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# REGENERATING AFRICAN INDUSTRY

## Briefing book - Angola country mission

Prepared by Regional and Country Studies Branch,

with UNIDO consultants

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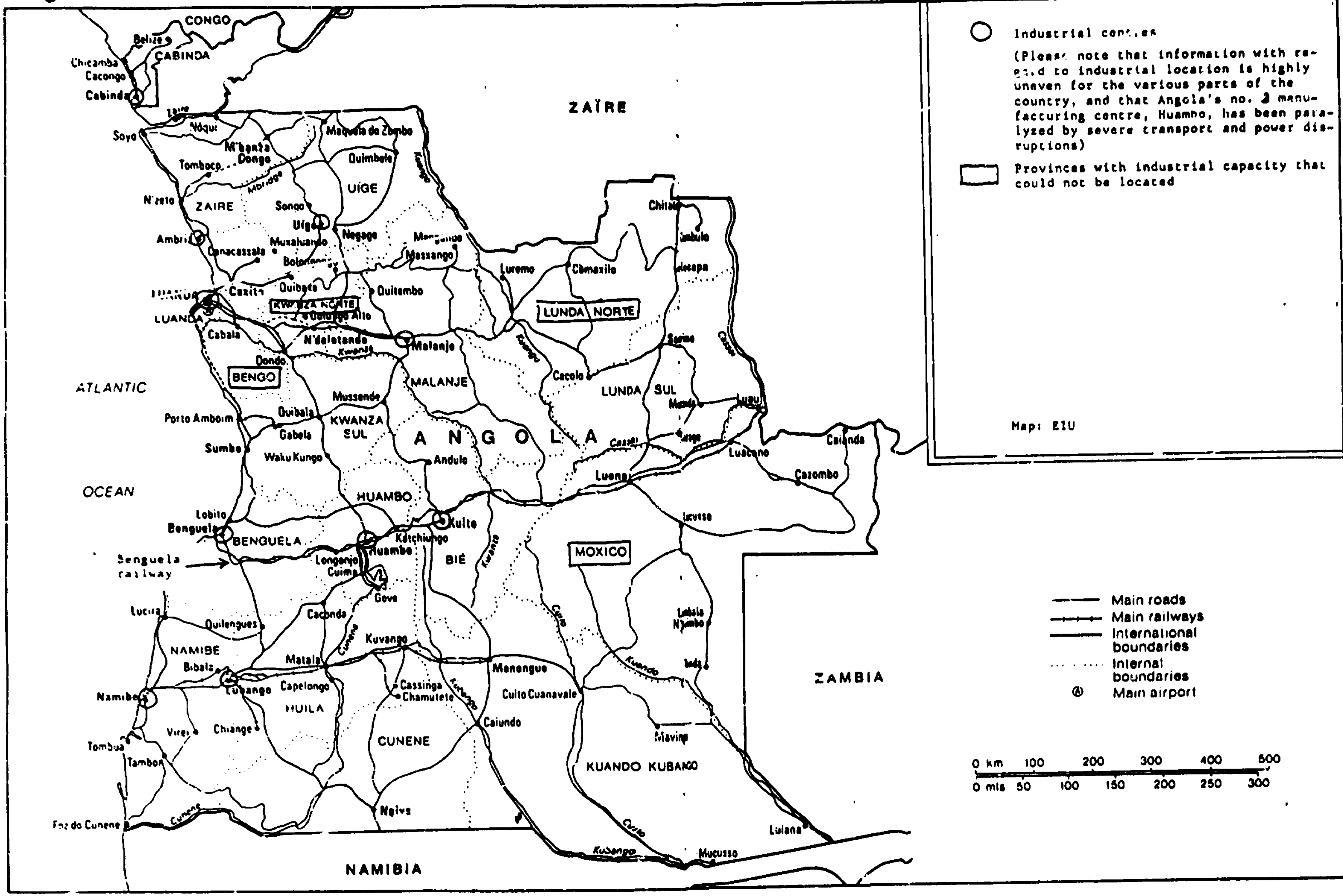
# Contents

# Angola



Industrial centres
(Please note that information with regard to industrial location is highly uneven for the various parts of the country, and that Angola's no. 2 manufacturing centre, Huambo, has been paralyzed by severe transport and power disruptions)
Provinces with industrial capacity that could not be located
Map: EIU
Main roads
Main railways
International boundaries
Internal boundaries
Main airport
0 km 100 200 300 400 500
0 mls 50 100 150 200 250 300
CONGO
CABINDA
Belize
Chicamba
Cacongo
Cabinda
ZAÏRE
Soyo
Nóqui
Maquela do Zombo
M'banza Congo
Tomboco
Quimbele
UÍGE
N'zeto
ZAIRE
Songo
Uíge
Ambriz
Negage
Massango
Camaxilo
Lucremo
Chitato
Quitembo
LUNDA NORTE
KWANZA NORTE
LUANDA
Cabala
Dondo
BENGO
N'dalatando
Malanje
MALANJE
Cacolo
LUNDA SUL
ATLANTIC
OCEAN
Porto Amboim
Quibala
Gabela
Mussende
KWANZA SUL
Sumbe
Waku Kungo
ANGOLA
Andulo
Luena
Luau
Luacano
Caianda
Cazombo
HUAMBO
Lobito
Benguela
BENGUELA
Kuito
Katchiungo
Huambo
Longonjo
Cuima
BIÉ
MOXICO
Benguela railway
Lucira
Quilengues
Caconda
Gove
Kuvango
NAMIBE
Bibala
Matala
Menongue
Lubango
Capelongo
Cassinga
Chamutete
Cuito Cuanavale
Namibe
HUILA
Chiange
Caiundo
Mavinga
Tombua
Tambor
CUNENE
KUANDO KUBANGO
Foz do Cunene
Cunene
Ngiva
Luiana
Mucusso
NAMIBIA
ZAMBIA
Kwanza
Cuito
Kuando
Kubango

GENERAL COUNTRY INFORMATION

AREA: 1,246,700 sq km

POPULATION: 9.1 million (1987 estimate)

POPULATION GROWTH RATE (1987 estimate): 2.8 %

POPULATION DENSITY (per sq km; 1984 estimate): 6.9

MAIN CITIES: Population in '000, 1983 estimate

| | | | |
|---|---|---|---|
| Luanda | 898 | Huambo | 203 |
| Benguela | 155 | Lobito | 150 |

