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Economic Reforms in Angola in the General Context of Africa

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This article addresses the political, social and broader economic context of public finance reforms in Angola, drawing upon historical perspectives of economic development in Africa and the country's own experience. The article highlights changes in Angolan practices in line with generally accepted public finance principles, and demonstrates how these reforms occurred within a particular political economy and within sets of international financial, economic, trade and political relationships that influenced their design and implementation. The article illustrates how economic structures and governance systems have been directly linked to the platform of natural resources and social relationships in Angola and in the general African context.

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1. Economic reforms in Angola

1.1. The current political environment

After the end of the 27-year civil war, the process of consolidating democratic institutions has shown good results, especially with the ruling party revealing its agenda for the next elections in 2006. The Angolan government has outlined several goals that will aid economic and social reconstruction, amongst which are the eradication of hunger and poverty. Other goals include capacity building for state institutions as well as ensuring sound state administration and management of justice across the whole country.

The government has also been intensively engaged in diplomatic initiatives to expand the country's international relationships and to diversify its economic partnerships. Contacts have been strengthened with South Africa, China, Brazil and Israel. China is Angola's second-largest petroleum export destination and one of the key financiers of the government's plan for infrastructure development.

The global increase in petroleum prices and the ease of obtaining bilateral finance credit (mainly guaranteed by the petroleum revenue) eliminated pressures for an agreement between Angola and the International Monetary Fund (IMF). While the IMF is positive about Angola's future and has paid tribute to the progress in its economy, the relationship between the IMF and the Angolan authorities has cooled. At present, there are no prospects for a traditional financial support programme. However, developments have taken place that indicate the return of a supportive relationship between Angola and the IMF.

Currently, the Angolan authorities are more inclined to resort to a new IMF aid instrument, which involves presenting to the IMF a plan with policies that focus on achieving economic stability. The country will not seek financial support from the institution, but rather economic advice and assistance in monitoring the plan's execution. In this way, the risk of interference, which, according to the Angolan authorities, is always associated with a traditional financial support programme, is diminished.

1.2. Economic reforms and developments

The models adopted by Angola after independence were in line with those followed in the international arena. In 1975, Angola was identified as moving towards a strong state that would solve all the social and economic

Box 8. **Brief historical background of Angola**

In 1482, Angola was discovered by Portuguese explorers and became a link in trade with India and Southeast Asia. Later, it was a major source of slaves for Portugal's colony in Brazil.

In 1975, following a 14-year war of independence, Portugal finally granted independence to Angola. No period of peace followed, however, as the National Union for the Total Independence of Angola (Unita) disputed the ascendancy into power of the Popular Movement for the Liberation of Angola (MPLA). As a result, a civil war broke out almost immediately.

With the fading of the cold war and the withdrawal of Cuban troops in 1989, the MPLA began to make the transition to a multiparty democracy. Free elections took place in 1992, with the serving president José Eduardo dos Santos and the MPLA beating Jonas Savimbi and Unita at the polls.

There were four years of relative peace between 1994 and 1998. In 1997, it was agreed that a coalition government with Unita would be implemented, but Savimbi violated the accord repeatedly by refusing to give up his strongholds, failing to demobilise his army, and retaking territory. As a result, the government suspended the coalition rule, and civil war spread across the country again.

In 2002, government troops killed Jonas Savimbi and, on 4 April that year, rebel leaders signed a cease-fire deal with the government. This was the end of the civil war.

Although peace finally seemed secure, more than a 500 000 Angolans were facing starvation. Thousands of refugees returned to their country in 2003, but their prospects remained doubtful. Today, Angola is the second-largest oil producer in sub-Saharan Africa, yet its people are among the continent's poorest.

difficulties faced by its society. By 1990, however, following international trends brought about by globalisation, the country adopted the fundamental ideas of a multiparty political system and a market-oriented economy, together with the processes of political and economic liberalisation that remained in line with the phenomenon of globalisation.

