous potential to revive its commercial agriculture, notably for tropical fruit and coffee. Daunting obstacles stand in the way, however. In addition to the general problems of competitiveness in Angola associated with real exchange rate appreciation and the general business climate, there are many constraints that are salient for commercial agriculture and coffee in particular.

*Size of Landholdings.* Coffee and other tropical products are largely cultivated by small landholders in Angola. As described previously, this is in contrast to the plantation-driven cultivation process that was practiced prior to independence. Most of Angola's coffee plantations remain abandoned.

*Low producer prices.* Farmgate prices to producers of coffee are very low and variable due to farmers' lack of market information and negotiating power, reliance on intermediaries rather than dealing directly with exporters, and high costs of transport and processing in Angola (Bellachew, 2015).

*Low productivity.* Productivity of farming is held back by several interrelated problems: lack of inputs, insufficient investment in upgrading trees, poor infrastructure, underfunded and undermanned extension services, and research.

*Land Rights.* 85% of Angola's land is unregistered, and a majority of land transactions are informal. The land acquisition process, codified in Angola's 2004 Land Law, takes 345 days and requires 11% of the property value in fees (USAID, 2007). Smallholders in particular lack titles to their land. The Angolan government has several policies in



preparation, including promoting the role of local governments in land administration and cooperating with traditional local authorities to ensure community-based land administration (USAID, 2007). Foreign donors, including USAID, are likely to provide useful assistance in implementing land reforms through pilot projects in rural areas.

*Irrigation.* Angola's vast network of rivers and channels is underused as a source of supplementary irrigation. There are three different kinds of irrigation systems in Angola – large and medium systems that are equipped with water control works, small gravity pumped systems and lowland irrigation systems (Government of Angola, 2005). The establishment of larger-scale irrigation systems is especially important for reviving commercial agriculture. Irrigation is high on the Angolan government's list of water management related priorities, with a significant proportion of the funds set aside for Strategic National Programme for Water (2013-2017) earmarked for the development of irrigation systems. Authorities have also sought foreign assistance, notably from China's Exim Bank, to finance the construction of irrigation projects via SinoHydro.<sup>12</sup>

*Research and Extension Services.* In addition to insufficient irrigation, farmers lack access to research and extension services that boost yields. Some progress is occurring with the introduction of high yielding varieties, including the launch of drought-resistant maize varieties between 2007 and 2013 (Drought Tolerant Maize Bulletin, 2014).

*Roads.* One of the main reasons for the stagnation of the agricultural sector is the isolation of rural producers from urban consumers. This is due to the poor condition of the road network in most areas outside Luanda, which inhibits shipment of inputs to the interior of the country and finished produce from reaching urban marketplaces. Only 17% of primary and urban roads were paved as of 2011, and several provinces are largely inaccessible by road (Pushak and Foster, 2011). Road development is at the top of the government's development agenda, with 30% of public expenditures from 2002 to 2012 going towards reconstruction and maintenance of roads and further large projects planned (Eaglestone, 2014).

*Access to Credit.* Bank operations are concentrated in urban areas and only two banks – The Banco de Poupanca e Credito (BPC) and the Banco de Comercio e Industria (BCI)- have largely national networks (Kyle, 2005; Nathan Associates, 2007). However, the microfinance sector is emerging, with commercial banks, non-governmental organizations and microfinance focused institutions extending small loans in rural areas. The BPC and the BCI are the most involved participants from the first sector, with a lesser participation from Banco Sol (Karim et al, 2011). Of the non-bank MFIs, KixiCredito remains the most significant in 2011, after the sale of the USAID-funded NovoBanco to Banco Africo de Investimentos Micro Financas (BMF). The Angola Youth Microcredit Program, founded in 2007 and sponsored by the state, remains active. The Government has also partnered with international agencies including the World Bank and USAID to consolidate farmers into producer organizations and improve their access to credit (USAID, 2004; World Bank, 2013).

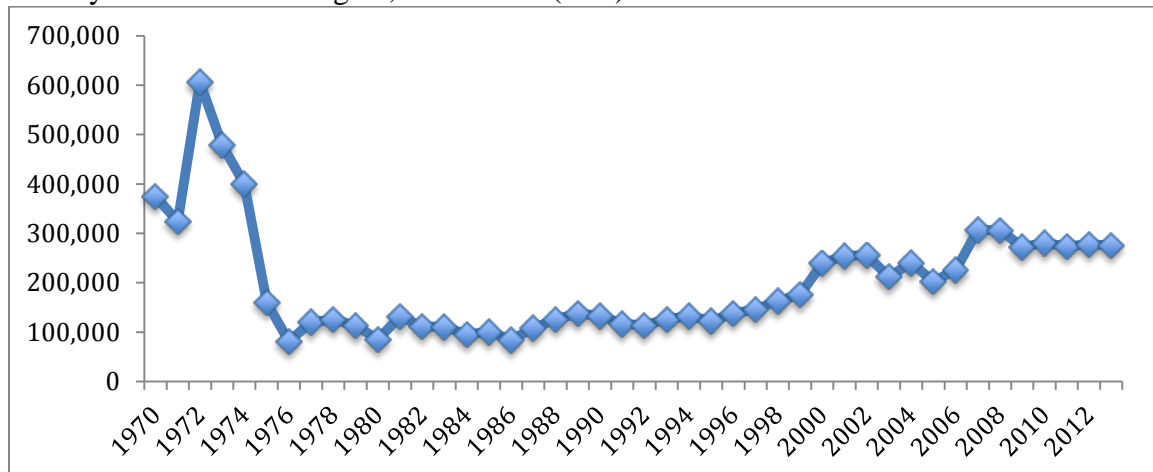
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<sup>12</sup> “Angola Irrigation Projects”, <http://eng.sinohydro.com/index.php?m=content&c=index&a=show&catid=208&id=135>

## 6. Fisheries

Fishing is the third largest industry in Angola, after oil and diamonds (FAO, 2014). Like agriculture, fishing is labor intensive, currently employing some 150,000 Angolans, and has considerable promise for further gains in employment and incomes. However, as for agriculture, the Angolan fishing sector was decimated by the departure of the Portuguese and the civil war, and catches are far below the levels achieved in the early 1970s (Figure 23). Fishing production plunged precipitously from a high of 600,000 tons in 1972 to about 100,000 tons in 1976 and remained low until the end of the civil war, with artisanal fishing largely supplanting industrial operations. In addition, many foreign vessels, particularly Russian and subsequently Spanish trawlers, operated off the coast of Angola during the war with no oversight and depleted many fish stocks. With the end of the war, production rose to about 300,000 tons in 2008 but has subsequently plateaued a little below that.