1986 GDP AT CURRENT PRICES (Kz billion): 132.3

1986 GDP PER CAPITA (US $): 495

ORIGINS OF 1985 GDP AT FACTOR COST

| | | | |
|---|---|---|---|
| Petroleum | 30.9 | Trade | 9.8 |
| Services | 27.3 | Agriculture & Livestock | 7.8 |
| Manufacturing & Mining | 13.1 | Transport & Communications | 5.5 |
| | | Others | 5.6 |

EXCHANGE RATE (OFFICIAL): Kz29.77 = US$1

FOREIGN AID PER CAPITA (1985): US$10

INFANT MORTALITY RATE: 16%

LIFE EXPECTANCY: 42 years

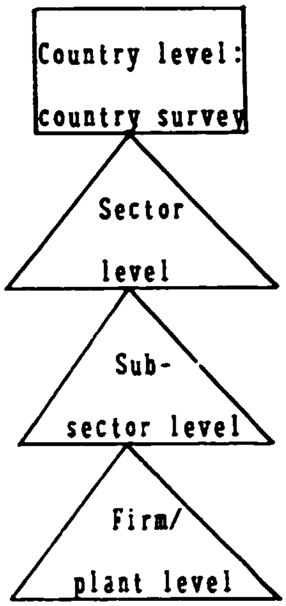
LITERACY RATE: 20%

EDUCATION:

| | Pupils (1982) | Teachers (1981) |
|---|---|---|
| Pre-primary | 292,457 | |
| Primary | 1,178,430 | 40,027 |
| Secondary | | |
| - general | 124,858 | 3,870 |
| - teacher training | 3,141 | |
| - vocational | 3,919 | 410 |
| Higher | 2,674 | 374 |

# Introduction

The aim of the field mission, for which this briefing book provides background information, is to provide a diagnostic sector-wide study of the rehabilitation needs of manufacturing industry in Angola. The mission will formulate suggestions both for rehabilitation projects and for improvemnets in the economic and policy environment in which industry operates. In order to ensure that all relevant issues are covered, a "top-down" approach looks as follows:




The briefing book follows this structure. Hence, the first two chapters are devoted to a description of the political and general economic situation of the country. The third chapter deals with the manufacturing sector in more detail. The last chapter outlines the major issues with regard to the rehabilitation and overall regneration of Angolan industry. Throughout, an effort has been made to keep the texts short and to the point. Therefore some of the information is provided in appendix tables only.

Both the structure and the contents of this briefing book are adapted to the specific purpose it is to serve. A more general discussion of the country's economy and manufacturing sector may be found in the forthcoming Industrial Development Review - Angola.

# 1. Background and political structure

## 1.1 The Colonial heritage and the independence struggle

Under the Portuguese rule, Angola was a supplier of cheap, raw materials to Portugal. The economy of the country was more or less stagnated until the boom of the 1960s generated strong interest on the part of overseas investors in the country's rich agricultural and mineral resources. The manufacturing sector, processing local raw amteirals, also grew rapidly, but its customers were almost exclusively found among the settler population, which grew from 173,000 in 1960 to 340,000 in 1975.

The rapid growth of the 1960s was not enough to overcome centuries of stagnation. Outside the few urban centres, there was little infrastructure: no schools, dispensaries, hospitals, rural postal services and public trnasport. The three railways that were built ran east-west to bring primary produce (agricultural and mineral) from the interior to the ports. A similar geographical pattern existed with the three electricity transmission lines. Neither these not the railways were connected in north-south direction, because it would have served no economic purpose from the colonial point of view.

The settlers monopolized all the skilled jobs, from the lowest to the highest, in the various organs of the state, banking and commerce, private and public industry, commercial farming, transport and energy, education and health services, wholesale and retail trade, and in the legal, medical and other professions. Very few Angolans were allowed access to middle and higher education and technical training. In 1973, the number of pupils registered in all middle schools was 40,024, and in all secondary and higher education, 40,377 pupils were registered; each accounting for only 1.2 per cent of the school age population.

The 1974 change of Government in Portugal soon led to an agreement with the Angolan independence movement to grant independence to Angola. The People's Republic of Angola (PRA) was proclaimed on 11 November 1975. A transitional Government comprising representatives of the three independence movements, the People's Movement for the Liberation of Angola (MPLA), FNLA and UNITA, and a Portuguese High Commissioner, whose role would essentially be that of arbitrator, had been sworn in on 1 January 1975, to prepare the country for independence.

The MPLA was seriously committed to a socialist road of development, conceived in a Marxist-Leninist sense. Because of this, and because of the refusal to adhere to the demands of FNLA and UNITA to share power with them, it found itself under the considerable pressure of global superpower rivalry. Because it supported SWAPO's struggle for an independent Namibia, the Luanda Government incurred the wrath of South Africa.

By April 1976, with the help of the Cuban troops, FAPLA (the military arm of MPLA), had driven out the invading South African and Zairean troops. This defeat had immediate repercussions on their Angolan protégés, the FNLA and UNITA. The FNLA was wiped out. Although UNITA could not so easily be eradicated, its influence was restricted to certain pockets in the southern provinces. The retreating troops plundered and destroyed what they could not take with them, blowing up bridges and installations, and burning down villages and food stores. The 200,000 Portuguese settlers who left within a year also destroyed whatever they could not take home. They moreover left the country virtually without skilled and educated manpower.

In early 1981, at which time there was some optimism with regard to the future, South Africa began to intensify its attacks on Angola. In 1982 and 1983 South Africa occupied large parts of the southern Cunene province. Under the Reagan administration in the United States, it has been easier for South Africa to escalate its campaign against Angola without running the danger of being punished by the United States Western allies.

Throughout UNITA has continued to mount spectacular operations. It has been severing powerlines to Luanda, sabotaging foreign ships in Luanda harbour, and attacking the mining town of Cafunfo, near the Zairean border. UNITA has been able to infiltrate areas far beyond their base in Kuando Kubango and their ethinic heartland on the central plateau.

Some attacks by UNITA have been staged as close as 100 km from Luanda. Road and rail links are now seriously disrupted in most parts of the country. The only provinces that have been spared relatively are Luanda, Namibe, Western Huila and Western Cunene. Their claim to control one-third of the country, however, has been shown to be unconvincing. In fact events have made it quite clear that UNITA, without South African support, is no match for the Angolan Government.

The UNITA leader, Savimbic, was treated as a Head of State when visiting the United States in 1986, and in that year United States aid began to reach the guerillas in Angola. There also has been support from Zaire, enabling guerilla troops to intensify the war in the very north and also penetrate Cabinda.