Since 1990, with the support of bilateral and multilateral donors, Angola has implemented a series of initiatives aimed at reforming its public administration. In 1996, with assistance from the United Nations Development Programme, the country launched a Programme for Institutional Reform and Administrative Upgrading, which focused on decentralising and modernising public administration, and reducing its level of bureaucracy. The more effective programmes turned out to be those that focused on improving public services.

In 2002, the Programme for Institutional Strengthening of the Public Administration was implemented. Subsequently, in the administrative scope of the Ministry of Finance, budgetary procedures were established and put forward as "golden rules". These were in accordance with the universally accepted principles for good management of public finance, particularly emphasising the principles of transparency, accountability, discipline and financial equilibrium. Given scarce resources, justification of public expenditure also became a central feature of the budget process.

The year 2003 is generally considered as marking the beginning of a new era, closing the cycle of 27 years of war, and presenting some achievements of the economic reforms, especially with regard to monetary and exchange policies. Considerable stability in the currency markets and a revalorisation of the national currency were achieved. The following were the key positive indicators:

- a slowing down of inflation rates (annual accumulated inflation dropped from 116% in 2001 to 106% in 2002 and 76% in 2003, and since 2003, it dropped further to 31% in 2004 and 20.5% in 2005);
- greater stability in exchange markets; and
- increasing confidence in the national currency.

1.3. Stabilisation and development of the financial system

The Angolan financial sector (consisting mainly of credit bank institutions) has also shown signs of growth and improvement in terms of upgrading its systems and synchronising its regulations with those on the international scene. The implementation of the ATM sub-system also marked an improvement in the payment scheme, which now covers payment operations processed through electronic cards that are valid or accepted throughout a network of automatic teller machines and debit card facility terminals. In addition, the economy has witnessed a healthy increase in competition due to the opening of a greater number of credit institutions, the expansion of the compulsory reserves for long-term deposits, and the liberalisation of currency sales for exporters (through a mechanism of resources linked to import operations) and for individual residents (who do not have to submit proof of shipment).

Capital markets were established with the negotiation of treasury bills, constituting a landmark development in the financial system, and the Central Bank strengthened its role in foreign exchange markets. Co-ordination between fiscal and monetary policy resulted in a simultaneous enforcement of fiscal discipline and restrictions on money supply. This contributed greatly to the easing of inflation. The fiscal deficit decreased by two percentage points in 2003 (from 9% in 2002). The goal for 2004 was 4%. Public expenditure for that year had a primary surplus of 1.1% of GDP, and estimates for 2005 leaned towards an even higher surplus of 3%.

A key instrument in achieving fiscal discipline was the introduction of cash budgeting. Whereas previously spending departments and agencies were funded through monthly guaranteed releases of cash against budget, they now had to justify their planned expenditures quarterly and were given cash releases in line with actual government revenues. A peculiar feature of Angolan budget execution, however, remains taking on expenditures on commitment and delaying payment internally.

A considerable change has been seen in public investment behaviour; between 2002 and 2003, it more than doubled (an increase of 115.6%), which testifies to the government's real engagement with the urgent rehabilitation of physical infrastructure that is vital in order to foster economic growth. Given the easing of the fiscal situation, there is some argument that the current level of investment can be increased even further (in the interest of long-term growth and poverty eradication) without causing short-term macroeconomic deterioration.

The highlights of future developments of the Angolan economy include a structuring of the national economy and integration of the different sectors in systems that anticipate better distribution of realised earnings, and placing greater emphasis on job creation for the Angolan people. A more detailed report on future reforms is outlined in the next section.

1.4. The prospects for future reforms and changes

For the period 2005-07, it is anticipated that annual economic growth in Angola will reach an average of 18%. Simultaneously, inflation should continue to slow down, reaching 5% in 2007. The basis for this impressive scenario, which will place Angola amongst the higher growth rate economies, lies in the expansion of the petroleum production sector. As for the non-petroleum related sectors, expectations are more modest, in spite of the presence of diamond deposits and resources potentially related to agriculture. It should be noted that forward projections of economic growth in Angola are subject to limitations in the current statistical base. Therefore, they should only be seen as indications of a trend. However, there are several projects and programmes that the government has undertaken (or is planning to embark upon) that will support outcomes in line with the projections.

