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INDUSTRIAL DEVELOPMENT REVIEW SERIES

ANGOLA

Economic reconstruction and rehabilitation

V.90-87443

This document has not been edited.

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PREFACE

This Industrial Development Review is one of a series of country studies prepared by the Industrial Development Review Unit, Regional and Country Studies Branch of the United Nations Industrial Development Organization (UNIDO).

The Reviews present brief factual and analytical surveys of industrial development in developing countries. Such industry-specific Reviews are in demand for a variety of purposes: to provide an information service to relevant sections within UNIDO and other international organizations and aid agencies concerned with technical assistance to industry; to be used as a reference source for financial organizations, public and private industrial enterprises, and economic research institutes in developed and developing countries; and to serve as a handy, useful information source for policy-makers in developing countries. The Reviews do not represent in-depth industrial surveys. With an exclusive focus on industry they present information and analyses on the broad spectrum of the industrial development process in the countries concerned in a condensed form.

The Reviews draw primarily on information and material available at UNIDO headquarters from national and international sources as well as data contained in the UNIDO data base. Generally, the presentation of up-to-date information on sub-sectoral manufacturing trends is constrained by incomplete national data on the industrial sector. To supplement efforts under way in UNIDO to improve the data base and to monitor industrial progress and changes on a regular basis, it is hoped that the relevant national authorities and institutions and other readers will provide comments and further information. Such response will greatly assist in updating the Reviews.

The present Review was prepared on the basis of information available at UNIDO headquarters by early 1990. It is an updated and expanded version of an earlier Review on Angola which was issued as a restricted document in 1988 (PPD. R.15). It is divided into two rather distinct parts. Chapters 1 and 2 are analytical in character, giving first a brief overview of the country's economy and its manufacturing sector and then a more detailed review of the structure and development of its manufacturing industries. Chapter 3 focuses on the problems and prospects of selected industrial enterprises in key manufacturing sub-sectors. Chapter 4 reviews policy measures relevant to industrial development and presents information on the more important governmental and other institutions involved in industrial development. Chapter 5 contains information on Angola's resource endowment for industrial development and identifies crucial areas requiring technical assistance.

It should be noted that the Reviews are not official statements of intention or policy by governments nor do the views and comments contained therein necessarily reflect those of the respective governments.

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Regional classifications, industrial classifications, trade classifications, and symbols used in the statistical tables of this report, unless otherwise indicated, follow those adopted in the United Nations Statistical Yearbook.

Dates divided by a slash (1988/89) indicate a crop year or a financial year. Dates divided by a hyphen (1988-1989) indicate the full period, including the beginning and end years.

References to dollars ($) are to United States dollars, unless otherwise stated.

Totals may not add precisely due to rounding.

In Tables:

Three dots (...) indicate that data are not available or not separately reported;
Two dashes (--) indicate that the amount is nil or negligible;
A hyphen (-) indicates that the item is not applicable.

Basic indicators and graphical illustrations of manufacturing trends contained in this Review are based on data sourced from the UNIDO data base, international organizations, commercial and national sources.

The following abbreviations are used in this document:

B/d	Barrels per day
BNA	Banco Nacional de Angola
CMEA	Council for Mutual Economic Assistance
EDF	European Development Fund
EC	European Community
ECU	European Currency Unit
EIB	European Investment Bank
FAL	Fabrica de Alimentados
FIBREX	Fabrica de Artigos de Fibras Sintéticas
FIE	Foreign Investment Cabinet
GARE	Gabinete de Redimensionamente Empresarial
GDP	Gross domestic product
GNP	Gross national product
IMF	International Monetary Fund
INDUVE	Industria Angolana de Oleos Vegetais
ISIC	International Standard Industrial Classification
Kz	Kwanza
Mbl	Millions of barrels
MPLA	Movimento Popular de Liberatacao de Angola
MVA	Manufacturing value added
OPEC	Organization of Petroleum Exporting Countries
OECD	Organization for Economic Coperation and Development
PRE	Programa de Recuperaçao Economica
SADCC	Southern African Development Co-ordination Conference
SEF	Economic and Financial Restructuring Programme
SIGA	Sociedade Industrial de Groassarias
SITC	Standard International Trade Classification
TCDC	Technical Co-operation among Developing Countries
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization

BASIC INDICATORS 1

The economy

GDP (1987)	:	$6,184 million
(1989)	:	$6,122 million[a]
Population (1987)	:	9.1 million[a]
Labour force (1985)	:	4.7 million[a]
Density of population (1987)	:	7.2 persons per square kilometer
GDP *per capita* (1987)	:	$680

Growth of GDP (per cent)	1980-1984[b]	1985	1986	1987	1988	1989
	3	5.2	0.7	8.7	9.2	-9.1[a]

Structure of GDP (percentage):

	1987	1989[a]
Agriculture and livestock	14.4	15.3
Fisheries	0.8	0.9
Petroleum	45.5	41.9
Manufacturing, energy and mining	8.0	8.4
Construction	3.2	3.4
Services	27.8	29.8

Exchange rate (Kwanza equivalents to $1)	1985	1986	1987	1988	1989	Feb. 1990
	29.92	29.92	29.92	29.92	29.92	29.92

a/ Provisional estimate.

b/ Average annual.

BASIC INDICATORS 2

Resources

Agricultural production (1988)[a/]: (in tons of marketed produce)		Cereals (39,841), Cassava (7,552), coffee (3,278), cotton (2,244)
Livestock (1984)[a/] ('000 number)	:	Cattle (3,400), sheep (250), goats (1,000), pigs (500)
Fish (landed catch) (1988)[a/] ('000 tons)	:	Marine fish (210)
Forestry production (1988)[a/]	:	Logs (68,000 cubic meters), sawnwood (13,200 cubic meters)
Mineral resources (1985)	:	Diamonds (700,000 carats), iron ore reserves (24.2 million tons[a/]), phosphate reserves (150 million tons), coal and lignite reserves (500 million tons), oil reserves (2,000 mbbl)
Oil production (1989)	:	450,000 barrels per day[b/]
Natural gas reserves (1984)	:	37 billion m^3

a/ Estimate.

b/ Preliminary estimate.

BASIC INDICATORS 3

Foreign trade and balance of payments

Exports (1987)	: $2.24 billion
Principal exports (1987) ($ million)	: Oil and oil-related products (2,082), diamonds (96), coffee (34)
Main destinations (1987) (percentage)	: United States (56), Netherlands (11) Brazil (4), Belgium-Luxenburg (3)
Imports (1987)	: $444 million[a]
Principal imports (1987) ($ million)	: Machinery equipment (133), basic metals (88), food and food products (87), transport equipment (42)
Origins of imports (1987) (percentage)	: United States (16), France (14), Brazil (13), Portugal (12), Federal Republic of Germany (12)
Balance of payments (1988) (current account deficit)	: $470 million
External debt (early 1989)	: $4 billion
Debt service ratio (1987) (as per cent of export earnings)	: 50 per cent

a/ Excluding defence equipment estimated at $600 million.

BASIC INDICATORS 4

The manufacturing sector

MVA (1987)	:	$82.1 million[a]						
MVA *per capita* (1987)	:	$9.0						
Growth of MVA (per cent)	:	1981	1982	1983	1984	1985	1986	1987[a]
		41.5	2.2	7.3	11.8	14.3	2.6	-7.8

Composition of MVA by end-use	:		1980	1987
		Food industries	21.7	23.4
		Light consumer goods	59.4	49.8
		Heavy industries (intermediate and capital goods)	18.9	26.8
Share of manufactured exports in total exports (1987)	:	5.4 per cent		
Share of manufactured imports in total imports (1987)	:	93.7 per cent		

a/ Estimate.

BASIC INDICATORS 5

Inter-country comparison of selected indicators

	Unit	ANGOLA	Botswana	Zaire	Zambia	Zimbabwe
I. Demographic indicators						
Area	'000 sq. km.	1,247	582	2,345	753	391
Population (mid-1988)	millions	9.4	1.2	33.4	7.6	9.3
Population growth (1980-1988) (average annual growth rate)	per cent	2.5	3.4	3.1	3.7	3.7
Primary school enrollment as percentage of age groups (1987)	per cent total/female	...	114/117	76/64	97/92	136/132
II. Economic indicators a/						
GDP (1988)	$ million	6,184 b/	1,940	6,470	4,000	5,650
GDP growth rate (1980-88) (average annual growth rate)	per cent	...	11.4	1.9	0.7	2.7
GNP per capita (1988)	$	680 b/	1,010	170	290	650
Agriculture (1988)	per cent of GDP	15.2 b/	3	31	14	11
Industry (1988)	per cent of GDP	54.5 b/	55	34	43	43
Manufacturing (1988)	per cent of GDP	5.8 b/	5	7	25	31
Services (1988)	per cent of GDP	27.8 b/	42	35	43	46
Gross domestic investment (1988)	per cent of GDP	...	...	11	11	21
Exports (1988)	$ million	2,143.7 b/	...	2,207	1,073	1,589
Imports (1988)	$ million	1,253.4 b/	...	1,954	889	1,325
III. Manufacturing indicators						
MVA (1987) (at current prices)	$ million	82.1 c/	82	374	568	1,637
MVA per capita (1987)	$	9.0 d/	74.5	11.2	78.9	176
Share of manufactured exports e/ in total exports (1987)	per cent	5.4	6.4	57.7	89.3	39.6
Share of manufactured imports e/ in total imports (1985) (estimate)	per cent	93.7 e/	75.7	91.1	95.6	92.0

a/ Based on the World Bank data presented in the World Development Report 1990, Angola excepted. It should be noted that the UNIDO data base, United Nations statistics, national statistics and World Bank data base do not always tally precisely and, therefore, discrepancies may be found between Basic Indicators 5, and the text and tables.

b/ 1987.
c/ 1987 at 1980 prices.
d/ 1986.
e/ SITC 5 to 8 less (67 and 68).

SUMMARY

The outlook for the recovery of the Angolan economy, which has suffered seriously from internal unrest since the mid-1970s, has improved somewhat during 1989. Although GDP declined by 9.1 per cent in 1989, renewed Government efforts to restructure and liberalize the Angolan economy, combined with a cessation of South African intervention, have since 1989 resulted in increasing international support for the reconstruction of the economy. A major donors' conference is to take place in 1991.

In recent years intermittent droughts have affected agricultural output, causing widespread starvation particularly in the rural areas of Southern and Central Angola during 1989/90. Large-scale emergency assistance has been requested to mitigate the effects of the droughts. While most of the Angolan population earns a livelihood in the agricultural sector, agriculture accounted for only 15.3 per cent of GDP in 1989. The sector's small share, by African standards, is explained by the fact that the great majority of the farmers is engaged in subsistence agriculture. Cash cropping (coffee, cotton) was important in the past, but insecurity, the destruction of the transport network, lack of incentives and insufficient know-how have relegated commercial agriculture to a marginal role. The country however has a large agricultural potential as a consequence of a low population/land ratio and a great diversity of soil and climatological conditions. With proper stimuli and a return of security in rural areas, the sector could once again become a major contributor to GDP, provide a wide range of raw materials for agro-based industries and constitute a significant market for industrial products.

Angola remains the second-largest oil producer in Sub-Saharan Africa.In the face of Angola's assured oil boom the petroleum sector has emerged as the major source of economic growth. In 1989, the sector accounted for 90 per cent of all export earnings and for 41.9 per cent of GDP. Production reached a level of 450,000 b/d in the late 1980s, and reserves are estimated at more than 2,000 million barrels. The petroleum industry has suffered little from the consequences of war. The oil sector is dominated by foreign enterprises. Their presence has given rise to an extensive "dollar economy" which is separated from economic activities based on the official Kwanza exchange rate and on the parallel market exchange rate. The removal of the distortions caused by these three "parallel economic systems" is a key issue in economic recovery.

The manufacturing sector (including energy and mining) accounted for an estimated 8.4 per cent of GDP in 1989. When energy generation and mining are excluded, the share of manufacturing is probably only 5 per cent. Total employment in registered enterprises stood at 50,300 in 1987. Petroleum refining accounted for 70 per cent of turnover in the industry sector in 1987. Virtually all production is destined for the domestic market. Some refined petroleum is exported. The remaining industries are grouped in the food, light consumer goods and heavy industry sub-sectors. The light consumer goods industry dominates manufacturing, with 49.8 per cent of MVA in 1987. Food and heavy industries contributed 23.4 per cent and 26.8 per cent, respectively. Over the past decade, there has been a modest shift away from light consumer goods, with the heavy industries' share in MVA growing

fastest. The most important branches in these sub-sectors are bakery goods, flour and oil milling in the food processing sub-sector; textiles and clothing in the light consumer goods industries; and transport equipment and building materials in the heavy industries. Chemical and rubber products, which are classified as light or heavy industries depending on the type of product, also make substantial contribution.

During 1960-1973, MVA was growing at an average annual rate of 11 per cent in real terms. The manufacturing sector suffered a marked contraction during the second half of the 1970s, after Independence. Primarily set up to process the country's rich agricultural and mineral resources, industrial enterprises have on the whole not been able to surmount the domestic supply difficulties and the destruction of plants caused by war. Problems were compounded by ill-conceived policies, a severe lack of qualified personnel and shortages of foreign exchange to import machinery, spare parts and inputs.

The decline was halted around 1980. Industrial production recovered somewhat in the early 1980s, but the real value of production in 1985 represented only 54 per cent of the 1973 level of industrial output. The deceleration of industrial output was exacerbated by further declines in most industries since 1986, as foreign exchange to purchase imports for industry has become even scarcer. Available production capacity is now often less than half of the capacity installed originally. Even so, the utilization rates of presently available capacity tend to be low, usually below 50 per cent. The problems of the country have increased the concentration of industrial activities in the major coastal cities, where at least some of the logistical problems can be overcome and where an important and easily served market for industrial products exists.

There is considerable variation in the growth trends experienced by the sub-sectors of manufacturing. Investments in the food industries, mainly in rehabilitation, enabled brewing and soft drinks, flour milling, bakery goods and vegetable oil production to hold their position or reduce their decline. These industries contributed significantly to the recovery during 1981-1986, but with the partial exception of beverages and cooking oil, the food industry shared the 1986-1989 recession with other sub-sectors.

The light consumer goods industry, encompassing the production of textiles, clothing, footwear, wood processing, tobacco, soaps and detergents, plastic products, etc., suffered in 1987-1989, after recovering moderately in previous years, but the sub-sector was not as strongly affected as the food industry. Indeed, there was a clear upward production trend for a number of products in 1988 and 1989, such as plastics. The heavy industry sector recovered strongly during 1981-1986, increasing its share in total MVA, but after that production decreased in most branches, the major exceptions being vehicle assembly, steel tubes. the assembly of radio and television sets, and the manufacture of tyres.

Although industrial policies have emphasized the role of government intervention, the majority of industrial enterprises is privately owned. Only the transport equipment and food processing industries are dominated by public enterprises. Government influence on manufacturing development however has been pervasive through such measures as price controls, allocation of foreign exchange and control over investment. These have constrained rather than stimulated industrial development. In allocating foreign exchange reserves to meet the import requirements of the firms, the Government needs to balance efficiency and employment considerations. Although the closure of currently inefficient industrial units could cause loss of jobs, there is a strong case for giving preferential treatment to efficient users of foreign exchange.

The need to find effective solutions to the country's economic problems led to the adoption of a liberalization and restructuring programme, the Saneamento Economico e Financeiro (SEF), in 1988. The 1989-1990 Programa de Recuperaçao Economica (PRE) articulated the policies to be implemented, and set investment priorities by sector and targets for production and the provision of services. The priorities for the manufacturing sector are:

- to strengthen the linkages with agriculture and trade in order to stimulate national agricultural production and decrease the dependency on imports;

- to give more autonomy to the management of the industrial enterprises and to make public enterprises responsible for achieving better financial results;

- to emphasize improved utilization of existing plants through rehabilitation rather than investment in new projects;

- to decentralize industrial production through the establishment of small, local industries capable of processing agricultural products to meet various local needs;

- to improve the know-how and skills of Angolan technicians and workers; and

- to stimulate the transfer of know-how and technology.

The environment in which industry operates is to be improved through:

- decentralization of decision-making and administrative procedures;

- increased autonomy for and partial privatization of public enterprises;

- liberalization of foreign investment;

- improvements in the planning system;

- liberalization of prices;

- measures to improve the financial system and the Government's budgetary performance.

The reorganization of the Ministry of Industry and its recent merger with the Ministry of Commerce are to provide a basis for improvements in the institutional infrastructure.

In spite of the various government efforts, the rejuvenation of the Angolan manufacturing industry requires financial and manpower resources that are beyond the present means of the country. In the short run manufacturing prospects depend crucially upon the restoration of peace and increased supplies of industrial inputs. Further assistance through import package deals from bilateral donors, such as import support programmes already maintained by Sweden and EC, seems vital for increasing capacity utilization. Industrial co-operation in the medium term could be directed to the rehabilitation of existing industrial units and further expansion of promising industrial projects. A number of major programmes address problems in the transport and agricultural sectors. These should help create a better environment for the manufacturing sector to pursue resource-based industrial development. The UNIDO programme includes support to enterprise restructuring, to improvements in institutional infrastructure, to repair and maintenance and to industrial rehabilitation. To increase the effectiveness of assistance, co-ordination between donor agencies, and between these agencies and the Angolan Government, is being intensified. This could play an important role in strengthening the new course of industrial reconstruction and rehabilitation.

SUMARIO

As perspectivas de recuperaçao da economia angolana que desde meados dos anos setenta vem sofrendo sérias consequencias do conflicto militar interno, melhoraram ligeiramente em 1989. Embora no mesmo ano o Producto interno bruto se tenha reduzido em 9.1 % os esforços persistentes do governo para a reestructuraçao e liberalizaçao da economia assim como o fim da intervençao militar da Africa do Sul tiveram como consequencia o aumento do apoio internacional à reconstruçao nacional. Uma conferencia que reunirá os principais doadores está prevista para 1991.

Nos recentes anos secas intermitentes afectaram a produçao agricola causando no biénio de 1989/1990 fome generalizada especialmente nas zonas rurais do Centro e Sul do pais. Apelos foram feitos à comunidade internacional para uma ajuda de emergencia capaz de aliviar os efeitos das secas. Apesar da maioria da populaçao angolana garantir a sua subsistencia no sector agrícola, em 1989 a agricultura contribuiu com apenas 15,3 % do producto interno bruto. Tal contribuiçao que mesmo segundo padroes africanos se considera fraca explica-se pelo facto da grande maioria dos agricultores practicar uma agricultura de subsistencia. A venda local "cash" de productos agrícolas especialmente café e algodao desempenhou um papel importante no passado, mas a insegurança, a destruiçao da rede de transportes, a falta de incentivos e a insuficiencia de conhecimentos técnicos reduziu o comércio agrícola à uma funçao marginal. Contudo graças à baixa relaçao populaçao/área, à grande diversidade de solos e às condiçoes climáticas, o país disfruta de um grande potencial agrícola. Com adequados incentivos e o restabelecimento da segurança nas zonas rurais o sector agrícola poderá de novo tornar-se o maior contribuinte do Producto interno bruto, fornecer uma variedade de matéria-prima para a agro-indústria assim como transformar-se num mercado importante para productos industriais.

Angola continua a ser o segundo maior productor de petróleo bruto da Africa ao sul do Saara. Graças ao seu rápido e permanente crescimento o sector petrolífero angolano tornou-se a maior fonte de progresso económico. Em 1989 o sector contribuiu com 90 % das receitas de exportaçao e 41,9 por cento do Producto interno bruto. A produçao atingiu o nível de 450.000 barris/dia no fim dos anos 80 e as reservas estao avaliadas em mais de 2.000 milhoes de barris. A indústria petrolífera pouco sofreu das consequencias da

guerra. O sector é dominiado por empresas estrangeiras cuja presença deu origem à chamada "economia do dólar" que se distingue da actividade económica baseada nos cambios oficial do Kwanza e inoficial praticado no mercado paralelo. A eliminaçao das distorçoes causadas por estes tres paralelos sistemas económicos é uma medida-chave na recuperaçao económica.

