

## Angola's Current Economic Prospects: Oil Curse or Blessing? (ARI)

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**Theme:** The author reviews the economic boom that Angola is currently experiencing in a post-election context, despite the global economic downturn. While Angola's impressive growth rates were initially a result of high oil prices, increasingly the economy is driven by the non-oil sector, primarily through construction and heavy public spending under the auspices of the national reconstruction programme.

**Summary:** Despite the global financial crisis, Angola's economy seems to be leaping from strength to strength notwithstanding considerable developmental challenges. This paper considers the country's political context following the first democratic elections held in 16 years and the consequent shuffles in the corridors of power. Developments in Angola's oil, construction and finance sectors are also examined. As with several African countries, it appears that limited global integration has for once played in Angola's favour. While external risks are posed by violently fluctuating oil prices, and the monumental internal challenges of national reconstruction and development are evident, at least on paper, Angola's prospects are bright for the moment. The key to long-term sustainable growth, particularly in the current global context, will be in the more equitable redistribution of Angola's considerable wealth. While the country's newly-elected parliamentarians are making all the right noises, given Angola's current political structures, it is the President and his entourage who will have the final say.

**Analysis:** Angola, by many accounts, seems to be on the cusp of a real economic take-off. The annual growth rate has sustained an average of 15% since the turn of the millennium. According to the Deputy Minister of Planning, Carlos Alberto Lopes, credit made available to the economy has multiplied by about 20 times in the past few years, a far cry from a mere five years ago when Angola battled to secure finance from the international financial institutions. Of greater importance, deposits in Angola's banks have risen by 1,300%, reaching US\$7.7 billion at the end of 2007. This illustrates the rising confidence in the Angolan kwanza as well as in the domestic banking sector, and has served to boost the domestic financial system. Angolans with bank accounts had previously preferred to keep their money off-shore. Angola's foreign reserves have also almost doubled since December 2007 to more than US\$19 billion, boosting investor confidence.

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There have also been important political developments. In September 2008, Angola's 8.3 million registered voters went to the polls for legislative elections for the first time in 16 years. The ruling party won a landslide victory with 81% of the vote. Suspected electoral irregularities notwithstanding, however, the outcome was accepted by the opposition, a result that cannot be taken for granted in the context of Angola's politics. Despite sporadic and isolated incidents of intimidation, the election procedures were marked by a relative lack of violence, given Angola's history. Furthermore an increase in women's participation has been observed; fully 36% of the newly-elected members of parliament are women. This is an important development as regards democratic consolidation, as women have traditionally been side-lined in Angolan political forums.

Critics point out, however, that President Dos Santos' absolute control over resources, both institutional and financial, has allowed the ruling party *Movimento Popular para a Libertação de Angola* (MPLA) to stage an ostensibly democratic election that serves only to engrain the ruling party's control more deeply. Although international observers pronounced satisfaction that the elections had been 'free and fair' for the most part, the MPLA had a monopoly of the media and campaign financing, and structurally the smaller and fragmented opposition parties were at a distinct disadvantage. The 22 political parties that received less than 0.5% of the vote in the legislative elections are by law required to disband. Furthermore, the incumbent President Eduardo dos Santos has called for constitutional reform to allow his successor to be elected by parliamentarians, rather than by direct popular vote. Given that the MPLA now hold 191 of 220 legislative seats, dos Santos' re-election would be even more of a certainty than it currently is.

#### *The Role of Oil*

International investors would argue that regime continuity is important for Angola's political stability. This is especially pertinent given the country's rising prominence as an oil exporter and the disruptions that political violence has caused for other oil producers such as Nigeria and countries in the Middle East.

Angola currently vies with Nigeria to be Africa's largest oil producer, with proved reserves of approximately 8 billion barrels. Currently the fastest growing African oil producer, Angolan 'sweet crude' is highly prized on the world markets for its low sulphur content. Government revenue has benefited from the soaring oil price of the last few years, fuelled by growing Chinese and Indian demand, although the recent extreme price volatility has played havoc with budget planning. Angola is increasingly taking on significance in the global race for energy security and is the second-largest supplier of oil to China and the eighth-largest supplier to the US. The country accounts for 1.6% of global oil production and 3% of US oil imports. While this is substantially less than Nigeria, Africa's number-one oil producer, Angola is the top African oil exporter to China, supplying 15% of the Asian giant's oil import needs.

