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Vulnerability Profile of Angola

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Prepared by UNCTAD
in anticipation of the 2015 review by the Committee for Development Policy
of the United Nations list of Least Developed Countries

This profile was prepared in accordance with resolution 59/209 of the General Assembly, which decided that "after a country has met the criteria for graduation for the first time, the Secretary-General of the United Nations will invite the Secretary-General of the United Nations Conference on Trade and Development to prepare a vulnerability profile on the identified country to be taken into account by the Committee for Development Policy at its subsequent triennial review".

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Vulnerability Profile of Angola

1. Introduction

In its 2012 review of the UN list of Least Developed Countries (LDCs), the Committee for Development Policy (CDP) found Angola *eligible for graduation for the first time, as it met the "income only" criterion*[1]. Under the graduation rule, eligibility "for the first time" implies that the country will in principle qualify for graduation from LDC status in the next review of the list of LDCs three years later (here, 2015) if the same situation of eligibility is observed, on this occasion, for the second time. The "income only criterion" is an exception to the normal graduation rule: whereas two graduation thresholds would normally need to be met for a country to be deemed eligible for graduation, an exception will be made by the CDP if the performance of the country involves a per capita income level at least double the relevant threshold: the country will be deemed eligible for graduation regardless of its performance under the other two criteria (human assets; economic vulnerability) if the observed income performance is deemed sustainable. At 315% of the graduation threshold relevant to the per capita income criterion in 2012 (while remaining under the other two graduation thresholds), Angola is the second potential graduation case (after the confirmed case of Equatorial Guinea) under the "income only" exception.

This profile has been prepared in accordance with General Assembly resolution 59/209 of 20 December 2004, which mandates UNCTAD to prepare a vulnerability profile of the country for consideration by the CDP at its subsequent triennial review[2]. The views expressed in this profile are based on factual observations, to assist the CDP in its understanding of the situation underlying the context of Angola's pre-eligibility for graduation.

Section 2 describes the institutional context surrounding and justifying the graduation case of Angola. Sections 3, 4 and 5 examine the situation of the country under the graduation thresholds relevant to the three criteria for identifying LDCs, namely, the per capita income criterion, the human assets criterion, and the economic vulnerability criterion, respectively. Concluding remarks will be offered in Section 6.

[1] Committee for Development Policy, Report on the fourteenth session (12-16 March 2012), Economic and Social Council, Official Records, 2012, Supplement No. 13, E/2012/33, para. 95.
[2] General Assembly resolution A/RES/59/209, "Smooth transition strategy for countries graduating from the list of least developed countries", para. 3(b).

2. Institutional context

Angola was one of the two countries added to the 46 States that were making up the UN list of LDCs in 1994[3]. The question of graduation from LDC status was raised and conceptualized in 1991, when the first major revision of the criteria for identifying LDCs took place, and the basic elements of the graduation rule were adopted. Four countries subsequently graduated from LDC status: Botswana in 1994, Cabo Verde in 2007, Maldives in 2011, and Samoa in 2014.

In 1990, the Second United Nations Conference on the Least Developed Countries in Paris had noted the importance of envisaging graduation from LDC status for countries that would have demonstrated enough economic progress to be able to remain on the same development path in an externally less dependent manner. In 2001, the Third United Nations Conference on the Least Developed Countries in Brussels contemplated graduation as a criterion on the basis of which the success of the Programme of Action for the Least Developed Countries for the Decade 2001-2010 would be "judged"[4]. A bold move forward was made by UN member States ten years later, at the Fourth United Nations Conference on the Least Developed Countries (Istanbul, May 2011), with an unprecedented pronouncement on the matter, namely, “the aim of enabling half the number of Least Developed Countries to meet the criteria for graduation by 2020”[5].

The rationale for graduation

A broad consensus exists on the rationale for graduation from LDC status. A graduating country will be regarded as having, through its improved economic performance, demonstrated enough structural progress to be able to pursue its development efforts with less external support. In particular, a graduating country ought to have developed a domestic saving capacity that enables it to be content with lesser grant inflows. Structural progress also means that exporters should have become more competitive, and therefore able to penetrate export

[3] Addition of Angola to the list was made official on 19 December 1994, the day on which the United Nations General Assembly adopted resolution 49/133. The other country which was granted LDC status in that year (by virtue of the same resolution) was Eritrea.
[4] UN General Assembly, Third United Nations Conference on the Least Developed Countries, Brussels, Belgium, 14-20 May 2001, Programme of Action for the Least Developed Countries for the Decade 2001-2010, para. 21(e)
[5] United Nations, Programme of Action for the Least Developed Countries for the Decade 2011-2020, May 2011, para. 28.

markets under less preferential terms. Finally, if the notion of graduation is well founded, a graduating country, with enhanced institutional capacities, is expected to remain undisturbed as international organizations may deny it privileged access to technical assistance programmes. Whether the graduation rule allows structural progress to be appropriately assessed or measured and recognized remains a critical question in the international debate on the treatment of developing countries.