Em 1989 o sector de manufactura (incluindo energia e mineraçao) contribuiu com cerca de 8,4 por cento do Producto interno bruto; Se se excluir a produçao de energia e a mineraçao, a participaçao da manufactura é provavelmente de apenas 5 por cento.

O número total de postos de trabalho nas empresas registadas era de 50.300 em 1987. A refinaçao de petróleo representou em 1987 70 por cento da actividade no sector industrial; practicamente toda a produçao de petróleo refinado é destinada ao consumo interno, apenas uma pequena quantidade é exportada. As restantes indústrias agrupam-se nos sub-sectores da produçao de alimentos de ligeiros bens de consumo e da indústria pesada. A indústria ligeira de bens de consumo domina o sector de manufactura numa percentagem de 49,8 do Valor agregado de manufactura. As indústrias pesada e alimentar contribuiram respectivamente com 23,4 e 26,8 por cento. Durante a década passada verifcou-se uma modesta reduçao no peso da indústria de bens de consumo tendo a contribuiçao da indústria pesada ao Valor agregado de manufactura aumentado rapidamente. Os mais importantes ramos sao no sub-sector alimentar os productos de padaria, farinhas e oléos comestiveis; no sub-sector da indústria ligeira de bens de consumo os téxteis e o vestuário; no sub-sector da indústria pesada o equimento para transporte e os materiais de construçao. Os productos químicos e de borracha que sao classificados como pertencendo às industrias pesada ou ligeira segundo o seu respectivo tipo também representam uma participaçao substancial no Valor agregado de manufactura.

De 1960 a 1973 o Valor agregado de manufactura cresceu em termos reais com uma média anual de 11 por cento. O sector de manufactura sofreu uma forte contracçao durante a segunda metade dos anos de 70, após a independencia.

Criadas basicamente para transformar os ricos recursos agrícolas e minerais do país as empresas industriais no seu conjunto nao foram, capazes de resolver as dificuldades de abastecimento interno nem superar os problemas causados pela destruiçao de fábricas durante a guerra. Tais problemas foram agravados pela adopçao de politicas mal concebidas, grande falta de mao de obra qualificada e penúria de divisas para financiar a importaçao de equipamento, peças sobressalentes e outros factores de produçao.

O declinio foi interrompido no periodo 1979-80. A produçao industrial recuperou ligeiramente nos anos 80, mas o valor real da produçao em 1985 representou apenas 54 por cento do nivel de produçao indústrial de 1973. O afrouxamento da produçao industrial foi desde 1986 agravado por outras reduçoes na maior parte das outras indústrias uma vez que as divisas para importaçao se tornaram ainda mais excassas. A capacidade de produçao existente é em muitos casos menos do que a metade da capacidade originalmente instalada. Mesmo assim a percentagem de utilizaçao de capacidade existente tende a ser baixa, normalmente menos de 50 por cento. Os problemas do pais causaram uma maior concentraçao das actividades industriais nas maiores cidades litorais onde pelos menos alguns dos problemas logisticos podem ser resolvidos e existe um importante mercado fácil de aprovisionar com productos industriais .

Há variaçoes considerávies nas tendencias de crescimento verificadas nos sub-sectores de manufactura. Os investimentos na indústria alimentar sobretudo para reabilitaçao, permitiram que o fabrico de cerveja e refrigerantes, a moagem de farinha, productos de padaria e óleos vegetais mantivessem os niveis de produçao ou diminuissem o declínio. Estas indústrias contribuiram de modo significativo para a recuperaçao durante o periodo de 1981-1986, mas com parcial excepçao para as bebidas e óleos comestiveis a indústria alimentar compartilhou com os outros sub-sectores a recessao 1986 a 1989.

A indústria de bens de consumo englobando a produçao de téxteis, vestuário, calçado, transformaçao de madeira plásticos saboes e detergentes, que havia já recuperado, enfrentou novos problemas no periodo 1987-1989; mas o sub-sector nao foi tao afectado como a indústria de alimentos. Na verdade em 1988 e 1989 verificou-se uma clara tendencia ascendente na produçao de determinados productos, como por exemplo plásticos. O sector da indústria pesada recuperou fortemente no periodo 1981-1986 aumentando assim a sua contribuiçao ao Valor agregado de manufactura; mas logo a següir a produçao de novo decresceu excepçao feita aos ramos de montagem de automóveis, aparelhos de rádio e televisao, tubos de aço assim como fabrico de pneus.

Embora a politica indústrial ter acentuado a intervençao estatal, a maior parte das empresas indústriais é de propriedade privada. Apenas os ramos de equipamento de transportes e produçao alimentar sao dominados pelas empresas públicas. Contudo através de medidas tais como o controle de investimentos e preços e a fixaçao de "plafonds" cambiais, a influencia estatal tem sido incisiva, nao constituindo estimulo para o desenvolvimento indústrial do pais.

Ao fixar "plafonds" cambiais para as necessidades de importaçao das empresas o Governo tem de tomar em consideraçao a eficiencia e a situaçao de emprego. Embora a liquidaçao de unidades indústriais ineficientes venha causar desemprego o tratamento preferencial às empresas que melhor utilizam as divisas é facilmente justificável.

A necessidade de se encontrarem soluçoes adequadas aos problemas económicos do pais conduiziu à adopçao em 1988 do SEF (Programa de Saneamento Económico e Financeiro) um programa de liberalizaçao e restructuraçao. Cobrindo o periodo 1989-1990 o PRE (Programa de Recueraçao Económica) definiu as medidas a serem realizadas, estabeleceu proridades de investimento sectorial e fixou metas para o produçao e serviços. No que se refere ao sector de manufactura as prioridades sao:

- Estreitamento da relaçao com a agricultura e o comércio a fim de estimular a produçao agrícola nacional e diminuir a dependencia das importaçoes;

- conceder maior autonomia aos gestores das empresas indústriais e tornar as empresas públicas responsáveis pela obtençao de melhores resultados financeiros;

- dar ênfase à melhor utilizaçao das empresas existentes de preferencia pela sua reabilitaçao;

- descentralizar a produçao indústrial através do estabelecimento de pequenas indústrias locais capazes de transformar productos agricolas satisfazendo assim as necessidades locais.

- melhorar o nivel de capacidade profissional dos técnicos e trabalhadores angolanos;

- encorajar a transferencia de "know-how" e tecnologia

O meio ambiente em que operam as empresas indústriais deverá ser melhorado através da:

- descentralizaçao do processo de tomada de decisao, e dos procedimentos administrativos;
- autonomia acrescida e privatizaçao parcial das empresas públicas;
- liberalizaçao do investimento estrangeiro;
- melhoria no sistema de planeamento;
- liberalizaçao de preços;

e de medidas para melhoria dos sistema financeiro e orçamento estatal

A reorganizaçao do Ministério da Indústria e a recente fusao com o Ministério de Comércio deverao constituir a base para a melhoria da infrastructura institutional.

Apesar do esforço governamental, o rejuvenescer da indústria angolana de manufactura exige recursos humanos e financeiros que vao além das actuais possibilidades do país. As perspectivas do sector dependem à curto prazo do restabelecimento da paz e da melhoria no aprovisionamento da indústria. A ajuda adicional através de acordos com doadores para a realizaçao no país de programas globais de assistencia e apoio como já acontece com a Suécia e a Comunidade Europeia parecem vitais para o aumento da capacidade de utilizaçao. A cooperaçao indústrial poderia ser utilizada para a reabilitaçao de unidades indústriais existentes e expansao de projectos promissores. Um certo número de programas importantes dedica-se à problemas nos sectores da agricultura e dos transportes. Isto deveria criar um meio ambiente mais propício permitindo assim ao sector de manufactura presseguir num desenvolvimento baseado em recursos locais disponiveis. O programa da ONUDI inclue apoio à restructuraçao das empresas, ao melhoramento da estructura institucional, à manutençao e reparaçao assim como à reabilitaçao industrial. Com o objectivo de aumentar a eficiencia da assistencia internacional, tem-se intensificado a coordenaçao com as agencias doadoras assim como entre estas e o Governo angolano. Isto poderia desempenhar um papel importante no reforço dos esforços para a reabilitaçao indústrial.

1. THE ECONOMY OF ANGOLA

1.1 Recent economic trends

The prospects for reconstruction of Angola's war-shattered economy improved somewhat with the cessation of South African intervention in 1989. Although the June ceasefire with the UNITA movement was broken repeatedly, the crushing burden of the defense budget (46 per cent of the overall budget in 1988, as opposed to 19 per cent in 1980) can now possibly be eased, making more funds available for economic recovery. With the improving prospects for security, aid is likely to increase substantially. A major donors' conference has been planned for early 1991. The conference could help to accelerate the implementation of the economic and financial restructuring programme (SEF) announced in 1987. The SEF has ushered in an era of long overdue reforms to improve productivity, purchasing power and consumption levels. The SEF also encompasses reform of domestic economic policy, including restructuring of Government-owned companies, improvement of supply systems and more price incentives. Implementation, however, has been slow, partly because of a shortage of human and financial resources, the availability of which may now improve.

Another obstacle to economic recovery is the series of droughts which have in particular affected southern Angola. The drought during the 1989/1990 agricultural season may have resulted in a reduction of cereal production of some 40,000 tonnes. A large number of people in central and southern Angola was facing starvation in the early 1990. Most seed grain appears to have been consumed, which will again seriously effect agricultural output during the coming agricultural season. The UN have appealed for an emergency agricultural support programme as well as humanitarian aid.

Angola's economic survival is to a large extent due to the growth of the country's oil sector. Oil production[1/] increased strongly after 1985. It levelled off in 1989, having reached a level of 450,000 barrels a day (b/d). This contributed to the 9 per cent contraction of GDP in 1989. The rise in world prices however resulted in an increase in crude oil export earnings from $2,045 million in 1988 to approximately $2,500 million . Estimates for the country's crude resources have also increased substantially. Oil resources are now estimated at more than 2,000 million barrels.[2/] The country's oil sector, providing over 90 per cent of the country's export earnings, is the main engine of the economy.

The second most important foreign exchange earner is the diamond industry, which has recovered strongly. In 1989, output may have reached 1.6 million carats, a 45 per cent increase over 1988, and almost double the 1987 output. Export earnings may have reached $250 million (1988: $180 million), and rich deposits have been identified whose exploitation in co-operation with a foreign enterprise is now being examined. Angola has joined the diamond exporters' cartel, and further production increases seem likely.

1/ Angola is not a member of OPEC, and so is unshackled by the price and production controls; it is the second-largest oil producer in sub-Saharan Africa.

2/ At a production level of 400,000 b/d this is equivalent to 20 years' supply.

Angola's foreign debt was estimated at $4 billion in 1989. Although part of this is in the form of low-interest defense loans, Angola has to clear a backlog of arrears which are estimated to absorb over 50 per cent of export earnings, and there has recently been short-term borrowing to cover budget deficits. The Government has proposed a novel refinancing strategy that would obviate the need for rescheduling. This is based on a 15-year floating rate notes issue of about $1 billion, sufficient to clear all arrears to Western export credit agencies, pay off immediately about $400 million of 1987-1989 principal repayments, provide about $130 million in fresh money, and purchase $250 million worth of zero coupon bonds with a free value and maturity identical to floating rate notes. The need to actually implement this strategy may have become less urgent after a series of reschedulings in 1988 and 1989, and after the approval by the Paris Club of a major rescheduling of debts (for a period of ten years, with a six-year grace period) in July 1989. This approval followed Angola's admission to the IMF in the same month. Angola became a World Bank member in September 1989.

The positive change in the attitude of the international community towards Angola is not only due to the somewhat better security prospects, but also to the economic reforms that are to be implemented under SEF. These include the privatization of parts of the Government sector, the ending of budget subsidies for loss-making parastatals, extra support for peasants, price rises and eventual price liberalization, monetary reforms to encourage domestic savings, and eventually devaluation of the Kwanza, which on the parallel market fetched less than 2 per cent of its official value of Kz 29.9 to $1 in mid-1989. The Government also adopted the Programa de Recuperaçao Economicia (PRE) in 1989, which articulates the approach to be taken for the implementation of SEF and sets investment priorities for recovery by sector. The actual implementation of these reform programmes has been hampered by the absence of a clear macro-economic framework, and institutional and human resource constraints at the level of formulating and executing specific measures. In spite of all this, there now is an environment in which the economic outlook for Angola appears more promising than in recent years.

1.2 Economic structure

Angola is rich in natural resources, but the country is under very heavy economic strains as a result of war which inflicted serious damage on the country's non-oil economy over the last 13 years. The oil sector has escaped war damage and with an impressive growth in the 1980s, Angola became almost totally dependent on oil exports.

The overwhelming importance of the petroleum sector in the economy is revealed by data pertaining to the sectoral distribution of GDP presented in Table 1.1. In 1989, the petroleum sector accounted for an estimated 42 per cent of GDP, compared with 20 per cent in 1986. The rise in world oil prices was responsible for the strong increase in the sector's GDP share.

Although only 3 per cent of the arable land is under cultivation, agriculture was the mainstay of life for about 75 per cent of the 9.1 million inhabitants of Angola in 1987. Before Independence in 1975, a dual agricultural system prevailed, with quasi-subsistence farming and large-scale commercial farming co-existing. When Angola attained Independence, Portuguese traders and landowners fled the country and the entire commercial farming sector was brought under Government ownership. The commercial plantations specialize mainly in export crops such as coffee, sisal, bananas, palm kernels, sugar, tobacco and others. The peasantry grows most of the food crops, and the greater part of agricultural production (over 80 per cent) is now accounted for by the subsistence sector. Commercial agriculture has been hit hardest, through insecurity, the destruction of much of the transport infrastructure and pricing and purchasing policies that proved a disincentiveto production. The estimated GDP share[1] of agriculture and livestock fell during 1983-1985, largely due to the decline in cereal production. Production of another major staple, cassava, has been subject to strong fluctuations. The sector now appears to recover slowly. The GDP share increased from 8.4 per cent in 1985 to an estimated 13.4 per cent in 1989. Total cereal production increased from 600,000 tons in 1987 to 700,000 tons in 1988. Food aid continues to be needed, because the marketed volume of cereals is still small, and because of the prolonged drought in South Angola during the 1989/90 agricultural season. Some 50 per cent of total food requirements continue to be imported. The coffee output was 18,000 tons (estimated) in 1988. The latter figure is one-third higher than the 1986 figure although it is still only 7 per cent of the 1973 output. The recent drop in coffee prices is an obstacle to further recovery of the production of this major export crop.

Table 1.1: Distribution of GDP by sector of origin, 1986-1989
(percentage)

Sector	1986	1987	1988 a/	1989 a/
Agriculture and livestock	10.6	14.4	13.4	15.3
Fisheries	3.2	0.8	0.7	0.9
Petroleum	19.9	45.5	52.2	41.9
Manufacturing, energy and mining b/	10.9	8.0	6.6	8.4
Construction c/	4.2	3.2	3.4	3.4
Other	51.2	27.8	23.7	29.8
	100.0	100.0	100.0	100.0
GDP (Kz million at 1980 prices)	170,216	185,035	202,149	183,162

Source: World Bank; Ministerio da Plano, Programa da Recuperaçao Economica; Luanda 1989.
Ministry of Planning database.

a/ Provisional estimate.
b/ These sectors are amalgamated in national statistics.
c/ Includes manufacturing of building materials.

The manufacturing sector (including energy and mining) accounted for 10.9 per cent of GDP in 1986, and an estimated 8.4 per cent in 1989. The contribution of manufacturing proper, excluding mining and energy, to GDP is

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1/ Production figures for the agricultural sector are no more than guesstimates, as it is impossible to make an exact assessment of subsistence production. In fact, the only sector of which the output is known exactly is the oil sector.

relatively small and is currently estimated at 5 per cent of GDP. The manufacturing sector suffered marked contraction during the post-independence period and output in all sub-sectors of manufacturing is far below the levels achieved before independence from Portugal in 1975. Apart from disruption of supplies of raw materials, spare parts and production equipment, shortage of investment funds, lack of maintenance, inadequate skilled manpower and ill-conceived policies contributed to the contraction of manufacturing. Growth during the 1980s has not compensated for the losses the sector sustained during the 1970s.

Gross investment, excluding investment in the oil sector, was estimated at 15 per cent of GDP in 1988. The Government undertakes practically all investments with the exception of investment in the oil sector where multinationals undertake the major share. The huge defence spending absorbs funds which could otherwise have been used productively.

The economic losses stemming from the disruptive effects of the war are far more serious than problems emanating from volatile commodity prices for oil and coffee. Although it is difficult to estimate the value of damage to production units, reconstruction costs provide some idea about the extent of damage inflicted by war. For example, $20 million was invested to reconstruct part of the Luanda oil refinery after it was sabotaged in November 1981.[1] It is estimated that around $20 million would be the minimum required for rehabilitating the Lomaun hydro-electric power plant which was put out of action in 1983. The cumulative damage to infrastructure during 1981-1985 alone has been estimated at $10 billion.

In the late 1980s, defense equipment, primarily from the Council for Mutual Economic Assistance (CMEA) countries, accounted for around 50 per cent of the country's total value of imports on a yearly average basis. Otherwise, the Government accords import priority to food, agricultural inputs, consumer goods and equipment for the oil industry. Foreign exchange scarcity has resulted in a strong decrease of essential imports since the early 1980s. The country's exports are mainly destined to OECD countries, despite its close political ties with the CMEA countries. Angola became a signatory to the Lomé Convention in 1985, with a view to increasing its links with the European Community (EC). An EC office was opened in Luanda in 1986.

In spite of an increasing trade balance surplus, the current account of the balance of payments has been in deficit for many years, increasing from -$236 million in 1985 to -$470 million in 1988. A decrease of the deficit, to -$290 million, was expected in 1989. The deficit is mainly caused by external transfers of the oil companies and payments for services rendered by foreign companies. The conspicuous improvement in 1989 seems mainly due to increased oil export revenue.

The oil sector of the Angolan economy, in which foreign firms play a major role, has been a catalyst in the emergence of an extensive "dollar economy", dominated by foreign enterprises and separated from economic activities which take place on the basis of the official Kwanza exchange rate. A third stratum of economic activities is based on the parallel market value of the Kwanza. It is estimated that over 90 per cent of household income is spent in the parallel market. Tackling the distortions caused by

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1/ The Economist Intelligence Unit, Angola to the 1990s, The Potential for Recovery, Special Report No.1079, 1987.

these "parallel economic systems" is a key issue in the recovery process of Angolan economy. Devaluation of the Kwanza, bringing it closer to the parallel market value, is being discussed, but no decisions have been taken on that issue yet.

1.3 An overview of the manufacturing sector

During the transition to independence in 1975, the manufacturing sector was deliberately run down and only partial progress has been made in restoring the pre-independence production levels. Most manufacturing was in the hands of non-Angolans, and with the Portuguese exodus most factories were abandoned, resulting in heavy loss of managerial and technical skills. In March 1976, the Government nationalized many industries. In 1987, over 40 per cent of the 271 registered industrial enterprises were owned or controlled by the Government. Industrial employment in registered enterprises stood at 58,300 in 1987.

