

Angola



Overview

Angola is an oil-rich nation located in southern Africa, on the Atlantic coast of Africa, and bordered by Namibia, Zambia and the Democratic Republic of the Congo. President Jose Eduardo dos Santos' ruling party, the People's Movement for the Liberation of Angola, won a further term at August 2012 elections, having taken 72% at the polls. The country has come a long way since its civil war ended in 2002. In 11 years, Angola has managed to transform its economy with a real GDP estimated at 7.2% in 2013 and 7.5% in 2014 respectively. This is an impressive increase in real GDP from

3.5% in 2011, due to the rise in oil prices (oil production is expected to increase to over two million barrels a day) and the growth of 7.7% of other non-oil sectors. The growth in GDP is also attributed to the start of the Angola Liquefied Natural Gas project that will cost US\$9 billion. The economy has a huge structural dependence on oil.

While Angola still has high levels of inflation, it is slowly being brought down. From 11.5% inflation in January 2012, the government brought down the rate to 9% by December 2012. Despite the declining trend of inflation, the cost of living in Angola remains high compared to neighbouring countries. The Angolan economy has grown eightfold since the end of the war, but reducing poverty has been much slower. The government's own data (IBEP 2010) indicates that 38% of Angolans live in poverty. The Gini coefficient, a measure of inequality, stands at a high 58.6 for Angola.

Access to finance

The National Bank of Angola has made a concerted effort to increase the use of banking services in the last year. In the past, commercial banks were restricted to a privileged elite who could meet the high deposit requirement to open an account. The government's decision to pay civil service salaries only through commercial banks has forced employees to open accounts. In 2012, the National Bank of Angola launched the Bankita programme in an

Key figures

Main Urban Centers	Luanda (capital)
Exchange Rate: 1 US\$ =	96.03 Angolan Kwanza (Kz)
Population ^	20 820 525
Population growth rate (%) ^	3.12
Urban population (% of total) ^	59.91
Urbanisation rate (%) ^	4.41
GDP per capita (US\$) ^	5 484.83
GDP growth rate (% real) ^	3.55
GNI per capita, Atlas method (current US\$) ^	4580
Population less than US\$2 per day~	67.42
Population below national poverty line *	68.0
Gini co-efficient ~	42.66
HDI (Global Ranking) "	148
HDI (Country Index Score) "	0.508
Unemployment rate (%) *	25.20
Bank branches per 100 000 ^	10.51
Lending Interest Rate ^	16.93
Deposit Interest Rate ^	3.60
Credit % of GDP ^	17.46
Ease of Doing Business Ranking (out of 185 countries) !	172
Average Mortgages % of GDP°	
Average Outstanding loan to purchase a home, older adults (% age 25+)	4%
What is the cost of standard 50kg bag of cement (in US\$)? #	11 urban / 9 rural
What is the price of the cheapest, newly built house by a formal developer or contractor? #	55 000
What is the size of this house (in m²)? #	60
What is the minimum stand or plot size for residential property #	250

sources:

= www.coinmill.com on 26 August 2013

^ World Bank's World Development Indicators (2012)

~ World Bank PovcalNet: an online poverty analysis tool, various years

* African Economic Outlook, various years

" UNDP's International Human Development Indicators (2012)

° Badev et al. "Housing Finance Across Countries: New Data and Analysis" – Unpublished paper

CAHF Annual Survey Data (August, 2013)

! World Bank's Doing Business Survey Data (2013)

effort to improve access to banking services. This matched savings programme offers people the possibility to open a bank account with only Kz100 (about US\$1).

As of 2013, there were 24 banks in Angola. There is, however, significant market concentration among a few of these: Banco de Fomento Angola (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 (BIC) capture 85% of the savings market.