The ensuing question for Angola is as follows: is the pre-eligibility for graduation (since 2012) a sign of structural transformation? Should the answer be yes, the economic and social progress would not only be measurable in per capita income terms, it also ought to be palpable under the graduation criteria that are structural in nature, namely, the human assets and economic vulnerability criteria. Expecting to observe elements of structural progress in Angola is therefore a normal part of the reading of this profile. Should the structural change not be commensurate with the observed prosperity, one would be faced with the "Angola paradox": whereas the normal meaning of graduation is that structural transformation would have gradually generated prosperity, Angola would be the quintessential opposite graduation model, as prosperity there happened first. It would then be up to Angolans to make windfall prosperity a springboard for genuine structural transformation, and to bring the latter to fruition as soon as possible.

The graduation rule

The graduation rule applies specific thresholds to the indicators relevant to the three criteria (gross national income per capita; human assets index; economic vulnerability index). For each of these indicators, there is a margin between the threshold for adding a country to the list and the threshold for graduating a country. The margin is considered a reasonable estimate of the additional socio-economic progress that ought to be observed if one assumes that the graduating country is effectively engaged on a path of improvement: not only is the graduating country expected to have risen to the threshold under which non-LDCs would be admitted into the category, but it is additionally expected to exceed this threshold by at least the relevant margin. This dispels the risk that graduation be dictated by temporary or insignificant economic circumstances.

Two other elements of the graduation rule also imply durable structural progress in the graduating country:

- at least two of the three graduation thresholds must normally be met for the relevant LDC to qualify for graduation, whereas a symmetrical application of the admission rule and graduation rule would imply that only one criterion for LDC status ceased to be met, since all three criteria should be met for a country to be added to the list;

- while eligibility for the graduation of an LDC can be observed on the occasion of any review of the list (subject to the threshold margin and asymmetrical rule referred to above), a recommendation to graduate the country would not be made until the relevant graduation thresholds have been met in at least two consecutive reviews of the list of LDCs.

An amendment was brought to this normal rule in 2005: it states that a country will be deemed pre-qualifying or qualifying for graduation if its per capita GNI has reached or surpassed a level double the normal graduation threshold (in a convincingly durable manner), regardless of the country's performance under the other two criteria (human assets; economic vulnerability).

The time frame for graduation

Until 2003, a recommendation to graduate a country from LDC status was enforceable with immediate effect, subject to endorsement by the Economic and Social Council (ECOSOC) and the General Assembly. In adopting resolution 59/209 on 20 December 2004, the General Assembly decided that, upon any decision by ECOSOC to endorse a recommendation by the CDP to graduate a country, graduation of the country will become effective after a three-year period following the formal endorsement by the General Assembly, through a resolution, of the CDP's recommendation.

Overall, the timeframe from the first observation of a country's eligibility for graduation to the date of the country's actual loss of LDC status will normally stretch from a given time on year *y* (March 2012 for Angola) to some time on year *y + 6*. The precise duration is in fact likely to exceed six and a half years, as the General Assembly's endorsement of the recommendation to graduate the country, therefore the start of the three-year grace period, will customarily take place in December of year $y + 3$, thereby taking the end of the grace period (the date of graduation) to December of year y + 6 (hypothetically, December 2018 for Angola).

