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KONRAD ADENAUER STIFTUNG

ANGOLA ECONOMIC REPORT

2019 – 2020

Luanda, April 2021

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CEIC
Centro de Estudos e Investigação Científica
Universidade Católica de Angola

Freedom, justice and solidarity are the basic principles underlying the work of the Konrad-Adenauer-Stiftung (KAS). The KAS is a political foundation, closely associated with the Christian Democratic Union of Germany (CDU). As co-founder of the CDU and the first Chancellor of the Federal Republic of Germany, Konrad Adenauer (1876-1967) united Christian-social, conservative and liberal traditions. His name is synonymous with the democratic reconstruction of Germany, the firm alignment of foreign policy with the trans-Atlantic community of values, the vision of a unified Europe and an orientation towards the social market economy. His intellectual heritage continues to serve both as our aim as well as our obligation today.

In our European and international cooperation efforts we work for people to be able to live self-determined lives in freedom and dignity. We make a contribution underpinned by values to helping Germany meet its growing responsibilities throughout the world.

In order to achieve its socio-political goals, the Windhoek office of the Konrad Adenauer Foundation works together with Women's Action for Development (WAD) as well as with various co-organisers in so called 'self-initiated measures'.

The self-initiated measures of the KAS offices play an increasingly important role. Through such instruments, pressing problems and questions can be immediately addressed. KAS in Namibia cooperates closely with the office of the Ombudsman and The University Centre for Studies in Namibia (TUCSIN), in order to focus on measures dealing with good governance, the rule of law and political parties.

A further task of the Windhoek office is to support Angola's democratic development. With this goal in mind the foundation cooperates with the Ombudsman of Angola, as well as the Instituto de Desenvolvimento e Democracia (IDD). Furthermore, measure have been initiated which aim at establishing a training centre in the Kwanza Sul province.

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Konrad-Adenauer-Stiftung e.V.
Foundation Office Namibia and Angola
Mutual Tower, 7th Floor, P.O. Box 1145, 223 Independence Avenue
Windhoek
Namibia

Email: info.namibia@kas.de
Telephone: +264 61 225-568/+264 61 225-678
Website: www.kas.de/namibia
Facebook: www.facebook.com/KASNamibia
Instagram: kas_namibia_angola
Youtube: https://www.youtube.com/channel/UC44CilVJMJj4YPGVmQ_wSGg

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Address: Universidade Católica De Angola
Rua Pedro De Castro Van-Dúnem 24
Bairro Palanca, C.P. 2064
Website: www.ucan.edu
Email:info@ucan.edu

Welcome message from the director

It gives me great honor as director of the Konrad-Adenauer-Stiftung (KAS), to craft a short message to accompany the Angola Economic Report 2019/2020. Our Namibia and Angola office, is happy to report that we have made significant progress in establishing networks and contacts that allowed for activities in Angola to be implemented. This allows KAS to contribute to the socio-economic development in Angola, which helps uplift the living standard of the ordinary Angolans. Our work also relates to youth and women empowerment as well as small and medium enterprises development. All these elements are key contributors to the national development discourse. Further, understanding Angola as a country is important for a key stakeholder like KAS. Hence, our engagement and support to this economic report.

Moreover, Angola is an important country in SADC, respected and appreciated by its neighbors. It is an important country for the security, stability and general peace in the region. Angola is also one of the five oil producing countries in Africa, taking the second spot from Nigeria. Macroeconomic stability supported by recent key reforms and fiscal consolidation has been secured. However, the achievement remains fragile due to the exchange rate instability linked to the oil export, which account for one third of the country GDP. According to the world bank, oil export account for more than 90% of Angola's exports. The country faces a number of developmental changes and other vulnerabilities related to inadequate infrastructures, access to health care and education. Lack of diversification at macroeconomic level with high reliance on oil, is an additional concern. The COVID-19 pandemic and resulting economic disruptions make these tasks even harder to address. COVID-19 pandemic has not only affected the country socio-economic stability but has increased its vulnerability. This could take longer to repair.

With these issues in mind, the Angola Economic Report 2019/2020 has come at an opportune time to take stock and provide the necessary economic and fiscal assessment over the stated period. The report also captures key data and provide analysis that is important to inform, and allow access to information for decision making. In that regard, KAS is grateful to have been part of this report.

Regarding the way forward, KAS is happy to engage and work with all stakeholders to support and implement activities, to help grow and sustain the economy. We welcome new ideas, and also listen to existing concepts and proposals, in our guest to strengthen our relationship with existing and new partners.

Finally, I thank all our partners, who played instrumental role, at various levels, to make this report a reality. Your contribution is highly appreciated, and is of enormous value to the country.
Thus, I wish everyone happy reading!

Mrs. Natalie Russmann
Resident Representative
Konrad-Adenauer-Foundation
Namibia & Angola Office

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Acronyms

AfDB	African Development Bank
FFS	Farmer Field School
ADS	Agrarian Development Station
IFAD	International Fund for Agricultural Development
IDA	Institute for Agricultural Development
MINAMB	Ministry of the Environment
MOSAP	Family Farming Development and Trade Project
PAPAGRO	Programme for the Purchase of Agricultural and Livestock Products
PIAAPF	Integrated Plan for the Advancement of Family Farming and Fishing
PRODESI	Production, Export Diversification and Import Substitution Support Programme

1. Introduction

What would the end of the pandemic entail? Is there really a point to this question, not only for Angola, but for the world? There is no assurance of the development of a vaccine that will turn covid19 into a normal flu, like others that recur in every country's health scene. In the United States debate for the upcoming November presidential elections, held on September 29th, it became clear how far we are still from achieving this goal.

It appears that all specialists are unanimous in stating that countries need to define new growth paradigms, taking advantage of behavioral changes to counteract the negative effects. And it is in this context that the following question arises: is the goal to achieve long-term growth or to fight against the economic recession that the country has been in since 2015? The variants to consider, schedule, and manage are different in each case. The Government is convinced that the recession can be fought through restrictive fiscal and monetary policies that contribute to the stability of the three traditional macroeconomic aggregates: 1-fiscal deficit (which is why so much is said about fiscal consolidation), 2-inflation (controlled by monetary policy and not by the growth of production and domestic supply), and 3-public debt.[1] It is the well-known stability/growth dichotomy: complementarities and conflicts that each country must equate and resolve according to its present situations and future conditions for development. This is a subject inviting to a deep reflection, so that one can at least envisage the post covid19.

It is one of those subjects that causes a lot of discussion, given the wide divergence of opinions. Should we first stabilize and then focus on growth, or should we promote growth in order to ensure continued macroeconomic stabilization and fiscal consolidation (in due course and based on the respective grounds)? Or, use well formulated panels of priorities and consider time as a strategic variable, dose one and the other? The centers and academies for economic research and social reflection (such conflicts and complementarities have remarkable social effects) usually have (or should have) good theoretical bases for analysis and evaluation, to which should be added the numerous known case studies.

It is also relevant to think about whether, in the short term, the intention is to protect existing jobs (wages could be reduced in the event of an economic upturn, thus creating a conflict between keeping jobs or securing wages) or to promote new companies and sectors (Angola's political and economic leaders will have to ponder the configuration of a new sector matrix imposed internationally by the ongoing global transitions: the energy transition - from carbon to renewables, in defense of the environment - and the transition to a knowledge-based economy). Whatever is decided in the meantime will have future repercussions.

The pandemic triggered two major economic chocks in the country (following another one after 2014, with the price fall of the oil barrel in the international market): a demand and a supply chock (which need to be quantified in order to better design policies to revive the economy, i.e., how much of the recession was due to one and the other, which one is the dominant and which will prevail?). The demand shock induced by the pandemic can be seen in the reduction of household consumption expenditures (due to the confinements and the uncertainty and the lack of financial support from the State).[2]

1 Since President João Lourenço took office in September 2017, Angola's external public debt has increased by US$ 25768 million and EUR (€) 579 million. It is very apparent that the expected effects of its application (information about the fate of these debts, which after all were obtained in the name of the country and must be repaid by the population, remains rather opaque) take time (the well-known response lags), but there is clear distrust as to the rigor and soundness of priority-setting.

2 The household consumption reduction also resulted from the devaluation of the national currency, caused by the exchange rate policy and the Hyperinflation.

The supply shock was due to rapid changes in Labor organization and productivity. The recovery from these effects and changes will clearly only take place in the long term, for which it is necessary to know the growth accounting in Angola.

When we look at the factorial structure of the country after 1993 (reintroduction of the market economy) and we break down growth into its different contributions - labor, capital, and productivity - what conclusions do we draw? None, because there are no statistics on the economy's fixed capital stock. However, some rough estimates are possible. By paging through the Economic Report of Angola, by the CEIC-UCAN (Center for Studies and Scientific Research- of the Catholic University of Angola) of 2018 one infers that the main conclusion, is that of the preponderance of capital in the annual growth of GDP, with an average annual contribution, in the period 2003-2018, of 7.3% given the highly intensive production processes in investment and technology used in the extractive industry. Public investment held a remarkable importance - albeit with a certain amount of reservations and negative remarks regarding its efficiency - by presenting an accumulated value of USD 117 billion. The average annual labor input dropped to 2.1%, indicating that a reduction in the unemployment rate can be achieved using more labor-intensive production processes. The technological progress contribution was obtained by difference and throughout the period under review it has been negative, proving the weak competitiveness of the national economy.

In sectoral terms, the most important contributor to the country's annual growth dynamics is oil and gas extraction (2.3%), while the agriculture, fishing, manufacturing, construction, and trade activities together account for 2% (the average annual contribution of manufacturing was 0,22% for the period under review.

After 1973/74, the industrialization ratio only deteriorated, and we believe that after independence the country chose a new economic paradigm, through which many changes should have occurred within the scope of a centralized economy, our belief is void, because what happened however, was nothing, and the relative weight of the manufacturing industry in the GDP continued to decline. The relative importance of one of the most important sectors for production and export diversification averages 4% per year, and as a result, the need to industrialize (or re-industrialize) the country? Absolutely, but how?

The recently approved Plan on this subject - being merely yet another among many drafted in the past - is silent about an important and decisive matter: how to achieve re-industrialization? How to restore amounts in the colonial era's 20% range? Should it be done based on light or primary industries, with the sole purpose of substituting imports, or starting with a new, modern and competitive industrial matrix? The country re-industrialization will not be achieved within 20 years because of the constant emerging challenges, and it will have to be rooted in a new knowledge-based economy industry (it is one of the transitions), backed up by innovation, with highly trained individuals, high wages, and a strong tie to universities.

Should we industrialize the economy for the domestic market (not enough purchasing power to help create scale economies) or to export? If so, where to? Europe, taking advantage of the tremendous financial resources injected into its economies because of covid19 (perhaps a learning curve on how to reconcile the short and long term), is initiating a process of Europeanization of its global value chains, aimed at reducing its dependence on the outside world, especially China.[3]

If the aim is to achieve a relative weight of the aggregate value of manufacturing industry in the GDP of 15% within 20 years, the average annual investment volume in this sector would have to be US$ 4.3 billion.[4] We did not see these calculations in the new 2022 Re-industrialization Plan. And who is going to invest when there are so many alternatives around the world that are better than the ones Angola offers?

3 Due to the Trumpian policy of America First and the defense of Made in America, the debate between economic liberalism and protectionism has been reignited.

4 Calculations based on an annual average GDP growth rate of 6%, an ICOR of 2, on a 20-year period.

2. The Angolan economy and the structural adjustment program

The IMF has been making these interventions in African economies since late 1979. Suffice it to recapitulate the comments made by African economists about the disastrous and exhausting effects on the countries that were forced to adopt these structural adjustment programs (the core of this scenario was the decline in trade terms, the fiscal deficit accumulation and the increase in public and foreign debts, and the remedy found was exactly the same one that is now being applied in Angola: tax increases, public expenditure cuts (including investments), pressure on private consumption (household's), external devaluations and wage cuts for workers followed by layoffs, interest rate increases.

The outcome of these structural adjustment policies was by and large a strong recessionary process and high inflation rates (the African reaction to these programs was outlined in the CARPAS - Cadre Africain de Réference pour les Programmes d'Adjustment Structurel "African Framework for Structural Adjustment Programs").

All these measures are based on the idea that the external imbalance from which countries suffer is mainly the result of the internal imbalance that stems from the fact that the country, like some families, tends to "live above its means" by spending more than it makes. Thus, according to the Fund, in order to achieve internal re-balancing requires cutting domestic expenditure through, inter alia, public expenditures - which, concurrently with tax revenue increases, will reduce the government sector's financing needs. In several instances, when the Government's involvement in production and/or commercialization is more important, this must signify the divestiture of public companies, which in most cases leads to a net loss, and not, as expected, to profits that would accrue to the government's treasury.

Another measure to be taken, aimed mainly at increasing exports and, in general, the external competitiveness of the economy, is the devaluation of the national currency. This measure must be combined with the control of domestic inflation so that price increases do not nullify the advantage (the reduction in the prices of goods for export) that the devaluation will bring about in the field of external economic relations.

One of the objectives of this currency devaluation is changing the domestic pricing structure in order to favor the prices of goods that can be exported (the tradable), such as export crops, versus non-exportable goods (non-tradable). It is hoped that this will, for example, increase the price of goods to agricultural producers of export products and thereby encourage them to produce more. It should be noted, however, that the result of this process in terms of production, prices and exports depends on the behavior of these prices in the international market, the effective possibility of this market to absorb the increase in national production and the behavior of the global index of domestic prices.

The contractionary monetary policy and the wage increase control policy are two fundamental instruments to fight inflation control - obtained with or without the intervention of other social players through various means - and which usually result in cuts in real wage levels, some more accentuated than others. It is such measures that have triggered often violent reactions from the population to the adjustment programs and their consequences in the social sphere.

It is clear from the above that the set of measures advocated by the Fund is an "indivisible package" that in order to yield tangible effects must be - at least according to the Fund - fully and not only partially implemented. Hence and this is also a form of pressuring national governments to fully implement agreed programs, the IMF tends to unilaterally denounce established programs and renegotiate their implementation when it becomes aware that governments are not complying (to the letter) with the program that was initially agreed upon.

In fact, these programs are a policy mix which, including diversified measures that Khan and Knight "organize" into demand policies, supply policies and policies to improve external competitiveness, aim primarily at the pursuit of the external balance objective, with, if necessary, secondary objectives (which are also explained) such as economic growth and controlling the inflation rate within acceptable limits.

Secondly, the mainstays of the programmes of the Fund are defined through a process of determining the values of the "implementation criteria", which begins by identifying the balance of payments or current account balance that is considered acceptable. From this base value - itself fixed according to the available international reserves, foreign credit likely to be obtained and foreseeable export earnings, for example - and considering the interrelations between variables that the monetary approach to the balance of payments emphasizes, the values of the various " implementation criteria" are determined, and the one that emerges as the main criterion.

Thirdly, demand policies - or rather, demand restriction policies - are fundamentally composed of monetary (credit, interest rate, etc.) and budgetary (public spending, fiscal, etc.) policies, and supply-side policies by those that allow increasing both the efficiency of the use of resources and the productive capacity itself.

The main policy for increasing external competitiveness is exchange rate manipulation, but this only has the desired effects if combined with other policies such as containing price rises, which include restricting the growth of real wages.

The fourth and last aspect to highlight here, and an extremely important issue to resolve in the drafting of the programmes, is the definition of the relative emphasis to be given to policies to restrict demand and to those aimed at increasing supply. This emphasis depends on several factors, the most important of which are, firstly, the main cause of the existing imbalance: if it is caused mainly by external causes such as the decline in the terms of trade, then great importance must be given to policies that allow the structure of supply to be modified. If the main cause is of a domestic nature (e.g., a real excess demand), the main emphasis should be on a policy of quantitative demand restraint.

Another factor that will inevitably influence the balance between both policies is the domestic economic-political-social situation and the options and room for maneuver of the political power in relation to this situation, as well as the relative urgency of rebalancing, which in turn depends on various political, economic or social factors. These political considerations have been so prominent that they became the reason for many established programs not being continued until the end of the planned period with the participation of the Fund.

There have been many evaluations of the results of these structural adjustment programs, even those initiated by the Bretton Woods institutions, namely by comparatively evaluating the GDP growth rates with and without IMF programs, insofar as they summarize and absorb the essential results of the stabilization measures. The general impression that seems to result is that, while it is true that in several of the indicators the values for the countries with strong adjustment programs are more favorable than the values for the others, it is also true that the differences do not seem to justify great enthusiasm.

Moreover, if we take the growth in real per capita consumption as a criterion - an indicator that gives an idea of the impact of the programs on people's standard of living, but we should remember that this is not the Fund's main concern - it seems clear that the countries that have pursued these programs are in a worse situation than the rest of the countries, which confirms the allegation that the adjustment has extremely high social costs and no guarantees of an effective, consistent and lasting recovery of the situation in the future (at least in the near).

Structural adjustment has become sub-Saharan Africa's most internationally aided long-term development policy. But while many countries have started adjustment programs one or more times, only a few have pursued extended programs. A close look at two adjustment "heroes," Ghana and Senegal, shed some light on both the potential and limitations of current adjustment policies in Africa.

The adjustment helped create a more favorable framework for economic growth; it also contributed to consistent real growth for several years. But this is a fragile trend, which can be interrupted by adverse economic weather, terms of trade and the fluctuations of international aid (if forecasts about the future behavior of oil prices and the growing assertiveness of new sources of energy generation are confirmed, Angola and other countries excessively dependent on the export of this commodity will have to seek other foundations for their sustained growth). Moreover, the structural reforms advocated in these programs often require a relatively long time to produce positive effects (this is the well-known problem of "lags" in economic policies).

The result should be combined with the impression given above that such programs have very high social - and often political - costs, namely in terms of increased poverty among the already poorer social strata, in addition to the effects of sharply increasing social differentiation that follows the implementation of these programs and that is due, in part, to the emphasis that, in practice, many end up placing on activities of a commercial and more speculative nature.

An example of what happened in this domain in Senegal and Ghana, countries where the programs were more fully implemented, is provided by the conclusions of an evaluation study on these countries mentioned in part above:

a. "But this selected attention on certain aspects was not the only one to blame. Some policies aimed at rapidly decreasing balance of payments and budget deficits - such as restricting credit, reducing government spending, and levying various tax rates - ended up interfering with equitable growth as well."
b. "Other policies that in the abstract promised to free the productive forces for the benefit of all, such as privatization and import liberalization, seem to be grounded in an inability to cope with the institutional incapacity of the private sector that helped produce the need for the adjustment. Sometimes planning mistakes have caused unnecessary suffering as happened in the case of Ghana."
c. "A poor social equity performance, coupled with rising political expectations, have generated threats to the sustainability of adjustment and to overall political stability."

An alternative would be for bilateral donors, the multilateral financial and development agencies, and recipients to change the structural adjustment to create growth with equity. Instead of continuing to alter programs through delayed and poorly coordinated complementary actions, changes to policies should be introduced at its core.

But this cannot be truly carried out if external decision-makers remain isolated from national realities and the poor continue to be unrepresented in economic decision-making. The growing number of emergent Voluntary NGOs, as well as other social structures such as trade unions, offers an opportunity to involve the poor in changing structural adjustment. Real and effective consultation with these groups, both by donors and recipient governments, becomes necessary for such a change to take place.

Finally, both the Fund and the World Bank have conducted several evaluations of the implementation of such programs themselves. The most well-known of the latter's reports on the subject is entitled *Adjustment in Africa: reforms, results and the road ahead* of 1994

Its conclusions are summarized below:

a. More than half of the countries have made substantial economic policy changes in at least some areas. The improvement was particularly important in the macroeconomic, trade, and agricultural sectors. The first ones succeeded, in most cases, in restoring the external competitiveness of the economies while managing to keep the inflation rate at relatively low levels. Trade policy has increased access to imports needed to support economic growth.

b. There was a one to two percent increase in the growth rate of per capita income between 1981-86 and 1987-91 in the countries that managed to make the most marked improvements in macroeconomic management, an improvement like that of countries with adjustment programs in other regions of the world.

c. Despite these improvements, we must acknowledge that they have been unevenly distributed among the countries. In fact, about 1/3 of the surveyed countries experienced a decline (rather than an improvement) in the main indicators used to measure macroeconomic policy changes. For instance, in most countries, reforms in the public financial and business sectors were only "attempts" since they were limited in scope and not necessarily appropriate, which led to a further decline in public finances and, as a result of the crowding out effect, limited access to credit by the private sector;

d. Lastly, it should be concluded that, despite the improvement in the adopted economic policies, we are far from where we should be in terms of their implementation.

This conclusion leads the World Bank to make the following comment:

> ***"Adjustment is a first necessary step towards sustainable growth that leads to poverty alleviation. But adjustments in Africa have been burdened with unrealistic hopes (...). Many thought that adjustment reforms could be carried out quickly and lead African countries to rapid growth. These over-optimistic and unfulfilled expectations have led to some pessimism and strain in both the African countries and the donors. However, progress has been made: the reversal of the situation towards growth shows that adjustment - even if incomplete - can put African countries back on the path of economic growth, that in which developed efforts begin to pay off for the effort expended."***

Closely linked to this issue of the difficulty of monitoring the implementation criteria itself and, even more so, the targets for the objectives, the establishment of fixed targets for such criteria as well as for the objectives is criticized in the Fund's programs. The establishment of "implementation intervals" seems to be an alternative more in line with those control difficulties, even if they are not very wide, functioning as economic policy "guidelines" that give it some of the malleability that national economic authorities need most of the time, but that the Fund always views with great suspicion, partly because this could make difficult the objective evaluation it intends to make of the application of the agreed measures.

Another criticism concerns the devaluation of the currency. Contrary to what seems to follow from the Fund's analyses, under certain circumstances, it can lead to a worsening of the external imbalance rather than its improvement.

In fact, if the supply of exports and the demand for imports are too rigid, there will be a tendency for the external deficit to increase, at least in the short-medium term. For with fixed export prices in the international market and an export structure based mainly on goods with long production cycles - as is the case with many of the agricultural raw materials (and other products) - and, consequently, relatively low short term price elasticities on the part of producers, export revenues will tend to increase very little, at least in the short-medium term.

On the other hand, if imports are indispensable, they are hardly compressible, and everything stays (apparently) the same. However, domestic inflation caused by import price rises can cause inflation that will be fed through to export prices leading to a drop in export prices. In fact, another point on which the Fund and its experts are harshly criticized is that they systematically underestimate the inflationary effects of the devaluations they propose.

Simultaneously and contrary to what was intended, in such circumstances it is not possible to make the peasants benefit from the price increase provided by the devaluation since in real terms their situation will not change due to inflation.

Another critical point of these adjustments programs as formulated by the IMF and the World bank is the assumption of high price-elasticities in developing countries, which, notably based on empirical experience, is strongly contested by these countries. This seems to be particularly true in the case of agricultural export productions of a more perennial nature, such as coffee, cocoa, timber, etc. In fact, empirical evidence shows that in these cases the price-elasticity in the short run - isn't that where the Fund's programs take place?! - is low, even if it tends to be higher in the medium to long run, when and if farmers realize that price increases are stable and not to be reversed in the following years, and that their actual land and labor availabilities vary positively so that they can take advantage of (potential) income increases.

On the other hand, the contractionary monetary policy makes the currency in circulation so scarce that, at least temporarily, there is a great incentive to speculation with money and trade and to the creation or development of a genuine "parallel market" of money with very high interest rates that will not fail to be reflected in production costs and "push" prices up, contrary to the anti-inflationary policy that we want to implement. The same kind of pressure will be seen on interest rates.

Criticism of the Fund's programs is also that they always place greater emphasis on controlling demand than on expanding supply. This systematic " bias," which has been responsible for unemployment increase (mainly urban) in its wake has always been the case, prompted by the fact that, while theoretically admitting that the emphases on demand and supply policies may differ according to the causes of the external imbalance, the truth is that the Fund's diagnosis of the situation is invariably that it is the internal imbalance between demand and supply that causes the imbalance in the Current Account and, by extension, in the Balance of Payments. However, it is not believed that this has necessarily always been the case, particularly in periods of greater "shocks" in the international conjuncture, in which the decline of the external balance of many countries was due to the worsening of their terms of trade motivated by the increase in the price of imported energy.

This pro-depressive bias in the economies has hit all types of spending, particularly investment spending. In addition to a reduction in its total - which has been responsible for the "deindustrialization" that has hit several African economies - this decline has mainly affected the branches that are more geared towards domestic consumption, due to the emphasis placed on the production of exportable goods and the general decline in domestic consumption. This limits the domestic production capacity of products destined for exchange with producers (and consumers) in rural areas, whose consumption pattern is usually unsophisticated and composed of an important part of nationally produced goods. A consequence of this is that rural producers have no incentive to produce, as they are unlikely to find the goods they need at affordable prices in the market.

An important element in this deindustrialization has also been the limited availability of foreign exchange to import both new equipment and parts for the maintenance of the existing ones or, still, for the purchase of the always indispensable imported inputs of the national industrial production.

Several authors have also questioned the generically liberal philosophy that underlies the programs. They do not recognize any theoretical validity concerning any economic superiority of the liberal philosophy, of laissez-faire, of trust in the market operations, and of the private sector's virtues over the government sector. If this is the case, the Fund's choices in this area should be seen exclusively on the political-ideological field and not on that of the possible economic advantages of the philosophy. Naturally, in the current times - of deregulation and weakening of the health and social security systems - these discussions have regained crucial importance for building the foundations for more extensive and lasting economic growth, without which poverty and misery will persist.

There is, however, a correlated aspect worth mentioning: that the depressive pressures that the adopted policies exert on the economy (at least in the short term) do not seem to be the best instrument for the development of the national bourgeoisie, an inevitable social instrument in the ideological framework of the adopted programs. This opens the door to (excessive?) openness to foreign capital with all the consequences (beneficial, but also negative) that this type of investment is usually acknowledged to have.

Another aspect pointed out by some critics is that, although it is recognized that even a minor part of the causes of imbalances has to do with the structure and/or the international conjuncture, the countries that benefit from it - the surplus countries - are not asked to play an active role in rebalancing the external accounts of deficit countries, for example by increasing their imports from these countries.

On the other hand, as to the structure of the programs, it seems clear that it and the assumptions of "mechanicity" inherent to it, seem more adapted to the conditions of industrialized countries or those that are close to them (as is the case of Portugal, for example) than to developing countries. Now, it seems that the Fund was not able (and still has not been able, despite the guidelines issued by Christine Lagarde when she left the institution and taken up by the new Managing Director, Kristalina Georgieva, in the sense of adjusting the contents of the Structural Adjustment Programs to the characteristics of the still developing countries, now in the majority) to adapt to the transformation in the structure of its members since its creation: the numerical weight of Developing Countries is now overwhelming and yet the Fund still "moves" mainly in the area of the short term and not the medium-long term to which the new structure of its members seems to point. China's growing weight in the world economy and in international trade, as well as the strengthening of its political and financial relations with sub-Saharan Africa, may be important factors in changing the current balances/ unbalances in favor of its countries.

These longer-term tasks seem to be mainly left to the World Bank, when it seems certain that the growing interaction between the short and medium-long terms makes it advisable for the Fund to be more sensitive to the development needs of developing countries and, particularly, to the structural causes of the external (and internal) imbalance that it seeks to eliminate with its suggestions (?) for economic policy measures. In this context, it is not surprising to see the emergence of proposals to merge both institutions, preferably under the World Bank umbrella, given that the short-term logic that presides over the IMF's action seems to be unsatisfactory to solve, effectively, the problems of most countries that nowadays have (structural!) difficulties in external accounts.

Another aspect of the Fund's programs is the restrictive character they assume, which can even lead to the "overuse" of restrictive policies, triggering a situation known as over-kill, which, according to some authors, was experienced (albeit to a limited extent) in Portugal during the Fund's second program. This is an excessive (because largely exceeded what is necessary) shrinkage of domestic demand and an over devaluation of the national currency with a consequent excessive emphasis on the export sector to the detriment of the goods producing sector essentially for the domestic market. This sector has been poorly supplied with goods even though there is sufficient domestic buying power for a greater volume of consumption.

One facet of this impact is the significant Extreme Poverty increase. The IMF and, especially, the World Bank, having become aware of this reality only after several years of being criticized for their disregard for the negative social impact of the programs they were leading countries to implement, have adopted programs aimed at reducing this negative impact on the poorest layers of the population. Such measures have proven, however, to have a very limited impact when compared to the negative effects that the adjustment programs themselves trigger.

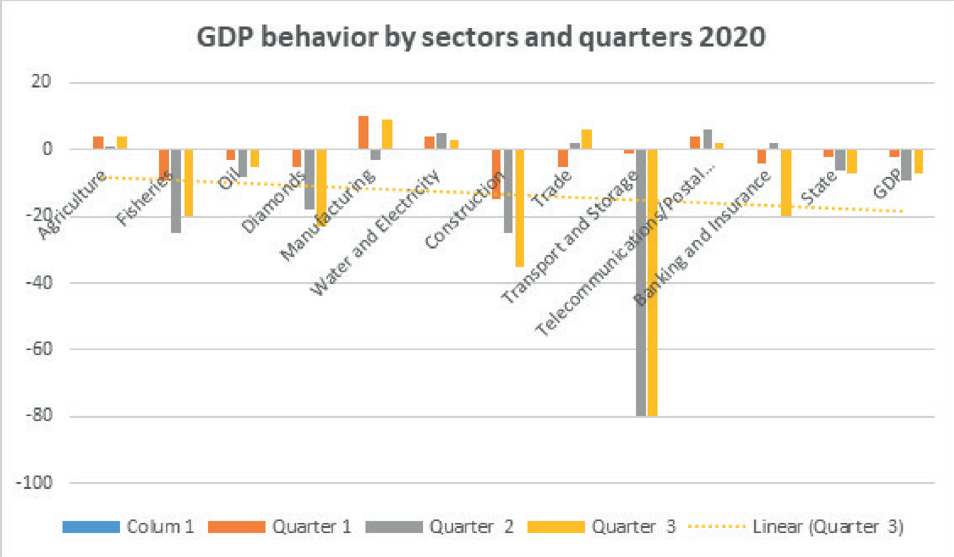
3. Background

The economic recovery of any country, regardless of the reasons behind the drop in production of goods and services, entails defining appropriate and transparent policies that boost economic growth, that are appropriate to its reality, and that are compatible with realistic available resources. The various government adopted measures, since the crisis took hold after 2014, to support companies (in order to halt irreversible drops in production and employment) and social support for families to alleviate their situation of poverty, hunger and lack of income increasingly devalued by the exchange rate policy) have not worked. The proof is provided by a recession in GDP of -8.8% in the 2nd Quarter of 2020 and -5.8% in the 3rd Quarter of the same year, with impressive sectoral piecemeal in the 2nd quarter: -27.8% in Fisheries, -8.2% in oil and gas, -15.6% in diamonds and other minerals, -4% in manufacturing, -78% in transport, -7.1% in government activity, -17.1% in real estate, and -53.6% in taxes.[5] The tax drop draws attention to the fact that the fiscal sustainability of the State is much more dependent on the recovery of economic growth and less on the creation of new taxes or changes in the rates of existing taxes (economic growth has a deterrent effect on the appetite of governments to raise/create taxes, by broadening the tax base (more companies, more income and more jobs), by allowing a better distribution of the gains associated with the puncturing of private income, thus enabling higher levels of public (State) and individual (companies and families) savings).

In the third quarter, some activity sectors showed a more positive trend in their respective growth capacities, although with values in some cases still low and in others insufficient to recover the gains lost in previous quarters.

The graphic illustration inserted below shows that the Fishing, Oil, Diamonds, Construction and Transport sectors are in a systematic and systemic crisis in 2020, and the 4th Quarter will probably not be enough to recover the accumulated losses. The State itself shows negative or feebly positive behavior in its aggregate value, as a result of the application of a frankly restrictive policy. The real GDP variation was -0.9%, -8.3% and -5.8% for Quarters I, II and III, respectively. Although INE's statistics point to an easing of the economic recession in the III Quarter of 2020, in comparison to the II Quarter of the same year, has been noted a worsening of the decline in GDP year-on-year, from -1.5% in the III Quarter of 2019 and - 5.8% in the same period in 2020. Usually, when the price of a barrel of oil falls, the national economy plummets, highlighting its weak resilience to external shocks.

5 INE's Press Release on Gross Domestic Product for the 2nd and 3rd quarters of 2020, October 2020 and January 2021.



Source : INE, Contas Nacionais Trimestrais *(National Quarterly Accounts)*

This has been the case since the country's independence, with no structural changes tending to modify the situation of subordination to oil (the following numerical table clearly illustrates the "oil trap" in the national economy - both in Eduardonomics (final period of José Eduardo dos Santos' governance) and in Lourençonomics (initial period of João Lourenço's governance), from which the only way out is with more production in agriculture and manufacturing, more management and governance capacity for fiscal revenues, and strong capacity to attract foreign private investments, which are known to have more technology, higher productivity, and better capacity to operate in the international market).

Eduardononics and Lourençononics

	2014	2015	2016	2017	2018	2019	2020
Budgetary balance (% of GDP)	-6.4	-2,7	-0,2	-0,7	2,0	0,7	-1.7
Public Debt (% of GDP)	42,2	41,0	56,6	68,5	89,0	107,1	134,2
External balance (% of GDP)	23,6	15,7	17,5	-	23,6	23,0	16,6
Trade balance (billion US$)	30590	12489	14548	20150	24960	20599	8208
Balance with China (billion US$)	23871	11213	12403	17265	21536	19249	8594
GDP Growth rate (%)	4,8	0,9	-2,6	-0,2	-1,7	-0,9	-6,8
Unemployment rate (%)	24,2	20,0	22,6	24,7	28,8	31,8	30,6
Poverty rate (%)	-	-	-	-	40,6	-	-
Annual inflation rate (%)	7,5	14,3	42,0	23,7	18,6	16,9	25,1
Price per barrel of oil (US$)	96,9	53,7	41,8	48,4	71.1	64,0	42.8

Source: CEIC, based on official data.

The first and most decisive and obvious instrument for this policy is the Government Budget. More than plans and programs, Government Budgets are nowadays the main instruments of economic counter-cycle, no matter which economy, nor its development stage. Naturally, in market economies. It is where the most important instruments of economic policy are " confronted ", inasmuch as they all have an expression and dimension on state finances.

Spending cannot grow in an uncontrolled way, but the right recipe is to make the right expenditure on investments that allow an economic benefit. It is not just a matter of investing in more modern public services, which must become more effective and efficient in achieving their mission. It is also about stimulating private economic activity through good public investment.

The IMF[6] indicates that public investment is a powerful element for any kind of stimulus to economic recovery. On employment in general, the IMF presents figures indicating that in *"periods of uncertainty, employment increases by between 0.9% and 1.5% in response to a public investment shock of 1% of GDP"*.

Public Administration in Angola continues to be ossified, backward, inefficient, and ineffective. There have been several and diverse programs to support its modernization since the country was reborn from colonial rule (now 45 years of independence). Many and of different ideologies. In the first 20 years of independence, the support and modalities of the Soviet and Cuban models prevailed, which overthrew the management practices of the Portuguese administration. At that time, institutional confusion was installed between centralist, centralizing and bureaucratic models (USSR and Cuba and others from the same socialist area), with the colonial administrative model.

After 1990, with the ashamed return of the market economy, other support for the reconversion of the Government Administration emerged, provided by the UNDP, World Bank, IMF, European Union, African Development Bank, and other international institutions. All were intended to help build a Development Administration and all failed in their purpose, and the reasons why are still to be analyzed and understood. There is no study, no research that uncovers the flaws of this type of cooperation that the Angolan government has always accepted without sufficient scientific and even institutional bargaining.

Between 1990 and 2020 this type of external technical assistance continued to exist, even when the reasons for the failures were unknown. In 2020, technical assistance actions were designed and programmed to improve the functioning of the Public Administration in almost all institutions and services, with the investment of astronomical sums of money (part donated and part facilitated by loans from these international institutions). However, the situation remains virtually the same.

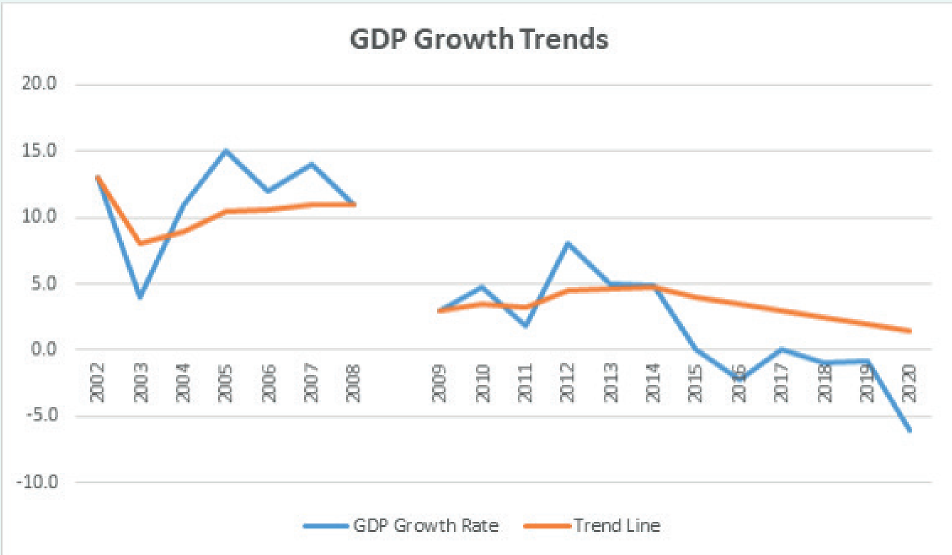
The Doing Business 2020 points to a drop of 4 positions in the ranking of 190 economies, rising from 173rd to 177th, with Angola joining the list of the 15 worst economies in which to do business. The list of indicators includes 7 that are directly and indirectly related to the Government Administration. In a frightfully competitive world, it is clearly insufficient to declare that *"today's Angola is a safe place for investors"*[7], without evidence of this. Since constant invitations were made to foreign businesspeople to come and invest in the country, the inflow of capital into Angola fell far, far short of expectations, because, and according to Doing Business, there are other economies, even in the spectrum of emerging African economies, that are much more interesting to do business in (largely damaged by the pandemic worldwide).

Angola continues to suffer from the virus of inefficient public services, whose personnel do not have a professional deportment (also the above examples are not a standard of civic behavior of reference and aimed at facilitating the resolution of the problems of companies and citizens)[8] and potential foreign investors know this through their embassies in Angola. Probably only when Ministers, Secretaries of State and other leaders have more direct contact with the different public services will it be possible to become aware of the real dimension of bureaucracy in the country and then act accordingly in order to improve the country's position in the Doing Businesses Index.

6 IMF - Public Investment for Recovery, October 2020.
7 President João Lourenço in his Speech at the Africa Debate, promoted by the Tony Blair Institute.
8 It is embarrassing, irritating, and nerve-wracking for a citizen to go to a public office and find that the employees are not giving him or her the attention he or she deserves, because they are busy on the phone talking with relatives and friends, playing games on the Internet, and chatting on WhatsApp.

If the Public Administration is like this, then one wonders how and where those millions of dollars, euros and Kwanzas[9] in donations and credits were spent? Perhaps a significant part has been spent on salaries and other perks of consultants, advisors, foreign expatriates, with the country continuing to be the "el-dorado" of consultancies and advisory services, although it is recognized that there has been an effort to decrease the budget funds allocated for these purposes, as a result of a better understanding of the need to replace external services by national ones (from Angolan universities and consulting firms).

The 2021 State General Budget does not analyze, and even ignores, the structural causes of stagnation (2009/2014) and economic recession (2015/2021).[10] There is an insistence on preferring fiscal consolidation (the dead center of economic policy), to the detriment of growth and recovery. It is a Budget that does not meet the needs of the economy and is not concerned with the expansion of the country's productive capacity in the long term (science, technology, research, innovation, new sources of raw materials,[11] human capital, etc.)



Source: CEIC, based on official data

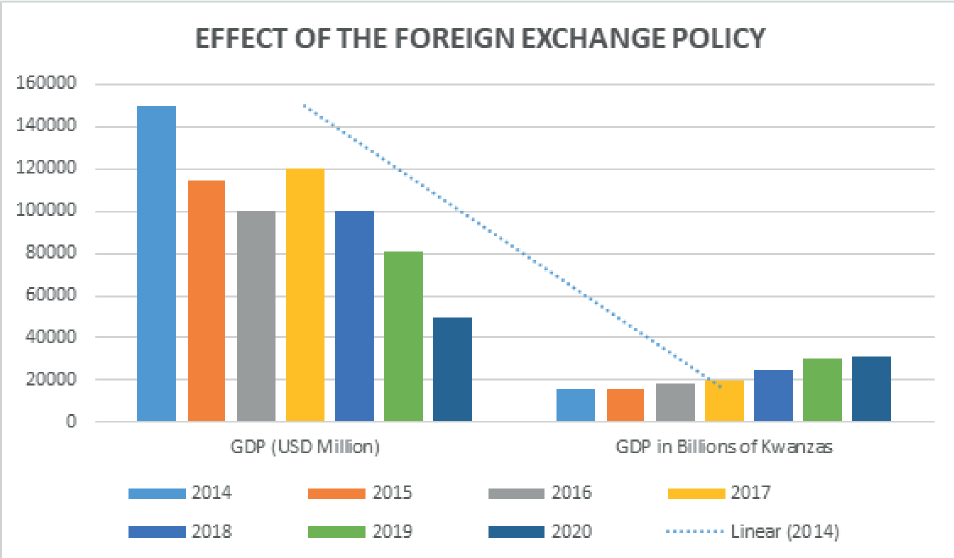
The economic crisis began in 2009, (except for the 2012 epiphenomenon, a year in which GDP recorded an 8.5% growth rate, with oil exports at $69.7 billion and the inflation rate at 9.6%) never to even get under control again. The trend line for GDP growth (roughly equivalent to the economy's growth capacity, or potential output), for the 2009/2020 period (for this year we are using the rate forecast by the CEIC (-6.8%), while waiting for INE's official figure) is 1.2%. This figure shows how much the economy needs to invest to restore all its potentialities to productive use, highlighting public investment (material and immaterial) and the role of budgetary policy.

Between 2012 and 2015, the average annual rate of real GDP growth was 3.7%, enough to mitigate the deteriorating trend of the average income per capita and give another type of expectation about the improvement of the living conditions of the population. However, its reversal requires a much more powerful growth, because what has been lost is very significant, and this is how we can understand the country's high poverty rates: 54% for multidimensional,[12] 48.9% for the poverty intensity rate,[13] 42% for monetary.[14]

9 Even in the case of donations, there must always be a state-guaranteed matching fund in national currency.
10 Some calculations (based on official data) point to a negative GDP growth in 2021 of -1.2% (CEIC).
11 Honorable exception to the "Terras Raras" project being handled by the Sovereign Wealth Development Fund of Angola.
12 INE, 2015-2016 Survey.
13 INE, 2015-2016 Survey.
14 INE – IDREA (Survey on Expenditure, Income and Employment in Angola), 2019-2019

The CEIC estimates for 2020 set the monetary poverty rate at 45.7% because of unemployment, lack of growth, and the characteristics of the distribution model (unskilled and low-paid labor factor) and redistribution of national income (tax system and structure).

Public investment considers more its ability to create employment in the short term[15] and not to generate additional productive capacity. For this productive capacity to become effective, it is necessary to tackle the demand vectors, namely exports and private domestic consumption. The respective public investment projects still do not consider criteria of efficiency and effectiveness (based on which, priorities with social value and economic return would be established),[16] with taxes and loans being applied without rigorous criteria of economic and social value[17] and still, and above all, with adjacent political considerations in the selection processes.



Source: CEIC, based on official data.

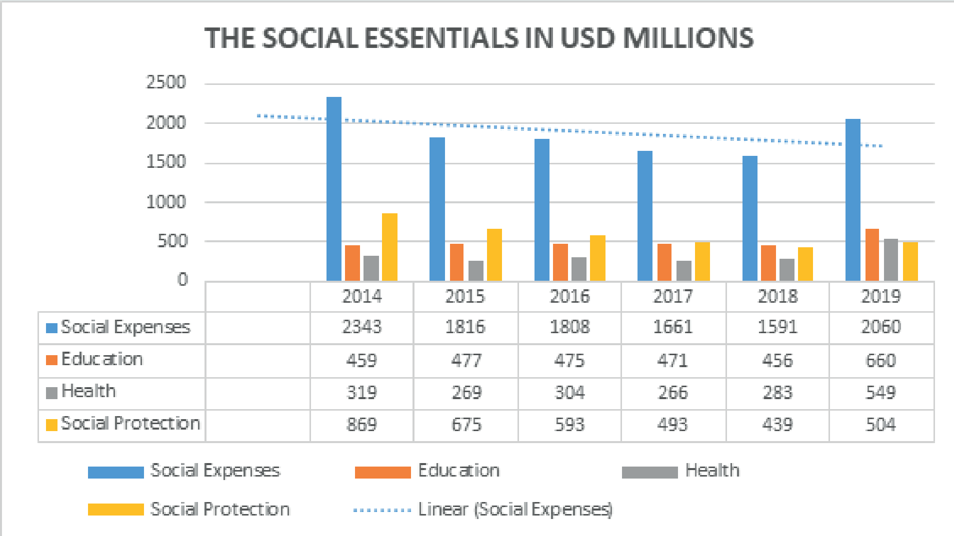
Between 2014 and 2020, the Gross Domestic Product, in US$, depreciated 64.7% (US$ 145668 million in 2014 and US$ 51402 million in 2020), while in Kwanzas, for the same period, there was a percentage variation of 122.7%.

15 With the current unemployment rate of 33% and youth unemployment of 56%, irreversible only in the medium to long term, the MPLA risks losing the 2022 legislative elections, or else postpone them to a more favorable moment for itself. Unless the price of a barrel of oil helps to find more sources of fiscal and economic financing, it is expected that with mass vaccination around the world, the recovery of economies will be effective again, hence more pressure on demand and the price of crude. The most recent forecasts (February 2021) point to an average price of a barrel of oil between US$60 and US$70 for 2021, and by 2025 it could be in the range of US$80-100 a barrel. However, one recognizes the excessive goodness of these forecasts, especially since they do not consider alternative energy sources and technical and technological innovations in many areas of activity that are major consumers of refined products, including the transport industry.

16 Read the reflection by Mario de Zamaróczi (IMF mission chief for Angola) and Marcos Souto (IMF resident representative in Angola) entitled "Navigating Brave Seas", in Jornal de Angola (paragraph 6, second bullet).

17 Alexandra Simeão: "does it make any sense to have a million-dollar gymnasium in the National Assembly and no water in schools, reinstate the million-dollar library in the Palace when hemodialysis survives the hiccups?" Chronicle in the Novo Jornal "Towards a Country for All - has the Government lost its compass?", November 10, 2020.

The General State Budget 2021 is not concerned with the construction of a true and sustainable Social State, despite the MPLA's claims of democratic socialism. In this aspect, the 2021 General State Budget lacks ambition (the annual increase in budget expenditures for the social sectors is insufficient, as will be highlighted below when social expenditures are reviewed over time),[18] and the chance of the pandemic to rebuild a population-oriented health, social security and welfare system was lost.



	2014	2015	2016	2017	2018	2019
Social Expenses	2343	1816	1808	1661	1591	2060
Education	459	477	475	471	456	660
Health	319	269	304	266	283	549
Social Protection	869	675	593	493	439	504

Source: OGE (GSB) 2014-2020

The behavioral trend of social spending over 7 years is expressed by a straight line, to represent a constancy in the amounts allocated to the six components together (in addition to those shown in the graph, "recreation, culture and religion", "housing and community services" and "environmental protection" are added). Of note are the "leaps" in health and education in 2019 and 2020 and the brutal drop in social protection spending (-51.3%). In this category, the 2020 Bo Ibrahim Index places Angola in the group of the six worst countries in sub-Saharan Africa, with Libya, Sudan, Congo, Liberia and Equatorial Guinea.

The variation rates of social expenditures in current Kwanzas show a random behavior, somehow adjusted in 2019 and 2020, especially in education and health (in this case due to the influence of the pandemic). Social protection is the component that generates the least interest in the government's priority setting, although it is one of the most important for social balance.

Despite being cautious, the macroeconomic scenario adopted in the 2021 General State Budget (GSB) is far too optimistic in 'decreeing' 2021 as the year of the uprising's beginning, since the only certainty that exists is the uncertainty as to the pandemic's evolution (despite the vaccines, it is not yet certain that the virus will be eradicated) and the price of a barrel of oil.[19]

18 It is clear - and the CEIC has relentlessly and repeatedly pointed this out in its Annual Reports - that it is not enough to increase expenditure on social sectors without taking care of their efficiency and effectiveness in a climate of proliferating corruption, as is the case with education, health and social protection. In the absence of cost-efficiency and cost-effectiveness analyses, it will never be possible to answer the question of "where the millions (because they amount to billions) of euros allocated to the social sectors are sailing" when the situation is not improving and is even worsening.

19 Mario de Zamaróczi and Marcos Souto, op.cit: "... diversification is an absolute necessity because oil reserves are limited and the long-term prospects for international oil demand are unfavorable due to the viability of renewable energy sources".

The IMF's macroeconomic scenario points to a growth rate of 3.2%, adjusted to zero in the Government's macroeconomic scenario. With the previously mentioned estimates, only with substantial changes in the price per barrel and in oil production (forecasts are pessimistic until 2022) will it be possible to achieve goals more in line with the social needs of the population, especially in terms of employment.

The reversal of the rising trend of the unemployed population can only be achieved in the medium term (2022-2024), provided that adequate levels of productive investment are registered (direct - in the stock of fixed capital of companies, and indirect - in public investment, bringing about improvements in the material (infrastructures) and immaterial (education and health) bases of growth - and that bureaucracy and other flaws of the Public Administration, such as the cronyism that still exists (direct awarding of public tenders to relatives and friends), are significantly reduced, the lack of transparency, the excessive number of official intervention programmes (among many others, the most recent - January and February 2021 - are aimed at eliminating plastics and at structuring and facilitating the transport of products from production to consumption centres), the high red tape costs (which fuel the lack of competitiveness of the economy, such as the lack of electricity and water, of roads connecting production to consumption centres, the lack of contract enforcement and bankruptcy resolution.) Even if there is an abundance of productive investment in the medium term (which is desirable but difficult to achieve), there are also investment time-lags (the time it takes for capital investments to mature), which vary according to their nature. At the end of the day, investments are made but job creation may only happen 6/18 months later.

The country still lacks sustainable alternatives to oil exports - the main driver of GDP growth since national independence, seconded by public investment in public works. Despite official statements on the need to change the productive structure (which, it is feared, may become a new political jargon, as happened with the diversification of the economy and the clusters), the 2021 GSB does not provide guidelines for redefining the profile of the Angolan economy, which is so over-dependent on oil and on non-tradable goods and services.

To assume that the country will emerge from the crisis in a format V[20] (from -6.8% - CEIC estimates for 2020 - to 3.2% - IMF calculations and some international financial rating agencies) is foolhardy, because the entire developed world, which sustains world demand for oil, will take 2 to 3 years to recover, as the IMF itself admits (projection from October 2020).[21]

The Government, in a more circumspect and cautious manner estimates zero growth for 2021, working towards making 2022 ready for the recovery of some of the growth dynamics registered in the past (between 2012 and 2015, the average annual rate of real variation of the GDP was 3.7%, sufficient to attenuate the deteriorating trend of the average income per capita and to give another type of expectation about the improvement of the people's living conditions).

But still, without controlling inflation, labor income (the levers of private consumption) and corporate profits (the mainstays of private capital accumulation) would lose some of their social value and economic importance.[22] Under the Presidential Decree of February 2021, the National Bank of Angola will have full independence from the Government, and its Governor will lose his status as a member of the Government, with a seat in the Council of Ministers.

20 This type of economic recovery means that following a vertiginous fall in GDP from one year to another, its recovery - once the regression causes have been overcome, as currently with covid19 - occurs immediately at high rates of change, i.e., a vertical recovery that returns the country to the pre-crisis situation. However, in countries like Angola, with its known structural shortcomings, the effects are usually more prolonged and systemic in sectoral terms, only reversible in the medium term through consistent policies. It was assumed that this pattern of restoring growth capacity would occur after what was incorrectly called the Great Depression of 2009, but in Europe this did not happen, and instead there was a continuation of the recession in 2012 and 2013, as a result of austerity policies imposed after 2011 (proving that austerity and growth are like oil and vinegar).

21 International Monetary Fund - World Economic Outlook, October 2020. Its update in January 2021 increases expectations of an upswing in activity in the world economy and in some developed economies, but it should be noted that the growth forecast of 5.5% in 2021 is due, by more than 40%, to the recovery in China, estimated at 8.3% in 2021 and 5.9% in 2022. Was it not for this country the world economy would not have returned to its growth path in such a significant way?

22 Alves da Rocha - Algumas Perguntas para 2021, Semanário Expansão (Some Questions for 2021, Weekly newspaper Expansão), 8 January 2021.

Although we do not believe that this divorce can really happen immediately - as in so many other areas of the national economy, this is another area for consolidation in the medium term - given the existing political " connivances", with the existing administrative and economic powers not giving up an instrument for monetary control and allocation of monetary resources (including foreign exchange), we must, however, recognize the positivity of this decision, even to bring the country into line with international practices (it could be said that this reform, which is truly structural, is only overdue). With the BNA (National Bank of Angola) and monetary policy being fixed on controlling inflation and preserving the value of the national currency (symbol of sovereignty, alongside the anthem and flag), budgetary policy may also gain autonomy and be established in areas that effectively generate economic growth (net contributor to price stability)[23] social income.

Confining monetary policy to the areas indicated will certainly free commercial banks from excessive interference by the central banking authority (obligation to provide financing to PRODESI projects, without knowing and testing their financial and technical viability), with the credit market operating according to market rules, i.e., savings offer/demand for loans. With inflation under control and the administrative setting of interest rates undone, then the price of money in the capital market may trend downwards (naturally, if domestic savings are sufficient to cover the credit demand). Here, the independence from the BNA represents a turning point from a past with strong socialist overtones and centralized and administrative management. Therefore:

a. If he continues to be appointed by the government, what guarantees are there that he will resist interference and pressure from the executive? Since the State, in its theoretical sense, is the main/only shareholder of the Central Bank, it has the privilege of appointing him and its Board of Directors. Will they really be independent?
b. How will monetary and fiscal policy be coordinated?
c. Will the government really stop using the issuance of currency to finance all or part of its deficits? How to distribute and use the Central Bank's profits, resulting from its activity (Bank of Issue par excellence)?

According to the International Monetary Fund - excluding China (which did not even enter recession in 2020), south-west Asia and Ireland - no V is in sight in 2021 for most of the planet's economies. It is therefore difficult to believe that such a resumption of economic growth can happen in Angola.[24] For Angola's main European trading partners, it is assumed that the recovery will only be complete at the end of 2022 (Spain and France after 2023 and Italy beyond 2025). Should we do business to get the economy back on track (and collect taxes) then with which countries?[25] Save for China, with its GDP expected to grow by more than 8% in 2021.[26] This may be Angola's strategic partner for the growth of its production of goods and services and the easing of the burden of its external public debt.[27]

23 Even under conditions of zero budgetary balance, public expenditure has a multiplier effect on growth generation (Haavelmo Theorem).
24 It has been 5 years of recession since 2015 with structural effects on the country's growth capacity that have yet to be determined and can only be perceived to have been disastrous.
25 The domestic market is usually the salvation in certain economies, but demographic and economic dimensions, high domestic purchasing power and infrastructure are crucial to make it more integrated and able to generate scale economies. These dimensional gains are normally linked to large companies, but they can also be created by smaller companies (small and medium-sized) that are functional and innovative, especially when working in integrated production systems and with innovative capacity. It is well known that in such structures, small and medium-sized enterprises need large companies, which create market slots and segments that are conducive to the profitable intervention of small and medium-sized business structures. The aversion to large business units can only be understood in the light of extreme left-wing ideological principles, always and systematically averse to so-called big capital.
26 According to the IMF (World Economic Outlook Update, January 2021), China grew 2.3% in 2020, projecting 8.1% for 2021 and 5.6% for 2022. The World Bank (Global Economic Prospects, January 2021) is less optimist: 2,0% in 2020 and 7,9% in 2021. Be that as it may, significant and robust growths they are. In 1980, China accounted for 2% of world GDP and in 2015 for 22% of the world's wealth. In 1985 it joined the list of the world's top 10 exporters and became the world's largest exporter in 2009.
27 It was recently announced that 600 million vaccine doses developed by China's research & development facilities and produced by its pharmaceutical industry will be exported worldwide. This is relevant for Africa, whose drug production capacity is weak and reduced.

Many Angolan economists, sociologists and businesspeople are convinced that the country will not reconvert from the systematic economic and social crisis with an austerity GSB (this was the mistake of Brussels in 2010, supported by the IMF, in having imposed austerity models throughout the European Union). Kristalina Georgieva, IMF's director, has already made it known that she does not want any hasty withdrawal of fiscal and monetary stimulus to the member economies of this international financial organisation. In the same vein are the warnings and interventions of Christine Lagarde of the European Central Bank in establishing financial support to fight the pandemic and the European economic crisis estimated at 750 billion euros over the next five years (in Africa, the ECB's counterpart, the AfDB, does not have this financial capacity, and instead proposes restrictive fiscal and monetary policies).

These views contrast with other excessively liberal views that consider the closure of companies and other activities to be a normal process of cleaning up viruses that undermine economic efficiency. When the world experienced the greatest economic crisis of the 20th century (somewhat similar to that currently experienced by Angola, even without the complexity of the bankruptcy of banking systems and the collapse of stock markets), US President Herbert Hoover and his Minister of Finance Andrew Mellon understood that the best response to the collapse of the stock markets was to let economic activity fail and, consequently, nothing was done, since the important thing was to purge society: exponential increases in unemployment, the closure of many banks, the bankruptcy of companies, a brutal fall in confidence, a decrease in purchasing power, a reduction in potential output (future capacity for growth) were the main consequences of an economic ideology centred on the idea that the most important thing, even in crisis, is to let the markets function. Four years later, Franklin Delano Roosevelt is elected to do just the opposite, having his New Deal policy steered the economy out of recession and into a remarkable recovery.[28]

It can and should be asked whether, given the accumulation of fiscal deficits in Angola (2016, 2017, 2018, 2019 and 2020), fiscal policy should have this type of contour, or alternatively be restrictive in order to regain the capacity to generate positive balances, or even intervene at the margin (a little less deficit, a little more counter-cyclical intervention). In other words, in view of governments' financial crises, this "theory of intervention at the margin" proposes that something must be done (but in compliance with the fiscal consolidation rules), but never from a Keynesian or " Rooseveltian" perspective, or even from the European Central Bank's perspective. However, given the global uncertainties and risks,[29] "minimalism" may not be the right recipe, unless other foundations for sustained growth are created or acquired in the meantime.

Another important issue for the Angolan economy is savings. State Budgets, by overtaxing companies and households, convey a signal that savings are of minor importance in financing the economy. It is from the disposable income of the economy that the balance between consumption and savings is made, whereby the lower its amount, the lower household consumption (poverty, hunger and misery) and the lower the amount of savings. A contradictory dialogue is established between consuming more and saving less, or saving more and consuming less, which can only be overcome when the economy grows (distributing more income), and the tax burden is confined within intervals of social justice and efficient use of taxes by the State.

28 The New Deal (1933-1937) was made up of a series of consistent and convergent programmes aimed at recovering and reforming the US economy and helping those who had been hurt and marginalised by the Great Depression: massive investments in public works (dams, bridges, motorways, schools, hospitals, airports, etc., which generated millions of new jobs and boosted national income. From the social point of view, the minimum wage was instituted, and unemployment and retirement insurance were introduced.

29 "Stock market indices live dazzled by historic highs, which have proven immune to Trump and the pandemic. But Robert Shiller, 2013 Nobel Prize winner in economics and a voice that is usually lonely but accurate, came out a month ago to recommend caution: "the corona virus crisis hit and raised fears of a major stock market crisis, to the highest levels in many years. Concurrently, the value of the shares is at an all-time high. This volatile combination does not mean that there will be a stock market crash, but it does suggest that the risk of it happening is relatively large. This is a time to be cautious." Shiller points out that only in 1929 and 2000 was there such a large gap between capitalisation and company profits, which may indicate that the bubble could burst", Francisco Louça, Expresso 20 de novembro 2020, Caderno de Economia.

We must not lose sight of the fact that investment (public and private) is financed by savings (internal and external) and if these are scarce, investment suffers. It is with these savings that banks finance investment projects (if there are no other means of doing so), and savers (depositors or investors on the stock exchange) must be given guarantees of the credibility and security of their money, which means that loans are only granted when the investors' requests are credible, real and effective. There can be no politically motivated or favour-based loans in banking systems. Hence the relevance of savings.

There are countries where the savings tradition is more than just an economic strategy. Germany (savings rate of 19.1% of disposable income in 2018) and Luxembourg with 21.9%, also in 2018, are the largest savers in the world. There are countries where culture and tradition do not endorse the need to save as essential for development, giving preference to immediate consumption of non-durable and durable consumer goods (cars, jewellery). It is not just because wages and incomes are indeed low in these countries, but it is a cultural issue. In 2018, the German Historical Museum opened an exhibition called "Saving - A German Virtue" which aimed to demonstrate and explain this Germanic practice and tradition since the foundation of the first German Savings Bank in 1778 (the example displayed was a poster, advertising, in 1953, a family of 3 members protecting themselves from the rain with an umbrella in the shape of a 10-cent coin with the caption "even a little bit can help when you need it"). Culture and tradition "matter in a negative way" in many developing countries.

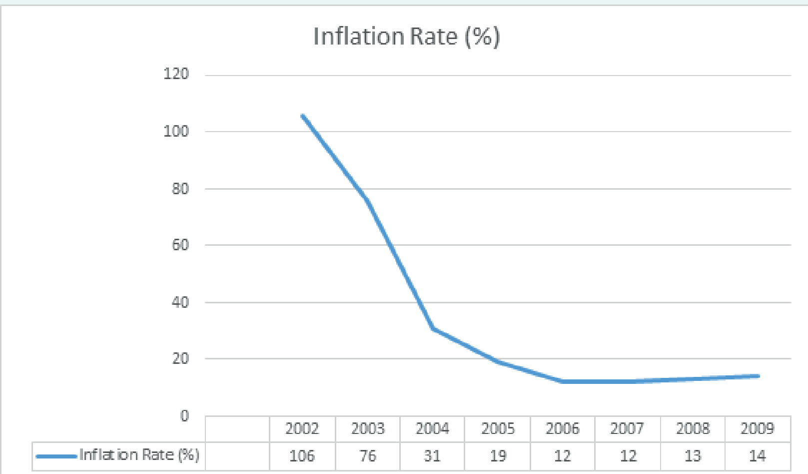
Inflation continues to be one of the major problems of the national economy, and there have been no sustainable policies to control price variations within socially tolerable and economically profitable limits. It can be said that since price behaviour began to be measured by INE after 1990 (the first base year was precisely 1990), the Angolan economy has remained in zones of high inflation rates. Between 1991 and 2000, the national currency completely lost its real value, and there was a flight to other assets (foreign currency, material goods) less prone to such a deep depletion of income expressed in Kwanzas. The military conflict - by making it difficult to engage in ordinary productive activity - may have been the main factor, which did not prove to be reversed by the stability policies of the time.

Inflation Rates (%) 1991-2000

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
175,7	495,8	1837,7	971,9	3784,0	1651,3	64,0	134,8	329,0	268,4

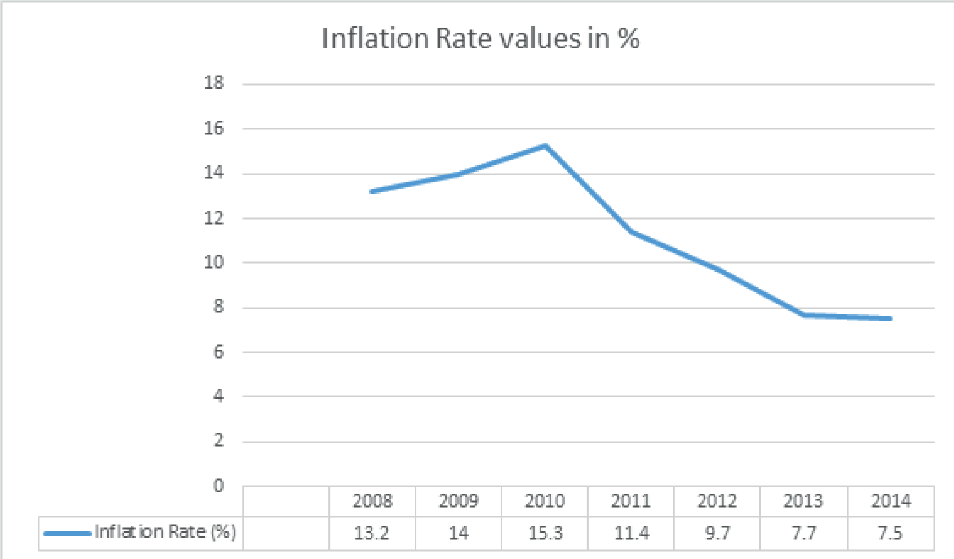
Source: INE

After 2002, inflation was controlled more effectively, aided by economic growth based on oil exports (foreign currency revenues grew systematically until 2008) and public investment aimed at rehabilitating/building a fundamental infrastructure base for the country. By 2008, the Government managed to reduce the annual inflation rate from 105.6% to 12.8%.