In 2011, four banks – BFA, BIC, BAI and Banco Totta Caixa Geral Angola (BTCGA) – offered mortgages. In 2012, it was confirmed that BPC would also start offering housing loans, and by 2013 four more banks committed to start offering mortgages. This comes after the rise of new city centres that are being built in the country and efforts by the government to increase the role that commercial banks can play in providing housing access. This year the government announced its intention to establish a Housing Development Fund, which will provide financial guarantees and subsidies to banks to entice them into the market at affordable rates. Some nine banks will be involved in this programme: BPC, BAI, BIC, BFA, Private Atlantico (BPA), International Business Bank (BNI), Trade and Industry (BCI), Sol and Keve. The fund enables lending at 80% of the loan to value, and by mid-2013 was offering loans for a select number of government sponsored housing projects in Luanda.

There is growing interest in the mortgage market. BAI, for example, is now offering terms of up to 20 years and financing up to 85% of the value of the property. Other banks 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. Only 7.6% of housing credit held by households came from banks in 2009, with the rest obtained from family and friends, savings and employers. In 2010, lending for housing picked up from Kz84 billion (US\$900 million) in July to Kz189 billion (US\$2 billion) in August of the same year. By mid-July 2013, according to the Governor of the National Bank, individual housing loans were still under 8% of the portfolio of Angolan banks. However 16% of overall investments from banks went into housing, the majority of which was for construction by commercial companies.

Until recently, lenders in Angola have not had access to a credit information system. The public registry covers less than 3% of adults. Lenders have also had to make do without a national identification system. The recent creation of credit bureaux has led to some improvement, but there is still little information available about businesses, and its quality is very poor. As a result, larger, older and foreign-owned firms located in Luanda enjoy significantly better access to credit than their smaller, younger, domestic counterparts based outside the capital. Collateral (liquid assets and personal guarantees) is required for nearly all loans, and a large share of loan applications is rejected. These conditions have negative implications for market competition and prices. Angola's economy is dominated by a handful of very large firms and a multitude of very small ones, demonstrating a 'missing middle' effect.

The microfinance sector has seen some growth, but the penetration rate of microfinance institutions (MFIs) remains low, with little more than 30 000 active clients. Only two MFIs – KixiCrédito and NovoBanco Angola – report to MIX Market, an online source of microfinance performance data and analysis, which recorded US\$13.2 million worth of loans disbursed in 2011. Most microfinanciers in Angola are financial banks; in 2007 BAI moved into microfinance by acquiring NovoBanco Angola. Other banks such as BFA and Banco Sol are diversifying into agricultural lending. KixiCrédito is the largest non-bank microfinancier, launched by local non-governmental organisation (NGO) Development Workshop Angola. In 2012, KixiCrédito had a gross loan portfolio of US\$20 million, with loans to 15 000 borrowers. In addition to microfinance for small business, it also offers a housing microfinance product known as KixiCasa. This was developed on the realisation that more than 30% of business loans were being diverted for housing purposes. The product enables groups of between three and five people to access 36-month loans starting from US\$1 000 and up to US\$10 000.

The social security system in Angola covers less than 10% 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, and there is scope for harnessing these resources for housing, both through lending to pensioners as well as broader involvement in the residential development industry. Angola does not have a stock market, although there are great hopes for plans that have been announced to set one up.

Affordability

Angola has a reputation of having one of the world's most expensive real estate markets, and Luanda ranked first in Mercer's 2013 Cost of Living survey for expatriates (an indicator of the wider market). The focus of formal developers so far has been on the higher income category. A two-bedroom apartment rents on average for about US\$7 000 a month, while a three-bedroom house in Luanda costs about US\$250 000. According to the World Bank's Doing Business 2012 report, the minimum wage for a 19 year-old

apprentice is US\$126 a month. The supply of housing within an affordable price range for the 38% to 50% of the population living below the poverty line (as estimated by INE 2011) is very thin, and financing is not readily available. High interest rate spreads, which stood at 12.6% in 2011 before declining to 8% in 2012, have contributed to a moderately low ratio of private sector credit, and very limited affordability for housing.

