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COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN ANGOLA

Opportunities for Development Through the Private Sector

World Bank Group and International Monetary Fund Spring Meetings 2019 edition

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THE WORLD BANK IBRD • IDA
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ABBREVIATIONS

ARSEG	Angolan Agency for Regulation and Supervision of Insurance (*Agência Angolana de Regulação e Supervisão de Seguros*)
BCI	*Banco de Comércio e Indústria*
BNA	National Bank of Angola (*Banco Nacional de Angola*)
BPC	*Banco de Poupança e Crédito*
CPSD	Country Private Sector Diagnostic
CPF	Country Partnership Framework
EGTI	Enterprise Managing State Intrastructured Land (*Empresa Gestora dos Terrenos Infraestructurados do Estado*)
ENANA	National Airport Management and Air Navegation Company (*Empresa Nacional de Exploração de Aeroportos e Navegação Aérea*)
ENSA	Insurance of Angola (Seguros de Angola, S.A.)
FDI	Foreign Direct Investment
FSDEA	Angola Sovereign Fund (*Fundo Soberano de Angola*)
GDP	Gross Domestic Product
ICD	Inland container depots
ICT	Information and Telecommunication Technology
IGAPE	Institute for Management of State Assets and Shareholdings (*Instituto de Gestão de Activos e Participações do Estado*)
IMF	International Monetary Fund
IPREC	Competition and Price Institute (Insituto de Preços e Concorrencia)
JICA	Japan International Cooperation Agency
MPLA	People's Movement for the Liberation of Angola (*Movimento Popular de Libertação de Angola*)
MOSAP	Market Oriented Smallholder Agriculture Project
NDP	National Development Plan
NPLs	Non-performing Loans
PAPAGRO	Program for the Acquisition of Agro-livestock Products (*Programa de Aquisição de Produtos Agropecuários*)
PRODESI	Program to Enhance Production, Diversify Exports, and Substitute Imports (Programa
PPPs	Public-Private Partnerships
SADC	Southern African Development Community
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
SAPP	Southern African Power Pool
SEZ	Special Economic Zone
SSA	Sub-saharan Africa
TVET	Technical and Vocational Education and Training
VAT	Value-added tax

EXECUTIVE SUMMARY

This Country Private Sector Diagnostic (CPSD) identifies opportunities to stimulate sustainable economic growth and development by harnessing the power of the private sector in Angola. Applying a sectoral lens, it leverages the private sector's knowledge and experience to accelerate transformational investment. It also puts forward operational recommendations highlighting strategic entry points for diversification and growth, while addressing key constraints to private sector engagement. The CPSD discusses implementation principles inspired by international good practices. It informs World Bank and IFC strategies, paving the way for joint programming to create markets and unlock private sector potential.

IN SEARCH OF A NEW GROWTH PARADIGM

The economic crisis in Angola has led to a rethinking about new sources of growth and has revealed the cost of past economic mis-governance. With limited oil reserves and prices unlikely to regain former heights, the public sector must relinquish its role as a core engine of growth. Since 2000, government spending and financial sector growth have been responsible for almost half of Angola's growth, while consumption fed by higher oil prices accounted for nearly another 40 percent. Infrastructure and human capital development, however, contributed very little, despite large public spending. The presence of low-performing State-Owned Enterprises (SOEs) in productive sectors, and more generally the dominance of politically-connected interests, have not led to the expected diversification of the economy.

After oil boom years, Angola is slowly recovering from a severe macroeconomic crisis caused by the sharp and prolonged decline in oil prices since mid-2014. Gross domestic product (GDP) growth collapsed in 2015 and contracted over the past two years, standing at –0.1 percent in 2017. The oil price crisis also gave rise to twin

deficits in the fiscal and current accounts from 2014 onwards. Public debt doubled over the last four years, while inflation escalated to over 40 percent in December 2016, exposing significant macro-financial risks. The government's Macroeconomic Stabilization Program introduced measures to strengthen fiscal stability, reduce inflation, increase foreign exchange rate flexibility, and gradually bring down debt levels.

The foreign exchange crisis and the strain on the financial sector, two direct consequences of the economic crisis, have adversely affected the private sector. Because Angola's economy is highly dependent on imports, a shortage of foreign exchange has had a very severe impact on all sectors of the economy. Imbalances in foreign exchange markets reached a high in autumn 2016 (the spread between the official and black-market rate was above 250 percent), although these have been largely resolved.[1] Access to finance for private sector firms, already difficult because of low incentives for the financial sector to lend to firms, was further crowded out during the crisis with substantial lending to the public sector. Claims on the central government nearly tripled between 2011 and 2016 to 14.4 percent of GPD, while lending to the private sector remained stable at 22 percent of GDP.

The huge need to rebuild the country dilapidated infrastructure and low human capital following the civil war was addressed, but only partially. For instance, today only 20 percent of Angola's 76,000 kilometers of roads are paved and less than one-third of the population has access to electricity. Similarly, important investments in human development led to remarkable progress, but much remains to be done: life expectancy has dramatically increased from 41.7 to 61.5 years between 1990 and 2016 but remains significantly below the average for lower middle-income countries (67.9 years). School enrollment increased sharply from 2.2 to 10 million between 2004 and 2016. Although gains have been made in primary education, secondary and tertiary levels lag significantly behind average Sub-Saharan Africa (SSA) levels. In 2016, about 30 percent of the Angolan population remained below the international poverty line, and Angola ranks below the SSA average in the World Bank Human Capital Index (0.36 compared to 0.40).

Important disparities remain between urban and rural regions, as well as large income and livelihood inequalities. For instance, only 8 percent of the population in rural areas has access to electricity. Only 50 percent of births are performed by a skilled professional (far below rates in neighboring countries) with large geographic disparities—as low as 21 percent of births in Bié or 24 percent in Cuanza Sul. Angola is highly urbanized. Rapid population growth and increasing urban poverty meant that the absolute number of poor Angolans increased from 4.9 million to 6.7 million between 2000 and 2014.

Transformation has not happened in Angola, as the economy is dependent on oil (slated to diminish in the medium term). In terms of external trade, Angola is one of the least diversified economies in the world, with 96.5 percent of exports in 2016 comprised of oil and diamonds. The domestic economy has changed significantly, fueled by the oil boom and the growth of services sectors (which, driven by the expansion of the financial sector, became the largest in the economy), and consumption (leading the growth of real estate, retail trade and telecommunications, among others). Also notable was the expansion of the construction sector from 5 percent of GDP in 2004 to an estimated 13.7 percent in 2017. Agriculture grew more modestly, reaching 10 percent of GDP, while manufacturing stagnated at a low 5 percent of GDP.

The changes in the economy during the growth years were not very favorable for jobs, which were mostly created in consumption sectors and government. Whereas real value-added increased by 229 percent in 1992–2015, employment only increased by 116 percent. Most new jobs between 2008 and 2014 were created in the services sector (nearly 1.2 million jobs), followed by public administration (over 240,000 jobs), and construction (over 150,000 jobs). Agriculture, manufacturing, and transport and communications, on the other hand, lost jobs. By 2014, the service sector had become the largest employer with a share of 51 percent of the total workforce, followed by agriculture with 42.8 percent (compared to 53.9 percent in 2008).

A WEAK PRIVATE SECTOR CANNOT LEVERAGE THE COUNTRY'S POTENTIAL

Angola has not fully leveraged its assets. Angola benefits from a large market, third largest economy behind Nigeria and South Africa in Sub-Saharan Africa (SSA) in 2017 ($122 billion), sixth in GDP per capita. The country has the third-fastest population growth in the continent, which will fuel demand (and which could potentially become a source of fragility if jobs are not created for the growing working force). Future growth prospects, despite the headwinds, look positive. Angola is rich in natural resources. Arable land is estimated to be about the same size as France, only 8 percent of which is being used. Water is abundant: there are 77 river basins and 43 hydrological basins, already a source of significant renewable hydroelectricity generation. Diverse climatic and soil conditions covering five major ecological zones offer a potential for a variety of agricultural production. Angola's coastal location offers access to marine resources and makes it a gateway for trade with Central Africa. The recent geological survey points to unexploited mining resources, notably important diamond and copper deposits.

The private sector is starting from a low base. It has suffered from decades of state intervention, cronyism, and poor policies. Angola's growth in the past 50 years has been driven by public spending: on the contrary, the contribution of private capital to growth has been very low historically, in contrast to the rest of Sub-Saharan Africa, where private investments have played a more important role in the economy. Private capital contribution to growth declined over time and was negative between 1996–2014.

Important segments of the economy remain dominated by state-owned companies and politically connected firms. Angola is home to Africa's largest SOE, Sonangol. Despite several waves of privatizations in the late 1990s and 2000s, SOE assets in the portfolio of the Institute for Management of State Assets and Shareholdings (*Instituto de Gestão de Activos e Participações do Estado* [IGAPE]) represent 78 percent of the country's GDP today. Sonangol's revenues alone are equivalent to 25 percent of GDP, and its assets 40 percent. SOEs have a dominant or substantial presence in agriculture, transport, construction, and banking. Their financial performance is poor on average and has deteriorated over the years. Excluding Sonangol's (diminishing) profits, SOEs are collectively incurring losses. Entrepreneurs closely connected to the government have developed successful businesses in telecoms, distribution, agribusiness, and real estate, benefiting from investment laws that created a preference for Angolan ownership, among other things.

On the other side of the spectrum, the private sector is overwhelmingly represented by sole proprietor firms, and firms are on average small. A majority (55 percent) are sole proprietorships, and altogether they employ a relatively small number of people (21 on average). Almost 60 percent of businesses are concentrated in Luanda. Several sectors have thrived during the oil boom years: construction and real estate, commerce, and distribution, as well as finance, are connected to oil cash flows and construction. To a lesser extent, telecoms and air transport have also benefited from the fast-growing economy. Together, the growth of these sectors has changed the face of the economy, now dominated by the services sectors. However, they have not contributed enough to put the economy on a sustainable growth path, as the private contribution to growth has been slightly negative. Spillovers from these sectors to the rest of the economy seem to have been modest at best. Agriculture and manufacturing, which have long been prioritized by the government for support and expansion, have failed to take off in spite of receiving large public investments.

START BY ADDRESSING MACROECONOMIC UNBALANCES ...

The fundamental conditions for private investment and market development are lacking in Angola, which undermines its diversification prospects. First, the macroeconomy needs to be stabilized. For businesses, access to foreign exchange is a priority. A fair-valued real effective exchange rate is essential to economic diversification. Currently, firms cannot obtain the foreign exchange they need and are faced with uncertainty as to the allocation process. Economies that are highly specialized in extractive industries—like Angola's—often fail to diversify. Currency overvaluation, resulting from an appreciation of the price of domestically produced goods and services, creates a de facto tax on export sectors and incentives to import more, amplifying the inefficiency of allocation of production factors across sectors.[2] A new flexible exchange rate regime closer to market fundamentals could help address these issues.

Angola needs better fiscal policies and frameworks that lead away from pro-cyclical and volatile public investment policies. Angola faces several fiscal challenges, such as: (a) stabilizing oil revenue flows in the short term and mitigating their pro-cyclical impact on fiscal policy, (b) preparing for the potential of a strong reduction in oil revenues over the next 15 to 20 years, and (c) reducing foreign debt to levels that can be managed in the future. During the boom years, public investments have been important. However, they may not always have been sustainable, as illustrated by large investments in infrastructure (such as some deep-water port projects) and productive activities (such as large agro-industrial and construction projects).

The quality of public spending is not sufficient. High-quality investment in infrastructure and human capital is essential to raise the productive capacity of the economy and to support economic diversification. This will require effective public financial management and investment systems, which raises the question of abandoning or revising some of the existing investment programs to better manage SOEs, the privatization of state assets, and more effective public-private partnerships (PPPs). Other policies for improved fiscal management should include a long-term fiscal framework implemented by strong institutions, and the broadening the non-oil tax base. Angola

is also one of the few countries in Africa that has not yet implemented a value-added tax (VAT)—this will be introduced in 2019.

... THEN OPEN THE DOOR FOR PRIVATE SECTOR DEVELOPMENT THROUGH REFORM DELIVERY ...

Next, a virtuous circle can be created by changing the role of the government in the productive economy from an actor displacing private entrepreneurs to a facilitator of private sector development. Pursuing this transformation of the role of the government and creation of opportunities for the private sector will involve efforts on two fronts: (a) a strong agenda of reforms to support competitive markets, and (b) the transfer of public assets to the private sector, chiefly through privatizations or PPPs, to free fiscal space and improve the efficient use of these assets. The second axis of the new National Development Plan (NDP) 2018–22, entitled *Sustainable, Diversified and Inclusive Economic Development*, foresees a broad agenda to that effect, including measures to improve the regulatory environment, productivity, and competitiveness; promote innovation and technology transfer; and support to sectors with potential to substitute imports and diversify exports. This is complemented by measures to strengthen the macroeconomic environment and reduce the size of public presence in favor of increased private sector involvement. New investment and competition law and the preparation of a privatization law have signaled the commitment of the new government to reform.

Creating the environment for private-sector led diversification requires high-level leadership and a long-term inclusive vision. The NDP charts this path, and the new government, in its first year, has initiated reforms. The reform effort for Angola will need to be broad and inclusive: removing obstacles to private entry (and exit) into markets, including obstacles to international trade and investments, guaranteeing price competition in markets, and securing the enforcement of contracts and legal obligations. These reforms span many areas of responsibility involving various ministries and agencies. Cross-cutting reforms must also be accompanied by sectoral ones that address specific market failures that could undermine private sector competition. Sector-specific reforms are important, particularly in relation to privatizations and PPPs to avoid rent capture by private interests: for instance, without a regulatory framework of feed-in tariffs that allow cost-recovery, PPPs in the electricity sector become a difficult proposition. In general, infrastructure, social and financial sectors (and others) require important regulatory functions to create efficient markets.

Prioritization and clarity of reform objectives are also necessary. The NDP shows the way by setting clear numerical targets for the next five years. Setting the path to reach these targets is as important. With respect to the objective of economic transformation, a focus should be put on: (a) enabling sectors (mainly electricity, transport, finance, telecommunications and education), which are sectors of the economy that provide essential inputs to the rest of the economy, and (b) sectors where constraints can be addressed, and opportunities can be seized, in the short- to medium-term, such as agribusiness. The short-term prioritization and objective setting should be executed in a coordinated fashion among the different branches of government involved.

For successful implementation of reforms, Angola should create a culture of delivery of reform within the government, learning from successes in other countries, and achieved through dedicated and empowered civil service teams. In the Republic of Korea, the president created a National Council of Competitiveness, as did Peru, Columbia, and Costa Rica; in Malaysia the prime minister created PEMUDAH, a task force to improve business regulation; in Rwanda, the Rwanda Development Board was tasked to coordinate efforts and overseeing implementation of reforms.

Significantly improving regulations that enable the private sector should be a priority. Angola scores in the bottom decile of many indicators, such as those in the *Doing Business* reports. The review of constraints to investment across sectors conducted for this diagnostic reveals a vast array of prohibitive barriers to private investments. Two sets of constraints are pervasive across the entire economy: poor productive capabilities and closed markets (both of which are linked to some extent) and present a near-insurmountable barrier to investment. Market contestability is low because of the dominance of SOEs and vested incumbents, historically restrictive investment policies (now relaxed in several sectors), informal barriers to investments, high tariff protection of Angolan industries, costly trade and logistics procedures, and generally poor regulatory oversight. Another indication of the absence of competitive markets in Angola is the high reliance on public contracts for many businesses. Public procurement favors national interests: under the new procurement law, foreign companies are only allowed to compete directly on tenders with values greater than 182 million kwanzas for good/services and greater than 500 million kwanzas for public works. Also, the Law on MSMEs specifies that state bodies must set aside at least 25 percent of their budgets for procuring goods and services for Angolan MSMEs. Without prejudice of the policy objectives pursued, it is important that these policies are carried out with transparency and minimize restrictions to competition.

Indicative of the difficulty Angolan firms face in procuring essential inputs and services, due in part to the absence of reliable spot markets, is the tendency for businesses to backward-integrate to access essential inputs. Medium-to-large firms produce essential inputs such as skills training, simple manufactured inputs, electricity generation and other infrastructure services, logistics; they also rely on their own financing. These mitigation strategies point to the lack of contract enforcement and market building institutions; at the same time, this situation is made possible by markets where high prices can be charged because of low competition and high barriers to investment. During the boom years, many businesses also accumulated reserves that now help them weather the crisis. However, the cost of dealing with these constraints diverts resources that could be used to diversify to other markets or products.

Further preventing private sector initiative is a low level of capabilities, that is, the capacity to efficiently manage firms and innovate in the market. This makes it difficult to invest into new sectors. Angola is relying heavily on foreign executives and technical personnel that can only be attracted on expensive expatriate packages. Because of the dominance of the economy by sectors boosted by oil rent distributions, true entrepreneurship has not been rewarded and has remained underdeveloped in Angola. This gap can only be addressed progressively, first by attracting private investment (as opposed to procuring foreign services) that will incorporate these capabilities in the priority sectors, and second, by supporting skills-building in and around these sectors (as opposed to policies imposing local content requirements).

Other constraints also hinder further private sector development: enabling sectors, chiefly finance but also transport and energy, are not providing sufficient levels of services and inputs to enable private sector competitiveness and growth. These, alongside ICT and education, also are sectors of the economy with significant potential to drive transformation through growth in delivery of affordable, high-quality services and direct job creation. Importantly, the state is heavily present in these sectors and can open the door for increased private sector participation.

... WHILE TRANSFERRING PUBLIC ASSETS TO THE PRIVATE SECTOR TO OPEN OPPORTUNITIES IN KEY SECTORS

Changing the role of the government in the productive economy can be addressed by reducing public shareholding in SOEs and increasing PPPs for service delivery. Pursuing this effort in key sectors can contribute to better fiscal management by reducing the involvement and exposure of the government while creating new opportunities for the private sector. This is strategically important and could create good conditions for diversification. Privatizations and PPPs can strengthen important enabling sectors, such as infrastructure services. Because of the large public-sector presence in many key sectors, a programmatic approach is needed that includes core capacity building and good governance of the ministries and agencies in charge. In addition to core activities, sector-specific transactions must be prepared and carried out, starting with priority sectors described below. This implies establishing the regulatory framework to secure private participation in key sectors (including fiscal transparency in the contractual arrangements between private and public).

Improving the management of public assets, such as land, real estate, and industrial zones, and tendering them on commercial terms to private management or ownership, should be part of a broader PPP strategy to create opportunities for transformative private sector development. This would help maximize value for the public purse and guarantee the most efficient use of these assets for the economy as whole. Specifically, this would serve the development of a modern agribusiness sector by providing access to public prepared land and infrastructure currently under the management of Gesterra. Likewise, urban real estate and land (under the purview of the SOE in charge of managing public agriculture land (*Empresa Gestora dos Terrenos Infraestructurados do Estado* [EGTI]) could potentially interest private investors. In the short term, the focus should be on the more strategic of these assets, starting with brownfield sites (where investments have already been committed), and geographic areas with higher potential (including those in large population centers or where substantial agribusiness potential exists) to generate quick wins.

With the state planning to transfer assets and production to private hands in priority sectors, sectoral reforms are necessary to create competitive markets. Evidence points to poorly-developed infrastructure, banking, and ICT sectors, which are necessary for a well-performing private sector. One reason for this underdevelopment is a lack of an appropriate regulatory framework. Another is the lack of complementary strategic investments. Each of the priority sector characteristics is discussed in greater detail below.

THE POWER SECTOR: BETTER SERVICE THROUGH PARTNERSHIPS WITH THE PRIVATE SECTOR

Electricity supply is expected to improve significantly because of substantial investments in hydroelectric generation, which is expected to bring excess capacity. Angola aims to reach 9.9 gigawatts of installed generation capacity (with demand expected to grow to an overall system load of 7.2 gigawatts) and a 60 percent electrification rate by 2025. Some of this excess capacity could be exported in the future. However, meeting high demand from industrial consumers and businesses will require investments in transmission and distribution. For instance, some businesses in Viana in Luanda do not have access to the grid and can only operate using power generators. Improving the servicing of businesses would be desirable, starting by targeting investments in distribution and transmission in areas of high economic activity and potential (such as operational industrial parks and agricultural clusters). The management of business accounts could also be improved, starting with a review of business account management, implementing better monitoring, and improving the level of service. This could also lead to better electricity revenue collection that generate positive returns.

Continue improving the regulatory framework for the sector. The regulatory framework is not fully complete, but there is capacity-building support provided by donors: such as the World Bank, Japan International Cooperation Agency (JICA), and Power Africa, among others. Issues include the capitalization levels of energy utilities, electricity market prices that are not economically sustainable, and questions about the long-term independence of the regulator (which depends on the Ministry of Energy). The capacity of the energy utilities as power purchaser should also be strengthened by improving their technical and financial performance. Finally, there would be a need to reinforce coordination in the power sector planning process after the unbundling of the sector and to clarify the role of the different stakeholders in the process.

Build the capacity to realize PPP arrangements for the electricity sector. The government is looking at a potential pipeline of projects in the renewable sector. There may be cases where local new generation might be needed (for example, solar with mini-grid applications) to meet demand. Beyond the regulatory challenges described above, there are challenges ahead in terms of realizing future deals.Sector bodies require improved capacity to conduct the bidding processes and negotiate power purchase agreements (PPAs) if they are to mobilize more than a $1 billion of private financing per year. A feed-in-tariff mechanism should be considered, given the ambitious plans for 800-megawatt renewable energy generation capacity (excluding hydro power). Finally, the prospect of guarantees could be explored given the financial weakness of the public sector.

Strengthen regional connectivity. Angola is currently a non-operative member of the Southern African Power Pool (SAPP) but interconnection lines are planned through Namibia and the Democratic Republic of the Congo to allow cross-border energy trading. Regional cooperation in power projects could also help to unify the national transmission system—currently fragmented into three separate grids—and allow for energy exports and imports to mitigate energy supply risks.

OPEN TELECOM MARKETS

The ICT market is underdeveloped considering the size of Angola's economy. Despite relatively good coverage, mobile phone penetration was at 46 subscribers per 100 people in 2017, about the average in Sub-Saharan Africa but far below South Africa, where it is three times as high. Mobile penetration has been declining since 2014 due to the combined effects ofan economic slowdown and the lack of competition in the market, where Unitel is the dominant operator. Access to telecommunications remains expensive: prices for mobile data, call plans, and broadband internet in Angola are high compared to neighboring countries. Regionally, South Africa's prices are the most competitive while Angola's prices are more than ten times higher. When lower prices are available (such offered by Movicel and NetOne), they are associated with decreased speed and quality.

Efforts to open the telecom markets are one of two pillars to introduce more telecom services in the economy. The Angolan Ministry of Telecommunications and Information Technologies issued a tender for a fourth universal telecommunication license in November 2017. The tender conditions require that the winning telecommunications operator be 45 percent-owned by a local shareholder. In a further effort to open the market to the private sector, the privatization of a 45 percent minority stake in Angola Telecom was also launched. To reach their objectives of expanding the market, these two initiatives depend on several complementary efforts. For the privatization of Angola telecom, a careful audit of the company and the separation between commercial activities and infrastructure assets must be considered.

Strengthening competition in the telecom sector to expand the market is the second pillar of reforms. Efforts related to the fourth license and partial privatization of Angola Telecom go in the right direction, but remaining restrictions regarding Angolan ownership and continued government control and participation may muffle the impact. There are also market structure issues with the involvement of important operators, including state-owned ones, at several levels of the value chain (Unitel, MS Telecom, Angola Telecom). These must be addressed with proper regulation guaranteeing competition, such as Single Market Player, and infrastructure access regulations.

Other regulatory improvements are needed. Operators have requested low-band spectra from the government to cover a wider range. However, frequency allowance is an issue as the government, due to a lack of equipment, is not able to ascertain which spectra are free so that they can be released to operators. Furthermore, the regulatory framework for mobile money and cybersecurity needs further development, clarity, and dissemination.

Lack of skilled labor and the poor quality of education pose a key challenge to the sector. Some companies take only experienced hires, while others invest in their own training programs. In the mobile sector, concentration of skilled people in one company is resulting in deteriorating service quality in the competitor.

Further and deeper assessment is needed to (a) collect key market information (such as existing infrastructure, quality, ownership, sharing arrangements in place), (b) better understand possible market failure, and infrastructure gap and policy reforms required—particularly from the standpoint of declaring a dominant player (Unitel) and the necessary regulatory intervention that may be required for a dominant operator to encourage competition from new players (for example, infrastructure sharing,

asymmetric interconnect tariffs), and (c) identify feasible opportunities for private sector investment.

DE-RISK AND DEEPEN THE FINANCIAL SECTOR

There are large disparities in access to finance across regions, types of businesses, and gender. The percentage of adults with a transaction account in a financial institution is less than 30 percent. Women, and adults in rural areas have even more restricted access: only 22 and 18 percent, respectively. Luanda, with 27 percent of the population, accounts for 90 percent of total credit and 95 percent of total deposits in the entire country.

The financial sector has grown in Angola, being the third largest in sub-Saharan Africa and benefiting from its role in financing the oil industry. However, it is exposed to systemic risks and has a limited reach in other sectors. The lack of diversification in the Angolan economy and credit quality deterioration during the past three years have limited banks' incentives: most banks prefer to invest in U.S. dollar-indexed treasury bonds issued by the government of Angola (a hedge to foreign exchange risk) rather than lending to the private sector. While banks' net claims on the central government almost tripled as a share of GDP between 2011 and 2016 (from 5.4 to 14.4 percent), claims on the private sector remained stable at around 22 percent of GDP.

In addition to high credit risk, the lack of enforceable collateral and legal protection further constrain bank lending. The World Bank's 2019 *Doing Business* report ranked Angola 184 out of 190 economies on the "Getting Credit" indicator. Difficulties with property registration also create problems for mortgage lending. The bulk of lending (75 percent) has focused on non-productive sectors (real estate, construction, trade, services, and consumer loans), away from productive ones. This limits the financial sector's role in diversification and attenuating exposure to cyclical shock. The lack of access to finance coincides with high liquidity in the banking sector, which increased significantly between 2010 and 2016.

The banking sector is not concentrated (it consists of over 25 banks), but faces structural issues. First, the state has a significant role in the banking sector through direct ownership of Sonangol and three banks. Sonangol has investments in five banks, including the second-largest lender, BAI, in which it holds an 8.5 percent stake. Additionally, there is a considerable ownership stake by politically-connected interests. Second, vulnerabilities have been on the rise with non-performing loans (NPLs) more than doubling to 26.7 percent in November 2018, up from 10 percent in 2013. Almost 75 percent of NPLs are accounted for by a single, state-owned, systemically important bank: Banco de Poupança e Crédito (BPC), which, along with the two other smaller state-owned banks, requires recapitalization and an implementation of a credible restructuring.

The National Bank of Angola, BNA, has put significant effort into improving its oversight of the banking sector. The authorities have taken important steps to improve the regulatory framework and establish a risk-focused approach to supervision. It has recently taken decisive measures, such as better enforcement of prudential norms on non-compliant banks. However, there are still challenges to address, such as regulatory and operational gaps, as well as capacity constraints. For example, after the loss of direct U.S. dollar Correspondent Banking Relationships in 2016, Angola's

legal oversight mechanisms for combating anti-money laundering and the financing of terrorism are still insufficient.

The government has taken concrete steps to develop the financial sector and improve financial inclusion. Efforts to address this situation have included: launching savings and education campaigns, improvements in consumer protection, restructuring the development bank, financing programs that extend credit lines and guarantees to small businesses (and aim at economic diversification), training and skills development for entrepreneurs. It has also made improvements to the regulatory environment, payments systems, and credit infrastructure. Implementation of these efforts will be more effective if government programs are built on a sound market-oriented foundation, where partnerships developed with financial institutions and the private sector lead to new products, services, and delivery models.

The Angolan financial sector suffers from an overall lack of skilled labor. The capacity of financial regulatory agencies requires highly specialized competencies. However, skilled human resources are scarce in Angola. Consequently, the sector is largely dependent on expatriate workers from South Africa and Europe.

Immediate opportunities to grow the banking sector may not arise in an economy that is still adjusting from the oil price shock and its impact on the financial system. However, ancillary services to the financial sector could help develop the market, as could increasing the amount of credit available to the private sector, particularly SMEs. The development of mobile banking could create new opportunities. Despite continued regulatory gaps, mobile banking is slowly being introduced in the market: there are now three mobile money providers in the market. The lack of interoperability (a single mobile switch) among the different mobile money providers, as well as the lack of clear legal framework, inhibits further market development. Financial literacy is also key to the uptake of mobile financial services.

Ancillary financial services that could be developed include: (a) collateral services: since clarifying land ownership is very difficult and time-consuming in Angola (the process can take several years), providing third-party services such as appraisal, title search, and registration, could facilitate more collateral-backed loans; (b) equipment leasing: with access to foreign currency, leasing would enable manufacturers to obtain affordable equipment; (c) compliance consulting services: as Angola tries to improve its business environment and reduce corruption, demand for compliance services will increase; (d) business development services: investment banks can offer services such as marketing and roadshows as Angola presents itself as an investment destination.

Business financing initiatives from the government should crowd in private finance. Government-sponsored enterprise finance programs should be evaluated to help them adopt more sustainable and transparent criteria for supporting enterprises with the goal to crowd in private finance. The government had been working with the private sector through the Angola Investe program, which provided credit guarantees and subsidized interest rates on commercial bank loans to non-oil sector SMEs. However, Angola Investe's results were below expectations and was discontinued. The government is now working on a new mechanism to support SME finance, which is linked to the Program to Enhance Production, Diversify Exports and Substitute Imports (PRODESI). Supporting the development of an SME credit and risk framework and providing investments to increase financing for SMEs would be desirable—since most SMEs lack sufficient collateral, loan request rejection rates are very high (86 percent).

In addition, complementary financial services that could provide credit information about borrowers, such as insurance, capital markets, accounting, or credit bureaus, are either underdeveloped or non-existent in Angola.

INCREASE THE PRIVATE PROVISION OF ESSENTIAL TRANSPORT STARTING WITH PORTS AND AIRPORTS

The fundamentals of Angola's economy should support a dynamic transport sector. Angola's economy and geographical position should provide it with ample opportunities to become an international transport gateway for southern Democratic Republic of Congo and landlocked Zambia and Botswana. The country's medium-to-long haul transport domestic demand is hampered by Angola's low population density (20 people per square kilometer) and the growing concentration of its population along its coastline (Luanda is home to one-quarter of Angola's total population).

Angola's logistics sector significantly lags its regional peers both in terms of availability and efficiency. The aggregated Logistics Performance Index puts Angola at 160 out of 167 countries. The same is true for the quality of its air, port, rail, and road infrastructure (that is, 139 out of 144 according to the Global Competitiveness Report) despite the significant public investment in key transport infrastructure since the end of the war. Current gaps in infrastructure and performance impede rather than enable the country's economic growth and poverty alleviation agenda. These shortcomings result in high transport prices that weaken Angola's value proposition as a regional transport hub/gateway. These factors explain why Angola's transport sector is underdeveloped, accounting for about 2.3 percent of GDP in 2017 compared with 9.9 percent for SSA.

Since peaking in 2014, the overall passengers and cargo volumes handled by Angola's transport sector have sharply declined. For instance, activity in the port of Luanda decreased by 45 percent between 2014 and 2017. While overall demand seems to have stabilized as of late, future volumes growth will be linked to the robustness and sustainability of the nascent economic recovery in addition to the transport needs generated by a fast-growing population and Angola's ability to play its regional gateway role.

The state is heavily involved in the sector with 15 SOEs in the operations of key transport infrastructure and services, including maritime transport, port management, terminal operations, airlines, airport management and services. Public companies have been performing relatively poorly, with $90 million losses on average in the last two years of 2016–17; they have accumulated liabilities amounting to 3 percent of GDP. A priority should therefore be to improve the efficiency of these companies and address their liabilities including through privatizations and concession to private sector operators.

The government has launched several large-scale infrastructure projects that are encountering difficulties. The largest include the construction of the new international airport in Luanda with an expected capacity of 15 million passengers, the building of deep-sea ports in Cabinda and Barra do Dande near Luanda, and the rebuilding of the Benguela railway. The economic viability of all these investments as initially designed is not guaranteed, which raises the question of whether alternative solutions could

be identified with the help of the private sector, or in some cases, whether projects should be put on hold.

Within the transport sector, maritime and air transport have the greatest potential to attract private investment. Immediate opportunities for private sector involvement could have a high economic impact, as they concern the most important air and maritime gateways of the country. In the short term, these opportunities could focus on the privatization of transport brownfield assets and the associated restructuring of the SOEs linked to them. Such reforms will require navigating the political economy surrounding SOE reforms, including social costs. When devising its transport PPP agenda, the government will need to carefully weigh the pros and cons of each option while keeping in mind that private investors have limited appetite and patience for unrealistic PPP programs that do not allocate risks efficiently between public and private sectors.

The government should concentrate on reforming Luanda Port (where most of Angola's trade takes place) as well as Cabinda Port, once upgrade works there are completed. Stevedoring activities could be availed to private operators in lieu of existing SOEs with the goal of delivering improved productivity and offering more attractive prices. In addition, the government should consider a new master plan for Luanda Port that would make more efficient use of the available stevedoring and storage space to bolster the port's general cargo handling capacity.

The future of TAAG, the national airline, should also be addressed, as its fate will have a disproportionate impact on the ability of the government to raise private financing for its airport sector. Information gathered strongly suggests that TAAG will need to be at a minimum restructured before considering its economic future. Sonair's activities should also be reviewed to determine its economic viability as a public enterprise.

Airport operations should be able to attract private operators and investors who would be able to optimize the use of airport infrastructure and run airport associated services on a competitive basis. The dimensions of Luanda's new international airport could make it difficult to operate at a profit. It is also unclear what remains to be completed before it starts operations.

Lobito Port and operations of the Benguela railway (CFB) will depend on whether public investments to connect to the Democratic Republic of Congo and Zambia are possible. These investments could lead to private sector participation in the rail corridor in the form of train and infrastructure operators rather than infrastructure investors.

Finally, regional road corridors connecting Angola to neighboring countries should be prioritized by the government because of the positive trade spillovers they could create. Improved regulation and enforcement on road transport and management of border facilities will be necessary. Overall, private sector participation in logistics facilities in border towns is possible.

SUPPLY OF SKILLS: MATCH WITH DEMAND AND INCREASE PRIVATE SECTOR PROVISION

Access to skills is a pervasive problem for market development, despite greater attention paid during the economic boom to the importance of education. In spite

of progress, Angola still lags significantly behind peers and market needs. Since the end of the civil war, access to education has rapidly improved with primary school enrollment increasing from only 500,000 to over 5 million children between 2001 and 2015. Net primary school attendance rates improved from 56 percent in 2005 to 78 percent in 2014, but one in six school-aged children remains out school, a rate much higher than in other middle-income countries. Angola's enrollment rate—26 percent in the lower cycle secondary school and 15 percent in the upper cycle in 2014—is among the lowest in the world. The youth (ages 15 to 24) literacy rate in Angola is 75 percent, but has stagnated at that level since 2008, even as school attendance increased from 66 percent to 80 percent in the same period.[3] Despite recruitment efforts, Angola suffers from a severe shortage of skilled teachers at all levels. The high pupil-to-teacher ratio—42.5 in 2011—leaves many teachers unable to cope. Most university instructors only have bachelor's degrees. And limited teacher training capacity exacerbates the situation.

Public and private spending on primary and secondary education is still low. Public expenditures in education increased significantly between 2010 and 2013, from 2.9 to 4.1 percent of GDP, but was cut by more than 30 percent (to 2.7 percent of 2016 GDP) between 2013 and 2015. The share of household expenditures in education is also much lower than in most comparable countries. This may be explained in part by the low supply of private education.

Due to poor education outcomes, companies surveyed mentioned that they tend to invest—at high cost—in training staff to develop skills that should have been acquired in school. This includes mathematics, reading, and writing. This general gap in learning was confirmed by vocational training institutions. For instance, a private training institution reported that it must instruct students in basic skills rather than teaching specialized skills, as the academy originally intended, despite entry exam requirements in math and Portuguese.

The lack of financing has negative impacts on multiple fronts. Academic and training institutions cited customers' inability to pay fees as a key constraint. The economic crisis has only worsened the situation. Bank loans are also difficult to obtain for students, or for private education institutions themselves. Corporate-sponsored scholarships have also been reduced. While private universities do not receive public funding, students may be eligible for government-funded scholarships, for example by the National Institute of Management of Scholarships (INAGBE).

A nascent segment of private sector providers exists, catering primarily to wealthy urban classes. The ability to pay for services remains a constraint to their expansion, as is the high cost environment that private operators generally face. Quality considerations are not properly regulated and monitored, and standards not well enforced, which contributes to an unfavorable environment for private sector providers.

There would be demand for good-quality, private, general education priced below international school rates to cater to middle-class families seeking quality education beyond the public system. Angolan families do not often have a third option beyond sending their children to public schools or very expensive international schools. Expanding the private education industry relieves pressure on the public education sector to free up resources for students who cannot afford private education.

Private providers could also fill the need for vocational training for workers, though there may be a mismatch between industry demand and student interest. Angola has

a shortage of trained workers in the science and technology, agroindustry, tourism, logistics, transportation, and chemical sectors. Despite these shortages, the demand for vocational training courses is concentrated in other subjects. There is also space to provide offline remedial and workforce training**.** Private universities and training centers are making limited progress in closing the gap between the workforce quality produced by the Angolan education system and the skill levels required by employers. Providing teacher training to address the shortage of qualified local teachers is another opportunity for the private sector.

Difficulties with internet access and foreign currency payment issues makes it difficult to offer online education as a substitute. Innovative online services approaches could contribute to increase access to education at more affordable costs. Online training providers can cater to companies seeking to train their employees, if employers are willing to make the investment by facilitating the payments and providing internet access.

Finally, the financial sector could partner with education providers to provide payment plans. With generally high rates of non-performing loans in the banking sector, financing private education through traditional student loans might not be advisable. However, expanding pay-as-you-go programs can help expand accessibility for working students or children of employed parents.

SUPPORT TARGETED AGRIBUSINESS DIVERSIFICATION

Agribusiness should be at the center of Angola's economic diversification; however, favorable conditions have not led to a thriving sector. Even though production has increased, fostered by important public investments, large government projects and investments have generally underperformed and there are few successful agribusiness firms. Medium and small holders lack the technical and operational resources to participate in markets and are hampered by poor infrastructure and lack of finance.

A new approach to grow the agribusiness sector should focus on four potential entry points: (a) expansion of commercial horticulture and fruit production that builds on the relative competitiveness achieved by successful firms, (b) backward integration of distribution and processing firms seeking to reduce dependence on imports and build on their commercial and logistics networks, (c) development of aggregation models to provide channels for market-oriented small and medium farmers to commercialize their production and overcome existing productivity and commercialization constraints, (d) unlocking the productive capacity of state-owned agro-industrial assets through privatization and PPP arrangements and tendering of state-owned agriculture land.

A small number of commercial producers, primarily of fruits and vegetables, have the capacity to supply the formal distribution sector by meeting quality and volume requirements. Given the size of the market opportunity and unmet demand, most large commercial firms have expansion projects. These include branching out to other sectors such as cereals, poultry, and livestock. Expansion plans have slowed because of the economic crisis and foreign exchange constraints, which have limited ability of firms to import inputs for operations or equipment for new investments. Large, commercial, horticulture producers have access to foreign technology and management; rely on high-quality, imported inputs, achieve high yields and quality that approach world-class standards, have established strong distribution networks,

and operate their own fleets of trucks to deliver produce to retailers. Some own retail stores or are part of distribution groups.

Angola's distribution sector has started to integrate backwards down the supply chain to engage in agriculture production and processing. Some food and beverage processors are also considering agriculture production to secure inputs. The rationale is to seek a reliable supply of quality products, capturing higher margins compared to imported products. Such efforts are recent, and their success remains to be seen. Distribution firms enjoy the connection to the final consumers, strong logistics, and the platforms to import the necessary inputs and technology for developing agribusinesses. Firms integrating backward into agriculture face similar constraints as large commercial farmers. In the short-term, unpredictability in accessing foreign exchange is the main challenge. In addition, access to energy and excessive red tape, including lengthy delays and the high cost of obtaining land concessions for farming, represent additional challenges.

Angola's commercially-oriented, small- and medium-sized agri-producers represent a small but emerging segment. Developing this segment represents an opportunity with significant potential to increase employment and income opportunities in rural areas, especially for youth. Market-oriented producer organizations are few, but the foundation for organized approaches exists. Previous and current efforts to strengthen producer organizations have led to positive results. Aggregation models need to be developed to provide channels for market-oriented small and medium farmers to commercialize their production and overcome existing constraints. Private investment in value-added activities, such as storage and processing, represent an opportunity to aggregate production from smaller producers, provided they also receive support to improve yields. Installed capacity for milling and feed production is currently underutilized due to insufficient supply. Off-takers, including larger firms mentioned above, can also forge partnerships with small- and medium-sized producers to develop a stable supply of quality produce.

Private participation could help valorize past public investments in agro-industrial and irrigation infrastructure, currently used below potential. Over the last decade, large government investments were realized with the objective of expanding domestic agriculture production and processing. No complete evaluation of those investments (large public farms, irrigated perimeters, credit lines) is available, but by many accounts, they have not lived up to expectations. The government is restructuring agricultural SOEs: principally *Gestão de Terras Aráveis* (Gesterra), the main entity managing large and medium scale government farms and public agriculture land. Some SOEs are being closed: *Sociedade de Desenvolvimento de Perímetros Irrigados* (SOPIR), in charge of irrigation perimeters; *Empresa Nacional de Mecanização Agrícola* (Mecanagro), founded to support land preparation, and rural civil engineering works; *Empresa de Rebeneficiamento e Exportação de Café* (Cafangol) involved in processing and export of coffee; and *Sociedade de Desenvolvimento do Polo Agro-industrial de Capanda* (Sodepac), in charge of managing the large Capanda development pole in Malange province.

Realizing these entry points will require a much-improved and strategic provision of public goods and a redefined role for the state as an enabler of private activity. Key actions needed include (a) directing infrastructure improvements (roads, electricity, irrigation) to areas with concentration of commercial agribusiness, (b) continuing to improve business conditions such as import/export procedures, (c) promoting pub-

lic-private dialogue to address value chain constraints, (d) actively seeking potential expansion of successful commercial agribusiness and support the development of contract farming through training and finance facilities, (e) strengthening research and development and public extension services, moving to public support modalities that crowd in the private sector, and finally (f) privatizating and granting concessions of government-owned farms to improve management of public agriculture land and irrigation infrastructure.

HOW TO CREATE MARKETS IN ANGOLA

Three contextual elements make the timely implementation of the CPSD recommendations (summarized in table ES.1) particularly opportune and challenging. First, there is a historical and relatively short political window of opportunity to push a critical mass of difficult and necessary reforms across a broad front. Second, the government focus is expanding from macroeconomic stabilization—the main priority—to the implementation of the NDP, which entails 83 programs. Finally, there is limited technical capacity/experience with respect to carrying out market reforms (including privatizations/PPPs), made worse by a complex and fragmented institutional setup. Given this opportune and challenging context, Angola could follow seven good reform process management principles inspired by the experience of successful reforming countries.

PRINCIPLE 1. **Leadership at the top levels of government.** It is essential for the top levels of government, starting with the Head of State, to be continuously and very actively involved in the reform process. The top levels of government need to ensure regular monitoring of progress and take immediate and forceful corrective measures when progress is insufficient. Leadership comes not only from the very top but also from each of the key ministers and agency heads, as well as from the head of the Reform Team (see below).

PRINCIPLE 2. **A dedicated and highly skilled reform team.** There is a need for a small, dedicated, highly skilled "Reform Team," reporting to the top level of government, that is responsible for prioritizing reform plans, monitoring progress, and resolving problems throughout the reform process. This team is not responsible for carrying out the reforms themselves, as this should remain the prerogative of the designated ministries and agencies as discussed below. There are many compelling examples of reform teams.[4]

PRINCIPLE 3. **Prioritized reform plans.** The prioritization effort should include decisions about both what and what not to do. Some planned activities can be counterproductive (for example, ill-informed industrial policies playing into the hands of vested interests). The prioritization should be based on facts, sound economic analysis, and the need to show tangible results quickly (to both the public and potential investors), as well as to push the hardest reforms at the right time.

PRINCIPLE 4. **Hold ministries and agencies accountable to detailed implementation plans.** There should be clear and simple allocation of responsibility for delivering pri-

ority reforms for cabinet or parliamentary approval, and, crucially, for implementing them—for example, the Ministry of Finance for macroeconomic/fiscal/governance reforms, the Ministry of Economy and Planning for cross-cutting investment climate and regulatory reforms, sectoral ministries for the priority sector specific reforms, and IGAPE for SOE reforms, including privatization and PPPs. The private sector will only commit to commercially viable projects; therefore, the credibility of the privatization/PPP process will depend on successful initial transactions, which may take time.

PRINCIPLE 5. **World-class technical expertise** for planning and implementation. The successful delivery of critical reforms relies on world-class technical expertise, starting with the dedicated Reform Team discussed under Principle 3 above. World-class technical expertise is also critical at the level of each of the key ministries and agencies, which should have their own version of the "Reform Team" for both planning and implementation. High implementation capacity is essential, as the details can be complex (as shown by the privatization of energy distribution companies in Nigeria, where the private and public sector have yet to agree on whether tariff reforms should come before or after the necessary investments). Technical capacity should be concentrated wherever possible in areas that require similar skills, for example, SOE reform, privatization, and the PPP agenda.

PRINCIPLE 6. **Monitoring with consequences.** Over time, the success of the reform program will largely depend on regular monitoring with tight feedback loops combined with timely and forceful decision-making on corrective measures by the top level of government.

PRINCIPLE 7. **Engaging the public and communicating results.** Consideration of the impact of reforms on all groups, particularly the poor and vulnerable, and consultation with the private sector are key aspects considered by successful reformers. In addition, effective communication and stakeholder management are essential for accountability and for ensuring the uptake of reforms (for example, to avoid implementation gaps due to insufficient knowledge about new regulations). For instance, Malaysia's PEMANDU, one of the world's most successful performance and delivery government units, built a strong communication function designed to keep stakeholders informed every step of the way.

In conclusion, the transformation of Angola's economy into one with a more diversified and larger private sector that creates jobs and growth opportunities must be managed with strong government leadership using clear, prioritized objectives. An important measure of success will be the ability to create new markets and investment opportunities for firms that will create Angola's future wealth. Table ES.1 summarizes the main short-term reform recommendations from the CPSD. The World Bank and the International Finance Corporation (IFC) are keen to provide support for implementing priority CPSD recommendations in the context of the Country Partnership Framework 2020–25, building on existing engagements. This would entail support for key reforms through World Bank policy lending, regulatory, institutional reforms, and investments in public goods supported by World Bank Group investment lending and technical assistance. These should enable private investments that can be supported by IFC.

TABLE ES.1 SUMMARY OF CPSD MAIN RECOMMENDATIONS

Core constraints	Policy interventions	Short-term private investment and advisory opportunities
MACROECONOMIC INSTABILITY (business risks, difficulties to access FX and finance)	• Public expenditure reform, fewer and more targeted subsidies, improved procurement • Reform of oil revenue management framework • Divestment from public assets and SOEs • Domestic resource mobilization • FX and monetary policy	
CROSS-CUTTING INVESTMENT CLIMATE AND REGULATORY REFORMS	• Remove anti-export bias of trade policy • Implement new private investment and competition laws • Improve priority Doing Business indicators • Strengthen land governance and administration starting with high potential areas	
ACCESS TO ENERGY ISSUES (limited access and/or low quality)	• Review tariffs to enable cost recovery (with targeted demand side subsidies) • Reform of distribution company to reduce technical and commercial losses • Implementation of a strategic master plan / distribution to industrial/agribusiness zones • Build capacity to carry out/manage priority PPP transactions (such as scaling solar) • Regional interconnection (to export over-supply)	• Private management of some existing power plants • New climate smart energy solutions including off-grid / mini grid
LIMITED TRANSPORT LINKS AND EFFICIENCY OF PUBLIC MANAGEMENT OF INFRASTRUCTURE AND SERVICES	• Transfer state-owned transport companies to private sector management or ownership (over/under investment and poor management) • Build capacity to carry out/manage PPP transactions • Improve and maintain key trunk roads • Review existing concessions and management of Luanda port • Consider viability of rail link with Zambia and Lobito ports	• TAAG and potentially Sonair privatization • PPP in Luanda and Lobito ports and Luanda airport
UNDERDEVELOPED DIGITAL ECONOMY	• Develop IT skills • Address market dominance of the main telecommunications operator • Update the regulatory framework (SMP law, access sharing) and build capacity for regulatory oversight	• Award of the fourth mobile license • Angola telecom privatization (assets and telephone license)

Table continues next page

TABLE ES.1 (*CONTINUED*)

Core constraints	Policy interventions	Short-term private investment and advisory opportunities
SIZE OF NPLS IN THE BANKING SECTOR AND LIMITED ACCESS TO FINANCIAL SERVICES	• Reduce state presence in the sector • Develop technical skills • Restructure public banks with high NPLs • Strengthen bank supervision and compliance with AML-CFT norms • Develop a regulatory framework for mobile financial services • Improve financial infrastructure (credit information, collateral registry, payment systems)	• Risk management tools • Collateral commodity financing • Underserved sectors financial institutions: housing finance, SME banking, agri-finance, health, education • Microfinance and non-bank financial institutions
UNTAPPED AGRICULTURE RESOURCE POTENTIAL	• Improve management of public land • Increase access to finance (especially medium and small holders) • Reduce costs of import and export • Improve condition for expansion of horticulture • Support small holders in connection with out-grower commercial schemes • Facilitate backward integration of distribution and processing businesses	• Public Land lease to agribusiness investors • Horticulture • Animal protein • Crops linked with agro-processing for domestic market: cereals, industrial cultures • Provinces with significant production potential (such as soya bean production and animal protein in Malange,Huambo and Huila provinces; fruit and horticulture in Benguela province) • Private sector acquisition and modernization of privatized government assets including warehouses • Cold supplychainsto support growth, distribution and potential exports of fruits, vegetables, and meat
SKILLS SHORTAGES (weaknesses in primary to tertiary education, technical and vocational training)	• Remove failed local-content policies for Angolan hires • Expand availability of financial products • Strengthen quality and availability of training of teachers • Support the matching of vocational training with demand (including through government incentives) • Improve the regulatory environment: licensing, high costs to import and export	• To be determined upon further analysis: potentially tertiary education, vocational schools, and selectively upper secondary education • Ed tech through global providers
ACCESS TO HEALTH/CLEAN WATER	• Increase investment in health • Improve the regulatory environment: licensing, high costs to import and export • Expand availability of financial products • Develop technical skills • Ease access to pharmaceuticals (strict regulation and costs) • Improve medical training	• To be determined upon further analysis: potentially off-grid and IT-based health solutions; training of health professionals

Table continues next page

TABLE ES.1 (*CONTINUED*)

Core constraints	Policy interventions	Short-term private investment and advisory opportunities
Poorly managed, underperforming public assets; poorly targeted spatial development initiatives	• Pursue SOE reform/Privatization/PPP in priority sectors/companies (energy, transport, ICT, education, health/water) • Lease public property assets (urban estates, agricultural land) • Prioritize public investment program around key sectoral/geographic priorities to crowd-in private investments	• Land lease to agribusiness investors • Transfer of agriculture assets (farms, infrastructure) to private ownership or management • PPPs to develop industrial zones and estates

PART I

OVERVIEW

01. COUNTRY CONTEXT: WHY A PRIVATE SECTOR DIAGNOSTIC NOW?

Angola is undergoing a rapid transition driven by a leadership change, a deep macroeconomic crisis, and the exhaustion of oil-driven economic growth. Years of record growth fueled by a rising oil sector, averaging 8.2 percent between 2004 and 2014, helped finance the country's reconstruction after the 27-year civil conflict ending in 2002. In spite of this growth, a large share of the population lacks access to basic services. Thirty percent of Angolans live below the international poverty line[5] and country performance lags in the Human Capital Index (0.36, below the regional average of 0.40) and in the Human Development Index (147 out of 189 countries). Large urban-rural disparities exist, with one in two rural people living in poverty compared with one in six in cities.[6] Lower oil prices exposed the vulnerabilities of oil dependency, leading to a recession and fiscal, monetary, and foreign exchange imbalances. The government of President João Lourenço, which ended the 37-year rule of Jose Eduardo dos Santos in September 2017, launched an ambitious reform program to address macroeconomic imbalances and achieve sustainable and inclusive growth based on economic diversification, improved governance, and a bigger role for the private sector.

The macroeconomic crisis has adversely affected the private sector. GDP is projected to contract by 1.7 percent in 2018 (decelerating for the third consecutive year).[7] The oil price crisis gave rise to twin deficits in the fiscal and current accounts from 2014 onwards. Public debt has doubled over the last four years, and inflation escalated to over 40 percent in December 2016, exposing significant macro-financial risks. In addition to being overly reliant on public contracts, the private sector directly suffered from the economic crisis in two ways. First, foreign exchange shortages constrained firms' ability

to import inputs and move ahead with investment plans. Second, credit to the private sector dried out as banks turned to government securities in a scenario of rising non-performing loans.

The crisis has revealed the cost of past economic mis-governance (oil rents diverted to connected interests) and the need to find new sources of growth. Investments in the economy have been important but have not led to a stronger private sector. In the years following the conflict, Angola pursued a state-led development strategy using public investment to rebuild infrastructure and revive economic sectors, such as agriculture. However, underperforming public investments and projects, numerous low-performing SOEs, and more generally, the dominance of politically connected interests in productive sectors, hindered the development of non-oil sectors. Most private investment is foreign, and most FDI inflows have targeted the oil sector. A new growth model based on a diversified economy requires reducing barriers that hamper private sector development.