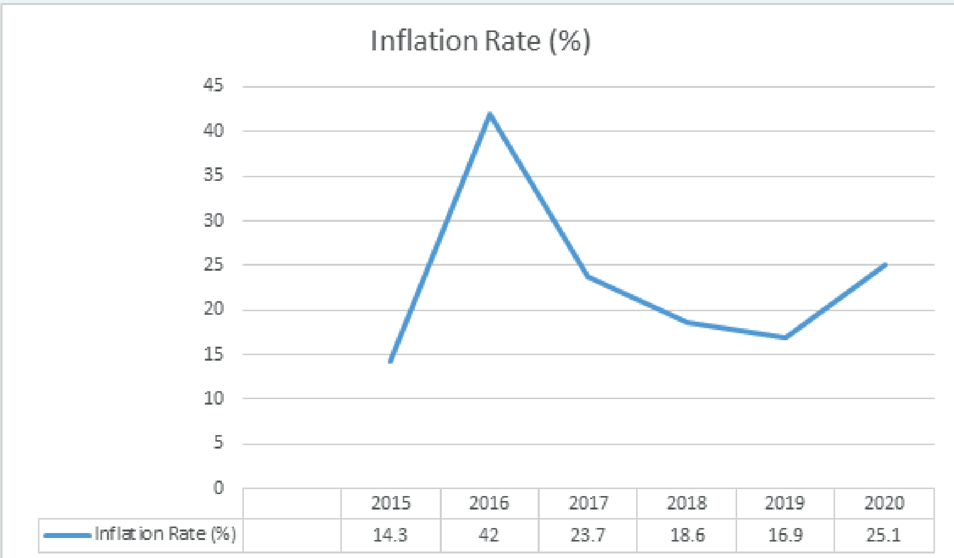
Source: Based on Real data from INE.

With the 2008-2009 international subprime crisis, growth dynamics were severely affected, oil exports declined and public investment had to be brought in line with available budgetary resources. Inflation returned to relatively high levels, but incomparable to those prevailing before 2000.



Source: Based on real data from INE.

The clear disinflation registered between 2008 and 2014 (depicted in the graph) was, however, absorbed by another inflationary cycle caused by a new slowdown in economic activity, originating in a new collapse in the Price per barrel of oil, a reduction in exports and in public investment.



Source: based on real data from INE.

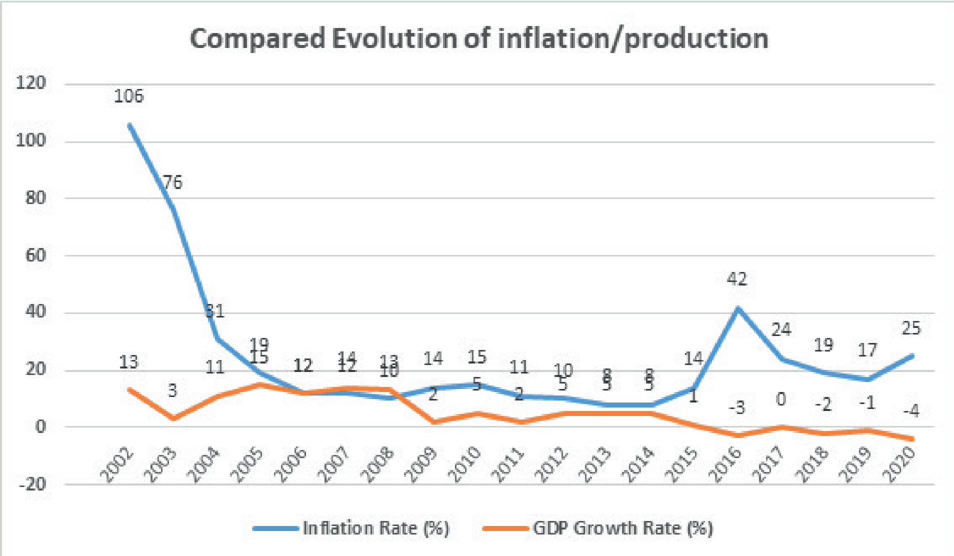
After the re-establishment of the market economy (March/April 1992 with the first devaluation of the Kwanza) and the measurement of the intensity of price variation, the Government's economic policy programmes began to treat inflation control as one of their objectives. First by including a specific chapter entitled "income and price policy" and later by introducing the national minimum wage.

Given the history of inflation briefly presented, the rise in prices continues to be a social scourge, inflicting considerable losses on labor income, on social benefits for the poorest families and on real gains from productive activity. The negative spillover phenomenon has pushed the economy into an inflation spiral that is difficult to control (inflation inertia).

The Central Bank is responsible, independently of government action, for pursuing a monetary policy whose sole strategic objective is price stability, by controlling the money supply. Monetarists defend the absolute independence of central bank action because they consider that inflation is always and everywhere a purely monetary phenomenon and should therefore be treated exclusively by monetary policy. Nevertheless, the inflation continues

It is not foolish, if a more comprehensive explanation of the resilient behaviour of inflation is to be found, to call into question global supply and its variations as measured by GDP growth rates.

The following graph proves that there is a correspondence between increased production (general supply of goods and services) and the inflation rate: between 2002 and 2008, inflation was fought/controlled with economic growth (average annual GDP growth rate of 10.7%), and this was repeated in a very short period, between 2012 and 2014. Then the connection continues, but towards less growth (recession after 2015) and more inflation.



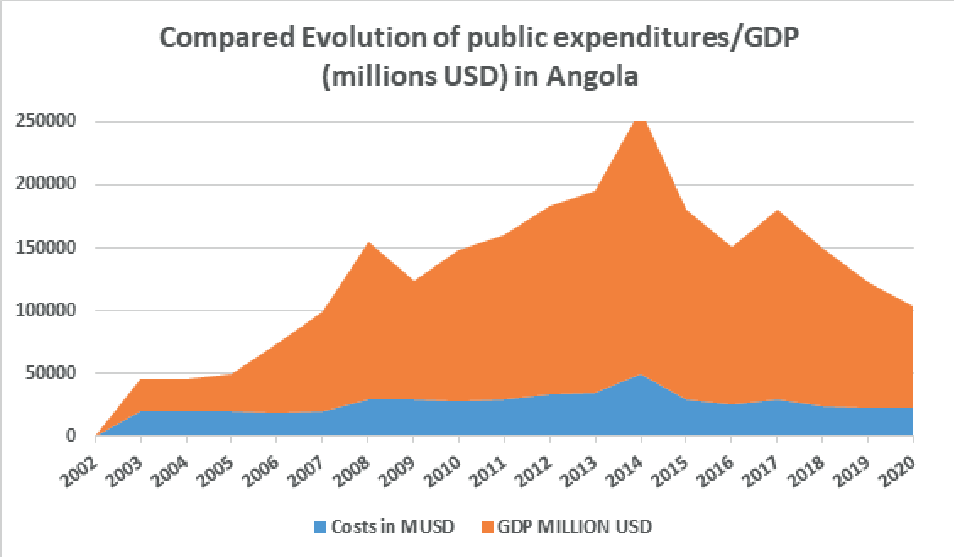
Source: CEIC, based on official data

It seems that without supply growth, inflation will always occur, even when monetary policy is restrictive, which is why an understanding between public finances, the monetary vector and production growth, for which investment is indispensable, is crucial.

The IMF- despite its legendary conservatism and attitude of condemning public investment, giving absolute primacy to private investment and considering that of the government as a mere complement in areas of activity where private capital applications are not attractive - considers that public investment is urgently needed to sustainably address (create rational, balanced, efficient and inclusive national health systems) the incidences of Covid19 and other typical endemics in developing countries in Africa. Simultaneously, creating millions of jobs.[30] In this release, the IMF even highlights that public investment is *"a potentially powerful element for any economic recovery stimulus package: it would create millions of jobs in the short term and could also create many additional jobs indirectly in the long term"*.[31]

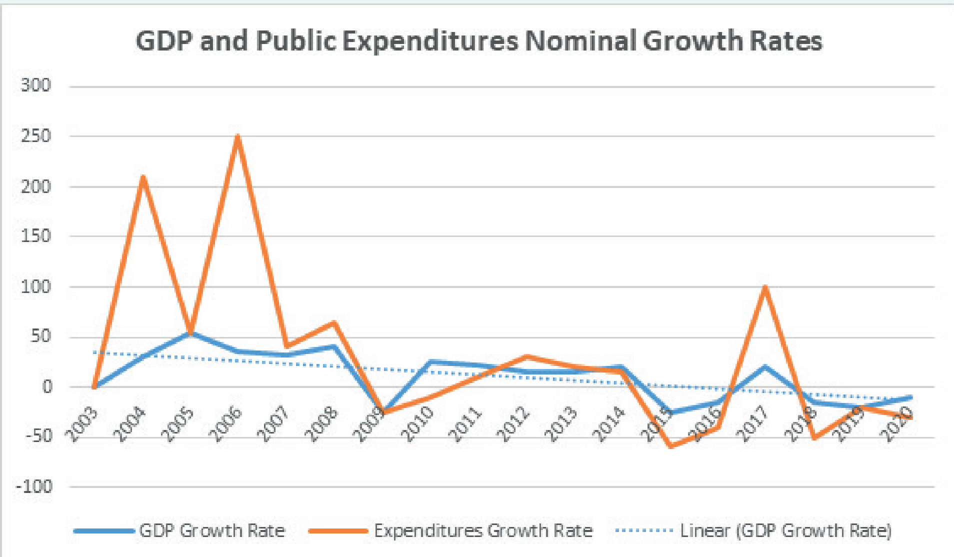
30 International Monetary Fund - Budget Monitor - Public Investment for Recovery, October 2020.
31 II chapter of the document.

The public investment multiplier was estimated, in this study, at 2.7 with the scope known from Keynesian Theory (recall: the multiplier effect of this investment would transform each dollar or euro of public money into 2.7 dollars or euros of GDP growth).



Sources: GSB & IMF (Reports on Angola)

The comparison between the two magnitudes whose values are shown in the graph above allows us to conclude that this component of the Gross Domestic Product has been privatized. In fact, the weight of public spending in the national value added went from 47.9% in 2002, to 21.1% in 2020, a drop of 26.8 percentage points. The negative impact of this significant reduction affected the quality of public services provided by the State, which could have been compensated by an increase in efficiency. Public expenditure in 2020 has been estimated at US$ 16 billion. Paradoxically - because it was a year of falling Price per barrel of oil - 2014 recorded the highest amount of public expenditure of the 2002/2020 period, valued at more than US$ 61 billion (it could be said, by way of explanation, that the inertia came from the good old days of high-priced oil).



Sources: GSB and IMF

The dynamic analysis of the nominal GDP and Public Expenditure growth rates allows the calculation of a "proxy" to the State expenditure multiplier, estimated at 0.758, again with known significance. The higher its value, the more social and productive activities benefit from the participation of State finances in the Economy. Values below the unit reveal the lack of quality in public spending, related to excessive bureaucracy, the map of preferences of the State distorted from reality, public choices tainted by disruptive factors, etc.

The quality of public expenditure is an important item to assess its effects on economic activity, and it may even happen (at least theoretically) that an index lower than the unit may induce significant multiplier effects ("spread effect") on GDP. The question is how to evaluate the quality of this State expenditure, in the absence of a parameter panel that flags up the good and bad allocation of funds (always scarce, it is good to remember) and of pertinent and realistic considerations on the social worth of these expenses (surely, for society, the surface meter is not a good public expense, in comparison with investments in social housing, education, hospitals and so many other works and interventions of this nature).[32] In this matter of public choices (investment and current expenditure) there must be a clear distinction between the short term and the long term.

Public investment is particularly needed in critical sectors geared towards short term value creation and long-term output potential, in healthcare (good health decreases absenteeism rates, raises good mood and boosts short term productivity gains), schools, physical and digital infrastructure, buildings (hospitals) and transport.

Its relative weight in GDP has always been low, representing no more than 7.5% in an 18-year period average (2002/2020).[33] Its peaks occurred during the golden years of the national economy (2002/2008), with an average of 8.1% and a peak of 12.8% in 2009. From then on, the relative importance of public investment in the annual aggregate economic value has declined, evidently explained by the vicissitudes of the experienced and still ongoing crises in the economy and in public finances.

The comparison between the dynamics of GDP growth and public investment points to a "proxy" of the multiplier of 0.446, much less significant than the 2.7 previously indicated for the most organized, productive and developed economies. This difference in the capacities of public investment to influence the economic system is, of course, rooted in the greater organization, higher general factor productivity and denser inter-sectoral relations inherent in developed economies. The same type of considerations made about public spending in terms of its goodness remain valid, that is, there are good and bad investments, and this is where the issue of the sustainability of public debt also arises.

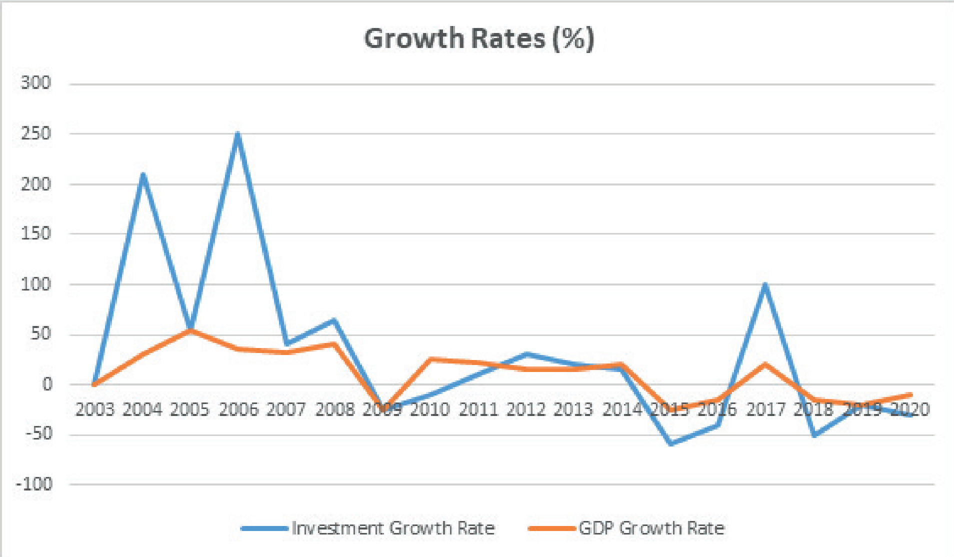
In fact, it is no longer only the GDP growth rate, the interest rates agreed between lenders and the State, the size of the budget deficit and the repayment rate of the public fixed capital stock that count for their analysis. The quality of public expenditure also assumes similar preponderance, which is why some renowned economists believe that there can be a place for 'good public debt' and 'bad public debt', depending, after all, on how the loans are used. If they are for regency works, bad public debt accumulates. That is why the Government's panel of priorities must be well defined and transparent so that everyone understands, in the end, where the present and future taxes are directed, these destined to pay public debt.

32 Because there are other alternatives in the field of means of transport, less expensive, probably more efficient and less demanding in upstream and downstream arrangements. Often "small is more beautiful", except that they make side deals impossible.

33 It is worth remembering that these figures refer to budgeted but not executed funds. On average, the execution rate of public investment is around 70%.

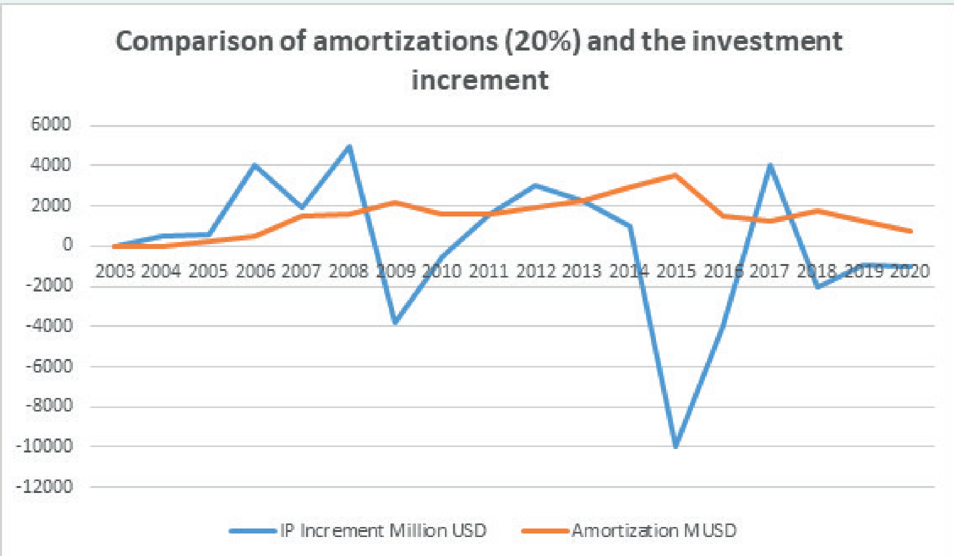
Paul Krugman, Nobel Prize winner in Economics, member, among others, of the Lisbon Academy of Sciences, who is not afraid of words (which is why some extremists of liberalism and evangelists of the market do not appreciate his approaches), wrote, in a recent and provocative article in the New York Times, elucidating on the goodness of public debt: "*if used well, it renovates/builds infrastructure, retools schools and hospitals, creates jobs and saves resources in the future*".

Returning to the subject of the following chart, it can be observed that if public investment is one of the factors of economic growth (not the factor, to which oil production/exports should be added), the discrepancy between the two rates in the 2003 and 2007 period is questionable (what investments did the State make that had no relevance on the GDP?)



Source: GSB and IMF

Yet another field of analysis is found in the comparison between new investments and the amortization of the existing capital stock.



Source – CEIC, based on official data

Without investing in physical capital (infrastructure, equipment, housing, factory buildings, schools, hospitals, etc.) and human capital (education, health, training, innovation, science and technology), medium-term growth capacity is compromised. Public investment in Angola is the most important component of gross fixed capital formation, second only to private investment in oil extraction.

In the absence of investment and of skilled workforces able and willing to deftly operate the equipment of the latest industrial revolutions, little is achieved in terms of structural changes and adjustments to the social structure, where productive forces, production resources and production relations are interwoven, most of the time in conflict with each other as they evolve and change, in order to achieve a balance favorable to economic growth and social development. The diversification of economic and productive systems and structures must be combined with changes in social formation, the implementation of policies that value the workforce and maximize the relationship between labor, capital and technology, or else situations of exploitation of one production factor by another will find fertile ground to arise. The difficulty in reconciling the interests of capital and those of the workforce, whose resolution/approach has much to do with social issues (human capital, social relations, social protection, education, health, etc.), is evident.

The process of diversification in Angola has only been viewed and analyzed from a strictly productivism and economic perspective "tout court" and not from the perspective of transformations in Angolan social formation. According to the Government and almost all businessmen, diversification is essential to produce, reduce imports, increase profits and provide foreign exchange. The social aspect only exists in the form of job creation, with no regard for its quality and the level of remuneration, losing sight of the fact that Say's Law probably has no room for application today, and that it is necessary to consider the production/consumption binomial.

Competitiveness based on the quality of production and services must be promoted within social formation, because only in this way will it become "eternal" and competitive (excuse the necessary pleonasm, to emphasize the idea): *"A country's competitiveness is based not only on the productivity of its enterprises, but also on the efficiency of its entire production structure, the quality of its technological infrastructure and the interrelationships between the components of the production system.* The "technological externalities" favor the enterprises" own efforts, raising the quality of their choices. Competitiveness at macro and micro level are therefore complementary. Technology can change the comparative advantages of nations (and their enterprises) and their insertion possibilities in the world economy, particularly at times when new basic technologies are diffused. These advantages are not given and static but evolve and therefore require a continuous technological and organisational learning effort".[34]

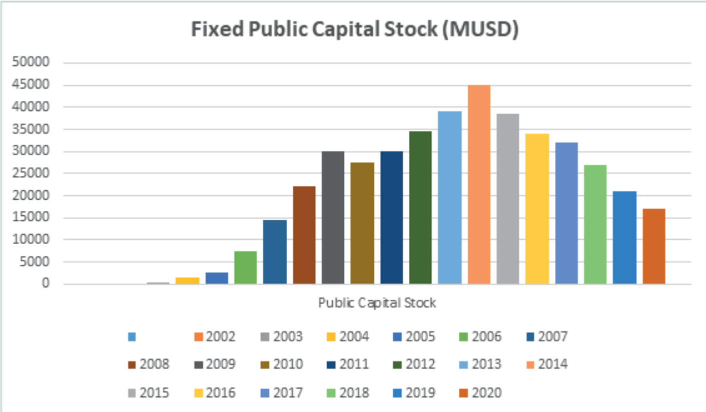
Technological development itself, on which diversification is tremendously dependent (to diversify using the production means of the 1st or even the 3rd Industrial Revolution is a retrograde step), is an essential factor in the transformation of production relations and the use of new production means: "*Technological development today presents, even more than in previous eras, an immense challenge for countries with backward industrialisation*. If in the past technology was basically incorporated into machinery and equipment and developing countries could access it through imports and technology licensing contracts, today this access has become much more complex and specialized. Therefore, unlike what was believed for a long time in Brazil, raising the investment rate in fixed capital and acquiring the skills to operate it efficiently is not enough for the diffusion of new technologies".[35]

34 Latest Investment, Technological Capacity Building and Competitiveness, Suely Muniz, Researcher at the Technological Research Institute. Folha de São Paulo, Caderno Dinheiro, 17 December 1999.

35 Latest Investment, Technological Capacity Building and Competitiveness, Suely Muniz, Researcher at the Technological Research Institute. Folha de São Paulo, Caderno Dinheiro, 17 December 1999.

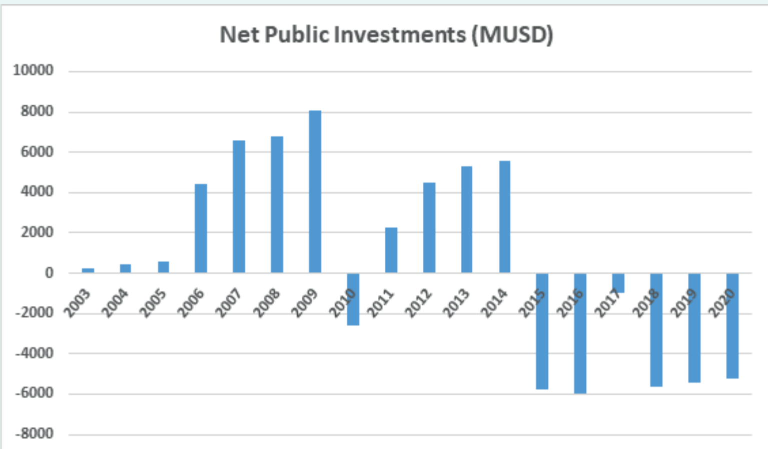
And it is precisely in this context that the size of the economy's fixed capital stock comes into play: what is its quantitative level? What is its nature? What are its characteristics (buildings, machinery, technology, etc.)? In which sectors was it constituted? How was it financed? I which regions of the country has it been applied? Nothing is known, except that, as stressed earlier, it is in oil activity that the bulk of the economy's fixed capital must have been integrated.

The attempt to determine the stock of public fixed capital is shown in the following graph, whose calculations were based on information from the State Budgets and on the assumption of a useful 8-year lifetime for public investments, in order to pre-empt their tremendous and rapid wear and tear over time (buildings, roads, railways, ports, equipment) and their lack of maintenance.



Source: CEIC, based on official data.

Until 2014, there was unbridled investment, made possible by the end of the civil war, through the first major Chinese funding in 2004 and justified by the disastrous state of infrastructures, which were, on the one hand, destroyed and, on the other, non-existent. The need then arose to infrastructure the country and create, on that base and sequence, the material foundation for growth. The Official Development Plans between 2003 and 2017 emphasized this growth component, but disregarded public investment programmes, and did not define criteria for evaluation and technical, economic and social validation (preferring decisions and considerations of a political nature). The result was a poor quality and capacity to bring about efficient and relative durable economic growth.



Source: CEIC, based on official data.

A maximum of the public fixed capital stock was reached in 2014, with a value of US$ 45003.2 million, today probably rundown in its great entirety, without the same economic value and with a lower propensity to spark growth in the economy.

4. Economic Forecasts - Main Indicators

4.1 Economic Forecasts - Major World Economies

The outlook for world economic growth presented for 2020 by almost all the institutions points to a major recession in the global economy -4.4% according to the IMF, -5.2% according to the World Bank, -4.3% according to the European Commission and -4.2% according to the Organisation for Economic Cooperation and Development (OECD). The world economy has not experienced such low growth since the second world war.

Table 01 Major Economies Economic Growth

Source	IMF forecast (October 2020)			WB forecast (June 2020)		European Commission, (November 2020)			OECD (December 2020)		
Economies/ years	2020	2021	2022	2020	2021	2020	2021	2022	2020	2021	2022
Advanced	-5,8	3,9	2,9	-7,0	3,9	ne	ne	ne	-3,8	4,7	3,7
Euro Zone	-8,3	5,2	3,1	-9,1	4,5	-7,8	4,2	3,0	-7,5	3,6	3,3
China	1,9	8,2	5,8	1,0	6,9	2,1	7,3	5,6	1,8	8,0	4,9
Germany	-6,0	4,2	3,1	ne	ne	-5,6	3,5	2,6	-5,5	2,8	3,3
Japan	-5,3	2,3	1,7	-6,1	2,5	-5,5	2,7	0,9	-5,3	2,3	1,5
United Kingdom	-9,8	5,9	3,2	ne	ne	-10,3	3,3	2,1	-11,2	4,2	4,1
United States	-4,3	3,1	2,9	-6,1	4,0	-4,6	3,7	2,5	-3,7	3,2	3,5
World	-4,4	5,2	4,2	-5,2	4,2	-4,3	4,6	3,6	-4,2	4,2	3,7
								OECD	-5,5	3,3	3,2

Source: IMF, WB. European Commission

The great world economies will not be spared, a great recession is predicted in almost all countries, as can be seen in **Table 01**. Strangely enough, China will be one of the few countries to record positive economic growth in 2020, despite being the first country to be affected by the pandemic at the very beginning of the year.

The Chinese economy has been growing in the last five years by an average of almost 7% per year and recording a growth rate of 1% in 2020 is a remarkable fact, only understandable in the light of health and research policies to fight the effects of the covid 19 pandemic and support for the economic, business and social system.

Obviously, the 2020 figure is an affront to the growth trajectory of the world's second largest economy, but it is nonetheless an indicator of the strength of this Asian economy, which has managed to reconcile political power with economic development and carry out structural reforms when they are most needed (between 1978 and 2018, 740 million citizens were lifted out of poverty).

The non-recession of this Asian giant could positively affect many countries with which it has strong economic and commercial relations, such as Angola, which exports more than half its crude oil to this country.

According to the European Commission, among the large economies, the United Kingdom is the country that will be most affected in terms of economic growth, with an expected recession of 11.2%, followed by the Euro Zone (where Germany will have a 6% recession) and Japan. The United States will have a worst-case scenario of a 6.1% recession according to the World Bank, but the European Commission forecasts a 3.7% recession for the world's largest economy. President-elect Joe Biden's new administration will have the responsibility of ensuring that economic growth is a fact in 2021 and beyond.

The IMF, the World Bank, the European Commission and the OECD are confident of an upturn in economic growth in the world economy and its major economies in 2021. Considering the positive economic growth seen in 2019, the negative one expected in 2020 and the positive forecast for 2021, a "V"-shaped recovery of the global economy and the most industrialised countries is clearly expected.

This is a very pertinent topic and still under analysis among economists - whether the returns will be in the v, w or nike shape. The analysis is not yet complete, although opinions and studies tend towards a longer-term upturn, with the IMF even stating that in Africa the recovery to pre-pandemic growth levels will only occur in 2023 or 2024.

The announcements of the availability of vaccines (Oxford, Pfizer, Moderna, Sputnik V, Coronavac, etc.) by the major pharmaceutical companies is a light at the end of the tunnel for the world economy. Some countries such as the US, Germany, the UK and China may begin mass administering the vaccine in 2021, although there are doubts about its efficacy and maturation time, with some saying that it will take six months for the decontamination effects to kick in. If successful, many of the restrictions imposed by countries to control the spread of Covid-19, which negatively affect economic activities, will be lifted by 2021 thus contributing to higher economic growth.

4.2 Estimated GDP growth (African Zone Economies)

The weak institutions of many African countries, poor governance and little transparency in the use of public resources that characterize most countries on the continent made many think that Africa could not withstand the health, economic and social impact of the virus. However, data indicates that so far Africa is the continent with the lowest number of cases and fatalities compared to Europe and America.

The measures taken by many countries to contain the spread of the virus have led to the bankruptcy of many businesses and companies, leading to the job losses that are increasing poverty levels on the continent and negatively affecting the GDP per capita. The lack of a functional and comprehensive social security system in most countries on the continent makes people lose their jobs and poor people do not have the necessary help to maintain a decent standard of living.

According to the African Development Bank (AfDB), considering an economic recession in Africa of between -1.7% and -3.4%, between 24.6 and 30 million jobs are expected to be lost across the continent.[36] This mainly affects the millions of working poor who represent about half of the employed. The informal economy will be the only escape for many of these people.

As most countries in Africa are exporters of raw materials to the more industrialized economies, the economic downturn in these economies negatively affects African commodity-producing economies. Thus, many African countries could face economic recession by 2020 according to forecasts by the IMF, the World Bank (WB), the African Development Bank (AfDB) and NKC African Economics.

The forecasts of the three institutions (IMF, WB and AfDB) point to moderate economic growth in some African countries in 2020, such as Beni, Burkina Faso, Central African Republic, Ivory Coast, Egypt, Ethiopia, Kenya, Tanzania and Togo. NKC African Economics predicts that only Ethiopia, Guinea Bissau, Togo and Djibouti will experience economic growth. The strong performance of these countries will ease the economic downturn on the continent

Oil producers will all be negatively affected, which has been happening even before the pandemic, due to the drop in the price of a barrel on the international market since mid-2014.

The Southern Sahara region, which includes 47 economies including Angola, Nigeria and South Africa, will have a recession of 3% in 2020 according to the IMF and 2.8% according to the World Bank. Except for the three large economies of the region, the recession is more moderate -0.3% (WB).

Table 02 Economic growth of some African Economies

Sources	IMF forecast (October 2020)				WB forecast (June 2020)		AfDB (May 2020)		NKC African Economics
Economies/ years	2020	2021	2022	2023	2020	2021	2020	2021	2020
Angola	-4,0	3,2	3,0	3,9	-4,0	3,1	-5,3	1,2	-9,3
Nigeria	-4,3	1,7	2,5	2,5	-3,2	1,7	-7,2	0,1	-2,7
South Africa	-8,0	3,0	1,5	1,5	-7,1	2,9	-7,5	1,3	-8,9
Sub-Saharan Africa	-3,0	3,1	4,0	4,4	-2,8	3,1	ne	ne	ne

Source: IMF, WB, AFDB, NKC

As shown in **Table 2**, South Africa is the country in the region[37] that could have the largest recession in 2020 according to IMF, WB and ADB forecasts. And it makes perfect sense considering that it is the country with the highest number of COVID-19 cases continent-wide. This emerging African country is going through political and social instability since President's Zuma impeachment, accused of corruption and influence peddling. Major public companies such as the National Carrier (South African Airways), Eskom (electricity producer), Telkom SA and others are experiencing various problems which are affecting the country's economy. President Ramaphosa has the responsibility of steering the economic destiny of this great African economy.

36 African Development Bank 2020, African Economic Outlook 2020 SUPPLEMENT page 35.
37 NKC African Economics believes that Angola will have a more severe recession than South Africa.

Nigeria, which has shown moderate economic growth in recent years (0.8% in 2017, 1.9% in 2018 in 2.2% in 2019) will also be plagued with a recession in 2020 (-4.3% for the IMF, -3.2% according to the World Bank and -7.2% according to the AfDB). The crisis in the international oil market, internal political issues (war with Boko Haram) has negatively affected the largest oil producer on the continent in recent years.

In relation to Angola, the IMF and World Bank predict a 4% recession for 2020 and the AfDB predicts a 5.3% recession, respectively. Below we will present the CEIC's and the government's forecasts.

All three institutions expect a pick-up in economic growth for 2021 but at low levels compared to the magnitude of the recessions.

4.3 The Angolan Economy Outlook

Challenges to overcome

The Angolan economy presents five major risks until 2022: the behavior of oil prices and the probability of deviating from the base scenario (US$ 68 per barrel), despite the agreement with the IMF, the high weight of public debt (internal and external) and the respective service may limit the attraction of foreign direct investment and borrowing on international markets (despite the agreement with the IMF), the potential negative contagion effect on the financial sector from the transition to a flexible exchange rate regime, shocks on public debt from low GDP growth (we'll come to that in a moment) and from the possible drop in the price of a barrel of oil and, finally, a more than expected (programmed) decline in oil production (with a reduction in GDP dynamics, in the amount of tax revenues and in the viability of the new exchange rate policy). After all, everything revolves around oil, which is the great determinant and, in crisis situations, the greatest unknown factor in the country's economic growth and social development.

It will take years to reduce this dependency and even longer to diversify exports, because the country does not have an exporting DNA (beyond oil and eventually energy) - the capacity to penetrate and create partnerships, competitiveness, knowledge of foreign markets, product and process innovation, etc. International markets are very demanding and should not be taken lightly, as is evident from many public interventions by the Government's middle management.

Regional development,[38] based on the local governments, municipalities and provinces, is enshrined in the Constitution of the Republic of 2010 and is set out in various articles. Article 21(m) establishes, as one of the fundamental duties of the State, *"to promote harmonious and sustained development throughout the national territory, protecting the environment, natural resources and the national historical, cultural and artistic heritage"*

Meanwhile, the regional asymmetries in the country are well known, and there has been no growth model to mitigate them: the countryside is increasingly countryside (unable to attract private investment, unsuitable to retain economically active population, far from the average living standards of the country, estranged from the major, decisive and strategic economic development decisions) and the coastline with increasingly convincing arguments to meet the conditions for the sustainability of its economic growth. The Private Investment Act will not be enough to reverse the trends of concentration of private initiative in areas that currently show conditions of competitiveness well above the national average, nor even to diversify the productive structures of the regions.

38 This description is not part of the lexicon of the Angolan planning system, but it is believed that it will tend towards it, not only because it is international practice, but also because it may correspond to another form of grouping provinces with similar economic and natural characteristics.

For example, the Luanda/Bengo region concentrates over 56% of all manufacturing, in sharp contrast to the central/eastern region (Malanje, Lundas, Kwanza Norte and Moxico), where less than 7% of manufacturing companies are located. And the relevance is even greater if we consider raw materials processing to be the most value-added for economies, increasing employment and national income. Add to the Luanda/Bengo axis the Centre-West zone (Kwanza Sul, Benguela, Huambo and Namibe), and the concentration becomes absurd (80%), leaving large masses of the population confined to underdeveloped agriculture in the interior regions.

The asymmetries are equally valid for employment, with around 70% located in those regions. When it comes to national income - the crucial element of purchasing power and hence of the ability to generate critical demand for the profitability of investments - the disproportions are similarly striking, with Luanda over 75%. If we add Benguela and Kwanza Sul, the concentration of income on the coast of the country can reach 90%! There is a difference of 74 times between the province with the highest average income per capita (Luanda) and the one with the lowest (Moxico).

Therefore, the decentralization model and policy must be equipped with more powerful and convincing instruments so that local governments can have some chance of economic survival and financial sustainability. Public investment may have an important role to play here, especially in this new era of reduced political influence and interference in the choice of public expenditures. The decision on the geographical location of public undertakings must be based on clear criteria of economic efficiency (attracting private investment, positive benefit/cost balance) and their ability to help improve people's living conditions.

Do local governments hold any economic potential to reduce, to any extent, the current inequalities in income, job creation and enterprise creation? Or do they only correspond to political purposes related to the aspirations of the populations with greater autonomy and increased intervention in the definition of the options for their fate? What is the effective capacity, through the local governments, to attract economic activity and establish it, making it sustainable? What is the cost/benefit balance of territorially organizing the country into administrative units of different sizes and, consequently, with different capacities to attract economic activity?

One can agree that the emphasis on economic aspects may be an exaggeration. However, one cannot but agree with approaches on the spatial location of factories, farms and other productive activities based on the well-known agglomeration economies. Economies provided by the existence of population, decision-making centres, relationships between companies of different sizes, quality human resources, banking and financial systems, channels for the flow of production and receipt of products, density of transport modules, schools and universities. Luanda holds all this (30% of the population, 90% of the banking system, 75% of the business system, 65% of the Universities and Technological Institutes, 95% of the decision centres, 80% of the transport system), presenting itself, also, as the queen of informality (the work with more than 56% of families earning their income from this system, while the commercial sector On the other hand, is more than 80% based on informality, soil use and occupation are comprised of 71% of the population living in informal or precarious dwellings from the point of view of both the conditions of access to urban infrastructure and the security of tenure of these properties, access to and ownership of land is mostly informal - 61.3%; and the circulation and transport system is dominated by informal transport, where, in addition to other informal modalities, about 80% of the population uses the so-called "candongueiros" (taxis) as a means of daily transport.

Some Schools of Economic Thought have established the conditions under which productive units become more efficient when they are concentrated in regions with a larger market, in number of consumers and purchasing power.

It is from this perspective that one can and should talk about the cost effectiveness of regionalization. Purchasing power and the critical mass of endogenous demand in each region are the major calls for private investment, which obviously seeks profit and a return on these investments of capital. In addition, there are aspects related to the goods transport costs and information (especially the first one, at this stage of incipient technological development of most of the municipalities. If the costs are sufficiently low, companies will be able to enjoy scale economies, derived from the geographical concentration of production and low delivery costs. Paul Krugman argues that in a country well-endowed with roads, with low transport costs, the optimal location of a productive establishment will obey other criteria, such as small spatial differences in production costs.

For these conditions to exist, the road network must be up to the task of providing capacity for investment and economic activity. The state of degradation of the so-called secondary and tertiary road networks puts many municipalities aside from private investment. And even public investment, as per the criteria of choice and location defined by Government institutions, has not been a factor in diverting productive undertakings to the municipalities most in need of them. It could be said that the government has opted to place public undertakings projects at the disposal of areas and territories where there is a higher concentration of production and service provision. A way of providing greater returns on private investment. To the evident detriment of territorial areas remote from urban centers and increasingly set aside from the processes of growth in added value. In this way, they worsen their condition of being on the margin of development and suppliers of undervalued labor and raw materials. The smaller the territorial extension, the greater the economic discomfort.

Another delicate aspect relates to population density, another element of markets' dimension. The very low population density of many municipalities, especially in the countryside, disconnects them from the national context, leaving them to engage in primitive and quasi-subsistence economic activities on the fringes of civilisation, making them vulnerable to foreign occupation by the neighboring countries. The issue under discussion here is the country's demographic policy, the optimal population size and the depopulation of large areas of the countryside. But the relative low population size also influences the location of justice, health and education services: scale economies and public savings ultimately depend on the number of users in each municipality.

The competences attributed to the local governments (article 219 of the Republic's Constitution), if they can help to improve, even if slightly, some of the living conditions of the populations (the main decisions continue to belong to the central State power), are clearly insufficient to attract private investment, the bearer of production, employment and income (the final part of the article is generic and vague: "promotion of the economic and social development ....".

How much will regional decentralization influence national economic growth? How can it be a means of mitigating the tremendous asymmetries between the coast and the countryside? By how much will decentralization create agglomeration economies within the country? Theoretical assumptions and speculations about the consequences of decentralization are not enough. From a political point of view, the argument in favor of regional decentralization is uncontested, as it is a means of involving the populations in the equation of their problems and in finding the best solutions. But from other points of view (administrative, constitutional and methodological) the fact that Angola is a Unitary State (Article 8 of the Constitution of the Republic) determines that the essential and most important political and economic policy decisions continue to belong to the State and the Central State Administration (CSA), leaving the Local Government (LC) with only minor responsibilities and areas of intervention, probably insufficient to leverage economic growth and local social development. However, much progress is made in administrative and even financial decentralization, the sideline nature of its economic effects will endure. Autonomy in setting each province's own economic policies (with the participation and influence of the local governments) is impossible within the current constitutional framework.

There is no getting away from basic concepts such as efficiency, effectiveness, equity and rationality in economic science. It should be remembered that rationality is one of the principles of economics (it is assumed that all economic agents are rational in their choices), together with balance (markets always balance by virtue of the free operation of their adjustment mechanisms). These are principles defined and defended by neoclassical liberal economics, but not always or almost never verifiable in real economies. As a rule, efficiency conflicts with equity and if one of the aims of regional decentralization is to improve equity between regions/provinces/municipalities in the distribution of national income, compliance with efficiency - if taken as an essential criterion for the allocation of scarce resources - may aggravate the unequal spatial distribution of economic growth. Between efficiency and effectiveness, are there clear convergences? Efficiency is about productivity and economy of means.

Effectiveness relates to the ability to implement ‘things’. The regional decentralisation project is included in all official government and MPLA documents. But is the way in which governance bodies present and defend it rational? Can it be efficient and effective in its aims and objectives, such as the reduction of disparities and imbalances? Rationality, in this case, is related to the trinomial decentralisation/population/location of companies (economic activity).

Regional decentralisation cannot be disconnected from population, nor from economic growth and the location of companies and firms - which, at the end of the day, give substance to investment, increased production and job creation - it being worth saying that without people (labor force and consumers) a critical mass of endogenous economic demand attractive to private investment cannot be created. i.e., according to INE’s population data, there are municipalities with such a small population that they will never be able to attract economic activity (and there are a lot of them). And if we agree with the theories that emphasize the attraction factors (centripetal factors) and repulsion factors (centrifugal factors) of the spatial location of economic activity (according to Walter Isard), then we will be certain that regional decentralisation will not be enough to mitigate current and future territorial imbalances, which, in my view, will tend to get worse.

The proposals of the National Development Plan on these matters may not be the most suitable for making decentralisation profitable, effective and rational. Please read the full text: *“These objectives were followed by the proposal of a Territorial Model, aimed at a rapid reconstruction of the productive potential and well-being of the population, based on the development of a network of development poles, balance poles, internationalisation platforms and development pivots, both consolidated and prospective, whose main characteristics are:*

- *A large metropolitan region built around **Luanda**, which concentrates the main internationalisation infrastructures and headquarters of the main economic groups and international companies and institutions operating in the country, but with difficulties in overcoming the strong duality and inability to create jobs and guarantee decent living conditions for all inhabitants, and therefore requiring strong planning and deconcentration policies;*
- *A second internationalisation platform on the **Benguela-Lobito** corridor - based on industry and logistics activities, advanced services and a major tourism sector - and a dynamic urban agglomeration in the geographic centre of the country (**Huambo-Cuíto**) based on agro-livestock and industrial activities, competitive on the domestic market, and advanced education and research services;*
- *A wide range of remote and peripheral territories, characterised by very low population densities, absence of urban agglomerations andvery low intensity of economic relations and movements of people and goods and subject to public actions aimed at their integration into the national economy*”. [39]

39 National Development Plan, 2018-2022, pages 69 and 70, in PDF version.

With Luanda currently accounting for 75% of economic activity and employment and practically 30% of the total population, and the Luanda-Benguela-Lobito area accounting for practically 90% and 37% respectively, the times ahead will be characterised by a worsening of regional asymmetries in Angola.

Reasons: the agglomeration economies around these two corridors, which will still take a long time to transform into diseconomies of agglomeration, and the difficulty for the countryside corridors to have the capacity to attract private investment (the provincial governors are aware of these difficulties and have expressed them in forums that they organise precisely in order to influence private entrepreneurs).

It is in this context that a "regionalization trap" can be created (autarkisation), an idea taken from Stiglitz and Krugman's "globalisation trap"[40]: improvement of the political conditions for participation, without economic dynamism and improvement in the distribution of income in each province or municipality.

For economic growth to happen, it must be the result of an efficient combination of production factors, among which we can emphasize investment, precisely the central objective of this Business Forum. In fact, the processes and attempts to attract investment are a worldwide reality, precisely within the market economies paradigm and the free market functioning.

It should also be added that investment opportunities in Angola, from a provincial perspective, end up all being similar, even though natural competitive advantages can be identified related to the idiosyncratic characteristics of each province, such as mineral resources, forests, sea, arable land, livestock farming, natural beauty, historical and cultural incidents, availability of water, etc. However, and according to some empirical evidence revealed by detailed studies and even the evolution of economic thought, it seems that competitive advantages built end up prevailing and proving to be more decisive than natural ones. If this were not the case, it would be difficult to explain the permanent and systematic economic success of countries such as Switzerland, Austria, Japan, South Korea, Singapore, Mauritius and even the People's Republic of China.

Of course, it is better to have natural resources than not. The concern is how to harness them and insert them into the different production systems and modes of production. The case of oil is paradigmatic, and the Dutch disease is the most complete example of the deficient, unbalanced and pro-business-political dominant classes' use of non-renewable mineral resources. Starting with the Netherlands, the devastating effects of rent seeking extended to developing countries rich in this mineral resource, but which do not have the resilience capacity of the Netherlands, basing their growth on weak, unbalanced productive structures, without human capital, technological capacity or inter-sectoral relationship matrices that add value and create jobs.

It is worth mentioning that, internationally or internally within each country (once again disregarding the pleonasm), other assets differentiate countries and regions (Provinces in Angola's case) within them, with human, institutional, social and business capital appearing today as differentiators and sources of progress. If they exist, there will be more investment opportunities and the ability to attract the private sector will be more relevant.

And the explanation is simple: human capital, for example, is, until today and in the context of theories of Endogenous Economic Development, the only factor with increasing returns to scale, unlike land, physical capital and undifferentiated labor. The provinces of the country that manage to combine the availability of natural resources with these strengths will surely manage to transform growth potential into effective realities, creating more jobs, improving household consumption and even promoting transformations in their productive forces and relations of production.

40 Many economists, including Stiglitz and Krugman, have pointed out the globalisation trap for many countries, stating that what has been happening since the 80s has been an intensification of foreign trade without internal dynamism (consequently, more poverty and the perpetuation of underdevelopment).

Human capital is recurrently referred to in Angola as a necessity for economic development and social progress. However, and sometimes, many private and public entities and even individuals, when referring to it, do not understand the dimension of its strategic importance, and do so only as a matter of fashion (such as diversification and even import substitution). For example, the province in Angola that can offer private investors a permanent, extensive and quality primary education system will ultimately have built a competitiveness agenda for itself. Primary education is the cradle of development, it is where everything begins and if it is of good quality the downstream knock-on effects are immeasurable, especially on general labor productivity. But also, on the benchmarks for technical and university education.

Moreover, with quality human capital - it even seems like a redundancy, because human capital cannot fail to be of quality, by its very definition - research, both fundamental and applied, ends up being a corollary. Innovation, linked to fundamental and applied research, is the essential factor in the Theory of Economic Development of Joseph Schumpeter, one of the most brilliant economists of all times, with his “invention” of “creative destruction”. The provinces must understand how to promote the emergence of Schumpeter-type entrepreneurs who are innovative, risk-takers, change-oriented and forward-looking. It is up to human capital and business capital to undertake this process of revolutionizing the productive bases for growth.

The previous government drew up a far-reaching Strategy for Human Resources Development in Angola (until 2025 and which is currently being updated), not only in terms of time but also methodologically, where the future economic careers of Angola are defined and the training capacities of all the national entities (Institutes, Universities, etc.) are identified. And these professions are the ones that will make the diversification of the national economy worthwhile and adapted to the conditions of each province.

The university explosion after the creation of the country’s university regions was an attempt, correct in the context and time in which it was outlined, to adjust the profiles of the skilled worker to the characteristics of each province and to try to stem the migratory flows toward the large coastal cities. This may be a case of adaptability of the characteristics of this factor of production to the natural comparative advantages of each province. In Namibe province, the example is given by the Academy of Fisheries and Marine Sciences: a 480-kilometer coastline, crediting 65% of the country’s fishing activity and a considerable diversity of marine species. Maximizing this natural advantage, through the qualification of human resources in these specialties, may involve building collaborative bridges with other African countries in matters of training, research, and innovation.

As for the diversification of the economy - one of the aspects of regionalization economics - the adjacent and surrounding processes are complex, tributary to macroeconomic policies of restoring and guaranteeing fundamental balances (inflation, exchange rate, fiscal deficit, external current account deficit) and microeconomic policies of persuasion on private investment. “Good diversification” - conceptually this difference between good and bad diversification is wrong, but from a practical point of view it can help to better explain and understand its essential aspects. It is based on competitiveness, related to the availability of differentiating natural resources and the quantity and quality of available production factors, or else on an efficiency created based on physical capital - economic and social infrastructure - human capital and institutional capital.

These are the differentiating areas between the provinces, when the Constitution of the Republic is tremendously centralist and the economic policies to support the productive sectors are defined by the central government. The diversification of the provincial productive fabric is closely related to the administrative and financial decentralization being carried out, and the more it deepens so the more freedom the provincial governments must try to maximize the natural or acquired advantages existing in their regions and areas of influence.

The diversification of the national economy must be the result of the diversification of the provincial productive fabrics, or it won't happen at all. Both deconcentration (in progress, even if not at the necessary speed) and decentralization, currently still under discussion without much political will to accomplish it, will end up being imposed by force of facts and by the will of idiosyncratically different populations, because they will enable the definition of their own specific regional/provincial economic policies. Thus, the support for the economic growth of each of them will be more effective, rational and efficient (resulting in economic activity, profits, salaries and taxes for social achievements). And one of the trial fields could be the public investment authorization processes in each of the provinces.

4.4 The Angolan Economy Growth outlook

The following perspectives were elaborated based on CEIC's existing structural model (an IS-LM-BP model) entitled MODUCAN.[41] MODUCAN is a macroeconomic forecasting model built on the equations of the IS/LM model, which deals with the simultaneous equilibrium in the goods market and the money market, i.e., it determines the points corresponding to the GDP growth rate and the interest rate.

Considering that the Angolan economy is quite open (with an exports/GDP ratio above 50%) the balance of payments equations was included in the model, incorporating the equations of the Mundell Fleming model of a small open economy. The model uses the IS-LM-BP framework equations, where equilibrium in the goods, money, and foreign exchange markets are determined simultaneously.

The model was drafted using data from INE's National Accounts and BNA's Balance of Payments, with 2002 as the base year. Thus, the main exogenous variables are public spending, (public) investment, exports (oil and non-oil) and the monetary aggregate M3.

The Economic growth rate depends on the value each of these variables. The projections cover the 2020/2022 period.

The table below presents the technical assumptions that underlie the results that MODUCAN generated concerning the expectations for growth of the national economy, considering the Pandemic that the world is facing and the cut in oil production that Angola is subject to as a member of OPEC.

Given the assumptions, the macroeconomic model gives the following results for total GDP, oil and non-oil GDP growth expectations:

Technical Assumptions (amounts in millions of Kwanzas)	2020	2021	2022	2023
Public Expenditures (based on the GSB)	2.387.962	2.364.082	2.340.442	2.317.037
Public Investment (based on the GSB)	814.720	787.886	761.936	736.840
Private Investment (based on data from INE)	3.685.865	3.722.724	3.759.951	3.797.551
Million barrels of crude oil (minfin) OPEC cut 2020	470	446	465	490
Volume of produced diamonds per 1000 carats (minfin)	8.010	9.000	9.900	11.088
Monetary Aggregate M3 (BNA)	12.156.697	12.217.480	12.278.568	12.339.961
% Oil GDP	22	24	22	23
% Non-oil GDP	78	76	78	77

41 Drafted with the support of CMI, in partnership with a Norwegian institution, and Jan Isaksen, a brilliant economist who worked closely with CEIC researchers to produce this forecasting material.

MODUCAN results (in %)	2020	2021	2022	2023
GDP Growth rate	-6,97	-1,90	1,60	2,82
Oil Sector	-6,95	-5,15	4,38	5,38
Non-oil Sector	-5,45	-0,67	0,64	1,58
Diamonds	-16,10	12,36	10,00	12,00

Source: CEIC- MODUCAN

As we can see, the CEIC predicted another recession for 2020, much deeper than previous years, due to the shutdown of most economic activities and the difficulties in the oil sector. The National Accounts data for the IV quarter recorded a -5.4% activity decline (year-on-year change) not very different from the CEIC figure.

Many small and medium enterprises are practically at a standstill all over the country, with enormous financial difficulties. The economic relief promised by the government at the start of the first phase of the lockdown in April 2020 was not enough to prevent companies from going bankrupt.

Public Investment that could drive growth has been cut successively since 2016. Private investment is mostly directed to the oil sector, leaving the non-oil sector with few resources as the high interest rates and the very high level of bureaucracy in commercial banking inhibit entrepreneurs from obtaining loans to boost investments.

A full and responsible implementation of the Integrated Municipal Intervention Program (PIIM) nationwide could soften the recession, as it will increase the performance of public investment and create more job opportunities in the communities.

4.4.1 Working hypotheses

a) What will happen if the monetary aggregate is further contracted?

If the BNA, as part of the policy to control inflation, decides to apply a restrictive monetary policy in order to reduce the monetary aggregate by for example 10% in the next few years, the result will be a deeper recession as shown in the table below.

Technical Assumptions (amounts in millions of Kwanzas)	2020	2021	2022	2023
Public Expenditures (based on the GSB)	2.387.962	2.364.082	2.340.442	2.317.037
Public Investment (based on the GSB)	814.720	787.886	761.936	736.840
Private Investment (based on data from INE)	3.685.865	3.722.724	3.759.951	3.797.551
Million barrels of crude oil (minfin) OPEC cut 2020	470	446	465	490
Volume of produced diamonds per 1000 carats (minfin)	8.010	9.000	9.900	11.088
Monetary Aggregate M3 (BNA)	10.941.027	9.846.925	8.862.232	7.976.009
% Oil GDP	22	24	22	23
% Non-oil GDP	78	76	78	77

MODUCAN results (in %)	2020	2021	2022	2023
GDP Growth rate	-7,07	-1,98	1,54	2,78
Oil Sector	-6,95	-5,15	4,38	5,38
Non-oil Sector	-5,55	-0,75	0,58	1,55
Diamonds	-16,10	12,36	10,00	12,00

Source: CEIC- MODUCAN

b) What if oil production and exports reduce by 2020?

Recession could reach double digits by 2020.

Technical Assumptions (amounts in millions of Kwanzas)	2020	2021	2022	2023
Public Expenditures (based on the GSB)	2.387.962	2.364.082	2.340.442	2.317.037
Public Investment (based on the GSB)	814.720	787.886	761.936	736.840
Private Investment (based on data from INE)	3.685.865	3.722.724	3.759.951	3.797.551
Million barrels of crude oil (minfin) OPEC cut 2020	470	446	465	490
Volume of produced diamonds per 1000 carats (minfin)	8.010	9.000	9.900	11.088
Monetary Aggregate M3 (BNA)	12.156.697	12.217.480	12.278.568	12.339.961
% Oil GDP	22	24	22	23
% Non-oil GDP	78	76	78	77

MODUCAN results (in %)	2020	2021	2022	2023
GDP Growth rate	-10,30	1,74	1,60	2,82
Oil Sector	-13,83	2,41	4,38	5,38
Non-oil Sector	-7,28	1,17	0,64	1,58
Diamonds	-16,10	12,36	10,00	12,00

Source: CEIC- MODUCAN

c) What exogenous variable is reflected in the fight against the pandemic?

If the amount of Public Expenditure to contain the incidence and spread of the disease and taking a 10% increase in its amount, we will have the following:

Technical Assumptions (amounts in millions of Kwanzas)	2020	2021	2022	2023
Public Expenditures (based on the GSB)	2.484.445	2.732.890	3.006.179	3.306.797
Public Investment (based on the GSB)	943.564	912.486	1.021.984	988.324
Private Investment (based on data from INE)	3.685.865	3.722.724	3.759.951	3.797.551
Million barrels of crude oil (minfin) OPEC cut 2020	470	446	465	490
Volume of produced diamonds per 1000 carats (minfin)	8.010	9.000	9.900	11.088
Monetary Aggregate M3 (BNA)	12.156.697	12.217.480	12.278.568	12.339.961
% Oil GDP	22	24	22	23
% Non-oil GDP	78	76	78	77

MODUCAN results (in %)	2020	2021	2022	2023
GDP Growth rate	-5,54	-0,01	4,46	4,72
Oil Sector	-6,95	-5,15	4,38	5,38
Non-oil Sector	-4,02	1,22	3,50	3,49
Diamonds	-16,10	12,36	10,00	12,00

Source: CEIC- MODUCAN

4.4.2 Comparison of estimates from INE/Government, International Monetary Fund (IMF), World Bank and Economic Intelligence Unit

As for future growth dynamics, the forecasts differ, although they are not very dissimilar. It is justified by different calculation methods and different working assumptions. The production and price behavior of a barrel of oil are two assumptions common to all forecasts, albeit at different valuations. In addition, with mass vaccination and herd immunity, there may be, even if in new ways, a return of the society's business activities.

ANGOLA ECONOMIC GROWTH FORECASTS (%)

	2021	2022	2023
Government	0,0	-	-
IMF	0,4	2,4	3,5
World Bank	0,9	3,5	-
EIU	-0,6	1,3	1,9
CEIC	-1,98	1,54	2,78

Source: Government - OGE 2021 Background Report; IMF - Report on Angola, September 2020: World Bank - Global Economic Prospects, January 2021; EIU - Angola, March 2021.

The differences between the sources considered can be explained by the specific characteristics of the forecasting models used, the working assumptions made (of which the assumptions regarding production and the price of oil and the reactive effects of the "excessive range"[42] of government incentives to private initiative stand out), and the role granted to fiscal policy and monetary policy, whether more restrictive or less expansionary, equivalent to the "clash" between fiscal consolidation, price stability, economic growth, job creation and improvement in living conditions.

42 70 programs, 8750 activities, 182 objectives and 345 targets are planned for 2021, with high budgetary financial costs and poor evaluation of the effectiveness of results.

5. The Angolan economy and its growth cycles

5.1 The world economic crises

To speak of economic cycles - as a rule associated with phases of improvement and worsening of social conditions - is to identify, study, and comment on alternative phases of growth, stagnation, and recession of productive activity. Amidst crises and years of panic, since 1294, the world economy has registered 33 concussions, some more serious, severe and prolonged in time, and others that were merely warnings to "navigation".[43] The largest and most prolonged economic crises were the Long Depression of 1873-1896 (23 consecutive years of falling production activity in Western Europe, which originated in overproduction, originally caused by the Second Industrial Revolution and the limited size of domestic markets)[44] and the more recent one of 1929-1932.

The Long Depression of 1873-1896 spread throughout Europe. One of its great social effects was the migration of Europeans to other continents. It is estimated that in the period from 1873 to 1896, millions of people left their home countries. Some countries encouraged these immigrants to come. Argentina received mostly Italians and Spaniards. Brazil received Italians, Portuguese, Spaniards, and Germans who settled mainly in the south and southeast of the country. South Africa (then a colony of England) received both the Dutch and the English. Australia and New Zealand received mainly Englishmen and the United States received Englishmen, Italians, Irish, Germans, Austrians, and Jews. Canada and Algeria have welcomed many French people. Naturally, it was not only at this time that Europeans migrated to these countries, but the mass migration took place at that period. To contain the crisis many countries have forsaken economic liberalism once and for all.

The 1929-1932 crisis was preceded, also in the United States, by the one that occurred between 1920 and 1921 because of the humanitarian devastation and the fall in production that occurred during the First World War. With the end of the war in 1918, companies that sold weapons to European soldiers ran out of orders, laying off workers and slowing down certain sectors of the economy that supplied material to these industries. To make matters worse, the discharge of the soldiers caused hundreds of thousands to leave the army and enter the civilian labor market, generating more competition and, consequently, more unemployment and lower salaries. To make the situation even more difficult, the FED, the United States Central Bank, increased the basic interest rate to 7% per year, considered one of the highest in the history of the United States, which was imposed on all banks, reducing credit, which made companies invest less, generating even more unemployment. This cycle repeated itself in 1929-1932.

43 Waldon Volpiceli Alves - A Brief History of the World Economic Crises.

44 The race for foreign markets and the creation of the African colonies originated from the partition agreed upon at the Berlin Conference of 1884-1885 (also known as the West African Conference or the Congo Conference), held in Berlin between November 15, 1884, and February 26, 1885, with the participation of 14 European countries and convened by German Chancellor Otto von Bismark). In parallel with the industrial revolution, there was also an agricultural revolution driven by the introduction of fertilizers, machinery, and new ways of cultivating the land, which culminated in a significant increase in production. Both revolutions resulted, also, from a very strong collaboration between companies, Governments and Universities, in the fields of research and innovation. This crisis of overproduction (and others that followed) had been, in a way, anticipated by Karl Marx in his writings and his reflections on the imminent collapse of British and European capitalism and that would lead to the tendential decline in the rate of profit, the engine of the system's operation. However, these new geographical spaces lacked the purchasing power to be able to absorb the excess production of the European Major Cities and did not function as alternatives for purchasing them. Later, these markets began to function as suppliers of raw materials and commodities that fueled the productive transformations of the colonial Major Cities.

This crisis, first American, then global, was triggered in agriculture. In the agricultural plantations, food production was immense, due to mechanization, but the farmers could neither export nor sell their products in the domestic market. There was a surplus of food for few buyers and prices fell sharply, discouraging farmers to produce (price deflation, which leads to postponing decisions to consume and produce in the expectation that they will rise). Many of them who had pledged their land to the banks in order to receive loans went bankrupt,[45] as they had nowhere to sell their products. Other farmers started to decrease production, buying less machinery, chemicals, and hiring less. With farmers selling less and decreasing production, small and medium-sized towns, usually dependent on the so-called agribusiness, started to enter an economic crisis. At this time, almost 60% of the US population either lived in the countryside or in cities that depended on the countryside. Unemployment hit these places first.

On the New York Stock Exchange, the shares of many companies began to rise unrealistically. As the psychological euphoria was great and the faith in easy profits was enormous, with stocks having brutal highs, although the companies' profits did not show such high expectations. Sales in many industries were declining due to the crisis in small and medium-sized American cities. In 1929 the unrealistic rise in the value of stocks grew worse, when many businessmen, eager for the profit that selling them generated, increased the supply of shares in their companies, selling them to more people. The profits of most companies, which were no longer keeping up with the stock selling boom, have further diverged from their worth. To make matters worse, many companies, wanting to sell more shares, started to lie about their profit rates, always increasing them, defrauding accounting balance sheets. Thus, many companies created a sandcastle that would only be maintained by sheer psychological factor, i.e., one had to keep relying on the stock buying and selling system to make it work.

However, in the 2nd quarter of 1929, in September, something changed. Many people did not attain the easy enrichment they had hoped for. The shares weren't yielding profits. News of company closures, problems on farms, unemployment in small and medium-sized towns has taken away the confidence of many stock market players. Millions of middlemen have started to change their behavior. Instead of buying shares, people started selling them, getting rid of them. Companies' production continued to decline further, as the crisis in small and medium-sized towns made the sale of products across the country worse. For those who bought shares, tens of millions of people and millions of companies and still banks, profits continued to fall, as did the value of shares. The banks that had granted loans to millions of people stopped receiving the instalments of these loans, as did the companies that sold on credit. The companies' low sales caused them to lay off workers. A vicious circle was formed. Many investors' confidence has given way to fear.

The share price started to fall at the beginning of October. Few were willing to buy them and the market flooded with "rotten paper" went completely off the rails. Many of those who invested money in the stock witnessed its price fall and went into despair. That fear gripped millions of people who desperately wanted to sell what they bought. With the stock market confidence crisis, share prices have plummeted because everyone wanted to sell, and no one wanted to buy. The American government, liberal in economic doctrine,[46] refused to buy the "rotten paper" from the market, as it followed the prescriptions of liberalism. Thus, the value of many stock market shares reached zero of their issue values overnight. The tragedy happened on 29 October 1929, so-called Black Tuesday, when the New York Stock Exchange simply shut down.

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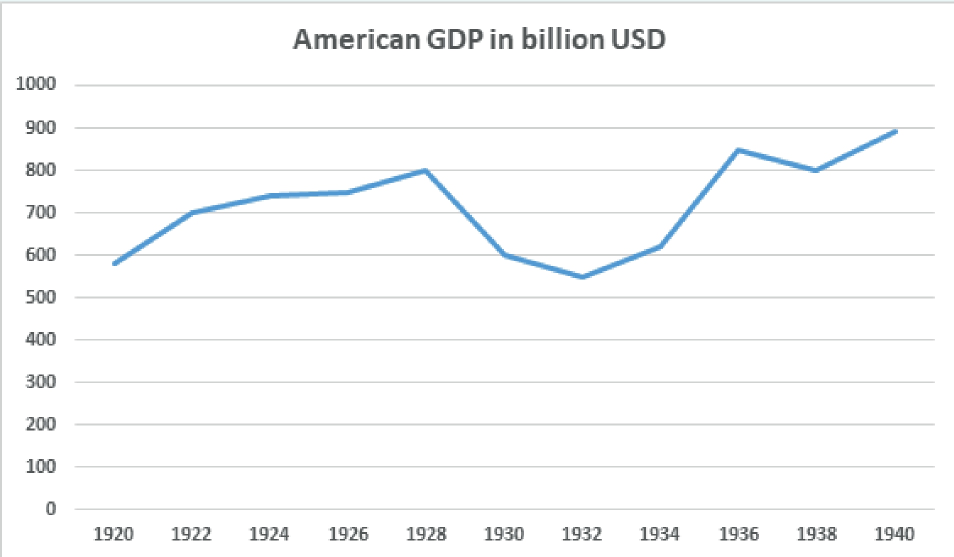
45 The government/BNA guideline of compulsory credit to entrepreneurs represents a clear interference on the laws of the money market and will lead to the occurrence of many impairments, because the private investment projects lack quality, the entrepreneurs mostly lack management capacity, and the real guarantees are non-existent. Continuing to insist on political loans may lead to the bankruptcy of some banks. The BESA, BPC and BCI cases are paradigmatic in terms of lending of a political nature.

