ANGOLA
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ANGOLA

- **Angola's economy grew by 3.8% in 2015, and GDP growth will remain subdued, at 3.3% in 2016 and 3.5% in 2017, due to lower crude oil prices.**
- **Policies to accelerate economic diversification and strengthen human development and equitable growth are needed to reduce vulnerability to external shocks.**
- **Investment in economic and social infrastructure is needed to enhance the sustainability of the country's urbanisation process.**

Overview

Angola's natural resource wealth helped attract foreign direct investment and ensured strong economic growth over the past decade. But the economy has recently undergone a major structural shock due to lower crude oil prices, and forecasts for the coming years remain filled with uncertainty about the evolution of the country's oil exports and international commodity prices. Growth of gross domestic product (GDP) is projected to remain subdued, at 3.3% in 2016 and 3.5% in 2017, down from 3.8% in 2015. Growth of the oil sector will average 4%, while the non-oil sector is expected to show a small improvement, growing by 3.4%, driven mainly by a strong recovery in agriculture.

In January 2016, the government adopted a strategy for mitigation of the oil crisis aimed at finding substitutes for oil as a major source of revenue. Agriculture is expected to play a key role in boosting the country's exports and generating foreign currency earnings. The strategy also envisages investments in infrastructure, gradual reduction of imports, deepening of financial sector reforms, skills development and improvement of the business environment. The main initiatives for enhancing the ease of doing business involve reducing bureaucracy and facilitating credit. Notwithstanding these reforms, the legal framework still needs adjustment to ease the business environment. Income inequality, unemployment and poverty remain a challenge in Angola. Regional economic imbalances also persist. Transformative investments are required to decongest large cities and reconnect them with major economic growth poles, particularly in rural areas.

Although Angola is perceived as highly urbanised, with 62.3% of the population living in urban areas, the country needs to broaden human development opportunities for the population. Under its National Development Plan 2013-2017, the government is contemplating a territorial development strategy to create a network of development poles. The country has a National Urbanisation and Housing Programme, a 2015-2030 Metropolitan Plan for Luanda and several ongoing urbanisation projects in other areas. Rural to urban migration has been a major driver of urbanisation, especially during the 27 years of armed conflict that followed independence in 1975. The country counts 18 provinces divided into municipalities, communes, villages and towns. Depending on the setting, the government recognises different criteria for classifying urban areas. There is a need to integrate informal housing progressively into city planning and management and to strengthen national institutional capacities for managing urbanisation and urban and rural development.

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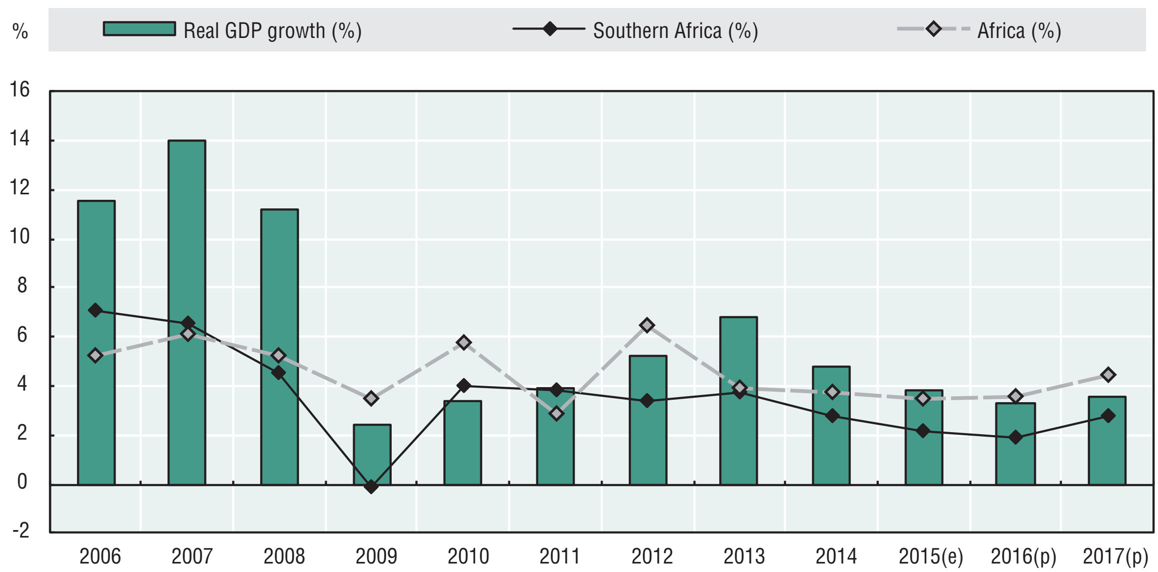
Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	4.8	3.8	3.3	3.5
Real GDP per capita growth	1.5	0.5	0.1	0.3
CPI inflation	7.3	10.2	14.1	14.8
Budget balance % GDP	-5.6	-4.1	-5.5	-5.6
Current account % GDP	-2.5	-7.2	-5.4	-5.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Angola's GDP grew at a moderate rate of 3.8% in 2015 on account of the decline in crude oil prices. The main transmission mechanism in this regard relates to the impact of lower crude oil prices on government expenditure. Public investments in infrastructure development and agriculture, which are key drivers of non-oil growth, declined significantly, though not enough to trigger an economic recession. Although oil output has recovered, growth in the industrial, construction and services sectors decelerated due to the decline in public investment, private consumption and prevailing difficulties in obtaining foreign currency. Overall, real GDP growth will remain subdued, at 3.3% in 2016 and 3.5% in 2017, based on the assumption of a slow recovery of international oil prices.

