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THE AGRO-BASED INDUSTRIES IN ANGOLA: KEY CHARACTERISTICS AND REHABILITATION ISSUES*

<u>Studies on the rehabilitation of African industry</u>

No. 5

Prepared by

Regional and Country Studies Branch

Industrial Policy and Perspectives Division

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PREFACE

As part of the programme of the Industrial Development Decade for Africa, UNIDO's Regional and Country Studies Branch is issuing a series of studies determining both the major problems of African manufacturing and the potential for regenerating the sector. The aim is to outline policies and measures that may result in overall improvements and to identify individual plants for assistance. The backbone of the series is formed by a number of country-level diagnostic surveys on the rehabilitation requirements of African manufacturing industries. These have been compiled by teams of experts during four-week field missions. As the surveys contain confidential plant-level information, their circulation is restricted. In order to present the salient parts of the full country surveys to a wider readership, a series of 'highlights' is being issued.

This particular report presents the highlights of the Angola mission's survey of industrial rehabilitation needs of Angolan agro-based industries. It provides the reader with a general description of the economic and policy environment for industrial rehabilitation, as well as a description of Angola's agro-related industries and branches. Chapters 6 and 7, providing general observations and recommendations regarding government policy and companies, should be very useful in formulating an agenda for rehabilitation efforts. The full survey should be consulted for detailed suggestions for specific plant-level rehabilitation requirements.

The UNIDO field mission visited Angola from 1 to 30 September 1988. Members of the team included UNIDO consultants: Mr. Tom Alberts, Mr. Björn Almquist, Mr. Jan Björk, Mr. Manenga Ndulo, Mr. John Scott (team-leader), and Mr. Graham Smith. Mr. Kiala Gabriel of the Technical Cabinet of the Angolan Ministry of Industry also served as a UNIDO consultant and member of the team.

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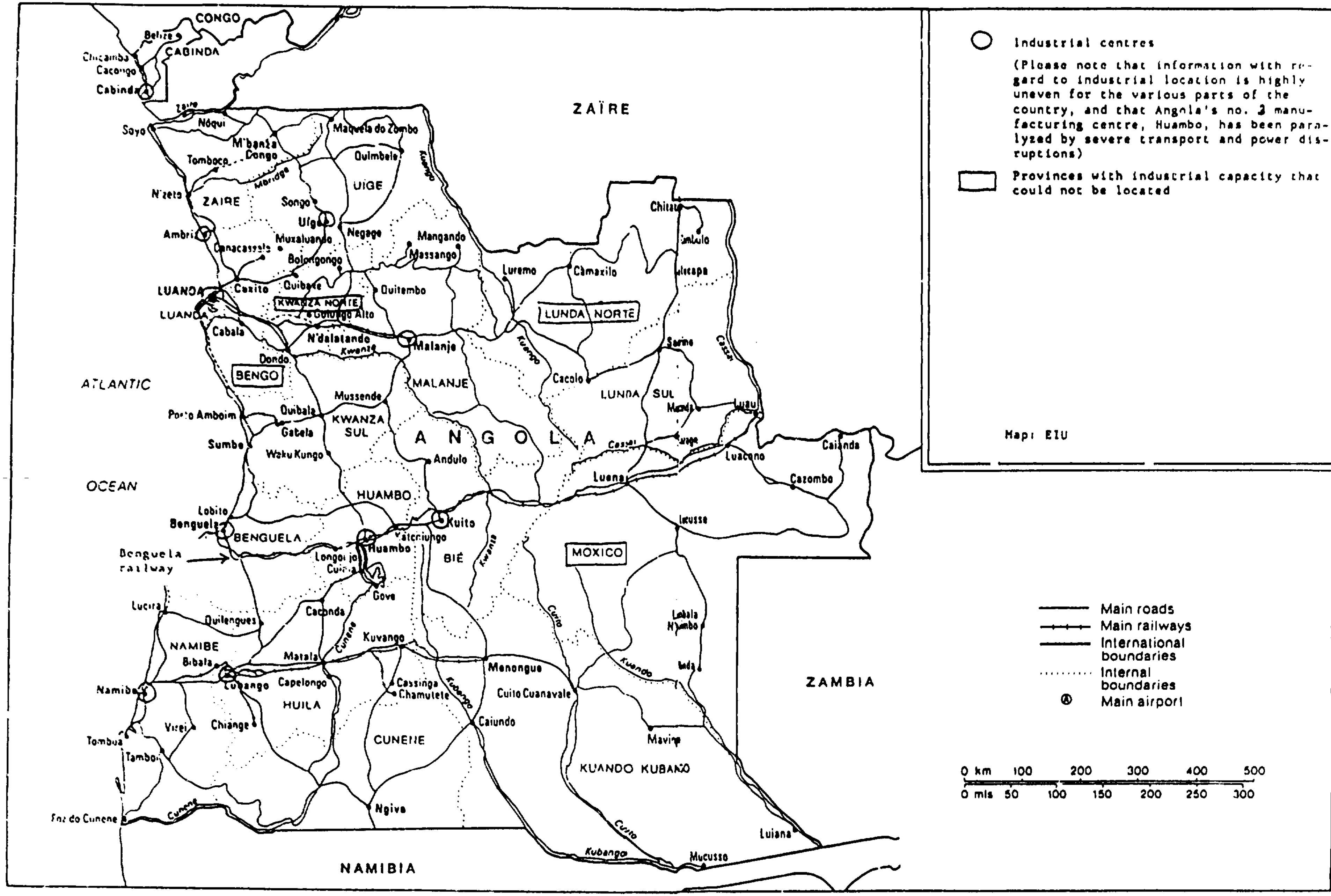


Industrial centres
(Please note that information with regard to industrial location is highly uneven for the various parts of the country, and that Angola's no. 2 manufacturing centre, Huambo, has been paralyzed by severe transport and power disruptions)
Provinces with industrial capacity that could 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
ZAÏRE
ZAMBIA
NAMIBIA
ATLANTIC
OCEAN
A N G O L A
Belize
Cacongo
Cabinda
Soyo
Nóqui
M'banza Congo
Maquela do Zombo
Quimbele
Tomboco
N'zeto
ZAIRE
UIGE
Songo
Uíge
Ambriz
Negage
Mangando
Massango
Muxaluando
Bolongongo
LUANDA
Caxito
Quibaxe
Quitembo
KWANZA NORTE
LUNDA NORTE
Cabala
N'dalatando
Malanje
Dondo
BENGO
MALANJE
Lucapa
Cacolo
LUNDA SUL
Saurimo
Luau
Mussende
Quibala
KWANZA SUL
Porto Amboim
Gabela
Sumbe
Waku Kungo
Andulo
Luena
Luacano
Cazombo
HUAMBO
Lobito
Benguela
BENGUELA
Kuito
BIÉ
Huambo
Longonjo
Caála
MOXICO
Benguela railway
Gove
Lucira
Quilengues
Caconda
NAMIBE
Kuvango
Bibala
Matala
Menongue
Namibe
Lubango
Capelongo
Cassinga
Chamutete
Cuito Cuanavale
HUILA
Virei
Chiange
Caiundo
CUNENE
Tombua
Tambor
Mavinga
KUANDO KUBANGO
Foz do Cunene
Ngiva
Luiana
Mucusso
Cunene
Kubango
Cuito
Kwanza
Kuando
Cuango
Cassai

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

LIST OF ABBREVIATIONS

ANGONAVE	Linhas Maritimas de Angola
BJAFCO	Bom Jesus Agro-Industrial Farm Co.
BNA	Banco Nacional de Angola
CIF	Cost, insurance and freight
CMEA	Council for Mutual Economic Assistance
CUF	Companía Unico Fabril
ECG	Empresa de Gorduras Centro
EEC	European Economic Commission
EMATEC	Empresa Abastecimento Tecnico Material
ENSUL	Empresa de Supermercados de Luanda
EPAN	Empresa de Panificao Nacional, UEE
ERMOAGEN	Empresa Regional de Moagen do Norte
FAL	Fabrica de Alimentos
FAO	Food and Agricultural Organization
FIBREX	Fabrica de Artigos de Fibras Sintéticas
FILDA	Feria Internacional de Luanda
GDP	Gross domestic product
ILO	International Labour Organization
IMF	International Monetary Fund
INDUVE	Industria Angolana de Oleos Vegetais
ISIC	International Standard Industrial Classification
Kz	Kwanza
Lda	Limitada
MPLA-PT	Movimento Popular de Liberatacao de Angola - Partido de Trabalho
MVA	Manufacture value added
NORSAD	Nordic-SADCC Fund
OECD	Organization for Economic Co-operation and Development
PTA	Preferential Trade Area
PVC	Polyvinyl chloride thermoplastic
QUIMIGAL	Quimica de Portugal EP
SADCC	Southern African Development Co-ordination Conference
SARL	Sociedad Anonima a Responsabilidades Limitadas
SATCC	Southern African Transport and Communications
SEF	Programa de Saneamento Economico e Financiero
SIGA	Sociedade Industrial de Groassarias
SNS	Sociedad Nacional de Saboes
SNS	Sociedade Nacional Saboes Lda
SONANGOL	Sociedade National de Combustiveis de Angola
UEE	Unidade Economica Estatal
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
UNITA	Uniao Nacionale para a Independencia Total de Angola
USAID	United States Agency for International Development

CHAPTER 1

BACKGROUND TO THE STUDY

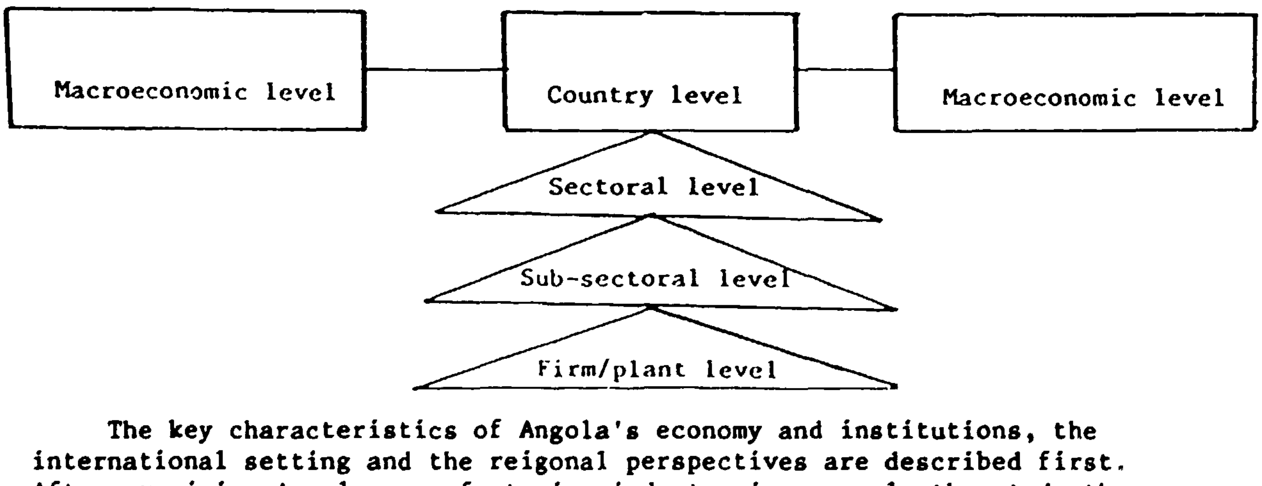
1.1 An approach to industrial rehabilitation

Before a serious effort can be made to carry out detailed rehabilitation of industry in Africa, it is necessary to diagnose in depth the precise reasons and scope for the problems, constraints now faced by industry, and the increasing challenges in a particular sub-sector and a particular country.

