Angola

key figures

• Land area, thousands of km²	1 247
• Population, thousands (2004)	14 078
• GDP per capita, $ (2003)	1 015
• Life expectancy (2000-2005)	40.1
• Illiteracy rate (2004)	...

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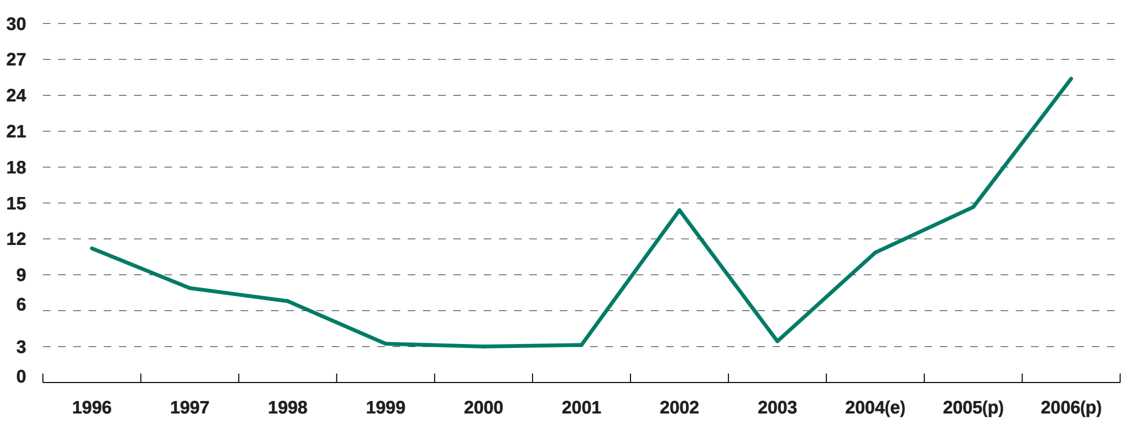
Angola

ANGOLA HAS BEEN LARGELY AT PEACE since a cease-fire between the armed forces and the rebels was signed in April 2002, putting an end to more than 25 years of almost uninterrupted civil war. The country now faces the daunting task of channelling its huge resource endowment into reconstruction of its infrastructure and into poverty reduction activities. Diamonds and, especially, offshore oil dominate the national economy, their combined resources accounting for almost the entirety of hard currency and fiscal revenues. These sectors, however, create very few linkages to the rest of the economy. Agriculture and manufacturing are still suffering from the legacy of the civil war – wrecked infrastructure, lack of physical and financial capital, poor governance, the pervasive presence of land mines in some regions – and the need to resettle 4 million people displaced by the fighting.

Despite rising international oil prices, real GDP growth in 2003 was disappointing at about 3.5 per cent, owing to declining production of mature oil fields[1]. Growth gained momentum in 2004, reaching 11 per cent, as new oil fields came on stream. The continued rise in oil production is expected to raise growth to about 15 per cent in 2005 and about 25 per cent in 2006. In past episodes of oil-boosted growth, the authorities showed some complacency in their policy stance at the expense of macroeconomic stabilisation and better governance, as shown by the abandonment of two IMF staff-monitored programmes (SMPs). This time around, however, the policy stance is tighter, with the fight against inflation taking a prominent role as Angola strives to reach agreement with the IMF on the terms of a third SMP. Inflation fell below 35 per cent in 2004, for the first time in several decades, and the local currency, the kwanza, has remained relatively stable against the dollar.

Huge resources endowments must be channelled into reconstruction of infrastructure and poverty reduction.

Figure 1 - Real GDP Growth

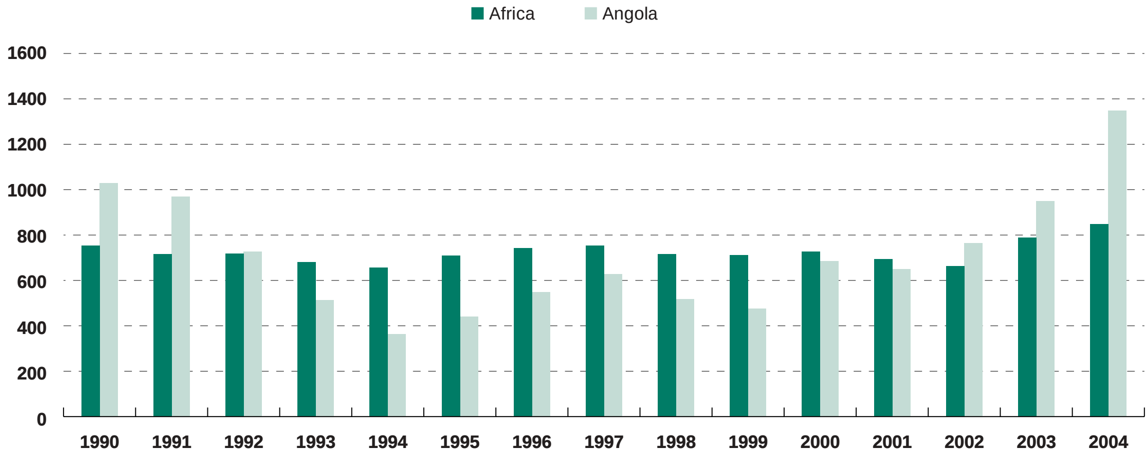


Source: IMF and National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

As in other post-conflict environments, the challenges ahead are enormous and require a strong commitment from the government that can be supported by the international community. The latter is mainly concerned by the lack of transparency in oil revenue management, recourse to extra-budgetary

1. Statistics are abysmally poor in terms of both availability and quality, which hinders proper analysis of the economy, the establishment of priorities among competing needs and the implementation of appropriate measures.