46 Economic liberalism did not allow the state to intervene in the economy, not even to save companies in financial difficulties. If they went bankrupt, as they did, let them be.

Roosevelt's economic measures had a positive effect. From 1933 to 1936 the country's economy grew. The United States' GDP, which had been shrinking since 1929, started to grow again and reached, in 1936, a level like that of 1928. In 1937 the country was richer than in 1927, the peak of the country's great economic expansion. The level of employment, however, took a little longer to grow (the well-known response lags and the lag in the employment multiplier). By 1936, it had reached the 1924 level and did not return to the 1928 level until 1939. The price of such economic success, however, was passed on in the enormous public debt, incurred by the US government to cover the expenses of the New Deal programmes. In 1929, the percentage of GDP accounted for by public debt was 17% and in 1932 it was around 40%.

But the crisis was overcome, jobs were recovered, salaries increased (leading to the establishment of new industries in the automobile, food and beverage sectors), exports increased, the diversification of the economy intensified, and the Stock Exchange (one of the symbols of capitalism) recovered. Trust in the system has returned and with-it private investment.



Source: USA GDP annual pattern and long-term trend, 1920-40, in billions of constant dollars, based on data in Susan Carter, ed. Historical Statistics of the US: Millennial Edition (2006) series Ca9.

Other economic crises have occurred,[47] of lesser magnitude and destruction (except for that which occurred in 2008/2009, and the more recent pandemic crisis, with colossal wounds on the economic and social fabric), than those mentioned above. Why do these crises happen? Different explanations and approaches.

In the context of the Theory of Economic Cycles[48] three types can be found: of short duration (about 40 months and known as Kitchin cycles), of medium duration or Juglar cycles of six to ten years and the long duration or Kondratieff cycles, of sixty years of rise or decline.

47 47 The Tulip Crisis in 1635-1637, in Holland (which later became one of the biggest flower exporters in the world) due to the abrupt fall in the price of this extraordinary flower, listed on the country's stock exchange at high, speculative prices in early 1635. The Stock Exchange was "invented" by Holland in 1602. The more recent oil crisis in 1971 and 1973 was due to the radical change in the ownership of oil wells in the Middle East from British to Arab ownership. The Cameroon crisis in 1980-1982 occasioned by a real devaluation of the national currency caused by substantial inflows of foreign exchange (cocoa, coffee and cotton exports) and the subsequent loss of customers. The Japanese crisis, also known as the Japanese banking crisis or the bursting of the Japanese asset bubble, in the early 1990s and which led to recession in the country for many years.

48 Economic cycle: periodic and alternating fluctuation between expansion and contraction of all economic activity (agricultural, industrial and commercial): a typical cycle consists of a period of economic expansion, followed by another of recession, then one of depression and finally one of recovery. There is a lot of literature available on business cycles, either strictly theoretical or in the field of applied studies.

5.2 Causes of the crises

There are those who claim that it is the result of undue interference from some external agent, who disregards the basic laws governing the economy. This is why liberals advocate the principle of "laissez faire laissez passer", where the market should function freely, without interference. To better exemplify this idea, Adam Smith, the pioneer of economic liberalism, showed that the economy is governed by the law of supply and demand, i.e., the price of a product is determined by the match between supply and demand. Based on this, Smith explained well how inflation works and argued for the removal of customs barriers to control it, because the more products were available, including those from abroad, if the country could not produce them, the lower their price would be. Smith advocated the idea of the free movement of goods, with the winner in the market being the one with the greatest expertise, or merit. To achieve this merit, countries ended up encouraging technological innovation, which does not happen in closed markets.

For Keynesians, on the other hand, the crisis was purely and simply the result of lack of investment. John Maynard Keynes stated that the investor was a restless animal, an "animal spirit", which always wants to amass more capital. If these circumstances are not met, private investment does not take place, but waits for a more favorable situation. Without investment, society was suffering. It was this lack of investment that crippled the economy and engendered the crisis. In these circumstances, it was up to the State to intervene in the economy, investing in certain sectors whose "spread effects" were wider and more lasting over time. These investments generate demand, thus making the investor believe that he can invest more. It would be the State's responsibility to invest in public works essential to the economy of a given region, generating consumption, but also through other current operating expenses, which, through wages, would also contribute to the recovery of the economy ("State expenditures are always private income").

Additional effects would be felt on employment, leading to more wages and private consumption, thus creating a virtuous circle that stimulates private entrepreneurs. Keynes revealed that this original idea of the virtuous circle of public spending had been inspired by the economy of Ancient Egypt, where the Pharaohs, through the construction of the pyramids, sphinxes, temples, and other monuments (pejoratively called pharaonic works) made the Egyptian economy move in the intervals of cycles of agricultural stagnation. So according to Keynes, the crisis would stem from the lack of investment, from investors' fear, a fear that could end with the occasional interference of the State in the economic game.

For Marxist theory, the crisis represents a moment of transition that will lead to a recession. For Marxists, crisis encourages class conflict or social revolution and according to this theory was a natural thing within the capitalist system, because competition caused the anarchy of mass production. Without rules that defined it, production inside companies always tended to grow, thereby generating overproduction and, with workers' salaries cut, consumption would be low, generating company bankruptcies, mass layoffs, which would result in less consumption, and, finally, the crisis itself. Under these conditions, Marx ensured that a sharpening of class struggle within the social population. One proof Marx gave was that whenever there was overproduction in agriculture the stocks were destroyed and not distributed to the starving population.

Thus, the avoidance of economic crises depends on the role that the State must play in the economy and in society, especially in times of less intense growth, which herald stagnation or a general decline in productive activity. Positions also diverge on these aspects.

Milton Friedman disapproved of the idea that public spending was beneficial to the economy, countering that it would likely lead to inflation. This master of monetary economics of the Chicago School, along with his disciple, Thomas Sargeant, stated that inflation is "everywhere and always a monetary-budgetary phenomenon" (for these masters, the key factor was controlling the amount of money in the economy.

This postulate is included in the monetary policy manuals and its underlying theory was applied for quite some time, following the exhaustion/limitation of the post-World War II Keynesian model, which gave rise to a period of prosperity in Europe never experienced in its history and which was called the glorious 30s.

Did Friedman and his followers forget to investigate how economies are operating in these circumstances: whether below full employment or at the so-called production possibilities frontier? In this case, Friedman and his disciples would be right: any additional demand stimulated by the state would result in higher prices.

However, Keynes argued that the economy normally operates at levels of underutilization of its productive capacity, implying high degrees of waste (dependent on the quantum of the output gap). The new specialists also go along with Friedman in arguing that public spending is useless[49], with the aim of only crowding out private investment (which, for various reasons, raises interest rates). It is a pleasing and attractive argument, because it places the private economy at the centre of the Economic System, which is the only one that generates growth, in a context of the State' s non-productivity.

However, two matters should not be lost sight of. First, interest rates are not an entirely market phenomenon, but have a very strong administrative component due to the intervention of Central Banks in setting various limits, within the monetary policy that they conduct and manage. Thus, an increase in public expenditure financed by a budget deficit does not necessarily raise interest rates. Secondly, lower interest rates do not inevitably lead to more investment, it all depends on the level of entrepreneurs' expectations. Whenever economies face production crises, the reduction of interest rates turns out to be a powerful and probably the only stimulus to private investment, as a compensation for the strong reduction in aggregate demand.[50]

5.3 The economic cycles in Angola

The study of business cycles is tremendously demanding in statistics (in quantity, quality and diversity) and rigorous in its scientific basis. Nature, causes, duration and correlations are the items to be considered in this analysis, in order to produce correct estimates of the reality that will help define short-term economic and social policies.[51] *"The study of business cycles is an area of research with a long tradition in economics.* It is worth noting in this context that there are two types of business cycles commonly considered in economic literature: the classical business cycle and the growth cycle. The classical cycles concern alternating periods of recession and expansion, while growth cycles concern alternating periods of economic acceleration and deceleration. In general, before a recession there is a deceleration of economic activity and usually an acceleration is observed before reaching an expansion stage. Moreover, there can be decelerations that do not translate into recessions or accelerations that do not result in expansionary phases".[52] Is it Complicated? Of course, but it is fundamental to understanding the causes of things. That is why the CEIC is studying them for Angola and the results will be included in its Economic Report.

49 There are extremely interesting writings on the unproductiveness Theory of the State which the neoclassicists and the new classicists defend, affirming that this agent of the economic circuit does not create value, as it is limited to being an intermediary between those who pay taxes (mere tax revenue collector) and the economy, adding no value when it provides education, health, innovation, research & development and infrastructures and, consequently, an unproductive State should be restricted to its strictest essence (defense, justice and public security). Outstanding insights of these neoliberal positions can be found in Mariana Mazzucato's book "The Value of Everything - Making and Taking in the Global Economy -, 2019, Bertrand.

50 In the case of Angola, and by examining the levels of business confidence published by INE for the 4th Quarter of 2020, mistrust and uncertainty have been very high since 2015, and economic, production and business policies have not managed to reverse these trends. This, too, is why the recession continues.

51 The long term is a succession of short terms, even if it is not a sum of them.

52 António Rua - Datação dos Ciclos Económicos em Portugal, Banco de Portugal (dated economic cycles in Portugal), November 2020.

Apart from the period between 1976 and 1985, during which there was a statistical blackout, it is possible to date the beginning of economic cycles in Angola to 1989, thanks to the IMF's role after joining the Bretton Woods institutions in 1984, through its reports on the economic and financial situation, especially within the scope of the Article 4 Missions. But also, through a Report, in two volumes of a UNDP Mission in 1989,[53]drafted by a team led by the late Silva Lopes and which included Jorge Braga de Macedo from the Lisbon Academy of Sciences. These are key reports for writing Angola's economic history.[54]

With the economic crisis and the health crisis (both linked to insufficient, poorly calculated measures that are divorced from reality and have little or no impact on aggregate demand in the economy), the factor that now counts for growth (the leverage of oil exports has been lost for some time - perhaps 10 years -)[55] is private and public investment. If there is no investment in innovation, technology and professional training (all important, although with differentiated impacts on the productivity increase), it will be difficult to register GDP increases in the medium term. And if the public spending tightness lingers for too long, then the reduction in demand will become structural and systemic, as will that of investment. This is a key point for the "new-normal" post-covid-19. The State must guarantee an acceptable level of aggregate demand in order to attract private investment.

How is the Angolan economy doing: full employment or underemployment? having enough money in circulation? Is the liquidity of the companies sufficient to cover needs for the purchase of supplies and the payment of salaries? The first scenario has never occurred, nor will it occur, because it is a theoretical figure to symbolize that in the verge of the production possibilities frontier curve, public expenditure should have, mainly, the function of increasing the potential output of the economy (passage to another curve) through innovation, science, technology and human capital.

So, the national economy and its production system are in a resource-wasting zone, with the unemployment rate of the labor force (32%) being the most expressive indicator.[56] Furthermore, to continue with policies that do not really affect the general level of activity, and by extension employment when 55% of young people cannot find a job, means that an entire generation may be condemned to losing its rights to a future of progress. There seems to be no doubt about the choice between Keynes and the New Classics, even leaving aside Manichean reasoning.[57]

It is often asked how costly these two crises can be. According to estimates by the Portuguese authorities, each month of confinement costs the Portuguese economy 4.5% of its GDP (around 8.7 billion euros). If we apply this figure, without any adjustment, to the Angolan economy, we may be talking about losses of around USD 4.8 billion, attributable only to the month of confinement we have had since the state of emergency was declared (the Secretary of State for Transport has declared that the present economic and health crisis will cause losses in this sector of more than USD 1.3 billion).

53 UNDP – Angola: Introductory Economic Review, 1989.

54 Por isso continuo empenhado na minha pesquisa, iniciada há 12 anos, intitulada "Análise do Desenvolvimento Económico em Angola entre 1950 e 2008" (título provisório), interrompida por motivos diversos e a necessitar de ser estendida até 2020.

55 The controversy over Angola's oil economy has been set in motion, based on the following question: how many more years will the current oil deposits last, in a scenario in which the oil multinationals based in the country refuse to invest in exploration and use of this resource? The essential reasons are linked to the economically useful life of current fields, the use of other energy sources, the long-term behavior of oil prices and the discovery of new fields (whose exploitation may be threatened by environmental arguments and positions of strength).

56 There are other indicators of unemployment, which measure the wastefulness of economies, such as the rate/index of underutilization of installed productive capacities in the areas of goods production and services. It is likely that in Angola and, for example, in manufacturing, this indicator is in the range (30%-40%), due to the economic crisis, the lack of private demand (final and intermediate, from households or companies) and the low general productivity indexes (general productivity of production factors).

57 Manichaeism is a syncretic, dualistic philosophy that divides the world into Good and Evil. Between Keynes and the New Classics there may coexist final effect maximizing contact zones.

If we add the losses attributable to the recession (we take this opportunity to say that the official data for the creation of 800,000 jobs during 2019 cannot be real, because if it were, Angola has managed to create the illusion of a new economic paradigm, namely, with a decrease in production and added value it is possible to create a huge number of jobs, leading to the conclusion that one does not need growth to find jobs for people), then the losses are significant: in the last quarter of 2019 INE reported a 0.9% year-on-year recession, which may have meant a GDP loss of USD 952 million.

Unemployment, which means a lost opportunity to increase GDP, estimated at 32% according to INE statistics, equates to a waste of more than USD 9.2 billion. It is therefore necessary to conclude that all the existing governance and economic policy programmes (apart from the State Budget) must be thoroughly reviewed, because they are ill-suited to the current reality.

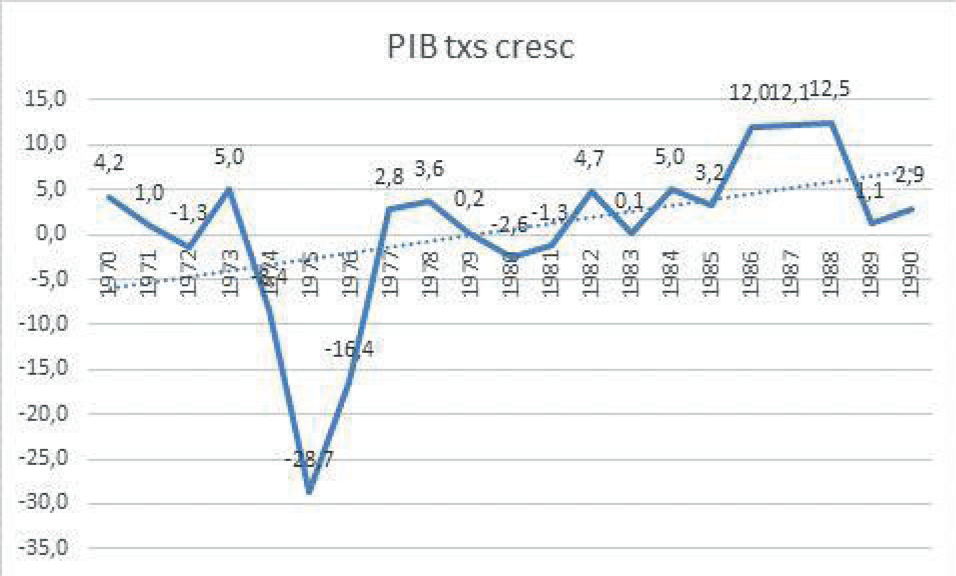
South Africa's aid package to support its shrinking economy and pandemic costs also turns out to be insufficient (about 7.1% of its GDP), but to all intents and purposes much higher than that set aside by the Angolan authorities (" if the South African percentage is applied, we would be talking about USD 7.4 billion, which the government claims not to have).[58]

As we all know, multilateral, bilateral and other sources of financial assistance are available to all countries, especially the African economies most affected by the present economic crisis and its future worsening due to the pandemic. Therefore, responses that the Government is doing what it can are not acceptable. It is time to discuss with all the institutions that have set aside funds for these purposes, as South Africa, Uganda, Nigeria, Mozambique, Rwanda, Kenya, Egypt, the African Union, etc., etc., are doing.

The economic cycles study in Angola - now drafted- covers a statistical series from 1960 to 2020. A long trajectory of ups and downs, with independence in the background and the adoption of a model of economic organization different from that based on the structure of the markets, in accordance with their laws, enshrined in economic literature. During this 60-year period there were several episodes of productive retraction, with different causes, but always with negative effects on the economic and social activity.

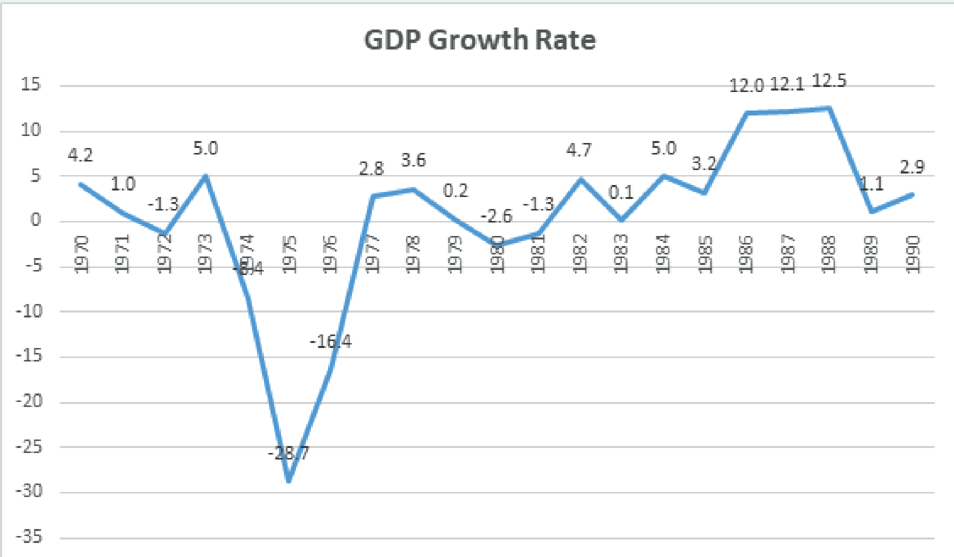
There were five major slowdowns in the pace of GDP growth between 1974 and 1990, caused by independence and the institution of a regime of collective appropriation of the means of production, which strongly resisted the exertion of economic freedom and the establishment of private initiative (which completely collapsed with the departure of the Portuguese businessmen and the non-existence, at all, of a replacement Angolan business class that could continue the growth dynamic of the pre-independence years.

58 To govern is to find solutions, which is why they took on their respective portfolios and committed themselves in the oath of office to the Nation and to the President of the Republic: to find solutions to problems.



Source: Macroeconomics Book DATA System-MSPA HANDBOOK OF WORLD Development Statistics, Pag 154 e 155; Long TERM Socio-Economic Perspectives Branch- Department of Economic and Social Information Policy Analysis, United Nations, June 1993.

By disaggregating the previous chronological series, it is possible to date shorter periods and uncover intra-temporal cycles.



Source: Macroeconomics Book DATA System-MSPA HANDBOOK OF WORLD Development Statistics, Pag 154 e 155; Long TERM Socio-Economic perspectives Branch- Department of Economic and Social Information e Policy Analysis United Nations June 1993.

The following are the 3 economic cycles:

a) **The pre-independence period**, which in 1974 and 1975 was associated with the political and social turbulence typical of high economic instability and confidence breakdown. The occurrences are described in many books, especially by Portuguese authors. The mass departure of the colonists caused difficulties in the economic and productive structure of the country, hence the significant drop-in activity (-8.4% in 1974 and -28.7% in 1975). Independence was proclaimed on 11 November 1975 in a context of civil war, crisis in production and consumption, reduction of oil exports (the position of the United States was to prepare the withdrawal of its multinationals from the sector, non-recognition of political autonomy and the unleashing of a military offensive on the ground against the MPLA forces, as well as a diplomatic one aimed at preventing international recognition (by western countries) of the new country). Despite this boycott, in late January 1976 more than 80 countries recognized and welcomed Angola as a new member of the concert of nations. As for growth rates, the Fourth Development Plan 1974-1979 presents different figures from those shown in the graph: 1971 with 5.4% and 1972 with 6.2%.[59]
b) **The Socialism Implementation Period (1975-1983)**, when the institutional, administrative and political colonial structures were changed, practically all the Portuguese-owned companies were nationalized and the socialist base of the economy and society was established. The national independence was achieved on 11 November 1975 in an environment of relative turbulence and domestic political instability, with the hasty removal of the colonial administration (without a smooth and understandable handover of the main portfolios of governance of the territory) and in an international context of the cold war and the appearance of the first signs of disintegration of the European and world socialist system. The MPLA took over as leader of the country in conditions of fragmentation of the national territory, in a climate of civil war and widespread flight from the colonial administration, with little economic management and programming experience and with the ideological challenge of building an economic and social development model different from that which existed in the past, designed to solve essential and general problems of the population. The essential tasks of the National Reconstruction phase were defined by the MPLA's First Congress and subject to the strategic objective of "building a state of popular democracy and the creation of the material and technical bases of socialism".[60] We speak of 1976 and 1977, characterized by the collapse of the economy, with hundreds of companies inoperative, a catastrophic fall in production, mass unemployment, generalized shortages of foodstuffs, raw materials and inputs for production, insufficient means of transport, etc. The recovery of the GDP which occurred in 1978 was due to the mining sector (the oil sector), after the political disputes with the United States had been settled and the oil exploration agreements had been established.

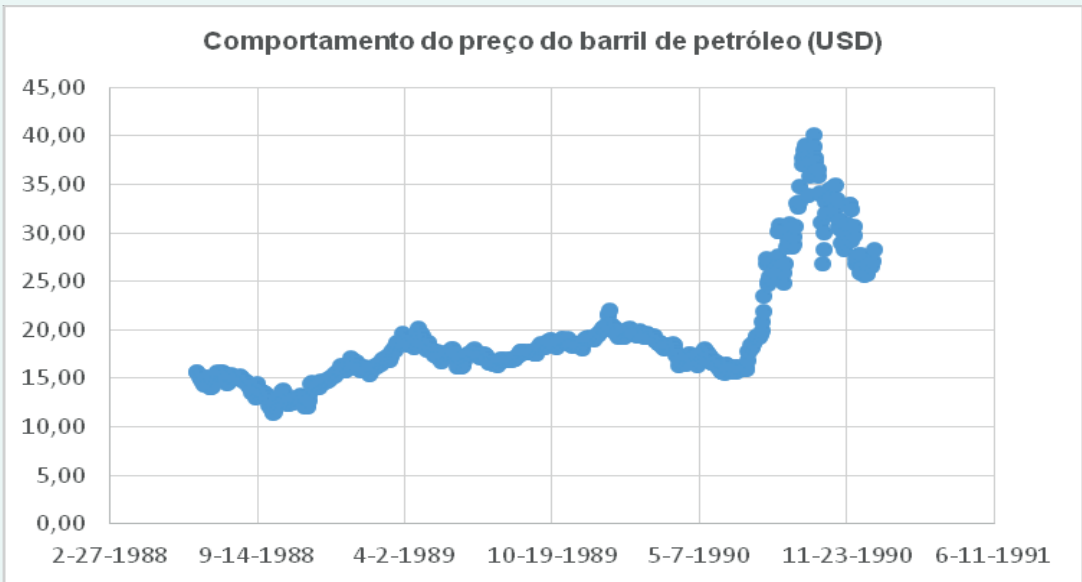
The determinant, essential and fundamental aspect identified in this period was the irreversible broadening of the socialist sector of the economy, with the economy increasingly being controlled by the State, in pursuit of national objectives. These reforms entailed the assumption of a model of economic and social organization based on the collective ownership of the means of production (represented by the state and the cooperative sector) and the creation of new production relations. If until 1977 the socialist sector of the economy was constituted and expanded - fundamentally through state control of the properties abandoned by their previous owners or administrators - during the period 1978-1980 special attention was paid to strengthening state control over the activity of foreign companies (the activity of these companies was strictly delimited with the enactment of Law no. 10/79 on Foreign Investments)[61], even though their important role in the new mode of production of the country and in the need to establish increasingly open international economic relations was recognized and accepted.

59 Council Presidency - IV Plan of Development 1974-1979, Angola, Imprensa Nacional-Casa da Moeda, 1974.
60 The growth rates of the mining and oil sector during this period were the following: 1975-1978, -4.7%. -17.4%, 4.3% and 7.7% respectively.
61 After all, it was the first Foreign Investment Code in the country, which was followed by other laws on the framework and attraction of foreign capital.

c) **The 1978-1982 economic sub-cycle (within the broader one between 1978 and 1983),** typically classic in António Rua's view,[62] with an initial phase of deceleration, then recession and finally recovery, until a peak of 4.7%, precisely in its last year. They correspond to the years during which an understanding finally began to emerge of the weaknesses and inadequacies of the socialist model for the Angolan economy and society. The need to seek external support from and within the international financial institutions began to be felt, and a series of economic and institutional studies (with support from Hungarian cooperation) began to prepare Angola's entry as a member of the Bretton Woods institutions. Between 1978-1980 the National Oil Company (SONANGOL) and its role in oil industry development were strengthened, while the state's share in Compania de Diamantes de Angola (Diamond Company of Angola), DIAMANG, increased substantially to over 77%. Concurrently, and in accordance with the MPLA's First Congress resolutions, the policy of nationalization and confiscation continued, as did the creation of new state companies as a basis for sustaining the socialist mode of production adopted in the meantime. This period also marked the growth of the cooperative sector as one of the cornerstones of the new socialist production Mode.

d) **Finally, the 1984-1990 economic cycle,** during which the country became a member of the IMF and the World Bank (1984/1985), where it committed itself to carrying out a series of reforms to facilitate the re-establishment of a market economy in a context of national independence and globalization. This is a relatively atypical cycle (the GDP evolution is in a broken line), which corresponds to an average annual GDP growth rate of 7.7%, due almost exclusively to the influence of oil exports and the excellent price and world demand behavior.

GDP on oil price per gallon (US

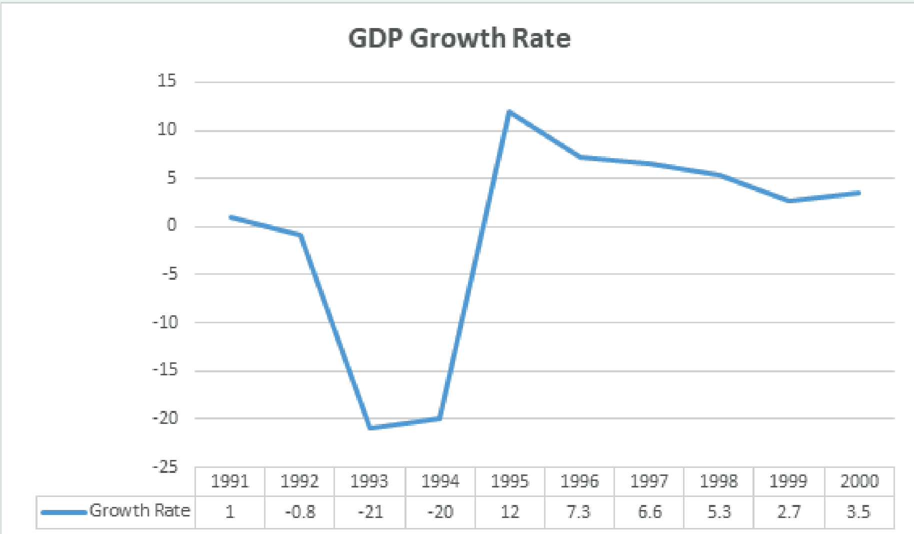


Source: Bloomberg

62 António Rua - Datação dos Ciclos Económicos em Portugal, Banco de Portugal (dated economic cycles in Portugal), November 2020.

"The strategic decision to phase in changes to the centrally directed economic system was taken in the mid-80s and its political translation was embodied in the Economic and Financial Sanitation Programme (SEF).[63] *Various problems prevented its practical implementation, but its existence meant the discussion of a new vision for the Angolan economy, the basic legislative output and the drafting of certain fundamental economic and financial studies. National economic policy has followed this choice of a market economy through a series of interrupted cycles that have drastically affected its practical effectiveness. These incomplete and unfinished cycles have resulted in different economic policy programmes of short-lived duration. The 1989-2000 period yielded no less than twelve economic policy programmes that were essentially aimed at stabilization, but none with medium- and long-term strategic intentions. The averages of 1.2 programmes per year or 10.6 months per programme reflect the incidence of political and military instability, as well as the way in which the transition to a market economy was handled. In this aspect, there was an obvious lack of a model suited to the peculiar conditions of the country in that period and a decisive political will. This cyclical nature is closely related to the way economic policy is made and to the lack of an institutional and macroeconomic management culture characteristic of a market economy".*[64]

Having (?) completed the transition or recovery to a market economy - just as structural reforms, transitions to differentiated models and regimes, are never finished - the country's economy plunged into a new cycle of ups and downs in the variations of its production.



Source: International Monetary Fund Mission, February 1994; Angola-Recent Economic Developments, IMF, September 1997; Closing Remarks of the IMF Mission to Angola, September 1999.

1991-1994 was the darkest period in Angolan economic history, with an average annual GDP growth rate of -10.2%, due to the civil war that spread across the country following the non-acceptance of the results of the legislative and presidential elections of 29 and 30 September 1992, in compliance with the Bicesse Agreements of 31 May 1991. The negotiations leading to the signing of this cease-fire to end a 17-year long war, with many highs and lows, gave rise, not only amongst the international community but also amongst Angolans themselves, to high levels of distrust about the post-election period. New population exoduses occurred internally, and foreign investors completely postponed intentions to invest in the recovery of Angola's economy and society (those for oil exploitation, which became the focus of special security precautions, remained). The negative growth extended to practically all sectors of activity.

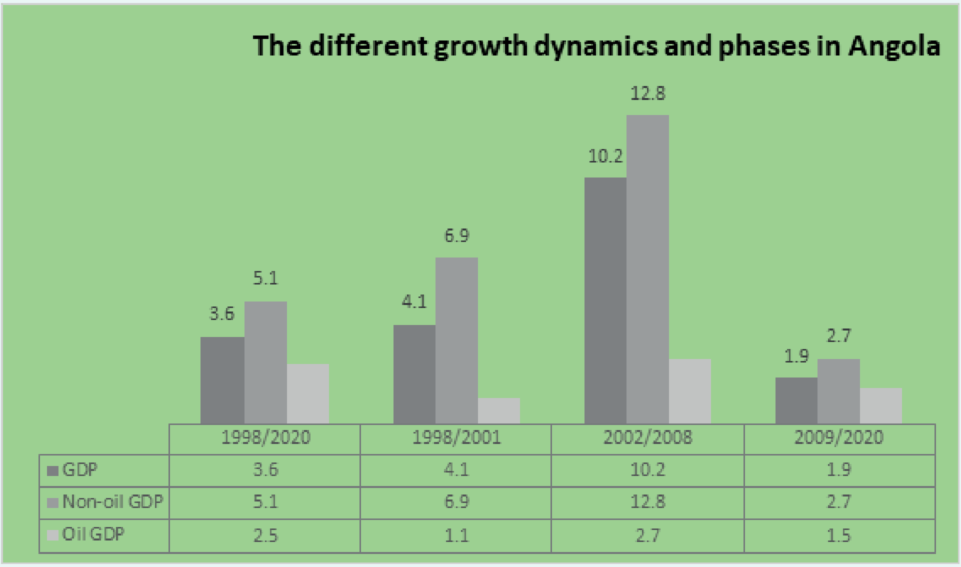
63 For a detailed insight into what this programme was, its reasons, its proponents and the grounds for its abandonment, please consult the 8 articles by Mário Nelson Cardoso Maximino published in the Novo Jornal in August, September and October 2017. Constituem uma valiosa contribuição para o que se poderá vir a chamar de História do SEF.

64 Alves da Rocha – Os Limites do Crescimento Económico em Angola (Angola's economic growth limits): As fronteiras entre o Possível e o Desejável (The boundaries between the Possible and the Desirable), Mayamba Editores, 3rd edition, Luanda, 2012.

REAL GROWTH RATES BETWEEN 1991- 2000 (%)					
	Sector				
	Agriculture	Oil	Diamonds	Transport	Construction
1991	-14,9	7,3	22,9	-10,8	3,0
1992	-27,3	10,5	45,7	-16,3	5,1
1993	-46,2	-8,4	-88,2	-15,4	-45,1
1994	8,5	9,2	89,1	6,6	21,8
1995	37,6	12,0	-3,2	17,5	15,0
1996	9,0	11,1	-11,1	8,0	7,0
1997	9,7	3,2	58,7	9,3	13,0
1998	5,0	3,5	88,5	4,9	10,0
1999	-10,1	3,5	-20,0	4,0	10,0
2000	3,0	1,6	5,0	5,6	6,0

Source: International Monetary Fund Mission, February 1994; Angola-Recent Economic Developments, IMF, September 1997; Concluding Statement of the IMF Mission to Angola, September 1999

After 1998, Angola went through new cycles of alternating growth, stagnation and recession, which can be summarized in the following graph:



Source: INE, National Accounts, General State Budget Support Reports and IMF Reports (Article IV)

Four economic cycles are perfectly identifiable, with well differentiated average annual growth rates. The period 1998/2020 was subject to two international financial crises, but also to booming periods in the world economy, especially driven by the dynamics of China, which has become one of the great engines of world growth.

A few remarks are in order:

a) **Despite the long duration (1998-2020)** featuring significant rates of real variation in productive activity, it was later found that, despite peace and positive behaviour in oil - the primary source of the value of everything - conditions for a minimum of sustainability were not in place in the growth cycles that followed. The 2002/2008 period itself, despite some temporary booms in production growth, did not prove capable of creating consolidated resistance in the different sectors and, therefore, diversification did not take place at a pace that would transform it into a true structural revolution in the national productive fabric.[65]

b) **The 1998/2001 sub period** was marked by an attenuation of the positive variations in GDP and non-oil GDP and by a decrease in the intensity of variation in oil production. In general, as noted above, the end of the civil war was in sight, and the programmes drawn up in the meantime were focused on preparing the infrastructural and macroeconomic bases (reform) for growth upturn. And, in fact, that is what happened: free movement of people and goods throughout the national territory, greater interest from foreign investors, the possibility of building a sufficiently large internal market, etc.

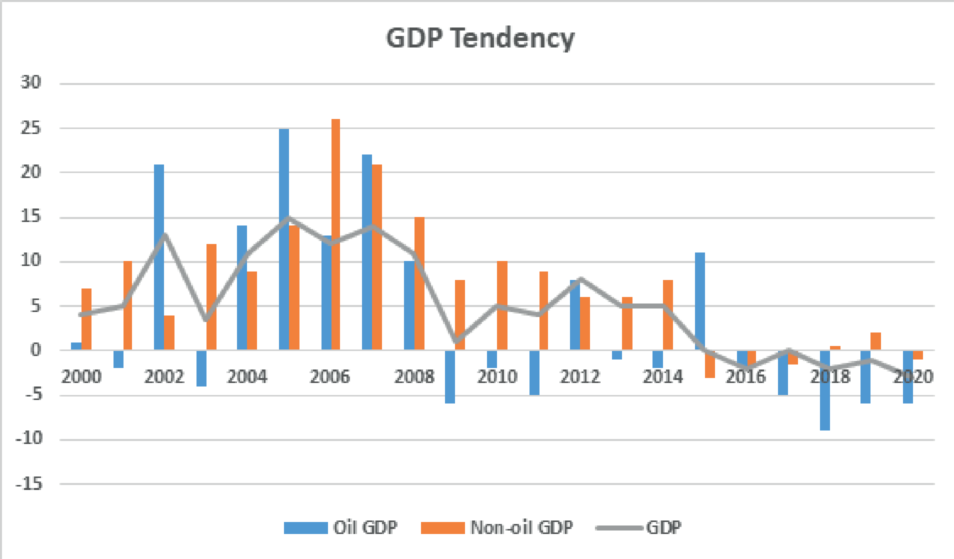
c) **The 2002-2008 sub-period** represented a golden phase in Angola's economic growth, with surprising real rates of variation: 10.2%, 12.8% and 11.1% for GDP, non-oil GDP and oil GDP, respectively. It is believed that this cycle of growth will not be repeated any time soon (and may even be unrepeatable at all), because, even if structural reforms are introduced, at whatever level, basic conditions (in education, health, research, human capital, competitive and research & development density, citizenship, culture, etc).[66] In the world context, other economies also advance, transform themselves and increasingly compete for the same positions in the world economy. This mini-golden period has some special characteristics: high average annual growth rates; non-oil GDP benefiting, above all, from positive variations in civil engineering and public investment (the second most relevant growth factor, together with oil exports); oil GDP within the international standards of the time, with high oil barrel prices.

d) **Finally, the 2009/2020** period, with two specific crises: a temporary one, lasting a year, between 2008 and 2009; and a longer one, between 2014 and 2020, more specifically 2016 and 2020, characterized by a resilient recession, originating in the fall in the price per barrel of oil in the second half of 2014 (as had happened in the second half of 2009) and the absence of fundamental institutional reforms. Thus, the intensity of growth in any of the sub-economies (oil and the rest) decreased, corresponding to a long-term trend of reduction in the national economy's growth capacity.

The graph below summarizes economic behavior in Angola from before the Peace Accords, the occurrence of the 2008/2009 international financial crisis and the more recent 2016/2020 crisis

65 Studies on the Diversification of the Angolan Economy - Alves da Rocha, Francisco Paulo, Luís Bonfim and Regina Santos, Angola Catholic University Press, 2016.

66 Development and Progress are a permanent and dynamic combination of cultural transformations in all human and institutional domains, according to Adérito Sedas Nunes, Sociologia e Ideologia do Desenvolvimento (Development Sociology and Ideology) (Moraes Editores, 1968). See also Sociological Aspects of Economic Growth, Bert F. Hoselitz, Editora Fundo de Cultura, 1964, for an understanding that development and progress are a social and cultural wholeness and not just a matter of mere figures. Growth sustainability and its cyclical repetition do not depend solely on material investments. Mindset changes are probably the key factor for growth sustainability and resilience to bad weather (expected, such as the price per barrel of oil fluctuation, or the unexpected, such as COVID 19).



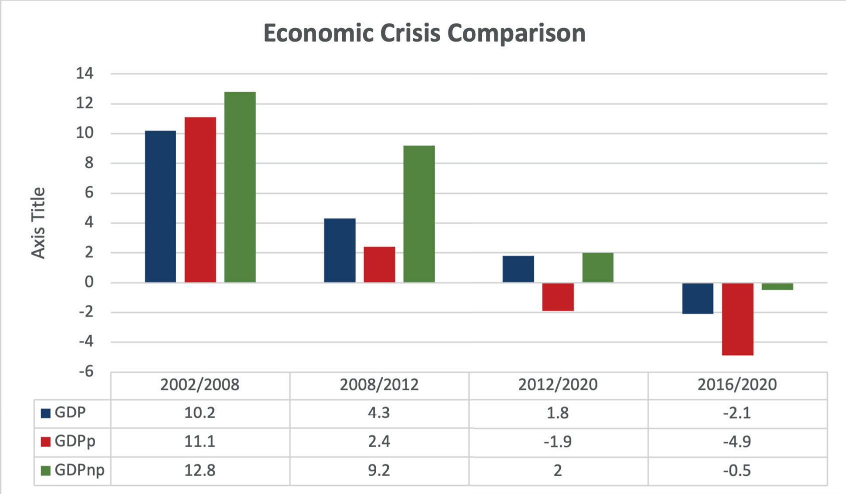
Source: INE- National Accounts

The lines drawn on the graph fully express the trend of structural deceleration of growth dynamics. It also gives an indication of the economy's capacity for growth, calculated based on the figures for the period corresponding to the long term, i.e., around 3.6%. With investments in human, physical, technological, institutional, scientific and entrepreneurial capital, this value (relatively low, given the existing conditions of natural capital) can be increased in the long term, and, to this end, it is vital to take the relevant and pertinent measures.[67]

Another way of dating Angola's economic cycles is shown in the following graph, through which the findings noted above are possible: **Between 2008 and 2012** there was a sharp drop in the GDP growth rate (from 10.2% to 4.2% per year), mainly explained by the decrease in the oil-contagion effect and the growth of non-oil sector; also, in the other components of the real economy there were slides in the respective growth intensities (-8.7 pp in oil and -3.6 pp in non-oil sector).

a) The deceleration crisis was only not sharper due to the calming influence of the non-oil economy, explained by the construction/public investment effect and the incidence of the services sector (commerce, transport, banking and insurance).
b) The growth intensity reduction line continued over the **2012-2017 period**, to which contributed: the fall in oil prices by 45% in the second half of 2014, the bursting of the real estate bubble that in previous periods had sustained non-oil GDP growth, and the downturn in construction, manufacturing, trade and transport.
c) **Between 2016 and 2020**, the cycle was entirely negative, regardless of the growth component, confirming the gas in growth since the 2002/2008 period. Interestingly, between the 2002/2008 cycle and the 2016/2020 cycle the growth losses were: -12.3 pp in GDP, -16 pp in oil and -13 pp in non-oil sectors. These trends, both real and effective, help to explain and understand that, despite the many government programmes to help the economy, not only has recovery still not happened (even acknowledging the existence of lags between measures and policies and results), but the recession has also taken hold for six consecutive years. Equally, when the economy stagnates or regresses, the social system trembles, especially when it is weak and lacks sufficient resilience to maintain minimum levels of living conditions.

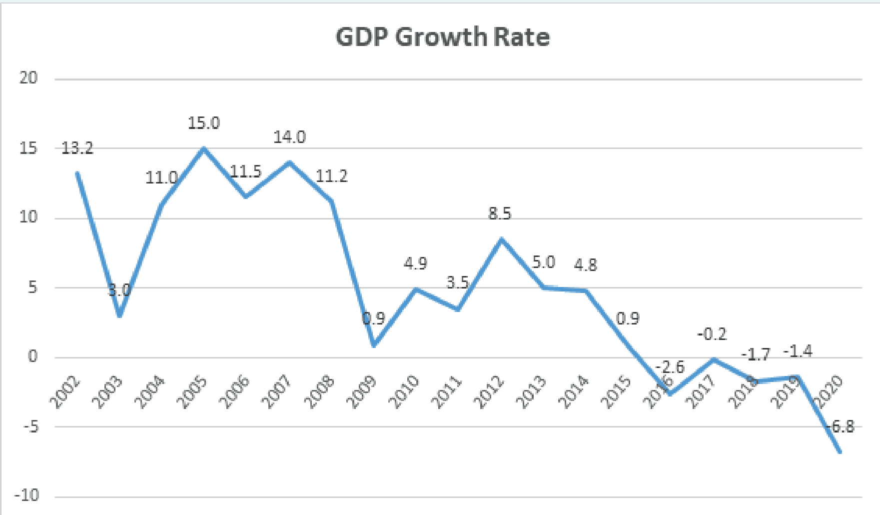
67 The countries of the Asian axis (Japan, China, Korea, Malaysia, Indonesia), where the centre of gravity of the world's economic and social development will shift in the 21st century, are working based on 50-year human capital development plans. Their culture and tradition (shown in the behavior of rigor, discipline, organization, commitment and dedication) and the authoritarianism that some of them use in the fulfilment of programmes and decisions, explain their great economic and social successes, with projection in the fields of scientific and technological development. The Republic of Korea has been one of the good examples of this organizational capacity, responsible for the recovery of its economy after the end of the Korean War in 1954 (see Alves da Rocha, Semanário Expansão of 4 May 2018, "Que País É Este, Quem É Este País? ("What Country Is This, Who Is This Country?").



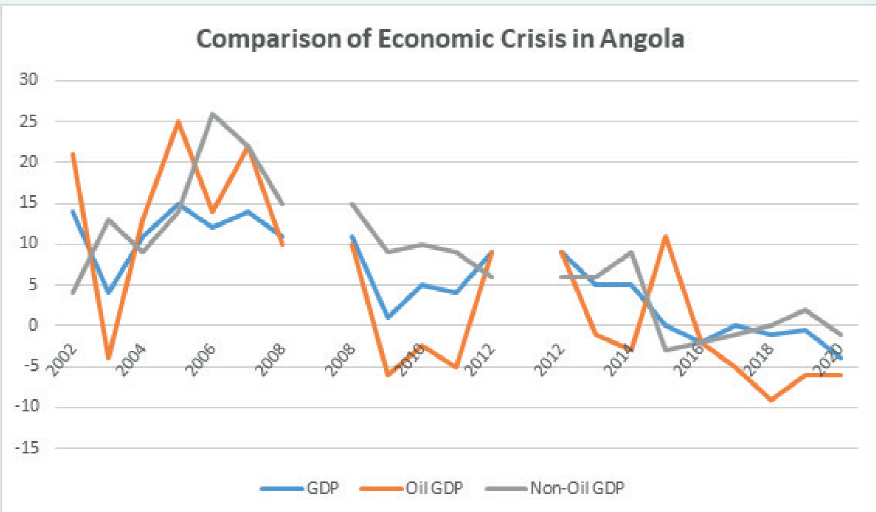
	2002/2008	2008/2012	2012/2020	2016/2020
GDP	10.2	4.3	1.8	-2.1
GDPp	11.1	2.4	-1.9	-4.9
GDPnp	12.8	9.2	2	-0.5

Source: CEIC, based on National Accounts.

For a more linear view of the economic cycles in Angola, we have the figures grouped and ungrouped by the periods referred to.

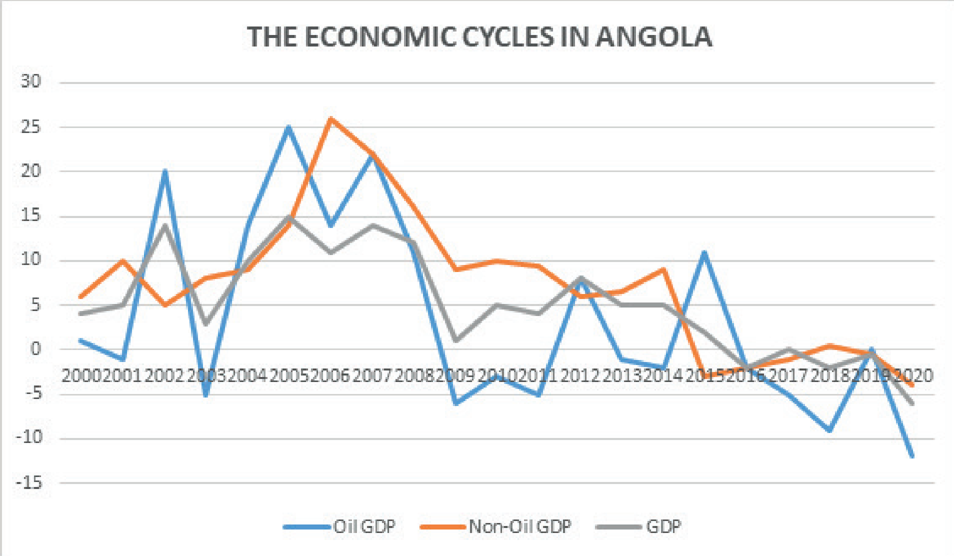


Source: INE- National Accounts



Source: CEIC, based on National Accounts.

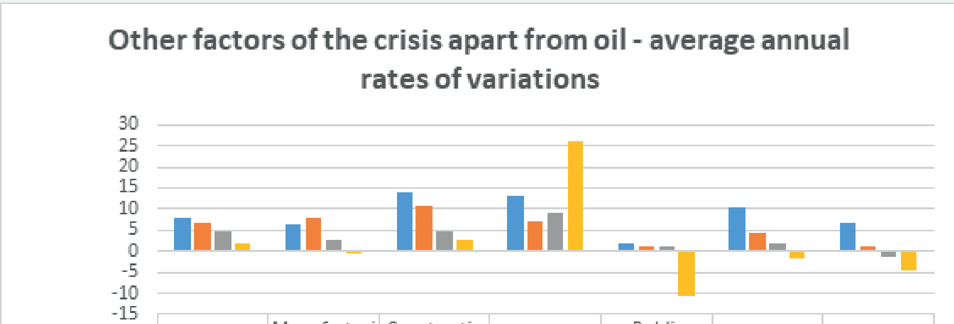
As indicated in the previous statement, the recessive part of the economic cycle also affected all or most of the economic activities in Angola: oil and non-oil, as the following graphs confirm.



Source: INE- National Accounts

The accentuation of the downward phase of the Kitchin cycle occurs after 2014.

As factors that complete the explanation and understanding of the economic cycles in Angola, agriculture, manufacturing, construction, public investment and GDP per capita were selected as components of private aggregate demand, on whose behavior and expressiveness non-mineral production depends.



	Agriculture	Manufacturing	Construction	Energy	Public Investment	GDP	GDPpc
2002/2008	8	6.4	13.8	13.2	1.7	10.2	6.9
2008/2012	6.9	8	10.6	7.1	1	4.3	1.1
2012/2018	4.7	2.8	4.7	9.1	0.9	1.8	-1.3
2016/2014	1.8	-0.4	2.7	26	-10.8	-1.7	-4.7

2002/2008 2008/2012 2012/2018 2016/2014

Source: CEIC, based on National Accounts.

The growth of agriculture (in the broad sense, including livestock farming and forestry) has been constantly slowing down between 2002 and 2020, although there is a warning that, in the current context of negative discrimination against the sector, it will not become one of the levers of diversification, of the establishment of the internal market and of import substitution.

Two sectors or value-added chains can make up a new model of decentralized oil growth: agro-industry and energy, either of which has enormous potential for diversifying the economy and for exports.

Therefore, the great debate is around how to reverse the past trends - since 2009, but especially after 2014 - and ensure a sustainable real variation in GDP, while admitting that sustainability is always relative (what GDP growth rate is considered sustainable over time? Is it enough for it to be higher than the population growth rate? Is it enough to be in the range of the potential growth rate of the economy (which is difficult to calculate)?

5.4 Dating Angola's business cycles with quarterly GDP

The exercise of dating business cycles is a challenging task, nevertheless the study of business cycles is a research area with a long tradition in economics.

On this approach, the pioneering work of Arthur Burns and Wesley Mitchell has this to say: "*Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; in duration, business cycles vary from more than one year to ten or twelve years; they are not divisible into shorter cycles of similar characteristics with amplitudes approximating their own*".

Burns and Mitchell define business (economic) cycles as fluctuations in economic activity, with either expansive or recessive cycles. Burns and Mitchetll's pioneering work served as the basis for the dating of cycles in the United States, a practice that has been conducted by the National Bureau of Economic Analysis (NBER). According to the Anglophone literature, the dating of economic cycles is based on the identification of peaks and troughs.

Our analysis was based on the work of the NBER and the Bank of Portugal, in an attempt not only to harmonize the concepts and assumptions of the study developed by them, but also to adjust them methodologically to the Angolan reality.

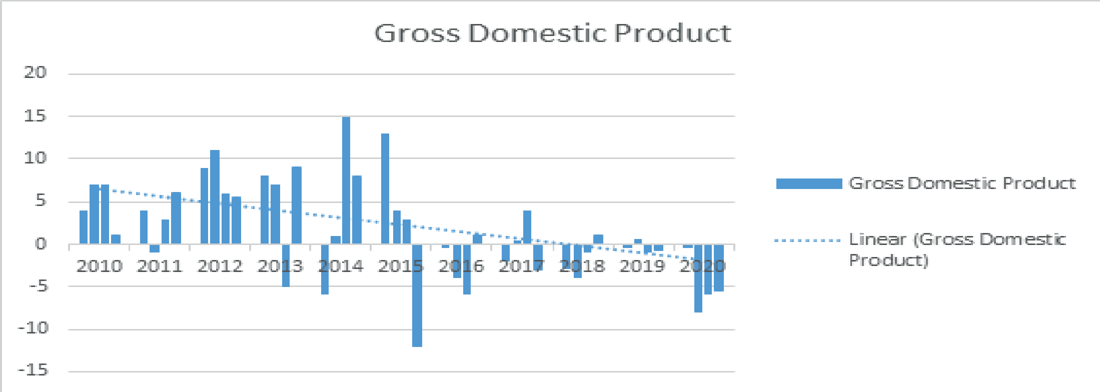
The quarterly series of the chained volume GDP statistics developed by INE began in 2010, and its quarterly dating corresponds to approximately 39 quarters, which makes it possible to somehow identify turning points (Peak & Trough) in the Angolan economy.

TABLE 1. Business cycle chronology based on quarterly real GDP

QUARTERLY BASIS

		Cycle			
DATES		Contraction	Expansion		
Peak	**through**	**Peak and through**	**Previous through** **Prior to this peak**	**through Since the previous Trough**	**Peak Since the previous Peak**
2010 Q1	**2011 Q2**	**5**	**-**	**-**	**-**
2011 Q3	**2013 Q3**	**8**	**1**	**9**	**6**
2013 Q4	**2014 Q1**	**2**	**1**	**3**	**11**
2014 Q2	**2016 Q3**	**9**	**1**	**10**	**3**
2016 Q4	**2017 Q1**	**2**	**1**	**3**	**10**
2017 Q2	**2018 Q3**	**5**	**1**	**6**	**3**
2018 Q4	**2019 Q1**	**2**	**1**	**3**	**6**
2019 Q2	**2020 Q4**	**6**	**1**	**7**	**4**
AVERAGE		**4,75**	**1**	**5,71**	**6**

Source: CEIC based on quarterly National Accounts



Source: INE- National Accounts

The average economic activity high/low point is 5 quarters, i.e., the periods between one contraction to another are of that duration. The expansion, on the other hand, is shorter in duration as the gap between one low point to another is only one quarter, leading to a recovery in the following quarter.
According to the Chart, the GDP trajectory presents an interesting behavior, with some quarters showing a fall that is easily recovered in the following quarter.

As suggested by Julius Shiskin in 1979 in a New York Times article, the informal rule of identifying recessions as periods in which there are at least two consecutive quarters of negative quarter-on-quarter change in real GDP, comes to pass in the last quarter of 2015, which is the longest period of contractions.[68]

The average cycle length for the Angolan case is 6 quarters, a fact easily explained by limitations in data availability.

The study of business cycles will continue to be a debated issue in the national economy, As the database system and its availability is fortified, its dating will be easier and better adjusted methodologically.

68 António Rua, Datação dos ciclos económicos em Portugal (Dating Economic Cycles in Portugal).

6. Structural Problems and Risks

The CEIC has drawn attention to the fact that Angola has been diving into economic crisis since 2009 (even though official and other economists' approaches place its beginning in 2014, following another fall in the Price per barrel of oil in the second half of the year) as a result of the international subprime crisis.[69] In 2008 the GDP growth rate was 11.2% and in 2009 it was 1.89%, never to return to previous levels. There was a drop of more than 45% in the Price per barrel of oil in the second quarter of 2014, on whose activity the country's import capacity depends (the imported component of national production is more than 70%), tax revenues and international reserves. The result, inevitably, could only be a drop in production that year and in 2015. As macro and microeconomic reforms are slow to happen (in the required dimension, effectiveness and efficiency), the systematic recession made its appearance and in 2016, 2017, 2018 and 2019 GDP decreased, in cumulative values by about 5.2%.

The COVID19 containment measures are causing, after 2019, a contraction in economic activity in 2020, which may reach 7%, according to forecasts by the Catholic University of Angola (the World Bank puts it at -4%,[71] with the International Monetary Fund's forecasts soon to be known).[72] As a result, unemployment rates have soared (the general rate to 32% and that of the youth population to 57.5%), the poverty rate has increased (41% according to the official IDREA 2018/2019 data) and hunger and misery have set in. Christian churches in Angola, especially the Catholic Church, unceasingly undertake humanitarian aid actions on the outskirts of the big cities, especially Luanda, in order to alleviate the suffering, and the poor living conditions of the population, a large percentage of whom have no water (no sanitation, no electricity and no access to health care), making it much more difficult to comply with health security measures.[73]

When an economy fails to grow or declines, when business climate indicators remain very problematic, when human capital does not meet the demands posed by structural changes in the economic fabric, when institutions do not "exist", when institutional instability is high (never in Angola and in such a short period of time have there been so many appointments dismissals by the president) and when the government continues to take controversial decisions that are divorced from the current reality (the purchase of 200 top-of-the-range vehicles to give to ministers, secretaries of state and other members of the Cabinet, the investment of US$ 42 million to build the headquarters of the National Electoral Commission, the construction of a hospital for political leaders, the construction of an administrative district for the state, the repayment of an African country's foreign debt,[74] etc.), there is no way private investment would be attracted, especially foreign.

69 For further information, see the Economic Reports 2014, 2015 and 2016 of the Centre for Studies and Scientific Research of the Catholic University of Angola.

70 Reforms and economic policy measures have a "lag", variable and different according to their nature, which is unknown in Angola. These lags help to understand that the effects of their application will never be immediate, which is why macroeconomic forecasting models, but especially decision models, must be based on dynamic equations.

71 World Bank – World Economic Prospects 2020.

72 Until the end of 2020, no policy interventions are envisaged that would be capable of offsetting the inertia and Covid 19 shortfalls in activity and thus smoothing out the final fall in GDP.

73 These humanitarian aid actions are giving rise to the opportunistic interventions by groups of people who have realised that the use, I do not know if authorized, of T-shirts bearing the face of the president of the Republic can be highly convenient for obtaining funds. Evidently, in conditions of low and unequal wages, high inflation, poverty and misery, this type of behaviour has fertile ground to unfold. Politicizing the needs of the poor is a repulsive act.

74 This concerns the $100 million paid with 2,500 livestock, 300 of which died.

Despite the election of a new President - whose election raised much expectation - and the governance programmes announced following his inauguration (the contents of which do not differ much from those of the past), the economy has been on the downhill slide since 2016, confidence indices are of low expression and have been falling for a long time[75] and investment is slow to happen. Diversification cannot be achieved without structural reforms, investment and confidence.

As mentioned above, the election of the new president led to very high expectations, especially throughout 2018, with his announcement of anti-corruption and pro-transparency measures and his economic diplomacy and foreign policy that led him to visit several countries to promote the new face of the NEW ANGOLA. Several external financings were obtained (public debt this year increased by about USD 11 billion) and many promises of external investment flows (which were not transformed into real and effective investments). Meanwhile, the economy remains tied up by several constraints, some of which have already been mentioned. The IMF's intervention, as in other countries, has been highly controversial because it focuses exclusively on stabilising public finances and exchange rates, leaving social issues and the recovery of growth and employment in the background, which, according to its doctrine, will eventually be resolved after adjustments and stabilization.

With the recession that occurred in 2020, there have been five consecutive years of falling activity, rising unemployment (jobs cannot be created without economic growth), falling incomes, falling GDP per capita, increasing poverty and misery, and atrophy in our belief in the country (however high our patriotism may be, when the economic and social foundations are not working properly, it becomes difficult to make sacrifices, which invariably fall on those who can least bear them).

6.1 The Role of Agriculture

After successive years of derisory growth (1.77% in 2016; 1.41% in 2017 and 0.8 in 2019) or decline (2% in 2018) the agricultural sector experienced a growth rate of 4.4% in 2020. As for the sector's share of GDP, the average between 2002 and 2018 was 6.7%. Nevertheless, the situation remains of great concern, since the country absolutely needs - and has this possibility - more robust growth, not only because the diversification of the economy requires it, but also so that food import expenditures can reduce, although these have dropped from US$3,257.6 million in 2017 to around US$3,160.5 million in 2018 and just slightly more than US$2,613.2 million in 2019, bearing in mind that the depreciation of the currency is contributing to these figures.

The insignificant political weight of the agricultural sector in Angola since the end of the war is rather inexplicable. It is true that in recent years there has been a greater concern about it, which is both a cause and a consequence of a certain dynamism at company and family production levels, which in turn is the result of the foreign exchange crisis that has been experienced for several years now. Since foreign exchange is not available in the same quantity or price as before, it is natural that alternatives are sought internally for the increasing food demand. However, persistent structural problems, which have persisted since the beginning of the reconstruction of the Country, constitute a difficult obstacle to overcome.

According to the incumbent Minister of Agriculture (of Agriculture and Fisheries since 2020), has since his appointment in the beginning of the 2nd quarter of 2019, repeatedly stated that the major problems of the sector can be summarised as knowledge, logistics and market. The statement is correct but incomplete and the way in which such problems have been dealt with - directly or indirectly - merits some comments throughout this section.

75 Refer to INE's Quarterly Outlook Reports.

In the 2015 CEIC Economic Report, a comparatively detailed listing of the main constraints on the sector was made in a still relevant analysis, sorting them into three groups: 1- incidences on the sector's external level and the business environment; 2- incidences on the sector's level but outside the farmer's control; and 3- incidences on the farmer's level. Most of these constraints are far from being overcome.

The most critical constraints concern the conception of development and the erratic way in which policies and policy measures are defined and implemented (or not implemented). This is not a sector-specific problem, but one that involves the Angolan government, although it takes on a different dimension here, given its characteristics: diversity, dispersal of activities and producers, influence on other sectors such as industry, among others. Indeed, agriculture cannot be managed in a centralised and compartmentalized manner as it has been but must be approached in a holistic manner and with a high level of integration. On the other hand, the idea of a "project" continues to prevail, whether private or even public, without due consideration of the various and necessary surroundings and connections.

Hence the "complaints", or claims, about the lack of roads for the flow of produce, animal or fish feed, or electricity, in addition to the scarcity of human resources (or the conditions for their remuneration), both for complex and sophisticated activities of companies that consider themselves cutting-edge, and for "simple" technical assistance to family farmers or small and medium-sized farmers. The holistic and integrated vision is almost always missing.

Some examples are as follows: After the announced intentions to put an end to public business activity in the production area, after the disastrous experiences of the previous decade and a half; and after the beginning of the deleterious privatization process for the State, due to infrastructure and equipment degradation levels, behold, the State, besides keeping companies that are real drains of State Budget funds (even if euphemistically labelled as public-private partnerships), such as Aldeia Nova and Quiminha, is once again investing in direct production in several units, such as, for example, in Samba Cajú (Kwanza Norte) and Quizenga (Malanje), In the latter case, the setting up of an irrigation project worth US$123 million is under way, without taking into account the collapse of previous investment in this area, as in the case of Ganjelas in Huila province, which has been abandoned for many years, in addition to the misuse of practically all the others, with one or two notable exceptions, due to the generous involvement of expatriate technicians.

An equally decisive constraint is the extreme institutional weakness of the agri-food business environment. If public companies failed, it was not only because of the very model, but also because of the circumstances in which they operated, among which this fragility cannot be overlooked. Companies have found it difficult to implement PRODESI due to their great fragility, not only in terms of management but above all in terms of vision, and they end up withdrawing due to the lack of support from the State, with emphasis on the credit issue. Meanwhile, the State institutions that should motivate, mobilise, train, innovate, ultimately facilitate and stimulate the growth process of companies and monitor their evolution and that of the projects they carry out, do not do so because they lack the capacity to do so.

Another symptomatic example, which is dealt with more exhaustively here for understandable reasons, is the approach to family farming assistance. The PEDR - Rural Extension and Development Programme was approved in 2004 and its main objective was to revitalize rural extension in Angola. The idea remained, but it was not possible to outline a methodology of action, without which the programme would inevitably be ineffective. Although it came to an end five years later, it continues to be used as a reference because there was no capacity to design a replacement.

According to the 2017-2018 consolidated report, IDA assisted 1,042,355 families (out of about 3 million existing), 568,730 of them (54.6%) under the PEDR framework, 457,466 (43.9%) with fomentation activities (meaning a poorly articulated distribution of inputs, and 16,159 (1.5%) through partners (NGOs) In total, the number of assisted households was 37.85 per cent of those targeted, with significant differences in coverage according to the provinces, ranging from 3 per cent in Lunda Norte to 100 per cent in several of them. The assisted households account for only 7.6% of the country's family farmers and 15.2% of the families targeted for assistance. O panorama dos anos seguintes não conheceu melhorias dadas as dificuldades financeiras persistentes. This is the harsh reality that is not seriously faced.

The Government has since then made loans with the World Bank, IFAD and ADB to support family farming with a view to linking it to the market, in municipalities in six provinces, which should be used as labs for the design and adoption of agricultural or rural extension models and training schools for technicians to enable the extension of the model to other regions of the country. Some progress has been made (with the Farmer Field Schools, soil correction and more recently the community boxes), but the persistent institutional fragility and uncoordinated interventions, almost always based on top-down approaches, of which the so-called compact blocks (mechanized fields whose effectiveness is technically debatable, at least under certain conditions) are a model that have yielded timid results, if we consider the money spent. Everything indicates that extending these projects to other provinces will only be possible with new loans, which will make the model unsustainable. This is the result of the absence of complementary measures to the Projects, such as the strengthening of IDA's authority and capacities to enable it to exercise its supervisory and regulatory role in the drafting of policies and policy measures, and their monitoring and evaluation.

In mid-2020 the Integrated Plan for Acceleration of Family Farming and Family Fishing (PIAAPF) was approved, but of which there has been no news, and it is not clear whether it is an "umbrella" for all intervention in the area of family farming, which is symptomatic of what was said above. This is further explained by the IDA's weakness; whose official duties are not sufficient to develop all its goals. Agricultural and livestock assistance, rural extension and development would need to be linked together in an integrated approach that would allow IDA to work on all issues without artificial divisions. The programmes being carried out are divided into four themes: rural development, agricultural campaign, introduction of new food crops (more resistant to drought) in southern Angola and technological innovation, but the actions carried out are almost always ad hoc. There is a lack of more solid content, with clear concepts and methodologies, which would facilitate the funding application process, as well as allowing for greater consistency and effectiveness in the field.

The absence of a rural development programme to systematically "capture" perceptions or opinions in rural areas, as CEIC has been advocating for many years, is a problem that the Government almost ignores. This matter gains greater pertinence because from the early 2000s rural development was no longer a matter dealt with by the Ministry of Agriculture but was handed over first to the Ministry of Family and Women Empowerment and then to the Ministry of Trade, under the Integrated Programme for Rural Development and the Fight against Poverty, with no or little coordination of its actions with the Ministry of Agriculture, a situation that can now be turned around.