Until now, much rehabilitation work in Africa has not been systematic or comprehensive. Rather, it has either been viewed as the treatment of a plant's technical problems - without an analysis of the real causes or their ramifications - or as a macro-economic issue only. In the first case, technical assistance activities have often been carried out in isolation, separated from analyses of financial requirements, market possibilities, or the availability of raw materials and intermediate inputs. This apporach has frequently resulted in rehabilitation projects and government requests that were too narrowly focused. Often, corresponding international co-operation has been on the basis of such narrowly-defined project concepts. Thus, there is the serious risk of only "patching a leak", with the possibility of another leak developing elsewhere.

The surveys in the Regional and Country Studies programme attempt to move away from this approach - which at times amounts to little more than "plant-level tinkering" - towards an approach aimed at providing a broader diagnosis and recommending a wider range of action. Manufacturing industries do not exist in isolation. They are surrounded by an ever-changing environment. The plant needs to be viewed in this total environment.

For this reason, we have adopted a "top down" approach, starting with an examination of the macro-economic level, descending through the sector, sub-sector and branch levels, and finally arriving at the plant level (diagrammed below).



The key characteristics of Angola's economy and institutions, the international setting and the reigonal perspectives are described first. After examining Angolan manufacturing industry in general, the study then focuses on agro-related industries, particularly those belonging to the food manufacturing sub-sector. The regeneration of these industries has been accorded high priority under the recently introduced Angolan economic recovery programme, Saneamento Economico e Financiero (SEF), while their rehabilitation is also among the sectoral priorities established by SADCC in its regional programme of action.

Three branches of the food manufacturing sub-sector are further examined - meat processing, vegetable oil seeds processing, and flour milling. The package manufacturing branch, while not strictly part of food manufacturing, is also discussed because of its link to various branches of this sub-sector.

Finally, at the plant level, the full survey provides a detailed analysis of the rehabilitation needs of four firms in the Luanda area. This report includes general observations and recommendations in this regard (Chapter 6).

Through such a "top down" approach, we can be assured that the policy, economic, technological, managerial, financial, and marketing dimensions are fully integrated. The surveys will thus assist African Governments in linking the macro, branch level and project issues in making decisions for rehabilitation.

1.2 Consultations and discussions

In the preparation of this study, the mission was guided and assisted by the Minister of Industry and the SEF Secretariat, with whom detailed consultations were held in Luanda. Discussions were also held with senior officials from the Ministries of Industry, Planning, Finance and Trade and the National Bank of Angola, with the managers from the selected companies, as well as businessmen from other private, public and mixed enterprises. Contacts were established with SADCC structures and with a range of financing institutions and foundations having an actual or potential interest in Angola's agro-industrial development. These included the Banque Paribas, the Caisse Centrale de Coopération Economique, the European Investment Bank, the Gulbenkian Foundation, Lloyds Bank, Swedfund and the World Bank.

Discussions were also held with representatives of Angola's principal partners in the economic co-operation field, including the European Community, France, Italy and Sweden, as well as Brazil, The Netherlands, Portugal, Spain and the USSR. Wherever relevant, contacts were made with non-governmental organisations active in the agro-industrial rehabilitation field. In addition to normal consultations with UNDP and UNIDO field officers and experts, the team reviewed issues relating to agro-industrial rehabilitation in Angola with FAO, ILO and UNICEF officials, as well as with a mission from the UN Centre for Transnational Corporations (CTC), concerned with assisting investment promotion activities in Angola. Reports and data available at UNIDO headquarters, SADCC institutions, the Christian Michelsen Institute, and the OECD Development Centre were also used extensively.

1.3 Major elements in the Government's approach to industrial regeneration

Central to the mission's consultations in Luanda were a series of discussions on rehabilitation policy issues with the Minister of Industry, Mr. Henrique Carvalho Santos "Onambwe", and with senior officials of the Ministries of Industry, Agriculture and Planning including the SEF Secretariat. On 28 September 1988 the Minister of Industry chaired a specially convened meeting on agro-industrial rehabilitation priorities at which he invited members of the team to present the initial conclusions of the mission. This presentation was made before a working group which included senior Angolan officials, directors and managers of the selected companies, and representatives of financing agencies and principal co-operation partners based in Angola. The purpose of this meeting was to sensitise the agencies and partners concerned, and to help lay the groundwork for the follow up action which would be required following the submisson of the team's report to UNIDO.

The Ministry of Industry placed the Government's approach to industrial regeneration priorities firmly in the context of Angola's economic recovery programme (SEF). Major elements in this programme include:

* rationalisation of the productive sectors involving an increased role for private and mixed enterprises;
* enchanced financial autonomy for public enterprises;
* liberalisation of the price control system;
* adjustments in the value of the kwanza;
* more effective control of the money supply and changes in interest-rate policy to encourage savings through the banking system;
* a shift in agricultural and commercial policy towards support for peasant farmers and private traders, especially the retail level; and
* a general decentralisation of decision making in the economic field.

These and other related measures have been the subject of detailed investigation and analyses by Government, frequently in consultation with international financial institutions. In most instances, the relevant enabling legislation has now been introduced, which will permit Government to take the appropriate administrative and institutional action in the fields concerned. Of crucial significance in this context are initial political decisions to be taken within the next several months in the monetary area, notably in regard to the official exchange rate for the kwanza. Envisaged actions in this area are closely linked with arrangements now in motion for Angola's accession to membership of the International Monetary Fund and the World Bank.

In the Government's view, and that of international financial agencies, the implementation of the SEF programme, which involves radical restructuring, liberalisation and stabilisation measures, should greatly facilitate regeneration activities in the agro-industrial field. In welcoming the UNIDO initiative in this area, the Government attaches particular importance to the proposed follow-up consultations within the general perspective of the forthcoming SADCC International Consultative Conference. This would be held in Luanda in early February 1989.

In the preparation of a financing programme, Government advised the mission to have particular regard to the fuller opportunities which now exist under the current redimensioning of the industrial sector for the involvement of foreign and private capital, and for investment through mixed enterprises and joint ventures. Also of significance in this context is the Government's appreciation of the urgent need for improved management and marketing practices in public enterprises. Against this background of institutional reform, Government considers that viable industrial rehabilitation proposals should take particular account of the need to increase value added and employment opportunities within the Angolan economy. This should be achieved through the enhanced utilisation of domestic agricultural inputs, more extensive down-stream processing activities, and the use of factor inputs and technology relevant to Angola's economic circumstances. Regeneration priorities, especially at Bom Jesus, were placed firmly within this perspective.

In this context, the Government attached particular significance to economic development now taking place in the secure south western provinces of Angola on the border with Namibia. Important rehabilitation programmes in this area are receiving substantial support from Angola's main co-operation partners. In a regional perspective, the Government attached special importance to the economic relationship between industrial regeneration priorities and the opportunities for sourcing and marketing within the SADCC group. Such opportunities should be greatly enhanced by the eventual rehabilitation of the Benguela railway, which would reopen surface transport links with southern Zaire and western Zambia. As regards industrial regeneration, the Angolan authorities have been closely following current developments in Mozambique, while in the agricultural rehabilitation field, it is considered that much of Zimbabwe's experience was relevant to the present circumstances of Angola.

1.4 Economic co-operation parameters

In the mission's discussions with representatives of Angola's main development co-operation partners, clear confirmation was received of the government's seriousness of purpose and commitment in formulating and implementing the SEF programme, and of its desire to accede to membership of the IMF and the World Bank.

To a significant degree, the aid plans of major donors are based on the implicit assumption that the Angolan authorities will make continuing progress with the implementation of the SEF programme over the next several years. In this regard, Angola's co-operation partners have been particularly encouraged by experience gained through development and regeneration initiatives in the south west of the country. According to OECD sources, official development assistance (ODA) commitments from the DAC and OPEC countries, which have more than doubled over the past five years, are now in the annual range of US$ 115 - 135 million (1985-86). More than three quarters of the ODA receipts have been in the form of grants. Italy and Sweden have been the largest bilateral donors, while significant multilateral assistance has come from the UN system, notably as food aid, and other relief measures for refugees and displaced persons.

Net non-concessional receipts by Angola from the same sources, comprising bilateral and multilateral flows with a grant element of less than 25 per cent, all official and officially-guaranteed export credits, private and official portfolio investment and private direct investment, are currently in the annual range of some US$ 140 - 170 million (1985-86). These non-concessional receipts are largely associated with investment in the oil industry. Overall gross investment in the latter is projected to approach US$ 3 billion in the 1986-90 period.

In the view of Angola's main co-operation partners, the current security situation limits the potential for development and rehabilitation support in many parts of the country, and notably in the agricultural field. Nevertheless, it is recognised by donors, including international organisations, such as the UNDP and the World Bank, that there are many secure areas which could provide an immediate response to policy adjustment measures under the SEF. These embrace significant regions in the south and southwest of the country and also in the north and the north west of Angola, including Cabinda. The analysis contained in this report follows such international assessments in assuming that the current geopolitical situation would hold along such lines and the report's short-term recommendations rest essentially on these assumptions. So far as the longer-term recommendations are concerned, a qualitative indication is given, in relevant instances, as to the possible economic implications of significant progress towards national harmonisation and peace.

Finally, from the mission's consultation in Luanda, it was apparent that Angola's co-operation partners were deeply aware of the economic problems confronting the country and the immediate relevance of these problems to the design of their respective aid programmes, notably in the rehabilitation field. Thus, processed food is now less than sufficient to feed the urban areas. Petroleum exports, which now constitute some 95 per cent of total exports, have been inadequate to meet the costs of internal security and foreign aggression, and at the same time to cover the costs of imports of spare parts, equipment and consumer and intermediate goods. As a direct result of this situation, maintenance activities have been discounted and high levels of idle capacity are apparent throughout the industrial sector. The surface transport system linking the various provinces has collapsed throughout many parts of the country, leaving the cities and towns largely isolated from surrounding rural areas. The nation's commercial system has reverted in large measure to barter transactions. This situation has important implications for industrial rehabilitation initiatives.

CHAPTER 2
KEY FACTORS AND TRENDS IN THE ANGOLAN ECONOMY IN THE CONTEXT OF REGENERATION

2.1 Factors and trends behind the current economic situation

In the nation's troubled transition to independence in the mid-1970s, economic activity in Angola was severely disrupted. During this period, the level of output fell dramatically in the non-oil economy. Although there was a certain modest recuperation in the 1977-81 period, GDP is considered to have remained relatively stagnant in the following years until 1986, when gross output once again declined significantly, partly on account of a down-turn in oil prices. Despite marked expansion in the oil industry, which is based largely in the north western Cabinda enclave, per capita income is undoubtedly significantly less than it was in the early 1970s.

It is generally recognised that the major economic problems now facing Angola stem from three major factors:

1. the conflict with UNITA guerillas and invading South African forces throughout the entire 1975-88 period;

2. major economic disruptions created by the massive exodus of Portuguese settlers in the mid-1970s; and

3. shortages of local skills in the post-independence period which have resulted in certain shortcomings in economic management and the effective application of economic policies.

To some extent, these problems have been offset by significant expansion in the petroleum sector, but the fall in international oil prices in the 1985-87 period tended to aggravate the critical economic situation.

2.2. The role of the oil industry

The expansion of the oil industry, which since Angola's Independence in 1975 has become the second largest in sub-Saharan Africa, has important implications for rehabilitation initiatives. In 1985 approximately one third of official GDP was derived from the oil industry, as were more than half of Government revenues, and some 95 per cent of total export earnings. The oil industry is set to continue its rapid growth in the late 1980s and early 1990s, and through its expansion compensate for the loss of earnings from reduced world oil prices. In 1988 Angola will produce an average of at least 450,000 b/d (by the end of the year production could be as high as 490,000 b/d), compared with an average of 282,000 b/d in 1986 and 358,000 b/d in 1987. Production should be running well over 500,000 b/d in the early 1990s, and with exploration continuing, new discoveries are adding to identified reserves, which have more than doubled in the 1980s to an estimated level of 2.1 billion barrels.