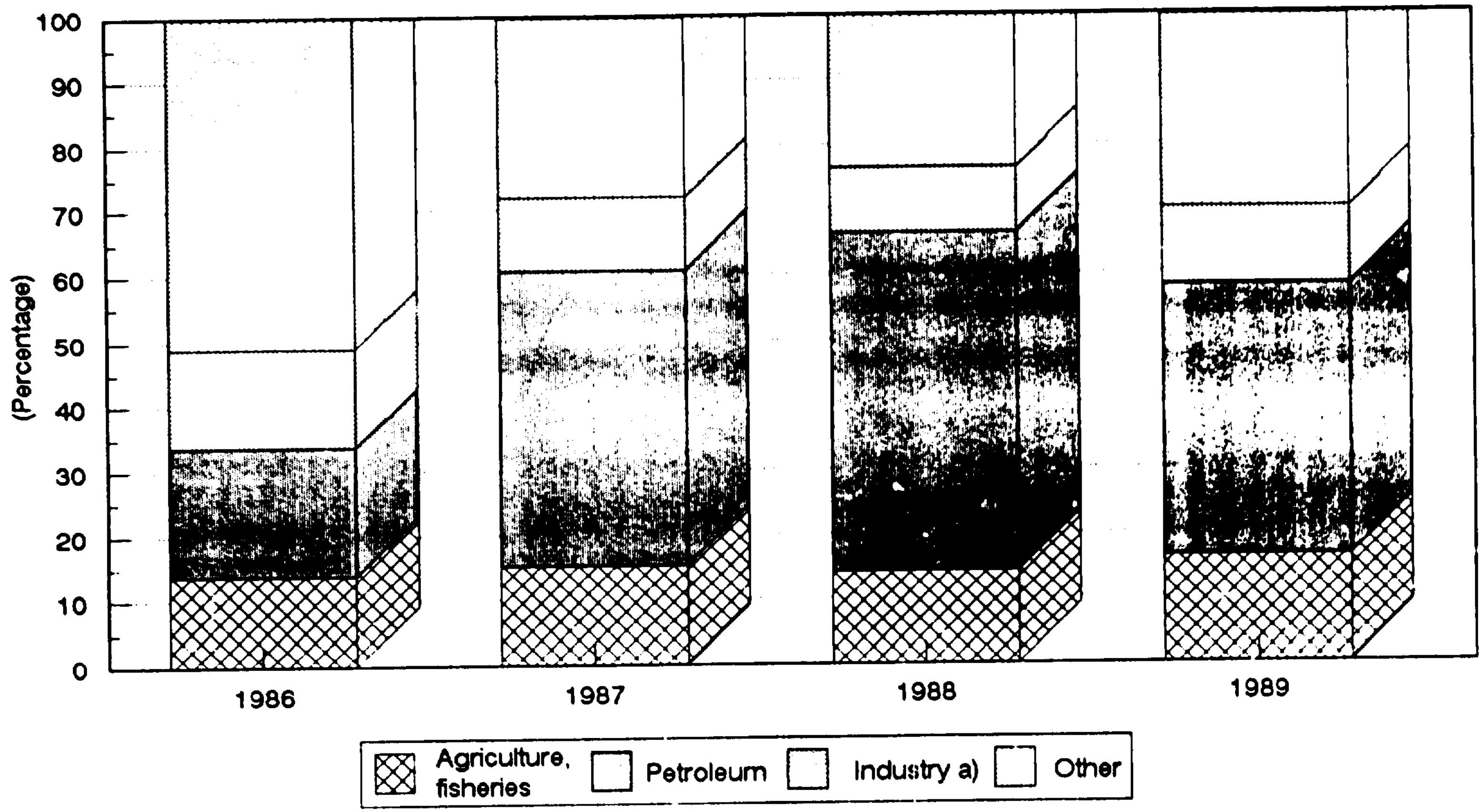
Angolan manufacturing is usually categorized under three sub-sectors: food, light and heavy industry. Manufacturing, apart from oil-based industries, is dominated by the production of consumer goods for the domestic market. In terms of the number of enterprises and supply of goods, food industry ranks as the most important sub-sector with some 80 factories. These industrial units manufacture mainly cereal products, cooking oil, beer and similar products. Most of the light manufacturing enterprises are engaged in the production of garments and textiles. An unknown number of small informal sector enterprises is engaged in the production of clothing, furniture and in the processing of food.

The heavy industry in Angola (intermediate and capital goods), also produces almost entirely for the domestic market. The sub-sector includes some vehicle and electronics assembly operations. Further, there are several dozen building materials firms under the Ministry of Construction.

The food and light consumer goods industries were established with a view to exploiting the country's wide range of agricultural raw materials. The supply of these was disrupted by the collapse of commercial agriculture and marketing networks as a consequence of the exodus of the Portuguese settlers and the civil war that followed. Factories that escaped war damage became heavily reliant on imported inputs, and the severe economic situation of the past decade has not allowed sufficient imports of these. The same is true for spare parts and machinery, for which local production capacity was and is almost non-existent. Problems were compounded by transport problems, power disruptions, the absence of coherent and workable policies and the shortage of qualified personnel. The decline of the sector was halted around 1980, but by 1985, industrial production was still only 54 per cent of the 1973 level. Acute foreign exchange shortages caused a strong decline in the output of a number of industries in the late 1980s.

The recent moves toward political stabilization and increasing international support may help to create an environment for industrial recovery. A reorganization plan for the Ministry of Industry was drafted in 1988, and the merger of the Ministries of Trade and Industry that was announced in early 1990 could be a step towards improving the institutional infrastructure for industrial recovery. An interrelated set of UNDP-supported reconstruction projects for Southwest Angola was given priority for external financing in 1989. The programme would include several important industries. External funds for further recovery projects are expected as a result of the donors' conference to be held in early 1991.

Fig.I. Distribution of GDP by sector of origin, 1986 - 1989 (Percentage)



a) Industry includes manufacturing, mining and construction

Fig.II. Real growth of manufacturing value added and GDP, 1981 - 1989 (constant 1985 prices)

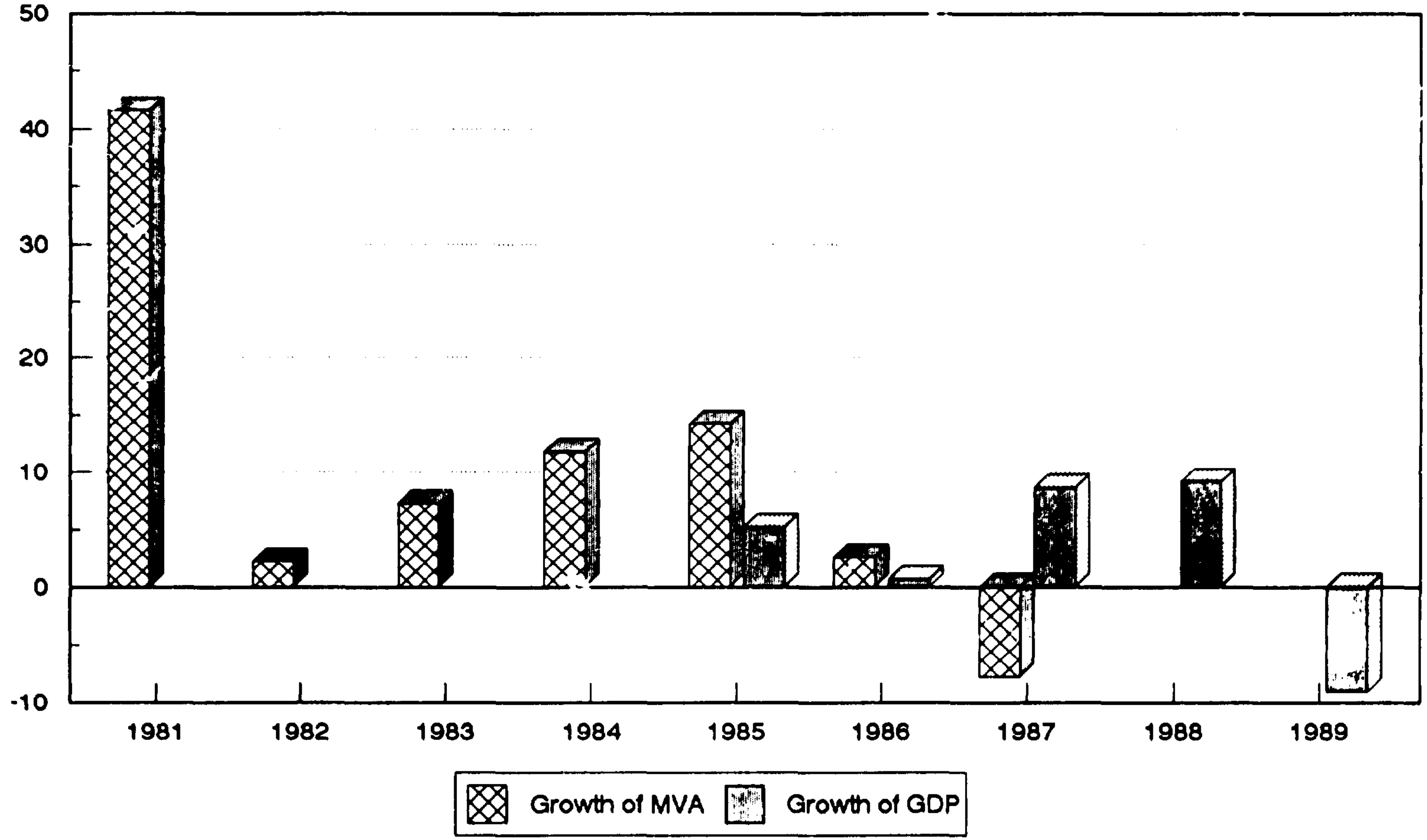
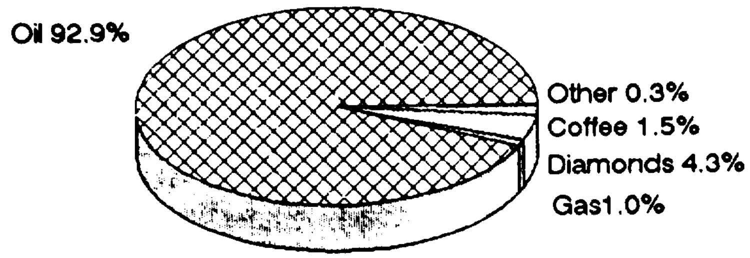
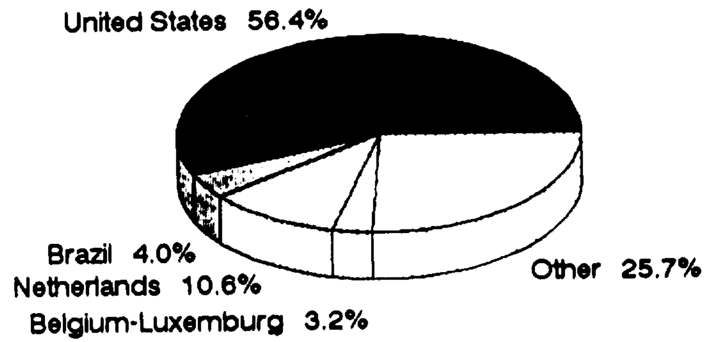


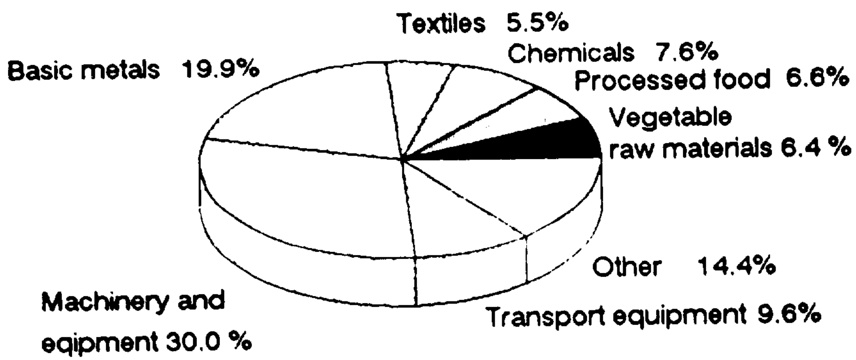
Fig.III. Exports and Imports, 1987



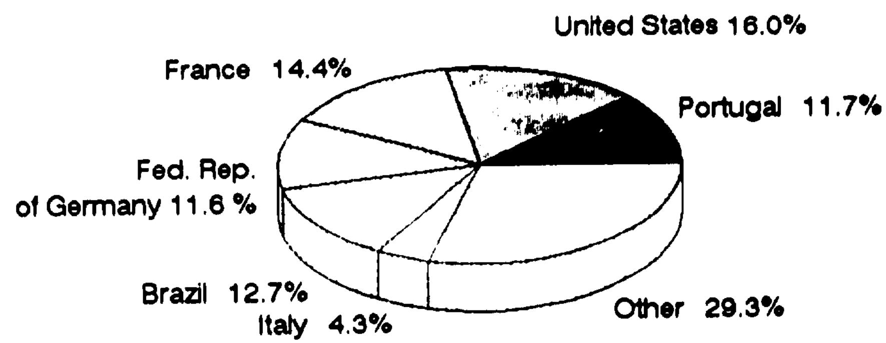
Composition of Exports



Destination of Exports

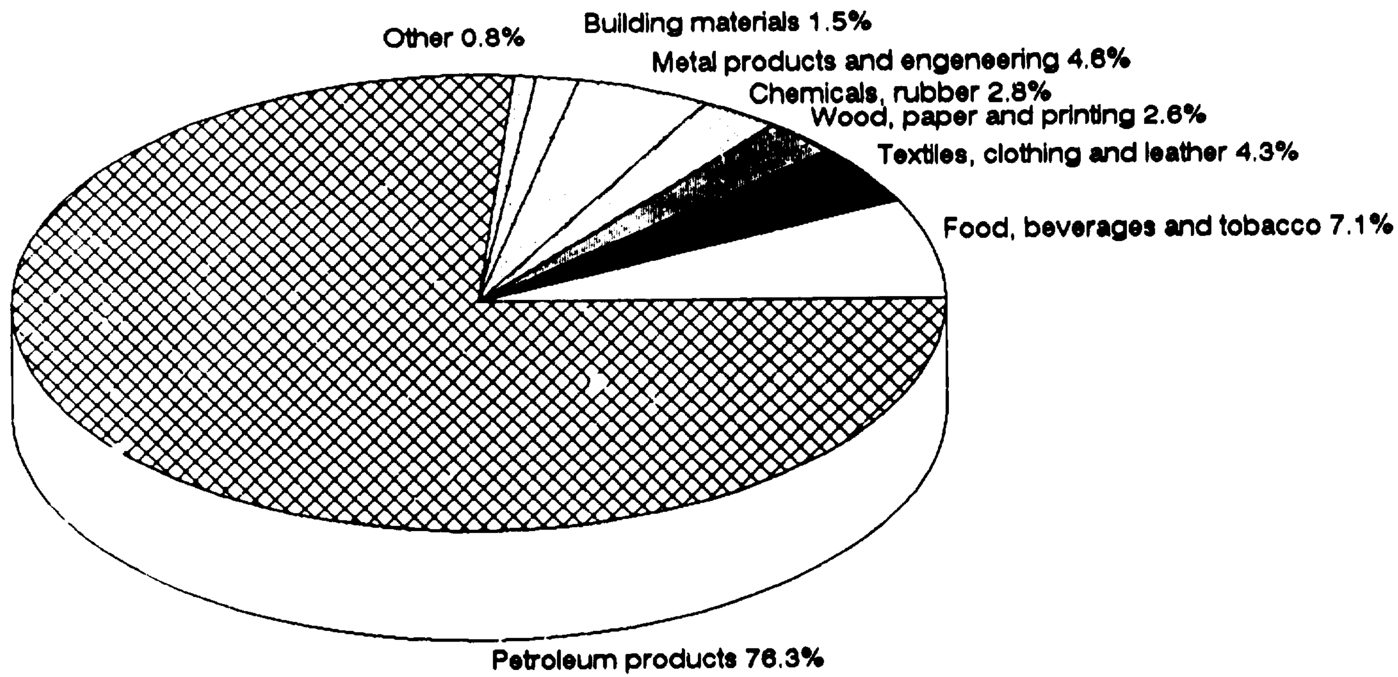


Composition of Imports



Origin of Imports

Fig.IV. Turnover by branch, 1987
(Percentage)



2. GROWTH AND PERFORMANCE OF THE MANUFACTURING SECTOR

2.1 Growth and structural change

The pace of manufacturing expansion was quite rapid during 1960-1973, with MVA in real terms growing at an average annual rate of 11 per cent,[1/] admittedly from a small initial base. It was a remarkable progress, surpassed by only a few African developing countries south of Sahara. Shortly before Independence manufacturing growth levelled off.

During the pre-independence period, the consumer goods industries dominated the scene, accounting for more than 70 per cent of manufacturing production, with a relatively heavy emphasis on luxury goods for the settler population. The pattern of production changed with the rapid growth of the oil-based industry in the 1970s and the introduction of capital goods and intermediate goods industries, with a corresponding decrease in consumer goods industries.

After Independence, the exodus of qualified personnel, civil war, general economic decline and inappropriate policies plunged the sector into a severe decline. Industrial production in 1985 was only 54 per cent of the real value achieved in 1973. A steep drop in output immediately followed the Portuguese exodus. The sector's production recovered somewhat around 1980, and during 1981-1986 the manufacturing sector has by and large been able to keep up the production level achieved then, though this was far below the pre-independence level. The acute shortage of foreign exchange following the drastic fall in oil prices in 1986-1987 has severely cut imports of industrial inputs, leading to a renewed sharp reduction of most commodities' production in the following years. Out of 59 manufacturing products listed in the most recent production survey, 20 saw their production decline by more than 50 per cent, and another 20 by 20-50 per cent, during 1985-1988. Further decreases were reported for most products in 1989.

Data pertaining to the growth and structural change in Angolan manufacturing according to the official classification of manufacturing activities into food products, light consumer goods and heavy industries are presented in Tables 2.1 and 2.2 respectively. The year 1981 represented a burst of rapid growth, with a 41.5 per cent increase in MVA. The manufacturing sector, as a whole, experienced stagnation in 1982, which was followed by renewed improvement and a sustained pace of expansion until 1985. Growth of MVA faltered from two-digit growth rates in 1984 and 1985 to 2.6 per cent in 1986, which was largely explained by the aforementioned foreign exchange constraints stemming from lower earnings from oil exports. In 1987, MVA suffered a -7.8 per cent decline, mainly in consequence of these reductions. By 1986, MVA <u>per capita</u> had fallen to $9 from $31 in 1970. MVA figures for 1988 and 1989 are not yet available, but a further strong decrease has presumably taken place, given the precipitous drop in output. Notable investments in light industry since independence have been two large textile projects, the Africa Textil plant in Benguela and the TEXTANG II plant in Luanda, and projects in wood processing.

1/ See M.R. Bhagavan, Angola: Prospects for Socialist Industrialization, Scandinavian Institute of African Studies, Research Report No.57, 1980.

Table 2.1 highlights considerable variation in the growth trends experienced by the three sub-sectors of manufacturing. Among the food industries, brewing and soft drinks, flour milling, bakery goods and vegetable oil production were able to hold their position or reduce their decline through investments, mainly in rehabilitation. These contributed significantly to the sustained pace of recovery during 1981-1986, with the exception of 1982 when the food industry was hit by import budget restrictions. It shared the 1987-1989 recession with the other subsectors, although the beverages and cooking oil industries experienced a partial recovery.

Table 2.1: Annual growth rate of MVA by end-use, 1981-1987 (percentage at constant 1985 prices)

Type of industry a/	1981	1982	1983	1984	1985	1986	1987 b/
Food industries	53.0	-11.9	12.0	18.8	18.4	3.1	-7.5
Light consumer goods	43.6	-1.9	3.7	8.9	10.0	-2.5	-7.9
Heavy industries (intermediate and capital goods)	21.8	38.1	12.1	12.3	20.1	12.8	-10.1
Total manufacturing	41.5	2.2	7.3	11.8	14.3	2.6	-7.8

Source: Ministry of Industry database.

a/ Angolan industrial statistics cover 80 per cent of food, light and heavy industries.

b/ Estimate.

The light consumer goods industry encompasses the production of textiles, clothing, footwear, wood processing, tobacco, soaps and detergents, matches, plastic products, paints, glass and glue, etc. Although light industry suffered in 1987-1989, the subsector was not as strongly affected as the food subsector. Indeed, there was a clear upward production trend for a number of products in 1988 and 1989, such as plastics.

The heavy industry sector experienced double-digit growth rates during 1981-1986, increasing its share in total MVA, but after that production faltered in most branches. Vehicle assembly, steel tubes, the assembly of radio and television sets, and the manufacture of tyres were the main industries to record increases in production.

The figures above exclude oil refining (see Annex Table A-2), which has grown significantly since independence, production of cement and some other construction materials (under the Ministry of Construction), salt refining and fish processing (under the Ministry of Fisheries) and industries which are affiliated to the Ministry of Agriculture. Oil earnings could provide a large part of the resources needed to revive the other branches of the Angolan manufacturing sector, following the improved security situation. The figures also exclude the contribution of the small informal sector industries, for which no statistics are available. The informal sector includes many small food processing units, clothing and furniture producers, and repair services.

