Training and capacity building workshop on sustainable graduation: Policies and strategies for structural transformation, productive capacity-building and inclusive growth in Angola

Concept Note[1]*

EXECUTIVE SUMMARY

Angola joined the group of Least Developed Countries (LDCs) in 1994. The cut-off points used for Angola's inclusion in the list were US$ 699 or less for per capita GDP, 26 or less for economic diversification index (EDI) and 47 or less for augmented physical quality of life index (APQLI). Angola fulfilled all the three criteria of that time with its GDP per capita of US$ 591, EDI of 9 and APQLI of 28.

Over the years, Angola has made substantial progress, notably, in the economic arena. During the 2000 - 2010 period, Angola's GDP grew at an average rate of 11.25% -the third highest performance within the LDCs' group and much higher than the 7% growth target agreed in the context of the Brussels Programme of Action for LDCs (BPoA). Consequently, the GDP per capita of the country has risen by almost 7 folds -from about US$ 591 in 1994 to US$ 4,422 in 2010 (current US$).

With this outstanding performance, Angola has surpassed, by far, the UN- threshold level for income criterion for countries to exit the category of the LDCs. However, notwithstanding such a high rate of economic performance, the progress made in economic diversification and social (human) indicators is limited and the challenges in these areas continue to be daunting.

Against this mixed background, the Government of Angola requested the UNCTAD secretariat to organize a national training and capacity building workshop. The specific objective of the training workshop is to examine in detail the progress, challenges and opportunities relating to Angola's eventual graduation from the category of the LDCs. This is expected to assist policy makers of the country in better articulating development policies and strategies prior to, during and after graduation. Such policies and strategies should focus on ensuring structural economic transformation centred on building productive capacities, including diversification and value-addition.

The present concept note is prepared with a view to supporting and facilitating the conduct of the training workshop as well as providing substantive background information for the Government of Angola in its ensuing preparations for the eventual graduation of the country.

[1] The concept note is prepared by the UNCTAD secretariat under the responsibility of the Division for Africa, LDCs and Special Programmes (ALDC) to serve as background document for the training workshop.
*unedited

I. INTRODUCTION AND ANGOLA'S RECENT KEY ECONOMIC TRENDS

A. Angola and the category of Least Developed Countries (LDCs)

UNCTAD - upon its inception in 1964, advanced the notion of re-classifying some developing countries as "less developed" - consisting of countries that it found through its seminal work as the weakest and most vulnerable[2]. The primary objective of identifying such a disadvantaged group of developing countries (on the basis of the extent and magnitude of poverty and weak human and institutional capacities) was to seek "special attention" in the design of the support of the international community in their favour.

The second conference of UNCTAD held in 1968 adopted the first resolution on issues related to "least developed countries". This, in turn, led to the inclusion of the provision of special measures in favour of LDCs in the "International Development Strategy for the Second United Nations Development Decade". This recognition and the development discourse that followed culminated in the official establishment of the group of LDCs by the General Assembly of the United Nations in 1971. The initial list of countries categorised, as LDCs were 25.

Ten years later, in 1981, the first United Nations Conference on LDCs was convened in Paris and adopted the "Substantial New Programme of Action for LDCs for the 1980s". Since then, the United Nations has convened three additional conferences[3] on the LDCs. The overarching objective of all the conferences is to "significantly improve the human conditions in LDCs by transforming their economies towards self-sustained development, providing minimum standards of nutrition, health, housing, education as well as job opportunities" to their citizens.

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The General Assembly in parallel with establishing the category of LDCs has also instituted the review mechanism - through its Committee on Development Planning (now the Committee for Development Policy - CDP). The purpose of such a mechanism is to assess, every three years, which of the countries from the low-income category should qualify for inclusion into or graduation from the list of LDCs. The assessments (reviews) are based on established quantifiable but dynamic criteria. The initial criteria used in the identification of LDCs were: low income, weak human resources and economic structure. However, the number of indicators has gradually expanded and the criteria refined over time.

[2] It is important to point out that until the mid 1960s (or until the establishment of UNCTAD) developing countries were considered as homogeneous.

[3] As with the first, the Second UN Conference was held in Paris in 1991, followed by the third in Brussels (in May 2001) and the fourth in Istanbul (in May 2011).

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Successive assessments and reviews of the implementation of the various programmes of action adopted by the United Nations conferences on LDCs indicate that the results so far have been below expectations. For the most part, agreed international support measures have not been fully granted and, when granted, they have not been fully utilized due to various reasons (historical, political, economic, geographical, etc). Consequently, the number of countries in LDCs' group has kept increasing while only a very small number of countries exiting the group.

Currently there are 49 LDCs with only three countries - Botswana (1994), Cape-Verde (2007) and Maldives (2011) - graduating from the group in more than four decades since the establishment of the category of LDCs. Following the reviews of the state of Angola's economy and subsequent recommendations by CDP, the General Assembly decided in 1994 that Angola joins the list of LDCs.

The cut-off points used for the determination of Angola's inclusion in the list were US$ 699 or less for per capita GDP, 26 or less for economic diversification index (EDI) and 47 or less for augmented physical quality of life index (APQLI). Angola fulfilled all the three criteria of that time with its GDP per capita of US$ 591, EDI of 9 points and APQLI of 28.

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As shall be seen in the relevant sections of the present note, upon the addition of Angola to LDCs' group in 1994, flows of Official Development Assistance (ODA) resources have increased substantially-up from about 2% of GDP in 1991 to almost 10% of the GDP in 1995(See figure 10 on page 23). However, this trend did not last long mainly due to the increased production and export of oil, which improved the country's foreign exchange reserve position.

Overall, one may tend to conclude that the "value added" of Angola's inclusion to the list of LDCs was minimal to the country's socio-economic performance. This is because of, at least, three main reasons: First, Angola's economy has become gradually dependent on exports of fossil fuels, which do not require preferential market access (as petroleum is imported duty free by major trading partners of Angola). Preferential market access for exports of LDCs is one of the pillars of the International Support Measures for LDCs agreed in the various programmes of action in support of these countries. Secondly, as was just seen, the proportion of official

[4] HAI consists of indicators such as percentage of population undernourished, under-five mortality rate, gross secondary education ratio and adult literacy rate.

[5] EVI consists of indicators such as population; remoteness; merchandise export concentration; share of agriculture, forestry and fisheries in GDP; share of population in low elevated costal zones; victims of natural disasters; instability of agriculture production, instability of exports of goods and services.

development aid (ODA) to Angola's GDP - another pillar of the development partnership arrangement -has, despite the initial surge, declined substantially over the years.

Thirdly, reviews of debt rescheduling and cancelation for Angola - the third important pillar of the UN-development frameworks - was more through bilateral concessions or from multilateral financial instructions that do not recognize the category of LDCs in their support measures.

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The full extent of the benefits granted to Angola in the context of LDCs will be discussed in a separate note to be made available for the training workshop. Furthermore, sections IV and V of the present note shed some light on the perceived benefits for Angola from its LDCs' status.

B. Overall economic performance of Angola

Angola's economy has been in triple transitions since independence in 1975. First, the economy is one of the few African economies that have observed a transition from protracted wars to prolonged peace and stability. The end of the civil war, in 2002, heralded the new beginning to the economic recovery and revival of Angola. The second transition of the country's economy, though incomplete but continuous, is the transition from a command economy (or centrally planned economy) to a mixed economy model with a focus on balanced roles between the state and market forces. After the declaration of independence, Angola opted for a centrally planned economic system. However, the system failed (as was the case elsewhere) to deliver prosperity for all the Angolan people and ensure rapid structural economic transformation of the country. Gradually, the command economic model paved the way for a shift toward mixed economic system.