Figure 23  
Fishery Production in Angola, 1970-2013 (tons)



Source: FAO, 2014

Angola's long coastline is marked by confluence of the cold Benguela Current with the warm equatorial waters of the Atlantic Ocean, providing a propitious environment for fish. The coastline can be subdivided into three regions: North, Central and South. The northern region stretches from Luanda to the mouth of the Congo River and is primarily home to pelagic species, while the central region, from Luanda to Lobito is more equally balanced between pelagic and demersal species. Fishing activity is most intense in the southern coast, from Lobito to the mouth of the Kunene River, with an abundance of both pelagic and demersal species (du Preez, 2009; Nathan Associates, 2007).

The fishing sector in Angola as elsewhere includes both harvesting and post-harvest activities. The former comprises marine fishing, inland fishing and aquaculture, of which marine fishing is by far the most important. Post harvest processing and marketing is primarily for the domestic markets. The main fish catches include sea bream and other demersals, horse mackerel, sardinella, tuna, and shrimp. Except for sardinella, Angolan

fish stocks have been dangerously overfished and biomass levels have dropped sharply. Horse mackerel was the most overfished species in Angola during the 1990s. Catches were very low during the 2000s, leading the Ministry of Fisheries to progressively reduce the Total Allowable Catch (TAC) from 80,000 tons to 15,000 tons during the 2000s. The total available biomass for this species declined from 500,000 tons in 1996 to 105,000 tons in 2009 (Benguela Current Commission, 2013).

As in other African countries, industrial and artisanal fishers operate in different spheres. Two-thirds of Angola's fishers are employed in the artisanal subsector, supporting the livelihoods of a large proportion of Angola's coastal population (du Preez, 2009). As in most other LDCs, artisanal fishers in Angola suffer from lack of access to cold storage and modern processing facilities, leading to significant losses due to spoilage (Golub and Varma, 2014; African Development Fund, 2013; Lankester, 2002). In contrast, industrial vessels are equipped with storage facilities to preserve catch quality during transport to export destinations. Artisanal fishers either own their own boats or fish in groups, in which case they divide the catch between the members of the group. They then salt and dry the fishes or directly sell them in local markets. Fishing practices vary from community to community. Artisanal fishing is carried out at 190 sites along the Angolan coasts in 184 registered communities, mainly in the northern provinces of Zaire and Cabinda. The main fish caught include groupers, snappers, sea breams and spiny lobsters (FAO, 2014).

Inland fisheries are all artisanal subsistence activities. Like maritime artisanal fisheries, equipment is limited to wood canoes and nets, traps and hand lines. Tilapia and catfish are the most frequently caught species (FAO, 2014). Angola has substantial potential for growth of inland fisheries as most of its landmass is covered by hydrogeographical basins, notably the Zambezi, Okavango, Kunene and Zaire. The number of fishers engaged in inland fisheries is approximately 10% of the number in marine fishing, but their production is only 4% of that of marine fishing (FAO, 2014). While the inland fishing industry has lower potential for export than marine fishing, it has significant scope for boosting employment and poverty reduction. The International Fund for Agricultural Development (IFAD, 2014) is currently operating a pilot project that aims to increase productivity and sustainability of inland fishing. To this end, it is promoting interaction between local governments and stakeholders to accurately assess regional fishing potential, monitor post-harvest losses and socio-economic indicators, and assist in the management of resources. IFAD is also attempting to raise productivity and incomes by educating stakeholders on fish handling, boat technology, appropriate net choice and other catch related issues.

Aquaculture is also at present a subsistence activity and not well measured. It is mostly carried out in the form of inland fish farming of Tilapia (FAO, 2007). Aquaculture can also contribute to decreasing rural unemployment and poverty, small and medium enterprise development and sustainability of marine and inland ecosystems (UN, 2005). Aquaculture projects involve selecting the site, choice of species to be farmed, and constructing and stocking ponds. The Institute for Promotion of Artisanal Fisheries (IPA) advises stakeholders on the viability and operation of aquaculture operations throughout

Angola. Once a site and species are identified, stakeholders must be educated on use of appropriate inputs and management practices. IPA partners with other organizations to supply extension services, training and technical support (IFAD, 2014).

Processing is very different for fish being prepared for domestic markets and for export. Most of the fish that are sold in domestic markets come from coastal artisanal fishers without cold storage facilities. Processing consists of sun drying and salting after which the fish are sold to wholesalers and in local markets. On the other hand, industrial catches are most often exported to other countries in Africa, Europe and Japan. Most industrial fishing vessels are equipped with cold storage facilities or have access to private processing and storage facilities on land. High quality shrimp, gamba, crab and tuna are the most frequently exported catches (FAO, 2014). Exports have increased recently from a very low base.