Table 2.2 shows that the light consumer goods dominate manufacturing with about one-half of MVA in 1987. In the course of the past decade, however, the relative share of the food and heavy industries has increased somewhat. The heavy industry share grew fastest. This seems largely due to the expansion of ship-building and repair, an industry completely dominated by a single enterprise, the Government-owned Estalnave shipyard.

Table 2.2: Composition of MVA by end-use, 1980-1987
(percentage)

Type of industry[a]	1980	1981	1982	1983	1984	1985	1986	1987[b]
Food industries	21.7	23.4	20.2	21.1	22.4	23.2	23.3	23.4
Light consumer goods	59.4	60.3	57.8	55.9	54.5	52.4	49.8	49.8
Heavy industries	18.9	16.3	22.0	22.9	23.1	24.4	26.9	26.8
MVA (Kz million at constant 1985 prices)	4,622	6,542	6,689	7,174	8,022	9,173	9,408	8,665

Source: Ministry of Industry database.

a/ Angolan industrial statistics cover 80 per cent of food, light and heavy industries.

b/ Estimate.

At the level of individual branches, the food processing industry predominates, in turnover terms (see Table 2.3). Transport equipment, chemicals and rubber and clothing follow with approximately equal shares. The combined turnover of all branches in the three sub-sectors, however, is less than half the turnover of the energy products industry, which again underlines the importance of oil extraction and refining for the Angolan economy.

Table 2.3: Turnover, by branch of industry, 1987 (Kz million - and percentage)

	Kz million	Percentage
Food processing	4,031	6.2
Beverages	1,565	2.4
Tobacco	410	0.6
Textiles	918	1.4
Clothing	2,675	4.1
Leather and leather products	254	0.4
Wood products and furniture	1,342	2.1
Paper and printing	877	1.4
Chemicals and rubber	2,406	3.7
Basic metals	...	...
Metal products	1,212	1.8
Transport equipment	2,415	3.7
Non-electrical machinery	285	0.4
Electrical goods	440	0.7
Building materials	1,233	1.9
Other	223	0.3
Total (except energy products)	20,286	31.5
Energy products	44,215	68.5
Total	64,501	100.0

Source: Ministry of Industry database.

Note - The Angolan branch classification is different from the International Standard Industrial Classification (ISIC).
- These figures reported are not necessarily complete.

2.2 Performance and productivity

Angolan manufacturing enterprises usually operate below available capacity. As opposed to installed capacity, available capacity takes into account the state of machinery and availability of technicians, implying, that capacity in a number of industries can occasionally be raised very rapidly under favourable conditions (for example, when technical assistance is made available).

Available capacity is often less than half of installed capacity (tables 2.4-2.6). In the early 1980s, technical assistance and improved supply were occasionally able to increase production to a level that was well above the capacity available before assistance was rendered. This however has not occurred, in the industries listed, during the second half of the 1980s.

In the food products subsector, none of the listed industries were able to utilize more than 70 per cent of their available capacity. A continous upward trend in production can only be found in soft drinks and salt production. By 1989, utilization rates were exceptionally low in enterprises producing sugar and coffee, a one time major plantation crops. Overall, there is a clear decrease in capacity utilization in comparison with 1980, when the average for a similar selection of industries was over [illegible] per cent.

Table 2.4. ANGOLA - Production capacity, production and capacity utilization in selected food industries, 1986-1989

Product	Unit	Installed capacity	Available capacity*	Production 1986	Production 1987	Production 1988	Production 1989 (est)	Capacity utilization** 1986	Capacity utilization** 1987	Capacity utilization** 1988	Capacity utilization** 1989 (est)
Beer	Hl	3,206,600	1,250,000	585,890	551,330	390,580	419,770	47	44	31	34
Soft drinks	Hl	498,500	290,100	65,790	83,790	124,590	69,050	23	29	43	24
Wine	Hl	150,000	120,000	14,590	23,430	70,240	80,480	12	20	59	67
Sugar	Tonnes	107,300	45,500	13,963	12,799	9,937	3,345	31	28	22	7
Maize flour	Tonnes	199,420	134,600	30,200	31,083	41,682	40,216	22	23	31	30
Wheat flour	Tonnes	156,010	129,250	24,785	39,193	44,535	30,316	19	30	34	23
Bread	Tonnes	249,630	220,000	51,233	58,446	66,048	48,202	23	27	30	22
Pasta	Tonnes	13,940	9,785	2,913	2,567	3,744	3,190	30	26	38	33
Cooking oil	Hl	120,000	81,000	43,660	29,090	24,250	31,860	54	36	30	39
Coffee	Tonnes	5,900	1,100	150	268	90	106	14	24	7	10
Salt	Tonnes	15,000	14,500	3,800	5,372	6,753	7,502	26	37	47	52

Source: Ministry of Industry database.

* Production capacity taking account of the state of machinery, the availability of technicians, etc.

** $\frac{\text{Production}}{\text{Available capacity}}$ (percentage)

Table 2.5. ANGOLA - Production capacity, production and capacity utilization in selected light industries, 1986-1989

Product	Unit	Installed capacity	Available capacity*	Production 1986	Production 1987	Production 1988	Production 1989 (est)	Capacity utilization** 1986	1987	1988	1989 (est)
Textiles	Thousand m^2	57,300	30,600	12,844	6,045	8,160	6,981	42	20	27	23
Trousers	Thousand	7,465	2,680	337	354	404	446	13	13	15	17
Skirts	Thousand	6,545	3,255	427	452	321	168	13	14	10	5
Shirts	Thousand	12,570	4,930	668	1,488	801	1,103	14	30	16	22
Leather shoes	Thousand pairs	2,640	1,290	109	143	241	132	8	11	19	10
Plate glass	Tonnes	13,200	12,600	6,299	1,291	7,335	8,016	50	10	58	64
Tobacco products	Tonnes	3,040	2,770	1,392	1,522	1,183	1,410	50	55	43	51
Matches	Thousand boxes	60,000	45,000	27,612	3,178	10,376	6,357	61	7	23	14
Plywood	m^3	24,200	15,400	2,450	3,019	1,195	743	16	20	8	5
Plastic foam mattresses	Number	220,000	168,000	43,342	12,317	15,050	40,123	26	7	9	24
Plastic bags	Tonnes	9,200	5,490	1,280	653	1,805	2,296	23	12	33	42
Polyethylene tubes	Tonnes	3,000	1,600	368	56	516	545	23	4	32	34
Schoolbooks	Thousand	4,200	3,000	506	556	200	770	17	19	7	26
Paints	Tonnes	16,100	8,160	739	1,253	1,591	2,019	9	15	19	25
Pesticides	Tonnes	1,040	500	58	89	52	396	12	18	10	79
Laundry soap	Tonnes	40,870	21,500	8,740	7,799	11,253	8,384	41	36	52	39

Source: Ministry of Industry database.

* Production capacity taking account of the state of machinery, the availability of technicians, etc.

** $\frac{\text{Production}}{\text{Available capacity}}$ (percentage)

Table 2.6. ANGOLA - Production capacity, production and capacity utilization in selected heavy industries, 1986-1989

Product	Unit	Installed capacity	Available capacity*	Production				Capacity utilization**			
				1986	1987	1988	1989 (est)	1986	1987	1988	1989 (est)
Cast iron	Tonnes	320	280	28	33	27	18	10	12	10	6
Non-ferrous metals	Tonnes	750	710	268	281	253	322	38	40	36	45
Shipbuilding & repair	m/h	2,500,000	1,980,000	595,278	561,879	950,812	956,272	30	28	48	48
Iron bars	Tonnes	47,100	28,620	4,184	2,575	3,655	1,036	15	9	13	4
Ungalvanized tubes	Tonnes	20,000	20,000	3,112	1,302	2,480	4,677	16	7	12	23
Galvanized sheets	Tonnes	15,000	12,000	3,758	2,964	5,482	2,325	31	25	46	19
Electric cables	Tonnes	1,400	1,162	208	107	97	79	18	9	8	7
Car tyres	Number	184,000	123,000	31,714	12,480	4,520	56,626	26	10	4	46
Disk ploughs	Number	85	80	11	0	45	68	14	-	56	85
Ploughs, animal traction	Number	8,300	6,000	170	42	48	31	3	1	1	1
Matchets	Thousand	3,000	2,500	135	241	0	806	5	10	-	32
Radios	Number	203,000	165,500	34,921	31,916	9,554	10,6354	21	19	6	64
Dry batteries	Thousand	5,000	2,000	657	195	294	165	33	10	15	8
Televisions b/w	Number	40,500	29,000	8,370	5,206	6,095	14,651	29	18	21	51
Acetylene	m^3	370,000	290,000	154,005	146,708	170,357	158,457	53	51	59	55
Oxygen	m^3	3,300,000	3,000,000	576,079	654,181	598,695	510,824	19	22	20	17
Trailers	Number	500	500	58	85	463	151	12	17	93	30
Lorries	Number	310	310	0	0	84	230	-	-	27	74
Buses	Number	350	336	68	0	51	24	20	-	15	7

Source: Ministry of Industry database.

* Production capacity taking account of the state of machinery, the availability of technicians, etc.

** $\frac{\text{Production}}{\text{Available capacity}}$ (percentage)

Capacity utilization rates have also declined in the light and heavy industries since 1980. In the light industries, strong capacity utilization fluctuations can be observed between years. Glass and pesticides production, which recorded the highest utilization rates in 1989 had rates as low as 10 per cent in previous years. Reasonably stable though low utilization rates were found in the laundry soap and tobacco industries, and in parts of the wearing apparel industry. This could be related to the simple production methods used in these industries, which would make them less vulnerable.

The occasional high utilization rates found in the heavy industries are all related to products for which production capacity is quite limited. Under favourable circumstances production can be rapidly brought close to available capacity in such industries. The more sophisticated industries (televisions, lorries, buses) are all assembly operations, and often run by, or as a joint venture with, foreign companies. Most of these have fairly high utilization rates. Among the large-scale heavy industries only shipbuilding and repair (Estalnave) has a capacity utilization rate that approaches acceptable levels. The lowest rate is found in the production of ploughs for animal traction, an industry that could make an important contribution to agricultural recovery if it attained satisfactory production levels.

Table 2.7 gives a breakdown of reasons for low capacity utilization by branch in 1987. The figures are based on such information as was available for individual enterprises in each branch. Shortage of inputs stands out as the most important reason for low capacity utilization in all industries, followed by human resource problems (usually meaning absenteeism and/or a shortage of qualified personnel) and irregular energy supply. Equipment problems are only mentioned as the fourth most important reason. It is however possible that shortage of spare parts has been classified under inputs by enterprises completing the questionnaires on which the figures are based. The table also shows the wide range of days lost per branch.

It should be emphasized that reasons for low capacity utilization tend to be interrelated. A shortage of maintenance personnel, for example, can lead to both equipment and energy supply breakdowns, although the latter are more likely to be caused by factors external to the enterprise.

As the table only covers one year, and as the number of reporting firms per branch is often very low, the figures are not necessarily an indication of the magnitude of structural problems that influence production at the branch level. But in the case of coffee production, for example, the figures are a clear indication of the dramatic decline of this formerly important domestic-resource based industry. The raw material supply problem is also prominent in the textile industry, created to process domestic cotton, which had to rely predominantly on imported inputs during the 1980s. This resulted in production bottlenecks due to foreign exchange shortages.

Productivity trends can also be analyzed by trends in the value of output per worker during 1980-1987. For the manufacturing sector as a whole, intermittent growth can be discerned during 1980-1985, after which productivity dropped somewhat in 1986, and more steeply in 1987, when the impact of import restrictions increased (Table 2.8).

Table 2.7: Indicators of problems by branch*, 1987
Reasons for low capacity utilization, (percentage distribution)

	Human resources	Inputs	Energy supply	Water supply	Equipment	Others	Average down time (days lost) in 1987, per reporting enterprise
Food processing	4	66	5	6	10	9	74
Beverages	-	40	28	9	4	20	88
Tobacco	-	76	-	14	9	-	46
Textiles	29	55	6	1	5	3	182
Clothing	38	49	10	-	1	2	79
Leather and leather products	2	61	31	1	3	2	99
Wood products and furniture	18	35	27	5	11	4	51
Paper	4	83	4	-	3	5	134
Printing and publishing	38	44	10	1	6	1	60
Chemicals and rubber	20	56	3	14	4	3	119
Basic metals	2	48	6	6	23	15	76
Metal products	17	45	25	4	6	3	97
Non-electrical machinery	12	25	3	2	20	37	273
Electrical goods	3	68	17	2	7	4	73
Transport equipment	27	31	20	14	1	6	131
Building materials**	18	41	17	5	8	11	210
Other	-	63	15	7	15	-	88

Source: Ministry of Industry database.

* Separately listed:

Coffee processing	7	57	24	1	9	2	298
Sugar processing	8	-	-	19	19	54	63
Glass and ceramics	-	-	25	-	38	38	3
Fish processing	-	21	10	-	-	69	...

** Excluding building materials industries under the Ministry of Construction.

In the food industries an initial drop in 1981, is followed by recovery and quick growth until 1984, after which a decline set in. In contrast to other subsectors, however, productivity remained above the 1980 level. The light consumer goods industry recovered well from a productivity low in 1982, but by 1986 a renewed decline had set in, and in 1987 output per worker was only 84 per cent of the 1980 level. The heavy industries performed worst. After initial growth, output per worker decreased strongly in 1982-1984, and the recovery of performance in 1985-1986 was made undone 1987, when the index stood at 70, the lowest in all subsectors. During the past two years, it is likely that the increasing difficulties in supplying factories have resulted in further drops in productivity.

Sharp increases in productivity are often related to a reduction in the number of employees (see Annex Tables A-4 - A-6): examples can be found in the food industry in 1983 and in the heavy industries in 1985. Overall employment grew by almost 10,000 over 1980-1987, totalling 58,300 in 1987, while gross output was virtually stagnant, in value terms, and falling, in terms of volume. Firms making losses predominated over those making profits, the most conspicuous case being food processing, where total losses were seven times higher than profits in 1987, reflecting low production and unrealistic price setting. An additional factor could be that many factories do not sell their products but use part of the output as "incentive goods" for their employees, as wages are far too low to purchase sufficient basic consumer goods: the great majority of employees is dependent for supplies of these on the parallel market, where prices are a multiple of those officially set by the Government.

Table 2.8: Index of labour productivity, 1980-1987[a/]
(1980 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987[b/]
Total manufacturing	100	102	93	118	113	122	114	158
Food industries	100	86	92	141	126	128	119	108
Light consumer industries	100	107	92	119	126	126	117	84
Heavy industries	100	111	91	79	66	93	98	70

Source: Ministry of Industry. Calculated from Annex Tables A-8, A-9, A-10 and A-11.

a/ Based on gross output per employee.

b/ Estimate.

The provision of material incentives and services in addition to money wages have proved essential in many cases to keep factories functioning at all. In some factories, management provides transport for employees, breakfast and lunch, some health care, some professional training as well as literacy classes. To ensure these benefits, enterprises often engage in barter arrangements, grow their own vegetables, keep cows, goats, ducks, etc. While this has helped to keep down absenteeism, overemployment also occurs on a fairly large scale, as the usually inverse relationship between changes in employment and output figures show. There is, in short, a clear non-economic component in industrial employment which is probably unavoidable under the present circumstances.

2.3 Exports and imports of manufactures

The most striking feature of Angola's external economy since Independence has been the dramatic increase in oil export earnings. Even the weakening of the world oil market has only temporarily interrupted the upward surge in oil export earnings as the large increases in the volume of oil exports outweighed the fall in prices. The decline in Angola's traditional non-oil exports, notably coffee and diamonds, which occurred at the same time turned Angola into a virtual single commodity economy. Oil and oil-related products accounted for some 90 per cent of total export earnings in 1988. Coffee, contributing 26.6 per cent of exports in 1978, accounted for less than 2 per cent in 1988. The share of diamonds in total exports fell from 10.4 per cent in 1973 to 1.4 per cent in 1986, but recovered in later years, reaching approximately 7 per cent in 1988.

The only processed goods that are exported in any significant quantities now are refined oil products. Output of the refineries rose sufficiently in recent years to meet Angola's domestic requirements and to result in an exportable surplus. Exports totalled Kz 2.3 billion in 1987 and Kz 1.4 billion in 1988. The decrease in export earnings from refined oil was easily compensated by crude oil exports in the latter year. Table 2.9 presents data pertaining to export values of refined petroleum products in the first half of the 1980s (a breakdown for recent years is not available). Fuel oil exports are dominant. With the exception of petrol, the share of other oil products in exports was only marginal in 1984.

Table 2.9: Exports of refined petroleum products, 1980 and 1984
(Kz million)

Product	1980	1984
Petrol	11.7	31.8
Kerosene	9.9	0.1 a/
Gasoil	193.2	10.0
Fuel oil	2,596.3	2,683.5
Other refined petroleum products	127.3	...

Source: SONANGOL.

a/ 1982.

The level and composition of imports is determined by the priorities set by the Government. Over 90 per cent of the country's imports now consist of manufactured goods. In the early 1980s, transport equipment, agriculture products and processed food were the major imports (see Annex Table A-1). Although transport equipment is still a major category, the other two are now relatively small. Instead, machinery, basic metals and chemicals have become prominent, accounting for more than one-half of imports in 1987. Imports are constrained by foreign exchange scarcity. The shortage of many goods that serve as a basis for industrial production (transport equipment, machinery and intermediates) has caused bottlenecks in industrial production. The situation is exacerbated by the erratic allocation system for imports used by Government agencies and long delays in customs clearance.

Although Angola has extensive economic and aid ties with the CMEA countries, the country's external trade is geared strongly towards the developed market economy countries. The USA is Angola's largest trading partner, importing most of its oil, followed by Portugal, France and the USSR. The USSR probably was the largest supplier if arms are included in imports, accounting for 50 per cent of total imports in recent years.

During the early 1970s, Angola traded substantial with Zimbabwe, Zambia and Mozambique in a number of different products. Angola has traditionally imported metal products from Zimbabwe for the metal-working industries. But the security situation in the area of the Benguela railway has made it impossible to continue normal traffic, and foreign trade now has to be undertaken by means of sea or airfreight. Consequently, Angolan foreign trade with its neighbours in the Southern African Development Co-ordination Conference (SADCC) area has suffered a major set-back. During 1982-1984 Angola's share in intra-SADCC exports was 0.8 per cent, while its share in imports was 4.3 per cent. Angola has some trade with countries to the north (such as Congo, Zaire, Cameroon and Nigeria) which is not subject to the transport complexities of SADCC trade.

2.4 Production priorities in the sphere of import substitution

The Government has established, as a general principle, that wherever possible local production shall prevail over imports. Attempts have been made to translate this general policy of import substitution into a viable set of operating criteria and into actual measures. A major study on the import substitution potential within manufacturing was initiated in 1986. A preliminary report on the survey, listing 50 firms and 120 products which were found fit for import substitution, was published in 1987.

All firms under the Ministry of Industry were given a list of the quantity and type of manufactured goods needed by the Government for the priority programme of increasing marketed crops of peasants (Commercializçao do Campo) during the period 1987-1990. The survey covered goods needed to increase agricultural production in terms of inputs, equipment and incentive goods for farmers. The firms were asked to indicate to which extent they could produce the commodities in question cheaper than if the final product were imported, taking into account the available capacity, socio-economic factors within the factories, possible additional foreign exchange costs needed to rehabilitation and maintenance, and possible additional costs involving purchases of supplementary machinery.

The Ministry has also carried out a study focusing on supplying basic needs goods to the population of Luanda, with 1.5 million inhabitants the largest concentration of population in Angola. However, this study did not include a proper assessment of the foreign exchange cost of rehabilitation. These surveys and studies pertaining to the recuperation of production, maintenance and import substitution deserve to be continued.

Apart from basic urban consumer goods agricultural equipment and incentive goods, the import substitution policy could also look into the potential for locally produced goods that bring increased revenue to the Government in the form of export earnings. The contruction materials industry could be included here. Its products are urgently needed for reconstruction of the country's physical infrastructure and to provide additional housing. With an improved security situation, the industry would have an excellent domestic raw materials base at its disposal.