2.3 International trade and payments

The rapid rise in oil production, of which all but 30,000 b/d goes for export, has more than offset the fall in oil prices since 1985. Current estimates suggests that Angola's total exports in 1987 rose to about US$ 2.3 billion (including US$ 2.1 billion from crude oil and nearly US$ 100 million from diamonds), as compared with only US$ 1.28 billion in 1986 and US$ 1.98 billion in 1985. Along with the expansion in oil production, the partial recovery in oil prices, as well as the revival of the diamond industry, which had virtually ceased operating in 1986, contributed to this resurgence. In 1988 oil prices have drifted downwards, but on conservatives assumptions the industry is still expected to earn more than US$ 2 billion this year. Other export products (refined petroleum, LPG, diamonds and coffee) should contribute some US$ 250 million, thus maintaining total export earnings around the US$ 2.3 billion level. Balance of payments pressures have been further eased, for the moment at least, by the recent bilateral debt rescheduling with Brazil, France, Italy, the USSR, and other creditors. However, debt service obligations still remain high over the 1988-89 period, and Angola will require further debt rescheduling arrangements, probably after accession to the IMF in the case of other western creditors.

2.4. Angola's economic potential

The role of the oil industry, involving extensive foreign and local investment, serves to underscore the country's underlying economic potential. Angola is the second largest state in Africa south of the Sahara, with a population of some 9 million people and a relatively low population density (7.2 persons per sq.km). The population is estimated to be increasing by some 2.5 per cent per annum, and the proportion of urban population is rising rapidly. The abundance of arable land and a diverse climate provide favourable conditions for the development of an extensive range of temperate and tropical agricultural crops, including cotton, coffee, sisal, sugar, tropical fruits, maize and other cereals, as well as livestock. In addition, there are relatively abundant fishing and mineral resources, notably diamonds. Angola's rivers afford the country a substantial energy and irrigation potential. Despite the war, the enclave oil sector has boomed over the past eight years, and although Angola's oil earnings are far behind Nigeria's US$ 6.1 billion, the needs of the country - assuming peacetime conditions - would also be much smaller, as Angola's population is less than one-tenth of Nigeria's. Infrastructure in the energy, industry, transportation and communication sectors was relatively well developed, particularly in the 1960s and early 1970s, but it has deteriorated significantly in recent years as a result of war conditions and deferred maintenance.

It is relevant to recall that during the pre-Independence period, there was a rapid expansion in a wide range of industrial, agricultural, fishing and mining activities. These, together with oil production contributed to an annual average growth rate in GDP of almost 7 per cent throughout the 1960s and up to the mid 1970s, and to the development of a diverse range of exports. With the implementation of SEF programmes and the eventual realisation of domestic peace and national harmony, there may well be increasing scope for Angola to return to previous growth trends and to exploit its widely varied development opportunities. The starting point would be a major programme of reconstruction and rehabilitation. Given its significant endowment of natural resources, its complement of human skills, and its emergence as sub-Saharan Africa's leading oil producer next to Nigeria, Angola would probably again become generally attractive to foreign investors looking beyond the oil sector, although this attraction might well materialise only gradually as business confidence continues to be restored. Accession to the IMF and the World Bank, along with the implementation of the economic and financial restructuring programme (SEF), which already includes enabling legislation providing new guarantees and incentives for foreign investors, will be essential supportive features.

CHAPTER 3

THE MANUFACTURING SECTOR AND ITS REHABILITATION

3.1 Overall characteristics

After World War II, the Angolan economy experienced rapid growth, not least in the manufacturing sector. By 1975 there were some 4,000 registered manufacturing enterprises employing about 200,000 workers. The sector's share in GDP was then about 16 per cent and Angola had a relatively large and broadly based manufacturing industry. The backward linkages were strong, as a large part of the manufacturing industry processed agricultural products. At the same time it was highly dependent on imported intermediate non-agricultural inputs as well as capital goods.

By 1977, industrial output had dropped to less than one third of that recorded in 1973. In 1977, the index of manufacturing production (1973 = 100) for the major industry groups was:

- food industry: 30
- light consumer goods: 32
- heavy industry: 20

Since then, there has been a partial recovery of the manufacturing sector, but the output level and employment is still far below that in 1973. At present official prices, demand is much higher than supply, and trade in the parallel markets plays a dominant role in the Angolan economy.

Basic data on the manufacturing sector are scarce and unreliable, but they still permit one to obtain a general view of the sector. Per capita manufacturing value added (MVA) has been estimated to be US$ 12 in 1984. The sub-sectors, in order of importance, are light, food and heavy manufacturing. Branch-level calculations on the basis of Ministry of Industry sources show that the food, beverage and tobacco branches represent 27.9 per cent of the manufacturing value added, followed by the metal products, machinery and equipment branches with 22.3 per cent.

According to the 1983 "Registo Geral de Empresas", including only firms with more than ten employees, there were 247 enterprises employing 73,000 persons.[1/]

Industrial output rose from about Kw 16 billion in 1980 to Kw 23 billion in the 1983-86 period. In 1987, when the negative consequences of the drop in international crude oil prices hit the Angolan economy, there was a significant decline in industrial output.

1/ Note: some enterprises in the manufacturing sector are under the Ministries of Agriculture and Fisheries and not included in this register.

3.2 Major problems and constraints

The problems of Angolan industrial rehabilitation and regeneration are in part similar to other African countries, but also present special characteristics and possibilities. Most of the external problems facing the Angolan economy as a whole are valid for the industry as well and are summarized below.

(a) War situation

As a result of the war, infrastructure has been destroyed, and a substantial proportion of Angola's road and rail transportation system is no longer operational.

In many areas in the country, the war situation also prevents a regeneration of agricultural production. It should be noted that when agricultural production and supply increase as the security situation improves, a transport constraint could still remain.

(b) Supply of raw material

With the decrease in the supply of agricultural production, Angolan agro-industry has met a shortage of inputs. This shortage could only in part be compensated by an increase in imports, e.g. maize to the mills and oilseeds to the oil industry. Supply of raw material to other sub-sectors such as cotton to the textile industry and tobacco for the cigarette industry also decreased as a result of the reduced import capacity of the country.

(c) Lack of spare parts, equipment and machinery

Before 1975, there existed some manufacturing capacity to supply the industry with needed spares, equipment and machinery, but a major part still had to be imported. Since then, the overall decline in the economy resulted in a reduction in the supply of such domestically produced goods. Other vital services, such as the supply of electricity and water are deficient. Even though there has been a marked decline in industrial output, and on this account also a reduction in demand for spares, equipment and machinery, there is an acute shortage in many enterprises. The lack of foreign exchange in Angola is the major bottleneck for importing needed spare parts, equipment and machinery.

Moreover, the overvalued exchange rate has caused enterprises to demand more imports than they would otherwise have demanded. Nevertheless, unless the supply is increased, further reductions in industrial output will take place.

(d) Incentives and allocation efficiency

The very special nature of the Angolan economy, with officially accepted parallel markets, and the attempts by the Government to control the economy, have made it generally more profitable to engage in parallel market operations than in producing efficiently. By the very nature of such operations statistics are practically non-existent. But, it seems reasonable to assume that a major part of private investments is made in the parallel markets.

In Angola, present price signals do not contribute much to an effective use of scarce resources and have caused many negative side effects. Some enterprises are making significant profits while many others are at the point of liquidation. These profits and losses reflect administrative directives more than economic realities or potential.

Scarce foreign exchange is allocated among economic sectors and enterprises according to administrative decisions with little bearing on real demands of the manufacturing sector.

(e) Lack of trained personnel

Before 1975 very few Angolans received training and they were not permitted to participate in economic and political life. The training of new cadres of Angolans will require a lengthy period of time. Meanwhile, needed management skills and semi- and skilled workers will be in short supply.

3.3 Linkages

Most of the food and light industries were established to process domestic raw materials (cereals, cotton, oilseeds, tobacco, wood, etc). The same is true for the buildings materials industry. All these industries have strong backward linkages and have suffered severely because of the disruption of raw material production.

The small basic metals industry has forward linkages with the metal goods, tools and building material industry (e.g. simple agricultural equipment and corrugated iron).

The potential for backward and forward linkages is huge. Angola's ecological diversity would allow the regeneration of a highly diversified agriculture, which would form a solid basis for the agro-processing industry. Also, the fish processing industry, now the subject of rehabilitation efforts of the EEC, is another important area of future growth, although overfishing may become a problem.

3.4 Spatial distribution

There is a very high concentration of industry in Luanda. More than half of the total number of enterprises, employing more than ten persons, can be found in or in the vicinity of the capital. Luanda's industrial structure is also quite diversified. This concentration of industrial production in Luanda provides a certain justification for concentrating initial efforts on rehabilitating industry there, although only as a first step in an overall rehabilitation programme.

Other significant manufacturing centres are the provinces of Benguela, Huambo and Huila where much of the industrial capacity is located in the provincial capitals. In this regard, rehabilitation initiatives would require to take particular account of developments now under way in Huila and more generally in the southwest.

3.5 Ownership patterns

When the great majority of settlers left Angola in the middle of the 1970's, it became imperative for the Government to assume control of abandoned enterprises in order to attempt to maintain a minimum of production. In the case of some of these enterprises the ownership pattern has not been settled. In other cases there was an explicit policy objective to nationalize enterprises, for example the milling industry.

According to available information the Government has a major share in the ownership in the manufacturing industry, particularly in larger enterprises.

Table 3.1: Ownership in manufacturing, 1985

	Government	Mixed	Private	Total
Food industry	31	2	8	41
Light industry	28	3	32	63
Heavy industry	34	3	15	52
Total	93	8	55	156
Gross output share (per cent)	56	15	29	100

Source: Hodges/EIU, from Ministry of Industry data.

As Table 3.1 shows, Government presence is strongest in the food industry, while the light industry is predominantly privately owned. The implications for industrial rehabilitation of the ownership pattern are roughly as follows. With few exceptions, the management is weaker in state enterprises than in privately owned enterprises. This is because there is a general shortage of trained personnel and this shortage became particularly acute in the enterprises taken over by the state.

In some cases there will be a need to define or modify the ownership pattern before industrial rehabilitation will be a viable venture.

As the Government proceeds to privatise state enterprises, as suggested by Government officials, the role of Angolan investors needs to be defined in the context of industrial rehabilitation and regeneration. It appears that the share of Angolan investors in total investments in the manufacturing industry is insignificant; most private companies are owned by foreigners.

3.6 Trade in manufactures

Angola's exports consist almost wholly of raw material. In 1985, crude oil accounted for 90.3 per cent of all export earnings.

Apart from refined petroleum, which represented 4.5 per cent of export earnings in 1985, recent statistics do not show any exports of manufactured products.

Imports of manufactured goods represent a large share of total imports. No recent detailed statistics are available, but the share could be as much as 80 per cent of total imports. Major manufactured imports include textiles, processed food, transport equipment, oil drilling equipment and arms.

Imports of inputs for the manufacturing sector (raw materials, intermediate products, spare parts and machinery) constituted 20 per cent of total imports in 1984, 18 per cent in 1985, and only 3 per cent in 1986.

The steep drop in manufacturing output in 1986 was not the result of a reduced need for imports, but rather the consequence of the decrease in the international price of crude oil. The Ministry of Industry's import budget was reduced from Kz 6,000 in 1985 to Kz 2,070 million in 1986. As a result, there was a sharp drop in the output of manufacturing in 1987. It is expected that the situation in 1988 has improved significantly.

Angola's single largest buyer of exports (i.e. crude oil) is the United States of America (USA). Excluding trade in arms, the major import partners are Portugal, France, USA and Brazil.