Table 1

Graduation criteria and indicators

Graduation criteria to be used in the 2015 review of the UN list of LDCs	**Relevant indicators**
Per capita income criterion	**Gross national income (GNI) per capita:** * based on a 3-year average (2011-2013 in the 2015 review) * graduation threshold was $1,190 in 2012 (likely to near $1,300 in 2015)
Human assets criterion	**Human Assets Index (HAI):** A composite index based on the following 4 indicators: * percentage of undernourished people in the population * under-five mortality rate * gross secondary school enrolment rate * adult literacy rate
Economic vulnerability criterion	**Economic Vulnerability Index (EVI):** A composite index based on the following 8 indicators: * population * average distance from major markets * share of population living in low-lying areas * share of agriculture, forestry and fisheries in GDP * merchandise export concentration index * share of victims natural disasters in the population * index of instability of agricultural production * index of instability of exports of goods and services
Summary of the graduation rule	For all three criteria, different thresholds are used for identifying cases of addition to, and cases of graduation from, the list of LDCs. A country will qualify to be added to the list if it meets the addition thresholds on all three criteria and does not have a population greater than 75 million. Qualification for addition to the list will effectively lead to LDC status only if the government of the relevant country accepts this status. A country will normally qualify for graduation from LDC status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list. If the per capita GNI of an LDC has risen to a level at least double the graduation threshold and is deemed sustainable, the country may (will normally) be found eligible for graduation regardless of its performance under the other two criteria.

The three-year grace period, during which the graduating country remains on the list of LDCs, was instituted in 2004 by ECOSOC and the General Assembly with a view to enabling the country to negotiate, with its development partners, modalities of "smooth transition" to post-LDC status, in keeping with the paramount principle of preventing any harm (through disruption in LDC benefits) to the graduating country[6].

The graduation criteria to be used by the United Nations in the 2015 review of the list of LDCs are summarized in Table 1.

3. Angola and the per capita income criterion

Graph 1 illustrates Angola's situation over time under the graduation threshold relevant to the per capita income criterion, since the country's admission into the category in 1994. The data indicate the country's distance from the graduation threshold, as well as the distance from the admission threshold (the level for admitting new countries into the list). All data through the seven triennial reviews of the list of LDCs (1994, 1997, 2000, 2003, 2006, 2009, 2012) have been standardized into indices, with the graduation threshold as the 100 basis. For example, the score of 181 observed in 2009 means that the country, at that time, was standing at 181% of the graduation threshold. The margin between the admission threshold and the graduation threshold is visible: it reflects the CDP's desire to ensure that the country would not be found eligible for graduation unless it had achieved significant progress, toward a level higher than the threshold below which new entrants are admitted.

A rocketing performance

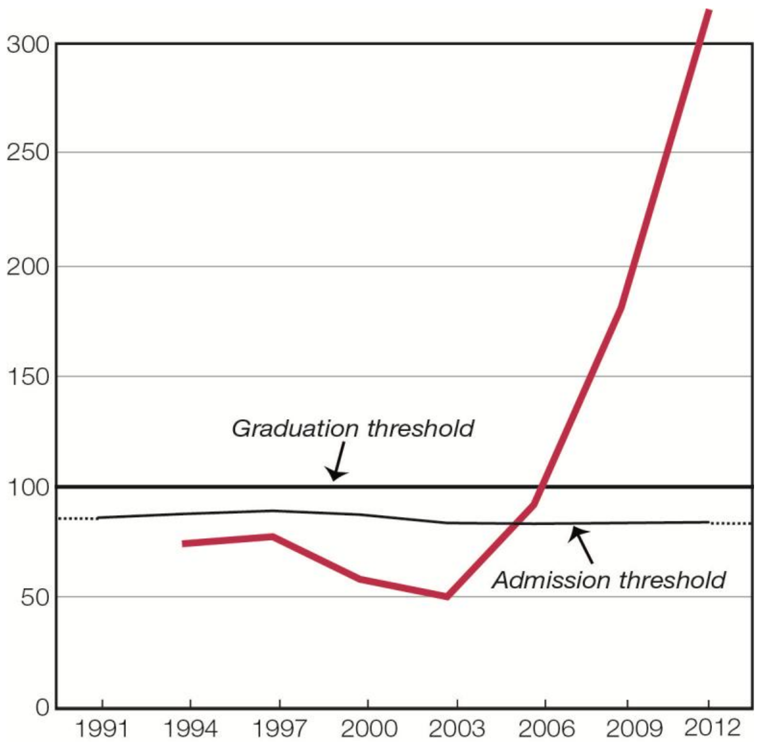
The spectacular, oil-propelled growth performance that took place over a large part of the 2000 decade (with two-digit real growth until 2008) placed Angola's score under this criterion on a rocketing path through the 2006, 2009 and 2012 reviews of the list of LDCs. GNI per capita rose from $420 in 2000 to $4,070 in 2011, $4,510 in 2012 and $5,010 in 2013, and the