For 2016, Angola's oil basket price is projected to average USD 45 per barrel, down from slightly more than USD 100 per barrel in 2014, leading to a large decline in fiscal revenue, exports and international reserves. Foreign direct investment (FDI) inflows are also set to decline to USD 10 billion, down from an estimated USD 13 billion in 2014. Similarly, net international transfers (including remittances by Angolans working abroad) are projected to drop by 5%, to USD 2.1 billion, mostly due to lingering difficulties in obtaining foreign currency. In contrast, external financial disbursements through loans and trade credits will increase to USD 10.5 billion in 2016, up from USD 7.1 billion in 2015, to cover the expected fiscal deficit of 5.5% of GDP in the 2016 state budget.

The economic prospects for 2016 and 2017 remain challenging as international oil prices are not expected to recover quickly. Downside risks include slower growth in emerging markets and an eventual disruption in domestic oil production due to technical problems. As the country remains dependent on hydrocarbons (over the past five years, oil accounted for 40% of GDP, 95% of export earnings and nearly 75% of fiscal revenues), a persistent oil price shock is likely to worsen Angola's vulnerability to fluctuating commodity prices. The government is cognisant of these risks and is already negotiating with the International Monetary Fund (IFM), the implementation of an Extended Fund Facility (EFF) programme focused on economic diversification, with priority to agriculture, fisheries and mining. The government is also committed to improving macroeconomic and financial stability, in particular, through tax discipline.

While oil production recovered following the completion of maintenance work in 2014, total output levelled off at 1.85 million barrels per day in 2015, below the target of 2.01 million barrels per day in the National Development Plan (NDP 2013-17). In 2016, oil output is projected to reach 1.88 million barrels per day owing to increased production in the Cabinda oil well, and the entry into operation of new projects at Mafumeira, Polo Este, and Satelite Kizomba A and B. The recent decline in international crude oil prices reduced profit margins, but most upstream projects in Angola are still viewed as being of high-margin production. Investment projects that are near completion are therefore likely to continue, reaching USD 22.1 billion in 2016, up from USD 7.1 billion in 2014, according to recent data from the Ministry of Petroleum. The government established important instruments for efficient management of the oil wealth, namely the Oil Price Differential Account, which serves as a fiscal buffer for oil price shocks, and the Strategic Financial Oil Reserve for Infrastructure, which is financed through the sale of 50 000 barrels a day of crude. In addition, a Sovereign Wealth Fund was established in 2012 with an initial endowment of USD 5 billion.

Angola's mining sector registered 3.2% growth in 2015, below the 4.9% planned under the NDP 2013-17, due to operational constraints at the Catoca project. Mining accounts for 2.5% of GDP, and is dominated by diamonds. Total production stood at 8.9 thousand carats in 2015, up from 8.7 thousand carats in 2014. The sector is expected to decelerate by 1% in 2016 due to weak production at the Catoca project, which is responsible for 60% of total diamond production. The government is focusing on diversifying the mineral base away from diamonds and developing downstream linkages with local metal processing through the state-owned company Ferrangol. A programme of aerial seismic surveys of Angolan territory (Planageo) was launched to assess the country's mining potential. Organisational reforms to the state-owned diamond company, Endiama, are ongoing to align its organisational structure with the new mining code and place emphasis on separating the commercial and concessionary functions.

Agriculture has the potential to enhance economic diversification in Angola. The sector accounts for 12.3% of GDP and 70% of total employment, but only 3-5% of arable land is under cultivation. Cereal yields increased from 662 kilograms per hectare (kg/ha) in 2001 to 815 kg/ha by 2015, though this was below the sub-Saharan average of 1 433 kg/ha. In 2015, agricultural output grew by 2.5%, well below the 11.9% planned in the NDP 2013-17. The sector's growth was constrained by a combination of public expenditure cuts due to lower oil revenues, declining commodity prices, lower-than-expected output of cereals, fruits and livestock at the commercial farmers' level, and weak productivity by smallholders (e.g. of cassava, potatoes and cereals). In 2016, the process of agricultural liberalisation will be reinforced to attract private sector investors. Revision of the Land Law (Law 09/04 of 9 November 2004) will gain momentum. The provision of incentives to agricultural investors will be streamlined, with interest rates reduced from 5% to 2%, and with longer maturity periods. The government also plans to invest in large commodity

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value-chain projects, for example coffee and cocoa, along the Lobito Corridor to boost exports and generate foreign currency earnings.