On 1 January 2008, Angola was admitted as the 12<sup>th</sup> fully-fledged member of the Organisation for Petroleum Exporting Countries (OPEC). This heralded Angola's status as a key figure in global energy markets and increased leverage has been used by the government to play off foreign investors contending for oil exploration concessions. OPEC membership will also allow Angola to reign in oil majors' tendency to ramp up production in deep-water blocs in order to recoup the extensive capital outlay required for such exploration. Although it initially set a quota of 1.9 million barrels, following the recent plunge in oil prices, OPEC's decision to reduce output saw Angola agree to trim oil production by 99,000 barrels by January 2009.

Angola's OPEC membership is a signal of the country's intention to increase its regional presence and an indication of Angola's growing international clout, particularly as it is shortly to assume the OPEC Presidency. This is boosted by the fact that both China and the US view Angola as a growing geo-strategic partner in terms of energy security, largely to diversify oil interests away from the Middle East and other politically-volatile African petro-states such as Nigeria (Niger Delta) and Sudan (Darfur). Furthermore, as most of Angola's oil wealth lies off shore, investments are partially shielded from political instability.

#### *Diversification Strategies*

Angola's rapid growth has undoubtedly been spurred by an oil boom. However, the fact that extractive industries contribute 59.4% of GDP renders the Angolan economy vulnerable to commodity cycles. Steps have been taken in a bid to combat an over-reliance both on the oil industry and on a mere handful of commercial partners.

Concerted efforts to promote economic diversification have produced strong growth in the non-oil sector. The National Agency for Private Investment (ANIP), established in 2003, specifically concentrates on developing non-oil sectors. ANIP's 2005 Annual Report claimed it had approved 290 projects, worth US\$2.6 billion. Of this total, 85.4% centred on construction, indicating the high growth in this sector. President Eduardo dos Santos has recently entrusted the former Deputy Prime Minister Aguinaldo Jaime with the co-ordination of the ANIP's restructuring committee. Considered instrumental in formulating Angola's economic policy, Jaime is expected to be appointed the next ANIP Chairman.

Indeed, increased confidence in the Angolan economy is attributed primarily to non-oil sector growth outpacing oil sector growth, at 18.6% versus 11.5% respectively, according to the Minister of Economy, Manuel Nunes Júnior. Even taking the global economic crisis into consideration, projections for 2009 are 5.9% growth for the oil sector and 15.8% for non-oil sector, with expectations that 320,000 new jobs will be created. The Angolan government has further pledged to invest 5% of oil revenue in a national development fund.

Angola is arguably one of the Sub-Saharan African countries that is most jealous of its sovereignty. This has important economic consequences as the Angolan political elite largely control the country's economic forces. While there is a marked cultural influence of major trading partners, such as Portugal and Brazil, the Angolan executive is careful not to let any one foreign trade partner dominate the domestic political or economic arena. Angola, despite international concerns, particularly in the context of strengthening China-Angola relations, will strongly resist becoming or being perceived as a client state of any other country.

Increased revenues on the back of high oil prices allow the Angolan Government to pick and choose investment partners in terms of extractive industry development. Sonangol, the state-owned oil company and the sole concessionaire of oil exploration contracts enters into production-sharing agreements once exploration of the conceded oil bloc is shown to be commercially viable. As well as an 'Angolanisation' policy, Sonangol is also following a policy of investor diversification, in order to mitigate the risks of relying on a handful of large oil major or influential trading partners.

Consequently, despite substantial lending agreements from China Exim Bank, state-owned Chinese companies do not receive preferential treatment at the bidding table, as many feared might be the case. Furthermore, a proposed joint-venture between Sonangol and the Chinese state-owned oil major Sinopec to develop a US\$ 3 billion oil refinery in Lobito fell through in March 2007, reportedly because of a disagreement as to where the oil products would be exported. The high oil price has thus afforded the Angolan government, through Sonangol, an increased amount of leverage in negotiating oil exploration contracts.

