

## Angola



### Key figures

Exchange Rate: 1 US\$*	93,2 Angolan Dinar
Main Urban Centres	Luanda (capital)
Population^	18 993 000
Population growth rate (2005 – 2010)^	2,9
Urban population (% of total) 2009	57,6
GDP per capita^	6 097
GDP growth rate (real, 2010)^	3,4
HDI (Global Ranking)+	25,20 (2006)
Unemployment rate^	70,2
Population less than US\$2 per day°	68,0 (2001)
Population below national poverty line^	5,52
Bank branches per 100,000°	Not available
FinScope financial exclusion	15,68
Lending Interest Rate° (2009)	7
Deposit Interest Rate° (2009)	29,2
Credit % of GDP° (2009)	Not available
Mortgages % of GDP°	

^ African economic outlook

° World Bank

\* www.coinmill.com (as at 30 August 2011)

+ UNDP (2010)

### Overview

Emerging from a protracted civil war since 2002, Angola was for several years one of the fastest growing economies in the world. In the past decade, it has often seen double-digit rates of GDP growth. The country also experienced a post-civil war reconstruction boom, aided by the spending of oil revenues and a US\$ 7 billion credit line from China. Large credit lines have also been received from Brazil, Portugal, Germany, Spain, Canada and the EU. That said, a shortage of construction materials in the construction industry is proving a significant hindrance to the process. The country is also faced by a number of other prominent challenges. The economy has a huge structural dependence on oil. However in 2009 and 2010, the country experienced a decrease in oil revenues as a result of the decline in oil prices that resulted in the drying up of liquidity, increased interest rates and delays in payments on Government contracts. The country is currently on a path of recovery and growing from an estimated GDP growth rate of 3.4% in 2010 to a prospective rate of 7.5% in 2011. Angola suffers from considerable inflation pressures – over 14 per cent in 2009. This is expected to decrease to 2011 to 11.7%.

### Access to finance

Access to banking in Angola is for a privileged few, and only 6.7 per cent of Angolans have a bank account. Nonetheless the banking sector is growing; over 21 banks operate in the country, with a licence recently granted to Standard Bank. There is however significant market concentration among a few banks; Banco de Fomento Angola S.A (BFA), the state owned Banco de Poupança e Crédito (BPC), Banco Africano de Investimento (BAI), Banco Espírito Santo Angola (BESA) and the Banco Internacional de Crédito S.A (BIC) capture 85 per cent of the savings market.

Only a few banks, notably BFA, BIC, BAI and Banco Totta Caixa Geral Angola (BTCGA) offer mortgages. Other banks may finance house acquisitions as consumer loans. These products typically have much higher interest rates and shorter repayment periods, of around 36 months. Like other forms of credit, lending for house acquisition is still

low, but growing. Consolidated statistics by the banking regulator, the National Bank of Angola (BNA), notes that nationally, lending for housing only just picked up in August 2010 to Kz 189 billion (US\$ 2 billion) after reaching a year-on-year low of Kz 84 billion (US\$ 900 million) in July 2010. Despite these figures, mortgages are still a relative rarity for the majority of households in Angola. In 2009, less than 8 per cent of housing credit by households came from banks, with the rest obtained from family and friends, savings and employers.

Lenders in Angola also do not have access to a well developed credit information system and the public registry covers less than three per cent of adults. They have also had to make do without a national identification system.

The microfinance sector in Angola has seen some of the highest growth rates in the continent and is often at the forefront of product diversification. Most microfinanciers in Angola are financial banks; BAI in 2007 moved into microfinance by acquiring Novo Banco and other banks such as BFA and Banco Sol are diversifying into agricultural lending. KixiCrédito on the other hand is the largest non-bank microfinancier, launched by Development Workshop. Together with microfinance for small business, it also offers a housing microfinance product known as KixiCasa. This it developed upon the realisation that over 30 per cent of business loans were being diverted for housing purposes. KixiCrédito with initial financing from Habitat for Humanity piloted KixiCasa in Huambo. This project enables families classified as the “economically active poor” to construct permanent homes through the provision of incremental housing loans. The potential for housing microfinance remains large, as more than 52 per cent of people needing housing finance according to a survey are micro-entrepreneurs, the prime targets for HMF lending.