South Africa maintained for a long time that it did not support the UNITA, but the military situation has forced abandonmnet of this pretence. South Africa abruptly changed its course in January 1984 and proposed to withdraw its troops in exchange for Angola's restraining the activities of the SWAPO guerillas. Formulated as the Lusaka accord, the agreement was conditional on South Africa's proceeding towards Namibian independence in accordance with the United Nations Security Council's Resolution 435. However, operations in Angola were soon resumed and actions in 1986 included a naval attack on the southern port of Namibe. Very few parts of the country are therefore secure, which constitutes the major obstacle to economic recovery.

### 1.2 MPLA rule and the structure of government

After its victory over South Africa in 1976, the MPLA Government concentrated on consolidating its political power. There were critics on the left, both inside and outside the organization. A leading critic was Nito Alves, who for a peirod was Ministry of the Interior. His dismissal from that post and from the central committee precipitated an attempted coup, which, however, MPLA had little problems suppressing. After a purge of the mass organizations linked to MPLA (the trade union federation, the women's organization and the youth organization), provincial administrations and sections of the armed forces, the first party congress followed in December 1977. The by then completely dominant leadership of Dr. Agostinho Neto marked out a rigorous Marxist-Leninist ideology and changed the party's name to MPLA-PT (Partido de Trabalho).

When President Neto died in 1979, the party effected a smooth transfer of power to José Eduardo dos Santos, hitherto Ministry of Planning, and ever since President of Angola. He is also the Head of the party, leading bodies of which are the 90-member Central Committee and the 13-member Polticial Bureau, to which the Council of Ministers is formally subordinate.

The Central Committee decided in 1976 that elections could only be held if and when MPLA structures were sufficiently strong, and by 1980 it was felt they were. Elections were held to provincial assemblies and a national People's Assembly. Both bodies had a three-year term of office, but the elections due in 1983 were postponed until 1986 in view of the security situation. The People's Assembly meets rarely, has little power and devolves most of its legislative business to a small sub-body known as the Permanent Commission. This group is headed by President dos Santos and includes several members of the Political Bureau.

The continued security problems have led to the President's being entrusted with more power and to increased infludence of the armed forces. The President has emergency powers and can appoint regional military councils, which are responsible directly to the President and have sweeping powers.

The most powerful body is, however, the Defence and Security Council, which was set up in 1984. The Council is charied by the President and composed of the top military leaders. It is responsible for determining overall strategy, not only in military but also economic matters. By acting as Head of this Council, the President, for all practical purposes, also functions as Prime Minister: but three members of the Political Bureau: Kundi Payama, Pedro de Castro Van-Dúnem "loy" and Maria Mambo Café, have been appointed Ministers of State, each with responsibility to oversee the implementation of party policy by several subordinate ministries. Figure 1.1 shows the political and administrative structure of the country.

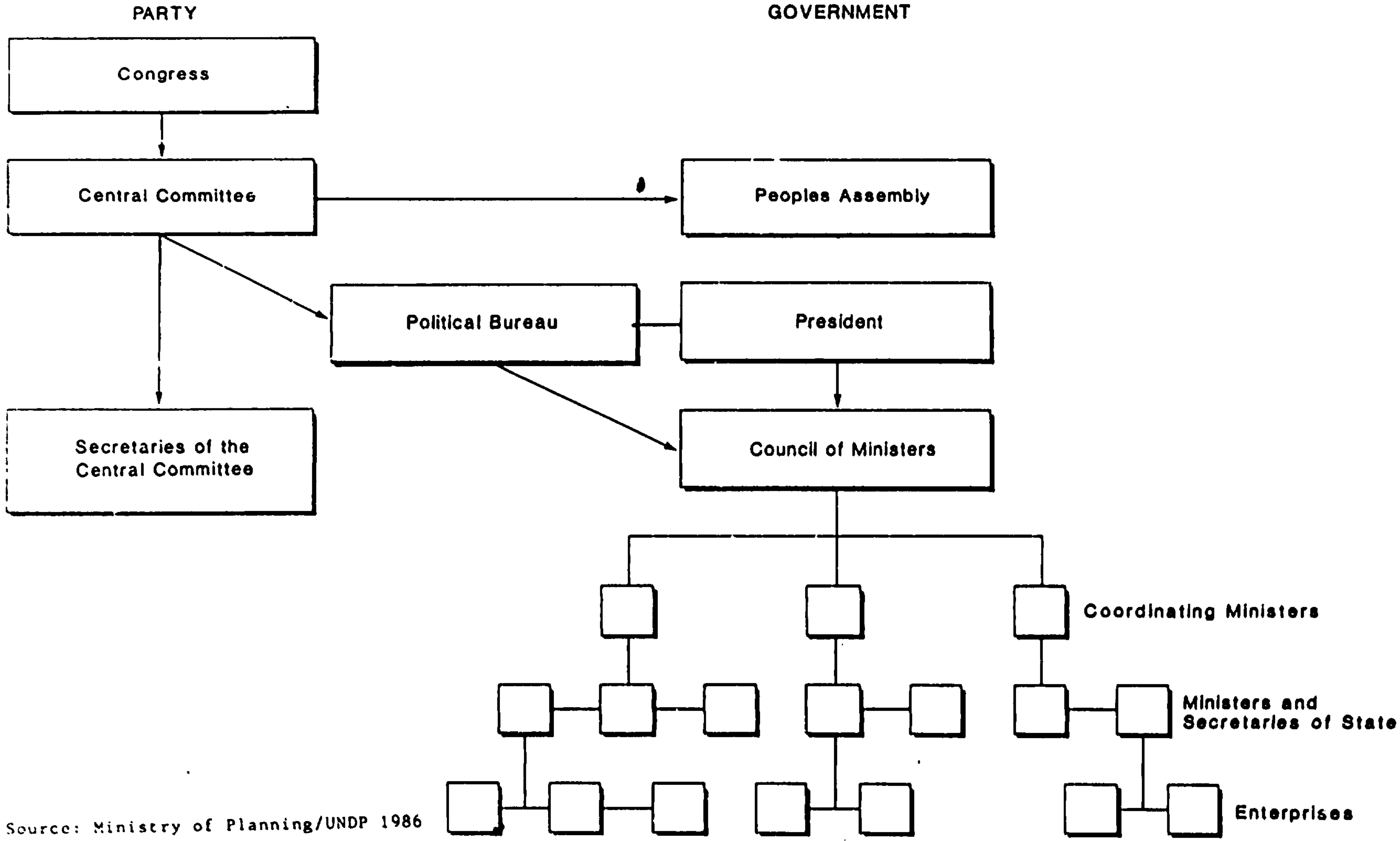
The party elite has disproportionately many mesticos and former assimilados and is perceived as relatively isolated.