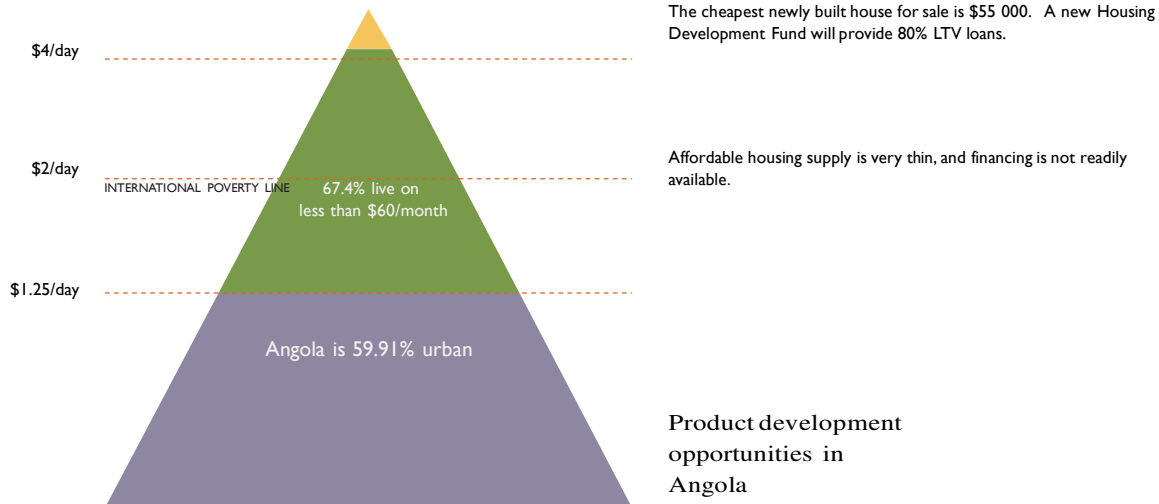
The Angolan economy has in the past been noted for its very low levels of investment, both public and private. At 13% of GDP, it is well below the average for Sub-Saharan Africa. Private investment represents just 3%. The 2013 state budget calls for a steep increase of 60% in capital expenditure, which will make Angola one of the countries with the highest social expenditure, as a percentage of GDP on the continent. A third of the 2013 state budget has been dedicated to the social sector, mainly directed to education, health and fuel subsidies. However, social housing, despite public pronouncements to the contrary, has not received the same attention. Historically, attempts at facilitating affordability for housing have been limited. In 1992, the government initiated a programme of selling housing confiscated from the departing colonisers. This opportunity was restricted, however, 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 for the general public, in two phases. The official average price at that time was about US\$45 000 for an 85m² apartment, a bargain considering the dearth of supply for this segment of the market. The eligibility criteria for the project were not well defined, however, and the project has had little effect on demand.

The Angolan government has adopted four strategies that could significantly reduce poverty levels in the country: 'Water for All', which aims to bring adequate and affordable water supply to 80% of peri-urban and rural families by the end of 2012; 'My Dream, My Home', a programme to supply one million houses; decentralisation and fiscal deconcentration in which democratically elected municipal councils will be in place after 2012; and a commitment to halve poverty by 2015 in terms of the Millennium Development Goals (MDGs).

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. According to the director of the National Housing Institute (NHI), the estimated housing deficit is close to two million units. Some 30% of the population have no access to electricity and less than 45% have access to piped water. The rural areas are the most severely affected, and the government has launched a strategy to supply 80% of rural and peri-urban areas with water. Infrastructure limitations restrict housing development in urban areas, and where it does happen, such limitations make development expensive. This has led to a severe shortage of habitable housing in urban areas and widespread slum development. The country's urban areas also lack basic land tenure laws and regulations to deal with the highly urbanised, high density reality they face.

For most Angolans, *auto-construção* or self-build is the predominant method of housing development. The concept of owner-managed building, a process that combines local tradespeople and family labour, is fundamental to the traditional way of building houses in Angola. There have been positive developments aimed at harnessing this self-build energy to create better settlements and prevent the development of slums. Apart from housing microfinance being



provided by KixiCrédito, the government has recognised the potential of self-build, making it an important element in its 'one million houses' programme by providing serviced and legalised land to families who wish to self-build.