The third transition that characterises Angola's economy is a dynamic change in the composition and weight of the extractive sectors in the economy of the country. Extractive sectors emerged as leading contributors to the nation's growth and development totally eclipsing the role of agriculture. Angola may be one of the few countries of the world that have seen a rapid withdrawal of the agriculture sector from its traditionally dominant position as the source of national income, livelihood and employment. The country used to be a producer and exporter of primary agricultural commodities, notably coffee, other cash crops and staple food prior to the exploration and production of oil for export. Before independence, "Angola was not only the world’s fourth largest coffee exporter, but also exported over 400,000 MT of maize annually, making it one of the largest staple food exporters in Sub Saharan Africa" (World Bank: 2006).

Today, Angola is Africa’s second largest oil producer, after Nigeria, producing over 1.9 million barrels per day (bpd)[5] although it is still a net importer of refined oil products due to shortage of refineries.

According to the World Bank, it is also the world's fourth largest producer of rough diamonds (in terms of value) with a potential to become one of the leading global diamonds producers.[6]

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Some of the above-mentioned transitions, as difficult as they can be, are completed or in the process of being completed. For instance, Angola has successfully managed a transition from war to peace since 2002, although the task of fully rehabilitating and reviving the economic infrastructure ravaged by the war may take longer than expected. The second economic transition - a transition from command economy to a mixed economy - is in progress, albeit slowly[6]. Whereas the completed transitions require firmness and further consolidation, those that are in the process need to be intensified, including by putting in place sound policies and sustained economic reforms as well as requisite institutions.

In the midst of the multiple transitions and related challenges, Angola's economy has been making a big stride forward since the last couple of decades, not only in terms of trade expansion (exports and imports) but more importantly in registering high level of GDP growth rates. During the 2000 - 2010 period, Angola's GDP grew at an average rate of 11.25% - the third highest performance within the LDCs' group after Equatorial Guinea (18.27 %) and Myanmar (12.05%) during the same period. It is also much higher than the 7% growth target agreed in the context of the Brussels Programme of Action for LDCs needed to reduce poverty in these countries.

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Consequently, as shown in figure 1, the Gross Domestic Product (GDP) per capita of the country has risen by almost 7 folds - from about US$ 655 in 2000 to US$ 4’422 in 2010 (in current US$). As shall be seen in the subsequent sections of the present note, with this outstanding performance, Angola has surpassed, by far, the UN-threshold level for income criterion for countries to exit the category of the Least Developed Countries (LDCs).

[5] 2012 African Economic Outlook

[6] Country Economic Memorandum (Angola), World Bank, 2006

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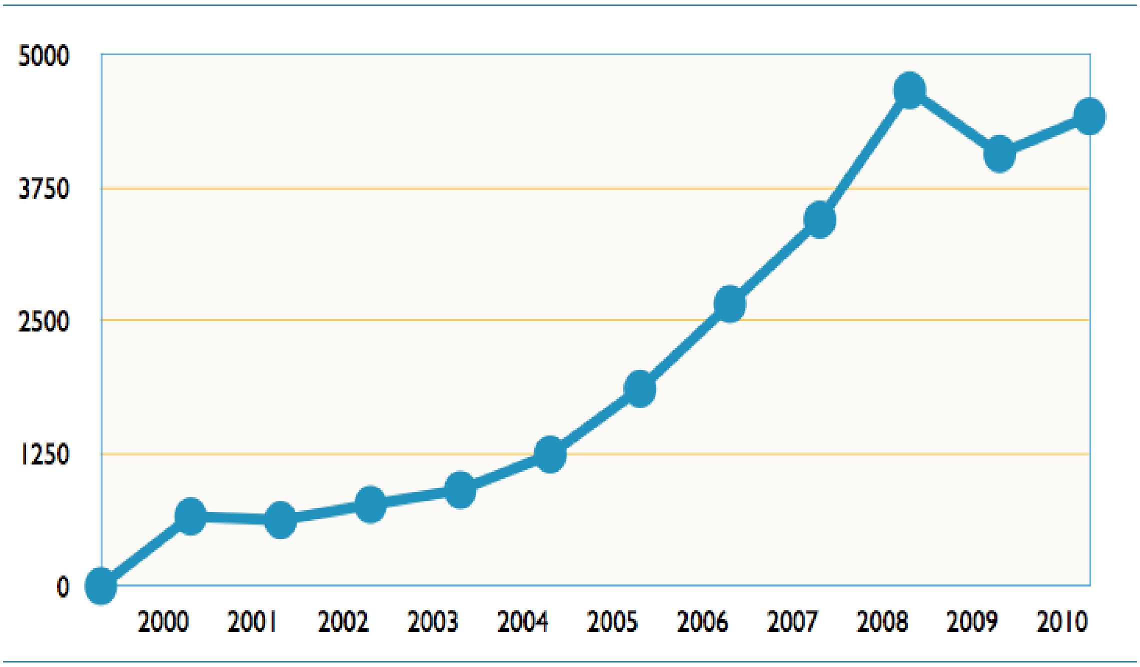
Figure 1: Angola's GDP per capita (2000 – 2010 in current US$)



Source: *UNCTADstat and UN Statistical Division*

C. The role and composition of exports

Angola's economic growth has been driven, largely, by its exports sector. During the 1995-2011 period, the export/GDP ratio of the country (on average) is over 70%.

Over 98 % of the country's merchandise export, in value terms, is generated by fuel (oil) exports with manufacturing and primary agricultural exports, accounting for less than 1 % each. In terms of sectoral composition of value addition in Angola's economy (as % of GDP), the contribution of the services sector stands at 25%, agriculture (8.4%) and manufacturing (4.5%).

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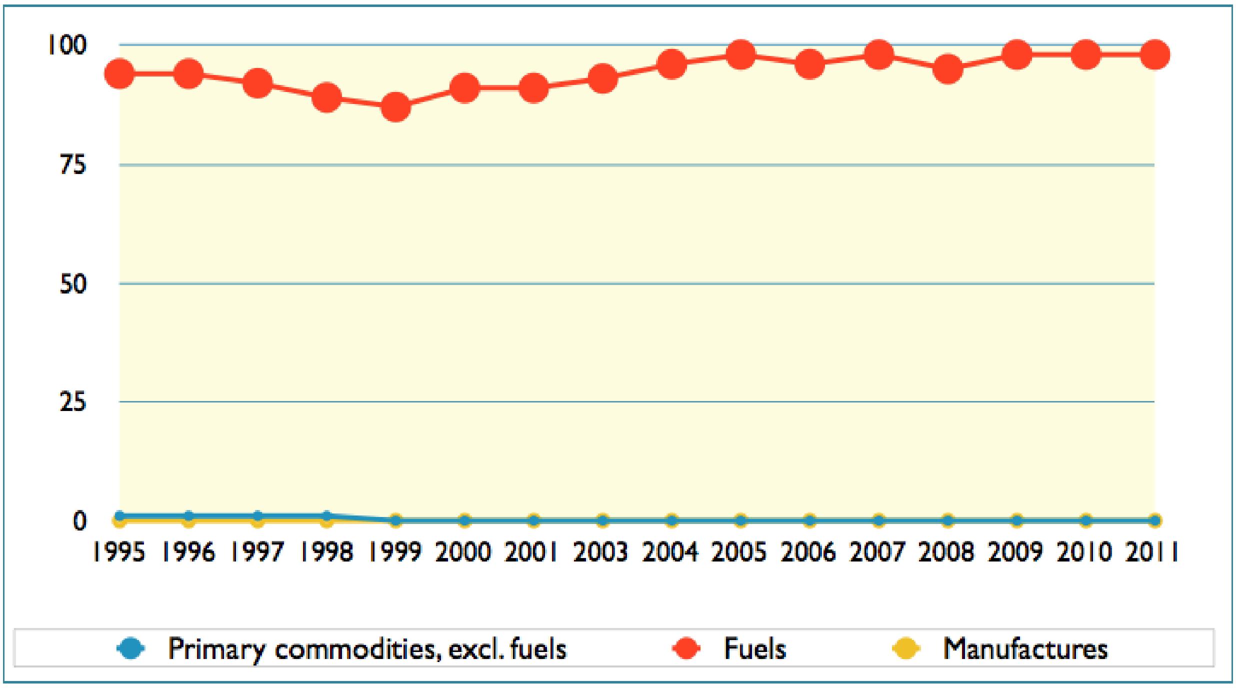
The total value addition of the three sectors is about 38% of the GDP, whereas natural resources rent accounted for 62% of the GDP during 2000 - 2010 period.