Figure 2 - GDP Per Capita in Angola and in Africa (current $)



Source: IMF.

expenses and oil-backed commercial loans, and the resulting external debt burden. The effort to reduce inflation, while necessary, has a considerable social cost, in view of the lack of official safety nets and the disintegration of the social fabric caused by the civil war. In this context, the finalisation of the Poverty Reduction Strategy launched in 2000 is expected to provide much-needed clear policy goals and a macroeconomic framework consistent with their achievement.

Recent Economic Developments

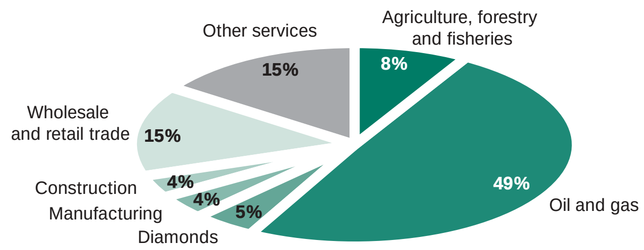
The Angolan economy remains heavily dependent on the oil sector, a capital-intensive sector with very few linkages to other sectors of the economy and little impact on employment. In the aftermath of the civil war, diversification of the economy is hampered by inadequate physical infrastructure, poor governance and corruption.

Since large-scale production started in the late 1970s, oil has shaped the Angolan economy. Offshore fields, mostly in the Congo river basin opposite the Cabinda enclave, contain an estimated 12 billion barrels. Insulated from the civil war, the petroleum sector has continued to grow, its production doubling between 1990 and 2003 to almost 1 million barrels a day. In 2003, oil accounted for more than 45 per cent of GDP, 75 per cent of government revenues and 90 per cent of exports. The state-owned enterprise Sonangol retains sole ownership of the fields and participates in oil extraction and operation, accounting for 35 per cent of Angola's oil sales. The company has entered into production-sharing agreements with major western oil companies, led by ChevronTexaco and Total, which account respectively for 61 per cent and 27 per cent of overall production.

Oil exploration activity and discoveries in Angola have intensified with the recent renewed interest in the geopolitical importance of the Gulf of Guinea as a source of oil supply. With the Xicomba field coming on stream in 2004, daily production reached 1 million barrels for the first time and is expected to exceed 1.3 million in 2005 and 1.6 million in 2006. In this context, the role of Sonangol as franchisee and operator has raised concern over economic inefficiencies and conflicts of interest. The oil sector analysis released in May 2004 revealed the opacity still surrounding the company's financial statements and its management of state subsidies.

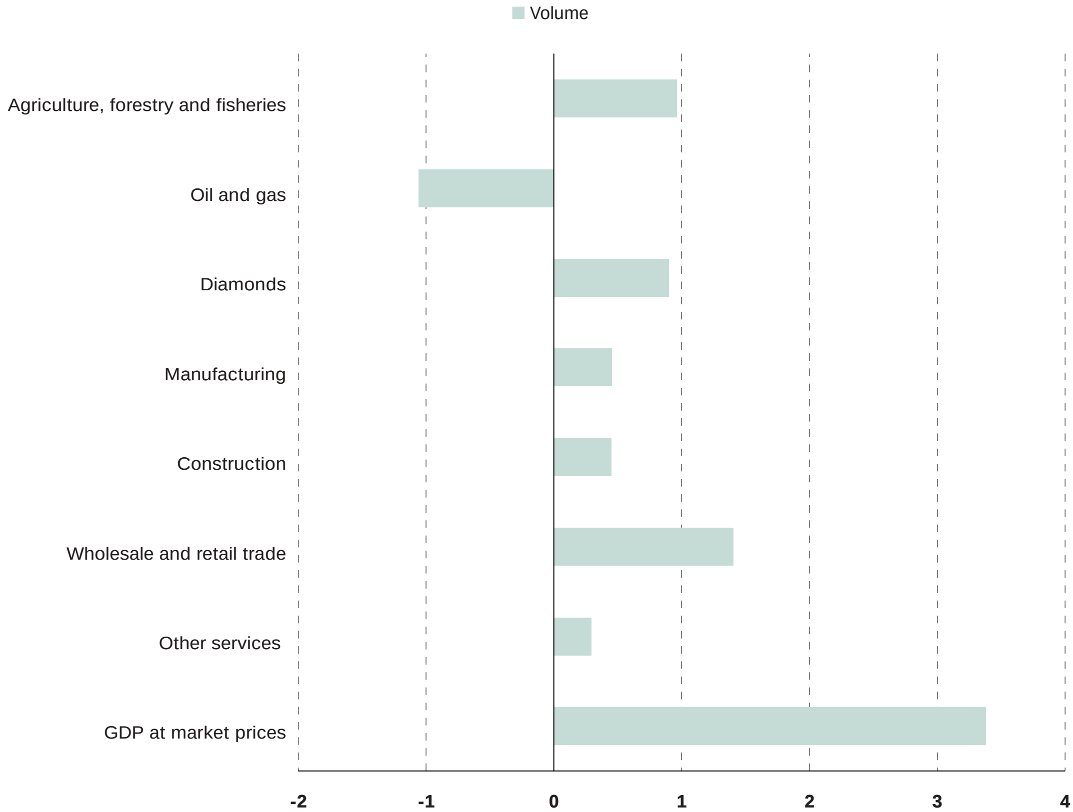
Diamond mining is the second-largest source of export revenues (about 10 per cent of total exports). As in other countries, official data on the diamond trade are notoriously imprecise because of smuggling. Moreover, most reserves were located in provinces under the control of the National Front for the Liberation of Angola (UNITA) and hence were not