The foreign policy of Angola has as its cornerstone the close relationship with the Eastern bloc countries, especially Cuba, the USSR and, to some extent, the German Democratic Republic. Nevertheless, the Angolan leaders have always denied that their country is a Soviet client state and have actively pursued other diplomatic initiatives. Angola has made determined efforts to establish normal relations with Western countries and has secured commercial and other agreements with most European countries including Portugal. The most successful example of Western co-operation has been in the petroleum industry, where United States is among the biggest customers and, which United States companies participate - an apparent contrast to the official hostile United States policies.

Outside Western Europe Angola has developed close links with Brazil and in 1983 established relations with the People's Republic of China. Regionally Zambia is the closest ally. Relations with Zaire have fluctuated with Zaire's support of UNITA. In 1979 all anti-MPLA-PT groups were deported and relations stabilized. Possibly as a result of pressure from the United States, support to UNITA was later resumed, marring present relations between Angola and Zaire.

Figure 1.1

INSTITUTIONAL STRUCTURE OF THE PARTY AND GOVERNMENT




Source: Ministry of Planning/UNDP 1986

## 1.3 Recent developments and outlook

In order to meet the challenges from UNITA and South Africa, Angola has built up the strongest armed forces in the region other than South Africa's. The armed forces number about 50,000 plus an equal number of militia. Angola has also acquired sophisticated military equipment to deal with South Africa's superiority in the air in the southern parts of the country. Angola's defence budget is thought to take up almost one-half of the total Government budget. Supplying the armed forces with food and manufactures is given priority, placing an enormous burden on the economy.

There have been several offensiveness against the strongholds of UNITA, but with South African support UNITA has been able to retain them. The Government is attempting to strengthen its control over the South of the country to prevent South Africa from using the area as a military base and to regain control over the Calueque dam near the Namibian border; which provides electricity to Namibia. Although the Government does control some strategic towns in the South, it is unable to secure the region as a whole.

The fact that the forces of FAPLA are being stretched out so much has enabled UNITA to inflict further damage in other parts of the country. Several small towns along the Benguela railway has been overrun by UNITA guerilla, a development which threatens SADCC plans to rehabilitate the railway line.

Despite the intensified fighting, negotiations are underway between South Africa, United States, Cuba and Angola. Except for the outgoing administration in Washington, all parties involved would be inclined to postpone any conclusions of these talks as long as possible. Cuba and Angola, who have agreed to a "linkage" between a pullout of Cuban troops and a settlement in Namibia, naturally would like to see an end to the fighting. Their hope is that a new United States administraiton will be able to put sufficient pressure on South Africa for peace to be realized. But there is no willingness to succumb to the demands that UNITA should be invited to share the power. South Africa, for its part, tries to create an impression it is going along with the "linkage" approach. However, it has consistently made its own counter-proposals as soon as a solution has been in sight due to changed positions by the Angolan side. It is also quite clear, from a security point of view, that the real interest of the republic of South Africa is to maintain the occupation of Namibia and therefore to continue the war against Angola as long as possible.

# 2. The general economy

This brief overview of the Angolan economy excludes the manufacturing sector, which is dealt with in more depth in Chapter 3. Prompted by the preliminary choice of plants to be considered by the field mission, emphasis here is on the agricultural sector.

Appendix 1 includes tables on macro-economic and other relevant data. The appendix tables contain the latest available data, which in Angola's case typically is 1985-86. Therefore the changes in economic policies (see section 2.6) which are being implemented will not be reflected in the presented data. However, when assessing future developments, these policy changes must be taken into account.

## 2.1 The overall economic impact of continued war

At the end of the colonial period Angola's economy was growing rapidly. Between 1960 and 1974 GDP rose at constant prices by an average of 7.8 per cent per year. As of 1973 oil became the main source of export earnings due to increases in production as well as in international oil prices. Earlier coffee had been the leading export commodity, Angola being the fourth largest coffee producer in the world. It was also the fourth largest producer of diamonds and had a significant iron ore mining industry. The country was virtually self-sufficient in food, had a large fishing industry, and was a net exporter of agricultural produce.

Apart from the oil industry, output has since dwindled in all sectors of the economy. There is little reliable data showing the development in GDP, but it is widely assumed that the GDP level has failed to return to pre-independence levels. Graphic indicators are the decline in coffee production from about 3.5 million bags in 1973 to 214,000 bags in 1985/86, the closure in 1975 of the iron ore industry, which produced 6.1 million tonnes in 1973, and the fall in diamond production from 2.4 million carats in 1974 to 375,000 carats in 1986.

Even without the destruction brought about by the departing Portuguese and by the internal fighting between MPLA and the competing liberation movements, there would have been a temporary decline in production following independence because the colonial production system, involving inter alia, forced labour, ceased. But the drastic reductions in production which occured were primarily the result of the exodus of the Portuguese settlers, who posessed most of existing managerial, professional and technical skills, and the destruction they and UNITA brought on the productive resources existing at the time. However, after 12.5 years, the war has itself become the major explanation for the economy's deprived state.

Direct damage caused by the military attacks on economic targets is seen, such as the blowing up of oil tanks at the refinery near Luanda or the attacks on the diamond mines in Lunda Norte. In addition there is the economic cost of attacks on infrastructure, such as the blowing up of bridges, railway installations, road links, etc. These activities disrupt economic activity by cutting the power supply, preventing transportation of goods and new investments, as well as repairing and maintaining installed equipment. Worst hit is the agricultural sector, which employs the majority of the population. Over 600,000 people are estimated to have fled their rural homes for the relative saftey of the cities and have now to be fed by society.

The on-going war has forced he Govenrment to divert most of its attention to these damages, partly at the cost of the economic and social development and planning. One result of this, in combination with the positive growth of the oil sector, is that the conomy has become unduly dependent on this single sector and therefore vulnerable to the fluctations in the unstable international oil markets.

At independence there was no alternative to nationalizing large parts of the economy because there was no one left capable of managing enterprises in agriculture, commerce or industry. 30,000 technicians left the country, 75 per cent of the 2,500 manufacturing enterprises were abandoned by their owners. Out of a total of 153,000 road vehicles only 8,000 were operative two years after independence and dozens of bridges and other infrastructura installations were destroyed. Due to the war most of these shortages have been aggrevated, including the fact that almost all skilled personnel has been diverted to defence. Therefore there is still a lack of managerial and technical skills across the various sectors of the economy.

Between 40 and as much as 50 per cent of State revenues have been diverted to defence. Military material accounts for a similarly large share of total imports. Therefore, and despite the increases in oil revenues, the national economy has become unduly dependent on foreign assistance, grants, commercial credits and balance of payments loans. Until the sharp fall in oil prices in early 1986, Angola was able to service its accumulated foreign debt without any problems and thus to maintain a fairly good rating on financial and capital markets. Since then, a protracted process of debt reschedulings has begun (see also Section 2.7 below).