Economic diversification is essential for more sustainable growth. Angola is the second-least diversified country in the world in terms of exports (after Iraq). Angola's growth has relied on natural resources, but these have not been managed in ways that increase the country's wealth. Angola presents a negative adjusted savings rate, which shows that the country has been inefficient in converting its natural resource rents into productive capital.[8] The same report calculates that export diversification could increase per capita GDP by about 3.3 percent over the longer term. A more diversified economy could potentially create jobs for Angola's young population and lead to more inclusive growth. Moreover, economic diversification could help buffer the economy against external shocks in the oil sector, reducing the volatility associated with overreliance on a single commodity. With the prospects of diminishing oil reserves (expected to be exhausted by 2032 at current production rates), economic diversification is becoming more urgent.

Angola benefits from strong assets yet to be fully leveraged. Angola has a large market as the third-largest economy in SSA in 2017 ($122 billion), behind Nigeria and South Africa, and the sixth in GDP per capita. The country has the third-fastest population growth in the continent (also a potential source of fragility), which will fuel demand in future years. Angola is rich in natural resources, including untapped mineral reserves. Availability of arable land, water, and favorable agri-climatic conditions offer potential for a variety of agricultural production. Angola's coastal location offers access to marine resources and makes it a gateway for Central Africa. Future growth prospects, despite the head winds, look positive.

Acknowledging the country's critical juncture, the government has launched important reforms to improve the investment climate, reduce direct state presence in economic activity, and fight corruption. Since taking office, the government passed new private investment and competition laws, reformed visas, launched a process to restructure large SOEs, developed a list of priority PPPs, and took a tough stance of corruption, among other important actions. The current administration has cracked down on the misuse of public resources by government officials, signaling its intention to improve transparency, and launched an ambitious reform agenda as laid out in the NDP.

Today's political climate presents an opportunity to set the country on a new direction that unlocks the potential of the private sector. The scale and speed of the envisioned change is unprecedented and could transform the fundamentals of economic governance in Angola. This ambitious reform strategy involves risks stemming from weaknesses in implementation capacity, resistance from entrenched interests, failure to deliver tangible results quickly, and the potential for complacency should oil prices raise again. Nonetheless, Angola has a unique opportunity to tackle the constraints that will allow the emergence of a competitive private sector in non-oil sectors, one that does not rely on government support, and can integrate in regional and global value chains.

The ongoing strategy development process is defining the World Bank Group's approach to support Angola's development priorities, strengthening an already strong partnership. The Country Partnership Framework (CPF) FY2020–25 (under preparation) will outline the government's objectives

and the World Bank Group activities to address the country's needs, including restoring macroeconomic stability, fostering more sustainable and diversified growth, and promoting more inclusive development through improved services and social protection. IFC is also defining a new strategy for Angola.

In this context, the Country Private Sector Diagnostic (CPSD) provides timely analysis to identify opportunities for expanding the private sector's contribution to sustainable economic growth. Applying a sectoral lens, it leverages private sector's experience and knowledge to identify opportunities and constraints to transformational private investment. It puts forward operational recommendations, highlighting chief constraints to private sector potential and strategic entry points for diversification and growth. The CPSD informs the World Bank and IFC strategies, paving the way for joint programming to create markets and unlock private sector potential.

The report is organized in two parts. Part I forms the core of the CPSD and presents the following structure: Chapter 1 describes the evolving economic and political context in Angola and the rationale for conducting a diagnostic of the private sector. Chapter 2 describes the state of the private sector and the role of government in productive activities. Chapter 3 describes opportunities and constraints for creating markets, building on the sector scan results conducted as part of the CPSD analysis. It provides an overview of cross-cutting constraints and identifies enabling sectors (transport, electricity, ICT, health, education, and financial sector) and agribusiness as critical to build the foundations for private sector-led growth. Finally, Chapter 4 concludes with suggested next steps. Part II includes more detailed analysis (deep dives) on the transport and agribusiness sectors, as well as detailed sector scan results for enabling, traded, and non-traded sectors.

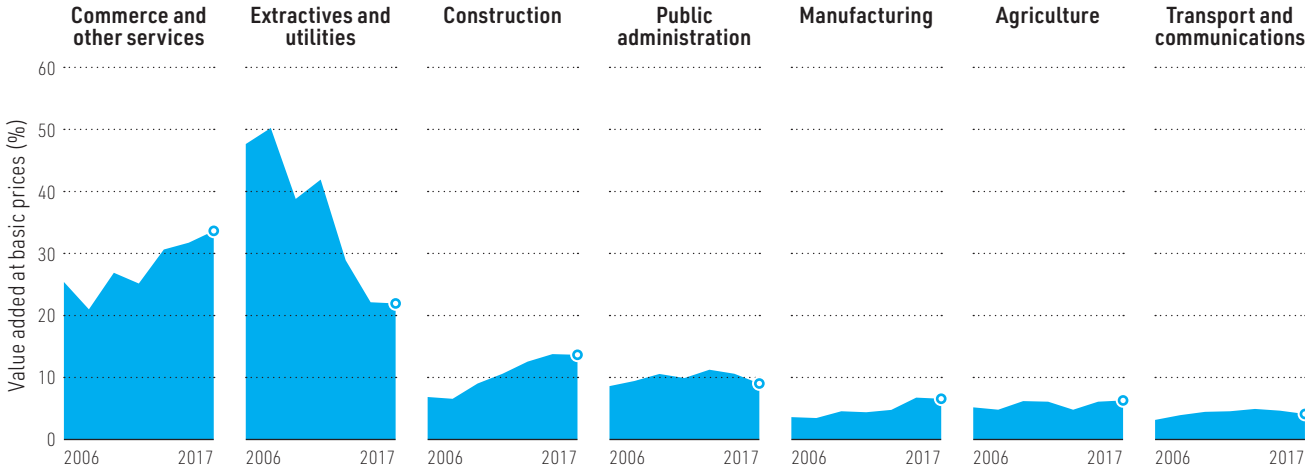
02. AN UNDERDEVELOPED PRIVATE SECTOR

Oil driven-growth has shaped the structure of the Angolan economy, but has failed to deliver jobs, a diversified export base, or a vibrant private sector. This chapter explores the sectoral composition of the Angolan economy, employment, and exports. It also provides an overview of the Angolan private sector, based on limited available data. One characteristic of the Angolan economy is the large presence of SOEs and politically-connected firms, which benefit from an uneven playing field. Traditionally, the state has played a key role as an investor in productive activities and has accumulated significant assets in the process. The government is now pursuing reforms to valorize these assets.

THE ECONOMIC BOOM DID NOT DELIVER JOB CREATION AND ECONOMIC TRANSFORMATION

Oil drove Angola's economic transformation. The sectoral composition of the Angolan economy is largely influenced by the oversized impact of the oil sector. Driven by the oil rent, commerce and other services grew significantly—from 24.9 to 37.7 percent of total value-added—between 2008 and 2017. Construction also grew substantially to 13.7 percent of value added, while public administration contributes a substantial 9 percent of economic production. Extractive industries are no longer the biggest contributor to the economy but remain central to it. The sector's contribution to the economy is falling with the maturation of oil production (coupled with inefficiencies) and the drop in oil prices from historical highs. The prospect of lower oil revenues has put the sustainability of some sectoral gains into question, especially in construction. Manufacturing and agriculture have been growing and now account for 6.6 and 10 percent of GDP, respectively. Both remain comparatively small in terms of formal firm employment, at 6 and 3 percent, respectively.[9]

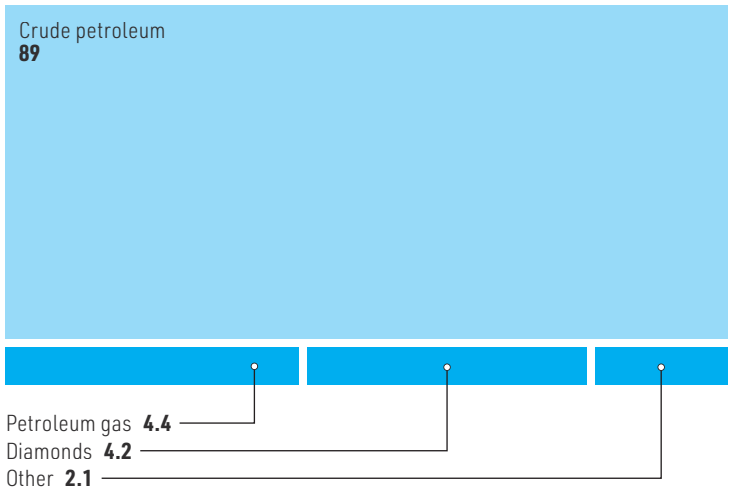
FIGURE 2.1 STRUCTURAL TRANSFORMATION IN ANGOLA



Source: INE, Department of National Accounts and Statistical Coordination Angola. 2018. Annual National Accounts. 2017. Shares of value added by type of economic activities at basic prices 2002–15.

Minerals account for a disproportionate share of Angola's total exports. In 2016, oil products accounted for 91 percent of exports and diamonds for 7.5 percent, the later having grown in recent years (figure 2.2). Other exported products include fish, stones, and wood, each accounting for between 0.1 and 0.15 percent of total exports, or between $30 and $40 million.[10] Exports of non-extractive products increased from $88 million in 2012 to $311 million in 2016.[11] Unlike many SSA countries, Angola trades relatively little with Europe; China is Angola's main trading partner. China (42 percent) and India (8.1 percent) are the main recipients of Angola's exports. Overall, 61 percent of Angola's exports go to Asia, 25 percent to Europe, and 10 percent to North America. On the import side, China and Portugal are the two main suppliers, followed by the United States, South Africa, and the the Republic of Korea (figure 2.3).

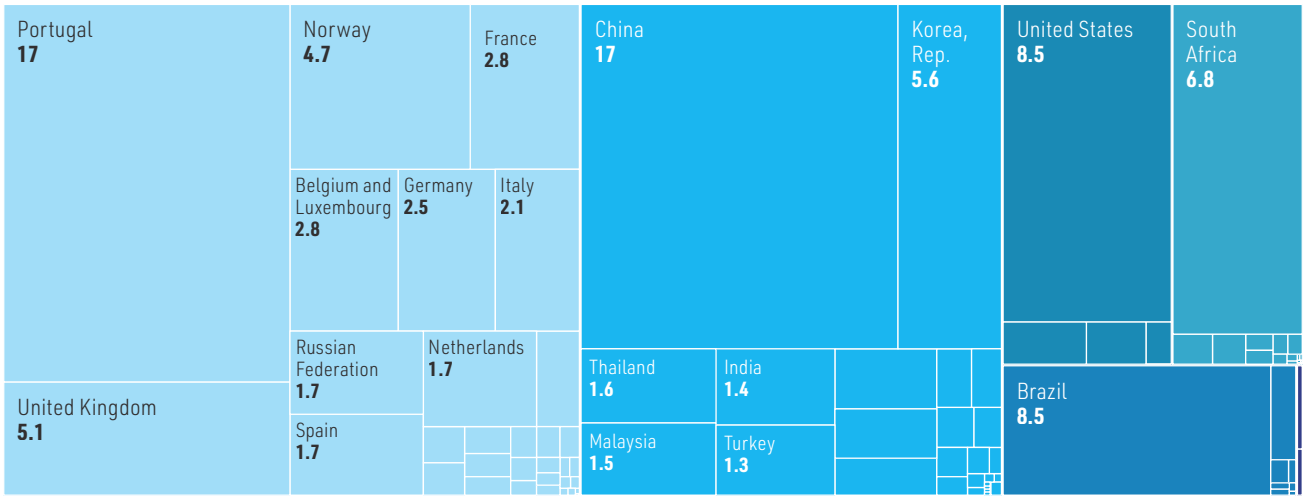
FIGURE 2.2 ANGOLA'S EXPORTS, 2016 (US$, BILLIONS)



Source: Observatory of Economic Complexity, MIT.

Foreign direct investment (FDI) has also been traditionally low outside oil and gas. According to the FDI Markets database, 82 percent of total investment flows between 2003 and 2017 were concentrated in oil and natural gas, while agribusiness totaled a mere 6 percent during that period.[12] According to UNCTAD and the BNA, FDI to Angola averaged around $10–15 billion between 2007 and 2015.[13] However, a large share of the inward FDI flows were reflected by equivalently large flows originating from Angola, being to some extent the reflection of liquidity management by oil companies due to the lack of local capital markets,[14] which supports the low developmental impact and limited spillover effects of FDI to the domestic non-oil economy. Most foreign investors establish joint ventures with domestic partners—mandated under the previous investment law for power and

FIGURE 2.3 ANGOLA'S MAIN SUPPLIERS ARE FROM EUROPE, 2016 (%)

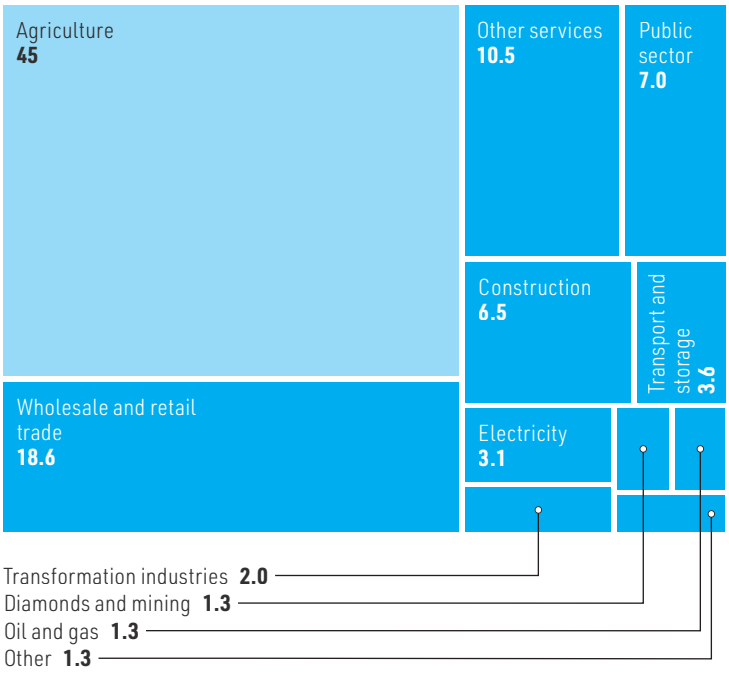


Source: Observatory of Economic Complexity, MIT.

water, hotels and tourism, transport and logistics, construction, and telecommunications.

The role of private capital in Angola's growth has been historically very low or negative, unlike in the rest of Sub-Saharan Africa, where private investments have been a source of growth. That contribution even declined over time in the past five decades to reach a low point in 1996–2014,[15] during which much of the growth came from extractive sector rents.

FIGURE 2.4 EMPLOYMENT BY SECTOR, 2016 (%)



Source: UCAN CEIC (2016).

Recent growth was not overall favorable to jobs that were mostly created in consumption sectors. Real value added increased by 229 percent in 1992–2015, but employment by only 116 percent.[16] Net job creation between 2008 and 2014 totaled more than 1.5 million (about 256,000 per year). Most new jobs were in the services sector (over 1 million jobs), followed by public administration (approximately 240,000 jobs), then construction (approximately 150,000 jobs).[17] Agriculture, manufacturing, and transport and communications on the other hand, lost jobs. Agriculture still accounts for near 45 percent of total employment (compared to 53.9 percent in 2008; including informal employment—see figure 2.4).

New jobs are in low-productivity sectors. Productivity in services is not much higher than in agriculture (3.5 times), suggesting that while workers moved to relatively better jobs, they did not find highly productive jobs. In comparison, transport and communications had a value added per worker 8.3 times higher than agriculture. The

number of workers in this subsector fell during the period. The service sector increased its share of employment by 9.9 percentage points from 2008 to 2015. Output per worker (the measure for labor productivity) more than doubled (2.2 times) from 2008 to 2015 in agriculture, whereas it grew only by 11 percent in the service sector.[18]

Less than half (47 percent) of the working-age population is employed. This is lower for women (40.3 percent).[19] Most employed Angolans were self-employed in 2014 (51.6 percent); 37.7 percent were in paid employment, and only 4.8 percent were employers.[20] Wage employment is more likely to be found for male workers than for female workers, with a share of 47.2 percent of males in wage employed compared to 25.9 for females. Younger workers are more likely to be working in unpaid jobs and less likely to be working in paid employment than workers aged 25–64. Unemployment has increased even as Angola's population has become more educated.

A SMALL PRIVATE SECTOR DOMINATED BY FEW POLITICALLY CONNECTED FIRMS

Available data points at a relatively small private sector concentrated in Luanda. According to the statistics available, there were 46,096 active businesses in 2016 (up 11.1 percent compared to the previous year), the majority in Luanda (58 percent), with the rest relatively evenly distributed in other provinces. Fifty percent of these businesses are in commerce and vehicle maintenance. Among active businesses, 54.6 percent were sole proprietorships and 42.1 percent limited liability companies. Almost 50 percent of businesses are less than 10 years old, suggesting a high rate of attrition. The average number of employees is 21.[21] The data revealed a high number (104,088) of registered businesses that have not yet started activities. The status of these companies is unclear and should be further investigated. In addition, these figures do not include informal firms, for which no data is available. According to a recent study, the informal economy represents 36 percent of GDP.[22] Overall, there is a need to improve data about firm characteristics in Angola.[23]

State-owned enterprises play a large role in Angola's economy, but their performance is weak on average. There are 70 SOEs in the IGAPE portfolio. Taken together, SOEs assets still represent 78 percent of the country's GDP today, despite several waves of privatization since the 1990s, about five times the SSA average.[24] The largest among them is by far the oil company, Sonangol, which has revenues and assets equivalent to 25 and 40 percent of GDP respectively. It also has investments in many other companies (box 2.1).[25] The SOE sector has been historically profitable (generating $6.6 annual net profit per capita in 2012), because of Sonangol. Now that Sonangol's profits have all but disappeared, SOEs are overall loss-making. The SOE sector went from a profit of 314 billion kwanzas in 2013 to a loss of 23 billion kwanzas in 2016 ($140 million). Excluding Sonangol, the financial performance is far worse, with losses of 101 billion kwanza ($848 million) in 2015 and 36 billion kwanza in 2016 ($221 million).[26]

SOE losses occur despite significant subsidies, which add to the pressure on government finances. The government spent on average 0.9 percent of GDP on operational subsidies (covering operational costs and salaries) between 2013 and 2016, and 2.5 percent of GDP on price subsidies.[27] Actual expenditure on price subsidies, and more recently also direct transfers, has exceeded budget estimates in several years.[28] The combination of operational losses and subsidies represents an important fiscal burden and consume government resources that could be used elsewhere.

The government is planning to scale back price subsidies. The government eliminated subsidies on most fuels by end-December 2015, with only residual and targeted subsidies remaining in place. However, no fuel price adjustment was made since 2015 despite the devaluation of the kwanza and the gradual recovery of international oil prices, which led to the emergence of implicit fuel price subsidies—of size and impact unknown at this stage. The World Bank is providing advice to the government of Angola to help reform fuel and

power subsidies, while mitigating potential impact of price increases on the poorest.

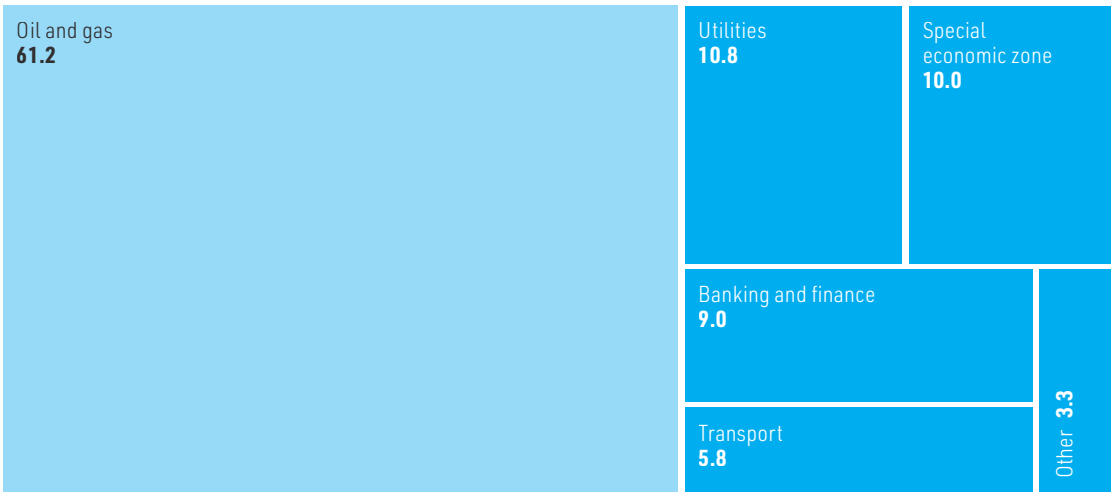
As expected, SOEs are present in traditional areas of public intervention (such as electricity or water), but they also operate in numerous commercial sectors. Sectors where SOEs are the most present include transportation, telecoms, media, and agriculture (figure 2.5). Sonangol's non-oil subsidiaries should be added to this mix, but there is no clear picture of the overall involvement of SOE affiliated companies by sector. It should be assumed that the presence of these companies is wide-ranging and influential. The World Bank is supporting a diagnostic of the SOE sector that would provide additional information on their performance.

The authorities have signaled their intention to privatize 53 SOEs, fully or partially, and the initial list of companies is being prepared.[29] The government expects to raise €20 billion through privatization. It created the IGAPE to oversee SOEs and lead the privatization process,[30] and launched a 24-month restructuring plan for Sonangol in June 2016. The plan was to refocus Sonangol on its core oil and gas businesses while making the company more transparent and efficient. In recent consultations between the International Monetary Fund (IMF) and Sonangol's management, this strategy was reaffirmed as well as the review and divestment of some of the company's non-core assets (box 2.1).[31]

The landscape emerging from the oil boom years was one where large segments of the economy were controlled by state-owned interests and by associates from political parties, governments, and the security forces. While the web of vested interests is complex to untangle and identify, there are clear signs of the important level of participation of politically connected actors in several sectors, including finance, retail, construction, transport, agribusiness, and communications.[32] Overall, state intervention became intertwined with the collusion of political and business interests of a small elite. Clear separation between government and business roles did not exist in practice, as SOEs dominated key sectors and many large private businesses were owned by public officials and their relatives. Often, foreign investors partnered with the government or with politically connected individuals.

Another avenue for distributing oil rents in the economy has been Angola's $5 billion Fundo Soberano de Angola (FSDEA) sovereign fund, established in 2012. Half of the initial endowment of FSDEA was invested in venture capital in agriculture, mining, infrastructure, and real estate in Angola and other African markets, and the other half is

FIGURE 2.5 SOES ASSETS BY SECTOR IN IGAPE PORTFOLIO, 2017 (%)



Source: IGAPE.

BOX 2.1 STRUCTURAL TRANSFORMATION IN ANGOLA

The fall in oil prices since-mid 2014 has profoundly changed the prospects for the state oil company Sonangol. Between 2012 and 2016 revenues were cut in half, from $33 to $14 billion, and net profits decreased from $6.7 billion to just over $75 million in 2016. Sonangol had revenues equal to over 25 percent of GDP and over 40 percent of GDP in assets. Sonangol's position at the intersection of public policy and commercial activity creates several economic risks:

Fiscal: Sonangol alone accounts for 35 percent of tax revenues. There have been delays in transferring oil revenues from Sonangol to the Treasury, which complicate fiscal policy. The government assumed a Chinese Development Bank loan ($10 billion over 2015–17) and used the proceeds to capitalize Sonangol.

Commercial: Sonangol deferred payments to oil majors and contractors in 2016–17, which negatively impacted relations between the national oil company and the country's most important investors.

Concentration: Sonangol has a wide network of subsidiaries and related companies in the non-oil sector, outside its comparative advantage. Sonangol's presence can crowd out other investors (market entry) and could amplify adverse shocks from the oil sector. Sonangol is also attracting the best talent.

Beyond activities related to oil/gas production, refining, transport and distribution, Sonangol subsidiaries are present in telecommunications (MSTelcom), air Transportation (SonAir), medical services (Clínica Girassol), and real estate (Cooperativa Cajueiro and Sonip). Sonangol also incubates new businesses and is developing an industrial zone in Luanda-Bengo which opened in 1996.[a] The group is also present in the financial sector (joint venture with BAI).[b]

The Angolan government has implemented a series of wide-ranging reforms which redefine the company's role in the sector. In June 2016, Sonangol launched a two-year restructuring plan by focusing on core business of hydrocarbons exploration and production, logistics, and concessions to international companies.

In November 2017, the government established an oil sector reform plan, created a supervisory agency for the petroleum sector, and assigned a new board for Sonangol to streamline the operations and improvement management. Sonangol should focus on strong accounting and reporting standards and increase transparency. The board should carefully define a strategy that it can execute and adhere to it, with a focus on its oil and gas core business and limit non-core activities where it has no competitive advantage. Sonangol should further reduce its burden to the Treasury, and transfer oil tax revenue on a timely basis, and reduce its financing needs.

Source: World Bank Policy Notes for the government of Angola and World Bank staff.
a. ZEE. http://www.zee.co.ao/.
b. Sonagol 2018. Marco-estructura a Sonagol, E.P. e suas subsidarias. http://www.sonangol.co.ao/English/Documents/Macro-Estrutura_SNL_EPJunho_2014.pdf

allocated to other forms of investment (cash, fixed income instruments, market equities, and so forth). In April 2015, the first five venture capital funds in mining, logging, agriculture, entrepreneurship ($250 million each) and healthcare ($400 million) were launched.[33] In January 2017, FSEA announced a $180 million investment on a new deep-sea port in Cabinda. China EXIM will reportedly lend $600 million to complete the project.[34,35] The government has announced plans to consolidate FSDEA with two other oil funds as part of a new fiscal framework for natural resource management.

In the past, the government has favored large-scale public investments in productive assets and in targeted sectors. For example, it is estimated that between $1.5 and 2 billion were invested in large-scale agro-industrial projects up to 2016.[36] However, few operate at capacity due to management challenges and insufficient commercial focus. The government has placed management in private hands in some cases, but often with little transparency in these arrangements. Because of these investments, the government holds billions of dollars in industrial and real estate assets (box 2.2).

Government programs aimed at supporting private sector development have performed below expectations. The main government program supporting SMEs in recent years was *Angola*

Investe, overseen by the Ministry of Economy and Planning. The program started in 2011 and comprised subsidized interest rates, partial credit guarantees, risk capital, and capacity building for SMEs. About 515 projects received support from *Angola Investe*,[37] although many encountered difficulties with the economic crisis.Angola Investe was discontinued last year with the goal of creating a more focused program in a more constrained fiscal context. Government-subsidized credit to small holders (*Credito de Campanha)* had low levels of repayment. The Angolan Development Bank also provided credit to agriculture projects, but these were insufficient given the financing gap in the sector. In addition, the Program for the Acquisition of Agro-livestock Products (PAPAGRO) was ended and generally did not achieve satisfactory results. Typically, these programs had little coordination across them, arguably undermining their effectiveness. In addition, government institutions have been created to support the national industry—*Instituto de Fomento Empresarial* (National Enterprise Promotion Institute)—and SMEs—*Instituto Nacional de Apoio as Pequenas e Medias Empresas* (National Institute to Support SMES). These agencies conduct market studies, training, and marketing support. However, their effectiveness needs to be confirmed. The government is considering merging them into a single agency.[38]

PRODESI is the new government strategy to support economic diversification. In addition to measures to address fiscal, financial sector, debt, and exchange rate challenges, it outlines an ambitious agenda to attract investment, improve competition, reduce the cost of doing business, and increase private sector participation in service delivery. In addition, it provides sector-specific measures to promote clusters with export or import-substitution potential covering 54 products. The design of the PRODESI incorporates lessons learned from

BOX 2.2 THE ANGOLAN GOVERNMENT'S PRODUCTIVE ASSETS

The government of Angola holds billions of dollars in real estate and productive assets, distributed across line ministries or in the hands of SOEs. This accumulation of assets is the result of policies to diversify the economy and address the population's need, such as food security and housing.

The government often relied on foreign expertise to build turnkey projects in agribusiness and industrial development, typically without a competitive process and funded through foreign lines of credit. No comprehensive evaluation of these projects exists, but there is growing consensus around the disappointing results compared to the intended goals and the high costs of these investments.

Agro-industrial infrastructure includes irrigation perimeters, silos, processing facilities, and investments in agro-development poles, of which Capanda is the largest, with a total area of 411,000 hectares. Most of this infrastructure was developed to stimulate agro-livestock production, which did not operate at full capacity due to poor management and the credit and capacity constraints of small and medium players. One exception is the Aldeia Nova project, an integrated agribusiness and rural development project modelled after the Israeli moshav model. Initially funded by a $70 million government investment, it was subsequently returned to private management (by the initial developer) and partly privatized in 2011. The government also owns large-scale farms (fazendas) that primarily produce cereals. A presidential decree transferred these farms from Gesterra, an SOE under the Ministry of Agriculture, to the Angolan Sovereign Fund in 2016, which led to operational challenges. Since then the new government has transferred the farms back to Gesterra with the goal of preparing their transfer to private participation.

The Special Economic Zone (SEZ) of Bengo-Luanda, owned by a Sonangol subsidiary and funded by a Chinese line of credit, occupies an area of 8,434 hectares in the outskirts of Luanda. The SEZ had 76 installed industrial businesses prior to the crisis, of which only 26 are operational.300 Sonangol also owned 53 of these entities, set up to be subsequently privatized.

To manage the 's housing and land stock, a new SOE was created by decree in 2015–Empresa Gestora dos Terrenos Infraestructurados do Estado (EGTI). This entity manages existing public housing developments, as well as commercial activities, such as the 20,000-unit Kilamba neighborhood.

previous programs to support economic diversification and private sector development. While the program places strong focus on improving the investment climate and infrastructure, improving transparency, and introducing sunset clauses for targeted support, it maintains the logic of a strong government role in supporting specific industries, products, and firms, with the associated risks of elite capture and inefficiencies. As revealed by the difficult experience of countries which pursued an import substitution strategy, the main risk is that PRODESI could perpetuate insufficient competitive pressure in targeted sectors, stifling innovation and strengthening incumbent firms, which will lobby to maintain the protection—at high costs in terms of government resources and higher prices to consumers. In addition, measures oriented to substitute imports may eventually harm the development of export sectors that use those imports as inputs. They can also contradict policy objectives to improve the business environment (for example by introducing additional non-tariff barriers). Like the strategy pursued by the successful East Asian countries, PRODESI should focus on supporting industries for which Angola has, or can develop, a comparative advantage through an open and conducive business environment together with access to world-class infrastructure and skills.

03. CREATING MARKET OPPORTUNITIES: REBUILDING THE ECONOMY WITH THE PRIVATE SECTOR

SECTOR SCAN RESULTS AND CONSTRAINTS

The sector scan and constraints analysis form the backbone of the CPSD. An important objective of the diagnostic is to identify priorities in an environment where resources cannot address all problems in the short term. A second, no less important objective is to pinpoint, with precision, the key segments of the economy and main issues that are likely to lead the highest level of impact toward private sector-led inclusive growth and economic diversification. The time horizon of the diagnostic is the short- to medium-term (three to five years), focusing on rapid results.

TRANSFORMATION THROUGH PRIORITIZING ENABLING SECTORS

Which sectors have the potential to drive Angola's economic growth and diversification and what are the constraints to their development? Answering this question requires identifying those markets and interventions with the greatest potential for achieving private sector-led growth and economic diversification. This diagnostic relies on analyses by sector experts and discussions with members of the Angola World Bank Group country team, as well as with Angolan public and private sector stakeholders. The approach amounts to (a) identifying sectors with the greatest market potential that, if realized, would have a large impact on the

country's development objectives, (b) assessing the constraints preventing the realization of that market potential, and (c) identifying the private investments and public interventions (including future ones which could be supported by IFC and the World Bank) that should be high on the agenda to meet the double bottom line of development impact and private profitability.

The diagnostic centers on four questions of feasibility and potential for development impact of private investment: (1) What is the potential impact of the sector's output growth on the country's development objectives (employment, enterprises, exports, and energy efficiency)? (2) What is the sector's current performance in terms of output quantity and quality, and how does it contribute to development impact? (3) Under current conditions in the country, is profitable and transformative private sector activity in the sector feasible? If not, where are the constraints? "Transformative" in this context refers to private sector activity that is not primarily enabled by economic rents, for example, in the context of a highly protected or closed sector. (4) To what extent can conditions in the country be improved within a limited time horizon of three to five years to make profitable and transformative private sector activity in the sector feasible?

A central message from the constraints and sector scan in Angola is the need to focus on enabling sectors and agribusiness. The assessment of several dimensions (on value added and job creation, competitiveness, inclusion, and sustainability) in each sector, points to a group of seven sectors that appear critical to generate growth and development potential: ICT, electricity, transport, finance, health, education, and agribusiness. These priorities are confirmed by the assessment of constraints to realizing transformative market opportunities in Angola. Several enabling sectors generally hamper the competitiveness of the private sector in Angola, as their markets remain broadly inefficient. This suggests that other sectors at the core of the Angolan economy, such as oil, mining, fisheries, and construction have less potential to play a direct transformative role looking forward, even though they arguably remain important.

A constant across the private sector in Angola is the difficulty for firms of all size to procure affordable and efficient essential inputs. Chief among these are the enabling services that are core to almost any business: access to essential electricity, transport, telecommunications, and financial services. This points to the underdeveloped supply of these services relative to the potential demand of the economy and the potential of these sectors to directly contribute to growth, employment, and the overall competitiveness of the private sector.

Although telecom services markets have grown significantly following the liberalization initiated in 2001, recent signs point out sub-optimal performance and levels of maturity far below other African countries. Mobile voice penetration has been stagnating since 2014, as well as broadband subscriptions. The sector has thus room to grow further, and potentially impact positively the rest of the economy by creating and inducing growth and employment (telecom is one of the sectors with the highest growth multiplier coefficient). Telecoms are an important factor of competitiveness in many sectors, especially those that can make use of digital services and innovation to provide new products and services and reach new markets (including those outside Angola)—for instance, mobile money, education, and health services. In addition, government services could benefit from a growing digital economy in Angola.

Access to electricity is an issue to the 70 percent of the population currently unserved, as well as the numerous businesses that continue to rely on generators. With important hydroelectric generation capacity about to come online, the market for electricity has the potential to grow very rapidly in the medium term provided that the problems of distribution (including interconnexion with neighbors for potential exports) and pricing can be addressed. While the electricity sector itself generates little employment and provides limited direct sources of diversification, it provides an essential input for businesses that could expand with a reliable and affordable source of energy, especially firms in the larger cities and agribusiness.

Transport has improved following large investments in infrastructure, but major gaps remain in

road and rail infrastructure and in competitive management of ports and airports. Sustainability is also an important issue, as some of the infrastructure is not adequately maintained (roads) or designed (railways, ports and airports). The sector is also dominated by state-owned enterprises that are not operating profitably. As a sector, transport offers good prospects in terms of market development and much improved contribution to Angola's future growth. For instance, the sector is critical to support Angola's connection to external markets (including within the region) and will grow along the size of the economy and as it diversifies. Transport is also a central driver of competitiveness as cheaper and more efficient transport translates directly into cheaper inputs and access to larger markets, therefore essential to any diversification prospects.

The financial sector is already substantial, being the third largest in SSA but not serving the economy optimally. The sector is among those with the highest potential in terms of growth and job creation and there is clearly scope in Angola for improving financial services to the private sector as lending to the private sector has been stagnant and the bulk of lending (75 percent) directed to sectors (real estate, construction, trade, services, and consumer loans) contributing little to the transformation agenda. For a large part, the dynamic private sector had to rely on own sources of financing, necessarily a limiting factor in terms of scaling up and diversifying potential investments in the economy. Currently, the financial sector in Angola is vulnerable: NPLs are high, and several banks need recapitalization and/or restructuring. The significant exposure of banks to government debt also exposes them to sovereign risk. A well-supervised financial system and a deep and liquid kwanza-denominated capital market would contribute to financial sector stability and supply. More diversified financial services, including mobile finance, coupled with increased financing of private investments, would provide much-needed resource for increased entrepreneurship.

Improved supply of education and health care services would meet huge unmet demand and contribute to raising human capital in the country. By some metrics, education and health outcomes are among the lowest in the world: Angola's Human Capital Index of 0.36 ranks among the bottom 10 countries in the world.[39] The expansion of education and health care could provide immediate opportunities for private sector investments supplementing limited public resources. It is worth considering more private provision of tertiary and specialized education, which the middle-class should be able to pay for. Private investments could also help spur innovative solutions, including partnerships with public institutions in which the private sector could provide educational materials and training for teachers or medical professionals. Immediate opportunities may be more accessible for education services than health services, given that there is more of a private sector presence in education as well as fewer regulatory complexities than in the health sector.

With the opportunity to leverage abundant natural resources and the diverse climate of Angola, commercial agriculture and agro-processing have strong potential. The sector could create significant employment opportunities and lead to economic diversification and transformation. The commercial agriculture sector would build from a comparatively small base (although important public investments have been made to support it); however, there a few modern and efficient producers in Angola that could contribute to the expansion of the agribusiness economy in the country. For instance, in the short term, higher value-added productions such as horticultural products would seem readier to take off. There is also a relatively well-developed internal market of mostly urban consumers that is being served by local firms—retail and distribution or agro-industries—that could potentially diversify upstream into new agribusiness ventures, for example, in partnership with small and medium enterprises and producers. Finally, the government owner of public land and a substantial portfolio of agricultural assets would be an integral partner of new market developments.

While this diagnostic conclusion is that much of the focus should be on the above sectors as driver of economic transformation, the development of private initiative in all sectors of the economy is important for Angolan future growth. The diagnostic reviewed all sectors of the economy (see part

II for further discussion on these sectors), taking a forward look to identify which would require public interventions and which could have the potential to lead Angola's economy while addressing the challenges of creating growth, diversification, and inclusion. These include major sectors such as oil, construction, mining, wood products, and fisheries, and those that could emerge under the right conditions (such as tourism or intermediate input manufacturing). These sectors can be supported indirectly through cross-cutting policy interventions aiming at improving the business climate as whole, better government service delivery, and in enabling performance of services markets.

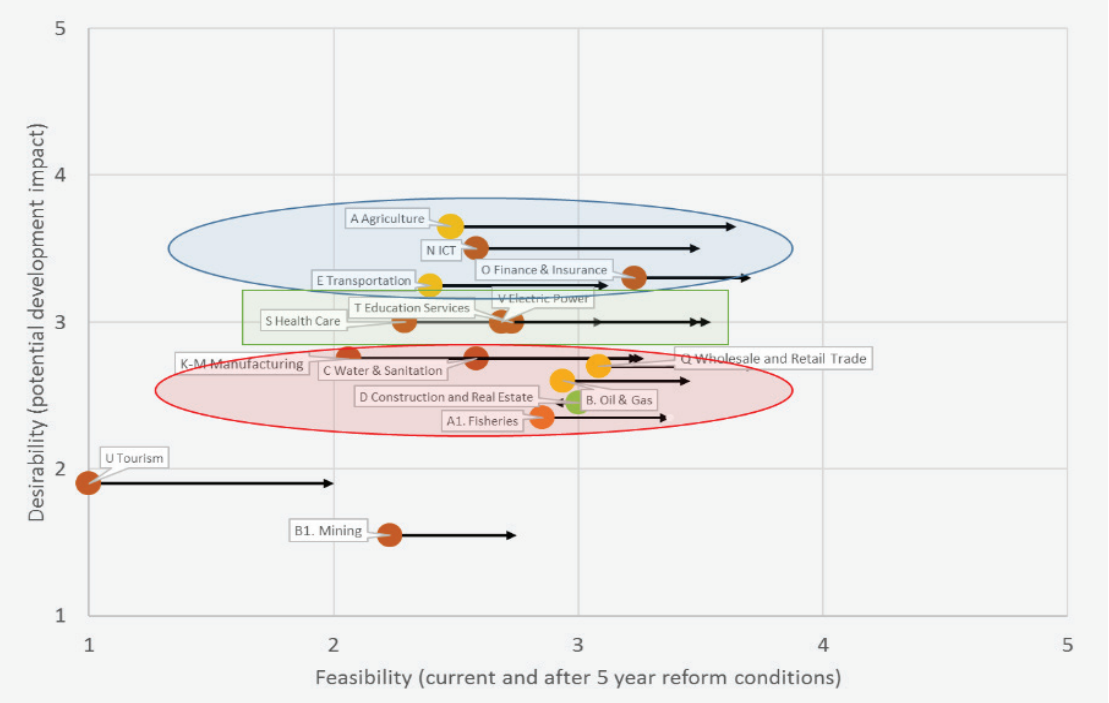
IDENTIFYING POTENTIAL FOR MARKET CREATION BY ADDRESSING BINDING CONSTRAINTS

Market creation is possible if constraints to further investment in productive sectors can be credibly lifted. The environment in Angola is distinctive in that private firms must operate in a high-cost environment. To begin, one must identify the factors that prevent investments across sectors, focusing first on those constraints that prevent Angola from achieving the highest positive impact.

For each sector, the level of binding constraints is assessed with regards to international practice. The scan measures whether each sector's enabling environment (demand and conditions of production), measured against international standards, is conducive to profitable private sector investment. The analysis of these feasibility dimension is based on the historical financial performance of more than 7,000 IFC investments worldwide and 136 indicators from the TCdata360 database on cross-cutting constraints.[40]

The overall picture emerging for Angola is one with some advantages, but also of severe drawbacks. The size of the Angolan domestic market, one of the largest of SSA, is a clear plus. Angola was the third largest economy in SSA in 2017 ($122 billion) and sixth in GDP per capita ($3,308 compared to Nigeria's $2,175 and South Africa's

FIGURE 3.1 SUMMARY OF SCORING RESULTS



Source: Authors.

TABLE 3.1 OVERVIEW OF CONSTRAINTS FOR ANGOLA

	Domestic and/or global market potential	Labor and skills	Geography and natural resource endowment	Existing capabilities	Energy	Transport	Finance (cost and availability)	Regulatory barriers	Rule of law and property rights	Market contestability	Macro and political stability
Agriculture and forestry	-	24	17	50	22	13	44	42	6	30	-
Oil, gas, and mining	-	19	17	50	11	-	22	25	6	40	5
Utilities	-	29	17	44	22	50	67	25	12	50	5
Construction and real estate	25	24	17	50	22	-	11	33	18	40	10
Transportation and warehousing	-	33	-	63	11	13	33	17	6	40	-
Food and beverages	-	24	17	50	22	-	44	25	12	40	-
Chemicals	25	38	17	56	11	50	56	33	18	80	5
Nonmetallic mineral product manufacturing	-	29	17	44	22	-	44	25	18	50	-
Primary metals	-	29	17	44	44	13	33	25	24	70	20
Pulp and paper	38	38	17	56	67	25	56	58	35	80	15
Textiles, apparel, and leather	25	57	50	69	56	100	78	50	47	80	15
Plastics and rubber	25	48	50	69	89	100	89	33	65	80	30
Industrial and consumer products	13	38	17	69	44	75	67	58	18	40	5
Information	-	19	-	31	11	-	22	17	-	30	-
Finance and insurance	-	19	-	25	11	-	11	17	12	30	-
Wholesale and retail trade	13	43	33	69	44	63	56	33	18	60	10
Professional, scientific, and technical services	63	67	50	63	67	88	67	58	24	80	25
Health care	-	38	17	56	22	63	44	25	24	80	10
Education services	-	43	17	69	67	63	56	42	29	60	5
Accommodation and tourism services	13	29	-	50	-	13	33	33	12	60	5
Electric power	-	29	33	38	22	-	22	25	-	80	10

$5,275).[41] Angola has the third-fastest population growth in the continent (3.4 percent per annum). Angola is one of the three strategic markets in SSA for U.S. exports and investments.[42] All this could be supportive of industries and services geared to internal demand.

Angola's natural endowments and political stability offer a good basis for future growth. Angola has conditions for extractive resources of course (oil and gas, diamonds, and other minerals), but also availability of resources for agriculture and fisheries. In the last decade, the country also offered a more politically stable environment for investments, albeit not necessarily an easy one.[43]

MACROECONOMIC STABILITY

The stable environment in Angola has been challenged by the macroeconomic crisis and related tightening of fiscal and monetary policies, creating a very difficult environment for the private sector. Credit to the private sector dried out, as banks have resorted to buying higher stocks of government securities. Restrictions on foreign exchange, imposed to contain the pressure in net reserves, and an inefficient forex allocation system have hampered imports of inputs and final goods, as well as profit repatriation. The spread between the parallel and official market exchange rates decreased after the Central Bank ended the fixed currency peg and introducing a managed float. The spread currently stands at about 30 percent (from a high of over 200 percent). Access to foreign exchange remains a major constraint for businesses in all sectors, given the dependency on imports of goods, services, and labor. Companies providing goods and services to the government have been hurt by the accumulation of government arrears, estimated at 5 percent of GDP in 2017. Sharp government budget cuts, reduced fuel subsidies, and job dismissals resulting from the crisis, dampened consumer demand. Finally, as we saw earlier, the health of the financial sector is closely linked to that of the macroeconomic environment.

A more sustainable macroeconomic framework is a precondition for private-sector driven growth. The crisis led to current account and fiscal deficits and more than doubling of public debt since 2013. Inflation peaked at 41 percent in December 2016 before falling to 18.6 percent in December 2018. Nominal interest rates soared with tightening monetary policy, although real interest rates have remained negative. Rising levels of non-performing loans (NPLs) concentrated in systemically important banks and the loss of U.S. dollar correspondent banking relationships threatened the sustainability of the financial sector.

The policy response in 2016 and 2017 contained the downfall, and since taking office, the government has taken additional measures included in the macro stabilization program (*Programa de Estabilizacão Macroeconómica* [PEM]). The government recently agreed to a $3.7 billion program with the IMF under its extended fund facility to support the macroeconomic side fiscal consolidation, management of a flexible exchange rate, and monetary policy to reduce inflation.

Angola needs an effective long-term strategy to manage its natural resources. A key challenge is to reconcile long-term strategic, national objectives with the need to manage the volatility and uncertainty of resource revenue. This starts by deciding how to leverage this wealth for economic development, how to allocate finite natural resource wealth across generations, and how best to insulate the economy from large and unpredictable commodity price swings. Fiscal institutions to manage the uncertainty surrounding its oil wealth should be linked to a long-term fiscal framework consisting of a long-term fiscal anchor, short- and medium-term fiscal targets, strong public financial management, and financial stabilization buffers. Better fiscal policies, including moving away from pro-cyclical public spending, and increasing the revenue base will be needed to ensure public debt sustainability.

The introduction of a more flexible exchange rate regime, which is already under way will have to be pursued to avoid misalignments experienced in the past and would be beneficial for economic diversification. The recent exit from the currency peg and the subsequent depreciation is a step in the right direction, but some uncertainty remains about the parameters of the new exchange rate regime. A fair-valued exchange rate, close to the fundamentals, is essential for economic diversifi-

cation. An intermediate step for Angola could be a peg to a basket of the currencies of both the main trading partners and the oil price. Such a joint commodity-currency basket peg would ensure flexibility while also providing the credibility of a peg.[44]

WEAKNESSES IN SKILLS AND FIRM CAPABILITIES

The skills base needed in the infrastructure sector had to be rebuilt in Angola after the war. During the reconstruction and particularly during the oil boom, significant investments were made to improve education. School attendance rates increased but with mixed impact on literacy. The proportion of people with secondary and tertiary education, while still very low, also increased between 2008 and 2014. The quality of education, however, remains very unsatisfactory. Angola lags the SSA average on the Human Capital Index. In addition, policies requiring foreign investors to employ Angolans has only partially managed to create a class of skilled workers. In the oil sector, only about one-fifth of skilled workers were Angolan in 2009, far below the target of 80 percent set in 1982.[45] As a result, firms (including most firms interviewed for this report) rely on imported labor for higher level management and technical know-how.

The lack of capabilities in the private sector is largely predicated on the current absence of diversification of the economy and the dominance of a few large firms in most sectors. As a result, there has been little potential for diffusion in the economy of productive, innovation, or research capabilities that could support the emergence of diversified sectors. The low diffusion of existing capabilities (there are indeed companies in Angola that offer some level of sophistication) is further reinforced by the lack of market competition, which curtails innovation and investments that could bring some of these capabilities. There is no simple solution to this specific constraint, but an initial step could include building better links between higher technical skills training and firms' needs, since according to several interviews there is a disconnect between the offer of technical trainings in Angola and what the private sector needs (see section "ICT" in chapter 3).

A POOR INVESTMENT CLIMATE

Angola performs very poorly by international standards on many dimensions of the business climate and, especially on enabling sectors. Compared to other middle-income countries, for which similar analyses have been undertaken (such as Ghana, Kazakhstan, and Morocco), binding constraints facing large-scale investment (typically investments that are able to internalize more environment constraints than smaller or domestic ones) are very extensive. No sector seems attractive without significant reform.

The response of Angolan businesses is to internalize most of these constraints, such as integrating backwards to access essential inputs (such as training, simple manufacturing, or power generators). These mitigation strategies are made possible by markets where high prices can be charged because of low competition and high barriers to investment. During the boom years, many businesses also accumulated reserves that help them now weather the crisis. However, the cost of dealing with these constraints forces diverts away resources that could be used to diversify in other markets or products.

Angola is among the world's worst for doing business. Angola ranked 137 out of 144 countries in the World Economic Forum's Global Competitiveness Index in 2017–18. A difficult regulatory environment, as well as a challenging macroeconomic framework, infrastructure, and human capital weaknesses, are behind Angola's relative low competitiveness. This is further illustrated by Angola's ranking of 173 out of 190 economies in the *Doing Business 2019* report (a slight improvement from 175 in the previous year). This is despite recent improvements in the regulatory framework for businesses. A new labor law in 2015 provided additional flexibility for employers while maintaining employee protections, although laying off workers remains complicated. The cost of business registration was considerably reduced, and the minimum capital requirement eliminated. The corporate tax rate and the number of advance payments were reduced alongside other improvements in tax policy and administration. The time to obtain construction permits has dropped due to an improved online application system. Investments

in one-stop shops and ICT systems are improving the availability of information and the efficiency of complying with regulations. Creating specialized commercial benches is part of the recent justice sector reform, although implementation has slowed due to budget constraints. Ongoing implementation of a new customs electronic system, accompanied with other trade facilitation measures and infrastructure investments, should reduce logistics costs.

LACK OF MARKET COMPETITION

One economy-wide constraint, affecting virtually all sectors, is the lack of market competition. The first is essentially the outcome of a poor economic governance environment. Entering Angolan markets has been historically difficult: a necessity for foreign investments is to find a local partner, and many markets are influenced by the participation of government-owned companies or companies that have been historically close to sources of power. Under the new government, clear steps have been taken to address such issues. Further efforts to reduce the role of the state and affiliates in the productive economy, as well as efforts to improve the regulatory framework, could open sectors to new investments. Investment laws are restrictive in several sectors: ownership is restricted to the government for seaports, airports, and national telecommunications network infrastructure. Investments in finance, oil, and mining are governed by sector-specific laws that also restrict heavily foreign participation, which is limited to 49 percent in the oil and gas, 50 percent in insurance, and 10 percent in the banking sectors. The 2015 investment law required a 35 percent local partner for investments in energy and water, hotels and tourism, transportation and logistics, telecommunications, information technology, civil construction, and communications. The new investment law abolished this requirement and put in place an automatic approval mechanism as an option.[46]

Average protection in Angola is along the norm of SSA countries, although high by international standards. Border tariffs are high (up to 50 percent) on many products that compete with domestically produced one such as food and beverages. A new tariff schedule was introduced in August with the objective of promoting domestic production. According to various reports, the new schedule lowers tariffs on some basic food items (such as oats, rye and wheat), some building materials, textiles and vehicle parts, school books, agricultural inputs and medicines, but also raises them on some meats, fruits and vegetables, beverages, and steel. Angola has signaled its intention to join the free-trade area of the Southern African Development Community (SADC), but concerns over the potential impact on the country's industrial strategy may delay entry until the economy is stronger.[47]

Public procurement includes a preference for goods and services produced in Angola. Under the new 2016 law, foreign companies are only allowed to complete directly on tenders with values greater than 182 million kwanzas ($850,000) for good/services and greater than 500 million kwanzas ($2.3 million) for public works. Also, the Law on MSMEs specifies that the state and state bodies must set aside at least 25 percent of their budget for procuring goods and services for Angolan MSMEs and large suppliers to the state must subcontract at least 10 percent of the value of the contract to Angolan MSMEs (for public works contracts, the minimum subcontracting threshold is 25 percent).[48] These MSME provisions have not been applied systematically in practice according to business associations. The MSME law is currently under revision.

The outcome of all these interventions are markets where contestability remains very low. This is illustrated by the ability of most firms active in Angola to operate with very high input costs (high cost imports or substitution with vertical integration of inputs, self-generated electricity, imported labor, and so forth), which suggests that profit margins are very high. A new competition law was passed by Parliament in April; however, the institutional capacity enforcement needs to be created.[49] Competition is constrained by weak enforcement of regulations. For instance, while there is an anti-monopoly law for telecommunications, the sector is dominated by two operators closely linked to the authorities.[50] Some prices are also fixed and subsidized: petroleum products, water, electricity, voice telephony, and postal services.