First, the successes of the public finance upgrade programme, which includes modernisation of customs services towards greater fairness and predictability and fiscal reforms, underpin continued good results. Soon a new law, the Accounts and Auditors Act, will come into force, stipulating compulsory auditing of companies' accounts systems, which will contribute to improved tax administration.

The further modernisation of budgetary and financial management methods is perhaps the greatest challenge the Angolan government has taken upon itself. Amongst other initiatives, a modern budget structure has been introduced to reflect the consolidated budget of the public sector (combining the budget of the central state administration, autonomous institutions, funds and public enterprises). A treasury single account is in operation, and transactions involving treasury bonds have been rationalised and made transparent. These operations are underpinned by efforts to improve the relationship between the National Treasury and the Central Bank in order to ensure that undesired monetary effects do not reflect on the financial performance of the state budget. A decree is also in force regulating the procurement of goods and services by the state, which is receiving bilateral support from the government of Norway and technical assistance from the IMF and the World Bank.

Second, there are programmes aimed at diversifying growth and enhancing it in other economic areas. Structuring sectors for a new domestic economy (energy, the processing industry, agriculture and construction) will gradually increase their share of participation in the GDP: 28.7% in 2005, 31.7% in 2006 and 34.9% in 2007. The combined effect of growth in the petroleum and gas industry and other sectors is that GDP per capita is expected to expand from USD 1 400 to USD 1 900 per annum between 2005 and 2007 in nominal terms.

However, there are still limitations in the economic and social developments of the country. For example, there have been no substantial changes in the composition of public expenditure investment towards the health and education sectors, or towards implementing a medium-term macroeconomic plan or the relinquishing of foreign finance through the access to petroleum-secured loans.

In summary, the optimism that might arise with regard to the Angolan economy results essentially from the impact caused by the rise in petroleum prices, which caused greater acceleration of the GDP, higher fiscal earnings, the possibility of reducing foreign debt and the controlling of inflation. Prospects for the development of sectors other than petroleum, improvement in inflation rates or growth of monetary reserves showed very little change.

2. Economic reforms in the general African context

Economic reforms and developments in Angola should be seen in the general African context. As is the case with many other African economies, Angolan economic development and its relationships with other countries are dominated by its rich natural resources.

2.1. Centralising regimes: origin and economic reasoning

Despite the struggles for independence having had different effects on different countries, the countries of Africa share many characteristics that have deeply marked the post-independence period. The most outstanding of these is economic dependence on natural resources arising mainly due to historical reasons and making the countries extremely vulnerable to world market fluctuations and to climate changes.

First, the economic structures inherited from colonialism were essentially directed towards the production and extraction of basic raw materials. Second, after the disappearance of the colonial systems, the economies did not have an autochthonous class of entrepreneurs that could respond to world market changes and lead the necessary economic diversification. Few Africans were owners of capital companies, with access to the markets and with the technological capacity for competing internationally. The infrastructure itself created obstacles to the development of markets. The lack of an African class of entrepreneurs led to the creation of alliances with foreign companies that remained in these countries after independence, in order to preserve economic growth during the transition period. Thus, after independence, the pillars of these African economies were mainly foreign mining and agricultural companies.

In this context, four main strategies for wealth accumulation dominated the economic structures in the region:

- state capitalism;
- a monopolistic production regime;
- public regulation of grassroots agriculture; and
- large agricultural plantations.

With the state at the centre of economic development, state capitalism based on revenue became the key form of capital accumulation in the mining, agricultural and energy sectors. With state control expanding over these sectors of natural resources, governments ensured a permanent influx of revenue to finance their development priorities.

As countries became aware of the need for economic reform programmes, reserves of natural resources played a role in what programmes were adopted and how these programmes were implemented.

2.2. Natural resources, economic reforms and African reality

As far as the political economy point of view is concerned, the relationship between economic reforms and natural resources can be summarised in two basic questions:

- In what way do economic reforms alter the position of the stakeholders in terms of the control of resources?

- Through which political and economic processes or relations are the transfers of the control of resources made?