Figure 3 - GDP by Sector in 2003 (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: Authors' estimates based on National Institute of Statistics data.

accounted for in government statistics. The country's only remaining kimberlite mine is the Catoca mine in Lunda Sul province, the world's fourth-largest diamond mine, a joint venture between Endiama, the Russian firm Alrosa, the Brazilian company Odebrecht and Israeli-Russian businessman Lev Leviev. There are also extensive alluvial projects, both formal and informal.

The domestic non-mining economy has recorded sluggish growth and only recently recovered the level prevailing in the early 1990s. Land under cultivation amounts to roughly 3 per cent of total arable land, which constant rainfall makes ideally suited for export crops such as coffee (of which Angola was once the world's fourth-largest producer), sisal, tobacco, cotton, palm, sugar, citrus fruits and sesame. Agriculture was severely affected by the critical security situation, as farmers found it increasingly difficult to buy seeds, fertilisers and other inputs and to market their output to urban consumers. Farming has also been constrained by the presence of mines throughout the country, a major hindrance that has been removed only partially since the end of the hostilities. Once self-sufficient in major staple crops (maize, cassava, sorghum), Angola has developed a huge food deficit, requiring humanitarian assistance through the World Food Programme. The end of hostilities and the perception that food aid is crowding out domestic suppliers may lead donors to discontinue such support by end-2005. The livestock situation is slightly better, as cattle were not eliminated during the war.

The country also boasted a thriving manufacturing sector before the civil war, accounting for 18 per cent of GDP in 1973, although it may have been inefficient due to high tariff protection. Its GDP share has now fallen to less than 4 per cent, mainly in light industries such as food processing, beverages and textiles. Heavy industries either operate well under maximum capacity (cement and petroleum refining) or are inoperative (steel). Infrastructure is still being rehabilitated at a modest pace, with the emphasis mostly on roads (including a new toll bridge over the Kwanza river); this activity, together with a mini-boom in residential buildings in Luanda, has sustained the construction sector, which expanded by 12.6 per cent in 2003. In the services sector, the communications sub-sector grew by 35 per cent in the first half of 2004, reflecting the launch of a second cellular phone operator and increased traffic volumes.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**34.5**	**39.5**	**35.6**	**40.2**	**33.4**	**30.2**	**29.2**
Public	13.1	3.6	3.3	6.3	5.2	4.9	5.1
Private	21.4	35.9	32.4	33.9	28.1	25.3	24.1
Consumption	**52.4**	**76.4**	**66.3**	**64.2**	**54.9**	**48.8**	**47.5**
Public	33.3	32.8	30.8	30.8	26.1	22.4	20.7
Private	19.0	43.6	35.4	33.4	28.8	26.4	26.8
External sector	**13.1**	**-15.9**	**-1.9**	**-4.4**	**11.8**	**21.0**	**23.3**
Exports	82.1	73.5	79.1	73.9	73.4	71.6	66.9
Imports	-69.0	-89.3	-81.0	-78.3	-61.6	-50.6	-43.6

Source: IMF and National Institute of Statistics data; estimates (e) and projections (p) based on authors' calculations.

Table 1 highlights the Angolan economy's dependence on natural resource exports and its reliance on imports for most consumer goods, a natural consequence of the poor state of domestic industry. In 2005 and 2006, export and import volumes are expected to grow in tandem with an increase in private investment – almost entirely foreign – concentrated in minerals. Although still at a very low level, public investment doubled as a percentage of GDP from 2002 and 2003, spurred by poverty alleviation programmes and reconstruction efforts in infrastructure.

Macroeconomic Policies

Fiscal and Monetary Policy

Throughout its civil war, which ended in 2002, Angola recorded annual inflation rates exceeding 100 per cent. Even after 1987, when the country abandoned central planning, embraced economic liberalisation and launched a series of anti-inflationary programmes, inflation remained stubbornly high. Price stabilisation was undermined by large fiscal imbalances, together with sizeable central bank operating deficits. In a context of buoyant world prices and rising extraction, oil revenues and expensive oil-backed loans from international commercial banks were used to finance permanent expenditure increases (such as a large army and civil service payroll, arms purchases and consumer subsidies) that would be difficult to reverse during periods of falling oil prices and/or when oil reserves are depleted. These policies led to large non-oil fiscal deficits and low international reserves. Additionally, the policy anchor constituted by the Poverty Reduction Strategy Paper (PRSP) was lacking in Angola; although launched five years ago, the PRSP process has yet to be finalised.