If the "idea" of rural extension has been accepted, much remains to be done, since the government has not only been unable to develop a methodology that considers the diversity of the Angolan reality but has also not been able to train personnel that could establish an "extension school". The resort has been to contract services from FAO - under MOSAP, a project assisted technically and financially by the World Bank - to set up Farmer's Field Schools, but after several years and a lot of expenditures, the results are still not satisfactory, because there is still dependence on FAO and very few technicians have been trained, and many leave IDA due to unpaid salaries. On the other hand, it remains to be defined a more attractive career path for extensionists that gives confidence to technicians. In fact, MOSAP should have been better harnessed for this purpose, but the said segmentation and lack of integration have prevented it, and above all there is a lack of strategic vision.

With extremely limited human resources, due not only to budget constraints - the IDA in Cunene employs 6 " extension" technicians, when it should have been 60 - low salaries, physical ageing and lack of ideas, adequate facilities and vehicles (including motorbikes), the IDA is only fulfilling 10% of its family assistance plan. The outlook is the same in provinces with no MOSAP-type "projects".

The lack of training of technicians and of working conditions implies unreliability of the information on the production obtained in each agricultural campaign, just as CEIC has unceasingly voiced its concerns. Such information derives from estimates, with averages based on the central structure as the reference for the calculation. Despite efforts in recent years by the Ministry of Agriculture, Livestock and Fisheries to improve this situation, reflected in the quality of the annual reports for the agricultural year, there is clearly little trustworthiness. This explains, in part, why this year's report does not present quantitative data related to agricultural production. However, it is quite disturbing that the manually cultivated land remains at such a high level (more than 70%).

In terms of qualitative information, there is neither the habit, nor, in several cases, the capacity, to use and analyze written documents to substantiate an action or justify a project. IDA only plays a part in the conceptualization of some projects but does not draft any based on the information and plans that may come from the grassroots.

Externally funded projects generally do not go through the Department, and there is not enough freedom and time to be able to develop internal projects.

Another major constraint, stemming from a lack of adequate training but also from the prevailing hierarchical model of relations, concerns the relationship between technicians and family farmers and their organizations. On the one hand, the IDA and EDAs have a perception problem, because the agricultural inputs coming from the Ministry are usually distributed by them.[76] This deprives the institute of its real function, but it is necessary to acknowledge that the technicians themselves often have not much to offer beyond "distributing" these supplies and feel helpless because they have so little to contribute, even if it is on credit as has generally been the case when distribution depends on IDA and not on external projects. But it is this distribution that ultimately gives them some power, both amongst farmers and local institutions of all kinds. On the other hand, there is no systematic consultation of any kind and the information available is not systematised either, mainly due to the lack of technicians in the field and the lack of means for them to travel, and it is shocking that many of them do not know how to properly promote, organise and strengthen the community organisations.[77] These are institutional problems that explain why rural trade is not advancing, why mistakes are being made such as the Tchad cattle "business" and the timber exploitation scandals, among others.[78]

However, the education of agrarian technicians must be seen from a broader perspective and from a reality that can be better understood if we have figures. How many technicians and graduates (agronomists and veterinarians) have been trained since 2002? Where are they? What percentage work in the sector? What are the reasons? Why is it that the average middle level technicians, for the most part, do not work in the sector nor do they follow degree courses in this field, but rather pursue other courses whenever they can? Why are agro-livestock degree courses unattractive and underpaid?

In 2019/2020, following a value chain analysis in the agricultural sector, the European Union funded a study which concluded that there are a number of bottlenecks in the chain that are difficult to understand - the export process has relatively high transaction costs compared with other exporting countries, and each container must go through a 5-stage procedure before being loaded onto a ship at the port of Luanda - but with a certain amount of organizational effort and investment within the reach of both the State and the private sector, there could be a significant leap in production levels throughout the coffee value chain, including exports, based on small farmers and "traditional" entrepreneurial farms and, above all, on a new perspective of re-launching Arabica coffee cultivation.

76 It is said that this type of practice will become a thing of the past from 2020/21 onwards. But this has been said many times before.
77 For further information on these issues refer to the Diagnostic and Evaluation Report on Institutional Strengthening Needs of MINGRIF, MINAMB and the Provincial Governments of Huila, Namibe and Cunene cited in the bibliography.
78 For further information on these issues refer to the Diagnostic and Evaluation Report on Institutional Strengthening Needs of MINGRIF, MINAMB and the Provincial Governments of Huila, Namibe and Cunene cited in the bibliography.

The gains would be important by way of employment, value addition and foreign exchange earnings. The study did not seem to receive due attention from the competent institutions and risks becoming one of the stories of "white paper elephants" of which Angola has been a fertile source almost since independence. The spot analysis of the value chain in the 2018-19 campaign - something that is never done by the Café Institute (coffee institute) for the consistent lack of capacity of all sorts, including that of its need - conveys an impression of fragile economic sustainability. But it presents a window of opportunity for rapid and steady progress soon. The new plantations, whose productivity will make enormous progress over the next two agricultural years, are the concrete empirical evidence of this prediction. And surely the million-dollar annual export currently achieved will be far exceeded.

The lack of perspective of adequate development in the minds of the Country's leaders and the elites in particular stands out when the subject of "tractors" is discussed. Farmers are undoubtedly right when they claim that the Government needs to provide machining services so that they can bear the physical effort, increase productivity and try to keep young people in the countryside. But the Government always tries to "solve" this issue in the worst way - by purchasing equipment and providing services in a welfarist manner that eases the difficulties in a very short period, instead of using the equipment in a rational and effective manner, as in other situations. This is not the case. As a result, despite the sums spent over the last decades, only 4% of the cultivated area in the country is farmed using mechanized labor. A subject deserves serious consideration but is never dealt with by those who have the power to do so.[79]

The government approved the institutional reform of its central body in the beginning of 2020. There would be much to say about the goodness of the results in the agricultural sector, starting with the fact that after almost a year the reform is still pending. The worst aspect, however, is the loss of focus on Food and Nutrition Security, which was already low. While in most countries in a similar situation the tendency has been to improve its level, taking it to the Presidencies of the Republic or Government, but we take it to a department of the National Agriculture Directorate. This may explain the lack of a coherent strategy to address such a serious issue and the consequences are evident.

Previous CEIC reports have stressed the importance and necessity of considering Liebig's Law, or the Law of Limiting Factors, in order to understand the failure of agriculture in Angola, or, if one prefers, of Angolan agribusiness in terms of the value chain itself as a global phenomenon. According to such a law, and in general terms, the level of soil fertility, i.e., the amount of plant nutrients, being one of the bottlenecks, as it is now said, of agricultural production, must be balanced.

However much it's increased one or more of nutrients, for example nitrogen or phosphorus, it will not mean corresponding yield increases if there is one or more nutrient, such as zinc or whatever, that is below the minimum level.

Therefore, Liebig's Law is also known as the Law of the Minimum. In other words, a plant will not be stronger than the weakest point in its chain of needs.

Agricultural development, or development in general, and especially when one tries to understand how this development has been approached since independence, allows one to conclude that Liebig's Law can be generalised and applied to its equation and attempts to finally find a way forward.

In fact, the desire for the rapid modernisation of the economy and society - which would prove fatal and explain the situation we live in -, both at the time when socialism was being established and later in the capitalism that was adopted, had as a common vector the idea of a grandiose project in the "Soviet" style, i.e., grandiose, inefficient and ineffective, which served as a reference in the early days and would

79 The inconsistencies in Angola's development have reached paradoxical levels given that it's being built an assembly plant for tractors when no hoes or machetes or other simple tools and equipment are being produced to immediately multiply the productivity of farmers.

never be abandoned. Grandiose and flashy infrastructure works for which there was no management and maintenance capacity. Agricultural complexes, factories, city centres, airports, industrial and agro-industrial hubs, more recently, have all had management and maintenance difficulties in common and in most cases have had a deleterious effect and gone into decay and bankruptcy.

This desire for rapid modernization is not the exclusive domain of the ruling and political class. It cuts across virtually the whole of society. Hence there is no criticism in this regard from the opposition or from most analysts, even when they speak out against policies or measures adopted or implemented by the government.

This derives from the wrong development concept that reigns in the country and It has two origins: one of an endogenous nature, which reflects a prejudice common to African countries in the post-colonial period, which is that they believe it is possible to achieve this in a short period of time, the so-called "levels of development" of the former metropolis or colonial powers; another of an exogenous nature, induced by the idea of establishing socialism taking as a reference the model in force in the former Soviet Union and its allies, and later in China after Deng Xiao Ping's rise to power, although in this case with other variants.

According to this conception of development, which is no different from the paradigm of poverty on which the productivity models of the 1960s and 1970s were based, which failed in Africa and other continents in the 1980s, being replaced by others (such as those that inspired the structural adjustments imposed on many African countries at the time) that had no better luck, "development" is a goal, It can (and in extreme cases some argue that it should) be mediated by specialists (which explains the exaggerated recourse to expatriates), it is done for the people, who have the 'project' - and this is fundamental - as their key (hence the expensive consultancies and dependence on international agencies and the increase in foreign debt), and the participation of the people or citizens is nothing more than a means, or a trick, to achieve the project or promise its success.

This understanding of development deserves to be scrutinized in the light of Liebieg's Law or the Minimum. A project can have almost everything to go right, from funding (internal or external), know how (from expatriates or nationals), but if one factor is missing, just one, it will not succeed. For example, the Executive can provide the 500 tractors promised to former war veterans, but it cannot guarantee the other factors necessary for the tractors to be effective, let alone efficiency. There is not enough deforested land, it cannot guarantee fuel (mind the expected price increase), nor drivers, nor spare parts, nor mechanics, nor organization, nor the capacity to solve possible management conflicts that may arise in these circumstances, such as "jealousies", among others, as is already happening. That is, in this case there are several factors that can act as project constraints.

There are alternatives to the development paradigm, called conventional by some authors and referred to here as "Soviet" for internal use, which is responsible for all the calamities we know. Several countries have been following these alternatives successfully, in Asia, Latin America and even Africa.

The important thing to consider from the outset is that development is not a goal, but a process that has its roots in the past. From this perspective, it is neither roads nor trains that can "bring" development to a country. The local population (province, municipality or commune) has a past, a history, an experience, and this often tends to be seen as a limiting factor, or weak point, but it can also be a strong point. The history of holding rural fairs and markets in Uige province, which has a centuries-old tradition (those who know the history of Maquela do Zombo understand what I mean, but the same can be said for almost the entire extent of the province), which has been maintained throughout this time of independence without any government intervention, and which has never merited any attention from the local government responsible for the sector, which, of course, has been "investing" in successive modern, expensive and successively inefficient marketing projects, such as PAPAGRO and others.

In this paradigm, which can be called a paradigm for citizenship, development is therefore forged by the people and with the people, and with it the project is not the key issue or idea, but rather a means for local institutions and citizens to take control of resources, a control which will enable them to exercise power and reduce external dependence on expatriates, consultancies and international agencies. This is visible in the case of the markets in Uige. In this sense, participation is not a means but a goal, as it aims at development and democracy. Hence the inspiration that the Mozambican Professor José Negrão (1956-2005) gives us for achieving a balance between civic and political rights, on the one hand, and economic, social and cultural rights, on the other. This would allow a proper approach to the development of social spaces - which are sometimes confused only with "rural" - to mitigate poverty and regional inequalities, as well as inter-regional or ethno-linguistic prejudices that hamper development.

This reasoning may explain the position of those who believe that Angolan agriculture must be based, in this phase, on a greater use of internal resources: land, water, male and female farmers, recycling and valuing trained technicians and using technology with low levels of external inputs. Because there is no foreign currency, because the debt cannot continue to grow and because it will not be long before we create an environment that is friendly to private investment, whether domestic or foreign. If the calculations are done with care, it is easy to conclude that this is possible.

6.2 The role of the manufacturing industry

There are five conditions for the industrialisation of non industrialised countries:

The first condition - perhaps relatively necessary or facilitating or coadjuvant, but certainly never sufficient, particularly for all that was and is being written about the curse of natural resources, especially those of a mineral nature and oil in particular[80] - is, of course, the **availability of natural resources.** This condition is directly related to the specific nature of the manufacturing industry, which consists in manufacturing items from natural or artificial raw materials. Thus, the abundance of these natural resources acts as a stimulus for entrepreneurs to establish processing industries. Added to this is another advantage, which is, in principle, the low internal transportation costs. However, the availability of natural resources does not always immediately and directly facilitate the industrialisation of countries. Depending on the characteristics of these natural resources, the investments required for their profitable industrial exploitation may sometimes exceed domestic financing capacity, requiring the intervention of external savings that are more oriented towards raw than processed exports. Regarding other types of non-mineral raw materials, their domestic industrialisation often depends on the size of national markets, as a rule relatively small to build competitiveness based on economies of scale.

Moreover, access to foreign markets depends less on the competitiveness of products than on the policies pursued by the major industrialised countries and the oligopolistic behavior of the large industrial corporations. Hence, exporting industries must be treated with due care in order to overcome some of the obstacles they may face in international markets. For example, establishing long-term export agreements can help these industries reduce resistance from foreign markets, increase production and lower costs. The USA AGOA initiative could be an opportunity for the industrialisation of some African products, as well as similar efforts by the European Union and Japan. The second problem of exporting industries is seen in the vertical integration of their activities, or, in modern language, the production chains. The improvement of its external competitiveness may be linked to the proper choice of the stages of this sector in which the country should specialise.

80 Alves da Rocha: Petróleo e Desenvolvimento económico – Uma equação impossível em Angola? (Text in portuguese) LUCERE, Revista Académica da Universidade Católica de Angola (Academic Journal-Catholic University of Angola), nº4, December 2006.

The second condition is the **availability of human resources.** This is an important and sensitive subject, which is projected into a broader context, equivalent to assessing the influence of social and political structures on the economy and studying social stratification, demography and cultural archetypes. In essence, it is a comprehensive analysis of the institutions. Industrialization is strongly linked to modernity, technological innovations, scientific advances and structural reforms, therefore internal social transformation is a very enabling aspect of the national raw materials transformation process.

It remains to be assessed and understood where this process of social transformation and modernity begins and to what extent industrialization itself acts as a factor accelerating cultural change. The study, analysis and evaluation of human resources in developing countries has three main areas of focus:

a) Structural unevenness in the distribution of the labor force by professional expertise: there is normally an over-availability of unskilled labor and certain professions, such as law and literature, a shortage of highly skilled labor, engineers, technicians, biologists, managers, computer scientists, etc. and a limited number of intermediate skills.
b) Urbanisation processes without sufficient industrialisation, due to the rural exodus of workers wishing to leave their miserable living conditions in exchange for the illusion of a job in the cities.
c) Social stratification is very different from that which prevailed in Europe and the United States during the various industrial revolutions, characterised by the coexistence of a relatively small number of skilled industrial workers with a large and poor rural population, as well as wage earners deprived of steady employment in the modern sector of the economy. In general, therefore, the human resources situation imposes severe constraints on industrialisation.

The third condition is **technical resources and technological capacity** of developing economies. If industrialisation is by definition, modernity and technological innovation, productivity and competitiveness, it follows that the absence or weakness of technical resources and technological capacity is a strong and insurmountable obstacle to its achievement. The experiences of using the techniques and technologies of industrialised countries have not been positive, given the systematic absence of processes of creative adaptation to the environments of non-industrialised countries. In the absence of national science and technology facilities, local research is weak and unoriginal, generally leading to unprofitable production techniques. Thus, in these circumstances, alternatives that focus on improving traditional production techniques may be appropriate.

The fourth condition is identified as **markets**. Market size is a key element in the decision to establish manufacturing activities, in any country, but more so in developing economies where macroeconomic environments and corruption increase the risk of investment. Market size is related to the indivisibilities and economies of scale that a certain type of manufacturing industry requires as a condition for optimisation (such is the case of the iron and steel, petrochemical and automobile industries. Consequently, it is not surprising that these activities are geared towards the international market, theoretically of unlimited size, and are preferentially located in the most developed economies, whose model of international integration is based on free trade). There are, however, other manufacturing industries that are more lenient on this criterion - and thus the minimum economically profitable production size is less demanding - which to some extent protects local industries in countries where transportation costs are high. The size of the market is roughly determined by the total population, the average income per capita and the distribution of income. The latter attribute of market size is particularly important in backward societies where there is excessive concentration of income. A more balanced distribution of income makes it more possible for the manufacturing industry to establish itself, because the range of production is more varied and with an economically relevant final demand. Where income concentration is high, the possible range of industrial products is limited to the range of luxury goods and mass consumer goods (low quality, low technological inputs and low skilled labor).

On the contrary, with more income classes, other types of products have economic viability. Internal markets do not solve all the problems of their economic dimension. If their size does not provide sufficient profitability for new industries, there is always the possibility of the external market. It is, however, a much more demanding market in certain attributes, such as price, meeting delivery deadlines, quality and productivity. While it is true that in relation to price a greater (apparent) competitiveness can be achieved by export subsidies (prohibited by the WTO in certain circumstances), in relation to the other attributes the competitive capacity depends on the internal industrial organisation (social capital) and the nature of industrial policy. However, it should be borne in mind that industries can be grouped into two: **supply-driven industries**, where growth rates are determined by the importance of natural resources or technical and institutional profiles, and **demand-driven industries**, where production may increase as markets develop. However, once the growth rate reaches a certain rate, all industries are determined by supply.

The **fifth condition** is **import capacity** and **official development assistance**. This import capacity is crucial for industrial development as it can fill some of the gaps in domestic supply in terms of raw materials, intermediate goods, capital goods, *know-how* and skilled labor.

How many Industrialization /Re-industrialisation Plans or Programmes have already been drafted in Angola? Many, both independently and as part of wider perspectives. What are the results, despite the large sums of money invested? It remains to be verified, but probably very few (why is there an endemic aversion to evaluations? Instead of assessing their actual performance, yet a new document is drafted. Alguns indicadores apontam, de facto, para o insucesso da maior parte dos programas de industrialização, na medida em que o peso do VAB da indústria transformadora no PIB nunca foi além, em média anual, de 4%, a participação do emprego industrial no total dos volumes de emprego (agricultura familiar incluída), na melhor das hipóteses, não suplanta, em média anual, 2%, a produtividade média aparente do trabalho industrial não chega a USD 68000 por trabalhador e por ano (nem vale a pena colocá-la em comparação com a da África do Sul, cerca de sete vezes mais) e os ganhos de produtividade têm sido mínimos, numa análise de longa duração, 2002-2018. How have public and private investments been lost? And why? Despite being called private investments, were they public investments, covered by the State Budget, and isn't it bothering the fact that results are not evaluated?

Regardless of whether they are new/reformed governments, the cycle of repeating programmes and plans recurs in each or even within each legislative period. A brief analysis of the state of the art in 2019/2020 can be found later (in chapter 11.-, Assessment of policy measures after 2017) and for the moment it is worth stating that, in essence, these are more lists of intentions and actions, which, as it has been said above, have little effect and especially without intermediate and final evaluations, which are necessary to draw lessons. Apparently, the negative attitude against evaluations is now disappearing and it should be noted that some evaluations are now being carried out.

But the madness of the plans and programmes continues, with the most recent being a new Plan for the Industrialization of Angola entitled - **Industrialização de Angola 2022** *(Industrialization of Angola 2022)* (recently updated to 2025), essentially a rehash of previous plans - with good reason, because in truth little has changed, with actions and measures repeatedly brought forward, flanked by complaints against public decision-makers and appeals to the government. The previous and the new industrialisation plans are all the same.

On the other hand, it is not possible to transform manufacturing and industrialise the country in 3 years. A manufacturing structural transformation plan must have a time horizon of at least 20 years: technology, innovation, research & development, new sources of raw materials, human capital, new professions, import and export competitiveness, good business environment and so on and so forth. If the contexts are clear of bureaucracy, corruption, influence peddling, the industrialisation happens by itself. By selecting sectors in which to direct private investment, plans distort consumption and production, reducing national welfare (at the end of the day, what is at stake is the permanent scarcity of resources, which makes it advisable to apply them with discretion and opportunity cost).

There is a concept developed some years ago by theoreticians of Industrial Economics called "industrialising industries", to symbolise the dynamics inherent to the processes of structural transformation associated with manufacturing.

Sustainable economic development is characterised, among other things, by the following trends: high growth rates of per capita income, high rates of change in total productivity of production factors, significant coefficients of structural transformation of the economy, important social and ideological transformations and the openness of the economy.[81] A country with, for example, an annual variation rate in GDP per capita of 10%, manages to double its value in 7 years, which is important for improving living conditions. This is what China achieved in the last years before covid-19, i.e., in every 7 years of that period it doubled the value of its average social income.

However, the maximum social impact of a doubling of per capita income every 7 years depends on income distribution patterns, the availability of employment and business opportunities and the structural transformation of economic systems. This is the point that, for the purposes of this analysis, it is important to bear in mind. Structural changes are, after all, at the heart of the diversification of productive fabrics and their industrialisation.

Empirical evidence from many studies of the correlation between rising average income and structural economic change points to a sustained change in the relative sectoral share of GDP as income per capita grows.

In Angola, the statistical information available (INE, National Accounts 2002-2020) points to a variation of more than 3.8 times in GDP per capita between 2002 and 2008 at current prices (about 8% per year, on a geometric average, in other words, the possibility of it doubling in 9 years). In 2018, GDP per capita was US$ 3621, without purchasing power parity correction, and in 2020 (provisional data) US$ 2014, a fall since 2002 of 270%.

The relevance of GDP per capita for the analysis of structural changes lies in the fact that they do not exist without purchasing power to accompany the productivity gains necessarily associated with structural changes and changes in consumer preferences (an aspect normally absent from these analyses, as if those who buy at the end of the transformation chain keep the nature and specificity of their needs unchanged)[82] Similar reasoning, equally important for the process of growth with quality, is valid for intermediate production/input chains, equally prone to qualitative changes influenced by technological progress, tending to save resources.

As for the economic structure, it has remained essentially unchanged over the same period. The following table sheds light on the trend of structural change in Angola.

81 Economic Development, Michael Todaro and Stephen Smith, 2003.
82 That is why establishing as a criterion for change the goal of 9% of GDP for the Manufacturing Industry in 2025 is essentially the expression of a political will, endorsed by many private business interests (gravitating where there seems to exist public funds), without grounding in a structuralist (hence holistic) approach to the economy and the sectors into which it is divided.

TRENDS IN ECONOMIC STRUCTURAL CHANGE IN ANGOLA
(figures are in GDP%)

	2002	2008	2018	2020 (draft)
Agriculture, livestock, forestry	4,1	3,4	4,1	9,2
Manufacturing	3,7	3,5	4,0	4,8
Construction	5,1	6,7	10,2	12,0
Services	38,2	35,0	35,1	38,1
Oil	44,5	49,7	34,5	32,0
GDP per Capita (US$)	544,4	4099	3621	2014

Source: INE, Contas Nacionais (national accounts) 2002-2020.

In other words, the way in which the enclave sector relates to the rest of the economy has prevented the emergence of a sustained movement to change the internal productive structure. In 18 years, between 2002 and 2020 (2002/2008 with an average annual GDP variation rate of 10.2%, reduced to 1.9% between 2009/2020, due to the Lehman Brothers financial crisis and the oil price drops during the same periods (interspersed with insufficient and irregular rises), growth was clearly insufficient to bring about structural and consistent structural changes. The only significant note is the behaviour of the relative participation of the construction industry, with an increase of 7 percentage points in 18 years, thus justifying that public investment in the creation of a stock of physical capital has been the second growth factor in the Angolan economy.

The manufacturing industry has not played the role it needs to play in the process of structural change and the increase in domestic added value.

From another perspective, the national manufacturing industry has average annual values for gross apparent labor productivity that are around 60% lower than those of the most efficient SADC economies (South Africa, Mauritius and Seychelles) and 35% lower than the average for the region. Nevertheless, excluding Oil extraction from the comparison, manufacturing shows the highest sectoral values.

BEHAVIOUR OF GROSS APPARENT LABOUR PRODUCTIVITY
(Rates are in US Dollars per worker)

	2002	2008	2017	2019 (Provisory)
Agriculture, livestock, forestry	291	1143	1739	2956
Manufacturing	10467	52504	68572	49344
Construction	5124	18465	28030	18015
Trade	2140	8348	5882	5351
Transport	4273	25956	11350	10670

Source: CEIC, Productivity and Employment Studies, based on INE's National Accounts.

It is worth drawing attention to the need to discuss that industrialization is at stake in Angola in a time of the world's Third Industrial Revolution in transition to the Fourth (which is quickening the total change in the most developed countries) and the configuration of a new industrial model for Europe - more self-centred and based on the strengthening of intra-community relations - where very little outside of the new technologies and artificial intelligence will contribute to the diversification of exports and a sustainable increase in production, when the internal absorption capacity of the economies crosses the threshold. It must also be said that the industrialisation processes in the world intensified greatly after the First Industrial Revolution 1760-1840 (England with the kick-off, Western Europe and the United States), the essential result of which was the replacement of craftsmanship by wage labor and the introduction of machinery in all production chains.

The First Industrial Revolution (1760-1860) was confined to England and was characterised by the emergence of the textile industry (cotton from India and wool from Scotland) and the introduction of mechanical looms into the production process.

The Second Industrial Revolution was territorially more extensive (Germany, France, Russia and Italy), took place between 1860 and 1900 and was characterised using steel, electric power and petroleum-derived fuels, the invention of the steam engine, steam locomotive and the development of chemical products.

England benefited from a set of conditions that gave it the leadership of mass industrialisation: the existence of a rich bourgeoisie with class consciousness and its role in the processes of transformation of the country, dominance of the most extensive and important Free Trade Zone in Europe and the world, mass rural exodus to the cities where the industries were located (providing cheap exploited labor, which played a central role in the Marxist Theory of Value and the downward trend of the capitalist system) and the privileged location near the coast (providing easy access to overseas markets.

The Third Industrial Revolution began during the 20th century and is currently taking place. It is characterised by the adoption of the computer in commanding and programming the functioning of production chains and in social life in general, genetic engineering, the mobile phone and artificial intelligence.

Where does Angola find itself now? The new Industrialization Plan 2020-2025 does not include this assessment, nor does it focus on the History of Industrialization in the country, which does have one assessment and where useful and important information can be gathered for the design of sustainable strategies. As a rule, the existence and availability of natural resources for the country's industrialization is fully guaranteed without considering the important issues of human capital, research (Angolan agriculture will only be competitive and insert itself efficiently into the process of industrialization from "back-to-back" if it resorts to mass research on products, production methods and work organization) and spatial planning.

On the other hand, it should not be forgotten that industrialisation in the world is accelerating inequalities between countries and only those ablest to introduce new technologies and processes of creative destruction will survive. China is a paradigmatic example of how a country recovers from secular (probably millenary?) delays in relation to the world economy and today commands the most important technological transformations in the world.

Industrialization in Africa, as a destructuring/restructuring/innovative process, does not exist, and the cases of South Africa, Nigeria and Kenya (in these two cases of delayed industrialisation (?) are not enough.)

Manufacturing industry is the core of a structural and sustained economic diversification process. The reasons are easy to list:

- The industrialization of economies is a phenomenon linked to economic development and there are no advanced economies without a strong, dynamic manufacturing sector with high domestic added value.
- Industrialization is often seen as an enabler of job creation. In Angola, the development of agriculture, in its modern sense, will have to involve the recruitment of a considerable workforce, which will have to be used in manufacturing activities, in a first phase, and in services, in a second phase, when

the qualifications of this workforce are compatible with the technological processes used in these cutting-edge sectors.

- Industrialization is the safest way to reduce external dependence and export concentration. This is how to stabilize external incomes from participation in international trade.
- Industrialization is a powerful engine for the growth, modernisation and development of agriculture, involving it in a process of internal economic integration that makes the most of the country's natural resources.
- Given the low levels of labor productivity in all sectors of activity, industrialisation helps to raise them through greater economic efficiency.
- Ultimately, industrialisation is the process that underpins the economic and social changes associated with the exit from the most primary stages of development.

Manufacturing, given its position in the economic fabric, triggers upstream effects and downstream knock-on effects on other productive and service activities. The only way to make the manufacturing sector, in general, and the corresponding branches of activity the engine of diversification in the economy is to have more upstream relationships than those triggered by other sectors of activity.

Downstream relationships concern the capacity of the manufacturing industry to induce growth in the sectors to which it supplies the goods they need for their activity.

Which industrial branches should engage in the process of industrialisation by diversifying the economy? The selection can be based on several criteria, of which upstream and downstream effects are among the most used.

International studies suggest the following classification:

ACTIVITIES WITH A HIGH CONTRIBUTION TO DIVERSIFICATION OF THE ECONOMY

BUSINESS LINES	Downstream Connection Index	Downstream Connection Index
Leather industry	0,645	2,39
Base Metals	0,98	2,36
Clothing	0,025	2,32
Textile industry	0,59	2,24
Food products and beverages	0,272	2,22
Paper	0,788	2,17
Petroleum refining and chemical goods	0,599	2,13
Metals and machinery goods	0,43	2,12
Timber and furniture	0,582	2,07
Construction	0,093	2,04
Typography and printing	0,508	1,98
Other manufactured goods	0,362	1,94
Rubber industry	0,453	1,93
Non-metallic minerals	0,87	1,83

Source: Économie du Développement (Development Economics), Dwight Perkins, Steven Radelet et (&) David Lindauer, 2006.

It can be seen that it is the upstream effects - direct and indirect - that best indicate the paths of diversification of the economic structure. From the set of business lines shown in the table, light industries (textiles, clothing, footwear and food products) stand out as those best qualified to contribute to a sustained process of industrialisation and economic diversification.

Obviously, this methodology for choosing industrial activities can be further refined (in the sense that production branches and even products can be broken down), based on a matrix of inter-sectoral relations. This is what the new Plan should be concerned with.

What are the best ways to encourage industrial development? Through restrictions (quantitative and customs) on international trade (recently, the WTO, for the second time, warned government authorities of the violation of trade rules in force and initialed by Angola), or through the open import channel (raw materials and final products)? In theory, there are virtues to be found in a model that encourages domestic production by controlling purchases from abroad. However, it is crucial that this substitution be competitive, saving foreign currency resources and encouraging the creation of internal value chains. The model adopted by the Angolan government is clearly one of import substitution, combined here and there, whenever possible, with export incentives. These end up being secondary and sideline due to a lack of competence to compete on the various international market fronts. It is, of course, an option of model and industrial/trade policy consecrated by Science and Economic Doctrine and validated by some international experiences. However, it is important to be aware of its limits, as it cannot be an eternal and permanent instrument for industry, given its inherent downsides - production and consumption and possible retaliation from other countries threatened in their exports.

And again, on this item: which is more efficient; direct restrictions on import quantities or the influence of import choices through tariff-inflated prices? In this case, it is advisable to distinguish between the fiscal effect of the tariffs and the economic effect on domestic production, the promotion of which is ultimately at stake in this type of domestic production incentive approach.

Another issue is the tariff implementation period: it should be as short as possible to discourage the above-mentioned adverse effects (of which production distortions are the most important) and to avoid international retaliation. In a country like Angola, with so many wasted opportunities for diversification, it will take a long time before practices that restrict the freedom of international trade are accepted and tolerated.

6.3 The devaluation of the national currency

In the classical theory, devaluation has three positive effects: it makes exports more competitive, increases profit margins relative to those of activities focused on the domestic market (which leads to a reallocation of production factors and resources) and reduces purchasing power by squeezing demand and raising import prices. These positive effects will only occur if the sum of the demand-price elasticities of exports and imports is greater than unity (Marshall-Lerner theorem). Followers of the IMF approach ensure that this condition is met for most developing countries. However, there are three exceptions where devaluation has negative effects:

a) the first concerns commodity and basic product exporting countries, whose prices are fixed on the world market, and whose countries have no room for maneuver to influence them. The world market for some raw materials and basic products (except for oil, diamonds, gold and other precious metals) is very close to a market of perfect competition in which prices are a given and can only change in response to structural changes in supply and/or demand (changes in inputs to manufacturing, changes in productivity, etc.). Therefore, the results of the increase in exports due to price reductions caused by devaluation will be subject to the greater or lesser rigidity of international market prices. On the other hand, the world market for this type of product is subject to growing competition, which means that the competitiveness of exports expected from a policy of monetary devaluation is almost always more apparent than real. On the other hand, countries that adopt active devaluation policies end up being penalized by an increase in the price of imports of all goods, which makes a strategy of import substitution, for example, unviable. The reallocation of production factors to export-oriented activities can be catastrophic in cases where goods are produced for which world demand is recessive or where prices are on a downward trend; similarly, when the imported component of exports is very high, the devaluation policy makes them less attractive;

b) the second exception relates to countries with a very high external deficit from an early stage, such that the increase in import prices outweighs the gains achieved in the export sector. If the price elasticity of demand of imports is weak (sticky demand), overall income may fall ("ceteris paribus", a sticky elasticity of imports increases overall imports more than proportionally to the change in prices and the exchange rate, thus reducing the export-import gap, hence a reduction in GDP or income). A devaluation has deflationary effects (decrease in GDP) when in (M-X)/M em = elasticity of demand of imports

This condition occurs in countries with a high ratio between the negative balance of trade and imports, which is not the case of Angola;

c) the third exception concerns cases where the price elasticity of exports is low and where the domestic industry is heavily dependent on imports of raw materials, intermediate and capital goods. The increase in the price of these goods caused by the devaluation causes difficulties for the industry, with a possible projection on the decrease in production, not compensated by export revenues.

Well, it seems that all these exceptions apply to most sub-Saharan African economies, which means that the external deficit is rarely adjusted through the devaluation of national currencies, and when it is, it is temporary and unsustained.

6.4 The economic diversification

The diversification of the economy is a **process**, equivalent to saying that if it eventually has a beginning, it will never have an end, if countries exist. In other words, it is a **permanent process**. It also consists of a normal economic process of **structural transformation**, which can obviously be boosted with public policies to intervene on its fundamental bases.

For neo-liberal currents, diversification occurs through the exclusive intervention of market forces and private economic agents, through the allocation/reallocation of resources and production factors according to a logic of efficiency. For Keynesian currents, which recognize the role of the state as an agent for promoting economic growth, there are public policies that facilitate, and may even hasten, the Structural changes of economies. According to these doctrinal currents, state intervention in economies is only effective when governance - which is also an act of managing public resources and allocating production factors (public servants) - is **transparent** and the management of "public affairs" is not tainted by corruption.

This is not the case of Angola, as is widely known, always at the bottom of international rankings that measure how public resources are used. And in these circumstances, **the more state intervention there is, the more inefficiency is created, the more corruption accumulates, the more illicit enrichment occurs, the more inequality is created in the distribution of national income**.

It is precisely because of these facts that Economic Science Textbooks and the economic policies recommended by practically all international development institutions (of which Angola is a member) recommend the **reform** of the administrative and political structure of the state as a **permanent** process to improve its intervention in society and the economy, making its expenditure more productive and reproductive, thus generating profits for the population and ensuring conditions for the sustainability of economic growth.

The diversification of economies can be viewed from different perspectives: exports (products and clients), imports (products and suppliers), employment - structural economic reforms tend to eliminate agricultural employment, making it more efficient by increasing labor productivity, and increasing jobs in manufacturing and services, where the use of technology increases domestic value added and improves competitiveness - sources of financing the economy (taxes for the State sources of finance for the economy (taxes for the State, credit and loans for the rest of the agents), technology (the relocation of some Chinese factories to Angola recently announced by the Government as a way to accelerate the country's industrialization may be a bad option, since they are factories with outdated technology and recycled equipment, this having been the path chosen during the strong years of Africa's cooperation with former colonial metropolises). Therefore, different statistical-economic indicators are available that measure the degree of diversification of economies.

Economic diversification is the reciprocal of concentration. As emphasized above, diversification is the natural state of economies towards the Structural changes that are inherent to a market economy. It can even be said that, in this regard, diversification happens 'daily', as economies are constantly and permanently transformed. But economic freedom for private agents is required. The pace of these transformations may not correspond to the population' s aspirations, always thirsty for rapid and significant improvements in their living standards, nor to the political parties' preferred objectives, equally eager to demonstrate the "goodness" and greater effectiveness of their proposals.

The higher the degree of concentration of an economy, the less resilient it is to external shocks and the less capacity it must deal with the negative effects of these international turbulences. The current economic and financial situation of the country is a clear example of the harmful consequences of oil dependency. Since diversification is in its very early stages and this process has not been given the due political and strategic relevance - despite the numerous official documents on development plans, strategies and programmes, the delay is evident, with the Government and the party that supports it politically having preferred to prioritise the creation of a small rich and fortunate social group - the consequences are a brutal fall in government revenue (tax revenue) and in the economy (foreign exchange revenue), the contraction of GDP growth (3.3% for 2016 and 3.5% for the coming years until 2020), the rebound of double-digit inflation (the rate could reach 15% by the end of this year), the fall in the purchasing power of workers and classes whose main source of livelihood is income from work, and the decline in the value of exports.

Due to delayed diversification and excessive dependence on oil, Angola is in crisis, with no viable solutions in the short term and no structural solutions in the medium term.

The process of diversification of the economies calls for the existence of a basic set of conditions - good road, rail and air transport networks, energy and water, logistics and transport of raw materials and finished products (intensification of the network of internal exchanges and intra-sector trade) and superstructural conditions - good governance, transparency in the use of public money (which after all belongs to the people who pay taxes and not to any government), consistent and meaningful economic policies (monetary, foreign exchange, fiscal - there are fiscal systems that are "enemies" of economic agents and perpetrators of competitiveness -), a good business environment (once again, in the World Bank's Doing Business 2020 survey, Angola has not yet left the bottom ranks), private investment, especially foreign investment (bearing technology, organization and the capacity to enter the international market). And then plenty of human and business Capital.

Within the framework of a structural reform process, the role of the State is fulfilled by creating a favorable environment for the expansion of private sector activity, which essentially involves measures to rationalize and reorient the Public Administration itself.

Of note is the redefinition of the relationship between the Public Administration/ Business Sector with a view to making it more transparent, more agile and effective, through the attribution of multidisciplinary competencies for the knowledge, treatment and decision on the most relevant legal issues to certain public bodies. In this context it is also important to consider regulatory mechanisms that support the privatization process of goods and services of a public nature, in order to avoid monopolistic practices by the new operators and to defend the interests of users and consumers.

The structural changes at stake in the country have a high financial cost, probably above the existing and projectable financing capacity in the medium term. Not to mention adjustments in some of the superstructural subsystems such as mentalities, institutions and attitudes.

It is not known to what extent the process of diversification of the national economy has been hindered by the control of the inflation rate via the exchange rate anchor. From the point of view of successful diversification experiences, exchange devaluation is a measure present in national strategies and policies, not only in countries rich in oil and other renewable natural resources, but also in those where external dependence is centred on the export of raw materials and foodstuffs.

Diversification is also a process of managing and raising expectations that will lead private investors, within the conditions and factors mentioned above, to invest their and other people's savings in activities with high potential for external competition. The accommodation of national businessmen to protectionist models, whose implementation they themselves request their governments to implement, and the false-idea that diversification is only domestic, to simply replace what is imported, has postponed these processes in many emerging and developing economies, rich or not in oil and other basic products.

With the information that comes in, the studies that are being carried out and the forecasts that are being made (over long-time horizons, some with more and some with less credibility and confidence), the oil cycle is actually coming to an end. Not only as a source of financing for the economic activity of some countries and the finances of their states and governments, but also as a component of national production. The oil cycle - probably best called the "expensive oil cycle" - is being affected by the price of this *commodity* and by the extraordinary efficiency gains that have been accumulated, year after year, since 1971/1973, after the dramatic rise in the average price by almost 100%.

Diversification has an accounting that can be broken down into the following question: how much does it cost and how can it be financed? The answer to the first part of the question requires the availability of statistical data and the consideration of a GDP structure corresponding to a decentralised production network. For the second, I will have to resort to economic theory and the equations characterising an open-economy capital market.

It is well known that the Angolan economy depends directly and indirectly on oil export revenues (a commodity subject to the imponderables previously mentioned that may slow economic growth in certain circumstances and contexts, making it slower and less inclusive), and it is therefore advisable not only to reduce its relative weight in the GDP by substituting other commodities, but also to add domestic value.

How much can the process of diversifying the economy cost in direct, indirect and induced investment costs alone? By taking a time horizon of about 10 years (2030) - justified by its complexity, dependent on far-reaching changes in all sectors, in mentalities and attitudes (for example, considering work, initiative and innovation as supreme cultural values and not laziness, absenteeism, cronyism and influence peddling) - and certain values for some efficiency indicators, it is possible to arrive at an estimate.

Let's assume the following structure in 2025 and 2030 (economy undergoing industrialisation, with a high productivity service sector):

	GDP STRUCTURE BY 2030	
	2025	2030
Agriculture	12,5	11,5
Oil	31,5	26,5
Manufacturing	9,1	14,5
Services	30,5	31,5
Construction	12,5	13,5
GDP	96,1	97,5

Source: CEIC, based on National Accounts

What is the cost involved in this transformation, considering 9.1% in 2025 as the Government's target for the relative importance of manufacturing? Estimates, based on economic concepts such as the ICOR and the marginal productivity of capital and on assumptions such as an average GDP growth rate of 3.5% per year until 2025 and 3.9% until 2030 and an average annual inflation rate of 10% (change processes usually imply changes in relative price systems and macro-prices) are presented in the following table:

ANNUAL AVERAGE INVESTMENTS IN US$ MILLION

	2025	2030
Agriculture	385	98
Oil	585	392
Manufacturing	292	363
Services	536	181
Construction	203	445
Growth	1084	1478

Source: CEIC, based on National Accounts.

How to finance this amount of investment? The capital market in an open economy is the most appropriate method and savings is the only way to do it. When the capital market is in equilibrium, investment equals the sum of private savings (ps), public savings (Sg) and net capital inflows (NCE). Using the equilibrium equation of this market in an open economy, we conclude that the economy and its investment needs are financed by the balance of payments and net inflows of foreign capital. Its positivity depends on the overall efficiency of the economy and general factor productivity in the Solow's mode, in the first instance, and an attractive business environment for foreign investment, in the second.

In other words, financing diversification is dependent on the capacity to export more and better (oil will remain dominant in the export structure) and net inflows of foreign capital (normally demanding in terms of guarantees, accountability, compliance, anti-corruption, transparency and insertion of the Angolan financial system into the international financial system).

But another way of financing the average annual investment of USD 1.5 billion can also be discerned: the efficiency of capital investments. If there is more efficiency, its return rate increases considerably, which is equivalent to a reconfiguration of the values of the capital-output coefficients, reducing them (with the same investments, the same growths in aggregate values are achieved). Proceeding in this way and assuming considerable progress in the qualification of the different types of capital (human, social, business, institutional and material (investments in public works)), the average annual investment effort could fall to around USD 500 million. Still considerable.

From what has been learnt from reading many texts on this subject and according to what has already been underlined in this regard, it can be said that there is good and poor diversification. The good is the one that focuses on a high-wage, high-productivity competitiveness model. It is the model that works in contexts of open economies and increasing globalisation of national productive forces. Poor diversification is rooted in low wages, uncompetitive productivity and a closed domestic market that protects the interests of economic and political elites. Improving competitiveness depends, of course, on the existence of well-structured, transparent business environments that are attractive to private investment. The Government, and its departments are responsible for supporting the functioning of the economy. But it also depends on the private sector, mainly by freeing it from its mentality of being assisted by public institutions, on which it ultimately depends to draw up the essentials of its business strategies. And it shouldn't be like that.

6.5 Oil exploration

The oil boom in Angola was a few years ago, when the country produced close to 2 million barrels per day (b/d) and oil prices were above US$100, generating revenues for the state that were much higher than now, which reached an annual peak in 2012 of US$43 billion, with production of 1,728,918 b/d, starting a decline that has continued up to now, as by 2020 production was around 1,270,000 b/d.

Oil revenues began to rise, unexpectedly to some extent, from 2002 onwards, in parallel with the rise in the country's production - the daily average was already around 900,000 b/d - and uninterruptedly until 2008 with Angola already producing around 1.8 million b/d, at which time the world underwent the "sub-prime" financial crisis, caused by financial speculation in the United States that spread to Europe and Asia.

The country would be in a much better situation today if, during the first decade of this millennium, when revenues were rising every year, it had implemented a Stabilization Fund to balance the State Budget in years when the price of a barrel of oil fell, as happened in 2008-09. They overlooked the harsh experience of low prices from the mid-1980s to the turn of the century and the fact that Angola's extreme dependence on the prices of a single product, over which it has no influence, could again cause serious problems for its development in the future. Instead, in the second decade of this millennium, a "Sovereign Fund" was created, which in practical terms served little purpose other than to make the country lose a few hundred million dollars of its oil revenues, as is public knowledge, until its management changed in 2018.

The financial crisis that shook the world in 2008-09 and caused an economic recession in the developed world passed quickly through the world oil market and, in 2010, prices per barrel were already high again, averaging 80 dollars that year, continuing to rise the following year to around 100 dollars, which remained until mid-2014. Once again Angola had huge annual revenues which, if invested well, would have allowed it to begin implementing the much-vaunted and necessary "Economic Diversification", which is a complex and lengthy process that only bears fruit in the medium and long term.

The designed policies have not succeeded - some economists will say that they still do not succeed - in implementing in a globally coordinated manner, under the temporal and spatial prisms, and taking into account all the steps of their operationalization, the necessary and priority actions and investments, to the much needed economic diversification that the country needs as the only way of entering a stage of development, which should not be confused with GDP growth based on the increase in the price and/or volume of oil production, as has already happened, with a perfectly abstract per/capita figure, with no real correspondence in the increase in the standard of living of Angolans and which is well documented in various CEIC/UCAN Economic Reports.

In order to understand how oil revenues have behaved over the last few years, the table - *ANGOLA - Oil Production, Prices and State Revenues* - has been drawn up. It allows one to understand how the production volumes/prices/revenues are articulated so that at any time, even without knowing the statistical data, based on the price per barrel, which is reported daily, one can have a rough idea of how much the State's revenue per barrel is at any given time.

The values shown in the following table, divided by years, indicate total production in the first row, followed by the ownership of that production among the three main entities involved, where the values in the Concessionaire row correspond to the volumes that the companies, operating under the Production Sharing Contract (PSC), or Service at Risk Contract, must deliver at zero cost to the ANPG - National Oil and Gas Agency - with the total annual State revenue, consisting of the revenue from the sale of the Concessionaire's oil and the taxes paid to the Ministry of Finance, then the weighted average annual prices and the revenue per barrel, both in US$ and, finally, the percentages per barrel to which that value corresponds.

ANGOLA - Oil production, prices and government revenues

Name	2012	2014	2016	2018	2019	2020
Production (a)	1.728.918	1.671.673	1.721.675	1.478.940	1.376.357	1.271.460*
Concessionaire	700.206	531.646	389.495	371.680	304.018	248.619*
Sonangol	157.500	222.269	238.905	236.866	244.644	232.890*
Companies (b)	872.212	917.758	1.093.275	870.394	827.695	789.951*
State Revenues	43.000	30.200	8.400	14.700	10.800	6.190
Concessionaire (Million US$)	29.300	20.300	5.500	9.700	7.100	3.940
Taxes	13,700	9.900	2.900	5.000	3.700	2.250
Selling Price (c)	111,09	96.02	41.85	70,34	65.20	40,99
State Revenues (c) (Per Barrel Export)	67.91	49.50	13.33	27.23	21.50	13.87
State Revenues (Per produced barrel)	61%	51%	32%	39%	33%	34%
Selling Price (d)						

Sources: - Sonangol, ANPG and Ministry of Finance

NOTES:

(a) *Refers to barrels and daily average;*

(b) *Includes all investing foreign and private Angolan oil companies;*

(c) *Amounts in US$;*

(d) *As a percentage of the average barrel export price.*

**2020 amounts are Provisional.*

The 2012- 2020 data shows us a decrease in production volumes and in prices and revenues, although these vary greatly depending on the price per barrel, as seen in 2018 with the average annual price around $70. Moreover, the volatility of oil revenues has been a constant over the last few years, sometimes due to excess supply or demand, and other times due to the influence of financial speculation on the "Futures Markets". The year 2020 is an exception because the big drop in prices was due to a drastic, sudden and unseen reduction in consumption due to the pandemic of COVID-19.

A close look at the volume of oil that falls to the Concessionaire shows three distinct facts. First and most common that this volume decreases from year to year in parallel with the reduction in total production, which is natural. But a second insight shows that the sale price of the barrel has a lot of influence on the volume of oil that is supplied to the Concessionaire. And it may even happen that a lower production in a year of high barrel prices, such as 2014, generates higher revenues for the Concessionaire.

Between 2016 and 2018 the total production volume reduced by 242,735 b/d but the Concessionaire's oil only reduced by 18,265 b/d. The explanation lies in the difference in prices per barrel. In 2016 the average annual barrel price was US$41.85 and in 2018 US$70.34. The third most eye-catching finding comes when reviewing the Concessionaire's volumes in 2014 and 2016. In 2014 with a production of 1,671,673 b/d the Concessionaire received 531,646 barrels per day. In 2016 with a production of 1.721.675 b/d the Concessionaire received only 389.485 barrels per day. And the explanation is simple and lies in the average barrel prices that in 2014 were US$96.02 and in 2016 were US$41.85, that is less than half.

This is because in most oil contracts in force - except for block 0 in Cabinda which is of the Concession type and only taxed - the taxes and the sharing of "profit oil" vary according to the internal rate of return of the operations and this, naturally, varies according to the sale price of the barrel. The lower the barrel, the greater the volume of " oil costs" to cover operating expenses and amortization of investments, reducing the volume of " oil profit" from which taxes are paid and volumes are withdrawn for the Concessionaire.

Prices in 2020 only managed to recover quickly - in the 2nd quarter they fell to an average of 27 dollars, but by the 3rd and 4th quarters they were already around 44 dollars - because OPEC and its allies, including Russia, cut production by almost 10 million barrels/day from May and the United States reduced its production of shale oil. In recent times the OPEC+ cuts have been reduced, on a very small scale and in a monthly controlled manner, in order not to unbalance the market with supply levels above consumption, to reduce the excess stocks in industrialized countries, which has almost been completed, and to maintain prices at satisfactory levels around 60 US$.

The ratio of government revenue per barrel, in absolute value and as a percentage, gives us apparently contradictory figures, since very different prices give us identical percentages. In 2019 with an average price of USD 65.20 the State revenue per barrel was USD 21.50 corresponding to 33% of the sale price. In 2020 with an average price of US$40.99 the government revenues per barrel was US$ 13.87 corresponding to 34% of the sale price.

The same figures in previous years show for example that with oil prices slightly above 70 dollars the percentage of the value of state revenues is close to 40% of the sale price of a barrel. Continuing backwards we see those prices around 95 US$ give the State revenues of about 50% of the sale price and above 110 US$, as in 2012, the percentage of State revenues rises to about 60% of that value.

These examples should be seen as relative values for a quick calculation, which gives us a glimpse of how the State's oil revenues are performing at any given time. It is natural that in a few years, with the entry into production of marginal fields, the percentages will reduce a little, as these fields will pay less tax and deliver less oil to the concessionaire but, until this happens, the reasoning set out above can be maintained. And if one wants to be cautious, considering that the barrel prices are below 50US$, it is estimated that the State's revenue will be equivalent to 30% of the barrel's sale price.

Now, what is very important to consider, in order to understand what amounts, generate State revenues from oil, with this simple calculation baseline, is to remember that 51% of 96 dollars, 40% of 72 dollars or 30% of 40 dollars give real values of US$49.50, US$28.80 and US$12.00 respectively, very different from each other, as is natural. The data presented here show however that even in a situation of low prices oil is a product with a long tradition of generating “income” for its producers and some users.

Oil is the mineral wealth that gives most tax revenues to its producers- or users - as in Europe and Japan, where taxes and duties on petrol and diesel account for more than 50% of the retail price - for the income it generates from the difference between total production costs, including company profits, and sale prices, and from the huge volumes it moves, being the raw material with the highest monetary value in international trade transactions.

Angola is on the downward slope in terms of oil production, which may at most have its decline slowed by possible future discoveries. While it waits for the economic diversification process to bear tangible fruit, it may turn its attention to stimulating the mining industry, namely some minerals that are entering what economists call a “super-cycle” due to the rapid rise in their prices. The decarbonization of energy and the resulting shift to renewable electricity is giving rise to a global rush for certain mineral resources, most notably copper, cobalt, rare earths, lithium and nickel. But even iron ore itself has been doing better in its prices.

The shift to global consumption of renewable energies, which is underway and will continue in the long term, is a guarantee that copper prices, which have already exceeded US$10,000 per tonne, to remain high in the long term. A wind turbine uses 8 tons of copper for each MW of capacity and, as one of the sources that is being and will continue to be intensively developed, it gives an image of future consumption. The various ores known as “rare earths” - and which Angola will produce some of - are one of the production bases of almost everything linked to electronics. Lithium and Cobalt are essential for electric car batteries and have rising consumption and prices guaranteed for decades to come.

Combined with oil comes natural gas which, as the least polluting of the fossil fuels, will maintain its importance in the world energy balance for a few decades longer than oil-based fuels. This allows Angola to develop this wealth directly, using it to generate electricity, so that the country is not solely dependent on renewable energies from hydro sources, mainly located in the Kwanza basin, because it is not free of prolonged droughts, or using it in the liquefaction complex in Soyo.

Other possibilities for the use of natural gas, besides the traditional use as a source of fertilizer for agriculture, is the manufacture of ammonia, which will most likely be the fuel adopted for maritime transport in the framework of the global energy decarbonization that is underway, both products being for domestic use and export.

The manufacture of green hydrogen, from water, using renewable energy sources, which in Angola’s case will naturally be water-based, should meanwhile be a strategic goal for the country after 2030, because it could be another industrial export product, adding value to one of its natural riches. Electricity and hydrogen will probably be the main sources to be used in light vehicles and trucks respectively.

With the investment in research that some European countries, driven by Germany and France, will be making in the coming years and the large-scale green hydrogen production projects that should be implemented in Europe and the Middle East by the end of the decade, it is expected that, by 2030, the new production plants will have reached industrial standardisation of this production process, necessary for it to have prices to compete with current manufacturers of grey hydrogen, from natural gas, which will be a transitional option not advisable for countries that may invest in the future in green hydrogen, such as Angola.

6.6 Wages and labor productivity issues

An adjustment of the national minimum wage by 30 per cent has been decreed by the Government, to take effect from April 2019. This was not an increase, but rather an adjustment of its value with a view to minimising losses in its real acquisition value after 2014, the date of the last agreement on this matter. A cumulative loss estimated at 161.7%, or an average annual reduction of 21.2%. It is a lot, especially for those whose salary is the only source of income to support their families. And there are many in these conditions, who surely cannot live on little more than 1070 Kwanzas a day. Hunger and poverty will continue to exist. During this same period, how did the wages of entrepreneurs change (were they not adjusted?), and the profits and incomes of companies? The question is sincere and not specious, as the phenomenon of forward spillover resulting from inflation is not believed to have occurred.

However, some businessmen and businesswomen are upfront against it (Novo Jornal, Article about this published on 7 March 2020 page 2), arguing that labor and productivity levels do not correspond. Workers' productivity does not depend only on themselves (their knowledge, skills, work capacity, dexterity, the value that work culturally represents for them, absenteeism, their health (in the short term more and better health improves productivity and decreases absenteeism), the working environment, the safety of their workstation, which the New General Labour Law probably does not guarantee),[83] but also of the entrepreneurs themselves (how do they engage with the workforce in their companies? With a "whip" or with dialogue?), the organisation of the companies (how is the labor division established within them? Adam Smith believed that the essential engine of development was the social division of labor, which brought with its specialisation, the source of productivity), the working environment in the production plants (are production plans discussed? What additional training do workers and entrepreneurs need, since Angolan universities are unable to provide it? Production and productivity targets? The sharing of productivity gains?) and finally the macroeconomic environment itself, whose stability must be assured by the government.

From the same article in Novo Jornal, the following statement was quoted: "*increments have to exist when there is productivity. Wages cannot be increased when there is no increase in productivity, unless it is a random matter. A good manager cannot and should not increase salaries unless there is productivity*".[84]

Let us look, then, at the wage-productivity nexus. In microeconomics an equilibrium condition - called profit maximisation - is established between the value of the marginal productivity of labor and the wage. Whenever the 1st term outperforms the 2nd, companies will make profits, with equality being the limit (what one more unit of labor adds cannot exceed the value of the wage).

From this scientific point of view, it is fair to say that more pay must correspond to more productivity, otherwise inflationary phenomena may be triggered. But the minimum wage also has a social role and cannot only be analysed from the profit viewpoint of entrepreneurs and companies (if the labor market functioned efficiently and rationally, without distortions, asymmetries and failures, there would probably be no need to set this type of limit). The reality is different and the primary distribution of national income among the production factors suffers from inequalities that can be mitigated by acting downstream through the tax system, or upstream through this type of administrative intervention.

Wages are also a macro-variable. It is a component of the economy's aggregate demand, and from this derives the capacity to create and stimulate growth and improve living conditions, which will generate opportunities for investment, employment and profits. And as paradoxical as it may seem, more wages

83 Evidently, there are no longer jobs for life and security cannot be total, and it is up to companies, workers and the state to create the best conditions for flexicurity to occur. Social security systems, whether public or private or mixed, are important cushions minimizing excesses of job insecurity on the worker's side.

84 It was quoted exactly as it was, despite errors in agreement and the thought that the 'otherwise' should be separate, i.e., "if not".

and higher wages can imply the existence of higher profits, stronger growth dynamics in the economy and better income distribution. Fortunately, most Angolan businessmen have a correct analysis and perspective of the minimum wage.

What matters most currently for Angolan society, workers, businesspeople and public decision-makers: unemployment or work with a minimum wage? What carries most weight in economic terms? Unemployment reflects economic inefficiency, the failure to guarantee the right to work or labor rights, and the social disutility of a relatively abundant resource. Working for minimum wage means living poor and without a secure income. If the focus of economic policy (employment policy) is on tackling unemployment, labor market inflexibility can be a major obstacle to that end. Conversely, if it is the situation of current workers that counts and their defense is to be achieved through the establishment of a compulsory minimum wage, then unemployment will prevail and there may even be job destruction and inflation through business costs.

The International Labour Organization (ILO), recognizing that under current conditions, minimum wages remain an issue of debate on the political agenda of all countries, encourages all member countries to adopt the minimum wage standard to reduce the number of working poor and provide social protection for vulnerable workers[85].

The fundamental rule for reflecting on the establishment of a national minimum wage is that work is the only source of wealth, income, development and progress. Almost everything in an economy can (should?) be attributed to labor. Marx argued that capital itself is nothing but crystallized labor. Without labor nothing else can be demanded. Economic aspects are always the ultimate drivers of social spheres. If an economy does not function from the production and productivity perspective nothing else can be established, as a rule, as a principle or intention. These considerations are valid to say that the determining variable for establishing the minimum wage must be productivity and its behavior over time, i.e., productivity gains.[86]

To determine by law the minimum wage, without requiring in return the enforcement of a basic productivity standard, means taking several risks: first, in the context of inflation: increasing the wage bill (because that is what setting a fixed minimum wage is all about) for the for the same volume of workers means increasing the nominal increase in demand (private consumption) for the same supply; secondly, the minimum wage may be considered a kind of social bonus or a "right to humanity", to which all workers have access just because they are or appear to be one; thirdly, in the field of employment: whenever the minimum wage set by law exceeds the expected marginal productivity of using one more unit of labor, economic agents will prefer not to invest, not to increase production or to exploit more intensively the existing quantity of production factors; the fourth, is observable in the field of production costs: accepting compliance with a minimum wage reference corresponds, directly, to an increase in unit production costs and to an immediate repercussion on sale prices (inflation by production costs). For low labor productivity values - as is clearly the case in the national non-oil economy - the minimum wage in reality ends up corresponding to a subsidy that society grants to workers for reasons of solidarity (almost a guaranteed minimum income), but which has a social cost translated into the opportunity cost of other applications of this amount in cash and a "cost of dignity" conveyed by the dependency it creates and by its welfare character; but it also has an economic cost mirrored in revenues that are no longer generated.

The minimum wage is good for those already in the labor market, but bad for jobseekers. In the first case, it is a guarantee of a minimum income to purchase a basket of basic products, but there may be no guarantee that the amount established by law will always be respected. In the second instance, it is bad

85 A recent phenomenon is the increase in the rate of in-work poverty, thus questioning whether increasing employment is a sufficient condition for its reduction and placing much more pressing emphasis on the importance of workers' wage levels.

86 The ILO defines the following criteria for framing the value of the minimum wage: the needs of workers and their families, labor productivity indices and the need to maintain a high level of employment.

for those excluded from the labor market because it acts as a barrier to the creation of new jobs, because its imposition has the direct counterpart of increasing business costs, leading companies to use existing resources more efficiently.

Angola's current economic situation is set in the following triangle: high inflation (16.9% in 2018, 25.1% in 2020 and 24.9% in the first two months of 2021),[87] with a significant increase in its speed between December 2019 and February 2021, about 2.8% per month), considerable unemployment (30.6% in Q4 2020 and 55.3% for the young population, aged 15-24) and economic growth in permanent recession since 2016 (-5.1% for 2020). It is perhaps too early to talk of stagflation - no less than 3 years of statistical data and corresponding analysis - but the signs are worrying.

The Government's tax strategy is centered on an increase in taxes coupled with a desire to improve their efficiency by eliminating/correcting situations of fraud and tax evasion. With high taxes and interest rates it is difficult to fight unemployment by increasing production ("supply side economics") and it is therefore likely that the recovery of the economy – if the lever of expensive oil is lost - will take some time (in this sense the forecasts published by the World Bank, IMF and OECD, and those of the CEIC (outlined in this Report).

But there are other reasons for unemployment. If the cost of labor is not the main culprit of unemployment and if, in any case, wage flexibility cannot be relied upon to restore full employment - or in a less demanding perspective, increase the employment levels of the economy - then the essential problem lies at the level of overall demand (Keynesian point of view). The solution to cyclical unemployment lies in stronger overall public and private demand.[88] Public expenditures are currently conditioned by the fall in tax revenues and private consumption (of families and companies) is blocked: that of families by inflation and unemployment itself; that of companies by the lack of capacity to provide domestic inputs and by the insufficiency of foreign exchange to obtain them on the foreign market. From this perspective, this type of unemployment is likely to become structural, given the few solutions capable of resolving it.

Can the minimum wage be a stimulus to increase household demand? The national minimum wage practice in any economy is controversial. It's the old efficiency/equity dilemma.

Francisco Louçã presents two explanations for the essential nature of the minimum wage:[89]

a) **Wages are the pillar of recovery**: in a situation of permanent recession in the Angolan economy, with significant falls in the purchasing power of labor income - the most important factor in boosting household demand, the economy's main agent in terms of the number of people employed - a proactive wage policy can help leverage the return to growth and make private investment viable, as well as the corresponding tax and other fiscal incentives of other nature; thus, it can be possible to answer the following question: *"Produce for whom, in a context of strong export limitation, due to lack of external competitiveness?";*
b) **The minimum wage as a social reference:** not only for the republican values of dignity, citizenship, equality, solidarity and freedom, but also for social policies, in the sense of knowing whether the Government's income policy values wages and employment and protects those who need social policies.[90]

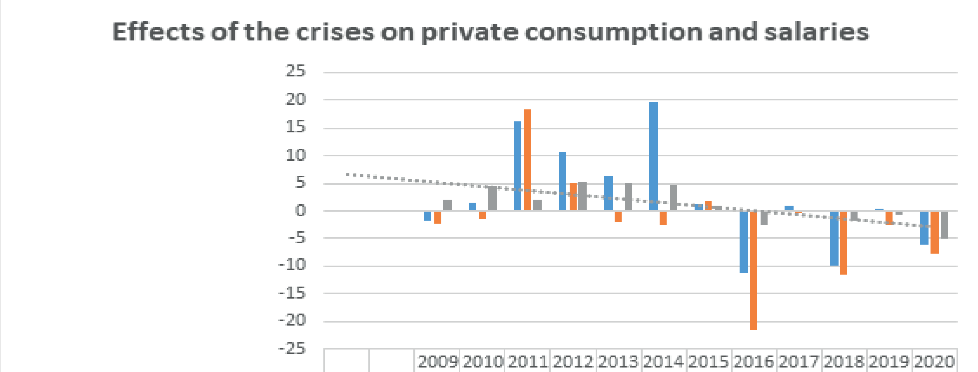
87 The Governor of the BNA said, following the meeting of the Monetary Policy Committee in March 2021, that it was difficult to maintain the inflation rate of 18.7% set by the Government in the Statement of Reasoning for the 2021 State Budget, due to the possibly excessive tightening of monetary policy.

88 To complete the analysis of the unemployment problem, we should also talk about structural unemployment fueled by changes in the structure of demand and production: technological modernization is essential for competitiveness but, under certain conditions, it is inimical to employment.

89 Francisco Louçã: Why is the Minimum Wage Essential?", Semanário Expresso, 22 August 2020, Economics Notebook. The foundations for a policy to revive the economy through the components of household final demand, of which wages are fundamental, have been removed.

90 For Francisco Louçã, the two instruments that should be highlighted most in terms of their effectiveness in preventing the impoverishment of the population are the allowances aimed at supporting the neediest, pension increases and increases in the minimum wage. All these benefits adjusted for internal purchasing power parity.