[6] The importance of "smooth transition" has been consistently reiterated since the review year 2000, when ECOSOC, in resolution 2000/34, requested the Secretary-General “to make recommendations on additional measures that can be taken to ensure a smooth transition from least developed country status for graduating countries” (para. 3). In 2004, ECOSOC resolution 2004/66, which was echoed by General Assembly resolution 59/209, re-emphasized the need for a smooth transition for graduating countries, and delineated the main areas of action in which smooth transition modalities are deemed particularly important.

country was standing at 315% of the graduation threshold at the time of the 2012 review of the list. This pre-eligibility level prefigures a highly probable full eligibility in 2015 for graduation. The slowing down of real GDP growth after 2008 (from +13.8% in 2008 to +2.4% in 2009) did not bend the surge above the graduation line. Oil exports, the primary engine of the economy, were at a historical peak in 2012 (at $71 billion), a year in which total merchandise exports were equivalent to 62% of GDP. It should be noted that overall service exports from Angola were not significantly affected by the world economic crisis, largely as a result of business-related tourism, which never stopped rising between 2007 and 2013, and accounted for 76% of total service exports in 2013. Total service exports were 2.6 times greater in 2010 than in 2008 (at current prices), and 1.5 time greater in 2013 than in 2010.

Graph 1

ANGOLA: distance from the graduation threshold under the per capita income criterion (based on GNI per capita)



In short, Angola’s economy largely rests on oil and associated minerals (gas). Hydrocarbon production accounts for about 85% of GDP, with diamonds contributing another 5%. This level of income makes Angola the fourth largest African economy (with a GDP of $124 billion, after Nigeria, Egypt and Algeria). Its rapid and steady growth over the past decade (despite the global economic crisis) has put Angola on a path to lasting prosperity.

Table 2
ANGOLA: Gross national income per capita in US $

2002	2005	2006	2007	2008	2009	2010	2011	2012	2013
640	1,260	1,770	2,560	3,270	3,800	3,870	4,070	4,510	5,010

Source: World Bank, World Development Indicators database (GNI: Atlas method), November 2014

Since the end of the civil war in 2002, per capita GNI was multiplied by 8 (from $640). During that period, Angola became one the 10 fastest growing economies in the world, with average annual real growth in excess of 10%. According to various sources, Angola's proven oil reserves would be in a range between 9 and 13 billion barrels, while gas reserves are estimated to amount to 11 trillion cubic feet (the second largest reserves in sub-Saharan Africa, after Nigeria). OPEC and the US Energy Information Administration provide the lowest estimates, at 9.0 and 9.1 billion barrels of oil, respectively, while the Angolan Government (Ministry of Energy in April 2014) and the International Energy Agency report the highest estimates, at 12.6 and 13 billion barrels, respectively. Deutsche Bank recently cited significant oil findings in the Kwanza Basin, and some experts have taken the view that Angola's proven oil reserves estimates might double in 2015 from the current 13 billion barrel high, thereby giving Angola another 30 to 40 years of oil exploitation.

The income distribution status

Angola's rapidly growing income performance cannot veil the unequal distribution of the national wealth among Angolans. The Gini index score of the country was 0.586 in 2009, a figure which placed Angola among the top 10 countries in the world with the most unequal income distribution. Yet the Gini index estimate was better in 2009 than it had been four years earlier in 2005 (0.62).

Income inequality negatively impacts on consumption. In 2008, every Angolan should have had, on average, $9 of daily consumption had income been distributed evenly[7]. Yet two thirds of all Angolans (67.4%) were living on less than US $2 a day. This level of inequality has not diminished significantly over the past 10 years. In 2009, the poorest 20% of the population were sharing only 2% of the national income (about 22 cents a day). Income inequality is one explanatory factor of the lack of significant progress, over the years, in the human assets

[7] Calculation based on World Bank data: World Development Indicators database, November 2014.

performance of Angola. However, important efforts are made by the Government of Angola to improve the income distribution status of the country.