Following the introduction of strong stabilisation measures in September 2003, inflation fell to 77 per cent by end-2003 and 31 per cent by end-2004. In 2003, the fiscal deficit remained relatively high, at 7.9 per cent of GDP. For the first time, however, fiscal operations included most off-budget expenditures, including off-budget transfers to the military, the quasi-fiscal operations carried out by Sonangol on behalf of the government and the central bank's operating deficit, which amounted to some 1 per cent of GDP. The fiscal deficit was financed by substantial recourse to external loans and grants and the use of signature oil bonuses.

In 2004, the fiscal deficit was reduced to 3.5 per cent of GDP as a result of higher oil revenues and measures to improve budget execution procedures and controls, while revenues from international trade taxes failed to rise despite the transfer of customs management in Luanda to Crown Agents.

The budget for 2005 is predicated on continued efforts to contain and monitor expenditure, notably through the phasing out of price subsidies for petrol and public utilities and a substantial cut in non-wage current expenditures. The phasing out of the oil subsidy began in May and November 2004 with sizeable increases in the retail prices of petroleum products, and it is planned to reduce this subsidy from 4.5 per cent of GDP in 2004 to 1.1 per cent in 2005. Despite substantial increases in oil production in 2005 and 2006, oil revenue increases are expected to be modest, owing to the amortisation of substantial development and operating costs associated with the exploitation of new deep-water oil fields.

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**46.5**	**47.1**	**40.5**	**37.3**	**35.9**	**35.7**	**33.7**
Tax revenue	3.8	7.3	7.9	7.8	6.8	6.2	6.1
Oil revenue	40.8	36.9	31.1	28.2	28.7	28.8	27.2
Total expenditure and net lending[a]	**57.5**	**49.4**	**49.8**	**45.1**	**39.4**	**33.9**	**31.9**
Current expenditure	52.9	36	37	36.7	32.6	27.9	25.6
Excluding Interest	*41.3*	*30.7*	*33.6*	*34.9*	*30.2*	*26*	*24.1*
Wages and salaries	8.8	8.1	11.3	12.5	11.7	9.2	8.4
Interest	11.5	5.2	3.3	1.8	2.4	1.9	1.6
Capital expenditure	4.9	6.3	7.1	7.7	6.2	5.8	6
Primary balance	**0.6**	**2.9**	**-6**	**-6.1**	**-1.1**	**3.7**	**3.4**
Overall balance	**-11.0**	**-2.3**	**-9.3**	**-7.8**	**-3.5**	**1.8**	**1.8**

a. Only major items are reported.
Source: IMF and Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

The stabilisation measures implemented since 2003 succeeded in holding inflation to an estimated average of 40 per cent in 2004, and inflation is expected to fall further to 31 per cent in 2005 and 26 per cent in 2006. If the process is to be sustainable, however, it will require prudent management of the non-oil fiscal deficit (defined as the overall fiscal deficit excluding oil revenues – a key indicator for assessing fiscal sustainability in natural resource-rich countries) and saving of the windfall profits from high oil prices in the form of financial wealth for future generations. The alternative course, i.e. the continuation of large non-oil fiscal imbalances, would shift the cost of adjustment to future generations, which will have to live with depleting oil reserves. In addition, budgetary allocations for health and education have been kept at a very low level (in the 2005 budget, they account respectively for 7.3 and 4.6 per cent of total expenditures, compared to 12.5 and 7.9 per cent devoted to defence and security). Finally, despite some improvements, a great deal more progress is needed to achieve transparency concerning oil revenues. At present, poor monitoring and control of public expenditure make it difficult to arrive at a comprehensive assessment of the country's fiscal situation, and hence to win the support of the international community (including the signing of an SMP).

In 2003, the kwanza depreciated by 37 per cent against the US dollar, yielding a sizeable real appreciation which hampered growth prospects in the non-oil economy. The stabilisation plan, implemented since September 2003, has included exchange rate unification, the launch of weekly sales of foreign exchange, enhanced control over commercial banks' liquidity (through new legal reserve requirements and regulations on commercial banks' foreign exchange positions) and closer policy co-ordination between the Treasury and the National Bank of Angola (BNA). BNA data on foreign exchange transactions are shrouded in opacity, however, as imports financed by lines of credit (from Brazil, China and Israel) are not included. This hampers understanding of the extent of foreign currency intervention needed to sustain the nominal exchange rate.

External Position

Since 1999, Angola has substantially reduced its import duties and rationalised their structure, cutting the top tariff rate from 110 to 35 per cent and again to 30 per cent in recent months, and the number of tariffs to only five *ad valorem* tariff bands ranging from 2 to 30 per cent. This simplified tariff structure substantially reduces the distortions caused by protection, although the tariff exemption list is still extensive and offers plenty of loopholes for avoiding import tariffs. Customs regulations remain opaque and often confusing after decades of incremental changes and unco-ordinated updates. A new customs law is being drafted, but no date has been scheduled for its implementation. Angola is not heavily reliant on taxes on international trade (these taxes accounted for only 5.5 per cent of total revenue in 2002), which will facilitate its future engagement in regional and multilateral initiatives.