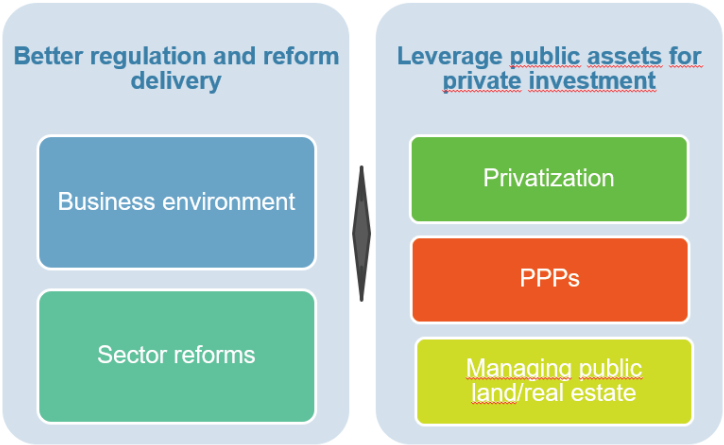
Contestability is greatly curtailed by the extent of SOE or government-connected business involvement in the economy and the importance of doing business with government. Reducing the direct participation of government in the economy and removing investment and import/export barriers are priorities to increase contestability.

OPENING MARKETS BY RETHINKING THE ROLE OF THE STATE

Historically, the government approach towards the private sector has been rooted in a developmental-state logic, grounded on the MPLA's ideological legacy and the massive post-war reconstruction needs. Despite economic liberalization since the early 1990s, the public sector has maintained an overarching role in economic activity, which also served a patronage system to distribute oil wealth. While government-promoted economic diversification featured in the public agenda for a long time, previous policies failed to deliver on agriculture and industrial development. The focus on import substitution and discretionary incentives, granted with little transparency and discipline in implementation, have not contributed to develop efficient private businesses in priority sectors (agribusiness, forestry, natural stone), despite high costs of subsidized credit, tax and duty breaks.

A virtuous circle can be created by changing the role of the government in the productive economy from an actor displacing private entrepreneurs to a facilitator of private sector development. The implementation of a new compact between the public and the private sector will anchor the government objective of economic diversification and will involve efforts on two fronts: (a) a strong agenda of reforms to support competitive markets, and (b) the transfer of public assets to the private sector, chiefly through privatizations or PPPs, and more efficient use of these assets. The second axis of the new NDP, entitled "Sustainable, diversified and inclusive economic development," foresees a broad agenda to that effect, including measures to improve the regulatory environment, productivity, and competitiveness, promote innovation and technology transfer, and support to sectors with potential to substitute imports and diversify exports. This is complemented by measures to strengthen the macroeconomic environment and reduce the size of public presence in favor of increased private sector involvement. New investment and competition law and the preparation of a privatization law have signaled the commitment of the new government to reform.

FIGURE 3.2 A NEW COMPACT FOR MARKET CREATION



Source: Angola CPSD team.

Under the government's new policies, there are several initiatives to roll back the involvement of the state, with the preparation of privatization of SOEs and state assets in all areas and of PPPs for service delivery. Such efforts are still in early stages and their success—the transfer of these activities to sustainable commercial enterprises—will greatly depend on the conditions in which privatizations are conducted as well as the capacity of implementing agencies. At the time of this writing, information remains scarce, which is a problem. There are also concerns about the readiness of government holdings for privatization.

Pursuing the transfer of public activities to the private in key sectors would contribute to better fiscal management by reducing the involvement and exposure of the government, while at the same time creating new opportunities for the private sector. This is strategically important in terms of creating good conditions for diversification as privatizations and PPPs should take place in several important enabling sectors such as infrastructure services. Because of the pervasiveness of the public involvement in a vast range of sectors, a programmatic approach is needed for core capacity building to enable good governance by responsible ministries and agencies. In addition to core activities, sector specific transactions must be prepared and carried out, starting with priority sectors described below. This will imply setting up the regulatory framework to secure private participation in key sectors (including fiscal transparency in the contractual arrangements between private and public).

Challenges remain in the form of government initiatives that remain outside the initiatives discussed above and that could be reviewed within the framework of privatization and PPPs. A number of these projects are being led by various ministries and agencies. From the perspective of this assessment, key questions that should be raised is whether such initiatives are commercially sustainable, to what extent do they serve market creation and independent private sector initiatives (or do they displace them), and whether government assets invested in these ventures will be remunerated at their fair value.

Delivering an ambitious agenda for economic transformation calls for a strong focus on implementation. The combination of cross-cutting measures to improve the regulatory and institutional environment, and sectoral reforms to reduce the state presence requires strong coordination and sequencing. Overlapping mandates, resistance from vested interests and bureaucratic inertia often undermine reform progress and the sustainability of change. Strong leadership supported by strong institutional mechanisms that ensure accountability for results can help overcome some of these challenges. Evidence-based decision making, which requires good data collection and analysis capacity, are necessary to prioritize, monitor, and communicate the reforms.

FOCUS ON REFORM DELIVERY

Creating the environment for private sector-led diversification requires high-level leadership and a long-term, inclusive vision. The NDP charts this path, and the new government-initiated reforms in its first year. The reform effort for Angola will need to be broad and inclusive: removing obstacles to private entry (and exit) into markets, including obstacles to international trade and investments, guaranteeing price competition in markets, and securing the enforcement of contracts and legal obligations. These reforms span many areas of responsibility involving various ministries and agencies. Cross-cutting reforms must also be accompanied by sectoral ones that address specific market failures that could undermine private sector competition. Sector-specific reforms are important in relation with privatizations and PPPs to avoid rent-capture by private interests: for instance, without a regulatory framework of feed-in tariffs that allow cost-recovery, PPPs in the electricity sector become a difficult proposition. Generally, infrastructure, social and financial sector all (among others) require important regulatory functions to create efficient markets.

Prioritization and clarity of reform objectives are also necessary. The NDP shows the way by setting clear numerical targets for the next five years. Setting the path to reach these targets is as important. With respect to the objective of eco-

nomic transformation, a focus should be on: (a) enabling sectors (electricity, transport, finance, telecommunications, and education), which are sectors of the economy that provide essential inputs to the rest of the economy, and (b) sectors where constraints can be addressed, and opportunities can be seized, in the short- to medium-term. Ultimately, the short-term and prioritization and objective should be done in a coordinated fashion among the different branches of government involved.

For successful implementation of reforms, Angola should create a culture of delivery on reform within government, learning from successes in other countries, and achieved through dedicated and empowered civil service teams (see chapter 4). In the Republic of Korea, the president created a National Council of Competitiveness, as did Peru, Columbia, and Costa Rica; in Malaysia, the prime minister created PEMUDAH, a task force to improve business regulation; in Rwanda, the Rwanda Development Board was tasked to coordinate efforts and overseeing implementation of reforms.

Moving forward, regulatory reform should prioritize the main bottlenecks identified by investors in critical sectors. For example, firms interviewed complained about the multiplicity of taxes and fees and the antagonistic attitude of the tax administration. Strengthening land governance would enable more investment opportunities in agriculture and construction. The private sector should be engaged through consultations to identify priority regulations for reform and improve public service delivery.

Improving trade facilitation remains a priority for most sectors, given Angola's import dependency for most inputs. Faster and less costly procedures to trade will enable more competitive domestic production, including in agriculture (since most inputs are imported), and are essential to develop export sectors. The ASYCUDA World system, already operating at major ports and airports, should allow the elimination of paper documentation in customs clearing process, and integrating approvals from different agencies using IT-based solutions would enable faster, reliable, and less onerous procedures. Angola has established a National Trade Facilitation Committee, which should become the main forum to prioritize reforms in this area. Improving the efficiency of port handling and revising port charges would also improve trade facilitation.

A better regulatory environment is critical for improving market contestability. Competition dynamics are currently weak in enabling sectors due to a host of reasons, including the dominance of SOEs, a small number of formal companies in most sectors, and the presence of politically-exposed persons whose business interests have benefited from government regulations and contracts. In sectors with greater competition, such as retail, Angolan consumers have experienced a growing offer and price differentiation. The government has vowed to foster competition and reduce market dominance (for example, in the telecoms sector). A new competition law was approved in 2018 that creates a competition authority which should receive the adequate human and budget resources to operate effectively, and gradually phase out the price control functions of its predecessor, the Institute of Prices and Competition (IPREC).[51] Moreover, a market-based lens should be applied when revising policies and regulations, to make sure they take into consideration the specific market characteristics and minimize potential distortions. Policy makers should consider how interventions may restrict market dynamics by: (a) reinforcing dominance or limiting entry, (b) facilitating collusive outcomes, and (c) discriminating among competitors and/or protecting vested interests.[52] Public investment management, government procurement, and conflict-of interest rules should be enforced in a way that promotes competitive markets and reduces vested interests.

Strengthening the rule of law requires investments in institutional capacity and systems. Addressing weaknesses in the justice system will take time, but commercial justice could be strengthened faster by implementing the specialized commercial benches envisioned in the 2015 justice sector reform law.[53] A more efficient commercial justice would contribute to foster credit markets and expand contractual relationships. The use of alternative resolution mechanisms, such as mediation or arbitration, should be promoted for commercial disputes. Strengthening accountability and fighting

corruption is a priority for the new government. While the legal framework is in place, there is need to strengthen the transparency and autonomy of the control institutions,[54] improve information exchange, align the legal framework with the United Nations Convention Against Corruption, and strengthen protections for whistleblowers.[55]

The reform of the Private Investment Law has opened opportunities to increase foreign investment and the government is actively pursuing diplomatic efforts to attract foreign investors to Angola. This may require targeted investment promotion strategies to identify and attract relevant investors that bring capital, expertise, and access to market. The government could support investors in the realization of these investment plans by providing clear information about procedural requirements and addressing any bottlenecks, while continuing to work on improving the business environment. The new private investment and export promotion agency, AIPEX, together with the Ministry of Agriculture can play that role. For first movers, support from government may be justified given the demonstration effects and the risks involved. This can include government-backed credit guarantees for financing through commercial banks (see below). Moreover, Angola needs to attract additional investment upstream and downstream agribusiness value chains that link to small and medium producers: input production and distribution, technical assistance, agriculture financial services, storage, and processing.

Improving the cost and availability of finance is critical to enable the growth of Angola's private sector, especially SMEs. Angola lags regional peers in most financial sector indicators and credit to the private sector is low at 22 percent of GDP. Increasing access to finance requires addressing supply and demand constraints. On the supply side, financial sector vulnerabilities—including high levels of NPLs, concentrated in one state-owned bank—should be addressed by operationalizing the bank resolution framework, and promoting capital market development by fostering a government bond market. Also, other sources of financing such as leasing, factoring and warehouse receipts could be promoted. Government programs offering financing and credit guarantees for SMEs should be transparent and crowd in the private sector.[56] In turn, banks should strengthen the product offering for SMEs.

Delivering the economic diversification agenda requires improving skills. Improving learning outcomes in the education system will ensure that Angola's youth is better prepared to enter the workforce. In addition, improving employment skills is necessary to address existing gaps—a constraint for all growth sectors. The supply of Technical and Vocational Education and Training (TVET) in priority sectors needs to be increased, and quality enhanced to make sure programs deliver the relevant skills. Finally, improved coordination of government programs should be strengthened and more partnership with the private sector pursued in TVET.[57]

Sectoral regulations and regulators are a pre-requisite to secure the good functioning of markets, especially in enabling sectors where natural monopolies and public services missions exist. In the context of PPPs, this includes setting up the appropriate regulatory framework to enable the participation of the private sector, such as feed-in tariffs in the electricity sector or infrastructure sharing in telecoms.[58] This suggests that the reinforcing regulatory bodies should monitor compliance with existing laws, as well as enforce competitive, transparent, and predictable pricing, enabling both private sector participation while ensuring that access to essential facilities and services is maximized. Sector-specific policy reforms should form the core of "sector development roadmaps" (like the one being currently developed by the Ministry of Telecom), spelling out necessary public investments (aiming to crowd-in private investments), and where relevant, related SOE reforms, PPPs, and privatizations.

PRIVATIZATIONS AND PPPS IN KEY ENABLING SECTORS

A privatization commission was set up in February 2018 under the presidency led by the Minister of State for Economic and Social Development.[59] A new privatization law is currently being considered. The aim for the government is to privatize fully

or partially 53 state owned companies, using the stock market (the BODIVA) to involve the Angolan public in these privatizations. The Commission is currently in the process of assessing and preparing a first wave of privatization and the firms that would be part of this are currently unknown. However, among the firms in the government portfolio, the names of firms— financial (the insurer ENSA, BCI), telecom (Angola Telecom, along with the issuance of a new license),[60] and transport sectors (TAAG, ports)—have been mentioned.

The process could offer significant interesting prospects for private investment and future development of enabling sectors, especially transport, energy, and telecom. However, investors will only commit for commercially viable investments, which presupposes that the operational and financial information of the public firms to be privatized is available and offers the prospect of being financially viable. Getting a public firm ready for privatization may take some time and expertise, particularly when assets are complex and potential liabilities difficult to assess. Best practice suggests that several elements must be in place before transferring state ownership to the private sector:[61]

- Ensure that the agencies or units entrusted with privatizing SOEs are competent, well-resourced and subject to high standards of accountability and transparency.
- Have an appropriate legal framework that establishes which authorities are entitled to make privatization decisions. This is part of the framework that raises the transparency and accountability of the process.
- Establish an appropriate regulatory framework, including competition regulation, and specialized regulation.
- With transfer of ownership, employment contractual rights (including pensions) should be carefully assessed and revised if needed.
- Corporate governance arrangements should be established if government is to remain involved.
- Objectives for the privatization should normally be formulated and communicated to the public.
- A thorough and independent valuation of SOEs prior to privatization is strongly advised.
- There may be a need to restructure the SOE prior to the transaction (such as divestments or staffing).
- External advisors should help safeguard against conflicts of interest and achieve best value for money.
- Privatization methods should be adapted to broad economic objectives, market conditions, and specific firm circumstances.
- Timing and sequencing of privatizations should be decided and clearly communicated.
- Adequate corporate governance of SOEs during the privatization process should be put in place.
- Strong Auditing and accountability processes for the privatization should be put in place.

Concrete steps taken to prepare the privatization process included replacing ISEP with *Instituto de Gestão de Activos e Participações do Estado* (IGAPE), which was created in June 2018 to implement the privatization policy and manage the portfolio of SOEs.[62] IGAPE is an independent public commercial establishment reporting to the Ministry of Finance. It will be financed in part by a share of privatization proceeds and SOE dividends, and when fully operational, should employ about 125 staff. While the first phase of privatization is being prepared, building the capacity of IGAPE is a priority, including increasing sectoral expertise in priority strategic economic sectors where SOEs operate (transport, electricity and energy, telecom, and finance) along with increasing the transparency of the process.

The current fiscal financing gap underscores the urgency to increase private sector involvement in infrastructure development: in its NDP, the government has assessed that 10 percent of infrastructure needs of $47 billion could be met through PPPs. Half of the infrastructure needs are in the transport sector, and 30 percent in the energy sector.[63] Angola adopted the law on public-private partnerships (PPP) in 2011,[64] and the 2016 procurement law contains specific provisions for PPPs.[65] The regulations to implement the PPP Law are under preparation. There have been limited investments

in infrastructure with private sector participation, according to available information.[66] According a survey carried out by the Ministry of Economy and Planning, 15 projects have been contracted since 2003.[67] In energy, only four PPPs that have been signed (three hydroelectric projects and one biomass energy).

While a framework for PPP is already in place important capacity-building efforts must be undertaken, as well as regulatory work to help with the realization of PPPs. The regulatory framework, while incomplete, does not constitute the main challenge to implementing PPPs in Angola. However, strong investments in capacity and technical assistance will be needed in terms of: (a) PPP project preparation, (b) standardization of documents, (c) the treatment of unsolicited proposals, and (d) efficient procurement and contract management.[68] Coordination between PPP units in technical ministries and the Ministry of Economy and Planning should be reinforced as sectoral reforms are also needed in order to enabling the entry of the private sector and the commercial viability of PPPs.

The first transactions of public asset transfers to private hands through privatization and PPPs will have an important signaling effect to potential investors and bearing on the success going forward of the program. It is therefore strategically important to conduct the first transactions successfully. Most programs that Angola is putting forward are similar to those executed in other countries; therefore, successful implementation of privatizations and PPPs in Angola could draw inspiration from well-conducted transactions elsewhere.

MANAGING STATE ASSETS

The transfer of government holdings (through privatization) or management functions (through PPPs) to the private sector in the key sectors identified above is central for Angola's future private sector and economic development prospects. The public sector owns a large portfolio of assets that could be put to better productive use in partnership with the private sector. One category of important assets managed by Gesterra S.A., a state-owned enterprise, is directly linked with agribusiness opportunities.

Gesterra S.A. is managing the public reserve of agricultural land and has been mandated by the government to prepare agricultural land for future investors. Among the first initiatives under the new mandate is the preparation of the privatization of seven mid-size to large farms: Fazenda agroindustrial Caiamgala (Moxico), Longa (Cuando Cubango), Sanza Pombo (Uíge), Camacupa (Bié), Cuimba (Zaire), Manquete (Cunene) and Pedras Negras (Malanje), which had been previously entrusted to private managers (Chinese interests among them), then transferred to the FSDEA in 2016[69] before being returned to Gesterra's management. A transaction adviser has been hired to prepare the privatization and investors from several countries (Argentina, Brazil, Netherlands, Portugal, South Africa, Spain and United Arab Emirates) have been approached. It is unclear whether there is any interest from agribusiness firms currently operating in Angola in taking over these farms. So far, the process has been conducted on a transaction-by-transaction basis and with limited public information, which is unlikely to optimize the returns for the government and future returns for the economy. A motivation factor behind the transaction is the desire to unload largely non-performing and legacy assets from the government books, as well as signaling rapidly the desire of the government to create a new space for the private sector. Both motivations are commendable but should not come at the expense of best practices in terms of transfer of public assets to the private sector. Gesterra has also retained participations in some large farms that were partially privatized in the past: Aldeia Nova in partnership with the Israeli Vital Capital Fund and SEDIAC,[70] and Fazenda Pundo Adongo. In addition, Gesterra administers the contracting process to allocate infrastructured land in the Quiminha project, an agro-industrial pole with large, medium, and small-size farms, developed by the Israeli Tahal Group.

Looking forward, Gesterra is planning to identify and prepare additional land from the public reserve for investors. Establishing a cadaster and reviewing existing concessions would be a prerequisite, as well as defining the conditions under which such land would be prepared (for exam-

ple, the provision of key infrastructure) and then transferred on an open and commercial basis to private operators. (This could generate revenue to Gesterra that could be reinvested in the preparation of additional land.) A second prerequisite is to improve the capacity of Gesterra S.A itself. These functions require specialized expertise; one option that could be considered is to mandate private sector operators to conduct some of these missions under PPP schemes (for example, land preparation and commercialization).

Another important group of assets are public housing development in large cities. Mandated to manage the government's housing and land stock, a new SOE was created by Decree in 2015—EGTI. This entity manages existing public housing developments, as well as commercial activities, such as the 20,000-unit Kilamba neighborhood. EGTI is mandated to operate these estates on a commercial basis and is looking for private sector investments in commercial activities notably to accompany their development.

SECTORS FOR PRIORITY INTERVENTIONS AND INVESTMENTS

TRANSPORT

SECTOR PERFORMANCE

Current gaps in infrastructure, presence of 15 poor performing SOEs in the operations of key transport infrastructure, and poor logistics performance impede rather than enable the country's economic growth as well as its poverty alleviation agenda. These shortcomings result in high transport prices that weaken Angola's value proposition as a regional transport hub/gateway. These factors explain why its transport sector only accounted for 2.3 percent of GDP in 2017 compared with 9.9 percent for SSA. Despite these issues it is estimated that around 150,000 people were employed by the transport sector in 2011.

Angola's logistics sector ranks below its regional peers both in terms of availability and efficiency. Its aggregated LPI (Logistics Performance Index) puts Angola 160 out of 167 countries. The same is true for the quality of its air, port, rail and road infrastructure (that is, 127 out of 140 according to infrastructure pillar the Global Competitiveness Report 2018) despite the significance of the public investment realized in key transport infrastructure since the end of the war.

Shippers experiment long container dwell times, with an average of more than 12 days according to those interviewed for this report. These dwell times are induced by a variety of factors: congestion at the port, time needed to clear the cargo, lack of trucks to evacuate cargo, roads and rail bottlenecks into the country make it so that port space is being used for storage purposes. By West African standards, average dwell time in Luanda is comparable, albeit on the high side, suggesting scope for improvements: for instance, the dwell time in Dakar is 13 days; at port of Abidjan, 11 days; and in the port of Lomé, nine days.[71] According to stakeholders interviewed, the stevedoring productivity of Angolan's ports is low. This seems due to aging handling equipment, insufficient storage and administrative constrains. Inland container depots have been built in all ports to alleviate containers congestion at the port, especially in relation to empty and or export containers.

Liner shipping connectivity to Angola has increased and ranks above several regional peers, yet Angola is an expensive sea freight destination. Freight from Le Havre to Abidjan, Côte d'Ivoire or Dakar, Senegal is 50 percent less expensive; freight to Lagos is one-third less expensive. Volumes in Luanda are in the same range as Abidjan and Dakar, so economies of scale cannot explain these cost differences. This might be explained on the other hand by less competition from alternative corridors (Lagos for instance competes with Cotonou), the fact that local charges are high, low stevedoring productivities, informal commercial agreement between shipping lines and other factors, or country risk surcharges and readiness of market to pay these prices. Transshipment costs are also high: to place an empty unit from Luanda to Namibe costs $450 to which slot costs must be added.

Air transport sector is heavily dominated by public companies. The National Company

of Airport Development and Air Navigation (ENANA) manages the country's civilian airports while GHASSIST, another public company, has the monopoly of airport handling activities at Luanda's *4 Fevereiro* international airport.

Airport passenger and cargo traffic has significantly declined from previous peaks. Passenger traffic fell from nearly 4.3 million passengers in 2014 to 3.5 million passengers in 2017 (that is, –19 percent) with Luanda airport accounting for 68 percent of that total.The drop in total cargo volumes handled has been far more severe, with 2017 recorded total less than half of their previous 2008 peak. Of the 30 airports located throughout the country, 17 have been rehabilitated, though only 12 of these receive regular commercial flights from the national air carrier *Transportes Aéreos de Angola* (TAAG) and SONAIR.

Angola's government-owned airline TAAG financial standing is weak. The airline has cumulated losses in recent years and its balance sheet suggests a need for recapitalization. TAAG employed 3,268 full-time equivalent employees at the end of 2016, a ratio of employees per aircraft then at least twice as high as industry standards. On September 20, 2018, the government approved a change in the legal structure of TAAG and the replacement of the board to facilitate the participation of future private sector operators into the airline through PPP or privatization. It is unlikely however that such measure will suffice to make the airline attractive to potential investors without the government agreeing first to painful cuts both in its employment structure and route network. The other public owned airline is SONAIR, a 100 percent subsidiary of SONANGOL serving mostly oil business inside Angola.

Published air fares suggest a lack of competition on routes to/from Angola as well as the possible impact of high airport charges. High airfares likely curtail potential passengers and cargo demand growth. Fares on similar routes on other carriers in the region are between 15 percent and 50 percent less expensive, including on routes serving less competitive markets.

The Angolan government operates three separate railroad lines—Luanda, Benguela and Moçamedes—each with their own Administrator reporting to the Ministry of Transportation.All these three lines have recurrent losses. They carry mostly passengers and cargo only on demand with no clear market prospects for an upswing in bankable demand. Among them the Benguela railway (CFB) recently renovated (completed in 2014) with Chinese assistance, has seen hardly any cargo traffic.

Only 24 percent of classified and urban roads are paved. Despite considerable progress in improving the main road network, the road density and connectivity in the provinces outside of Luanda and rural areas are poor. Angola scores 2.1 in quality of roads infrastructure in the Global Competitiveness Index (GCI), well below the lower-middle income and SSA average (3.3). A road fund (*Fundo Rodoviario*) was created in 2015 that covers only a small part of the total network and relies mostly on transfers from the state budget. As a result, some recently rehabilitated major road assets are already deteriorating. According to interviews conducted in Angola, the construction of roads is not always of good quality, which accelerates deterioration. For example, the corridor to Namibia is becoming difficult to navigate. Regional road corridors are underdeveloped. This constrains regional trade with surrounding countries and limits Angola's role as a transport hub for surrounding (landlocked) countries and the SADC region.

There is a well-developed road transport logistics sector in Angola, especially by Sub-Saharan Africa standards. The sector grew alongside the growth in imports and the development of the retail sector. Companies present in the import/retail segment such as Sanzi, Noble/Newaco Group, Angomart, Angoalissar, Kero, Zahara, Contidis, and Shoprite, as well as large companies in the food and beverage sector all rely on modern fleet of trucks, including specialized logistics equipment such as refrigerated trucks and modern storage facilities (including dedicated storage for pharmaceuticals or frozen goods). Among the major truck operators in Angola, *Logística e Transportes Integrado* (LTI—with over 500 trucks),[72] *CSR Transportes*, and two of the terminal operators, *Unicargas* (250 trucks but less than 100 functioning), and *Soportos* are among the largest to operate in the country. Finally, as

noted in the "Maritime Transport" section in chapter 5, Inland Container Depots (ICD) operators include private and foreign-owned operators such as Rangel (Portugal).

PROSPECTS

The fundamentals of Angola's economy should support a dynamic transport sector. Angola's economy is among the largest and wealthiest in Sub-Saharan Africa while the country's geographical position should provide it with ample opportunities to be used as an international transport gateway by southern DRC and landlocked Zambia and Botswana. The country's medium to long haul transport domestic demand is hampered by Angola's low population density (20 people per square kilometers) and the always growing concentration of its population along its coastline (Luanda is home to one-quarter of Angola's total population). Future volumes growth will be linked to the robustness and sustainability of the nascent economic recovery in addition to the transport needs generated by a fast-growing population[73] and Angola's ability to play its regional gateway role. For transport Angola however remains a small to medium-size market by international standards.

ISSUES

For the maritime transport sector, the port of Luanda is facing a few operational constraints that limit its efficiency, notably the development of its container traffic due to congestion. Limits imposed by the port's maximum draft result in bigger vessels calling at Pointe Noire. Additionally, Sonils control of 50 percent of the port area preclude optimal use of its space. Lastly, the presence of gas terminal and depots at the port, for historical reasons linked to wartimes needs, is neither optimal nor desirable.

A second set of issues relates to the management of the port and its terminals which does not follow best industry practices. The operation of two container terminals under different management does not encourage operational efficiency gains while preventing the achievement of economies of scale which could translated into lower stevedoring tariffs, assuming adequate tariff regulation is enacted. Secondary ports, Cabinda and Lobito are not functioning properly. The Lobito terminal is not operational, nor is the railway that connects to it.

Airlines and other private companies consulted raised questions on the new international airport in Luanda, part of a vision of dramatically increase the country's international air transport capacity. Envisioned as a major transportation hub for the region and supported by TAAG as part of its development plans, the airport is designed to accommodate 13 million passengers annually (in comparison, peak demand in 2014 was 2.9 million passengers). This greenfield project is estimated to be the second largest in Africa, behind the Addis Ababa new airport.[74] Concerns about the need for increased capacity and the overall quality of the project will loom large in any future discussions between a private operator and the government in a context of a PPP scheme, since the cost of operating such a large airport at only a portion of its designed capacity would be prohibitive. Additionally, the future of the current airport will need to be addressed. Finally, the traffic downside risk as well the payment collection risk related to TAAG weak financial situation will further contribute to a difficult PPP dialogue.

The rail sector is functioning poorly. The three rail public companies are unable to cover their direct costs, pay for the maintenance of rail infrastructure, invest in the acquisition of new rolling stock, or modernize their traffic management systems. The lack of a single management overseeing these three public companies further compounds an economically unsustainable proposition. Linking the rail Lobito corridor to Zambia directly (without transiting through DRC), would require 410 kilometers of new rail infrastructure at a likely cost far exceeding $1 billion, which is challenging given the fiscal situation in both countries. The current capacity on the existing line to DRC is limited with only 40 20-foot containers per train and only four trains per week (compared to 10 per day before 1975). The section of the railway between Dilolo and Kolwezi (420 kilometers) is not operational on the DRC side. The commercial viability of the CFB line also depends on operations

in the Lobito Port which is currently not ready to accommodate rail cargo.

Beyond the obvious problem caused by the degrading state of the roads, the road transport sector faces the challenge of relative fragmentation of the supply. Many companies still opt for own-account operations rather than subcontracting, meaning that capital and other resources are mobilized instead of being used to support core business operations. There is a missing transport market even though there is capacity to supply modern transport and logistics services. Transport regulations could be improved to facilitate the operation of transport companies, such as truck licensing.

MOVING FORWARD WITH THE PRIVATE SECTOR

The main gateway for Angola remains the port of Luanda; the consensus among the Angolan shipping community seems to be that there is no need to build new greenfield ports. Rather, the potential of Luanda and Lobito ports should be maximized. In Luanda and other ports, If the public sector is not in position to finance the building/upgrade of key infrastructures (there are needs to rebuild quays and dredging in the port of Luanda), PPP programs could be explored.

Private sector's involvement could also take the form of an increased private participation in port stevedoring activities (containers, bulk, conventional cargo) in the ports of Luanda, Cabinda, Lobito, and Namibe. Likewise, the consolidation of neighboring Unicargas and Sogester terminal activities under a single structure could deliver economies of scale. In Luanda, transfer of some of Sonils activity could free needed space to decongest container handling activities. In Lobito, port terminals issues could be addressed if demand to East Angola, DRC and Zambia can be secured through completion of works of the CFB regional rail connection. Inland logistics platforms could also be attractive to the private sector. A platform at the border of DRC in Luau for example could complement both CFB and Lobito port activities by targeting transit freight to neighboring countries.

At the country's main airports, Angola's expected return to economic growth, combined with a growing middle class, should sustain a long-term increase in passenger and cargo demands. The management of airport infrastructure and services, currently under public management, could therefore be transferred to private sector operators, as is commonly the case in other countries, via outright privatization or PPPs. Questions will need to be answered about the economic viability of operating the new airport, including under a PPP agreement, provided that the infrastructure is ready and adequate. Given the high investment costs, the issue of how the debt would be serviced and whether a share of operational revenues should go toward it will be central to the design of a future PPP arrangement. Meanwhile, the operations of the current airport could be improved to augment its capacity. The concession of services rendered by ENANA and GHASSIST could also be considered within that framework since the quality and cost of their services require much improvement. These PPP opportunities will be directly affected, however, by the future of TAAG.

In railways, the biggest potential and interest from private investors lies in the CFB, the shortest sea link to the resource rich and populated Katanga region in DRC, and to the Copper Belt provinces of Zambia and DRC. Better prospects for PPP lie with the existing CFB rail corridor, the prospects of other lines seeming much more limited. Manganese from DRC started to be transported on the rail corridor recently, as well as copper. In addition to proven mining demand, the rail corridor could be used to transport commodities from Lobito to the provinces of Moxico, Lunda Norte, and Lunda Sul served right now by road. To realize all these opportunities the government will need, however, to address issues such as obsolete traffic management system and narrow rail line curves. Estimated cost for this catch-up investment are about $200–300 million.

Opportunities to develop the road transport sector rest essentially in the capacity of the government to unlock the door to neighboring markets. Of the important road links cited earlier, two links would appear as priorities: the Lobito-Luena-Luau corridor, which serves DRC and the route to Namibia and South Africa. In the latter case, the corridor would enable in the first instance easier

access to imported products from Angola's two Southern neighbors. Improvements on clearance at the border would need to be made as well. For the Lobito-Luau corridor, there have been signs that DRC could become a potential export market for some Angolan products such as construction materials and beverages.

Angola's expected return to economic growth, combined with a growing middle class, should sustain a long-term increase in passenger and cargo demands at the country's main airports. The management of airport infrastructure and services, currently under public management, could therefore be transferred to private sector operators, as is commonly the case in other countries, via outright privatization or PPPs.

While this report did not gather enough information to make a final assessment, there are serious questions about the economic viability of operating the new airport, including under a PPP agreement, provided that the infrastructure is ready and adequate. As a greenfield project, there would be lesser legacy issues to manage and the new operation could be designed to the standards desired by a new international-level operator, but this is counterbalanced by the costs of operating an oversized infrastructure relative to actual and future demand. Also, given the high investment costs of the building, the issue of how the debt would be serviced and whether a share of operational revenues should go toward it will be central to the design of a future PPP arrangement.

ELECTRICITY

SECTOR PERFORMANCE

With financial support from China,[75] Angola has made notable improvements in generation capacity, though access to electricity remains limited. Electricity generating capacity has more than doubled since the end of the war. Installed generation capacity in 2017 was 3.3 gigawatts of which 59.5 percent hydroelectricity and the remainder fossil fuels,[76] after the Cambambe II hydroelectric project (700 megawatts) came online in mid-2017.[77,78] Transmission and distribution are key challenges for the sector and only 30 percent of the population has currently access to electricity (43 percent in cities and only 8 percent in rural areas). Access to electricity is an issue for many businesses, including in Luanda and in industrial estates (such as Viana, a peri-urban industrial area in Luanda), which forces business to rely on expensive power generators. Generators are also needed as back up due to the current low reliability of electricity supply.[79] The consumption of electricity by the industrial sector is low at only 8 percent of the total production.

A core focus of the government continues to be on developing hydroelectric capacity. The government projected that by the end of 2018, the country's power generation would nearly double to reach 6.3 gigawatts, shifting the generation mix to 64 percent hydropower (4 gigawatts), 12 percent natural gas (750 megawatts) and 24 percent other fossil fuels (1.5 gigawatts). This total was anticipated once two major projects are completed: Soyo I (gas) combined cycle plant (750 megawatts), and the Lauca hydroelectric project, developed by the Brazilian firm Odebrecht (2.1 gigawatts).[80] There currently only 4 IPPs operational in the sector: Biocom (sugarcane biomass, 100 megawatts), one with Alrosa a Russian mining company (Chicapa, 16 megawatts) for self-generation and two hydro projects with Chinese operators: the Mabubas power station (26 megawatts), and the Lomaom power station (50 megawatts) in Benguela region, both managed by Kanazuro Electric SA.

Electricity demand is rising fast. According to government figures, energy consumption recorded an annual average growth rate of 15.5 percent between 2008 and 2014, a rate that was planned to continue until 2017. Demand is expected to continue to grow to an overall system load reaching 7.2 gigawatts by 2025, a growth rate of 12 percent p.a.[81] This demand should be comfortably met by the increase in generation capacity.

Angola's transmission infrastructure is made up of several separate grid systems, the main being in the northern, central, and southern part of the country. Plans exist to link the grids through a north-central-south backbone and expand the grid five-fold by 2025.[82] Angola is currently a

non-operating member of the Southern African Power Pool, but plans exist to connect to the pool through Namibia (Baynes) and the Democratic Republic of Congo (Inga).

Regulatory and subsidy reforms have started but are incomplete. On the regulatory side, with support from the AfDB, the government introduced major reforms in November 2014 with the unbundling of the national electricity company into three public utilities operating under the Ministry of Energy and Water: PRODEL for generation, RNT for transmission, and ENDE for distribution. In 2016, the mandate of the national electricity regulator was expanded to include water distribution, its autonomy strengthened, and was renamed IRSEA (*Instituto Regulador dos Servicos de Electricidade e Agua e Saneamento de Aguas Residuais*). The government further established GAMEK (*Gabinete de Aproveitamento do Médio Kwanza*) to oversee the development and construction of large hydropower projects in the Kwanza river basin. The government implemented a well-designed fuel subsidy reform, which eliminated subsidies on most fuels at the end of 2015. However, no fuel price adjustments have been made since 2015 despite the devaluation of the kwanza and the gradual recovery of international oil prices, which led to the emergence of implicit fuel price subsidies (size unknown).[83]

The size of electricity subsidies is unknown, but Angola stands out among Sub-Saharan Africa on the low residential electricity tariffs and the affordability of electricity even for poor households.[84] In addition, PRODEL's arrears with Sonangol for fuel reportedly reached $1.7 billion.[85] The World Bank has an electricity project under preparation that would support the utility in improving performance and is advising on subsidy reform. For long term investors in the sector, even if subsidies were to persist, full transparency and clarity on how they would be funded in the long term would be a pre-requisite. A project to mitigate the adverse social impacts of the reform is in preparation.

PROSPECTS

The Angolan government plans to invest $23.3 billion in the electricity sector by 2025. Angola aims to reach 9.9 gigawatts of installed generation capacity and a 60 percent electrification rate by 2025. Two major projects are Caculo-Cabaca (2 gigawatts) on the Kwanza river, and a bi-national project with Namibia on the Cunene river at Baynes mountain ($3.1 billion, 600 megawatts).[86] The initial government plans to finance $9.8 billion of the plan with private participations in generation and urban distribution.[87] However, there are few prospects for PPPs in the sector and the PPP framework is weak although IFC is seeking to strengthen it and has delivered several PPP workshops including Scaling Solar. There is an official request from the GOA for 600 megawatts of Scaling Solar to which IFC has responded to and is awaiting further action.

The expected increase in total power load generation, will bring excess capacity: the government is envisaging demand of additional energy-intensive industries with a capacity up to 800 megawatts and the prospect of exports totaling a capacity of 800 megawatts towards the SADC market.[88] Yet, meeting high demand from industrial consumer and businesses will require investments in transmission and distribution to bring the added electricity supply to where the needs are. For instance, a large company located in Viana which is investing into a large refrigeration warehouse needed to fit its complex with power generators to start its operations. The facility is equipped to be connected to the grid, but there is no distribution line reaching it. Also, it is not clear whether the transmission and distribution network will be designed to take electricity supply where actual demand is. There may be cases where local new generation might be needed (for example, f solar with mini grid applications) to meet unmet demand.

There is interest from private sector companies to participate in IPPs, especially in the renewable sector to balance the generation mix and bring more cost effectiveness to generation.Potential for solar looks very promising in the country.In 2014, mapping studies identified the potential for 55 gigawatts solar, 3 gigawatts wind, and 18 gigawatts in hydro throughout the country.[89]

ISSUES

The sector is not financially sustainable, and it needs a transparent and sustainable tariff reg-

ulation scheme. In early 2016, the government increased retail tariffs for electricity by 60 percent for private consumers to $71 per megawatt-hour, and by 190 percent to $59 per megawatt-hour for businesses (at 2014 exchange rate). These levels are below variable costs of production of $110 per megawatt-hour.[90]A study on tariffs is under way at IRSEA.[91] There are also questions about the level of independence of the current regulator.

Efforts to improve the transmission and distribution network serving businesses must be improved. Improved electricity access for industrial estates seems to be planed under the current master plan (a 2040 master plan supported by JICA is under review), with for instance plans to build 2 additional substations in Viana under a first phase of electrification that is financed by Chinese funds. However, businesses in the zone met during preparation of this report do not seem to be aware of such plans and complain from not receiving satisfactory answers from the administration regarding their access or supply issues, as did other firms met during the mission. A difficulty according to the government is that many businesses are near residential areas and not in designated industrial parks.

MOVING FORWARD WITH THE PRIVATE SECTOR

Continue improving the regulatory framework for the sector. The regulatory framework is not fully complete but there is capacity building support provided by development partners (World Bank, JICA, Power Africa among others). Among the issues are the capitalization levels of the energy utilities, electricity market prices which are not economically sustainable, and questions about the long-term independence of the regulator (which still depends on the Ministry of Energy).The capacity of the energy utilities as power purchaser in the sector should also be strengthened by improving their technical and financial performance. Finally, there would be a need to reinforce coordination in the power sector planning process after the unbundling of the sector and clarify the role of the different stakeholders in the process.[92]

Build the capacity to realize PPP arrangements for the electricity sector. The government is receiving support from Power Africa and is looking at a potential pipeline of projects in the renewable sector. Beyond the regulatory challenges described above, there are however challenges ahead in terms of realizing future deals.Sector bodies require improved capacity to conduct the bidding processes and negotiate power purchase agreements (PPAs) if they are to mobilize more than a $1 billion of private financing per year. A feed-in-tariff mechanism needs also to be considered, given the ambitious plans for 800 megawatts renewable energy generation capacity (excluding hydro power). Finally, the prospect of guarantees could be explored given the financial weakness of the public sector.

Improve the focus on servicing businesses, starting by targeting investments in distribution and transmission in zones of high economic activity and potential (for example, operational industrial parks and agricultural clusters). The management of business accounts could also be improved, starting by a review of how business accounts are managed and implement better monitoring and improve the level of service provided to large business accounts, and to businesses in general.

Strengthen regional connectivity. Angola is currently a non-operative member of the Southern African Power Pool (SAPP) but interconnection lines are planned through Namibia and the Democratic Republic of the Congo to allow cross border energy trading. Regional cooperation in power projects could also help to unify the national transmission system–currently fragmented into three separate grids—and allow for energy exports and imports to mitigate energy supply risks.

ICT

SECTOR PERFORMANCE

The liberalization of the telecommunications market in 2001 triggered rapid expansion of the sector, but mobile phone use continues to lag Angola's regional peers. Mobile phone penetration reached 45 subscribers per 100 population in Angola in 2019 comparable to the Sub-Saharan Africa average, but well below South Africa (169 subscribers).[93] Mobile penetration is declining since 2014 when it reached 50 subscribers per 100 people; the total number of subscribers also declined,

due to the combined effect ofeconomic growth slowdown, currency devaluation, poor quality of service, and rocketing inflation,exacerbated by the commencement of a government-ordered user identity registration program in 2015.[94]

The mobile sector is dominated by Unitel. Unitel, owned by Brazilian Oi, Sonangol, and other Angolan shareholders, has a share of 73 percent of the market. Movicel, which was privatized in 2009 to various groups of investors, and of which the Angolan state still holds 20 percent, has a market share of 27 percent.[95] Movicel is gaining subscribers whereas Unitel is losing them. Both are present in 18 provinces and offer broadband mobile services in addition to voice. By the end of 2017, 65 percent of the country was covered by 3G network.[96]

In the mobile broadband market, access to high-speed internet remains a challenge. The number of mobile broadband subscribers rose from 2.7 per 100 people in 2010 to 17.1 per 100 people in 2016. The number has also been stagnant, if not declining in recent years. On the other hand, overall Internet penetration has been rising, reaching an estimated 23 per 100 people in 2016. 3G and 4G coverage and penetration are 65 percent and 10 percent respectively. Among Sub-Saharan African countries, Angola performs relatively well in GMSA's Mobile Connectivity Index, ranking 7, behind South Africa, Ghana and Kenya, and above Nigeria and Cameroon. Globally, it ranked 123 out of 163 countries.[97]

The fixed broadband market, aiming to serve households and enterprises including government agencies, is still largely dominated by Angola Telecom (over 60 percent market share), and the subscription rate was only 0.5 per 100 people in 2016.[98] Other licensed fixed line operators include TV Cabo (a 50/50 joint venture between Angola Telecom and Portugal's Visabeira Group), MSTelcom (part of Angolan national oil company Sonangol), Mundo Startel (Startel) and small player ITELnet. In addition, five fixed ISPs are present in the market: Multitel (part-owned by Angola Telecom); Net One (owned by MSTelcom); ACS Angola; NCR Angola (SNET); and Internet Technologies Angola (ITA). Most fixed broadband connections are based on ADSL technology, thus offering limited speeds. There are 22,000 kilometers of fiber optic in Angola (of which 12,000 kilometers belong to Angola Telecom), but there is still a need to connect regions and the last mile fiber to residential houses. There has been limited investment and slow progress in deploying fiber-optic cabling (such as that by Unitel and Zap in Luanda). In the meantime, internet services are delivered via satellite and microwave in the regions.

International connectivity is improving. Angola Cables, a joint venture between state-owned Angola Telecom (51 percent), Unitel (31 percent) and four other telecom operators (Internet Technologies Angola, MS Telecom, Movicel, and Startel) are the access providers for international connectivity. Angola Cables also manages Angonix, one of the Internet exchange points (IXP). Angola is served by several underwater cables: the West Africa Cable System (WACS) consortium in which Angola Cables is a party, the SAT-3 cable, managed by Angola Telecom, Main One cable, and WASACE. Angola Cables is also in the process of launching the South Atlantic Cable System (SACS) connecting Angola to Brazil and the developer of the MONET cable between the United States and Brazil (owned by Angola Telecom and which became operational in May 2018).[99] The Angolsat-2 satellite, which will replace the prematurely lost Angosat-1 satellite, will also contribute to reducing access prices for consumers as well as improving connectivity.

Prices for mobile data, call plans and fixed broadband internet in Angola are still high compared to neighboring countries. Regionally, for fixed broadband, South Africa's prices are among the most competitive while Angola's prices are more than three-fold higher, and higher than in Nigeria and Kenya.[100] Unitel's broadband prices discourage internet access; on the other hand, lower prices offered by Movicel and NetOne are associated with decreased speed and quality.[101] Individuals often access internet at work rather than having service at home. A startup reported that due to internet costs, they try to use the internet only when they "need it."

Beyond the telecom operators, the digital economy appears underdeveloped compared to peers.

The larger software companies serve the public sector and subcontract with large telecom operators. Current levels of broadband access and prices are such that only a very small digital ecosystem is supported. Angola has a nascent tech startup industry, but which is very small compared to other countries in the region, with only about 10 active startups with traction such as Tupuca a food delivery service app and Appy Saúde, a healthcare application. There are also a few mobile phone and white goods assembly operations.

Regulatory changes kick-started the growth of the sector. Beyond the two historical operators, a third mobile license to expand telecommunications services has been under discussion for more than 10 years. In 2013, the government opened the market under a revised unified license regime covering all mobile/fixed voice/data/TV services. Under this new regime, it was confirmed in October 2017 that Angola Telecom has the third license to operate mobile services, and the public company is expected to launch a new 4G LTE service later in 2018[102] after it won the auction of the 800 MHz spectrum license. Finally, the ICT Minister announced in late 2017 that operators must comply with infrastructure sharing guidelines under an existing decree that requires all infrastructure capable of hosting ICT services to be shared.

PROSPECTS

The Angolan Ministry of Telecommunications and Information Technologies issued a tender for a fourth telecommunications operator in November 2017. The tender conditions require that the winning telecommunications operator be 45 percent owned by a local shareholder and that the operator must have been in operations for at least 10 years. The requirement is especially onerous given the huge investments needed to build a mobile network.[103]

The privatization of a 45 percent minority stake in Angola Telecom was also announced in November 2017. The privatization plan is nearing completion.[104]

The prospects of a fourth mobile operator as well as the need for increase coverage has opened the towers sector in Angola. Antosc, an independent tower operator, has become the first licensed operator in Angola and is seeking to take advantage of the prospects of the entry of the fourth mobile operator and is already providing towers to Unitel. The infrastructure sharing regulations will have to be developed in place for this sector to thrive.

ISSUES

Operators have tried to request low band spectrum from the government to cover a wider range. However, frequency allowance is a big problem as the government, due to a lack of equipment, is not able to ascertain which spectra are free so that it can release them to the operator.

Aside from the high cost of renting land for the cell towers, uncertainties around land title could cause complications for an operator. Due to these barriers, an operator might only be able to do approximately 200 site acquisitions in a year, or only about 15 percent of the towers required to cover Angola. Given the size of the country, more than 1,000 towers or antennae would be required. Due to the unstable electrical supply, all cell tower sites need to have generators, sometimes an additional generator as back up, as well as guards for security against theft or damage, and monitoring of generators. Lengthy, costly, and uncertain government inspections on imported equipment represent another constraint process according to operators.

Also, all ICT companies interviewed cited the lack of skilled labor and the poor quality of education as a key challenge. Some companies take only experienced hires while others invest in their own training programs. In the mobile sector, concentration of skilled people in one company is resulting in deteriorating service quality in the competitor.

MOVING FORWARD WITH THE PRIVATE SECTOR

Competition in the telecom sector should be strengthened. Efforts related to the fourth license and partial privatization of Angola Telecom go in the right direction but remaining restrictions regarding Angolan ownership and continued government control and participation may muffle the impact. There are also market structure issues with the involvement of important operators at several levels of the value chain (MS Telecom, Angola

Telecom) which must be addressed with proper regulation guaranteeing competition.

Further and deeper country assessment needs to be conducted to: (a) collect key market information (such as existing infrastructure, quality, ownership, sharing arrangements in place), (b) form a better understanding of a possible market failure, infrastructure gap and policy reforms required, particularly from the standpoint of Unitel's market dominance and the necessary regulatory intervention that may be required for a dominant operator (for example, infrastructure sharing, asymmetric interconnect tariffs, and so forth) to encourage competition from new players, and (c) identify feasible opportunities for private sector investment. Furthermore, the regulatory framework for mobile money and cybersecurity needs further development, clarity, and dissemination.

HEALTH

SECTOR PERFORMANCE

Although Angola's health care system has improved, it is still lagging. Over the last two decades, Angola has made large strides in advancing health outcomes. Life expectancy has dramatically increased from 41.7 years in 1990 to 61.5 years in 2016 but remains significantly below the average for lower middle-income countries (67.9 years).

The health care system is characterized by large inequalities in access for low-income and rural populations. Only 50 percent of births are assisted by a skilled professional, considerably below other upper-middle income SSA countries like Botswana (95 percent) or Gabon (87 percent) but also compared to neighboring countries like DRC (80 percent) or Zambia (64 percent). Large geographic disparities result in rates as low as 21 percent in Bié, and 24 percent in Cuanza Sul.[105] Mortality among children under five years old is one of the highest in the world, with 68 deaths per 1,000 births. Most of these deaths are due to malaria, diarrhea, and respiratory infections.[106] In June 2018, Angola experienced a substantial increase in malaria cases compared to the previous year due to the rainy season, poor environmental sanitation, some limitations in control interventions, and the breakdown of vector control products.[107] Angola's economic development is likely to be hindered by malnutrition as 37 percent of its children suffer from stunting. The shortage of medical personal is acute.[108] As of July 2018, Angola only had 7,000 physicians or one doctor per 4,242 people.[109]

Angola's health expenditures represent only 2.9 percent of GDP, far behind the SSA average of 5.4 percent.[110] Public spending accounts for around 60 percent of total spending while private spending accounts for 2.8 percent. The balance is donor-funded spending. At the same time, public healthcare is expensive: out-of-pocket expenditures amount to over 33.4 percent of total health expenditure in Angola, well above the recommended limit of 15 to 20 percent of the World Health Organization.[111] Approximately 60 percent of the government health budget is used to pay hospital expenses. In the private sector and secondary/tertiary levels of the public sector, contracting is based on fee-for-service (FFS). Insurance companies pay on an FFS basis through their contracted hospitals.[112]

Private health insurance is concentrated in Luanda. Private and public organizations provide health care coverage for their employees and dependents. In general, these schemes represent small, fragmented risk pools. Often, preventive health services and HIV and AIDS services are excluded.[113]

There is evidence that private sector provision could serve segments of the population that can afford it: there are four major private clinics located in Luanda. Girassol (owned by Sonangol), Sagrada Esperança (owned by Endiama), Multiperfil, and the Luanda Medical Center (box 3.1).[114] Other clinics and hospitals are reputed to have higher care standards, including: Medi-Clinic, Life Healthcare, and International SOS, Clinic Medigroup, Clinic Clidopa, Clinic Espirito Santo, and Pediatric Hospital David Bernardino. Weak oversight has resulted in the proliferation of private providers of questionable qualifications and skills.[115]

PROSPECTS

Demand for healthcare is expected to grow strongly. General health care spending is forecasted to increase 7.6 percent to 565.1 billion kwanza

BOX 3.1 LUANDA MEDICAL CENTER

The Luanda Medical Center (LMC) promoters turned to Mitrelli, a firm developing mostly government funded turn-key projects to create an ambulatory medical center that would provide higher service standards and bring in skilled physicians and equipment to Angola. The LMC was established with funding from Vital Capital, an Israeli impact investment fund, and $9.8 million from OPIC for a total initial investment of $30 million. Opened in February 2015, it provides services to patients insured by ENSA and generates 40 percent of revenue from patients insured through ENSA, although it finds collecting payments from the insurer challenging.

The LMC building has 10 operational floors and 350 staff, 270 of whom are Angolans. About 30 nurses are expatriates and 70 nurses are Angolans with experience abroad. The center sees about 700 patients a day and has a database of 100,000 unique patients with an "overwhelming number of kids." LMC also has a satellite clinic in Talatona.

For patients paying without insurance, a consultation costs about 20,000 kwanza (about $65) and for those with insurance, the co-pay is about 1,500–2,000 kwanza (about $ 5–7). About 75 percent of patients are insured with the remainder paying privately. However, the model of GPs referring patients to specialists does not translate well in Angola; therefore, LMC is opening a floor with specialists in pediatrics, gynecology, internal medicine, and urgent care. There are plans to create a maternity center with 23 beds that can offer delivery services and potentially IVF.

LMC faces several challenges: staffing constraints are remedied by offering doctors salaries higher than they would earn abroad. Maintaining medical equipment is extremely difficult because of lack of service representatives in Angola and in some instances, it has been cheaper to buy new equipment than repair them. Like many private sector companies, FX availability became a major constraint with the economic crisis as many expenses are in dollars, including consumables that may be locally available but are often of inadequate quality. Medicines are bought domestically because it is prohibited from importing directly.

($2.4 billion) in 2018 from 525.3 billion kwanza ($3.1 billion) in 2017. Pharmaceuticals expenditure is forecasted to increase 7 percent to 44.4 billion kwanza ($187 million) in 2018 from 41.5 billion kwanza ($248 million) in 2017.[116]

According to the internal estimates of a large private hospital interviewed for the report, 1.5 million people in Luanda can afford private health care. There is ample room for private health spending to increase given the low base of private spending in Angola.

