



Analysis of the business environment in Least Developed Countries

Angola

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A powerful
and balanced
voice for business

Angola

Region
Southern Africa

Population
33 642 646

Demographic growth
3.2%

Average income (2021)
1,3953.5 USD

Human Development Index:
**148th out of 191 countries
(2021). Regarding the Human
Development Index (HDI), Angola
was 0.586 points in 2021.**

Regional economic community
**Southern Africa Development
Community (SADC)**

Economic overview

Angola is the ninth-largest economy in Africa and the second-largest oil producer on the continent. The top four employment sectors in the country are agriculture (55 per cent), wholesale and retail trade (20 per cent), administrative (6.8 per cent), transportation, logistics and communication (4.5 per cent).

The agriculture and fisheries sector provides the primary source of income for 90 per cent of the 10.7 million Angolans living in rural areas. However, agricultural productivity remains low due to the dominance of small-scale and subsistence-oriented family farms, which currently utilise (80 per cent of production and 92 per cent of land under cultivation). Poor agronomic practices, poor access to credit, and low access to improved technologies like climate-smart seeds, agrochemicals, and mechanisation constrain these small farms. Angola's worst drought emergency has lasted for 38 years and is attributed to climate change³. As a result of these factors, agriculture only accounted for 9.7 per cent of Angola's GDP in 2015–2019 and 9.5 per cent in 2020⁴. Nonetheless, both crop and livestock production have significant potential for growth due to the abundance of arable land, freshwater, and diversity



of climatic conditions suitable to producing a variety of agricultural products, especially as only 16 per cent of the arable area is cultivated, nearly half of this arable land it is unused, and just 3.5 per cent of potentially irrigable land has been developed.

Many opportunities are also available in the growing ICT sector. However, inaccessibility due to high prices of telecommunication services has meant that mobile connections stand at only 46.3 per cent of the total population, and internet penetration is at 31.0 per cent as of January 2021.⁵

Covid-19 amplified the symptoms of the economic crisis that Angola, as an oil-dependent economy, has been undergoing since 2014. A crucial part of the country's economic diversification agenda is the 2019-22 Privatisation Programme (PROPRIV),

³ World Vision- "The Devastating Effects Of Climate Change In Angola". World Vision: Hope, Joy And Justice For ALL Children, Last modified 2021, <https://www.wvi.org/stories/hunger-crisis/devastating-effects-climate-change-angola>

⁴ World Bank <https://data-worldbank.org/indicator/NV-AGR-TOTL-ZS?locations=AO>

⁵ <https://datareportal.com/reports/digital-2021-angola?rq=>

which plans to sell more than 190 companies and assets that the State, partially or wholly owned, to the private sector. The programme has developed slowly under the economic pressures of Covid-19, with plans for airline privatisations postponed, for example. Still, sectors, including mineral resources, transportation, telecommunications, health, agriculture, and construction, are seeing renewed interest.

Challenges faced by the private sector

- **Inefficient bureaucracy** is a significant constraint to doing business in Angola, especially for local small and medium-sized enterprises. Unfortunately, Angola's endemic and entrenched corruption makes it difficult to root out these practices.
- **Corruption:** Standing at 136th out of 180 countries, Angola has a high corruption perception index⁶. Corruption impedes business and economic growth.
- **Informality:** Informal employment stood at 79.6 per cent of total employment in the third quarter of 2020, with nearly 8 million people total. In the same quarter, informal employment was 92.3 per cent in rural areas and 66 per cent in urban areas, 89.5 per cent for women and 69.6 per cent for men. Only 10 per cent of the population is covered by at least one social protection benefit. The government has approved the Program for the Reconversion of Informal Economy (PREI) and a strategy for transitioning from the informal to the formal economy.
- **Inadequately educated and skilled workforce:** Businesses face challenges recruiting skilled and qualified staff. In 2020, the share of young people whom neither work nor study increased significantly, to 32.5 per cent (from 23.5 per cent in 2019), with 29.6 per cent of young men and 35.2 per cent of young women in this category⁷. The adult literacy rate stands at 66.03

per cent (a 1.38 per cent decline from 2001), the male literacy rate is 79.97 per cent, and the female is 53.41 per cent, showing a very large gender gap.