Angola formally acceded to the SADC Trade Protocol in March 2003 and is currently preparing a schedule for its implementation. The bulk of SADC trade liberalisation measures are scheduled to be introduced by 2008, and member states are carrying out a mid-term review of the Trade Protocol to that effect – a process in which Angola is expected to play an important role as a member of the steering committee.

Angola became eligible to benefit from the United States' African Growth and Opportunity Act (AGOA) only in December 2003, but it has been the leading beneficiary of the Generalised System of Preferences (GSP) since 1999. Over 93 per cent of Angolan products eligible for GSP, predominantly oil and petroleum products, enter duty-free under the programme.

Oil exploitation strongly influences the trade balance. Oil exports have accounted for 90 per cent of total exports over the past five years and are estimated to have risen by 40 per cent in 2004. A second product recording strong export growth is diamonds.

The United States is the largest export destination (more than 40 per cent of exports over the past five years), followed by China. European Union countries are the single largest source of imports, accounting for roughly half of Angola's external purchases. Processed and fresh food products, in particular, are mostly imported from Portugal and South Africa respectively, while equipment and machinery are the main import item from the United States.

High oil prices coupled with increased oil production boosted exports in 2004, resulting in a large trade surplus. Continuing growth in crude oil production is expected to enhance export volumes further in 2005 and 2006. This will lead in turn to an increase in imports of capital goods.

Table 3 - Current Account (percentage of GDP)

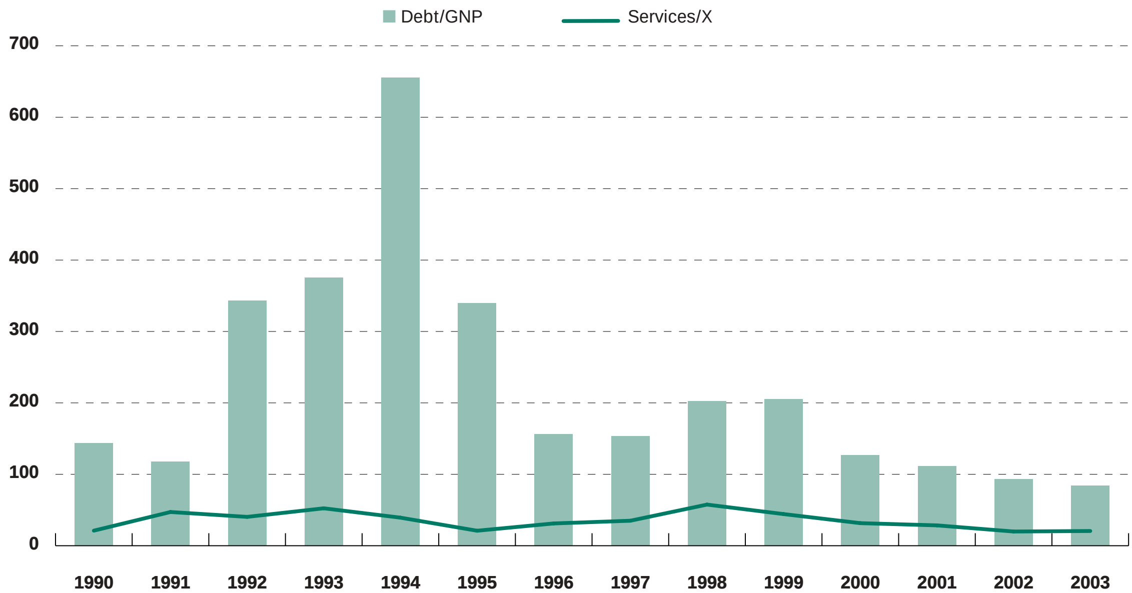
	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	46.6	37.5	42.3	29.2	38.6	43.3	42.9
Exports of goods (f.o.b.)	77.5	73.1	77.2	68.8	70.0	69.2	65.1
Imports of goods (f.o.b.)	-31.0	-35.6	-34.9	-39.6	-31.4	-25.9	-22.2
Services	-33.7	-37.1	-28.9	-22.6			
Factor income	-20.8	-17.5	-15.1	-12.5			
Current transfers	3.4	1.0	0.3	0.7			
Current account balance	**-4.4**	**-16.0**	**-1.4**	**-5.2**			

Source: IMF and National Bank of Angola data; estimates (e) and projections (p) based on authors' calculations.

Three related phenomena – the discovery of new oil fields, the increasing cost-effectiveness of deep-water exploration in a context of high oil prices and the strategic interest of American business in the energy potential of the South Atlantic – are driving FDI activity. ChevronTexaco, in particular, has earmarked $11 billion for investment over the next five years. Despite their positive contribution to GDP and exports, oil projects have very high import intensity and very few linkages with local business. Although the number of backward and forward linkages has started to grow – foreign companies have *ad hoc* programmes to increase local content – the integration between domestic and foreign businesses remains limited to very low-skilled activities such as catering and cleaning services.