The most important law governing the fisheries sector is the Law on Biological and Aquatic Resources (2004). It sets regulatory measures to ensure the sustainable use of aquatic resources in Angolan territorial waters. It also specifies fishing rights, fish farming regulations and taxation of fisheries. Industrial and semi-industrial fishing operations must be carried out more than 4 km away from the coast (du Preez, 2009). The law also requires that foreign nationals conduct industrial fishing operations in Angolan waters as part of joint ventures with Angolan entities (du Preez, 2009). Several foreign fleets operate in Angolan waters, notably China, Japan, Namibia, Russia, Spain and Nigeria. (FAO, 2014). Angola had a bilateral fishing agreement with the EU from 1987 to 2004 until Angola's new fishing law decreed that foreign fishing operations could only operate in Angolan waters as part of a joint venture with Angolan groups.

The Ministry for Fisheries in Angola also limits total allowable catches (TACs) by fish species and by zone. It grants fishing rights for a period of 20 years, to both Angolan operators and foreign operators that are in partnership with Angolan nationals. It monitors fishing operations by enforcing the use of fishing diaries to record catch statistics, fishing certificates, monthly information books and community observation programs (FAO, 2014). The Ministry is advised by the Fisheries Administration Commission, which was set up in 1990 to act as a voice for stakeholders.

Despite the government's efforts, domestic and foreign fleets have been accused of IUU (Illegal, Unreported and Unregulated) fishing in Angolan waters (Pramod et al, 2008). Foreign fleets allegedly use types of nets banned by Angolan laws. These fleets have also been known to illegally cross into Angolan waters from Namibia's and the Democratic Republic of Congo's waters. For these reasons, data on industrial fishing catches are unreliable and fish stocks are likely to remain under pressure. Angola could draw lessons from Namibia's integrated fisheries resource management system that successfully revived hake and mackerel stocks since it was introduced in 1992 (Nichols, 2013).

## *Assessment*

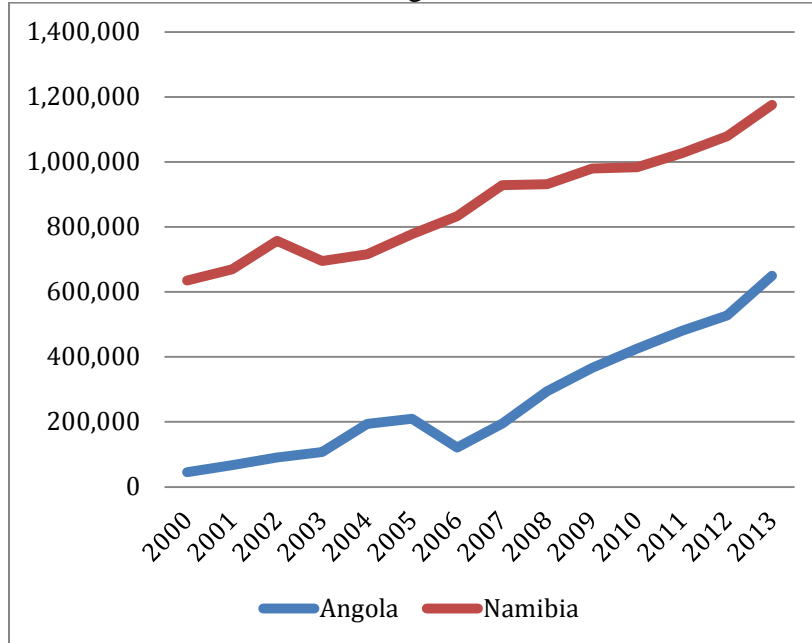
Angola's fishing industry faces major challenges in rebuilding, with significant differences for industrial and artisanal fishing. For the former, overfishing is the central problem and for the latter lack of infrastructure, equipment and capacity are also important. Angola has made important progress in controlling overfishing but the problem remains serious. Angola lacks the capacity to effectively police its long coastal zone. Artisanal fishing is characterized by a lack of mechanized equipment, high labor intensity and limited access to modern infrastructure. Both resource conservation and assistance to artisanal fishers call for targeted government actions. Artisanal fishing communities could be organized as co-operatives to co-manage fishing resources with the Angolan government (du Preez, 2009). Meeting sanitary and phytosanitary (SPS) standards required for access to developed country markets, particularly the European Union, is essential but challenging, as proven by some recent negative experiences of many LDCs (Golub and McManus 2009).

## 7. Tourism

Tourism is a labor-intensive industry with important scope for contributing to diversification of the economy, employment creation and poverty reduction. Moreover, tourism development can go hand-in-hand with environmental and cultural preservation efforts. Angola's long coastline, diverse ecosystems and rich cultural heritage suggest great promise for tourism. However, international tourism remains dormant due to numerous constraints, particularly extraordinarily high costs of hospitality in Angola and stringent immigration procedures (Ward, 2013; Redvers, 2015).

Hotels and restaurants mainly cater to a domestic clientele. International tourism is growing in Angola, although from a low base. Angola is far behind other countries in the region. South Africa, of course, attracts far more tourists but Angola's visitors also remain well below those of Namibia, as Figure 24 shows, despite their similar characteristics and size. Most of the arrivals in Angola are business rather than leisure travelers.

Figure 24  
Number of Tourist arrivals, Angola and Namibia, 2000-2013



Source: World Bank World Development Indicators

Tourism is growing although it remains low at 1.6% of GDP in 2014. The sector accounted for 1.7% of the total employment in Angola in 2014. The number of hotels in Angola rose from 50 in 2002 to 176 in 2014. There are also several SMEs in the hotel industry, with 496 hostels and 403 inns recorded in 2012. Most of the available accommodation is concentrated in and around Luanda.