In addition to the opportunities for economic diversification in agriculture, vast potential exists in the manufacturing and services sectors. Nevertheless, growth in manufacturing in 2015 reached only 2.57%, against the 23.3% planned in the NDP 2013-17. Protracted difficulties in accessing foreign currency contributed to a reduction in the volume of imports of industrial inputs and construction materials. Similarly, reduced cargo in Angolan ports, railways and roads, due to the decreasing imports, led to slow growth of 2.2% in the services sector, against the 10% planned in the NDP 2013-17.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2010	2014
Agriculture, forestry, fishing and hunting	6.0	5.4
of which fishing	1.4	1.1
Mining and quarrying	44.4	39.4
of which oil	43.5	38.5
Manufacturing	4.0	4.1
Electricity, gas and water	0.8	0.7
Construction	8.8	10.4
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	8.7	7.1
of which hotels and restaurants	…	…
Transport, storage and communication	4.2	4.4
Finance, real estate and business services	4.6	3.6
Public administration and defence	10.7	17.6
Other services	7.7	7.4
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Angola adopted a contractionary fiscal policy to align with the declining oil revenues. Total expenditures were cut by USD 14 billion after the revised state budget halved the oil price assumption to USD 40/barrel. The government's pro-active approach in addressing the oil price shock allowed the fiscal deficit to fall to 4.1% of GDP in 2015, down from 5.6% in 2014. Current expenditure fell 8.7 percentage points below its 2015 target due to cuts in government consumption. Capital expenditure also declined from 10.6% of GDP in 2014 to 7.8% of GDP in 2015, as some public investment projects were postponed. The credibility of the state budget has improved since 2013, with the incorporation of extra-budgetary expenditures, and domestic arrears accumulated in 2014 declined to only 1.3% of GDP, but contingency liabilities remain a concern. The public debt increased by 8.2% of GDP in 2015 to reach 57.4% of GDP, but it remained sustainable. The public sector wage bill as a percentage of fiscal receipts increased by 2.5% of GDP in 2015 due to the hiring of previously selected civil servants for the education and health sectors. Domestic fuel prices have been raised four times since September 2014, leading to a decline in fuel subsidy costs from 5.7% of GDP in 2014 to an estimated 1.7% of GDP in 2015. A liberalised fuel pricing mechanism and cost-reflective electricity and water tariffs were introduced in January 2016 to ease the subsidy burden. The gradual reduction of fuel subsidies is estimated to have saved AOA 110 billion (Angolan kwanza; USD 705 million) between October 2014 and June 2015, based on Ministry of Finance data. The government announced an interest in joining the Extractive Industry Transparency Initiative (EITI), and preparatory work is ongoing.

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In 2016, total revenues will average 25% of GDP while total expenditure will stand at 30.5% of GDP, leading to a deficit of 5.5% of GDP, to be financed through bilateral lines of credit (e.g. China and Japan) and multilateral organisations. The government intends to improve the medium-term fiscal framework with the adoption of a fiscal rule and stabilisation fund. It also intends to improve the quality of public investment management and to diversify the sources of revenue, including the introduction of value-added tax. Social sector allocations will increase by 12% in 2016 to reach AOA 1 985.33 billion, from AOA 1 772.9 billion in 2015, as government places priority on the provision of public goods, notably in education, health and targeted social transfers, to protect vulnerable groups.

Table 3. **Public finances (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Total revenue and grants	**42.4**	**42.2**	**35.2**	**30.1**	**25.9**	**25.0**	**24.7**
Tax revenue	5.8	5.0	6.0	6.5	7.6	7.9	8.2
Oil revenues	35.2	35.3	28.1	22.1	16.8	15.5	14.9
Total expenditure and net lending (a)	**38.1**	**38.0**	**35.5**	**35.7**	**30.0**	**30.5**	**30.4**
Current expenditure	24.8	26.7	25.0	25.1	22.1	22.3	22.0
Excluding interest	23.7	25.8	24.3	24.1	20.7	20.4	20.5
Wages and salaries	7.3	8.6	8.4	9.0	7.6	7.2	7.4
Interest	1.1	0.9	0.7	1.0	1.5	1.9	1.5
Capital expenditure	13.3	11.3	10.5	10.6	7.8	8.2	8.4
Primary balance	**5.4**	**5.1**	**0.4**	**-4.6**	**-2.6**	**-3.7**	**-4.2**
Overall balance	**4.3**	**4.2**	**-0.3**	**-5.6**	**-4.1**	**-5.5**	**-5.6**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

Angola's monetary policy has been conducted to preserve the value of the national currency, the kwanza, and ensure price stability. Nonetheless, the consumer price index (CPI) increased from 7.3% in 2014 to 14.3% by end-2015, overshooting the 7-9% objective of the National Bank of Angola (BNA). This was driven by a weaker exchange rate and higher domestic prices, in particular for food, which accounts for 48% of the inflation basket. In response, the BNA adopted a restrictive monetary policy by raising its benchmark interest rate five times, from 8.75% in October 2014 to 11% by December 2015. Similarly, the reserve requirements for local currency deposits increased by 12.5 percentage points to 25%, and the standing lending facility rate rose from 9.75% in August 2015 to 13% by December 2015. Interbank interest rates more than doubled, from 5.4% at end-2014 to 11.3% in 2015, making access to credit more costly and shifting commercial bank lending towards short-term maturities to the detriment of long-term development projects. Credit to the economy expanded by 13% owing to credit facilitation measures for small and medium-sized enterprises (SMEs) through the Venture Public Capital Fund. Meanwhile, the exchange rate with the US dollar tumbled 15% in January 2016 to reach AOA 154.8/USD 1, a record low since September 2001, as the BNA attempted to narrow the black market gap, which rose from 15% in September 2014 to 65% in October 2015. This follows a 24% annual exchange depreciation in 2015 that prompted the BNA to adopt restrictions for access to foreign exchange, with higher priority for imports of food and medicine, and inputs for agriculture, industry and the oil sector. These measures constrained payments in foreign currency by commercial banks to foreign-owned local companies as well as to individuals. Meanwhile, Angola's capital markets hold a large potential to support economic growth, providing alternative long-term savings options and sources of financing. A regulatory framework for secondary-market trading of government bonds is under preparation and corporate bonds may follow in 2016. Going forward, monetary policy is likely to remain restrictive, though it may be insufficient to curb inflationary pressures stemming from

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the depreciating kwanza, and inflation will continue to trend higher, at around 14-20% on average. Priorities in 2016 will include the gradual adoption of a flexible exchange rate, the strengthening of banking supervision and risk analysis, the enforcement of anti-money laundering and the introduction of mandatory requirements for recapitalisation of deficient commercial banks.