Figure 2: Composition of merchandise exports of Angola - (Total share in % 1995 - 2011)



Source: *UNCTADstat and UN Statistical Division*

D. Trends in foreign direct investment (FDI)

While global foreign direct investment (FDI) inflows declined by about 18% in 2012, the African region experienced an increase in the same year, with BRICS (Brazil, the Russian Federation, India, China and South Africa), playing an important role in the current pattern of global investment[7]. The BRICS' share in the continent's FDI stock and flows reached 14% and 25%, respectively, with China playing a dominant role [8]. Generally, natural resources endowment combined with improvements in the domestic business climate (including a well functioning infrastructure and government provision of public goods) are viewed as key in enabling LDCs to boost exports and attract foreign direct investment. Given the paucity of capital, technology and technological know-how in LDCs such as Angola, FDI remains crucial in their development process. In this regard, as shown in figure 3 below, Angola continues to be a leading destination in FDI (stock), accounting for above 16% of total FDI stock destined to all LDCs during the 1990 - 2010 period.

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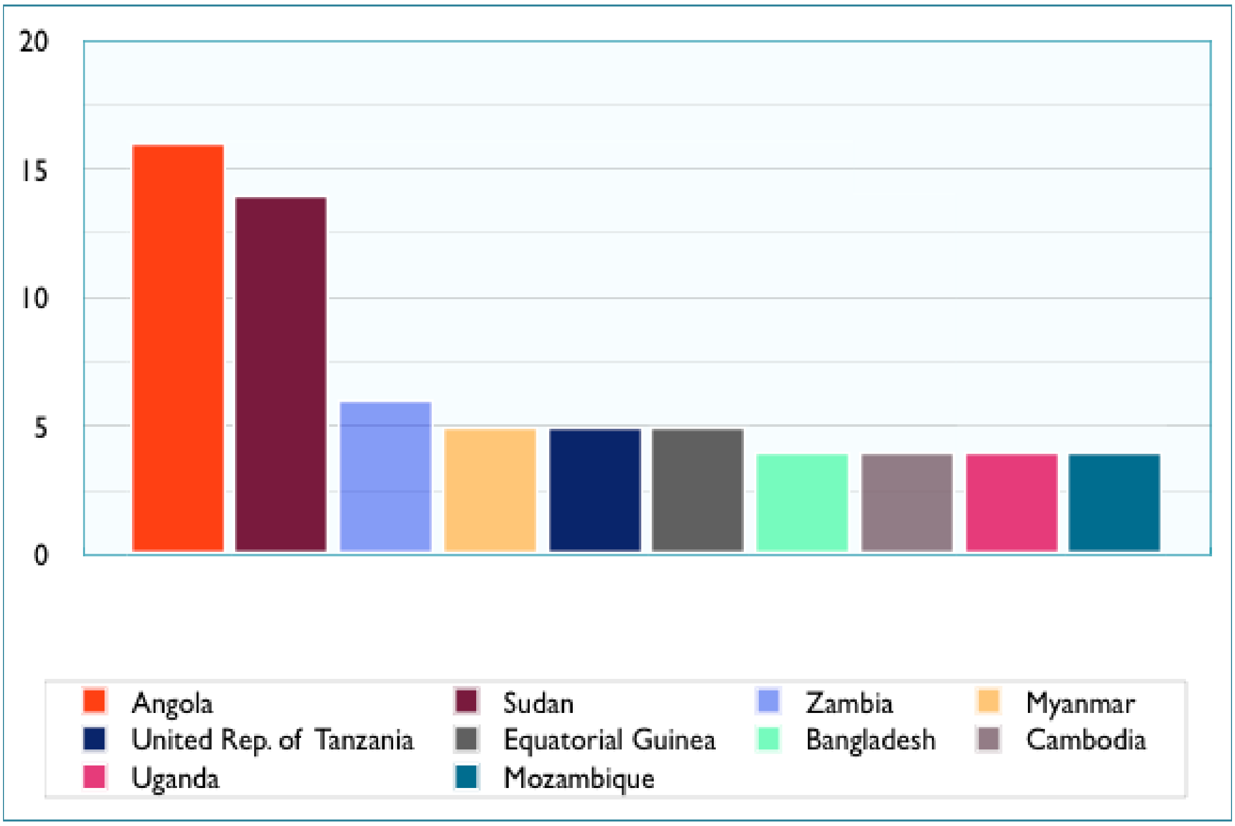
[7] UNCTAD Global Investment Monitor, No 11 and 12

[8] Ibid

Figure 3: FDI distribution comparative among the top 10 recipient LDCs (in % 1990 - 2010)

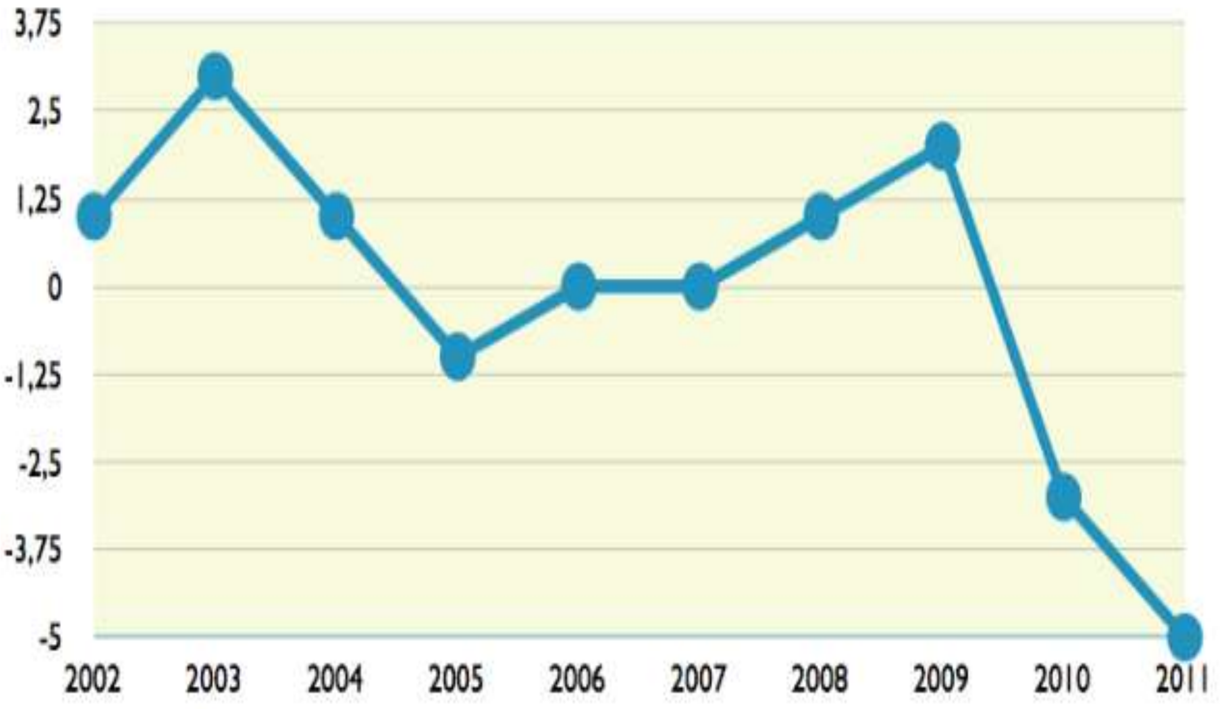


Source: *UNCTADstat and UN Statistical Division*

As noted in the recent study by UNCTAD[9], FDI flows to LDCs have become increasingly concentrated in extractive industries. Even in those countries where the extractive sector is not dominant, the gravity of FDI is more towards such sectors. Apart from a period around the mid– 1990s, oil exporting countries have received the largest share of FDI inflows to LDCs during the past two decades. The years that were the exception -namely 1994 to 1997 – resulted from the combination of a drop in the absolute level of FDI flows to oil exporters (including disinvestments in Yemen) and an increase in the flows to other types of exporters (such as Myanmar before the Asian financial crisis).   It can be observed from figure 4 below that FDI inflows to Angola have also shown a sharp decline between 2009 and 2011, pointing to the apparent disinvestment in the country during the three years indicated.