Angola has in fact recently made efforts to further reduce China's role in the economy, despite the extensive loans it has extended. Whereas in October 2004, Sinopec was favoured over ONGC in the 50% purchase of Block 18, ONGC is poised to replace Sinopec as a partner in the joint purchase with Sonangol of shares in blocks 17, 18 and 15. Angola has recently attracted the interest of other financiers, most notably the World Bank, which will extend loans of US\$1 billion from 2009-13 to assist with the African country's economic diversification. This points to a considerable thawing of relations between Angola and the international financial institutions. In 2004, negotiations with the IMF had collapsed over the loans' conditionalities, leading Angola to turn to China for financing. It appears that the World Bank has pursued a different approach in order to avoid marginalisation by other emerging financiers. The Bank has also been mollified by the Angolan Government's policy of debt normalisation in an attempt to move away from using oil as collateral for commercial loans. An agreement is also in place for the Angolan Government to service its Paris Club debt. The bulk of the US\$2.3 billion had been paid by December 2007, but more than US\$800 million in interest is still owed. Plans are in place to have the debt repaid in full by 2010. It is also hoped that debt regularisation will further allow the government to access credit from a more diversified bouquet of country lenders, rather than leaning rather heavily on China.

Aguinaldo Jaime, under his new mandate of co-ordinating ANIP, has emphasised Angola's desire to attract financing from the EU. Such appeals have not been ignored. Spain alone has this year provided US\$600 million in construction aid. Furthermore Canada's Export Development Bank has signed an agreement with Angola's Banco de Poupança e Crédito for US\$1 billion this year to finance government infrastructure projects and US\$16 million for private enterprise projects. Brazil's Banco Nacional de Desenvolvimento Económico e Social (BNDES) has already disbursed US\$1.5 billion to fund the purchase of Brazilian construction equipment in Angola in the first five months of the year and is also offering US\$250 million to fund projects in Angola.

### *Construction*

One of the largest obstacles to Angola's growth is the country's obsolete infrastructure that was neglected during the 27-year civil war and has since failed to keep up with the oil-backed growth. With growth booming, the pressure on the limited infrastructure that remained after the civil war continues to grow. The government is attempting to address this challenge, having named reconstruction as a national priority. A programme of public investments (PIP) has been set up, managed by the Ministry of Finance.

In order to sidestep red-tape, President dos Santos instituted an Office for National Reconstruction –known by its Portuguese acronym as GRN–, headed by General Helder Vieira Dias 'Kopelipa', former head of the Presidency and the Military. GRN manages credit lines worth some US\$2.9 billion from China International Fund Ltd (CIF), a Hong Kong-based fund management company involved in exporting Angolan oil to China. This

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has served only to confuse the chain of command, as each body manages separate lines of credit extended for national reconstruction.

The problem is compounded by the fact that due to a lack of local capacity and short supply, most construction materials and often the technical expertise need to be imported.

Luanda harbour is increasingly congested and does not have the capacity to deal with rising import volumes. The backlog delays the delivery of materials, but also impedes access to the harbour, preventing the entrance of other goods, including food, thus further pushing up their prices. There are plans to develop a new harbour 20 kilometres north of Luanda at Barro do Dande, although this will take some time to complete.

In mid-2007, a number of other areas were approved for use as harbours –including Lobito, Namibe and the Sonils base– but the problem remains dire. The total amount of power projects being built across Angola until 2012 is estimated at more than US\$2.5 billion. This includes the rehabilitation of the current grid and the building of new provincial power plants. In addition, the government also plans to develop around 5,000km of roads per annum. A major upgrade of Luanda Airport (US\$2 billion) and the development of Luanda Bay (US\$2.5 billion) are also planned. The government also plan to spend US\$50 billion on providing 1 million homes for Angolans in the next four years.