Economic co-operation, regional integration and trade

Angola is playing an increasingly active role in the regional integration agenda but has yet to ratify the Southern African Development Community free-trade protocol. In 2015, Angola signed transboundary agreements with the Democratic Republic of the Congo, the Republic of the Congo, Namibia and Zambia to facilitate trade. Angola also pursues its interests in global organisations such as the World Trade Organization, Food and Agriculture Organization and the International Coffee Organization and is a beneficiary of the African Growth and Opportunity Act, with an option to join the European Partnership Agreement.

Total exports declined 37.4% in 2015 due to lower crude oil prices and the economic slowdown in emerging markets. Imports fell by 26.6%, impacted by foreign exchange shortages. The deficit in the current account balance will narrow from 7.2% of GDP in 2014 to a projected 5.4% of GDP in 2016, as both income and service accounts adjust to declining income repatriation. International reserves stood at USD 22 billion (7.1 months of imports) at end-2015, and will gradually decline to USD 18.6 billion in 2016 (5.7 months of imports). FDI inflows are set to decline, to USD 10 billion in 2016, down from USD 13 billion in 2015, though Angola will remain the fourth largest recipient of FDI in sub-Saharan Africa. Most of FDI originates in Brazil, China, the United States and the United Kingdom, and is channelled to oil projects, the financial sector, transport infrastructure and logistics. Short-term capital flows declined due to the shortage of foreign currency, while official development assistance disbursements remain small at USD 321 million per annum. China is Angola's largest export trade partner (44.3%), with USD 6 billion in new construction contracts signed in 2015, followed by India (10.2%). Portugal ranks first in terms of imports (18%). Oil accounts for 98% of total exports, while machinery and equipment, metals, transport vehicles, food and agriculture products are the main imports.

Table 4. **Current account (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	47.1	37.8	29.4	20.6	15.3	17.1	16.6
Exports of goods (f.o.b.)	68.0	56.7	47.8	39.8	34.3	35.1	33.9
Imports of goods (f.o.b.)	20.9	18.9	18.5	19.2	19.0	17.9	17.2
Services	-18.9	-17.0	-15.1	-15.6	-15.3	-16.2	-15.6
Factor income	-11.6	-8.3	-6.9	-6.0	-6.1	-5.5	-5.7
Current transfers	-0.3	-1.4	-1.5	-1.5	-1.2	-0.9	-0.8
Current account balance	**16.2**	**11.0**	**5.8**	**-2.5**	**-7.2**	**-5.4**	**-5.4**

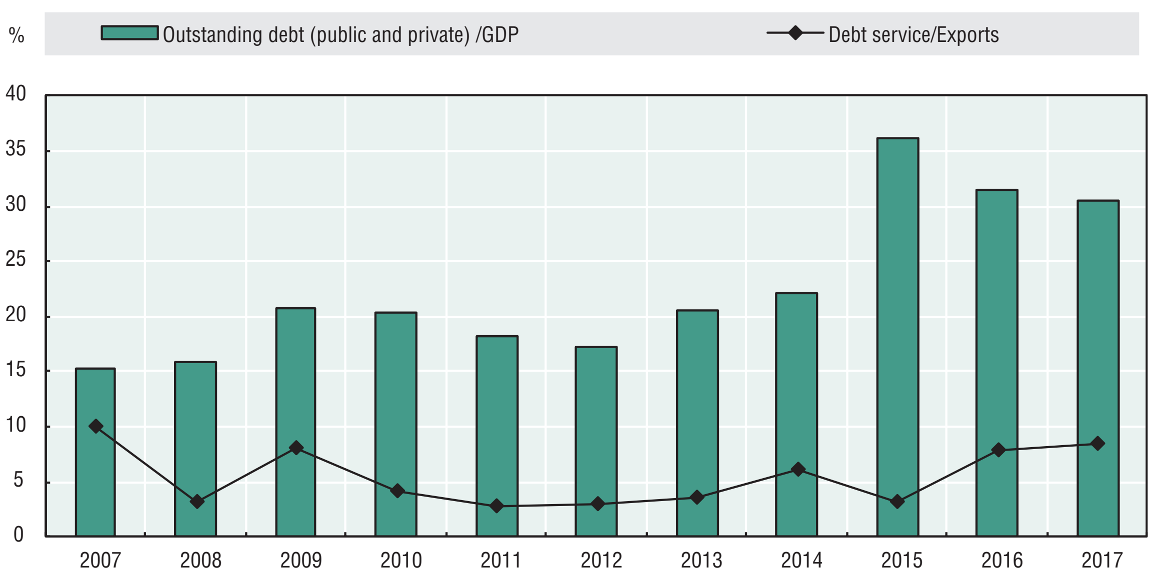
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Angola's domestic and external debts are rising but remain sustainable, with no risk of debt distress. Public debt increased to around 57.4% of GDP by end-2015, up from 36.2% of GDP in 2013, with 38.3% being external and 19.1% domestic debt. Rising debt reflects a fall in nominal GDP as well as increased borrowing estimated at USD 15 billion over the past two years. Due to large government deposits, net debt still provides a significant fiscal buffer and lends support to the country's sovereign rating. Multilateral and bilateral debt account for about 62% of external public debt, while commercial sources represent slightly less than 30%. Most of Angola's public debt is medium to long term (44.1% of GDP), while 3.9% is short term. Total public debt owed by the state-owned oil company, Sonangol, amounted to about 14% of GDP by end-2015. In November 2015, Angola issued a USD 1.5 billion eurobond with a 10-year maturity and a yield of 9.5%. Nonetheless, new debt issuances to cover the rising fiscal deficit may be challenging, given the backdrop of commodity prices and fear of rising dollar rates. Meanwhile, in 2015, the government signed a number of new loans, including a USD 200 million loan from Japan and a USD 500 million credit line from Germany.