Angola has a rich history shaped by African traditions, the Portuguese colonial period and the slave trade. Among the attractions are forts that served the slave trade, and beautiful architecture from the colonial period. Angola is divided into several climactic zones, each with a unique topography that caters to different kinds of tourism. The north has an abundance of tropical forests and the south contains large swathes of desert land. Angola's long coastline is home to a large number of beaches, which could be harnessed for watersports, snorkeling and scuba diving (Nathan Associates, 2007). A refurbished national park for safaris and a new nature conservation area has been jointly developed with Botswana, Namibia, Zambia and Zimbabwe (Redvers, 2015). Fishing is already a popular tourist activity and could be promoted further. The Washington Post provided this alluring description:

Angola is a giant jigsaw puzzle of different climates, landscapes, cultures and colors. From mountains to vast open plains, wide white beaches to thick tropical rainforest, Angola has it all, as if each of its eighteen provinces were a different country.<sup>13</sup>

<sup>13</sup> <http://www.washingtonpost.com/wp-adv/specialsales/spotlight/angola/article24.html>

Angola's government has ambitious goals for upgrading tourism, led by the Ministry for Hotels and Tourism (MINHOTUR), which has developed a Master Plan for tourism (MIHNOTUR, 2011). Having been approved by the Standing Committee of the Council of Ministers, this Master Plan identifies a set of actions at the institutional level that are to be applied to develop the tourism sector in certain identified areas of the country. The Council of Ministers also submitted a draft tourism law to the National Assembly in 2014, which is intended to guide the promotion of tourism in Angola. In sum, Angola has articulated a plan to make tourism a cornerstone of its development strategy since 2011. Angola's Tourist Master Plan appropriately differentiates between different types of clients on the basis of purchasing power and proximity. Given that domestic tourism currently makes up the majority of tourism revenues in Angola, international tourism is necessary to boost growth in the sector in the long term. However, Angola should begin by tapping the existing domestic consumer base. The Tourism Master Plan divides this group into three categories, namely low-income citizens, affluent citizens and foreign expats. Regarding foreign visitors, Angola would do well to focus initially on countries with which it shares a historical or cultural heritage, particularly Portugal, Brazil and other Portuguese speaking countries. Angola could also attract more tourists from other members of the SADC, particularly South Africa. The Master Plan also calls for Angola to identify the sub-sectors of tourism it is most likely to be competitive in and match these sub-sectors to the provinces in which their development is most likely to yield maximum economic benefit. For example, watersports, fishing and snorkeling are likely to be most viable in coastal regions and would require the government to prioritize support for beach amenities, sanitation and lifeguards (MINHOTUR, 2011). The Tourism Master Plan suggests selecting certain provinces as Centers of Development for each sub-sector in order to develop and test best practices before they are replicated in other locations.

### *Constraints*

Angola's Tourism sector suffers from a number of weaknesses that inhibit its significant potential. As an Angolan tourist entrepreneur put it recently, the government's actions do yet match its pronouncements:

"We don't really have a tourism industry at the moment. We have people who live in Angola for work and they need somewhere to go to eat and spend the weekend. There is a lot of official rhetoric and as a country we have been talking for many years about tourism and how it has the potential to be an integral part of our economy, but I would personally like to see more action." (quoted in Redvers, 2015).

A number of specific problems must be addressed:

*Visa difficulty.* International tourists find it extremely difficult to enter Angola due to the unusually stringent visa requirements. A visa requires an invitation from the Angolan government that is mailed to the consulate where the visitor applies for a visa. Visitors also need pre-paid hotel reservations and air tickets for their application to be processed. It is much easier to travel to Namibia and South Africa instead (Redvers, 2015). In 2015

the government announced plans for a simpler tourist visa but there are no specific indications of when it will be available.

*High Costs.* The high costs of hospitality in Angola, particularly Luanda, are also a major deterrent. Hotels and restaurants remain very expensive, with prices comparable to developed country cities such as New York. These high prices reflect the need to import supplies, high tariffs and monopolized supply chains.

*Deficient infrastructure.* Poor transport infrastructure (roads, railways, airports) and a lack of basic facilities (sanitation, communication, energy) also reduce the attractiveness of Angola relative to neighbors and raise the costs of constructing and operating tourist facilities. A new airport has been under construction since 2007 by an Angola-China consortium. There have been plans for international hotel chains including the Marriot and Starwood groups to commence operations in the country, but none of these projects have materialized to date (Redvers, 2015). Hotels outside Luanda are very scarce.

*Lack of skills.* Lack of expertise in hotel management coupled with low levels of education hold down the quality of hospitality services. Few speak English, especially outside Luanda. In December 2014, the government announced plans to establish a national hotel school but the status is unclear.

*Overregulation.* MINHOTUR heavily regulates hotels and travel agencies. Location and development plans for hotels must be approved by both MINHOTUR and the responsible provincial government (Ward, 2013). Travel agencies are subject to stringent financial requirements. They are required to post a bond, meet a minimum capital threshold and have liability insurance. Separate permissions are required to open new branches.

*Competition from neighbors.* Namibia and South Africa have well established tourist facilities that do not have all the above problems.

### ***Assessment***

Angola's tourism sector has substantial potential. To compete with Namibia and South Africa, the government will have to move forcefully to implement the Tourism Master Plan and address the above constraints. Some of the constraints can be remedied quite easily such as simplifying visa requirements and reducing regulations on hotels; others require long-term investments.