Private hospitals accepting insurance from ENSA, the state-run insurance company could make private care affordable to an entirely new market segment. Currently, most low-middle income class patients can only afford public hospitals. Although the lack of ability to pay by some patients limits whom the private sector can serve sustainably, financing options, such as installment plans for medical bills or microinsurance, can allow private providers to cater to a slightly wider patient base. The lack of guidelines over user charges for drugs or consultations deter patients.[117] Private health service providers displaying standardized service prices could attract new patients. Finally, private insurance companies could develop stronger foundation in actuarial analysis, risk and claims management, and provider contracting.[118]

ISSUES

Angola's difficult regulatory and institutional environment hampers the development of the health sector. Obtaining approvals and permits is burdensome, and there is little information sharing among government entities, resulting in confusion and duplicate requests.[119] In particular, the lack of adequate drug patent protection hinders international pharmaceutical companies from selling sophisticated medicines in the market.[120] The Angolan National Directorate of Medicines and Equipment (*Direção Nacional de Medicamentos e Equipamentos*—DNME) is responsible for the regulation of medicines and pharmaceuticals in Angola within the Ministry of Health. Though the national health strategy includes objectives to transform the DNME into an autonomous regulator, the National

Institute for the Regulation of Pharmaceuticals and Health Products (*Instituto Nacional de Regulação Farmacêutica e de Produtos de Saúde*), that can serve as the national health authority by 2015, that transition has not yet occurred.

Suppliers to the healthcare value chain are heavily dependent on government contracts. One importer of healthcare equipment for instance quoted a government share of 80 percent of their business. Despite high demand, the market is not growing as much due to the lack of financing capacity of the government and private suppliers face important payment arrears. Other important challenges are forex availability, import-related bureaucracy, and transport infrastructure in rural areas (box 3.2).

There have been attempts at some forms of PPPs between the public and the private sector but with mitigated results in terms of impact on the neediest. One example is the Multiperfil clinic. This highly advanced clinic was built in 2002, financed by a loan to the government, and continues to receive public funding. The previous government granted it special status, allowing it to charge for care despite receiving public funds. While it takes some lower income patients, most patients are those who can afford the high cost of services.[121]

Despite promising mobile phone usage indicators, mobile health has yet to take off in Angola.[122] Notable mobile health programs include: volunteers using mobile phones to collect monthly polio data,[123] Movicel providing a mobile top up for each child vaccinated against polio, maternal and child health information via SMS to women,[124] chat and SMS services for HIV-related questions, and a software-based mobile system for malaria IRS spray data collection in Bailundo Capital, a commune in Huambo province.

BOX 3.2 THE CHALLENGE OF IMPORTING MEDICINES IN ANGOLA

A pharmaceutical importer reported that import orders need to be placed about six months in advance. Documentation must be obtained from the Ministry of Commerce and submitted to the bank to secure foreign currency. Once the goods arrive, it takes another two to three weeks to clear customs and be released from the port. Imported pharmaceutical products must be registered with the Ministry of Health, submitted for laboratory tests, and be labelled in Portuguese. As many rural areas do not have proper roads, drug companies find logistics to be another big challenge.

MOVING FORWARD WITH THE PRIVATE SECTOR

There are numerous entry points for private sector players that can provide quality innovative care at suitable price points. Due to the high incidence of communicable diseases, such as malaria and dengue, Angola's demand for basic medicines and vaccines is large but counterfeit drugs are prevalent.[125] A company known for maintaining high quality standards has an opportunity to leverage its reputation by expanding into Angola's generic drug business.

There is potential to use innovative solutions to bring health services to rural areas. Due to poor infrastructure and supply chains, rural households have poorer healthcare access compared to urban residents. For instance, drone technology is used in Rwanda to transport medical supplies to overcome the lack of refrigeration, inventory, and transportation infrastructure.[126]

There is room for private providers who can offer complex procedures that high income Angolans obtain abroad. Opportunities in subsectors identified by the U.S. Commercial Service (2017) include several specialties currently underserved in the market: cardiology, oncology, neurosurgery, child and maternal care, telemedicine, and exports of pharmaceutical and medical equipment: local production is limited to some pharmaceuticals by the recently privatized Nova Angomédica(formerly a joint venture between the Ministry of Health and privately-owned Suninvest). Some of the modern establishments are planning to expand their services into specialist areas serving the middle class.

Telemedicine providers could help close the gap in the availability of top specialists. While it may be difficult to attract top specialists to move to Angola, telemedicine can cater to the need to provide high-quality specialist care domestically

at a price more affordable than travelling abroad. In 2007, a telemedicine system linked Luanda's David Bernardino Pediatric Hospital to a facility in Coimbra, Portugal, and other international institutions to observe pediatric patients with heart problems. Real-time echocardiography is conducted onsite in Angola and receives expert inputs from Portugal for diagnosis and clinical management.[127] Luanda Medical Center uses teleradiology with a specialist located in Portugal. The World Bank-funded Municipal Health Service Strengthening Project (MINSA) supported a similar telemedicine project in 2014. Hospital Américo Boavida served as the pilot hospital. Through the project, 83 professionals were enrolled in the tele-expertise platform and 14 classes were transmitted from the Hospital Américo Boavida. Five provincial hospitals (Cabinda, Bié, Malanje, Bengo and Lunda Sul) and two national hospitals (Américo Boavida Hospital and David Bernardino Pediatric Hospital) began to share information within the telemedicine network.

EDUCATION

SECTOR PERFORMANCE

Education in Angola has improved, but still underperforms in regional comparison. Primary school enrollment has increased sharply from 2.2 million in 2004 to 10 million students in 2016. However, public expenditure in the education sector (7 percent) is well below the Sub-Saharan Africa average (18.7 percent). Compulsory primary education lasts for six years but the system has insufficient schools and teachers. Throughout all education levels, the sector suffers from teacher absenteeism and a lack of resources (such as textbooks, libraries, laboratories).[128] Angola performs poorly on the Human capital index: 7.9 years of expected years of schooling compared to 8.1 years for SSA; and a harmonized learning score of 326 compared to 374 for SSA. For learning, Angola is among the 10 lowest performers in the world.

PROSPECTS

The rapidly growing number of universities signals demand for a higher education sector. Up until 2008, Angola had only one state university. In 2009, six new state universities came in. In 2014, there were eight state universities as well as other tertiary education institutions. Two years later, there were 26 state and 41 private institutions for higher education.[129] Nonetheless, one in four firms identified an inadequately educated workforce as a major constraint to expansion.[130] Youth unemployment is also high and persistent, at 46 percent in 2017.

The private education sector can cater to underserved geographic areas and market segments. The Angolan private education industry presents many untapped opportunities due to a young post-war population and a lack of providers outside Luanda. For instance, there are provinces with no universities. There is a lack of low-cost secondary education providers that can offer alternatives to international schools.

Given the shortage in education infrastructure, there is also potential to maximize the use of existing buildings. An English school partners with universities to use their facilities to deliver English training to reduce the need to build new classrooms while expanding their operations. Private educational institutions should be permitted to rent unused space in public institutions to help expand the provision of private training in a more cost-effective manner.

ISSUES

The lack of student loans and skilled teachers, high investment requirements, opaque regulations, risk of political intervention, difficulties in finding long term financing and establishing a reputation for quality contribute to the current shortage of private education providers.

The lack of financing affects multiple fronts. Academic and training institutions met for this report cited customers' inability to pay fees brought forth by the economic crisis as a key constraint. One private university's student body shrank dramatically from 3,500 (when it opened) to 1,600 students, of which only 966 could pay their fees (the student numbers are now growing again). Bank loans are also difficult to obtain for private institutions themselves, as well as for student loans. Corporate-sponsored scholarships have been

reduced as well. While private universities do not receive public funding, students may be eligible for government-funded scholarships, for example by the INAGBE.[131]

Beyond providing educational services, private institutions must finance their own infrastructure when it is not available as many other businesses do, such as electricity and roads. Access to education and IT equipment and books has also been cited as an issue. There is little or no funding for research.

Angola suffers from a severe shortage of skilled teachers at all levels. In the period between 2002 and 2006, the number of schools increased by 143 percent and 70,000 new teachers were recruited. However, of those teachers, 75 percent were not formally trained. Even with the addition of teachers, the high pupil-to-teacher ratio—42.5 in 2011—leaves many teachers unable to cope. Most university instructors only have bachelor's degrees and there is a lack of teacher training.

Prior to the economic crisis, private education institutions were more likely to be able to afford recruiting foreign teachers. However, this now poses a sustainability problem as access to forex and the depreciation of the kwanza constraints hiring foreign teachers in Angola. Moreover, relying on a foreign teaching force makes it difficult to make a private education business sustainable.

Due to poor education outcomes, companies interviewed mentioned that they tend to invest—at a high cost—in training staff to develop skills that they should have acquired in school, such as mathematics, reading, and writing. This general gap in learning achievement was also confirmed by vocational training institutions. A financial education institution, for instance, mentioned facing similar issues: they need to instruct students in basic skills rather than teaching specialized skills as the academy originally intended. This is despite requiring entry exams in Math and Portuguese (only about one-third of applicants pass).

Efficient management and innovation in private education institutions could also be improved according to international operators compared with better practices in other African countries such as Kenya.

MOVING FORWARD FOR THE PRIVATE SECTOR

There is space to provide good quality private general education priced under international school rates to cater to middle class families who seek better quality education beyond the public system. Angolan families often do not have a third option beyond sending their children to public schools or very expensive international schools. Expanding the private education industry relieves pressure on the public education sector to free up resources for students who cannot afford private education (box 3.3).[132]

Private providers can fill the need to provide vocational training for workers, though there may be a mismatch between demand and student inter-

BOX 3.3 INSTITUTO SUPERIOR POLITÉCNICO DO CAZENGA

Instituto Superior Politécnico Do Cazenga, was established in 2012 in Cazenga, the most populous municipality in Angola and caters to its primarily low and middle-class residents so they need not travel the long distance to Luanda. Tuition for first year university students is only 18,580 kwanza per month (about $73) and increases to 27,000 kwanza (about $100) per month in the third year. The university offers sixteen bachelor's degrees including programs in engineering and architecture. The university receives no public funding but can access private financing through bank loans. Its graduates are employed by the university itself, public hospitals, the banking sector, and the oil industry. Because of the socio-economic market it caters to, the university aims to keep its tuition fees lower than other universities. However, the university faces challenges with the low quality of primary and secondary education students received prior to university and acknowledges that there is a need to improve basic education to bring it in line with international standards. It also plays a role in community education through social projects.

est. Angola has a shortage of trained workers in the science and technology, agribusiness, tourism, logistics, transportation, and chemical sectors.[133,134] Despite the shortage in these sectors, the demand for vocational training courses is concentrated in other subjects.[135] In the past, import duties for books and educational equipment represented a constraint for the education sector. The tariff changes introduced in August 2018 apparently include a removal of tariffs on school books.[136]

Insufficient internet access and foreign currency payments issues makes it difficult to offer online education as a substitute. However, online training providers can cater to companies seeking to train their employees, if employers are willing to make the investment by facilitating the payments and providing internet access. An existing online platform, Educartis, offers users information about tertiary and continuing education programs (box 3.4).

There is also space to provide offline remedial and workforce training. Private universities and training centers are making limited progress in closing the gap between the workforce quality produced by the Angolan education system and the skill levels required by employers. For instance, BAI Academy provides certificates in finance and banking as well as real estate evaluation and counts banks, insurance agencies and SMEs as its clients.

Providing teacher training to address the shortage of qualified local teachers is another opportunity for the private sector. For example, an English language teaching center, International House, has chosen to invest in training and accrediting a fully Angolan teaching staff, recruiting from local universities. The center invested in online training courses for its staff and is now staffed with local Angolan English teachers only. The center reports that they are weathering the economic crisis better than other English schools because they need not pay staff in foreign currency.

Finally, the financial sector could partner with education providers to provide installment plans. With generally high rates of non-performing loans in the banking sector, financing private education through traditional student loans might not be advisable however, expanding pay-as-you-go programs can help expand accessibility for working students or children of employed parents. For example, the private training academy enables students to pay its 200,000-kwanza tuition in 25,000 kwanza monthly installments from payroll deductions with a guarantee from their employer.

FINANCIAL SECTOR

SECTOR PERFORMANCE

Due to its role in financing the oil industry, Angola has the third-largest financial sector in sub-Saharan Africa but is exposed to systemic risks and has limited reach in other industries. Reach is limited due to the lack of diversification in the Angolan economy and credit quality deterioration in the past

BOX 3.4 EDUCARTIS

Educartis is affiliated with Jobartis, Angola's primary online jobs ads platform with half a million users. It operates in Nigeria, Angola, Ivory Coast, Cameroon, Democratic Republic of Congo, South Africa, Ghana, Kenya, and Zambia. Educartis generates ad revenues from seventeen private schools in Angola that pay to have its tertiary and continuing education programs featured on the platform. Professional technical training short courses are the most popular among its 50,000 active Angolan users. It is not uncommon for Angolan students to delay attending a tertiary program to work and to take part time courses while working. The startup does not currently have data tracking the employment outcomes of its users but plans to start linking courses with open job ads on Jobartis.

Educartis' sales, data, and partnerships staff are based in Angola while its marketing, data, and product development team are in Poland and Spain. Educartis and other startups interviewed report that the lack of skilled software developers in Angola pushes them to outsource their tech team.

three years. Hence, most banks prefer to invest in U.S. dollar treasury bonds issued by the government of Angola as a hedge to FX risk rather than lending to the private sector. The World Bank's 2019 *Doing Business* Report ranked Angola 184 out of 190 economies on the Getting Credit indicator and 168 on the Resolving Insolvency indicator. In the 2010 World Bank Enterprise Survey, firms cited access to finance among the top three constraints, after corruption and access to land.

The financial sector is dominated by banks. The sector comprises 26 banks, 25 insurance companies, eight pension fund management companies, four credit cooperatives, 40 microcredit institutions, 82 foreign exchange bureaus, and 18 money transfer operators. The sector employed 52,000 workers as of 2011 and generated FDI inflows of $289 million from 2011 to 2015. Banks represent approximately 97 percent of assets in the sector, and the top five banks, Banco Angolano de Investimentos (BAI), Banco Economico, Banco de FomentoAngola(BFA), Banco BICAngola(BIC), and Banco de Poupança e Crédito (BPC) account for 63 percent of sector assets. While high, the current level of concentration represents a decrease from 2012 when the top five banks controlled three-fourths of assets. Market shares of the top five banks' deposits and loans follow the same pattern as assets: 69 percent of total deposits and 64 percent of total credit.

Government bonds have been crowding out lending to the private sector. Banks prefer to buy government instruments that offer high returns and help hedge against further currency devaluations rather than lending to the private sector.

The fall in oil prices and overall sluggish economic activity are affecting government finances and have triggered higher domestic borrowing to cover the resulting deficits. As the currency's depreciation makes it harder for companies to import equipment and goods, banks that financed projects pre-crisis have seen asset quality deteriorate, leading them to become even more conservative. The high cost of finance is a major obstacle to the development of the private sector. After rapid growth in overall credit through 2014, credit growth slowed significantly in the past three years. As of 2015, more than three-fourths of credit was concentrated in trade, real estate, construction, services, and consumer loans. Only 20 percent of credit went to the other sectors: manufacturing received about 10 percent; agriculture and forestry 5 percent; electricity, gas, and water 0.5 percent; and fishing about 0.2 percent.[137]

The state has a significant role in the banking sector through direct ownership of three banks as well as through Sonangol. Additionally, there is a considerable ownership stake by politically exposed persons in the banking system. Sonangol is reviewing its investments in five banks, including the second-largest lender, BAI, in which it holds an 8.5 percent stake. However, disinvestment from non-oil investments is incremental and Sonangol may see its banking sector assets experience a decline in profitability from rising non-performing loans (NPLs), discussed in more detail below, and declining capital positions.

There are large disparities in access to finance across regions, types of businesses, and gender. The percentage of adults with a transaction account in a financial institution is less than 30 percent. Women, and adults in rural areas have even more restricted access—only 22 and 18 percent, respectively. Luanda, with 27 percent of the population, accounts for 90 percent of total credit and 95 percent of total deposits in the entire country.

The non-bank financial sector remains underdeveloped. Although insurance premiums per capita are second only to South Africa, the size of the economy means that premium as percentage of GDP (insurance penetration) is less than 1 percent (compared to 3.4 percent in Kenya), though it has been slightly increasing in recent years. The pension sector remains small but has been growing, with a total of eight pension fund management companies (two state-owned and six in the private sector) managing a total of 32 funds with pension assets of approximately $1.3 billion as of 2016. Notwithstanding progress in the legal and regulatory regime, capital markets remain underdeveloped and limited mainly to government bond issuances. There are currently 16 financial institutions registered to operate in BODIVA (the stock exchange). Among these, 14 are banks and two are brokerage houses. Despite this relatively

large number of registered players, market share is concentrated. In 2017, only two institutions were responsible for 70 percent of the trades on this platform. Market turnover is still very low. According to the information provided by BODIVA, turnover ratio was lower than 1 percent in 2017. Government plans to partially list some SOEs on the stock exchange could spur market development, but this requires significant transaction preparation, market communication, and company due diligence beforehand. At the same time, because Angola does not have large volumes of exports (beyond oil), there is also no relevant capital market or sophisticated investment instruments compared to Mozambique which has a derivatives market.

Angola's $4.8 billion sovereign wealthfund announced plans last year to manage more assets internally and reduce its use of external managers.

PROSPECTS

The growth of the commercial banking, insurance, and asset management sectors will be constrained unless they refocus away from the oil sector and real estate development. Nonetheless, the macroeconomic environment should improve for the banking sector as crude prices increase and FX liquidity improves driven by government reforms. Due to prevalent poverty, most households cannot afford life insurance, although there is a potential for mobile money startups to offer micro insurance products. In terms of its contribution to the overall economic output of the Angolan economy over the next five years Angola's banking and financial service sector is expected to grow an average of 7.2 percent year-on-year.[138]

ISSUES

BNA has put significant effort into enhancing is supervisory approach in recent years, but challenges remain. The authorities have taken important steps to strengthen its banking system oversight, working on updating its regulatory framework and on building up the foundations of a more risk-focused supervisory approach. There is reportedly a working group currently reviewing Angola's insurance and pension fund legal frameworks. There are still, however, regulatory, and operational gaps, as well as capacity constraints.

After the loss of direct U.S. dollar Correspondent Banking Relationships (CBRs) in 2016, Angola's (AML/CFT) legal oversight mechanisms are still perceived to be weak and insufficient. U.S. dollar clearing has been possible through subsidiaries of Angolan banks in Portugal and South Africa, which have taken on the roles of correspondent banks, but Angola still lacks access to the international banking network and the ability to perform cross-border transactions.

The government has strived to develop the financial sector and improve financial inclusion. Efforts include: launching savings and education campaigns, improvements in consumer protection, restructuring the development bank, financing schemes that extend credit lines and guarantees to small businesses and aim at diversification, as well as training and skills development for entrepreneurs and improvements in the business environment, payments systems, and credit infrastructure. Nonetheless, there is a need to continue and deepen these reforms and to build capacity for their effective implementation, ensure that government programs are on a sound market-oriented footing, and further partner with the financial institutions and private sector to introduce new products, services and modes of delivery.

The Angolan financial sector suffers from an overall lack of skilled labor. The effectiveness of the Angolan AML/CFT regime is dependent upon the capacity of law enforcement agencies which require extensive skills development. Insurance requires various highly specialized competencies. Because skilled human resources are scarce in Angola, the industry is dependent on expatriate workers from South Africa and Europe. Much work remains to be done to bolster the capacity of microfinance institutions so that they can bring down their operating costs, including skills training on assessing the credit worthiness of borrowers, credit outreach, and financial product diversification, among others.

Financial sector vulnerabilities have been on the rise with non-performing loans (NPLs) increasing to 26.7 percent in November 2018, up from 10

percent in 2013. Almost 75 percent of NPLs are accounted for by a single state-owned systemically important bank: Banco de Poupança e Crédito (BPC), which, along with the two other smaller state-owned banks, requires recapitalization and an implementation of a credible restructuring. Otherwise, system provision is high (greater than 90 percent) in most of the large banks and NPL levels hover around 10 to 15 percent.

Nonetheless, as the banking system evolves, banks remain cautious about lending to the private sector because of high credit risk and the lack of enforceable collateral and legal protection. Difficulties with land property registration also create problems for mortgage lending. The bulk of lending (75 percent) has focused on non-manufacturing/value-added sectors (real estate, construction, trade, services, and consumer loans). This limits the financial sector's role in diversification and attenuating exposure to cyclical shocks. While banks' net claims on the central government almost tripled as a share of GDP between 2011 and 2016 (from 5.4 to 14.4 percent), claims on the private sector remained stable at around 22 percent of GDP. The lack of access to finance coincides with high liquidity in the banking sector, which increased significantly over the same period. Between 2010 and 2016, the ratio of liquid to total bank assets grew from 32 to 41.3 percent, while the ratio of liquid assets to short term liabilities grew from 38.6 to 52.3 percent.[139]

MOVING FORWARD WITH THE PRIVATE SECTOR

Immediate opportunities to grow the banking sector may not arise in an economy that is still adjusting from the oil price shock and its consequences on the financial system. However, ancillary services to financial sector could help develop the market, as well as actions aimed at increasing the level of credit to the private sector.

MOBILE BANKING. Despite continued legal gaps, mobile banking is slowly being introduced—there are now three mobile money providers in the market. The recent closure of Banco Postal casts doubts on the future of Xikila, a mobile money service focusing on basic payments and transfer services, which had enjoyed rapid growth among low-income segments. Banco BAI reports that its currently has 320,000 active clients using its mobile banking platform (E-kwanza) with transactions growing by 8–10 percent per month. Although BAI launched mobile banking in 2016, it only enabled online account opening in the second quarter of 2018. Although rural areas have mobile coverage, it can cost $400–700 to provide POS machines in rural areas, leading it to limit distribution. Financial institutions consulted foresee mobile banking expanding as more people use smartphones and when mobile companies enable USSD functions. Banco Millenium Atlantico has also introduced Atlantico Pay as a payment service for its clients as has Banco de Negócios Internacional (BNI) (Benix). The lack of interoperability (a single mobile switch) among the different mobile money providers as well as an inadequate legal framework inhibits further market development. The World Bank is supporting Angola in strengthening the legal framework for mobile money to encourage more participants. Financial literacy is also key to the uptake of mobile financial services.

COLLATERAL SERVICES. Clarifying land ownership is very difficult in Angola. According an interviewed bank, it takes five years to execute collateral. Angola can unlock the wealth stored in freehold property. This presents opportunities for an experienced collateral service company to enter Angola and provide appraisal, title search, and registration as third-party services to facilitate more collateral-backed loans.

EQUIPMENT LEASING. If Angola moves towards import substitution, there is an opportunity for equipment leasing companies, with access to foreign currency, to expand and offer equipment to manufacturers.

COMPLIANCE CONSULTING SERVICES. As Angola tries to improve its business environment and reduce corruption, consulting companies offering training in compliance services have new revenue generating opportunities. Improving compliance in Angolan businesses including financial institutions may assist

with reinstating direct U.S. dollar correspondent banking relationships.

BUSINESS DEVELOPMENT/MARKETING SERVICES. Standard Bank pointed out the need for the private sector and government to work jointly to market Angola more heavily to foreign investors. Investment banks have an opportunity to offer business development, marketing, and road show coordination services as Angola presents itself as an investment destination.

Business financing initiatives from the government should crowd in private finance. Ongoing government sponsored enterprise finance programs should be evaluated with a view to move to more sustainable and transparent criteria for supporting enterprises, with the goal of crowding in private bank finance. The government has been working with the private sector through the Angola Investe program, that provided credit default risk cover to private financial institutions, to lend to non-oil sector SMEs. This is a positive step away from government-funded SME financing programs which were crowding out the private sector. However, Angola Investe has not had a big impact on SME access to finance; the government has discontinued it and is working on developing a new mechanism to support SME finance linked to the PRODESI program.

Increasing access to credit, a major constraint for businesses, requires strengthening financial infrastructure and an enhanced debt recovery framework. With support from the World Bank, the government is developing a legal framework for insolvency and secured transactions and plans to introduce a good practice collateral registry. These reforms have potential to expand access to finance, especially among SMEs.

Supporting the development of an SME credit and risk framework and providing investments to increase financing for SMEs would be desirable. Because most SMEs lack enough collateral, loan request rejection rates are very high (86 percent).[140] In addition, complementary financial services that provide credit information about borrowers, such as insurance, capital markets, accounting, or a credit bureau, are either underdeveloped or non-existent in Angola. IFC is also assessing an investment to provide trade finance lines for underserved segments.

AGRIBUSINESS

SECTOR PERFORMANCE

The agriculture sector in Angola has shown signs of steady progress in recent years. In a decade (2004–15), the share of the sector in the economy grew from 6 to 10 percent of GDP. According to Ministry of Agriculture data, between 2012 and 2016, the production of cereals increased by 47 percent, beans and oilseeds by 42 percent, and tubers by 14 percent. Fruits and vegetables grew at a slower pace, 12 and 4 percent respectively, although had experienced fast growth in the previous decade (especially bananas and sweet potatoes). Animal proteins have increased at a comparatively lesser rate, except chicken meat, and starting from a low base. Food production value by capita has been steadily increasing, as well as the availability of proteins and calories. As a result, undernourishment and the food deficit have reached historically low levels, albeit they remain high relatively to Angola's income per capita.

The sector remains the main source of income for 90 percent of the 9.6 million Angolans living in rural areas.[141] Smallholders represent over 80 percent of agricultural production and 92 percent of land under cultivation. These are primarily farms used communally for subsistence farming of cassava, maize, fruits, vegetables, and cereals. This group also includes smallholders selling surplus production in the market. Smallholders are poorly organized and lack the capital and know-how to apply better inputs and technologies to improve yields. The sector remains the main source of employment in the country (with an estimated 44.9 percent of the total employment) but accounts for only 3 percent of firm employment.

Serving the Angolan food market are a few successful, private medium- and large-scale private sector modern operators that have grown by seizing opportunities to meet local demand. This includes demand from the urban middle class in modern supermarkets and malls and from less-af-

fluent customers through semi-formal distribution networks. The private sector is particularly active in the horticulture and fruit segment, producing fruits (banana, mangoes), and vegetables (potatoes, onions): Nuviagro, Agrolider, Fazenda Girasol, Turiagro, and Jardins Da Yoba. Another important player is Aldeia Nova, a government joint-venture.

PROSPECTS

Angola presents favorable agro-climatic conditions for agriculture production.[142] This includes vast expanses of arable land of which about 5.7 percent is currently exploited, covering five major ecological zones offering a potential for diverse production.[143] The interior plateau, with mild temperatures and abundant rainfall is the core production area and the mostly densely populated after the Luanda region. The soils in the interior plateau are generally fertile, although it needs correction due to high acidity compared to the sandy soils in coastal and low mountain areas.[144] Land degradation caused by poor farming techniques is extensive.

Angola is also endowed with abundant water resources with five main river systems, comprising 47 water basins.[145] According to the Food and Agriculture Organization (FAO) 80,000 hectares are irrigated, with Cuanza Sul, Bengo, and Benguela having the largest areas. The government has invested in irrigated perimeters (annex 5A): medium-sized areas such as Bom Jesus and Caxito (Bengo), and Matala (Huila) (about 3,000 hectares), or much larger ones such as Capanda (potential for 13,500 hectares). However, most of these are underutilized.

Demand for food products is rising fast. Spending in food and non-alcoholic beverages is expected to increase from $15 billion in 2017 to $21 billion by 2021.[146] More sophisticated urban consumers are demanding a more diverse range and higher-quality produce. A small but growing agribusiness sector is developing linked to this rising demand. A formal food distribution sector has also developed, primarily to serve the Luanda market, and according to investors, food processing presents opportunities to grow from its nascent size, provided the macro environment improves. Nonetheless, informal commercial channels are estimated to represent about 70 percent of food distribution in Angola. Interviews with national off-takers (distributors of fresh products, supermarkets, manufacturing companies and hotels) revealed strong interest in the development of national commercial agriculture, in close alignment with the new government's expressed priorities.

ISSUES

One key characteristic of successful commercial players in agribusiness is their capacity to internalize some of the most serious constraints to conducting business. In general, agribusiness value chains in Angola present coordination failures, and commercialization is largely based on informal, ad-hoc arrangements. There are few examples of contractual agreements between off-takers and small and medium producers, exceptions being Aldeia Nova subcontracting egg production to small farmers; Fazenda Maxi; People in Need; and the Terra do Futuro projects, as well as the coffee value chain.

Emerging small and medium-sized agribusinesses face severe constraints. These include the lack of capital and access to credit, limited technical skills, and lack of access to markets partly due to high costs and/or lack of transportation. Smallholders have low bargaining power due to their poor access to market information, while the lack of storage, processing, and transportation exacerbates their vulnerability as price takers. Productivity is constrained by the limited use and availability of quality seeds, fertilizers, and mechanization, poor agronomic practices, limited areas under irrigation, and poor dissemination of agricultural knowledge. Small producers also face soil fertility issues, diseases, and infestations, which hurts their productivity.[147] Most agricultural inputs and technologies are imported and remain beyond the reach of most farmers.

The poor state of road infrastructure is a considerable challenge to commercialization of agriculture products. Market links are constrained by poor road connectivity, storage, and commercial infrastructure. The total road network in Angola is about 76,000 kilometers, much of which needs rehabilitation.[148] The government has invested heavily

in improving the transport network over the last decade, including roads and railways, but limited budget has been available for rural roads. Limited reach of the electricity networks and reliability of supply limits investments in agri-processing and irrigated agriculture.

Access to finance is a major constraint for domestic producers. Agriculture's share of overall credit has remained low—less than 5 percent. The enabling environment for promoting agriculture finance remains largely undeveloped including warehouse receipts, equipment leasing, and a movable collateral registration. In the coffee sector, buyers pre-finance producers, but value chain financing is rare in other sectors. Banks lack products and expertise to serve the agriculture sector, and, with some exceptions, have a limited regional presence.[149] On the demand side, weak capacity to present bankable business plans and insufficient technical assistance to guarantee successful implementation are constraints mentioned by commercial banks. Agriculture insurance is still nascent.

The shortage of technical and management skills forces commercial farms to incur high personnel and training costs. Larger firms interviewed all rely on expatriate work force (farm managers are often non-Angolans). Farmers, including the most successful among them, are not trained to meet productivity and quality requirements of commercial farming. This has been a significant constraint for businesses seeking to develop outgrower schemes

Government support to the sector is constrained by resources and capacity and a legacy of policies crowding out private sector. The Ministry is restricted in terms of human resources, and there has been limited coordination of policy initiatives to promote agribusiness development across line Ministries, which translated in a lack of coherent set of policies for the sector. Agriculture policy development is severely constrained by limited availability of data about the characteristics and performance of producers.[150] Policy orientation is evolving towards enabling private investment but retains a strong protectionism to increase production to achieve self-sufficiency, as illustrated by the Mid-term Development Plan for the Agriculture Sector 2018–22. Past policies focused on the state as an investor and operator of irrigation and storage infrastructure and agro-industrial facilities, including large farms belonging to the state-owned enterprise, Gesterra. Support to smallholders is slowly evolving from providing subsidized credit and inputs to training and support to rural households. In the past, this support has included free or subsidized distribution of fertilizers and preparation of lands for smallholders, but only met a small fraction of demand. Projects supporting smallholders, such as the World Bank and IFAD Market Oriented Smallholder Agriculture Project (MOSAP) have helped smallholders introduce better agriculture technologies and increase production.[151] Government-subsidized agriculture campaign credit has suffered from low repayment rates. Extension services are severely constrained,[152] as are research and development, and animal and plant health services.

MOVING FORWARD WITH THE PRIVATE SECTOR

Angola offers opportunities in a range of agriculture and livestock subsectors. Most value chains are underdeveloped and may not be competitive unless constraints are systematically addressed. Horticulture, maize, tubers, and beans are the most developed, while they present important gaps. Given the nascent status of most agribusiness value chains, the rest of the chapter focuses on entry points for investment on agribusiness, that is, clear opportunities for private participation based primarily on interviews with sector actors.

The CPSD identified four main entry points for the private sector: (a) expansion of commercial horticulture and fruit producers, (b) backward integration of distribution and processing companies, (c) development of mid-size agribusinesses and aggregation models, and (d) unlocking the productive capacity of state-owned agro-industrial assets.

a. EXPANSION OF COMMERCIAL HORTICULTURE AND FRUIT PRODUCERS. A SMALL NUMBER OF COMMERCIAL PRODUCERS, PRIMARILY OF FRUITS AND VEGETABLES, HAVE CAPACITY TO SUPPLY THE FORMAL DISTRIBUTION SECTOR MEETING QUALITY AND VOLUME REQUIREMENTS. Examples include Nova Agrolider, Fazenda Girasol, Nuviagro, and

Turiagro. Despite high growth in recent years, company representatives said that market demand exceeds their production capacity. Given the size of the market opportunity, most large commercial firms have expansion projects, including branching out to other sectors such as cereals, poultry, and livestock. Expansion plans were slowed by the economic crisis and foreign exchange constraints.

b. BACKWARD INTEGRATION OF DISTRIBUTION AND PROCESSING COMPANIES. Angola's distribution sector has started to integrate backwards to engage in agriculture production and processing. Some food and beverage processors are also considering agriculture production to secure inputs. The rationale is to seek a reliable supply of quality products, capturing higher margins compared to imported products. Investing in fixed assets to preserve value in a scenario of a depreciating kwanza may be another justification. Since 2015, constraints in access to forex for imports have further encouraged this trend, even if they also hamper the import of capital goods and labor to realize the investment projects. Finally, investing in domestic production puts these companies, some of which are foreign-owned, in favorable light as contributing to economic diversification and job creation. This trend is likely to continue as the economy recovers, provided there is no return to a scenario of kwanza appreciation. Examples include the Newaco Group and Pomobel. Beer producers like Refriango and Castel are also considering investments in cereal production.

c. DEVELOPMENT OF MID-SIZE AGRIBUSINESSES AND AGGREGATION MODELS. Angola's commercially-oriented small and medium-size producers represent a small but emerging segment. Developing this segment of individual farmers and producer organizations to create a stronger ecosystem for Angola agriculture represents an opportunity with a large potential to increase employment and income opportunities in rural areas, especially for the youth. Accurate data on this segment is lacking as a detailed characterization of producers does not yet exist. Market-oriented producer organizations are few, but the foundation for organized approaches does exist, and past and current efforts to strengthen producer organizations have led to positive results, including with support from the World Bank MOSAP. Aggregation models need to be developed to provide channels for market-oriented small and medium farmers to commercialize their production and overcome existing constraints. Business opportunities were mentioned by private sector actors, ranging from small-scale to large. Private investment in value added activities such as storage and processing represent an opportunity to aggregate production from smaller producers, provided they also receive support to improve yields. Installed capacity for milling and feed production is currently underutilized due to insufficient supply. Wheat and maize flour and animal feed are imported, given that the products can be procured abroad at lower prices and possibly at higher quality levels than those produced internally.

d. UNLOCKING THE PRODUCTIVE CAPACITY OF STATE-OWNED AGRO-INDUSTRIAL ASSETS. Private participation could help valorize past investments in agro-industrial and irrigation infrastructure, currently used below potential. The government is restructuring the SOEs present in agriculture, closing down some insolvent SOEs (*Empresa Nacional de Mecanização Agrícola* (Mecanagro), *Empresa de Rebeneficiamento e Exportação de Café* [Cafangol]). *Gestão de Terras Aráveis* (Gesterra), the main entity managing large and medium scale government farms, has been given a new mandate to transfer seven medium-large state-owned farms to private investors. Moving forward, it will focus on building a cadaster of government agriculture land and preparing agriculture land with basic infrastructure for private investment.

To realize the opportunities discussed above, the specific binding constraints for each must be addressed. This report identifies concrete investment plans in the sector, both by Angolan and foreign investors. Many of these medium and large-scale investments would materialize as foreign exchange constraints are lifted, but their competitiveness will be hampered by the high cost of doing business in Angola, including high costs of energy, trans-

port, and logistics. More dedicated efforts will be needed to overcome the challenges faced by small and medium producers and agribusinesses in accessing markets and to ensure the inclusive, sustainable development of the sector. Existing programs supported by the World Bank Group and other partners are helping address these challenges.

In general, the government will need to strengthen its role of facilitator of private activity, with a focus on providing a good regulatory environment and public goods for the sector. This includes a more coordinated approach to policy implementation that also engages private sector actors to ensure policies and programs are responsive to their needs.

04. THE WAY FORWARD: HOW TO CREATE MARKETS IN ANGOLA?

Looking at the critical question of implementation (the "how to"), this chapter discusses practical venues for implementation inspired by relevant international good practices and the "science of delivery" first championed by the U.K. government and the Problem-Driven Iterative Adaptation (PDIA) approach developed at Harvard.

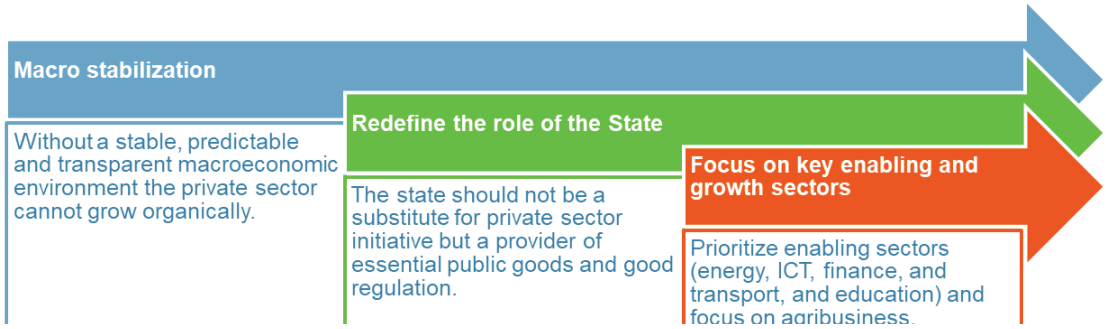
Implementation requires a combination of sector-specific interventions, actions to address economy-wide constraints, and prioritization. To take the example of market contestability, removing public entities from competing in markets should start in high-development impact sectors, together with improvements in sector-specific regulations and public agencies overseeing these sectors. In several instances, this will involve privatizations or PPPs, both desirable also from a fiscal perspective, thus highlighting in this instance the relevance of linkages between several enabling sectors, competition, and macroeconomic stability as shown in figure 4.1.

Interventions to create markets in Angola should therefore be designed as compacts of complementary actions by the government and investments by the private sector, and this entails careful monitoring.

CONTEXT

There are three critical elements of context informing the "how to create markets" agenda in Angola. There is an historical and relatively short political

FIGURE 4.1 COMPLEMENTARY ACTIONS FOR MARKET CREATION



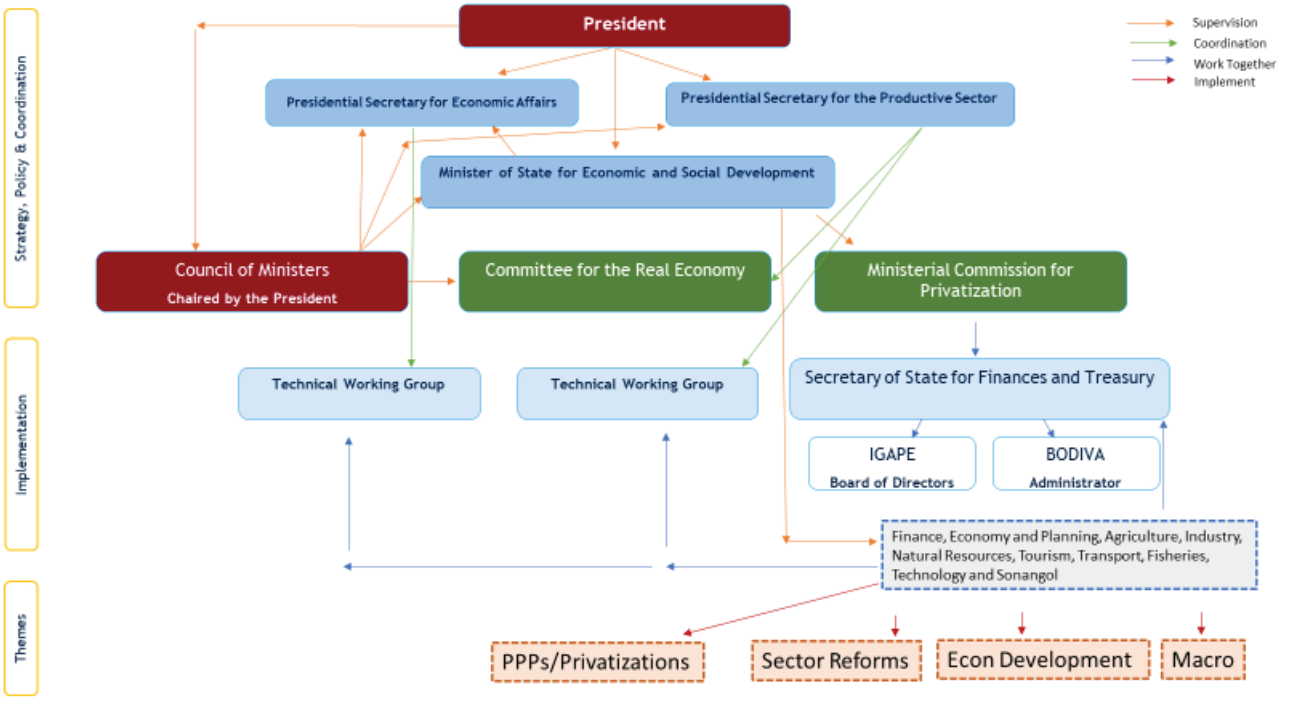
window of opportunity to push a critical mass of difficult and necessary reforms across a broad front. These reforms entail shifting the status quo to increase private sector participation and are likely to meet resistance from entrenched vested interests. At the same time, the desire for reform comes from the highest levels of government, with buy-in across critical ministries. Thus, we expect resistance to reform to happen in the government at the technical working levels, as well as in the private sector and SOEs, where current and familiar behaviors, incentives, and norms will need to change. Research shows that most of the important reforms are carried out during the first 18 months of a new government, especially following a crisis.[153] Second, the government focus is expanding from the priority of macroeconomic stabilization to the implementation of the National Development Plan 2018–22, which entails 83 programs. Finally, there is limited technical capacity and experience with respect to carrying out market reforms (including privatizations and PPPs). This is made more challenging by a complex and fragmented institutional set up (figure 4.2). The Ministry of State for Economic and Social Development, in charge of the NDP, has only a few experts it can rely on, and ministerial coordination is split between the Economic Team, the Committee for the Real Economy, and the Ministerial Commission for Privatizations. The critical SOE Reform/Privatization/PPP agenda is split between the Ministry of Finance and the Ministry of Economy and Planning and requires the active participation of sectoral ministries.

SEVEN GOOD REFORM PROCESS MANAGEMENT PRINCIPLES

Angola should adopt good reform process management principles inspired by both the experience of successful reforming countries.

PRINCIPLE 1. Leadership at the top level of government. It is essential for the top level of government, starting with the Head of State, to be continuously and very actively involved in the reform process. This should entail making specific and public commitments to the reform agenda expressed in simple terms which make the benefits of the reform clear. Such public commitments put the pressure on the president and government to follow-up and sends a strong signal across the administration that this reform initiative is for real. A good such example is President Wade's public promise in 2006 that it will be possible to register a business in Senegal in 48 hours within a year.[154] According to Hamath Sall, who was responsible for leading this reform, President Wade's public announcement was the key to overcome deeply rooted administrative resistance—it now takes six days to open a business in Senegal compared to 58 days in 2004 (not quite the 48 hours promised but a remarkable achievement nevertheless). The top level of government also needs to lead regular check-ups on progress and decides on immediate and forceful corrective measures in case of lack of progress. We find the same principle in the "science of delivery" literature (Sir Michael Barber 2018), which emphasizes the critical importance of political

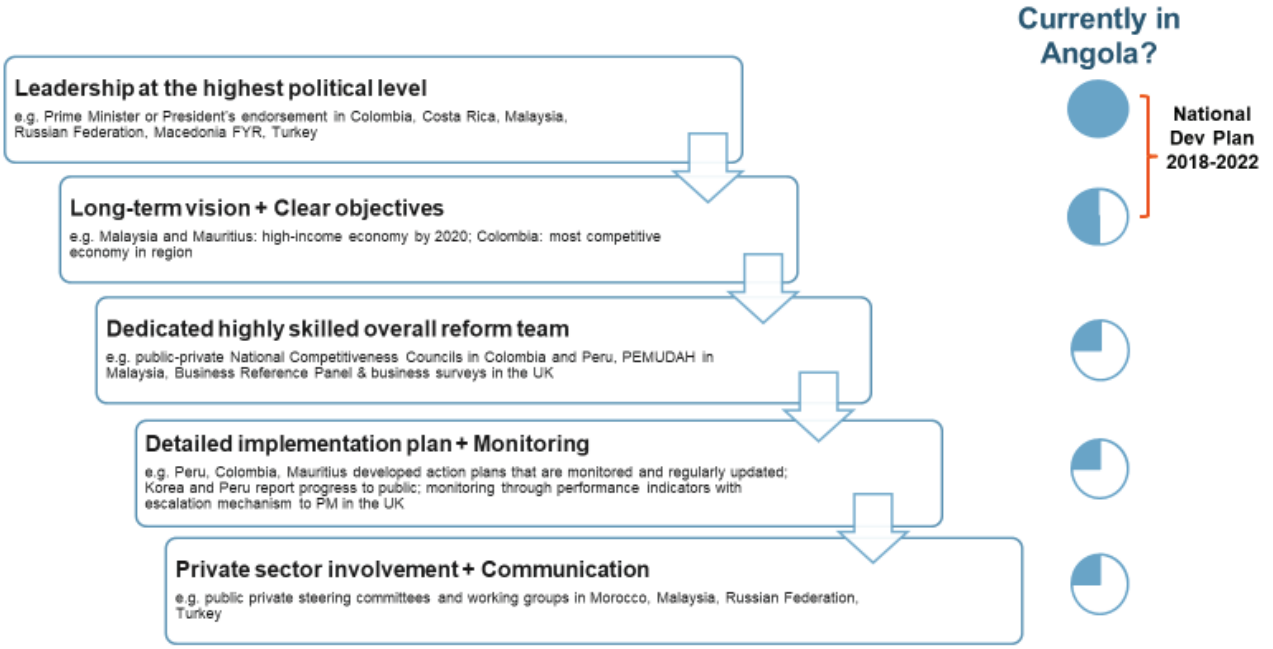
FIGURE 4.2 INSTITUTIONAL FRAMEWORK FOR ECONOMIC POLICY REFORM IN ANGOLA



leadership. Leadership comes not only from the very top but also from each of the key ministers and agency heads as well as from the head of the Reform Team discussed immediately below.

PRINCIPLE 2. **Dedicated and highly skilled reform team.** There is a need for a small dedicated highly skilled "Reform Team" reporting to the top-level of government in charge of prioritizing, monitoring, and problem solving the reform process (without being responsible for carrying out the reforms as this should remain the prerogative of the designated Ministries and Agencies as discussed below). There are many compelling examples of Reform Teams such as the team led by the Minister of Reform in Georgia, Kakha Bendukidze. Quoting Simeon Djankov (founder of the *Doing Business* Report): "The Ministry of Reform has a small cabinet—20 people or so—all former bankers, consultants and lawyers. If I had to identify one organizational feature of Georgia's success (top *Doing Business* Reformer, record levels of FDI and economic growth), this would be it." Other successful Reform Teams include the Council for USAID in Taiwan (China), Chile's Chicago-trained economists, Singapore's and Rwanda's Economic Development Boards, Malaysia's PEMUDAH, and Dubai's Executive Office—see *Reform Teams*, World Bank, 2008. There again, there is full concordance with the "science of delivery" which emphasizes the importance of the political leader to rely on a dedicated, highly skilled and motivated Reform Team, which is referred to as the "Delivery Unit." The role of the Reform Team is to help Ministries and Agencies deliver and implement reforms. Quoting Sir Michael Barber: "the test for a delivery unit head is whether you can deliver a strong, critical message to a senior politician or official in a meeting and still leave the room with the relationship stronger than when you went in. The delivery unit must operate under a culture consisting of untiring work ethic, persistence, resilience, plain-speaking, self-motivation, taking initiative, flexibility and problem-solving orientation."[155] Financial rewards should not be the main motivation as opposed to expanded career prospects and being recognized for delivering for the country.

FIGURE 4.3 REFORM IMPLEMENTATION STEPS: WHERE DOES ANGOLA STAND?



PRINCIPLE 3. **Prioritized reform plans.** Especially at time of crisis and change in economic development paradigm, there is a crucial need for an overall prioritized and sequenced reform plan based on a common understanding of the opportunities/problems. Then, the prioritization effort should be as much about deciding what not to do than what to do. Many of the planned activities can be counterproductive (for example, ill-informed industrial policies playing to the hands of vested interest or of secondary importance resulting in the great opportunity cost of diverting scarce political support/attention and resources from the difficult and critical reforms). Helping the government to prioritize programs (such as the privatization program), and activities within these programs (for example, privatization of key sectors or assets) and specify how the NDP can promote private sector growth and diversification, and the transfer of public activities to the private sector based on data, economic and political economy analysis as well as relevant international experiences will be the first critical task of the Reform Team. The prioritization should also be based on the need to show tangible results fast (to the population and potential investors) as well as the need to push the hardest reforms while the political window is still open. The plan should spell out the key reforms along four connected buckets (see table 4.1 and chapter 3 for details):

1. MACROECONOMIC STABILITY

FX, monetary, fiscal, and governance policy reforms.

2. CROSS-CUTTING INVESTMENT CLIMATE AND REGULATORY REFORMS

Trade policy, business regulations (e.g. Doing Business Indicators).

3. SECTOR SPECIFIC POLICY REFORMS

Energy, transport, ICT, finance, agribusiness, education/skills and health, per the conclusions of the CPSD report.

4. SOE REFORMS/PPPS/PRIVATIZATIONS

Sector specific reforms required as a prerequisite (as in the successful privatization programs in Poland, Mexico and Chile)[156] together with assessments of fiscal implications. As discussed in chapter 3's "Privatizations and PPPs in Key Enabling Sectors" section, investors will only commit for commercially viable projects. Therefore, establishing the credibility of the privatization and PPP programs will depend on successful initial transactions.

PRINCIPLE 4. Hold ministries and agencies accountable to detailed implementation plans. There should be clear and simple allocation of responsibility for delivering priority reforms (up to Cabinet and, if necessary, Parliamentary approval) and, crucially, for implementing them—for example, the Ministry of Finance for bucket 1 above, the Ministry of Economy and Planning for bucket 2, and the respective sectoral ministries for each of the priority sectors within bucket three. The first task of each of these responsible ministries and agencies should be to develop a detailed reform action plan—specifying the activities, expected outputs and outcomes, people responsible, deadlines, financial and technical resources they may need, as well as, and this is often critical, what they need from other parts of the government. Helping each of these Ministries and Agencies to develop their detailed reform action plan is the second critical task of the Reform Team, making sure the ministry or agency retains full ownership, as it will be held accountable for its execution. Another important task of the Reform Team will be to help ensure the designated ministries and agencies receive the financial and technical resources as well as the necessary support from other parts of the government they will need to develop and implement these reform action plan—leveraging its privileged access to the top level of government to that effect. Lastly, the reform team needs to be open to learning by doing and ready to create new solutions ("positive deviance") as implementation problems arise.[157]

PRINCIPLE 5. World-class technical expertise for planning and implementation. The successful delivery of critical reforms will need to rely as much as possible on world class technical expertise, starting with the dedicated Reform Team discussed under Principle 3 above. The experience of successful Reform Teams shows the importance of having such teams be staffed by very talented people with diverse and complementary backgrounds—for example, the engineers and economists in Taiwan (China), the consultants, lawyers and bankers in Georgia—mixing local with international talents as Chile did with the Chicago economists. Leveraging local talent is critical, as it will help to ensure buy-in and appropriate, tailored solutions that look uniquely "Angolan" at the end. Sir Michael Barber quotes Ernesto Balarezo, the head of Peru's Delivery Unit: "One of my main functions is to find, develop and empower the best talent. If I am successful in that all else will follow." World-class technical expertise is also critical at the level of each of the key Ministries and Agencies, which should have their own version of the "Reform Team" for both planning and implementation. Large areas of implementation can be outsourced to the private sector, especially for one-off critical activities for which there is no capacity in the country—for instance, the large-scale privatization program in Mexico was carried out by world-class private sector firms under the supervision of an elite team of seven government officials. Activities requiring similar technical expertise should be consolidated within one entity—such as strategic planning, economic analysis and monitoring like in Taiwan (China), or PPPs/Privatization/SOE reforms as in Kenya and Tanzania. World-class technical expertise is required at two levels—upfront to help set priorities and develop detailed action plans, and downstream in terms of actual implementation. Consultants are least helpful when they produce reports upon which no decisions are made, and no implementation activities follow as may have been the case in Angola in the past. It should also help make sure that the responsible Ministries and Agencies are also provided with world-class technical expertise when it comes to the elaboration and execution of their detailed action plans. World-class implementation capacity is essential, as the details can be complex, as shown by the

privatization of energy distribution companies in Nigeria, where the private and public sector have yet to agree on whether tariff reforms should come before or after the necessary investments.[158]

PRINCIPLE 6. **Monitoring with consequences.** Over time, the success of the reform program will depend to a large extent on regular monitoring with tight feedback loops combined with timely and forceful decision-making on corrective measures by the top level of government. Monitoring should be done based on objective and verifiable data (such as the *Doing Business* indicators) measuring progress along the agreed upon detailed reform action plans. The monitoring should entail an element of benchmarking (including among ministers and heads of agencies) when reporting progress (or the lack thereof) to the Head of State. To be effective, such monitoring by the Head of State should also include specific proposed remedial actions based on an in-depth diagnostic of the root causes for the lack of progress—for example, is the problem leadership, organization, technical expertise, financial resources, governance or lack of authority? There again, the Reform Team—in partnership with the responsible ministries and—will have a critical role to play with respect to monitoring progress, diagnosing the lack of it, developing and proposing remedial actions, and helping to make sure they are carried through, including through the provision of additional authority, technical and/or financial resources to the responsible ministries and agencies. Finally, engaging the private sector in reform implementation and reporting to the public on progress achieved provide additional dimensions of accountability. Monitoring should entail regular check-ins with the private sector (both existing and potential) to ensure reforms are having their expected impact and that the reform agenda is continuously updated and focused.