Although there has been a modest recuperation of manufacturing output in the 1980's, as compared with the levels attained in the 1975-80 period, the level of output still remains much below that obtained prior to 1975.

CHAPTER 4

FOCUS ON AGRO-RELATED INDUSTRIES

This industrial rehabilitation survey focuses on agro-based industries, particularly those belonging to the food manufacturing sub-sector, for several reasons. First, current Government objectives and policies have focused on such priority industries in order to achieve the goal of food self-sufficiency. Because the agricultural sector has largely been neglected in the post-Independence period, the result has been shortages of food products and increased dependence on imports. Additionally, the backward and forward linkages in the food processing sector are quite extensive. The project would therefore contribute both to the integrated and balanced development of the industrial sector and to the socio-economic development of the country as a whole. The choice of agro-based industries is also harmonious with regional priorities and projects currently being developed in the SADCC region.

4.1 Agricultural output

Angola is favored by generally good conditions for agriculture in terms of soils, climate, and in many areas, availability of land and water for irrigation. During the post colonial period, however, changes in agricultural production have been dramatic, with significant declines in most products as illustrated below.

Table: 4.1: Principal crops selected years
(tonnes)

	1971	1973	1986
Maize	709,750	853,847	287,853
Wheat	12,782	32,848	2,310
Rice	57,604	53,000	2,966
Sorghum, Millet	74,227	116,08	54,632
Beans	65,479	53,742	41,288
Groundnuts	26,936	26,679	13,862
Sunflower seed	17,930	24,614	120
Potatoes	138,757	59,941	31,453
Cassava	1,134,262	1,408,593	1,314,270
Tobacco	4,969	4,526	114
Coffee	215,923	210,000	15,451
Cotton	82,788	114,291	307
Sisal	65,154	60,200	239
Pineapple	N.A.	(1972) 35,273	286
Citrus fruit	N.A.	N.A.	3,708
Banana	N.A.	399,300	43,768
Cacao	516	445	51
Oilpalm seed	N.A.	N.A.	98

Source: Unofficial, Ministry of Agriculture and National Statistics Office

Additionally, the quantities of products marketed through the state are very low. The main constraints at present, accounting for these low figures, include lack of: 1) a competent and efficient organization for collection of farm produce, 2) incentives for the farmers to produce, and 3) inputs in terms of improved seed, fertilizer and in certain cases crop protection agencies. The war conditions have also aggravated the difficulties.

The major agricultural areas in Angola are located in the provinces of Huambo and Huila in the central south-western part of the country. This is also a major livestock producing area, with extensions to the south and south-east.

In 1985 about 15,000 head of cattle or 3,736 tonnes were slaughtered, as compared with about 150,000 head or 24,500 tonnes in 1973. A former net exporter of meat, Angola imported 18 thousand tonnes of meat and meat products in 1986.

Although slaughtering animals are reportedly available from the livestock areas in the south, these do not reach the Luanda region or other parts of the country. The reasons for this appear to be the absence of a functioning market system, the present economic framework for business, and the security situation.

Pigs, on the other hand, are found all over the country. They are mainly kept by households and most of them are reportedly of the small, domestic breed. About 12,000 head are believed to be in and around Luanda, according to the Ministry of Agriculture. There are reportedly no commercial pig farms at present, at least not with improved breeds of pigs.

In summary, there are virtually no sources of agricultural inputs for the food industry in Luanda. Given the balance of payment constraints, Angola will have to rely more on domestic resources, whenever these can be produced more cheaply than imported raw materials. Future rehabilitation and development of the food-manufacturing sub-sector is thus to a large extent dependent on increased supplies of raw material from the domestic agricultural sector, and therefore on the formulation and proper implementation of policies that stimulate the sector's productivity.

4.2 Food processing sub-sector

4.2.1 Overall characteristics

Up to the first part of the 1970s, a large number of food processing industries were established to process the increasing output from agriculture. These included flour mills, bakeries, dairies, vegetable oil extraction plants, fish processing, beverage manufacturers, and slaughter-houses.

The dairy industry was concentrated in Luanda and the capital of Huila Province with five major dairy plants each processing roughly 30,000 litres per day. The largest unit was the Luanda Dairy factory, with a processing capacity of 60,000 litres per day.

The largest commercial slaughterhouse, with a capacity of several hundred heads of cattle per day, was located in the city of Huambo.

The number of enterprises in the food processing sub-sector is given in Table 4.2.1, which also includes tobacco processing.

Table 4.2.1: Number of enterprises according to products

Province	Processing industries					
	Food	Fish	Beverage	Coffee	Tobacco	Total
Cabinda	1	1				2
Uige	1					1
Luanda	16	3	5	3	3	30
Cuanza Norte	1					1
Benguela	8	16	3	1	2	30
Huambo	5		2			7
Bii	2					2
Moxico	1		1			2
Namibe	2	2				4
Huila	9		3			12
Lunda Sul	1					1
Bengo	1					1
Total	48	22	14	4	5	93

Source: Registo General de Empresas April 1984

In real terms the contribution of the food industry to MVA has remained fairly constant, slightly over 20 per cent, according to Ministry of Industry figures. The importance of the food processing sub-sector is also considerable from an employment point of view. Data on firms with more than 10 employees show that this sub-sector ranks first with 28,273 workers, or 38.9 per cent of the total working force of 72,668 workers.

4.2.2 Major problems and constraints

The food processing sub-sector has registered a substantial reduction in output since the mid 1970s. A severe contributing factor is the unrest and civil war in major food producing areas of the country. In addition, the failure to stimulate agricultural production and marketing of produce by proper policies has reduced the availability of raw material for the food manufacturing sub-sector.

Continuous degradation of processing equipment and installations is seriously hampering the industry as a whole. This is the result of a deficient supply of spare parts caused by foreign exchange constraints and inadequate maintenance.

Moreover, the technical standard of intermediate and shop-floor management is low by any comparison. This is of particular concern as it is a serious constraint for the success of future rehabilitation efforts regarding plant equipment. Equally serious are the shortcomings of top management in state enterprises. In fact, physical rehabilitation of these enterprises will have limited success if not preceded by organizational rehabilitation and substantial strengthening of managerial capacities.

Available capacity (a figure taking into account installed capacity, the condition of the equipment, availability of technicians, etc.) and the capacity utilization for a number of processed food products is shown in Table 4.2.2. Although the 1987 figures are estimates, they clearly indicate the seriously reduced output of the food-processing sub-sector.

The Ministry of Industry's priority projects for 1986/1987 include a number of food industry branches. The intention is to ensure a sufficient supply of processed staple foods, primarily for the urban areas. Table 4.2.3 gives an account of intended increase in production potential and estimated investments. The table is confusing as regards the programme for bakery products and cooking oil: the 1987 output of edible oil was 2,460 kl according to the data obtained by the mission. The yeast rehabilitation project is an ongoing one.

Table 4.2.2: Capacity utilization in the Angolan food-processing industry

Product	Available Capacity/year	Capacity utilization, per cent 1984	1987 (est.)
Maize flour	78,514 t	37.6	30.9
Wheat flour	76,000 t	36.4	41.8
Noodles	10,792 t	74.3	33.4
Biscuits	2,893 t	23.7	31.8
Margarine	2,545 t	22.1	9.3
Instant Coffee	134 t	26.0 (1982)	
Beer	1,435,800 hl	45.6	32.5
Fermented drinks	65,500 hl	45.8	45.8
Soft drinks	366,650 hl	49.6	19.6
Wine	280,000 hl	21.8	12.1
Liqueurs and Spirits	20,500 hl	101.3	68.3

Source: Ministry of Industry, ada[illegible] from Industrial Development Review Angola.

Table 4.2.3: Priority list for investments in food industry

Product	Available capacity	Plan for annual prod. potential		Required Investment (Kz million) Local	Foreign	Total US$ Equiv.
Wheat flour	76,000 t	100,200t	Expansion	-	30.0	1.0
Maize flour	78,514 t	110,400t	"	-	45.0	1.5
Yeast	-	1,200t	Rehab.	0.9	39.3	1.3
Bakery prod.	13,685 t	12,000t	Expansion	20.0	45.3	2.2
Cooking oil	-	14,800kl	"	75.0	200.0	9.2
Margarine	2,545 t	5,800t	New proj.	26.3	215.1	8.0

Source: Ministry of Industry

4.2.3 Linkages

At present, the domestic backward linkages to the agricultural sector are disrupted on account of unavailable raw material. The dairy processing branch, for example, has to rely on imported skim milk powder and fat. The situation is similar in the vegetable oils and fats and the flour milling branches, which to a large extent had to replace local oilbearing seeds, wheat and maize by imports. Meat for processing is not available in the Luanda area and, in at least one case, fish is used as a substitute in a meat processing plant in an effort to keep production going.

The major linkages are illustrated in Figure 4.2.1. The stockfeeds and meat processing industries are examples of branches which frequently have complex and strong backward linkages, but this is not the case at present in Angola.

The bag manufacturing branch is intimately linked to the food processing sub-sector, without being part of it. Its importance for a large number of food processing branches is undisputable: without a sufficient supply of bags for raw material and food products the industry would not be able to operate, given the present system for material handling and transport.

4.2.4 Ownership pattern

In 1985, 31 out of 41 food industries were state-owned, two were mixed and eight privately owned.[1/] This data apparently represents less than half of the number of food industries listed in the official register of enterprises. The same source also quotes that the state-owned companies contribute 56 per cent of the gross output of the entire manufacturing sector, as compared with 29 per cent for the private sector. This indicates that productivity in state-owned enterprises is, on an average, only half of that in private companies.

1/ Sources: Hodges/EIU, Ministry of Industry.

4.2.5 Policies as they relate to the food processing subsector

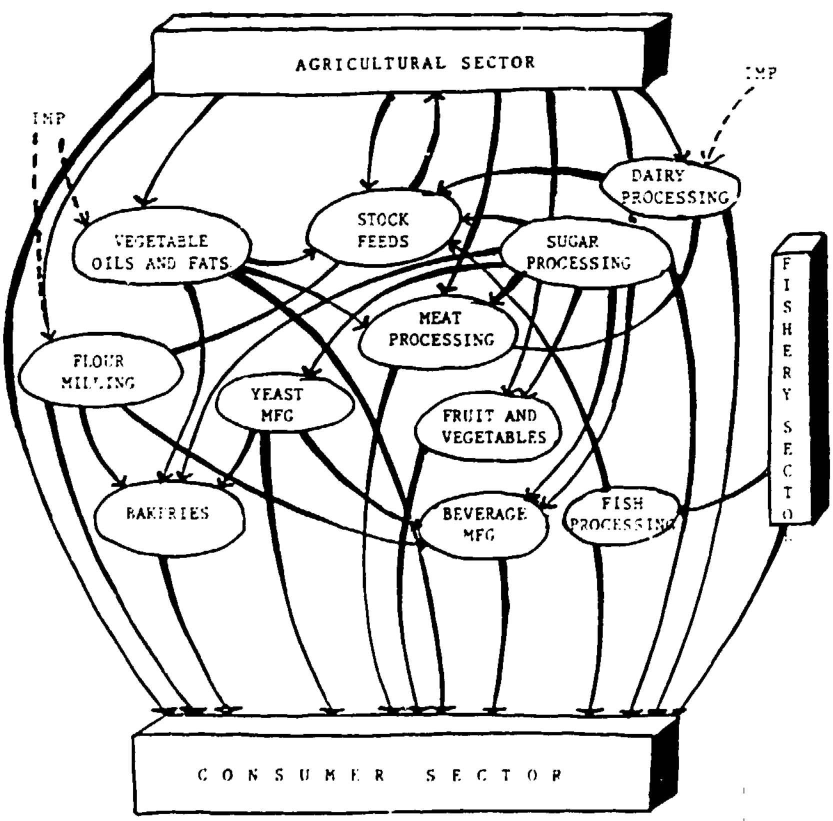
In addition to the policies affecting the manufacturing sector as a whole, the food processing sub-sector is primarily guided by the key policy issue of self-sufficiency in food.