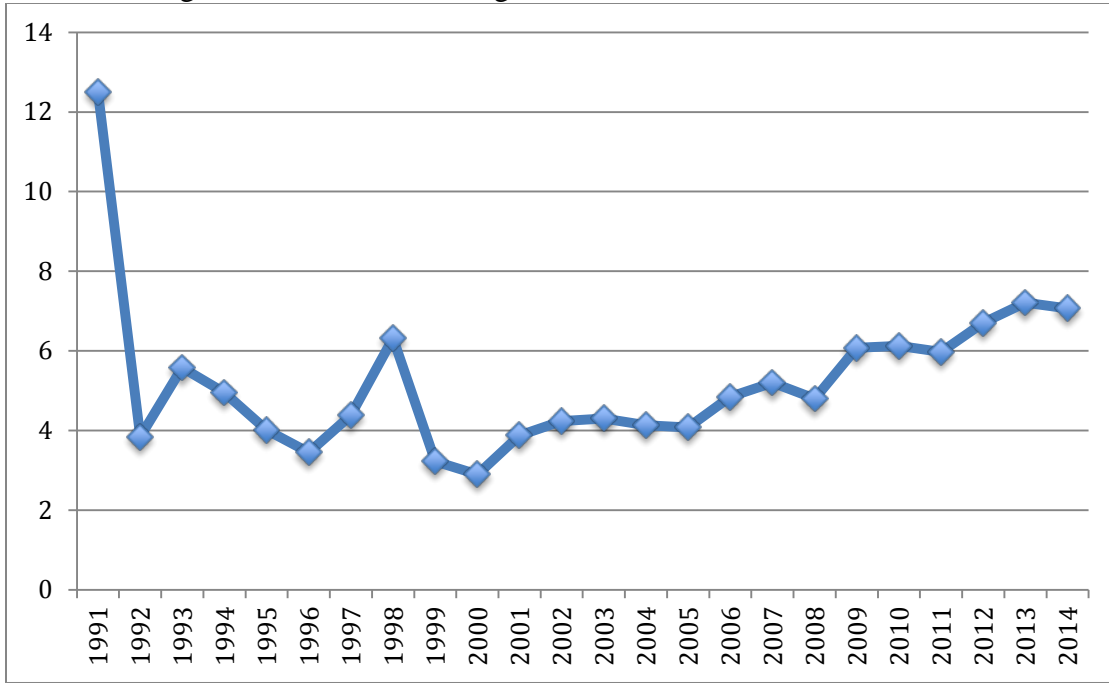
## **8. Manufacturing**

Manufacturing has followed a similar trajectory to commercial agriculture and fishing: rapid growth in the post World War II era under Portuguese ownership and management, followed by a steep decline when the Portuguese departed and a further sharp drop when the civil war worsened in the early 1990s (Nathan Associates 2007). Angola's manufacturing sector accounted for 30% of GDP in 1974, 12% in 1991, and just 3-4 % in



the late 1990s (Figure 25). Since the end of the civil war, manufacturing has gradually recovered but only to about 7% of GDP.

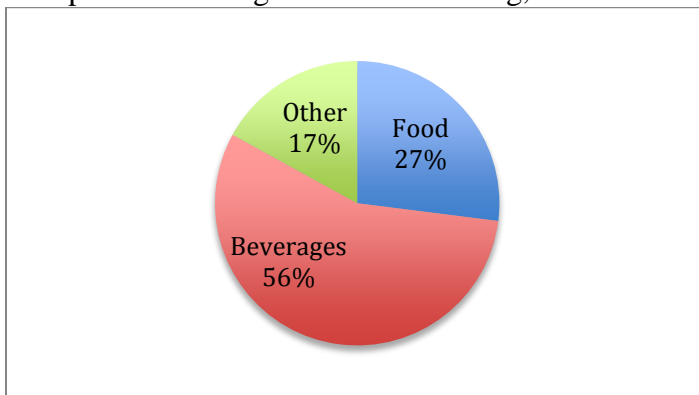
Figure 25  
Manufacturing 's Share of GDP in Angola, 1991-2014



Source – World Bank World Development Indicators.

At present, the manufacturing sector is dominated by beverages and food, as shown in Figure 26.

Figure 26  
Composition of Angolan Manufacturing, 2013



Source : Rocha, 2015.

Reviving manufacturing is a major goal of the Angolan government, in the Reindustrialization Plan (2003-2007) and the present Angola National Development Plan (2013-2017). These plans are similar in articulating ambitious objectives both to lower

imports and increase exports. The Reindustrialization Plan identified a number of disparate sectors to target, including both labor-intensive industries such as food-processing and textiles and capital-intensive sectors such as petroleum products and aluminum smelting, tobacco, fertilizers and plastics (Nathan Associates, 2007). The current National Development Plan also aims to expand industrial production in a variety of sectors, including natural resource processing, foodstuffs, beverages, packaging, textile, paper, rubber, electrical equipment and light metal industry.

### ***Assessment***

To fulfill the objectives of the plans, the government has relied on protection to promote import substitution, as discussed in section 3. In addition the government provides investment incentives and is promoting SEZs, discussed in section 2. These approaches are questionable for the reasons discussed previously. It will be very difficult for Angola, with its high costs and unsupportive business environment, to compete with low-income Asian countries in labor-intensive manufacturing. Likewise, high-tech and capital intensive manufacturing of items such as chemicals and fertilizers are unlikely to be viable at Angola's present state of skills and infrastructure. Some manufacturing of consumer items with limited tradability, e.g., beverages, for the home and regional markets may become increasingly competitive as the business climate improves. As agriculture and fishing develop, foreign investment in agro-processing is another possible avenue for manufacturing expansion.

Overall, for exports, Angola has much greater potential in agriculture, fishing and tourism than in manufacturing. High levels of protection and complex investment schemes are likely to foster corruption rather than efficient production. Furthermore, while government policies are of critical importance, it must be remembered that in East Asia and elsewhere the private sector has played the lead role in employment creation (Kurokawa et al, 2008). Sustainable private sector job creation cannot be created by administrative fiat, protection or subsidies; it requires the hard work of improving the business environment and becoming competitive.

## **9. Mining**

Mining accounted for 12% of GDP in 2014 of which diamonds is by far the largest component, contributing approximately 5% of GDP (Ecobank, 2015). In addition to diamonds, Angola has significant deposits of metals (including iron ore and copper) and industrial minerals (notably cement and phosphate rocks). Angola also has a variety of other mineral deposits including beryllium, feldspar, gold, lead, manganese, mica, lignite, quartz, silver, tungsten, vanadium and zinc that are attracting increasing interest from international companies (US Geological Survey, 2012). Angola was a major producer of copper, iron ore and gold before independence but many mines were abandoned when the Portuguese left and only recently are being reopened.