The purchasing power of Angolan incomes, and not only salaries, has suffered successive losses since 2012.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Actual Private Consumption Variation Rate	-1.8	1.5	16.2	10.6	6.3	19.6	1.1	-11.2	1	-9.8	0.4	-6
Actual Rate of Salary Variation	-2.4	-1.4	18.2	5.1	-2.1	-2.7	1.7	-21.7	-0.4	-11.5	-2.5	-7.8
Actual GDP Variation Rate	2	4.6	1.9	5.2	5	4.8	0.9	-2.6	-0.2	-1.7	-0.6	-5.1

Source: CEIC based on official documents

They are thought to be irrecoverable and income earners, especially labor income, will have to adjust downwards either consumption or savings or both in due proportions on their own.

The updating of the minimum wage, which should be done within the framework of business/union consultation, can trigger effects on other wages in the economy. It is quite true that the national average nominal wage is low - around AKZ 44400 at the end of 2019 - but it is nonetheless in line with productivity levels, which are equally low. In 2019, the average gross apparent labor productivity was just a little over US$15000 per worker. There is a Government Commission for the study of the minimum wage and it has a methodology for calculating the adjustments to be made to the national minimum wage, essentially focused on the prices of a basic goods basket, which is correct. However, there are many explanatory variables for the behavior of wages, some of which are complex in their interrelationships and are not included in the studies of this Commission. A possibly acceptable figure for the adjustment of the minimum wage would be for its increment to fully absorb the inflation that occurred in 2020, i.e., AKZ 230082[91], even so, it is still insufficient to cover the basic needs of the employees.[92]

The minimum wage is national, not just of the government. Therefore, it is also necessary to know the capacity of the private business sector - the public business sector can do so more easily given the subsidies it receives from the State to make up for possible financial losses - to accept and absorb possible increases, from an economic and general productivity point of view of the production factors. It should again be stressed that the essential point is related to the economic impacts on national competitiveness, at a time when the Government is struggling to find alternative sources of external revenue generation in the short term - which is truly difficult - given the widespread lack of competitive capacity of the national economy.

Are State bodies, and in particular the Ministry of Finance, capable of accommodating the increases in the wage variable? Where to get the money from? Will the reconfiguration of its civil service be sufficient (elimination of the so-called "ghost workers")? It may be a ploy, but it runs out as soon as the phenomenon of ghosts has been overcome. If the Government and the rulers were truly interested in saving public money - to be directed towards employment creation and alleviating the degrading social conditions of the population - they should have already implemented two essential reforms: full implementation of the Public Probity Law (a sign of separation between business and politics - in Brazil the confusion between

91 Equivalent to US$35 per month.
92 There is a lot of controversy surrounding the minimum wage, with some arguing that it doesn't have to cover basic needs and is therefore only a reference of the limits to which discussions in Social Dialogue Councils should go.

in Brazil the confusion between public and private interests led to the most serious economic, social and political crisis in living memory in this young democracy, which has as many years as Angola has of independence)[93] and reduction of government positions (which has been rehearsed, but so far lacking in competence and effectiveness).[94]

Why do economists insist on economic productivity as one of the dynamic elements of economies? Everywhere, the analysis of the behavior of economies starts by considering the evolution of productivity, the essential qualitative component of economic growth, without which there is no progress and without which the living conditions of the workforce cannot be improved.

Productivity is the central instrument of an octagonal polygon that considers the necessary integration of the different perspectives of the functioning of the economy. In fact, productivity interacts with **competitiveness** - the current pressure of globalization and the conquest of international market shares - **employment**, **wages** (these two macro-variables play a key role in the functional distribution of national income - and are therefore decisive for reducing poverty - and in the composition and evolution of private consumption), **technology** (understood in terms of the technological transformations that induce improvements in work organization, production processes and the introduction of new products in line with the dynamics of final and intermediate demand), **business profitability** (fundamental in capitalist economies and necessary for business development), **micro and macroeconomic value added** (the higher the productivity, the more intense will become the value added by companies, economic activities and the economy in general), **people** (productivity changes people's lives and their relationships) and ***stakeholders***, i.e. all those directly affected by the activity of companies, such as consumers, shareholders and employees.

Productivity and employment may have an antinomic relationship, as productivity is derived from the volume of employment. A country's economic growth can result from simultaneously increasing employment and productivity, maintaining employment and increasing productivity, or maintaining productivity and increasing the labor force used in the production process.

The ideal situation is the first one - with certain proportions in the corresponding technical coefficients having to be respected - the second situation is equivalent to a capital-intensive model (physical, scientific and technological) and the third labor-intensive manufacturing processes. Productivity gains - which will subsequently be shared between the production factors labor and capital, in certain combinations - depend on the quantity of labor, the technological generation of labor instruments and tools, the competence of human capital, and the quality of corporate governance of companies and the economy. For a given volume of production (micro- or macroeconomically considered), the higher the employment, the lower the productivity and vice versa, the higher the productivity, the lower the amount of labor used. Therefore, the management of the productivity-employment binomial, in the different perspectives in which it is presented, is of capital importance, requiring, as a complement, abundant and reliable statistical information.

A mathematical and economic relationship is also established between productivity and wages, but in a positive and self-reinforcing sense. In marginalist theory the equilibrium condition in the labor market is given by the equality between the value of the marginal productivity of labor and the wage, which means that the maximization of entrepreneurial profit or national surplus value depends on the circumstance that the wage does not exceed productivity. Incidentally, productivity gains are the only non-inflationary source for wage increases. In fact, if wage adjustments are made only according to the inflation rate, a general inflationary spiral may be unleashed, with the known mischief and harmful effects.

93 It tells of its democracy after the overthrow of the military dictatorship.
94 Reform cannot be limited to political horse trading and the systematic movement of appointments and dismissals of members of the public administration, central and provincial.

At last, it is worth emphasizing that the valorization of the national purchasing power - one of the ways to reduce poverty - is related to two concrete public policies: the stabilization of prices and the improvement of productivity. Either of these has varied components and important implications.

The concern and studies with productivity date back to the First Industrial Revolution, became determinant with Fordism and Taylorism (the era of the mass automobile), and intensified during World War II with the need to rapidly and expressively increase industrial production.

The notion of productivity is related to the economy of means - producing more with fewer resources - but nowadays, when competition is exacerbated and the struggle to conquer demanding market bangs is on the rise, the concept of productivity shifts from the economy of means to a model that is more oriented by the intensity of R&D efforts, aiming at the capacity to differentiate specialized products and services.

The Angolan economy has very low productivity, which is one of its great weaknesses to face, relatively successfully, to the challenges of regional economic integration and globalization. Between 2000 and 2017, increases in the value of gross apparent labor productivity were accounted for as a result of GDP growth itself. However, their average, in current US dollars for that period, is only $18522, contracting with $75000 for South Africa and $60000 for Botswana. In 2018, labor factor productivity decreased to US$ 17600. These structural reforms should have been the priorities of the Government's officials.

Productivity is the basic indicator of the health of an economy: in the long run it is its growth that drives the evolution of wages and consumer welfare gains.

6.7 Other risks

Although the IMF and the World Bank forecast growth rates for the world economy above 2.8% by 2021, economists such as Nouriel Roubini, known as the "economist of doom" (he was the one who first warned of the "subprime" crisis of 2008/2009), and Brunello Rosa of the London School of Economics[95] believe that there are reasons for a slowdown in world economic growth starting in 2019: the escalation of the trade war between China and the United States (the IMF has already studies on the negative global effects of this conflict triggered by Donald Trump), the battle between the Trump Administration and the US Federal Reserve on the tightening of monetary policy, the breakdown of Europe after Brexit, the rise of radicalism and populism in European democracies, the uncertainties about the 2020 US elections, and the trauma of the Europe of the 29, whose GDP will be overtaken by that of China. The risks to the growth of the world economy and its member economies are changing as events unfold. And of course, if this crisis happens (which is a chronicle of a death foretold by Gabriel Garcia Marques), Angola will not be left out (I believe that nobody in the country today would have the courage to say that the national economy would not be affected, as it happened back in 2008, with statements from some government officials at the time). In a general climate of slowing world growth, the price of a barrel of oil would maintain its downward trend, despite the production curtailment measures adopted by OPEC.

But in Angola, the risks to the resumption of the economic growth will be increased by the poverty raise and the continuation of the income redistribution model that has not yet undergone major adjustments - the essence of inequality remains the same as that of the previous governance. GDP per capita will remain at low levels until 2022 (for 2019 it is projected to be US$ 3290 But the most serious aspect of it is that the annual increments of this amount will decrease every year until the end of this legislature, which leads to the conclusion that the economic growth will not generate enough income for an increased distribution to improve the living conditions of the population.[96]

95 Quando Chega a Próxima Crise - Jorge Nascimento Rodrigues, Semanário Expresso, Caderno de Economia, 5 January 2019.
96 Annual increases in GDP per capita in US$: 2018 = -621; 2019 = - 400; 2020 = 97; 2021 = 6.

As has already been stated in these Reports, Angolans are becoming increasingly poorer every year, a terrible symptom for the creation of a domestic market of reasonable dimension to support import substitution.

The government envisions a 2.5% growth upturn for 2022, in accordance with the IMF, but in disagreement with the World Bank, which corrects it upwards to 3.5%.[97] However, this and those projected by 2022 need to be revised, as a recession had been recorded in 2018 (-1.7% for the IMF and -1.8% for the World Bank), when, by the announcement of the Minister of Economy and Planning, the value should have been -5.1%, pending on the information from the National Accounts.[98] From this perspective, the economy will probably not grow as much as the Government and the IMF predict by 2025,[99] while the Intelligence Economic Unit's forecasts are more consistent (2.4% between 2022 and 2025)[100].

Yet, how to obtain a 2.5% rate in 2022, in a scenario of high interest rates, high interest over the public debt (30% of government spending), both total and domestic (15% of total public spending), and an increase of 34.5% in the budget funds allocated generically to other public spending? From a different angle, these barriers to growth ("crowding out" effect) become more significant when compared to non-oil tax revenue – it represented 102.7% of the interest on the public debt in 2019.

In other words, the State's fiscal dependence on oil revenues is increasing instead of decreasing. At the end of the day, it is worth noting two things: the growth dynamics and wealth creation (wages, profits, etc.) of the non-oil sector has not corresponded to what had been expected; the measures the State has adopted towards the diversification of the economy and the Tax Reform (I don't know if it has been finalized yet) have not produced the expected results.[101] Apparently, the statistics confirm it: non-oil taxation will rise from 4.7% of the GDP in 2014 to 7.9% in 2019, according to the IMF estimates.[102]

The State burden (public expenses and revenues) is still quite high in the Angolan economy. Any economy in the world (in a market economy system) has two elements: one which produces and generates added value (salaries, revenues, and profits), composed of the companies that need space and conditions to work; and the other one, composed of the public services, which does not produce and does not generate value (the State is not a production agent and the salaries of its employees and other expenses are covered through taxes, which represent an subtraction of the revenues created by families and companies, and must therefore constantly prove itself as a good intermediary between the economy and society in general). With a view to optimizing the application of scarce resources, the state should only incur public debt to cover investments in physical and human capital (necessary conditions for families and businesses to create value). The various services should be covered by normal revenues and increased efficiency.

In 2019, total public debt represented practically 107.1% of the GDP and 296.8% of the non-oil GDP[103] (if there were no oil, the Angolan economy would basically go bankrupt).

Once again, it is the dependence on oil and the inability of the national economy to create mechanisms and conditions that free it from harmful influences and promote growth on a systemic and systematic basis. It will be difficult to overcome the currency issue in the country (giving it the necessary stability to facilitate the operation of the non-oil economy) just by replacing imports, without considering its efficiency.

97 World Bank- Global Economic Prospects, January 2021.
98 However, everything points to this figure, given the information on the behaviour of the first semester, which pointed to an overall drop-in activity of around 7%.
99 In the National Development Plan 2018-2022, an average annual GDP growth rate of 3% between 2018 and 2022 is forecast, which necessarily drops to 1.96% if the 2018 recession is confirmed.
100 Economic Intelligent Unit, Angola Country Report, March 2021.
101 The businessmen (Angolan and foreign) complain about the police attitude of the AGT (General Tax Administration) agents in search of money at any price, when the production units are struggling with serious and diverse problems to guarantee production and jobs.
102 IMF Country Report Nº 18/370, of December 2018 entitled ANGOLA – Request for an Extend Arrangement Under the Extend Fund Facility.
103 IMF Country Report Nº 18/370, of December 2018 entitled ANGOLA – Request for an Extend Arrangement Under the Extend Fund Facility.

Foreign exchange savings due to the reduction of imports have limits given by the high imported component of the national production, which should be influencing (in a context where access to foreign currency is challenging) the growth capacity of the non-oil sector (0% in 2018 and 1.8% in 2019).[104]

On the other hand, non-mineral exports remain negligible, expected to reach a figure of only 2.4% of the GDP, or the equivalent of US$ 147 million in 2020. Including diamonds, the situation does not improve substantially (US$ 1100 million), to help fill the financing needs of the national economy, estimated at US$ 7248 million, segmented into current account deficit and external debt amortization.[105]

The Net International Reserves are expected to stand at US$ 8187 million in 2021 (over nineteen billion less than in 2014).[106]

According to the official assessment, the primary driving forces of the GDP growth until 2022,[107] will be final consumption (public and household) and gross fixed capital formation. Exports lose weight in these government projections since negative growth rates are set for both oil and gas production (on annual average - 2% for 2018-2022). As it is generally known, oil exports were for a long time the main factor driving the GDP and, despite the less optimistic expectations, they will remain so for some time yet (the introduction of other products in the export list requires time, entrepreneurial capacity to compete in foreign markets, and management of the triad price-quality-marketing). The GFCF (gross fixed capital formation) dynamic variation is established at 2.7%/year. The value attributed to its marginal efficiency (usually expressed by the ICOR, capital-output coefficient) is unknown. By assuming an average value of 2.75, total investment should vary by an annual average of 8.25% (for an average annual GDP growth rate of 3%). For final consumption (public and households) the 2018-2022 National Development Plan (NDP) establishes an average annual rate of variation of 3.1%. Considering the low value of the GDP per capita and its downward trend until 2022, this annual variation above 3% will have to be covered by the public spending, namely through public servants' salaries.

For the Government's objectives to be accomplished, the 2018-2022 NDP provides for several measures, mainly the following ones:

a) Reducing barriers to market entry and exit;
b) Promoting institutional and legislative changes that will improve and make it more effective and efficient the application of the competition policy;
c) Promoting competition through market regulation and oversight that discourage practices restricting competition and encourage diversification and economic development;
d) To promote the continuous improvement of the business environment, seeking to reinforce the attractiveness of the Angolan economy.

One of the underlying causes of BREXIT seems to have been the excessive bureaucracy and over-centralization of Brussels in determining economic policies and defining legal frameworks of mandatory compliance and apparently limiting the assertion of national policies to stimulate growth. It is worth noting that the British are the champions of liberal thinking and economic liberalism, in addition to being the creators of Economic Science (Adam Smith, David Ricardo, Malthus, and John Stuart Mill).

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104 In the same IMF report, the following rates for 2020 and 2021 are indicated: -4% and 0.4% for GDP and -2.9% and 2.5% for non-oil GDP, respectively.
105 IMF Country Report Nº 18/370, of December 2018 entitled ANGOLA – Request for an Extend Arrangement Under the Extend Fund Facility.
106 Exchange market stability can not only be assessed by the convergence of official and informal exchange rates, but also by the price at which foreign currency is obtained. Convergence with high exchange rates does not favor the acquisition of raw materials and intermediaries.
107 National Development Plan 2018-2022.

Angola also suffers from these ill effects, and surely the arrogance and nepotism of the bureaucrats, the excess of rules and regulations, of course, the endemic corruption and the buying and selling of privileges can be seen as some of the immediate and remote causes leading to the structural slowdown of the economic growth after 2009. It is not known whether the MPLA's leaders and rulers are aware of the costs that these institutional drifts cause to the country and to private investment (after all they were created by and in the MPLA during all these years of isolated governance - even during the coalition governments with UNITA their influence and dominance were absolute). The transfer of value from the state to the bureaucrats is not a factor of development, but only of enrichment and personal prestige. There are rather many studies out there on the harms of corruption and administrative-institutional nepotism across economies and social fabrics (IMF, World Bank, United Nations Economic Commission for Africa and according to certain estimates, the value of corruption in Angola back in 1997 was around 850 million dollars for a GDP of 7675 million dollars).[108] However, we are still waiting for convincing policies to eradicate these wrongdoings.

It persists a rather bizarre vision of reducing all national problems (social, economic, moral, historical ones) to mathematical equations from which are extracted policy measures deemed adequate and sufficient to solve them. Like the European Union, the historical and cultural differences across countries are underestimated, and where solutions to crises are reduced to programs aimed to decrease expenses and increase taxes, it has emerged in Angola bureaucrats and technocrats that offer technical solutions for all problems.

The most recent International Monetary Fund Reports (World Economic Outlook, April 2021, Regional Economic Outlook ASS April 2021, Fiscal Monitor April 2021, Global Financial Stability Report April 2021, to which one can add the World Bank Global Economic Prospects, January 2021) are relatively pessimistic about the future behavior of the world economy and all the regional spaces into which it is divided.

The negative effects of the Covid19 pandemic will continue to diminish the capacity of the economies to grow, and even vaccines - whose universal, regional, and within-country dissemination processes face inexplicable and unacceptable challenges, where corrupt and disruptive behaviors are discovered as to their acquisition, distribution, and application - may not be the panacea for the recovery of the growth dynamics.

The International Monetary Fund, in establishing its forecasts by 2026, is concerned about the weakness of the economic matrices and social systems of the most important world economies and it is fearful that the management of different economic recoveries will raise complicated problems and challenges, which are only partially manageable by 2026.

The performance of the world stock markets and other instruments of speculative nature may only eventually be able to offer valid and safe alternative after 2022 (despite some signs of recovery that should be interpreted with caution to safeguard possible investments). However, always in line with the world's ability to recover economic growth, which will be very different from country to country.

For example, the IMF states that sub-Saharan Africa faces increased risks to the resumption of its growth dynamics, due not only to the inertia effect of the period 2015-2020 (annual average GDP growth rate of 2%, in contrast to the years between 2003 and 20012, at 5.7%), but also to the weight of public debts. Therefore, *"The region would only return to pre-crisis income levels in 2024, one year later than in the baseline scenario"*.[109]

108 See Alves da Rocha "Por onde Vai a economia angolana?" (What is the fate of the Angolan economy?)
109 International Monetary Fund – Regional Economic Outlook, Sub – Sharan Africa, April 2021.

Financial aid in the plot of the fight against the pandemic and support of the economy will not be enough, given the inadequacies and weaknesses of the productive and institutional systems across sub-Saharan Africa, leading this institution to state "*Every year in sub-Saharan Africa, 20 million new job seekers enter the labor market. In the short term, providing employment opportunities for these new entrants is perhaps one of the region's most pressing policy challenges*".[110]

Neither South Africa nor Nigeria, the two largest sub - Saharan African economies, will be able, by 2024, to go to the rescue of the African Economic Area, as potential springboards for the expected re-take off.

ECONOMIC GROWTH RATE (%)

	2010-2017	2018	2019	2020	2021	2022	2026
Nigeria	4,2	1,9	2,2	-1,8	2,5	2,3	2,2
Ghana	6,8	6,3	6,5	0,9	4,6	6,1	5,4
Kenya	5,8	6,3	5,4	-0,1	7,6	5,7	6,1
Rwanda	6,7	8,6	9,4	-0,2	5,7	6,8	6,1
SSA	4,4	3,2	3,2	-1,9	3,4	4,0	3,8
Angola	**3,1**	**-2,0**	**-0.6**	**-4,0**	**0,4**	**2,4**	**3,7**

Source: International Monetary Fund – Regional Economic Outlook, Sub – Sharan Africa, April 2021

It is worth remembering that Kenya collects the same number of exports of flowers – one of its current productive areas - as Angola does in external sales of diamonds.

In the context of sub-Saharan Africa, Angola is not an attractive option for foreign investors in terms of future growth capacity (2.1% annual average for 2021-2026, far below the demographic growth rate, with a low domestic purchasing power and consequently low absorption capacity). The intensity of GDP growth is a strong incentive for foreign private investment, which, together with good business environments, are the decisive factors in attracting foreign capital. However, these arguments fail in Angola.

As for other alternative investment spaces, the following points are worth noting:

» The Euro Zone is in decadence, as it was strongly affected by the pandemic and economic crisis that struck several of its member countries after 2003. There are still some doubts about the possibility to give the Euro economy a relevant growth capacity again. It is due to the different dynamics of the GDP, even in a context of the EUR 750 billion Support Plan. Stock markets remain unstable, showing a general lack of confidence in the ability of economies to recover.

» The United States, with Joe Biden as a President, has injected trillions of dollars into the economy to recover the delays and the harmful effects of the Covid-19 pandemic.

» Japan, despite the strength of its economy (one of the most technologically innovative) continues sail across calm sea as far as growth dynamics are concerned. Its interest in Angola has been manifested and renewed in recent years. In the same way this country seems committed to disputing China's current dominance in sub-Saharan Africa. This Asian country has been losing relevance in GDP and world trade.

» The area designated "Emerging and Developing Asia" is the most vibrant on the planet, offering the best investment opportunities. The end or at least strong mitigation of the incidences of the health pandemic are making it possible to quickly restore the previous dynamics and to acquire other capabilities. It is the region of the world where international investments are and will continue to flow.

110 International Monetary Fund – Regional Economic Outlook, Sub – Sharan Africa, April 2021.

ECONOMIC GROWTH RATE (%)

	2003 - 2012	2016	2017	2018	2019	2020	2021	2022	2026
Euro Zone	0,9	1,9	2,6	1,9	1,3	-6,6	4,4	3,8	1,3
United States	1,8	1,7	2,3	3,0	2,2	-3,5	6,4	3,5	1,6
Japan	0,7	0,8	1,7	0,6	0,3	-4,8	3,3	2,5	0,5
China	10,5	6,9	6,7	6,7	5,8	2,3	8,4	5,6	4,9
India	7,9	8,3	6,8	6,5	4,0	-8,0	12,5	6,9	6,5
Emerging and Developing Asia	8,7	6,8	6,6	6,4	5,3	-1,0	8,6	6,0	5,4

Source: International Monetary Fund, World Economic Outlook, April 2021

The shift in the center of gravity of the world economy towards Asia has been confirmed, and the westernization of economic growth is also evident. Sub-Saharan Africa remains on the sidelines of this great movement of global transformation with an insignificant share in the world GDP and world trade. The major investments and the most visible growth opportunities will belong to the Asian economies.

Moreover, it seems to be a consensus, especially after observing that the Asian economies are the most resilient in the face of international financial crises and shocks, that the 21st century will be the Asian century. The 19th was the United Kingdom's, the 20th the United States' and now Asia's. It becomes an excellent indication for investors' choices.

WORLD ECONOMY WEIGHTS IN 2020 (%)

	Gross Domestic Product	Trade	Population
United States	15,9	9,7	4,3
Euro Zone	12,0	26,7	4,5
Germany	3,4	7,6	1,1
China	18,3	12,4	18,4
India	6,8	2,2	18,0
Russia	3,1	1,7	1,9
Sub-Saharan Africa	3,1	1,5	13,7

Source: International Monetary Fund, World Economic Outlook, April 2021

Besides the World Bank Report on the world business environment, a study carried out by the French insurance company COFACE[111] (Credit insurance for the export of goods and services),[112] at the beginning of this month, states that Angola is among the 10 countries of the world with no future. The reasons behind this statement are the following: worsening of the economic situation, high probability of political mistakes (very unstable political context due to the proximity of legislative and presidential elections), social recession leading to demonstrations and violent claims, and high uncertainty about the general and corporate financial situation. Together with Angola, are Mozambique, Cambodia, Chad, Haiti, Syria, Ethiopia, Mauritania, Uganda, and the Democratic Republic of Congo.

111 https://angola-online.net/notícias
112 For the Rating Agencies (Standard & Poor's, Moody's and Fitch), the country is considered an unadvisable zone for private investment.

7. Angola's Banking Situation

7.1 Introduction

The banking sector continues to be one of the most profitable, organized, robust and stable of the Angolan economy. The structuring of the sector has been marked by the level of profitability of assets and capital driven by foreign exchange exposure and the State's financing needs.

The emergence of Banco Angolano de Investimento (BAI) and Banco Comercial de Angola (BCA) in 1996, led to the emergence of a private banking sector.

Currently, there were already two public banks in operation: Banco de Poupança e Crédito (BPC) and Banco de Comércio e Indústria (BCI). This private banking sector developed and strengthened between 2001 and 2009 with the emergence of fourteen (14) more banks, in a context of greater openness of the economy (at this stage four bank were opened with foreign capital), high oil prices and high economic growth rates.

Since then, the fall in oil prices has produced challenges for the performance of the Angolan economy, and the Center for Studies of the Catholic University of Angola has been warning about the structural deceleration of the economy, which were amplified with the *subprime* crisis of 2008/2009. However, there were no bank closures in the country currently. On the contrary, the number has increased, reaching in 2017 the figure of twenty-nine (29) banking financial institutions operating in the Angolan financial system.

The trend of increasing numbers of banks in Angola registered a reversal with the dissolution of two private banks of Angolan capital in 2018 - BANCO MAIS and BANCO POSTAL - due to non-compliance with the provisions of Notice No 02/2018, which defined a new limit on the minimum share capital, having increased from Kz 2.5 billion to Kz 7.5 billion, and finally, the closure of BANCO BANC due to structural deficiencies.

The closure of the first two banks, which are still in liquidation, has been presented as a matter more of political convenience than one of prudential risk that the two institutions could pose to the market. Indeed, on the date when the cancellations of the banks' licenses were announced by the monetary authority, the banks presented Regulatory Solvency Ratios above the 10%, defined by the BNA through notice 02/2016 - and even above the average margin of the Sector. In addition to this, they were not presenting relevant market share that could endanger the development of the sector.

Thus, in the 2019 financial year, twenty-six (26) Banking Financial Institutions were in full operation, of which three (3) were state-owned - BPC, BCI and the Banco de Desenvolvimento de Angola (BDA), twenty-three private (23) Banks among which seventeen (17) are national companies and six (6) are foreign companies, according **to Table 1.**

TABLE 1: BANKING INSTITUTIONS OPERATING IN ANGOLA 2019

Acronym	Name	Start of activity	Capital control	Assets billion Kz	
				2018	2019
BCI	BANCO DE COMÉRCIO E INDÚSTRIA, PLC	1991	Public		
BPC	BANCO DE POUPANÇA E CRÉDITO, PLC	1991	Public	1.909.676,00	2.024.089,00
BDA	BANCO DE DESENVOLVIMENTO DE ANGOLA	2006	Public		
BCA	BANCO COMERCIAL ANGOLANO, PLC	1996	Private Domestic	59.862,00	93.470,00
BAI	BANCO ANGOLANO DE INVESTIMENTOS, PLC	1996	Private Domestic		
SOL	BANCO SOL	200	Private Domestic	532.261,00	602.708,00
BE	BANCO ECONÓMICO, PLC[113]	2001	Private Domestic		
BFA	BANCO DE FOMENTO ANGOLA, PLC	2002	Private Domestic	1.703.728,00	2.195.058,00
KEVE	BANCO KEVE, LTD	2003	Private Domestic		
BMF	BANCO BAI MICRO FINANÇAS, PLC	2003	Private Domestic	14.844,00	21.289,00
BIC	BANCO BIC, PLC	2005	Private Domestic		
BNI	BANCO DE NEGÓCIOS INTERNACIONAL, PLC	2005	Private Domestic	301.158,00	377.772,00
ATL	BANCO MILLENNIUM ATLÂNTICO, PLC	2006	Private Domestic		
BKI	BANCO KWANZA INVESTIMENTO, PLC	2007	Private Domestic	14.805,00	10.432,00
BCH	BANCO COMERCIAL DO HUAMBO, PLC	2009	Private Domestic		
BVB	BANCO VALOR, PLC	2010	Private Domestic	45.502,00	64.275,00
YETU	BANCO YETU, PLC	2013	Private Domestic		
BPG	BANCO PRESTÍGIO, PLC	2013	Private Domestic	28.711,00	41.170,00
BIR	BANCO DE INVESTIMENTO RURAL	2013	Private Domestic		
BCS	BANCO DE CRÉDITO DO SUL, PLC	2015	Private Domestic	59.203,00	106.798,00
BOCLD	BANCO DA CHINA LIMITADA – Luanda Branch	2017	Private Foreign		
SCBA	STANDARD CHARTERED BANK- ANGOLA	2013	Private Foreign	45.050,00	51.085,00
BCGA	BANCO CAIXA GERAL ANGOLA, PLC	2002	Private Foreign		
VTB	VTB BANK AFRICA, PLC	2006	Private Foreign	91.709,00	184.705,00
FNB	FINIBANCO ANGOLA	2007	Private Foreign		
SBA	STANDARD BANK- ANGOLA, PLC	2009	Private Foreign	443.247,00	606.237,00
TOTAL				**12.666.374,00**	**14.102.312,00**

Source: BNA (Angola National Bank)

This performance may have contributed to the performance of the Gross Value Added (GVA) associated with the Financial Intermediation and Insurance sector, which in real terms has contracted by 7.2%, according to Quarterly National Accounts data for Q4 2019, a performance that compares with the 5.3% growth for the year 2018. In structural terms, the sector saw its weight in total GVA fall from 1.5% to 1.4%. The economic significance of the reduction in GVAs is better perceived when the performance of each component of the ratio is assessed.

Firstly, the sector's performance was characterised by the reduction in profitability of the main items on the banks' balance sheets - the claims rate, reduction in the attractiveness of Public Bonds, maintenance of the BNA's restrictive monetary policies, reduced dynamism of the Interbank Monetary Market and introduction of the International Financial Reporting Standards, namely (IFRS-9) -, in line with the challenging conditions that the economy is going through.

Secondly, the performance is justified by the deceleration of sectoral GVA above total GVA.[114] The actual economy in this period contracted by 0.6% far below the 7.3% GVA of the Financial Intermediation and Insurance sector. This fact may have put pressure on the sector's GVA share above the other sectors that showed a less challenging reduction.

113 Banco Económico did not present the Report and Account for the financial year 2019 until the end of 2020, so it was not possible to include it in the assessment of the sector.

Regarding the staff working in the banking sector in 2019, it settled at 20,204[115] thousand people. The level compares with 22,253 thousand in the year 2018. Against the background of high unemployment levels, the banking sector remained relatively stable in maintaining and creating new jobs in the sector.

Regarding the number of branches in operation, close to 2,026 branches were available in 2018. Compared to the 2,102 in the year 2017, it represents a reduction of 2.7%. This downward trend may have continued in 2019[116], where among the 19 banks that provided data in their Report and Account there are close to 1,691 branches.[117] The closure of the activities of Bank Mais, Banco Postal and Bank BANC may have contributed to the fall in the number of bank branches in 2019.

In parallel, the change in the business model from a more traditional matrix to a more digital model brought consequences. It has contributed to a downward adjustment in the sector's operating costs and in the number of branches across the country, with particular emphasis on the areas of the country with high maintenance costs and low population density.

It is noteworthy that until the 1st Half of 2019, the provinces of Luanda, Benguela, and Huíla, with a share of 51%, 8% and 5%, respectively, concentrated the largest number of branches and bank branches in the country. This performance is in line with the concentration of economic activity and population that is seen in Luanda, Benguela, and Huíla. Therefore, such a pattern is curbing the development of the banking activity and could condition the country's financial inclusion strategy.

At this point it is worth highlighting the positioning of BPC, which, in line with its corporate purpose, has maintained a permanent presence in almost all municipalities in the country, having in 2019, close to 394 available bank branches and bank offices – it is above the 391 the bank had back in 2018, but below the 450 branches recorded in 2017.

The implementation of the Regeneration and Recapitalization Program of the Banco de Poupança e Crédito (BPC) may change this trend and compromise the process of financial inclusion - seen more from a perspective of the accessibility to the banking services, both by the number of branches per person and by the availability of ATM ́s and TPA ́s per 100,000 adults - and the maintenance of the economic activities of the localities where the branches will be closed.

The level of financial inclusion of the population is following a growing trend (even though the number of branches is following an opposite direction) due to the new business model associated with the technological solutions, such as *mobile banking and internet banking,*[118] these solutions have advised not to invest in fixed infrastructure, in favor of investing in a more virtual infrastructure. According to the National Financial Stability Council (CNEF), 49% of the adult population in Angola has access to a transactional account.[119]

114 Data from the National Accounts for the 2nd Quarter of 2020, published by the Angolan National Institute of Statistics

115 The figure comprises only of 21 banks that have submitted their Reports and Accounts for 2019

116 The BNA's Financial Stability Report for the first quarter of 2019 indicated that there were 1,619 branches and agencies spread across the country.

117 The following are the banks that did not disclose their data: Banco Económico (has not yet published the Annual Report and Accounts for 2019. Banco Kwanza Invest; Banco Prestigio; Banco Valor; Banco Keve; Standard Chartered Bank.

118 The development of cryptocurrencies has produced challenges about the future of coins and the means of international payments. The Bank for International Settlements, together with the main central banks - the Federal Reserve, the European Central Bank and the Bank of England - have produced a relevant paper, noting the central banks' initiatives to establish the Central Bank Digital Currency CBDC. The National Bank of Angola, according to a statement from its governor, has followed the world trend and is preparing its legislation to ensure security in the introduction of CBCDs in the national payment system.

119 National Financial Stability Council: Strengthening Financial Capacity and Inclusion in Angola. A Demand-Based Inquiry. Angola July 2020.

7.2 Reforms in the sector

Changes in legislation associated with macroeconomic adjustments in the country have influenced the performance of the banking sector, without leading a process of business models change more consistent with the needs of the real economy.

The Macroeconomic Stability Plan disclosed in 2017 defined the stability of the financial system as one of its pillars, having established the following fundamental axes:

- » Ensure a stable and solvent financial sector by promoting the safety and soundness of individual financial institutions, reflected in the reduction of non-performing loans;
- » Ensure that the Financial Sector follows existing legislation and regulation;
- » Ensure effective implementation of the legal and regulatory framework on Anti-Money Laundering and Terrorist Financing given the recommendations of the Financial Action Task Force (GAFI/FATF);
- » Develop a legal and regulatory framework for bank resolution;
- » Increase the penetration of the Financial Sector in the economy to support Economic Development and the Diversification Policy;
- » To attain those objectives, the Angolan government has presented a set of measures with the technical support of the International Monetary Fund, among which the following stand out:

- › The BNA's request for a capital reinforcement from 2.5 billion AKz to 7.5 billion Kz, through Notice on 02/2018, having precipitated the closure of three banks, namely, the *banco BAN*C, the *banco POSTAL*, and the *banco* MAIS;
- › The Asset Quality Assessment of 92.8% of the total assets of the banking sector - about 13 banks - as of December 31, 2018, with the process ending with a positive assessment of the same, where the BNA noted the robustness of the banking sector, with 93% of the adjustments being recommended to Banco de Poupança e Crédito and Banco Económico that that they should regulate the prudential limits by 30 June 2020;
- › BNA's guidance to commercial banks to conduct robust stress tests aligned with the main market risk variables, in order to assess the robustness and need for (re)capitalisation and introduction of additional measures to ensure the solvency of the system;
- › The launch of Recredit for the acquisition and recovery of BPC credits, with the banking institution disclosing the effective recovery of 4.2% of the debt portfolio of 1.118 billion AKz.
- › And throughout 2019, the Government, the National Assembly and two of the financial system's regulators - the National Bank of Angola and the Capital Markets Commission - pushed through a set of regulations that impacted the performance of banking financial institutions, with highlights including:
    - o BNA Notice no. 03/19, of 28 March, which establishes the Maximum Limits for Commissions and Expenses charged for transactions in foreign currency defines the currency in which said commissions are to be charged;
    - o BNA Notice no. 04/19, of 3 April, which determines the granting of Credit by Financial Banking Institutions to produce essential goods that present supply deficits of national production;
    - o BNA Notice no. 05/9, of 30 August, establishing the general principles to be observed within the scope of the Accounting Standardisation and Harmonisation process by the Angolan Banking Sector;
    - o BNA Notice no. 10/19 of 6 November which lays down the rules and procedures to be observed in the purchase of foreign currency for foreign exchange operations by individuals;
    - o BNA Notice no. 11/19, of November, which establishes the Maximum Limits for Commissions and Expenses charged for transactions in foreign currency in certain operations;
    - o BNA Instruction No. 08/2019 of 27 August on Impairment Losses for the Credit Portfolio;
    - o BNA Instruction no. 12/2019, of 28 August, on Securities;

- BNA Directive No. 005/DSB/DRO/2019, of 20 May, on credit design information through the SSIF - System for Supervision of Financial Institutions;
- BNA Directive no. 06/DCC/DMA/2019, 05 July, on Import documentary credit/allocation of Plafonds by BNA/Terms of access conditions;
- Law No. 02/19, of 27 March, which approves the Legal Regime of Guarantee Funds of Managing Companies of Regulated Markets of Central Counterparty Clearing House and Centralized Securities System;
- Law no. 04/19, of April, amending articles 1, 5, 11, 13, 14, 16. 17º. 18º. 58º, 59º, 66º, 71º and 75º of Law nº 19/14, of 22 October that approves the Industrial Tax code;
- Presidential Decree No. 92/19 of 25 March, which approved the Financial System Development Project for the period 2018-2022;
- Presidential Decree No. 159/19 of 17 May. The document approved the Credit Support Project - PAC;
- Presidential Legislative Decree no. 05/19 of 2 May, establishing the Principles and Rules regarding the constitution and Management of the Guarantee Fund of Regulated Market Management Companies,
- Clearing Houses or Central Counterparties and Centralised Securities Systems; Presidential Legislative Decree no. 06/19 of 2 May, establishing the Legal Regime applicable to Transferable Securities of a Monetary Nature, called Commercial Paper.

This set of developments has improved the image of the national financial system among its customers, shareholders and the regulator, which has been presented as a necessary condition for the sector's development and solidity. In parallel, it is an effort that has sought to align itself with international best practices.

In this regard, it is worth highlighting the effective implementation of the legal and regulatory framework on AML/CFT, given the FATF/GAFI recommendations, necessary to regain the confidence of the international community and effectively re-establish the relations of national banks with their international banking correspondents.

7.3 Structure and management of the banks' balance sheet in 2019

The composition of the banks' balance sheet recorded a slight change in its structure which may be in line with the challenging macroeconomic environment that the Angolan economy has been going through since 2014, without, however, giving indications of a change in the business model that exposes it more to the real economy to the detriment of financing to the State.

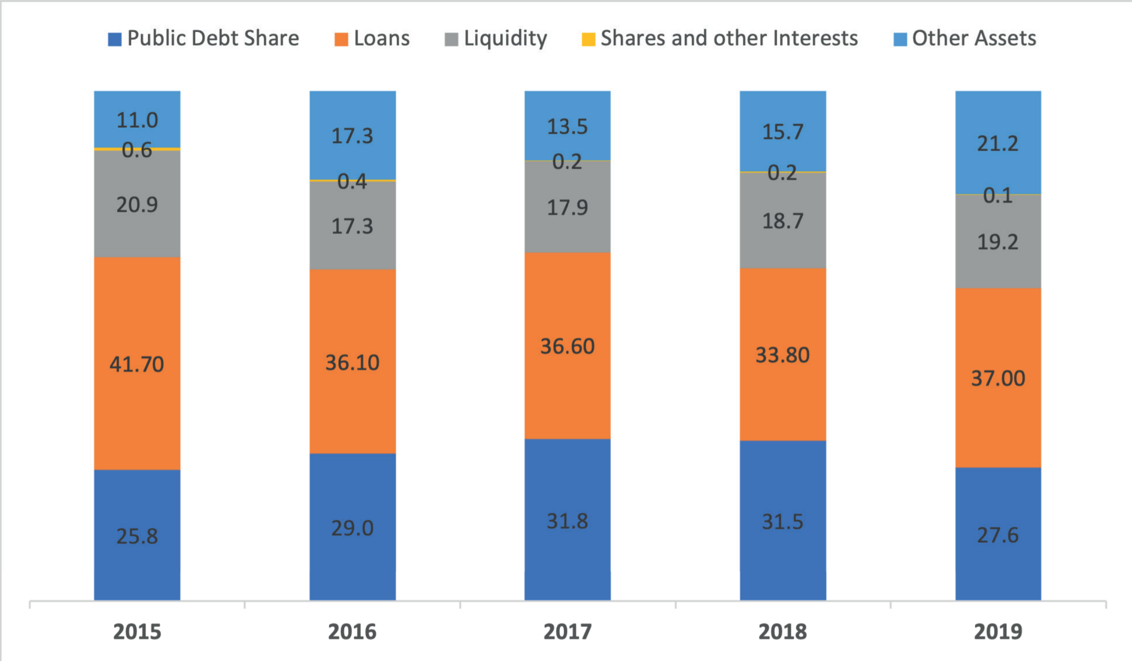
By December 2019, banks had assets valued at Kz 18.390[120] billion, a lower amount when compared to Kz13.710 billion in 2018. This performance represents a nominal increase of 34.1%, the largest nominal increase in the BNA's historical series that began in 2011, which is mainly a reflection of the exchange rate depreciation recorded in the period.

In terms of structure, graph 01 shows the evolution of the composition of the system's assets as a percentage of total assets. According to BNA statistics, the weight of the "Cash/Net Assets" item stood at 19.2%, which when compared to the previous period represents an increase of 1.9 p.p.

120 Data from the 26 banks operating in the banking sector by December 2019

Regarding "Loans" to the economy stood at Kz5,879.92 billion, representing 32.0% of total assets and a 1.8 p.p. drop from the 2018 record. On the other hand, "Debt Securities" represented 27.6%, a reduction of -3.9 p.p. in the banks' balance sheet structure, to reach Kz5,070.71 billion.

CHART 01: CHANGES IN BALANCE SHEET ITEMS AS A % OF TOTAL ASSETS



Source: BNA (Angola National Bank)

Regarding the size of the sector, it should be noted that the total assets of the Angolan banking sector represent 59.6% of 2019 gross domestic product (GDP), an increase of 8.8 p.p. when compared to 2018, which reflects the nominal increase in assets of 34.1%, above the nominal GDP growth of 14.3%.

According to BNA statistics, in this period, of the assets of the 26 banks operating in the system, Public Debt Securities represented 27.6% of the total assets of the system, a reduction of 3.9 p.p. a performance that does not represent the structural change in the business model of the banks that is necessary to guarantee the sustainability of the activity and improvement of financial intermediation in the economy.

The downward adjustment is due to increases in Other Assets in the banks' balance sheet structure and not to the deceleration of investment in Public Debt Securities by the banks. The maintenance of the institutions' position in relation to investment in Public Debt Securities has been justified by the need for more cautious balance sheet management, based on holding assets with greater liquidity, greater profitability and less risk. And because of the shallowness of the national financial system and reduced offer of investment alternatives in the market, Public Debt Securities have been the banks' main investment instrument in a context of high credit default.

And this strategy has found space as the Government presents considerable gross financing needs that, on the one hand, drive the definition of restrictive monetary policies in favor of Government Bonds and, on the other hand, take away profitability and attractiveness in the credit market. Holding government bonds, besides being secure against, for example, the granting of credit, has proven to be profitable and, at the same time, more liquid considering the depth of the secondary public debt market in Angola (BODIVA).

The Other Assets item, in the banks' balance sheet, represented 21.2%, an increase of 5.5 p.p. compared to 2018, having stood at Kz 3,893.23 million. This asset category includes real estate, and its volume has been growing due to the process of giving away collateral as a result of the high level of credit defaults in the sector. Because much of the credit in the economy has been approved based on collateral associated with real estate, its default has been enforced through the seizure of those assets that have been entered on the balance sheets of banks. This positioning has contributed to a reduction in the quality and liquidity of banks' assets.

This situation has led to a continuous revaluation of assets and the corresponding definition of impairments, diverting considerable resources from the investment strategy and penalising the distribution of dividends and the payment of the banking institutions' tax obligations to the State and their shareholders.

To resolve this issue, the BNA, through Notice no. 03/2020 on limits on institutions' fixed assets, determined that banks should dispose of the same assets, whereby the total resources invested in fixed assets, net of depreciation and amortisation and accumulated impairment losses, less financial holdings, cannot exceed 50% of the amount of Regulatory Own Funds.

The big challenge has to do with the weak depth in the real estate market - there is an excess of supply in the market and pent-up demand, due to the sharp drop in the price of a barrel of oil, which served as the basis for substantial growth in the sector in the pre-crisis period - in recent times, in a context where the deadline for banks to comply was 31 December 2020.

Again, in the structure of banks, 2019 marked a significant reduction in the weight of the item "Loans" to customers by 1.8 p.p. in annual terms and 9.7 p.p. when compared to 2015, to 32% of total assets and 19.1% of GDP. The reduction was determined even though total credit grew by 26.9%, with the private sector concentrating 90.3% and the public sector 9.7%, an increase and reduction of 1.8 p.p. and 1.7 p.p., respectively.

From this perspective, the concentration of loans changed substantially, with the banks with the largest assets holding 68.9% of loans to customers, which can be explained by the fact that BAI and BFA, two of the largest banks in terms of assets, hold a loan portfolio of only 16.9% and 12.4%, respectively.

This positioning, which has been shown to be positive for the performance of the two banks - in terms of results - has penalized credit to the economy and, consequently, the increase in fixed capital and the real growth of the economy.

The balance sheet structure of these two banking institutions should be read, firstly, as a prudent position in the current economic climate. Secondly, as a strong opportunity to be explored in the sector, where a repositioning of the BFA and BAI business model may produce significant results in the credit market, both in terms of the quantity of credit available and its cost.

This positioning may be accelerated, provided that the macroeconomic stabilization process and fiscal consolidation is effective and public bonds become less attractive. But it is worth noting that this is the position of most banks in the country, that a greater exposure of banks' balance sheets to credit also requires a change in the economic structure and an increase in entrepreneurship so that the quality of bank assets is not penalized, as it has been in recent economic years, with particular emphasis on public banks.

For the first case, Angola's economic structure, the concentration of the stock of credit in the trade sector stands out due to its heavy dependence on imports, which has resulted in considerable challenges arising from exchange rate depreciation. At the same time, the high level of informality in the economy has undermined the competitiveness of the formal sector and put pressure on the profitability of investments in the real sector of the economy, while the limited structural transformation has penalised the productivity of sectors other than oil and trade.

Regarding entrepreneurship, the banking sector has been showing strong concerns regarding the weak capacity to present investment project studies that are robust, integrated, sustainable, and that are aligned with the risk profile of commercial banks - Management team, capital structure, activity sector, track record in the Financial Information Centre, etc. - and are economically and financially viable.

This has led many banks to rationalize credit - setting annual quotas for consumer, housing and productive investment loans - making it eligible to a defined niche of customer without meeting the needs of market demand. This positioning of the banks has resulted in the exclusion of a relevant niche of companies from credit and increased inequalities in access to credit in the sector to the detriment of Micro, Small and Medium Enterprises.[121]

However, during 2019, a relative change in the structure of the credit stock began to be seen, with manufacturing industry representing an increase of 0.05 p.p. over the previous period to 7.86%, as can be seen in table 02. The trend may reflect the efforts undertaken by the Government through the definition of the financing conditions of the Credit Support Programme (PAC) and BNA Notice no. 04/2019.[122]

TABLE 02: DELINQUENCY WEIGHT OF THE STOCK OF CREDIT BY BRANCH OF ACTIVITY %, 2015-2019

Business lines	2015	2016	2017	2018	2019
Agriculture, Animal Husbandry, Hunting and Forestry.	4,81%	6,09%	5,71%	4,97%	5,21%
Fisheries	0,24%	0,27%	0,38%	0,39%	0,37%
Extractive Industry	1,71%	1,93%	1,80%	1,82%	3,11%
Manufacturing	8,71%	7,20%	7,11%	7,81%	7,86%
Prod. and Distribution of Electricity, Gas and Water	0,50%	0,74%	0,87%	0,56%	0,40%
Construction	11,72%	12,06%	11,97%	12,11%	13,03%
Wholesale and Retail Tradew	20,25%	23,62%	23,83%	22,29%	22,06%
Hospitality and Catering (Restaurants & Similar)	1,91%	2,29%	2,56%	2,05%	1,90%
Transport, Warehousing and Communications	1,47%	2,00%	2,29%	2,94%	3,46%
Financial Activities, Insurance and Pension Funds	1,71%	2,16%	3,50%	2,15%	1,01%
Real Estate, Renting & Business Services	13,87%	13,98%	14,84%	16,21%	13,73%
Education	0,28%	0,52%	0,36%	0,40%	0,56%
Health and Social Welfare	0,32%	0,39%	0,44%	0,54%	0,53%
Other collective, social and personal service activities	14,40%	11,76%	10,77%	11,50%	11,78%
Households with housekeeper(s)	0,12%	0,02%	0,01%	0,00%	0,26%
International Organizations & Other Extra-territorial Institutions	0,01%	0,01%	0,01%	0,00%	0,00%
Private individuals	17,96%	14,96%	13,55%	14,26%	14,72%

Source: BNA (Angola National Bank)

On the other hand, as can be ascertained, commercial activity continues to concentrate more than 22% of credit stock in the market, which, jointly with Real Estate, Renting and Business Services and Construction, concentrates more than 48.83% of the total credit stock in the sector, which is symptomatic of the structural deficiency of the economy, fundamentally the non-oil sector, which has been highly concentrated in the services sector, but with very low productivity levels in the primary and secondary sectors of the economy.

121 As an example, in the BNA reports on the impact of COVID-19 on Micro, Small and Medium Enterprises of July, August, September and October 2020, more than 80% of the businesses surveyed responded that they did not have access to any financial support from commercial banks.
122 Notice no. 04/2019 was updated by Notice no. 10/2020 of the BNA.

The Agriculture, Animal Production, Hunting and Forestry sector does not yet have a considerable expressiveness in the stock of credit that would give it the status of a catalyzing sector in the process of structural transformation of the economy. Their specificities combined with low productivity rates, low level of mechanization and a poor definition of land rights have excluded significant investment projects from access to bank financing.

The Programme to Support Production, Export Diversification and Import Substitution - PRODESI, by selecting 54 products to benefit from favorable conditions in access to bank credit, may lead to an increase in the weight of the agricultural and manufacturing sectors in the stock of bank credit to the detriment, fundamentally, of the trade sector.

Nevertheless, this positioning has produced distortions in the credit market that include the reduced freedom that economic agents must identify business opportunities outside the sectors defined in the PAC/PRODESI, while the banks have been forced to embark on a tide of uncertainties that may translate into real risk for banking activity and boost accident levels in the sector in the medium term.

It should be noted that this behaviour, which is to be imposed on the credit market, had already been seen before the present legislature, where in the act of credit evaluation, the viability criteria evaluation mechanisms were always disregarded in benefit of political party favours, camaraderie and cronyism, which proved to be disastrous in state-owned banks such as the Banco Espírito Santo - now the Banco Económico - and the BPC, where the reorganization of the latter has been extremely costly to the government and has penalised the performance of the banking sector and the image of the country's financial institutions.

About more liquid assets, in the balance sheet structure, these showed a positive performance, having increased by 37.1% over the previous year, with Kz 168.828 million representing the amount available in cash, whilst the remainder are deposits on non-residents at the BNA of Kz 1,601.95 billion and Kz 1,754.32 billion, respectively.

TABLE 03: BALANCE SHEET OF THE FIVE LARGEST BANKS IN THE SYSTEM IN TERMS OF ASSETS

Balance sheet composition	ATL	BAI	BFA	BIC	BPC	Aggregate
Availability	8,6%	19,5%	13,8%	8,2%	7,1%	57,3%
Liquidity Investment	0,8%	31,0%	22,5%	7,2%	7,4%	68,8%
Securities	13,0%	18,8%	20,6%	16,0%	9,3%	77,7%
Customer credit	16,7%	16,9%	12,4%	21,3%	1,6%	68,9%
Other Assets	14,5%	8,0%	3,1%	2,4%	59,4%	87,5%
Total assets	11,4%	18,7%	15,6%	12,3%	14,4%	72,4%

Source: Calculations based on data from banks' Reports & Accounts

The structural change in the banks' balance sheets has not failed to maintain the degree of concentration of assets in five (5) of the largest banks, a relatively stable level in relation to the previous period, holding 72.4% of the system's total assets.[123]

123 The data of Banco Economico data have not been accounted for.

Banco Angolano de Investimentos (BAI) with a 18.7% share of assets is the largest bank in terms of assets, followed by Banco de Fomento Angola (BFA) and Banco de Poupança e Crédito (BPC) with a share of 15.6% and 14.4%, respectively. Banco Internacional de Negócios (BIC) and Banco Millennium Atlantico come next with a share of 12.3% and 11.4%, respectively. This level of concentration has produced challenges in terms of market management and the prospects for the development process of the Angolan financial system, since the institutions have considerable negotiating power and the capacity to lead/delay the structural changes desired in the sector.

Firstly, because they maintain a very high systemic risk. Notwithstanding the fact that the BNA, with the technical support of the International Monetary Fund, carried out and successfully concluded the Asset Quality Assessment (AQA) of the three (3) largest banks in the system and found them to be globally robust, two of the largest banks, BPC and Banco Económico, presented 93% of the recommended adjustments. Still, a negative performance among the largest banks may require substantial efforts on the part of public authorities - in line with what has been seen with the PBOC - in order to keep the sector salvageable and reliable and avoid bankruptcies in the sector.

Secondly, concentration limits the ability of the monetary authority to manage regulation. The definition of macro-prudential management policies is strongly linked to the development and depth of financial markets. And regulators tend to get stuck in the *"Too Big to Fall"* idea and do not impose discipline on the less positive behaviour of banks with systemic relevance in the market, which to a certain extent has penalised the development and deepening of banking intermediation activities in the country, especially retail banking.

Thirdly, the level of concentration penalises the performance of other banks with less funding, which have in the Interbank Monetary Market a funding alternative - both through the amounts made available and the costs of acquiring liquidity - but which are very limited and conditioned to the strategic positioning of the few banks that concentrate a large part of the sector's liquidity and have little interest in deconcentrating it[124].

It is also worth highlighting the fact that in **Table 01** the five banks hold 77.7% of the Securities portfolio in the system. This concentration has contributed to their positive results but could be a destabilizing factor in a context of potential inability of the State to honor its responsibilities.[125] This vision began to weight on the BNA's decisions, and throughout 2019 it took revealing measures[126] to increase the deconcentration of liquidity in the sector and boost the dynamism of the Interbank Money Market.

Even so, commercial banks maintained a prudent positioning in the management of their balance sheets in line with the growing perception of short-term risk in the economy, driven by the slowdown of the economy, increased level of public indebtedness, reduction in the level of profitability of private business sector activity, high levels of unemployment and consequent low purchasing power.

124 The introduction of the BNA Custody Fee has brought a certain order to this pattern and has produced positive results in the reconcentration of liquidity and put significant pressure on the Luibor rates in the Interbank Monetary Market. At the same time, it is fundamental in reducing the BNA's intervention in providing liquidity to banks in difficulty.

125 Moody's rating revision has raised the probability of default on public debt and consequently the need for commercial banks to reinforce the impairments to the State's credits. This position was regulated by Notice 21/2020, which defines a three-year period for deferral of the recognition of impairments for Angolan Public Debt Securities. This could help reduce bank losses in a potential recapitalization need for the most exposed and least liquid banks.

126 The reduction of the level of foreign exchange exposure from 5% to 2.5% in 2019 and the introduction of the Custody Fee in 2020 have produced satisfactory results, both in access to liquidity for banks with deficiencies in primary deposit-taking, as well as in the costs of acquiring them. These facts have contributed to the reduction of the Luibor rates practiced in the IMM (Interbank Monetary Market). And here it is worth pointing out that the evolution of the Luibor is fundamental for the evaluation of risks and the setting of interest rates when fixing interest rates on loans to individuals and companies. And now, with the introduction of the forward foreign exchange market, this positioning of the BNA may contribute to a smaller depreciation of the exchange rate

In parallel with the challenging conditions that the banking sector is going through, arising from the levels of default in the sector, the adoption of International Accounting Standards/International Financial Reporting Standards, the definition of a set of minimum commission-free products and the loss of banking correspondents have contributed to the cautious positioning of balance sheet management.

This is associated with the BNA's restrictive monetary policy, which has removed considerable liquidity from the economy and forced the banks to manage their balance sheets more prudently, in a strategy that involves maintaining regulatory solvency levels, whilst at the same time keeping the most profitable assets in their investment portfolios.

7.4 Composition of Liabilities

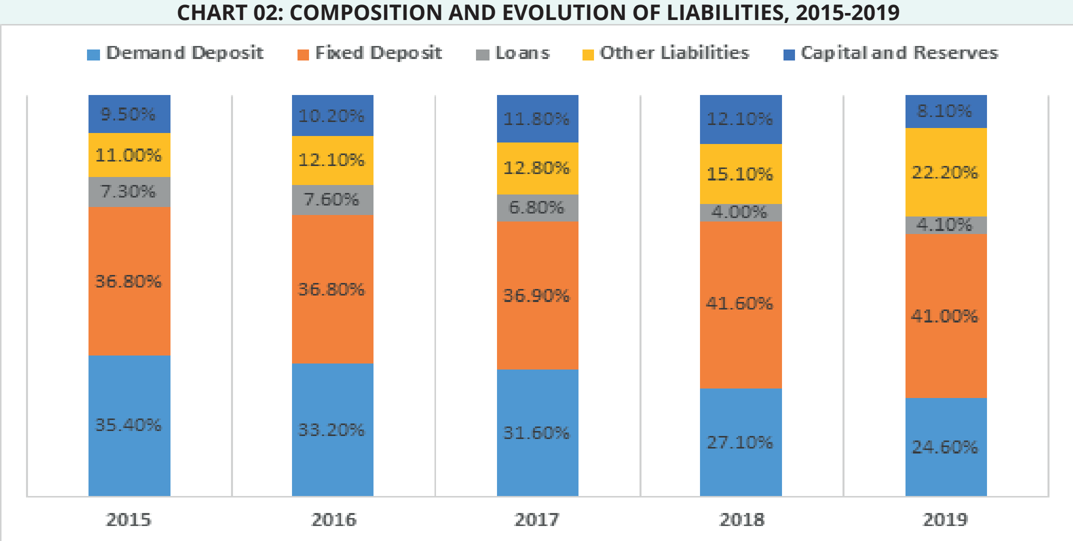
The evolution of liabilities in 2019 can be validated in chart 02 where each item is classified as a percentage of total liabilities and the difference compared to 2018 is in percentage points (p.p.). According to BNA statistics, the weight of time deposits stood at 41.0%, a reduction of 0.6 p.p. when compared to the previous year.

In turn, demand deposits represented 24.6% a level 2.5 p.p. below the 2018 record, while "Loans" held a weight of 4.1%, which represents an increase in the structure of liabilities of +0.1 p.p. compared to 2018. At the same time, "Other liabilities" stood at 22.2%, an increase of +7.1 p.p. Finally, the item "Capital and Reserves" was 8.1%, a significant reduction of 4 percentage points.

Clearly that in this evolution, the fall of Capital and Reserves stands out, which, with the positive results of 2016, 2017 and 2018, associated with the increment of minimum capital required by the BNA from Kz 2.5 billion to Kz 7.5 billion in 2018, has gone from 9.5% to 12.1% in 2018. The slowdown in results witnessed in 2019, coupled with the need for considerable impairments, could start to raise the need for further recapitalisation or adjustment of banks.

Many of the financial intermediation services of banking institutions were carried out in liability management. The process of financial intermediation, seen from the perspective of the volume of gross business (Deposits + Gross Credit), becomes increasingly challenging in the context of a crisis of confidence in the act of granting credit and the demobilisation of resources, fundamentally, of deposits in foreign currency of the State that has been reducing, having fallen from USD 10,280 million in December 2015 to USD 5,016 million in December 2019.

CHART 02: COMPOSITION AND EVOLUTION OF LIABILITIES, 2015-2019



Source: BNA (Angola National Bank)

In parallel, the still low penetration rate of financial intermediation services,[127] the country's low rate of bankarisation, the low level of literacy and financial inclusion, the high level of informality in the economy, the high rates of poverty and social exclusion and the high level of concentration of deposits have justified the reduction in the levels of deposit-taking in the private sector, with their weight in the structure of liabilities having decelerated from 69.5% in 2013 to 53.7% in December 2019.

Each of the factors that has put pressure on the evolution of deposits in the system deserves particular attention and should be better discussed with the publication of the BNA's Financial System Stability data for Q2 2019. However, the following is worth highlighting:

By December 2019, the number of accounts opened in the banking system[128] was set above 9.4 million,[129] in a country of more than 30 million inhabitants. Much of this performance continues to reflect reduced financial penetration due to a banking culture that has distanced itself from the reality of families and businesses. This has led to the maintenance of a relevant level of financial exclusion.[130]

There is still a large part of the population that is excluded from the benefits of financial intermediation services since it is presented from a very urban and elitist perspective, where business models such as the BPC or microcredit institutions with weak penetration capacities have been replaced by a more traditional intermediation model focused on attracting clients with robust income levels.

In this regard, many banks have begun to change their strategic positioning and to carry out campaigns to raise awareness and massify the opening of bank accounts. However, this effort has been strongly conditioned by the legal procedures necessary to meet compliance measures and related regulations to counter money laundering and terrorist financing. This issue has been embraced with great responsibility by banks and has been translated into internal procedures from the identification and validation of documentation such as the identity of the client - Identity Card - location, sources of income, etc., in order to carry out any financial operation, and a relevant part of the population that still does not have an Identity Card has been excluded from the benefits of obtaining a bank account.

However, the introduction of technological solutions, such as Mobile Banking, Internet Banking, have produced encouraging results and could be boosted through a greater and better articulation between the banking intermediaries and the companies that own the telecommunication infrastructures, which in the meantime are beginning to present an appetite to enter the market by providing financial intermediation services.[131]

Another structural factor that has penalised the increase in banking in the country lies in the inability of the banks to offer financial products that meet the needs of the informal economy. And the BNA's opening of the public tender for the concession of the Automatic Settlement Platform, associated with the release of automatic operations, has been a clear indication of the need to achieve greater penetration of financial services.

127 According to a statement by the Governor of the BNA, Dr. Massano Júnior, made on the sidelines of the lunch conference promoted by the Rumo Media Group, on 15 December 2020, the bank usage rate was set at 49%

128 Data relating to 18 banks in the system.

129 It should be noted that the number of active bank accounts in the system should not be understood as the number of customers, since there are customers with two or more accounts in the same bank and in other banks.

130 According to BNA's Financial Stability Report for the first half of 2019, the Financial Inclusion Index showed a reduction of 1.5 p.p. when compared to the same period of the previous year, standing at 10.83%

131 UNITEL, a company in the telecommunications sector, obtained its first financial intermediation license from the BNA.

7.4.1 Deposits in the system

At 11,471.97 billion Kz, deposits represented 62.4% of the bank's total liabilities, having grown 32.6% over the previous year, which makes them the main source of funding for financial intermediation in the country, in a context of low purchasing power of families and low levels of public and private savings.

Deposits in national currency continue their upward trend, having grown 14.7% to Kz4,434.08 billion. The amount represents 14.4% of 2019 GDP slightly above the 14.3% of 2018, however far below the 25.2%, 24.9%, 20.2% ascertained in 2015, 2016 and 2017, respectively.

This positioning may be contributing to the positive results of the banking system in a challenging environment for most sectors of the economy, as in addition to favorable maturities, banks maintained positive financial margins in most maturities.

With the worsening liquidity conditions in the market, banks presented interest-bearing deposits at more attractive rates, while at the same time they had to adjust their lending rates downwards, which translated into a reduction in the bank spread, down from 27.3 p.p. in December 2018 to 20.35 p.p. in December 2019.

In this regard, it is worth noting that the interest rates for deposits in foreign currency showed a diverging trend, with the shortest maturity - Deposits of up to 90 days and between 91 and 180 days - falling by 0.49 p.p. and 0.45 p.p. as a result, the figures are 1.41% and 1.78%, respectively. For the longer-term maturity - Deposits with an agreed maturity of 181 days to 1 year and over - the increase was of 0.21 p.p. and 1.77 p.p., standing at 2.47% and 2.74%, respectively.

Nevertheless, in real terms, interest rates have remained in negative terrain, which is penalizing the performance of Financial and Other Services indirectly, measured in the National Accounts, having contracted by 17%[132] in 2019 above the contraction found in 2018 of 15.2%. Here it is worth noting - further attention will be given when we turn to the performance of the banking sector in 2019 - that the financial margins of the twenty-six banks apart from BPC, VTB and BOCLB performed positively.

7.5 Level of Equity

The National Bank of Angola, through Notice no. 02/2018, defined new thresholds for the Share Capital of banks, having at the time set the threshold at 7.5 thousand million above the Kz 2.5 billion in Notice no. 14/2013. In order to comply with the legal requirement, the BNA set a deadline by which commercial banks with Share Capital below the new limits had to present a detailed plan to reinforce the Capital, which could be done in three ways:

i) *Issue and subscription of new shares;*
ii) *Incorporation into capital of legal reserves, free reserves or retained earnings, if they are certified;*
iii) *A merger or acquisition process provided they fail to comply with the previous two points.*

132 Press Release. Gross Domestic Product for Quarter 2 2020, INE 2020.

The measure that at the time was seen as necessary to recapitalize the banking sector and ensure the robustness of the system culminated in the closure of Banco MAIS, S.A and Banco POSTAL, S.A for not meeting the legal requirements by the defined deadline of 31 December 2018. And with the BNA's intervention in the management of BANC Bank, shortcomings were identified that led to the closure of the institution in March 2019.

Following this, the BNA conducted the Asset Quality assessment of 13 of the 26 banks in the sector that together concentrate over 92.8% of assets, with reference to 31 December 2018, in an exercise that set out to identify potential asset deficiencies and recapitalisation of assets, with the identified adjustments to be made in the financial year with reference to 31 December 2019.