This implies inter alia that the success of the strategy for increased agricultural production is a prerequisite for the regeneration of the food processing sub-sector. Once self-sufficiency is achieved, surpluses are to be exported.

To rationalize both the agricultural sector and the food processing sub-sector, the viability of enterprises will be given more attention. Privatisation is seen as the main avenue to achieve the target of viability, but state companies, mixed and co-operative ownership will continue to play a role where this is considered essential by the Government.

Firm detailed policies for the development of the food industry have not yet been developed. Their formulation must be based on full understanding of the specific conditions of the different branches and their likely reaction to various policies.

Figure 4.2.1: Principal linkages in the food processing sub-sector



CHAPTER 5
BRANCH PROFILES

5.1 Meat processing

5.1.1 Overall characteristics

The meat processing branch incorporates slaughtering and processing of cattle, pigs and poultry. All these raw materials have become scarce if not unavailable in Angola since the late 1970s. Within the Instituto de Investigaçao de Pesca a method was developed where fish instead of pork and beef is used as the base for sausage production.

Because of the scarcity of beef and pork many factories have closed down or switched to fish. One company in Huila, Comerce & Industria de Huila, is known to produce only canned fruit at the moment.

The two most important companies still producing meat products are FAL in Luanda and BUCACO in Huambo. For ten years FAL has based its products on fish, while BUCACO is actually basing its production on stray pigs that can be found almost everywhere in Angola. This supply is obviously irregular, and has to be supplemented with imported pork. SIPAL in Huambo and PROTEICA and TRANCOSO VAZ in Huila have been closed down.

FAL is the only company that is privately owned; the rest are owned and run by the Government.

5.1.2 Major problems and constraints

The major problem facing the branch is the severe shortage of pigs and cattle as raw material. This in turn can be blamed to great extent on the ongoing war, preventing the raising of animals in large areas of the country. The war has also disrupted communications between the hinterland and the more densely populated areas where manufacturers and consumers are located. There are areas in the center of the country where there is a huge surplus of animals but they are not available because of transport problems and the fact that a potential buyer cannot offer any acceptable means of payment (that is, goods in return for the animals).

Frequent outbursts of swine fever are also a constraint on pig supply. One cause of those epidemics is said to be the bad hygiene in the state slaughterhouses.

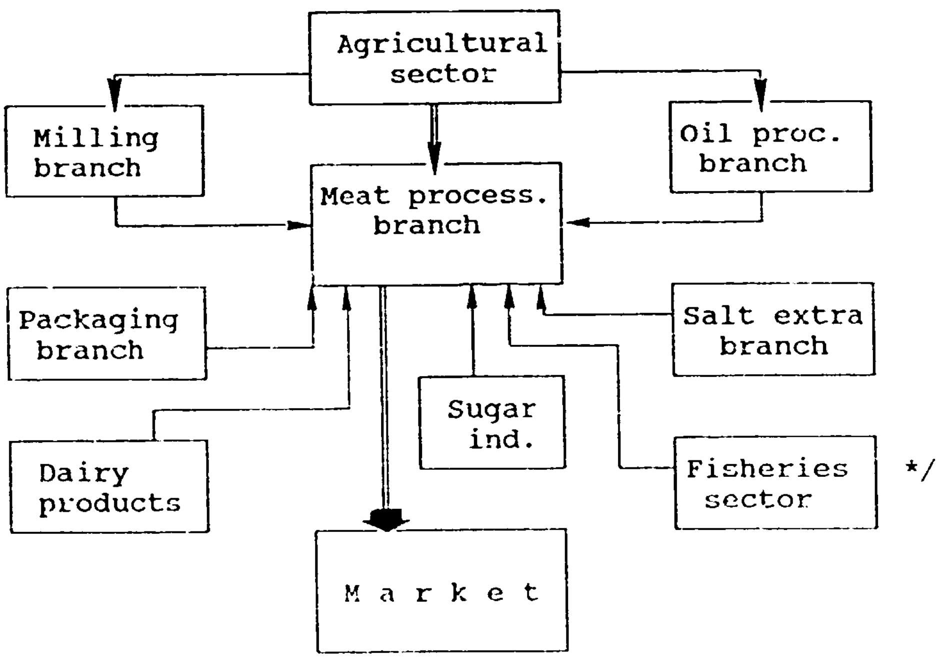
Another big problem is the frequent power cuts which damage not only products and raw material stored in refrigeration rooms, but also the installations themselves. The strong temperature fluctuations create cracks in the walls. Certain processes, moreover, cannot even take short power disruptions without requiring a long and complicated start-up procedure. This means that, in order to secure uninterrupted production, spare diesel generator plants are necessary.

In a barter economy goods are more attractive than money; theft is therefore a big problem. Anything that can be exchanged for goods is stolen: raw material, packaging material, spare parts and finished goods. Up to 35 per cent of material in process has been recorded stolen in some factories. One factory where fish is used as raw material receives on average 45 per cent less fish than it is billed for.

5.1.3 Linkages

Linkages to various branches and sectors are shown below in figure 5.1.1

Figure 5.1.1: Linkages related to the meat processing branch



* This is the temporary supplier of raw material to the branch until pork and beef are available again on the Angolan market.

5.1.4 Spatial distribution

Luanda and the surrounding region

The fish and meat products branch is concentrated on the large urban area of Luanda. FAL is the major processing factory, with no serious competitor in the whole area for its type of products (such as smoked fish and fish sausages). This company is located in the Cazenga Industrial Zone of Luanda and has a rated capacity of 465 tonnes of processed fish or meat products per year.

Other producers, who are competing to some extent with FAL, are local fishermen who supply fresh fish directly to the market. Fresh fish appears to be in abundant supply and is found in all of the many markets surrounding Luanda city at the parallel market prices of Kz 5,000-6000/kg. Dried fish, which individual local fishermen land and dry in the open air by the roadside, is also sold in the Luanda markets at parallel market prices.

South-western region

The processing company BUCACO produces a range of sausages and other processed meat. It cannot be judged to be a competitor of FAL in the Luanda region because of its slightly different product range, catering mainly to the Portuguese taste, in addition to its distant geographical position.

5.1.5 Ownership patterns

Many companies within this sector were in private hands before Independence, but have since been subject to nationalisation or have been shut down for lack of raw material or other reasons. Most of the remaining companies that are operational are therefore state-owned. These represent about 93 per cent of the total; the privately owned account for 7 per cent.

5.2 Vegetable oil seeds processing branch

5.2.1 Overall charactaristics

Prior to Independence this branch was well-represented in Angola, with a number of major oil mills. Only two factories in this branch are currently operating in the Luanda area - INDUVE producing edible oil and soaps, and OLMAG producing soap.

The branch formerly used locally produced raw materials - such as sunflower seed, palm oil seed and cotton seed - for all of its requirements. Additionally, a significant quantity of palm oil seeds was exported (11,500 tonnes in 1970). However, due to the collapse of the agricultural sector, virtually no local raw materials are now available and they must be imported from Argentina and elsewhere. Due to the fixed price structure imposed by the Government, the company cannot operate profitably, It is therefore considering abandoning the grinding, pressing and chemical extraction of the seeds; instead it would merely import crude oil and refine it into edible oil and soap. The oilseeds processing branch would then cease to exist unless new facilities were installed elsewhere in the country, such as in the rural areas, when these eventually become secure.

5.2.2 Major problems and constraints

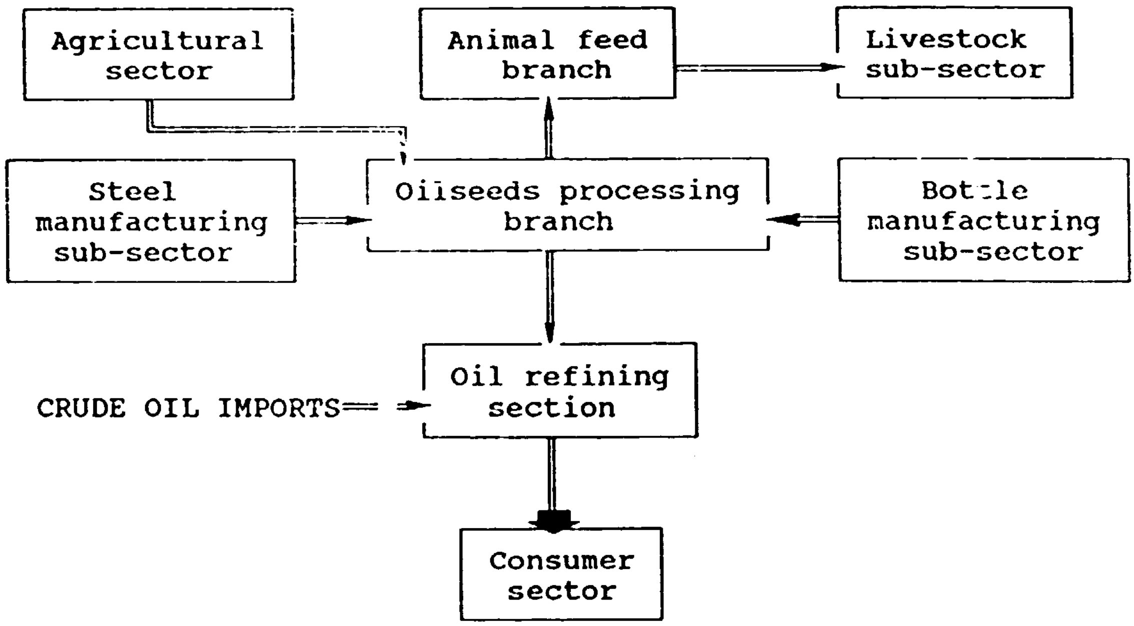
The major problem facing this branch of industry is the pricing of its main product, edible oil, which is termed a strategic commodity. At the current controlled price levels there is no incentive for any existing company or new company to invest in oilseeds processing facilities, as such an exercise would not be profitable. With low selling prices factories would have to operate with a high level of capacity utilisation, but as they now have to rely on imported seeds, they are totally dependent on obtaining sufficient foreign exchange. They would therefore need large and regular supplies of foreign exchange to be able to operate. The shortage of foreign exchange has been and will continue to be a major constraint for the oilseeds branch.

Without locally produced raw materials to supply the branch and limited foreign exchange for both spare parts and experienced expatriate engineers (to train local personnel in the maintenance of existing crushing, pressing and extraction facilities) the branch has allowed its plant to deteriorate, seeing no future in relying on imported seeds. The safer and far less demanding option of importing only crude oil is now the immediate aim of the branch.

5.2.3 Linkages

The oilseeds processing branch has a strong backward linkage with the agricultural sector for its raw materials and a direct forward linkage to the animal feed sub-sector, hence to the livestock sub-sector, as outlined below. There is also backward linkage to the bottle manufacturing sector for its container needs and to the steel manufacturing sector for its spare parts.

Figure 4.2.1: Linkages related to the oilseeds processing branch



At present, the backward linkage is to the foreign agricultural sector, whereas previously it was to a domestic agricultural sector. The forward linkage to the animal feed sub-sector and livestock sub-sector has been weakened and is now dependent on a single major processor. This forward linkage could be destroyed, if this one company does concentrate on refining imported crude oil.

Linkage aspects of the development of the vegetable oil seeds processing branch

In order to maintain a manufacturing capability in this branch of agro-industry in Angola, it is essential that the forward linkage to the animal feed branch is strengthened. In the short-term this can be achieved by a rehabilitation of the oilseeds crushing, pressing and extraction facilities of the INDUVE factory with a technical assistance programme. This programme should include the provision of experienced maintenance personnel to carry out both the training of local staff and also hands-on practical maintenance work. In conjunction with this work the provision of a more reliable water supply to that factory is essential. Provision of financing for the necessary spare parts would also be necessary.