[9] For more details see UNCTAD/ALDC/2012/1

Figure 4: Net FDI inflows to Angola, 2002 - 2011 (in billions US$)



Source: *UNCTADstat and UN Statistical Division*

Whether this is a long term or a short-term trend remains to be seen as it is difficult to draw meaningful policy conclusions given the short span of time. However, it is important to note the volatility of FDI inflows inherent in natural resources extraction as opposed to the share of FDI inflows going to LDCs exporting manufactures (see UNCTAD: 2008).

II. WHERE DOES ANGOLA STAND NOW IN MEETING MAIN INTERNATIONALLY AGREED DEVELOPMENT GOALS/TARGETS?

For several years, UNCTAD has been tracking the progress made by LDCs towards internationally agreed development goals and targets with a special focus on MDGs and the Programme of Action for LDCs. Systematically tracking and documenting progress made by LDCs together with lessons learned and challenges encountered remain crucially important in efforts to articulate policy recommendations for action at the national, regional and international levels. Several important policy conclusions emerged from such a work, including: (1) the challenge of poverty reduction in these countries is immense and that concerted and collaborative engagements between LDCs and their development partners are indispensable;

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(2) at the national level, it is critical for LDCs to formulate their development policies and strategies to constantly improve the business environment, enhance investor confidence, demonstrate accountability and effectively use wealth from natural resources for development; (3) high economic growth attained in several LDCs has not been accompanied by an increase in value-addition, diversification, employment creation and poverty reduction; (4) policy prescription from outside is not viable for LDCs and they should, instead, design their home-grown development policies and strategies based on their specific socio-economic circumstances, resources base, institutional capability and overall local conditions; and (5) building productive capacities and attaining structural economic transformation should be pursued as part of the long-term development strategies in LDCs. This means that, at the national level, it is important to place the development of productive capacities - and related expansion of productive employment - at the centre of national policies and strategies, including poverty reduction strategy papers.

A. Angola's progress towards some economic indicators

The above lessons will have important policy implications for Angola in its continued efforts to broaden and sustain the country's socio-economic progress. Angola's economic performance is remarkable particularly in terms of the high growth rate (average rate of 11.25 % over the last decade). Such an impressive economic growth enabled Angola to continuously exceed the internationally agreed growth level of 7% for LDCs needed to reduce poverty. It also enabled Angola to become "middle income country" at least by the classification of the World Bank. Currently, Angola is one of the few LDCs that have surpassed the income criterion for graduation - GNI/capita (which is USD 1,190 in the 2012 review). As indicated in section C above, such a high economic growth of Angola is largely driven by exports, which are heavily dependent on extractive resources. A single commodity, petroleum, accounted for a whopping 95% of total exports in the decade 2002-2011, making Angola one of the most undiversified economies of the world with an export concentration index[10] of 0.95 during the decade, which rose to 0.98 in 2011.

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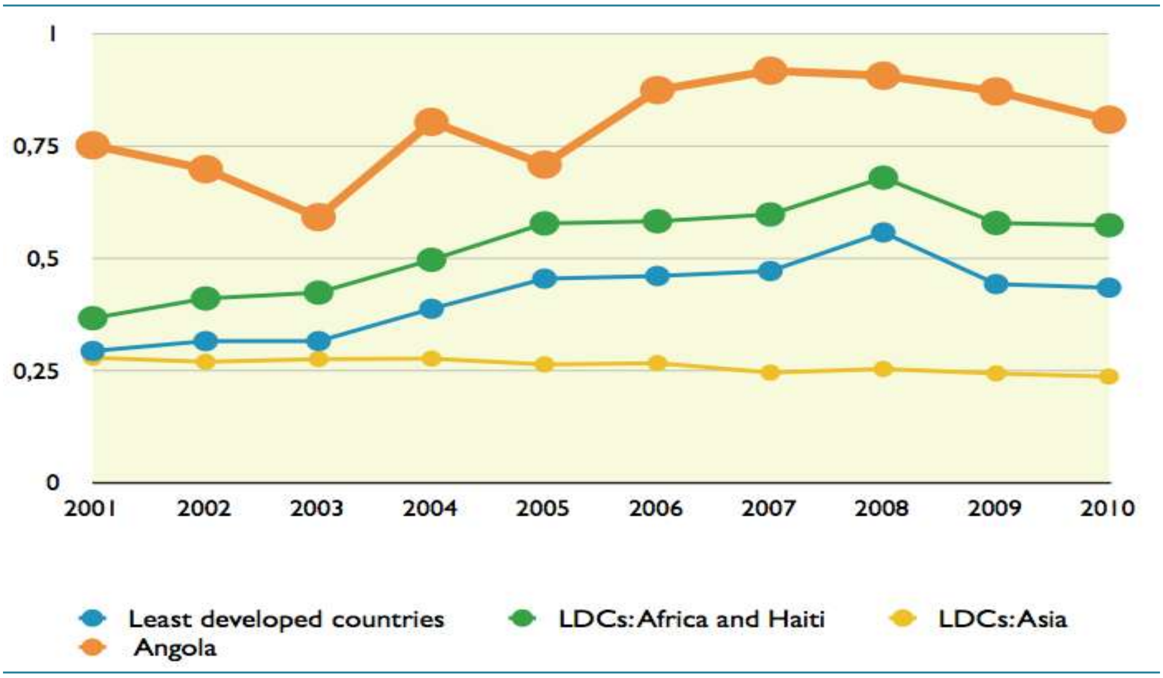
[10] The values of export concentration index lie between 0 and 1, with a higher value indicating greater export concentration

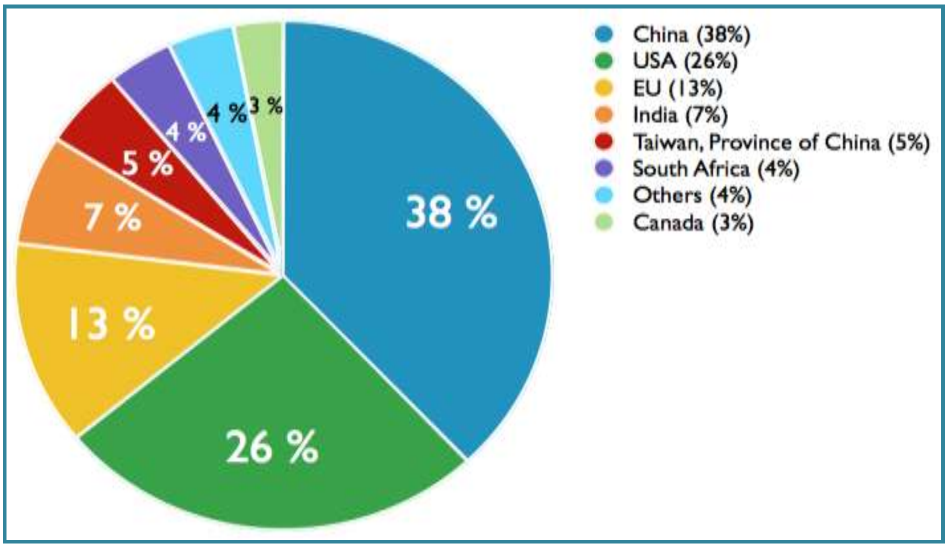
Figure 5: Comparative Export concentration index by main group (1995- 2010)



Source: *UNCTADstat and UN Statistical Division*

Angola's economy is not only dependent on a single export item but its market concentration is also among the highest, with a few countries being principal destinations to its main export (petroleum). Angola’s main export markets are – in order of importance – China, the US and the EU. However, other countries like India and Taiwan, Province of China also becoming increasingly significant importers (see figure 6 below)

