THE ECONOMY OF ANGOLA: FROM INDEPENDENCE TO THE 2008 WORLDWIDE CRISIS

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ABSTRACT

Since abolition of slavery, the Angolan economy has been dependant upon production of primary goods. Throughout most of the 20th Century, coffee and diamonds were the main exports. With the discovery of offshore oil fields in the early 1970s, Angola became a major oil exporter. Since then, the Angolan economy has revolved almost entirely around oil, which now pays for everything, including food imports to compensate for lost domestic production, machinery replacement for industry, and the war effort. Against this background, the 2008 crisis left the Angolan economy in an extremely critical condition, owing to the drop in oil prices. This article undertakes an historical analysis of Angola, from independence up until the 2008 crisis and its aftermath.

1 INTRODUCTION

After independence, on November 11, 1975, Angola spent most of the intervening period plunged in warfare, and only in the past eight years[1] has it enjoyed peace. This had grave repercussions on the Angolan economy which, currently, is the second-largest in southern Africa. Angola's Gross Domestic Product (GDP) is second to, but much smaller than, that of South Africa. It has surpassed the GDP of Zimbabwe, the economy of which is in a deplorable state.

Aside from the effects of war, other elements that hamper Angolan economic performance are a lack of qualified human resources and the persistence of extractive activities.

According to domestic and international forecasts, by the end of 2010 Angolan GDP will amount to US$ 87.5 billion (calculated by the official exchange rate TCO). This implies a resumption of double-digit growth, following (according to the government) a rise of 2.9% in 2009, or (according to international sources) a 0.9% decline (EIU, 2010).

In the overall structure of the GDP in 2008, when the growth rate reached 13.4% (World Bank, 2009): agriculture accounted for 6.6%; industry (essentially extractive activities) for 67.8%; whereas manufacturing accounted for only 4.8%; and services for 25.7%.

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1. Text written in November 2010.

Regardless of the discrepancies in these figures, comparison with 1998 is significant, bearing in mind that, at that time, Angola's GDP amounted to only US$ 6.4 billion. From 1998 to 2010, two great changes occurred, which explain this difference: the end of the long civil war in 2002, which reduced military spending; followed shortly after by a rise in the price of oil, the product that accounts for 60% of Angolan GDP and 90% of its exports.

This macroeconomic progress had but modest repercussions on the overall living standards of the roughly 18 million Angolans. Angola's worldwide ranking in terms of GDP is disproportionately higher than its Human Development Index (HDI) ranking, reflecting a historical maldistribution of wealth.

The Angolan Government's People's Well-being Index [*índice de bem estar da população* – IBEP] (Angola, 2010) shows that 36.6% of the population live below the poverty line, reckoned to be an income of US$ 2 per day (Angola, 2010). Casting doubts as to the pertinence of this internationally-used measure for assessing poverty, other authors believe that this percentage is even higher.

These two facets of the Angolan scenario stem from a long history going back to the period when Angola was first organized as a territorial unit, in 1576, with the founding of Luanda. As a hub for the transatlantic slave trade for almost three centuries, Angola's essential borders were established by colonial agreements in the late 19th Century, at which time it gained recognition as an exporter of primary goods, such as diamonds and coffee, which remained its main exports until the 1960s.

It was in the 1960s that the war of independence broke out; and also, that incipient oil production, later augmented by discovery of new offshore deposits, began to dominate the economy. To the present day, the oil fields are the most important feature of Angola's economy.

On November 11, 1975 independence was declared, thereafter economic data underwent changes as a consequence of the new political context.

2 POLITICAL CONTEXT

The final schedule for independence was set under the Alvor Agreement (Portugal) of January 1975, gaps in which culminated in post-colonial civil war. At issue was the determination of the three forces acknowledged under the Agreement, not only to hold a monopoly of power, but also to maintain their right to political expression. This undermined their willingness to apply the terms to which they had agreed.

The lack of effective electoral mechanisms, and denial of the representativity of dissident voices among those forces and of political independents, led to a climate of mistrust and armed confrontation which, in itself, greatly undermined the confidence necessary for pursuit of economic development.

Further exacerbating this situation was the fact that the Agreement made no provision for economic transition measures.