The medium term plans of INDUVE include an investment in a new oil refinery with increased capacity to replace the existing plant. Under currently prevailing conditions the factory would use at least some imported crude oil; if the rehabilitation of the grinding, pressing and extraction systems was not carried out, the factory would eventually use only the imported crude oil for its basic raw material, despite the higher tariffs. While the latter is a much easier option for the factory, in terms of easier management and maintenance, it would be a significant step backward in terms of long-term branch interests. For there would be no facility in the country for the processing of oilseed once the security situation improves and local production of oilseed recommences. Rehabilitation of this facility therefore would have significant long-term benefits to the economy, quite apart from the immediate benefits to the company.

It is proposed that once agricultural activity can recommence in the north-western palm oil production areas, INDUVE and the soap producers would process the seed directly. In the sunflower seed and cotton producing areas in the north-west, central and southern regions it is suggested that a number of small local presses of different sizes be established, which would directly supply the local population with oil. The cakes would be used to feed livestock in those areas. Any surplus crude oil production would be transported to the new INDUVE refinery for further processing. The overall effect would therefore be to strengthen the agricultural and animal feed linkages with a corresponding improvement in the overall efficiency of the oilseeds processing branch.

5.2.4 Spatial distribution

The oilseed processing industry is now limited to a single operating factory, INDUVE, situated approximately 10km north of Luanda. Nominal capacity was stated to be 100 tonnes per day.

Prior to Independence, five other crushing plants were in existance in the country, but none are currently operational. The Benguela plant has very old equipment which could not be utilised if sunflower seed supplies become available again. The plant would need completely new equipment. As noted, INDUVE under the present price constraints would prefer to move away from the processing of oilseeds and concentrate solely on the refining of imported crude oils. This would mean that the oilseeds processing branch would disappear completely.

The branch also includes the soap industry, consisting of the following factories:

	Location	Type	Nominal capacity (tonnes/year)
1. INDUVE	Luanda	Private	6,500
2. OLMAG	Luanda	State	12,690
3. BARATA & BARATA	Benguela	State	3,480
4. SODETE	Huambo	State	4,693

Source: Ministry of Industry

5.2.5 Ownership patterns

The state-owned companies account for 36 per cent and the private sector for 64 per cent of total employment in the branch. The three main producers of edible oils and/or soaps were INDUVE, OLMAG and EGC. (The latter has been reported to be non-operational). INDUVE is privately owned with three Portuguese companies owning the shares. OLMAG and EGC are owned by the state.

5.3 Flour milling

5.3.1 Overall characteristics

The flour milling branch processes cereals, mainly wheat and maize. However, traditionally, the processing of other grains and root crops (such as millet and cassava) is also important.

Only rough estimates exist on the size of the branch. The estimated total capacity for processing both wheat and maize is about 156,414 tonnes, according to the Ministry of Industry. About 77,500 tonnes of this total are processed in seven wheat mills, the remainder being processed in 15 maize mills.

Maize and wheat are imported, although they could be obtained domestically if agricultural production increased. While in 1973, 32,848 tonnes of wheat and 853,847 tonnes of maize were produced, in 1986 the output of wheat and maize were 2,310 and 287,853 tonnes respectively. The sector has suffered from drought and persistent irregular rainfall. The Government has put the increased production of maize as a top priority in its agricultural programmes.

The flour milling branch is concentrated in the Southwest and Northwest of Angola. Major flour milling plants are concentrated in Benguela and Luanda, with seven and five plants, respectively, out of a total of 22 plants. Most of the flour milling enterprises are Government-owned. Only one maize flour plant is privately owned.

5.3.2 Major problems and constraints

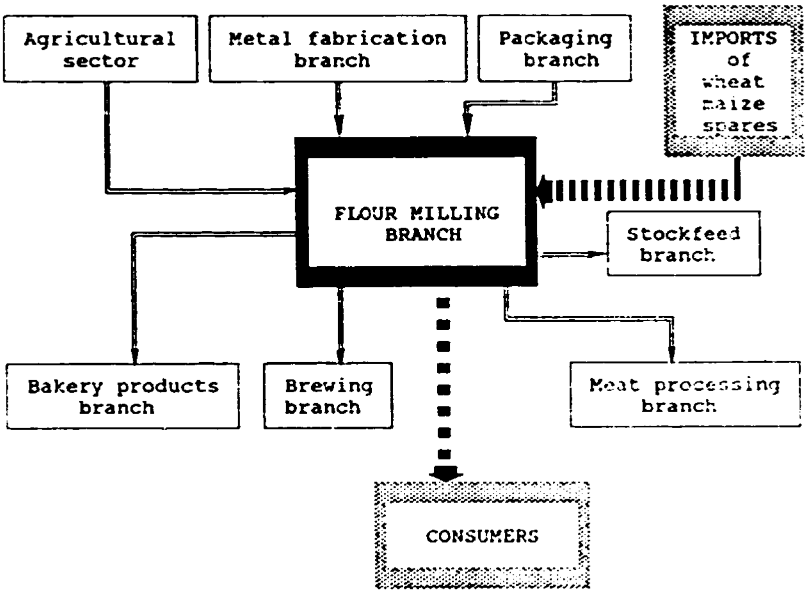
The major problem the branch is facing is low capacity utilization. Most plants are either operating below capacity or closed: out of 15 maize mills, for example, 10 are said to be closed.

The low capacity utilization is caused by the lack of raw materials and the poor state of equipment in the plants. Imported grain was initially substituted for domestic raw materials. However, these imports have had to be restricted because of the lack of foreign exchange.

5.3.3 Linkages

The major linkages of the flour milling branch to other branches, sectors, imports and consumers are shown below:

Figure 5.3.1: Linkages of the flour milling branch



5.3.4 Policies and institutions as they relate to the flour milling processing branch

Currently, Government policies are focussed on increasing industrial output to achieve production levels of 1973. The Government also encourages industrial plants that supply food to the armed forces and the population. In this context, the flour milling branch becomes a priority for rehabilitation and increased capacity utilization. The Government has also made increased maize production a top priority in agriculture. This should increase the supplies of domestic raw materials to the branch.

5.4 Package manufacturing branch

5.4.1 Overall characteristics

The availability of bags is of strategic importance for handling, transport and storage of a variety of agricultural commodities and products processed in agro-industries.

Bag manufacturing in Angola is mainly based on synthetic material. In the past, bags for cereals and coffee beans were made of jute, but in 1975 the only production line in the country was closed down. Manufacturing of raffia bags declined from 8 million in 1973 to 1.8 million in 1985, followed by an increase to an estimated 4 million in 1987.

The manufacturing industry for plastic bags includes five companies. Two of the companies are also making raffia bags.

Table 5.4: Location of plastic bags factories

Company	Location	Capacity tonnes nominal	Plastic tonnes 1987	Raffia tonnes 1987	Raffia max 1/
SIGA	Luanda	7,200	600	1,500	1,500
FIBREX	Luanda	1,800	79	-	780
INSUL	Lobito	1,590	0	N.A.	0
PECLENE	Huambo	720	0	N.A.	0
SOPLAS	Huila	400	0	N.A.	0

1/ After rehabilitation

Most of these companies also manufacture other plastic products such as vessels, tubing, sealings, etc., where waste material is re-used to some extent.

The present national output of raffia bags amounts to 679 tonnes, equivalent to about 4.2 million bags of medium size (50 kg). If the two plants presently manufacturing raffia bags were rehabilitated and could operate without any major constraints, the overall production would increase to 2,280 tonnes per year, corresponding to approximately 14 million bags of 50 kg capacity.

5.4.2 Major problems and constraints

Plastic raw material for bag manufacturing has become increasingly difficult to obtain. In fact, the industry expects that foreign exchange allocated for purchase of raw material cannot be fully utilized in 1988. The reason for this is not quite clear. It does not necessarily reflect an increasing gap between availability and demand on the world market.

The directives for plastic raw material imports, state that sea transport must be carried out by ANGOLNAVE, a state-owned shipping company. The arrival of the cargo vessels in the port of shipment is frequently delayed and poorly co-ordinated with delivery of the product to the dockside by the supplier. Payment, which is due when the product is on board ship, is therefore delayed and it is likely that the supplier gives priority to other costumers to reduce the risks of delay of payment.

Like the manufacturing industry in general, the manufacturing of raffia bags is also faced with mechanical deficiencies in production equipment. Spare parts have been difficult or impossible to find locally, the foreign exchange scarcity has prevented the acquisition of sufficient imports, and the lack of sufficiently trained technical personnel at different levels has aggravated the maintenance problems.

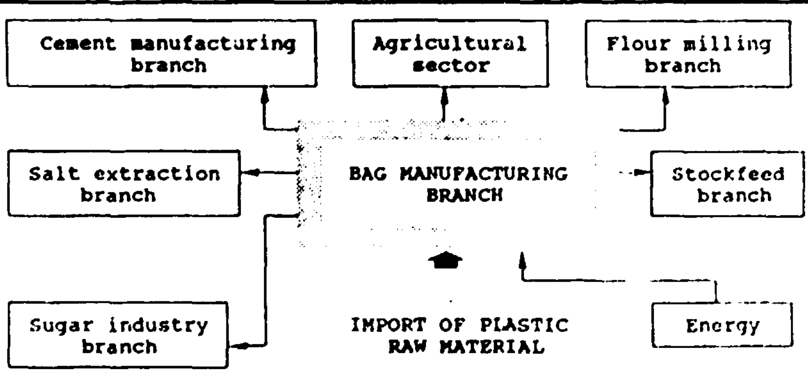
In spite of all this, the two raffia bags manufacturers have managed remarkably well, utilizing about 50 per cent of their capacity.

The new directives for increased agricultural production are likely to result in larger marketed quantities of cereals, beans, groundnuts, sunflower, etc. and increased demand for bags. If agricultural raw material supplies are normalized again, production stops due to mechanical breakdowns are likely to become more severe and frequent, as the deficient equipment will be used more intensively. There is no official project available regarding the demand for bags over the next few years, but obviously rehabilitation of the bag manufacturing industry, especially raffia bags, is essential for satisfactory future domestic supply.

5.4.3 Linkages

The bag manufacturing branch in Angola has strong forward linkages to the agricultural sector, to the food industry sub-sector and also to other sub-sectors in the Angolan economy. These are illustrated in Figure 5.4.1. Backward linkages are poor since the branch is largely dependent on imports of plastic raw material.

Figure 5.4.1: The bag manufacturing branch - basic linkages



5.4.4 Ownership pattern and spatial distribution

The bag manufacturing industry is mainly privately owned. The ownership pattern of the two enterprises manufacturing raffia bags is as follows:

Company	Share capital '000 Kz	Per cent				
		Angolan	Portuguese (1)	Portuguese (2)	State	Others
SIGA	70,000	16.30	0.30	65.50	17.10	0.80
FIBREX	17,500	23.15	-	76.85	-	-

(1) resident in Angola
(2) resident in Portugal

5.4.5 Policies and institutions as they relate to the package manufacturing branch

The Government subsidizes plastic bags. For imported plastic raw material, the enterprises only pay fifty per cent of the import duties. This policy dates back prior to 1975. It is expected that under the SEF programme import duties and tariffs will be revised.

At present, practically all of the bags produced are distributed through Ministries or state enterprises such as the Ministries of Trade (formerly Ministry of Domestic Trade), and Fisheries and EDIPESCA. Only a small part of the production is sold directly to private enterprises or consumers. In the future, the enterprises will have more freedom to sell their products according to market conditions, as the state will disengage itself from retail trade and the state enterprises will no longer have a wholesale monopoly.