The social security system in Angola covers less than 10 per cent of the economically active population and mainly benefits government functionaries. There are some special pension funds set up for war veterans and oil sector workers. There is some scope for harnessing these resources for housing, both through lending to pensioners as well as broader involvement in the residential development industry. Angola currently does not have a stock market, although there are great hopes for the promised plans to set up one when eventually.

### Affordability

Angola has a reputation of having one of the world's most expensive real estate markets. The focus of formal developers so far has been on developments in the higher income category. Here, houses and apartments easily sell for US\$ 250,000 and more. The cheapest formally supplied houses in what is considered the "affordable housing" market segment typically sell for US\$ 25,000 – US\$ 35,000. Wages earned by Angolan workers as per the minimum set in 1st June 2009 are Kz 8,891 (US\$ 97) for the agricultural sector; Kz 11,114 (US\$ 121) for urban transportation, services and industry sectors; and Kz 13,337 (US\$ 145) for the commerce and extractive industry sectors. The basic public sector worker on the other hand earns a salary of about Kz 9,100 per month (US\$ 100). To qualify for these affordable houses, monthly repayments would be approximately be US \$300 – US \$400 over 10 years, requiring an income of more than US\$ 900, assuming one third goes to the house payment. This is clearly beyond the reach of the average worker, in a country where 70 per cent of the population earn less than US\$ 60 per month. Further, it must be emphasised that the supply of housing within this price range is very thin, and financing not always readily available. Nevertheless, there is growing interest in the mortgage market. BAI for example is now offering term of up to 20 years, financing up to 85 per cent of the value of the property.

While Angola has one of the highest social expenditure's as a percentage of GDP in the continent, housing has not received much attention, until very recently. Historically, there have only been limited attempts at facilitating affordability for housing. In 1992, the government initiated a program of selling housing confiscated from the departing colonisers. As a general rule, these houses cost a modest US \$12,000. This opportunity to purchase state-owned property was however limited, and only long-term occupants and renters of these houses or flats benefited. The government also created the National Housing Institute which developed the "Urbanização Nova Vida" housing project in 1995. It was designed to build 1,430 homes for public sector workers and some to the general public in two phases. The official average price was approximately US \$45,000 for an 85 m<sup>2</sup> apartment, a bargain considering the dearth of supply in this segment of the market. The eligibility criteria for the project was not well defined however, and the project has impacted little on the demand.

In more recent times, given what is now considered a housing crisis, the government in 2008, proposed the establishment of a Housing Investment Fund to finance its housing program of building 1 million houses<sup>1</sup> over the next four years. The public and private sector are meant to deliver around 12 per cent of these, cooperatives around 8 per cent and the majority, over 68 per cent, through self-help. In this light, the state announced a Social Housing Program to provide for various degrees of subsidy for housing depending on income, including fully subsidised housing to citizens who earn an equivalent of about US\$150 per month and below. Further, according to the

government, houses developed using these funds will not cost more than US\$ 60,000. On 5 August 2010, the government renewed its pledge of US\$ 50 billion towards this fund. Reservation of 100,000 hectares of land for housing purposes (of which 32,800 will be in urban areas) distributed over of Angola's 18 provinces is also included as part of this ambitious delivery program. Finally, a slum upgrading program is intended to upgrade public and social infrastructure and renew the housing stock. The Sambizanga slum upgrading programme in Luanda is one such project, where houses and social infrastructures is planned to be built for 400,000 people.