All the economic reform programmes that have been implemented in African economies contain basic elements of the so-called Washington Consensus or the neo-liberal economic paradigm. The latter constitutes the reasoning of the global economic policy driving globalisation. The Washington Consensus has the following presuppositions:

- The market is the only means for allocating resources: if there are structural distortions in the economy, such distortions are caused by public interventions.
- The private initiative is the only one capable of rationally using the resources, because the economic agents try to maximise their use and act in compliance with the rational expectations.
- There is freedom of circulation of the resources within and outside the country.

Based on these presuppositions, the neo-liberalism movement believes in:

- reducing the state's role as an economic agent and stimulating private economic agents to become the driving force of the national economies;
- dismantling domestic barriers to the international flow of goods and capital so that export-oriented growth can lead to national and global economic expansion; and
- bringing change to national institutions, including the legal codes, the regulatory systems and the regimes of ownership, in order to support economic reforms.

These recommendations and the subsequent reforms enhanced open economy operations in countries that are rich in natural resources. Yet despite positive expectations, the results had contrary effects. Social imbalances increased at national, regional and global levels, constituting a direct challenge to the approach and the international financial institutions (IFIs) associated with it.

Notwithstanding, it is only fair to acknowledge that economic reform programmes enabled such countries to launch a process for the transfer of control over natural resources from the state to private economic agents. The first step in such transfers was towards foreign companies, which offered considerable investment capacity and afforded wide access to international markets. Concessions were also granted to national economic agents for the exploration of natural resources, but on a smaller scale than with foreign companies.

These changes were driven mainly by conditions attached to support programmes agreed with the IFIs. The privatisation of natural resource sectors became a key goal for reform programmes, supported by the provision of guarantees for the private sector. Thus, the IFIs were instrumental in the conceptualisation of a new institutional framework for economic policy.

However, problems relating to the redistribution of wealth soon arose in the affected countries. This made the IFIs integrate a political dimension into their approach, from a rejection of political influence over structural reforms, to an acceptance of the political complexities of economic reform, leading to the current and more normative approach, which leans towards the fostering of good governance.

According to Michel Camdessus, former IMF Director-General, to achieve good governance one should "maximize the transparency of government financial operations and create systems that minimize the scope for making decisions on an *ad hoc* basis and for giving preferential treatment to individuals and organisations" (Camdessus, 1998). These are the principles that now underpin governments' relationships with the IFIs and serve as criteria to grant or refuse developing countries' access to financial resources from the international community. In effect, countries are forced to adopt market-oriented economic structures, leading to:

- The end of monopolies in key economic sectors: policies are designed to put an end to monopolies, at both state and private level, in order to free key economic sectors and distribution mechanisms.
- Curtailing state capitalism and encouraging market-oriented wealth accumulation: this can be achieved through the privatisation of public enterprises, dismantling of business centralisation, opening of markets to private investors, and eradication of other various situations involving revenues and government agencies.
- Increasing the relevance of rural areas compared to urban areas: this objective may be achieved by a series of fiscal reforms aimed at reducing subsidies for urban workers, by the lifting of explicit and implicit taxes on agricultural products, and by improving the services rendered to rural populations.

The objective of these changes suggested by the international community is to increase competition amongst the various agents and economic groups, and to lead governments to adopt more transparent mechanisms to settle conflicts of interest. As the critical competing economic groups emerge, centralised systems for economic decision making become more and more inadequate to manage the new economic dynamics.

The basic idea behind the concept of good governance is to establish institutions and regulatory systems that are capable of running effective markets. Transparency and stability in economic interaction are key aspects of good governance. It is still not very clear how markets would be compelled to execute priorities and strategies defined by society.

Initially, the IFIs believed that reform implementation consisted mainly of applying a set of neutral economic instruments aimed at creating more efficient economies, increasing productivity and encouraging competition. The instruments that were to be used to achieve this were designed to increase general social well-being. Any costs associated with the reforms were regarded as provisional and soon to be outweighed by the gains. The concept of neutrality soon collided with the phenomenon of the political complexity and social impact associated with the implementation of reforms in sub-Saharan Africa, South America and Asia at the end of the 1980s and beginning of the 1990s.