## 2.2 The energy sector

Angola is particularly well endowed with energy resources. Total proven reserves of oil in December 1984 were estimated at 1.7 billion barrels. At current production levels this will last until the end of the century. There is also considerable reserves of natural gas, and a good potential for hydroelectric power from the many rivers (the Kwanza is 960 km long, the Cunen 945 km and Kubango 975 km). As the region's principal exporter of energy, Angola is co-ordinating the co-operation in energy matters for SADCC and houses the Secretariat in Luanda.

Above all it is the positive growth of the oil industry which has enable Angola to withstand the assaults from South Africa and the UNITA insurgency. Production of oil stood at some 172,000 barrels per day in 1974. It suffered a temporary decline in the early 1980s, dipping to 130,000 barrels per day in 1981-82. Since then production has recovered and by 1987, output reached 358,000 barrels per day, up to 27 per cent on the year earlier in volume terms and considerably more in export value terms. The State oil company, Sonangol, has predicted output will reach 430,000 barrels per day in 1988.

The bulk of production is off-shore production in the province of Cabinda. On-shore production is around 30,000 barrels per day. The industry was nationalized in 1977 when Sonangol was formed. Anxious to retain the co-operation of the foreign companies having operated these fields since the early 1950s, the Government has permitted Sonangol to enter into associations with foreign companies, including the United States companies Chevron and

Texaco, and the French companies Elf and Fina. In addition, a large number of foreign companies is involved in exploration, e.g. Braspetro (Brazil), BP (United Kingdom), Hispanoil (Spain) and Mitsubishi (Japan).

Hydrocarbons account for approximately 95 per cent of Angola's total exports. Above one-half of the exported oil is taken by United States (1985). Spain, the United Kingdom and Brazil are other major markets. There is one refinery near Luanda, owned jointly by Sonangol and Petrofina, with a capacity of 30,000 barrels per day (1.5 million tonnes). Exports from the refinery were worth $91 million in 1985.

## 2.3 Mining

Angola has depostis of more than 30 minerals, among which are: diamonds, iron ore, coal, phosphates, uranium, titanium, copper, gold, maganese, bauxite, mica, nickel, limestone, asphalt rock, rare earths and radioactive elements. Of these only diamonds and iron ore have been mined on a major scale; since 1975 iron ore production has come to a standstill without any prospects for resumption within a foreseeable future.

The only mining industry producing at present is the diamond industry. The mines are located in the Lunda region in the North-east, and since 1984 have been subject to repeated attacks by UNITA, resulting in kidnapping of foreign workers and the destruction of mining equipment and infrastructure. Production was 750,000 carats in 1987, much below pre-independence levels, but a rebound from 1986, when UNITA attacks brought production down to 375,000 carats. Revenues from the diamond industry were $33 million in 1985. After reforms aimed at bringing in more foreign companies into production, there is some optimism in the Government about the prospects for continued increases in production. However, all improvements will hinge upon the security situation.

## 2.4 Agriculture

Angola has also tremendous potential in agriculture; the country is huge (five times the size of the United Kingdom), has a good climate, water resources and soils for the cultivation of a very wide range of crops. The conditions exist in the higher, western part of the plateau which extends across most of Angola to the steep escarpments approaching the coast. However, nationwide only 2 per cent of arable land is currently cultivated.

During the colonial period there were two agricultural systems existing side by side. On the one hand there was the subsistence farming, and on the other the large commercial farms, which to a large extent relied on forced labour and were abandoned at independence. The commercial farms produced mainly cash crops such as coffee, sisal, bananas, palm kernels, sugar and tobacco. The peasantry grew the food crops, maize, cassava, millet, sorghum, beans, groundnuts, rice, potatoes and wheat, and, to a limited extent, some coffee. Portuguese rural traders purchased the surplus from the peasants and brought it to the urban markets.

Today's situation is much different; the large commercial farms are nationalized and virtually unproductive due to a combination of neglect due to war and neglect related to lack of competent management. Subsistence peasants in areas especially affected by fighting have abandoned their farms and fled to the cities. The link between existing farming and the urban markets no longer exists.

The Government has attempted to substitute for the departed Portuguese bush traders, but without success. The State companies Encodipa and Dinaprope were set up to buy agricultural produce and cattle, respectively, in return for the consumer goods supplied earlier by a range of problems including shortage of skilled management, transportation problems, lack of foreign exchange for importation of merchandise and consumer goods for the farmers, lack of necessary spare parts for machinery, vehicles as well as insufficient maintenance of machinery, vehicles and other equipment.

Similar problems plague the State companies set up to provide inputs and services to agriculture, notably Dinama, which is supposed to supply fertilizers and simple tools such as hoes, and the Enama, which is responsible for providing tractors for cultivation.

As a result farmers have no incentive to produce a surplus which could be sold to the urban areas. Added to the drop in production levels is the fact that many rural families have left their farms for security reasons. However the combat has reduced output levels for also those farms which are still in operation. The net effect is that Angola has turned into a large net importer of food and other agricultural products. Most of the food consumed in urban areas has to be imported. Famine conditions have begun to appear in some parts of the countryside since 1985, forcing the Government to rely increasingly on food aid.

Attempts to revive output have been made throughout the independence period, but have thus far failed due to the lack of skilled manpower, shortages of inputs, transport difficulties, insufficient investment and the growing security problems. Since 1984, renewed efforts have been made, however, and an entire set of policy reforms has been initiated. The Government has for some time been aware of the need for a reorientation of policies not only for economic reasons but also because UNITA has profitted from the mood of despair in the country. As a result of this rethinking, the Government has started to take a number of steps. There policy reforms include:

- A network of "agricultural development stations" (EDAs) has been instituted to service private farmers set up on former State-owned land, provide technical advice, run shops, sell tools, seeds and fertilizers, and arrange the transport of surplus crops, agricultural inputs and consumer goods. By mid-1986 there were 25 EDAs in eight provinces, mainly in maize-growing areas, providing assistance to about 60,000 families, a number which the Ministry of Agriculture hoped to raise to 80,000 families during the 1986/87 crop year.

- Measures have been taken to encourage the handful of private commercial farmers that have remained since the 1975-76 events have been mooted.

- Bank credits will be made avaialble for small-scale agricultural projects.

- Measures will be taken to encourage foreign investment in certain areas such as tobacco, citrus, oil palms, seed production and poultry, and perhaps also in coffee.

- Greater latitude and encouragement will be given to private traders, few as they may be.