> Thus, since independence, the Angolan economy has displayed signs of weakness stemming from the colonial legacy and from political and military ambitions over 27 of the past 35 years.
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> Two characteristics of the colonial economy continued to exert strong influence in the post-colonial period:

- absolute primacy of extractive activities in the composition of GDP; and
- absolute primacy of corporate property and the performance of all technical functions by foreigners, whose ties to the country were so tenuous that, with the change in the political regime, they fled en masse.

The political and military environment caused destruction and frustrated all possibility of productive activity in various geographical areas while, at the same time, establishing a new social order entailing new forms of distribution (in relation to the colonial period) of jobs and wealth.

This was not merely the superimposing of a new layer atop of the pyramid, but rather, replacement of the whole structure. Along with this came the emergence of powerful informal and parallel markets, which became increasingly ingrained and highly influential in the new context.

Until the fall of the Berlin Wall, Angola had been a stage for confrontation of protagonists of the Cold War. The new international political scenario, enabled by the New York Accords on Southern Africa led, in 1989, to withdrawal of Cuban troops from Angola and of South African troops from Namibia.

In 1991, the first free election in the history of Angola led to the victory of the Popular Movement for Liberation of Angola (MPLA). This party which, since independence, had held sway over most of Angolan territory, renounced Marxist-Leninism to espouse the principles of International Socialism. Its armed opponent, the National Union for Total Independence of Angola (UNITA) had greater difficulty in adapting to the end of the Cold War and in understanding the changes the Angolan economy had undergone in the 16 years since outbreak of the post-colonial civil war.

UNITA, without presenting evidence, accused the MPLA of electoral fraud and, despite a UN Declaration confirming that the elections had been generally free and fair, refused to accept the results.

In October 1991, the country was once again enveloped in war, this time affecting populous areas of central importance to the economy. The scale of destruction, in 1992-1993, caused a 23% drop in GDP (Angola, 1993).

To finance the war, the government mobilized a major portion of its oil revenues, while UNITA intensified its control over the diamond fields thus, like other African insurgent groups, becoming a major source of illegal gemstone exports.

The diamond fields were the scene of intense fighting and, when government troops overran the area, the economic base of the rebellion was crushed. The government, with the international legitimacy endowed by its victory in the 1991 elections and its shift of international alliances, succeeded in isolating UNITA, finally inflicting military defeat in February 2002, thus laying the bases for the peace agreement signed two months later.

This agreement provided safeguards for UNITA as a political party and scheduled new elections, which duly took place in September 2008. Strengthened by having won the war, by a favorable international economic and financial environment brought on by high oil prices as of 2004, and by the weakening of UNITA and other non-armed opposition groups, the MPLA increased its electoral majority, which had been 52% in 1991, to just over 80% in 2008.

3 THE FORMAL ECONOMY

During the phase stretching from acknowledgement of the right to independence (June, 1974) to its proclamation (November, 1975) mechanisms for economic control (both State and corporate) gradually lost force, thus opening up space for parallel activities. Ilegal transfers of property abroad (by former colonists) and "savage" seizures of property (by national citizens) were the two most evident economic features of the period.

By November 1975, the former productive structure had reached an alarming degree of paralysis, and the new authorities had failed to find any way of restoring even those sectors that should have been easier, such as food-production agriculture, fisheries and small businesses.

The mass exit of Portuguese owners provided additional justification for the economic authorities to advocate state ownership, in line with their Marxist outlook (only formally declared in late 1977) that regarded the State as an "instrument of the working class and its allies, the principal factor for development and fair distribution of wealth", as was stated in the final declaration of the 1st MPLA Congress in 1977.

Just a few months after coming to power, at the beginning of 1976, food stocks had reached emergency levels. While responsibility for new imports was in inexperienced hands, a National Supply Committee was created within the (then) State Secretariat for Commerce, with representatives from various ministries and strong support from Cuban advisors.

The surviving private sector was neglected, and companies abandoned by their owners were nationalized. *Importang*, a vast central import corporation was established to assume a monopoly of practically all import trade. This corporation was later broken up into specialized units, but the State monopoly remained in effect until 1990.