Much of the industrial capacity to produce these goods was already in place in the early 1970s. Rehabilitation rather than new investment would therefore be the main way of expanding the production of goods substituting for imports. Rehabilitation issues will be discussed more extensively in Chapter 3.

A shortcoming of both the studies mentioned above is that the process of estimating imported input requirements seems to have been done independently of the process of looking into the possibilities of reducing the import content of existing industrial activities. It is by no means certain that the input-mix adopted by the manufacturers today is minimizing foreign exchange costs. It is therefore important to encourage efforts in this direction. These could be accompanied by a consistent system of incentives in support of innovations that save foreign exchange.

Within the group of enterprises which manufacture the identified priority goods, some are more efficient than others in their utilization of foreign exchange. Here the question is whether efficient users of foreign exchange should be preferred and be allocated the bulk of foreign exchange while the inefficient factories might have to be closed. The result would be higher output levels for the same amount of foreign exchange, but it would also imply loss of jobs in enterprises. This problem could be solved through contingency plans for the laid-off workers. A compromise will have to be made between economic efficiency in terms of foreign exchange and the social objective of preserving jobs.

2.5 Size and geographical distribution

Recent data on the size of registered manufacturing enterprises are incomplete. A size classification based on invested capital, employment and output is being prepared by the Ministry of Industry. The available data suggest that more than half of total manufacturing employment is concentrated in some two dozen enterprises. At the other end of the scale, a number of unregistered cottage industries is known to exist. The number may not be as large as in many other developing countries on account of insecurity and supply problems.

The spatial distribution of manufacturing is shown in Table A-10. The figures are not up-to-date, but as there has been little investment in the meantime, the table would still give a good impression. Over one-half of all firms is concentrated in Luanda. Benguela is the second most important centre. Together, these two towns, with their surrounding areas, accounted for almost 75 per cent of all firms. They are also the only locations where a full range of manufacturing activities is found. No firms were registered in the provinces of Zaire, Luanda Sul, Kwanza Sul, Kunene and Kuanda Kubango. This does not necessarily mean that no industrialization has taken place: existing establishments may have been destroyed or permanently closed down as a consequence of the civil war. The war has strengthened the concentration of industry in the coastal towns of Luanda and Benguela which are safe, where infrastructure is still more or less intact and where imports of essential inputs pose no logistical problems. For the same reason, rehabilitation efforts may in the short-to-medium term increase the concentration of operational industrial units in a few urban centres.

The stabilization of the situation in Southwest Angola has paved the way for a major economic reconstruction effort in the provinces of Huila, Cunene and Namibe. The programme, for which extensive foreign support (both manpower and finance) would be needed, would concentrate on the agricultural sector. However, rehabilitation of a number of local resource-based industries is also foreseen, as well as some new investment.

2.6 Ownership and investment patterns

The creation of a large Government sector, beyond the core of Government companies inherited from the Portuguese Government, was initially a response to the settlers' abandoning of farms, factories and other businesses. Government intervention was seen as unavoidable to prevent a standstill in manufacturing enterprises. The process began a month before independence, when the Government issued a decree allowing Government intervention in the management of private companies where production was paralyzed or greatly reduced, where directors and management were absent and/or where there was significant decline in investment. In most cases an administrative committee, comprising Government and workers' representatives, was set up to run the company.

It was not until March 1976, when the Law on Government Intervention was enacted, that provision was made for the formal nationalization of private companies. This could take two forms: first, non-punitive nationalization, entitling the previous owners to compensation, for major enterprises turned over voluntarily to the Government and second, confiscation, a punitive form of nationalization with no right to compensation, applicable to businesses that were abandonded or engaged in activities damaging to the nation's economy. By 1983, 57 per cent of all firms in manufacturing were Government-owned.

Recent data from the Ministry of Industry show a much lower share of public ownership: 43 per cent in 1987 (Table 2.10). Of the major branches in terms of turnover, only transport equipment and food processing are dominated by public enterprises. The chemicals and rubber and the wearing apparel industries are prodominantly in the hands of private owners. In the latter industry, co-operative ownership is also quite common. Mixed ownership is still unusual, but has become more common in recent years. The table excludes a number of building materials enterprises under the Ministry of Construction, on which little information was available, and some food processing units under the Ministries of Agriculture and Fisheries. Most of the public enterprises are classified as small-scale, which often reflects the present limitations to their operations rather than their initial investment and their employment potential at full capacity utilization.

The Government encourages and supports private sector investment which is in accordance with the general guidelines of the economic and labour policies defined by the Government and this commitment has recently become stronger. There was never an intention to abolish private sector manufacturing. Most of the nationalization measures after independence affected Portuguese interests. Non-Portuguese foreign investments were only rarely taken over, and in June 1979, the Government adopted a new Law on Foreign Investments to attract new investors to Angola. It was revised in 1987 and adopted by the National Assembly in June 1988. Summaries of the laws pertaining to foreign investment are contained in Annex B.

With the exception of the oil and diamond industries, the response to the gradual liberalization of the economy by foreign investors has been very modest so far. The improving security situation in some parts of the country has attracted some foreign building contractors who are involved in rehabilitating buildings and physical infrastructure. During the first quarter of 1990 some 50 potential foreign investors registered projects with a combined value of $150 million, but these projects have yet to be approved and executed.

Table 2.10: Ownership of registered industrial enterprises (excluding petroleum refining), 1987

	Public	Co-operatives	Mixed	Private	Government administered[a]	Total
Food processing	33		1	21	1	55
Beverages	8		1	4		13
Tobacco				3		3
Textiles	4		1	2	1	8
Clothing	4	11		16		31
Leather and leather products	7			19		12
Wood products & furniture	7			19		26
Paper and printing	12			5	1	18
Chemicals and rubber	11		2	23		36
Basic metals	2			5		
Metal products	15		1	11	1	28
Transport equipment	4					5
Non-electrical machinery					1	1
Electrical goods	2			3	2	7
Building materials[b]	2					2
Other	2		1	5		8
Total	113	11	7	123	7	260

a/ Enterprises administered by the Government whose legal status is yet to be clarified.

b/ Many enterprises in this branch come under the Ministry of Construction. Full data coverage for these was not available at the time of writing.

Source: Ministry of Industry database.

Note: The fact that an enterprise is registered in the database does not necessarily mean that it is operational in a given year.

3. PROBLEMS AND PROSPECTS OF SELECTED INDUSTRIAL ENTERPRISES

To highlight the problems that Angolan manufacturing is confronted with at present, and to indicate the prospects for future recovery, this chapter summarizes a number of rehabilitation studies.[1/] Altogether, the studies covered some 50 enterprises. The factories selected for this chapter serve as examples for the problems encountered in some of the key industries in Angola: food products, building materials, plastic products and steel.

While all factories suffer from individual problems, it will be seen that a categorization of these problems shows great similarities: shortage of spare parts and inputs, related to a shortage of foreign exchange needed to import these; shortage of qualified production and maintenance personnel; official sales prices for finished goods which are too low for profitable operations. With regard to the foreign exchange issue it should be pointed out that its allocation is fully controlled by the Government, and the allocation system is insufficiently attuned to the actual needs of enterprises. The foreign exchange problem may be illustrated by the fact that, in 1986, only one-sixth of the amount needed for building materials factories in Luanda was made available.

It should be stressed that the problems encountered by factories are usually interrelated. Low sales prices, for example, make it difficult for a firm to accumulate sufficient funds to buy inputs or to renew machinery. The absence of sufficient maintenance personnel leads to more frequent breakdowns, increasing the need for spare parts. Factory problems are again related to those elsewhere in manufacturing, and in other sectors. Insufficient attention is paid to exploring inter-industry linkages, which would reduce the need for imports (and hence for foreign exchange), even with the present deficient production structure. The low productivity in the agricultural sector has been the major cause of supply bottlenecks in manufacturing.

All the factories described below are located in or near Luanda, which is by far the most important loation for manufacturing activities, and the hub of formal sector activities in general. Physical infrastructure is relatively good, so that in most cases water, energy and transport problems are not critical. In secondary manufacturing centres, these problems possibly have a much greater impact on production, and therefore rehabilitation programmes for such locations may have to take better account of issues related to physical infrastructure.

3.1 FABRICA DE ALIMENTOS, (FAL), - Fish and Meat Products

Fabrica de Alimentos (FAL) started business in 1974, operating as a joint venture between an Angolan business enterprise and an Austrian company.

1/ The case studies in this chapter are largely based on UNIDO, The Regeneration of Angolan Manufacturing Industry with Emphasis on Agro-based Industries, PPD/R. 21 (Restricted), 1988, Vienna and Ministerio da Construçao/Dar Al-Handasah Consultants, Rehabilitation of Building Construction Materials Industries in Luanda (2 Vols), Luanda/Beirut/London/Cairo, 1988.

FAL was originally established with the objective of producing a variety of meat products using locally reared cattle, pigs and chicken. Up to 1976 all of the beef, pork and chicken required were obtained from the Luanda area. Following Independence, local supplies of cattle, pigs and poultry rapidly diminished due to a general collapse in livestock and agricultural production. With no opportunity to buy any meat supplies from the domestic market, FAL then had no choice but to import its beef, pork and chicken requirements. Foreign exchange for these imports was very difficult to obtain and as the situation in regard to input supplies continued to deteriorate, a decision was taken in 1979 to change from meat to fish products.

In 1988, the company was operating at approximately 25 per cent of capacity, utilising a mix of different types of fish (mainly cutlass fish and carp). Local supplies of all types of fish are becoming more irregular, and the average size of the fish smaller, as foreign ships continue to absorb all of the prime large fish for their own processing purposes. The FAL factory is still operating profitably.

The future of this company depends mainly on its ability to obtain adequate supplies and therefore its current plans include an application to import meat again. The possibility of securing such imports, however, remains uncertain due to the limited amount of foreign exchange allocated to the company, which is therefore renewing its attempts to diversify its fish product range. To date this FAL initiative has been thwarted by the unavailability of foreign exchange to import the required equipment. The firm has endeavoured to reinvest its profits, whenever it has been allowed to do so by the provision of foreign exchange. However, in the past few years, such opportunities have become much more limited.

FAL has an installed capacity of 456 tonnes of finished products per annum operating on a single shift of eight hours. The plant has over the past few years been producing an average of 180 tonnes of finished products per annum, representing about 39 per cent of installed capacity. However, during 1987, FAL did produce about 46 tonnes of fish sausages and 208 tonnes of smoked fish. The total sales from this production were valued at Kz 9 million for fish sausages and Kz 20 million for smoked fish. This represented about 30 per cent and 70 per cent of total sales of the finished products respectively. The 1987 output represented about 56 per cent of the installed capacity.

The present low capacity utilisation is a reflection of the lack of raw materials, spare parts, qualified workers, and of unreliable energy and water supplies. The major constraint is the lack of raw materials - beef, pork and fish. Its current production is concentrated on the production of fish sausages and smoked fish. Table 3.1 shows the total quarterly value of production between Jan - March 1987 and July - August 1988.

Since the official prices of the finished products have altered little over the past few years, the changes in total value are a fair reflection of the production performance of FAL. This is ultimately dependent on the supplies of fish to FAL which are limited and erratic. It is expected that eventually most prices will be liberalized, and that prices and supply will then be largely determined by market forces. Thus, in a longer term perspective, there may not be a physical input constraint for FAL. However, the other constraints may then become more important.

Table 3.1: Total value of production of FAL's finished items Jan-March 1987, July-Sept 1988

Quarter	Total value (Kz '000)
Jan. - March 1987	4,768
April - June 1987	7,568
July - Sept. 1987	11,716
Oct. - Dec. 1987	5,909
Jan. - March 1988	7,917
April - June 1988	4,135
July - August 1988	2,653

Source: FAL.

Despite the various problems FAL has enjoyed comfortable profits for many years. During 1987, net profits were Kz 7.8 million, equivalent to 14 per cent of turnover. This was expected to increase to 18.5 per cent of turnover during 1988. This good performance can best be explained by the efficient management of the company. FAL pays corporation taxes of over Kz 4 million each year. The rate of corporation tax varies depending on the profit levels, starting at 35 per cent for the first Kz 150,000 of profits. Under a regime of price controls, this type of tax penalizes efficient companies. Although much of the equipment at FAL was supplied when the factory was established in 1974, all of the existing equipment was in very good condition in 1988 due to a strict maintenance schedule for all machinery, and the technical ability of the general manager to personally carry out all of the maintenance himself.

The most urgently required measures to increase production at FAL would be:

- a strengthening of the management;
- training of workers;
- a larger electricity generator (250 kva capacity)

The lack of skilled labour could in part be resolved by the introduction of automated machinery. Greater attention should however be given by enterprises such as FAL to training programmes within the enterprise sector or in partnership with the Government.

The future market demand for FAL fish products may be less buoyant and profitable than for other products the enterprise can produce. In this sense, there may be a demand constraint for FAL fish products. If and when other supplies, such as beef and pork meat, will again become available, a much larger consumer group can probably be supplied.

3.2 Ermoagens do Norte, Kicolo plant, - Wheat and Maize Flour

Kicolo, established in 1952, is one of a number of public enterprises which, following abandonment by their original owners the enterprises in question became the property of the Government. In 1978 Ermoagens took over the responsibility for running the Kicolo plant, which was one of the leading milling operations in the country.

The main production milling facilities were designed for both soft and hard wheats, and consist of a 50 tonne/24hr production line and a 150 tonne/24hr line. The 50 tonne production line has been paralyzed for a number of years due to the lack of spare parts, and has been progressively cannibalised, in order to maintain the 150 tonne line in operation. UNIDO will assist Kicolo in improving the rehabilitation of the 50 tonne line. At the time of writing, the mill was at a complete standstill because of an explosion caused by a short circuit.

At the time of the plant's abandonment, construction of a combined maize and animal feed mill was partially complete. The maize mill was designed to handle 100 tonnes/24hr while the animal feed mill was designed to produce 30 tonnes/24hr. Due to financial constraints only 70 per cent of the civil works have been completed, and 70 per cent of the total equipment requirements have already been delivered to site. Of this equipment 30 per cent requires some renovation work or replacement, which will need to be financed in foreign exchange.

The 150 tonne (wheat flour) line, cannot meet the demand for in the Luanda region, even if operated on a continuous basis, because of constraints arising from a lack of raw materials caused by foreign exchange limitations (all the wheat for the Kicolo mill is imported) as well as from a lack of bags, frequent power cuts, and mechanical breakdowns.

During 1987 the company produced 24,300 tonnes of wheat flour and 2,880 tonnes of maize flour. This represented a capacity utilisation rate of 40.5 per cent and 23 per cent for wheat and maize flour respectively. Table 3.2 shows the total production of the company's products between 1985 and 1987. The company produces about 27 per cent of the country's total requirements of wheat flour, and about 8 per cent of total requirements of maize flour. Angola has to import large quantities of cereal flour to cover demand in especially the urben markets.

Table 3.2: Kicolo mill - Total production, 1985-1987
(tonnes)

Year	1985	1986	1987
Maize flour	3,300	3,860	2,880
Grits	875	790	615
Maize by-products	1,600	1,895	1,020
Wheat flour	30,400	12,278	24,300
Wheat bran	11,000	11,295	7,400
Total	47,175	30,118	36,215

Source: Ermoagens.

Ermoagens has no sales organisation, but sells its products at the factory gate. Wheat flour is distributed through EPAN (Empresa de Panificao Nacional). Maize flour is mainly distributed through ENSUL (Empresa do Supermercados de Luanda). Certain by-products are sold as raw material to animal feed factories.

The following is needed to overcome the constraints to the effective operation of the mill:

- physical rehabilitation of the plant;
- strengthening of the maintenance capacity of the workforce;
- regular power supplies;
- adequate wheat supplies; and
- increased supply of bags or introduction of bulk-handling of flour, reducing the need for bags.

Future plans for the national wheat milling industry should consider the cost-price relationship with other essential staple foods such as maize and cassava. Another consideration would be the linkage of the future consumption pattern of staple foods to traditional food habits and to the policies for development of the agricultural sector.

3.3 Industria Angolana de Oleos Vegetais (INDUVE), - Vegetable Oil

INDUVE was founded in August 1957 as a private enterprise with capital from three private Portuguese companies. Following the political changes in Portugal in 1974 one company was nationalised but the respective shareholdings remained the same with no Angolan shareholders. Edible oil is the most profitable of INDUVE's products. In addition, the Government has approved the

Table 3.3: INDUVE - Production volume (1987) and sales value of products (1985-1987)

Product	Production (quantity) 1987	Sales value (Kz '000) 1985	1986	1987
Edible oil	2,582,000 litres	219.700	230.720	125,793
Soap	2,194 tonnes	176.000	144.140	63,441
Sunflower cake	2,136 tonnes		5.600	3,500
Palm kernel cake	99 tonnes	23.400	0.300	81
Total value of sales:	-	419.100	380.760	192,815

Source: INDUVE.

company's plans to extend its existing product range at INDUVE involving the establishment of a new factory for the production of margarine. The production target is 7,000 tonnes/year. This investment is estimated at $7 million at 1985 prices. Land for this planned investment is available on INDUVE's existing premises.

The factory was established on the basis of utilising only locally produced raw materials, but the company is now completely dependent on imported raw materials, as domestic palm oil seeds and sunflower seeds are now either inaccessible or no longer in production. The company therefore has to obtain sufficient foreign exchange to continue operating, and whenever this is not vailable, the company comes to a standstill. Other restraints include a shortage of water, an irregular electricity supply, shortages of spare parts and qualified personnel and an unrealistic official price structure for its products. This means that the company is operating constantly at a loss, with the possibility of the plant closing if the Angolan authorities decline to offer further credit to cover the losses. In 1987, the company's turnover was Kz 235 million, and its losses were Kz 114 million.

INDUVE's main products are edible oils and soap (see Table 3.3). The principal by-products of vegetable oil production are sunflower and palm kernel cake. The year 1987 was an exceptionally difficult year for the factory with a shut down of several months. The sales figures reflect the decline in production. All products are sold at the factory gate, and no stocks are kept. As INDUVE is the only fully operational edible oil plant in the country, the short in production has been increasingly met by imports.

The Angolan market for edible oils is estimated at 30,000 tonnes/year of which INDUVE, accounts for about 16 per cent. The market for INDUVE's products is a seller market and for the moment there are no problems in selling the firm products. There is, therefore, little immediate need for investment in sales promotion in a conventional sense, although with the introduction of SEF, greater attention should be given to the distribution of products in the rural areas.

Most of INDUVE's products are on the list of essential products, which means that in order to export it requires an export licence. In 1986 2,000 tonnes of sun flower cake was exported to Portugal as payment for technical support. No significant export of INDUVE's other products is contemplated in a short-to medium-term perspective.

The main raw material used in refined oil production is sunflower seeds, the supply conditions for which are generally unstable. At present, sunflower seeds are almost entirely imported. This is due to the fact that there is currently very limited production of sunflower in Angola on account of the security situation and lack of incentives for farmers to increase agricultural production.

Raw materials constitute INDUVE's main problem. The major input the Government trading firm are sunflower seeds, which are imported from Argentina by IMPORTANG. Sunflower seeds were sold to INDUVE at Kz 16.50 per kg in 1988, the world price being is Kz 8.50 per kg. Thus, despite Induve being in a chronic loss situation, it would appear to be subsidizing the importation of sunflower seeds. However, since INDUVE sustains its financial position by increasing its debt to the National Bank of Angola (BNA) and Angola's monopolistic raw material suppliers, it is the Government which ultimately subsidizes the operations of its own monopoly trading companies.

The other major inputs used by INDUVE are polyvinyl chloride thermoplastic (PVC), polythelene granules, silicates, bleaching earths, tallow, caustic soda, palm kernels, carboard boxes, hexane and drums. The latter four are supplied by domestic producers.

In the case of spare parts, INDUVE's import dependence is very high. INDUVE can make some simple spare parts in its workshop, but this is a relatively expensive operation. In 1988, the budgeted cost of imported spare parts was estimated to be of the order of Kz 23.6 million.

INDUVE's performance could be improved by:

- improving the supply of raw materials;
- a more realistic Government price policy;
- regular water supplies;
- regular supply of electricity; and
- foreign exchange to purchase spares and machinery, and to contract technical assistance from abroad.