PRINCIPLE 7. **Engaging the public and communicating results.** Ultimately reform delivery is about translating policies into outcomes for the citizens.[159] First these outcomes may not affect all citizens equally, and in some instances, desirable change may impact the vulnerable and the poor: for instance, when subsidized tariffs are replaced by market sustainable ones. Thus, the inclusion and consideration of all stakeholders is a core part of the reform process. Effective communication and stakeholder management are essential for accountability and to ensure the uptake of reforms (for example to avoid implementation gaps due to insufficient knowledge about new regulations). Communication serves several aims: to build pro-reform constituencies by providing a global context for reforms; highlight findings and progress including milestones and challenges during the implementation; obtain public feedback to course-correct; and to strengthen accountability and commitment. On the other hand, mere appearances of success for political purposes ("isomorphic mimicry") should be avoided and monitored closely by the Reform Team (Harvard 2017). For instance, Malaysia's PEMANDU built a strong communication function designed to keep stakeholders informed every step of the way. Besides an annual report, communications included in the case of PEMANDU plans developed a year ahead over a wide range of platforms: infomercials, social media, radio, editorials, as well as direct engagement through roundtables and workshops.[160]

MAIN RECOMMENDATIONS FROM THE CPSD

In conclusion, the transformation of Angola's economy towards a more diversified and larger private sector that creates jobs and growth opportunities must be managed with strong government leadership along clear and prioritized objectives. An important measure of these objectives will be the ability to create new investment opportunities and markets for firms which will be the ones creating Angola's future wealth. Table 4.1 summarizes the main short-term reform recommendations from the CPSD (see chapter 3 for more details).

TABLE 4.1 MAIN RECOMMENDATIONS FROM THE CPSD

Core constraints	Policy interventions	Short-term private investment and advisory opportunities
Macroeconomic instability (business risks, difficulties to access FX and finance)	• Public expenditure reform (less & more targeted subsidies, improved procurement) • Reform of oil revenue management framework • Divestment from public assets and SOEs • Domestic resource mobilization • FX and monetary policy	
Cross-cutting investment climate and regulatory reforms	• Remove anti-export bias of trade policy • Implement new private investment and competition laws • Improve priority Doing Business indicators • Strengthen land governance and administration starting with high potential areas	
Access to energy issues (limited access and/or low quality)	• Review tariff to enable cost recovery (with targeted demand side subsidies) • Reform of distribution company to reduce technical and commercial losses • Implementation of a strategic master plan / distribution to industrial/agribusiness zones • Build capacity to carry out/manage priority PPP transactions (such as scaling solar) • Regional interconnection (to export over-supply)	• Private management of some existing power plants • New climate smart energy solutions including off-grid / mini grid
Limited transport links and efficiency of public management of infrastructure and services	• Transfer state-owned transport companies to private sector management or ownership (over/under investment and poor management) • Build capacity to carry out/manage PPP transactions • Improve and maintain key trunk roads • Review existing concessions and management of Luanda port • Consider viability of rail link with Zambia and Lobito ports	• TAAG and Sonair privatization • PPP in Luanda and Lobito ports and Luanda airport
Underdeveloped digital economy	• Develop IT skills • Address market dominance of the main telecommunications operator • Update the regulatory framework (SMP law, access sharing) and build capacity for regulatory oversight	• Award of the fourth mobile license Telecom license • Angola telecom privatization (assets and telephone license)
Size of NPLs in the banking sector and limited access to financial services	• Reduce state presence in the sector • Develop technical skills • Restructure public banks with high NPLs • Strengthen bank supervision and compliance with AML-CFT norms • Develop a regulatory framework for mobile financial services • Improve financial infrastructure (credit information, movable asset collateral registry, payment systems)	• Risk management tools • Collateral commodity financing • Underserved sectors financial institutions: housing finance, SME banking, agri-finance, health, education • Microfinance and non-bank financial institutions

Table continues next page

TABLE 4.1 (CONTINUED)

Core constraints	Policy interventions	Short-term private investment and advisory opportunities
Untapped Angola's agriculture resource potential	• Improve management of public land • Increase access to finance (especially medium and small holders) • Reduce costs of import and export • Improve condition for expansion of horticulture • Support small holders in connection with out-grower commercial schemes • Facilitate backward integration of distribution and processing businesses	• Public Land lease to agribusiness investors • Horticulture • Animal protein • Crops linked with agro-processing for domestic market: cereals, industrial cultures • Provinces with significant production potential (such as soya bean production and animal protein in Malange,Huambo and Huila provinces; fruit and horticulture in Benguela province) • Private sector acquisition and modernization of privatized government assets including warehouses • Cold supplychainsto support growth, distribution and potential exports of fruits, vegetables, and meat
Skills shortages (weaknesses in primary to tertiary education, technical and vocational training)	• Remove failed local-content policies for Angolan hires • Expand availability of financial products • Strengthen quality and availability of training of teachers • Support the matching of vocational training with demand (including through government incentives) • Improve the regulatory environment; licensing, high costs to import and export	• To be determined upon further analysis: potentially tertiary education, vocational schools and selectively upper secondary education. • Ed tech through global providers
Access to health/clean water	• Increase government investment in health • Improve the regulatory environment: licensing, high costs to import and export • Expand availability of financial products • Develop technical skills • Ease access to pharmaceuticals (strict regulation and costs) • Improve medical training	• To be determined upon further analysis: potentially off-grid and IT-based health solutions; training of health professionals
Poorly managed, underperforming public assets; poorly targeted spatial development initiatives	• Pursue SOE reform/Privatization/PPP in priority sectors/ companies (energy, transport, ICT, education, health/ water) • Lease public property assets (urban estates, agricultural land) • Prioritize public investment program around key sectoral/ geographic priorities with a view to crowd-in private investments	• Land lease to agribusiness investors • Transfer of agriculture assets (farms, infrastructure) to private ownership or management • PPPs to develop industrial zones and estates

PART II

DEEP DIVES FOR MARKET OPPORTUNITIES

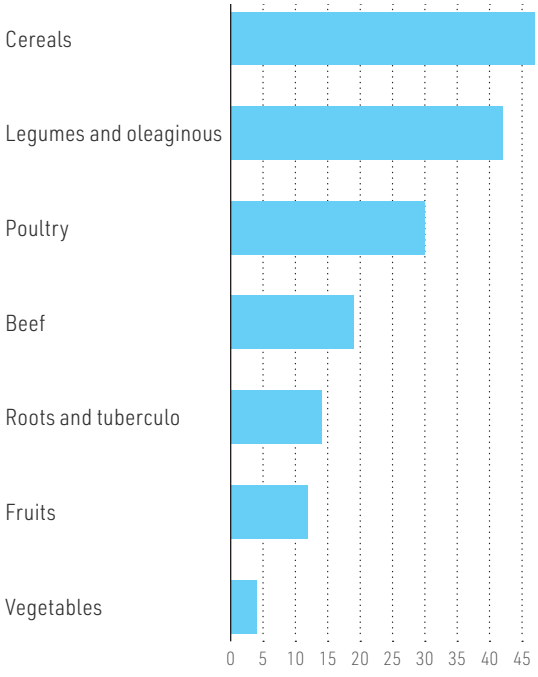
05. AGRIBUSINESS

BUOYED BY STRONG DEMAND, THE AGRICULTURE SECTOR IS GROWING

The agriculture sector in Angola has shown signs of steady progress in recent years. In a decade (2004–15), the share of the sector in the economy grew from 6 to 10 percent of GDP. According to Ministry of Agriculture data,[161] between 2012 and 2016, the production of cereals increased by 47 percent, beans and oilseeds by 42 percent, and tubers by 14 percent (figure 5.1). Fruits and vegetables grew at a slower pace, 12 and 4 percent respectively, although had experienced fast growth in the previous decade, especially banana and sweet potatoes. Animal proteins have comparatively increased at a lesser rate, except chicken meat, and starting from a low base.

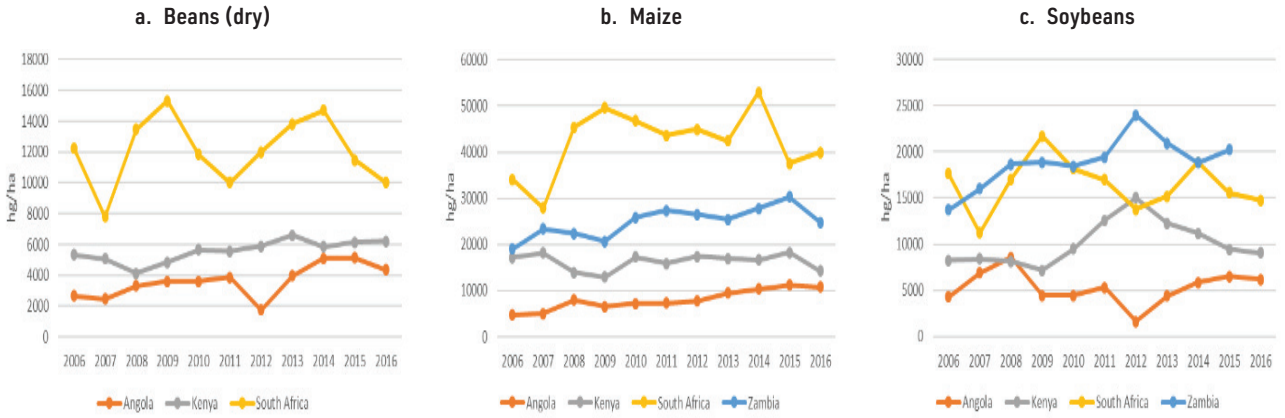
The increase in production can be linked to an increase in the area under cultivation, as well as improvements in productivity. However, yields remain low by international and even regional comparison (figure 5.2).

FIGURE 5.1 INCREASE IN PRODUCTION OF SELECTED AGRICULTURE PRODUCTS, 2012–16 (%)



Source: Ministry of Agriculture and Forestry.

FIGURE 5.2 YIELDS OF MAIZE, BEANS, AND SOYBEANS, ANGOLA AND SELECTED COUNTRIES, 2006–16 (HECTOGRAM PER HECTARE)

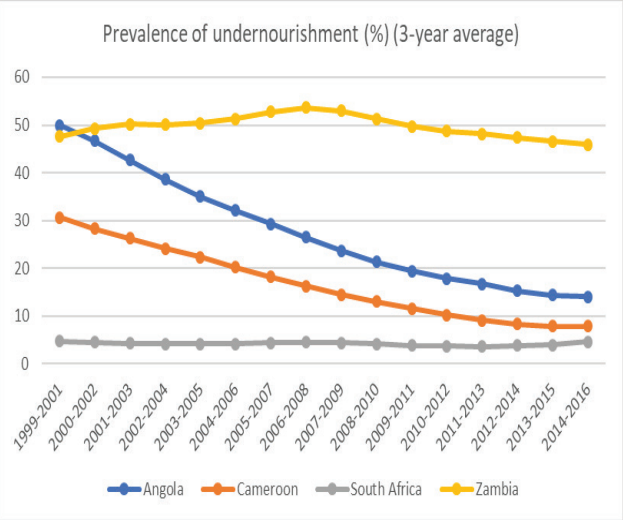


Source: FAOStat.

Food production value by capita has been steadily increasing, as well as the availability of proteins and calories. As a result, undernourishment and the food deficit have reached historically low levels, albeit they remain high (figure 5.3).[162] It is estimated that over half of Angolan population suffers from some degree of malnutrition, and daily calorie intake is one third of the recommended amount in extremely poor households. Even in urban areas, only 25 percent of households are estimated to consume the recommended daily calorie intake.[163]

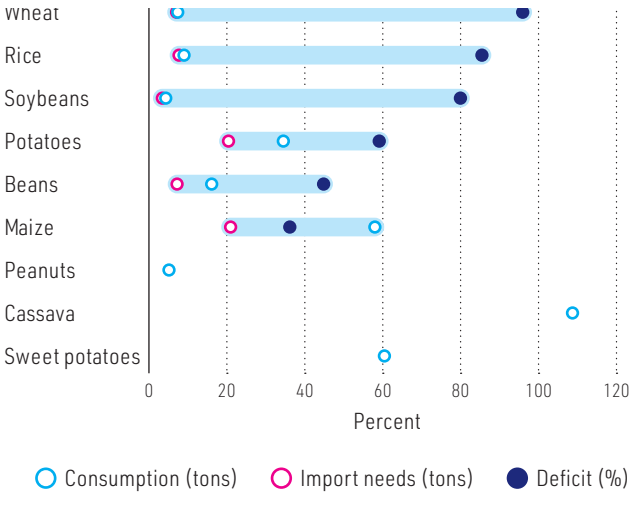
Angola witnessed a strong and steady increase of agricultural and food products imports before the crisis. Consumption needs for most basic food staples were met with imports at the onset of the crisis (figure 5.4). Notable exceptions are sweet potatoes, cassava, peanuts, where Angola has achieved self-sufficiency, and eggs, where domestic

FIGURE 5.3 ANGOLA REDUCED UNDERNOURISHMENT



Source: FAOStat.

FIGURE 5.4 IMPORT NEEDS FOR KEY FOOD STAPLES

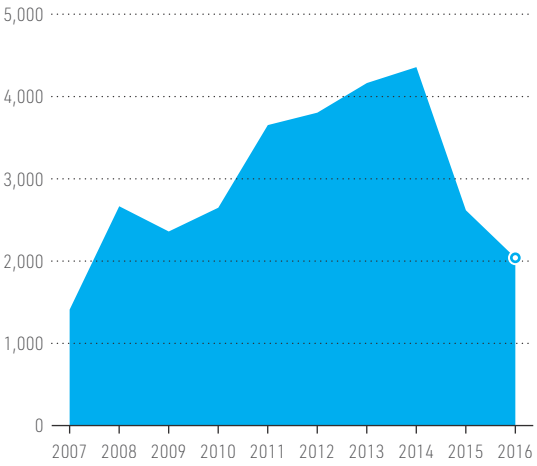


Source: Ministry of Agriculture and Forestry, 2014/2015 agriculture campaign.

production meets over 70 percent of demand in urban centers. Since 2015, a combination of lack of access to forex, the economic slowdown and a substitution toward domestically produced goods cut imports by half (figure 5.5). The increase in production and import are indicative of strong potential demand. The key foreign food suppliers, representing nearly half of imports, are in order of importance Portugal, Brazil, and South Africa, which are also three strong economic partners of the country as well as investors.

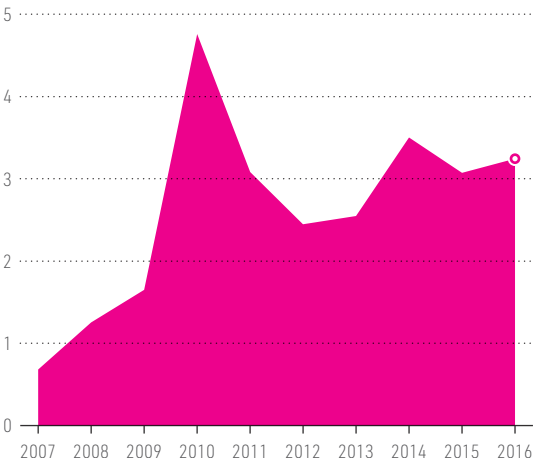
Angola was once an important exporter of coffee, cotton, tobacco, and sugar cane, which all but ceased by the 1990s.[164] Current Angolan exports of foods and agricultural products are extremely low, totaling slightly more than $3 million (at least those officially recorded) (figure 5.6), with coffee and beverages being the leading products exported (box 5.1).[165] At an estimated 1,200 tons in 2017[166] coffee production is a fraction of the heydays in the 1970s (250,000 tons, accounting for over 40 percent of Angolan exports). Coffee exports average most year less than

FIGURE 5.5 IMPORTS OF AGRICULTURE AND FOOD PRODUCTS, 2017–16 (US$ MILLIONS)



Source: UN Comtrade (mirror statistics).

FIGURE 5.6 EXPORTS OF AGRICULTURE AND FOOD PRODUCTS, 2017–16 (US$ MILLIONS)



Source: UN Comtrade (mirror statistics).

BOX 5.1 ANGOLANITA

Banana is the main fruit being produced in Angola. The country is the second-largest producer in Africa and among the large producers in the world. However, most of this is produced by small holders and does not meet modern production standards. Only a small fraction of the production comes from modern commercial farms.

Nova Agrolider, the leading national producer reached a production of 71,000 tons in 2017 in its Bengo and Caxito farms, a 77 percent increase in two years. Other large producers include Turiagro, and Aldeia Nova.

Under the brand name Angolanita, Novagrolider has started exporting small quantities to Portugal and Namibia (2,600 tons per year). Exports of Angolan bananas are still very small and are in part motivated by the desire to access forex earnings. Besides, there is a large internal demand to be met suggesting that export diversification is probably not for the immediate future. This shows however the capacity of modern fruits and vegetable producers to meet international standards of production and competitiveness.

Source: Angola CPSD team interview; ISSD https://www.iisd.org/pdf/2014/ssi_2014_chapter_5.pdf; https://www.bbc.com/news/av/business-40457834/cultivating-angola-s-banana-crop.

$1 million. A Portuguese firm, Nabeiro, bought in 2015 the Angolan state coffee firm, Liangol, for $1 billion and rebranded it Angonabeiro. Nabeiro took over the Ginga coffee brand as part of the transaction, added to the Delta brand of products manufactured in Angola.

SECTOR STRUCTURE

The sector remains the main source of income for 90 percent of the 9.6 million Angolans living in rural areas.[167] Smallholders represent over 80 percent of agricultural production and 92 percent of land under cultivation. These are primarily farms used communally for subsistence farming of cassava, maize, fruits and vegetables and other cereals. This group also includes smallholders selling surplus production in the market. Smallholders are poorly organized and lack the capital and know how to apply better inputs and technologies. Of the many cooperatives and producer groups, few are registered, active in practice, or market-oriented. The sector remains the main source of occupation in the country (an estimated 44 percent of total employment) but accounts for only 3 percent of firm employment. Seven provinces concentrate two thirds of the population employed in agriculture: Uíge, Cuanza-Sul, Malange, Benguela, Huambo, Bié and Huíla.

Serving the Angolan food market are a few successful private medium and large-scale private sector modern operators that have grown by seizing opportunities to meet local demand: from the urban middle class in modern super markets and malls, but also from less affluent customers through semi-formal distribution networks. The private sector is particularly active in the horticulture and fruit segment, producing fruits (banana, mango) (box 5.2), and vegetables (potatoes, onions, and so forth): Nuviagro, Agrolider, Fazenda Girasol, Turiagro, and Jardins Da Yoba. Another important player is Aldeia Nova, a government joint-venture. As explained below, successful agribusiness operators see opportunities for expansion and are entering new agribusiness sectors, capitalizing on the underserved market demand and their business experience.

Several private medium and large farms focus on cereals production, such as Fazenda Pipe and Fazenda Santo Antonio. Expanding cereal, mainly maize, production has been a government priority

BOX 5.2 HORTICULTURE AND FRUIT MARKET LEADERS

Nova Agrolíder: largest fruit and vegetable producer in Angola, part of Grupo Lider, with an annual production of 200,000 tons of 50 different fruits and vegetables, and 4,500 employees, of which about 200 expatriates. Main product is bananas (about 70,000 tons/year), achieving high yields of 110–120 tons per hectare, according to the company. They distribute using their own truck fleet to most formal distributors and own a retail store chain frescos do dia. Grupo Lider is expanding into other agribusiness sectors, including coffee, dairy, poultry, livestock, aquaculture, and frozen foods.

Fazenda Girasol: is a producer of 52 different types of fruits, three farms, and vegetables with 800 employees. It started as a small venture, but success led to the entry of private equity fund Angola Capital Partners. A strong brand, it caters to the high-end market, demanding quality, diversity, and freshness. One of their main strengths is their logistics with daily delivery, using their own truck fleet, to supermarkets, hotels, restaurants, and individual homes (online sales). Expansion plans include an investment of $20 million expanding the range of horticulture products, using greenhouses, and move later to produce maize.

Turiagro: part of Grupo WM, produces about 80,000 tons annually of bananas in Angola, papaya, and passion fruit. It operates farms in the provinces of Luanda, Bengo, Kwanza Norte and Kwanza Sul and distributes its production in the major supermarkets.

Nuviagro: part of Portuguese-Angolan Nuvi Group, produces about 12,000 tons of potatoes, as well as onions, and carrots in a 4,000 hectare farm in Quibala of which about 10 percent is in production. Distribution is handled by Plump, another firm in the group. The company is considering expansion projects, including greenhouses for tomatoes and peppers, and other high value products such as avocados.

Source: Interviews and company websites.

and several State-sponsored projects exist in this area, including seven state-owned fazendas, and public investments in silos and mills, as well as the large Capanda agro-industrial pole.

The poultry sector has also witnessed the emergence of large local suppliers, particularly for eggs. Kikovo is the leading producer with 1.2 million layers, followed by Uniovo, Filomena, and Aldeia Nova. Egg production increased from 450 million eggs in 2015 to 850 million in 2016. The emergence of the local production has almost eradicated egg imports, from $72.5 million in 2012 to $1.4 million in 2016 a trend that was accelerated by the imposition of trade restrictions in 2015.[168] Poultry meat is the most widely-consumed and affordable meat.Angola produces 36,000 tons of broiler meat per year (8 percent of total demand of approximately 450,000 tons per year).[169]Demand is met by imports of frozen chicken, mainly from Brazil and the United States. The limited local supply of feed is the main constraint to the growth of the growth of layer and broiler chicken industry.

GOVERNMENT POLICIES

Being a priority sector for diversification did not translate in public support to agriculture. The share of agriculture in the national budget in 2013 was 1.1 percent ($702 million) and declined to 0.4 percent ($544 million) in 2015. The Ministry is restricted in terms of human resources, and there has been limited coordination of policy initiatives to promote agribusiness development across line ministries, which translated in a lack of coherent set of policies for the sector. Agriculture policy development is severely constrained by limited availability of data about the characteristics and performance of producers.

Policy orientation has gradually shifted towards promoting private activity[170] since the 1990s but retains a strong focus on government intervention to increasing production to achieve self-sufficiency, as illustrated by the Mid-term Plan for the Agriculture Sector 2018–22. Past policies focused on the State as an investor and operator of irrigation and storage infrastructure and agro-industrial facilities, including large farms belonging to the state-owned enterprise, Gesterra. Public investments estimated at $1.5 to $2 billion in large scale projects over the last decade,[171] some of which were subsequently privatized or transferred to private management. These projects include agricultural development poles (for example, Capanda or Catumbela), irrigated perimeters, to direct investments in developing farms and processing facilities (several farms under Gesterra with public capital, or joint ventures such as Biocom and Aldeia Nova). Many of these projects were financed with bilateral lines of credit and with technical assistance from foreign partners from the financing countries (annex 5A), which in some cases assumed the management of the project once completed.[172]

Support to smallholders is slowly evolving from providing subsidized credit and inputs to training and support to rural households. The Agriculture Development Institute (*Instituto de Desenvolvimento Agrario*, *IDA*) of the Ministry of Agriculture is the main institution supporting smallholders. In the past, this support has included free or subsidized distribution of fertilizers and preparation of lands for smallholders, but only met a small fraction of demand. Projects supporting smallholders, such as the World Bank and IFAD Market Oriented Smallholder Agriculture Project (MOSAP) have helped smallholders introduce better agriculture technologies and increase production.[173] Government-subsidized agriculture campaign credit has suffered from low repayment rates. Government extension services are severely constrained, as are Research and Development, and animal and plant health services. There are about 700 government agronomists/ technicians for about 4 million smallholder farmers. This represents one extension officer to 5,722 producers, compared to one per 280 farmers in some Asian countries (China, Vietnam), one per 1000 in Nigeria and one per 2500 in Malawi.[174]

DRIVERS OF COMPETITIVENESS FOR AGRIBUSINESS

Angola presents favorable agro-climatic conditions for agriculture production.[175] Angola benefits from vast expanses of arable land, covering five major ecological zones offering a potential for diverse productions. [176] It has 575,900 square kilometers

of arable land (the size of France) with estimates of 5.7 percent is currently exploited. The interior plateau, with mild temperatures and abundant rainfall is the core production area and the mostly densely populated after the Luanda region. The soils in the interior plateau are generally fertile, although need correction due to high acidity, compared to the sandy soils in coastal and low mountain areas.[177] Land degradation as a result of poor farming techniques is pervasive.

While land is plentiful, access is complicated by the current poor state of land information systems. Most rural land belongs to the State, which can grant surface rights to individuals or private entities for a renewable concession for up to 60 years. Provincial governments have authority to give concessions up to 1,000 hectares, and there have been reports of corruption in land allocation. Customary land rights are recognized by Angola's 2004 Land Law,[178] and are administered by the traditional authorities (*soba*). Most rural lands are not formally registered or part of a database which, among other things, increases the potential for disputes. Beneficiaries of large land concession typically hold formal title, while there are many instances of land concessions that are unused or abandoned and could be put to productive use. The State-owned company Gesterra has received a mandate to identify and prepare government land for agriculture projects.

Angola is also endowed with an abundance of water resources with five main river systems, comprising 47 water basins.[179] According to FAO, 80,000 hectares are irrigated, with Cuanza Sul, Bengo, and Benguela having the largest areas. The government has invested in irrigated perimeters (annex 5A): medium size such as Bom Jesus and Caxito (Bengo), and Matala (Huila) (about 3,000 hectares), or much larger such as Capanda (potential for 13,500 hectares). However, most of these are underutilized.

Demand for food products is rising fast. Spending in food and non-alcoholic beverages is expected to increase from $15 billion in 2017 to $21 billion by 2021.[180] More sophisticated urban consumers are demanding a more diverse range and higher-quality produce. A small but growing agribusiness sector is developing linked to this rising demand. A formal food distribution sector has also developed, primarily to serve the Luanda market, and according to investors, food processing presents opportunities to grow from its nascent size, provided the macro environment improves. Nonetheless, informal commercial channels are estimated to represent about 70 percent of food distribution in Angola. Interviews with national off-takers (distributors of fresh products, supermarkets, manufacturing companies and hotels) revealed strong interest in the development of national commercial agriculture, in close alignment with the new government's expressed priorities.

CONSTRAINTS TO TAKE OFF

The success of a handful of commercial operators has taken place despite a very challenging environment. Arguably, in many instances the same success stories probably benefitted from favorable conditions such as access to prepared land, partnership in government ventures, or leveraging commercial success in other sectors. This section elaborates on the main challenges facing the sector.

One key characteristic of successful commercial operators (and private sector in general in Angola) is their capacity to internalize some of the most serious constraints to conducting business. In general, agribusiness value chains in Angola present coordination failures, and commercialization is largely based on informal, ad-hoc arrangements. There are few examples of contractual agreements between off-takers and small and medium producers, exceptions being Aldeia Nova subcontracting egg production to small farmers; Fazenda Maxi; People in Need; and the Terra do Futuro projects, as well as the coffee value chain.

The emergence of small and medium-sized agribusinesses faces severe constraints. These include lack of capital and access to credit, limited technical skills, and lack of access to markets due partly to high cost and/or lack of own transportation. A study by FAO in three provinces identified a range of small and medium-size producers with commercial orientation and business development plans, but none of them had ever received credit

from formal institutions.[181] Small producers in the coffee sector can access credit through pre-financing agreement with buyers, and some informal credit and saving groups exist serving the smallholder segment. On the other hand, medium-size producers typically rely on own savings or income from other off-farm activities. Smallholders have low bargaining power due to their poor access to market information, while the lack of storage, processing, and transportation exacerbates their vulnerability as price takers. Small producers also face soil fertility issues, diseases, and infestations, which hurts their productivity.[182]

INFRASTRUCTURE

The poor state of road infrastructure is a considerable challenge to commercialization of agriculture products. Angola has a relatively large road network of over 76,000 kilometers, including 12,300 kilometers of primary roads, 27,200 kilometers of secondary roads, and 36,500 kilometers of tertiary roads. However, only about 20 percent of the roads are paved, and some secondary or tertiary roads are impassable during the rainy season. An assessment in the provinces of Malange, Cuanza Norte, and Cuanza Sul revealed the poor condition of rural roads linking production centers—speeds above 20 kilometers per hour were difficult to reach.[183] In the last ten years the government has invested in the improvement of the main road corridors, although some have required repeated maintenance. The National Insitute of Roads of Angola (*Instituto Nacional de Estradas de Angola, INEA*) oversees the fundamental road network comprising 26,000 kilometers of roads (including all primary roads and a subset of secondary and tertiary roads). The maintenance of the remaining roads is the responsibility of the provincial or municipal governments, but budgetary constraints and the length of network poses challenges for road up-keep. Poor road condition increases transport times even between major production centers and markets (it takes between about 8 hours to cover the 350 kilometers between Luanda and Quibala, an area with a high concentration of commercial farms). Small farmers further from main roads often cannot afford the cost and risk of arranging transportation of their production to market centers where they could reach a better price. Intermediaries with financial capacity buy their production at farm gate but offset the losses and investments with large margin on the final sale price.

Access to electricity remains the biggest infrastructure challenge for the emergence of processing and irrigated agriculture. Most large agribusinesses operate on diesel generators, for irrigation, cold-storage, and processing. The reach of the electricity network in rural areas is limited. The Northern system (including Luanda region) concentrates 78 percent of energy consumption, while industry represents just 9 percent of consumption (residential is 45 percent and services 32 percent of consumption). The Angola Energy 2025 strategy envisions an ambitious expansion rural electrification aiming to connect 174 localities to the electricity network, and developing isolated systems (mini-hydro, diesel or solar) for another 32 locations. The plan also includes plans to expand individual solar systems to about 500 villages.[184] It is not entirely clear whether and how the national master plan for rural electrification takes into account agribusiness potential, and producers keep complaining that their needs are not well addressed by authorities.

AGRICULTURE FINANCE AND INSURANCE

Agriculture's share of overall credit has remained low—less than 5 percent—and a major constraint for most farmers and agribusiness SMEs. The enabling environment for promoting agriculture finance remains largely undeveloped including warehouse receipts, equipment leasing, and a movable collateral registration. In the coffee sector, buyers pre-finance producers, but value chain financing is rare in other sectors. Banks lack products and expertise to serve the agriculture sector, and, with some exceptions, have a limited regional presence.[185] On the demand side, weak capacity to present bankable business plans and insufficient technical assistance to guarantee successful implementation are constraints mentioned by commercial banks.

Commercial banks have experience with government-subsidized credit and guarantee schemes, including lines of credit by the Angolan Development

Bank (BDA), agriculture campaign credit, or the Angola Investe Program. BDA has financed projects like KS46 targeting 46 mid-size producers of cereals and vegetables in Cuanza Sul with loans of $500,000 and supported by technical assistance. Experience with high levels of non-repayment of government-subsidized agriculture campaign credit (repayment rate between 2011–13 was estimated to be 2.2 percent)[186] have increased banks' risk aversion to agriculture lending. In 2016, the government established the Agriculture Development Fund (*Fundo de Apoio ao Desenvolvimento Agrario, FADA*) as a non-bank supervised financial institution, with a capital of 25 billion kwanzas, to develop comprehensive agriculture finance solutions, working through commercial financial institutions. Micro-finance is underdeveloped due to regulatory, institutional and operational constraints, including restrictions to take deposits, limited staff skills and high operating costs.[187] Main microfinance players actors include one microcredit Institution (KixiCredito) and two commercial banks (Banco Sol) and BAI Banco Microfinanças (BMF), but their agriculture exposure is unknown. Non-governmental institutions such as World Vision, Care, Development Workshop, and ADRA, are associated in various agriculture and livelihood finance initiatives for smallholders.

Agriculture insurance is still nascent. The insurance regulator (ARSEG), supported by Swiss Re, developed a pilot project to introduce agricultural insurance (mainly against drought) in Angola, focusing on corn and beans. The pilot will have two components: the first intended for large farms following a traditional MPCI (multi-peril crop insurance) product, and the second to develop indexed insurance (based on NDVI) for agricultural cooperatives in the regions of Bengo and Huambo. The insurance would be offered through several insurance companies led by the state-owned insurance company (ENSA).

SKILLS

Finally, shortage of technical and management skills forces commercial farms to incur high personnel and training costs. Larger firms interviewed all rely on expatriate work force (farm managers are often non-Angolans). Farmers, including the most successful among them, are not trained to meet productivity and quality requirements of commercial farming. This has been a significant constraint for businesses seeking to develop outgrower schemes, including in best practice cases such as Fazenda Maxi, which carefully selected a limited number of outgrowing partners among mid-size farms to secure its supply. In the smallholder segment, projects like the World Bank MOSAP project have introduced farmer-field schools to strengthen farmers' skills and promote their organization. Still, lack of knowledge about good agronomic practices contributes to the low yields due to insufficient crop rotation, application of fertilizer, weeding, and pest control.

INPUTS

Quality seeds, fertilizers, and agriculture equipment are out of reach of most farmers, a situation that aggravated since the onset of the economic crisis and associated forex restrictions. Large commercial farms import directly their inputs, while small and medium producers buy from a small number of local suppliers with presence in Luanda and/or the provincial capitals (Novagro, Agroway, Fertiangola, Lonagro, Brasafrica, among others). Most small and medium producers complain about the high cost and availability of agriculture inputs. The government plays a key role in the distribution of seeds and fertilizers through the IDA. Technical service providers focus on government or large-scale commercial projects, while there is little technical assistance available for smaller players.

Local seed markets are small and government reliant. Most farmers cannot afford certified seed and reutilize seed from past harvests. Imported certified seed is sold at a subsidy by government or commercial input suppliers. Multiplication of certified seed is conducted by state owned enterprises and a small group of private firms selected by the government. The government is seeking partnerships with Amsted and Capstone to locally produce seed. Regulatory uncertainty, while not a binding constraint, may affect seed markets. The rules governing production of certified seeds[188] are not well known across the agriculture sector and

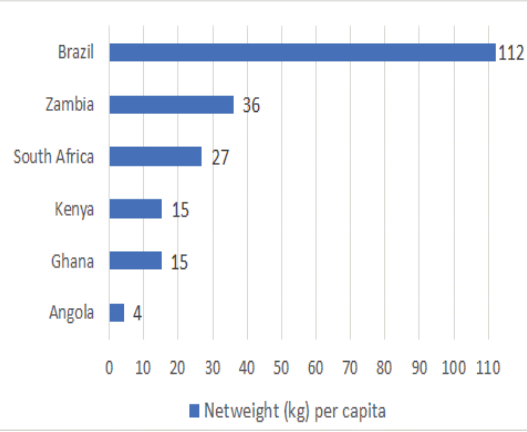
the government lacks resources to implement its roles in inspection, monitoring and certification associated with both import and local production of quality seeds.[189] In addition, although the 2016 seed regulation is aligned with the SADC harmonized seed regulations, Angola has not signed the SADC Memorandum of Understanding on this matter.

Use of fertilizer is limited, contributing to low yields. Fertilizer use per capita in Angola is lower than in other Sub-Saharan countries (figure 5.7), while average import prices of fertilizers in Angola are relatively higher than in most comparator countries. During the agriculture season 2016/2017 and due to forex restrictions, the price of a 50-kilogram bag of NPK (12-24-12) reached 35,000 kwanza in the local market, (between $210 and $265), prompting the government to intervene securing supply of fertilizer from Morocco to be distributed through private firms in the Angolan market at set prices. The IDA plays a key role in fertilizer distribution to smallholders at subsidized prices accounting for a about 25,000 tons of fertilizer, compared to commercial sales of about 80,000–100,000 tons.

GOVERNMENT INTERVENTIONS

The government continues to play an oversized role in the sector through various agencies (Ministry of agriculture, but also BDA, Ministry of Commerce, and so forth) and state-owned enterprises such as Gesterra. While government support is justified to address market failures, the large state presence can crowd-out private investment, and restrict competitive dynamics, for example if public procurement favors selected players in the market. It is important to learn the lessons from experience related to planning and implementation of incentive measures and large-scale projects. Those can inform a new policy orientation focuses on fostering a competitive an inclusive sector, grounded on accurate statistics. In addition, the import substitution strategy pursued by the government, and the associated restrictive trade policies, has helped the growth of agribusiness segments, but call into question the sustainability and overall competitiveness of some existing ventures. In addition to the 2015 measures already described, tariffs on agricultural products are high, 23.2 percent in unweighted average, with many products subjected to the maximum 50 percent, such as fruits and vegetables and their preparations, and beverages.

FIGURE 5.7 CONSUMPTION OF FERTILIZER FOR SELECTED COUNTRIES (KILOGRAM PER CAPITA)



Source: World Bank (2017) Based on data from UNCOMTRADE and the World Bank.

OPPORTUNITIES FOR SCALING UP THE ANGOLAN AGRIBUSINESS SECTOR

Angola offers opportunities in a range of agriculture and livestock subsectors. Most value chains are underdeveloped and may not be competitive unless constraints are systematically addressed. Horticulture, maize, tubers, and beans are the most developed, while they present important gaps. Given the nascent status of most agribusiness value chains, the rest of the chapter focuses on entry points for investment on agribusiness, such as identifying clear opportunities for private participation based primarily on interviews with sector actors.

EXPANSION OF COMMERCIAL HORTICULTURE AND FRUIT PRODUCERS

A small number of commercial producers, primarily of fruits and vegetables have capacity to supply the formal distribution sector meeting quality and volume requirements. Examples include Nova

Agrolider, Fazenda Girasol, Nuviagro and Turiagro (box 5.2). Despite high growth in recent years, company representatives mentioned market demand exceeds their production capacity. Given the size of the market opportunity, most large commercial firms have expansion projects, including branching out to other sectors such as cereals, poultry, and livestock. Expansion plans have been slowed by the economic crisis and foreign exchange constraints (delays in getting forex limit these firms' ability to import inputs to keep their current operations running, let alone importing equipment for new investments).

Large commercial horticulture producers share common characteristics:

- Access to foreign technology and management
- Import all inputs from abroad, including high-quality seeds, agrochemicals and technology, and are therefore able to achieve high yields and quality close to world class standards
- Have established a distribution network, operating their own fleet of trucks to deliver produce to retailers and some own retail stores or are part of distribution groups
- Growth financed with internal funds and equity, little reliance on local banks, and
- Sales concentrated in the Luanda market through the formal distribution channel, but some also supply to the informal channel

The main opportunity for growth continues to be in supplying the domestic market, some of these companies have exported or are considering it. Nova Agrolider currently exports 10 percent of its production, including exporting bananas to Portugal and sees potential in coffee, lime, dragon fruit, and papaya. Fazenda Girasol is exploring exporting tropical fruits and vegetables to Europe and Asia. Getting access to forex provides an incentive to export. Exposure to foreign markets will test these firms' ability to compete given their relatively high operating costs.

The growth of large commercial players in horticulture and fruit can increase agribusiness employment. These firms can also pull small and medium size producers, aggregating their production and providing inputs and technical assistance to them. Currently, these engagements exist but are limited and the constrained operating environment faced by even the large commercial players is not conducive to their development. For example, Nuviagro sells potatoes to smallholder cooperatives to use as seeds, while Fazenda Girasol works with smallholders to complement their production.

Access to forex is the main constraint for expansion, followed by high operating costs and scarce skills. Inconsistency in forex access forces these firms to keep a large stock of inputs and spare parts, increasing their inventory costs. High operating costs also stem from the use of generators for irrigation pumps, packaging and cold storage, as few are connected to the electricity grid. Given their market share and high market prices for competing imported produce, they can pass on these costs to the consumer and still reap high margins. Firms are investing in training domestic workers but will continue to rely on foreign skills for specialized technical knowledge in the foreseeable future, therefore, delays in processing work permits remains a challenge.

In general, these firms do not rely on any government support. Some representatives expressed skepticism about state initiatives to support the private sector, preferring to keep an arms-length relationship with the government. On the business environment, commercial farmers' concerns include red-tape—especially in import-export procedures and work permits, high cost of land acquisition/regularization, aggressive tax administration, and misoriented government policies to support the sector.

BACKWARD INTEGRATION OF DISTRIBUTION AND PROCESSING COMPANIES

Angola's distribution sector has started to integrate backwards to engage in agriculture production and processing. Some food and beverage processors are also considering agriculture production to secure inputs. The main rationale is to seek a reliable supply of quality products, capturing higher margins compared to imported products. Investing in fixed assets to preserve value in a scenario of a depreciating kwanza may be another justification. Since 2015, constraints in access to forex for imports

have further encouraged this trend, even if they also hamper the import of capital goods and labor to realize the investment projects. Finally, investing in domestic production puts these companies, some of which are foreign-owned, in favorable light as contributing to economic diversification and job creation. This trend is likely to continue as the economy recovers, provided there is no return to a scenario of kwanza appreciation. Examples include the Newaco Group and Pomobel. Beer producers like Refriango and Castel are also considering investments in cereal production.

These are recent ventures and their success remains to be seen. Distribution firms enjoy the connection to the final consumers, strong logistics, and the transport fleet that other agriculture players lack. They also have the platforms to import the necessary inputs and technology for developing agribusinesses. However, opportunities for backward integration also stem from the constrained business environment and small commercial agriculture sector and may not necessarily result in the most efficient operations. For some of these companies, agribusiness is a completely new line of business.

Firms integrating backward into agriculture face similar constraints as large commercial farmers. Unpredictability in access to foreign exchange is by far the main challenge. In addition, access to energy and excessive red tape, including lengthy delays and high cost of obtaining land concessions for farming, represent additional challenges.

DEVELOPMENT OF MID-SIZE AGRIBUSINESSES AND AGGREGATION MODELS

Angola's commercially-oriented small and medium-size producers represent a small but emerging segment. Developing this segment of individual farmers and producer organizations to create a stronger ecosystem for Angola agriculture represents an opportunity with a large potential to increase employment and income opportunities in rural areas, especially for the youth. Accurate data on this segment is lacking as a detailed characterization of producers does not exist.[190] Market-oriented producer organizations are few, but the foundation for organized approaches does exist, and past and current efforts to strengthen producer organizations have led to positive results, including with support from the World Bank MOSAP.

Aggregation models need to be developed to provide channels for market-oriented small and medium farmers to commercialize their production and overcome existing constraints. Business opportunities were mentioned by private sector actors, ranging from small-scale to large (table 5.1). Private investment in value added activities such as storage and processing represent an opportunity to aggregate production from smaller producers, provided they also receive support to improve yields. Installed capacity for milling and feed production is currently underutilized due to insufficient supply. Wheat and maize flour and animal feed continue to be imported.

Off takers can also forge partnerships with small and medium size producers to develop a stable supply of quality produce. Grupo Maxi provides technical assistance to fruit and vegetable producers, building a network of suppliers that allowed reducing share of imported produce from 65 percent in 2011 to 25 percent in 2015. Zara trading is piloting small scale origination of beans. Outgrower schemes are currently underdeveloped because of the costs for larger players to enforce such schemes. As one distributor put it, "lower prices for local production of lemons do not necessarily make up for poor quality compared to imported products."

To encourage viable investments that help dynamize small and medium producers, several constraints must be addressed. On the supply side, credit and technical know-how is necessary for small and medium producers to reach sufficient production volumes, yields, and quality. At the same time, investors in upstream or downstream activities need an environment that makes their investments competitive, including improved infrastructure, less red tape, and easier access to long-term finance and guarantees.

UNLOCKING THE PRODUCTIVE CAPACITY OF STATE-OWNED AGROINDUSTRIAL ASSETS

Private participation could help valorize past investments in agroindustrial and irrigation infrastructure, currently used below potential. Over

TABLE 5.1 PRIVATE SECTOR ENTRY POINTS TO DEVELOP AGRIBUSINESS VALUE CHAINS WITH SMALL HOLDERS

Approach	Description	Comments	Best applicable supply chain	Potential offtake/ supply	Critical finance needs
Contract farming and out growers by retailers.	Expansion and replication of existing examples out growers integrated in retail or wholesalers networks. Seed Production (OPV with Small Farmers and Hybrid in Commercial farmers)	Fast track for emergence of small commercial farmers with high value addition as well as intense agronomy services	Horticulture and fruit. Seed, cereal legumes, potatoes	Retailers and whole sellers, big potential to link with input suppliers Fazenda Maxi; Pomobel, Tomp trading, Plump, Zahara Trading SeedCo, Capstone, Pannar	Potential for big exposures with lower risk; technical assistance; irrigation; guaranteed off take Potential for finance with long term infrastructure and irrigation and also with high costs of production leading to big volumes in short term lending
Coffee; technical assistance, storage and finance for coffee farmers	Agronomy services for renewing/recovery of plantations and canopy, warehouse finance, and primary processing	Big potential with proven record of success, remaining clusters with plantations and critical mass that allow fast tracking		Opportunity with Angonabeiro who has been sourcing, processing and exporting Angolan coffee. Some initiatives in finance	Specific products for coffee warehousing and long-term finance for primary processing equipment
Mechanization service providers	Promotion of mechanization and transport packages among medium farmers, expanding production areas and making available for surrounding farmers mechanization services and last mile transport for production	Experience shows that investments in individual entrepreneurs are more effective in bigger structures like agribusiness centers, whose concessionaries lack the skills and business awareness Mechanization service providers are a good tool to originate structured and sizeable demand for SME credit	Row annual crops, cereals pulses and oils seeds. Brings economies of scale to lower value crops; feasibility to growers and concentration of supply to processers Also for horticulture where more complex production systems can bring market for service providers	Millers, feed processors, eggs and poultry, urban whole sellers of pulses, crushing industries. Castell, Kikovo, GMA, Aldeia Nova, Induve	Long-term credit for equipment Must be complemented with short term finance for working capital namely using the mechanization service to aggregate demand for financial service on his clients
Storage for crop purchase and aggregation from small holders	Promote medium scale proximity storage points, these will increase access to markets. Engage local merchants, mature cooperatives, industry and donors	Granular penetration in rural areas, decreasing transport costs and alternative to big silo complexes Needs engagement and working capital from the industry or traders. This is key guarantee local supply to the local industry	Cereals, legumes, and oils seeds.	First tier: coops and rural traders; second tier: big traders or directly the industry (same as above), Pedras Negras, GMA, Induve, Jardins do Yoba, Newaco	Overdrafts, and ideally warehouse receipt for medium farmers and traders

Table continues next page

TABLE 5.1 (*CONTINUED*)

Approach	Description	Comments	Best applicable supply chain	Potential offtake/ supply	Critical finance needs
Availability of inputs for small farmers.	Structured supply of inputs in rural areas through coordination with big input traders, farmers organizations and donors	Needs strong coordination for economies of scale, without that, fragmented volumes compromise retail prices and feasibility for farmers	Fruit and horticulture with higher value to trigger usage and spill over to lower value crops (copy of best practice lower prices with scale)	Big blenders and distribution networks. Straight link with mechanization and warehousing as aggregators for demand. OCP, Meridien, Yara	Short-term with the security of contract farming in horticulture, along with Mechanization packages/groups
Poultry (and soya)	Dissemination of soya as a cash crop and combination in the poultry chain, sustaining demand Establishment of day old chicks and feed business for the live market as a stepping stone for integrated out growers and abattoirs	Decentralization of this industry, closer to raw materials and interior urban markets Distance from ports and cheaper cold backloads provides some natural protection	Creation of local demand for soya and maize	Feed millers supplying feed and DOCs; poultry operators without growers and buying back production and processing. Oil crushers and refiners, Induve, Kikovo, Newaco, Jardins do Yoba, Aldeia Nova	Some interventions in long term finance for equipment, but short cycles giving good cashflows and credit not essential

the last decade, large government investments were realized with the objective of expanding domestic agriculture production and processing. No complete evaluation of those investments has been completed, but by many accounts, they have not lived up to the expectations (annex 5A) and remain underutilized with a few exceptions. This is the case of the seven large-scale farms developed by state-owned Gesterra, financed primarily with lines of credit from the Chinese Development Bank and transferred to the Angola Sovereign Fund (*Fundo Soberano de Angola*, FSDEA) in 2016. Management of the farms was handed over to Cofergepo. The farms have encountered difficulties recently, leading to controversy regarding the quality of infrastructure and management.[191] According to Gesterra, the farms are being returned to this entity to prepare them for concession to private investors. In 2016, the government also handed over six state-owned farms to Angolan firms by direct adjudication through presidential decree.[192] Most irrigated perimeters are also underutilized due to: (a) lack of capacity of those receiving land to operationalize their investment, (b) poor planning (for example, perimeters installed in areas with little irrigation tradition like Cuando Cubango), (c) lack of basic infrastructure (such as electricity).[193]

The government is restructuring the SOEs present in agriculture:

- *Gestão de Terras Aráveis* (Gesterra): the main entity managing large and medium scale government farms has been given a new mandate to transfer such farms to private investors, and, moving forward, focus on building a cadaster of government agriculture land, and preparing land with basic infrastructure for agriculture for private investment.
- Four insolvent SOEs in the agriculture sector are being assessed to propose concrete actions for their future as part of a working group including the Ministry of Finance and the Ministry of Agriculture,[194] and of the government is closing down these companies:
  - *Sociedade de Desenvolvimento de Perímetros Irrigados*, state-owned company in charge of irrigation perimeters

- *Empresa Nacional de Mecanização Agrícola* (Mecanagro): founded in 2001 to support land preparation, and rural civil engineering works[195]
- *Empresa de Rebeneficiamento e Exportação de Café* (Cafangol): involved in processing and export of coffee
- *Sociedade de Desenvolvimento do Polo Agro-industrial de Capanda*: entity in charge of managing the large Capanda development pole in Malange province

The new policy orientation opens opportunities for private investment but requires careful implementation. Privatization or PPPs can be developed to ensure these investments are well managed, have the desired impact in boosting the agribusiness sector, and the government recovers its investment. Good practice principles for effective privatization and PPPs are summarized in chapter 3's "Opening Markets by Rethinking the Role of the State" section. Having a pipeline of good projects and a transparent and competitive process applies to both cases. In the case of PPPs, it is also necessary to carefully manage the fiscal risks and the long-term contracts. There is need for Gesterra to develop the capacity to fulfil its new role, while keeping in mind the lessons from large-scale agriculture investments (box 5.3).

ACTIONS NEEDED TO REALIZE INVESTMENT OPPORTUNITIES

Realizing the opportunities discussed above requires addressing the specific binding constraints for each of them. The preparation of this report identified concrete investment plans in the sector, both by Angolan and foreign investors. Many of these medium and large-scale investments would materialize if the current foreign exchange constraints are lifted, but their competitiveness will be hampered by the high cost of doing business in Angola, including high costs of energy, transport, and logistics. More dedicated efforts will be needed to overcome the challenges faced by small and medium producers and agribusinesses to help them access markets to ensure an inclusive and

BOX 5.3 LITERATURE AND LESSONS LEARNED IN AFRICA FROM LARGE-SCALE LAND INVESTMENTS

Large-scale farming systems can have a place as one of several options to promote sustainable agricultural and rural development, and can directly support smallholder productivity, for example, through out-grower programs. However, in large-scale land acquisition there often serious concerns about neglecting community land tenure and livelihood rights. Some questions have been raised about the extent to which such transactions can provide long-term benefits to local populations and contribute to poverty reduction and sustainable development. Too often, large-scale land investments have included a lack of consideration to land rights claimed by local people and weak consultation processes that have led to uncompensated loss of land rights and access to natural resources, especially by vulnerable groups; a limited capacity to assess a proposed project's technical and economic viability; and a limited capacity to assess or enforce environmental and social safeguards.

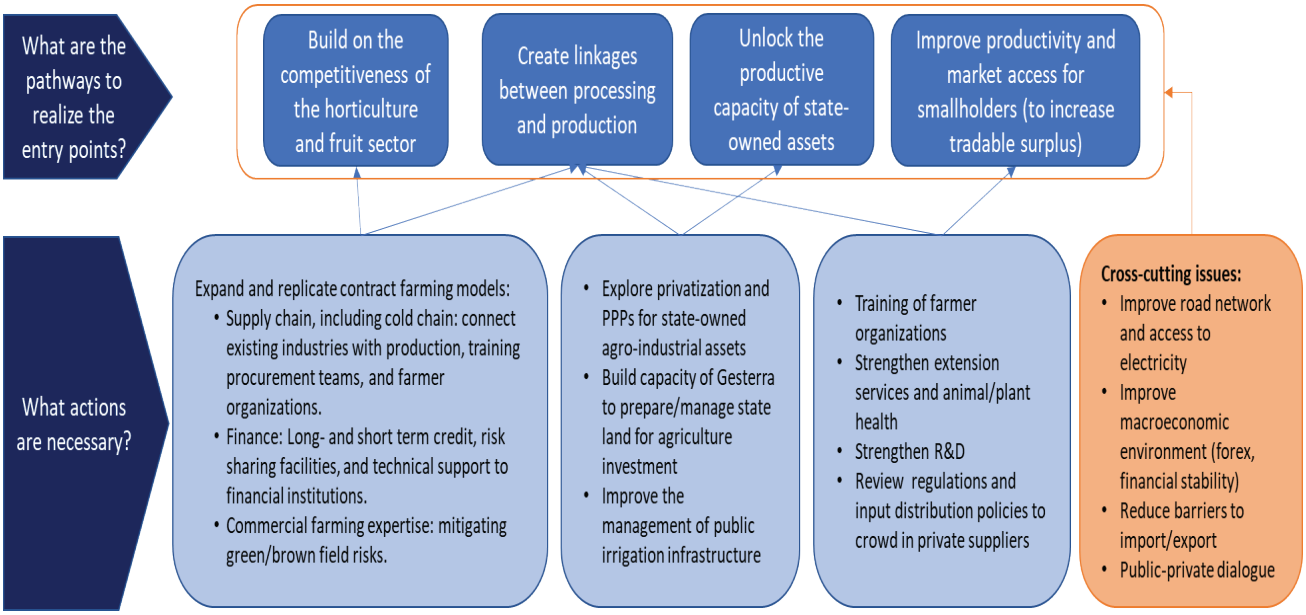
Such problems are not due to a lack of potential. Larger-scale farming can provide opportunities for poor countries with large agricultural sectors and ample endowments of land. To make the most of these opportunities, however, existing rights over land and associated natural resources need to be recognized and secured and good land governance systems need to be in place. Adopting an open and proactive approach to dealing with investors is also needed to ensure that investment contributes to broader development objectives. Access to a basic set of good information is essential for all stakeholders. As an example of good practices collected, it is important to highlight the Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI), endorsed by the Committee on World Food Security in 2014. These are linked to the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security.