Dogmatism and management inexperience led to chaos among the incipient trade and port-handling authorities, whereas links between town and countryside became increasingly strained. Initially, all critical observations and proposals for greater economic flexibility were dismissed as "bourgeois deviations".

The national currency, the kwanza (named for the largest river flowing entirely through Angolan territory) was first issued in 1976, at parity with the colonial escudo and maintaining the same exchange rate in relation to the US dollar (roughly 30 escudos to U$1.00). Exchange operations at that time revealed how little cash people possessed: only 2% exchanged more than 200,000 Angolan escudos, according to information disclosed by high officials of *Banco Nacional* and the Ministry of Planning. This percentage corresponded to a relatively affluent segment of the population and reflects the exodus of holders of large fortunes, the so-called *metropolitanos*.

However, within a short space of time, a vast amount of cash came within reach of a significant number of citizens, as a consequence of free or low-cost services (rents, transport, healthcare and medical drugs) and, for those at the apex of the new social pyramid, that J. Bayard (1989) has classified as the "Class-State", of privileges in such fields as housing and general spending.

These factors, and a drastic reduction in the supply of essential goods, caused a huge imbalance between the money supply and the availability of goods (including basic staples) thereby creating pressures that rapidly led to rationing. Such rationing was socially segmented since, aside from the afore-mentioned privileges, a special supply system was set up wherein prices bore no semblance whatsoever to real market conditions.

The currency underwent constant corrosion, making it necessary to launch successive new issues of bills, each discarding some of the zeros that had appeared on the previous issue.

Following a brief interruption in the months immediately after independence, oil extraction was resumed and underwent expansion while, at the same time, in all other sectors of the economy, there was a 90% fall in production, whereas trade in general declined by about the same proportion.

Angola took on features of a single product economy. Oil financed everything: food imports, to compensate for lost production; replacements of equipment; and the war effort, which escalated in the 1970s and 1980s. Warfare did not, however, affect the areas of greatest importance to the economy.

Poor economic and social performance during these years was blamed, by many in public administration and in corporate management circles, on the war. However, even some of the top managers rejected such explanations, generally presented merely to mask the underlying problems: i.e., excessive state ownership and a lack of qualified human resources.

In 1986, Angola suffered from the drop in oil prices, which caused a US$ 700 million shortfall in relation to forecast revenues. Its capacity to import food was drastically reduced, which inevitably led to a rise in absolute poverty and overall prices increases.

In 1987, the Government launched the Economic and Financial Cleanup [*Saneamento Econômico e Financeiro* – SEF] and applied for membership of the International Monetary Fund (IMF), but reluctance to abandon its ideological dogmas stood in the way of urgent reforms, perceived as necessary even by certain more realistically-inclined segments of the governing party.

Against this background, as Peter Meyns (1984) observed:

> the MPLA government came to realize that ending the war, including activities carried out by dissident organizations, would be the only way to achieve a successful economic future. The analyses herein presented, however, lead to the conclusion that though an end to hostilities is a necessary condition, it is most certainly not, in itself, sufficient to ensure development of the Angolan economy. Structural characteristics of the economy will remain after hostilities have ceased (...) at issue, essentially, is a problem seen not only in Angola but also in various other countries, i.e., the phenomenon of bureaucratic encumbrance of economic systems dominated by the State.

Until the price liberalization of September 1990 (and the issuing of new bills with a reduced number of zeros) price spirals were a common feature of both the informal and parallel markets.

In comparative terms, a 1984 text produced by the union confederation of the regime (Unta, 1984) stated that an urban family with an income of Kz 8,000 per month actually needed Kz 13,000 to cover essential expenses.

Four years later wages had improved hardly at all, and the cost of a basic basket of food, at parallel-market prices, had risen to Kz 150,000. In Luanda, the need to make up the shortfall led practically the entire population to engage in *esquemas* [schemes] and *candongas* (local expressions used to designate the search for income) under which everything could be sold and everything could be exchanged. Activities considered illegal in any country were, in Angola during this period, merely ways of ensuring survival.