At that time, the big wave of democratisation in Africa made the IFIs think that these new regimes offered a better opportunity for implementing economic reforms, because they were chosen by a popular vote and had a clear political mandate. However, due to the instability of most of these democratic regimes and the pressures from different interest groups, they became unpredictable partners in the implementation of the economic reforms. Issues not directly related to the implementation of macroeconomic policies but to social justice (with the dynamics of the rural sector and with the role played by the different ethnic, social and cultural groups) rapidly affected reforms. There was no way to deny the political realities in the economic reform process.

One can say that during certain periods the African economy lost track of reality and remained in a virtual universe of economic formalism and romanticism, increasingly moving away from the reality of procedures peculiar to production, distribution, consumption, accumulation and sharing. This has had consequences at the political level, as much as politics has impacted on economic reforms. Thus, from an economic perspective, one must refer to many different “Africas” in terms of development and political stability.

First, the Africa of tumults: condemned to a vicious circle of civil war, this is the area of violent economy with its own rationality and search for wealth, with the warlords in control of drug trafficking and diamond and petroleum smuggling. Frequently, this entails vast vacant areas around mining sites and oil wells that are controlled by armed groups financed by such activities.

Second, the relatively stable Africa: although not yet achieving a high rate of development, but with a favourable political and institutional environment, these countries are able to impose juridical rules on companies in order to ensure a stable macroeconomic system within the prescribed fiscal policy and balance in public finance, together with a restrained rate of inflation and an exchange rate that is attractive to local producers. In such countries, public authority is capable of carrying out reforms in the areas of health and education, of implementing programmes to promote urban employment and of improving transport, while adopting policy guidelines that aim to increase real productivity to support established companies.

Third, the emerging Africa: this covers the countries showing rapid growth rates and experiencing significant transformation processes. These are the countries in West Africa, in the area demarcated by Ivory Coast/Mali/Burkina Faso and, on the other side, Ghana and Benin. In the north of Africa, Tunisia is an example. In Southern and East Africa, Botswana, South Africa and Uganda have been showing positive and increasing growth rates since 1997.

Over and above these groupings, there are some trans-cultural economic networks which escape the control of African countries, while living in parallel economies and crossing borders with their own logistical means and possessing their own systems of monetary circulation.

3. Conclusion

There are very specific political economy issues concerning countries with economies that rely on natural resources which need to be addressed in order to consolidate the political processes of such countries and ensure development, notwithstanding their differences, at democratic, cultural and traditional levels of public administration. In spite of disparities between economies, a key set of government initiatives can contribute to creating a political economy that is anchored in transparency, accountability and good governance:

- A clear and articulated structure of targets and reliable legislation, which helps the government and its partners to attain the results that the citizens are fighting for and which balances the need for government oversight and facilitation with economic freedoms.
- Leadership exercised by politicians and officials in order to achieve such result-oriented governance. This requires the reform of government decision-making processes and changes in the bureaucratic culture to support the development of horizontal policy. The impetus for such change must come first from the government policy makers and the central agencies.
- However, leadership alone will not suffice to transform the governing processes. It becomes important to transform the governing processes and to create structural incentives so that the independent departments can co-operate thoughtfully.
- Another important aspect is the circulation of results. This permits the governing departments and their partners to review their performance and refine their initiatives as time passes. In addition, the circulation of results can create an incentive for these agencies to remain focused on the goals of the society, as citizens remain engaged in policy and governing processes. Over time, this can only serve to increase the government's legitimacy.

While the central government has the right and duty to define the state's orientation and its goals, the executive agencies' front line needs to operate locally, with knowledge, capacity and the practical networks necessary to attain successful reforms. The processes should work in both ways. The centre needs to learn from the localities about implementation, and the local institutions need to learn from the centre about commitment to the goals of reform. The protectionist system of budget categories is the most severe limitation to extending the benefits of interaction and collaboration amongst government agencies. It is what helped in creating the fragmentation that now motivates collaborative efforts and it is what blocks these successful efforts in the implementation of programmes.

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