- **Underdeveloped infrastructure:** The absence of effective transport solutions, including rail systems and road networks, is a major constraint to the private sector growth. The poor state of transport infrastructure has a substantial effect by reducing business productivity and increasing the cost and time of doing business.



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- **Limited access to financing:** due to gaps in information and lack of access to long-term bank loans or equity, ensuring investment and growth has been challenging for SMEs and MSMEs. This increases the cost of production and ability to scale and makes local products less competitive in the market.
- **Lack of economic diversification:** The crude oil sector accounted for 56.7 per cent of GDP in 2019 and 90 per cent of exports. The share of agriculture in Angola's economy has grown rapidly and has become the main opportunity for economic diversification and food security.
- **Wage inequalities:** There are significant wage inequalities across sectors and genders. Average salaries for women were lower than those of men across all economic sectors. On average, the wages of self-employed workers (Kz 24,506) were the lowest compared with the private (Kz 48,127) and public sector (Kz 138,012)⁸.

⁶ Transparency International <https://www.transparency.org/en/cpi/2021/index/ago>

⁷ INE, 2020. Indicadores de emprego e desemprego. Inquerito ao Emprego em Angola. Annual report 2019, I quarter 2020 and II quarter 2020

⁸ INE, 2020. Indicadores de emprego e desemprego. Inquerito ao Emprego em Angola. 2019

Private sector policy recommendations

Creating the basis for economic diversification and a private sector-driven growth model has become even more urgent in the face of the economic fallout of the Covid-19 crisis. Structural reforms that enable private sector growth and competition are needed to achieve this. This includes reforms of State-owned enterprises, State and other monopolies, and the pricing of energy and utilities.

- **Youth employment and skill development:**

Polymakers need to adopt active labour market programs related to the Employability Promotion Action Plan (PAPE), including a stronger Technical and Vocational Education and Training (TVET) system. Fiscal incentives for apprenticeship programmes could be introduced to encourage employers to train and hire young people with limited professional experience, especially young women. Stronger partnerships between public and private TVET centres and business associations are needed to match vocational training with labour market needs. These actions should be coordinated and integrated with the Government's ongoing initiatives on the informal economy. For example, informal micro-enterprises could be provided incentives to formalise their business by obtaining access to social protection and skill certification for their workers. Access to credit by young entrepreneurs needs to be ensured.

- The government should partner with the private sector to improve the national data collection system for labour market indicators and develop a framework for identifying the competencies required in response to labour market demands through the national strategy for human capital development⁹.

- **Increase power generation and distribution:** The management of existing power plants should be shifted to private entities to ensure capacity improvement that fully exploits the (estimated at 18,200 MW) of

the hydropower developments located on the Kwanza River and Cunene River, which currently generates about 1,200MW. This can be realised by developing an effective framework for knowledge sharing and technology transfer with stakeholders in the private sector. The government should also implement policies that include the private sector in power generation and distribution through licensing independent power producers (IPP) and power distribution companies. Improving the country's capacity for renewable energy systems and the electricity access rate. This will expand electricity access to less-developed provinces and address regional disparities, poverty, etc. It will have a spillover effect in many other sectors, including agribusiness, ICT, health, and education, where electricity use is important. This policy has the potential to provide employment opportunities by opening new markets in energy retail and small-scale entrepreneurship in solar power.

- **Privatisation:** The government should pursue implementing key privatisation policies, improving the national regulatory framework in these sectors and promoting favourable conditions for the private sector to thrive. For instance, privatising state-owned Telcom companies to maximise the potential benefits of the country's poorly developed digital economy will facilitate Angolans' skills and knowledge acquisition.