3.4 Fabrica de Artigos de Fibras Sintéticas (FIBREX), - Plastic Products

Fabrica de Artigos de Fibras Sintéticas, (FIBREX), was established in 1966 as a private limited company by a group of Portuguese. In addition to synthetic raffia bags and extruded plastic pipes, production of other items, such as window frames and shutters, was also initiated during the early years.

The installed capacity of the plant is about 2,000 tonnes per annum of finished products. The capacity utilization is about 70 per cent. The analysis below concentrates on bag production, the most important activity.

Table 3.4: Total output and sales of the FIBREX plant during 1986

Product	Quantity (tonnes)	Sales value (Kz million)	Sales value as percentage of total value
Raffia bags	350	50.0	28.3
Hard plastic tubes	200	20.0	11.3
Irrigation pipes	300	27.0	15.3
Tubes for water and drainage systems	300	36.8	20.8
Construction profiles	150	30.0	17.0
Hoses and various plastic tubes	100	13.0	7.4
Total	1,400	176.8	100

Source: FIBREX.

Table 3.4 gives the various outputs of the plant and their total values during 1986. The raffia bags which the company produces mainly for cereals, salt and flour are bought by the Government, companies and agriculural producers. FIBREX is one of the two producers of raffia bags; together they satisfy only about 50 per cent of the national demand which is estimated about six million bags. Despite the economic problems which Angola has encountered in recent years, there has always been a good demand for the products of the factory, and it can easily sell its entire output even when operating at capacity.

The low capacity utilization in the production of raffia bags at FIBREX is partly due to the age of the machinery and equipment, the lack of spare parts, problems in the supply of raw materials, lack of skilled labour, erratic energy supplies and self-acquisition by the workers, especially of raffia bags.

The machinery and equipment in the manufacture of raffia bags is over 20 years old. It therefore needs frequent maintenance, but this is restricted by the quality of skilled personnel. The company lacks qualified workers.

Adequate spare parts are hard to acquire because of foreign exchange shortages. The lack of spares is especially important in the raffia bag line. The lack of raw materials relates to both the inadequate availability of the raw material on the world market and the lack of sufficient foreign exchange. During 1987 the plant was shut for seven months because of the lack of the major raw materials. In 1988 the factory was allocated approximately 60 per cent of its actual foreign exchange requirements. Lack of spare parts has resulted in two of the three extrusion lines becoming inoperative and also of 29 of the 100 bag looms also being withdrawn from use.

Many raffia bags are appropriated by the workers because they are in high demand in the parallel market, where a much better price is offered than the officially fixed price for bags, and the returns compare favourably with fixed nominal wages. This affects the sales and therefore the profitability of the company. FIBREX would consequently rather concentrate on the production of plastic pipes.

FIBREX is a profitable company as a whole, although the production of raffia bags is unprofitable. Net profits were Kz million 38.0 in 1985 and Kz million 31.7 in 1988. In 1987, a loss of Kz million 27.1 was registered because the plant was closed down due to the lack of raw materials. The company financed the loss by drawing on its bank balances.

The rehabilitation of the bag line at FIBREX would nearly double the firm's production in this area providing that the problems of obtaining raw material were overcome. This rehabilitation would also help to solve part of the present overemployment problem at the factory.

Apart from the above-mentioned, constraints include:

- A high labour turnover, which may be attributable in some measure to a lack of partial payment-in-kind, e.g. bags and plastic items. The factory does, however, provide food for all its employees.

- The location of the factory. In the absence of public transport, the factory has to provide a transport service. Nightshift employment is difficult, and this reduces potential output levels.

- Government restrictions on the employment of expatriates for maintenance and training.

- Delays in shipments caused by the low quality and reliability of the Government trading and transport services.

- Irregular electricity supply.

Rehabilitation would involve:

- solving the maintenance problems;
- upgrading the overall factory facilities;
- arranging for duty-free imports of polyethylene granules with the relevant authorities;
- liberalization of the prices for the end products.

In case of spare parts, efforts should be made to identify domestic manufacturing capability. There would then be a need for a differential import tariff: a higher rate on those spares that can be manufactured locally and a lower or zero rate on those spare parts that cannot be fabricated locally.

There would appear to be no immediate need for major marketing efforts since there is a sellers' market. However, greater attention may have to be given to marketing and distribution of other products of the company, notably in the south-western provinces, where economic recovery is expected. In a medium term perspective, with the implementation of SEF measures, the PVC production at FIBREX could very well prove to be interesting for exports to the SADCC region and other neighbouring countries. If an export retention scheme could also be arranged, this could then provide the firm with some direct access to foreign exchange.

3.5 UNICERAMICA, - Brick Factory

This factory was established about 20 years ago at N'gola Kiluange near Luanda, by the Portuguese, but subsequently Spanish equipment was installed in the factory in the period 1976-79. The responsible authority for the factory is the Ministry of Construction.

The product range consists of three sizes of hollow blocks, 300 x 200 x 90, 300 x 200 x 150 and 300 x 200 x 200 mm. A small quantity of roof tiles was also made in the past. This activity has virtually ceased. The 1986 output was 991,501 blocks against a total capacity of 3.24 million, a utilization rate of only 27 per cent. The estimated production in 1987 was 535,000 blocks, which gives a utilization rate of 16.5 per cent. The strong growth of the urban population has created a great need for building blocks, and the factory should have few problems selling its output when operating at full capacity. UNICERAMICA relies on local clay deposits. There are therefore few problems (apart from relatively minor quality problems) on the raw material side. Production is kept low because much of the equipment is in poor condition. The production of tiles has virtually ceased because the tile press is in disrepair. The tunnel driers for blocks have apparently never been operational, and the factory relies completely on air drying. As a consequence of this alone the factory could never attain rated output. Much of the electrical equipment and cabling is in a bad state.

Deficient production methods, which are in part caused by the poor state of the equipment, in part by lack of sufficient experienced personnel, contribute to the low quality of end products. The shortage of building materials however makes it possible to sell the output without any attempt to improve product quality.

The main reasons for poor performance can be summarized as:

- lack of spare parts for the capital equipment during a long period of time;

- lack of experienced and qualified personnel for production, maintenance and quality control purposes.

Power cuts and irregular oil deliveries for the kilns are relatively minor problems.

UNICERAMICA's problems could be solved to a large extent if funds were made available to purchase spare parts and some new equipment. Simultaneously, a maintenance programme should be started. Finally, training should be provided to personnel in the proper production, maintenance and quality control procedures. If these measures are carried out, it should be possible to achieve an output rate that is close to capacity within a year.

3.6 Siderurgia Nacional - Structural Steel

This plant was established in 1963 and is Government owned. The Ministry of Industry is the responsible Ministry.

The plant manufactures a range of steel re-inforcing bars from 6 to 32 mm diameter, with scrap as a raw material. There is a strong demand for the product, which is partly covered by imports. The products are used in re-inforced concrete products such as lamp posts, roof beams, power cable structures etc. Installed capacity of the steel mill is 30,000 tonnes (on the basis of a three-hour shift), and of the rolling mill 55,000 tonnes. The various parts of the mill are, in other words, not well-balanced, and the lay-out is poor, the scrap yard being adjacent to the rolling mill rather than to the steel mill.

In 1974, prior to Independence, an output of 28,000 tonnes was achieved. The 1986 and 1989 figures were 6,600 tonnes and 1,286 tonnes, giving a capacity utilization rate of 22 and 4 per cent, respectively.

Siderurgia Nacional has a modern training school, where facilities are equivalent to the best that Europe could offer. The lecturers are expatriates but a number of ex-students are being trained to become lecturers.

Table 3.5 shows the main causes of downtime in 1986, which was 62.5 per cent of production time in the steel plant and 68.1 per cent in the rolling mill. In the steel mill, the major problems were defective equipment and lack of maintenance, which are related. Part of the electrical equipment was totally worn out and must be replaced, and there was a general shortage of spare parts. In the case of the rolling mill, the problems were more often related to the inadequate organization of production. Labour-related problems included overmanning (which is common in Angola factories), lack of well-trained qualified personnel and absenteeism and lack of motivation. The latter has worsened during 1989, when no salaries were paid for 9 months. External problems include transport bottlenecks (the plant is situated far from Luanda, and lorries are scarce) and official prices for steel which are far too low to allow remunerative production. Internal reorganization by a team of Portuguese consultants resulted in a temporary increase in production, but in the absence of follow-up, the situation deteriorated rapidly afterwards. By 1989, the supply of inputs was also becoming a problem, for lack of transport.

Table 3.5: Downtime, by cause, 1986
(in percentage)

Problems, steel plant	
Electrical (incl. power cuts)	11.2
Mechanical	10.5
Technical (steel processing)	5.8
Scrap	3.8
Personnel	2.8
Maintenance	22.4
Refractories	5.3
Wasted time	0.7
Problems, rolling mill	
Electrical (incl. power cuts)	6.9
Mechnical	12.6
Process	26.4
Semi-finish products & ingots	2.5
Personnel	11.4
Maintenance	8.3

Source: Dar Al-Handasah Consultants, Rehabilitation of Building Construction Materials Industries in Luanda (2 Vols), Luanda/Beirut/London/Cairo, 1988.

With a large market for structural steel and the potential availability of sufficient raw material, Siderurgia Nacional could play an important role in industrial recovery. Rehabilitation of the plant would however be urgently needed to avoid closure. A rehabilitation programme would have to contain the following elements:

- thorough reorganization of the production process and other organizational improvements;

- technical rehabilitation;
- training of local production and maintenance personnel;
- improved transport.

Moreover, the Government would have to review or liberalize the prices for the firm's products. An in-depth study of the Angolan steel industry and its potential would have to be carried out to lay the foundations for longer-term development in the branch.

4. POLICIES AND INSTITUTIONAL FRAMEWORK FOR INDUSTRIAL DEVELOPMENT

4.1 Industrial policy environment

The 1977 resolution on economic policy spelled out the goals of national reconstruction and the forms it should take during the post-Independence era. The resolution provided an impression of the general policy environment for industrialization. Its basic aims were:

- creating the material and technical bases for socialism;

- initiating plannned development with agriculture as its basis and industry as the leading sector for modernization;

- harmonizing sectoral economic activities; and

- orienting production towards the needs of the people.

In the absence of a longer-term strategy, detailed planning and a coherent follow-up and evaluation at the project level, the policies based on the 1977 resolution proved ineffective. These problems were to an extent addressed in the 1981-1985 Five Year Plan, which contained indicative plans for each economic sector, and a three-year Emergency Plan, introduced in 1983, which stressed the intensification of links between the sectors.

Although the Plans were a step forward, as they established clear objectives, a coherent longer-term development strategy was still absent, and operationalization of programmes was piecemeal. Moreover, lack of qualified personnel made it difficult to ensure follow-up or to evaluate the results of those programmes that had been executed. One underlying problem, the strict administrative regulation of economic activities, was not addressed, and contributed to the increasing economic stagnation.

4.2 Present priorities

The Second Party Congress in 1985 provided a new point of departure in economic policy making. While re-endorsing the validity of the socialist approach to development, the Congress accepted that, even allowing for the war and the shortage of skilled managers and technicians, the economic results achieved were less than satisfactory, and that significant alterations were required in the economic system and in economic policy. The guidelines adopted by the Congress insisted on improved planning methods and a more effective use of price signals to regulate economic activities. It was within the framework of these policy changes that the three-year Saneamento Ecońomico e Financeiro (SEF) programme was launched at the beginning of 1988.

Acknowledging inefficiencies and shortcomings in the performance of many public enterprises, the SEF proposes the introduction of improved conditions for private sector development. Smaller public undertakings would be transferred to the private sector, and Government ownership confined in the main to key enterprises serving strategic economic purposes. New legislative regulations for various types of enterprise (condicionamento empresarial) were introduced.

Such legislation contains specific rules and guarantees for private investors, and enlarges significantly the productive sectors in which these undertakings would be permitted to function. Particular encouragement will be given to the reintroduction of private retail activities within the commercial sector, especially to create a more effective economic relationship between rural communities and the urban areas. Private undertakings would also receive particular encouragement in sectors such as road transport, building, repair services and handicrafts.

The following priority objectives are listed in SEF:

- to accord absolute priority to defence needs;
- to formulate the methods for efficient management of the economy in the context of planned socialist administration;
- to increase efficiency in production;
- to diversify exports;
- to attract investment through:

  (a) agreements with socialist countries, whereby investments can be amortized with the products produced; and

  (b) technical assistance agreements with foreign companies and arrangements whereby these companies share the risk of a specific undertaking with the Angolan firms.

The 1989-1990 Programa de Recuperaçao Economica (PRE) articulates the policy lines for the implementation of the SEF, and sets investment priorities by sector and targets for physical production and the provision of services. PRE also includes measures to reduce Government spending and to address monetary issues. The SEF defence priority is replaced in PRE by an absolute priority to physical and social infrastructure.

The recent reform initiatives have had some results. Foreign investment is being made easier, and clear guidelines have been formulated recently. A special unit was set up to handle restructuring and privatization issues in the public enterprise sector, the Gabinete de Redimensionamente Empresarial (GARE). Under GARE, an information base covering over 1000 enterprises is being created. Economic decision-making has been partly decentralized. But overall implementation has been slow, as a consequence of the Government's lack of experienced personnel, institutional rigidity, lack of co-ordination between ministries, lack of detailed information and uncertainty about longer-term prospects. The programmes moreover suffer from the same lack of a coherent, broad vision of development and consistent, detailed programmes that has characterized earlier attempts at economic reform. It should also be realized that the Government effectively controls only part of the country, and that connections between the various regions are often only rudimentary. This makes it impossible to implement a nation-wide development programme.

The Government is aware of the shortcomings of earlier reform and reconstruction attempts and has requested UN assistance in the drawing up of the 1991-1995 Five Year Plan. It is expected that the Third Party Congress, to be held in late 1990, will clear the way to further economic liberalization and reforms, to be incorporated in the new Plan.

4.3 The relevance of the Economic and Financial Restructuring Programme (PRE) to industrial development1/

The following specific objectives are spelled out for the manufacturing sector:

- to strengthen the integration between economic activities, in particular between industry, agriculture and trade in order to stimulate national agricultural production and decrease the dependency on imports (industrial enterprises, for example, are encouraged to associate themselves with agricultural enterprises and peasants to explore possibilities to boost the production of agricultural raw materials and to introduce systems of commercialization in the country);

- to decentralize the management of the industrial enterprises and to make enterprises responsible for their results;

- to emphasize improved utilization of existing installations rather than investment in new projects;

- to decentralize industrial production through the establishment of small, local industries capable of processing agricultural products to meet various local needs;

- to develop the capacity of Angolan technicians and workers to make investments profitable; and

- to stimulate the transfer of know-how and technology.

The SEF does not contain very detailed proposals for the manufacturing sector, and manufacturing is only a third priority in PRE, after physical and social infrastructure. But as part of the SEF programme, a number of issues are to be addressed that are of great importance to the recovery of manufacturing. These issues are outlined in the following, with the observation that the actual implementation of measures has been slow, for the reasons indicated above.

Enhanced autonomy for and restructuring of public enterprises

A leading objective of SEF legislation relating to public enterprises is to provide greater autonomy to Government undertakings. Their activities would in future be based on their individual budget plans and annual medium-term programmes, which would be linked in an indicative sense to the macro-economic guidelines and targets contained in a new approach to national

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1/ This section is mainly based on UNIDO, The Regeneration of Angolan Manufacturing Industry with Emphasis on Agro-based Industries, PPD/R. 21, 1 December 1988, Ch.3.

planning. Although ministries will be expected to establish general regulations and to programme sectoral activities in an indicative sense, they would no longer intervene at the enterprise level in specific management decisions. Public enterprises will be subject to greater competition because of their enhanced autonomy and also through the general encouragement of private sector initiatives.

Under the SEF arrangements, public enterprises will among others be allowed greater financial autonomy. Such enterprises will be permitted to make provision for depreciation, and retain 50 per cent of their profits, although the actual use of these resources will be subject to control. Furthermore, enterprises are to be encouraged to operate along commercial lines, with more freedom to set their own prices and establish their own market outlets. Government subsidies are to be reduced and SEF introduces the possibility of liquidating non-viable public companies and privatizating others. Nevertheless, for the moment it seems that relatively close ministerial control continues in terms of both planning and operations within public enterprises.

Where necessary, the financial position of existing public enterprises will be restructured by waiving a portion of their debts or by converting their debts into Government equity holdings. In addition, a rescheduling of public enterprise debts is under active consideration. A further SEF initiative relates to a proposal for a much stricter ex-post control of the financial transactions of public enterprises. In this general context, the Government, with technical support from an international commercial bank, has launched a number of studies which focus on the general financial restructuring of the public enterprise sector.

Legislation relating to foreign investment

One of the main objectives of SEF policy and legislation is to introduce more attractive conditions for potential foreign investors. In 1988, new laws on foreign investment were adopted. For the actual implementation of foreign investment projects, new regulations on submission and approval procedure were published in late 1989.[1/]. These procedures are co-ordinated by the Foreign Investment Cabinet (FIE) in the Ministry of Planning. The various procedures for authorising foreign investment would be simplified, and there should be a significant enlargement of areas of economic activity in which foreign investment would be permitted. Only economic activities of strategic significance would be precluded to foreign investors. Previous limitations on the percentage of capital which may be held in particular enterprises by foreign investors will be lowered and foreign investors will be permitted to set up new enterprises which would be fully owned by them.

Improvements in the planning system

National plans would probably continue to be the principal mechanism for economic management. The Government would seek to improve the planning system in the training and recruitment of professionals engaged in planning activities

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1/ The most important laws pertaining to the foreign industrial investment and the decree regulating the submission and approval of investment proposals are summarized in Annex B.

at the national, sectoral and enterprise levels. The present lack of qualified personnel in these positions is one of the major obstacles to economic recovery. Annual plans will be based to a much greater extent on projections of key economic variables than on detailed quantitative targets, and more attention will be accorded to macro-economic policies needed to ensure internal and external equilibrium in aggregate terms. Prices and market forces will play a more important role in the planning process. The latter would be expected to influence the activities of leading productive sectors principally through general guidelines.

Improved co-ordination will in future be sought between the annual plans, the Government budget and the foreign exchange budget. Existing investment will be reexamined and certain major projects may be curtailed, or their implementation slowed down. In decisions regarding new investments, more careful account would be taken both of domestic financial constraints and the availability of foreign exchange.

Liberalisation and stabilisation measures

Among the first economic actions in the SEF programme will be an initial adjustment in a wide range of controlled prices, so as to give more adequate reflection to the substantial changes which have occurred in wages and input costs, and notably in the costs of imported inputs. A start has already been made in this direction with the freeing of prices of fruit and vegetables. It is envisaged that enterprises whose products are still subject to price control will enjoy greater autonomy in their price decisions. When that stage of price liberalisation is attained, the control of price levels would be determined largely through the application of macro-economic policy measures. Enterprises will also have greater autonomy in their investment decisions, if they can finance these from their own internal sources, or if they can secure domestic credits without Government support.

Financial stabilization measures announced under the SEF are:

- Exchange rate adjustments

  The SEF envisages a devaluation of the kwanza, although it offers limited guidance on the criteria to be employed in formulating new exchange rate policies. It is envisaged that the curtailment of the budget deficit and greater flexibility in price levels will to some degree assume the role of the exchange rate in reestablishing equilibrium. However, the SEF concedes that, in a second reform stage, a crawling peg system for the exchange rate might be introduced, to stimulate the resurgence of Angolan exports. The SEF reference to a significant devaluation of the kwanza constitutes a basic change in the monetary policy of the Angolan authorities, which have so far insisted on maintaining a fixed exchange rate against the US dollar.

- Reducing the Government budget deficit

  To reduce the budget deficit, the SEF proposes a series of reforms in the fiscal system and more effective control over budgetary expenditure. Company taxation will possibly be extended to public enterprises and to economic activities in the parallel market, although there would be implementation problems in the latter case. Incentives are to be offered to tax collectors to increase fiscal efficiency. Over the medium term, technical studies will be initiated relating to the reform of the Angolan fiscal system.