### Housing supply

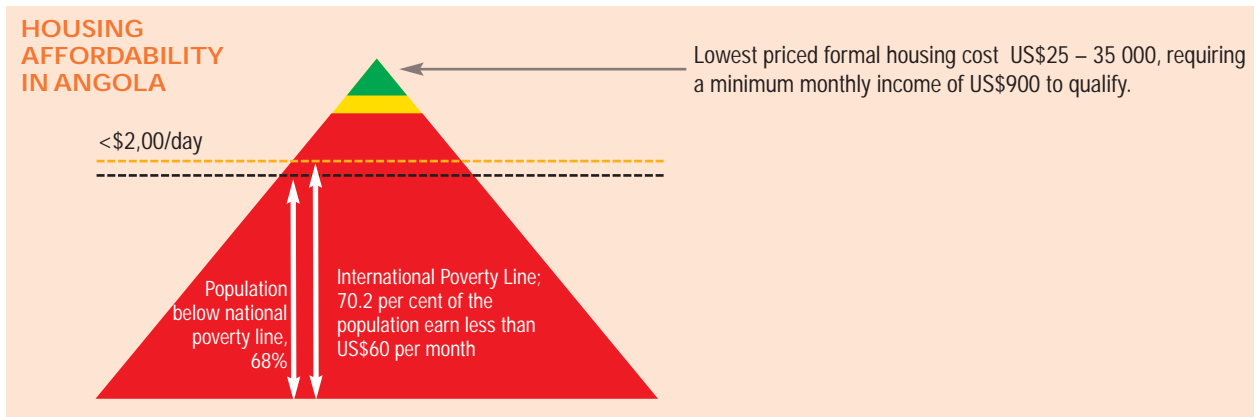
The civil war in Angola left a legacy of a highly urbanised population, living in areas with little developed infrastructure for water, sanitation roads and electricity<sup>2</sup>. It is estimated that Angola's shortfall of housing is over 875,000 units, and that 65 of existing housing lacks basic services such as water and sanitation. These infrastructure limitations restrict housing development in urban areas, and where it happens, make it an expensive venture. This has led to a severe shortage of habitable housing in urban areas and widespread slum development. The country's urban areas also lack the basic land tenure laws and regulations to deal with the highly urbanised high density reality facing them.

For the majority of Angolans, *auto-construção* or self-build is the predominant method of housing development. The concept of owner managed building which is a process combining local trades-people and family labour, is fundamental to the traditional process of building houses in Angola. There have been positive developments aimed at harnessing this self-build energy to create better settlements and prevent development of slums. Apart from housing microfinance being provided by one institution, the government has recognised the potential of self-build, making it an important element in its 1 million houses program. This will be through providing serviced and legalised land to families who wish to self-build.

The domestic construction sector in the country is under-developed, and the local construction material industry is inadequate to meet the demand for mass housing. This means most building materials are imported. The legacy of war left the country with little local industrial capacity and limited skills, including in the built environment and finance sectors. There are currently campaigns, including financial incentives, to encourage the development and establishment of local manufacturing capacity for cement, ceramics, ironware and timber. There are a few, mostly foreign owned, property developers in the country. These include Escom, (Angolan arm of Portugal's Espirito Santo Group), the Brazilian construction firms Odebrecht and Carmargo Correia. These are predominantly developers of higher end luxury housing development although increasingly, there is a growing shift in focus away from the luxury homes segment by the private sector. This has been especially caused by the economic slump which created a fall in demand. The government has recognised the lack of housing for this category, and this forms part of its one million houses program.

<sup>1</sup> From the literature, it is not clear by when these houses should be delivered. Dates mentioned include a very ambitious 2012 or 2013, while some mention that this delivery should happen over the next four decades.

<sup>2</sup> Despite its high hydrocarbon resources, only 12 per cent of the population has access to electricity.



While still limited, there has been an increase in funding for housing project finance by the banks over the years. BAI, for example, funded 19 projects in 2009, amounting to US\$ 529 million. This was an increase of 200 per cent compared with that recorded in 2008. Of this amount, 86 per cent was for the real estate sector with emphasis on middle and high income segments of the market.

There are several ambitious housing construction projects planned or underway in various provinces. In the municipality of Cacucaco, 30,000 apartments are planned in the form of 5 – 11 storey buildings in 3 phases. Ten-thousand apartments are currently being constructed, the rest to be built within 2.5 years. In the municipality of Viana, 51 new buildings are planned in the community of Zango, while 2,000 houses are targeted in the municipality of Km44, with the majority of the beneficiaries being the workers at Luanda's future airport. In the province of Huambo, about US\$ 500 million will be invested in a project that encompasses both a 4-star hotel and 130 homes. In the province of Huila, 25,000 new low-cost housing units are planned, while 20,000 homes are planned for the city of Dundo in the province of Lunda Norte. Foreign construction firms are the main beneficiaries of this construction boom. In April 2009, the Angolan National Housing Administration and Spain's Aretech Urbanisimo Sostenible signed an agreement for the construction of 4,400 affordable houses in the provinces of Cunene, Zaire and Luanda. Construction is intended to take 2 years. The Portuguese real-estate company, Abrantina Investimento Imobiliário – Grupo Lena, in 2009 invested US\$32 million in the construction of a 16,000 square metres of high-end residential and commercial complex in downtown Luanda. A Memorandum of Understanding between the National Institute of Housing and the private Czech company Flexibuild LDA, also has the goal of building 8,000 houses of low and medium income. It is noteworthy that the focus on foreign firms while understandable given the limited capacity locally is seen by many as a missed opportunity to build local capacity.