Angola's debt management system has evolved significantly since the approval of the general framework for treasury bills issuance in 2003 and the legal framework for debt management in 2005. Although inter-institutional mechanisms for debt management improved significantly, there is a need for the Ministry of Finance to align its debt management practices with the government's local market development objective by issuing benchmark bonds and increasingly more kwanza-denominated instruments. The deteriorating fiscal position in 2015 prompted Standard & Poor's to downgrade Angola's sovereign credit rating to B+ from BB- and to revise the country's outlook from stable to negative. Similarly, Fitch downgraded Angola's long-term foreign and local currency Issuer Default Ratings from BB- to B+, with a stable outlook. The lowering of Angola's sovereign credit ratings by S&P and Fitch are likely to raise the costs of financing the country's infrastructure investment plan. Meanwhile, the government expects to raise more than AOA 1 395.2 billion (USD 9.7 billion) in domestic capital markets to finance the 2016 fiscal deficit, despite the economic slowdown. This is in line with dedollarisation and local capital market development policies.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Angola's position in the World Bank report *Doing Business 2016* improved to 181st from 183rd place out of 189 countries surveyed. Within the various dimensions of this index, Angola was ranked poorly on resolving insolvency (189), enforcing contracts (185), getting credit (181) and trading across borders (181). The main bottlenecks for doing business include the relatively high

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number of procedures required to create a business, limited access to credit and inadequate infrastructure and skills. Despite this, Angola improved 33 places, to 141st, in terms of the ease of starting a business owing to reforms made to reduce both the time required to start business operations (from 66 days to 36 days) and the costs (from 123.5% of income per capita to only 22.5%). Meanwhile, Angola's Private Sector Development strategy puts emphasis on: i) debureaucratisation; ii) credit facilitation through the Angola Investe programme; iii) entrepreneurship and skills development through business incubators; and iv) accelerated economic diversification through transformative projects in the areas of agriculture, agribusiness, livestock, fisheries, oil and gas, tourism, transport and logistics, power and water. Since its inception in 2012, the Angola Investe programme has approved 497 loans worth USD 810 million, helped certify 11 000 firms and created about 650 000 jobs. Moreover, about 27 firms are already exporting selected products that include fish, salt, beans and soybean, but the recent foreign currency shortage is constraining imports of raw materials and equipment. In terms of the regulatory environment, a new Private Sector Investment Law (Law 14/15 of 11 August 2015) brings specific incentives for all investments (national and foreign). Moreover, a new General Labour Law (Law 7/15 of 15 June 2015) introduces flexibility regarding hiring procedures.

Angola is ramping up its infrastructure to enhance competitiveness, but maintenance and management capacity remain a concern. About 11 000 kilometres (km) of roads and 2 100 km of railways (including a 1 333 km Lobito corridor railway line) have been rehabilitated. Four main ports (Luanda, Cabinda, Lobito and Namibe) were upgraded. Power generation capacity doubled to 1 500 megawatts (MW) from 750 MW in 2002 and is expected to reach 5 000 MW by 2017.

Financial sector

Angola's financial system is dominated by banks and is well capitalised. The total value of assets in 2014 was equivalent to USD 71.2 billion, representing growth of 7.3% over 2013 (*Banking Analysis 2015*, Deloitte). Angolan banks are still vulnerable to oil price shocks and higher credit risks induced by exchange-rate depreciation (about 30% of total loans to the private sector are dollar-denominated). The non-performing loan ratio increased to 12.8% in August 2015 from 9.2% at the end of 2014. The capital adequacy ratio also deteriorated, from 22% in February 2015 to 19% in August 2015, but remained above the regulatory minimum requirement of 10%. The banking sector remains highly concentrated, with the top five banks accounting for more than 70% of assets and deposits. Bank profitability has been reduced by intensified competition, reduced margins and inefficiency; for example, the cost-to-income ratio increased from 37% in 2009 to 55% in 2013.

Access to banking services remains low, with only 47% of the population estimated to have a bank account. In contrast, access to banking services by SMEs is high, at 86%, although only 9% have access to loans. Banking sector liquidity remains relatively high, at about 0.75% of GDP, but banks still have limited capacity for financing long-term development projects, as 80% of their funding is from short-term deposits. Angola's non-bank financial sector remains small, and the combined assets of insurance, pension funds and microcredit institutions are equivalent to only 2% of GDP. Capital markets were launched in December 2014 but still provide limited financial products to savers and investors. Public debt transactions were launched in 2015, and regulations for the launching of a corporate bonds market will follow in 2016.