The 'one million houses' programme was announced in 2008 and was envisaged to be completed by the end of 2012. The NHI was to lead the project. President dos Santos announced that the cost of these houses should be no more than US\$60 000 – although this was still out of reach for most people. The public and private sector are meant to deliver around 12% of these units and co-operatives around 8%, while the majority, more than 68%, are meant to be delivered through self-help initiatives. In this context, the state also announced a Social Housing Programme to provide various degrees of subsidy for housing, depending on income, including fully subsidised housing for citizens who earn an equivalent of about US\$150 a month and less. The reservation of 100 000 hectares of land for housing purposes (of which 32 800 hectares will be in urban areas), distributed over Angola's 18 provinces, is also included as part of this ambitious delivery programme. However, critics argue that the housing programme is not delivering as expected, and that the homes that have been built often remain unoccupied and are poorly located, unaffordable, or include plots for directed self-construction which remain empty because of the high cost of labour. By 2013 a large number of middle class housing units subsidised by the state have been released onto the market, but even with subsidised mortgages, they will serve mainly better paid civil servants. The 'one million houses' programme has mainly fallen short in supporting the self-help housing sector, which was anticipated to provide more than two-thirds of the units. The state has failed to produce sufficient sites and serviced plots of land with secure tenure to meet the needs of a large segment of the population which cannot afford nor qualify for even subsidised mortgages.

Homeless International, a British NGO supported by UKAid, began working in Angola in 2011 in partnership with NGO Development Workshop Angola. The organisations aim to support poor communities in Luanda to work together – and to work with government – to improve living conditions and reduce poverty for even the poorest city residents living in informal *musseques* (slum settlements). In 2012, Homeless International gave Development Workshop access to its CLIFF line of financing for a new social housing project in Huambo Province. End-user finance for incremental housing is being provided by the microfinance institution KixiCrédito's housing finance arm, KixiCasa, aimed at providing housing loans to those who cannot afford bank mortgages.

The domestic construction sector in the country is underdeveloped, and the local construction material industry remains inadequate to meet all of the demand for mass housing. This means many 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 campaigns, including financial incentives, to encourage the development and establishment of local manufacturing capacity for cement, ceramics, ironware and timber. Still, many property developers in the country are foreign-owned or staffed. If access to domestic-level financing was more available, this sector could develop rapidly, provide many employment opportunities for Angolan youth and begin to substitute the large scale importation of building materials and skilled labour.

Chinese investment in Angola is significant, and has come under scrutiny in recent years. In 2012, BBC News reported on a 'ghost town' built in Kilamba by the China International Trust and Investment Corporation at a cost of US\$3.5 billion. Financed with a Chinese credit line, which Angola is repaying in oil, the development is one of the largest new-build developments on the continent. However, less than 10% of the 22 000 unit development was sold by the end of 2012. At between US\$120 000 and US\$200 000 a unit, the housing was far from affordable for the vast majority of Angolans. The government has planned a total of almost 120 000 housing units for Luanda, including about 40 000 units that are to re-house residents of the inner-city *bairros* (areas) of Sambizanga, Cazenga and Rangel.

At the beginning of 2013 the Angolan government substantially reduced the selling price of apartments in several of its large scale housing projects in Luanda (notably Kilamba Kiaxi, Zango and Cacucaco) and set up a real estate company, SONIP, under the auspices of the state petroleum company Sonangol. Substantial subsidies were introduced and the price of a three-room apartment was brought down from US\$120 000 to US\$ 84 200, which could be purchased on a 3% mortgage over 15 years with a US\$14 000 down-payment and US\$390 monthly payments. This brought apartment ownership within the reach of middle-level civil servants earning over US\$1 500 per month. It remains unclear whether this subsidy will be extended to the housing provided in other satellite towns in Angola, and whether it could be sustainably applied to the full, low-income population in Angola.