Source: World Bank and UNCTAD. 2017; FAO. 2012.

sustainable development of the sector. Existing programs supported by the World Bank Group and other partners are helping address these challenges. Figure 5.8 illustrates the pathways and actions to realize the entry points described above.

In general, the government will need to strengthen its role of facilitator of private activity, focusing on providing a good regulatory environment and public goods for the sector. This includes a more coordinated approach to policy implementation that also engages private sector actors to ensure policies and programs are responsive to their needs.

FIGURE 5.8 ACTIONS NECESSARY TO REALIZE OPPORTUNITIES IN AGRIBUSINESS



ANNEX 5A

STATE-OWNED AGROINDUSTRIAL VENTURES AND INFRASTRUCTURE

TABLE 5A.1 STATE-OWNED AGROINDUSTRIAL VENTURES AND INFRASTRUCTURE

Project name and location	Size and crops	Responsible entity	Financing	Status
Capanda Agroindustrial Pole Cacuso and Cangalanda, Malange	411,000 ha Maize, soybean, sugar cane, cassava, beans, rice, horticulture, fruits, cattle, vegetable oil, production of concentrated feed	Managed by SODEPAC (IAPE 70%, IDA 15%, Gesterra 15%)	BNDES	30 projects installed, total investment of $1.2 billion providing 7,900 jobs196 Unclear status of SODEPAC, entity managing the Capanda Pole
Aldeia Nova Waku Kungo	Integrated project comprising 15 communities and processing facilities including egg/poultry, dairy, cattle.	GESTERRA, S.A., IDA e ISEP, 59% and Vitel Capital Fund 41%	Israel line of credit >$70 million	In production
Biocom Cacuso, Malange	42,000 ha Sugar cane and ethanol production	40% Odebrecth, 40% Cochan, 20% Sonangol	BNDES >$200 million investment	In production
Longa agroindustrial project Longa, Cuando Cubango	1,500 ha Rice production, warehousing for 9000 tons, processing with annual capacity for 15,000 tons	Transferred to FSDEA in 2016	China Development Bank $76 million	Partially in production197
Fazenda Pedras Negras Cacuso, Malanje	10,000 ha Maize, beans, soybeans Facilities for maize flour, oil, and animal feed production; soil and plant lab	Transferred to FSDEA in 2016	China Development Bank	Partially in production
Fazenda Agroindustrial Camacupa Bié	3,000 ha Maize, soybeans Acquaculture Maize flour factory	Transferred to FSDEA in 2016	China Development Bank	Partially in production Community issues regarding land expropriation
Sanza Pombo Agroindustrial Project Uige	9,000 ha Rice, maize, cattle, and coffee	Transferred to FSDEA in 2016	China Development Bank	Partial production of rice and cattle
Camaiangala Agroindustrial Development Project Camanongue, Moxico	5,000 ha Maize, soybeans Maize flour Pork	Transferred to FSDEA in 2016	China Development Bank $72 million	Partially in production 50 jobs198

Table continues next page

TABLE 5A.1 *(CONTINUED)*

Project name and location	Size and crops	Responsible entity	Financing	Status
Manquete agroindusrial project Cunene	2,000 ha Rice and maize Processing	N/A	China Development Bank $85 million	Paralyzed in 2017, set to be reactivated in 2018199
Agroindustrial farm of Cuimba Zaire	Maize, soybeans Eggs/poultry Feed mill	Transferred to FSDEA in 2016	China Development Bank	Partially in production. 170 jobs200
Quiminha Agroindustrial Project Icolo and Bengo, Luanda	Integrated project 900 ha of irrigated land for horticulture 64 farms of 50 ha each 300 3ha plots for smallholders plus area for egg production Logistics center Feed mill	Gesterra	Israeli line of credit $172 million	1,700 ha currently in production. Gesterra is planning allocation of land to mid-size producers Plans for similar projects in Cabinda, Lunda Sul, Cuanza Sul, Huambo
Agroindustrial Pole of Cubal Cubal, Benguela	2,600 ha Maize mill	N/A	Commercial bank line of credit	N/A.
Agroindustrial Pole of Quizenga Cacuso, Majange (Part of Capanda)	5,200 ha Maize, soybeans, bean, rice	Gesterra	Commercial bank line of credit	In production
Fazenda Pungo Andongo Cacuso, Malanje (Part of Capanda)	5,000 ha Maize, soybeans, beans and rice Maize mill, feed factory Silos	Gesterra	N/A	In production
Silos Caconda, Huíla , Caála, Huambo Malange, Cacuso, Catabola, Bié Catete, Bengo, Ganda, Benguela Sanza Pombo, Uíge	7 silos with total capacity to store 36,000 tons of cereals	Ministry of Agriculture	Commercial bank line of credit	N/A
Camabatela slaughterhouse	Slaughterhouse with capacity for 200/250 cattle/day	Ministry of Agriculture	Commercial bank line of credit	Partially in production, private management by Valagro Group201
Cuanza Sul slaughterhouse Porto Amboim, Cuanza Sul	Slaughterhouse with capacity of 528 animals/day	Ministry of Agriculture	Commercial bank line of credit	Built, but not in operation202
Matala Irrigated perimeter Matala, Huila	11,000 ha Storage and support infrastructure Tomato processing plant	Managed by Sociedade de Desenvolvimento local (Sodmat)	N.a.	Partially in production. Canal needs rehabilitation
Caxito Irrigated Perimeter Bengo	3,600 ha Fruits (bananas)	Managed by Caxito Rega	China Development Bank	In production
Irrigated perimeter of Ganjelas Huila	6,220 ha Citrics	To be privatized	China Development Bank	Partially in production

Table continues next page

TABLE 5A.1 (*CONTINUED*)

Project name and location	Size and crops	Responsible entity	Financing	Status
Irrigated perimeter of Luena Luena, Moxico	1,000 ha	Sociedade Gestora do Perímetro Irrigado	China Development Bank	Partially in production
Irrigated perimeter of Humpata Humpata, Huila	1,300 ha		China Development Bank	Partially in production
Irrigated perimeter of Mucosso Cambambe, Cuanza Norte	500 ha	SOPIR	Commercial bank line of credit	Partially in production
Irrigated perimeter of Missombo Menongue, Cuando Cubango	1,200 ha	SOPIR	$12 million	Abandoned203

06. TRANSPORT

OVERVIEW AND PROSPECTS FOR THE TRANSPORT SECTOR

The fundamentals of Angola's economy should support a dynamic transport sector. Angola's economy is among the largest and wealthiest in SSA while the country's geographical position should provide it with ample opportunities to be used as an international transport gateway by southern DRC and landlocked Zambia and Botswana, at a minimum. The country's medium to long haul transport domestic demand is hampered by Angola's low population density (20 people per square kilometers) and the always growing concentration of its population along its coastline (Luanda is home to one-quarter of Angola's total population).

Angola's logistics sector ranks below its regional peers both in terms of availability and efficiency. Its aggregated LPI (Logistics Performance Indicator) puts Angola 160 out of 167 countries.[204] The same is true for the quality of its air, port, rail and road infrastructure (139 out of 144 according to the WEF) despite the significance of the public investment realized in key transport infrastructure since the end of the war.

Current gaps in infrastructure, presence of 15 SOEs in the operations of key transport infrastructure, and poor logistics performance impede, rather than enable, the country's economic growth as well as its poverty alleviation agenda. These shortcomings result in high transport prices that weaken Angola's value proposition as a regional transport hub/gateway. These factors explain why its transport sector only accounted for 5.0 percent of GDP in 2017 compared with 9.9 percent for SSA.[205] Despite these issues it is estimated that around 150,000 people were employed by the transport sector in 2011.

Since peaking in 2014, the overall passengers and cargo volumes handled by Angola's transport sector have sharply declined (for example, activity in the port of Luanda decreased by 45 percent between 2014 and 2017). While overall demand seems to have stabilized as of late, future volumes growth will be linked to the robustness and sustainability of the nascent economic recovery in

addition to the transport needs generated by a fast-growing population[206] and Angola's ability to play its regional gateway role.

Angola's new government has indicated that the transport sector remains a high priority. However, to articulate its vision for its transport sector, the government needs urgently to update its existing 2011 *Plano Estrategico Nacional de Acessibilidades Mobilidade e Transporte* (PEANMT).[207] The same need exists when it comes to the government's economic reform agenda. The mobilization of private sector financing either through the outright sale of some transport SOEs assets or the award of concession contracts in support of the construction and operations of new transport infrastructure direly needs to be underpinned by a clear strategy and vision, including about how to address the existing lack of independent economic and technical regulations within the government as well as likely staff retrenchment issues.

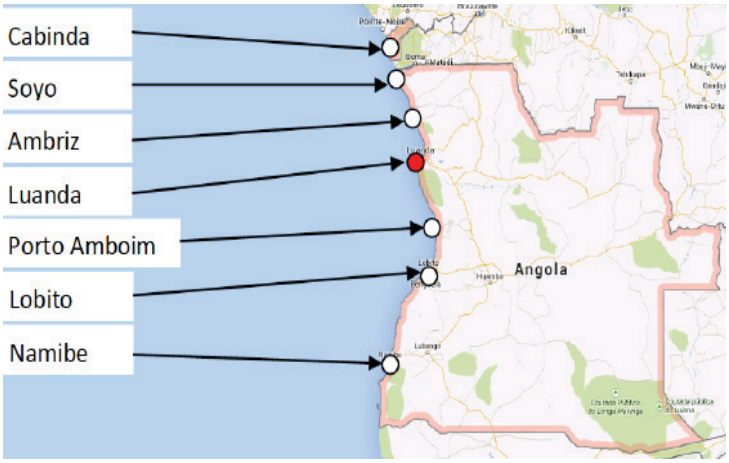
MARITIME TRANSPORT

CURRENT STATE OF SECTOR AND IMPACT

Angola's coastline stretches 1,600 kilometers and is served by numerous ports. The largest ports are Luanda, Lobito, Cabinda, Namibe and Soyo (see map 6.1). The port of Cabinda serves the Cabinda enclave region and is heavily tied to off shore petrol operations and handling, as is Soyo. The port of Namibe is the most important fishing port in the country, while Lobito is a historical port that once served as a direct gateway to DRC Katanga region's copper exports (using the Benguela railway).

Angola's port system handled 5.8 million tons in 2016, a two-thirds decrease in volumes compared to its peak volume of 2010 (see table 6.1). This substantial decrease not only reflects the impact on Angola's economy of the sharp contraction in

MAP 6.1 LOCATION OF ANGOLA'S MAIN PORTS



Source: Estudo Para o Plano Director Nacional dos Transportes, 2018.

TABLE 6.1 ANGOLA'S PORT SYSTEM CARGO VOLUME HANDLING

Year	Containerized	Break bulk (conventional)	Bulk cargo	Total
2008	6,270	1,301	2,783	10,654
2009	5,060	1,813	3,274	10,472
2010	8,799	2,085	3,064	14,072
2011	6,506	1,419	2,559	10,599
2012	6,664	2,327	2,619	11,610
2013	7,009	2,594	2,221	11,824
2014	7,738	2,032	2,002	11,773
2015	5,502	1,445	1,332	8,279
2016	3,704	751	1,281	5,735

Source: Estudo Para o Plano Director Nacional dos Transportes, 2018.

oil prices after 2014 but has likely been magnified by: (a) the associated collapse in government's large infrastructure projects financing, and (b) the quasi absence of regional import traffic which could have soften the collapse in domestic demand.

Within the country port system, Luanda occupies a dominant position with market shares of 78 percent and 83 percent of total cargo volumes and container volumes handled in 2015, respectively. Similar figures for Lobito, the nation's second busiest port, were 12 percent and 8 percent, respectively. Preliminary cargo traffic statistics obtained for Luanda port for 2017 indicate that freight volumes have resumed their growth with a year-on-year increase of nearly 10 percent. This first increase since 2014 still leaves Luanda's port traffic 45 percent below its last peak of 2014.

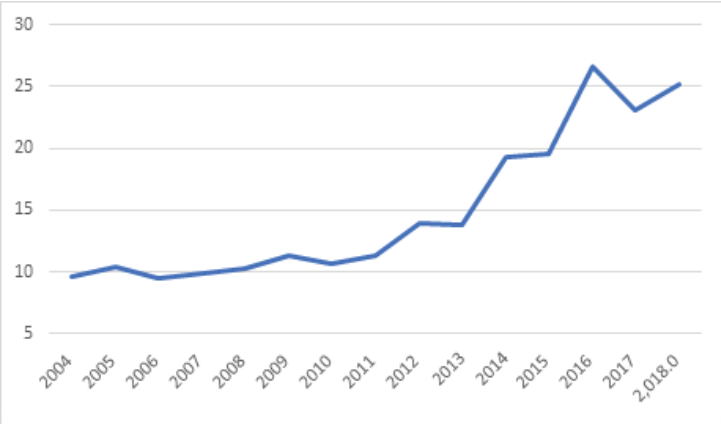
Angola does not have national shipping lines anymore. Two national companies, Angonave and Secil Maritima, still exist but do not operate or own any vessels and are in bankruptcy.[208] Consequently, the nation's shipping market is dominated by three major regional players: Maersk (which also operates the Sogester terminal), MSC, and CMA.[209] As in other West African's markets, the concentration of shipping lines could be an issue. Yet the Angolan market is simply too small to justify additional calling routes to/from the country, and fortunately, Angola fares well in the Liner Shipping Connectivity Index. This index which measures the strength of supply serving a country's ports ranks Angola as 65th in the World, well ahead of Nigeria (74th) despite that country's status as the largest SSA economy. Additionally, Angola's performance has been improving overtime (see figure 6.1). Nevertheless, it continues to be ranked behind Congo and Cameroon, two central African countries that have successfully taken advantage of their potential transport gateway role to adjacent landlocked countries.

The Angola port system operates on a landlord model.[210] All ports activities are under the direct supervision of Ministry of Transport (*Secretário de Estado para os sectores da Aviação Civil, Marítimo e Portuário*). The *Instituto Maritimo e Portuario de Angola* under the Ministry of Transport regulates all activities related to shipping and ports activities.

LUANDA PORT. EPL (Porto de Luanda EP, Luanda Port Authority) oversees the port activities. Port operations are split among five private/public operators:

- Sogester, a joint venture between APMT (Maersk) and GEFI (*Sociedade de Gestao e Participacaoes Financieras*) was awarded a 20-year concession in 2005 to manage a dedicated container terminal. The volume of imports handled by Sogester is about 100,000 TEUS. The draft is 10/11 meters.
- Unicargas, a SOE with minority shareholding of NDS (Nile Dutch Shipping Line) manages a container and RORO terminal (that is, for vehicles shipping). The concession was awarded in 2005 for 20 years. The terminal accounts for about 50,000 TEUs of imports. The draft is 10 meters. The quay is in a very bad state and could not stand the weight of new shore cranes.
- Soportos SA, under private Angolan ownership, manages the 5M terminal, a multipurpose terminal. Draft is 12.5 meters. The terminal handles an estimated 100,000 TEUs. The concession was awarded in 2005 for 20 years.

FIGURE 6.1 ANGOLA LINER SHIPPING CONNECTIVITY INDEX



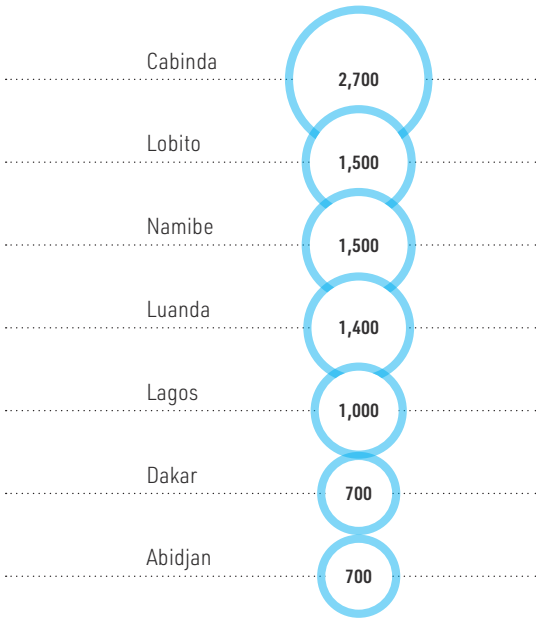
Source: UNCTAD Liner Shipping Connectivity Index.
Note: The index is generated from five components: the number of ships, the total annual container-carrying capacity of those ships, the maximum vessel size, the number of services, and the number of companies that deploy container ships on services from and to a country's ports.

- Multiterminais, is a shareholding between NDS Lda, Nile Dutch B.V., and Copinol. It manages the general cargo terminal. The concession was granted in 2005 by former president for 20 years. In 2017, Multiterminais handled 612,000 tons.[211]
- Sonils, a full subsidiary of Sonangol, operates the oil terminal.

CABINDA PORT. There are now two ports in Cabinda. In the old commercial port, managed by a public company, stevedoring is for now done on floating pontoons. All vessels incur long waiting time that can go up to 20 days. Some shipping lines have stopped calling in Cabinda and thus sea freight rate is extremely expensive (see figure 6.2). The port is currently undergoing improvements—a 300-meter quay that has already been built. The breakwater is being built by Mota Engil with Chinese funding. Construction is currently held up because Mota Engil is waiting for a dredge. Completion is expected at the end of 2019.

A large project for a deep-sea port in Cabinda, Porto Caio is being considered. According to experts, the project looks problematic as currently designed from an economic sustainability perspective due to draft and dredging issues, and also oversizing. This project was initially sponsored by the FDSEA and Quantum Investment and being built by a Chinese EPC using Chinese EXIM financing. Because of legal issues facing the project's public sponsors (Quantum and FDSEA), construction has stopped.

FIGURE 6.2 SEA FREIGHT RATES FROM LE HAVRE TO VARIOUS AFRICAN PORTS , 2018 (€ PER 20-FOOT EQUIVALENT UNITS)



Under these conditions it is difficult to see whether the project would be of interest to a private investor in the context of a PPP, unless the infrastructure already built can be used as is, as further investments do not seem to be commercially viable. Besides, it would seem more attractive to finalize the works in the old port and operate it privately.

Lobito Port was built with Chinese support but is not fully operational. Shore cranes are not working, stevedoring is done by vessels cranes with a low productivity of 12 moves per hour per vessel. The bulk terminal is not linked to the rail in Lobito. The port is currently operated by the Port of Lobito, an SOE. Concessions for the bulk and container terminals were under preparation but have been suspended.

Namibe port is a small port in the South of Angola. With no large economic activities (except exports of granite) around, the port handles small volumes. Namibe port may be see it use increase in the future for fish and mining exports. The terminal is under Sogester concession but operating poorly due to lack of equipment.[212]

Porto do Dande. Located 50 kilometers north of Luanda, this deep-water port project was run by Atlantic Venture. The decree signed by the former government approving the Barra do Dande port project and awarded for $1.5 billion was recently revoked.[213] At present, moving forward with this project does not seem to be economically viable

Ports financial and operational performance: Several operators are involved in the management of terminals, some owned by state-controlled companies. The presence of Nile Dutch Shipping (NDS) both on the liner side and the terminals side (participation in Mutiterminais and Unicargas) is also notable. NDS is a historical player in Angolan market calling Angola since the eighties when no

shipping line was ready to step in the Angolan difficult war situation. A shown in Table 6, public companies that either act as landlord port operator (EP Luanda and EP Lobito) or cargo handler (UNICARGAS) were loss-making and heavily indebted as of 2016 (table 6.2).

Shippers experiments long container dwell times, with an average of more than 12 days according to shippers interviewed for this report. These dwell times are induced by a variety of factors: congestion at the port, time needed to clear the cargo, lack of trucks to evacuate cargo, and road and rail bottlenecks into the country that force port space to be used for storage. By West African standards, average dwell times in Luanda is comparable, albeit on the high side, suggesting scope for improvements: for instance, the dwell time in Dakar is 13 days, 11 days at the Port of Abidjan, and 9 days at the Port of Lomé.[214]

Inland container depots (ICD) have been built in all ports to alleviate container congestion, especially in relation to empty and or export containers. These ICDs are operated mostly by stevedores (Sogester Panguila terminal,[215] Soportos Mulemba terminal) and private operators (Fayol Logistica, Rangel Multiparques, SantiBraga).

According to stakeholders interviewed, the stevedoring productivity of Angolan's ports is low. This seems due to aging handling equipment, insufficient storage and administrative constrains. However, Soportos and Sogester stevedoring companies average a performance of 45mvts/hour/vessel that is similar to regional standards, including those achieved at Abidjan's container port terminal.

Angola is an expensive sea freight destination. Figure 6.2 shows the average sea freight cost per TEU from Le Havre, France to various port in Africa. Freight from Le Havre to Abidjan, Côte d'Ivoire or Dakar, Senegal is 50 percent less expensive; freight to Lagos is one-third less expensive. Volumes in Luanda are in the same range as Abidjan and Dakar, for instance, so economies of scale cannot explain these cost differences. This might be explained on the other hand by less competition from alternative corridors (Lagos for instance competes with Cotonou), the fact that local charges are high, low stevedoring productivities, unformal commercial agreement between shipping lines and other factors, or country risk surcharges and readiness of market to pay these prices.[216] Transshipment costs are also high: to place an empty unit from Luanda to Namibe costs $450, to which slot costs must be added.[217] The shippers association (*Conselho Nacional de Carregadores Angola*) had a project of an ocean freight exchange but nothing has been implemented and experiences of that type in other countries never proved very successful.

CONSTRAINTS

The port of Luanda is facing a few operational constraints that limit its efficiency, notably the development of its container traffic due to congestion. Limits imposed by the port's maximum draft result in bigger vessels calling at Pointe Noire. Additionally, Sonils control of 50 percent of the port area preclude optimal use of its space. Lastly, the presence of gas terminal and depots at the port, for historical reasons linked to wartimes needs, is neither optimal nor desirable.

A second set of issues relates to the management of the port and its terminals which does not follow best industry practices. The operation of two container terminals under different management does not encourage operational efficiency gains while

TABLE 6.2 FINANCIAL RESULTS OF PORTS SOES, 2016 (US$)

	Assets	Turnover	OpsResults	Total Liabilities
EPLuanda	127,982,547	47,112,644	−3,737,167	55,823,500
EPLobito	150,422,619	21,186,073	−8,563,726	52,672,473
UNICARGAS	60,008,863	16,885,640	−6,870,609	42,067,860

Source: Angolan government.

preventing the achievement of economies of scale, which could translate into lower stevedoring tariffs, assuming adequate tariff regulation is enacted. The secondary ports, Cabinda and Lobito, are not functioning properly. The Lobito terminal is not operational, nor is the railway that connects to it.

Looking more broadly at the sector, Presidential Decree of February 25, 2016 on ownership of shipping agencies imposing a 51 percent Angolan ownership could also be a limiting factor to further private sector involvement if still in force. It is unclear whether the new law on private investment adopted this year has abrogated this Article.

Macroeconomic issues affect the port sector as in other sectors. The difficulties with the repatriation of earnings is a deterrent for prospective investors, and access to FOREX limits equipment purchases.

OPPORTUNITIES

The consensus among the Angolan shipping community seems to be that there is no need to build a new greenfield port. Rather, the potential of Luanda and Lobito (both on quay side and land side) ports should be maximized.[218] If EPL or the Ministry of Transport are not in position to finance the building/upgrade of key infrastructure at Luanda and other ports (there are needs to rebuild quays and dredging in the port of Luanda), BOT schemes could be explored.

Private sector's involvement could also take the form of an increased private participation in port stevedoring activities (containers, bulk, conventional cargo) in the ports of Luanda, Cabinda, Lobito and Namibe. Likewise, the consolidation of Unicargas (neighboring Sogester) and Sogester activities under a single structure could deliver much needed economies of scale.

In Luanda, transfer of some of Sonils activity elsewhere (Soyo, Amboim or Dande where its core business and customers are) could free needed space to decongest container handling activities. In Lobito port terminals issues could be addressed if demand to East Angola, DRC, and Zambia can be secured through completion of works of the CFB regional rail connection.

Inland logistics platforms could also be attractive to the private sector. A platform at the border of DRC in Luau for example could complement both CFB and Lobito port activities by targeting transit freight to neighboring countries.

Regarding the situation in Cabinda (old port and Porto Caio), the economically feasible option would seem to complete the upgrade of the old port and then concession it.

AIR TRANSPORT

CURRENT STATE OF AIR SECTOR AND IMPACT

The sector is heavily dominated by public companies. The National Company of Airport Development and Air Navigation (ENANA) manages the country's civilian airports while GHASSIST, another public company, has the monopoly of airport handling activities at Luanda's *4 Feveiro* international airport.

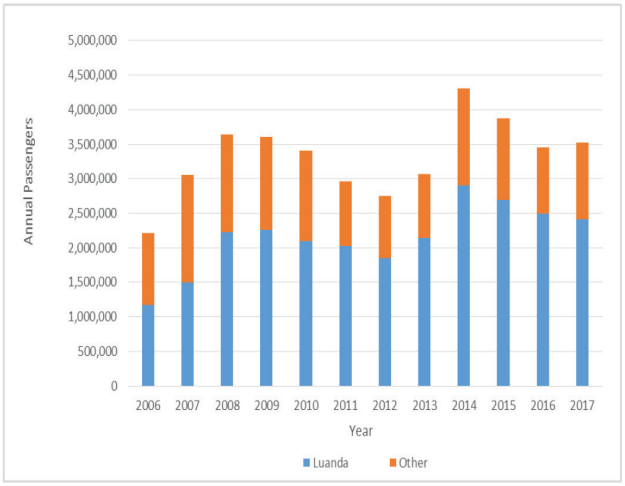
Angola's airport system is made of 28 international, regional, and domestic airports. Passenger traffic at these airports has declined from a peak of nearly 4.3 million passengers in 2014 to 3.5 million passengers in 2017 (19 percent—see figure 6.3). Luanda accounts for 68 percent of that total.

The drop in total cargo volumes handled has been far more severe with 2017 recorded total less than half of their previous 2008 peak (figure 6.4).

Secondary airports in the country, in Catumbela (Benguela), Cabinda[219] and Lubango offer regular domestic and regional international flights. Of the 30 airports located throughout the country, 17 have been rehabilitated, though only 12 of these receive regular commercial flights from the national air carrier Transportes Aéreos de Angola (TAAG) and SONAIR.

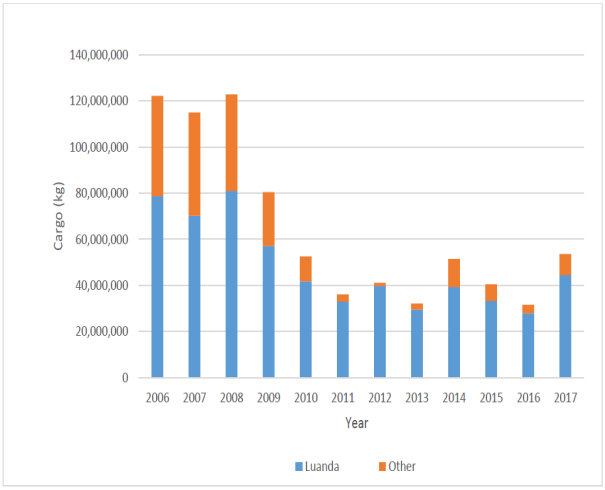
Angola's government-owned airline *Transportes Aéreos de Angola* (TAAG) operates under the jurisdiction of the Ministry of Transportation. TAAG services 12 domestic, 10 regional, and six inter-continental destinations and has co-share agreements with Lufthansa, Emirates, Royal Air Maroc, Air Namibia, Brussels Airlines, Kenya Airway, Air France, British Airways, and South African Airways. British Airways recently suspended its flights to

FIGURE 6.3 AIRPORT SYSTEM PASSENGER TRAFFIC



Source: Estudo Para o Plano Director Nacional dos Transportes, 2018.

FIGURE 6.4 AIRPORT SYSTEM CARGO TRAFFIC



Source: Estudo Para o Plano Director Nacional dos Transportes, 2018

Angola because these are not commercially viable.[220] A 10-year management contract with the Emirates Group signed in September 2014 was ended by Emirates in July 2017 because of the impossibility of reaching an agreement on the repatriation of earnings. Emirates also cut the number of its flights from five to three weekly.[221] Recently however, Emirates announced its intention to add more flights to Luanda.[222]

TAAG's financial standing is weak. A quick analysis of summary of accounts provided by the government shows that the airline has cumulated losses of approximately $590 million with operational losses of $45 and $19 million in 2015 and 2016, respectively. By the end of 2016, the airline balance sheet was laden with $170 million of debts and $323 million of other liabilities, suggesting a need for recapitalization. TAAG's fleet is made of 13 Boeing aircraft.[223] It employed 3,268 full-time equivalent employees at the end of 2016, resulting in a number of employees per aircraft then at least twice as high as industry standards (Kenya Airways headcount is about 4,000 employees for 40 aircraft). On September 20, 2018, the government approved a change in the legal structure of TAAG and the replacement of the board to facilitate the participation of future private sector operators into the airline through PPP or privatization. It is unlikely, however, that such measure will suffice to make the airline attractive to potential investors without the government agreeing first to painful cuts both in its employment structure and route network.

TABLE 6.3 PUBLISHED ECONOMY-CLASS AIRFARE FROM LISBON TO LUANDA

Company	Cost (€)
TAAG	2,333
TAP	2,303
RAM	1,483
KLM	1,446

The other public owned airline is SONAIR, a 100 percent subsidiary of SONANGOL serving mostly oil business inside Angola. SONAIR ended its Luanda/Houston service in March 2018. SONAIR operates two Boeing 737-700, 13 Beechcraft 1900, and 27 helicopters. The 737-200 serve Cabinda, Catumbela, Soyo, Lubango, with 24 calls per week.

A review of published air fares suggests that a lack of competition on routes to/from Angola as well as the negative impact of associated high airport service charges levied by ENAMA and GHASSIT. These high airfares likely curtail potential passengers and cargo demand growth. Table 6.3 shows

almost similar prices both on direct flights and connecting flights (Casablanca or Amsterdam) to/from Lisbon to/from Luanda. A ticket with similar restrictions from Lisbon to Dakar on TAP is priced only €620 while one from Lisbon to Johannesburg also on TAP is €736. More interestingly, Air France economy fare from Paris to Libreville for a direct flight, a comparable route in terms of distance, yet an even less competitive air market, is priced at €1,981, or 15 percent less.

CONSTRAINTS/GAPS

The previous government started the construction of a new airport (NAIL New International Airport of Luanda) as part of a vision of dramatically increase the country's international air transport capacity. Envisioned as a major transportation hub for the region, and also supported by TAAG as part of its development plans, the airport is designed to accommodate annually 13 million passengers (compared to a peak demand of 2.9 million passengers achieved in 2014) annually with 12 aircraft jet bridges.

The new airport two runways, VIP passenger terminal and air traffic control tower are reportedly completed[224] while construction remains underway for the main passenger terminals and associated roadways and technical buildings. Total published cost at the start of project was $3.8 billion. This figure seems to have risen dramatically however. While the airport completion date was anticipated for the end of 2018, it seems to have been pushed back to as late as 2022 due to the inability of the government to foot the remaining bill. This might explain why Angola's current president has indicated publicly the government's intention to find a private partner to take over the project. Currently the airport work is led by a consortium made of Chinese companies (China provided the financing), with the Brazilian company Odebrecht as the main contractor.Plans also exist to widen the access road and establish a new rail link to the new airport from Luanda but nothing has been done yet.

Airlines and other private companies consulted questioned the need for this new airport. They also expressed concerns about the overall the quality of the project works and the adequacy of its design. Such concerns will loom large in any future discussions between a private operator/sponsor and the government since the cost of operating such a large airport at only 20 percent of its designed capacity (2.4 million pax current demand versus 13 million pax capacity) will be prohibitive. Additionally, the thorny issue of the future of the current airport will need to be resolved, since passenger demand to Luanda cannot justify the parallel operations of both airports. Likewise, the traffic downside risk as well the payment collection risk related to TAAG weak financial situation will further contribute to a difficult PPP dialogue, including if the government were to choose to first privatize the current airport. Lastly, one can expect serious overemployment issues to have to be tackled effectively by the government to make any airport PPP feasible.

OPPORTUNITIES, AND WHAT IS NEEDED TO DEVELOP POTENTIAL

Angola's expected return to economic growth, combined with a growing middle class, should sustain a long-term increase in passenger and cargo demands at the country's main airports. The management of airport infrastructure and services, currently under public management, could therefore be transferred to private sector operators, as is commonly the case in other countries, via outright privatization or PPPs.

While this report did not gather enough information to make a final assessment, there are serious questions about the economic viability of operating the new airport, including under a PPP agreement, provided that the infrastructure is ready and adequate. As a greenfield project, there would be fewer legacy issues to manage, and the new operation could be designed to the standards desired by a new international-level operator; however, this is counterbalanced by the costs of operating an oversized infrastructure relative to actual and future demand. Also, given the high investment costs of the building, the issue of how the debt would be serviced and whether a share of operational revenues should go toward it will be central to the design of a future PPP arrangement.

Meanwhile, the operations of the current airport could be improved to augment its capacity. The concession of services rendered by ENANA and GHASSIST could also be considered within that framework since the quality and cost of their services require much improvement.

All these PPP opportunities will be directly affected, however, by the future of TAAG. As it stands TAAG is one of the largest obstacle/risk parameter to any airport PPP's agenda. The government will not be able to escape from the need to make the airline a financially viable airport development partner if it intends to raise significant funds from private sponsors.

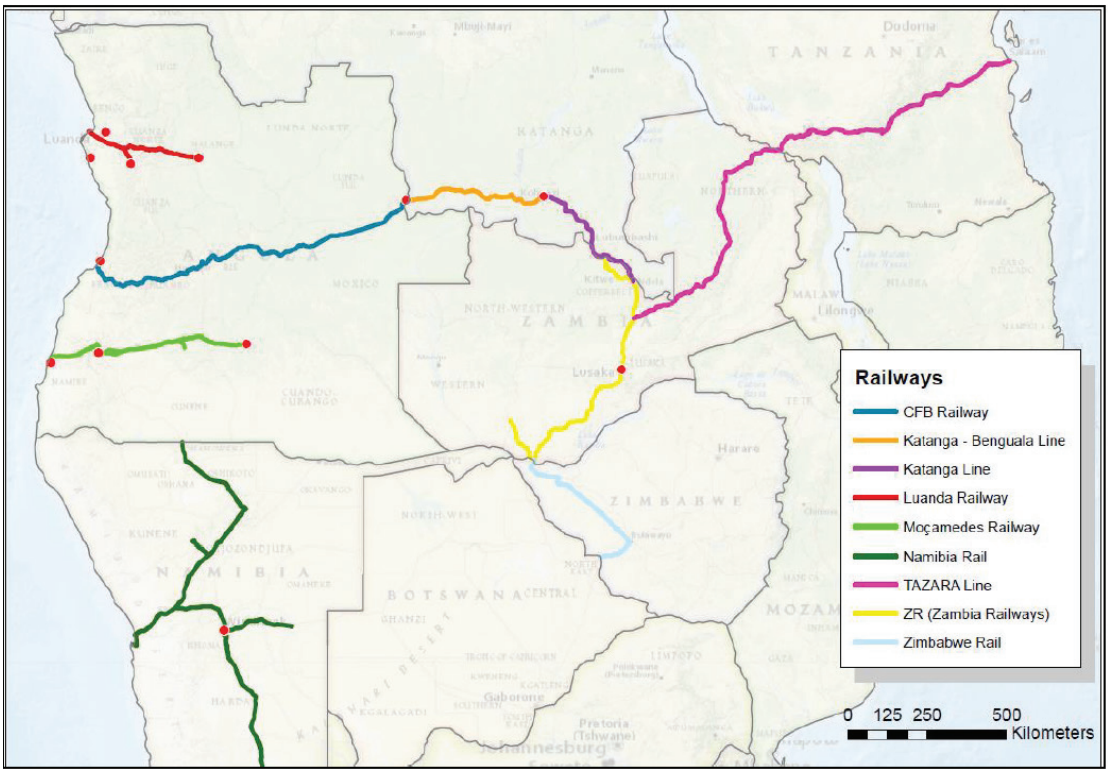
RAILWAYS

CURRENT STATE OF SECTOR AND IMPACT

The Angolan government operates three separate railroad lines—Luanda, Benguela and Moçamedes—each with their own administrator reporting to the Ministry of Transportation. The Angola National Institute of Railroad (INFCA) establishes the regulations and standards for the railroad operations and holds enforcement authority. The government-owned railroad companies are responsible for railroad operations and maintenance.

The CFL Luanda line runs 425 kilometers northeast from Luanda to Malange (see map 6.2). The CFB Benguela line known as the "Lobito Corridor" runs 1,344 kilometers from the Lobito Port east to Luau on the Democratic Republic of Congo border, where a dry port and logistics center are planned. The Benguela rail renovation, completed in 2014, was financed using public funds provided through a public Chinese loan with construction works awarded to the China Railway Construction Company. These rail lines are designed to connect Democratic Republic of Congo and Zambia to provide them with closer ocean port access. The African Development Bank is currently funding a feasibility study to build the rail line connect-

MAP 6.2 ANGOLA'S EXISTING RAIL NETWORKS—A REGIONAL PERSPECTIVE



Source: Estudo Para o Plano Director Nacional dos Transportes, 2018.

TABLE 6.4 FINANCIAL PERFORMANCE OF RAILWAYS, 2016 (US$)

	Assets	Turnover	OpsResults	Total Liabilities
CFB	95,596,162	9,619,456	-2,871,490	15,215,575
CFL	86,623,224	10,701,830	-910,825	40,166,965
CFM	74,122,712	10,908,616	-182,452	28,185,954

Source: Angolan government.

ing Zambia and Angola and link to the Benguela line.[225] The CFM southern Moçamedes line, at 857 kilometers long, connects Namibe to Menongue.

All these three lines have recurrent losses. They carry mostly passengers and cargo only on demand with no clear market prospects for an upswing in bankable demand.

CONSTRAINTS/GAPS

The overall situation of the rail sector is not good. The three rail public companies are not able to cover their direct costs, even less pay for the maintenance of their rail infrastructure or invest in the acquisition of new rolling stock or modernize their traffic management systems. The fact that there is not a single management for all three of them further compound an economically unsustainable proposition.

To link directly the rail Lobito corridor to Zambia (without transiting through DRC—see map 6.2), additional rail infrastructure investments on both sides of the border would need to occur. The link from Luacano to the Angola / Zambia border town of Jimpy would require the construction of 270 kilometers of lines. Additionally, on the Zambian side, the section from Jimpy to Luwamana, where the Zambian Railways currently stops is 140 kilometers long, meaning that altogether, if the two governments were to agree on this route, 410 kilometers of new rail line would need to be built at a likely cost far exceeding $1 billion. Since both governments are in dire fiscal situation, such project does not appear to be viable for now.

The current capacity on the existing Lobito corridor line to DRC is only 40 20-foot containers per train, and there are only four trains per week (compared to 10 per day before 1975). The railway connects to the Democratic Republic of Congo through the Luau-Dilolo border. However, the section of the railway between Dilolo and Kolwezi (420 kilometers) is not operational on the DRC side (see map 6.2). The commercial viability of the CFB line also depends on operations in the Lobito Port, which is currently not ready to accommodate rail cargo (missing rail line to the port's quays). There is also strong competition from other regional corridors and modes of transport. The other regional routes used right now to serve DRC and Zambia's copper belts are improving in terms of quality: Dar es Salam in Tanzania, Beira in Mozambique, Walvis Bay in Namibia, and Durban in South Africa.

OPPORTUNITIES

The biggest potential and interest from private investors lies in the CFB,[226] which is the shortest sea link to the resource rich and populated Katanga region in DRC, and to the Copper Belt provinces of Zambia and DRC. Connecting the CFB to the Zambian network could potentially open the doors to the SADC market, yet such project would be costly and unlikely to be underwritten by both countries' treasuries in the short to medium term.

Accordingly, the greatest hope for some sort of PPP lies with the existing CFB rail corridor. For example, manganese from Kisengue (DRC) started to be transported on the rail corridor recently and in September 2018 a first trial to transport of copper cathodes from the Mutanda mine operated by Glencore with 10 carriages of each 40 metric tons between Luau and Lobito was done.[227] In addition to proven mining demand, the rail corridor could be used to transport commodities from Lobito to the provinces of Moxico, Lunda Norte and Lunda Sul which is served right now by road

from Luanda (the rail corridor catchment area[228] contains 40 percent of Angola's total population). To realize these opportunities, the government will need, however, to complete/correct recent upgrade works done on the rail corridor to address issues such as obsolete traffic management system and narrow rail line curves, which not only limit the rail capacity but also make any possibility of promoting an open access regime that would enable private rail operators to invest in their own train sets. Estimated cost for this catch-up investment is in the vicinity of $200/300 million.

The potential on other rail lines seems much more limited. There is currently no cargo being transported on the CFL Luanda line and there is little demand currently in the private sector. An inland container depot (ICD) in Malange could eventually attract rail cargo, but prospects seem uncertain. On CFM Mocamedes, only granite is currently transported and exported via Namibe. The exploitation of iron mines (Cassinga and Jamba) and possibly freight originating from the iron factory in Cuchi could create additional demand. There is no need right now to expand the network, the government's focus should be on expanding the use of the actual network and reducing the need for public subsidies associated with it, including through a reduction of current overemployment.

TRUCKING AND LOGISTICS

CURRENT STATE OF SECTOR AND IMPACT

Only 24 percent of classified and urban roads are paved. Despite considerable progress in improving the main road network, the road density and connectivity in the provinces outside of Luanda and rural areas are poor. Angola scores 2.3 in quality of roads infrastructure in the Global Competitiveness Index (GCI), well below the LMIC and SSA average (3.3).

A road fund (*Fundo Rodoviario*) was created in 2015 that covers only a small part of the total network and relies mostly on transfers from the state budget.[229] As a result, some recently rehabilitated major road assets are already deteriorating. According to interviews conducted in Angola, the construction of roads was not always of good quality, which contributes to accelerated deterioration. For instance, the corridor to Namibia is becoming difficult. Several operators met in the preparation of the report mentioned that imports coming from Namibia were becoming very difficult (the bad state of the road being compounded by difficulties at the border) and one of them had to stop importations of fresh fruits from South Africa serving supermarkets in Huambo. INEA *(Insituto de Estradas de Angola*) is the government agency in charge of the maintenance of roads under the authority of *Ministério da Construção e Obras Públicas*. There are only two weighing bridges in operation in the country (with 19 scheduled) which can be linked to the deterioration of the network.

Regional road corridors are underdeveloped. This constrains regional trade with surrounding countries and limits Angola's role as a transport hub for surrounding (landlocked) countries and the SADC region. The main corridors identified with activity and potential are (with approximate distance):

a. **LOBITO–LUENA–LUAU LOBITO CORRIDOR** (route to DRC and Zambia): 1,200 kilometers
b. **LOBITO–LUBANGO** (toward Namibia): 390 kilometers
c. **NAMIBE–LUBANGO–MENONGUE:** 700 kilometers
d. **LUANDA–MALANJE–LUCAPA:** 1,100 kilometers
e. **LUANDA–LUFU** (in DRC) (Northern route to DRC): 580 kilometers
f. **LUBANGO–ONDJIVA** (route to Namibia and S.A): 382 kilometers

There is a well-developed road transport logistics sector in Angola, especially by Sub-Saharan Africa standards. The sector grew alongside the growth in imports and the development of the retail sector. Companies present in the import/retail segment such as Sanzi, Noble/Newaco Group, Angomart, Angoalissar, Kero, Zahara, Contidis, and Shoprite, as well as large companies in the food and beverage sector all rely on modern fleet of trucks, including specialized logistics equipment such as refrigerated trucks and modern storage facilities (including dedicated storage for pharmaceuticals or frozen goods). Some of these companies use

own-account transport (for instance, one of the large importers, who also operates supermarkets throughout the country operates a fleet of 108 trucks). Leading agribusiness companies also use own-account transport.

Among the major truck operators in Angola, *Logística e Transportes Integrado*, with over 500 trucks,[230] is among the largest to operate in the country are among the largest to operate in the country. *Soportos* are among the largest to operate in the country.

Finally, as noted in "Maritime Transport" section in this chapter, ICD operators include private and foreign-owned operators such as Rangel (Portugal).

CONSTRAINTS/GAPS

Beyond the obvious problem caused by the degrading state of the roads, the road transport sector faces the challenge of relative fragmentation of the supply. Many companies still opt for own-account operations rather than subcontracting, meaning that capital and other resources are mobilized instead of being used to support core business operations. There is a missing transport market even though there is capacity to supply modern transport and logistics services. While further and more detailed analysis would be required to understand how this could be addressed, suggestions have been made to set up a freight exchange under the tutelage of the shippers' council (DAR 2018). This could be an interesting proposition to bring transparency in the market and help supply meet its demand, but there are also risks associated with such institutional arrangements being used as market sharing tools.

Haulage companies face differences in the application of regulations is in the facts depending on the regions. The activity of trucking is depending on various state entities and bodies. A consolidation of laws and regulating bodies would be necessary. There is also a lack of knowledge of transport regulations from the authorities on the roads. Another constraint is that a transport license is required for every truck in a fleet. There could be a transport license for fleets or operators of trucking companies instead of having one per truck. It would also be desirable to have one government body only in charge of trucking.

OPPORTUNITIES

Opportunities to develop the road transport sector rest essentially in the capacity of the government to unlock the door to neighboring markets. Of the important road links cited earlier, two links would appear as priorities: the Lobito-Luena-Luau corridor, which serves DRC, and the Lubango-Ondjiva, the route to Namibia and South Africa. In the latter case, the corridor would enable in the first instance easier access to imported products from Angola's two southern neighbors. Improvements on clearance at the border would need to be made as well. For the Lobito-Luau corridor, there have been signs that DRC could become a potential export market for some Angolan products such as construction materials and beverages.

Potential to develop road transport infrastructure and services along these corridors was confirmed in interviews with private operators, who have highlighted four locations where building logistics facilities would generate potential interest:

- Santa Clara at the Namibian border
- Luau at RDC border (East)
- Lufu RDC border (North)
- Lombe in Malange

Three of these locations are on corridors and next to border and would thus contribute to improving regional connectivity. Recently, for instance, there has been an active market around Lufu, triggered in part by exports (since banned) of cement from Angola and the search for foreign currency. While these trade flows may have been an epiphenomenon, they indicate demand potential that could eventually be met by the Angolan private sector. The needs in these locations would include building facilities in border towns with RDC and Namibia, aligning transport regulations with SADC countries, including stricter controls of truck conditions and utilization (to avoid overloading).

CONCLUSIONS

Maritime and air transports are the sectors that have the most incidence on Angola's capacity to attract private investments. Like many other countries Angola is dependent on a smooth and

affordable access to world markets for goods, but also in the case of Angola for foreign expertise.

Immediate private sector involvement opportunities are relatively well-aligned with impactful ones. They should target in the short term the privatization of transport brownfield assets and the associated restructuring of the SOEs linked to them. Such reform will not come easy for the government when it comes to the political economy surrounding SOEs, including its social cost (such as a reduction in SOE overemployment), however. When devising its transport PPP agenda, the government will need to carefully weigh the pros and cons of each option while keeping in mind that private investors have limited appetite and patience for unrealistic PPP scheme that do not allocate risks evenly between public and private sectors.

In the port sector, the government should concentrate its attention on reforming Luanda Port (where most of Angola's trade takes place) as well as the Cabinda Port once upgrade works there are completed. Stevedoring activities could be availed to private operators in lieu of existing SOEs with the goal of delivering improved productivity and offer more attractive prices. Beyond this, the government should consider a new master plan for Luanda port that would make more efficient use of the available stevedoring and storage space (by moving away Sonil's activities) to bolster the port's general cargo handling capacity.

The question of the future of TAAG should also be addressed as the airline's fate will have a disproportionate impact on the ability of the government to raise private financing for its airport sector. Information gathered strongly suggests that TAAG will need to be at a minimum restructured before considering its economic future. SONAIR's activities should also be reviewed to ascertain its economic viability as a public enterprise.

Airport operations should be able to attract private operators and investors who would be able to optimize the use of airport infrastructure and run airport associated services on a competitive basis. The dimensions of Luanda's new international airport could however make it difficult to operate at profit while it is unclear how much of it is left to be built before it starts operations.

The Lobito Port and operations of CFB will depend on whether public investments to connect with DRC and Zambia can happen. These investments could private sector participation the rail corridor in the form of train and infrastructure operators rather than infrastructure investors.

Finally, regional road corridors connecting Angola to neighboring countries should be prioritized by the government because of the positive trade spillovers they could create. Improved regulation and enforcement of regulation on road transport and management of border facilities will have to accompany this and private sector participation in logistics facilities in border towns seems a possibility.

APPENDIXES

APPENDIX A

ANALYTICAL APPROACH OF THE COUNTRY PRIVATE SECTOR DIAGNOSTIC

The Angola CPSD follows a comprehensive and structured approach applying the CPSD methodology; it follows two essential steps: a sector and constraint scan, with emphasis on six enabling sectors (energy, transport, ICT, education, health and finance), followed by two to three sector deep dives on some of the priority sectors.[231] In practice, this entails a thorough and comprehensive: (a) review of cross-cutting constraints that undermine the ability of the private sector to make its full developmental impact, and (b) analysis of productive sectors whose growth will have significant developmental impact and whose constraints that can be addressed in the short-term (three to five years). The emphasis of the CPSD is an assessment of constraints and opportunities through a private sector lens which result in concrete recommendations for reforms and other interventions laying out a clear path for the development of implementation action plans combining public interventions and new private sector investments. This phase will follow the diagnostic element of the CPSD.

The sector and constraints scan diagnostic proposed under this note was conducted through the concurrent: (a) review of the literature on sectors and cross-cutting constraints facing Angola, (b) data analysis and scoring of feasibility and impact at the constraint and sector level, (c) discussion on a broad set of interviews with the private sector, the Angolan authorities, as well as World Bank and IFC experts, and other stakeholders in Washington D.C. and in Angola.

The CPSD includes three deep dives: agribusiness, transport, and rethinking the role of the state, as a cross-cutting issue. The deep dives were prepared in partnership with international experts and offer a granular analysis of sector specific constraints and impact dimensions beyond the broad directions offered in the constraint and sector scan. The deep dives will also offer suggestions of what specific reforms and investments could play a transformative role for Angola.

APPENDIX B

WORLD BANK GROUP STRATEGY AND PORTFOLIO IN ANGOLA

Economic diversification and addressing the vast disparities in Angolan economic and social outcomes are at the core of the 2014–16 Country Partnership Strategy, and remain relevant today.[232] The Performance Learning review completed in Fiscal Year 2018 extended the CPS for three years, until the end of Fiscal Year 2019 and adjusted the pillars from three to two to better respond to the changed economic context as a result of the economic crisis: (a) promoting diversified growth and competitiveness, and (b) increasing efficiency of social programs and strengthening social protection.[233] The PLR proposes a fairly ambitious lending program of about $1.2 billion over FY18–FY19.

While the broad goals of the CPS will likely be continued in the new Country Partnership Framework under preparation, operationally the reality will be very different. The CPF was preceded by a Systematic Country Diagnostic (currently being finalized). The 2014–16 CPS emphasized World Bank Group interventions on knowledge and partnerships with other donors and NGOs. Building on the enlarged partnership envisioned in the PLR, the CPF will frame an expanded engagement including lending and analytical products and a stepped-up involvement by IFC to help Angola seize the current historical opportunity to tackle its two major development challenges: reliance on a single finite natural resource, and failure to invest in other sources of capital, especially human capital.

The World Bank portfolio is comprised of eight active investment projects will total commitments of $1.1 million, three of which include financing from IDA resources, and six from IBRD resources (on project has both). The projects are in the following sectors: water, agriculture, health, statistics development, education, and social protection (table B.1). Support to private sector development in Angola has been limited to advisory work. Currently, the World Bank has three RAS in support to financial sector development, anti-money laundering, and business environment reforms, and a trust-fund technical assistance project to support payment systems. Other analytical work includes the upcoming Country Economic Memorandum, a study on subsidies, an assessment of the State-Owned Enterprise sector, among others (table B.2).

The lending pipeline anticipates scaling up involvement in education, health, water, and electricity, as well as agriculture research and development (through a regional project). Another likely development in the lending program would be a series of budget support operations starting in FY19.