The BNA has made good progress in strengthening its banking supervision framework. A Financial Institutions Law was recently approved that establishes frameworks for a Deposit Guarantee Fund, a Bank Resolution Fund, and an inter-institutional National Council of Financial Stability. Nonetheless, more needs to be done regarding crisis prevention, and mechanisms need to be introduced for recapitalisation of banks with narrow capital and liquidity.

Public sector management, institutions and reform

Angola undertook substantial reforms to improve its Public Financial Management (PFM) systems. These included the design of integrated financial management and planning systems, the adoption of a comprehensive general state budget incorporating quasi-fiscal operations, and improved budget transparency through regular reporting of oil revenue reconciliations. More recently, a process of revision of the country's Procurement Law (Law 20/10 of 7 September 2010) was completed and the law was due for approval by Parliament in early 2016. The prevailing fiscal risks are being addressed through the strengthening of expenditure controls and public investment management. In this regard, the African Development Bank (AfDB) is providing assistance in the preparation of a Public Expenditure Management and Fiduciary Systems Review, which will inform an action plan for PFM reforms. The government is also committed to improving efficiency in public services. The privatisation programme of state-owned enterprises (SOEs) is ongoing, with plans by the government to sell of the assets of 49 SOEs and to liberalise the electricity sector. Structural reforms are underway in the state-owned oil company, Sonangol, and diamond company, Endiama, in order to improve their operational efficiency. A biometric census of civil servants was begun in 2015 to eliminate "ghost" workers and create fiscal space for new recruitments.

The accountability of the executive improved significantly, and parliament approved the general state accounts for 2011, 2012 and 2013, along with corresponding recommendations. The process of reform of Land Law No. 9/04 of 9 November 2004 is ongoing in order to clarify aspects of land concessions and disputes. Meanwhile, registering property remains cumbersome, as it takes 190 days on average, with an estimated cost of 2.9% of the property value, according to the World Bank's *Doing Business 2016* survey, but reforms are ongoing to revise the current legal framework as part of the country's trade policy review.

Natural resource management and environment

Angola's natural resource sector displays low levels of transparency and governance and the country was ranked low, at 41st out of 58 countries, in the 2013 Resource Governance Index. The government undertook reforms to increase transparency and align extractive industries governance with good practices. For example, an inter-ministerial committee was established in December 2014 to undertake preparatory work towards joining the EITI. Significant steps were taken to promote local content in the petroleum sector, but specific policy targets for skills creation, technology transfer and training remain inadequate. Oil taxes accounted for large part of public revenues in 2015 (53%), but the government is fostering economic diversification in the non-oil sector to create jobs and reduce poverty.

Angola increased the total area of protected forests by 95% between 2012 and 2013, though protected marine areas remain small (less than 1%). The country has made progress toward Goal 7 of the Millennium Development Goals (MDG), on ensuring environmental sustainability. The Ministry of Environment is leading the development of new legislation on environmental conservation zones and water quality, but needs to strengthen national technical capacity in evaluating environmental impacts (infrastructure, extractive and industrial) as well as quality management systems for air, land and water. AfDB support on the development of pilot centres for environmental biodiversity is expected to mitigate these constraints. Angola is also engaging with the Clean Development Mechanism and has already submitted important climate mitigation/adaptation projects within the framework of the Intended Nationally Determined Contribution, published during the COP21 conference on climate change in December 2015.

Political context

Angola has become a peaceful and politically stable nation over the past decade after nearly 27 years of civil war. Since 2002, democratic values have been consolidated, as evidenced by the

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past two peaceful multiparty elections. The new Constitution of 2010 helped strengthen political rights. Angola's Popular Liberation Movement (MPLA) dominates the political landscape, and has focused on revitalising its grassroots amid growing social hardships. However, the governing party has been increasingly challenged by both the opposition and civil society organisations over the issues of rising youth unemployment and the deterioration of living conditions. Nevertheless, the 2015 Ibrahim Index of African Governance shows significant improvement in political participation and human rights, national security, and gender equality in particular, with the adoption of legislation on violence against women, economic empowerment of rural women, and political representation in parliament by women, which improved from 34% in 2008 to 36.8% in 2014. Overall, Angola has improved by 0.2 point in the index since 2011, ranking 43rd out 54 countries in Africa in 2015. Despite the priority placed by the government on reforming public institutions and eradicating corruption, the country continues to rank poorly in terms of corruption, at 163rd place out of 168 countries surveyed in Transparency International's 2015 Corruption Perception Index. Looking forward to the next general elections, in 2017, political succession issues in the governing party may require closer watch. Additionally, social protection systems will need strengthening to prevent instability, given the increasing demand for employment opportunities and better service delivery amid deteriorating macroeconomic conditions.

Social context and human development

Building human resources

With the continuous decline in international oil prices, the challenge for Angola is to shield social spending and increase it in an efficient way. According to the country's 2015 Millennium Development Goals progress report, Angola has made progress on MDGs 2, 3, 7 and 8. However, more efforts are needed on MDGs 1, 4, 5 and 6. The net enrolment rate in primary education increased from 79% in 2011 to 83.4% in 2014, while the literacy rate for people aged 15 to 24 was 79.5% in 2011. The government has implemented plans for teacher training, support of primary education, school lunch and mobile schools.