CHAPTER 6

OBSERVATIONS AND RECOMMENDATIONS REGARDING COMPANIES

The mission examined four plants in detail in order to specify rehabilitation needs at the plant level. These were:

- a meat/fish processing plant;
- a cereal mill;
- a cooking oil/soap factory;
- a packaging material factory.

Three are private and one is public, and all are located in the Luanda region. They were selected from a list of thirteen candidate enterprises presented by the Angolan Government.

In making the choice of plants, the mission consulted with the Ministry of Industry, other government departments including Agriculture, Finance, Trade, and the National Bank of Angola, and representatives of the Angolan business sector and the country's main bilateral and multilateral co-operation partners.

The following general observations and recommendations are made with respect to management, organization and marketing, physical plant, and inputs.

6.1 Management, organisation and marketing

General observations:

(a) All the companies visited suffer from certain significant deficiencies at middle-management, foreman and supervisory levels. Top-management tends to be substandard, especially in public enterprises. Some of the companies also mentioned problems at machine operator level. Management, training and information systems are generally inadequate for routine tasks such as accounting, administration, purchase and sales.

(b) None of the companies visited had any effective sales organisation in place, largely because they are now operating in a sellers market. Practically all sales are concentrated in the Luanda area and other secure parts of the country. All sales are made "at the factory gate", which is a very common practice in Angola. This means that the customers provide their own transport and the companies do not have to engage in any transport or distribution arrangements. Similar conditions apply in relation to the purchase of raw materials.

In the context of rehabilitation and expansion, it will be necessary to improve both sales organisation and distribution systems, notably in regard to the distribution of incentive products in the rural areas.

(c) Institutions involved in the promotion of exports include the Ministry of Trade (which is currently being restructured), EXPORTANG (the leading state export company), SONANGOL (the Government oil company), and FICOM (Feria Industrial e Commercial de Luanda). Except for SONANGOL, which has an office in London, Angola has no commercial representation or trade offices abroad. Under the SEF programme, it is understood that a general review is being made of the institutional structure relating to foreign trade, and that an increased role is envisaged for the private sector. The introduction of new procedures, such as an export retention scheme, under which a company engaged in exports can retain some of its foreign exchange earnings for essential imports, is also being considered.

(d) The price control system governing both company inputs and outputs, linked with foreign exchange shortages, has generally had a negative impact on production. It has also led to the emergence of a flourishing parallel market, and contributed to the general collapse in the production of foodstuffs for sale in the urban areas. Practically all companies are operating under a system of official prices originally established in the mid-1970s. The present exchange rate of 29.918 Kz/US$ was set at the same time, and has remained unchanged since then. Much of the economy has changed into a barter system, where the local currency has ceased to play a significant role as a means of payment. The effective solution of these problems, addressed under SEF, is a necessary prerequisite for the successful implementation of industrial rehabilitation programmes.

Recommendations:

(a) Existing managerial vacancies should be filled by qualified personnel recruited where necessary from outside the firms concerned. In the public enterprise case, careful consideration should be given to improved management and related training facilities available under technical assistance, joint venture, and management contract or leasing arrangements. Where required, computer systems (personal computers) should be introduced at a company level, again with relevant training provision.

Urgent consideration should be given to recommendations for improved management training at university and higher technical levels in reports recently submitted by the World Bank/UNDP and the Gulbenkian Foundation. At a technical level, the recent ILO/UNDP report makes a series of valuable and practical recommendations regarding the training of technical instructors and back-up services in support of training programmes sponsored by individual Angolan enterprises. To secure future generations of managers, a management training institute should be created.

(b) All the companies reviewed should improve their sales and trading systems, and their practical training in these areas. The actual commitment of resources by individual firms in this context should be carefully synchronised with economic measures to be taken by the government under the SEF programme, as well as with the progress of physical rehabilitation in the plants concerned. The increasing number of donor aid programmes geared to the provision of agricultural inputs and services and incentive consumer goods, for example in the south west of Angola, should provide new market outlets for industrial companies.

(c) As the implementation of the SEF programme p: eeds, economic opportunities should open up again for the resumption of a wider range of agro-industrial exports outside the oil sector. In this situation, companies with export possibilities should benefit from the provisions of export retention or revolving fund schemes. Part of the foreign exchange could be used to increase the quality of Angolan agro-industrial exports, in order to improve their competitiveness. Possible misuse of the funds could be prevented by requisite legislation and administrative procedures. However, central to the success of such an initiative would be the development, as for example in Zimbabwe, of close working relations and business confidence between government departments and industrial and commercial associations involving private, mixed and public enterprises. In this context, SADCC recommendations relating to the formation of an Angolan export promotion board merit support by the Angolan authorities and business sector. In this regard, the development of an Angolan export revolving fund, possibily along the lines of the SIDA/NORAD-financed seed capital revolving fund in Tanzania or the World Bank-supported export revolving fund in Zimbabwe, could attract possible donor assistance within the framework of current SADCC proposals.

In the medium and long term perspective, it will be necessary to introduce trade representation abroad geared to specific export market interests. These could lie in regional groupings, such as SADCC and the PTA, or further afield, for example in the EEC, where Angolan exports have significant market access opportunities under the trade provisions of the Lomí convention.

(d) The present system of price controls should be modified as soon as possible and markets increasingly liberalised to create incentives under SEF for expanded production and enhancement of value added in the local manufacturing sector, thus increasing employment opportunities and saving scarce foreign exchange resources.

(e) A fundamental problem, which should receive continuing attention under the SEF programme, relates to the phased adjustment in the unrealistic exchange rate of the kwanza. The effects of this adjustment will be wide ranging, but in the industrial field it should, inter alia, provide a stimulus to local production and employment, generally encourage greater use of domestic resources, and lead eventually to the elimination of the type of foreign exchange shortages which have seriously affected industrial productivity in recent years.

6.2 Physical plant

All of the companies visited had substantially built premises, which for the most part were well maintained and require little additional attention. All companies were operating well below installed capacity, as a result of a combination of constraints.

(a) Routine maintenance of machinery in virtually all the factories is a definite weakness, both because of the inability to obtain sufficient spare parts due to foreign exchange restraints and because of the severe shortage of trained mechanics and electricians to properly maintain the machinery. The private companies were more successful in achieving a reasonable level of maintenance with limited resources, i.e. by utilising, in some cases, foreign exchange originally provided for raw materials for spare parts. In other instances, because of a lack of trained maintenance personnel, the Managing Director himself would maintain all of the machines personally in order to keep the factory operational. The same degree of personal involvement in the success of the company was not found in the state companies.

(b) While much of the equipment examined was old, most only required a relatively small number of spare parts to make the machines serviceable again for a number of years. In addition to this requirement, however, all of the private companies for their medium term plans were seeking to invest in more automated modern machinery to become more efficient and to survive with the fixed price structures in these agro-industries. All took rather a cautious view of the speed with which the SEF programme would be implemented, and assumed that actual positive results would take a long time to affect their own companies. Most were concerned that the government should effect the necessary reforms as quickly as possible. In the meantime, they saw investment in new machinery as a means of reducing current problems associated with a general lack of properly trained labour. All of the private companies appeared fully committed to remaining in Angola.

(c) Quality control programmes in the private companies varied from outstanding to mediocre. In the latter case this was due not to a lack of equipment, which was excellent, but to a frequent lack of water, which delayed test results to an unacceptable degree, making them useless for prompt control purposes. In the state company quality control was totally absent. Normal test facilities were not installed on the factory premises and even some facilities, which were stated to be available in Luanda, were not utilised.

(d) Plant hygiene and general cleanliness was excellent at two of the private companies, but at the third private company and the state company certain further improvements should be made. However, at the latter, efforts had been made in recent weeks to clean the factory thoroughly during a maintenance shutdown period.

Recommendations:

(a) The short-term rehabilitation programme for all factories must include technical assistance for the training of maintenance personnel, both mechanical and electrical. In addition, companies with relevant experience such as EMIN (already supported by UNIDO) should be strengthened. Their activities could be expanded to provide a maintenance back-up service to the agro-industrial sector companies, and to assist the medium term development of maintenance capabilities.

(b) The provision of financing facilities for the purchase of spare parts for all of these companies is essential for the necessary rehabilitation programmes.

(c) Domestic capacity for spare parts production should be increased. The know-how and machinery of the oil industry repair services could form the basis for projects strengthening this capacity.

(d) For the further development of these companies, certain new equipment will be necessary and the provision of financing facilities from international agencies or development banks would enable these projects to materialise, as BNA is not in a position to provide the necessary authorisation for the required foreign exchange.

(e) Where weaknesses have been observed in quality control procedures, these should be corrected by provision of the required equipment and the necessary training of personnel in the correct methods of quality control.

(f) In the interests of personnel safety and health, all factories should maintain the highest standards of cleanliness. This is particularly important in food related industries, where the consumer can also be put at risk.

6.3 Inputs

All food processing industries suffer from deficient supplies of raw material whether grain, oil bearing seeds, meat or any other commodity from the agricultural sector. Branches classified as strategic, such as the flour milling and vegetable oil processing branches, receive substantial quantities through imports.

These imports are often delayed for long periods, which adds to the problems of maintaining a reasonably even flow of production and to arrive at an acceptable level of utilisation, resulting in a frequent failure to produce the final output originally programmed.

Deficient domestic raw material supply is expected to be remedied through the new strategy for increased agricultural production, the result of which could take some considerable time to materialise.

The bag manufacturing industry is entirely dependent on imports of plastic raw material which makes the branch vulnerable to disruptions or shipment delays.

The import procedures for the raw materials required by several of the enterprises studied involve, in principle, at least three government agencies. TRANSPRO collects orders and later arranges for the distribution of the products. IMPORTANG is the executing agency and ANGOLNAV transports the products from port of loading to Angola. These government agencies belong to three different departments - the Ministries of Industry, Trade and Transport. Although each agency has specific responsibilities within its own field, no coordinating body appears to have an overall responsibility to ensure that the entire system works in a timely and coherent fashion. Serious delays affecting production reportedly occur far too frequently.

Weaknesses in the electricity distribution system cause frequent power failures, which affects virtually every enterprise in the Luanda area, and which the public utility service is now addressing.

Recommendations:

(a) The present unsatisfactory nature of domestic raw material supplies can be remedied only by regeneration of the agricultural sector and market system. Although efforts in this direction are now being accorded priority, notably in the south and south west, the results of these endeavours are going to take time to materialise. Meanwhile, in the Luanda area action should be taken at the earliest opportunity to implement local agricultural projects in the green belt around the capital. Some of the production from this area, and from the south and south west, could be channelled to the food processing industries.

(b) Upgrade the electricity distribution system giving apropriate priority to the industrial zone of Luanda.

(c) Rationalise arrangements for the importation of raw materials required by agro-industrial enterprises.

CHAPTER 7

GENERAL POLICY OBSERVATIONS AND RECOMMENDATIONS

7.1 General policy observations

The regeneration of Angola's manufacturing industry depends on the overall long-term recovery of the economy. The possibility for such a recovery depends largely on the successful implementation of the economic rehabilitation programme (SEF), and, not least, on reestablishing peace in the region and in the country. In this context, agricultural growth is a pre-requisite for economic development in Angola. The full applicability of many of the longer term recommendations below must, therefore, be seen in the light of this overall recovery.

As the implementation of the SEF programme gains momentum, it is the mission's view that the main attention of the Angolan authorities may become increasingly directed towards reestablishing macro-economic equilibria within a relatively short term economic policy perspective. Since the existing disequilibria are of considerable magnitude, the short term adjustment processes could present serious problems for the authorities, and, if not carefully monitored, could even run into conflict with long-run growth and development objectives. For example, a general liberalisation of markets could then have certain negative effects on the distribution of income and wealth in Angola. Long run viable enterprises might have to shut down their operations because of short run economic problems. Particular attention must therefore be given to harmonising short term stabilisation measures with overall development objectives.