The rest of the economy attracts very little FDI. Investors perceive the business climate as being very risky, even though special incentives and tax exemptions have been granted to make trade liberalisation less uniform across sectors. To add value to the local diamond industry, in April 2003 the government approved a plan to end the monopoly of Ascorp (a joint venture between the state and some foreign investors, including the Leviev Group) over diamond purchasing, and the Leviev Group is currently building a $3 million cutting factory.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

The authorities have not disclosed external debt data since 2001. At end-2004, according to IMF estimates, Angola's debt amounted to $9.6 billion (including arrears and overdue interest), the equivalent of 50 per cent of GDP or 120 per cent of net exports (excluding oil-related expenses). While the latter ratio is below the threshold for the Heavily Indebted Poor Countries (HIPC) initiative, the debt problem lies in the external debt structure and heavy reliance on costly short-term oil-backed loans that heighten the country's external vulnerability. While the government is on schedule with respect to its obligations *vis-à-vis* multilateral creditors, commercial banks and non-Paris Club bilateral creditors, including Brazil and Portugal, Angola is in arrears with most of the Paris Club creditors.

Structural Issues

The legacy of more than two decades of war and of a single-party political system, combined with heavy reliance on oil and diamonds, has deeply affected the quality of governance and made its improvement the key challenge for Angola.

Since 1988, new laws have been issued to regulate economic activities; organise the activities of the financial markets, mining and fisheries; formalise the first wave of privatisations; and introduce incentives for foreign investment in the non-oil sectors. Nonetheless, with mixed results from privatisation and limited progress in addressing the vulnerability of the financial system, these measures have not succeeded in giving investors the right incentives to engage in risk-taking and job-creating activities. In particular, business relationships have been characterised by rent-seeking behaviour, and many investors have found it exceedingly difficult to compete with a small number of businesses having strong political influence and connections (the so-called *empresarios de confiança*).

In tandem with efforts to stabilise the macroeconomic environment, new initiatives have been launched to foster private sector development. These include a new investment law that provides equal treatment to foreign and Angolan firms (with few exceptions); the new commercial code enacted in early 2004 to replace the 1888 commercial code and the 1901 law on limited-liability companies; and the establishment of the National Private Investment Agency (ANIP), a one-stop registration office for companies. Additional provisions will be required, however, before the commercial code can be effectively implemented, and the investment law is vague on profits repatriation and fails to provide strong legal safeguards to protect foreign investors. A Land Tenure Law was passed in 2004 with the aim of clarifying property rights and customary tenure. Major problems remain, however, since in many cases colonial registries have been destroyed and registration of transfers of ownership, occupation and concessions is in disarray as ministerial jurisdictions are badly defined and often overlapping.

Investments in the petroleum, diamond and financial sectors continue to be governed by specific legislation. In the case of oil, a controversial draft law was presented to foreign investors in mid-2004. The law would require international oil companies to channel their export receipts through the domestic banking system. Foreign investors claim that national banks are unprepared to accommodate massive foreign currency flows efficiently. Moreover, they argue that specific provisions regulating employment of Angolan nationals and profits repatriation amount to a breach of contractual obligations. The draft competition law has not yet been transmitted to Parliament.

State-owned enterprises play an important role in the economy, and the privatisation process was suspended in 2001, following concerns regarding the status and success of the process. Many state industrial and manufacturing enterprises record substantial losses, which have in many cases depleted working capital. Under the burden of a destitute population that fled the civil war, provision of basic public services (electricity and water in particular) is very deficient: network connectivity does not exceed 20 per cent of the population and cuts are extremely frequent. Although hydropower potential is large, generation technology is outdated and little investment has been made since the early 1990s to maintain power plants and the transmission and distribution networks. Some firms, such as Angola Telecom, the railways and the national airline TAAG, have engaged in corporate restructuring with a view to attracting foreign interest. In Luanda, selected public services, such as urban transport and waste management, are already operating under concession. A second mobile service provider has been operational since mid-2003, its market share now approaching 55 per cent. Progress in attracting private investment is hampered, however, by the lack of judicial safeguards, including independent regulators.

According to the 2002 census carried out by the National Institute of Statistics, the non-farm private sector comprises some 19 000 enterprises and provides employment to 341 000 people. The majority of these firms are located in the Luanda area and are active in trade and personal services. These figures underestimate the size of the private sector, as a substantial share of economic activity is undertaken in the informal sector, for which no reliable estimate exists. In an environment long characterised by the fragility of successive peace agreements, high inflation, a volatile exchange rate and low returns on kwanza deposits, over 70 per cent of deposits and 70 per cent of loans are denominated in foreign currency. This limits access to credit, for smaller firms especially. Collateral requirements are stringent but proper land titling is almost non-existent. Ownership remains a prerogative of the state, and user rights, being uncertain, cannot be used as collateral, which seriously limits lending to agriculture. Commercial banks show a marked preference for large firms having relatively long track records and strong connections to the establishment.