Given the shortcomings identified, with the completion of the Asset Quality Assessment by the BNA, the same recognised the need for the recapitalisation of two Banks - The BPC and Banco Económico - in an action that should be completed in the financial year 2019. In the case of the BNA, significant progress was made with Recredit, transferring the debt securities it held, valued at 523 billion Kz, to the BPC.

About Banco Económico, the failure to disclose the Annual Report and Accounts for 2019 limited the analysis, although a note made available to Novo Jornal reported the Shareholders' Meeting's commitment to comply with the recapitalisation guideline by the end of the 1st Quarter of 2020, yet it never came to pass.

Thus, in this period the Capital and Reserves of the twenty-six banks operating in the economy fell by 10.7%, the largest annual contraction in the BNA's historical series that began in 2011 and the first fall since the 1.1% contraction recorded in 2014. The reduction in Capitals and Reserves reflected the moderation in net income recorded in 2019, in a context in which there were no adjustments in the Banks' Share Capitals.

According to data for December 2019, the Capital and Reserves to GDP ratio was set at 4.2%, a higher level when compared with 2017's 6.1% and 2018's 6.2%. This reduction may present relevant challenges on the level of capitalisation, with six banks in 2016 being at the lower end of the forecast capitalisation level of Kz7.5 billion.

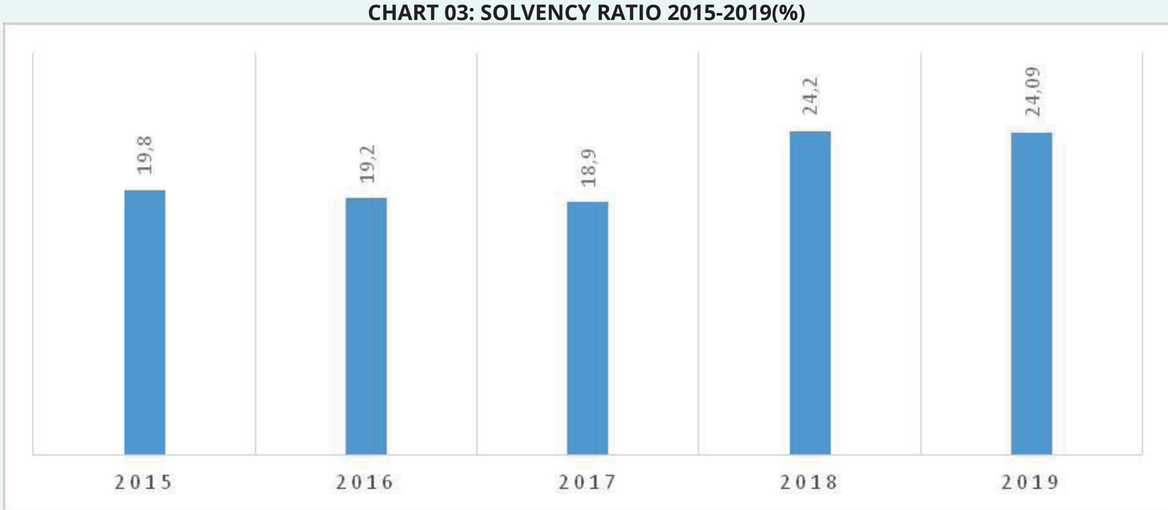
In parallel, until December 2019, the regulatory solvency ratios set at 12%, in Notice No. 19/2020, stood at 24.09% below the 24.2% of 2018, which in regulatory terms presents the sector as globally robust, notwithstanding the fact that some banks showed negative solvency ratios, as is the case of BPC which in the period in question showed a solvency ratio of -11%.

This performance, aligned with expectations of moderation in earnings in the sector for 2020, imposed by the spread of COVID-19 and the downgrade of Angola's public debt rating, which meanwhile forced banks to add to the levels of impairment of loans granted to the state, which may require the need for new recapitalizations.

7.6 Financial Stability Indicators

Throughout 2019 banks maintained regulatory solvency levels of 24.09% close to the levels found in 2018 of 24.2%, in a clear stability of the sector notwithstanding the challenges the economy is going through. This performance can be justified by the precautionary measures banks have taken in recent years.

CHART 03: SOLVENCY RATIO 2015-2019(%)



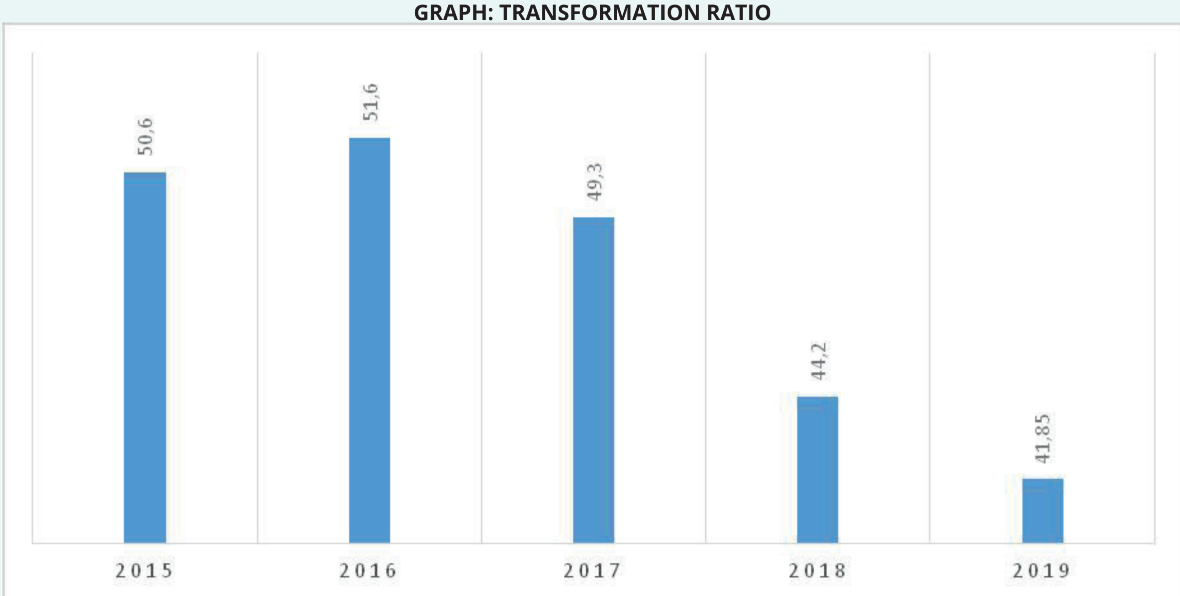
Source: Financial Soundness Indicators for the Banking Sector, BNA

The liquidity ratio of the banking system has been on an upward trend, reflecting the reduction in loans and advances to the economy in the banks' structure in favour of securities. This trend has contributed to greater dynamism in the Interbank Monetary Market and has served as a guide for the BNA's definition of restrictive monetary policies. For, it is based on this available liquidity that banks have been able to participate in debt auctions and consequently put pressure on exchange rates, with effects on price levels.

This can be ascertained by the reduction in the sector's transformation ratio (credit granted/deposits), which reached 41.85% in December 2019 down from 44.2% in 2018 and 51.7% in December 2016.

This downward trend in the transformation ratio is explanatory of the banks' positioning in the country's current economic climate. Preferring to maintain a level of available liquidity rather than allocate it to credit may reflect the reluctance that banks have about the short-term evolution of the economy.

GRAPH: TRANSFORMATION RATIO



Source: BNA

This pattern, which is due to the release of liquidity from maturing loans and the non-renewal of significant new loans has enabled resources to be invested in assets with a higher level of monetary conversion, such as public debt securities, and is a widespread practice among commercial banks.

Banks with higher funding and results such as BFA and BAI hold transformation ratios of 22.1% and 19.6% well below the sector average and represent a reduction of 5 p.p. and 1 p.p., compared to the close of 2018, which is clearly a reflection of the increase in deposits above the loans granted to the economy.

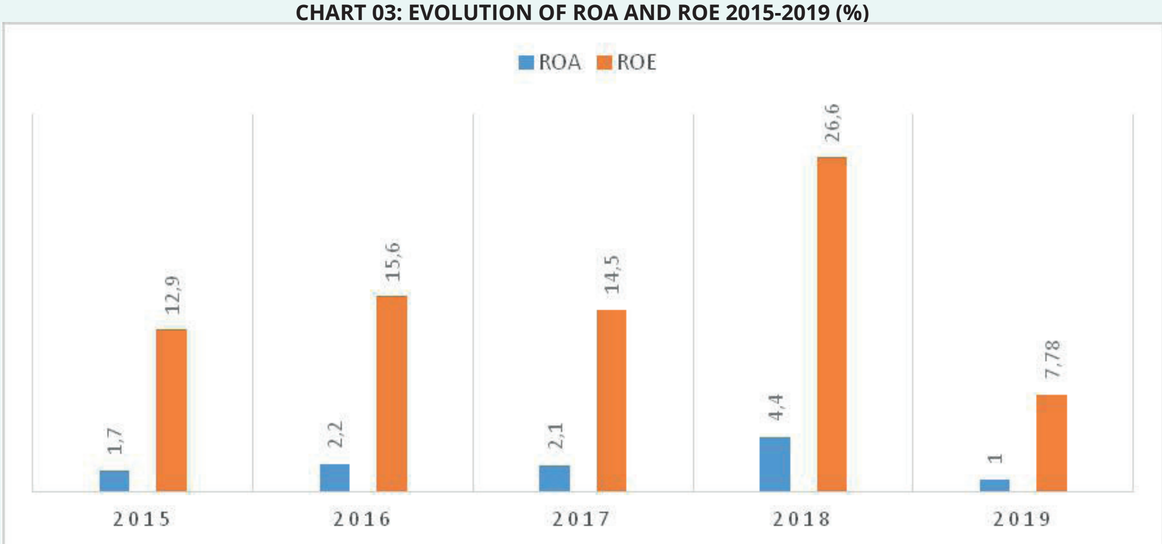
For BAI's case, when compared to the 2017 level, the drop in the transformation ratio was 14.2 p.p., with customer resources having gone from Kz 1,093 billion to Kz 2,285 billion, while loans evolved only from Kz 369 billion to Kz 449 billion. Certainly, the exchange rate depreciation component contributed to almost doubling the deposits of the largest bank in assets of the system, however the more cautious positioning in the credit policy contributed to the considerable reduction of the transformation ratio.

This behaviour of the banks, and consequently of the transformation ratio, is symptomatic of the weak confidence that the credit assessment and monitoring teams have in the economy and of the more prudent stance of the banks' managements.

The credit market is a market of trust. And currently, economic agents - with some exception of the Central Government - do not convey confidence to the market - which has conditioned the banks' credit supply and, of course, has increased the price of credit for companies and families.

Regarding the sector's profitability ratios, the reduction in ROA and ROE by 4.4% and 26.6% from December 2018 to 1.00% and 7.78% for December 2019, respectively, a clear result of the slowdown in net income and the strengthening of capital by some institutions, stands out. This performance was penalised by the negative results of Banks such as BPC. For the five banks that concentrate more than 70% of the sector's assets, they showed ROA and ROE above 10%.

CHART 03: EVOLUTION OF ROA AND ROE 2015-2019 (%)



Source: Financial Soundness Indicators for the Banking Sector, BNA

Banks' efficiency recorded worsening in the cost-to-income ratio which at 35.66% represents a worsening when compared to 30.3% in December 2018. This behavior can be explained by the acceleration of price levels in the economy and the relative deceleration of income received.

Regarding the liquidity of the system, the BNA data show a significant worsening with the ratio of liquid assets to total assets standing at 27% in December 2019 below the 41% found in the same period of 2018. Meanwhile, shorter-term liquidity, measured by the ratio of liquid assets to short-term liabilities, stood at 33.44% up from 28.6% in December 2018, which reflects the strategy of not reinvesting overdue loans in favour of a greater bet on treasury bonds.

At the same time, the level of liquidity between the banks, measured by the ratio between free reserves and the monetary base in national currency, was 7.7%, the lowest level registered in the last three years, whose performance may reflect the worsening of the BNA's restrictive monetary policies.

The evolution of banks' foreign exchange exposure as a percentage of regulatory own funds showed a downward trend in 2019 according to information provided by the BNA. This performance, which went against the trend of recent years, in which banks held long positions as a result of the kwanza's depreciation, was reversed after publication of Notice 14/19, of 2 December, which stipulated that each bank should have a foreign exchange exposure no greater than 2.5% of Regulatory Own Funds.

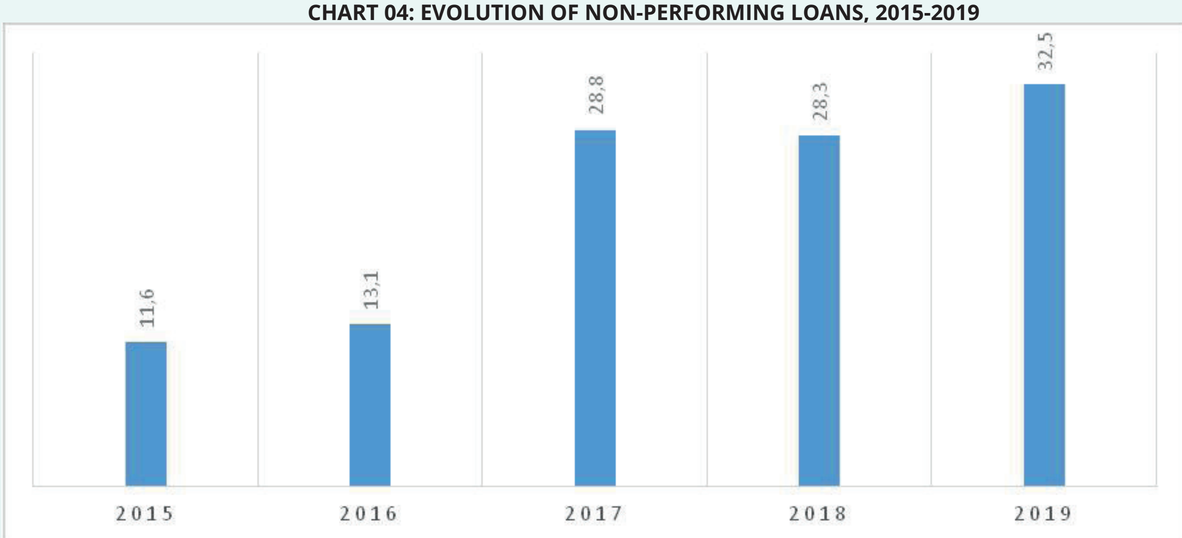
This positioning contributed to the fact that in December 2019 the foreign exchange exposure of the 26 banks that reported BNA information stood at 3.76%, down from 36.5% in December 2018.

Regarding non-performing loans in the economy, it stood at 32.5% in December 2019, up from 28.3% in 2018 and far from the 3.9% recorded in December 2011. It is a performance that has deprived the credit market of efficiency and penalised the performance of monetary policy and the strategy of building up fixed investment in the economy. The distribution of non-performing loans among the 26 banks in the system is not uniform.

In 2019, the individual Reports and Accounts showed banks with 0% non-performing loans, as well as others with relevant challenges with credit regularization.

Certainly, the banks that bet on financing the economy and do not hold a considerable portfolio of public securities or long foreign exchange positions, hold the levels of credit default high, in the context of high unemployment rates and consecutive contraction of GDP. Much of the non-performing loans are more a reflection of the cyclical difficulties of the economy than of a lack of rigor in the observation of selection criteria and credit assessment.

CHART 04: EVOLUTION OF NON-PERFORMING LOANS, 2015-2019



Source: Financial Soundness Indicators for the Banking Sector, BNA

It is the case of BPC, which in this period showed a non-performing loan ratio of 95%, up from 72.9% in the previous year. The increase in the ratio of non-performing loans in BPC, according to the 2019 Annual Report and Accounts, was mainly due to the reclassification of loans due to the adoption of International Financial Reporting Standards, namely IFRS 9.

BPC is a bank excessively exposed to the commercial banking activity that is part of its corporate purpose. And the contraction of the economy had to translate into BPC losses. There is, however, a behavioral component associated with the level of credit defaults in that institution and, clearly, an internal control system that has proved to be unreliable.

Indeed, reducing the issue of non-performing loans requires the establishment of more effective internal control mechanisms, the definition of a clear risk profile for the banking system that is shared by the system and the definition of credit assessment standards consistent with best practices and away from the influences of political power.

7.7 Results calculated in 2019

As of 31 December 2019, the twenty-five[133] banks operating in the system reported positive financial margins valued at Kz 574,763 million, which compares with Kz 607,614 billion a year earlier. The reduction of close to 5.4% in results is justified by the 12.9% contraction in interest and financial charges borne by banking financial institutions, which rose to Kz 360,661 million, outweighing the drop in interest earnings, which fell 8.4% to Kz 935,425 million.

Contrary to 2018, where it recorded negative financial margin results at two banks (BDA and BPG), the number increased to three with BPC posting a result of (Kz 12,833 million), VTB with a result of (Kz 320 million) and BOCLB maintained a result of (Kz 91 million).

This performance is partly justified by the worsening liquidity conditions in the economy, which have forced institutions to offer more attractive financial products - interest-bearing bank accounts and others - in order to attract new deposits. On the other hand, it is a consequence of the increase in the level of default in the credit portfolio of most banks.

In parallel, the output of the banking sector showed an overall result of Kz 1.282 billion which, compared to Kz 1.444 billion for the year 2018, is equivalent to a fall of 11.2%. The result is explained by the negative performance of both the financial margin (5.4%) and the complementary margin (15.5%), justified, excessively, by the reduction in exchange gains of 18.2%. And here, contrary to the financial margins, only two banks had negative results with foreign exchange operations, being BPC once again with a result of (Kz 4,783 million) and BOCLB (Kz 17 million).

Nevertheless, in structural terms, operating income remains highly exposed to net interest income and foreign exchange gains at 44.8% and 43.7%, respectively. However, it should be noted that there was a substantial change in the structure of results, with net interest income increasing its weight on operating income by 2.8 p.p., while foreign exchange results fell 3.7 p.p. This structural change is favorable to the sustainability of the banking business, in the medium and long term, and reduces foreign exchange exposure risks.

In the period under review, operating costs recorded a significant increase when compared to the performance of the banking product throughout 2019. At KZ 542,946 million, operating costs increased by 12.6%, largely due to the growth in personnel costs of 14.2% and in net provisions for write-offs of 49%.

In effect, the sector showed a positive net result of Kz121.234 million. The amount represents a 75.8% reduction compared to 2018 performance and reflects the negative performance of five banks and the slowdown in net earnings of six banks in the system.

133 Up until the time of writing of this chapter, data relating to the Economic Bank had not been published

The following contributed to the negative results in the period:

BPC had a negative result valued at Kz 404,732 million which represents 94% of the negative results recorded in the sector in 2019, and when compared to the negative net results of 2018 valued at Kz 26,852 million, demostrates the depth of the difficulties with which the bank operated in 2019. The negative performance of the state-owned bank was justified by the fall in net interest income and complementary by (Kz12,833 million) and (Kz2,518 million), respectively, and the setting of credit impairments at (Kz 274,345 million);

BCI had a negative result estimated at Kz26,190 million after having had a positive result of Kz702 million the previous year. The negative performance was justified by the maintenance of high operating costs and the establishment of impairments, which exceeded the gains obtained with the banking product valued at 20.283 million Kz.

Thus, if banks that held negative results are set aside, net results stood at Kz 555.209 billion equivalent to 1.8% of 2019 GDP. This performance is driven by the results of BFA, BAI, BDA and BIC which together accumulated Kz 395.642 billion of results, equivalent to 71.3% of the total produced, while the 20 banks which hold 50% of the total assets represent only 12% of the results obtained.

7.8 General Conclusions

Banking institutions in Angola continue to register positive results, notwithstanding boasting a trend of deceleration in the 2019 financial year. The contraction of the economy has contributed to the deceleration of the sector's net results. But the investment component has grown because banks have on their balance sheets a relevant portfolio of public securities that besides attractive interest rates, a good part of the securities portfolio is indexed to the exchange rate, which allows gains through exchange revaluation.

And if this positive performance persists, there will be little incentive for banks to change their current business models which require firstly a reduction in the gross funding needs of the state; secondly, a clear separation of commercial and investment banking; and thirdly, the adoption of economic policies that drive structural change in the economy to reduce the exposure of the economy to the oil sector and the trade sector.

In parallel, the positive performance of the banking sector should be leveraged to lead the development of the country's financial sector as a whole, both through greater depth (greater access to new forms of financing the economy), through greater access to financial intermediation services (increase in people benefiting from financial services, such as a savings account, access to information), and through the efficiency of financial services by reducing intermediation costs induced by market economies of scale.

These developments, together with the increase in the monitoring of new potential customers in the sector, the mobilisation, concentration and consequent reallocation of savings in the economy, will be determinant in the emergence of new products and services in the market, thus conferring greater robustness, resilience and depth to the financial sector.

However, the COVID-19 outbreak has brought with it relevant challenges, both through the reduction of savings capturing as well as in the definition of robust impairments to cover potential losses imposed by the partial paralysis of economic activity and by the downgrade of Angola's rating by the main rating agencies.

The definition of the BNA's moratorium on payment of debt services on loans granted is beginning to foreshadow what may become the performance of the national credit market with all the effects on the financial margins of commercial banks and their performance in 2020, with the introduction of impairments compatible with the challenges.

About credit risk, the continued contraction of the economy and the relative concentration of production in the oil sector should result in a reduced capacity of bank clients to honour their credit commitments under the defined conditions, given that by May 2020, non-performing loans in the economy had set at 34%, an acceleration of 28.3% in relation to the previous period.

This performance is clearly marked by the level of non-performing loans in BPC. In parallel, the fact that the stock of credit is concentrated in commercial activity - which is highly dependent on imports - the reduction in the country's import capacity may condition the performance of the major importers, which may translate into an increase in non-performing loans in the economy.

Regarding the commercial banks' exposure to public securities, following the downward revision of the rating, the BNA decided to defer the constitution of impairments for loans to the State for the next three years, which should be fundamental in reducing impairment losses due to the size of the public securities in the banks' balance sheet structure.

8. Employment and Unemployment Productivity

The employment/unemployment analysis has an underlying Theory (that economists have an obligation to know and master), involving relationships with the greater part of the macroeconomic and microeconomic variables. For example, how much does it cost to create 500,000 jobs?[134] financial cost, economic and social cost. In any exercise of economic policy, all measures to be taken must be quantified in terms of their costs, sacrifices and benefits.[135] The balance between these effects is what ultimately counts, in deciding the implementation of this measure. It is a complex and time-consuming exercise, however, necessary and fundamental to generate savings of resources and maximizing results. In all cases, but especially when countries (States and governance) face situations of generalized lack of financial resources, as is the case of Angola. Although difficult, this exercise of calibrations between resources and results is possible, if the associated methodologies are known.

Many people wonder how a recessionary economy manages to create jobs. A highly pertinent question, as news of deactivation and bankruptcy of companies, layoffs of workers for cost readjustments, reduction of productive activity (until macroeconomic conditions readjust towards growth, there are companies and entrepreneurs that prefer to keep jobs, namely ones with greater demand and qualification), complains from entrepreneurs and workers, etc., is presented at a daily basis.

In fact, how is it possible that a **country that has been experiencing severe economic recession** (since 2015 the GDP had a negative accumulation of -9.4%) record an increase in employment or reduction of unemployment? There are no miracles in economies, only facts, policies and strategies to tackle phenomena and recover balances. Economic growth is the only way to create employment, but it may not be enough for such to achieve such goal. Cases of real increase in domestic production with an increase in unemployment are known. With technological revolutions, the growth/employment relationship is no longer as friendly as it was in the past.

But what is known about employment/unemployment in Angola, apart from statistical data from INE? There has been very little study. What are the types of typical unemployment of a country with profound structural imbalances of productive fabric, dependent on exports of unprocessed natural resources internally, relatively low growth capacity and other macroeconomic and microeconomic insufficiencies?[136] And what are the most significant causes: of structural nature or cyclical nature? And regarding employment, how much precious employment is represented in the employment rate presented by INE?

Moreover, the very definition of employment used (according to international nomenclatures) contains a lot of precariousness: "**Employee**: person aged at least 15 years who, in the reference period (last week), had performed a work of ***at least one hour***, upon payment of remuneration or with a view to a family benefit or gain in cash or in kind"

134 What kind of job is it about? Net employment, after discounting the destruction that the growth processes bring about themselves? Or gross employment? Productive employment (appeal to the use of input-saving technologies), or employment with low capital intensity and use of outdated equipment? Permanent employment or temporary employment (the informal economy is usually the most dynamic in this item of the labor market, with an enormous capacity for job creation/destruction)?

135 Despite very clear accounts of the budgetary, monetary, financial and economic growth effects presented by the current government of António Costa in Portugal and related to the 9-year recovery of teachers' delayed salaries, the unions and radical left parties, joined by those on the parliamentary right, decided to approve a measure with a permanent annual financial cost of more than 800 million euros. Democracy also entails these aspects

136 The 2018 Economic Report contains some approaches to some of these subjects. It will be worth consulting it.

In the context of structural unemployment, the phenomenon of **unemployment hysteria**, caused by situations related to the debilitating economic growth or effect of persistent unemployment (the more in the past, the more in the future), which has caused the increase of unemployment in the recession stages, but not its decrease, in the same proportion, in the stages of economic expansion.[137] As it is known, remaining unemployed for a long time leads to devaluation of qualifications (due to professional obsolescence), devaluation of experiences (due to lack of practice) and the loss of the habit of working (excessive unemployment subsidies accentuate this aspect of consequences on long-term unemployment). Companies are also reluctant to employ long-term unemployed people, for the reasons.

Unemployment represents a great economic waste, measured by the loss of current and future growth capacity. Then, social marginality, the unemployed being often seen as incapable of making a concrete use of their workforce. Finally, the loss of opportunities to promote social balances affected by poverty and deficient distribution of national income.

If, in Angola, there were independent and strong unions, dominating the details of the economy and employment, the existing social peace would surely be shaken by claims about the insufficiencies and incapacities of the economic system and government policies being competent to break these ties and finally ensure the necessary "(re)take-off".

Some public statements, therefore official ones, have been bold - and even if today it is not as much as in the past, yet still not very different - and, hence, definitive truths (avoiding the term absolute, more in line with the institutionalism of the previous Government) about unemployment. INE must be recognized as the only Labor Statistics of the country - like the National Accounts and the Cyclical Observatory - given the competency and experience gathered over the years, more so the most recent ones. In order to talk about employment/unemployment, one must dialogue with the publications of the National Institute of Statistics on the dimension and behavior of this phenomenon.

The intention to generate 500,000 jobs by 2022 is like the promise to create 1,100,000 by 2017, made in the 2012, elections, unfulfilled due to excessive optimism and lack of theoretical and methodological approach. The CEIC, in its 2012 and 2013 Economic Reports, presented the terms of this impossible equation in the milestones: short period of time, slackening of economic growth (remember that the process of structural deceleration of the growth dynamics started in 2009) and reduced value of apparent gross labor productivity. Considering the annual average growth rates of the economic activity, official take over and already with approval of the International Monetary Fund, the job creation between 2018 and 2022 will be 253,515.

Using the forecast figures for non-oil growth – in fact, the one with greater propensity for net job creation, given using more labor-intensive processes, but with the days numbered before the challenges of competitiveness – job creation will have 740 878 jobs between 2018 and 2022. Good news. But (in economics there is always one or more "buts", given its deep nature of communicating gaps) with very small productivity gains (about 1,5% per year), insufficient to build a structural competitiveness compatible with the global insertion of the national economy and the dispute of the regional markets of SADC and ECCAS. It suffices to situate the increases in the apparent gross productivity of the labor force at 2,75% per year, for the scenario to change profoundly: 390,287 jobs by 2022, which is 110,000 less than the Government's intentions. In other words: under the conditions mentioned and worked on above, the unemployment rate in 2022 could be situated at 32,9%, absolutely in line with INE's estimates for 2018 (28,8%, with anemic growth and the need for productivity, the unemployment rate can only increase). Productivity, employment and economic growth (the rates considered in the following table correspond to IMF forecasts) are inseparable variables from any exercise of forecasting employment behavior.

137 In previous Economic Reports, CEIC questioned the official employment data, as the phenomenon of hysteria would be inverted: job creation in situations of economic recession (or reduced dynamics of GDP variation) and lower employment growth rates in stages of economic growth, even accentuated.

UNEMPLOYMENT RATE FORECAST				
	GDP necessary Growth Rate	Growth Rate Productivity	Employment Activity	
			Volume	Rate
2020	-5,10	2,00	10749488	30,64
2021	0,40	2,95	10483231	31,72
2022	2,40	2,75	10447521	34,18
2023	3,50	2,50	10549448	35,54

Source: CEIC-Studies on Productivity and Employment

According to the INE's Unemployment Fact Sheet for Q4 2020, the picture is as follows:

EMPLOYMENT AND UNEMPLOYMENT IN ANGOLA (%)

	IV Quarter 2019		III Quarter 2020		IV Quarter 2020	
	15-64 Years	15-24 Years	15-64 Years	15-24 Years	15-64 Years	15-24 Years
Activity rate	88,4	81,5	90,4	84,6	90,5	84,7
Employment rate	60,3	35,5	59,7	36,9	62,8	37,9
Activity rate	31,8	56,5	34,0	56,4	30,6	55,3

Source : INE, FIR IV Quarter 2020.

Only with the creation of 1,500,000 new jobs will it be possible, in 2022, to move to a total unemployment rate of just under 20%. But for that, the average annual GDP growth rate would have to be 11,5%, for a productivity of 2,75%.

The so-called PAPE (Action Plan for the Promotion of Employability) is the instrument that the member of the Government responsible for this area of enormous sensitivity presented publicly as the hope for a change in the existing unemployment picture (social, from the outset, economic and political – if there were independent and strong unions, dominating the details of the economy and employment, the existing social peace would surely be undermined by the insufficiency and incapacities of the economic system and government policies to be able, in the medium term, to dissolve these ties and finally ensure the necessary "(re)take-off"). What does this Action Plan say, In terms of effective intervention? Emphasis is placed on employability, admitting from the outset the need to improve the ratio and results of training, capacity building, entrepreneurship through short courses, involving 37,000 young people.[138] Nothing to say, especially considering the PAPE as an intention and intervention focused on reducing youth unemployment, whose rate reaches the astronomical figure of 52,4% in 2018. How did these young people manage to survive? Naturally through informal economy. How can this youth become a real work force for the economy, having no income to pay for their training in the medium and long term? Dramatic.[139]

The total unemployment rate is no less: 28,8% of the economically active population, corresponding to 4,243,820 citizens without sources of income and without participation in the dynamics of the economy (many or few are not part of them), including the high levels of informality, criminality, frustration and gang activity that rage across the country. Being highly above the natural rate of unemployment, how much potential growth does it contain? Decreasing, for example, to 10% in 2022, GDP could be increased by USD 20,180 million. That global unemployment rate means a loss of growth opportunities valued, in nominal terms, at USD 58,140 million.

138 The preparation of young people for the labor markets, which are increasingly demanding in terms of discipline, organization, skills and abilities, must start in basic education and primary education, and not when certain work vices have already become entrenched.

139 Will the loans provided for in the PAPE be of any use? The amounts of credit for unemployed young people vary, in Kwanzas, between USD 1000 and USD 5000. Are the costs of creating and operating economic activities in the country unknown?

Another way of putting the problem is: at what annual average rate should GDP's grow so that it is possible to adjust the 500,000 jobs? Economists have analytical, statistical and econometric tools to provide the answers.

The channels through which a lot of economic growth is lost are known (corruption, opacity, impunity, institutional indiscipline and disorganization, productivity losses, etc.), but unemployment is, among all, the greatest source of waste. Even more so as it deals with people.

In the study by the Center for Scientific Studies and Research of the Catholic University of Angola (Economic and Social Effects of COVID19 in Angola, April 2020) the Government's measures to reduce the effects of the economic recession expected for this year and aggravated by the effects of the successive confinements, which are not known when they will end, since the country is still in the beginning of the wave of contamination. Insufficient measures, as has been fully demonstrated and which should have been complemented and completed by others that are also mentioned there.

European economies, those most affected by the effects of Covid-19, excluding the US (which will follow Brazil), forecast reductions in the nominal value of their GDPs of 400 to 700 million euros per month, their economists believing that the regulated deconfinement contribute to the catastrophe not being so, by the end of 2020. Accepting the lowest value, there is talk of a decrease in nominal GDP of 4800 million euros. Also, in these countries and despite the huge amount of money made available to the economy to maintain companies, employment and wages, bankruptcies have been occurring in a rush, 2300 and 1745 companies in a state of insolvency during confinement in Germany and Portugal. In Angola, information on these matters is not available, and it is unknown how many economic units closed in 2020, how much more jobs will be destroyed, and how much wages will national income be affected. AGT only remains concerned with tax collection, keeping its footnotes in the Angolan Public Television news announcing how taxpayers can pay their tax obligations via electronic models. With companies closing, unemployment rising, productivity shrinking and wages falling, who is going to pay taxes in Angola after all? And companies that go out of business rarely reopen, that is, they die completely.

The only institutions that have come forward with studies on the effects and perceptions of covid19 and the current crisis were the Agostinho Neto University *(its Center for Studies in Legal, Economic and Social Sciences)* and the Catholic University of Angola, having estimated a recession in 2020 of about 6,8%. Some businessmen – those who truly feel the weight of the economy and the difficulties in making the economy happen in Angola – said at the time that the UCAN's CEIC forecasts are optimistic, placing this threshold at 8%. Naturally, predictions are nothing more than that, based on always debatable models and assumptions. But imagine a COVID19 scenario with tens of thousands of infected people and the aggravated maintenance of states of emergency? How to resolve the problems of poverty, with the price of oil up and down around US$30 per barrel? Assuming a 7% recession in 2020 and no gains or losses in productivity, the unemployment rate could increase by the same amount in 2020, i.e., increase to 38% of the economically active population.

According to the recent publication, The Macroeconomics of Epidemics, the impact of not taking any control measures would be a drop in the first year of only 0,7% of the aggregate average consumption. However, the consequences would be devastating for health, with a permanent decline of 0,3% in population and GDP (as a result of deaths). This crisis is caused, simultaneously, by a shock on the supply side and on the demand side, which could create a depressive spiral, generating a large and persistent recession. The supply effect is caused by the risk of infection of workers, causing a reduction in the workforce, meaning business stoppages, interruptions in international trade and disruptions in value chains. On the demand side, the effects are caused by the risk of infection from the people who consume it, resulting in a sudden and violent reduction in both private consumption and investment. The consequence results in serious treasury difficulties for the companies which, later, could translate into solvency problems and could even lead to their closure. These problems are reflected in unemployment and a decrease in household disposable income, which will lead to a reduction in consumption and investment. A circular effect that in order to be stopped requires quick and effective measures.

COVID 19 in Angola must be seen as a violent external shock, like the abrupt drop in the price of a barrel of oil after 2014. Its effects are essentially on the non-oil economy. Can the closure of companies be considered as the natural adjustment of an economy with many and significant zones of inefficiency (economic Darwinism)?[140] It does not seem to us, and therefore there is room for State intervention to mitigate the negative consequences and create the conditions for resumption.

The essential question to be asked and debated is whether the economic recovery is a sufficient factor for the reversion of unemployment and for the sustained creation of net employment in the future.

Adjacent to the capacity to generate employment is the salary matter, or, more generally, the purchasing power of society: expressive rates of annual variation in the level of activity are sufficient for salaries - and other remunerations that enter the calculation of the general purchasing power – to increase and families live better?

The economic literature is full of cases of job destruction, as for companies the challenge is life and death. Those that do not increase productivity go bankrupt, the associated social cost being the mass dismissal of workers.

Those that achieve productivity gains may contain a portion of their workforce. In other words, even prosperity passes through unemployment.

It should be noted that Humanity's economic and social progress has also been made through the reduction of working time, which has been associated with an increase in the average level of wages (the Industrial Revolution began with a work week of 70 hours, subsistence wages and a strenuous work environment). Probably, its final situation – by many specialists and futurists already foreseen for the XXII century – will be that of the total liberation of work. In other words, machines will tend to be Humanity's "*new slaves*", capable of producing other machines, diverse goods and services. At this stage, machines will free people from material labor so that they can make profound contributions to the generation of social capital in civil society. It will be, then, the predominance of the spirit over matter, of the spiritual over the material, that is, the possibility of the full realization of Religion.

It seems that there are no universal and even less infallible prescriptions against unemployment, even though the International Monetary Fund suggests that reducing the presence of the State of the economy – with all the known implications and facets – is the miracle solution for economic growth and job creation. However, it must be accepted that keeping public spending under control is a healthy practice, which expands the space for the private economy, the one that supposedly generates a greater number of jobs, especially when economic growth is driven by exports - strong competition in the international market - which demand rigor and fiscal discipline, quality of public investment and low interest rates.

The development model followed or to be followed is certainly very important for framing the problem, as there are models that are more "*friendly*" to employment compared to others. In addition, certain specific policies are essential to either stimulate the functioning of the employment market with a view to creating new jobs, or else to correct certain imperfections in the supply and demand mechanisms for labor, since it is taken for granted that the labor market works worse than the market for goods and services. Other measures are needed to stimulate the job creation process through economic growth, such as: providing access to productive assets like land and credit as a means of tackling the problem of upstream national income distribution, which can have an extraordinary impact on the fight against poverty; securing access to social services, which is essential as a way of influencing the process of

140 The various support promised by the Government in its economic policy documents will also benefit less efficient units, which would be a waste of financial resources. But, in a country where business politics and economics go hand in hand, it is difficult to introduce positive discrimination.

creating national human capital; investing heavily in training and professional recycling (the so-called "*learning by doing" and "a life of learning*"). But, to establish a political **commitment to employment**, a kind of social agenda built around employment, is also essential.

Let us look at the case of employment and productivity and their interconnections. Its strategic position is explained by the following linkages:

Reducing unemployment has an immediate impact on poverty reduction through the bias of income creation.

Reducing unemployment can have a negative impact on productivity if it is not sustained by training the workforce and retraining workers. Hence the importance of the programme aimed at increasing skills and retraining the workforce that MAPTESS is running. Moreover, an increase in employment with higher qualifications increases GDP and structurally improves the primary distribution of national income.

Reducing unemployment can improve income distribution, even if based on unskilled labor. This position is important when discussing the model of economic reconstruction of the country after the current crisis: the reduction of unemployment based on skilled labor increases productivity and allows for wage increases, while the reduction of undifferentiated labor unemployment only improves the share of the labor factor in national income.

The reduction in unemployment increases the possibilities of resettling displaced populations, with important medium-term implications for the increase in agricultural added value, an indispensable basis for guaranteeing food security and improving peasant incomes Unemployment reduction, even in conditions of relative maintenance of the average national wage, contributes to the creation of effective internal demand, which is important and indispensable to encourage private investment and decisions to increase supply.

Reducing unemployment - given the much higher rates of unemployment affecting women - is probably one of the most effective means of reducing gender inequalities.

The reduction of unemployment is one of the most structural ways of building the national economy, understood as a link between all sectors of activity and all regions of the country, enabling full freedom of movement of factors, products and services.

Finally, reducing unemployment is only compatible with a strategy of reconstruction and growth based on small and medium-sized enterprises, which, in turn, are one of the most solid contributors to the strengthening and diversification of the national productive fabric.

For all these implications, both upstream and downstream, employment meets all the conditions indicated above to be considered strategic for economic development.

And what about productivity? Its ratios are as follows:

Increased productivity is the only way to ensure a "decent job", i.e., a high salary and, at the same time, increased competitiveness based on qualified human resources. Productivity Increase through qualified labor determines the implementation of active policies to build up national human capital, which becomes one of the sustainable sources for poverty reduction. Productivity Increase presupposes the modernisation of production systems and public and business management. Productivity Increase increases the possibility of greater internationalisation of the economy, especially in the SADC region.

In conclusion, it is only based on productivity gains that wage increases can be financed and a minimum self-financing base for private investment can be guaranteed.

9. Globalization, Exports and Access to Financial Markets

The rapid spread of coronavirus in all countries is a strong sign of globalisation. The volume of trade, the interconnection of logistic chains for the production and distribution of goods and services, the movement of people and capital between countries are stronger today than ever before.

Movement of people was heavily restricted (between and within all countries) as a measure to contain the spread of the pandemic on a global scale, negatively affecting the travel and tourism sector worldwide. Some countries are increasingly advocating protectionism to prevent the spread of the pandemic. But the evidence and data show that international trade remains a major driver of economic growth for the world economy.

9.1 Angolan economy's degree of openness to foreign trade

Since the colonial period, Angola has always been open to international trade, exporting and importing goods and services, attracting and carrying out foreign direct investment. The weight of exports and imports in Gross Domestic Product (GDP) reveals how open the national economy is; the composition of exports indicates the degree of vulnerability of the Angolan economy to shocks on the international markets and helps us to see to what extent exports in the non-mineral sector are increasing; and the structure of imports reflects the level of domestic production of goods and services and how the process of substituting imports is going.

Exports and imports are two important variables that make up GDP from an expenditure perspective and are also two essential components of the balance of payments. The relative importance of these two variables in GDP measures the degree of openness of a given economy.

TABLE 1 DEGREE OF OPENNESS AND COVERAGE RATE

Measuring the Degree of Openness (figures in millions of USD and % of GDP)							Coverage Rate
Year	Growth	Export		Import		Exp+Imp	Exp/Import
2002	30.145	8.535	28%	7.082	23%	52%	121%
2003	30.408	9.709	32%	8.801	29%	61%	110%
2004	26.373	13.798	52%	10.635	40%	93%	130%
2005	38.619	24.286	63%	15.144	39%	102%	160%
2006	48.300	33.346	69%	16.289	34%	103%	205%
2007	62.292	44.707	72%	26.305	42%	114%	170%
2008	88.539	64.243	73%	43.122	49%	121%	149%
2009	69.992	41.451	59%	41.829	60%	119%	99%
2010	83.799	51.452	61%	35.421	42%	104%	145%
2011	111.943	68.043	61%	43.898	39%	100%	155%
2012	128.138	71.873	56%	45.848	36%	92%	157%
2013	136.725	69.562	51%	49.393	36%	87%	141%
2014	145.668	60.851	42%	53.538	37%	79%	114%

Measuring the Degree of Openness (figures in millions of USD and % of GDP)							Coverage Rate
Year	Growth	Export		Import		Exp+Imp	Exp/Import
2015	116.164	34.437	30%	37.969	33%	62%	91%
2016	101.134	28.300	28%	25.657	25%	53%	110%
2017	122.124	35.598	29%	28.257	23%	52%	126%
2018	98.812	41.389	42%	25.884	26%	68%	160%
2019	84.639,1	35.180,1	42%	22.299,3	26%	68%	158%
2020 1st Q.	30.667,6	9.984,8	33%	7.482,9	24%	57%	133%

Source: BNA/DES, Coverage Rate (authors' calculation)

Between 2002 and 2020 (1st quarter), exports had an average weight of 49% and imports of 35%, which in aggregate terms gives an average weight of 83%, which demonstrates the importance of foreign trade in relation to the value of production. This level of openness resembles that of the most economically developed countries, such as South Korea, Mexico, Canada, the United Kingdom, France, Italy, all with an openness rate above 50%.[141]

The last column of the table presents the coverage ratio, which represents the percentage of imports that are covered or paid for by exports. Only in 2009 and 2015 (years when there was a drastic reduction in the price of oil, which affected exports) did the value of exports do not cover that of total imports. On average, between 2002 and the first half of 2020, the coverage rate was 139%, which shows the good performance of the trade balance.

9.2 Product Exports

In terms of exports, Angola sells crude oil, gas, diamonds, granite, marble, cement, wood, coffee, fish, salt, drinks, bananas and honey.

Table 2 shows the evolution of total goods exports since 2012. In recent years, the barrels of oil exported have been decreasing due to the lack of investment in the sector. In 2017 there was a decrease of 5.8%, 10% in 2018 and 7% in 2019, while the price increased by 29% in 2017, 31% in 2018 and in 2019[142] it again suffered a reduction of around 7% which led to an increase in the total value of exports, considering that the price effect prevailed over the quantity effect.

As for the structure of exports, the oil sector continues to have almost absolute dominance, with the weight of 96% in the total in 2019, against the 3.5% of the diamond sector and 0.6% of other products. The efficiency and effectiveness of PRODESI, as far as export promotion is concerned, should be measured by the increase in the relative weight of other products in total exports in the coming years. As export capacity beyond oil and diamonds is limited in time, the effectiveness of PRODESI should be measured more in terms of increased agricultural and manufacturing production (tradable goods).

141 https://www.imf.org/en/News/Articles/2019/07/25/NA072519-Six-Charts-on-Boosting-Growth-in-Brazil?cid=em-COM-123-39239
142 The oil price in 2016 was $41.8 and 2017 $54, 2018 $70.6 and in 2019 $65.2. Barrel volume (million) 611.2 in 2016; 575.5 in 2017; 517.6 in 2018 and 481.3 in 2019.

TABLE 2 EXPORTS OF GOODS AND THEIR STRUCTURE

	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Q.
Goods Exports (US$ million)	71.093,3	68.246,5	59.169,9	33.181,1	27.588,9	34.613,5	40.757,8	34.725,6	9.956,4
Oil industry	69.716,3	66.902,1	57.641,9	31.895,0	26.366,0	33.312,5	39.408,7	33.365,2	9.467,2
Diamond industry	1.159,5	1.167,1	1.335,4	1.065,8	980,0	1.130,1	1.151,9	1.214,8	435,7
Other Industries	217,6	177,4	192,5	220,4	242,8	170,9	197,2	145,6	53,5
Coffee	1,0	0,5	1,2	1,1	1,1	1,1	1,3	2,1	0,9
Cement	0,0	0,0	0,0	21,4	67,7	7,2	3,0	5,5	2,4
Granite	0,0	0,0	0,0	7,4	8,7	9,5	6,9	8,5	8
Marble	0,0	0,0	0,0	0,3	0,1	0,1	0,0	0	0,5
Timber	0,0	0,0	0,0	14,1	31,7	36,0	31,5	37,4	9,3
Fisheries	25,6	49,1	49,0	41,8	44,6	49,6	85,3	53,6	19,1
Aviation and Navy	191,0	127,8	142,4	134,2	88,9	67,5	48,1	13,4	4,1
Salt	n. d	n. d	n. d	n. d	n. d	n. d	0,0	0,6	0,2
Beverages	n. d	n. d	n. d	n. d	n. d	n. d	21,0	24,5	9
		Weight in total exports							
Oil industry	98,1	98,0	97,4	96,1	95,6	96,2	96,7	96,1	95,1
Diamond industry	1,6	1,7	2,3	3,2	3,6	3,3	2,8	3,5	4,4
Other Industries	0,3	0,3	0,3	0,7	0,9	0,5	0,5	0,4	0,5

Source: BNA/DES

Angola should not rely solely on oil if it intends to join the SADC and AFRICA free trade zones, since the main customers for this product are outside the continent. The focus should be on exports of non-mineral products, agriculture, fisheries and manufacturing. Non-mineral companies that already do some exporting should be supported to increase production, improve the quality certification of their products and find more foreign markets.

The easing of the exchange rate since January 2018 is already a big step for exporters and potential exporters because, ceteris paribus, it makes domestic products cheaper for foreigners. But it is still necessary to remove other barriers that impede the competitiveness of national production, such as the quality of infrastructure, roads and electricity and water supply. The costs businesses face in providing water and electricity are high, as many or almost all use alternative means, such as generators and cisterns.

9.3 Product Imports

Due to weak domestic production levels, Angola survives fundamentally from imports of both final consumer products and intermediate and capital products that serve as a basis for national production.

TABLE 3 GOODS IMPORTS

Goods Imports	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Q.
Total Imports, f.o.b (US$ million)	**23.704**	**26.331**	**28.580**	**20.693**	**13.040**	**14.463**	**15.798**	**14.127**	**4.559**
FOODSTUFFS	3.191	3.845	4.009	3.006	2.347	3.258	3.143	2.613	1.061
BEVERAGES AND VINEGAR	582	709	639	376	110	151	152	131	48
FUEL	4.040	4.963	4.764	3.018	1.712	1.809	2.365	1.937	421
VEHICLES	2.487	2.580	3.472	1.156	349	907	659	715	337
CHEMICAL PRODUCTS	1.136	1.242	1.368	1.088	874	1.076	1.175	1.033	382
MISCELLANEOUS WORKS	1.071	1.270	1.756	1.027	572	597	600	532	198
PLASTICS, RUBBERS, LEATHER AND FUR	755	822	936	651	426	543	642	650	243
TEXTILES AND CLOTHING	453	560	604	434	264	483	374	389	123
CONSTRUCTION MATERIAL	2.383	2.647	3.133	2.510	1.154	929	959	899	367
PAPER OR CARDBOARD AND ARTICLES THEREOF	299	357	303	196	149	189	287	512	193
MINERAL PRODUCTS	160	167	145	107	64	43	31	25	7
TIMBER, CORK	75	97	89	57	29	34	36	35	18
OTHER GOODS	415	273	813	1.242	1.376	1.081	503	169	64
AIRCRAFT AND VESSELS	1.599	1.497	136	225	425	90	1.768	1.695	47
MACHINERY, MECHANICAL & ELECTRICAL									
APPLIANCES	5.058	5.304	6.414	5.600	3.188	3.273	3.104	2.793	1.051
Current consumption goods	13.674	15.798	17.727	11.543	7.754	9.551	9.258	8.030	2.826
Intermediate consumption goods	3.373	3.732	4.303	3.325	1.673	1.549	1.668	1.609	634
Capital goods	6.656	6.801	6.550	5.825	3.614	3.363	4.872	4.488	1.098
Structure Percentage									
Current consumption goods	58	60	62	56	59	66	59	57	62
Intermediate consumption goods	14	14	15	16	13	11	11	11	14
Capital goods	28	26	23	28	28	23	31	32	24

Source: BNA/DES

As can be seen in Table 3, after an increase in imports in the last two years (11% in 2017 and 9% in 2018) in 2019 the country imported 11% less compared to 2018 and a reduction is still expected in 2020 as a result of the restrictions imposed due to the coronavirus and the exchange rate policy of systematic devaluation of the national currency that ends up being the most relevant factor in the decrease of imports.[143]

Angola spends an average of USD 3 billion on food, as the table shows, and most of these products can be produced locally. The government, under PRODESI, wants to do exactly that, with import substitution. But it is important that domestic producers have the necessary support to increase production not only to replace imports but also to export and to compete in the SADC and Continental free trade zones.

143 The policy of import substitution is based above all on the exchange rate and protective customs tariffs demanded by entrepreneurs, and not on vectors of competitiveness. This approach has already been strongly criticized by the WTO and by three countries (including the US) which have demanded explanations from the Angolan authorities, with the possibility of financial and other sanctions.

It can be seen from table 4.3 that there is a clear reduction in beverage imports from US$582 million in 2012 to US$131 million in 2019. This decrease is in harmony with the increase in domestic production in this sector in recent years and that it is already starting to export, although still on a small scale. But the increase in taxes in the sector is adversely affecting entrepreneurs.

9.4 Import and Export of Services

Despite being a net importer of services, Angola also exports some services, such as transport and travel. Transport services essentially consist of the sale of tickets to non-residents by national airlines, or the transport of cargo by sea or rail by companies operating in Angola, which were strongly affected in 2020, given the restrictions imposed by all countries as part of the fight against Covid-19. In mid-2020, for example, the country exported services valued at only USD 28 million, equivalent to 6 per cent of the 2019 figures.

TABLE 4 IMPORT AND EXPORT OF SERVICES

Imports and Exports of Services (US$ million)	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Q.
Export	**780,0**	**1.315,7**	**1.681,3**	**1.256,2**	**710,9**	**984,6**	**631,1**	**454,6**	**28,4**
Transport	21,4	24,7	25,2	25,3	32,6	23,1	27,9	31,8	6,7
Travel	706,5	1.233,7	1.589,0	1.162,7	622,8	880,4	543,9	384,0	8,8
Other Services	52,2	57,3	67,1	68,2	55,4	81,1	59,3	38,7	12,8
Import	**22.144,3**	**23.062,1**	**24.957,6**	**17.276,2**	**12.616,5**	**13.793,3**	**10.089,5**	**8.172,3**	**2.923,8**
Transport	4.436,4	4.757,4	5.515,4	4.058,0	3.109,7	3.108,5	3.320,0	3.125,1	982,4
Travel	158,9	166,4	113,1	146,3	593,9	976,5	554,1	469,4	363,5
Construction	6.229,9	5.049,1	6.672,9	3.107,4	2.079,9	2.103,0	1.890,2	1.319,3	288,5
Insurance and pension services	256,4	864,8	396,6	475,5	425,4	524,6	394,3	282,0	137,2
Financial services	46,2	73,9	108,4	94,3	210,5	241,0	382,7	212,5	97,7
Intellectual property fees n.i.e.	224,3	212,2	252,9	264,7	212,2	221,7	246,6	127,2	68,4
Telecommunications, computer and IT services	505,0	690,1	637,3	211,5	206,9	107,0	104,4	155,1	42,8
Other Services	9.292,0	9.453,4	10.532,1	7.955,3	5.060,6	5.323,4	2.678,8	2.084,3	835,5
Of which: oil sector	8.908,3	9.264,8	10.049,8	7.185,5	4.607,3	4.461,1	2.027,0	1.782,9	754,4
Personal, cultural and recreational services	0,0	0,0	0,0	247,0	134,0	202,7	105,1	127,6	32,3
Manufacturing services on physical supplies owned by third parties	1,2	1,3	12,5	6,6	0,7	6,1	0,4	0,6	0,0
Maintenance and repair services n.i.e.	26,3	216,7	18,7	14,0	89,2	88,8	94,0	104,8	18,7
Government goods and services n.i.e.	967,7	1.576,9	697,7	695,5	493,6	889,9	317,8	164,4	56,7
Service Imports/Total Imports	48%	47%	47%	46%	49%	49%	39%	37%	39%
Service Exports/Total Exports	1%	2%	3%	4%	3%	3%	2%	1%	0,3%
Exports of Services/ Exports excluding oil and diamonds	78%	88%	90%	85%	75%	85%	76%	76%	35%

Source: BNA/DES

In exports, travel represents expenditure on goods and services by non-residents visiting Angola, and includes spending on hotels, restaurants and other services and products purchased by them. There is a clear decrease in the export of these services, comparing the period 2012 - 2015 and the period 2016 - 2020, as a result of the economic recession that the country is experiencing in recent years, and the restrictions imposed to control the spread of the coronavirus. The stimulation of the tourism sector and greater flexibility in the granting of visas to foreigners may lead to an increase in export earnings from these services.

Imports of services represent on average 46% of total imports. Business services for the oil sector, construction services and transport services are among the most imported. Insurance services, which include reinsurance and coinsurance, cost the country about USD 470 million a year. The plan to open a reinsurance company in Angola is likely to save resources in the next few years.

TABLE 5 COMMERCIAL ACCOUNT BALANCE

Goods and Services Account (US$ million)	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Q.
Trade Balance (goods + services)	26.025,1	20.169,1	7.313,3	-3.531,5	2.642,7	7.341,5	15.501,5	12.880,8	2.501,9
Goods Account Balance (commodities)	47.389,4	41.915,5	30.589,6	12.488,6	14.548,4	20.150,2	24.959,9	20.598,5	5.397,4
Service Account Balance	-21.364,3	-21.746,4	-23.276,3	-16.020,1	-11.905,6	-12.808,7	-9.458,4	-7.717,7	-2.895,5
Trade Balance (GDP%)	20,3	14,8	5,0	-3,0	2,6	6,0	15,7	15,2	8,2

Source: BNA/DES

Table 5 displays the goods account balance, which due to oil exports is always in surplus, while the services account balance is always in deficit, given the few services exports the country makes. The sum of the two gives the trade balance, which after a deficit in 2015, recorded surpluses in subsequent years as a result of the improvement in the price of oil on the international market and the containment of imports. In 2019 the trade balance showed a surplus of US$12.8 billion (15.2% of GDP) and by the first half of 2020 the surplus was US$2.5 billion (8.2% of GDP).

9.5 Primary and Secondary Revenue Account

The remuneration of factors of production, in the context of the mobility of factors of production between countries, is recorded in the primary income account. As can be seen in table 6, in the case of Angola, regarding employee compensation (remuneration of national workers abroad) there is no credit record. This indicates that nationals working in the diaspora do not send their income to the country, or simply that if they do, the unit that draws up the balance of payments is not aware of it.

TABLE 6 REVENUE ACCOUNT

Revenue Account (US$ Million)	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Quar-ter
Primary In-come (net)	**-10.421,8**	**-9.900,1**	**-8.849,9**	**-5.907,5**	**-5.273,7**	**-7.505,6**	**-7.829,5**	**-7.516,3**	**-2.556,2**
Credit (Entry)	259,8	818,3	645,6	166,4	340,8	239,4	448,5	692,6	287,5
Employee compensation	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Interest	259,8	818,3	645,6	166,4	340,8	218,4	444,9	683,0	265,6
Profits	0,0	0,0	0,0	0,0	0,0	21,0	3,5	9,6	21,8
Debit (Outgoing)	10.681,6	10.718,3	9.495,5	6.073,9	5.614,5	7.745,0	8.278,0	8.208,9	2.843,6
Employee compensation	297,4	297,9	579,4	494,9	763,4	510,5	482,4	389,3	250,1
Interest	662,0	1.089,8	1.066,1	1.287,0	1.823,3	2.351,2	2.698,5	3.124,4	1.553,2
Profits	9.722,1	9.330,7	7.850,0	4.292,0	3.027,8	4.883,3	5.097,1	4.695,2	1.040,3
Secondary Income (net)	**-1.762,2**	**-2.124,0**	**-2.210,9**	**-833,8**	**-454,2**	**-468,7**	**-269,4**	**-227,1**	**-79,3**
Credit (Entry)	66,9	67,6	53,4	28,2	26,3	35,4	13,8	11,8	7,5
Debit (Outgoing)	1.829,0	2.191,6	2.264,3	862,1	480,5	504,2	283,2	239,0	86,8

Source: BNA/DES

The remuneration of expatriates working in Angola, on average, is over US$300 million per year, with foreign workers sending US$389.3 million in 2019 and US$250 million in the first half of 2020 to their respective countries.

The interest that the country receives for financial investments abroad or loans granted in 2019 yielded US$ 683 million, and for the use of foreign capital it paid, as interest on foreign debt, US$ 3.12 billion in 2019 and US$ 1.5 billion in the first half of 2020.

Foreign direct investment in Angola has been very profitable considering the level of profit that is repatriated by foreign investors to their respective countries. Between 2012 and 2020, the average annual profit repatriation was US$ 5.5 billion. In terms of profits from investments by Angolans abroad in 2019 there was a repatriation of US$ 9.6 million and in the first half of 2020 of US$ 21.8 million, respectively.

The secondary revenue account records current transfers between residents and non-residents, such as immigrants' remittances, public and private foreign aid, donations and social security contributions, etc. The negative balance of this account shows that there have been more outflows of income than inflows over the years.

9.6 Current Account Balance

The aggregation of the accounts reviewed above (commodities, services and income) is what is called the current account, which is presented in table 7. After four successive deficits (2014-2017), in 2018 and 2019 the current account balance recorded a surplus of US$7.5 million and US$5.1 billion respectively.

TABLE 7 CURRENT ACCOUNT

Amounts in US$ million	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Quarter
Current Account	13.841,2	8.145,1	-3.747,5	-10.272,8	-3.085,2	-632,9	7.402,6	5.137,4	-133,5
Goods Account Balance (commodities)	47.389,4	41.915,5	30.589,6	12.488,6	14.548,4	20.150,2	24.959,9	20.598,5	5.397,4
Service Account Balance	-21.364,3	-21.746,4	-23.276,3	-16.020,1	-11.905,6	-12.808,7	-9.458,4	-7.717,7	-2.895,5
Primary Income (net)	-10.421,8	-9.900,1	-8.849,9	-5.907,5	-5.273,7	-7.505,6	-7.829,5	-7.516,3	-2.556,2
Secondary Income (net)	-1.762,2	-2.124,0	-2.210,9	-833,8	-454,2	-468,7	-269,4	-227,1	-79,3
Current Account-to-GDP ratio	10,8%	6,0%	-2,6%	-8,8%	-3,1%	-0,5%	7,5%	6,1%	-0,4%

Source: BNA/DES

The positive balance in the current account in 2018 and 2019 is the result of the increase in oil prices in these years, which positively affected the goods account and the reduction of the deficit in the services account and the secondary income account.

9.7 Capital Account

The capital account records “capital flows that do not require a future payment in return or capital flows relating to transactions in non-produced, non-financial assets”.[144] This account also records the purchase of land by Embassies and other international organizations. Debt forgiveness is also recorded under this heading.

The capital account shows insignificant values compared to the current account and the financial account, as can be seen in table 4.9. The account balance is in surplus in the period under review.

CAPITAL ACCOUNT

Amounts in US$ million	2012	2013	2014	2015	2016	2017	2018	2019	20201st Quarter
Capital Account	4,4	0,6	1,6	6,3	0,6	2,6	2,9	2,0	0,63
Loan	4,4	0,6	1,6	6,3	0,6	2,6	2,9	2,0	0,65
Debit	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,02
Current Account	13.841,2	8.145,1	-3.747,5	-10.272,8	-3.085,2	-632,9	7.402,6	5.137,4	-133,5
Current Account + Capital Account	13.845,6	8.145,7	-3.745,9	-10.266,6	-3.084,6	-630,2	7.405,5	5.139,4	-132,9

Source: BNA/DES

In principle the capital repatriation process,[145] underway since 2017 should be reflected in this account. Money return would be classified as a transfer of capital or funds. Could it be that the US$2.6 million in 2017, US$2.9 million in 2018, US$2 million in 2019 and US$0.63 million in the first half of 2020 constitute the amounts voluntarily repatriated?

144 Fernandes, A. et al. (2017) Introduçao a Economia (Introduction to Economics), page 410. Edições Silabo, 1st Edition
145 The voluntary phase ended in December 2018, and since then the coercive phase has been in effect.

9.8 Financial Account

This account records transactions in financial assets between residents and non-residents, which includes foreign direct investment, portfolio investment (the purchase and sale of shares[146] and bonds), borrowing and lending, reserve assets (foreign currency), gold reserves, etc.

The external financing capacity or need of an economy can be verified by the sum of the Financial Account balance.

In 2012 and 2013 Angola recorded a negative balance in this account, which shows that in this period there was a net increase in assets or a net decrease in external liabilities. From 2014 to 2016 the country marked a net decrease in assets or net increase in external liabilities, as the account balance was positive.

TABLE 9 FINANCIAL ACCOUNT

Amounts in US$ million	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Quarter
Financial Account	-3.869,4	-3.758,4	7.575,4	11.476,1	4.889,2	-4.154,1	-7.767,1	-3.218,7	-1.812,1
Direct Net Investment	-2.351,1	-8.041,6	2.770,7	10.813,1	-452,5	-8.749,3	-6.461,8	-1.749,1	-2.669,1
inflow	14.853,7	14.345,9	16.543,2	16.176,4	11.062,3	6.208,1	7.535,7	10.488,3	2.586,9
Outflow	-17.204,8	-22.387,5	-13.772,4	-5.363,3	-11.514,8	-14.957,4	-13.997,5	-12.237,3	-5.256,0
Medium- and Long-Term Net Equity	1.567,5	5.629,8	7.182,3	-391,5	7.997,4	-1.105,6	3.530,7	1.627,9	-1.716,1
Disbursements	5.538,3	10.204,5	13.250,2	5.694,8	14.391,9	7.330,1	10.298,9	8.957,4	1.291,5
Of which: Oil Sector	1.500,0	7.000,0	5.500,0	1.000,0	0,0	500,0	1.000,0	1.500,0	0,0
Depreciation	-3.970,8	-4.574,7	-6.067,9	-6.086,3	-6.394,4	-8.435,7	-6.768,2	-7.329,5	-3.007,6
Of which: Oil Sector	-2.236,0	-2.539,6	-3.176,5	-3.226,6	-3.578,2	-4.961,2	-1.430,9	-1.507,9	-885,5
Other Equity (Liq)	1.040,7	-1.560,7	-6.297,3	-1.981,1	-2.252,1	5.700,8	-4.836,0	-3.097,6	2.573,1
Financing	-4.126,4	214,1	3.919,7	3.035,7	-403,7	4.902,7	519,6	-988,9	1.865,5
Variation in International Reserves (increase -)	-4.124,9	207,9	3.920,3	3.055,0	-372,4	5.007,1	942,3	-988,9	1.865,5
Net Backlog	-2,0	6,3	-0,7	-19,4	-31,3	-104,4	-422,7	0,0	0,0
Medium and Long Term	-1,3	6,3	-0,7	-19,4	-31,3	-104,4	-422,7	0,0	0,0
Current	0,0	7,9	1,6	0,9	0,3	0,0	0,0	0,0	0,0
In arrears	-1,3	-1,7	-2,3	-20,3	-31,6	-104,4	-422,7	0,0	0,0
Short Term	-0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Interest in arrears	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Errors & Omissions	-9.975,7	-4.387,3	-3.829,5	-1.209,6	-1.804,6	-118,4	0,0	0,0	0,0

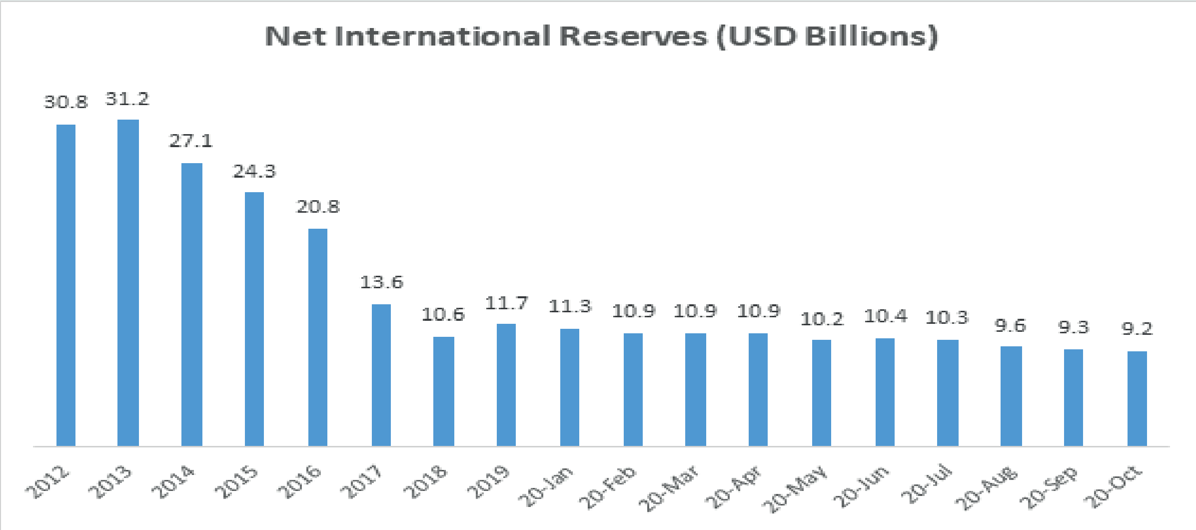
Source: BNA/DES

146 Without holding a significant position in the company, as this could be classified as foreign direct investment. Cf Balance of payments and international investment position manual, page 101 — Washington, D.C.: International Monetary Fund, 2009.