Figure 6: Share of Angola’s petroleum exports by main markets, average 2007-2011



Source: *UNCTADstat*

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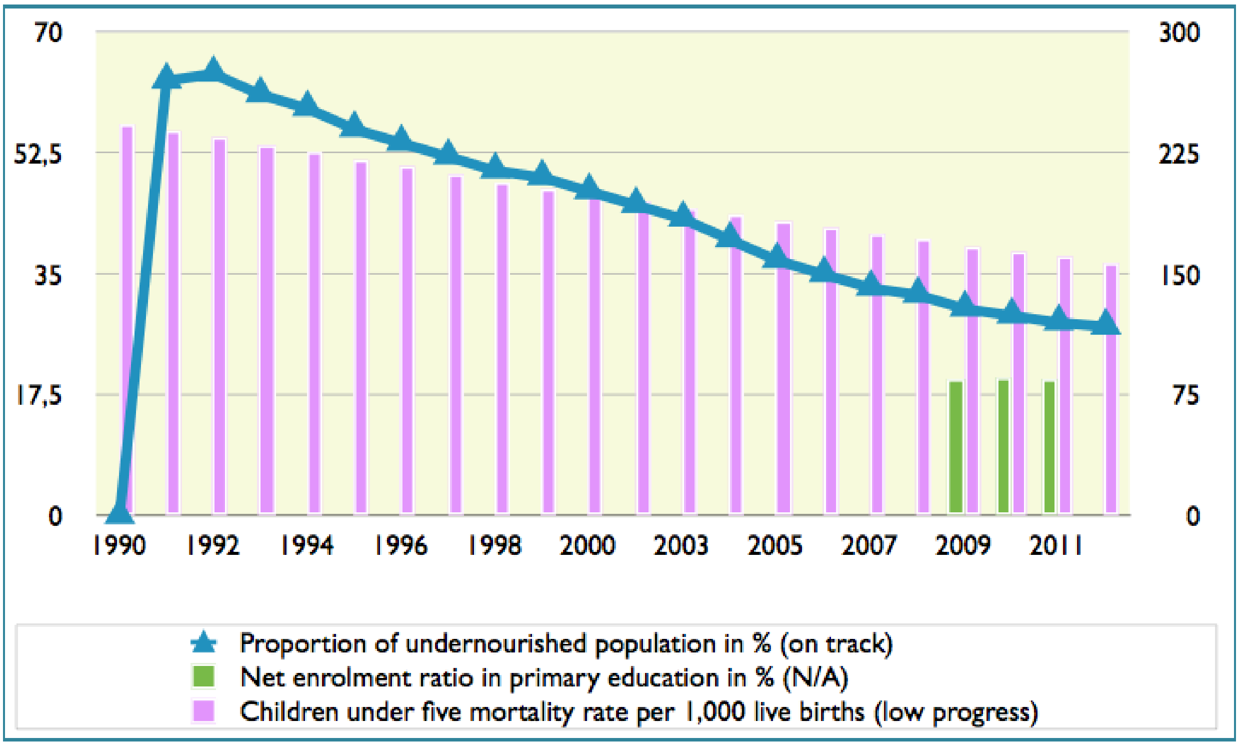
B. Progress made in the areas of social indicators

With regard to targets related to social (human) development, Angola is one of the 21 LDCs [11] that are on track to meet MDG target of halving the proportion of people who suffer from hunger especially reducing the proportion of undernourished population (target 1.C). Figure 7 shows the progress of Angola towards three MDG indicators in the last two decades.

Figure 7: Progress towards three MDG indicators in Angola (1990 -2010)



Source: *United Nations Statistical Division*

[11] The 21 LDCs on track are Angola, Bangladesh, Benin, Burkina Faso, Cambodia, Chad, Djibouti, Ethiopia, Kiribati, Lao PDR, Malawi, Mali, Mauritania, Mozambique, Myanmar, Niger, Samoa, São Tomé and Principe, Solomon Islands, Sudan and Vanuatu.

However, Angola is either lagging behind other countries or making a very slow progress in several other socio-development indicators (targets). These relate to indicators such as ensuring primary schooling (including net enrolment ratio in primary education - Target 2.A) and child mortality rate (under-five mortality rate - Target 4.A). Comprehensive data is not available as yet, on Angola's net enrolment ratio in primary education. However, various estimates indicate that in "2010 only 47% of school-aged children completed primary education in Angola. While this is up from the 34% rate in 1991, progress is nowhere near fast enough to achieve the MDG target of universal primary completion, and almost half a million children continue to miss out on school entirely"[12]. Also, it is less likely that Angola meets the target of reducing by half the proportion of its population living in absolute poverty by 2015, as a significant percentage of the population is still living on $1.25 a day internationally defined as absolute poverty line.

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Consequently, according to the 2013 ranking of countries by the United Nations Development Programme (UNDP) - on the basis of Human Development Index (HDI)[13] - Angola ranked 148th out of 180 countries for which data are available.

Paradoxically, between 2000 and 2012 - when Angola has experienced a robust annual average GDP growth rate, its Human Development Index has shown a marginal change from 0.375 to 0.508 without a significant corresponding change in the position of the country in an overall ranking[14]. Angola together with about 42 other low-income countries has been in the "low Human Development Index quartile" for several decades. It is important to note that the progress of Angola towards internationally agreed human goals and indicators is based on UN-estimates as there is no census in the country on recent trends in human development. The outcome of the forthcoming nation-wide census may have important implication to the current estimated statistical values. The census is also expected to improve existing gaps and limitations in the area of statistics and related information on recent trends in human development in the country.

The high export concentration index (or very low diversification of the economy of Angola) and lack of progress in major social indicators are evident from the relatively lowest Human Assets Index (HAI) and above-average Economic Vulnerability Index (EVI) from the list of countries that have met or surpassed the income criterion (GNI per capita). Therefore, against low HAI and relatively high EVI criteria the challenges facing the country are daunting and call for a major policy shift to enable the country to sustain and broaden its economic success and to reverse the decline or stagnation in key human asset indicators.

[12] The 2013 Data Report: Financing the fight for Africa's Transformation by ONE (an NGO)

[13] HDI is a composite index measuring economic and human development (wellbeing of citizens) consisting of income and non-income values (indicators) such as life expectancy at birth, schooling and Gross National Income per capita (GNI/Capita).

[14] For more details see the 2013 Human Development Report of UNDP: The Rise of the South: Human Progress in a Diverse World

Table 1: LDC criteria, Indicators from 2012 Review

Country	GNI per capita [15]	HAI [16]	EVI [17]
Angola	**3'747**	**31.6**	**51.13**
Djibouti	1'235	42.4	46.3
Sudan	1'213	52.6	44.4
Bhutan	1'700	59.0	44.2
Sao Tome and Principe	1'113	74.9	55.0
Timor- Leste	2'233	48.1	56.7
Equatorial Guinea	15'090	43.0	43.7
Vanuatu	2'540	77.7	46.8
Samoa	2'880	92.8	51.1
Kiribati	1'937	86.9	82.0
Tuvalu	4'993	88.1	63.9

Source: *UN- Department of Social and Economic Affairs*

C. Productive capacity related indicators

A key policy challenge facing LDCs such as Angola is to build productive capacities of their economies. This includes developing productive resources, entrepreneurial capabilities; technological upgrading and know-how and production linkages with a view to advancing their development (UNCTAD: 2004, 2006). Building productive capacities requires a commitment at policy level so that it will be placed at the heart of domestic trade and development policies with more allocation of resources to the productive sectors of the economy. It also means enhancing the role and contribution of the private sector to economic growth and poverty reduction. In addition to tackling corruption and easing ways to conduct business, it is instrumental that governments in LDCs support the development of entrepreneurial capabilities. Thus, they must also take measures across the board to strengthen infrastructure – from enhancing road and ICT networks to ensuring greater access to credit and reduced cost of trade finance. In doing so, they need to attract investments into new projects as well as into the upgrading and maintenance of existing infrastructure.