Infant and under-five mortality rates were 102 and 167 per 1 000 live births, respectively, in 2013. The percentage of children under the age of one vaccinated against measles dropped from 91% in 2013 to 85% in 2014. Angola takes part in strategies to accelerate and increase routine vaccine coverage. The maternal mortality rate was 460 deaths per 100 000 live births in 2013, while the contraceptive prevalence rate for women aged 15 to 49 decreased from 13.3% in 2013 to 10% in 2014. Some ongoing programs are: the National Road Map for Accelerating the Reduction of Maternal and Neonatal Mortality; the Promotional, Preventive and Screening Health Care Development Project for Adolescents; the School Health Project; and the National Health Development Plan 2012-2025. The government must mobilise national budget resources for maternal and child health. In 2014, the HIV/AIDs prevalence rate was 2.4%, with an antiretroviral treatment coverage rate of 25.9% and 44.9% for children and adults respectively. The malaria incidence rate declined from 148 to 130 per 1 000 inhabitants from 2013 to 2014. The tuberculosis prevalence rate increased from 241.79 per 100 000 in 2007 to 258.32 per 100 000 in 2014. The country has a National Strategic Plan for the control of sexually transmitted infections-HIV/AIDS; Counselling and Testing Services; Adult, Children and Pregnant Treatment Services; awareness and mobilisation campaigns; a National Malaria Strategic Plan revised for 2016-2020; and a National Programme of Tuberculosis Control.

Remaining challenges include: i) finding sufficient financial resources for health, housing and education; ii) promoting exclusive breastfeeding from birth until at least 6 months of age; iii) introducing appropriate complementary child feeding; iv) increasing maternal education; v) increasing qualified health personnel and equipment; vi) improving access to sexual and reproductive health services for adolescents and youth; vii) insuring the availability of qualified personnel in health and education; viii) expanding integrated prenatal visits; and xi) improving the health information system at all levels of care.

Poverty reduction, social protection and labour

The latest official data for the poverty rate in Angola is for 2008, with 36.6% of the population living on less than USD 1 per day at purchasing power parity (PPP). Poverty has a higher incidence in rural areas of the country. The World Bank estimate for Angola's Gini Index shows a reduction from 58.6% in 2000 to 42.7% in 2008. The country needs to continue strengthening actions towards higher levels of human development and more socio-economic development opportunities for the population. The 2015 *Human Development Report* by the United Nations Development Programme (UNDP) ranked Angola as a country with low human development. With a Human Development Index of 0.532, up from 0.390 in 2000, it ranked 149th out of 188 countries. Recently the Angolan Government published the 2014 National Census with recent information on several socio-economic indicators. Angola participated in the UN Sustainable Development summit in September 2015 and made public its commitment to pursue the Sustainable Development Goals (SDGs). A workshop hosted by the government for launching its MDG progress report and the SDGs took place on 21 December 2015.

To improve the situation in rural areas, the government is implementing, among others, the Integrated Municipal Program for Rural Development and for Fighting Poverty, the Rural and Agricultural Development Program, the Small Industry Enterprises Development Program, the National Strategy for Rural Trade and Entrepreneurship, as well as the National Program for Rural Women Development. The social protection system in Angola needs strengthening. There is a proposal for a National Social Assistance Policy in accordance with the Basic Law on Social Protection (Law No. 7/04 of 15 October 2004) that may establish a foundation for strengthening and expanding social protection coverage. This policy calls for detailed planning and capacity building for the implementation of social protection schemes. In 2015, the government introduced a non-conditional cash transfer pilot project in peri-urban and rural areas through distribution of the Cartão Kikuia, a card that provides beneficiaries with a monthly basic food basket in order to ensure basic feeding for the family.

A report of the National Institute of Statistics indicates an increase in the number of enterprises registered and with ongoing activities in the country. In 2010 there were 24 804, and by 2013 that number had more than doubled. More than half of these enterprises (53%) are located in Luanda. A total of 52.4% of enterprises are involved in wholesale and retail trade; 10.6% in accommodation and restaurants; 7.8% in manufacturing; 7.3% in real estate, rentals and business services; 4.7% in construction; and 4.1% in agriculture, animal production and forestry. A new labour law was approved by parliament in 2015, aiming for more balance in the prerogatives of employers and employees. The labour force growth rate in recent years has been around 3.7%. During 2009-11, around 500 000 new jobs were created, according to the Governmental Multi-sectorial Technical Group for Angolan Labour Market Data. Of those new jobs, 182 289 were in agriculture, 121 037 in commerce, 92 218 in public services and 90 337 in construction.

Gender equality

Angola has made considerable achievements in promoting gender equality. The national MDG report for 2015 indicates that 36.8% of parliamentary seats were held by women in 2014/15. However, inequality persists in female-male participation in the educational area and the labour force. The National Institute of Statistics reported for 2011 a gender inequality index of 0.98 in primary schools, 0.97 in urban secondary schools and 0.54 in rural secondary schools. Expected years of schooling are 8.7 for women and 14 years for men, according to the 2015 UNDP Human Development Report. Estimated gross national income per capita is USD 5 497 for women and

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USD 8 169 for men. The 2015 Angola Gender Diagnostic, carried out with support from the European Union, notes that "agreements and conventions adopted by Angola, as well as the adoption of the Law Against Domestic Violence, allow growing parity, in legal terms, between men and women. Customary law is, however, often discriminatory to the detriment of the woman." It highlights women's participation in productive sectors as follows: industry, 17%; construction, 11%; formal trade, 25%; commercial fishing and agriculture, 26%, community services, 28%; education and science, about 36%; culture and art, 49%; public administration, 29%; health services, about 42%.