- Finally, the cumbersome importing system will be reformed by setting up several regional import-export bodies.

The new policies were debated extensively during the preparations for the second party congress in December 1985, where they were subsequently endorsed by the congress.

In terms of production priorities the first is to revive marketed production of maize and other food crops such as cassava and beans. In view of the large needs of the domestic textile industry, the second priority is cotton. Other priorities are coffee, timber and livestock. By contrast, sisal has been given a low priority, the reason being that sisal is grown mainly in areas where the security situation is particularly difficult (see also below regarding sisal production).

In geographic terms, the priority area is the South West, which has thus far been relatively untouched by the war. A regional development programme has been drafted for that area with the assistance of the UNDP. Some of that material has been used for this briefing paper.

However, despite these policy reforms and planning efforts, production levels have still remained low, mainly due to the war but in some cases also due to unfavourable weather conditions.

Food crop production is traditionally concentrated in the central plateau provinces of Huambo and Bié, i.e. to areas among the worst affected by civil unrest. The food output in recent years has covered only one-half of the requirements. In 1986 and 1987, the cereal harvests were estimated to total about 340,000 tonnes, while national needs were estimated at 685,000 tonnes. In 1985/86, 192,600 tonnes of cereals were imported commercially, while food aid pledges included 74,300 tonnes of cereals. Apart from rice and wheat, of which Angola always has been a net importer, cereal imports now include large quantities of maize (55,108 tonnes in 1985/86). A United Nations inter-agency mission visited Angola at the end of 1987 to assess the emergency situation, and the United Nations' Secretary-General, Mr. Perez de Cuellar, also discussed mainly emergency food needs during his visit in February 1988.

The main cash crop is coffee, grown mainly in the Uige, Cuanza Norte, Cuanza Sul and Luanda provinces. In 1987 production was 19,000 tonnes, less than 10 per cent of 1974 production, but up 38.7 per cent from 1985. Coffee exports in 1985 earned $55 million. The former Portuguese plantations, now nationalized, account for 60 per cent of production. Most of the plantations are still working at minimum level or are completely deserted. There are some co-operatives; however, co-operative farming has encountered the usual difficulties such as the lack of skilled personnel - there are few Cuban or East European experts in coffee growing - and transport problems compounded by the sporadic civil unrest in the North-west.

Sisal is grown mainly in the provinces of Huila, Cuanza Norte and Malange on the Benguela plateau. In 1974 Angola was Africa's second largest producer of sisal as exports reached 66,719 tonnes. Production was estimated at 20,000 tonnes per year in 1981-84, while the marketed quantity reached only 789 tonnes in 1984 and 690 tonnes in 1985. During the late 1970s, sisal production was adversely affected by a slump in world prices and by the transition from private to State ownership. As mentioned above, sisal has been given low priority in existing plans for the agricultural sector mainly due to the security problems in the major production areas. Other problems facing the sisal industry are the poor world market prospects and the very old plantations, which would call for substantial investment in order to revive production to pre-independence levels.

Sugar production fell from about 80,000 tonnes a year in 1972-74 to only 17,416 tonnes in 1985. Production of molasses was 9,300 tonnes in 1985. During the colonial era, the production was controlled by hree Portuguese companies operating on the plantation model with exports reaching 9,679 tonnes in 1973. By 1985 Angola imported about 77,000 tonnes of sugar from Cuba.

Cotton was among the most promising products at the time of independence when production in 1973 reached 79,281 tonnes of unginned (seed) cotton and 39,642 tonnes of lint (raw cotton), a large portion of which was exported and the remaining processed by three local textile mills. The main areas of cotton cultivation were the Baixa de Cassanga, in the Malange province, and the region east of Luanda. Organized planters in the Cuanza Sul province were responsible for a large increased in mechanized production. In 1974 the combined production was 104,000 tonnes. By 1983 and 1984 the gross production was estimated to have fallen to 33,000 tonnes a year and in 1983 the marketed quantity was recorded at 2,130 tonnes, a figure which fell to 254 tonnes by 1985. In 1983, Angola for the first time imported cotton. As mentioned above, cotton is to be given priority in agricultural development the coming years.

Palm oil products were restricted to a few large European plantations where they were grown in association with sugar cane. Export of palm oil totalled 4,410 tonnes in 1973. In 1984 estimated production was 12,000 tonnes of plam kernels and 40,000 tonnes of palm oil. The marketed quantity was 2,500 tonnes of palm oil in 1983, but only 1,190 tonnes in 1985.

Tobacco grows well on the former farms in the Central and Southern provinces of Benguela, Huila and Namibe. In 1974, 4,503 tonnes were exported, leaving an ample supply for domestic manufacture. In 1985 marketed quantity stood at 38 tonnes.

Other crops could be cultivated and traded on a much larger scale than is presently done including maize, cassava, rice, millet, sorghum, bananas and other fuits, cocoa and groundnuts. Available production figures are shown in the tables in Appendix 1.

## 2.5 Livestock, forestry and fisheries

Angola has no tradition of livestock raising, the poor quality of the natural pastures and the tsetse fly being natural constraints. only the arid and semi-arid South Western provinces of Huila, Benguela, Cunene and Namibe are free from the tsetse fly and important, either for African-owned herds, or for formerly Portuguese ranches. The unrest in Southern Angola has completely disrupted the modern sector of cattle farming which was developed on irrigated terrain in Cunene province. Of 55 European cattle ranches in the South existing before the independence, only two were reported to be in activity at mid-1985. The livestock resources in 1984 were reported to include 3.15

million cattle, 460,000 pigs, 245,000 sheep and 955,000 goats. However, the figures are unreliable and could overestimate the size of existing herds.

In 1973 36,500 tonnes of livestock were slaughtered. By the 1980s, the slaughtered livestock was down to less than 5,000 tonnes. In 1985 this included 3,736 tonnes of cattle. Commercial meat imports in 1985 amounted to 16,678 tonnes. The huge fall in offtake in recent years has resulted in serious overstocking in the South West. The Vice-Minister of Agriculture has the excess number of cattle there at one million head. The Government hopes that, as a result of investments in rehabilitating slughterhouses and improvements in Dinaprope's marketing campaigns directed at livestock herders, production will return to 12,800 tonnes by 1990. The actual quantities 1973-85 and the official projections for cattle slaughtered for each of the years 1986-90 are:

(in thousand tonnes)

| Actual | | | | | Official projections | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1973 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
| 24.5 | 4.1 | 2.3 | 2.4 | 3.7 | 4.3 | 5.2 | 6.4 | 9.3 | 12.8 |

Sources: Ministry of Planning; Agri-Afrique.