As shown in table 2 below, assessed against limited indicators, it appears that Angola scores comparatively well on some internationally agreed targets and goals related to productive capacities. However, it has a long way to go before it reaches the average of other developing countries in many areas. For instance, whereas electricity production per capita in Angola in 2010 was higher than the average for LDCs as a group and low-income countries (246.85kwh), it was considerably below that of lower middle income and upper middle-income developing countries (857.27 and 3,228.18 kwh, respectively).

[15] GNI per capita (formerly GNP per capita) is the gross national income, converted to U.S. dollars using the World Bank Atlas method, divided by the midyear population.
[16] HAI is calculated at 25 % of each of the figures for the prevalence of undernourishment, under five mortality rate, literacy rate and gross secondary enrolment ratio.
[17] EVI is calculated at 50 % of the figures for the exposure index and the shock index

Besides, Angola's poor infrastructure for distribution of electricity proved to be a serious bottleneck for improved export competitiveness of the country and for its attractiveness as business location. A previous UNCTAD study (UNCTAD /ALDC 2008/1), which compared selected countries, including Angola on the quality of infrastructure indicates that there were over 80 days of electric power outage in the country per year against 9.6 days in Burkina Faso, 4.9 days in Cambodia, 19 days in Lesotho and 26 days in Senegal. When the comparison is with middle-income developing countries it is, 3.7 days in Chile, 6 days in Mauritius and 1.1 days in Thailand. In terms of mobile telephony and internet connectivity, Angola is better than most LDCs but its fixed telephone lines/100 people are lower than the LDCs' average and by far lower than that of Botswana, Cape Verde and Maldives - the three countries that have graduated from the LDCs' category. Table 2 below shows some indicators of productive capacities for Angola, LDCs as a group and the three countries that have graduated from LDC status (Botswana, Cape Verde and the Maldives) in 2010 and 2011.

Table 2: Selected Indicators of productive capacities 2010-2011

ICT 2011	Angola	LDC average	LDC median	Botswana	Cape Verde	Maldives
Mobile cellular per 100 people	**48.38**	47.02	47.48	142.82	79.19	165.72
Telephone lines per 100 people	**1.55**	2.21	1.08	7.37	14.88	7.52
Internet users per 100 people	**14.78**	6.81	4.79	7.00	32.00	34.00
Electricity production per capita (kWh) (2010)	**275.44**	196.05	121.05	227.71	-	-

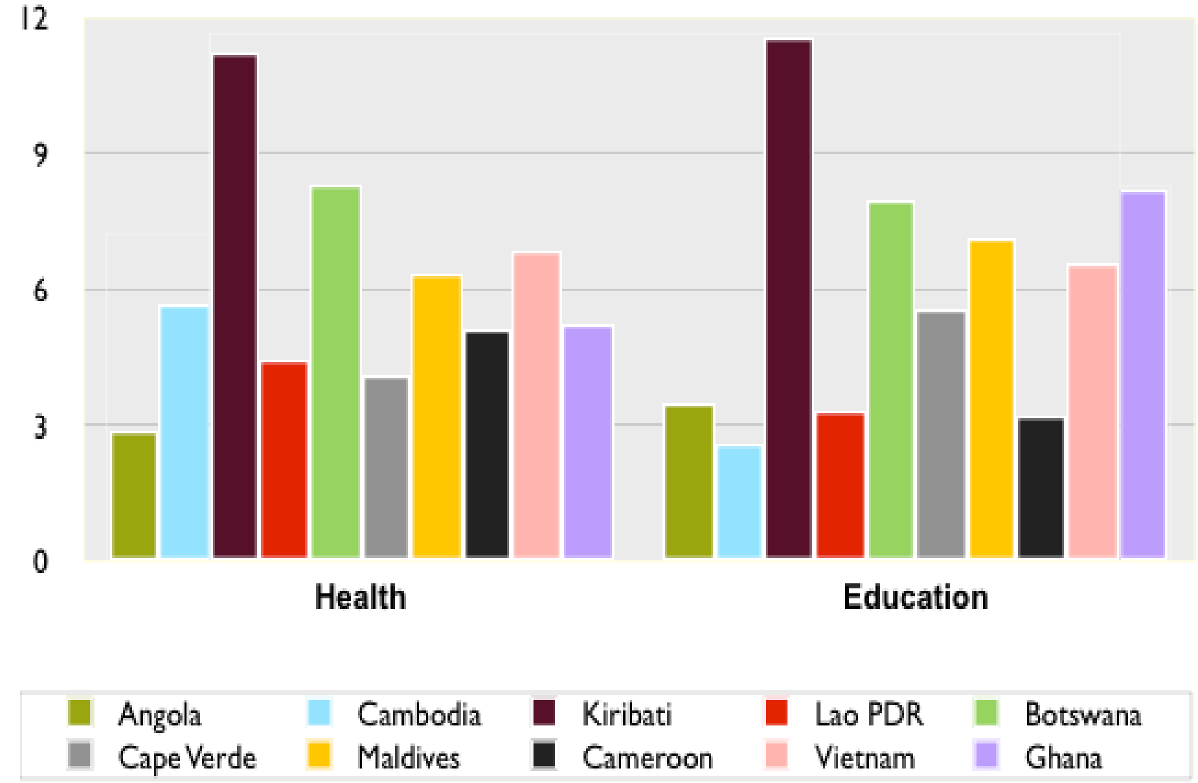
Source: *World Development Indicators, World Bank.*

Another area where Angola is lagging behind other LDCs relates to expenditures on education and health - two of the most essential sectors in building human resources capabilities, which are key for an overall productive capacity building. In absolute dollar terms, Angola spent US$ 3.1 billion and US$ 4 billion, respectively, on health and education in 2012 - by far the highest amount within the LDCs' group. As a matter of fact, only Nigeria spent as much as Angola on education and only South Africa spent (both on education and health) in excess of Angola during the same year. However, in relative terms (as percentage of GDP), Angola's expenditures on health and education are among the lowest and are far lower than the target of 7 % of GDP agreed in the Dakar Framework of Action.

As can be seen from figure 8 below, Angola's average expenditures on health and education are less than 4 % (as percentage of GDP), whereas the corresponding shares were as high as 11% (both sectors) in Kiribati, 8% (both sectors) in Botswana, 7% (both sectors) in Vietnam and 7% on education and slightly over 8% on health in Ghana. The low average expenditures of Angola on education and health are also reflected in its low Human Assets Index (HAI). This calls for scaling-up of resources allocation to the education and health sectors so as to improve the human assets index of the country and more importantly, its productive capacity.

Angola's average expenditures on health and education are less than 4 % (as percentage of GDP), whereas Kiribati spends as high as 11%, Botswana 8%, Vietnam 7% and Ghana (7% on education and slightly over 8% on health).

Figure 8: Comparative expenditures on health and education as % of GDP (2008 - 2011)



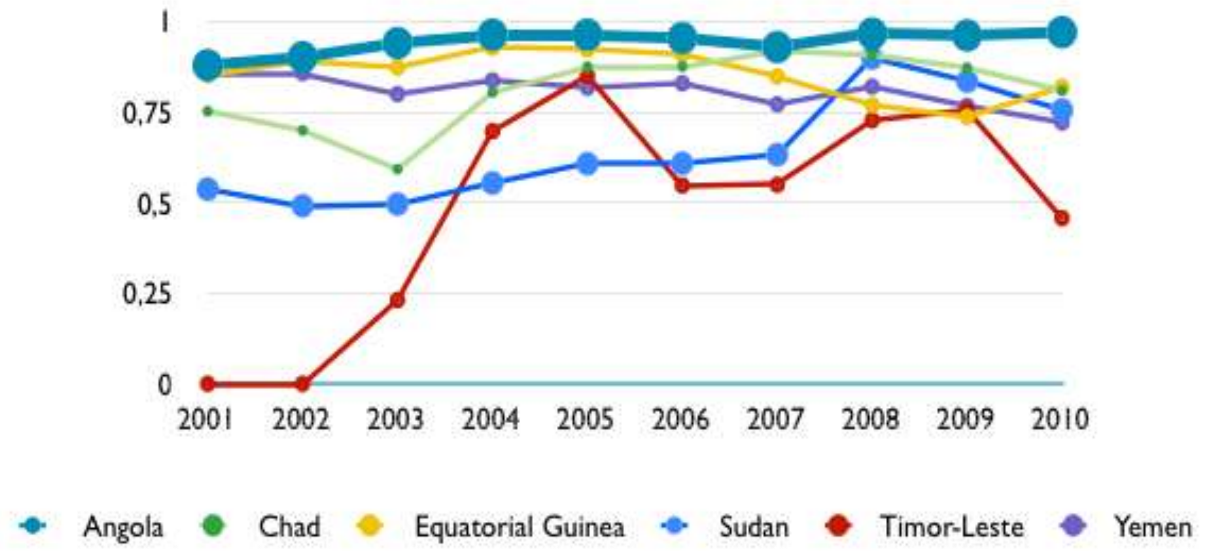
Source: *World Development Indicators, World Bank.*