Thematic analysis: Sustainable cities and structural transformation

Angola is a highly urbanised country, with more than 60% of its population of 24.4 million living in urban areas. A major driver of the country's urbanisation has been rural to urban migration. During the 27 years of armed conflict that followed independence in 1975, migration was heavy as people left their primary residences in the countryside to establish themselves in cities that were not in conflict. More than 15.1 million people, or 62.3%, now live in urban areas, with the remaining 37.7% in rural zones, according to preliminary results of the 2014 census. Investment in economic and social infrastructure is needed to enhance the sustainability of the country's urbanisation process. A survey by the National Statistics Institute showed that 36% of the Angolan population was living on less than USD 1 per day (PPP) in 2008, with the problem affecting 58.30% of the rural population compared to 18.70% of those in urban areas. The literacy rate among 15-24 year olds in 2011 was 92.5% in urban areas and 59.4% in rural areas. Unemployment, meanwhile, remains a challenge in both urban and rural areas. Production of agricultural goods in rural areas, mainly through family subsistence production schemes, is not sufficient to meet national demand, leading to imports. Unpaved roads and difficult access to transportation are some of the challenges faced by farmers for taking their products into the main cities. The roads constitute the main transport system in the country, and travel by car between major cities is slow. A rapid transit system has been launched only in Luanda, where it is expected to be operational in the second half of 2017.

Angola covers 1 246 700 km^2, with 18 provinces divided into municipalities, communes, villages and towns. The main city is the capital, Luanda. An area is considered urban if characterised by continuous building and the existence of social facilities for basic urban functions, such as housing, work, recreation and circulation. Depending on the setting, the government recognises different criteria for classifying urban areas. One of these, implemented in Luanda, was to differentiate the smaller urban district from the wider municipality. In the other provinces, *musseques*, or shantytowns, are considered: i) unstructured, where the houses do not follow a conventional pattern, have a narrow road and limited sewers; ii) structured, mostly having some streets but not with conventional limits and with some sewage; iii) dispersed in urban areas, located around large buildings and near the main basic services like hospitals and schools; and iv) dispersed in rural areas, without access to basic services.

The country has a National Urbanisation and Housing Programme that includes sub-programmes for the development of new centres, as well as the promotion of social housing and property management and alignment. There is a 2015-30 Metropolitan Plan for Luanda, and the government has several ongoing projects to urbanise the country, for example Kilamba City, a major housing development in the Luanda metropolitan area, and similar efforts at the provincial level. In 2013, the government drafted the National Environmental and Sanitation Policy as well as a Total Sanitation Programme. According to surveys conducted by the National Statistics Institute from 2004 to 2011, 35% of the country's family aggregates have access to electricity, with 60% of them residing in urban areas. In 2007, the government launched the Water for All Program to increase access to water to 80% in peri-urban and rural areas. In 2008, 42% of the population had access to an appropriate source of drinking water (57.9% in urban areas and 22.8% in rural zones). In 2011, improved sanitation facilities were available to 73.4% of the population (92.3% in urban areas and 50.2% in rural zones). Also in 2011, around 72.2% of the urban population lived in housing of unsuitable materials. The country needs to address progressively the integration of informal housing into city planning and housing management. It also needs to strength national institutional capacities on urbanisation as well as urban and rural development. The province of Luanda has an environmental management plan, but both the capital and the rest of the country still face challenges in the management of garbage and solid waste.

As for environmental sustainability, forest cover in Angola decreased from 48.91% in 1990 to 46.71% in 2012. The Angola Initial Communication for the 2012 UN conference on climate change indicated a reference level of 13.4 gigatonnes of CO2 emissions in 2010 and a forecast of 23.8 gigatonnes for 2030, with a mitigation scenario of 21.4 gigatonnes. During 2015, Angola experienced some droughts and inundations in the southeast, impacting the quality of life of the affected population. It is relevant for the country to advance in the implementation of the National Adaptation Plan, the Water National Plan and the national plan against droughts and desertification, among others, as well as in periodic followup of CO2 emissions among industries via corrective measures. Angola has started some initiatives related to "green industries", such as plastics recycling in the Viana area of Luanda and recycling of engine oils in Catoca, Lunda Sul. Other initiatives, including one for recycling of tires, await certification to begin operation. The aim of the government is to promote environmental technologies in different sectors.

Through its urban development strategy, the government has emphasised that providing better housing for all, progressively and in an increasingly healthy environment, is a priority. Therefore, the executive decided that all urban and suburban areas of the country should have development plans aimed at structuring cities in a way that satisfies the minimum requirements in terms of infrastructure and demand for housing. In order to reduce regional asymmetries and diminish migration from rural to urban areas, the government is contemplating a territorial development strategy. This strategy, contained in the NDP 2013-2017, includes the development of a network of development poles, international platforms and development axes, taking into account priority clusters such as food, agribusiness, energy and water, housing, transport and logistics. The Angolan territorial development areas include the metropolitan area of Luanda and the Benguela-Lobito axis as international platforms; the cities of Huambo and Kuito as a logistics platform; the industrial and commercial hub of Cabinda; the petrochemical and steel pole in Soyo; an urban, commercial and cultural centre in Luena; and a logistics centre in Menongue. These development axes are expected to generate economic and social activities in surrounding areas across the country.

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