- **Reduce informality:** Given the size and cross-cutting nature of the informal economy, a gradual and phased approach should be taken in medium and long-term plans. This will entail reducing the cost of formalisation, such as entry costs; reducing bureaucracy in the business start-up and authorisation process; reducing the cost of remaining in the formal market, such as taxes; developing a special tax scheme for easier to access credit.

- **Support and fostering digital services:** The Government can assist the private sector during this high inflation period by offering

⁹ International Labor Organization, "Unemployment: Total (% per cent Of Total Labor Force) (Modeled ILO Estimate) - Angola | Data", The World Bank. Last modified 2021. <https://data.worldbank.org/indicator/SL:UEM-TOTL-ZS?locations=AO-AO>

credit, reorganisation of companies in distress, improving the investment climate and fostering competition, and supporting firms to access new markets or developing new business models. Credit lines and liquidity support to the private sector can be channelled through well-established, solvent banks instead of public banks. Also, understanding and fixing challenges in existing lines of credit for the private sector could help improve their uptake. Fostering digital financial services, including mobile money, could enable digital platforms and entrepreneurship to create new jobs.

- **The government should pursue a policy of production support, export diversification and import replacement programme** in close cooperation with the private sector. The policy should identify opportunities to capitalise on expanded market access through the AfCFTA and SADC FTA by increasing sector competitiveness and exporting to the wider African region. Funds should be mobilised for the industrial sector through commercial banks to support producers by simplifying and facilitating access to credit. The share of agriculture in Angola's economy has proliferated and has become the main opportunity for economic diversification and food security.

- **An information and communication technology (ICT) development strategy should be included in the national executive development plan to improve** employability, job training, youth employment and entrepreneurship through ICT.

- Engage the private sector in developing an industry-focused ICT skill development strategy that integrates ICT education into the primary, secondary, and higher education curriculum. This is a critical, long-term skill-development strategy considering that approximately 53 per cent of the country's population is under 18.

- **Policymakers should promote and support private investments in the agricultural sector to improve productivity** and reduce

overreliance on imported foods. Private investments can be attracted by leasing dormant public land to agribusiness investors, supporting horticulture and helping to sustainably increase production and commercialisation through access to productive resources and climate-resilient farming practices.

- **Rural development through investment in infrastructure and skill development:**

Promote industrial and agricultural value chains and agribusiness through investments in critical infrastructure that stimulate rural economic activity and create employment for rural workers. Employing an inclusive approach to investing in foundational skills development by simultaneously building children, young people, and adult literacy, numeracy, and socio-emotional skills. It also means investing in labour market training for disadvantaged youth, workers in low-productivity areas, farm and nonfarm rural activities, and urban self-employment¹⁰.

- **The National Adaptation Programme of Action (NAPA) should be empowered**

to deal effectively with the harmful effects of climate change. Private investments should be encouraged for capacity, financial and technical support to enhance the recording and monitoring of observational climate data.



To achieve the potential of tourism, the issues of land availability, lack of security, access of funds to tourism investors, red tape and bureaucracies need to be addressed.

Collaborations between NAPA and the private sector will facilitate capacity training and building on climate science and promote enhanced climate modelling through investments in research and development initiatives. Also, NAPA's priority activities and policy formulation processes should actively involve the private sector to identify populations vulnerable to

¹⁰ Tackling Africa's Skills Gap to Build More Robust and Diversified Economies- World bank, (2017)

climate change and promote the design and implementation of efficient solutions.

- **The participation of domestic enterprises in the construction of public infrastructure** should be prioritised to build up skills and increase local employment.

- **Improve and support tourism:** The government should establish and support emergency response initiatives to boost the recovery of the tourism sector. This can be through creating specialised funds for promoting the tourism sector and facilitating workshops, training courses and exchange programmes to empower small and medium enterprises. To achieve the potential of tourism, the issues of land availability, lack of security, access of funds to tourism investors, red tape and bureaucracies need to be addressed.

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