Forestry is carried out mainly in Cabinda, where mahogany and some other valuable species are found, and in Benguela along the railway, where softwood plantations of eucalyptos and cypress used to provide the raw material for domestic wood pulp and paper manufacture. A reaforestation programme was carried out on the Ovimbundu plateau. However, among on-going activities there is only one project to exploit the timber resources of Cabinda which is carried out with Cuban help. Production of logs peaked in 1973 at 555,100 cubic metres fell to a low of 38,500 cubic metres in 1982, but had 1985 climbed up to 113,300 cubic metres. Some investment is being made in sawmills and plywood manufacture, which is reported to be an area where the Government would welcome foreign participation.

Along the 1,650 kilometre long coastline there are some very rich fishing resources, especially off the coast of the Southern provinces of Namibe and Benguela. Horse mackerels and sardines account for 90 per cent of the catch, but there is also large potential for tuna and shellfish.

Prior to independence there were about 700 fishing vessels with an annual catch of well over 300,000 tonnes. In good years it was twice that amount and, counting the foreign catch, the total reached over one million tonnes. In 1985 total catch was recorded at 191,000 tonnes, of which foreigners accounted for two-thirds. The Angolan fleet landed only 62,500 tonnes. Exports have virtually halted, due to the closure of most processing plants.

Among the problems facing the fishing industry are the familiar shortages of skills, foreign exchange constraints and delays in supplies of vital inputs. Supplies of materials and spare parts for fishing boats and fish factories is the sole responsibility of Enatip, and can take up to a year to be effectuated. In 1985/86, only 70 of 143 fishing boats were in a working condition in Namibe.

Over the next few years the Government hopes that the total fish catch will reach 350,000 tonnes, i.e. 5.5 times the level in 1985. The priority is to satisfy domestic demand over exports, and the policies instituted to achieve this goal are therefore geared primarily towards increasing the amount fish available for local consumption, while measures to restore the processing and export earning industry are somewhat delayed. To this end, Angola has started signing license agreements with foreign fleets in exchange primarily for part of the catch, but in some cases also for payment in foreign exchange or aid in the rehabilitation of the industry. For example, an agreement has been signed with the USSR whereby 15 per cent of the catch has to be delivered to Angola. Other nations involved are Spain, Japan and Italy.

A five-year plan for the rehabilitation of the fishing industry has been formulated, including the purchase of 37 new steel hull vessels from Spain (for which there are not maintenance facilities in Angola) and 14 boats from Italy. The fishing industry is to be built up in Porto Amboim, Kwanza Sul and small investments are made to boost artisanal fishing along the northern coast with the assistance from the Swedish aid agency SIDA.

Investments funded by several aid agencies, including DANIDA, the EEC and Spain, have also been made to improve onshore facilities for freezing, canning, drying and semi-curing, and to restore large salt pans along the southern coast. Refrigerated trucks have been imported to improve the State distribution company's (Edipesca) capacity. Despite these efforts the obstacles to increased fish production remain formidable; however, given the relatively extensive efforts made, some improvements should be expected.

## 2.6 Policy reforms

Despite the socialist development strategy, MPLA-PT has never adopted a long-term development plan since it came to power. This divergence from socialist principles reflects the country's inadequate economic statistics, shortage of qualified economists, the uncertainties of war and the high dependence on the oil sector.

Angola's planning has virtually amounted to the drafting of annual production goals and a foreign exchange budget at the beginning of each year, along with the regular Government budget. However, the second party congress in December 1985 proposed "going over from annual to pluriannual planning". The first steps in this direction have been taken with two-year plans for 1987-88, drafted in a framework of a long-term development strategy for 1987-90, which incorporates a series of policy reforms.

Some of the reforms were already discussed at the second party congress; others were put forward in later speeches by senior officials. The whole reform package is referred to as SEFC (Saneamento económico e financeiro), which is due to begin in 1988 and be implemented over a four-year period.

The President, in his traditional New Year's speech to the nation in 1988, devoted much time to explaining the importance of SEF. He announced that new legislation had been prepared that "would start to alter the manner of directing, organising and managing the economy, both in enterprises and at central goverment and provincial commissariat level".

In particular the President emphasized that SEF would not accentuate already daunting difficulties of everyday life. "Although prices will increase substantially on the official market," he said, "the people will begin to find most of the goods they need on that market, which will significantly reduce what they actually spend, since they will not have to resort to the parallel market and buy goods at speculative prices".

Among reforms already in place are new laws on foreign investment, according to which foreign companies are entitled to 100 per cent ownership, assured of the right to repatriate profits and have guarantees against nationalization and a new law on State enterprises, which provides for much greater managerial and financial autonomy than older laws did.

Planned, but not yet fully implemented reforms include the following:

- Economic decentralization has started to be implemented by setting up regional import-export companies which are given annual foreign exchange quotas. In 1985 such companies were set up in Cabinda and in Ufge, the latter of which focussed on marketing campaigns aimed at peasant coffee producers. For 1986 it was planned to set up similar companies in the southern provinces Namibe and Benguela. Similar reforms are planned for other activities including the development planning. The central planning will be more indicative rather than normative, while the detailed planning will be carried out by local and regional bodies and individual enterprises.

- More Autonomy to the provinces is a separate objective in the programme although closely linked to the above-mentioned reforms.

- Foreign exchange retention scheme as an incentive for export industries has been promised, but not yet installed.

- Liberalization of the price control system will limit the number of goods under controlled prices to basic necessities, while most goods will be priced according to market conditions. For most companies, this will permit setting prices that take into account production costs. For goods still subject to price controls, more flexible routines will be introduced to enable price adjustments in response to changes in production costs.

- The wage policy will be centralized, allowing enterprises to make adjustments according to increments in productivity.

- Fiscal policy reforms include a greated individualization of taxes and has as its objective the ensuring of public expenditure financing. Parallel to this, an obligatory loan to finance the defence costs will be instituted. It is planned to reduce the State's share of national expenditure from 62 per cent in 1987 to 58 per cent in 1990.

- Monetary restraint has been foreshadowed; money creation shall be separated from credit expansion, which will be tied to savings in the banking system. The banking system will iteslef be subject to reforms aimed at the debt management (which was unusually good until recently), and increasing the share of savings captured by the banking system.

- Privitization has been established as a goal in itself, primarily in agriculture, commerce and local transportation, but excluding no sectors except those tied to the country's basic resources: education, health care and infrastructure, especially capital intensive activities like railways, air traffic, sea transportation and long distance road transportation. The reforms will break up the existing State monopolies in local transport and the de facto monopoly in retail trading.