Officially, the dollar remained worth Kz 30, while on the parallel market, in 1988, the quotation reached Kz 2,000. The money supply was so out of proportion to the availability of goods that, according to the diagnosis of SEF, "the population is in a pathetic situation whereby the currency it holds can not be spent".

In September 1990, the MPLA was preparing to accept a multi-party system and a market economy; negotiations for a ceasefire were moving forward, and the soviet block had disappeared. Angola was already a member of the IMF, which was demanding that it urgently adopt structural adjustment measures.

This was the background against which the new kwanza was issued (in effect, just another issue of bills with removal of depreciative zeros) the main objective of which was to take 95% of the money supply out of circulation, by means of a compulsory deposit upon changing currencies.

The effect upon prices was immediate and devastating, in view of the sudden illiquidity of consumers.

However, absence of regulatory stocks and payment of wages for the following months were, once again, to set new and harsh asymmetries, even though the Government had issued new a price list, setting prices at higher levels than before.

In September of the following year, the situation appeared to have reverted to the way it had been prior to the currency reform, but with one exception: the dollar now fetched no more than Kz 1,000 on the parallel market.

In 1990 and 1991, the outcomes of official inquiries on price rises and on consumer brackets began to become available. Though merely indicative, these provide valuable figures, not only for those two years, but also for the preceding period.

A study conducted by the United Nations Children's Found (UNICEF) in the capital and disclosed at the end of 1990 established ten consumer brackets. It set a *per-capita* income of Kz 30,000 as the poverty line, and of Kz 16,000 as extreme poverty. Only those in the tenth bracket appeared to be in a position to purchase an entire basic food basket at market prices.

Given that a wage of Kz 30,000 was unusually high for the period, obviously, wages were not what ensured the livelihood of an overwhelming majority of the population.

Thus, recourse to activities other than normal employment became commonplace, ranging from negotiation of all manner of services and from the most insignificant to the highest favors, to monetized exchanges of goods.

Part of the purchases effected at subsidized prices from official shops in the 1980s were resold on the informal market to compensate for low wages.

However, when examining this type of transaction, it is important to make a distinction between “normal” and “complementary” official shops.

The latter offered the 400,000 supply-card holders of Luanda (and some 500,000 in the rest of the country) a smaller array of goods, and the advantage was not very great (Gonçalves, 2010).

The Consumer Price Index CPI (INE, 1992) indicated that 78% of consumers in Luanda in the early 1990s purchased supplies at informal markets; 16% at official shops; and 5% at “complementary shops” where purchases had to be paid for in hard currency.

Unofficial surveys (used principally by government bodies and NGOs) in the early 1990s, describe 35.4% of the labor force in Luanda as “self-employed”; whereas 30.2% were employed at State companies; and 10.9% worked in private companies (Stenman, 1992); thereby revealing an unemployment rate in Angola’s capital city of around 23.5%.

The CPI in the first nine months of 1991 indicated overall price increases of 94.91%. The most significant increases were in the hard-currency shops (205.93%) and these had little effect on the general index, in view of the small number of consumers affected. At official shops, price increases were of the order of 97.82%; and at the “parallel” markets, were prices rose least, the increase amounted to 86.3% (INE, 1992).

In November and December 1991, the Government brought two financial ‘packages’ into effect, one establishing a new official exchange rate for the kwanza (Kz180 per US$) and the other authorizing purchase, by the *Banco Nacional de Angola*, of hard currency in the hands of private citizens at a rate similar to the parallel market rate (which, in December, hit a peak of Kz 1,000 per US$).

Excepting five items that remained subsidized, prices were unfrozen, causing them to soar at the official shops. Nonetheless, prices at such shops remained lower than on the informal market, where they remained subject to supply fluctuations.

At the end of 1991, on average, wages at government institutions and at many private companies rose by factors of five or seven. The main effect the MPLA Government sought to achieve was a re-monetization of wages, i.e., to put an end to the resale of subsidized goods as a complement to wages. The currency, however, still had to undergo a re-issue and stamping to indicate the change from the “*novo kwanza*” to the “*kwanza reajustado*”. Only on December 13, 1999, after removal of six zeros (one million) did it resume its original name – kwanza – and regain some stability.