In 2000, the authorities set up a credit institution (*Fundo de Desenvolvimento Economico e Social* – FDES) to channel part of the country's large oil revenues to support investment in the private sector. FDES targets mostly small and medium-sized enterprises with loans ranging from $10 000 to $500 000, channelled through commercial banks. According to the original plan, FDES was supposed to receive $150 million from oil "bonuses" in 2000, but as of mid-2004, only $30 million had been disbursed. FDES has financed 170 projects, mainly in transport and fishing, with an average size of about $20 000, generating more than 4 500 jobs. Its activity has been hindered by scarcity of financial resources and the weaknesses of the financial system

Micro-finance Banks Offer Flexible Formulas to Bypass the Red Tape

Novobanco, a micro-finance bank also active in other Southern African countries, has developed financial instruments and a system of credit lines that bypass the red tape hampering access to finance for established businesses. In the three months since its opening in Luanda in September 2004, the bank had already extended more than 120 credit lines in a total amount of $600 000 (the average loan was for $5 000, maturing in 3-5 years, at a monthly interest rate of 4 per cent), almost entirely to clients operating in the trade sector. Such a successful uptake, well in excess of the company's expectations, was made possible by the flexible formula offered to small entrepreneurs, which includes a no-fees account with no minimum balance, informal guarantees (house assets and a guarantor) and an ongoing relationship with loan officers. A network of such officers is responsible for assessing portfolio quality and monitoring clients, for which they are paid performance-related salaries. The USAID-financed scheme lacks, however, a technical assistance component, which is considered one of the main requirements for small business development.

Recently, other successful initiatives have combined lines of credit to small businesses with training and technical assistance. In particular, a local bank, Banco Sol, originally involved in group lending, has gradually started financing individual businesses from its traditional clientele. On the strength of its well-established relationships with clients and its wide geographic coverage, the bank has implemented a successful approach, requiring informal collateral and relying on international NGOs for monitoring and assistance to the client.

through which it operates. The intermediating banks did not provide adequate monitoring of the projects financed, owing to poor credit information and analysis. Loans were secured by mortgages on fixed assets and collateral.

Other initiatives to satisfy the pent-up demand for financial services have been developed only recently, as the political situation has stabilised. These include creating the proper regulatory framework for micro-credit, building the necessary human competencies, setting up credit bureaux and business development services to reduce informational gaps, developing financial instruments that are more attuned to the needs of the Angolan business community, and reaching hitherto poorly serviced parts of the country. Implementation is in the hands of a variety of public and private partners, including government agencies, donors and international organisations, and oil companies, which are contractually required to devote part of their profits to fund corporate social responsibility activities. As described in the box on previous page, the results have been encouraging. This proves the existence of pent-up demand for financial services on the part of medium-sized businesses that are usually not served by commercial banks and have grown beyond the reach of micro-finance.

Political and Social Context

Angola entered a new era on 4 April 2002, six weeks after the death of UNITA leader Jonas Savimbi, when a cease-fire was signed between the armed forces and the rebels. At the time, UNITA was largely in retreat after suffering a serious military defeat at the hands of the better armed and organised government forces, and was politically isolated on both the international and domestic fronts. Since then, the new leadership of UNITA has been struggling to manage the difficult transition from a fragmented movement to a united political party.

The authorities have been faced with considerable challenges, and progress has been uneven. On the one hand, a modicum of peace and democracy has returned, as shown by the emergence of an independent press and civil society organisations. On the other, the needs of the internally displaced, who numbered 4 million at the end of the war, and of the former UNITA insurgents have not been adequately met, under the combined effect of regional and ethnic inequalities and an inadequate governmental response. More than 300 000 people are estimated to be still living outside their area of origin, between 5 and 7 million mines remain to be removed, medical care for mine casualties is extremely limited and numerous episodes of violence against UNITA followers returning to their areas of origin have been reported.

Decades of atrocities, including rampant violations of the human rights of non-belligerents, make reconciliation exceedingly difficult. The entrenched interests undermine reforms, and after three decades of external intervention, Angola's government resists the international community's pre-conditions for its involvement and aid. New presidential and legislative elections are scheduled for 2006, the first in 12 years, but while the government would first like to agree on a new constitution, UNITA is pressing for earlier elections using the current constitution. The ruling party, the Popular Liberation Movement of Angola (MPLA), still enjoys international confidence and popular prestige as the heir to the independence heroes, while the opposition appears to be divided.

According to the 2004 Human Development Report, Angola ranks 166th out of 177 countries, with an estimated 68 per cent of the population living below the poverty line of $1.7 per day. Indeed, despite the oil boom, the majority of Angolans live in extreme poverty. The incidence of poverty is higher in rural areas – where it affects 94 per cent of the population, compared to 57 per cent in urban areas – as a result of the difficulty for farmers of gaining access to fertile land and markets, the deterioration of road infrastructure and rural dwellers' flight to urban centres, which were less affected by the armed conflict than rural areas. The latest household survey (2001) showed that 40 per cent of household heads were jobless, while urban unemployment stood at 46 per cent. It indicated that one-fifth of all children aged 5 to 14 years perform various jobs and 42 per cent of children of poor families are engaged in household work.