### Property markets

The demand for good quality housing in secure developments with the reliable provision of utilities means rental and sale prices are amongst the most expensive in Africa and in the world. There have been signs however that this lucrative market at the higher end has slowed down considerably, primarily because of the recent economic downturn. What should develop in the future is a more active housing market, catering for middle income earners, as developers and the government shift their interest to this segment of the market.

### Policy and regulation

Policy and legislation around land tenure is a major hindrance to the growth and development of the housing market. The poor often obtain land through informal processes in urban areas, but there is always the threat of forced evictions. This has been a relatively frequent occurrence in recent years as urban renewal and infrastructure have been prioritised. According to a study by the Development Workshop (2010), only 20 per cent of land has been accessed through formal means and has clear title. There is a need for the government to provide greater security of tenure to poorer households, extend the coverage of the land registry, and introduce simplified and rapid procedures to allow acquisition of formal tenure rights. Also, the many overlaps between the various State actors in relation to granting of property rights (Ministry of Urbanisation and Housing; National Housing Institute; Ministry of Public Works; Office of Special Work) need to be clarified.

Angola performs poorly on indices measuring the ease of doing business. According to the World Bank Doing Business Report of 2011, its land registry is highly inefficient, and in terms of the ease of registering property ranks 174 out of the 180 countries surveyed. This problem has played itself out in the few government led housing schemes. The sale of state housing to local citizens acquired through confiscation for example, has been characterised by a lack of effective transfer of property rights to the housing beneficiaries. According to Development Workshop (2010), not all buyers have the patience and skills to face the bureaucratic machinery, and therefore they opt for informal occupation status, rather than full ownership. The cadastre also needs to be modernised and updated.

Angola is also scored a lowly rank of 181, with regard to the ease of contract enforcement. This is because among others, the country's legal and judicial system is hampered by general lack of capacity, and has largely ineffective mechanisms for the resolution of commercial disputes. The judicial system also often lacks the capacity to assert its independence.

There have been some positive developments. Law n° 3/07 of 2007 on "The Basis of Housing Development" ("De Bases do Fomento Habitacional") was recently passed to promote among other things the emergence of public or private finance for housing construction. It is the statutory basis for the Housing Investment Fund. The law importantly, formally recognises the role of "directed self construction" as a method for housing development. Regulations to implement the law are yet to be promulgated however. The government in July 2009 approved an ordinance that grants duty-free imports for various materials for the construction of housing. This is of actions slated for

implementation to meet the goals of its ambitious housing program. In 2003, the National Assembly approved the Voluntary Arbitration Law (VAL) to provide a general legal framework for faster, non-judicial arbitration of disputes, although this has yet to be fully implemented.

### Opportunities

Angola has strong potential to receive inflows of foreign direct investment thanks to its natural resource wealth and booming economy, but its unfavourable business environment holds the country back from fully realising these gains. The government needs to resolve the issues that contribute to this state of affairs, to sustain its economic growth in the long run as well as create greater facility for other sectors, beyond extractive related ones, to grow. The real estate sector has historically been overly focussed on high end housing developments because of the ready market from oil companies, amid record prices and exports in 2007 and 2008. This has changed with the recent economic downturn, and more and more developers are realising the potential for more affordable housing, targeting the middle to lower middle income earners in the country's urban centres. Here lies opportunity both in financing and development going forward. The ambitious government housing program will further provide opportunity for residential financiers and developers if incentives are fully implemented. Housing microfinance presents big opportunities, having the advantage of a supportive legislative regime that formally recognises incremental housing, an established tradition of microfinance lending, established practices by players such as Development Workshop, and recognised significant demand.

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