III. NATURAL RESOURCES AS A DRIVING FORCE: CHALLENGES AND OPPORTUNITIES

As shown above, Angola's economy is heavily dependent on oil exports, which accounted for about 98% of the country's earning in 2011. The natural resources wealth of Angola is not limited to oil only as the country has become important exporter of rough diamonds. Such a heavy dependence on extractive resources increases perceived risks and inherent vulnerabilities of Angola as evidenced by its above-average level of Economic Vulnerability Index.

Angola is one of the most undiversified economies within the LDCs group as a whole and among the six oil-exporting countries. Figure 9 indicates the degree and extent of Angola's export concentration index in comparison with the oil exporting LDCs (Chad, Equatorial Guinea, Sudan, Timor-Leste and Yemen).

Figure 9: Comparative export concentration Index of oil exporting LDCs



Source: *UNCTADstat*

Such a heavy dependency on a single commodity export increases the risks and vulnerabilities of the economy of Angola with consequential macro-economic instabilities and imbalances both in the short- and in the long run. For instance, uncertainties about key commodity prices generally has a negative impact on the investment and production planning of both sellers and buyers and renders macro-economic, fiscal and financial management more difficult [18] . Moreover, the recent "oil price hike has also been accompanied by a massive increase in the prices of several primary commodities and this combined price surge has pushed up the Consumer Price Index (CPI) in many developed and developing countries. In addition to their direct impact on the CPI, oil prices also affect the prices of many other goods and services for which oil is an important intermediate input, raising concerns about inflationary pressures." [19]

[18] Trade and Development Report 2008, UNCTAD, pp 20-30

[19] Ibid

However, overall, Angola has been credited for containing inflation and strengthening the government's fiscal position but still the country boasts some of the most expensive cities in the world.

The heavy dependence on a few or single commodity exports calls for concerted efforts to diversify the economy of Angola by expanding the export basket of the country. Various studies, including by UNCTAD confirm that diversification not only broadens the scope for employment creation and poverty reduction, but it also increases the country's economic resilience to external shocks, thereby making income more stable and predictable. Diversification can also promote technological advance and efficiency, boost labour productivity and incomes. Most importantly, successful export diversification is both indicative of and conducive to technological upgrading and knowledge acquisition. Angola can also take much greater advantage of its rich agricultural sector. The Government of Angola should play a very active role to harness the potential of agriculture for economic development; employment and income generation. This should include efforts to increase the investment (both private and public) in agriculture and integrated rural development with the view to enhancing the role of agriculture in socio-economic development of the country and diversifying its economic bases.

> The Government of Angola should play a very active role to harness the potential of agriculture for economic development; employment and income generation.

A continued over-dependence on mineral resources exploitation, as noted in the recent report of the World Bank, will leave the majority of the population untouched by the mineral wealth. However, countries that made good on their natural resources riches managed to positively impact their socio-economic development. In fact, the development of commodity-dependent countries is influenced by how well the country manages its natural resources endowment. On the one hand, successful management of resources can improve the chances that the yields from the extractive industries will percolate into the rest of the economy and help lay the foundation for long-term development. On the other hand, mismanagement can result in enclave-led growth, patronage and capital flight (UNCTAD/ALDC/2012/1). Two key terms that are often stressed in the context of management of natural resource rents are fiscal transparency and macroeconomic management.

A well-known tool available to promote increased transparency is the Extractive Industries Transparency Initiative (EITI), in which a coalition of governments, companies and civil society aim to improve governance in resource-rich countries on a voluntary basis.[20]

> The Extractive Industries Transparency Initiative (EITI), is a coalition of governments, companies and civil society to improve governance in resource-rich countries on a voluntary basis.

Another interesting innovative approach to enhance transparency and accountability is the recent launch of the Kenya Open Data Initiative, which gives the public free online access to key government data on the 2009 census, national and regional expenditure, and main public services, among others.[21]

[20] http://eiti.org.

[21] https//opendata.go.ke.

Overall, if credible domestic and international agencies of restraint on rent seeking can be instituted, presently rising commodity and fuel prices are an opportunity for some LDCs (including Angola) to seize. The large revenues that accrue to mineral-exporting countries have most often proven to be a stimulus to rent seeking and corruption rather than a source of funding for development and poverty reduction.

Yet in a few cases developing countries such as Indonesia and Botswana, have successfully managed resource booms through prudent fiscal management of which Angola should draw positive lessons from the experiences and best practices.

IV. INTERNATIONAL SUPPORT MEASURES

Angola - thanks to its mineral resources- reached a stage where it can fully self-finance its "transformative development". It is encouraging to note that the Government has already finalized a plan to invest multi billion dollars in the energy sector, railway connections (upgrading and modernizing) and in the construction of the new international airport. This investment includes: US$ 4 billion in port modernization and railway rehabilitation, a further US$4 billion in the Liquefaction Natural Gas plant at Soyo and US$ 8 billion in a new oil refinery at Lobito. Further projects for financing from domestic sources include expansion and modernization of roads and bridges, airports, hydroelectric dams, power distribution lines, irrigation systems and hospitals.

The country is also making continued efforts to expand education and health coverage with increased allocation of resources to the two sectors. However, this does not mean that Angola is totally self- sufficient to finance its development needs. Hence, continued engagement and partnership with the international community remains vital for the country's sustained progress and economic transformation.

The recent global financial and economic crises have also underlined that, even countries in the developed economies of the world, need constant engagement and partnership with the international community, particularly in trade, investment, finance and technology transfer. However, such engagements and partnerships should be predictable and well coordinated, linked to an effective national mechanism for monitoring implementation of projects and programmes. Generally, a well managed process of engagement with partners and the global economy through international trade and investment can accelerate and widen the opportunities for pro-poor growth and for sustained poverty reduction efforts. But a poorly managed partnership can impact negatively on long-term growth prospects.

V. Policy conclusions and the way forward

Improving the quality of development policies and their effective implementation is crucial for attaining successful socio-economic transformation in Angola. As with typical LDCs and despite high rates of economic growth, the challenge of poverty reduction in Angola remains daunting. This calls for effective development policies and strategies as well as enhanced development partnership to address the challenge. It is critical for Angola to lay the policy and institutional foundation for inclusive, broad-based and durable development, including by improving the business environment, enhancing investor confidence, demonstrating accountability and by effectively using wealth from natural resources for development.

Currently, the development policies and strategies of the country, including sectoral policies embody poverty reduction strategies. That is, unlike many LDCs, Angola does not have a stand alone Poverty Reduction Strategy Paper (PRSP). Such an apparent omission was noted in the 2012 Private Sector Country Profile for Angola prepared by the African Development Bank and the Africa Development Fund (page 85). Therefore, it is advisable for the Government of Angola to consider formulating a consolidated and single (stand alone) Poverty Reduction Strategy document that places poverty reduction at the centre of the country's development policies and strategies. Such a document should be developed on the basis of initial conditions, cultural and institutional framework as well as national priorities of Angola.