9.9 Net International Reserves

The level of foreign currency reserves a country accumulates determines its ability to meet external payments and compete in the international market.

Angola has greatly reduced its external creditworthiness, due to the decrease in its level of international reserves from 2014 until October 2020, as shown in the graph below.



Source: BNA/DES

The increase in foreign exchange reserves will depend on the country's ability to export more and attract more foreign direct investment and portfolio investments, as well as the promotion of domestic production that is capable of substituting imports of finished products, thus contributing to the reduction of imports.

9.10 The External Public Debt

The composition of Angola's external public debt, by source of financing, is mirrored in Table 10, and it can be observed that a large part of the external debt is commercial (74%), followed by bilateral (20%) and finally multilateral (6%).

In the first quarter of 2020 public external debt, without arrears, was estimated at US$48.63 billion and including arrears, principal plus interest, the figure rises to US$48.79 billion, a decrease of US$665 million compared to 2019.

The level of arrears on external debt is low, representing about 0.3% of total debt in the first half of 2020. This is good for the country's external image, as it ensures that it can service its debt by meeting the agreed deadlines.

The G20 Debt Service Suspension Initiative, as part of the economic relief to developing countries due to the pandemic, may cause Angola to postpone payment of part of its foreign debt, allowing time for these resources to be channeled to boost the economy, which is facing a deep recession.

TABLE 10 EXTERNAL PUBLIC DEBT

DESCRIPTION (Amounts in million US$)	2012	2013	2014	2015	2016	2017	2018	2019	2020 1st Q.
Debt Excluding arrears	**22.221**	**27.804**	**35.568**	**35.924**	**44.292**	**43.281**	**46.862**	**49.302**	**48.637**
Commercial	13.447	17.820	26.150	26.293	34.220	33.430	36.464	39.198	38.511
Banks (Securities and Bonds)	12.806	16.583	23.999	23.331	31.001	29.366	32.344	35.094	33.946
Companies (Suppliers)	642	1.238	2.150	2.962	3.219	4.065	4.120	4.104	4.565
Bilateral	6.961	8.386	7.752	7.876	8.017	7.729	7.117	5.736	5.605
Multilateral	1.813	1.598	1.666	1.756	2.056	2.122	3.280	4.368	4.520
Capital in arrears	**285**	**296**	**289**	**279**	**91**	**91**	**99**	**132**	**132**
Commercial	270	264	259	255	90	91	91	124	124
Banks (Securities and Bonds)	6	7	5	12	5	5	5	5	5
Companies (Suppliers)	264	257	254	243	85	86	86	119	119
Bilateral	15	32	30	24	1	1	8	8	8
Multilateral	0	0	0	0	0	0	0	0	0
Interest in arrears	**71**	**74**	**72**	**71**	**14**	**14**	**21**	**28**	**28**
Commercial	69	59	66	65	14	14	21	27	27
Banks (Securities and Bonds)	1	0	0	3	1	1	0	0	0
Companies (Suppliers)	69	58	65	62	13	13	21	27	27
Bilateral	2	15	6	6	0	0	1	1	1
Multilateral	0	0	0	0	0	0	0	0	0
Total external debt including arrears	**22.583**	**28.178**	**35.933**	**36.279**	**44.401**	**43.391**	**46.982**	**49.462**	**48.797**
Commercial	13.786	18.143	26.474	26.612	34.324	33.535	36.575	39.350	38.663
Banks (Securities and Bonds)	12.813	16.590	24.005	23.345	31.006	29.371	32.349	35.099	33.951
Companies (Suppliers)	974	1.553	2.470	3.267	3.317	4.163	4.226	4.250	4.712
Bilateral	6.978	8.433	7.788	7.906	8.018	7.730	7.126	5.744	5.614
Multilateral	1.813	1.598	1.666	1.756	2.056	2.122	3.280	4.368	4.520
Commissions	5,6	4,4	4,3	4,3	3,8	3,9	0,0	0,0	0,0
External Public Debt as a % of GDP	17,6	20,6	24,7	31,2	43,9	35,5	44,0	58,4	40
Total External Debt as a % of GDP	28,9	32,8	33,2	45,3	59,7	49,0	57,4	77,8	55
Gross Reserves/Foreign Debt Stock	142,4	114,3	77,2	67,3	54,8	42,0	34,4	34,8	32
Gross External Debt Position	37.003	44.836	48.383	52.601	60.365	59.802	61.292	65.867	66.890

Source: BNA/DES

Evident on the table is the reduction in the level of arrears (capital and interest in arrears) between 2012, which was at $356 million (285+71) and 2018, at $120 million (99+21). In 2019 the arrears increased to 160 million remaining until the I half of 2020.

The share of public external debt in GDP increased from 17.6% in 2012 to 58.4% in 2019, while the coverage ratio of gross foreign exchange reserves decreased to 34.8%.

Many Angolans do not know what projects the foreign loans the country has taken out over recent years have been used for. The Government has the duty to inform national public opinion under what conditions the debt was acquired, where it was spent and what has been the economic or social return on such projects.

9.11 Reflections on Access to International Financial Markets

Many developed countries resort to the international financial markets, issuing debt, to finance their needs. And markets exist for this purpose, which is to channel resources from surplus agents to deficit agents, be they companies or countries.

The Eurobond issue that Angola launched of US$3 billion at an interest rate of almost 9 percent with a maturity of over 20 years, on the international market, was a high interest rate, bearing in mind that other countries with less risk can issue debt at more competitive rates.

In September 2020, Finance Minister Vera Daves said that high interest rates on international markets inhibit Angola from issuing new Eurobonds. As quoted by Novo Jornal " On accessing the markets, we have to look at the context: if we wanted to access the markets today, we would pay absurdly high prices due to the economic conditions and the perception of the situation of our public accounts".[147] The Government is aware of the need to organise the country's public accounts in a transparent manner, to give confidence to the markets and thus be able to benefit from lower interest rates.

The fight against corruption and impunity also contributes to improving the country's image on the international financial markets and may have a positive impact on reducing the country risk, which is one of the factors considered when setting interest rates.

Improving the country's business environment is equally crucial for reducing the cost of doing business, ensuring quality infrastructure (water, energy, sanitation, roads, ports, railways, hospitals and schools) that can attract investors to the non-oil and non-diamond sector, which has greater potential to generate employment, diversify exports and substitute imports, and guarantee the economic growth that the country needs to balance the main macroeconomic variables.

Compliance with international compliance standards by national commercial banks, the removal of politically exposed persons from shareholder structures, compliance with the law on money laundering and financing of terrorism are other important factors that can facilitate the country's access to international financial markets with more competitive interest rates.

147 Novo Jornal online, (30 Novembro 2020) http://www.novojornal.co.ao/economia/interior/covid-19-angola-nao-vai-aos-mercados-porque-custo-e-absurdamente-alto---vera-daves-94856.html

10. Economic Policy Measures Stocktaking after 2017

The Planning Function continued to dominate the framework of the national economy, despite attempts to link it to the State Budget as the financial expression of the cost of the various programmes and policies within it. This should be the way forward, at least if it is understood that the State should intervene in the operation of the market (during weak private initiative, namely national), with the aim of stimulating it.

However, the number of interventions should be in line with the effective capacity of public institutions, which define the corrective/incentive policies, to implement the programmes, policies and proposed measures. But the crucial point regards the cost/effectiveness and cost/efficiency of government interventions, which can be maximized if the priorities are well set and correspond to the state preference function (albeit far from the collective preference function).

The issue of defining priorities, besides being a salutary practice of governance - since it allows saving financial resources, which are always scarce - limits the practice of influence peddling and facilitates political scrutiny of the results.

ACTION PROGRAMMES FOR 2021

	Programmes	Activities	Objectives	Goals
Human Development and Welfare	23	5136	67	110
Human inclusive sustainable economic development	20	777	45	106
Necessary infrastructures for development	10	941	33	63
Peace building, strengthening the democratic state governed by the rule of law, good governance, state reform and decentralization	8	253	18	34
Harmonious development of the National territory	6	1480	11	23
Ensure Angola's stability and territorial integrityand reinforce its role in the international and regional context	3	163	8	9
TOTAL	**70**	**8750**	**182**	**345**

Source: Ministry of Finance, GSB Justification Report 2021, page 95.

With 70 intervention programmes and 8750 activities, the state will not succeed in stimulating economic activity, since its growth forecast for 2021 is zero (the IMF's is not much better either, 0.4%). Pertinently, doubts must be raised about the justness (priorities), efficiency and effectiveness of these interventions, in principle stimulating the start-up/restart of productive activity. These programmes and activities will cost 9086.7 billion kwanzas, according to the Justification Report, an average of 129.8 billion kwanzas per programme.

THE ROLE OF GOVERNMENT PREFERENCE IN THE SOCIAL SECTOR -2020						
	Education	Health	S. Protection	Culture & Religion	Housing...	Env. Protection
Education	1,0	1,1	2,1	3,6	18,5	64,9
Health	0,9	1,0	1,9	3,4	17,4	60,9
Social Protection	0,5	0,5	1,0	1,7	9,0	31,5
Recreation, Culture & Religion	0,3	0,3	0,6	1,0	5,2	18,2
Housing & Community Services	0,1	0,1	0,1	0,2	1,0	3,5
Enviro. Protection	0,0	0,0	0,0	0,1	0,3	1,0

Source: CEIC calculations, based on the GSB.

A. Culture and Religion, Housing and Environmental Protection

Are the budgetary areas least protected by the Government. Social Protection ranks after Education and Health in the Government's line of preferences.

The various programmes and their descriptions are taken from the above-mentioned Statement of Reasons.

B. Reviving the Productive Sector and Economy Diversification

With a view to reviving the private sector and boosting economic diversification, in addition to the NDP 2018-2022 and within the framework of PRODESI, the Government has designed a set of programmes and measures to improve the business environment, including:

i. Credit Support Project - PAC

This programme embodies the main lines of PRODESI and applies to investment projects that directly or indirectly contribute to the domestic production of essential goods. The programme aims to provide access to funding for private investments inserted in the production and commercialisation chain of 54 basic basket goods and other priority goods of national origin registered with PRODESI. To implement this programme, the Executive signed implementation MOUs with eight local commercial banks. The signatory banks have committed to make Kz 141 billions of credit available to the real economy. The PAC is available to support a set of 16 types of operations, related to the 54 priority deliverables of PRODESI.

ii. PROPRIV - Privatization Programme

PROPRIV is a programme that is defined in the guidelines of the National Development Plan 2018-2022, in its "Axis 2 - Improving Public Finance Management". PROPRIV shall be conducted under Law No. 10/19 of 14 May, with a focus on promoting macroeconomic stability, increasing national economic productivity and achieving a more equitable distribution of national income. The successful implementation of PROPRIV is one of the main challenges of the process of change towards a new development paradigm underway in the country, based on the active presence of the private sector in the main sectors of the economy. In this sense, the programme's objectives are mainly based on reducing the State's participation in the economy as a producer of goods and services, promoting favorable conditions for private initiative, foreign investment and the acquisition of know-how, and increasing the quality and diversity of goods and services for the population.

iii. PIIM - Integrated Municipalities Intervention Plan

The PIIM focuses on the social welfare, agriculture, livestock and water sectors, education, energy, administrative and municipal infrastructure, fisheries, sanitation, security and public order and roads. The Executive has earmarked about US$2 billion for the PIIM. The PIIM aims to prepare the grounds for the implementation of the local governments, so that the municipalities have the minimum conditions for future local governments to be able to keep up the work.

iv. PAPE - Action Plan for the Promotion of Employability

The main objective of the PAPE is to provide tools that can stimulate job creation, with the perspective that these jobs are created and absorbed by the productive sector of the economy and not exactly by the public administration. The state approved a budget of 21 billion kwanzas, equivalent to USD 65.6 million, to be implemented over three years, from 2019-2021.

Reinforcing the Process of Arrears Regularization

This initiative aims at reducing liquidity pressures on companies. It should also have a positive impact for the real economy. The Executive acknowledges that the volume of domestic arrears, accumulated over the past few years, is a great burden on the productive economy and represents a weakness in the public finance management system, negatively affecting the economy.

By the end of 2019, 225 billion Kwanzas had been settled. By the end of March 2020, 120 billion kwanzas had been settled; and by the end of June 2020, 81 billion kwanzas had been settled.

C. Strengthening Implementation of the Sectoral Content of the NDP 2018-2022

The implementation of the 2018-2022 NDP will take place during the year 2021 through the formulation of various policies and their respective action programmes, as set out in the 2021 Annual National Development Plan. Also in 2021, the intention is to rigorously comply with the implementation of the budget from a programmatic point of view.

D. Budgetary Policies and Programmes for the Social Sector.

a) Population Policy.

i. Local Development and Poverty Alleviation Programme.
ii. Protection and Promotion of Children's Rights Programme.
iii. Gender Equality and Women's Empowerment Programme.
iv. Family Valuing and Skills Strengthening Programme.
v. Integral Youth Development Programme.

b) Education Policy and Teaching.

i. Teaching Personnel Training and Management Programme.
ii. Pre-School Education Development Programme.
iii. Primary Education Quality Improvement and Development Programme.
iv. General Secondary Education Development Programme.
v. Technical and Vocational Education Improvement and Development Programme.
vi. Youth and Adult Literacy and Education Intensification Programme.
vii. Higher Education Quality Improvement and Scientific and Technological Research Development Programme.
viii. Social Action, Health and School Sport Programme.

c) Human Resources Development Policy.

i. National Staff Training Plan.
ii. National Vocational Training System Strengthening Programme.
iii. National Qualifications System Establishment Programme.

d) Health Policy

i. Medical and Medicines Assistance Improvement Programme.
ii. Maternal and Child Health and Nutrition Improvement Programme.
iii. Endemic Diseases Control Programme - Addressing Health Determinants.
iv. Health Information System Strengthening and Health Research Development Programme.

e) Social Assistance and Protection Policy.

i. Violence Victim Support Programme.
ii. Veterans and Former Combatants Welfare Improvement Programme.
iii. Social Protection System Modernisation Programme Compulsory.

f) Housing Policy.

i. The Government will continue to promote the allotment and infrastructure of land reserves, as well as the mobilisation of the various stakeholders for their participation in the social housing programme, through directed self-construction.
ii. Also, within the scope of this policy, the government plans to provide infrastructures in all the centralities/urbanisations with houses already constructed and uninhabited, as well as to develop new centralities/urbanisations through Public Private Partnerships (PPP) in order to increase the housing offer.

g) Cultural Policy.

i. Historical and Cultural Heritage Valorisation and Dynamisation Programme.
ii. Art and Cultural and Creative Industries Promotion Programme. h) Sports Policy.
iii. Mainstreaming and Improvement of Sports Practice and Performance Programme.

Budgetary Policies and Programmes for the Economic Sector.

a) Finance Sustainability Policy.

i. Public Finance Management Improvement Programme.

b) Business Environment, Competitiveness and Productivity Policy.

i. Environment and Business Improvement and Competitiveness Programme.
ii. Competitiveness and Productivity Improvement Programme.
iii. National Quality System Improvement Programme.
iv. Innovation Promotion and Technology Transfer Programme.

c) Production Enhancement, Import Substitution and Export Diversification Policy.

i. Production, Export Diversification and Import Substitution Support Programme.
i. Agricultural Production Enhancement Programme.
ii. Livestock Production Enhancement Programme
iii. Sustainable Exploitation and Management of Forest Resources Programme.
iv. Food and Nutrition Security Improvement Programme.
v. Sustainable Exploitation of Living Aquatic Resources and Salt Programme.
vi. Sustainable Agriculture Development Programme
vii. Geological and Mining Activities Development and Modernisation Programme.
viii. Oil and Gas Sector Development and Consolidation Programme.
ix. Manufacturing Industry Production Encouragement Programme.
x. Defense Industries Development Programme.
xi. Hotel and Tourism Development Programme.

d) Environmental Sustainability Policy.

i. Climate Change Programme
ii. Biodiversity and Conservation areas Programme
iii. Marine Spatial Planning and Ecosystem Health Programme.
iv. Risk Prevention and Environmental Protection Programme.

e) Employment Policy and Working Conditions.

i. i. Informal Economy Reconversion Programme.
ii. Employability Promotion Programme.
iii. Working Conditions and Organisation Improvement Programme.

Budget Policies and Programmes for the Infrastructure Sector.

a) Transport and Logistics Policy.

i. Transport Activity Modernisation and Development Programme.
ii. Transport Infrastructure Development and Improvement Programme.
iii. Public Transport Expansion Programme.
iv. Logistics and Distribution Development Programme.
v. National Network of Logistical Platforms Programme.
vi. Foodstuff Storage, Distribution and Commercialisation Network Development andOperationalisation Programme.

b) Electrical Energy Policy

i. Power Access Expansion Programme for Urban Areas, Municipality Seats and Rural Areas.
ii. Electricity Sector Consolidation and Optimisation Programme.

c) Water and Sanitation Policy.

2. i. Water Supply Expansion Programme for Urban, Municipal and Rural Areas.
ii. Water Sector Development and Consolidation Programme.
iii. Basic Sanitation Programme.

d) Communications Policy.

i. Telecommunications and IT Infrastructure Development Programme.

Budgetary Policies and Programmes for the Institutional Sector.

a) Policy to Strengthen the Foundations of Democracy and Civil Society.

i. National Public Media Service Improvement Programme.
ii. Programme for Promoting Citizenship and Citizen Participation in Governance.

b) Good Governance, State Reform and Modernisation of Public Administration Policy.

i. Public Administration and Public Administration Reform Intensification Programme.
ii. Public Administration Reform Improvement Programme.
iii. Justice Administration Reform and Modernisation Programme.
iv. Economic and Financial Crime and Anti-Corruption Strengthening Programme.

c) Local Government Decentralisation and Strengthening Policy.

i. Administrative and Financial Deconcentration Programme.
ii. Local Government Decentralisation and Implementation Programme.
iii. Municipal Local Government Reform and Public Services Improvement Programme.

Cross-cutting Policies and Respective Budget Programmes.

d) Harmonious Territorial Development Policy.

i. National Geodesic and Cartographic System Improvement Programme.
ii. Road Infrastructure Construction and Renovation Programme.
iii. Programme for Construction and Rehabilitation of Public Buildings and Social Equipment.
iv. Demining Programme.
v. Urban Network Development Programme.

One of the systematic doubts concerns the MPLA governments' capacity to implement programmes of this kind, with an almost endless number of measures that are not backed up by statistical systems to control costs and effects.

11. Internal economic integration - The great opportunity of COVID 19

11.1 Integrated Economy Vectors

An integrated economy is one in which there is a high capacity for exploiting inter-sector relations, that is, in which the matrix of technical coefficients of production is as complete as possible. In practical terms it means that the economic sectors are part of a web of virtuous dependencies whose result is to obtain the maximum domestic added value.

But the integration of an economy also has a spatial aspect, which is of great importance in Angola, given the imbalances between the coast and the countryside. Integration from a sectoral perspective aims to increase the internal processing chain, while from a spatial perspective the aim is to bring growth and development to the areas furthest from the economic and institutional centers, as a way of reducing social inequalities.

Spatial integration also appeals to the constitutional principle of "national unity", in the sense of bringing maximum development to the entire national territory and sharing the associated costs in a balanced way. National reconciliation - required not only as a corollary of the end of the civil war - is also about the ethnic balances needed to build a collective feeling of belonging to the same nation. And this includes their involvement in the tasks and strategies for growth and development.

Even though there is no regional/provincial economic accounting matrix, it is, however, possible, through available statistics on the geographical location of business activities, to verify that the most outlying provinces of the country (northeast - Lundas, Moxico and Cuando-Cubango, centre-east - Malanje and Bié, and the hidden south - Cunene) are the poorest, the most unemployed and the farthest from a positive scenario of income sharing and attainment of acceptable living conditions.[148]

In 2019, the CEIC published a book entitled "Regional Economic Development in Angola", which studies and clarifies the weaknesses of the growth model and puts forward proposals for a less asymptotic growth of the national territory.[149] From its introduction it reads: *"The regional asymmetries in the country are well known [150] and there has been no growth model to mitigate them: the* countryside is increasingly countryside (unable to attract private investment, unsuitable to retain economically active population, far from the average living standards of the country, estranged from the major, decisive and strategic economic development decisions) and the coastline (central government) with increasingly convincing arguments to meet the conditions for the sustainability of its economic growth. The Private Investment Act will not be enough to reverse the trends of concentration of private initiative in areas that currently show conditions of competitiveness well above the national average, nor even to diversify the productive structures of the provinces (or even regions if one considers natural "affinities" between them). For example, the Luanda/Bengo region concentrates over 56% of all manufacturing, in sharp contrast to the central/eastern region (Malanje, Lundas, Kwanza Norte and Moxico), where less than 7% of manufacturing companies are located. And the relevance is even greater if we consider raw materials processing to be the most value-added for economies, increasing employment and national income.

148 Alves da Rocha - Desigualdade e Assimetrias Regionais em Angola, 2nd Edition, CEIC, September 2010.
149 Ana Duarte e Regina Santos – Desenvolvimento Económico Regional em Angola, Angola Catholic University Press, 2019.
150 Alves da Rocha - Desigualdades e As Assimetrias Regionais em Angola - Os Factores de Competitividade Territorial, 2nd edition, Catholic University of Angola/Scientific Research Centre, 2010.

Add to the Luanda/Bengo axis the Centre-West zone (Kwanza Sul, Benguela, Huambo and Namibe), and the concentration becomes absurd (80%), leaving large masses of the population confined to underdeveloped agriculture in the countryside regions.

The asymmetries are equally valid for employment, with around 70% located in those regions.

When it comes to national income - the crucial element of purchasing power and hence of the ability to generate critical demand for the profitability of investments - the disproportions are similarly striking, with Luanda over 75%. If we add Benguela and Kwanza Sul, the concentration of income on the coast of the country can reach 90%! There is a difference of 74 times between the province with the highest average income per capita (Luanda) and the one with the lowest (Moxico).

Therefore, the decentralisation model and policy must be equipped with more powerful and convincing instruments so that local governments can have some chance of economic survival. Public investment may have an important role to play here, especially in this new era of reduced political influence and interference in the choice of public expenditures so much to the liking of the previous government. The decision on the geographical location of public undertakings must be based on clear criteria of economic efficiency and their ability to help improve people's living conditions.

Do local governments hold any economic potential to reduce, to any extent, the current inequalities in income, job creation and enterprise creation verified at present? Or do they only correspond to political purposes related to the aspirations of the populations with greater autonomy and increased intervention in the definition of the options for their fate? What is the effective capacity, through the local governments, to attract economic activity and establish it, making it sustainable? What is the cost/benefit balance of organising territorially the country into administrative units of different sizes and, consequently, with different capacities to attract economic activity?

One can agree that the emphasis on economic aspects may be an overstatement. However, one cannot but agree with approaches on the spatial location of factories, farms and other productive activities based on the well-known agglomeration economies.

Some Economists have established the conditions under which productive units become more efficient when they are concentrated in regions with a larger market, in number of consumers and purchasing power. It is from this perspective that one can and should talk about the cost effectiveness of regionalisation. Purchasing power and the critical mass of endogenous demand in each region are the major calls for private investment, which obviously seeks profit and a return on these investments of capital. In addition, there are aspects related to the goods transport costs and information (especially the first one, at this stage of incipient technological development of most of the municipalities. If the costs are sufficiently low, companies will be able to enjoy scale economies, derived from the geographical concentration of production and low delivery costs. Paul Krugman argues that in a country well-endowed with roads, with low transport costs, the optimal location of a productive establishment will obey other criteria, such as small spatial differences in production costs.

For these conditions to exist, the road network must be up to the task of providing capacity for investment and economic activity. The state of degradation of the so-called secondary and tertiary road networks puts many municipalities aside from private investment.

And even public investment, as per the criteria of choice and location defined by Government institutions, has not been a factor in diverting productive undertakings to the municipalities most in need of them. It could be said that the government has opted to place public undertakings projects at the disposal of areas and territories where there is a higher concentration of production and service provision. A way of providing greater returns on private investment. To the evident detriment of territorial areas remote from urban centers and increasingly set aside from the processes of growth in added value. In this way, they worsen their condition of being on the margin of development and suppliers of undervalued labor and raw materials. The smaller the territorial extension, the greater the economic discomfort.

Another delicate aspect relates to population density, another element of markets' dimension. The very low population density of many municipalities, especially in the countryside, disconnects them from the national context, leaving them to engage in primitive and quasi-subsistence economic activities on the fringes of civilisation, making them vulnerable to foreign occupation by the neighboring countries. The issue under discussion here is the country's demographic policy, the optimal population size and the desertification of large areas of the countryside. But the relative low population size also influences the location of justice, health and education services: scale economies and public savings ultimately depend on the number of users in each municipality.

It should also be added that investment opportunities in Angola, from a provincial perspective, end up all being similar, even though **natural competitive advantages** can be identified related to the idiosyncratic characteristics of each province, such as mineral resources, forests, sea, arable land, livestock farming, natural beauty, historical and cultural incidents, availability of water, etc. However, and according to some empirical evidence revealed by detailed studies and even the evolution of economic thought, it seems that **built competitive advantages** end up prevailing and proving to be more decisive than natural ones. If this were not the case, it would be difficult to explain the permanent and systematic economic success of countries such as Switzerland, Austria, Japan, South Korea.

Undoubtedly, it is better to have natural resources than not. The concern is how to harness them and insert them into the different production systems and modes of production. The case of oil is paradigmatic, and the Dutch disease is the most complete example of the deficient, unbalanced and pro-business-political dominant classes' use of non-renewable mineral resources. Starting with the Netherlands, the devastating effects of rent seeking extended to developing countries rich in this mineral resource, but which do not have the resilience capacity of the Netherlands, basing their growth on weak, unbalanced productive structures, without human capital, technological capacity or inter-sectoral relationship matrices that add value and create jobs.

These considerations are worth noting that, internationally or internally within each country, there are other values that end up distinguishing countries from each other and the regions (provinces in Angola's case) within them, with human, institutional, social and business capital appearing today as differentiators and sources of progress. If they exist, there will be more investment opportunities and the ability to attract the private sector will be more relevant. And the explanation is simple: human capital, for example, is, until today and in the context of theories of Endogenous Economic Development, the only factor with increasing returns to scale, unlike land, physical capital and undifferentiated labor.
The provinces that manage to combine the availability of natural resources with these strengths will surely manage to transform growth potential into effective realities, creating more jobs, improving household consumption and even promoting transformations in their productive forces and relations of production.

Human capital is recurrently referred to in Angola as a necessity for economic development and social progress. "Verdade de La Palisse (La Palisse Truth)". However, and sometimes, many private and public entities and even individuals, when referring to it, do not have the dimension of its strategic importance, and do so only as a matter of fashion (such as diversification and even import substitution). For example, the provinces that can offer private investors a permanent, extensive and quality primary education system in Angola will ultimately have built a competitiveness agenda for themselves. Primary education is the cradle of development, it is where everything begins and if it is of good quality the downstream knock-on effects are immeasurable, especially on general labor productivity. But also, on the benchmarks for technical and university education.

Moreover, with quality human capital - it even seems like a redundancy, because human capital cannot fail to be of quality, by its very definition - research, both fundamental and applied, ends up being a corollary. Innovation, backed by fundamental and applied research, is the essential factor in the Theory of Economic Development of Joseph Schumpeter, one of the most brilliant economists of all times, with his "invention" of "creative destruction". The provinces must understand how to promote the emergence of Schumpeter-type entrepreneurs who are innovative, risk-takers, change-oriented and forward-looking. It is up to human and business capital to undertake this process of revolutionising the productive bases for growth.

The university explosion after the creation of the country's university regions (again under deep readjustment, according to the statement by the Minister of Higher Education), was an attempt, correct in the context and time in which it was outlined, to adjust the profiles of the skilled worker to the characteristics of each province and to try to stem the migratory flows toward the large coastal cities. This may be a case of adaptability of the characteristics of this factor of production to the natural comparative advantages of each province. Maximizing this natural advantage, through the qualification (training) of human resources in these specialties, may involve building collaborative bridges with other African countries in matters of training, research, and innovation.

As for the diversification of the economy - one of the aspects of regionalization economics - the adjacent and surrounding processes are complex, tributary to macroeconomic policies of restoring and guaranteeing fundamental balances (inflation, exchange rate, fiscal deficit, external current account deficit) and microeconomic policies of persuasion on private investment. "Good diversification" - this difference between good and bad diversification is conceptually wrong, but from a practical point of view it may help to better explain and understand its essential aspects - is based on competitiveness, related to the availability of differentiating natural resources and the quantity and quality of available production factors or else created based on physical capital - economic and social infrastructure - human capital and institutional capital.

These are the differentiating areas between the provinces, when the Constitution of the Republic is tremendously centralist and the economic policies to support the productive sectors are defined by the central government.

The diversification of the provincial productive fabric is closely related to the administrative and financial decentralization being carried out, and the more it deepens, the more freedom the provincial governments must maximize the natural or acquired advantages existing in their regions and areas of influence.

The diversification of the national economy must be the result of the diversification of the provincial productive fabrics, or it won't happen at all. If the reconcentration and decentralization currently being implemented make it possible to define their own specific regional/provincial economic policies, then support for the economic growth of each of them may be more effective, rational and efficient (resulting in economic activity, profits, salaries and taxes for social achievements). And one of the trial fields could be the public investment authorization processes in each of the provinces.

The more- sectorally and spatially- integrated - the economy is, the better able it is to respond to the challenges of sustainable development.

In the above introductory context, the structuring elements of a sectorally and spatially integrated domestic economy are:

- Efficient electricity and water production, transport and distribution networks that reduce the operational costs of production, improve the quality of life of the population and regional inequalities;
- Road, rail and maritime transport systems that reduce business costs, increase microeconomic productivity and promote free movement of people and goods;

- Growth centres and platforms, diffusers of development irradiation effects;
- sustainable occupation of rural areas, based on an appropriate expansion of agricultural, forestry, mineral and tourism resources; guaranteed access to land and transhumance activity;
- Innovation systems - technological, organisational and management - that improve the use of raw materials, intermediate products and labor, increase productivity and improve competitiveness;
- Legal and institutional instruments that promote fair competition - based on the entrepreneurial capacity of economic agents - in areas such as competition and pricing, risk coverage of bank financing;
- Mortgage credit, environmental protection, etc;
- Financial systems to support private investment, which promote and facilitate productive investment in any sector and Province;
- Support services to private entrepreneurship, in the areas of identification of business opportunities, project evaluation, systematisation of information on markets, technology and innovation.

Some criteria/indicators can be delimited for the consideration/evaluation of projects and public and private initiatives related to the construction of an integrated internal economy, in the perspective defined above. Therefore:

(a) For public economic infrastructure projects - after all, physical capital that is fundamental to facilitate sectoral and regional integration of the economy - the criterion should be the effects on the increase in the supply of goods and services and the indicator the increase in production and the increase in private investment (national and regional);
(b) for public projects aimed at the sustainable use of rural areas, the criterion should be the impact on beneficiaries and preservation of the environment and the indicator should be increased agricultural production and improved incomes;
(c) for public projects aimed at creating structural conditions for increased private investment, such as growth poles and industrial parks and zones, the criterion should be the impact on reducing territorial asymmetries and the indicator the increase in production and investment in inland regions;
(d) for institutional actions aimed at improving the macroeconomic climate and the functioning of the education, health and judicial systems, the criteria should be that they are in line with the objectives of macroeconomic regulation and the observation indicator should be the inflation rate.

The achievement of an internally integrated economy rests on several factors, including household purchasing power (i.e., the role of private final consumption) and the size of intermediate consumption (i.e., the density of intersectoral relations, multiplier and spillover effects, both sectoral and regional). Clearly, investment is important. However, without final demand and intermediate demand, national and provincial, who will it be produced for? For exports, only within 10 years (in the best of hypotheses) will the country be able to compete in international markets, even for products for which it has apparent competitiveness?[151]. The same is true for the start-up of companies in Angola. INE stated in its Business Yearbook 2016-[152] 2019 "The Angolan business *fabric, in terms of the number of registered units, recorded an ever-increasing trend over the period 2016 to 2019*". As shown below, the rate of enterprise creation - always positive during the period in question - contrasts sharply with the economic recession that occurred during that same period, which raises the question "what is the point of creating enterprises?

151 See Economic Report 2015 - Analysis of the Competitiveness of the Angolan Economy in SADC, CEIC, 2015.
152 INE - Business Statistical Yearbook, 2016-2019, Luanda, 2020.

	Growth Rate (%)		
	2017	2018	2019
Established companies	9,8	11,1	8,9
Awaiting Start-up	10,9	13,3	10,2
Active	7,1	6,7	6,2
Shut down	14,1	-5,3	-0,9
GDP Growth Rate (%)	-0,2	-1,7	-0,6

Source: INE, Business Yearbook 2016-2019

In 2019, there were 202496 business units registered in Angola, of which only 27% were active, with the remaining 73% awaiting start-up or shut down, in other words, 146539 companies.

	BUSINESS MOVEMENT (No.)			
	2016	2017	2018	2019
Established companies	152359	167330	185897	202496
Awaiting Start-up	104088	115472	130858	144210
Active	46096	49376	52689	55957
Shut down	2175	2482	2350	2329

Source: INE, Business Yearbook 2016-2019

	BUSINESS MOVEMENT STRUCTURE (%)			
	2016	2017	2018	2019
Established companies	100,0	100,0	100,0	100,0
Awaiting Start-up	68,3	69,0	70,4	71,2
Active	30,3	29,5	28,3	27,6
Shut down	1,4	1,5	1,3	1,2

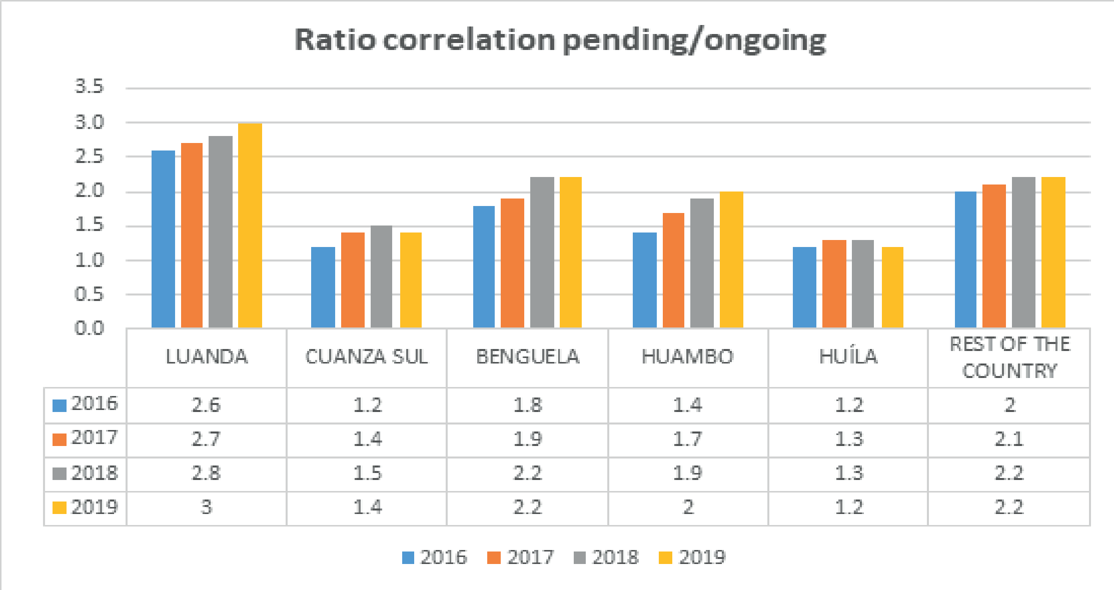
Source: INE, Business Yearbook 2016-2019

The discrepancy between companies in operation and companies waiting to start up is not fully understood: bureaucratic obstacles preventing them from fully operating (once established), or barriers related to obtaining financing, raw materials (imported and domestic) and skilled labor?

PENDING/IN-ACTIVITY CORRELATION RATIOS

	2016	2017	2018	2019
LUANDA	2,6	2,7	2,8	3,0
CUANZA SUL	1,2	1,4	1,5	1,4
BENGUELA	1,8	1,9	2,2	2,2
HUAMBO	1,4	1,7	1,9	2,0
HUÍLA	1,2	1,3	1,3	1,2
REST OF THE COUNTRY	2,0	2,1	2,2	2,2

Source: INE, Business Yearbook 2016-2019



	LUANDA	CUANZA SUL	BENGUELA	HUAMBO	HUÍLA	REST OF THE COUNTRY
2016	2.6	1.2	1.8	1.4	1.2	2
2017	2.7	1.4	1.9	1.7	1.3	2.1
2018	2.8	1.5	2.2	1.9	1.3	2.2
2019	3	1.4	2.2	2	1.2	2.2

Source: INE, Business Yearbook 2016-2019

The discrepancies are very significant in Luanda and notable in Benguela. In the rest of the country, the differences are also important, but more difficult to comment on because they bring together territorial spaces with different characteristics (for example, Cabinda, Uige and Malanje).

The sectoral integration of any economy depends on the links between the largest and most dense value chains, such as agriculture (and related branches), construction, manufacturing and energy. Areas of activity such as commerce, transport and distribution circuits and financial intermediation place themselves upstream and downstream to contribute to its functioning. It is not, yet. That is the reality of the country: *"Considering the distribution of companies in the different industries, in 2019, classified by Section of the Classification of Economic Activities (CAE) Rev.2, the "Wholesale and retail trade, repair of motor vehicles and motorbikes", "Accommodation and catering (restaurants and similar) ", "Construction", "Manufacturing industries" "Administrative activities and support services", "Consulting, scientific, technical and similar activities", and "Agriculture, animal production, hunting,* forestry and fishing' with 49.3%, 9.1%, 5.6%, 5.5%, 5.1%, 4.6% and 4.0% respectively".[153]

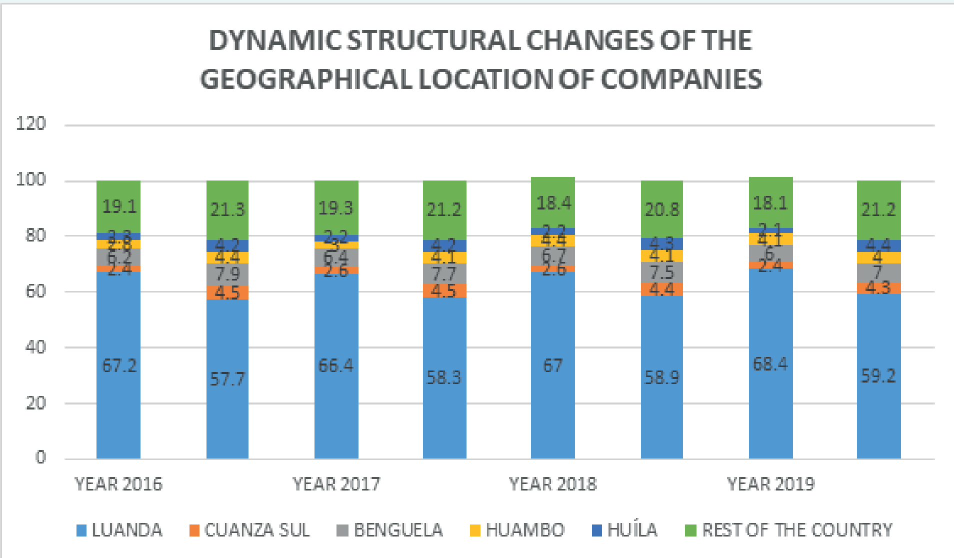
Internal regional balance still does not exist but may be the result of entrepreneurial freedom to locate their companies in the territorial areas most likely to provide rapid returns on investment. Provinces like Lundas, Moxico and Cuando Cubango are certainly not conducive to this. The further away they are from the nerve centres of political and financial power, the further they are from opportunities to create economic growth and collateral such as employment and poverty reduction.

153 INE - Business Statistical Yearbook, 2016-2019, Luanda, 2020.

CONCENTRATION INDICES (% of total)								
	YEAR 2016		YEAR 2017		YEAR 2018		YEAR 2019	
	Pending	In opera-tion	Pending	In opera-tion	Pending	In opera-tion	Pending	In opera-tion
	beginning		beginning		beginning		beginning	
LUANDA	67,2	57,7	66,4	58,3	67,0	58,9	68,4	59,2
CUANZA SUL	2,4	4,5	2,6	4,5	2,6	4,4	2,4	4,3
BENGUELA	6,2	7,9	6,4	7,7	6,7	7,5	6,0	7,0
HUAMBO	2,8	4,4	3,0	4,1	3,1	4,1	3,1	4,0
HUÍLA	2,3	4,2	2,2	4,2	2,2	4,3	2,1	4,4
REST OF THE COUNTRY	19,1	21,3	19,3	21,2	18,4	20,8	18,1	21,2

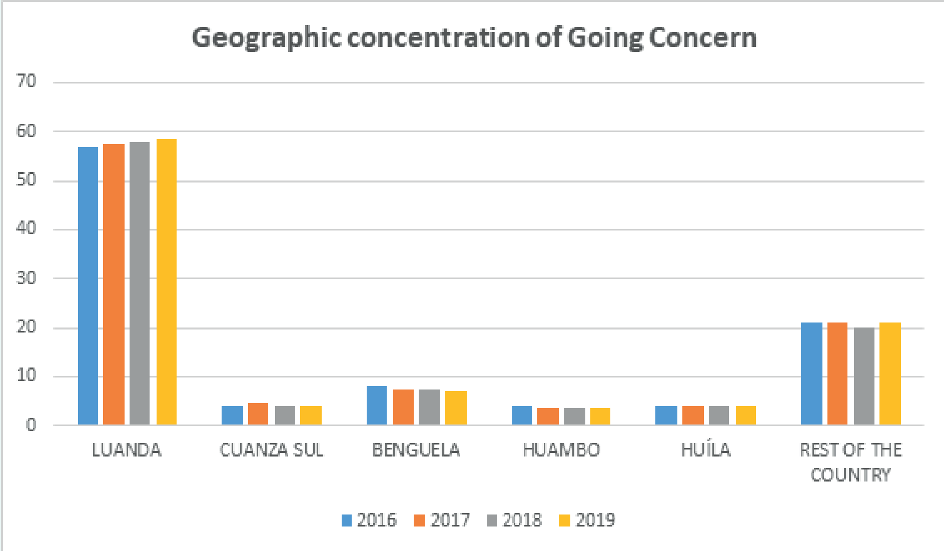
Source: INE, Business Yearbook 2016-2019

The concentration of business activity in Luanda has increased from 2016 to 2019 - a trend noted since the time of the civil war, when the country's capital and other large cities offered living and security conditions that did not exist in the interior provinces, which were closer to the actual theatre of military operations - and in 2019 almost 60% of businesspeople's preferences. In contrast, all the other provinces selected in the bouquet of five lost representativeness in the context of the country and the companies in activity. These diversities are enough to understand the need for and importance of administrative decentralisation (accompanied by deconcentration) and economic policies, without which the idiosyncrasies of each region and its natural comparative advantages (as mentioned above) cannot be exploited. Within the limits of the Constitution of the Republic and the principle of territorial unity, self-government must be considered in the design of development programmes aimed at reducing provincial and regional imbalances.



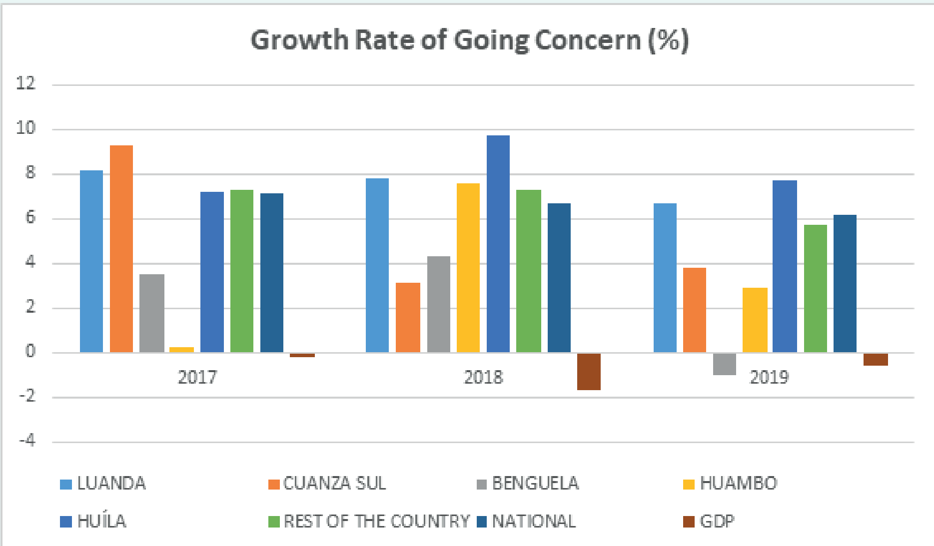
Source: INE, Business Yearbook 2016-2019

Companies in operation - those that ultimately create added value, employment and income - are mostly based in Luanda.



Source: INE, Business Yearbook 2016-2019

In all of Angola's provinces, the growth rate of active companies outstripped that of GDP.



Source: INE, Business Yearbook 2016-2019

In Angola, the risks to the resumption of the economic growth will be increased by the poverty raise and the continuation of the income redistribution model that has not yet undergone major adjustments - the essence of inequality remains the same as that of the previous government. GDP per capita will remain low until 2023, estimated at US$ 2014 in 2020 and US$ 1920 in 2021.[154]

But the most serious aspect of it is that the annual increments of this amount will decrease every year until the end of this legislature, which leads to the conclusion that the economic growth will not generate enough income for an increased distribution to improve the living conditions of the population.[155] As has already been stated in the CEIC Reports, Angolans are becoming increasingly poorer every year, a terrible symptom for the creation of a domestic market of reasonable dimension to support import substitution.

153 International Monetary Fund, Angola Assessment Report.
154 Annual increases in GDP per capita in US$: 2018 = -621; 2019 = - 400; 2020 = 97; 2021 = 6.

11.2 Regional/provincial Economic Accounts

The profile of the most or least productive regions can be estimated according to recent INE publications, and with this we will be able to conclude not only which regions produce a higher income, but also those that deserve more attention due to the prevalence of poverty and unemployment.

The previous paragraph gave more attention to the regional business situation, which showed that the more distant they are from the nerve centres of political and financial power, the further they are from opportunities to create economic growth and collateral, such as employment and the reduction of poverty and inequality.

The snapshot of households' social condition (Monetary and Multidimensional Poverty and Food Insufficiency)[156] in Angola clearly reinforces the debate on regional asymmetries, insofar as their incidence is a strong impediment to attracting greater private investment. It is not possible to understand what catalytic effects public investment has had in those areas (which suffer most from intervention), and it is therefore important to analyze its role in creating attractive conditions for private investment.

Source: INE- Poverty Report, Angola Multidimensional Poverty index, Inquiry into Expenditure, Income and Employment (IDREA).

As mentioned in previous chapters, Public Investments provide increased employment and production and reduce inequality, hence their relevance in reducing regional asymmetries.

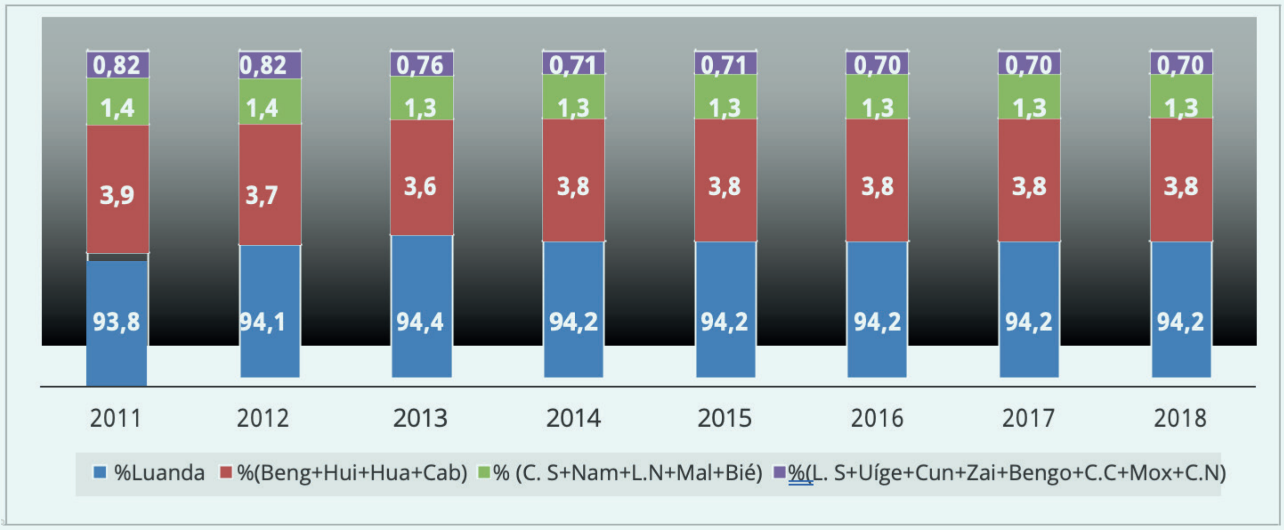
The reference to efficient electricity and water production, transport and distribution networks that lead to a reduction in operational production costs, improve the quality of life of the population and reduce regional disparities illustrates very easily the solution needed to achieve greater internal economic integration (IEI).

According to INE, Luanda concentrates more than 90% of the country's turnover,[157] followed by the region comprising the provinces of Cabinda, Benguela, Huíla and Huambo, with approximately 4%.

The concentration of productive activity explains the private sector's preference for those regions that offer greater attractiveness.

156 INE – Poverty Report 2018-2019
157 Condition that may well be interpreted as a proxy for private investment by each region

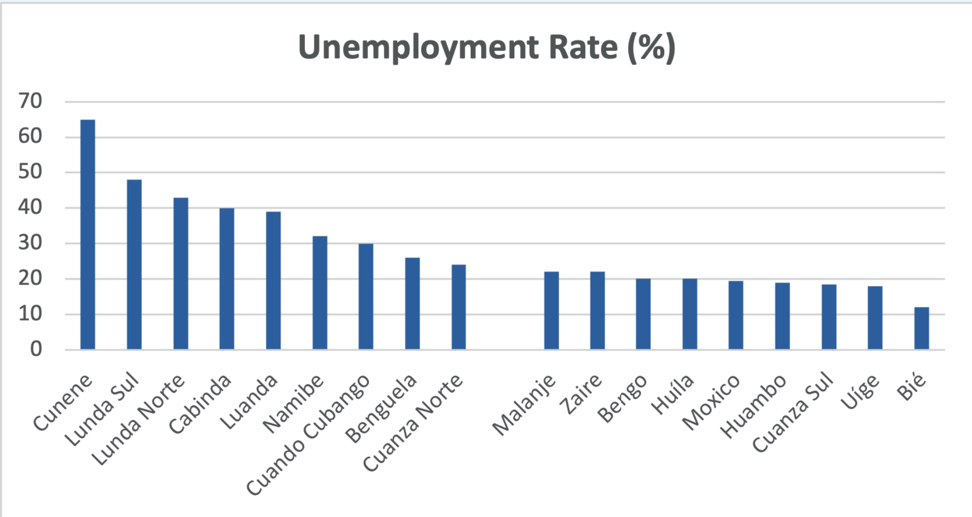
TURNOVER CONCENTRATION RATIO (%OF TOTAL)



Source: Calculations based on official INE documents

For there to be household purchasing power (the same is to say, the role of private final consumption) there must be employment. Unemployment, as a measure of the underuse of labor capacity and other factors of production, slows down free initiative and discourages private investment, whereby the role of public investment on employment in the short term and the creation of infrastructure to support the private sector in the long term becomes relevant.

The discussion on levels of spatial unemployment leads to other themes, in particular the capacities for training and integration of the national production matrix.



Source: INE - IDREA, 2018/2019.

The low level of unemployment[158] in some provinces is easily explained by the dominance of highly labor-intensive agrarian sector activities.

The high level of underemployment and the weak response of the formal sector to absorb the excess labor force, creates distortions that are conducive to the emergence of informal activities and low-quality employment.

The approach on the future evolution of any phenomenon implies the adoption of a diversity of analysis

12. The Future of the Economy and the Recovery Measures

tools, in which the **quantitative extrapolation of trends** stands out as one of the main forecasting techniques. In a longer-term perspective, scholars in the various areas of social sciences resort to **scenario building** techniques, through the adoption of a set of assumptions that allow exploring potential futures (or probable futures) and devising new paths.

In the economic sphere, scenario building seeks to order perceptions about alternative future environments in which today's decisions should be made and to prepare the living forces of society to recognize signs of change before they have manifested themselves.

To this effect, it is advisable to take into consideration three factors that enable the future evolution of economic indicators to be based on, namely: **i) events** - which are the visible and perceptible occurrences that enable the projection of the behavior of economic indicators; **ii) trends** - which are identified patterns of changes that explain the dynamics of the events; and finally, **iii) the underlying structures** - which provide the logical reference of the identified trends. This last factor brings us to what the literature calls basic assumptions for the construction of scenarios, where, for the objectives that guide this study we highlight only one, namely the **identification of the driving forces**, which are found within four predetermined contexts: the sociocultural and demographic context, the economic context, the political context, the technological context and natural resources.

The socio-cultural and demographic context makes it possible to analyze the evolution of the demographic structure in its quantitative and qualitative aspects and its impact on the structural changes in society. The **economic context** makes it possible to assess macroeconomic (impact of the exchange rate, interest or inflation), microeconomic and sectoral events (market share of foreign competition, existence of skilled labor and emergence of new disruptive technologies). In turn, **the political context** makes it possible to analyze the dynamics of political cycles (for example, the predictive analysis of the results of the next elections), the existence of dialogue channels between actors for consensus building, and the configuration of the country's legal or regulatory system. The **technological context and natural resources** allow us to identify the events resulting from the development of information technology, biotechnology and the emergence of alternative energy sources.

After this conceptual framework and considering the elements listed above, it seems necessary to unveil the theme on this chapter, suggestive and challenging, which is **the future of the economy and the recovery measures** through a more objective and concrete approach. Because the country is going through five years of economic recession - with visible consequences felt by all segments of the social fabric, with the systematic deterioration of macroeconomic indicators and worsening in the population's quality of life - the topic under analysis may also raise many explicit questions: what future, what measures and when?

Historical Analysis of the Development Plans of Successive Governments Since 2002.

158 The unemployment rate in Angola does not capture the quality of employment (Social Security and IRT), due to the strong presence of the informal sector in the labor formation process.

First, any forward-looking analysis exercise must necessarily involve a retrospective assessment of economic policy decisions and measures taken in the past, the level of achievement of objectives and targets, and the identification of possible bottlenecks that were at the root of the failure of successive governance programmes.

The instruments guiding countries' macroeconomic management - in a logic of partial intervention - are known as **economic programmes**, integrated into medium or long-term development plans, which incorporate policies, sub-programmes, projects, objectives and goals. Defined as a "global, sectoral or regional breakdown of the economic policy objectives set for a given period of time", economic programmes have been the subject of heated debate about the delimitation of the space for government intervention and the goals they pursue in order to confer utility and legitimacy, considering that the State's presence extends throughout the economic process. Therefore, beyond theoretical and conceptual abstractions, the presence of the state in the economy stems from three basic motivations: **i)** correcting imbalances in the distribution of income, **ii)** supplementing private initiative and **iii)** general coordination of economic agents, so that the aims of the economic policy in progress are achieved. Another motivation for state intervention is the correction of the so-called "**domination effects**", which result from the maladjustments resulting from the concentration of economic power, of which monopolies and oligopolies are examples.

However, it is important to note that the divergences on the substantive ends of economic policy and programming reflected in the doctrinal conflicts that mark the evolution of economic thought, have opened space for ideological debates, it broadened the framework of value judgements and eventually led to the establishment of differentiated economic systems according to the dominant political and ideological values.

In the case of Angola, the historical analysis of economic plans and programmes leads to the establishment of a cut-off period, with 2003 as the reference date, since no strategic plan or economic development programme is known to have been coherently drawn up during the period of armed conflict - which, as we know, lasts until 2002.

On the other hand, from 2003 to 2011 there was no record of a medium-term development plan, with only two-year government programmes, a situation that prevailed until 2012, when the National Development Plan NDP 2013-2017 was drawn up and approved in the 2012 elections won by the MPLA.

From 2003 to 2008 there were three short-term (two-year) government programmes that guided the country's economic management actions. A common element marks these programmes in terms of their overall objectives: "Consolidating the peace process and promoting national reconciliation", a transversal objective present in all the programmes during this period, which is justified by the fact that at the time we were still in the process of implementing the Luena Peace Agreements and the Government of Unity and National Reconciliation (GURN) was in force, which ceased in 2008 after the holding of elections that took place that same year. It was also during this period that the economy began to register double-digit growth rates (11.7% in 2008) driven by the boom in the price of oil on the international market. The table below summarizes the government programmes of the last 15 years and the main objectives they set out to achieve.

GOVERNMENT PROGRAMMES RECORD FOR THE 2003-2017 PERIOD

Order	Year/Period	Name the Name	General Objectives/Development Goals	Political Slogan
1	2003 - 2004	GOVERMENT'S DEVELOPMENT PROGRAM FOR 2003 - 2004	• Consolidate the peace process and promote national reconciliation; • Fight hunger and poverty and promote social stability; • **Macroeconomic stability achievement;** • Improvement of social services, namely health, education and Social Assistance; • Improving economic infrastructure and economic growth promotion, especially from the non-oil sector; • National human resources valorisation; • Capacity building of Govt. institutions and ensuring Govt. administration and justice throughout the national territory;	**Non-Existent** The programmes were in force under the Government of Unity and National Reconciliation (GURN)
2	2005 - 2006	GOVERMENT'S GENERAL PROGRAMME FOR TWO YEARS	• Peace consolidation and national reconciliation; • **Laying the Foundations for the Construction of an Integrated** and Self-Sustaining National Economy; • Re-establishment of the Central State Administration countrywide; • Human Resource Development; • Harmonious development of the country &Democratic Process Consolidation;	
3	2007 - 2008	GOVERMENT'S GENERAL PROGRAMME FOR TWO YEARS 2007 - 2008	• Peace consolidation and national reconciliation; • **Laying the Foundations for the Construction of an Integrated and Self-Sustaining National Economy;** • Re-establishment of the Central State Administration countrywide; • Human Resource Development; • Harmonious development of the country; • Democratic Process Consolidation.	
4	2013 - 2017	NATIONAL DEVELOPMENT PLAN	• Safeguarding national unity and cohesion; • Ensuring the foundations needed for development; • Improvement of the quality of life; • Youth insertion in working life; • **Private Sector Development;** • **Angola's competitive insertion in the international context.**	More Growth and Better Distribution
5	2018 - 2022	NATIONAL DEVELOPMENT PLAN	• **Priority 1-** Human Development and Welfare • **Priority 2-** Sustainable, Diversified and Inclusive Economic Development • **Priority 3-** Necessary infrastructures for development • **Priority 4-** Peace Building, Strengthening Democratic Rule of Law, Good Governance, State Reform and Decentralisation • **Priority 5-** Harmonious Territorial Development • **Priority 6-** Ensure Angola's stability and territorial integrity & Strengthening of its role in the international and regional context	Fixing what's broken and improving that which is good

With the political slogan ***More growth and better distribution***, the NDP 2013-2017 seems to have introduced a new paradigm in the country's macroeconomic programming process, as it presents a conceptual framework aligned with conventional economic planning and programming schemes that previous programmes did not include.

NATIONAL DEVELOPMENT PLAN 2013-2017

One of the new elements brought in the NDP 2013-2017 was clearly the conception of the cluster concept that embodies the also called "structuring projects".

During that political cycle the government planned to implement a considerable number of projects aggregated into six (6) priority clusters, seen as **catalysts for economic diversification**, namely: **i)** the agro-industry and food cluster, extractive industry cluster, **iii)** oil and natural gas production chain cluster; **iv)** services cluster; **v)** energy and water cluster; **vi)** transport and logistics cluster, all of which are in two industrial clusters: Industrial Development Centres and Special Economic Zones. A more careful analysis of the hierarchy of priorities allows one to perceive the incoherence in terms of the strategic vision of public policy formulators in Angola, to the extent that they put projects that induce structural transformations in the medium and long term in second place, giving them the classification of other (non-priority) activities, namely education and promoting entrepreneurship. Meanwhile, the level of implementation of the famous priority clusters fell short of expectations, and no progress report is known, nor is the impact on the structure of the country's economic and social fabric felt.

NATIONAL DEVELOPMENT PLAN 2018-2022

With a new guise, and to usher in a new era, the National Development Plan NDP 2018-2022, is basically replacing the NDP 2013-2017. With a more robust and detailed narrative, the NDP defines 6 Development Goals, 25 intervention policies and many objectives. Within the economic chapter, axis 2 on "Sustainable, Diversified and Inclusive Economic Development" stands out, with around six policies, namely i) Public Finance Sustainability Policy, ii) Business Environment, Competitiveness and Productivity Policy, iii) Policy to Promote Production, Import Substitution and Export Diversification, iv) Environmental Sustainability Policy, and vi) Employment and Working Conditions Policy.

To make the plan operational, the government created the Programme of Support for Production, Export Development and Import Substitution known as "PRODESI" - published by Presidential Decree 169/18 of 20 July - as the main instrument for the implementation of Axis 2, which defines a set of objectives aimed at expanding national production. The programme focuses on the promotion and production of 57 priority products, which are supposed to deserve differential treatment in the procedural process for granting credits. Another support instrument that has been designed to subsidies PRODESI is the Credit Support Project "PAC", published by Presidential Decree No. 159/19 of 17 May, which defines the package of incentives and financing facilities for 54 basic basket products and other industrial products such as cement, glass, paint and packaging. The latter is practically a replication of the Angola Investee Project (PAI), which ran from 2013 to 2017, with changes in some assumptions regarding the incentives model that are slightly more rigorous.

How will the economy be in the next 10 years?

One of the crucial issues of economic policy, whatever the institutional features of the economic system, is goal setting and prioritization. The explicitness of the fundamental objectives of economic policy in each period involves complex problems, situated not only at the technical level, but also in the political and ideological domain. It is intuitive that, for different political ideologies, different economic policy objectives are set, or at least objectives are ranked under different criteria. It may also be intuitive that the determination of objectives is subject to conjunctural variables, emerging short-term problems and the visualization of long-term structural transformations, which are imagined to be brought about by the economic policy in progress. In any case, two basic questions arise on the margins of all these problems: firstly, what does society want, given, on the one hand, the daily problems it faces and, on the other, the scale of values it wishes to preserve. Secondly, what do the ruling political elites propose to do, or even to what criteria do they submit themselves to in order to define the current economic policy? In summary, there are four known objectives to which governments undertake their line of action in the economic field: **i)** to promote economic growth, **ii)** ensure employment creation, **(iii)** price stability, and **(iv)** balance of payments stability.[159]

Any approach to the future evolution of the Angolan economy takes us back to a scenario-building exercise, the concept of which was developed above. To begin with, it is important to emphasize that the present economic situation is intrinsically linked to the historical context that created it, just as the future evolution of the economy will depend on what is being done today, on the principle that economic growth and development is a cumulative process.

In terms of economic policy, the government should not limit itself to simply stating broad objectives. It must be substantive, in the sense of converting objectives into concrete actions to influence the trajectory of predominantly economic variables in order to transform ends into results.

The fundamental programmes and objectives of the government's economic policy *verso* the economic diversification process

The history of societies portrays a diversity of examples that illustrate the evolution of the level of interest of politicians in the process of priority-setting and defining objectives for the resolution of various problems - be it economic, social or political - depending on the dominant agenda. Thus, a given problem, depending on the consequences it may trigger in safeguarding the interests of the ruling political class - within the logic of maintaining power - may be seen initially as a secondary problem and then evolve into a state of concern. To the extent that the situation persists and begins to show signs of creating some systemic dysfunction, the issue becomes a priority on the political agenda, and subsequently evolves into a state of absolute priority. Depending on the progression of the facts and their implications for the stabilization of the system, the problem becomes erected as an ideology, to the point of determining the dynamics and occupying the agenda of the politicians who hold power.