Many of the economic measures introduced under SEF have been strongly recommended by the international community to the Angolan authorities. It would therefore seen logical that the international community should assume a share in the responsibility for implementing SEF, so that short term stabilisation measures do not jeopardise Angola's legitimate aspirations for growth and development.

In the short and medium term, the country does not have sufficient resources to engage in large-scale industrial rehabilitation. Moreover, the output of manufacturing industry will depend almost exclusively on the availability of foreign exchange, i.e. the value of petroleum exports, because the major proportion of industrial inputs has to be imported. In addition, there is a backlog not only of machinery replacements, but also of new investment in the manufacturing sector. This investment demand cannot be met without a massive inflow of foreign exchange, either in the form of international loans and grants and/or investments by foreign enterprises in Angola.

In this regard, Angola's regeneration and rehabilitation efforts deserve continued and increasing support from the international community.

Within this broader context of industrial rehabilitation, there are some issues which deserve special attention. First, more analysis at the plant, branch, sub-sector and sector levels will be needed to enable the formulation of viable regeneration and rehabilitation proposals on a sector-wide basis. Reinforcing the industrial data base (for example, by improving the Registro Geral de Empresas) would be essential in this context.

Second, most of the enterprises visited wished to invest in new machinery and/or to replace old equipment. This dominant concern is a reflection of the worn out state of existing investments. However, most of the enterprises also wished to introduce labour saving forms of capital equipment. In some instances this may be needed for technological and hygienic reasons, but the mission is of the view that present relative prices levels tend to discriminate against labour intensive technology. Special attention has to be given to this problem so that new investments will not contribute to unemployment. It should also be emphasized that new investments will only make a full contribution to industrial recovery if the right environment is created for that recovery.

Third, there is a marked shortage of skilled personnel and this constraint has to some degree been solved by employing expatriate personnel. These expatriates secure part of their salaries in foreign exchange and also receive other fringe benefits such as housing which is in short supply. The present laws relating to salaries of qualified Angolans restrict the possibilities for paying them in foreign exchange. Since the national currency is greatly overvalued, the cost to the enterprise of employing expatriates is much lower than the cost to Angola. This has created an unduly high demand for expatriates and has not stimulated the training and employment of Angolans. This situation will change when the official price of foreign exchange reflects its opportunity cost. Until then, the possibility of training and employing Angolans must receive a special degree of encouragement.

If the SEF programme, involving a major commitment of economic resources by Angola and her cooperating partners, were to be implemented without making effective provision for the maximum development of Angolan skills at all levels, then on the completion of the programme, the country could end up being more, rather than less, dependent on outside support. For this reason the mission strongly recommends assigning priority to human resource development at all levels, including the management field.

Fourth, there is the question of foreign versus domestic investment. The government wishes to stimulate foreign investments, as outlined in the new law passed in July 1988. Different forms of foreign investments are foreseen such as joint ventures and mixed enterprises. Most of the existing private investments in Angola are of foreign origin. However, the future role of Angolan investors in the country's development is an important issue, and there is no clear policy yet established in this respect. In general, it can be assumed that the Angolan investor will be in a weaker position than the foreign investor mainly because of limited access to foreign credit and technology. If Angolan private capital is to play a significant role in the future development of the country, special measures are needed to encourage its more active involvement.

Fifth, the mission observed that the supply of electricity and water was inadequate for the plants visited. In this context, it should also be noted that the level of manufacturing output is still below that of the installed capacities. As industrial rehabilitation proceeds and output increases, these input supply constraints will become increasingly significant. The present practice of each plant solving its own supply problems in regard to electricity and water is costly for the country as whole, and solutions to the technical problems involved merit continuing attention.

7.2 Regional dimensions

Consultations with the companies visited, and more broadly with the Angolan business sector, underlined the importance which both private and public enterprises attach to Angola's participation in SADCC actions geared to industrial rehabilitation objectives. Of immediate relevance in this context were seem to be the following elements in the SADCC Programme of Action:

* Preparation of technical and diagnostic studies on SADCC member States' agro-industrial rehabilitation requirements at the branch and plant level, e.g. in relation to vegetable oil seeds processing;

* Development of management training programmes sponsored by the Eastern and Southern African Management Institute (ESAMI) based in Harare and Arusha, and in agricultural management techniques at Mananga in Swaziland;

* Recent technical initiatives relating to the eventual rehabilitation of the Benguela railway, in particular the ten year development plan prepared by the Southern African Transport and Comunications Commission (SATCC), which was seen to have important implications for the rehabilitation of Angolan agro-industry, notably in the Benguela-Lobito and Huambo areas;

* SADCC and cooperation partners' proposals for the strengthening of industrial financing institutions in the region, particularly as these related to the financing of industrial inputs, export credits, equity holdings and cross-border investments;

* The formation of a region-wide SADCC business sector group to help strengthen working relations and informed understanding between local enterprises, foreign investors and government services. This initiative is well designed to address issues of immediate concern such as the mobilisation of financial support for local businessmen, and the application of a regional approach to industrial rehabilitation in the context of, for example, the production, distribution and financing of spare parts and equipment.

7.3 Costs and pricing system

General observations

(a) The manufacturing sector has experienced a very serious decline in output and capacity utilisation since 1975. Both output and capacity utilisation were much lower in 1987 compared to 1973. Government policy is not only to promote manufacturing growth, but also to achieve output and capacity utilisation levels of 1973.

(b) Most companies in the manufacturing sector are dependent on imported raw materials, machinery and spare parts. The heavy imports of raw materials, especially since 1975, are a result of declining agricultural production. There are variable tariff duties on the imported raw materials, machinery and spare parts. In cases where inputs cannot be made available locally, duties merely increase the cost of production of the plant, although they yield higher revenues for the government. Immediate fiscal losses can, however, be offset in the longer term by other revenues resulting from increased production and profitability from these firms, if non-competing imports have low tariff rates. Where there are possibilities of local production, it might be necessary to have higher tariffs on competing imports to nurture the growth of local production.

(c) It was observed that many firms, especially in the private sector, have large stocks of kwanza holdings in the BNA. These are highly liquid funds which are generally not earning any interest.

(d) Manufacturing industry operates in an environment of price distortions, with price controls on most products. Permission to increase prices must be channelled through the technical department concerned and then to the Ministry of Planning. Resulting decisions are channelled down through the same administrative structures.

In most cases, there is a noticeable lag between the increase in input prices and the subsequent adjustment in output prices. In a situation where input prices are increasing and output prices remain relatively fixed, company profits are reduced or losses incurred. Output prices should cover costs of production and provide for a level of profits to enable firms to maintain plant and machinery in good repair and ensure its replacement over time.

(e) The parallel market in products of the Angolan manufacturing sector and competing imported goods is very extensive. Most items produced in the manufacturing sector are sold on this parallel market at many times the official market price of the commodities concerned. Because of the extremely low level of monetary wages in the manufacturing sector, there is a continuing incentive for factory workers to appropriate items from the production lines for their own use or for subsequent barter transactions on the parallel market.

(f) The overriding constraint faced by most companies is the shortage of foreign exchange. This has affected the ability of firms to import raw materials and spare parts, and has further constrained capacity utilisation in the industry concerned.

Allocation of foreign exchange is effected on the basis of a company's annual foreign exchange needs. No clear distinction is drawn between requirements for raw material inputs and machinery and spare parts. Companies are free to use their foreign exchange provision for either purpose once it has been allocated to them.

<u>Recommendations</u>

(a) A review should be made of the current price control arrangements with a view to introducing greater flexibility in the system. An institutional mechanism could be introduced under which the overriding policy objective is to reduce the gap between official and parallel market prices. In this regard, the SEF programme does in fact envisage greater flexibility in price determination, leading to the eventual introduction of a relatively free market system.

(b) The administrative system for approving price changes should be reviewed with a view to locating this operation in a single administrative unit, which could then consult as required with the relevant technical ministries. Under such a system, companies would not have to go through several administrative layers with price proposals.

(c) In this same general context, the determination of prices for finished goods should be synchronised with changes in the prices of related inputs. It is suggested that the Ministry of Planning could integrate such a mechanism into the institutional arrangements for reviewing prices.

(d) Wherever necessary, the production of spare parts should be encouraged and promoted. In this context, a selective tariff structure should be worked out with high rates on competing imports and low to zero on non-competing imports.

(e) An agricultural policy geared greatly towards increased domestic production should be pursued, with a view to enhancing the availability of local raw materials and reducing imports.

(f) There is a need to modify arrangements for the allocation of foreign exchange under a system which should distinguish between foreign exchange allocated to companies for raw materials, finished goods, and machinery and spare parts.

The effects of exchange rate adjustments should be closely watched, as such changes would obviously create problems for manufacturing companies in terms of the price at which they may acquire foreign exchange. There could also be a reduced demand for their products because of consequent increases in the price of finished goods, and an impact on their liquidity position.

CHAPTER 8
CONCLUSION AND SUMMARY OF PROJECT CONCEPTS

8.1 Concluding remarks

Angola's regeneration and rehabilitation efforts can take place only with active co-operation and assistance of the international community. Most industrial rehabilitation projects require foreign technical and financial support, particularly in the acquisition of equipment and spare parts. Besides international financial assistance, Angola will require technical and managerial expertise to assist in selecting and procuring equipment and monitoring the plant rehabilitation.

The benefits of UNIDO's "top-down" approach to rehabilitation will be experienced from the "bottom-up" - from the plant, through the various levels, to the country level at the top:

- First, the immediate beneficiaries of technical co-operation will be the specific enterprises. Through them, however, most small- and medium-scale enterprises in the industry will gain through direct technical co-operation measures.

- The agro-industrial sector will benefit from the analysis of branch problems and suggested methods to tackle these problems. The four diagnoses will serve as a guideline for the rest of the sector.

- Next, the entire industrial sector will benefit through the recommendations relating to the specific needs for training and assistance in the development of local, domestic capacity in rehabilitation.

- Finally, the Government will benefit not only from the direct technical assistance to the enterprise, but also through the project recommendations for macro- and industrial-sector level policy changes to strengthen local and national capacity in industrial rehabilitation.

The rehabilitation surveys serve as a first step - a "pilot project" - in the long process toward ultimate rehabilitation. Full feasibility studies must be conducted as a follow-up to provide effective guidelines for subsequent implementation. As our programme is evolving, we would certainly appreciate any comments or suggestions you may have on the usefulness of its approach.

8.2 General project concepts

The following are suggested as future projects to be undertaken toward industrial rehabilitation of the agro-based industries:

- Rationalise institutional responsibility for import of inputs used by several enterprises to avoid delays and irregular deliveries.

- Continue to advance the implementation of new agricultural policies to allow for resumption of supply of agricultural commodities to the food processing industry.

- Provision of increased technical assistance, notably to the Ministry of Industry, for the strengthening of the industrial data base and the elaboration of project plans and pre-investment studies, including relevant aspects of the Bom Jesus agro-industrial and related rural development scheme. Such assistance could build on earlier UNIDO projects.

- Technical assistance regarding studies for strategic planning for development of the integrated vegetable oils and fats industry.

- Assistance for further investigations, in cooperation with other SADCC countries, regarding the use of natural fibres grown in the region, in the context of a long term strategy for the development/expansion of the bag manufacturing industry.

- In connection with above activities regarding natural fibre, assistance by UNIDO for establishment of rehabilitated jute line using existing installations at SIGA.

- Support for industrial management training now under review at university and higher technical levels.

- Continue to upgrade electricity distribution network in the industrial area of Luanda.

For all enterprises visited

- Improve the technical training of all maintenance staff, both mechanical and electrical, by means of technical assistance programmes (UNIDO). These should be coordinated with programmes currently under preparation by the ILO/UNDP.

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