The Angolan Government introduced a new Mining Code in 2011 to unify and simplify all previous legislation relating to the sector (Clifford Chance, 2011). The new mining code seeks to attract foreign participation by enhancing investor protection, creating a one stop shop for exploration and commercialization rights, reducing the state participation requirement from 50% to 10%, eliminating tariffs on inputs, and lowering tax rates<sup>14</sup>.

### *Diamonds.*

Angola was the world's fourth largest diamond producer before independence, producing 2.4 million carats worth of diamonds in 1971. However, diamond production dropped sharply after independence with only 350,000 carats produced in 1999. The dissolution of the Portuguese owned mining company Diamang and then the civil war, during which the warring parties battled over control of diamonds, were the reasons for the decline (Dietrich, 2000). The state-owned Endiama replaced Diamang in 1978 and retains oversight of the diamond sector and engages in prospecting, mining and marketing with domestic and foreign partners. Catoca Mining, a joint venture of Endiama (32.8% share), the Russian diamond group Alrosa (also 32.8%), China's LLI Holdings (18%) and Brazilian Odebrecht (16.4%), is the main producer, accounting for 87% of diamond output in 2012.<sup>15</sup>

The financial crisis in 2008 saw several foreign companies temporarily cease diamond operations in Angola as world demand fell, but they returned, starting with De Beers in 2014. Angola produces both Kimberlite diamonds at Catoca, the largest mine, and more expensive diamonds that are sourced from alluvial deposits in the Chitololo mine in Lunda Norte. (Production has risen steadily to well above the pre-independence level, reaching a record 9 million carats in 2015. Declining prices have reduced revenues, however.<sup>16</sup>

### *Iron Ore*

Iron ore was one of Angola's major exports in the colonial era. It was mined in the Malanje, Bie, Huambo and Huila provinces. After independence, the government attempted to sustain the sector by establishing the state-owned National Iron Ore Company of Angola (Ferrangol) which was responsible for prospecting, extracting and marketing iron ore. Production was concentrated in the Cassinga mines during the 1970s and 1980s but production gradually ceased as transportation systems and security deteriorated. The Angolan government is currently attempting to revive the sector and has announced plans for production to resume at Cassinga and Kassala-Kitungo by 2017 with foreign partners (US Geological Survey, 2012). Depressed world prices, however, may lead to reconsideration of these projects.

### *Copper*

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<sup>14</sup> USA Today, "Our World – Angola", April 2015.

<sup>15</sup> <http://www.miningweekly.com/article/angola-seeks-to-diversify-its-economy-by-developing-its-mining-industry-2013-09-06>.

<sup>16</sup> <http://www.macauhub.com.mo/en/2015/12/18/angola-sees-record-diamond-production-in-2015/>.

Copper has followed a similar trajectory. The Angolan government recently restarted copper prospecting in the Cachoeiras do Binga mine, located in the province of South Cuanza, 385 miles from Luanda, in collaboration with international companies. The mine is located next to the port of Amboim and adjacent to a recently constructed highway that connects the region to Luanda<sup>17</sup>. The Angolan government also approved the production of copper in the Mavoio mines located in the province of Ulge.

### *Phosphates*

Angola's phosphate deposits are mainly located in the Cabinda, Lukunga River and Luanda regions (US Geological Survey, 2012). Phosphates are being developed by the Angolan government and Minbos Resources, with the aim being to produce 80,000 tons of phosphate rock concentrate per year (US Geological Survey, 2012). In October, 2015, the Ministry of Industry, Geology and Mining signed a Memorandum of Understanding to begin developing a phosphate mining project in Lukunga with fertilizer firm Vale Fertil.<sup>18</sup>

### **Assessment**

Angola's diamond industry is thriving and has scope for further expansion. Angola is also moving to revive iron ore and copper mines that have been defunct since the end of the Portuguese colonial era. The country has considerable potential in other minerals. The new mining law has improved the attraction of Angola's riches to multinational companies, who already participate in the diamond sector. Expanding mining beyond oil and diamonds promises some diversification and expansion of revenues but represents more of the same in terms of high capital intensity and thus limited employment prospects and spillovers to the rest of the economy. Moreover, currently depressed world prices for primary products reduce the benefits both to foreign investors and the Angolan government. Consequently, the priority of the government should be labor-intensive sectors, particularly agriculture.

## **10. Conclusions and Recommendations**

Angola has made impressive progress in overcoming the legacy of the departure of the Portuguese and the civil war, but is almost wholly dependent on oil for foreign exchange earnings and government revenue. High oil prices in the 2000s provided huge windfalls but also gave Angola a major case of Dutch Disease, with high growth but few employment opportunities and massive inequality. Real appreciation of the kwanza and a problematic business climate have inhibited development of non-oil industries. With oil prices now at their lowest level in years, economic diversification is more imperative than ever, providing a difficult challenge for Angola but also an opportunity to transition to a more sustainable and inclusive development path.

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<sup>17</sup> "VDM Plans to Acquire 65% of Angolan Copper Exploration Project"  
<http://www.asx.com.au/asxpdf/20140929/pdf/42shyxvdxgw6lk.pdf>

<sup>18</sup> "Memo for production of phosphate signed", <http://allafrica.com/stories/201510011555.html>

Angola's strategy for diversification relies primarily on import substitution and highly discretionary investment incentives. While some protection can be useful in supporting infant industries, the experience of other countries, particularly in Africa, is not encouraging. Nigeria is a case in point, with very high tariffs and import bans failing to promote viable domestic industries and resulting in large-scale smuggling and corruption.