4 INFORMAL AND PARALLEL

For purposes of this chapter, "informal" activities are those that rely upon provisional or makeshift facilities only remotely connected with the tax system, and which supply goods for the mass market. "Parallel" activities are those that seek to generate income by illicit means.

Though these definitions are vague and not fully accepted by socioeconomic theory, the distinction is important in view of the differences in financial volumes that such activities entail and of the different effects they produce.

In the composition of the parallel market, throughout the course of the war, diamond smuggling accounted for sums equivalent to the entire legal trade in this product. Such sums declined significantly in later years, though some informal mining activities remain highly profitable.

Another component of the parallel segment is embezzlement of public resources, through overbilling of supplies and other financial crimes, that also involves significant sums.

The informal sector in Angola is longstanding and, at certain times, has been the object of protests from formal-sector merchants. Historical research would be needed to determine the origins of the phenomenon but, clearly, it was present throughout all phases of colonial rule. However, it can be affirmed that large-scale "informalization" of economic activity in the colony really took off in the aftermath of abolition of slavery.

Informality grew owing to a lack of both fiscal authority and business structures, manifested through a great many commercial exchanges carried out by peddlers (known as *pombeiros*).

In the early 20th Century, *quitandeiras* [women selling food] (*quitanda* meaning grocery) became a widespread social phenomenon which, on the one hand, maintained certain characteristics of local traditional production but, on the other, posed competition to colonial traders in various products.

As is still the case today, women played a leading role in the informal economy, and sometimes in the formal economy as well. (Reis, 1985). This economic prominence of women in urban areas has its counterpart in the role played by women in agriculture in many Angolan ethnic groups.

The challenge posed by the size and scope of the informal sector spurred the colonial authorities to take "disciplinary and integration measures", first in the 1940s and, subsequently, with more emphasis in the 1960s.

Expansion of the colonial administrative and commercial networks enabled the regime to impose and to collect taxes more generally or to call in the police, prior to expanding and modernizing urban markets or creating rural markets.

In the year of transition to independence, the informal sector was small, but the trend to adopt informal practices spread throughout the small-business sector, which included handcrafts and *quitandeiras*, where accounts were often deliberately incomplete, the amount of labor involved unquantified, and no records of peddling were kept.

Roughly two years after independence, this context had become the norm, with a discrete and shame-faced informal market arising initially from three elements, namely:

> 1) Official travel abroad proliferated, with the respective expenses and grants, enabling acquisition of goods not available domestically, most of which were consumed by family members, but some serving as objects for exchange.
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> 2) In state-owned companies, management and union committees appropriated a portion of the goods produced, for their own use and for exchange or sale among friends.
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> 3) At the ports, major companies and warehouses, theft assumed gigantic proportions.

In the first two of these circumstances, the formation of a "Class-State" is in evidence and though, in most cases, it was deemed prudent to conceal possession of such goods, there was apparently little difficulty in obtaining them. In the third, it was on-site workers that engaged in such practices, and stringent efforts were made to rein them in.

In all these cases, however, sale of goods took second place to own consumption, although barter had, by now, taken on such proportions as to be considered a way of mutual assistance [*entreajuda*].

Luanda and the North were the first areas to suffer shortages, and the need to supply foodstuffs to the main towns of the South gave rise to a system of exchanges that can indeed be described as mutual assistance [*entreajuda*]. In this case, the goods exchanged were mostly local produce, and this situation continued at least until 1979.

The first four years of independence are crucial for understanding the economic trajectory of Angola and of the role that the informal market has continued to play to the present day although, over the years, it has assimilated certain formal standards, resulting in a hybrid situation, characteristic of African towns in many countries. For example, the number of registered informal companies has grown, some even pay taxes, but their income declarations remain full of gaps.

The informal impetus of those years is a consequence of the poverty that has become widespread. The shortage of bread led to requisitioning by government departments or public companies, and its distribution at workplaces. A rumor that "things are to be distributed" at a given place could cause stampedes and absenteeism from work, causing consequent productivity losses. The distribution of ration cards and establishment of shops where they could be used would lead to schemes for "getting hold of a little more".