In addition there are the reforms concerned specifically with the agricultural sector, referred to in Section 2.4 above.

The SEF is first and foremost a reform package designed to increase producton in the face of the crisis gripping the country. Experience in other countries stongly suggests, however, that it will take two to three years before the reforms will show any positive results. In the meantime, the leadership will be under some political pressure as various elements are obviously in conflict with the ruling political ideology, such as the privatization and liberalization reforms. In addition there is a concentration to the major urban areas and to Western and South-western provinces, the Lobito- and Namibe-corridors.

There are special measures in the SEF designed for the national capital Luanda. This city was designed for 400,000 people but may be able to absorb 700,000 people. Counting surrounding areas, greater Luanda is estimated today to have 1.2 million inhabitants. Since infrastructure has broken down, the SEF therefore contains measures to rehabilitation infrastructure, improve housing conditions as well as increase basic commodities supplies, of which foods is by no means the least.

In many respects the SEF resembles a full-fledged IMF structural adjustment programme, and has in all likelihood been designed to facilitate Angola's pending application for membership in the Fund (for details see Section 2.7). The SEF would then be the entry ticket to both the IMF and the Paris Club of official creditors and speed up the present pocess of debt reschedulings. However, there is one element conspiciously absent in the SEF: devaluation.

Devaluation of the kwanza will become necessary if price distortions are to be eliminated. The authorities are "in principal" committed to devaluation, but have not yet announced its timing or scope. While the official rate of the kwanza was approximately 60 times higher than that on the black market in early 1988, it will not have gained since. This seems to put serious question marks regarding the possibilities eliminating price distortions and reducing the black market.

## 2.7 Foreign debt aspects

Angola is not a major debtor country, especially not by African standards. However, its foreign debt has increased at a fairly rapid rate in recent years. In 1986 total foreign debt had reached $3,024 million and was officially projected to reach $3,289 million by 1988. The share of foreign debt in GNP in 1986 was 70 per cent, up from 52 per cent in 1984. The increase occured mainly in short-term debt, which in 1984 accounted for only 7 per cent of total foreign debt but rose to 20 per cent of the total in 1988. This puts the balance of payments under increased pressure the coming yars.

Due to the fall in oil revenues in 1986, Angola was unable to fulfill its debt service for that year and by December 1986 had accumulated arrears totalling $378 million. The debt service ratio for 1986 was 33 per cent. For 1987 the civilian debt service payments have both been made in 1987, Angola has sought rescheduling with its major creditors on a bilateral basis.

The by far largest creditor is the USSR, which accounts for two-thirds of total debt. In 1986 more than $2 billion in debt and arrears owed to the USSR was rescheduled. The terms Angola receives from the USSR on its debt are very soft, 3 per cent interest and 10 years repayment period with 3 years of grace.

Despite the favourable position enjoyed in relation to the USSR, Angola has seeked reschedulings also with its Western creditors. In 1987 Angola resented the Paris Club creditors with an innovative scheme, basically asking creditors to swap debt for Angolan long-term Government bonds, thereby extending in time their risk on Angola plus providing new money. The scheme met with little enthusiasm among creditors and has since been dropped. Instead Angola is hoping for entry into the IMF, which would allow access to the fund's credit facilities as well as a conventional Paris Club rescheduling. However, these efforts are being blocked by United States for reasons hard to explain in rational terms. Pending a change in the United States position, contracts with the IMF have been initiated, and in February 1988 a first IMF team visited Luanda. Angola has rescheduled bilaterally also with some Western countries. The terms of those agreements include commercial interest rates and considerably shorter repayment peiods than stipulated in the agreement with the USSR.

## 2.8 Foreign aid

Angola is receiving an icnreasing flow of foreign aid which in 1985 had already reached $91.5 million, of which over two-thirds were grants. In 1981 total foreign aid was only $61.5 million with a 55.7 per cent grant element.

Two-thirds of this aid is from bilateral sources, with Sweden as the biggest donor. SIDA's contribution in 1985 was $18.7 million, or 20.5 per cent of the total aid flow that year.

During the past two years, the following commitments have been made:

- Portugal has signed an agreement involving $50 million in soft credits for Portuguese participation in infrastructral projects, the paper mill in Benguela and cement factories in Luanda and Lobito;

- Italy has signed a three-year agreement totalling $310 million, of which $150 million are grant, $150 million soft credits and $10 million emergency relief aid. The agreement is linked to debt repayments and will make Italy the by far largest donor to Angola.

- Brazil has signed a "substantial" soft credit in exchange for Angolan oil, and France has lent FF 81 million to coffee and other agro-related rehabiltation projects. In addition, France has pledged FF 11 million in grant aid for 1987; for 1988 this has been increased to FF 15 million.

# 4. Major industrial regeneration issues

This chapter is presented as food for thought for the team of consultants. Keeping to the top-down aproach, the macro environment is considered first.

## 4.1 The macro environment

Under present circumstances, there are at least htree areas of the macro environment (in addition to the infrastructure dealt with separately below), which will have a very strong influence on the scope for industrial regeneration. These are to be briefly reviewed below.

The security situation is, of course, crucial to the scope for industrial regeneration work. Ironically it is probably the factor hardest to asess when in Luanda (except in the unlikely case that fighting should spread to the cpaital). Security concerns the industrial plants in a physical sense, but more relevant in this case is the availability of supplies from the hinterland. One issue is whether raw material can be imported with maintained production of profitability if and when local supplies fail. In the case of a meat factory, the answer is clearly no. For other industries the situation may be different. For example, if the sisal plant is to be chosen by the team, it may be such a case.

The foreign exchange availability seems to primarily be a matter beyond the control of the Government. The basic factor is oil pices and export volumes. The system for allocating foreign exchange is under change. Although no adminsitrative change has been made in Luanda itself, it may affect the availability of foreign exchange in the capital. An interesting aspect of foreign exchange and prices, but also a delicate issue to deal with officially, is how especially private enterprises maintain both legality and profitability in the fact of the huge differences between open and parallel markets. Since agro-industries will mostly belong to those where price controls are retained, this issue seems one with which one might have to deal during the mission.

The SEF aims at reviving the whole economy by injecting a dose of liberalization and privatization. Given the reservations regarding devaluation and industrial privatization, it seems the mission will have to assess the likelihood SEF will yield significant results, especially in those areas of agriculture directly linked to the plants chosen for visits, but also in a broader sense.

In summary, the UNIDO/REG mission to Angola should cover the following issues in the macro environment:

- the security situation;
- the foreign exhcange availability; and
- the SEF.

The mission should formulate its conclusions of the field survey in a policy framework and in accordance with on-going UNIDO assistance projects in Angola.