Major social indicators such as life expectancy, malnutrition and access to water and sanitation deteriorated sharply during the war and are still at alarming levels. In the 1990s, the international community was deeply involved in alleviating the Angolan humanitarian crisis and the country received considerable assistance, including food support. Donors' current strategy is to move from emergency interventions to a development approach, focusing their initiatives on achieving the Millennium Development Goals and fostering democratic governance. For that purpose, donors are pressing the authorities to step up the fight against corruption, improve transparency in the use of oil revenues, and enhance the quantity and quality of social spending on poverty reduction.

The Council of Ministers approved the PRSP in December 2003, and a subsequent revision process is supposedly almost complete. According to the donor community, the strategy lacks a clear prioritisation of objectives, actions, timeline and financing sources. Moreover, NGOs claim that consultation in the preparation phase has been insufficient. The formal conclusion of the PRSP is, therefore, subject to the incorporation of donors' comments and to the intensification of the consultation process with civil society, under the leadership of a PRSP donor working group. Concern has been expressed as to the country's ability to implement a monitoring and evaluation system to assess progress in its PRSP. The 2001 household survey, which is outdated and not representative of the whole country, cannot be used to assess the impact of PRSP implementation.

Two years after the cessation of hostilities, efforts to rebuild and to increase the availability of health services are lagging behind. Only 30 per cent of the population has access to basic health services within 5 km from their place of residence. The rate of maternal mortality is one of the highest in the world (1 700 per 100 000 births). According to UNICEF, Angola has the world's third-highest child mortality rate, with 250 deaths per 1 000 children, owing to malaria, respiratory infections, diarrhoea, measles and neo-natal tetanus. Malnutrition is an important underlying condition, estimated to affect almost half of Angola's 7.4 million children. In the next two years, the country is expected to receive $25 million from the Global Fund to implement measures to fight malaria. However, a national therapeutic policy has not been introduced yet, and medical institutions are struggling to provide adequate treatment even for common illnesses.

One of the root causes of the low rate of access to health services and the poor quality of those services is the low budgetary allocation for social expenditures. The meagre funds allocated to the health sector are then fragmented into distinct budgetary units at provincial level and dispersed in a large number of sub-sectoral policies, programmes and plans without a sector-wide plan of action. There is a huge shortage of doctors, with only one for every 13 000 people. The government has announced a broad package of measures providing incentives to health workers to work in the provinces, but progress in establishing them has been slow.

At an estimated 4.1 per cent in 2003, the HIV/AIDS prevalence rate in Angola was relatively low by the dramatic standards of Southern Africa, the sub-region of the world most severely affected by the epidemic. A new UNICEF survey, which involved testing some 12 000 women at ante-natal clinics in all 18 Angolan provinces, found that only 2.8 per cent of them were infected, which would imply an overall adult HIV infection rate of about 5 per cent. The relatively low prevalence of HIV has, however, led to a lag in medical response and extremely low budgetary allocations over the past three years. An important step in the fight against the disease was the launch of a National Plan against HIV/AIDS in January 2004. The five-year, $160 million national strategic plan, drawn up with the collaboration of the United Nations, is focused on prevention, building institutional capacity and helping HIV-positive people. Concern has been aroused, however, by the slow progress in implementing the plan, especially in setting up treatment facilities in the capital.

With an estimated illiteracy rate of 58 per cent (as against 38 per cent for the rest of Africa) and about one-third of all children aged 5 to 11 with no school education, Angola's educational indicators rank among the lowest in the world. During the 1990s, the Angolan education sector underwent a dramatic decline in enrolment, partly due to the hostilities but also to the failure to train and deploy adequate numbers of teachers, with sufficient teaching and learning materials. By the late 1990s, primary school enrolment was down to about 1 million. According to the latest national statistics available, the gross enrolment ratios for boys and girls are 78 per cent and 69 per cent respectively, and the net primary enrolment ratios 39 per cent and 35 per cent respectively. In addition, 35 per cent of the children who enrol in the first primary year fail to complete a full course of primary education. This reflects the high drop-out rates in all primary school grades, averaging 24 per cent of pupils in the first four grades. Gross secondary enrolment is also very low, at 18 per cent for boys and 13 per cent for girls. Low salary levels and arrears in salary payments have made teaching in the public sector an unattractive profession. Teachers have to resort to parallel jobs and, very often, to extort *gasosas* (kickbacks), making it even more difficult for the poor to access education. The number of pupils per classroom is very high (64) and the shortage of textbooks is acute.

The Ministry of Education has reformulated the *Plano-Quadro de Reconstrução do Sistema Educativo*, setting new targets to be achieved by 2015. The challenges remain enormous: in order to achieve universal primary enrolment and completion, while keeping pace with the rapid growth of the school-age population, the number of pupils enrolled in primary school needs to grow from an estimated 1.2 million in 2002 to 5 million by 2015. As a result of this recent effort, the 2004 school year has seen a massive increase in the number of students enrolled, by almost 2 million primary school children. In addition, in order to improve the availability and quality of primary education, the Ministry of Education and UNICEF have recently drawn up a national capacity building plan. In order to improve pedagogical skills, some of the 29 000 new teachers recruited last year will work with the newly developed teaching modules.