The word *esquema* took on a connotation of parallel activity, whether it referred to clandestine exchanges or sales of goods, or even the arranging of sponsors [*cunhas*]. Subsequent generalization of these phenomena led to the emergence of the *candonga* in current colloquial parlance, or what was referred to as "*matança*" (derived from the expression "the prices are killing").

Another component that strengthened the informal market arose in 1980, when many companies instituted *autoconsumo*, i.e., distribution of goods to employees as a complement to their wages. Some such goods would be consumed by workers' families, however, increasing proportions were put up for sale. Two categories of goods, namely, cigarettes and beer, were particularly used for this purpose. At the same time, the parallel hard-currency exchange rate reached a point of no return. Thus, the importance of tobacco, beverages and the US dollar became a constant element in the entire process of "parallelization".

In this way, in less than five years, the material and social bases for the informal and parallel markets were laid down. These would flourish throughout the 1980s until they became dominant. The *candonga*, previously a feature of rudimentary markets, soon proliferated throughout the streets.

In 1984, the police launched an operation under which various informal markets of Luanda were torched, thus causing increased supply difficulties in the capital. A few days later, the same markets reappeared in other places, after which they were no longer harassed.

In the same year, in a spectacular trial (case 105) whereby various sectors of the regime attempted to assign blame for economic crisis, diamond smugglers and foreign-exchange holders came to judgment.

This trial brought to light certain details of the most profitable of parallel activities i.e., the illicit diamond trade, and revealed some of the measures certain private companies had to resort to in their dealings with high government officials. The trial also left it quite clear, however, that such practices could not elucidate the causes of the economic crisis.

By 1985, ten years after independence, the commercial center of Luanda had moved from the *Baixa* to the suburbs, where *mercados* were set up.

By this time, road transport for goods and passengers had been overrun by the informal sector, as a response to shortfalls of public transport, stricken by lack of maintenance and by being targeted during the civil war. In Luanda, rapidly, the informal sector began to provide transport for most passengers and goods, at prices sometimes one hundred times higher than official fares and freights.

Using all types of vehicles, some restored in local workshops, most acquired secondhand from abroad (especially from Belgium) to the present day, transport is one of the most profitable informal-sector activities, the popular *candongueiro* [vans that make up the public transport system] becoming indispensible to urban mass transport.

The informal sector has proven less capable of penetrating other areas of transport, owing to the capital-intensive nature of the railway, shipping and airport sectors. Nonetheless, at the airports, the effects of informal activities are felt in the form of significant supplementary payments required for validation or issuing of airline tickets.

In the housing sector, parallel building arrangements have become a general rule, since the war led to massive migration from the countryside to the cities, and the Government's response has been less than adequate.

This has led to a proliferation of unplanned owner-built housing, with the *candonga* prevailing for acquisition of building materials and no urban-planning or sanitation criteria, resulting in the emergence of new suburbs with populations in the thousands. Water, in such places, is a commonly sold commodity traded by the tank-truck, the price of which rose 63.9% between November 1990 and May 1991, according to the latest CPI for the latter month.

National borders have always been venues for significant informal and parallel market activity. At the border with the Congo (Zaire, as it then was) Angola exchanged goods such as milk and medical drugs, for Congolese beer and (notably) sound equipment. In the south, despite the war, the border with Namibia never impeded contact between populations of the same ethnic background, and the main commercial activities consist of the sale of Angolan cattle in northern Namibia and purchases, using South African Rand thereby acquired, of garments, bicycles, etc.

After Namibian independence, exchanges of this type have become more intense, expanding in the general direction of the province of Huíla, 400 km from the border.

During the war, UNITA created 'sanctuaries' in the southeast from which to intensify its activities, and the *de facto* State thereby created sought also to dominate all economic activity. Supplies for populations under UNITA control were subject to its monopoly and no free exchanges of traditional property were permitted. All exchanges of goods had to comply with UNITA rules in support of the war effort.

With respect to economic relations with the outside world (excluding the support of its allies) UNITA established trading systems to enable acquisition of goods and of hard currency. To this end, it traded diamonds, timber and ivory in exchange for assorted goods.

The most notorious of these deals were conducted through Portuguese businessmen settled in South Africa, whose personal fortunes were greatly increased by means of such trade.