If we carefully analyze the history of the economic programmes, the objectives set and the level of execution of the projects that incorporate the respective programmes, we can easily conclude that the need to diversify the Angolan economy was always seen by the government as a **secondary** issue. The first oil shock in 2008-2009, which shook public finances, forced the government to adopt a concerned stance on the need for economic diversification. However, the budgets that followed and the programmes that supported them gave no indication of being interested in the process of diversifying the economy. It was from 2016, with the publication of Presidential Decree No. **40/16 of 28 February** - approving the Master Guidelines of the Strategy for Exiting the Crisis Derived from the Fall in the Price of Oil on the International Market - that diversification began to feature (at least on a formal level) in political speeches as an economic policy priority. Meanwhile, looking objectively at the macro-programme arrangements and the action plans underway, there are no signs that show the will to raise the diversification of the economy to a state of absolute priority - to be erected later as an ideology.

There are many reasons for this skepticism. The business environment is still worrying in every way.

159 These objectives are sometimes divided into two groups, specifically short-term objectives, which typically refer to solutions to short-term problems (e.g., inflation control, full employment, external balance), and structural objectives, which concern long-term issues (e.g., economic growth)

Structural weaknesses persist in all sectors of economic activity;

There are no substantial improvements in service delivery to users at the general government level.

In the field of programming, plans are drawn up without carrying out a thorough and solidly based diagnosis. The government does not seem to take this basic principle of the economic programming process seriously. Either diagnoses are poorly made or decisions are made on inflated information which compromises the desired results.

The incipient export sector for non-oil and non-diamond products faces various constraints, with high contextual costs, onerous and slow processes that deprive them of competitive advantages and often with loss of market share caused by delays in the expedition of goods.

The government is afraid of adhering to or effectively implementing commitments resulting from international agreements that could provide conditions for the country to participate in the global value chain, such as the WTO Bali Agreements signed in 2013 on trade facilitation that institutes the creation of the single trade window for the simplification of export and import procedures.

Because of these dysfunctionalities, Angola is always listed in the worst positions in international rankings. Some reforms carried out in 2018 and 2019 in the field of obtaining electricity, issuing building permits and improving the infrastructure of the Port of Luanda, led the country to rise seven places in the Doing Business report published by the World Bank - moving from the 182nd position in 2017 to 175th in 2018 - and climbed two more places in 2019 by rising in the 173rd position out of 190 countries assessed. However, the lack of sustainability in the implementation of reforms led the country to drop four places to rank 177th in the 2020 Doing Business report.

The same is true of other international reports, especially the global competitiveness report (ranked 137th out of 140 countries), economic freedom ranking (ranked 154th out of 162 countries), democracy index (ranked 117th out of 151 countries), while in the corruption perception index we are ranked 142nd out of 179 countries assessed.

All these factors do not help in the process of transforming the country into a place with greater added value and are unfavorable to the rescue of the confidence of national and foreign investors. The table below summarizes the main international rankings and the respective variables scrutinized for each index and Angola's position in selected years.

ANGOLA'S POSITION IN THE INTERNATIONAL RANKINGS:

Order	Indexes/Raking	Analysis Variables (score)	Angola's position and score			
			2017	2018	2019	2020
1	Index of Human Development	• Life expectancy at birth • Expected years of education • Average years of education • Gross National Income (GNI) per capita	147	149		
2	Global Competitiveness	• Pillar 1- Institutions • Pillar 2 - Infrastructure • Pillar 3 - ICT Adoption • Pillar 4 - Macroeconomic stability • Pillar 5 - Health • Pillar 6 - Skills • Pillar 7 -Product market • Pillar 8 -Labor market • Pillar 9 - Financial System • Pillar 10 - Market size • Pillar 11 -Business dynamism • Pillar 12 - Innovation capacity		137º/ (37.1/100)		
3	Doing Business	• Starting a business • Obtaining electricity • Processing of building permits • Property registration • Credit facilities • Protecting minority investors • Employed workers • Contract execution • Insolvency resolution • Payment of taxes • Cross-border trading • Contracts with the government • (soon)	182º (38.41)	175º (41.49/100)	173º (43.86/100)	177º (41,3/100)
4	Economic Freedom Index	• Area 1: Rule of law • Area 2: Legal System and Property Law • Area 3: Strong Currency • Area 4: International Trade Freedom • Area 5: Regulation	155º (5,17/10)			154º (52,2/100)
5	Index of Democracy	• Electoral process and pluralism (2.25) Functioning of • government (2.86) • Political involvement (5.56) • Cultural Policy (5) • Civil liberties (2.65)				142º (27/100)
6	Index of Corruption	Degree of transparency in the functioning of public institutions				142º (27/100)

12.1 Providing liquidity to the economy - avoiding unnecessary bankruptcies and protecting jobs

Short-term regulatory policies are the preferred set of policy instruments that governments usually resort to in order to influence the dynamics of the economy. Hence it is justified that since the onset of the crisis - which began to show its first signs in the last half of 2014 - the government has applied restrictive measures in the field of monetary and fiscal policy.

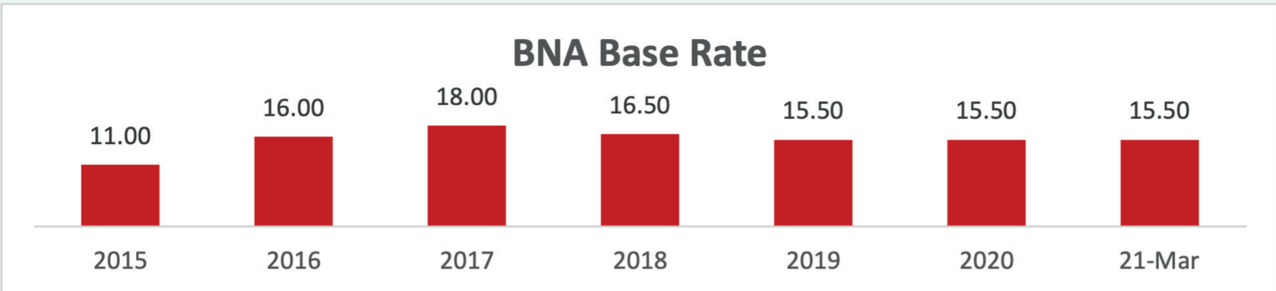
After deciding to liberalize the foreign exchange market, the BNA seems to have adopted a monetary policy strategy based on **targeting inflation**, the aim of which is to maintain price stability and control inflation. However, by favoring this strategy the BNA is assuming - at least implicitly - that the fight against unemployment is not in its interest.

If the BNA base rate remained at an average of 15.75% from 2015 to 2020, the reserve requirement ratio - an important instrument that determines the liquidity level of commercial banks for lending - stood at around 22% during the same period.

INTEREST REFERENCE RATES EVOLUTION

Indicators	2015	2016	2017	2018	2019	2020	21 March
BNA base rate	11,00	16,00	18,00	16,50	15,50	15,50	15,50
Marginal lending facility 1/	12,50	20,00	20,00	16,50	15,50	15,50	19,88
Permanent liquidity absorption facility 1/	0,00	0,00	0,00	0,00	0,00	0,00	0,15
Permanent liquidity absorption facility 3/	-	7,25	0,00	0,00	0,00	7,00	7,00
Rediscount Fee	15,00	20,00	20,00	20,00	20,00	20,00	20,00
Required Reserves Coefficient MN	25,00	30,00	21,00	17,00	17,00	22,00	22,00
Required Reserves Coefficient ME	15,00	15,00	15,00	15,00	15,00	17,00	17,00

Source: BNA (Angola National Bank)



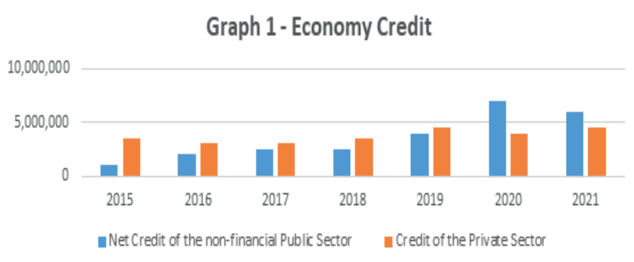
The **efficiency** of certain economic policy instruments is much discussed in the economic literature, depending on the multiplicity of objectives to be pursued. Nevertheless, there is empirical evidence that the action of monetary or fiscal mechanisms for cyclical adjustment depends on the stage of development of the country. The current composition of Angola's economic structure, in which the state has a significant presence[160]– via public spending - results in competition on the financial market - in the mobilization of resources for project financing. Data from the BNA shows that the State absorbs an average of 60% of credit against 40% from the private sector, with the flow of credit to the public sector having grown 54% over the same period, as opposed to only 5% of net credit directed at the private sector

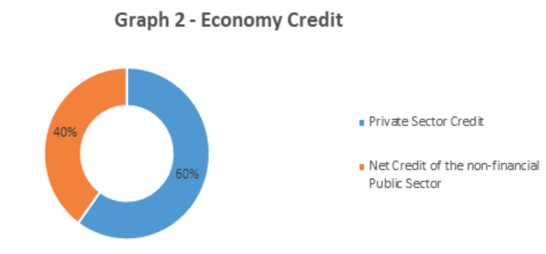
160 The GDP data from the perspective of expenditure published by INE indicate that the State's share of administrative expenditure and current consumption alone is around 10% of the total.

FINANCIAL OVERVIEW - CREDIT GRANTED TO THE ECONOMY

Description	2015	2016	2017	2018	2019	2020	2021
Loan lending to the industry Non-Financial Public	526 405,800	1 247 526,555	2 751 391,623	2 649 975,904	2 795 719,157	6 622 251,351	6 035 687,199
Private Sector Lending	3 406 783,720	3 375 203,736	3 344 827,731	3 829 041,589	4 644 479,435	4 345 729,591	4 400 957,896
Loan to the public Sector		137%	121%	-4%	5%	137%	88%
(Range) Private Sector Lending (Range)		-1%	-1%	14%	21%	-6%	-5%

Source: BNA (Angola National Bank)





Because of the current adverse environment, characterized by uncertainties, negative expectations and low levels of confidence regarding the future, agents holding savings have preferred to apply their liquidity to financial assets that present the lowest risk of insolvency. The nominal (market) interest rates for the remuneration of the Treasury Bills (360 days) are equal to 21.8%, which provides a significant margin when set against expected inflation which stood at 18.59% in the 2020 financial year. In this way the availability of liquidity in the economy to finance private sector investment - and consequent job creation- will depend essentially on the outcome of the reforms resulting from the fiscal consolidation process initiated by the government, in order to relieve the pressure on the credit market, to give the private sector more room to finance productive activity.

EVOLUTION OF INTEREST RATES OF RETURN ON INVESTMENTS IN FINANCIAL ASSETS

Treasury Bonds (TB)	2016	2017	2018	2019	2020
91 days	18,55	16,15	13,60	0,00	19,04
182 days	24,08	20,25	17,05	12,00	19,86
364 days	24,70	23,90	19, 06	14,68	20,81

Source: BNA (Angola National Bank)

12.2 Monetary policy and deficit financing - an efficient response

The classical conception of the balanced budget is both a theoretical and practical response to problems related to fiscal policy management, posed by the need for public expenditure, i.e., the functions exercised by the state. Addressing fiscal deficits has been one of the central issues in the conduct of macroeconomic policies in both developed and developing countries, and the restrictions imposed on economies that reach high levels of fiscal deficits and the consequent increase in the debt stock have given rise to several studies on the subject.

In a study entitled *Assessing Sustainability*[161] - published in 2002 by the International Monetary Fund (IMF) - four concepts are presented that seem extremely important for a thorough and rigorous analytical assessment of the evolution of Angolan public debt in the current context of the macroeconomic environment. These are the concepts of solvency, liquidity, sustainability and external vulnerability.

According to the said study, assessing debt sustainability means, firstly, forming a view of how the stocks of outstanding liabilities are likely to evolve over time. This requires projecting revenue and expenditure flows - including those relating to debt service - as well as possible exchange rate changes (given the currency denomination of the debt). The projections of debt dynamics therefore depend on the macroeconomic evolution of the country, but also on the financial markets, which are intrinsically uncertain and highly variable. Here, a key factor is clearly the availability of markets to provide financing, which determines the costs of debt reversion. Another important factor is that the sustainability of a country's external debt depends on the balance sheets, balances and revenues of the various sectors that make up the government, the banking system, the corporate sector and households, which are also linked together in the constitution of real and contingent liabilities. All these factors should be incorporated into the sustainability assessment process to the extent that this is possible given the availability of information.

As part of the fiscal adjustment programme announced by the Government, the Medium-Term Debt Strategy 2019 - 2021 provides for the adoption of debt sustainability measures as one of the fundamental axes of the fiscal consolidation strategy, with reference to the macroeconomic framework for the coming years. One of the main objectives of the strategy is the implementation of actions to improve the cost and risk profile of the debt and to support its sustainability.

Through the programme resulting from the technical assistance that the IMF is providing to the Ministry of Finance, the government has set a goal of changing the trajectory of public debt, bringing it after 2021 to levels close to 60% of GDP, as established by SADC.

12.3 Direct responses to the most affected sectors (manufacturing, trade, agriculture, transport)

As described in the report on the rationale for the 2020 State Budget, the government is looking to revive the economy with measures included in the National Development Plan aimed at the productive sector to boost the diversification of the economy. Profiled among these measures, in the framework of the NDP 2018-2022, are the following:

Credit Support Programme (PAC), designed to give substance to the main objectives of PRODESI, has a duration of 3 years (2019-2022), and applies to investment projects that are expected to contribute directly or indirectly to the domestic production and essential goods. The programme aims to provide access to funding for private investments inserted in the production and commercialization chain of 54 basic basket goods and other priority goods of national origin registered with PRODESI.

Stimuli from the Central Bank for Financing the Economy through BNA Notice 4/19 of 3 April, which aims to stimulate banking financial institutions to grant credit to national producers of goods considered essential for the basic food basket and others that can be exported in the short term. The notice is imperative, since the BNA obliges banking financial institutions through this rule to give priority to covering the foreign exchange needs that directly or indirectly contribute to the production of the goods mentioned.

161 Assessing sustainability, in a literal interpretation. The study can be accessed through the following link: https://www.imf.org/external/np/pdr/sus/2002/eng/052802.pdf

The PROPRIV Privatization Programme, which provides for the privatization of 195 companies, of which 32 are classified as reference companies, and is part of the objectives of Improving Public Finance Management. If successfully implemented, PROPRIV is expected to be one of the main challenges in the process of change towards a new development paradigm underway in the country, based on the active presence of the private sector in the main sectors of the economy.

The Integrated Plan for Intervention in Municipalities, which covers all the country's 164 municipalities and includes a vast and diversified range of projects, is estimated to cost US$2 billion, resources drawn from the Angolan Sovereign Fund.

The Action Plan for the Promotion of Employability (PAPE) is a project to promote entrepreneurship that targets young people, with preference for women, and is seen as an instrument to respond to the problem of unemployment that affects several families, particularly young people. The programme has a budget of 21 billion kwanzas, equivalent to US$65.6 million funded by the state, and is expected to be implemented over a three-year period, that is, from 2019-2021.

Strengthening the Process for Settling Arrears is another initiative included in the State Budget that aims to reduce liquidity pressures on companies, the realization of which should have a positive impact on the real economy. in this regard, the government acknowledges that the volume of domestic arrears, accumulated over the past few years, is a great burden on the productive economy and represents a weakness in the public finance management system, negatively affecting the economy. Following this programme, the government will have already settled during the 2019 financial year, about 250 billion kwanzas of debts to various suppliers.

12.4 Levels of investment needed to promote economic growth

If the government really wants to promote the structural changes that the economic system needs, it will not be enough just to ensure adequate levels of public investment to achieve this. A comprehensive review of the current public policy implementation model and strategy will be required first. What is more, it will also require a new direction in the design of economic policies. A new orientation does not necessarily mean increasing resources, but only increasing systemic rationality in the use of resources and the execution of existing programmes. This requires that the horizontal coordination of various actors must be complemented by vertical coordination between the various levels of action. This means that, the state needs to understand that the efficiency and productivity of enterprises do not depend only on their own effort and decision, but to a large extent, on the government machinery, and on other conditions that fall within the sphere of government decision.

Hence, the regulation of economic and financial activity should be done through comprehensible rules that are relatively stable and flexible to be applied. From 2017 to 2021 there have been three changes in the tax system, with the introduction of successive changes to different tax codes (industrial tax, labor income tax). The introduction of VAT in 2019 and the confusion that has been generated around its application - regarding the tax arithmetic of the different regimes - has created further constraints on the business class that is said to operate within an already adverse business environment.

In the current situation, the investments needed to relaunch the economic growth process must be those with greater backward and forward linkage power, within a systemic and structural vision. Below are described some investments that are necessary to create the basic conditions to stimulate economic growth in the medium and long term; they are:

Investments aimed at improving the skills of human resources Investments aimed at anticipating structural changes, whether pioneering ones aimed at expanding the economic area or structural ones aimed at reducing the import coefficient. Infrastructure-type investments, which require a long maturation period.

Other investments with the potential to generate immediate results to soften the vulnerability to shocks caused by oil price fluctuations are those aimed at expanding the exploitation base of economically usable and commercially viable natural resources. In this area it would be opportune to take advantage of the results of the National Geology Plan “PLANAGEO” financed by the government and inserted in the **mining industry diversification programme**, which aimed to inventory the existence and potential of mineral resources that the country harbors. Launched in 2014 with a budget of over $400 million, to date there is no official public document on the preliminary results of this study.

Still on this subject, it is worth remembering that in 2015 a Multisectoral Commission was created - through **Presidential Order no. 60/15 of 16 June** - to carry out studies leading to the creation of Mining Development Centres in areas where PLANAGEO revealed great geological and mining potential, coordinated at the time by the Minister of Geology and Mines and comprising eleven other ministerial office holders, namely: Minister of Planning and Territorial Development; Minister of Economy; Minister of Energy and Water; Minister of Transports; Minister of Urban Planning and Housing; Minister of Industry; Minister of Environment; Minister of Agriculture; Minister of Telecommunications and Information Technologies; Secretary of State for Mines and Secretary of State for Economic Affairs of the Civil Office of the President of the Republic.

Recommendations of the studies and diagnoses on the diversification of the Angolan economy.

What are the most predominant constraints to relaunching growth in the Angolan economy? Internal or External Factors? A comprehensive study recommended by the government in 2014 called “Study of Diversification of the Angolan Economy”, commented that “The strong growth experienced by Angola in the last decade has been sustained by a model essentially supported by oil production. However, in the future, the sustained development of the Angolan economy will not be possible based on this model since: the volatility of international oil prices is high; according to some studies, it is expected that the quantitative production of oil will decrease; the international demand for oil may decrease in the long term since the oil-based energy model is highly penalizing in terms of negative externalities on the environment; renewable energy sources may be exploited in the future at lower costs due to technological progress. In addition, the intensity of physical capital relative to labor is very high in the oil sector and, as a result, this sector generates little employment”.

To this end, the study lists a set of factors that the authors classify as **Key Factors for the Diversification of the Economy. The following are some of these factors:**

Fiscal and customs system, which should include preparing the revenue administration to implement the reform; dissemination of the reform to taxpayers; insertion of Angola in international taxation; increase in accounting organization; improvement of the legal framework for the economy; control of the informal economy; improvement in fiscal illiteracy.

Business sector. The great objective of diversifying the Angolan economy essentially involves the virtuous articulation of public policies and productive investment. Private economic agents, both national and international, should play a determining role in the development of the non-oil business fabric. However, besides the intrinsic attractiveness of the sectors where Angola has an advantage - as shown in the study - it is necessary to develop the business context and environment, creating conditions of security, infrastructural support and fluidity in decision-making processes. In this domain, the **role of the State** should be guided by three lines of action: i) overcoming constraints of a bureaucratic-administrative nature, an unavoidable priority for facilitating investment; ii) completing the infrastructures essential to the development of the productive fabric - essentially energy, water and road networks - and creating favorable conditions to strengthen the most promising industrial sectors; iii) pursuing its economic programmes, focusing the public investment effort on sectors where private capital is insufficient and, at the same time, on employment creation and regional development policies.

International, Regional and National Integration. The authors of the study we are quoting from consider that the most consensual definition of diversification is the capacity of a country to produce a variety of products related to various sectors of activity. However, diversification should be understood as more than this, as production capacity can easily be replaced by imports of products from other, more competitive countries, unless protectionist policies and measures are put in place. The revised customs tariff in 2017, pointed in this direction, which could make some sense for a while, to give domestic industry and agriculture room to prepare for competition. However, in order not to run any other kind of risk, it is recommended that protectionism be a time-limited policy. Thus, diversification should be characterized as the capacity of a country to produce, but also to export a greater variety of products, and preferably products that require some complexity in their production process, because otherwise, we can limit ourselves to only exporting raw materials and little else, contradicting the need for diversification. Therefore, a country that is not very diversified is a country that exports little variety of products, and eventually unsophisticated products, such as raw materials. Countries can grow, quite a lot even, with poorly diversified economies, but only if raw materials are well priced on international markets. And, as is well known, this is an unsustainable form of growth.

Thus, if on the one hand Angola is not very far off the reality of all Africa in terms of the weight of foreign trade in total production, the same is not true about the variety of products that comprise this foreign trade, where on average Africa exports 11 products per country, compared to only one exportable product from Angola.

Another aspect pointed out in the study is the **reconversion** of the informal economy. The formalization of the informal economy in the Angolan context should be a strategic priority, in order to contribute to the normalization of the economic process and, indirectly, to subsidize the process of diversification of the economy.

Natural Resources. It is unquestionable that Angola is a country with an abundance of diverse natural resources, so diversification efforts must necessarily involve taking advantage of these resources.

Diversification sustained on the use of Angola's natural resources will be a healthier diversification insofar as:

a) it will allow for the correction of some regional asymmetries, through the development of productive activities, infrastructure and employment in the places where the natural resources are located;
b) it will enable the construction of clusters, developed, moving up the value chain, based on the exploitation of a given natural resource.
c) It will boost Angolan exports, contributing to their diversification.

Strategic Guidelines

In the design of the diversification strategy, **11 guidelines were defined** that underpin the **recommendations and actions proposed** in the study and which seek to guarantee that Angola's current challenges are duly addressed and overcome.

The strategic guidelines derived from the action model **aim to establish guidelines for action** to meet the objective of diversifying the Angolan economy and the respective sustainability objectives. The aim was to outline the path of diversification to be followed to ensure greater focus on the objectives that Angola proposes to achieve in the future. The following guidelines are then outlined:

1. Stabilization of short, medium and long-term macroeconomic policies
2. Implementation of institutional reforms, procedural efficiency and intermediate coordination and control mechanisms
3. Development and improvement of the competition system
4. Profitability of the factors of advantage
5. Attracting and encouraging investment and private initiative (business environment)
6. Regional development, reduction of asymmetries and environmental sustainability
7. Investment in health, education and specialized training
8. Development and roll-out of essential infrastructure
9. Stimulating the formalization of economic activities
10. Diversification of funding sources
11. Integration into the regional and global economy.

Endnote

Economic policy objectives almost always target two different types of problem situations: structural ones and cyclical ones. While the latter are theoretically subject to short-term corrections or mitigation, those of a structural nature imply the formulation of long-term objectives. Short-term solutions to problems of a structural nature require the adoption of surgical measures that are not always compatible with the preservation of certain institutional situations. Therefore, the cyclical context has played a decisive role in the choice and prioritization of economic policy objectives.
In the management and implementation of economic policies, optimal solutions are often difficult to achieve. However, it is possible to try to harmonies conflicts by balancing costs and benefits in order to make economic decisions that are compatible with political constraints and social demands.

13. The new concepts of Economy that will help build the NEW WORLD ECONOMY

What Angola must start learning

Can (should) Angola (and low- and middle-income countries) be green (s)?[162] Current social, health, climate and economic conditions can and should be used as a golden opportunity to identify and define that ecological degradation (including climate change) should not be a secondary concern until countries become (more) 'rich' enough to consider it. But the argument that this Environmental Concern is unimportant because economic growth will end up cleaning up the very pollution it creates to replace the resources it depletes is no longer valid.[163] The question today is how prosperous the economy can become, considering the ecological capacity of the earth, because in fact, there is no economy without the environment.[164] the use of goods and services and the technology available to produce them must respect the biophysical limits imposed by the global ecosystem.

Regardless of the income level of each country, traditional economic theory has ignored the natural/environmental system in its analyses and theoretical models, treating the environmental problematic from the perspective of externalities only (unintended positive or negative effects arising from the production and consumption decision of an economic agent on other agents that may generate a loss or gain in the level of welfare), which means external to the market. In other words, externalities have been treated by traditional economic theory as an exception to the rule.[165]

Although this neoclassical approach is progressively adapting to the new (bio)economic dynamics, reflected by the fact that in countries with (higher) incomes we are living in a time of technological innovation in which energy is increasingly renewable and the carbon intensity of the economy is increasingly lower; it is, however, also true that materials are extracted, consumed and wasted at an ever-increasing rate. Water is increasingly scarce and the soil increasingly arid. For low- and middle-income countries, although they do less damage to the global environment because there are arguments which maintain that their annual per capita carbon emissions represent a lower percentage (when compared to the emissions of higher income countries), climate damages as a percentage of the indicator Gross Domestic Product (GDP) are relatively high.[166] In the particular context of sub-Saharan Africa, despite empirical evidence that it is the region that has contributed the least to greenhouse gas (GHG) emissions (only 3.8 per cent of global GHG emissions, compared to 23 per cent for China, 19 per cent for the US and 13 per cent for the European Union),[167] it is the region of the world most vulnerable to climate change. Rising temperatures, sea level rise and precipitation anomalies are increasing the frequency and intensity of natural disasters and considerably transforming the geography of the region.[168]

162 According to the United Nations (2011), a Green Economy is "one that results in improved human well-being and social equity while significantly reducing environmental risks and ecological scarcity. At its simplest expression, a green economy can be thought of as a resource-efficient and socially inclusive low-carbon economy."

163 "India has had a remarkable economic performance," says Muthukumanara Mani, chief environmental economist at the World Bank, "but this is not reflected in its environmental achievements" (Mallet, 2013). This idea applies to other (all) countries. Mallet, V. (2013) «Environmental Damage Costs India $80bn a Year», Financial Times, 17 July 2013, http://www.ft.com/cms/s/0/0a89f3a8eeca-11e2-98dd-00144feabdc0.html#axzz3qz7R0UIf.

164 Raworth (2017).

165 The credo of 'more stuff' puts pressure on individuals, businesses and governments to pass over anything that might hinder economic growth, be it protecting ecological balance or preserving social equality (Harari, 2015).

166 Lopes (2020).

167 IMF (2020).

168 World Economic Outlook, edition of October 2017 Chapter 3.

Also, in the context of an innovative (and adjustable) (bio)economic approach, it is imperative to design an economy that promotes human prosperity whether GDP is rising, falling or remaining stable. That is, to create and promote economies that make people thrive, whether they grow or not.[169] That is, is it possible for the Economy/Humanity to be like the Amazon, which develops, refines and improves sustainability in the long run, but without getting bigger?[170] The current argument in neoclassical economic theory, is the existence of economies that need to grow whether they make their populations thrive or not. It is in this context that the economist Dambisa Moyo argues that "if growth diminishes the risk to human progress, the risk of social and political instability increases, and societies become vaguer, more imperfect and smaller".[171] Meanwhile Benjamin Friedman in The Moral Consequences of Economic Growth argued that it is not high incomes but rising incomes that foster "greater opportunity, tolerance of diversity, social mobility, commitment to justice and dedication to democracy".[172]

However, we need an economy that makes its people prosper, whether it grows or not. In fact, growth and prosperity are not necessarily related. Growth is not synonymous with quality of life and the current worldwide economic growth is putting humanity on a trajectory that will prevent it from surviving within a century[173] in fact, the very concept of GDP as an economic metric - created to measure industrial production during the 1st Industrial Revolution - should be reconsidered in times of the 4th Revolution.

Also, in the context of this concept, a universally used economic model, all economists acknowledge the fact that it does not account for welfare measures or production values that are considered "non-formal". Both dimensions (well-being and "non-formal") that are highly important in promoting levels of prosperity are not valued by GDP, because this indicator only values things that have a price and are traded.[174]

In the context of developing economies, absolute poverty rates (the fraction of those living on less than $1.90 per day in PPP)[175] have halved since 1990,[176] and this is partly due to economic growth. In other words, economic growth remains important for very poor countries. However, when people are extremely poor, it takes very little growth in their incomes to raise them (i.e., put them above $1.90 per day per person). Perhaps because the definition of extreme poverty places the slice too low, economic growth in developing countries has allowed major and important improvements in the quality of life of the poor. The new 'Sustainable Development Goals (SDGs)' propose ending extreme poverty (those living on less than $1.25 a day) by 2030 and it is quite possible that this target will be met if the world continues to grow in a similar way to what it has done.[177] This demonstrates how important economic growth remains for poor countries.[178] However, it is also very important to recognize that and despite these arguments, like 'rich' countries, there is no recipe for making growth happen in poor countries. Still, and despite evidence that in the developing world, growth is sometimes impeded by overt abuse of economic logic, the outcome of "right" economic policies is also inconclusive.[179]

169 Raworth (2017).
170 Attenborough (2020).
171 Moyo (2015); Raworth (2017).
172 Friedman (2006); Raworth (2017).
173 The economist Giorgio Kallis explains well this paradox: "It's crazy the idea that an Economy can continue to grow at, for example, 3% a year." Can the economy continue to grow indefinitely? Won't it eventually run out of resources and be forced to stop? In order to ensure perpetual growth, we must discover an inexhaustible reserve of resources (Harari, 2015).
174 When a rickshaw driver in Calcutta takes the afternoon off to spend time with his girlfriend, GDP goes down, but how can welfare not grow? When a tree is cut down in Nairobi, the GDP accounts for the labor used and the wood produced but does not deduct the shade and beauty that is lost (Banerjee and Duflo, 2019).
175 Purchasing power parity (PPP) is a metric that compares the currencies of different countries using an index for purchasing power.
176 "Poverty", World Bank, 2019, https://www.worldbank.org/en/topic/poverty/overview#1, consulted on January 3rd, 2021.
177 The SDGs constitute the global development agenda for 2030. In 2015, 17 objectives were identified with 169 objectives that should be targeted by public policy and business strategies in the financial sector.
178 Banerjee e Duflo (2019).
179 "After two years of work by the commission consisting of 21 experts and world leaders, an 11-member working group, 300 academic experts, 12 seminars, 13 consultations, and a budget of four million dollars, the experts' answer to the question of how to achieve high growth was basically: we don't know, but we trust the experts to figure it out." (Banerjee and Duflo, 2019: 227).

Interestingly even the International Monetary Fund (IMF), long the bastion of the orthodoxy of growth above all else, now recognizes that sacrificing the poor for the sake of growth is a harmful policy. It now requires its country teams to include inequality in the factors to consider when providing strategic guidance and setting the conditions under which countries may receive IMF aid ("Guidance Note for Surveillance under Article IV Consultation," International Monetary Fund, 2015).

In the end, the essential thing is to assume that GDP is a means and not an end. It is a useful means when it creates jobs, increases wages, or "fattens" the state budget so that it can redistribute more. However, the goal is still to improve the quality of life for ordinary people, and especially for those who are worse off. And quality of life means more than just consumption. It is important for human beings to feel dignified and respected. While it is true that a better life is partly about being able to consume more, everyone (regardless of their income level) cares about their parents' health, their children's education, making their voice heard, and being able to pursue their dreams. A higher GDP may be one way to enable this for the poor, but it is only one way and may not always be the best. In fact, quality of life varies greatly between middle-income countries. For example, "Sri Lanka has about the same GDP per capita as Guatemala, but maternal mortality and infant mortality are much lower in Sri Lanka (being comparable to those in the US).[180] Another example shows that a dramatic reduction in under-five mortality has occurred, even in some very poor countries that were not growing particularly fast, largely thanks to newborn care, vaccination, and malaria prevention.[181]

In 2019 New Zealand took the bold step of formally abandoning GDP as its primary measure of economic success and created its own index based on the most pressing national concerns where the "three pees" - profits, people and Planet - were represented.[182] Another important example to highlight is the **United Arab Emirates which ranks twentieth in the** UN World Happiness **day which rests on indicators such as healthy life expectancy, freedom to make choices, social supports and perception of corruption.** Dubai has a minister of happiness and well-being (in the Ministry of Happiness). The Department in charge of promoting a smart city has established a Happiness Agenda in which one of the goals is to achieve 95% happiness by 2021, through a program that aims, among other things, to educate people on happiness and promote happiness in real time based on data analysis.[183]

When the question is - how can an economy prosper, whether it grows or not - the answer includes the need to create and develop economies that are distributive and regenerative (butterfly economy and/or circular economy) as opposed to the current economic dynamics that are not distributive and are degenerative (caterpillar economy and/or linear economy).[184] The current economic growth model is heavily based on a linear economy, dependent on permanent production from materials extracted, treated and processed into goods that, at the end of their life cycle, are disposed of as waste or emissions. It is important to reduce the consumption of primary raw materials and to promote a more sustainable destination for waste through industrial symbiosis and valorization as a resource. It is smart to create economies that restore and renew the life cycles, from local to global, on which human well-being depends.[185]

In the context of this circular economy, it is studied how the products consumed can be produced with fewer resources and ensuring that at their end of life they can still be inserted back into the production system of another good, to avoid creating waste.

180 (Banerjee and Duflo, 2019: 249).

181 htpp://data.worldbank.org/indicator/SH.DYN.MORT?end=2017&locations=GT-LK-US&start=2009, accessed on 10 January 2021. Money investment alone does not provide a true education and good health. However, the good news is that, unlike with growth, it is possible to know how to make progress in these matters (Banerjee and Duflo, 2019: 250).

182 Environmental economists are focused on building a sustainable economy. Its ambition is to change the system so that not only markets around the world benefit from the profits and gains, but also the planet and people therein. They call that the "three p's".

183 https://pt.euronews.com/2019/07/30/dubai-quer-atingir-95-de-felicidade-em-2021 consulted on 16 April 2021.

184 Distributive economies include dynamics that tend to disperse and circulate value as it is created, rather than concentrating it in fewer and fewer hands. Economies are regenerative when all people become full participants in regenerating the earth's life-giving cycles so that prosperity happens within planetary boundaries (Raworth, 2017).

185 Raworth (2017).

For this to happen, it makes sense to promote the identification of waste that can become raw materials for other products; that some products can be biodegradable at the end of their useful life; to promote the bioeconomy;[186] the emergence of new businesses related to the use of goods, and the enjoyment of the service of a good, and not exactly the possession of that good (Santos and Duarte, 2019).

Instead of accepting growing inequality as a law of economic development, an inevitability that must be endured until, allegedly, growth provides equality, the economists of the century. XXI should seek to make economies much more distributive of the value they generate. Indeed, it is a mistake to imagine that it is possible to keep the focus on economic growth and let inequality take care of itself.[187] And this is a very important message, especially for policymakers in low- and middle-income countries like Angola. In this context, a key strategy is the need to not only change the distribution of income, but also of wealth, that which arises from control over land, the creation of money, initiative, technology, and knowledge.

It is already possible to identify low- and middle-income countries where there are villages, towns and cities that are adhering to regenerative design principles. The following examples can be cited:[188]

Bangladesh is aiming to be the first solar-powered nation and is providing solar engineering training to thousands of women who can install, maintain, and repair renewable energy systems in their own villages. In Ethiopia, more than 220,000 hectares of desertified land have been regenerated since 2000 thanks to farming communities who have built terraces and planted shrubs and trees. They have transformed once arid hillsides into lush valleys that provide grain, vegetables, and fruit to surrounding villages and towns, while fixing carbon, storing water, and reclaiming soil.[189] In Kenya, social enterprises like Sanergy are building hygienic latrines in slums and turning 100 percent of the human waste they collect into biogas and organic fertilizer for sale to local farmers-improving human health and creating much-needed jobs while reducing nitrogen pollution and increasing soil fertility.[190] The progress of these investments needs to be properly monitored, however[191] In the context of the butterfly economy (distributive and regenerative), it is important to create and promote the social economy.[192] In the context of the butterfly economy (distributive and regenerative), it is important to create and promote the social economy. In fact, "all societies, because they are dynamic, contain within themselves, coexisting side by side, the old and the outdated with the embryos (an assumption of innovation) of what will prove to be the most appropriate and effective way forward. In this apparent paradox of coexistences, where tensions usually generate conflicts, we will have to know how to read the signs, interpret the symptoms, and have the courage to adopt the strategies that the dynamics impose".[193]

186 The bioeconomy is, along with the green economy and the circular economy another booming area. According to the European Commission, the "Bioeconomy includes the production of renewable biological resources, and their conversion into food, feed, bio-based products, and bioenergy. Thus, it includes agriculture, forestry, fisheries, agri-food, pulp and paper as well as parts of the chemical, biotechnology and energy industries" (European Commission, 2012). This area has complementarities with the Green Economy and the Circular Economy (Santos and Duarte, 2019).

187 Raworth (2017). There are even arguments that economic growth is a driver of inequality (see Thomas Piketty).

188 Raworth (2017: 274).

189 Vidal (2014).

190 Sanergy http://saner.gy.

191 Raworth (2017).

192 One of the definitions of Social Economy includes the one assumed by the Commission of the European Communities in the Communication to the Council of December 18, 1989, as follows: "a company belongs to the Social Economy if its productive activity is based on organizational techniques based on the principles of solidarity and participation among members, whether producers, users or consumers, and on the values of autonomy and citizenship. In general, these enterprises adopt the legal form of a cooperative, mutual society or association." Thus, the Social Economy is formed by the set of organizations resulting from social entrepreneurship that aim to respond to social needs that do not find sufficient or adequate supply in the public and private sectors. Furthermore, the concept has been developed within CIRIEC (International Centre of Research and Information on the Public, Social and Cooperative Economy), considering criteria included in the Charter of Principles of the Social Economy of the European Standing Conference of Cooperatives, Mutual Societies, Associations and Foundations (CEP- CMAF). The Social Economy may include: i) the market sub-sector, consisting of cooperatives, mutuals, business groups controlled by cooperatives, other Social Economy entities and other non-profit enterprises; ii) the "non-market" sub-sector, consisting of all Social Economy organizations whose national accounts criteria consider them to be non-market producers; i.e., who supply production for free or at insignificant prices. Translated with www.DeepL.com/Translator (free version) The units in these two subsectors have common characteristics: they are private; they are formally organized and have legal personality; they have management autonomy; they have freedom of membership; the distribution of any profits or surpluses among members/users is not made in proportion to the members' capital or dues, but according to their activity or participation in the organization; they exercise an economic activity in their own right to meet the needs of individuals, households, or families; and they are democratic organizations.

193 "We are not starting from scratch, from nothing; we are trying to look at society, it's things, its phenomena, in a comprehensive way, always from the point of view that a point of arrival is always an intermediate stopping point in a never-ending human journey. (Baron, 1992: 149 - 151).

In other words, it is urgent to rethink the economic model from the social point of view, from the people's point of view and not from the capital's. The transition from market economy to social market economy must be made possible. Building an Economy model that guides the operation of the market for the common good. This solidarity economy model emphasizes the social dimension of the economy and the economic system, reconciling equality in difference and reversing the tendency so often to quantify reality without proper qualitative evaluation.

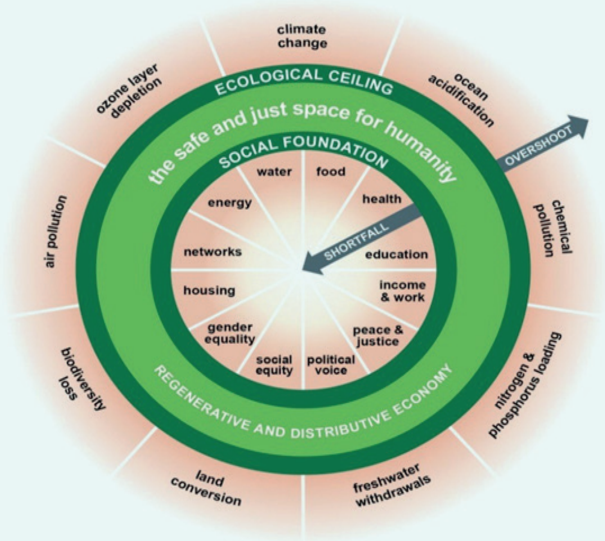
In this context, in Angola the already existing (and emerging) associative manifestations of all kinds - agricultural cooperatives, ecological, consumer and producer, justice and peace, social promotion, and anti-exclusion movements, among others - should be encouraged, since associative development and the creation of solid, local social movements are processes of great importance, since they stimulate the social economy from below and downwards, guaranteeing its commitment to social ends and its educational function. These intermediate relationship spaces should progressively gain the dimension of meeting points and convergence between the public interest and private actions. In this context, it is important to emphasize that the social economy model is not an alternative to the private sector, nor does it compete with the public sector, but rather complements both. This will result in a better distribution of income, a matching of services to the real needs of the Angolan population, an increase in the value of economic activity, correcting market imbalances and strengthening economic democracy. In short, it will provide social, environmental, and technological innovation.

Considering the importance of promoting the social economy, Oxford University economist Kate Raworth stands out, who in 2012 created a model that incorporated people's basic needs as a social foundation (inner circle), to the already recognized ecological roof (outer circle) and developed the so-called Donut model (see image). By incorporating the two sets of boundaries, a safe and fair space for humanity was thus defined. The idea is that Humanity/Economy should stay below the ceiling, but not at the expense of people's well-being (which includes decent housing, access to healthcare, clean water, sufficient food, access to energy, access to education, a minimum income, political representation, and justice). As such, the model functions as a framework for sustainable development.[194]

194 A recent analysis estimated that almost 50% of humanity's impact on the living world is attributed to the richest 16% of the human population. http://www.gov.uk/government/publications/interim-report-the-dasgupta-review-independent-review-on-the-economics-of-biodibersity, accessedon 16 Abril 2021.

KATE RAWORTH

How to Change the World



Source: Kate Raworth, Oxford University

In developing countries, particularly those seeking to accelerate their demographic transition (essential given the demographic pressure on the planet) it is very important to support and promote this transition as it realizes the ambitions contained in the Donut model by helping people to lift themselves out of poverty, build healthcare networks, education systems, better transport and energy security, and make these countries attractive to investment. Among all these social improvements, there is one that has been found to significantly reduce family size: female empowerment.[195] This brings freedom of choice, and when life offers women more options, their choice is often to have fewer children. This improvement is particularly important in the Angolan context.

According to the argument about the need for an innovative (bio)economic approach, new paths and measures should be identified for the industrial and agricultural sectors in Angola. In fact, it is not possible to have a "green" path that feeds on a "gray" path of business as usual.[196]

In the context of climate policies (for the "green" path) it is possible to differentiate between mitigation and adaptation measures. For the former, the goal is to slow climate change to contain impacts to a manageable level and this can be achieved by reducing greenhouse gas emissions and increasing Carbon Dioxide sequestration (CO2). Adaptation measures are primarily aimed at preparing society and natural systems for a warmer climate. Ways to do this include understanding climate change and its impacts, reducing risk exposure, and increasing the resistance and resilience of society and ecosystems to weather hazards and sea level rise.

Considering the sub-Saharan African region, mitigation measures and their contribution to a green economic recovery (after the COVID-19 pandemic) might include carbon taxes, phasing out energy subsidies, transitioning to green energy sources, reforestation that promotes carbon capture, and financial regulations that limit investment in polluting capital.[197]

195 http://wwwunwomen.org/en e http://www.unfpa.org/ accessed on 16 April 2021.
196 In line with the Green Economy definition, a "green" path means tackling climate change. These are defined as changes in climate attributable directly or indirectly to human activities that alter the composition of the global atmosphere and that are additional to climate variability observed over comparable time periods (United Nations Framework Convention on Climate Change - UNFCCC).
197 IMF (2019b); Nyiwul (2019).

However, adaptation strategies serve a more prominent role in this region. First, because the speedy implementation of adaptation strategies (which will also stimulate economic development) will generate more jobs in support of economic recovery after the pandemic of COVID-19. Second, the economies of sub-Saharan Africa are particularly dependent on climate-sensitive sectors. Third, the region has little influence on climate when compared to the advanced economies and large emerging market economies that are responsible for most greenhouse gas emissions.[198]

In the Angolan context, particularly in the industrial sector, climate change should be used to create and promote green industrialization. This strategy can be started with the modernization of the Lobito Corridor, whose main component is the less polluting rail transport (Benguela Railway) and considering the Industrial Development Poles already projected along the railway line and which need to be boosted. According to the Annual Reports produced by the Provincial Governments, the Industrial Park of Catumbela (Benguela province) has 408 companies planned, the Industrial Park of Caála (Huambo province) has 22 companies planned and the Industrial Park of Cunje (Bié province) has 39 projects planned. Industrializing according to a traditional logic no longer makes sense, and the costs of such a route will be unaffordable. The mistakes made by other countries and communities should be avoided, and good practices from lessons learned should be repeated. It is necessary to adopt a carbon-free and inclusive roadmap, using finite resources efficiently and reducing damage to the environment, while increasing the global competitiveness of companies/industries as they become anchored in long-term business sustainability.[199] Green industrialization and a thriving business fabric can foster a path of transformation. Small but fast and dynamic businesses, with high productivity and growth potential, could thrive in small scale in the areas of clean energy, such as solar home equipment, green greenhouses, waste management, and sanitation.[200]

To encourage investment in sustainable infrastructure and in improving its efficiency (e.g., use of solar home systems) will require many policy directives and incentives. Industrial policies must be integrated.[201] Another strategic initiative includes "delocalization," that is, producing locally and for local needs in locally financed enterprises.[202] Any economic, political, or cultural decision that can be made on a local scale should be made locally.[203] Thus, for example, when faced with vast reserves of resources for industrial production, the strategy should be to bring production closer to the sources of resources. In Angola, for unemployed workers, for entrepreneurs (and farmers, considering them as suppliers of raw materials for the industrial sector) who cannot compete with the price of imports and with the possibility of local commerce being replaced by big stores, this is an essential option. However, "relocation" does not necessarily have to exclude investments and projects in the larger scale industrial sector. Only, regulatory/legal issues should be defined allowing both dimensions to coexist in order to promote the prosperity of the provinces and the country.

Also, in the industrial sector and since access to energy is still limited,[204] lowering the cost of renewable energy provides a real opportunity for large-scale implementation of clean, green energy. This change will ensure a leap forward rather than stagnation in conventional carbon-intensive technologies and models.[205]

198 IMF (2020).
199 Lopes (2020).
200 Brahmbhatt et al. (2017); Lopes (2020).
201 Lopes (2020).
202 Latouche (2020) further includes in the context of the "virtuous circle" seven more "R's": re-evaluate, reconceptualize, restructure, redistribute, reduce, reuse, and recycle (in addition to relocate).
203 This statement does not exclude cases where goods cannot be produced locally or their local production results in a higher carbon footprint. An interesting example presented by Klein (2020), indicates that growing food in greenhouses in cold areas of the US often consumes much more energy than growing it in the South and shipping it by train.
204 According to data from the Angolan Ministry of Energy and Water, it is estimated that only 30% of the population in Angola has access to electricity. In the sub-Saharan African region, 541 million people, or 50% of the population, currently have no access to electricity (IMF, 2020). https://gestoenergy.com/wp-content/uploads/2018/04/ATLAS-AND-NATIONAL-STRATEGY-FOR-THE-NEW-RENEWABLES.pdf accessed on 18 April 2021.
205 The energy sector in Angola is the largest contributor to greenhouse gas emissions, which are expected to be reduced by 35% by 2030 (António, 2020).

Furthermore, this strategic option will make it possible to achieve the goal set by the Ministry of Energy and Water that by 2025 at least 7.5% of the electricity generated in the country should come from new renewable energies. Regarding wind energy, Angola expects to install 800 MW of production[206] the wind resource in the southwest of the country and in the Atlantic escarpment, along a north-south axis identified in recently completed studies, present favorable conditions for the installation of wind farms. In addition to the enormous solar potential,[207] there is another source with high energy potential that is slowly beginning to establish itself and arouse great interest - wave energy - and the coastal areas of Namibia and the southern part of Angola, specifically the Namibe province (Tômbua municipality), have potential sites for wave energy conversion. The goal will be to increase access to energy as a critical enabler of resilience, which will generate benefits across all sectors of the economy and take advantage of abundant renewable resources in the face of falling renewable energy prices.

It is necessary to plan for energy efficiency, storage technologies, and off-grid renewable solutions.[208]

In this context, examples to follow are found in Kenya, which aims to ensure universal energy access by 2022, using off-grid systems such as mini-grids and independent solar systems.[209] The rate of access to electricity has already increased from around 40% to 70% between 2012 and 2017 (according to the World Bank's World Development Indicators). This "pay as you go" solar power model is powered by off-grid, decentralized, small-scale solar power plants. Facilitates expansion using low-cost mobile technologies for payment purposes. Considering the support needed for installation, long-term service and customer support, this system is also creating 10 times more jobs than traditional energy companies.[210]

To make the investments effective, there is a need to create and promote a sustainable financial system. It will see the transformation of savings and credits into productive investments that provide long-term social and environmental value.[211] State-run development banks play a crucial role in providing "patient capital" for long-term investments such as renewable energy technologies and public transportation systems. Community banks, credit unions, and ethical banks may seem like small players but they have taken the lead in this space. One can cite the examples of "the Dutch Triodos bank whose mission is to make money work for positive social, environmental and cultural change" and Florida's "First Green Bank, founded in the middle of the 2008 recession, which decided to be a regenerative bank".[212] Furthermore, central banks could channel new money to national banks of green" and social infrastructure investment and projects, such as community-based renewable energy systems, as part of the urgently needed long-term infrastructural transformation - an idea known as "green quantitative easing.[213]

Regarding the Angolan agricultural sector and given the preponderance of the family farm economy (which accounts for 90%, corresponding to more than 5 million hectares),[214] it is important and strategic to modernize small-scale agriculture (which promotes communal/local development) and it is fundamental to consider the role of women in agriculture. There is no reason to continue to consider that modernization is something that belongs to the sphere of big businessmen, who have access to capital and financial institutions.[215]

206 António (2020).
207 Angola has an average annual number of sunny hours between 5,800 and 6,300 with GW of generation potential identified, according to data from the Ministry of Energy and Water. The great dispersion of the population and the difficulty of access to certain areas of the country contribute to the selection of photovoltaic solar energy as a solution to increase the level of electrification.
208 In the sub-Saharan African region, per capita electricity consumption is one-sixth of the world average, but its costs are higher than elsewhere. A continuation of a "business as usual" situation, together with population growth, will mean that 530 million people will remain without electricity in 2030 (90 percent of the global figure) (IMF, 2020).
209 World Bank (2018).
210 IMF (2020). On the African continent in general, renewable energy is expected to show strong and rapid growth by 2040, especially in sub-Saharan African countries (António, 2020).
211 Raworth (2017) also presented the concept of "regenerative finance" as those that aims to create financial means that are in servitude of life.
212 Raworth (2017: 274).
213 murphy 2010
214 CEIC (2018).
215 ECA (2013a); NEPAD (2013)

By the way, there are (some) other myths that should be deconstructed, namely, firstly, (i) "more" agriculture is not necessarily "better" agriculture, and secondly, (ii) investment in large-scale agriculture does not exclude investment in small-scale agriculture. Even in societies like the North American or the European ones, where agriculture is an activity fully integrated in the market and highly capitalized, the model that was consolidated was that of a family-based organization. In Europe, family farming has always been predominant due to the great demographic pressure on agricultural land. So, there is no reason to have to choose between the two, there can and should be both to avoid a highly unequal and fragile economy. In other words, it is necessary to privilege diversity and distribution.[216]

In light of current climate dynamics, it is necessary to plan agriculture by promoting the use of land for perennial crops in polyculture.[217] This type of agriculture, among other advantages, is much more labor intensive (compared to the hypothetical practice of mechanized industrial agriculture), which means that this sector could be a substantial source of employment not only for elements of rural communities, but also to foster urban-rural migration from congested cities whose citizens survive in poverty.

This agricultural practice will also contribute to promote food security that is increasingly threatened by climate change, since it implies negative impacts on crop yields, crop and livestock productivity, and the nutritional quality of agricultural products while disrupting food systems.[218]

it is also strategic to promote agribusiness and its value chain (which encompasses agriculture, industry, and services) rather than a purely agricultural-based development. Incidentally, one of the main reasons why family farming has remained at the subsistence level is that small producers have been undervalued and marginalized in value chain development processes (including in access to inputs). This is compounded by the fact that agriculture itself is considered a risky and low-income sector.

Thus, there must be a paradigm shift - it is essential that small producers understand how they relate or should relate with consumers on a regional, continental, and international level (demand-driven market) so that they can modernize (and prosper).[219]

Following this argument, it is crucial to identify solutions for the small producer who faces the obstacle in accessing financing(s). Most rural regions have no or a very limited network of financial institutions. It is crucial to create and develop "Agrarian Promotion Banks" and define financial products designed to assist small producers, especially women, allowing them to begin to be included in value chains.[220]

216 Raworth (2017).

217 Since perennial plants do not need to be planted every year, their long roots are very efficient at storing scarce water, keeping the soil shored up, and sequestering carbon. Polycultures are also less vulnerable to pest attacks and destruction caused by weather extremes (Klein, 2020).

218 Evidence suggests that a single degree rise in temperature in Africa will cause a 65% loss of the continent's current corn growing capacity and an estimated drop of about 20% in global food production. An Oxfam report estimates that the price of wheat will increase by 120%, corn by 177% and processed rice by 107% before 2030 (Oxfam 2012: 22). This would put the most basic food items out of reach for many Africans and damage their fundamental right to food. It is also estimated that a temperature increase of a single degree will result in a 10% decline in precipitation by 2050, creating water problems for 480 million people on the continent (IMF, 2020). This evidence becomes even more alarming since most Africa's poor (82 %) live in rural areas, and earn their livelihood mainly from agriculture, and the sector employs 54 % of the labor force. The percentage of food insecurity in the region reached 277 million in 2018, which is 22% of the population. The region's food system is especially vulnerable to climate shocks (World Bank, 2020).

219 Lopes et al. (2017) ; Yumkella et al. (2012).

220 It is interesting to cite an example in Europe where since 2005-2006, the amount of support given to farmers in France is no longer linked to production. Instead, it is based on environmental protection and animal welfare. "The result is that small artisan farms manage to survive and from them you get high quality products and beautiful landscapes. This is something that most Europeans find worth preserving and certainly contributes to the quality of their life. Would French GDP be higher if agricultural production was more concentrated and farms were replaced by warehouses? May be. Would welfare be greater? Probably not. » (Banerjee and Duflo, 2019: 365).

Finally, and still in the context of small-scale agricultural modernization, there is evidence that a self-organizing system works best because farmers have created their own norms for, for example, activities such as water use, because they come together regularly in meetings and in the fields, and finally because they have put in place a monitoring system and sanctioned those who break the norms.[221] That is, farming communities can manage their land and common resources better than markets and better than comparable programs set at the central level (by the state).[222]

The sustainable financial system in the context of the agricultural sector also includes, as already mentioned for the industrial sector, the identification and consequent financing of investments in infrastructure development (including also systematic improvements in storage and processing) that consider environmental risks.

For example, it is recommended that funding be provided for investments in infrastructure development that consider clean and renewable energy[223] it is also recommended that value-added activities be carried out near the resources, thus reducing the huge carbon footprint caused by transporting raw materials over long distances for processing.

Fortunately, the shift away from high-carbon models is already a practice in many African countries.[224] It is true that preparation for and investment in climate change have costs, but failure to adjust leads to catastrophic consequences and will have much higher costs in the short term.[225]

Other strategies, in this case adaptation, successful in the agricultural sector and possible for replication in Angola include the practices of farmers in Chad who are improving water retention through a rainwater harvesting technique called Zaï. The technique involves digging small wells to capture rainwater and sowing in them. They also use agroforestry systems that combine farming and forestry on the same plot of land to reduce erosion during heavy rains. Another example includes Mozambique which is starting a global pilot project to test new heat-tolerant bean seeds developed by the International Center for Tropical Agriculture. The Productive Safety Net program in Ethiopia, which provides cash and in-kind transfers to alleviate food insecurity, has helped improve financial inclusion by requiring bank accounts for transfers. The use of these transfer systems helped improve the efficiency of emergency responses to natural disaster situations and, along with improved seeds, reduced food shortages from 22% to 10% in the period between 2011 and 2016.[226]

From this analysis, we can see the imperative need for action in other sectors and areas such as education, new technologies, and the financial system. It is necessary and urgent in the area of education to reinforce and invest in education, training and capacity building of human capital in general and for environmental issues. The latter implies, first, mentality changes and awareness-raising among economic agents, consumers and producers in urban and rural areas, and political decision-makers. Only community participation and citizen involvement in planning, decision making, implementation and monitoring allow for effective climate action, not only for accountability, but also to build ownership and sustainability of efforts.

221 Ostrom (2009).

222 Raworth (2017). In this context, it is recommended, for example, to map smallholder finance schemes that have performed well, with a view to changing the discourse on investment in agriculture (Severino and Hajdenberg 2016; McKinsey Global Institute 2016; AUC and ECA 2009).

223 Lopes (2020).

224 Cape Verde, Kenya, Ethiopia, Morocco or Uganda is already investing in clean and renewable energy sectors and disengaging from traditional fossil fuel dependent sources of biomass and forest resources. Ivory Coast, Algeria, Ethiopia, and South Africa, among others, have put their transportation systems on a low-carbon path (Lopes, 2020).

225 To dare to implement new (bio)economic dynamics in the Southern Hemisphere is to try to trigger a spiral movement that places it in the orbit of the virtuous circle of the eight "R's" already mentioned in this text. Other fundamental aspects at once alternative and complementary, such as Break, Renew, Find Reintroduce, Retrieve, etc., are important. Break economic and cultural dependence on the North. Renew the course of a history interrupted by colonization, development and globalization. To reclaim and recover one's own cultural identity. Reintroduce the specific forgotten or abandoned products and "anti-economic" values linked to the past of these countries. Recovering traditional techniques and know-how (Latouche, 2020).

As Romer wrote in 2008: "the knowledge needed to provide citizens in developing countries with a much better standard of living already exists in advanced countries. (...) If a country invests in education and does not destroy the incentives for its citizens to acquire ideas from the rest of the world, it can quickly tap into the world's pool of publicly available knowledge. [227]

However, in addition to the information already available, the critical importance of data, information, assessments, and knowledge, particularly about local realities and dynamics, to promote a shift to proactive and anticipatory approaches for communities and countries is highlighted. The focus on education is still more relevant considering that investment in renewable energy creates more jobs compared to investment in fossil fuels (Oil and gas)[228] Considering also the increased investment in public transport and rail, which will not only reduce carbon dioxide levels in the atmosphere, but it will also create jobs. Finally, education promotion should be complemented with health promotion, as both are the basis of developing a healthy and competent human capital to combat climate impacts and address the problem in an enlightened and planned way across generations. In other words, the reduced financial slack and the low levels of education and health care undermine the adaptability of populations that already live below the poverty line and whose subsistence depends on climate-sensitive activities, such as rainfed agriculture, livestock farming and fishing.[229]

In the context of new technologies, there is a need to adopt more modern technologies supporting the arguments that the factor that will make the developing world grow is the adoption of these technologies, namely the Internet arguing that "the Internet is a huge and undisputed force for economic growth and social transformation" in Africa.[230] But the point is that "the technologies developed in the North are not suitable for poor countries".[231] That is, a big part of the problem seems to be that these innovations occur in a vacuum, insufficiently connected to the lives they intend to transform. Thus, it comes back to the issue of education and training that allows thinking/adapting/adjusting local solutions. Also, related to the issue of new technologies is, first, the need to ensure access to electricity (as already mentioned in the context of the industrial sector in Angola) at an affordable price. Thus, in Angola and as already mentioned in the context of promoting green industrialization, investments are recommended to promote the expansion of access to electricity, which is the basis for efficient access to new technologies.

The ESG Framework *(E for environment, S for social, and G for governance)* is also of interest in the context of policy makers and the private sector and their relationship with the financial system. ESG-related aspects should be included in the feasibility analysis of any project/investment in addition to the financial aspects. The ESG approach is developed in the context of sustainable finance, which is defined by the European Commission as "the provision of finance for investments considering environmental, social and governance considerations.
Sustainable finance includes a strong green finance component that aims to support economic growth while simultaneously reducing pressures on the environment, addressing greenhouse gas emissions and preventing pollution, minimizing waste, and improving efficiency in the use of natural resources.[232]
The great financial crisis of 2008 was the milestone for the acceleration of international activities in favor of sustainable finance, which is intended to be applied in all countries. The European Union, for example, has been working in this area since December 2016 and it is expected that in addition to the necessary regulation, the future holds the diffusion of financial products such as green loans, responsible/sustainable investment funds and green bonds, among others.[233]

226 World Bank (2019); IMF (2020).
227 Banerjee and Duflo (2019: 221).
228 Klein (2020).
229 Furthermore, associated declines in children's health and school attendance exacerbate long-term income and gender inequalities (Shahidul and Zehadul Karim 2015).
230 Banerjee and Duflo (2019: 227).
231 Banerjee and Duflo (2019: 228 and 229).
232 As referenced earlier in this text, Raworth (2017) also presented the concept of "regenerative finance" as finance that aims to create financial means that are in servitude of life.
233 Santos and Duarte (2019).

On the African continent, Ghana stands out as an example of a pioneering country because the conditions for the issuance of green bonds are being created. The country has mobilized resources from domestic and international capital markets for climate change adaptation, renewable energy, low-carbon transportation, sustainable waste management, integrated water resource management, clean transportation, and other green projects. About 30 civil servants are being trained by an international non-profit organization called the *Climate Bonds Initiative*.[234] It is advised that the financial sector in Angola urgently develops its ambition to incorporate ESG rhetoric by updating itself on how to measure risk and the notion of short, medium, and long-term financial returns. Given the nature of banks as financial intermediaries, there is an inherent environmental and social responsibility in their activities, since it is the banks that provide most of the external financing for companies and investment projects in the various sectors.

To conclude with the answer to the starting question - Can (should) Angola (and low- and middle-income countries) go “green”? Yes, especially because this strategic option is not only a national “demand”, but the pressing need to expedite towards new robust, stable and green development paths is also a crucial interest for the rest of the world, because global climate goals cannot be achieved without collective action.

If, on the one hand, the “richer” countries that have benefited from unsustainable growth have the gigantic task of maintaining a good standard of living and, at the same time, radically reduce their carbon footprint; on the other hand, developing countries have the challenge of radically raising their living standards, in a way never done before, while achieving a sustainable footprint.[235] In this context, it is worth mentioning that on August 12, 2020, the draft resolution for Angola’s accession to the Paris Agreement was unanimously approved in the 8th extraordinary plenary session of the National Assembly.[236] This agreement in its article 9 makes special reference to the fact that the so-called developed countries should provide financial support to the so-called developing countries in the fields of mitigation and adaptation. Developing countries are encouraged to do so as well. There are also important references to the role of technology access and transfer (Article 10), capacity building in developing countries (Article 11), and public information and education (Article 12).[237] It is widely evident throughout the literature that climate change adaptation finance will be more cost-effective than frequent disaster assistance.[238] In the case of Angola, a country dependent on a non-renewable natural resource that faces an additional challenge of reduced revenues, the advancement of mitigation measures on a global scale, funding the “green” pathway underscores the critical importance of economic diversification. However, both the hydrographic regime and the geographic position of Angola highlight the country’s potential in relation to the use of renewable energies, particularly hydro, solar, wind and biomass sources. Therefore, it is worth considering the example of Morocco, which embraced the revolution. At the turning of the century, almost all the country’s energy depended on oil and natural gas. Today, it produces 40% of its needs internally, in a network of renewable power plants that includes the largest photovoltaic plant in the world. It has taken the lead in a promising and relatively inexpensive type of energy storage, molten salt technology, which uses salt to retain the sun’s heat for many hours, allowing solar energy to be used at night.

Situated on the edge of the Sahara, and with a direct cable connection to southern Europe, Morocco could perhaps one day become a solar energy exporter.[239]

234 https://www.gh.undp.org/content/ghana/en/home/presscenter/articles/2020/exploring-the-potential-of-green-bond-issuance-for-sdgs-financin.html consulted on 18 April 2021.

235 Attenborough (2020).

236 https://www.expansao.co.ao/artigo/135112/angola-aprovou-projecto-de-resolucao-para-aderir-ao-acordo-de-paris-?seccao=5 consultado a 15 de Abril de 2021. The Paris Agreement expresses humanity’s commitment to lower CO2 emissions in order to address the effects of climate change.

237 Complementing the Paris Agreement, Angola has also signed up to the SDGs. https://angola.un.org/pt/97445-plataforma-dos-objectivos-de-desenvolvimento-sustentavel-ods-e-lancada-amanha-em-luanda accessed on 18 April 2021.

238 Responding to climate change by financing adaptation measures will be costly for sub-Saharan Africa - between US$30 billion and US$50 billion (2 to 3 per cent of regional GDP) every year over the next decade, according to estimates (from Narain, Margulis and Essam (2011) and UNEP (2016)) - but this cost is substantially less than frequent disaster assistance (IMF, 2020)

239 Attenborough (2020).

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info.namibia@kas.de
+264 61 225-568
+264 61 225-678
http://www.kas.de/web/namibia

Namibia Office,
P.O. Box 1145,
7th Floor Mutual Tower,
223 Independence Avenue
Windhoek, Namibia

Universidade Católica De Angola
Rua Pedro De Castro Van-Dúnem 24
Bairro Palanca, C.P. 2064
Website: www.ucan.edu
Email:info@ucan.edu

www.kas.de