Instead, this document recommends an approach emphasizing real depreciation of the currency, improvements in the business climate to attract foreign investment and foster domestic entrepreneurship, continued investments in infrastructure, and collaboration with donors to provide technical assistance to labor-intensive industries in which Angola has demonstrated comparative advantage, particularly agriculture.

African countries seeking to emulate the East Asian miracle economies often aspire to becoming manufacturing exporters. This is an overly narrow understanding of Asia's success stories that fails to consider the global context and African realities. For a few African countries with abundant labor manufacturing exports may be a viable solution. For Angola and many others, however, the lesson from East Asia is to integrate into the global economy through a pragmatic mix of private sector initiative and government support. Transfer of technology and employment creation via labor-intensive exports can be achieved in agriculture, fishing and tourism as well as manufacturing (UNCTAD 2008).

### **Macroeconomic Policy and Exchange Rates**

Macroeconomic policies should be structured so as to promote real exchange rate depreciation.

- While rapid devaluation would likely trigger a return to high domestic inflation, further gradual devaluation should continue until the parallel market discount is eliminated and the real exchange rate depreciates substantially.
- To reduce the impact of the Dutch Disease on relative prices and thereby on the non-oil tradable sectors, Angola should implement a strict fiscal rule preventing pro-cyclical spending by governments.
- It is also essential to use the oil revenues to invest in social and physical infrastructure that increases the productivity of non-oil sectors and take steps to improve the business climate.
- The International Monetary Fund can provide technical assistance in developing a macroeconomic framework that is more conducive to economic diversification.

### **Business Climate**

Angola has made substantial progress in rebuilding infrastructure but gaps remain, particularly for electric power. Despite some reforms, Angola still ranks among the worst in international comparisons of the business climate. A more favorable investment climate is likely to be far more successful in spurring diversification than complex and discretionary tax breaks and special zones handicapped by high costs. This means

investment in infrastructure and education and simplification of regulations. More specifically, Angola should:

- Invest in electric power generation and distribution, with greater participation of the private sector. Greater reliance on Public-Private Partnerships (PPPs) could increase both investible resources and efficiency. Also, within the infrastructure budget, an increased priority on trade infrastructure at the expense of road building should be considered.
- Simplify and liberalize regulations on starting a business, labor regulations etc.
- Scale back discretionary investment incentives and make them more transparent.
- Eliminate requirements that foreign investors must partner with domestic investors.
- Deemphasize the special economic zones (ZEEs) in favor of general improvements of the business climate above to ensure a level playing field for incumbents and new entrants.

### **Ports and Customs Administration**

Despite investments in ports and reforms to customs administration, Angola continues to rank among the lowest in the world in trade facilitation, with investors citing delays caused by bureaucratic red tape and corruption. Computerization of customs has advanced but procedures remain complex, lengthy and costly. Consequently costs of importing and exporting are high.

- A Landlord management system would allow Angola's ports to access modern technology and international best practices in port management. Private operation of port services by leading global firms would help reduce issues of corruption and transparency by subjecting the ports to international standards of management (Mundy and Penfold, 2010).
- Improve port infrastructure, including port capacity and up to date equipment for loading and unloading. Ports must also make sure that berth sizes and access channels are compatible with the largest ships operating on major international routes. The quality of road and rail infrastructure that connects ports to the hinterland also needs upgrading. Several ports are in congested urban locations that increase transit times for goods traveling outward from the port into the country. This leads to increased storage burdens on the port itself, which raise costs and affect port capacity. As such, developing port infrastructure involves considering the state of within-port equipment as well as the surrounding transport infrastructure.
- Further efforts to improve administration and reduce corrupt practices are necessary. Simplification of procedures would help in itself and contribute to lowering corruption.
- Take advantage of technical assistance from donors on trade facilitation, including the EU and the Enhanced Integrated Framework. Angola should ratify and implement the WTO Trade Facilitation Agreement to benefit from the attached technical assistance.

## **Trade Policy**

African development policies in the 1960s and 1970s, and to a lesser extent in subsequent decades, were based on the then-popular import-substitution industrialization approach, motivated by the worthy objective of diversifying economies away from a few primary commodities. In view of the massive war-time destruction of domestic agricultural and industrial production capabilities, and the extraordinarily high dependence on oil and diamonds, it is not surprising that the Angolan government is tempted to revert to import substitution.

Historical precedents and economic analysis suggest that Angola should reconsider its strategy of raising import protection to spur diversification. Moderate levels of tariffs on a temporary basis can be a useful accompaniment to measures that boost competitiveness, but without addressing the underlying constraints on diversification, protection imposes high costs on the local population, spurs smuggling, and is unlikely to be successful. Angola should:

- Cancel implementation of import quotas;
- Establish a time frame over which to return tariffs to their 2005 levels;
- Ratify the WTO Trade Facilitation Agreement;
- Comply with WTO reporting requirements on state-trading and other measures;
- Participate in the Protocols on Trade and on Services in SADC;
- Improve the business climate for foreign investment and exports as explained above.

## **Coffee and Other Export Agriculture**

Angola had a thriving commercial agriculture before Independence and the civil war, providing employment and income to large numbers of Angolans. The conditions are still in place for a revival of agricultural exports, particularly coffee. If coffee is to regain its status as the primary export crop in Angola, the entire value chain should be improved.

The Governments of Angola should take the lead in expanding rural infrastructure and promoting integrated rural development to enhance agricultural employment, productivity and land use. Donors and relevant international agencies can undertake complementary actions to enhance regional cooperation on some agricultural commodity value chains in production, processing and marketing (e.g. rice, maize, wheat, sugar, meat and dairy products) which have the potential to meet increasing regional demand. At the regional level, the governments of Angola and neighboring countries as well as regional bodies such can invest in improving transport, logistical, processing and market infrastructure to nurture regional commodity value chains. Agriculture can indeed be the basis for developing downstream industries, such as food processing, geared mainly to domestic and regional markets, but also global markets. It can also yield other types of products (e.g. agricultural raw materials) that can be further processed before exporting.