5 THE POST WAR PERIOD

The decisive hold of oil on the economy, acquired in the final years of colonial rule, was maintained. Especially in the post-war years after 2002, oil revenues were an essential factor for achieving greater integration, underwriting the national budget, repairing roads and expanding the domestic market.

Meanwhile, another phenomenon that had caused great social strife was proving an important factor for integration. Vast numbers of displaced persons (some say as many as 4 million by the mid-1990s) experienced one of the greatest tragedies of the war that ensued after the 1992 elections. Displacement forced communities into greater contact and gave rise to a whole generation born far from ancestral homelands. It also forced around two thirds of the population to crowd into towns and suburbs.

The rise in oil revenues was proportional to increases in production, which climbed from an average of 450,000 barrels per day in the 1980s to 1.8 million in 2009, and to increases in prices, especially between 2004 and 2008.

During this same period, diamond mining came under tighter control, and production rose back to the levels of the late colonial period; around 2 million carats per year.

Double-digit economic growth between 2003 and 2008, and a drop in inflation from three to two digits, enhanced the value of such revenues. Even the currency, which had dropped vertiginously in value during the 1990s, began to show lesser signs of instability. Prior to the 2008 worldwide crisis, the official exchange rate stood at Kz 75 per dollar; whereas, by the end of 2010, the rate was Kz 90 per dollar.

Angola's GDP rose from US$ 11 billion in 2001, to some US$ 60 billion in 2007, according to the Ministry of Planning's Economic Report (UCAN, 2007) and, by 2010 (as already mentioned) amounted to US$ 87.5 billion.

Exports, which in 2002 had amounted to some US$ 8.3 billion, rose to US$ 39.6 billion in 2007 (Ucan, 2007, quoting figures from the Ministries of Planning and of Petroleum and *Banco Nacional*). As a percentage of GDP, the foreign-trade balance ranged from around 27% in 2005 and 2006, to roughly 25% in 2007 *(op. cit.)*.

Construction, an important indicator in any economy and which, in Angola, had come to a virtual standstill, grew by 30% in 2006, and by 37.1% in the following year *(op. cit.)* thus more than doubling, in terms of percentage growth, in relation to the two previous years.

During the same period, non-oil sectors experienced greater growth than at any time since independence. However, the percentage improvements recorded are against an extremely low base (as pointed out by William Easterly - 2004). In other words, the imbalance in relation to extractive activities remained very strong, and the weakness of manufacturing in general (including processing of agricultural produce) persisted. Figures on the performance of agriculture and manufacturing (two indispensible sectors for diversified growth) remained modest up until 2008. Market figures for the two subsequent years do not appear to indicate that much improvement can be expected in relation to supplies for the consumer market. Only rarely did one or another product, for example, mineral water, corn [maize] or *massango* (a traditional cereal consumed in certain regions) have any impact on the market.

Poor industrial and agricultural performance stem from weaknesses of the business model. Since the colonial era of "rural markets", farmers have rarely produced much beyond what they need for their own subsistence, and the supply situation has been exacerbated by the fact that the rural population today is less than half the size it was before war broke out.

A major portion of the informal-sector businesspeople has yet to make the transition (in terms of knowledge and capitalization) toward small or medium-size industrial businesses. The informal sector remains strong in the exchange segment, but weak in production. In such a scenario, there are two fields in which, in countries such as Angola, only the State can take the lead: namely, infrastructure and social development.

Immediately apparent are insufficient and intermittent supplies of electric power and water. Frequent power cuts and water shortages, aside from causing discomfort, lead to higher prices. Even though families and businesses invest in alternative sources of supply, reduced production caused by frequent shortages of these utilities end up generating real price increases. These are background factors that have a perverse effect on the market, especially when they coincide with wages in arrears.

Building and repair of roads also, unquestionably, has an important influence on growth, whereas investment in housing, even when it does not reach the entire population, tends to produce similar effects.

The percentages of post-war budgets earmarked for social spending underscore great strides achieved, when compared to the 1990s. But, once again, the historical baselines are so low that, even with 8% of the budget allocated to education, human-resources shortfalls will not be overcome in the short term.