For the moment, the financial requirements of defence and security constitute a major constraint on the possibility of reducing budgetary expenditure. Nevertheless, a significant contribution to public expenditure control could be provided by a lowering in subsidies and other transfers to public enterprises. As indicated above, these are to become more independent financially.

Hitherto, Angola's budget deficit has been funded largely through monetary creation and also in part by external credits. This has stimulated inflation and increased the debt burden. It is intended to cover a larger proportion of the deficit by borrowing from enterprises and households. In this context, plans are being made to develop a financial market for public debt securities offering an attractive return to private savers.

- General strengthening of the financial system and reform of domestic credit policies

Under the SEF programme, bad and doubtful debts in the assets of banking institutions are to be transferred to the Government Treasury, in exchange, it would appear, for public debt securities. It is envisaged that this would subsequently be complemented by a review of BNA's intermediate margins, so as to enhance its overall profitability. In the commercial banking sector, greater flexibility and increased competition are envisaged under the SEF. Thus it is proposed that the central banking, development, finance and commercial operations of the BNA should eventually be handled by separate banking services, and that the BNA should be transformed into a commercial bank, which would be empowered to grant credits to enterprises. The establishment of other banks in Angola, some of which might be owned either in whole or in part by foreign enterprises, is also under consideration.

The SEF also proposes an improvement in arrangements for providing credit to the productive sector. Interest rates on deposits and loans are to be increased, in order to make the holding of bank deposits more attractive, and to discourage the unnecessary utilisation of credit. The BNA will begin to make available long and medium-term credits to finance investment. Unless an explicit Government guarantee is provided, the approval of credit to public or private enterprises will depend on the bank management's assessment of the risks and profitability of the operations for which credit facilities are sought. The BNA is already closely supervising loans from this point of view. At a more advanced stage of the stabilisation programme, credit policy will be geared increasingly to interest rates and market forces. In addition, it has been proposed that enterprises should be in a position to sell Government securities to each other, as an alternative method of financing.

- External debt rescheduling

One of the leading objectives of the SEF is the rescheduling of Angola's external debt. The Angolan authorities are concerned not only to secure a workable solution to their current arrears problem, but to lengthen the maturity of their existing debt, so as to mitigate the burden of debt service obligations. The Government has successfully negotiated rescheduling of debt in 1988 and 1989. It is also the Government's declared intention to infuse a greater measure of discipline into the conduct of its debt management responsibilities.

4.4 Institutional framework for industrial development

Until early 1990, the Ministry of Industry was the key institution for industrial development. Of the other Government agencies, the BNA and the Ministries of Agriculture, Education and Finance play important supporting roles in industrial development. As mentioned before, the Ministry of Construction supervises a considerable number of building materials industries. The co-operation between the various agencies would have to be improved to ensure the success of future industrial recovery strategies.

In 1988, a new statute for the Ministry of Industry was formulated. The statute takes up a considerable number of existing tasks and organizational characteristics of the Ministry.

In early 1990, the Ministry had been partly restructured, which among others resulted in a stronger position of the Ministry's executing agencies, and a reduction of administrative functions. Under the new statute, the Ministry of Industry is charged with the formulation of National Plans for the manufacturing and mining sectors. After approval by the People's Assembly and The National Administration of the Industry and Mining Sectors, the Ministry would also become the executing agency for the Plans.

Other major tasks of the Ministry would be:

- maintaining a detailed industrial data base;
- assessing investment needs and possibilities, both for the public and the private sectors;
- general support to the development of these sectors;
- supervising the exploitation and processing of non-oil mineral resources;
- co-ordinating, directing and supervising the activities of enterprises;
- seeking international co-operation;
- promoting training.

The important elements in the structure of the Ministry were to be:

- a planning commission;
- technical commissions for manufacturing and mining;
- a human resource commission;
- national directorates for the three major subsectors: light, consumer goods and heavy industry.

While the restructuring programme of the Ministry was being implemented, the merger of the Ministries of Industry and Commerce was announced. The consequences of this merger are not fully clear yet. It seems however certain that the technical commission for manufacturing will be dissolved and that a new unit concentrating on privatization and restructuring issues will acquire a central position. Separately from the Ministry, an Industrial Development Institute is to be set up. In the framework of decentralization initiatives, provincial authorities are to play a more active role in providing institutional support. The question remains whether this measure can be implemented effectively, as the shortage of qualified personnel at the lower administrative levels is even more serious than in the Ministries.

5. RESOURCES FOR INDUSTRIAL DEVELOPMENT

5.1 Human resources

In 1987 Angola had an estimated population of 9.1 million inhabitants. Around 2.8 million lived in the urban and about 6.3 million in the rural areas. As shown in Table 5.1, the urban population of Angola has more than tripled since 1970, while the growth of the rural population has been much slower. Urban migration was mainly a consequence of the security situation. It has placed a heavy burden on the provision of infrastructure, housing and urban services.

Table 5.1: Urban and rural population of Angola 1970, 1985 and 1986
('000 inhabitants)

	1970 a/	1985 b/	1986 b/
Rural population	4,752	6,607	6,218
Urban population	836	2,147	2,772
Total	5,588	8,754	8,990

Source: Informaçao Estatistica 1984-1985, 1987, p. 20.

a/ 1970 Census.

b/ Estimate.

At independence, the Angolan Government had to cope with the highly adverse effects of the massive departure of Portuguese who had occupied most of the professional, skilled and semi-skilled positions in the public and private sectors. Illiteracy was estimated at 85 to 90 per cent. In order to maintain vital managerial, administrative, technical and clerical functions, the overseas recruitment of several thousand operational support personnel was arranged, exerting a sizeable drain on foreign currency reserves. The "co-operantes" concept was meant as a bridge until well-trained, experienced national cadres would be available. In 1985 the Government undertook a thorough review of the "co-operantes" programme and proposed policy and administrative measures, including the renewed recommendation for a broad-based, systematic effort to train national cadres and gradually reduce the considerable dependency on expatriate personnel.

Overall, the Government has had some success in building a new educational system. In 1987/88, basic education was being provided to some 1.5 million pupils. Some 20,000 pupils took part in higher forms of education. For further progress to be made, time and more resources are needed. As with administrative and economic tasks, the educational problems are only likely to be successfully tackled if peace is restored. The military effort is a drain on manpower and funds and deprives the educational system of teachers and the resources with which to build schools, print books and purchase equipment, while the war in the southern and central regions has prevented the spread of the school system.

The issue of industrial training was given high priority at the Second Party Congress in 1985. The need to advance this area has been reinforced by the fall in the oil price and the subsequent elimination of a number of technical assistance contracts to cut costs, which drastically reduced the number of foreign technicians and "co-operantes" in 1986.

At present there are nine technical training centres supervised by the Ministry of Industry. Most of these are located in Luanda. These centres had a capacity of 1,120 students in 1989. As Table 5.2 shows, the training is rather heavily concentrated on skills related to metal working. The duration of most courses is between 9 and 24 months.

Table 5.2: Training centres under the Ministry of Industry, 1989

Location	Type of training	Nominal training capacity	Actual enrolment	Teachers
Luanda	Administrative	210	58	13
Luanda	Bakery products	160	110	5
Luanda	Metal working, mechanical design	90	17	5
Luanda	Electricians, machine tooling, metal working, chemical analysts	60	50	11
Luanda	Spinning, weaving, textile finishing, quality control, chemical treatment	80	70	13
Luanda	Tailoring	70	45	6
Lunda Norte	Supervisors, machine operators, machine tooling, car repair, carpentry	170	...	72
Benguela	Fitting, welding, electricians, machine tooling	300	250	9+
Huambo	Metal working, electricians, mechanics, programming	150	120	5

Source: Conselho Nacional da Formaçao Profissional - A Situaçao da Formaçao Profissional na R.P. Angola, 1989.

Note: Some of the training centres also offer a variety of non-industrial courses. The Benguela training centre primarily serves the ship repair and ship-building industry.

Due to a shortage of teachers, administrative personnel, educational materials and equipment, only 720 students could be trained in 1989. Training of a kind that would also be useful to industry is given by various training centres under the Ministries of Agriculture, Fisheries, Construction, Transport and Energy. Co-operation between the Ministries could be improved to prevent duplication and cut costs where obvious similarities exist in the type of technical training provided.

In addition to formal training, complementary technical training is meant to make a variety of additional on-the-job training programmes available. Priority with regard to technical training has been given to 97 firms, of which 44 are under the supervision of the Ministry of Industry. Presently, 72 centres of this kind, with a capacity of 5,000 students, are believed to be functioning. Angolan firms are expected to contribute to this endeavour on the basis of their profits and the number of employees, while all Government organs which depend on the General Budget for their activities must include funds for this purpose within their annual budgets.

5.2 Agricultural resources

Angola could have emerged as one of the most prosperous agricultural economies in Africa. The population/arable land ratio is very favourable and Angola has a good climate, plentiful water resources and soils allowing the cultivation of a very wide range of crops. Production of most crops has on the whole declined precipitously since the mid-1970s. The peasantry reverted to mainly subsistence farming because of the departure of the Portuguese bush traders, the low official buying prices and the deficiencies of the Government trading system. The spread of the guerilla war made matters worse, driving peasants from their fields, disrupting transport and making it difficult to re-establish a system of rural-urban trade.

With a few exceptions, the downward trend in marketed production has not been clearly reversed during the 1980s, although there are signs of recovery from 1986 onwards (Table 5.3). The recent drought and decreasing coffee prices, however, are likely to have a considerable downward effect on the output figures for cereals and coffee in 1989/1990.

The Government is aware of the gravity of the country's agricultural decline and its adverse impact on the national economy. In 1986, the Government began to take steps towards a re-orientation of agricultural strategy. The pricing system has been liberalized and efforts are made to provide more incentive goods and equipment to rural areas. Agricultural extension services are to be improved. The top priority is to revive marketed production of maize and other food crops such as cassava and beans, in order to improve food supplies to the urban population and to reduce food import costs. The second priority is cotton, in view of the large needs of the domestic textile industry. The other main priorities are coffee, timber and livestock. Geographically, the greatest effort is likely to be made in the south west, in the context of the regional development programme referred to above. This is a region that has been more or less untouched by the war and, with appropriate policy reforms, could generate substantial surpluses of maize, meat and other produce. Other assistance projects are foreseen in the province of Malanje, east of Luanda. Agricultural regeneration is extensively supported by bilateral and multilateral donors.

Table 5.3: Agricultural production marketed by Government bodies, 1980 - 1988 (selected years)
(tonnes)

	1980	1984	1985	1986	1987	1988	1988 as % of 1980
Seed cotton	1,453	290	254	307	1,059	2,244	154
Rice	3,205	1,735	285	772	1,096	124	4
Potatoes	8,793	3,336	5,309	5,260	9,735	5,818	66
Coffee	36,576	10,589	13,686	14,899	8,687	3,278	9
Lemons	4,332	2,435	2,291	...	1,234	636	15
Beans	693	1,169	2,398	2,452	2,227	684	99
Vegetables	17,494	9,866	16,982	15,755	15,155	8,350	48
Cassava	8,452	4,164	5,522	11,937	4,727	7,552	89
Maize	30,840	16,343	11,935	18,166	57,281	35,075	114
Palmoil	3,290	1,532	1,190	...	563	748	23
Sorghum	...	1,062	1,786	...	5,859	4,642	...
Tobacco	251	296	38	...	50	31	12

Source: Ministry of Planning Informaçao Estatistica 1987-1988

These and other measures should gradually begin to reverse the decline in marketed agricultural production. However, recovery in much of the country will ultimately hinge on a restoration of security in the rural areas. This would also help the recovery of cattle raising. At present, too little meat is marketed to supply the domestic meat processing industry.

Angola has large timber resources, especially in the North. Log production reached 550,000 cu.m. in 1973. A considerable part was exported. Production has declined steeply (in part because the Government introduced logging methods that would help to conserve forests), but started increasing again during the 1980s with Cuban assistance. Production was estimated at 68,000 cu.m. in 1988, with a planned increase to 75,000 in 1989. Sawn wood production was 13,200 cu.m. in 1988, with an expansion to 50,000 cu.m. foreseen in 1989.

The sea off Angola has rich fish resources, and fisheries were a major contributor to GDP before 1975, the annual catch being some 450,000 tons. War damage and the return of the fishing fleet to Portugal paralyzed large sections of the fish processing industry. Later, much of the fishing and processing was taken over by foreign vessels and factory ships. Factory rehabilitation and the construction of new stores, along with the arrival of new ships, have begun to revive the industry, but the total catch in 1988 was still only 210,000 tons, and most of this is consumed fresh.

5.3 Mining and energy resources

Energy resources

Angola is particularly well endowed with energy resources. Its total proven recoverable reserves of crude petroleum, as of December 1984, were estimated by the Government oil company Sonangol at 1.7 billion barrels. This is sufficient to maintain production at its present rate until the end of the century. Most Angolan oil is light with a low sulphur content. Natural gas reserves were estimated at 37 billion m^3 at the end of 1984. Crude oil output increased by almost 200 per cent over the period 1980-1987, while production may reach 175 million barrels (mbl) in 1990 (Table 5.4). In addition to these hydrocarbon resources, Angola has enormous hydroelectric potential on its numerous rivers, among them the Cunene and the Kwanza. As a large net exporter of energy and the only oil producer in the region, Angola has taken responsibility for promoting co-operation in energy matters on behalf of SADCC, whose energy secretariat is based in Luanda.

Mining

Apart from petroleum deposits, Angola is very rich in minerals such as diamonds, iron ore, copper, manganese, phosphates, uranium, salt, coal, gold, bauxite, mica, nickel, limestone, gypsum, asphalt rock, rare earth and radioactive elements. Table 5.4 presents data pertaining to some major mineral products during 1973-1987. The minerals industry of Angola is, in terms of value, the largest in the SADCC region. But this is almost entirely due to crude oil output. Diamond production was only one-seventh of the 1973 figure in 1985, but has since picked up. Further growth is likely as the Angolan Government is discussing the exploitation of some very rich deposits with a foreign private enterprise.

Table 5.4: Mineral production, selected years, 1973-1985

Mineral	Volume	1973	1980	1981	1982	1983	1984	1985	1986	1987
Mining:										
Asphalt	1000t	49.6	700	...	...	...	50.0	80.0	70.0	70.0
Diamonds	mcts	2.1	1.5	1.4	1.2	1.0	0.9	0.7	0.3	0.9
Granite	1000m^3	8.0	1.3	1.4	1.6	1.4	-	0.5	...	0.1 a/
Oil (crude)	mbl	58.7	49.7	47.4	47.6	65.2	74.7	84.4	102.9	131.1
Salt	1000t	96.7	23.8	38.9	21.9	7.9	...	6.0	5.3	6.7

Source: Institute of Mining Research, Raw Materials Report, Harare, Zimbabwe, 1986, Vol. 5 No. 1; Programa de Recuperaçao Economica a Nivel Global, 1989, p. 40.

a/ 1988

In the southern area, with good transportation by rail or road to the port of Namibe, a number of black granite quarries were operating in the past; black Angolan granite is internationally known. Its use is traditionally in the tombstone industry; currently this type of black granite is in heavy demand, particularly in the United States and Japan. A 1987 market and feasibility study[1/] concluded that there were excellent marketing possibilities, with a price of $500 per ton. In addition, there are several deposits of marble (white, pink and other colours) nearby which could be worked. Some of the marble could be exported, other marble types might be more suitable for the local market after cutting and polishing. A study is underway to investigate the industrial use of kaolin.

5.4 Infrastructure

The country had a resonably developed road infrastructure at independence. The railway system consists of three parallel lines running east-west, built mainly to transport raw materials from the hinterland to the Atlantic Coast ports. The most important line, the Benguela line, is connected with the Zaire/Zambia Copperbelt, and hence with the East and South African railway system.

War damage, loss of vehicles and rolling stock, insecurity and lack of maintenance funds have paralyzed large parts of the transport system. For security reasons alone, the eastern half of the three railway lines cannot be used. A $340 million road rehabilitation programme was drawn up in co-operation with SADCC in 1988. Rehabilitation programmes were also formulated for the railway lines, and part of the Luanda line has been repaired. The largest amount ($280 million) has been earmarked for the Benguela line. Re-establishing the transport connections with Zaire (the so-called "Lobito Corridor project") is expected to cost $572 million. In early 1989, an international donor conference pledged a total of $90 million for the preparatory phase of the rehabilitation project. SADCC has also been involved in the preparation of this project.

Angola has four main ports: Malongo/Cabinda, Luanda, Lobito and Namibe. With the exception of the Cabinda enclave port, these are all connected to the railway system. All ports - the oil port of Malongo excepted - are working far below capacity, as exports of raw materials (their original raison d'être) came to a virtual halt in the late 1970s. Rehabilitation of the ports, which suffer from lack of maintenance and obsolescent installations, is an essential complement to the rehabilitation of the railway lines. The EC has pledged $ 20 million for the rehabilitation of Lobito.

5.5 The role of technical co-operation

The industrial recovery programme outlined in SEF requires major efforts, both at the macro-level and at the micro-level: plant rehabilitation will only be effective in the long run if it takes place in the context of a coherent industrial recovery programme. The manpower, equipment, spare parts and input requirements are clearly beyond the means of the country. It will need strong support from the international community if its efforts at regenerating the industrial sector, and the economy as a whole, are to be successful.

1/ Wälde, T., Mineral Development in Angola: Investment Policies, Legislation, Contracts, Natural Resources and Energy Division, Department of Technical Co-operation for Development, United Nations, New York, 1987.

International assistance to industrial recovery takes various forms. Bilateral arrangements could be envisaged in terms of an import package deal with the assistance of donor pledges in cases where idle capacity is due to lack of imported inputs. In May 1988, for example, import pledges came from Italy ($21 million), France ($8 million), Sweden ($6 million), the Federal Republic of Germany ($4.4 million) and Portugal ($1 million). These pledges are emergency assistance for more than 1.5 million people affected by war. Similar import pledges in terms of industrial inputs could be sought. Sweden already provides industrial inputs. The utilization of import pledges for short-term rehabilitation programmes is important not only because of the immediate effects in terms of production, but also because it may pave the way for more advanced forms of industrial co-operation.

The EC is providing similar assistance. ECU 35 million was provided by the European Development Fund (EDF) for the import programme for industrial inputs. While rehabilitation is a priority, industrial co-operation in the medium-term may involve expansion of promising industrial projects. In 1988 the European Investment Bank (EIB) sanctioned ECU 4 million to finance small- and medium-scale projects, repayable in 10-20 years at 2 per cent interest. In the long run industrial co-operation could emphasize the establishment of new plants based on the country's abundant agricultural and mineral resources.

In view of the current sizeable deficit of skilled manpower, there continues to be a special need for experts assigned to on-line positions. In the field of Government administration, IMF experts are to assist the Ministry of Finance in budgetary issues. In the fields of middle-level technical and managerial functions, recent contracts with research and development institutions and with educational and training establishments in several Latin American countries have been successful and it is intended to more fully tap their relevant experience and capabilities for the national development process by way of project components or Technical Co-operation among Developing Countries (TCDC) projects. Regional training and research as well as transport management are also being considered.

The 1982-1986 UNDP Country Programme earmarked $21.4 million for development projects. In the course of its implementation top priority was accorded to the rehabilitation of production capacity of food processing and other vital industries. It was also re-oriented to expand emergency and relief programmes, to revamp and modernize national accounts and the fiscal revenue system and to effectively plan and organize economic recovery and reconstruction programmes at the regional level.

Angola's Second Country Programme (1987-1991) coincided with introduction of the SEF. The primary objectives are effective economic management and resource mobilization for reconstruction and development and reactivation of agricultural production. The estimated share of the industrial sector in the 1987-1991 Programme is 23 per cent, with an outlay of $7.3 million. The majority of the projects was under implementation in 1989/90. Assistance was concentrated in the following major areas (see also the list of UNIDO's approved and/or operational projects in Annex C):

- industrial maintenance and repair;
- assistance to the GARE enterprise restructuring programme;
- improving the capacity of the Ministry to prepare and evaluate industrial projects;
- rehabilitation of manufacturing enterprises.