The environment for IFC investments in the country has been unfavorable until very recently. Serious IDD concerns given the size of the public sector and the deep involvement of government affiliates in the productive sector have largely prevented IFC involvement. In addition, the availability of cheap capital and direct access to financial markets for large players (for example, oil companies) reduced the scope for IFC's role. IFC was engaged in the financial sector since 2008 with a focus on "entry products:" trade finance and SME development through financial intermediaries. However, engagement with Banks stalled in 2015. IFC recently approved its first engagement in the real sector in ten years, a Hilton-brand hotel in Talatona.

The ongoing reforms open new opportunities for IFC engagement. Opportunities are being explored in SME finance, capital market development, PPPs in solar energy, and agribusiness. As for other sectors, IFC intends to promote private sector solutions in infrastructure including exploring technology solutions (such as solar) to leapfrog current infrastructure challenges. IFC is developing a new strategy that envisions a strong collaboration with the World Bank (as part of the upcoming CPF) to support the necessary reforms and investments that would unlock pri-

TABLE B.1 WORLD BANK LENDING PORTFOLIO IN ANGOLA

Project ID	Project Name	Lead GP/Global Themes	Appr. FY	Len. Inst. Type	Closing Date	Net Comm. Amt. - Total (U$, millions)
P096360	AO-Water Sector Institutional Development	Water	2009	IPF	30-Jun-2019	177.00
P105101	The AO-Local Development Project	Social Protection & Labor	2010	IPF	28-Feb-2020	151.70
P122700	Angola Learning for All Project	Education	2014	IPF	28-Feb-2020	75.00
P151224	Second Water Sector Institutional Development Project	Water	2017	IPF	31-Mar-2024	350.00
P154447	Smallholder Agriculture Development and Commercialization Project	Agriculture	2017	IPF	31-Dec-2021	70.00
P157671	Angola Statistics Project	Poverty and Equity	2017	IPF	30-Nov-2021	62.00
P159052	Angola: Commercial Agriculture Development Project	Agriculture	2018	IPF	31-May-2024	130.00
P160948	Angola Health System Performance Strengthening Project (HSPSP)	Health, Nutrition & Population	2018	IPF	30-Sep-2023	110.00

Source: World Bank.

TABLE B.2 WORLD BANK ANALYTICS AND ADVISORY SERVICES PORTFOLIO IN ANGOLA

Task ID	Task Name	Resp. Unit	Lead GP/Global Themes	RAS (Y/N)	ACS - FY	ACS - Original/ Revised Date	Total (U$, thousands)
P147411	AO-DIME IE of FAS Local Development	DECIE	Other	N	2019	30-Jun-2019	165.01
P147800	Financial Sector RAS	GFCAC	Finance, Competitiveness and Innovation	Y	2020	30-Apr-2020	302.66
P158042	Risk assessment of illicit financial flows	GFCFN	Finance, Competitiveness and Innovation	Y	2019	28-Feb-2019	89.34
P162993	Angola Country Economic Memorandum	GMTA1	Macroeconomics, Trade and Investment	N	2019	30-Nov-2018	236.53
P163713	Angola Business Environment Reform	GFCAC	Finance, Competitiveness and Innovation	Y	2020	31-May-2020	495.26
P165224	Transforming Angola's key poverty programs into effective and nutrition-sensitive safety net interventions	GSP01	Social Protection & Labor	N	2019	14-Jun-2019	316.62
P166484	Angola #E023 Strengthening Payment Systems	GFCAC	Finance, Competitiveness and Innovation	N	2020	30-Nov-2019	61.55
P166629	The Fiscal Decentralization Assessment and Options for Policy Reform	GGOAC	Governance	N	2019	31-Dec-2018	83.59
P167245	Angola MTDS follow up and Domestic Market Development	GMTMD	Macroeconomics, Trade and Investment	N	2019	30-Nov-2018	37.60
P167838	Angola Country Private Sector Diagnostic	GFCAC	Finance, Competitiveness and Innovation	N	2019	30-Nov-2018	11.60
P167953	Corporate Governance and Financial Performance of State Owned Enterprises in Angola	GGOAC	Governance	N	2020	18-Jul-2019	8.76
P168918	Angola energy subsidy reform	GEEXI	Energy & Extractives	N	2021	28-Aug-2020	48.45
P169385	Angola - Environment and Renewable Natural Resources Management	GEN01	Environment & Natural Resources	N	2019	28-Feb-2019	0.00

vate investment in strategic sectors: energy, ICT, transport, finance, education, and oil and gas.

MIGA realized one operation in Angola in 2013, providing guarantees of $512 million in the energy sector for the Cambambe plant, one of two hydroelectric power stations operating on the Kwanza River. Another operation supporting Aceria de Angola's construction and operation of a greenfield steel rebar plant in Angola, was announced in 2015 but is not active.

APPENDIX C

ENABLING SECTORS DETAILED SCORING

TABLE C.1 DESIRABILITY SCORES: TRANSPORT

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Transport generates below average employment relative to other sectors. Air transport and sea transport are among the most capital-intensive activities. A bit over 150,000 people were employed in the sector in 2011. The sector (road transport esp.) is an important factor of geographic inclusion.	2	2
Economic Growth (15%)	Road transport in particular has important value generating potential growth. Ports can become a regional gateway.	3	4
Competitiveness and Productivity (25%)	One of the key sector input into the economy	3	4
Integration and Connectivity (10%)	Angola LSC index is among the highest in SSA just below South Africa. Regional connections are poor (road and rail) but there are prospects to improve road corridors to neighbors and possibly rail links.	3	4
Resilience and Stability (15%)	Linked to connectivity as a factor of market diversification; personal mobility also contributes to resilience.	3	3
Environmental Sustainability (10%)	The sector is the main factor of CO2 emissions at 44%.[234]	2	3
Weighted total		**2.65**	**3.25**

TABLE C.2 FEASIBILITY SCORES: TRANSPORT

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Internal demand has been strong fueled by the oil boom. It is expected to continue growing, albeit in a more difficult environment and transport will benefit from this.	3	4
Production Factors (25%)	Labor and skills: labors costs are high Nat. resources: n.a. Capabilities: poor logistics performance but also presence of sophisticated operators on the market	2 - 2	3 - 3
Key Inputs (25%)	Energy: oil is subsidized but the level of subsidy is now constrained by the tight fiscal space Transport: n.a. Finance: access to finance is difficult as in other sectors but importers and large companies can finance transport on own cash flow Int. inputs: transport equipment is imported	4 - 2 2	3 - 2 2

Table continues next page

TABLE C.2 *(CONTINUED)*

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Institutions (25%)	Regulatory: LPI score is low on reg. dimension	1	3
	IPR: n/a	-	-
	Competition: the sector is dominated by SOEs	1	3
	Macro stability: exchange rate access	1	3
Weighted total		**2.5**	**3**

TABLE C.3 DESIRABILITY SCORES: ELECTRICITY

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	More than half of the population does not have access to electricity. The electricity sector does not generate big direct employment with 4,000 people employed in electricity in 2011. Indirect and induced job effects are average.	1	2
Economic Growth (15%)	Electricity tariffs remain too low for sustainability. Access and quality of access are issues for most firms. The use of generators is prevalent.Investments in generation should provide self-sufficiency.	2	4
Competitiveness and Productivity (25%)	By its nature, electricity is a highly productive sector and a big gap needs to be filled. Generation capacity is now enough to meet demand. Access to electricity is an important input and a source of competitiveness.	1	3
Integration and Connectivity (10%)	Angola is currently not importing or exporting but expected do so in the future given its hydro generation capacity.	1	3
Resilience and Stability (15%)	Currently access is not equally distributed and most private firms cannot rely on the grid alone.	1	3
Environmental Sustainability (10%)	Most of government-provided electricity comes from renewables but given low access, use of generators is high. Generators consume oil and gas. In the future, the share of renewables will increase both in terms of generation and better access. Hydro generated electricity might impact important river ecosystems.	2	4
Weighted total		**1.25**	**3.0**

TABLE C.4 FEASIBILITY SCORES: ELECTRICITY

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	By 2025, demand is expected to increase to 7.2 gigawatts overall system load which is four times the current level. Demand is increasing by 15% p.a. and expected to increase by 12% p.a. Industries are underserved.	4	4

Table continues next page

TABLE C.4 (*CONTINUED*)

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Production Factors (25%)	Labor and skills do not seem to be especially binding Natural resources: large in hydro and solar but investments needed to exploit them Capabilities: still low but with appropriate regulation and private sector participation will improve	3 4 2	4 4 4
Key Inputs (25%)	Energy: not an important factorgiven the share of renewable and Angola's energy resources Transport: infrastructure for oil is good but geography makes distribution costly; transmission grids are not interconnected. Finance: mostly concessional finance Int. inputs: imported	3 2 2 2	4 3 3 2
Institutions (25%)	Regulatory: tariffs are too low and oversight of SOE needs improvement, framework for private sector involvement (e.g. feed in tariffs) is not ready IPR: n.a. Competition: public monopoly in generation, transmission and distribution. PPPs in generation. Macro stability: fiscal sustainability of low tariffs; forex constraints restricts equipment imports and repatriation of benefits for foreign investors	1 - 1 1	3 - 3 3
Weighted total		**2.7**	**3.5**

TABLE C.5 DESIRABILITY SCORES: ICT

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	About 22 per 100 people had access to mobile broadband in Angola in 2016. Fixed broadband, serving households and enterprises including the government, had a limited penetration of only one in 200 people in 2016. Mobile phone penetration has reached 55 subscribers per 100 population 2016, (less than the rate of 74 per 100 population in Sub-Saharan Africa). Only about 87,000 people are employed in the communications industry, However, there is potential to grow employment while improving connections outside Luanda.	2	3
Economic Growth (15%)	The telecom sector is essential to overall economic growth. However, Angola's mobile telephone usage dropped to 13 million in 2016 from 13.88 in 2015. Growth would have a 1.13 multiplier.	2	4
Competitiveness and Productivity (25%)	The development of a competitive ICT market in Angola has been plagued by alliances between the larger players. The price of mobile services and the quality of services have much room for improvement. Average broadband connection speed in Angola is 2.0 Mbps (compared to a global average of 3.9 Mbps).ICT access is further hindered by the country's fractured electricity system that serves less than 40 percent of the population, mostly in urban areas.	1	4

Table continues next page

TABLE C.5 *(CONTINUED)*

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Integration and Connectivity (10%)	Access to high-speed internet remains a challenge in Angola, limiting the country's ability to participate in the global digital economy. In 2014, Angola began construction on the South Atlantic Cable System (SACS), a submarine fiber-optic cable connecting Brazil and Angola that aims to reduce the bandwidth costs. SACS was due to be completed in 2016 but is delayed. Angola Cable, a wholesale carrier, has plans export services to other SSA countries but needs to raise more capital in a weak fiscal environment.	2	4
Resilience and Stability (15%)	Due to high costs and poor rural infrastructure, the ICT sector has under-contributed towards market diversification in Angola.	2	3
Environmental Sustainability (10%)	The TMT sector carries low environmental risks.	3	3
Weighted total		**1.85**	**3.5**

TABLE C.6 FEASIBILITY SCORES: ICT

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Demand is expected to increase in urban and rural areas for broadband connections if prices fall. Strong unmet demand: high costs push Angolans to use the internet at work and forgo home internet connections; SMEs also struggle to find affordable internet access for their operations.	4	5
Production Factors (25%)	Labor and skills: Skilled workers are scarce and smaller operators are struggling getting them. Natural resources: Angola's large land mass is a challenge to expand reach although high urbanization is an advantage in this case (45 percent). Capabilities: Still low and relying heavily on imported skills and technology.	2 3 2	3 3 3
Key Inputs (25%)	Energy: Cell towers have one or two generators in case of power failure making them costly to operate. Transport: Road transportation is poor but not a major constraint Finance: Major players are able to obtain the necessary financing but the fiscal crisis has forced some international ICT service companies to close their Angolan operations. Intermediate inputs: Most inputs are imported and customs inspections and unclear regulations cause delays.	3 3 2 2	3 3 4 2
Institutions (25%)	Regulatory: Inefficient spectrum management has prevented some low band spectrum from being released to operators, strong presence of SOEs. IPR: Difficulties in proving land ownership; slows down infrastructure construction; technology is licensed. Competition: Dominance by Unitel; award of new license and stronger regulation should improve the situation. Macro stability: Forex shortage is creating issues to import inputs.	1 2 1 2	4 2 3 3
Weighted total		**2.6**	**3.5**

TABLE C.7 DESIRABILITY SCORES: HEALTH

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	The sector is a relatively large employer as part of the public service. Health outcomes are very low.	2	3
Economic Growth (15%)	A strong health sector is necessary for human capital development, but it appears lack of skills/training and not health is the main constraint to the Angolan labor pool. It is possible that the high fertility rate, and young population have kept the weak health sector from hampering economic growth.Improvements in the sector would have strong impacts on future growth (direct and indirect).	2	3
Competitiveness and Productivity (25%)	The health sector has failed to produce a healthy population, which most likely has negative bearing on productivity.	2	3
Integration and Connectivity (10%)	Health sector is closely linked to overseas suppliers of drugs, equipment and labor.	2	3
Resilience and Stability (15%)	Not contributing to the diversification of products as Angola does not produce drugs locally with the exception of one company. There is no known medtech or health science research industry. Better health outcomes will contribute to individual resilience.	1	3
Environmental Sustainability (10%)	Health sector carries moderately low environmental risks.	3	3
Weighted total		**1.95**	**3.0**

TABLE C.8 FEASIBILITY SCORES: HEALTH

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Current demand is not being met with only 7,000 physicians in the country. Demand is only expected to increase as the population continues to grow.	4	4
Production Factors (25%)	Labor and skills: Shortage of skilled labor makes it difficult to deliver quality care to a wide number. Hospitals are suffering labor shortages. Natural resources: Not especially binding except for geography which impacts access. Capabilities: Low, with only one local drugs producer and a handful of modern facilities and highly skilled personnel.	1 2 2	2 3 3
Key Inputs (25%)	Energy: Unstable energy supply affects medicine refrigeration and proper operation of live saving equipment Transport: Poor infrastructure makes access to care and medicines difficult for rural population Finance: Access to finance is difficult as in other sectors and arrears from the national insurance further affects private providers. International inputs: drugs, equipment and some labor are imported.	2 1 2 2	2 3 3 2

Table continues next page

TABLE C.8 *(CONTINUED)*

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Institutions (25%)	Regulatory: Importation process very lengthy and contributing to medicine stock outs, no set price controls for drugs. IPR: Lack of patent drug patent protection dissuades international companies from selling complex drugs in Angola. Competition: Insufficient competition and poor overall service quality enables private clinics/hospitals to charge high fees. Macro stability: Forex constraints restrict equipment imports.	2 1 2 2	3 3 4 3
Weighted total		**2.3**	**3.1**

TABLE C.9 DESIRABILITY SCORES: EDUCATION

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Sector is the largest employer in the civil service and a large employer at the economy-wide level. Rapid increase in the number of private tertiary institutions indicates more education sector jobs soon and will contribute to better access and outcomes.	4	4
Economic Growth (15%)	Relatively low education outcomes have constrained economic activity. Most private sector firms struggle filing jobs requiring minimum skill levels.	1	3
Competitiveness and Productivity (25%)	The education sector has failed to produce strong management and technical skills, which had to be imported to sustain growth during the boom years.	1	3
Integration and Connectivity (10%)	Education sector does not appear closely linked to international institutions, but scholarships are available for Angolan students to study abroad.	2	2
Resilience and Stability (15%)	Lack of skilled workers did not contribute to economic diversification beyond oil.	1	2
Environmental Sustainability (10%)	Education sector carries low environmental risks.	3	3
Weighted total		**2.05**	**3.0**

TABLE C.10 FEASIBILITY SCORES: EDUCATION

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Demand is already strong and expected to be sustained as the population increases and as the economy grows	5	5
Production Factors (25%)	Labor and skills: Lack of skilled teachers or strong educational institutions. Natural resources: do not seem to be especially binding. Capabilities: still low. Private investors could bring efficient ways of providing more and better education.	1 - 1	2 - 3

Table continues next page

TABLE C.10 (*CONTINUED*)

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Key Inputs (25%)	Energy: Does not seem to be especially binding.	3	3
	Transport: poor road access to many school buildings.		3
	Finance: Students and schools unable to obtain sufficient financing especially since the recent economic crisis.	2	3
			3
	International inputs: Reliance on foreign teachers for specialized fields. Education material/equipment is expensive. New technologies could lower these costs.	1	
		2	
Institutions (25%)	Regulatory: There does not seem to be strong barriers to private sector participation. Oversight of the quality of education is an issue.	2	4
		3	3
	IPR: Lack of IPR framework but this does not seem a big issue.	2	4
	Competition: Increasing number of private universities but still insufficient number of educational institutions especially outside Luanda. Very few choices exist for quality private elementary and secondary schools beyond expensive international schools.	2	3
	Macro stability: Forex constraints and government's non-payment of worker salaries affecting financial sustainability of schools.		
Weighted total		**2.7**	**3.5**

TABLE C.11 DESIRABILITY SCORES: FINANCIAL SECTOR

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Direct employment in the sector is limited. The sector only employed 52,000 workers in 2011.	2	2
Economic Growth (15%)	Assets of banking sector is $50 billion in a $150 billion economy, but they currently hold it instead of lending. On the other hand, some banks have invested some of their capital in the real economy.	3	5
Competitiveness and Productivity (25%)	It is a large and deep financial system, but has previously been insulated and narrowly focused.	1	3
Integration and Connectivity (10%)	Ownership from Portugal and Brazil, South Africa, Nigeria in the Angolan banking sector. Loss of correspondence relationship has had a negative impact.	2	4
Resilience and Stability (15%)	Non-performing loans reached almost 25.6 percent in August 2018 from 10 percent in 2013, lack of financial system safety net, bank resolution regulations forthcoming.	2	4
Environmental Sustainability (10%)	Carries indirect risks, some international banks practice ESG reviews.	3	3
Weighted total		**2.0**	**3.3**

TABLE C.12 FEASIBILITY SCORES: FINANCIAL SECTOR

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Less than 30 percent of adults have financial accounts and insurance penetration is less than 1 percent. There is a significant gap to universal access. There is also a strong demand for financing in the private sector. Future growth prospect will continue to fuel such demand.	4	4
Production Factors (25%)	Labor and skills: Angola still requires expatriate talent due to the shortage of skilled local labor. Natural resources: N/A. Capabilities: They are more sophisticated than other neighbors due to sophistication of oil financing needs but otherwise finance is not very innovative.	2 - 3	3 - 4
Key Inputs (25%)	Energy: Not binding. Transport: Not especially binding. Finance: Most major players do not require recapitalization but there is a lack of long-term finance and severe FX shortage. Intermediate inputs: Most inputs are imported (mobile phones, ATM machines, and so forth).	5 5 2 2	5 5 3 3
Institutions (25%)	Regulatory: regulators have improved supervision, but financial infrastructure remains weak; mobile money legal framework still pending. IPR: Not especially binding. Competition: Proliferation of banks but many have SOE links; sector is ripe for consolidation. Macro stability: Forex shortage severely affecting trade finance.	3 - 3 2	4 - 4 3
Weighted total		**3.2**	**3.7**

TABLE C.13 DESIRABILITY SCORES: WATER

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Small share of employment with 14,500 jobs in 2011. Average employment multipliers. Improving access to improved drinking water sources is important for inclusion, health, and gender equality, but progress is likely to be gradual and long term.	1	2
Economic Growth (15%)	Sector needs significant investments in infrastructure and capacity. Sector does not have a significant growth multiplier.	1	2
Competitiveness and Productivity (25%)	High value added per worker. Important enabling sector for agriculture and manufacturing.	3	4
Integration and Connectivity (10%)	The sector does not contribute significantly directly to integration.	1	1
Resilience and Stability (15%)	Diversification contribution through agriculture sector for irrigation to increase productivity, also certain manufacturing sectors (beverages).	2	3
Environmental Sustainability (10%)	Angola is a rich country in water resources, with 77 river basins, 43 hydrological basins, and important upstream positions in several international basins, but capacity to manage remains low. Angola vulnerable to floods and droughts (in the South especially).	3	4
Weighted total		**1.85**	**2.75**

TABLE C.14 FEASIBILITY SCORES: WATER

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Demand for commercial and industrial uses likely to grow with economic recovery. Access to water at private household remains low, at 32 percent of population. Access to improved water drinking sources remains low, big gap between urban areas at 75 percent (likely overestimated) and rural areas.	4	4
Production Factors (25%)	Labor and skills: technical skills are scarce and need to be brought from abroad. Natural resources: Angola is rich in water sources. Capabilities: provincial public-owned utilities limited capacity and infrastructure, poor cost-recovery. World Bank Group-supported project bringing foreign management expertise.	2 4 1	3 4 2
Key Inputs (25%)	Energy access is important for pumping water. Transport: N/A. Finance: As in other sectors, access to finance remains an issue. Inputs: Most equipment and materials are imported.	1 - 1 2	3 - 3 3
Institutions (25%)	Regulatory: Ongoing sector reform with World Bank and AFD support; World Bank to support PPP pilot. IPR: N/A. Competition: All public utilities, see regulation. Macro stability: Potential limiting factor for private interest in PPPs.	1 - - 2	3 - - 3
Weighted total		**2.6**	**3.25**

APPENDIX D

SECTOR SCAN DETAILED RESULTS - TRADED SECTORS

AGRICULTURE AND AGRIBUSINESS

CURRENT SECTOR PERFORMANCE

The sector is still recovering, and Angola relies on imports to meet its food needs, although production has increased in recent years as has the sector contribution to GDP (estimated at around 10 percent). The agricultural sector employs 46 percent of the workforce and remains the main source of income for 90 percent of the 8.5 million Angolans living in rural areas. Smallholders represent over 80 percent of agricultural production and 92 percent of land under cultivation. These are primarily farms used communally for subsistence farming, but includes smallholders selling surplus production in the market. Of the many cooperatives and producer groups, few are registered and/or active in practice, and market-oriented, collective decision-making is uncommon. However, the foundation for more organized approaches does exist.The exodus of Portuguese settlers and the 27-year and conflict ending in 2002 eroded the sector's technical capacity, destroyed basic infrastructure and isolated production areas from markets.[1] Angola's once thriving production and export of coffee, cotton, tobacco, and sugar cane all but ceased by the 1990s.[235] Yields in maize, beans and soybean remain significantly lower than other lower middle-income countries in Africa, for example, Kenya, Ghana and Zambia from 2009 to 2014.[236] Agriculture exports remain negligible.

There are a few successful private medium and large-scale projects in horticulture (Nuviagro, Agrolider, Fazenda Girasol), cereals (Fazenda Pipe, Fazenda Santo Antonio), but most other large-scale projects have been government-sponsored (several farms under State-owned Gesterra, Biocom, Aldeia Nova, Capanda agroindustrial pole, irrigated perimeters), often financed with bilateral lines of credit and in some cases under concession to private management. It is estimated that the government invested an estimated $1.5 to $2 billion in large-scale projects over the last decade.[237]

PROSPECTS

Commercial agriculture is an emerging sector in Angola with high potential, opportunity, and demand. A small but growing agribusiness sector is developing linked to rising demand in urban centers. Spending in food and non-alcoholic beverages is expected to increase from $15 billion in 2017 to $21 billion by 2021.[238] A formal food distribution sector has also developed, primarily to serve the Luanda market, and according to investors, consulted during project preparation, food processing presents opportunities to grow from its nascent size, provided the macro environment improves. Large supermarket chains have started developing commercial partnerships with small and medium domestic producers to reduce imports and increase freshness and control over quality. Interviews with national off-takers (distributors of fresh products, supermarkets, manufacturing companies and hotels) revealed strong interest in the development of national commercial agriculture, in close alignment with the new government's expressed priorities.

Agriculture is a key sector in the government diversification objectives, which include improving food security and reducing food imports. This approach is outlined in the National Development Plan (NDP) 2018–22 and the Mid-term Development Plan for the Agriculture Sector 2018-22. There is growing interest from Angolan and foreign investors to develop medium and large-scale projects in agriculture and livestock.

ISSUES

Productivity is constrained by the limited use and availability of quality seeds, fertilizers and mechanization, poor

agronomic practices, limited areas under irrigation, and poor dissemination of agricultural knowledge. These factors, as well as constrains in finance and infrastructure, hinder farmers' ability to increase the land under cultivation.

Access to finance is a major constraint for domestic producers. Overall, banks' appetite to lend has decreased with the economic slowdown and rising nonperforming loans (NPLs),[6] despite liquidity being available for additional lending to the private sector.[7] Agriculture's share of overall credit has remained low—less than 5 percent. The enabling environment for promoting agricultural finance remains undeveloped.[239]

Infrastructure is an essential enabling factor for market access and competitiveness. Market links are constrained by poor road connectivity, storage, and commercial infrastructure. The total road network in Angola is about 76,000 kilometers, much of which needs rehabilitation.[240] The government has invested heavily in improving the transport network over the last decade, including roads and railways, but limited budget has been available for rural roads. Limited reach of the electricity networks and reliability of supply limits investments in agro-processing and irrigated agriculture.

Lack of technical knowledge, skills, and access to inputs limit the agricultural sector's growth and development. Poor agronomic practices, including scant use of improved technology (for example, seeds, fertilizers, and irrigation), undermine productivity, diversification, and the expansion of land under cultivation. Most agricultural inputs and technologies are imported and remain beyond the reach of most farmers and agribusiness SMEs.

Information on available land is underdeveloped. The current state of land information in Angola hinders the identification of potentially promising land for investment, although currently investors do not see land access as a major constraint. Gesterra has received a mandate to identify and prepare agriculture land for concession. Provincial governments have authority to give concessions up to 5,000 hectares, and there have been reports of corruption in land allocation. Most rural lands are not formally registered or part of a database which, among other things, increases the potential for disputes.

Policy and institutional weaknesses: official statistics suffer from severe weaknesses, which should be improved with an upcoming agriculture census. There needs to be a shift in policy orientation, to improve the competitiveness of the sector, crowd in private investment, and support the development of market linkages across agribusiness value chains.

TABLE D.1 DESIRABILITY SCORES: AGRICULTURE AND AGRIBUSINESS

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Agriculture employs 45 percent of the workforce and remains the main source of income for 90 percent of the 8.5 million Angolans living in rural areas. The sector has high employment multipliers, especially for women.	4	5
Economic Growth (15%)	Agriculture is estimated to contribute about 10 percent of GDP and has potential for growth, primarily to supply domestic markets.	3	4
Competitiveness and Productivity (25%)	Smallholders represent over 80 percent of agricultural production and 92 percent of land under cultivation. Yields are lower than regional peers. Only a few large-scale farms have access to high productivity technologies.	1	3
Integration and Connectivity (10%)	Not well integrated with other sectors. Angola still imports over 50 percent of food consumption needs. Agriculture exports are insignificant. The sector has potential to attract FDI both in production and processing.	1	3

Table continues next page

TABLE D.1 (*CONTINUED*)

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Resilience and Stability (15%)	Very small contribution to exports, but potential to expand although larger opportunity in producing for domestic market, reducing imports. Small holders are very poorly integrated into value chains and markets and rely on subsistence agriculture.	2	3
Environmental Sustainability (10%)	Sector vulnerable to climate change and potential important source of GHG emissions (livestock). Opportunity to reduce GHG emissions with climate-smart agriculture.Deforestation issues linked with timber (exports banned for a while).	2	3
Weighted total		**2.3**	**3.7**

TABLE D.2 FEASIBILITY SCORES: AGRICULTURE AND AGRIBUSINESS

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Rapid population growth and growing urban markets. Spending in food and non-alcoholic beverages is expected to increase.	4	5
Production Factors (25%)	Labor and skills: High-level skills are imported, limited skills constraint sector development. Nat. resources: abundance of land and water, and diverse climatic and soil conditions to produce a large variety of crops, but only 8 to 14 percent of its 59 million hectares of agricultural land is cultivated. Bad agricultural practices have damaged soil quality. Capabilities: Majority smallholders, few large-scale vertically integrated farms, operating on imported inputs, concentrated input supply sector, small agri-processing sector.Certification and quality control standards met only by few large players.	2 4 2	3 4 3
Key Inputs (25%)	Energy: Access to electricity limits agri-processing investments and large-scale irrigation. Transport: Poor rural road infrastructure major constraint to access to market. Finance: Agri-finance about 5 percent of private sector credit. International inputs: High-quality inputs not easily accessible, high costs. Government programs to lower costs of key inputs (fertilizers) but risk of crowding out private sector.	1 1 1 2	3 2 3 3
Institutions (25%)	Regulatory: Land governance issues, especially for smallholders. Trade policy and facilitation. IPR: GMO are banned. Competition: Government intervention in input markets and big government farms. Macro stability: Forex access is a major constraint to import inputs. Cost of credit high. Future will depend on adjustment measures and evolution of oil price.	2 2 2 2	3 3 4 4
Weighted total		**2.5**	**3.7**

FISHERIES

CURRENT SECTOR PERFORMANCE

Angola has a favorable location for fisheries, being located between two large marine ecosystems and benefiting from ocean upwellings, thanks to the Benguela current system in the south and the Guinea current system in the north.[241] The fishery sector is Angola's main non-extractive export sector, with exports of $64 million between 2015 and 2017 (including processed fish), and a narrowing (albeit still negative) trade gap.[242] Fish is primarily exported to Spain (mainly shrimp), with smaller shares going to Japan, and China. Exports have been growing since 2012 at a 32 percent CAGR per year. Estimates of the importance of the sector in the country's economy vary, but according to official statistics it represents 3.7 percent of the country's GPD.[243] FAO estimates that sector supported the livelihood over 150,000 persons, the majority (120,000) in the marine sector. The sector employed near 46,000 people, 0.7 percent of total employment in 2016.[244]

Production averaged 413,468 tons in 2012–16,[245] while exports have nearly tripled since 2012.[246] Industrial and semi-industrial fisheries represent 60 percent of the catch, while the artisanal sector represents about 40 percent. Industrial vessels target mainly pelagic species (horse mackerel and sardinella) and deep-sea shrimp. Foreign vessels, mostly Europeans, operate seasonally catching tuna species. The semi industrial sector's catch is primarily small pelagics, an important source for domestic food supply, and demersal species, which are also the main target of artisanal fisheries. Productivity has been reported to increase significantly in the sector at a rate of 12 percent per year between 2010 and 2016.[247]

The fisheries sector totaled 1,826 firms, which corresponded to 4.4 percent of the total number of companies operating in the country in 2015. Industrial fishing in Angola is carried out mostly by foreign vessels (mostly from Italy, Poland, Portugal, Russia, Spain, the Republic of Korea, and Taiwan, China) working in joint venture with Angolan individuals or companies that hold fishing rights and purchase quotas quarterly. Semi-industrial fishing is only carried out by domestic fishing vessels, who own fishing rights and purchase quotas quarterly for their targeted species. The artisanal fisheries value chain involves about 85,000 people directly. Angola's aquaculture sector remains modest. According to FAO, the production of tilapia was 305 tons in 2014 and total production around 450 tons. Marine aquaculture is incipient, but a sector seen as having potential for private investment.

Fish processing is incipient. Frozen horse-mackerel is processed for selling in local markets, while sardinellas are used for fish meal in plants in Benguela and Namibe, but also frozen and canned. The production of fish meal and oil was spurred by the investment of AST Angola, a Namibian integrated fishing and processing (fish meal and fish oil) company, in facilities in Benguela and Namibe with capital investment Angola Capital Partners, a private equity fund supported by Norfund, the Danish Investment Fund and the European Investment Bank.

PROSPECTS

Strong international demand, especially for crustaceans, and relatively high internal consumption levels, will continue to drive sector growth.

Fisheries is an important sector in the government's diversification strategy. During a recent visit by President Lourenço to fishing production units, mention was made in the press that the government is looking to increase the annual fish catch by 16 percent over the next four years to 614,000 tons[248] and a 50 percent increase in fishmeal production to 30,000 tons over the same period.

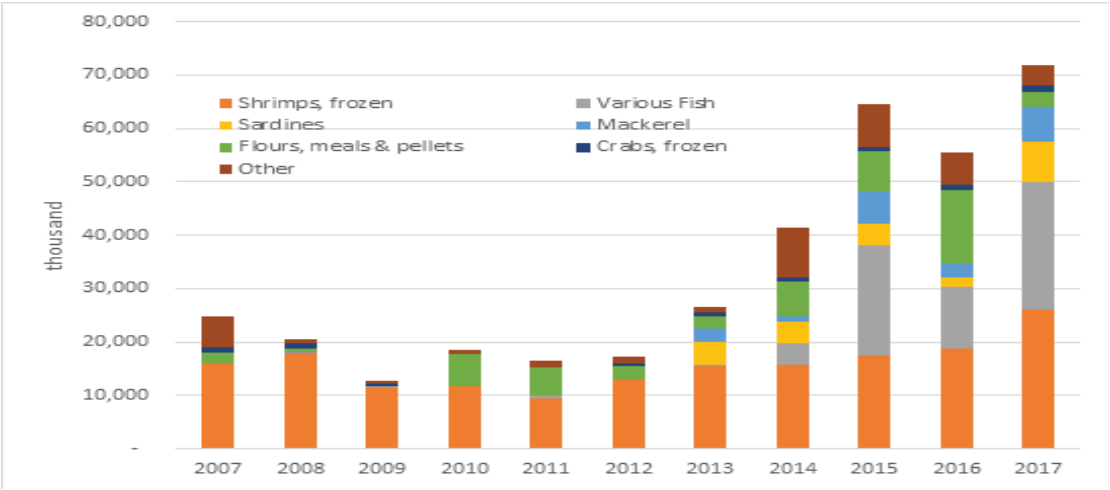
In addition, there may be opportunities for private investment in shipyards, for maintenance and services to the vessels, as well as higher value-added fish processing.

ISSUES

Stock assessments point to the overexploitation of species important for food security and exports (horse mackerel and sardinella) or to reductions in overall biomass of demersal species. This points to the need to continue implementing management measures and adopting a precautionary approach to ensure the sustainability of the stocks.[249] This is more the result of historical overexploitation rather than current practices. Angola is considered to have a well-developed fisheries management system (banning, for instance, the fishing of horse mackerel in 2010);[250] however, it is not yet up to par with Namibia and South Africa. Among various fish stocks, it is estimated that sardine stocks are probably not fully exploited.

Other main constraints to the sector include high cost and unreliability of the electricity supply, insufficient cold processing and storage, lack of export certification bodies, and burdensome export logistics.[251] Data collection for the sector, especially for the artisanal segment needs to improve.

FIGURE D.1 EXPORTS OF FISH AND FISH PRODUCTS



Source: COMTRADE using mirror trade statistics.

TABLE D.3 DESIRABILITY SCORES: FISHERIES

Desirability	Explanation	Desirability (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	The sector's share of total employment is low (0.7%) and about 150,000 people depend directly on the sector. An important share of current production through informal fishing. Prospective growth in production will be driven by industrial fishing, which does not supply a high number of jobs. On the other hand, additional investments in processing may add jobs.	2	2
Economic Growth (15%)	Sector represents a small share of GDP. Sector has grown dynamically in the past few years. This may increase with diversification efforts but will likely remain small for a large economy like Angola.	2	2
Competitiveness and Productivity (25%)	Fishing is not traditionally a high productivity sector but growth in the sector might feed positively into the agro-processing industry.	1	2
Integration and Connectivity (10%)	Sector is among the top non-extractive exporters and has been performing well in the past five years. Brought (limited) foreign investment. Additional investment in processing should contribute to export diversification.	4	4
Resilience and Stability (15%)	Fish is an important food source for the local population.	3	3
Environmental Sustainability (10%)	Sector is exposed to climate change. Management of fish stocks is a concern and requires continuous monitoring (which the government is doing).	2	2
Weighted total		2.1	2.35

TABLE D.4 FEASIBILITY SCORES: FISHERIES

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	World demand is growing. To meet demand, estimates is that world production will reach 186 million tons by 2030, up from 154 million in 2011.	4	4
Production Factors (25%)	Labor and skills: does not seem an issue for the sector. Nat. resources: overexploitation of key species (horse mackerel and sardinella) is an issue. Capabilities: professionalization of fishing is desirable.	4 2 2	4 2 3
Key Inputs (25%)	Energy: access to electricity is important for processing and storage and currently a constraint for the sector. Transport: logistics, especially cold chain, services could be improved. Finance: as in other industries Intermediate Inputs: equipment needs to be imported, especially for maintenance.	2 2 2 2	3 3 3 3
Institutions (25%)	Regulatory: overall good management of resources, plans to strengthen regulatory and institutional framework for the sector. IPR: n/a. Competition: access to fisheries is based on 20-year fishing rights, granted with priority to Angolans and those with value added facilities (e.g. processing). Macro stability: Forex shortage is hampering investing in the sector.	3 - 3 2	4 - 4 3
Weighted total		**2. 5**	**3.7**

OIL AND GAS

CURRENT SECTOR PERFORMANCE

Oil production in Angola comes almost entirely from offshore fields off the coast of Cabinda and deep-water fields in the Lower Congo basin. Some small-scale oil production occurs from onshore fields. In 2017, Angola produced 1.64 million barrels per day (b/d) of crude oil.[252] Exports of oil (almost $26 billion) account for 95 percent of total exports, 27 percent of GPD, and 56 percent of government revenues (in 2015 down from 75 percent in 2010).[253]

In addition to lower oil prices, production is stagnant, explaining the relative decline of oil in the economy. Angola's total petroleum and other liquids production peaked in 2008, reaching nearly 2.0 million b/d, of which 1.9 million b/d was crude oil. Despite some new oil fields coming online, Angola's total liquids production has remained relatively stagnant, the result of persistent technical problems. Rapid reservoir depletion has also contributed to steep decline rates at some fields.

The lead oil operators in Angola are Exxon (block 15), Chevron (Block 0 and 14), BP (Block 18 and 31), Total (Block 17), Eni (Block 15/06), and Sonangol (Block 3, 2/85 and 4/05) for offshore and deepwater, and PlusPetrol and Sonoil for onshore fields.

Angola is a small natural gas producer. Most of Angola's natural gas production is associated gas at oil fields, and it is vented and flared (burned off) or re-injected into oil wells to enhance oil recovery. The $10 billion new liquefied natural gas (LNG) plant at Soyo was developed by Sonangol to commercialize more of its natural gas. The plant experienced chronic problems and was temporarily shut down almost a year after it exported its first cargo to Brazil in June 2013. The plant resumed operations in

2016. The plant was built with a capacity to produce 5.2 million tons per year (250 Bcf per year) of LNG, as well as natural gas plant liquids.

The downstream industry is controlled by Sonangol. Angola has one small refinery that was constructed in 1955. This refinery has a capacity of 39,000 b/d, although it typically operates at 70 percent capacity. Construction on a new $5.6 billion Sonaref (part of Sonangol) refinery in Lobito started in December 2012. The refinery will have an initial processing capacity of 120,000 b/d that will increase to 200,000 b/d and was scheduled to come online in 2017, but work was suspended in 2016 as it was seeking new investors.[254] The president's State of the Union address mentioned that public procurement had been launched for: building the Lobito refinery with mixed (public and private capital) had been launched, a private refinery in Cabinda, and an expansion of the Luanda refinery.

Some input production for oil exploration (for example, platform construction, subsea umbilicals, services) are produced in Angola.Leading international services companies active in Angola include: Baker Hughes, Cameron, GE, Halliburton, Technip FMC, Tidewater and Weatherford.

The state company Sonangol once had the monopoly for the commercialization of petrol derivatives in Angola. Now two other companies, Pumangol and SonanGalp supply petrol. Except for Galp (through subsidiaries Petrogal and Sonangalp), both Pumangol (Private) and Sonangol (state company) are nationwide competitors with large coverage of pumping stations around the country.Total and Sonangol reached an agreement in May 2018 to develop service stations.

PROSPECTS

Oil prices have rebounded since the lows of early 2016. Three new projects (Chevron, Eni and Total) are coming online and will contribute up to 305,000 b/d. However, these are not enough to compensate for the decline of more mature oil fields.[255] Oil production is expected to remain stagnant/declining over the next three years and prospects for the longer term are not strong, as investments into new oil exploration are needed.[256] Prospects also depend on high oil prices as Angola oil is relatively expensive to drill and the environment in Angola adds to the costs (local JV, transparency, and so forth).

The Soyo plant has capacity to absorb more gas production, which could lead to gas extraction opportunities, and to increase its presence in LNG products, potentially benefiting upstream and downstream players in related value chains.

ISSUES

Overall, fiscal terms are not very favorable and obligation to provide local content is onerous. There would be a need to review the framework (like Cameroon did for example).

The increasingly competitive global market and lower oil price environment particularly challenge Angola's high production costs which average $40 per barrel. Industry players emphasize the need for a more competitive business environment with reduced production costs and increased efficiencies. The government has passed new legislation to encourage investment in the sector, which includes the creation of a national oil and gas agency as the sector's concessionaire. A new Institute of Petroleum Derivatives is being established as part of efforts to liberalize the sector. The local content legislation is being revised with the objective to promote Angolan participation in the sector.[257]

Increased pressure to reduce production costs coupled with ongoing restrictions on foreign exchange access have led to significant downsizing of petroleum service companies, contractors, and operators, with some businesses closing operations.

Sonangol has investments in various sectors as airlines, manufacturing, real estate, insurance, and the banking. The restructuring of Sonangol to focus on core energy activities is ongoing.

TABLE D.5 DESIRABILITY SCORES: OIL AND GAS

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	The oil and gas sector does not generate large numbers of direct employment: 93,000 people were employed in oil and gas in 2011. Indirect and induced job effects are average compared to other sectors. Government policy requires companies to hire Angolan personnel. Hiring targets for highly skilled workers are thus unmet. With the crisis, the sector has reduced employment.	2	2
Economic Growth (15%)	Although the energy sector is the driver of Angola's economy, it has been impacted by the oil price shock. The oil industry contributes fiscal revenue; implicit energy subsidies exists. Subsidies are being progressively eliminated.	4	4
Competitiveness and Productivity (25%)	Linkages are tenuous; Angola is struggling to generate local high skilled talent for the energy sector. However, the sector is a significant input user for some upstream sectors (such as steel rods, services).	2	2
Integration and Connectivity (10%)	The energy sector promotes connectivity in Angola. The growth of the transport and logistics sectors is closely associated with the oil and gas sectors.	4	4
Resilience and Stability (15%)	A large share of the economy is dependent on the oil sector, creating important systemic risks.	1	2
Environmental Sustainability (10%)	The environmental impact of gas flaring is an issue that can be addressed with an LNG plant.	1	3
Weighted total		**2.25**	**2.6**

TABLE D.6 OIL AND GAS

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Internal demand is expected to increase. International oil prices are expected to remain weak as OPEC decisions are counterbalanced by increased production in the US and other countries.	3	3
Production Factors (25%)	Labor and skills: high-skilled jobs in the sector are mostly handled by foreign workers. Natural resources: proven oil reserves in 2016 were 9.52 billion barrels. Angola's petroleum endowment is expected to be exhausted by 2032 at the current rate of production. Angola's proven natural gas reserves in 2016 were 308.1 billion cubic meters. Capabilities: higher than in other sectors, but some of which because of high-skill foreign labor.	2 4 3	3 3 4
Key Inputs (25%)	Energy: not a constraint. Transport: infrastructure for oil sector is good. Finance: While there is a shortage of financing (exploration, downstream), this is not because of cost but due to institutional issues in the sector (below). Intermediate Inputs: Many inputs are imported, but the presence of foreign companies guarantees supply.	- 5 5 4	- 5 5 5

Table continues next page

TABLE D.6 (*CONTINUED*)

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Institutions (25%)	Regulatory: local content requirements and fiscal conditions are lowering attractiveness of FDI. Framework is being revised.	1	3
	IPR: n.a.	-	-
	Competition: Sonangol monopoly	1	3
	Macro stability: Forex shortage is creating issues	1	3
Weighted total		**3.0**	**3.5**

MINING

CURRENT SECTOR PERFORMANCE

Angola is a significant exporter of diamonds, producing about 7 percent of the world's output.[258] In 2016, Angola exported $1.9 billion in diamonds, about 7.4 percent of total exports.[259] Production has been stable at around 9 million carats since 2013 (9.2 million in 2016).[260] Other mineral commodities produced in the country include attapulgite (fuller's earth), cement, crushed stone, granite, gravel, gypsum, lime, limestone, marble, quartz, salt, and sand. Exports of cement, granite, and marble totaled $76 million in 2016.[261] Angola also has deposits of iron, gold, copper, zinc, lead, manganese, and phosphate, but there is currently no exploitation of industrial and precious metals.

Endiama holds a controlling stake in all diamond exploitation. Diamonds are produced in the Lunda Norte and Lunda Sul provinces.[262] Recently, Odebrecht sold its participation in Sociedad Minera de Catoca to Endiama. Alrosa increased in January 2018 its own share to 41 percent, equaling Endiama's. Catoca mine produces around 75 percent of Angola's diamonds. Other JVs include: Lupaca Diamond Co. (Australian JV with Endiama) which is developing the Loulo mine. Tango Ltd, a Canadian company signed a partnership with Txapemba Canbuga RL to operate the Luembe river basin deposits.

A diamond polishing factory was established in 2005 by Sodiam (Endiama subsidiary). It employs 600 persons.

PROSPECTS

Exploration budget trends in Angola have been decreasing very significantly. According to latest reports there are only eight companies undertaking mining exploration for a budget of only $20 million.[263] Minbos from Australia is exploring phosphate production in Cabinda. There is also exploration in copper in Ozango.

A major project is the Luaxe diamond mine, a kimberlite deposit that is being developed in partnership with the Russian company Alrosa (through Catoca Mining Ltd). The project is expected to be bigger than Catoca and will generate 2,000 jobs.

According to Endiama's website Angola's diamond production potential in Kimbelite fields could push production above 10 million carats, and according to BMI research production would rise to 12.4 million carats by 2026. A new diamond commercialization policy was approved by the government which allows diamond companies present in Angola to sell 60 percent of their production freely, ending previous mechanism that required selling the stones to preferential customers.

ISSUES

Angola's diamond is alluvial and marine. Both are bad for the environment and alluvial does not yield to predictable outputs and tends to be small scale. Angola has recently expelled hundreds of thousands of immigrants, mostly from DRC, many of which were involved in informal diamond mining.

Angola is not compliant with the Extractive Industries Transparency Initiative. Foreign investors have pulled out of the country (Petrodiamond). The investment laws for diamond require majority participation from Angolan companies.

A geological survey has been undertaken by the government.

TABLE D.7 DESIRABILITY SCORES: MINING

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	There is no information, but mining is not a sector generating a lot of employment. There is virtually no downstream industry.	1	1
Economic Growth (15%)	The diamond industry is source of fiscal revenue and foreign currency, albeit at a relatively modest level. Current diamond production is stagnant and diminishing in dollar value because of the exchange rate. New geological survey suggests however potential in copper and other mineral and metal mining, as well as diamond kimberlite fields.	2	3
Competitiveness and Productivity (25%)	Diamond exploitation is isolated from the rest of the economy.	1	1
Integration and Connectivity (10%)	Mining is the second source of export revenue, but mining is not a sector that is currently "well-connected" in terms of diversification prospects.Prospects for metals and minerals could support local industries.	1	2
Resilience and Stability (15%)	Sector contributes to resource dependence. Issues with migrant workers from DRC.	2	2
Environmental Sustainability (10%)	Alluvial and marine diamond is environmentally destructive. Non-renewable resource.	1	1
Weighted total		**1.3**	**1.55**

TABLE D.8 FEASIBILITY SCORES: MINING

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Global demand for diamond is soft and perhaps on a downward trend, impacting international prices. Long-term outlook is mildly positive with 1 to 4 percent expected growth.	2	2
Production Factors (25%)	Labor and skills:does not seem an issue although low density in some areas may make labor resources scarce. Natural resources: Exploration investment is diminishing but new geological survey and mining code could change this. Capabilities:provided by foreign investments.	3 2 3	3 3 3
Key Inputs (25%)	Energy: large projects have their own generation capacity and IPPs. Transport: not a factor for diamond and unclear yet for other extractive products. Finance: The investment code and Angola's unfavorable history with foreign investors. International inputs:imported.	3 3 1 2	3 3 3 2
Institutions (25%)	Regulatory: Angola is part of the Kimberley process but not EITI; mining code is being revised. Diamond commercialization policy has been improved. IPR:n/a. Competition:seems limited, partly because of requirements on investment and lack of transparency. Macro stability: forex crisis.	2 - 1 2	4 - 3 3
Weighted total		**2.2**	**2.75**

MANUFACTURING

CURRENT SECTOR PERFORMANCE

Manufacturing has grown substantially to 6 percent of GDP.[264] The sector contributes to 6 percent of employment. The growth of the sector was linked to the rise in consumption, the oil sector, and real estate. Employment in 2011 was highest in food and beverages, but also important in chemicals, plastics and pulp and paper.Refriango, the largest company in the food and beverage sectors employs 5,000 people.

Angola's manufacturing is dominated by beverages and food.[265] Manufacturing of inputs for large sectors of the economy (oil, construction) is also important, such as metal, and concrete products, and construction tiles.

The food and beverage sector exports to other markets according to the industry interviees. For instance, Refriango mentioned that they export to more than 20 countries. UN Comtrade statistics indeed show that exports of mineral waters, beers and non-alcoholic beverages are with coffee the top agricultural and food products exported, but in very low volumes.[266] It seems that sizeable exports are going to neighboring markets and are not properly recorded.

The growth of the food and beverage industry is reflected by recent developments in the sector. Lactiangol, Angola's largest dairy producer, doubled in autumn 2017 its milk production capacity to 13,000 liters of milk per hour with a $27 million expansion and modernization of its Luanda facility.The beverage sector is particularly dynamic: Angola-based Sun Ocean Holding, with the Equatorial Guinea-based soft drinks producer Envasadora de Bata and financier QG African Infrastructure, invested in a $53.2 million cold beverage manufacturing and packaging plant in Angola. In December 2016, Sociedade de Distribuição de Bebidas de Angola (Sodiba, part of the Isabel dos Santos group) invested $85 million in the construction of a brewery near Luanda with capacity to produce 144 million liters per year, which will produce Sagres beer under license, as well as a new brand, Luandina. Home-grown beverage company Refriango is investing $32 million in expanding its production plant in Huambo, tripling the plant's beer production capacity. South Africa's Nampak Bevcan opened a $160 million factory in the Viana industrial zone in 2011.[267]

Some investors in the sector are also now investing in upstream production of agricultural inputs. In autumn 2017, Castel, the owner of the Nocal leading beer brand, invested $50 million in grain production on a 3,000-hectare area in the Malanje province.

Aceria de Angola (ADA), a $300 million French investment (K2L Capital), guaranteed by MIGA[268] started its operation of scrap metal recycling in 2015.[269] Aceria de Angola is part of group that is also active in the construction sector.There are other medium size companies in the sector: Fabrimetal (which exported also in the region), Nova Cimangola (cement), Fibrex (PVC), Probetao (concrete products), among others. According to interviews in the sector not all scrap metal is recycled in Angola and some of it is exported.

PROSPECTS

Forecast real household spending to grow by 4.8 percent year-on-year in 2018 and average 5.3 percent per annum over 2018–22. This economic outlook will translate to higher spending on food and nonalcoholic drinks, as disposable incomes rise.

Fertilizers: Danish group Haldor Topsoe has announced the construction of a factory in Soyo municipality in Zaire province in Angola, to produce two million tonnes of fertiliser per year, a project is valued at $2 billion by the CEO.[270]

ISSUES

Access to electricity and water, and, more generally access to key inputs and services, are difficult. This has been compounded by the exchange rate crisis which has curtailed access to imported inputs on which all industries rely heavily. As a result, there is a tendency to vertically integrate to secure access. Large manufacturers have for instance their own logistics fleets, electricity generation and water treatment plants, instead of relying on external providers and public services. Some are now seeking to source raw food material directly as mentioned earlier. These constraints exist not only for manufacturing, but they tend to be more acute given the heavy reliance of the sector on imported raw and semi-finished goods, and energy.

Managerial and technical skills are missing in Angola and typically manufacturing firms will have expatriates filling these functions. This is not only the consequence of being in many cases foreign owned, but the fact that these skills are not available in Angola. Even small manufacturers use expatriates (for instance one the firms met had 66 employees and two expatriates).

To fulfill the objectives of its industrial policy, the government has relied on protection to promote import

substitution. On September 21, 2015 Presidential Decree 5/15 increased consumption taxes up to 80 percent on beverages and selected luxury consumer goods. For example, the new rate is 70 percent for distilled spirits, 60 percent for beer, 50 percent for wine, and 40 percent for juices/water and cosmetics. This law disproportionately favors domestic manufactured beverage products (water and juice) at lower tax rates.[271] Import duties on food and beverages are also high: for example, vegetables and fruit carry duties as high as 50 percent and beverages 43.7 percent on average. These policies contribute to high level of prices and led to the increased prevalence of black markets.[272]

The government provides investment incentives and is promoting SEZs. The value for money of these intervention is unproven. Besides 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.[273] Agri-processing seems better positioned to exploit the country's comparative advantages: a strong agricultural potential, a large domestic market by African standards, and an established presence of local industries.