Employment and incomes can also be boosted in non-farm rural activities through support of rural enterprises - formal and informal.

- Government will need to ensure that the regulatory environment favors exporters and adopt measures to assist producers in meeting export certification standards.
- Financial institutions and government agencies should be incentivized to provide loans to farmers to rehabilitate farms, purchase inputs, etc.
- Extension services and research are public goods that are essential for improving agricultural practices and productivity. INCA currently provides extension services to coffee growers but requires more funding and staff. Farmers need assistance with input provision, production, harvesting, processing, storage and marketing. The government, working with donors, should redouble efforts to providing these crucial public goods to smallholders. At the same time, attracting FDI in commercial farming can be a vehicle for private provision of state-of-the-art agricultural knowledge and techniques.
- Organizing farmers into associations and cooperatives would enable the government to improve official communication and assistance to stakeholders in the sector and boost access to credit.
- Research is also necessary to determine appropriate inputs and techniques for the Angolan context.
- The government has to make agricultural development a key budget priority, so as to adequately finance the previous recommendations: investments in infrastructure, credit programs, extension services and research.
- Boosting agricultural competitiveness is inseparable from improving Angola's investment climate at both macro and micro levels, as discussed in sections 2 and 3, including the real exchange, infrastructure, property rights, particularly land tenure, and establishing a level playing field for all firms. The coffee sector requires a concerted effort to reconstruct the organization that it made it so successful prior to independence. At that time, Portuguese plantation owners managed the entire value chain. The government by itself cannot directly manage the sector but can work with international organizations and donors to create an investment climate propitious to private investment. The same conclusions apply to tropical fruit and other export produce.

## **Fishing**

Fishing is another labor-intensive industry in which Angola has a strong comparative advantage but that suffers from many of the same problems as agriculture. In addition, resource conservation is a critical issue for fishing. Also, there are significant differences between the supply chains of the industrial, artisanal and inland fisheries sectors and the problems they face. These different sectors also specialize in different species of fish. Angola captures include both low value pelagics (horse mackerel and sardines) and high value demersal species (crab, sea breams). The latter are usually exported and require specialized processing techniques and must meet more stringent quality standards.



Promoting fish exports by improving safety and quality standards to satisfy the demands in developed country markets is crucially important for countries such as Angola (Golub and Varma 2014). International support (technical and financial) can play an important role in satisfying sanitary and phytosanitary (SPS) standards, which have proved very challenging for other LDC fish exporters. Policies to support sustainable fishing is a complementary requisite. Raising productivity while ensuring sustainability are crucial to attain the major environmental, social and economic benefits from fishing exports.

- The government should work with regional partners, particularly Namibia, as well as the EU to develop a systematic approach to monitoring and sanctioning IUU fishing.
- Grouping artisanal fishermen into co-operatives would facilitate assistance to stakeholders and boost access to credit, as in agriculture.
- Building a network of access roads that connect officially recognized landing sites to local markets is necessary to ensure that fish are promptly delivered to their point of sale.
- Work with donors and NGOs to promote artisanal fishing infrastructure, equipment and capacities for artisanal fishing, including inland fisheries and aquaculture.

## **Tourism**

Tourism is subject to economies of scale requiring large investments in infrastructure and tourism facilities across a wide spectrum: airports, domestic transport, hotels, cultural and natural sites, environmental preservation etc. Political stability and security are also essential. Public investments in many of these areas are necessary to attract private investment. The benefits can be substantial as hotels and restaurants are very labor-intensive and tourism can be a catalyst for efforts in environmental and cultural preservation.

- These are many sensible suggestions in the Tourist Master Plan such as targeting other Lusophone countries and upgrading tourist sites, but concrete actions are lacking. Implementation should be accelerated.
- Improving ease of entry into the country is of particular significance. This involves completing initiatives that are underway or announced but lagging, in particular the construction of the new airport and the creation of a tourist entry visa. Additional flights into the country should also be encouraged. There are important synergies between these various measures.
- Deregulating the hotel sector would help incentivize private sector investment.

## **Manufacturing**

Angola's current strategy for developing its manufacturing sector is primarily based on import substitution. As discussed in the trade policy section, the record of import substitution in Africa has not been favorable. In the case of manufacturing, especially, it

seems unlikely that Angola can achieve international competitiveness in the near future. Africa in general has had limited success in promoting labor-intensive light manufacturing. As for capital-intensive manufacturing industries such as petrochemicals, they provide few jobs and do not contribute much to poverty reduction, even if production were feasible in Angola.

- Thus, rather than specifically targeting manufacturing with high import barriers and special incentives, Angola would be better served by improving the general business climate, which will benefit firms in all sectors, and focusing on agriculture, fishing and tourism as discussed above. Those manufacturing firms that are competitive with reasonable levels of protection will prosper. The measures to be taken are discussed in the section on business climate and competitiveness.

### **Mining**

Expansion of mining can contribute some diversification of revenues, but is more of the same of what Angola is already doing: highly capital intensive extraction of natural resources with few spillovers to the rest of the economy and little employment creation. Angola should certainly welcome new mining ventures but mining is not really what Angola most needs: structural transformation and employment creation. Labor-intensive sectors are much more significant for poverty reduction and long run growth.

- Angola should welcome foreign investment in minerals but not provide special incentives. The focus should instead be on labor-intensive sectors where Angola has potential comparative advantage: agriculture, fishing and tourism.

### **Improving trade and other economic data**

To a greater extent even than in many other LDCs, lack of available trade and production data makes analysis difficult. Improved collection, dissemination and analysis of industry-level economic data is critical for strengthening of trade policy formulation and implementation. This requires improving capacity and resources for national research institutions and central statistical offices.

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