Some of the projects have a strong training component, to ensure long-term development effects. The rehabilitation programme so far only covers a group of bakeries. Larger-scale, interlinked rehabilitation efforts will among others depend on the emergence of a more favourable policy and institutional environment. It is in these areas that the prorities for industrial support in 1990 may be found. Assistance to the implementation of the SEF programme for the manufacturing sector is the first priority. This includes assistance to the formulation of sector and sub-sector plans, and to the implementation of the restructuring/privatization programmes for industrial enterprises. Follow-up to the support rendered under this priority will include assistance to the design of the new Five Year Plan (1991-1992) and to the preparation of the international donor's conference planned for early 1991. This conference will focus on national reconstruction efforts.

Other priorities indicated in the UNDP industrial sector programme include:

- Improving the absorption capacity for industrial projects. This includes assistance to the preparation and evaluation of industrial projects and training for personnel in the relevant units of the Ministry of Industry;

- Creation and strengthening of institutions providing specialized services to enterprises. Specific areas of assistance under this priority include: small and medium-scale industries, standardization and quality control, training, maintenance and industrial finance systems.

- Assistance to the implementation of rehabilitation projects in priority industries. This type of assistance would include sectoral and sub-sectoral surveys, pre-investment studies for projects and assistance to the negotiation of financing.

Until recently, most bilateral and multilateral agencies usually worked independently of each other in the preparation and execution of projects. Co-ordination meetings were initiated in 1989. UNDP has proposed that in the future such co-ordination meetings will also be held regularly with the Government, as well as at other working levels. Industrial development is to a large extent dependent on improvements elsewhere: in agriculture, in physical infrastructure, in the educational system and in the planning and administration of economic development. An integrated approach to industrial and economic recovery in Angola is clearly essential and such co-ordination should therefore increase the efficiency of technical assistance.

ANNEX A

STATISTICAL TABLES

Table A-1: Value of imports, 1980, 1984-1987 (Kz million)

Product category	1980	1984	1985	1986	1987
Animal products	2,262	1,226	1,084	508	421
Vegetable raw materials	4,357	3,099	2,284	1,465	848
Oils and fats	1,531	1,006	1,196	734	461
Processed food	4,293	1,949	1,892	1,372	879
Minerals	354	130	127	190	184
Chemicals	2,621	1,419	1,702	1,480	1,011
Plastics	1,578	704	454	569	168
Pulp and paper	808	380	411	239	109
Textiles	2,902	1,816	1,451	1,128	734
Leather, made-up textiles	482	265	218	170	79
Non-metallic mineral products	213	137	132	228	106
Basic metals	3,049	3,730	2,385	2,296	2,645
Machinery and equipment	5,805	2,879	2,571	4,870	3,978
Transport equipment	8,570	2,240	3,123	2,767	1,271
Scientific/optical equipment	382	192	271	306	218
Others	513	198	393	272	166
Total	39,720	21,370	19,694	18,594	13,278

Source: Ministry of Planning - Informaçao Estatistica, 1987-1988.

Table A-2: Value of exports, 1984-1988 (Kz million)

	1984	1985	1986	1987	1988
Crude petroleum	52,455	57,169	34,483	60,060	64,588
Refined petroleum	2,760	2,818	1,182	2,259	1,399
Gas	954	1,016	639	652	597
Diamonds	1,921	1,005	242	2,875	5,420
Coffee	2,393	1,644	1,572	1,010	570
Wood	138	109	22	67	3
Other	84	...	552	127	110
TOTAL	60,705	63,761	38,695	67,109	73,101

Source: Ministry of Planning - Informaçao Estatistica, 1987-1988.

Table A-3: Major sources of imports, 1984-1987
Value (Kz million)

	1984	1985	1986	1987
Portugal	3,027	2,607	1,862	1,550
USA	3,300	1,406	1,515	2,129
France	2,080	2,208	2,552	1,909
Netherlands	1,520	1,424	1,685	549
F.R. Germany	1,347	1,519	1,438	1,540
Brazil	1,611	2,116	2,016	1,686
Japan	629	652	798	246
United Kingdom	785	968	745	267
German Democratic Republic	1,194	602	458	520
Cuba	165	455	348	175
Italy	1,022	725	654	575
Other	4,690	5,012	4,523	2,132
Total	21,370	19,694	18,594	13,278

Source: Ministry of Planning - Informaçao Estatistica, 1987-1988.

Table A-4: Major export destinations, 1984-1987
Value (Kz million)

	1984	1985	1986	1987
USA	23,667	29,077	15,307	36,624
United Kingdom	9,868	6,937	1,095	0
Brazil	3,539	4,194	3,525	2,622
Spain	5,234	7,873	4,393	268
Netherlands	4,724	2,417	2,262	6,871
Belgium-Luxemburg	802	1,016	1,243	2,067
German Democratic Republic	1,446	950	874	245
Portugal	700	2,144	1,600	903
Japan	126	71	90	413
Other	10,717	12,289	8,664	14,866
Total	60,823	66,968	39,053	64,879

Source: Ministry of Planning - Informaçao Estatistica, 1987-1988.

Note: Totals differ slightly from those in Table A-2.

Table A-5: Output of petroleum refineries (tonnes), 1987-1990

	Output 1987	Output by 3rd quarter 1988	Planned Output 1989	Planned Output 1990
Petrol	105,993	105,244	114,000	114,000
Jet fuel	173,644	177,905	135,000	135,000
Kerosene	30,482	20,042	45,000	45,000
Gasoil	376,851	368,103	400,000	400,000
Fuel oil	642,493	487,914	694,000	694,000
Bitumen	6,609	10,934	10,000	10,000

Source: Ministry of Planning - Programa de Recuperaçao Economica, 1989.

Table A-6: Selected performance indicators of Angolan manufacturing, 1980-1987[a]
(Kz million at 1985 prices)
unless otherwise indicated

	1980	1981	1982	1983	1984	1985	1986	1987[b]
Gross value of production	16,479	17,566	17,553	22,745	22,740	23,460	23,375	17,525
Value added	4,622	6,542	6,689	7,174	8,022	9,173	9,408	8,665
Composed of:								
Salaries	3,354	4,370	4,911	5,115	3,590	6,820	7,269	7,505
Amortization	1,475	1,380	1,368	1,160	1,150	1,180	1,315	1,248
Rent	188	195	195	214	217	205	203	209
Interest and other financial expenses	480	512	570	573	530	517	513	677
Direct tax	1,675	1,765	1,720	2,240	2,480	2,621	2,411	1,926
Losses	-3,640	-3,700	-4,533	-4,310	-3,815	-3,815	-3,800	-4,000
Profits	1,090	2,016	2,480	2,175	1,870	1,725	1,495	1,100
Value added/Gross value, (%)	28	37	38	31	33	39	40	49
Salaries/Value added, (%)	72	67	73	71	69	74	77	87
Employment, (number)	48,830	51,240	55,991	57,225	59,680	56,994	60,635	58,300
Gross production value per employee (Kz 1000)	335.7	342.8	313.5	397.5	381.0	411.6	385.5	300.6
Average salary per employee (Kz 1000)	0.07	0.09	0.09	0.08	0.09	0.12	0.13	0.13

Source: Ministry of Industry.

a/ Covers 80 per cent of manufacturing firms and employment.

b/ Estimate.

Table A-7: Selected performance indicators of Angolan food industries, 1980-1987
(Kz million at 1985 prices)
unless otherwise indicated

	1980	1981	1982	1983	1984	1985	1986	1987[a]
Gross value of production	5,121	4,561	4,950	7,329	7,050	7,346	7,135	6,258
Value added	1,001	1,522	1,350	1,512	1,797	2,128	2,194	2,020
Composed of:								
Salaries	1,174	1,670	1,755	1,780	2,085	2,651	2,808	2,902
Amortization	540	507	504	360	355	350	390	376
Rent	57	60	59	62	65	60	60	61
Interest and other financial expenses	180	190	215	185	122	107	105	215
Direct tax	550	575	585	730	760	796	746	594
Losses	-1,920	-2,070	-2,378	-2,155	-2,100	-2,250	-2,280	-2,390
Profits	420	580	610	550	510	414	365	330
Value added/Gross value, (%)	19	34	27	20	25	29	31	33
Salaries/Value added, (%)	117	109	130	117	116	125	128	139
Employment, (number)	22,180	23,050	23,373	22,527	24,353	24,793	26,073	25,080
Gross production value per employee (Kz 1000)	230.9	197.9	211.9	325.3	289.5	296.3	273.7	249.5
Average salary per employee (Kz 1000)	0.05	0.07	0.08	0.08	0.09	0.11	0.11	0.11

Source: Ministry of Industry.

a/ Estimate.

Table A-8: Selected performance indicators of Angolan light consumer goods industry, 1980-1987
(Kz million at 1985 prices)
unless otherwise indicated

	1980	1981	1982	1983	1984		1986	1987a/
Gross value of production	8,437	9,742	9,133	12,051	12,676	12,375	12,251	8,513
Value added	2,747	3,945	3,868	4,013	4,373	4,211	4,691	4,320
Composed of:								
Salaries	1,275	1,770	1,953	1,972	2,053	2,543	2,741	2,852
Amortization	605	567	560	520	535	535	615	585
Rent	85	87	87	86	87	82	81	84
Interest and other financial expenses	207	220	210	180	153	140	135	147
Direct tax	750	805	760	1,010	1,190	1,260	1,150	922
Losses	-725	-755	-1,327	-1,170	-815	-820	-850	-890
Profits	550	1,251	1,625	1,415	1,170	1,051	820	620
Value added/Gross value, (%)	32	40	42	33	34	38	38	51
Salaries/Value added, (%)	46	44	50	49	46	53	58	66
Employment, (number)	17,516	18,975	20,648	21,063	20,957	20,345	21,829	20,988
Gross production value per employee (Kz. 1000)	481.7	513.4	442.3	572.1	604.9	608.3	561.2	405.6
Average salary per employee (Kz. 1000)	0.07	0.09	0.09	0.09	0.10	0.12	0.13	0.14

Source: Ministry of Industry.

a/ Estimate.

Table A-9: Selected performance indicators of Angolan heavy industry, 1980-1987
(Kz million at 1985 prices)
unless otherwise indicated

	1980	1981	1982	1983	1984	1985	1986	1987 a/
Gross value of production	2,921	3,263	3,470	3,455	3,014	3,539	3,989	2,754
Value added	874	1,065	1,471	1,649	1,852	2,234	2,522	2,266
Compared of:								
Salaries	905	930	1,203	1,363	1,452	1,626	1,720	1,757
Amortization	330	310	304	280	260	275	310	293
Rent	46	48	49	66	65	63	62	64
Interest and other financial expenses	93	102	145	210	255	270	275	315
Direct tax	375	385	375	505	530	565	515	416
Losses	-1,995	-2,895	-1,850	-2,985	-2,900	-2,825	-2,670	-2,720
Profits	120	185	245	210	190	260	310	150
Value added/Gross value, (%)	29	33	42	48	61	63	63	82
Salaries/Value added, (%)	103	87	81	83	78	73	68	77
Employment, (number)	9,134	9,215	11,970	13,635	14,370	11,856	12,733	12,243
Gross producttion value per employee (Kz. 1000)	319.8	354.1	289.9	253.4	209.7	298.5	313.3	225.0
Average salary: Salaries per employee (Kz. 1000)	0.10	0.10	0.10	0.11	0.10	0.14	0.14	0.14

Source: Ministry of Industry.

a/ Estimate.

Table A-10: Geographical distribution of manufacturing enterprises according to ISIC categories, 1983

Province / ISIC	31	32	33	34	35	36	37	38	39	Total Number	Total Percentage
Cabinda	1	1	-	-	-	1	-	-		3	1
Zaire	-	-	-	-	-	-	-	-	-	0	-
Uige	1	-	1	1	-	-	-	-	-	3	1
Lunda Norte	1	-	-	-	-	-	-	-	-	1	-
Malange	-	-	1	1	-	-	-	-	-	2	1
Bengo	2	-	-	-	-	-	-	-	-	2	1
Luanda	23	19	3	6	24	8	5	40	8	136	55
Kwanza Norte	2	-	-	-	-	-	-	-	-	2	1
Luanda Sul	-	-	-	-	-	-	-	-	-	0	-
Kwanza Sul	-	-	-	-	-	-	-	-	-	0	-
Bie	2	-	1	1	-	-	-	-	-	4	2
Moxico	2	-	-	-	-	-	-	-	-	2	1
Huambo	7	6	1	1	1	-	-	5	-	21	9
Benguela	14	7	2	6	4	1	2	8	3	47	19
Huila	12	2	1	1	1	1	-	2		20	8
Namibe	2	-	1	1	-	-	-	-	-	4	2
Kunene	-	-	-	-	-	-	-	-	-	0	-
Kuando - Kubango	-	-	-	-	-	-	-	-	-	0	-
Total	69	35	11	18	30	11	7	55	11	247	100

Source: Calculated on the basis of General Register of Firms, April 1983.

ANNEX B

LAWS RELATING TO FOREIGN INVESTMENT, 1988

Foreign exchange law
(4th June, 1988)

(Summary)

Under the foreign exchange law, the area of foreign exchange is the monopoly of the Government, with the Ministry of Finance acting as the supreme authority. The authority and tasks of the National Bank of Angola (NBA) are defined in separate statutes and laws.

Angolan individuals or associations are subject to this law for foreign exchange activities. Non-residents of Angola are subject to the law to the extent that their activities which involve foreign exchange take place on Angolan territory. Financial transactions of Government-owned enterprises are subject to special legislation.

On the basis of this law, the NBA has the right to regulate all kinds of foreign exchange transactions. When the resident status of individuals or legal entities is not clear, the NBA is authorized to determine their status.

While transactions between residents must take place in national currency, - except in cases indicated in special legislation - those between a resident and a non-resident in Angola can take place in foreign currency. Such transaction must involve legally recognized financial institutions. Foreign currency payments to a resident must be reported to the NBA. Foreign currency accounts need the approval of the NBA. Credit in foreign currency provided to a resident must be taken up within 90 days unless stipulated otherwise.

Non-compliance to this law can be punished by fines or imprisonments up to 8 years, and the economic activities of the guilty party can be prohibited. The NBA has the authority to investigate such cases.

Law on economic activities,
(2 July 1988)
(Summary)

According to this law, economic activities are those involving the production and distribution of goods, and service activities involving costs and aiming at profits.

Economic activities can be undertaken individually or collectively, but in all cases the approval of the relevant authorities (as indicated by the law) is needed. Enterprises can be owned by the Government, co-operatives, individuals, or a combination of private and public owners. Private ownership can also be foreign. Special legislation applies to the various types of ownership. Individual economic activities are encouraged especially in the field of services.

The Government will support economic activities which conform with the National Plans, which broaden the scope of socialist production relations (as in the case of co-operatives) or which make a contribution to productivity, employment or regional development in other ways.

The Government guarantees equitable treatment of all actors in the economy, and will not intervene in their activities except in cases indicated in the relevant laws. Economic actors can demand rectification of Government actions which they consider harmful. The Government retains a monopoly on central bank functions, defense industries, water and electricity supply, basic sanitation, telecommunications and post services, social communications, air transport, long distance railway and sea transport, public city transport, the administration of ports and airports.

Public enterpise can be wholly Government-owned and operated; Government-owned but operated in accordance with the Law on Commercial Activities; or mixed enterprise involving domestic or foreign private enterprise. The role of Government enterprise is to be modified in the framework of SEF, in accordance with principles and regulations to be formulated by the Council of Ministers, taking account of regional and sectoral priorities and viability considerations. The exploitation of natural resources (which remain national property) is only possible with a concession obtained from the Government, and must take place in a rational, environmentally sound way.

Law on Foreign Investment
(16 July, 1988)
(Summary)

In principle, foreign investment is prohibited in activities related to national security and central banking; water and electricity supply; education and health; post and public telecommunications; other forms of communication (e.g. radio); administration of ports and airports; air and long distance sea transport; and any other field covered by the present law. However, the Council of Ministers is empowered to authorize foreign investment in subsidiary or complementary areas to the ones referred to above.

Foreign investment can take the form of financial capital, capital goods or technology. It can take the organizational form of mixed enterprises (partly Government-owned), private joint ventures, other association with Angolan nationals, wholly foreign-owned companies, and financial participation in activities that are not directly productive.

The Angolan law guarantees a just and equal treatment of foreign companies and autonomy in their operations. Transfers of profits and re-exports of products or holdings are allowed upon authorization by the Ministry of Finance. In special cases, arrangements can be made (through the Ministry of Finance) for tax and duties reductions. Such incentives will, e.g., be given to companies reinvesting profits and making a special contribution to training and employment. Should expropriation be unavoidable, proper indemnification will be guaranteed. Foreign investors are obliged to respect the relevant laws (tax, industrial relations, environment, etc.), and are expected to transfer knowledge and technology, apart from making every effort to run their enterprise in an efficent and profitable way. In this context, the submission of a detailed investment proposal, including a feasibility study, is essential to acquire permission to invest in Angola. Evaluation of the submissions will take place within 90 days and will concentrate in particular on the following aspects:

- contribution to exports and export diversification;
- import substitution;
- production of raw materials for manufacturing and of other goods and services that are essential for the national economy;
- location;
- expected economic activities and benefits;
- foreign exchange cost and earnings.

On the basis of the evaluation, the Council of Ministers authorizes projects; authorization may be delegated to the Ministers of Planning or Finance, and the Ministry responsible for the economic sector in question. Foreign investors must provide employment to Angolans, as agreed i the individual projects, and must transfer knowledge to Angolan employees. To the extent that Angolan nationals with the required qualities are not available, expatricates may be employed. These are subject to Angolan law, although exemptions may be granted.

Cessation of activities (in so far as not foreseen in the original agreement or by existing laws) is only possible with the authorization of the Ministry of Planning.

Decree on the approval procedure for foreign investment, 1989
(Summary)

Phase I Information phase

During the information phase, a potential foreign investor can make inquiries with the state entities that are relevant to the investment proposal.

Phase II Declaration of Intentions

After the information phase, the potential investor presents a declaration of intentions according to an established format to the Cabinet of Foreign Investment (GIE), Ministry of Planning. GIE solicits the opinion of the relevant Ministry.

Phase III Presentation of Investment Proposal

The investor presents a complete proposal for foreign investment to the GIE. Again a pre-established format is used for guidance. The proposal has to include a feasibility study to allow the Angolan authorities to assess the project's viability in a national economic context.

Phase IV Evaluation

The investment proposal is evaluated by an evaluation commission in which participate the GIE, the Ministry of Finance, the Ministry of Commerce, the relevant Ministry, the BNA, and the Institute for Physical Planning. The commission prepares an advise on the basis of its evaluation.

Phase V Approval

On the basis of the advice, the project can be approved by the Minister of Plan or the Minister of Finance. After approval, the project will be registered with the BNA, and the duties and rights connected with the investment project will be transferred to the investor.

ANNEX C

UNIDO'S APPROVED AND/OR OPERATIONAL PROJECTS

UNIDO's Approved and/or Operational Technical Co-operation Projects
(approved = PAD issued)

People's Republic of ANGOLA

Project Number	Backstopping Responsibility	All.Acc.Code	Project Title
SI/ANG/90/801	IO/IIS/INFR	J12103	Advisory assistance in policies and strategies for promotion and development of small and medium-scale industries
DP/ANG/89/017	IO/IIS/INFR	J12106	Technical assistance to the implementation of the redimensioning programme for the Angolan enterprise sector - preparatory assistance (in co-operation with IIS/IMR and PLAN)
DP/ANG/86/004**	IO/T/AGRO	J13103	Assistance in the rehabilitation of the bread production chain
DP/ANG/89/004**	IO/T/ENG	J13316	Centre de maintenance industrielle (phase IV) (continuation of DP/ANG/82/020)
DP/ANG/85/003*	IO/OS/FEAS	J14102	Establishment of a unit for preparation and analysis of industrial projects (phase I) (see also TF/ANG/89/001)
TF/ANG/89/001	IO/OS/FEAS	J14102	Associate expert
SI/ANG/89/801	PPD IPP/STAT	E03400	Technical assistance to the enhancement of computerized survey of Angolan Industrial Enterprises

* Large scale project (total allotment $150,000 or above)
** Total allotment $1 million or above

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