With respect to the labor market, more conservative estimates for the country as a whole point to an unemployment rate of around 25% (similar to South Africa) and underemployment of around the same level. The oil sector generates few jobs and, thus, it is "non-oil" sectors that must foster opportunities.

In that job creation is the key to social development, the Angolan economy is undergoing the same challenge faced by other oil-based economies: i.e., it must transfer resources produced by oil so as to ensure sectoral diversification.

At the beginning of the first half of 2010, the most significant factor was a US$ 9 billion liability in the form of payments in arrears for budgeted works, of which, US$ 6.8 billion had been confirmed by the Ministry of Finance. The Ministry then published a payment schedule for debts contracted between October 2008 and August 2009. This stems from the global crisis, which started in the United States in 2008, and which blighted Angolan accounts in the two subsequent years.

The sudden fall in revenues caused by the drop in oil prices, aside from causing liabilities related to debts incurred with service providers and wages in arrears, also led to significant alterations in the General State Budget (OGE) which, in 2010, following review, amounted to the equivalent of US$ 43 billion dollars, in relation to a GDP (as stated earlier) of US$ 87 billion.

With a view to meeting its civil-service payroll obligation in 2009, that year's budget included cuts in spending on gross fixed-capital formation (FBCF) from 35.5% to 31.4%, while personnel expenditures rose from 14.5% to 26,7%.

> This situation has become a problem when we perceive that the 2010 budget, which is clearly better funded than that of 2009, reduced the weight of FBCF expenditures to 23.8% of total expenditure, against increases in personnel expenditure which now account for 27.7% of total spending (Adra, 2010).

According to the same source, this "reduction in the sum of investments in infrastructure may lead to delays in the process of bringing structure to the country, causing reduced potential, slower economic growth, and a lower structural employment rate".

According to another source, the worldwide crisis underscores domestic distortions: reducing the availability of funding for importation of goods for final consumption, the effects of which are amplified by an insufficiency or lack of domestic production of such goods, in a great many of which the country could be self-sufficient.

This is one of those factors which spur speculative impulses, and which end up affecting the inflation rate, currently foreseen to reach some 13% for 2010.

6 CONCLUSION

This historical trajectory has placed Angola in second place on the ranking of the Southern African Development Community (SADC) and made it the second largest oil exporter in Sub-Saharan Africa, just after Nigeria.

The Angolan economy has maintained extractive characteristics from the colonial period, giving rise to a national class of owners, holders of significant financial assets, capable of affecting business at various levels, often through partnerships with foreign capital.

The relationships between this class and the State were of fundamental importance in the initial establishment of the State, and have remained important for its consolidation to the present day. It is for this reason that, in a major portion of the sociology of Africa, the term "Class-State" is used.

Income levels, however, vary considerably within this segment, and methods of capital accumulation also display quite substantial differences; these being two indications that this segment does not constitute a homogeneous class.

This process of social stratification has established an additional layer, within which are various levels of income, professional training, and status within the hierarchy of the vast structure of public administration and state-owned companies: civil-servants, employees and technical staff, enjoying the strongest job-stability and employment ties that the current phase of capitalism permits.

At the base of the pyramid, the vast majority of people living in suburbs and practically the entire rural population has low income and poor access to essential services. Though 36.6% of the population is classified by IBEP (Angola, 2010) as being below the poverty line, the true proportion rises to over half the population, if the international definition is altered slightly, from 2 to 3 dollars per day.

Nonetheless, even without such an adjustment, the figures are revealing: 90.9% of the population live in 'inadequate' housing. In towns, 66.3% of households are served by electricity; in rural areas, only 8.6%. Piped water supply reaches 59.7% of urban households, and 31.1% of rural households, but consumers must effect their own treatment of the water.

Not much comparative data is available for preceding decades of the colonial or post-colonial eras, thus making it difficult to assess the kinds and rates of progress achieved.

Angola thus presents a largely failed economy, in terms of the social effects it produces, current vulnerabilities, and unfulfilled potential. These three interconnected aspects were, in recent decades, regarded as characteristics of the "third world" and, today, are features of the block described by the UN as "Less Developed Countries" (LDCs).

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