However, the bulk of the infrastructure projects contracted under PIP have been severely delayed. These include those undertaken by Chinese companies. China Exim Bank provided the Angolan Ministry of Finance with a concessional loan of US\$4 billion to finance reconstruction projects, first announced in 2004. Payable over 17 years including a grace period of five years, these loans have been extended at the favourable interest rate of Libor + 1.5%. An additional US\$500 million was negotiated in May 2006 for 'complementary actions'. By the end of September 2007, less than US\$1.1 billion had been disbursed. The main hurdles are bureaucratic capacity, poor understanding of the operating environment on the part of the Chinese companies and supply bottlenecks. This is unlikely to improve in the short term, although it is likely that contracted Chinese companies will learn to be less ambitious in setting their projected project completion targets. There are also fears that the massive infrastructure spending planned by the government will be misdirected if it is not complemented by capacity-building and training programmes to improve Angola's ability to absorb investment of such a magnitude.

Serious deep-rooted poverty and inequality are persistent and require a more comprehensive set of policies beyond infrastructure development. Through the 1990s Angola's income gap has widened considerably, with a Gini co-efficient estimated to be at 0.62, higher than Nigeria's. Currently more than 65% of all Angolans are estimated to live on US\$2 a day. Despite increased government revenues through oil, service delivery has not increased, ostensibly due to lack of capacity and an excess of bureaucracy.

The only direct benefit Angola's poor receive from the government is subsidies, notably that of fuel, which amounted to 3% of GDP in 2006. Despite pressure from the IMF to redirect this expenditure to pro-poor spending, it is likely that increased oil revenue will allow the government to retain these subsidies. This is potentially positive as the poorest Angolan's rely on oil products such as kerosene for cooking. In addition, due to the government's revenue from oil, income tax is kept low at 15%.

### *Weathering the Financial Storm*

These challenges notwithstanding, Angola is expected to weather the effects of the financial crisis fairly well. While the growth outlook has been revised down from last year's 20%, it is still expected to reach 15% this year and 11.8% in 2009.

Protected from direct financial contagion due to a relative lack of financial integration with international markets and the existence of capital account controls, the most pressing concern for Angola is the wildly fluctuating price of oil and an expected contraction in global oil demand, particularly as 90% of government revenue is dependent on this commodity and the resultant public infrastructure spending is currently a primary driver of domestic growth. The plunge in market prices from a high US\$147 to nearly a third of this figure, caused the government to revise the 2009 national budget's oil benchmark from US\$65 to US\$55 per barrel. This might jeopardise the government's plans to spend US\$42 billion next year on its reconstruction programme, as President dos Santos has warned. Market analysts remain optimistic, however. The West's financial melt-down offers powerful lessons for Angola as it develops its own financial markets and plunging oil prices provide incentive to focus on the non-oil sector.

**Conclusion:** Six years after the end of decades of civil war, Angola is possibly in the strongest economic position it has ever been in. The Angolan government has used the leverage provided by its oil reserves to increase its international standing through such actions as joining OPEC. Furthermore, the oil boom of the past few years has stimulated high growth rates, particularly in the non-oil sector, which may well see Angola through the coming lean years, following the global credit crisis and the resultant lack of investor liquidity.

Of more concern is Angola's socio-political situation. Despite boasting healthy growth indicators on paper, Angola ranks poorly in terms of human development indicators, that show how oil wealth is concentrated in the hands of a few political elite, leaving the majority of the population to languish in severe poverty. The recent legislative elections have only served to further entrench the ruling party's position. While this may encourage political stability and allow the incumbent government to formulate long-term development plans, it does not bode well for political accountability, particularly given that Angola's oil-rich government is not dependent on a tax base for its revenue. Years of authoritarian rule coupled with abysmal service delivery have alienated government officials from society. The MPLA's landslide at the polls belies a growing resentment at the widening levels of inequality. The newly-elected members of parliament have made numerous pronouncements on the prioritisation of social and infrastructure development. Whether this is more than mere political posturing remains to be seen. The proof will be in provisions for allowing a more equitable distribution of Angola's bounty throughout the general population and hence a more sustainable form of economic growth.

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