It is equally important for Angola to enhance its efforts to build productive capacities and accelerate structural economic transformation as part of its long-term development strategies. This should include investing in energy and power distribution; transport, information and communications infrastructures, etc.

Improved allocation of government expenditures on education and health is critically important - two of the most essential sectors in building human resources capabilities - which are key for an overall productive capacity building. In this context, particular attention should be given to ways and means of scaling-up of resources allocation to the education and health sectors as well as to other productive sectors of the economy.

The foremost economic challenge facing Angola now and in the immediate future is to break the vicious cycle of heavy export concentration and overdependence on export earnings on a single commodity (oil).

The foremost economic challenge facing Angola now and in the immediate future is to break the vicious cycle of heavy export concentration and over-dependence on export earnings on a single commodity (oil). This calls for concerted efforts to diversify the economy of Angola by expanding the export basket of the country. Angola's effort to diversify its economy should address the declining role of its agricultural sector in the economy. The Government of Angola should play a very active role to harness the potential of agriculture for economic development; employment and income generation. This should include efforts to increase the share of investment (both private and public) in agriculture and integrated rural development with the view to enhancing the role of agriculture in socio-economic development of the country and diversifying its economic bases.

Angola can also redefine its industrial policy to diversify into manufactures with high-value content with a particular focus on sectors of specific interest to the country. For instance increased value addition and value retention in petroleum and petroleum products and other strategic minerals will be beneficial for Angola's structural transformation, economic growth and development. So far, the country has been exporting most of its petroleum as crude oil and wasting its gas through flaring and polluting its environment. While some refinery was already taking place at a smaller scale, the country still had to import some finished products such as liquefied petroleum products (LPG): butane and propane. The key for Angola is to enhance investment in infrastructure, education, health, technology and technological know-how with the view to laying a solid foundation for industrialization. Boosting linkages, value addition and diversification by locally processing natural resources for export should be pursued as a key diversification strategy for Angola.

In this connection, the two projects which are being undertaken by the Government Angola (one on the construction of a liquefied natural gas - LNG - plant and terminal at its north-western port city of Soyo and the second one a refinery at the port city of Lobito in the western-central part of the country) are expected to improve export receipt (revenue) of the country while creating employment, enhancing value-addition and improving linkages.

Over-dependence on mineral resources exploitation, may lead to skewed distribution of income, leaving the majority of the population (especially rural population) untouched by the mineral wealth. It will also encourage patronage and capital flight. In this regard, fiscal transparency and macroeconomic management are key in addressing such problems.

It is important for Angola to join the Extractive Industries Transparency Initiative (EITI) and draw a practical lesson from the experience of Kenya with regard to an Open Data Initiative, which gives the public free online access to key government data on national and regional expenditure, and main public services, among others. Ghana's 2011 Petroleum Revenue Management Act exceeds EITI reporting standards and the new Liberian Draft Petroleum policy includes provisions requiring the disclosure of ownership structure of mining companies, revenue forecast and oil sale information[22].

It is also very important for Angola to emulate other developing countries, notably Botswana, Chile and Indonesia in managing resource booms through prudent fiscal management and capturing the gains from increased oil prices in socio-economic development. Despite the multiple challenges facing it, Angola has met one of the graduation criteria- the GNI/Capita criterion and it fulfilled one of the graduation rules - "the income only" rule[23]. According to UNCTAD's preliminary assessment, including in the context of the present concept note, if Angola were to graduate today the impact on its economy would likely be very limited.

This preliminary conclusion is only when the impact is assessed against the benefits that accrue to it through trade preferences, aid allocation and debt cancellation related considerations. Regarding trade preferences, tariffs facing Angola’s main export – petroleum – would barely change in the most important markets in case of graduation. When assessed against the main export destinations for Angola’s main export markets (China, the US and the EU), China applies a zero MFN-tariff on petroleum, so graduation should not have any impact. As for the US, Angola is not only eligible to LDC preference rate, but the country’s exports can also enter the US duty-free under the AGOA scheme.

Angola’s eligibility to the latter scheme would not change upon graduation and, hence, graduation should not have any impact on its access to the US market. Finally, Angola’s exports enter the EU duty-free under the EBA initiative. However, virtually all exports would face zero tariffs even without these preferences because the EU applies a zero MFN-tariff [24]. As far as official development aid - an important pillar of the International Support Measures -

[22] Africa Progress Report 2013 of Africa Progress Panel.

[23] A country may graduate by ‘income only” rule, when its GNI per capita level exceeds by three folds above the income graduation threshold.

[24] Technically, upon graduation from LDC status, Angola could cease to be an EBA beneficiary after a transitional period of three years, but it would still be eligible for other EU schemes for developing countries, such as GSP and GSP+.

is concerned, aid flows to Angola account only for a tiny percentage of the country’s GDP.

The share of total official flows to GDP in Angola has steadily decreased over the past fifteen years – from a peak of 9.8% in 1995 to 0.4% in 2010 (see figure 10 below). The importance of aid to Angola has diminished accordingly.

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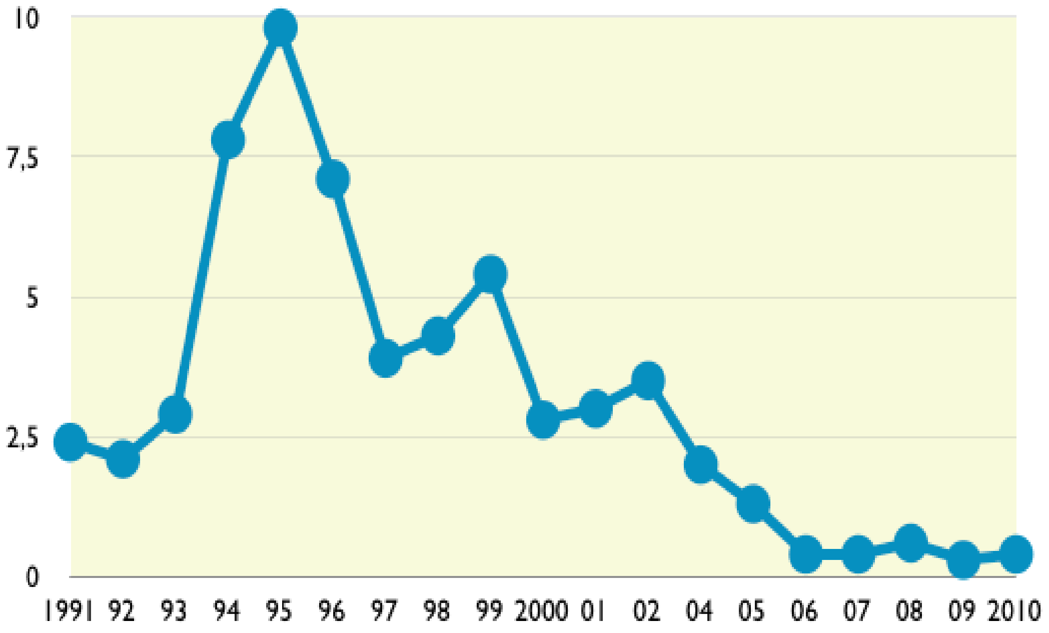
Figure 10: Share of total official flows to GDP in Angola, (in % 1991 - 2010)



Furthermore, donors take several factors into account when determining the allocation of their aid, with LDC status being only one. One cannot therefore say beforehand how graduation from LDC status could affect donors’ priorities and decisions.

On debt, the IMF data for Angola show that its debt stock as percentage of GDP declined from about 60% in 2003 to a little more than 10 % in 2012, and is projected to further decrease in 2015. Therefore, it is unlikely that Angola be a debt distressed country in the short- to medium term and this situation will probably not be affected by its graduation from the LDCs' group.

Overall, the estimated overall impact of graduation on Angola’s trade preferences (market access) flows of development aid and indebtedness will be negligible, if any. Angola faces the challenge of diversifying its economy and making it less reliant on petroleum, but there are no discernible advantages with being an LDC in addressing this challenge.