TABLE D.9 DESIRABILITY SCORES: MANUFACTURING

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Sector contributes to 6 percent of employment. Food processing industries tend to generate more employment than more capital-intensive industries such as chemicals and metals. Petroleum derived products have also relatively high jobs multiplier.	2	3
Economic Growth (15%)	The sector has been growing comparatively faster than the rest of the economy. Food and beverages have strong growth multipliers, while other basic capital-intensive industries (where Angola might develop) are below average.	2	2
Competitiveness and Productivity (25%)	Value added per worker is much higher in manufacturing. However, the relative small size of the sector does not translate now in significant competitive gains.	2	3
Integration and Connectivity (10%)	Angola manufacturing is mainly for the domestic market and will remain so in the future. Food and beverages exports could however increase. Industries are dependent on imported inputs.	1	2
Resilience and Stability (15%)	So far manufacturing has contributed modestly to diversification.	2	3
Environmental Sustainability (10%)	Several industries (chemical, paper) have impact on natural resources and source of emissions but size of the sector is small. Reliance on diesel powered generation is currently an issue.	2	3
Weighted total		**2.05**	**2.75**

TABLE D.10 FEASIBILITY SCORES: MANUFACTURING

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	The oil price shock depressed consumption. Real household spending to grow by 4.8 percent year-on-year in 2018 and average 5.3 percent per annum over 2018–22.	3	4
Production Factors (25%)	Labor and skills: the labor market has been historically restrictive to entrepreneurs and employers, and wages are high compared to other African countries. Skills level is an issue impacting productivity. Nat. resources: Angola has important agricultural resources and oil for chemicalsbut potential not exploited. Capabilities: High-skilled labor is scarce,but the beverage sector shows good levels in this respect.	2 2 2	 3 4 3
Key Inputs (25%)	Energy: The gap between domestic and international fuel prices is 50 percent for gasoline. Electricity is subsidized. But the fiscal cost of these is put into question.Access is an issue. Transport: transport services is not always competitive and infrastructure degrading. Good logistics services in some sectors. Finance: access to cheap capital will be more competitive in a relatively lower oil price environment. International inputs: imports processes are costlyand reliance of inputs for machinery and some production inputs.	1 2 2 2	3 3 3 3
Institutions (25%)	Regulatory: environment is generally poor. IPR: no known regime which could affect future transfer of technology, not really an issue for more basic industries and does not seem to affect branding. Competition: dominated by connected capitalism. Macro stability: Forex probably remains an issue to access inputs.	1 - 1 1	2 - 3 3
Weighted total		**2.1**	**3.3**

TOURISM

CURRENT SECTOR PERFORMANCE

Angola's tourism sector is small in terms of jobs and GDP contribution, and its recent evolution is linked to oil sector performance as most foreign visitors are business travelers. According to the World Travel and Tourism Council data, tourism contribution to GDP in 2016 was 1.8 percent and the sector generated 136,500 jobs (1.5 percent of total employment). The number of tourist arrivals reached 357,000 in 2016, well below its peak of 650,000 in 2013, with the slump being associated with the economic crisis. Before, the sector had been growing steadily (from a very low base) since the end of the conflict in 2002. International tourist receipts were $628 million in 2016, compared to $1.6 billion in 2014, and represent 2.2 percent of total exports.[274] Only one-third of the guests in were foreigners. Portugal, Brazil, and China accounted for half of foreign tourists.[275]

Accommodation in Angola is mostly made of two and three-star hotels and resorts. There are few international-level hotels in Luanda. With the crisis, hotel occupancy rates are currently around 20 to 30 percent according to AHRA the Hotel Association.

Angola has strong potential, with 1,600 kilometers of coast and long sandy beaches, waterfalls (including the second largest in Africa), beautiful landscapes and geological formations, emerging national parks, and a rich cultural heritage and music scene. An inventory developed as part of the 2013 Angolan Tourism Master Plan 2011–20 identified 2,600 distinct tourism resources in the 18 Angolan provinces.

PROSPECTS

Tourism is one of the priority sectors in the government strategy to diversify exports—PRODESI. The 2013 Master Plan acknowledged important challenges to capitalize the country's tourism potential, including the need to attract investment, create jobs, and improve skills. The strategy

presented a gradual approach to improve the competitiveness of the tourism sector, starting with domestic tourism (including foreigners working in Angola), followed by regional tourism, and then international tourism. By 2020, the tourism plan aimed at creating one million direct and indirect jobs, revenue of $4.7 billion and attract 4.6 million domestic and international tourists. Performance so far has been short of these goals.

Three tourism development poles were prioritized in the tourism strategy: Cabo Ledo (a coastal resort near Luanda), Calandula (site of majestic waterfalls in Malanje Province), and Okavango (an area of rich biodiversity in the Okavango-Zambezi river basins). The poles were established as autonomous agencies by presidential decrees in 2011 with the objective to develop infrastructure, preserve the environment, and attract investment in hotels, restaurants, and tourism services. However, not much progress was achieved beyond the planning phase.[276] A fourth pole, was created in the coastal area of Futungo de Belas e Mussulo, managed by the Presidency of the Republic.

More recently, the government has expressed interest in developing PPPs to attract private tourism development in conservation areas. The regulatory framework would need to be developed, as well as the capacity to manage the transactions.

Private investors have expressed interest in the Okavango area to offer a combined package for the area including Angola and Zimbabwe. There are a few investments in luxury eco-lodges: Pululukwa resort in the southern Huíla province (a 35 million dollar investment),[277] and there is emerging private interest exists in high-end lodges for nature based tourism. Opportunities exist in business hotels in Luanda. IFC has approved an investment in a mid-scale business hotel in Talatona (a business and residential suburb) of Luanda, under the Hilton brand.

ISSUES

Visa policy and investment policy have discouraged tourism development, but are currently being reformed: The 2015 Private Investment law required minimum participation of 35 percent by Angolan shareholders in investments in the hotel and tourism sector. This restriction has been lifted in the new law. Presidential Decree 56/18 of February 20 allows citizens from 61 countries, including the European Union, to obtain visa on arrival as of March 30, 2018. This builds on the elimination of visa requirements for citizens of South Africa and Mozambique.A new law reforming the visa regime is under discussion in parliament.

Foreign exchange issues and large players leaving the country: despite being a foreign exchange generating sector, the difficulty to repatriate earnings has disrupted the tourism sector. Accor Hotels pulled out of a deal with Angolan insurance and investment company AAA Activos to open 50 hotels under the IBIS brand in the country by 2017. The hotels have been built and currently sit empty.[278] Emirates cancelled its strategic partnership with Angolan national carrier TAAG and reduced frequency of flights due to issues of repatriation.[279] The contract with Emirates had allowed to balance losses by TAAG and to develop a strategy to turn Luanda into a transit hub for destinations like Lisbon, Johannesburg. Recently British Airways stopped serving Luanda.[280]

High prices relatively to the quality: the overvalued kwanza, high expatriate population, and limited offer, among other factors, drove up the price of accommodation and food in Angola. For years, Luanda has featured as the costliest city for expatriates due to the high-cost of goods and security.[281] The depreciation of the kwanza could contribute to lower prices of tourism and hospitality services, although high end hotels have largely kept their rates in foreign exchange. In some areas, such as taxi services, reliable providers are appearing in the market, contributing to improve service and lower prices.

Lack of infrastructure and limited organized tourist offerings: the existing international airport in Luanda has quality of service constraints (construction of a new international airport with capacity for 13 million passengers is being finalized). Despite large investments, the road network suffers deficiencies. Of the 30 airports in the country, 17 have been rehabilitated, but only 12 of these receive regular commercial flights from the national air carrier TAAG.[282] Overall, outside of Luanda the offer of hotels, restaurants and other tourism services is limited.Health care services outside Luanda are limited.

An unfavorable image fueled by a history of conflict and news of corruption: Angola continues to be associated with conflict, land mines, and more recently with oil-driven corruption. There are also security concerns related to armed robberies.[283] Changing this negative image may take time, but there are examples of countries, like Colombia and Rwanda, that have overcome similar issues. On the positive side, Angola has a rich music and dance scene that is well-known abroad.

TABLE D.11 DESIRABILITY SCORES: TOURISM

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Sector generates less than 2 percent of jobs. This figure may underestimate the sector contribution, given high levels of informality.	1	2
Economic Growth (15%)	The tourism sector is a source of foreign currency, and typically a sector that stimulates growth in other sectors, albeit with low spillovers compared to other sectors. Given the low starting place, it is not expected to be a major driver of growth in Angola in the medium term.	1	1
Competitiveness and Productivity (25%)	Sector has the second lowest, value added per worker.	1	1
Integration and Connectivity (10%)	Currently, the sector is not well integrated with other sectors. Most inputs are imported. There are links to construction if tourism would expand. Also, tourism growth has potential to boost agribusiness and transport sector. Business travel is important with respect to foreign investment.	3	4
Resilience and Stability (15%)	Tourism could contribute to diversification but not expected to achieve large scale.	2	2
Environmental Sustainability (10%)	The impact on tourism on environmental stability will depend on the ability to manage its development. There are significant risks if not well-planned (coastal degradation, impact on health and safety of local communities). Tourism could have a positive impact in terms of conservation in some areas.	3	3
Weighted total		**1.65**	**1.9**

TABLE D.12 FEASIBILITY SCORES: TOURISM

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Crisis has had a very severe impact on arrivals. Global demand for tourism is growing. For the last six years, tourism growth has outperformed the global economy growth. This growth is expected to continue with the rise of wealthy emerging market travelers.	1	3
Production Factors (25%)	Labor and skills: Managerial skills are often imported, limited skills constraint sector development. Nat. resources: Angola has strong natural assets to compete as a tourism destination. Capabilities: A small number of firms approaching international standards.	2 4 2	3 4 3

Table continues next page

TABLE D.12 (*CONTINUED*)

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Key Inputs (25%)	Energy: Accommodation relies on generators, electricity access outside of cities is an issue. Transport: Air connection has been reduced with the economic crisis. National carrier is loss making. Finance: Current macro-financial challenges constraint domestic and foreign investment. Recent reforms expected to remove existing constraints to foreign investment. International inputs: Most inputs imported.	2 1 2 2	3 2 3 2
Institutions (25%)	Regulatory: Visa restrictions and foreign investment restrictions are being reduced. Implementation remains a question. IPR: N/A. Competition: Air transport is expensive and presence of SOE Macro stability: Expected to improve; will depend on adjustment measures and evolution of oil price.	2 - 2 2	3 - 3 3
Weighted total		**1.9**	**3.0**

APPENDIX E

DETAILED SECTOR SCAN RESULTS—NON-TRADED SECTORS

CONSTRUCTION AND REAL ESTATE

CURRENT SECTOR PERFORMANCE

The sector grew substantially during the oil boom years and accounted for 13 percent of GDP in 2016,[284] a share much higher than other countries.[285] After decades of civil war, the country's infrastructure needed to be rebuilt and the government invested heavily in infrastructure and housing. Construction's contribution to the GDP has declined compared to 2012 and is expected to decline further. The sector employed 428,882 people in 2016, equivalent to 6.5 percent of total employment.[286]

Public investments in housing, transport, energy, and water infrastructure fueled the construction boom. These investments have benefitted more the wealthy and the middle class (for instance construction of large housing estates in Luanda that are not affordable enough for the poorest). In 2009, the Angolan set aside around $50 billion and planned to use foreign credit lines (mainly Chinese) to provide a million affordable homes across Angola. About 50 percent of this target has been achieved. Significant investments in building hydroelectric capacity have also been made.[287] From 2005–09, Angola spent $2.8 billion improving the road network. In 2012 the Angolan government stated that it would be investing $1.25 billion in water supplysystems across the country through its *Agua Para Todos* (Water for All) drive.With a tighter fiscal space, public funding of large projects is significantly reduced and has not been replaced by private investment.

Private investment in high-end residential and commercial projects in Luanda and its suburbs also grew fast during the oil boom years. The real estate bubble burst with the onset of the crisis, leading to oversupply, halted projects, and contributing to high non-performing loans.

PROSPECTS

The sector is expected to continue to grow but at a reduced pace of around 4 percent per annum, as the transport and electricity network still face problems, and the oil sector will require construction. The growth of the construction sector is very closely linked to oil prices:with recovering oil prices the government is expected to keep some investment, with continued support from Chinese loans.[288]

Boosting the residential sector is the award of contracts to three major Chinese companies to build over 4,500 houses across six provinces (Luanda, Malange, Bié, Uíge, Moxico and Cunene) at a total of cost of $299 million (Guangxi Hydroelectric Construction Bureau; China Road and Bridge Corporation; and China Machinery Engineering Corporation). In the non-residential sector, a consortium (Van Oord and Urbinveste-Promoções e Projectos Imobiliários) won the contract of the $400 million Marginal da Corimba project in Luanda.[289]

There is an oversupply of commercial real estate: the vacancy rates reached 25 percent for office buildings at the end of 2016. As a result, rents fell by 23 percent. Likewise, the growth in retail developments stopped.

Investment in transport: in Kwanza Sul, the construction of the 800,000 square meter, commercial deep-water port (70 percent Sonangol Holdings and Sogester and 30 percent reserved for private investors). The project will cost an estimated $1.8 billion and will be built in three phases between 2017 and 2024. A deep-sea water port in Caio in Cabinda Province is being developed by China Bridge and Road Corporation. The expected cost of $700 million will mostly covered by loan of up to $600 million from the Export-Import Bank of China.[290] China Railway Construction Corporation has started work on the $185 million extension and modernization of the Maria Mambo Café airport in Cabinda.

Associated with the construction boom, an emerging sector of construction materials developed, although most continue to be imported. One exception is cement. In 2016, the Cimenfort cement plant in the Benguela province entered the third and final phase of its $300 million modernization and expansion project. The plant, which originally produced 700,000 tons of cement annually, will be able to produce double this amount.

ISSUES

The sector relies heavily on public funding. It is unclear whether some of the very large projects will be completed in time or meet original objectives given the fiscal constraints that the government is now experiencing. The economic returns of some of these large investments are also uncertain.[291]

The construction sector is dominated by Portuguese firms drawing on cultural ties and Chinese firms relying on credit lines to develop projects. There have been concerns regarding the lack of transparency and competition in the awarding of contracts.[292]

Housing for middle- and low-income individuals is hampered by the high cost of finance and the challenges in documenting property rights.

TABLE D.13 DESIRABILITY SCORES: CONSTRUCTION AND REAL ESTATE

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	In terms of jobs multiplier, construction is the bottom sector. Home ownership has however a stronger multiplier and housing is important for inclusion. Important transport investments in provinces. The sector contributed to 10 percent of net job creation (150,000 jobs) between 2008–14. This was during a period of heavy investment.	3	2
Economic Growth (15%)	The sector has the third-lowest multiplier and most of the impact is through the development of associated sectors (such as transport). The sector grew to a larger share of GDP.This is not sustainable, and the sector size is expected to diminish.	3	2
Competitiveness and Productivity (25%)	Labor productivity increased by 5.1 percent annually between 2008–14. The quality and price of construction sector has a sizeable impact on input costs in other sectors.	3	3
Integration and Connectivity (10%)	The sector is contributing indirectly in a significant way given it is an essential input for the development of infrastructure.	3	3
Resilience and Stability (15%)	Construction contributes to better infrastructure but has not helped with diversification, taking away resources from other productive sectors.	2	2
Environmental Sustainability (10%)	CO_2 emissions from manufacturing and construction stand at 7.8 percent of total fuel combustion (world average is 20 percent),[4] so the impact is estimated as neutral.	3	3
Weighted total		**3.1**	**2.45**

TABLE D.14 FEASIBILITY SCORES: CONSTRUCTION AND REAL ESTATE

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Expected demand for construction is 4.1 percent per annum. There is a strong government commitment to pursue construction related projects (infrastructure, housing, and oil industry), however given there is overcapacity and fiscal space constraints.	4	3
Production Factors (25%)	Labor and skills: High-level skills are imported, otherwise there is a large supply of unskilled labor. Natural resources: Use of local mining for some materials. Capabilities: Strong presence of large construction companies and productivity is increasing.	3 2 4	3 3 4
Key Inputs (25%)	Energy:Constraints investments in building materials (such as iron). Transport: Cost of transport is high in Angola. Finance: The sector has benefited from soft financing conditions from the government and China and oil rents so far. This is probably not sustainable. International inputs: 30 percent are imported.	2 3 4 2	2 3 2 2
Institutions (25%)	Regulatory: The indicator "Construction Permits" is one of the better Doing Business dimensions, but land procedures are cumbersome and land information is fragmented. Documenting property rights is an issue. IPR: N/A. Competition: Low with dominance of large Angolan groups supported by foreign investors and strong presence of or dependence on the state. Macro stability: This will depend on oil prices outlook so there is uncertainty.	2 - 2 2	3 - 3 3
Weighted total		**3.0**	**2.9**

WHOLESALE AND RETAIL TRADE

CURRENT SECTOR PERFORMANCE

Angola's distribution sector (wholesale and retail) has been hit by the economic crisis ensuing from the fall in oil prices after 2014. Purchase of durable goods has been specially affected. Car sales dropped by 58 percent in 2015 and 52 percent in 2016 owing to a depreciating kwanza and higher fuel costs (due to end of subsidies).Availability of certain goods in the market has been constrained by foreign exchange restrictions, but based on discussions with retailers and direct observation at supermarkets, the impact seems to have been uneven across the sector (some having better access to forex or other coping mechanisms). Disposable household income has been hurt by lower economic activity, and the elimination of fuel subsidies, while inflation has undermined purchasing capacity.

The formal retail sector includes a combination of small corner stores, grocery stores, supermarkets, cash and carry, and high-end stores catering to the wealthy and expatriate populations. The sector includes both Angolan and foreign-owned companies (primarily Portuguese, South African, and Chinese). The supermarket chain with the largest number of outlets "Nosso Super" was built by the government as part of the *Programa de Reestruturação do Sistema de Logística e Distribuição* (Presild). Being unable to manage them, the transferred their management to Brazilian group Odebrecht (which had built them in the first place) in 2011.[293] Other important players in the sector include Shoprite, Maxi Cash and Carry (Teixeira Duarte Group), Kero (Zahara Group), AngoMart (Noble Group), Mega Cash and Carry (Refriango Group), Alimenta Angola, Jumbo, Candando, and Casa dos Frescos.

At the end of the war, supply by the distribution sector was unable to keep up with demand; any warehouse was

able to attract customers, mainly seeking dry goods. The sector experienced rapid growth in the years prior to the economic crisis, owing to the emergence of a growing urban middle class and a large expatriate population, as well as the government efforts to close or relocate informal retailers. Competition has increased as established sophisticated players (Lebanese, Eritreans, Angolans) and new entrants (South African, Portuguese) have invested in modern warehouses (including specialized warehousing such as frozen goods and pharmaceuticals), modern logistics and transport, and brick and mortar stores. Several groups have a nationwide presence. Foreign investment in other retail (such as clothing) is almost non-existent.

Other importers and distributors include: Angolissar, Atlas Group, Rayan Group (FMCGs), and Pedra Angola (luxury goods).

PROSPECTS

Prospects are positive with an expected economic recovery—with a young and more demanding class of consumers in urban centers. The return of economic growth will open opportunities for investment in retail. Estimated spending on food and non-alcoholic drinks will rise from $15 billion in 2017 to $21 billion by 2021.[294] In comparison, spending on clothing/footwear and other household items represents a small category of household expenditure, estimated at $2.10 billion and $2.43 billion, respectively, future growth will continue to be driven by spending by affluent middle-classes. Spending in alcoholic drinks is relatively small, estimated at $0.64 billion in 2017, but expected to grow (mainly beer) given Angola's young population.

In 2015 Angola was ranked third in the AT Kearney African Retail Attractiveness Development Index, based on the potential for investment in the sector.[295] Angola was classified as a country with "basic offerings" based on the large informal sector, predominance of dry goods (mostly imported) in formal retailers, and price being the main purchase driver. The main food distribution companies had expansion plans at the beginning of the crisis. Shoprite announced investments for over $570 million in 2016,[296] while Zahara Group, owner of Kero hypermarket announced plans to invest $1.4 billion in hypermarkets, shopping centers and cinemas.[297]

Italian Cremonini group, represented by Inalca, announced a $200 million investment in an agro-food center (for manufacturing, transformation, preservation and distribution of locally produced food) in the suburbs of Luanda expected to create 1,000 jobs.

Most investors are looking into increasing the share of the locally produced goods on offer at their stores, expanding backward linkages for the sector which is still highly import dependent. The Teixeira Duarte Group developed a program "Fazenda Maxi" working with local fruit and vegetable producers to improve the volume and quality of their supply, allowing them to cut import dependency on these products from 65 percent to 35 percent in three years. Shoprite also has partnership with local farmers for fruits and vegetables. Others are part of diversified groups (MEGA) with investments in agriculture (Nuviagro) and food import/distribution (Plump), food processing (Refriango), and also plans to expand.

ISSUES

Retail, especially food, and in particular fresh produce, is dominated by the informal market. Small stores, open markets, and street vendors are main sale points in the informal market. Estimates put the size of the informal channel between 70-80 percent of the sector.[298]Informal food market channels are dominated by women (*zungeiras and quitandeiras*) who sell the products in market stalls or in the streets. Other goods, such as cell phones, are sold by men. The government has been trying to close/relocate informal markets, but market infrastructure is still insufficient. Food safety reasons (such as the lack of cold chain) are main reason for cracking down on informal food markets.[299]Modern retailers (such as Noble Group) are also diversifying now toward populations served by informal markets with networks of smaller stores.

The sector depends largely on imports, which explains also why many large retailers have been closely associated to large importers (for instance Zahara, Noble). It is estimated that Angola still imports over half of its food consumption needs.

Poor road infrastructure and high transport costs hamper the expansion of the sector across the country. Distribution companies are vertically integrated, having their own truck fleets. Shoprite stores, for instance, relied on imports from South Africa through Namibia, which have been affected by the degradation of the road.

TABLE D.15 DESIRABILITY SCORES: WHOLESALE AND RETAIL TRADE

Desirability	Explanation	Rating (1–5)	
		Current	Expected
Inclusion and Jobs (25%)	Sector employs a high number of people (1.7 million based on national accounts data)—many of which are women. Expansion of formal channels can create jobs for youth and women, although only few of those will be high-skilled jobs. However, the sector has low direct and indirect employment multipliers, although induced multipliers are higher.	3	4
Economic Growth (15%)	Low GDP multipliers as most inputs are imported. However, potential for driving demand for higher quality, locally produced goods (mainly fresh produce) and strong linkages to transport and logistics sector.	2	2
Competitiveness and Productivity (25%)	Labor productivity is in the bottom third of all sectors. Sector provides inputs to many other sectors through imports and could potentially drive productivity in agribusiness.	2	2
Integration and Connectivity (10%)	Most processed goods are imported (lower for fresh goods but still about 50 percent), growing link to agriculture but still limited in formal sector. Sectors receives market-seeking FDI.	2	3
Resilience and Stability (15%)	As a non-tradable sector it does not contribute to diversification of exports.	2	2
Environmental Sustainability (10%)	Direct environmental impact is limited except for packaging,and indirect impacts through transport.	3	3
Weighted total		**2.35**	**2.7**

TABLE D.16 FEASIBILITY SCORES: WHOLESALE AND RETAIL TRADE

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Demand (25%)	Growing demand due to population growth and high levels of urbanization, also prospect of formal sector growth in urban centers outside Luanda.	4	5
Production Factors (25%)	Labor and skills: large pool of unemployed youth, but skills levels are low, including literacy. Labor laws are adequate but restrict firing. Absenteeism and low productivity are an issue. Nat. resources: not a major factor. Urban population is 63 percent. Capabilities: growing foreign presence with modern practices and higher productivity.	2 4 4	3 4 4
Key Inputs (25%)	Energy: Limited reach and reliability of electricity supply (especially outside Luanda), but expected to improve with investments in generation and distribution. Transport: Poor, but improving quality of road infrastructure, is an important factor for sector expansion across the country.Sector is driving good logistics. Finance: Current macro-financial challenges constraint domestic credit to the sector, but ongoing reforms expected to bring stability. Int. inputs: Most inputs imported.	2 3 2 2	3 3 3 2

Table continues next page

TABLE D.16 (*CONTINUED*)

Feasibility	Explanation	Rating (1–5)	
		Current	Expected
Institutions (25%)	Regulatory: high levels of red tape, including for import and export (ranks low in the Doing Business "trading across borders" indicator). Government committed to improve business environment. Implementation remains a question. IPR: No IP framework. Competition: Relatively high levels of competition in the sector Macro stability: Expected to improve but will depend on adjustment measures and evolution of oil price.	2 - 4 2	3 - 5 3
Weighted total		3.1	3.7

NOTES

1. The Angolan kwanza devalued by about 46 percent in nominal terms against the U.S. dollar in 2018. Because of greater exchange rate flexibility and more FX supply, the parallel-official exchange rate spread decreased to less than 30 percent–vis-à-vis 140 percent in the beginning of the year.

2. Commonly referred to as "Dutch disease" resulting from the impact of gas discovery in the Netherlands in the 1960s.

3. World Bank Systematic Country Diagnostic (2018).

4. World Bank. 2008.

5. 55 percent live below the poverty line of $3.1/day. Source: World Bank. 2018c.

6. World Bank. 2018d.

7. World Bank estimate.

8. World Bank. 2019. World Bank Country Economic Memorandum.

9. Agriculture accounts for 44.9 percent of total employment because of non-firm informal employment.

10. Among non-extractives exports, a recent study for the government identifies fish (23 percent of exports outside oil and diamonds), stone (18 percent), wood (9 percent) and beverages (8 percent) as the main products exported between 2012 and 2016.

11. BKP 2017.

12. FDI Markets Database from the Financial Times. Data is based on company announcements.

13. See also UCAN. 2016.

14. IMF. 2018; UNCTAD. 2018.

15. World Bank 2018c

16. World Bank 2017c.

17. World Bank 2017c. This was the total number of jobs created in activities outside of agriculture, manufacturing, construction, transport and communication and public administration.

18. Ibid.

19. World Bank 2017c.

20. Ibid.

21. INE 2016.

22. Medina and Schneider 2017.

23. The last World Bank Enterprise Survey was conducted in 2010. An update is planned in 2019. In addition, the National Statistics Institute is planning to update its business registry (REMPE) and introduce a commercial survey.

24. World Bank staff calculations from IGAPE data.

25. Latest ISEP (Instituto para o Sector Empresarial Público) report (2012 data). ISEP. 2012. http://preview-dev.isep.co.ao/home/publicações/relatório.aspx.

26. Ministry of Finance data.

27. World Bank. 2018. Selected Policy Notes for Incoming Administration of Angola.

28. Boost. 2017. Price subsidies were above budgeted estimates for the years 2010 to 2014 (with an average of 79 percent). For direct transfers, executed amounts were higher in 2012, 2013, and 2016 (77 percent above budgeted amounts).

29. Concept Note for the Corporate Governance and Financial Performance of State-Owned Enterprises in Angola (P167953).

30. IGAPE replaced the Institute for the Public Enterprise Sector (*Instituto do Sector Empresarial, ISEP*).

31. IMF art IV report, 2017 and IMF art IV report, 2018.

32. For example, the main party MPLA is reported to have invested wide-ranging interests in banking, aviation, hotels, breweries, media and telecoms, agribusiness, and industry, through a business conglomerate called GEFI.

33. Fundo Soberano. 2018. http://www.fundosoberano.ao/investments#tab2.

34. U.S. Commercial Service. 2017.

35. David Pegg. 2018. *Head of Angola's wealth fund fired after Paradise Papers revelations*. The Guardian. https://www.theguardian.com/news/2018/jan/11/head-angola-wealth-fund-fired-paradise-papers-revelations.

36. Universidade Católica de Angola. 2016. *Relatório Económico de Angola*. Centro de Estudos e Investigação Científica.

37. Angop. 2018. "Angola Investe spends USD 900 million on more than 500 projects." *Angecia Angola Press*. June 27. http://www.angop.ao/angola/en_us/noticias/economia/2018/5/26/Angola-Investe-spends-USD-900-million-more-than-500-projects,8379848b-d477-4776-9ae8-dbee73065a37.html.

38. Macau Hub. 2018. *Angola Investe Program finances 515 business projects from 2013 to 2017*. https://macauhub.com.mo/2018/06/28/pt-programa-angola-investe-financia-515-projectos-empresariais-de-2013-a-2017/.

39. World Bank. 2018. *Human Capital Index and Components, 2018*. https://www.worldbank.org/en/data/interactive/2018/10/18/human-capital-index-and-components-2018.

40. TCData360. https://tcdata360.worldbank.org/.

41. In PPP terms Angola is still ahead of Nigeria ($6,454 against $5,861) and ranks 10th in the continent.

42. U.S Chamber of Commerce. 2017.

43. Since the scan uses international indicators that often measure circumstances with a lag, the recent macroeconomic situation in the country is not fully reflected.

44. World Bank. 2018. *Country Economic Memorandum*.

45. Teka. 2011.

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50. Bertelsmann BTI. 2018.

51. Law No. 5/18 of May 10.

52. World Bank. 2018.

53. Law No. 2/15, of February 2.

54. Tribunal de Contas, Inspeccao Geral do Administracao do Estado, Tribunal Supremo, Ministerio Publico, Policia Economica, Unidade de Informacao Financeira, Inspeccao Geral das Financas.

55. World Bank. 2018. Republic of Angola. *Selected Policy Notes for Incoming Administration of Angola*.

56. Ibid.

57. Ibid.

58. These aspects are discussed in more detail in the discussion of individual sectors.

59. Presidential Order No. 19/18 of 20 February 2018.

60. Almeida, Henrique and Mendes, Candido. 2017. "Angola wants international investors in state-owned telecoms provider." *Business Live*, December 1. https://www.businesslive.co.za/bd/world/africa/2017-12-01-angola-wants-international-investors-in-state-owned-telecoms-provider/.

61. OECD. 2010. *Privatisation In The 21st Century: Summary of Recent Experiences*. https://www.oecd.org/daf/ca/corporategovernanceofstate-ownedenterprises/43449100.pdf

62. Presidential Decree No. 141/18 of 7 June 2018. http://www.ucm.minfin.gov.ao/cs/groups/public/documents/document/zmlu/mdm4/~edisp/minfin038564.pdf.

63. Ibid.

64. Law No. 2/11 of 14 January 2011.

65. Law 9/16.

66. World Bank. 2018. *Private Participation in Infrastructure database*. For instance, the World Bank PPI database records only 9 projects for a total a $2.5 billion mainly in telecoms.

67. Ministry of Economy and Planning. 2017. *Balanço-Sintese das Parcerias Publico-Privadas*.

68. World Bank. 2018.

69. Which resulted in operational challenges for these units. Andre dos Anjos. 2018. *Milhares de toneladas de cerais em risco de apodrecerem en silos*. Jornal de Angola. http://jornaldeangola.sapo.ao/economia/milhares_de_toneladas_de_cereais__em_risco_de_apodrecerem_em_silos_1.

70. Sociedade de Estudo e Desenvolvimento Industrial, Agrícola e Comercial (SEDIAC).

71. ALCO. 2017. *Abidjan-Lagos Trade and Transport Facilitation Project*.

72. LTI, Logistics and Integrated Transport, Lda. 2017. *Presentation 2017*. http://www.ltiangola.com/wp-content/themes/ltitheme/docs/lti-2017-en.pdf.

73. Euromonitor. 2017. *US Country Commercial Guide*. https://blog.euromonitor.com/2017/02/future-of-logistics-algeria-kenya-and-angola-offer-best-opportunities-in-africa.html.

74. Noting that Ethiopia's international passengers' traffic is much larger than Angola's, estimated at between 8-9 million passengers.

75. For instance, for the financing of the Soyo I gas power plant.

76. US Aid. 2018. *Angola Power Africa Fact Sheet*. https://www.usaid.gov/powerafrica/angola.

77. Water Power Magazine. 2017. *Cambambe 2 opens in Angola*. http://www.waterpowermagazine.com/news/newscambambe-2-opens-in-angola-5884156.

78. The project was supported by a MIGA guarantee. MIGA. 2016. *Cambambe Hydroelectric Project-Phase II*. https://www.miga.org/node/2102.

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80. At the time of the writing of this report, Soyo I and the Lauca hydropower plant are not fully operational. General Electrics. 2018. *GE hits 100th power plant milestone in Sub-Saharan Africa*. http://www.genewsroom.com/press-releases/ge-hits-100th-power-plant-milestone-sub-saharan-africa-284399

81. Ministerio da Energia e Aguas. 2019. *Angola Energy 2025. Demand forecast*. http://www.angolaenergia2025.com/en/conteudo/demand-forecast.

82. 3,354 kilometers to 16,350 kilometers.

83. Prices of all fuels, including crude oil and associated exchange rate for the refinery have been frozen since January 2016. $39.98 per barrel at an exchange rate of 156 kwanza contrasts with the May 2018 Angolan crude oil prices of $75–76 per barrel and an exchange rate of 232 kwanza to the dollar, signaling a significant input subsidy to the domestic refinery. World Bank Concept note on Angola Energy Subsidy Reform.

84. Kojima, Masami, Xin Zhou, Jace Jeesun Han, Joeri de Wit, Robert Bacon, and Chris Trimble. 2016. *Who Uses Electricity in Sub-Saharan Africa? Findings from Household Surveys*. Policy Research Working Paper 7789, World Bank. https://openknowledge.worldbank.org/handle/10986/25029.

85. World Bank Concept note on Angola Energy Subsidy Reform.

86. According to BMI research the governments of Angola and Namibia have committed to covering 30% of the development's costs.

87. Angola Energia 2025 also mentions the amount of $8.9 billion, which seems a typographic error given that private participation of $7.5 billion in generation and $2.3 billion in distribution is foreseen. Ministerio da Energia e Aguas. 2019. *Angola Energy 2025. Private participation.* http://www.angolaenergia2025.com/en/conteudo/private-participation.

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90. Export.gov. 2018. *Angola energy. Power generation*. https://www.export.gov/article?id=Angola-Electric-Power-Generation.

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92. World Bank Policy Note. 2017.

93. GSMA Intelligence, 2019.

94. Buddecom. 2018.

95. Angola Telecom retains a 18% share in Movicel and Correios de Angola 2%.

96. Buddecom. 2018.

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99. Sub-Cable World. 2018. *A Major Change in Network Configuration.* https://www.subcableworld.com/newsfeed/fiber-optic-cables/a-major-change-in-network-configuration-2

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103. TeleGeopraphy. 2017. *Angola: 'fourth operator' to be licensed; Angola Telecom to be part-privatised*.https://www.telegeography.com/products/commsupdate/articles/2017/11/29/angola-fourth-operator-to-be-licensed-angola-telecom-to-be-part-privatised/; Bloomberg. 2017. *Angola Plans to Open up Telecoms Industry to Foreign bidders*. https://www.bloomberg.com/news/articles/2017-11-30/angola-plans-to-open-up-telecoms-industry-to-foreign-bidders.

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105. World Bank. 2018d.

106. Ibid.

107. National Coordinator of the Fight against Malaria program.

108. BMI Report. 2017. Americo Boavida Hospital in Luanda has for instance been voicing medicine and staff shortage problems.

109. Angolan Medical Association. 2018.

110. World Development Indicators. 2018.

111. World Health Organization. 2018.

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113. Ibid.

114. Angola Country Commercial Guide. 2017.

115. Health Policy Project, Angola. 2016. *Health Financing Profile.* https://www.healthpolicyproject.com/pubs/7887/Angola_HFP.pdf.

116. BMI. 2017. Growth calculated based on Angolan kwanza (not U.S. dollars).

117. Ibid.

118. Health Policy Project, Angola. 2016. *Health Financing Profile.* https://www.healthpolicyproject.com/pubs/7887/Angola_HFP.pdf.

119. *Doing Business*. 2018.

120. BMI Report. 2017.

121. BBC. 2017. *Angola's state hospital poor people assume is private*. https://www.bbc.com/news/world-africa-41265874.

122. See USAID's Landscape Analysis and Business Case for mHealth Investment in Angola report for more details.

123. Angola, CORE Group Polio Project Quarterly Report. April to June 2013. http://www.coregroup.org/storage/Polio_Initiative/Angola/CORE_ANGOLA_PROGRESS_REPORT_APRIL_TO_JUNE_2013.pdf.

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125. BMI Report.

126. An initiative piloted by Silicon Valley startup Zipline. Paul Nuki. 2018. Pointing the way: how medical drones are saving lives in Africa. The Telegraph. https://www.telegraph.co.uk/news/0/pointing-way-medical-drones-saving-lives-africa/.

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128. Open to export. 2015. Education sector in Angola. https://opentoexport.com/article/education-sector-in-angola/

129. The World Folio. 2016. *Angola builds its human capital*. http://www.theworldfolio.com/news/angola-builds-its-human-capital/4012/.

130. World Economic Forum. 2014.

131. In May 2017, INAGBE announced 4,193 domestic scholarships (200 for post graduate and the remainder for undergraduate courses) to be funded by a 16 billion-kwanza (about $56 million) budget.

132. For instance, in 2017, Angola-based investment firm ABO Capital announced that it acquired a Turkish school south of the capital Luanda. Complexo Escolar Privado Internacional (CEPI) provides education for pre-school through high school students. How we made it in Africa. 2017. *Investment firm on why acquired a school in Angola*. https://www.howwemadeitinafrica.com/investment-firm-acquired-school-angola/59438/.

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134. The UK government has also identified similar opportunities: recognized and certified vocational and practical training in a variety of sectors; qualitative training by certification, especially in technical areas, health and safety, accounting, economics, architecture; English language providers for secondary education and professional level, particularly for the oil & gas, aviation, tourism and hospitality industry; agri-business skills. Open to export. 2015. *Education sector in Angola*. https://opentoexport.com/article/education-sector-in-angola/.

135. Discussions with the industry in Angola reveal that people with high school diploma are typically looking for short courses in human resources, accounting, finance, IT, management and foreign languages, when there is not necessarily strong demand in all these areas. In contrast, in Kenya the demand is for health and tourism courses that are more relevant with the local growing industries.

136. Diario de Noticias. 2018. *Angola com nova Pauta Aduaneira a partir de 09 de agosto*. https://www.dn.pt/lusa/interior/angola-com-nova-pauta-aduaneira-a-partir-de-09-de-agosto-9345860.html.

137. Specifically, credit is concentrated among six sectors: wholesale and retail trade (20 percent), building activity and other services (14 percent), construction (12 percent), other service activities—social and personal (14.4 percent), households (18 percent), and manufacturing (9 percent). Key sectors' shares of gross credit changed very little between 2010 and 2015.

138. BMI Research.

139. World Bank. 2018c.

140. U.S. Department of State. 2017.

141. 2014 Population Census.

142. Guanziroli. 2018.

143. FAO Angola Country Programming Framework 2013-2017. The country presents five distinct agroecological areas: an arid and semi-arid coastal area from Namibia to areas north of Luanda; a moist interior plateau; an average sub-humid interior area, part of which contains dense forest (especially in the north); an area of dry savanna in the south-east and a humid area of rainforest in the north. A small strip of desert also covers the extreme southwest, which joins the Namibia desert to the south. Rainfall decreases from north to south.

144. Guanziroli. 2018.

145. Global Water Partnership. 2006. *IWRM Survey and Status Report: Angola*. https://www.gwp.org/globalassets/global/gwp-saf-files/angola-iwrm-report.pdf

146. BMI Research. 2017.

147. The team had the opportunity to see fields of tomatoes and cabbage devastated by the tuta absoluta worm.

148. Road density is 6 kilometers per 100 square kilometers, one of the lowest in Southern Africa. The rural access index is 42 percent, which is the fourth lowest in the world after South-Sudan, Chad, and Mali. World Development Indicators.

149. BPC has 239 branches across all Angolan provinces.

150. An ongoing agriculture census developed with support from the World Bank will help provide a more accurate picture of existing agriculture producers.

151. World Bank. 2016. *Implementation Completion Report for the Market Oriented Smallholder Agriculture Project*.

152. There are about 700 government agronomists/ technicians for about 4 million smallholder farmers. This represents one extension officer to 5,722 producers, compared to one per 280 farmers in some Asian countries (China, Vietnam), one per 1000 in Nigeria and one per 2500 in Malawi.

153. World Bank. 2006.

154. Princeton University. 2016. *Faster together. A one-stop shop for business registration in Senegal, 2006-2015*. https://successfulsocieties.princeton.edu/sites/successfulsocieties/files/MG_AFD_Senegal%20BCE_FORMATTED_20May16%5B1%5D.pdf

155. Barber, Sir Michael. 2018. "It's all in the detail: Key lessons of delivery in government." *Medium*, June 13. https://medium.com/@michael.barber/its-all-in-the-detail-key-lessons-of-delivery-in-government-5b0d918afdb4

156. Guislain. 1997.

157. Andrews et al. 2017.

158. Premium Times. 2018. *Why Nigeria's power privatization hasn't achieved full objective—BPE boss*. https://www.premiumtimesng.com/business/business-interviews/277773-why-nigerias-power-privatisation-hasnt-achieved-full-objective-bpe-boss.html.

159. Shostak et al. 2014.

160. World Bank. 2017d.

161. The Ministry of Agriculture recognizes limitations in agriculture statistics.

162. FAOSTAT. 2018. http://www.fao.org/faostat/en/#country/7.

163. Ministry of Agriculture. 2017. *Medium-term Development Plan for the Agriculture Sector 2018-2022.*

164. Jose de Assunção Sambo Tomas. 2013. *Agriculture as a tool for development in Angola.* African Journal of Agriculture. Vol. 8(50), 6643–6644.

165. It is likely that exports of beverages to countries in the region are not well reported in trade statistics.

166. According to USDA (2018). Industry experts put production estimates in around 3,000 tons.

167. 2014 Population Census.

168. In 2015 Angola established import quotas on 14 food and beverage products where domestic production is deemed do meet 60 percent of market demand. While this law remains on the books, the implementation of quotas has been deferred indefinitely. The decree also required importers of a range of food and building materials products to register through a new process that includes presentation of company details, projected import volume, and a demonstration of warehousing/ refrigeration capacity. Further, regulations prohibit importers from participating in distribution and retail activities. US Country Commercial Guide. 2017. The Economist. 2015. Angola enforces new rules on food imports. http://country.eiu.com/article.aspx?articleid=1373435921&Country=Angola&topic=Economy&subtopic=Forecast&subsubtopic=Policy+trends&u=1&pid=1961778780&oid=1961778780.

169. Export.gov. 2018. *Angola- Agricultural Products.* https://www.export.gov/article?id=Angola-Agricultural-Products.

170. For example, the cooperatives law was reformed in 2015. Until then, cooperatives were regulated as associations with production, consumption and common services objectives, not business activity.

171. Universidade Católica de Angola. 2016. *Relatório Económico de Angola.*

172. *Universidade Católica de Angola. 2015. Relatório Económico de Angola.*

173. World Bank. 2016. *Implementation Completion Report for the Market Oriented Smallholder Agriculture Project.*

174. World Bank. 2018. *Republic of Angola: Selected Policy Notes for Incoming Administration of Angola.*

175. Guanziroli. 2018.

176. FAO Angola Country Programming Framework 2013-2017. The country presents five distinct agroecological areas: an arid and semi-arid coastal area from Namibia to areas north of Luanda; a moist interior plateau; an average sub-humid interior area, part of which contains dense forest (especially in the north); an area of dry savanna in the south-east and a humid area of rainforest in the north. A small strip of desert also covers the extreme southwest, which joins the Namibia desert to the south. Rainfall decreases from north to south.

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178. Law 9/04 of November 9.

179. Global Water Partnership. 2006. *IWRM Survey and Status Report: Angola.* https://www.gwp.org/globalassets/global/gwp-saf-files/angola-iwrm-report.pdf

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182. The team had the opportunity to see fields of tomatoes and cabbage devastated by the tuta absoluta worm.

183. INCATEMA. 2018. *Diagnostic of Supporting Infrastructure Current Status in the Project area. Commercial Agriculture Development Project.*

184. Ministerio da Energia e Aguas. 2016. *Angola Energia 2025. Angola Power Sector Long Term Vision.*

185. BPC has 239 branches across all Angolan provinces.

186. Rede Angola. 2015.*Crédito Agrícola de Campanha recuperou apenas 2% do que emprestou.* http://www.redeangola.info/credito-agricola-de-campanha-recuperou-apenas-2-do-que-emprestou/

187. Republic of Angola. Financial Sector Strategy 2017-2017.

188. Law 7/2005, and Presidential Decree n. 93/16despite comprehensive regulation being issued in 2016. Decree n. 92/04 prohibits the import of genetically-modified or transgenic seeds unless carried out for food security purposes.

189. 189 World Bank. 2017. *Breaking down barriers: Identifying entry points to improve market dynamics of agricultural inputs in Angola* (unplublished).

190. An ongoing agriculture census developed with support from the World Bank will help provide a more accurate picture of existing agriculture producers.

191. Andre dos Anjos. 2018. *Grandes projectos agrícolas têm graves falhas de gestão.* Jornal de Angola. http://jornaldeangola.sapo.ao/economia/grandes_projectos_agricolas___tem_graves_falhas_de_gestao

192. N'Zeto farm in Zaire province was sold to Nosiangola, Lutuau Farm, in Malanje, was sold to Anzi investments, Cacanda Farm, Lunda Norte, was sold to Socolil. Agricultiva Farm, Negage, in Uige was sold to Soanorte, and Sacassange Agrolivestock Farm, in Moxico province, was sold to GAPPIL, Lucala-Casuso Poultry Complex, between Malanje and Cuanza Norte, was sold to Lottie-Empreendimentos.

193. Ministry of Agriculture. 2017. *Mid-term Development Plan for the Agriculture sector 2018-2022.*

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203. Lourenço Bule. 2018. *Perímetro irrigado do Missombo abandonado por falta de dinheiro*. Jornal de Angola. http://jornaldeangola.sapo.ao/provincias/perimetro_irrigado_do_missombo_abandonado_por_falta_de_dinheiro_1

204. The Aggregated LPI combines the four most recent LPI editions. Scores of the six components across the 2012, 2014, 2016 and 2018 LPI surveys were used to generate a "big picture" to better indicate countries' logistics performance. This approach reduces random variation from one LPI survey to another and enables the comparison of 167 countries. Each year's scores in each component were given weights: 6.7 percent for 2012, 13.3 percent for 2014, 26.7 percent for 2016, and 53.3 percent for 2017.

205. For instance, transport accounts for 12.2 percent of GDP in Nigeria, 9.1 percent in Côte d'Ivoire, 11.66 percent in Congo, and 7.3 percent in Cameroon. Open Data Africa. 2017. http://dataportal.opendataforafrica.org/

206. US Country Commercial Guide; Euromonitor. 2017. *Future of Logistics: Algeria, Kenya and Angola Offer Best Opportunities in Africa.* https://blog.euromonitor.com/2017/02/future-of-logistics-algeria-kenya-and-angola-offer-best-opportunities-in-africa.html

207. With assistance from the African Development Bank, the government is currently drafting a new strategy.

208. The previous government wanted to revamp Secil Maritima. This does not seem to make a lot of economic sense as there is no recent history of a successful national African shipping line.

209. 209 A study on Cabotage in Northern Angola was commissioned in 2011. The goal was to link Cabinda, Soyo, Nzeto on the coast with Pedra do Feitigo, Noqui on the river Zaire. No update was available for this report.

210. Except Cabinda that is a public entity.

211. Multiterminais, including 20,000 tons export of wheat bran pellets. Imported commodities are: wheat, corn, steel, fertilizers, rice, sugar.

212. 10 kilometers from Namibe is the bulk port of Saco Mar. Built in 1967 it reached its peak in 1973 with over 6 Million tons of bulk iron from Jamba and Cassinga. The quay length is 525 Meters and draft 19 meters.

213. Decree No. 207/17, of September 20 was revoked on the grounds of not complying with the criteria set out in the Public procurement Law (Law 9/16).

214. ALCO report. 2017. Abidjan-Lagos Trade and Transport Facilitation Project.

215. Previously operated by Bolloré Logistics.

216. Which may in turn be driven by oil rents flowing to sectors importing a lot.

217. EP17.

218. There seems also to be agreement over the small prospects for the transport of cargo on the inland waterways due to geographical constrains.

219. A new Airport is being built with support from China in Cabinda. It will extend the current runway from 2,500 meters x 30 meters to 3,400 meters x 60 meters. Forty percent of the constructions has been done and it seems that work is stopped right now due to lack of payment to Chinese contractor.

220. Mark Caswell. 2018. *British Airways suspends Luanda service*. Business Traveller. https://www.businesstraveller.com/business-travel/2018/05/24/british-airways-suspends-luanda-service/.

221. Reuters. 2017. *Emirates cuts flights to Angola over revenue repatriation issues.* https://www.reuters.com/article/us-emirates-angola-idUSKBN19V2BY.

222. Sam Bridge. 2018. *Emirates set to reinstate flights on Angola route.* Arabian Business. https://www.arabianbusiness.com/travel-hospitality/398642-emirates-set-to-reinstate-flights-on-angola-route.

223. Five 737-700, three 777-200, and five 777-300.

224. There is also one presidential and protocol terminal with a dedicated jet bridge.

225. The AfDB is also providing support to trade facilitation on the Lobito corridor. AfDB. 2017. *Lobito corridor trade facilitation Project.* https://www.afdb.org/en/projects-and-operations/project-portfolio/p-z1-kf0-027/

226. Major Logistics Operators have expressed their interest in taking an active participation in CFB.

227. Observation by authors; Jornal de Angola. 2018. *Caminho-de-Ferro de Benguela transporta mais minério da RDC.* http://jornaldeangola.sapo.ao/economia/caminho-de-ferro_de_benguela_transporta_mais_minerio_da_rdc

228. CMI and CEIC. 2014.

229. The Angolan Road Fund reported spending about 10 billion kwanzas ($60 million) in 2017 to maintain 2,200 kilometers of national and secondary roads (a total of 76,000 kilometers of which 18,000 is paved, AfDB Angola Country Strategy Paper 2017-2021), 17 percent of the amount spent came from revenues collected through road tax in 2016, with the remaining 83% of that amount coming from transfers from the State Budget.

230. LTI, Logistics and Integrated Transport, Lda. 2017. *Presentation 2017*. http://www.ltiangola.com/wp-content/themes/ltitheme/docs/lti-2017-en.pdf.

231. Country Private Sector Diagnostic (CPSD)—A practical guidance note. 2018.

232. The PLR for the CPS is due for submission to Board at the end of February 2018. It proposes an extension of the CPS to 2019 to coincide with the new SCD and allow time to develop the next CPF.

233. The original CPS pillars were the following: 1) supporting integrated national economic diversification; (2) enhancing the quality of public services in education, health, and water and sanitation, and deepening the protection of the vulnerable and marginalized citizens; and (3) building adequate human and institutional capacity.

234. World Bank. 2014. *CO2 emissions from transport (% of total fuel combustion)*. https://data.worldbank.org/indicator/EN.CO2.TRAN.ZS?locations=AO

235. Jose de Assunção Sambo Tomas. 2013.

236. FAOSTAT, latest year available. http://www.fao.org/faostat/en/#home

237. Universidade Catolica de Angola. 2016.

238. BMI Research. 2017.

239. Including agricultural insurance, warehouse receipts, equipment leasing, and a mobile collateral registry.

240. Road density is 6 kilometers per 100 square kilomters, one of the lowest in Southern Africa. The rural access index is 42 percent, which is the fourth lowest in the world after South-Sudan, Chad, and Mali (World Development Indicators).

241. World Bank. 2018b.

242. BKP Development Research and Consulting. 2017.

243. INE. 2018. National Accounts data. In 2012, the sector represented 1.7% of the country's GDP according to the FAO. A recent report by UCAN estimates it at 3% of GDP in 2016 although this looks like an outlier compared to previous years, including 2015, that put the sector at around 1.5% of GDP.

244. UCAN. 2016.

245. International demand factors and the incentive to procure foreign currency during the crisis may have contributed to this growth so the growth of exports should not be taken as a direct indication of the change in production.

246. World Bank. 2018b.

247. BKP and UCAN.

248. This would mean that production is currently at 340,000 tons according to the government.

249. World Bank. 2018b.

250. Given the importance of this fish for the domestic diet, the authorized the import of large amounts of horse mackerel at low tariffs to reduce the pressure on stocks and increase supply on the domestic market. The fishing ban was partially lifted in 2011. BKP. 2017.

251. FA. 2015.

252. Angola cut its production as part of OPEC.

253. IMF.2017.

254. The oil &gas year. 2017. *Sonangol seeks investors in new refinery*. https://www.theoilandgasyear.com/news/sonangol-seeks-investors-in-new-refinery/; Macau Hub. 2016. *Sonangol suspends works at the Lobito refinery in Angola*. https://macauhub.com.mo/2016/08/22/sonangol-suspends-works-at-the-lobito-refinery-in-angola/

255. BMI. 2018. *Angola faces oil industry crisis*. https://oilprice.com/Energy/Energy-General/Angola-Faces-Oil-Industry-Crisis.html

256. US Gov. 2018.Industry analysts (Wood Mackenzie) project that without needed new investment in mature fields that dominant in Angola, production is estimated to decline significantly by 2030.

257. State of the Nation address by President Joao Lourenço. October 16, 2018.

258. USGS. 2014.

259. Observatory of Economic Complexity. 2018. *Angola*. https://atlas.media.mit.edu/en/profile/country/ago/

260. Kimberly Process. 2017. *Angola*. https://www.kimberleyprocess.com/en/angola#2015

261. World Bank. 2018c.

262. BMI Research.

263. S&P Global. 2018.

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265. Golub and Prasad. 2016.

266. An average of a bit less than $1 million over 2013-2016 period.

267. Illustrating the capital intensity of the sector, the plant will have 227 staff.

268. MIGA. 2015. MIGA Supports Manufacturing Investment in Angola. https://www.miga.org/Lists/Press%20Releases/CustomDisp.aspx?ID=481

269. Kieron Monks. 2016. CNN. *Angola makes new steel from old guns*. https://www.cnn.com/2016/03/01/africa/angola-guns-steel-industry-feat/index.html. According the website it employs 500 persons.

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273. Golub and Prasad. 2016.

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