Property markets

Property prices in Luanda remain high but below their peak of 2008, when a fall in oil prices caused an economic crisis in Angola. A big part of the growth of Angola's banks can be ascribed to their financing of the real estate bubble. The demand for high-end, quality housing in secure developments, with the reliable provision of utilities, means rental and sale prices are among the most expensive in Africa and in the world. Development Workshop Angola, with the support of the World Bank, carried out the first comprehensive study of Luanda's urban land markets in 2011. It demonstrated that there was a thriving land market but that it operated mainly in the informal sector, with less than 10% of land parcels outside the urban core having legal titles.

A new set of laws for rentals and the transfer of housing has been adopted, replicating Portuguese legislation and making investment in rental housing more attractive to investors. A withholding tax of 15% on rental income has been introduced, while taxes on industrial rents have been lowered. Property transfer taxes have been reduced from 10% to 2%, and have been eliminated for low cost housing. Stamp duties have been reduced from 0.5% to 0.3% and the tax on housing credit has been reduced from 0.3% to 0.1%, while land registry fees have been reduced by half. Since 2005, Angola has made significant progress in reforming the administrative processes for starting a business and registering a property. The cost of transferring property was reduced from 11.5% of the property value in 2005 to 3.1% in 2013 (World Bank 2013 b). This can be attributed to Angola reducing property transfer taxes.

Policy and regulation

Angola has a Ministry of Urbanisation and Housing, a National Housing Institute, a Ministry of Public Works, and an Office of Special Work, all with land and housing-related mandates. Still, policy and legislation around land tenure are a major hindrance to the growth and development of Angola's housing market. The poor often obtain land through informal processes in urban areas, but there is always the threat of forced evictions. This has happened relatively frequently in recent years as urban renewal and infrastructure have been priorities. According to a study by Development Workshop Angola, only 20% of land has been accessed through formal means and has clear title. The government needs to provide greater security of tenure for poorer households, extend the coverage of the land registry, and introduce simplified and rapid procedures to allow acquisition of formal tenure rights. The many overlaps between the various state actors in granting property rights need to be clarified.

Obtaining the official permits and licenses necessary to operate in Angola remains both costly and time-consuming. Construction permits take on average 348 days to obtain, and it costs 154% of Angola's annual per capita income to complete the 12 procedures needed to construct a warehouse—nearly a year longer and several hundred dollars more than in other countries in Sub-Saharan Africa. It is extremely difficult to enforce a contract (contracting is Angola's weakest area of business regulation). It takes 1 011 days to resolve a contract dispute, and the average cost of doing so is equal to 44% of the value of the claim. These regulations are intended to protect the public, but their costly, time-consuming and otherwise inefficient administration places excessive constraints on businesses, damaging the efficiency of the economy as a whole.

There have been some positive developments. Law number 3/07 of 2007, The Basis of Housing Development (De Bases do Fomento Habitacional) promotes the emergence of public and private finance for housing construction. It is the statutory basis for the Housing Investment Fund. The law 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. Also, the government in July 2009 approved an ordinance that grants duty-free imports of various materials for the construction of housing. But by 2013, by-laws regulating and simplifying the legalisation of land in the large informal settlements around Angola's major cities have not yet been published. Some local administrations, such as the Municipality of Huambo, have introduced innovative land management and house construction approval procedures that have by-passed the shortcomings of the law.

Opportunities

Angola has strong potential to receive inflows of foreign direct investment thanks to its natural resource wealth and related 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 challenge to sustain its economic growth in the long run as well as to create greater facility for other sectors, beyond extractive-related ones, to grow. Foreign direct investments have come mainly from China, and this country has come to play a major role in the economy of Angola. Around 40% of Angola's oil exports go to China, totalling over US\$20 billion in 2011. China will continue to play a role in Angola's economy in the foreseeable future, especially within the construction sector. Angola draws from China its professional contractors to undertake most infrastructural projects in exchange for oil.

The real estate sector has historically been overly focussed on high-end housing developments because of the ready market created by oil companies and their employees, amid record prices and oil 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. There are opportunities both in financing and development. The ambitious government housing programme 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 Angola, and recognised significant demand for it.

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