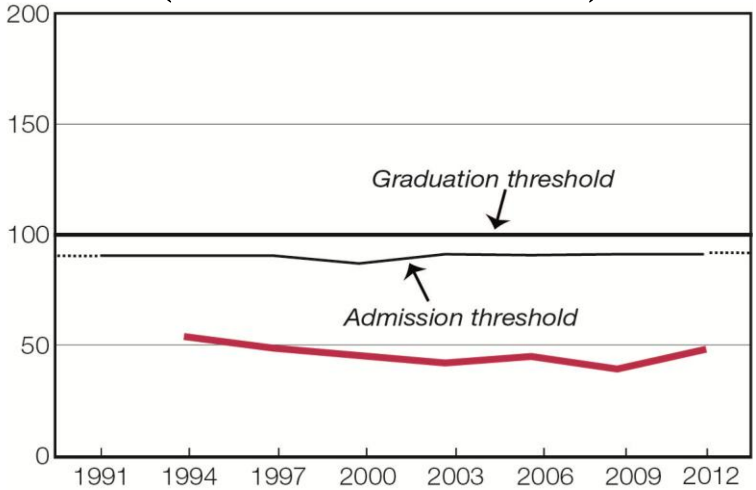
Table 3
Distribution of income in 10 States
among countries demonstrating the highest levels of inequality

Countries	Gini index score 2009	Share of income in 2009 (%)		
		20% Richest	20% Poorest	Remaining 60% (middle class)
1. Namibia	74.3	-	-	-
2. Seychelles	65.8	69.6	3.7	26.7
3. Comoros	64.3	68.0	2.5	29.5
4. Botswana	61.0	-	-	-
5. Haïti	59.5	63.0	2.5	34.5
6. Colombia	58.5	62.1	2.5	35.4
7. Angola	**58.6**	**61.9**	**2.0**	**36.1**
8. South Africa	57.8	72.2	2.5	25.3
9. Honduras	57.7	60.7	2.0	37.3
10. Bolivia	57.3	61.0	2.8	36.2

Source: FAO 2013; UNCTAD calculations for the last column

4. Angola and the human assets criterion

Graph 2
ANGOLA: distance from the graduation threshold
under the human assets criterion
(based on the *Human Assets Index*)



As shown by Graph 2, Angola's score under the *Human Assets Index* (HAI) never reached 50% of the graduation threshold in any triennial review of the list of LDCs since 1997 (48% in 2012). Angolans do not yet enjoy a human capital status commensurate with the natural wealth of the country. Under two of the four indicators entering the HAI, Angola demonstrates less progress than most other continental African LDCs: its child mortality rate is higher by 20%, and the proportion of undernourished people in Angola is greater by 33%. On the other hand, there is progress in the sphere of education: the secondary school enrolment ratio now equals the average of other continental African LDCs (it was below their score three years earlier), and the adult literacy ratio, estimated at 70%, is higher than the comparative regional group by 28%.

It should be noted that Angola has one of the youngest populations in the world. Children under 14 years represent almost half of the population (48% in 2012), making Angola the country with the fourth highest proportion of children in its population (see Table 4). Median age was 16.6 years in 2010[8], implying a very high dependence ratio (93.9%).

Table 4

Countries with the highest proportions of children (0-14) in their population in 2012

Country (rank)	**Proportion of population under 14 %**	**Density per square km**
Niger (1)	50	14
Uganda (2)	49	182
Chad (2)	49	10
Angola (4)	**48**	**17**
Afghanistan (5)	47	46
Zambia (5)	47	19
Somalia (5)	47	16
Mali (5)	47	12
Burkina Faso (9)	46	60
Malawi (10)	45	169
Tanzania (10)	45	54
Mozambique (10)	45	32
Middle-income economies	**27**	**77**
World	**26**	**54**

Source: World Bank, World Development Report 2014

While faced with the need to provide services to a large and growing number of children, the Government of Angola has made substantial efforts in the areas of education and health, and to promote other human development activities since the end of the civil war in 2002. However, major challenges remain in the drive to bring about satisfactory levels of human

[8] UNDP, HDR 2013

capital development. Several indicators show that Angola still needs to make progress to fight malnutrition, ensure infants' survival, and improve children's education, especially at secondary level. These three areas of human capital are of direct relevance to the variables entering the Human Assets Index used by the Committee for Development Policy.

Undernourishment

According to various sources, the undernourishment ratio of relevance to Angolans was estimated at 35.1%[9] in 2004-2006, and 27.4% in 2010-2012 (Table 5). Though still high, this ratio is one of the most rapidly decreasing undernourishment ratios in the world (with a 57% decrease over the past 20 years). This has placed Angola on the way to exceeding the MDG goal of halving the proportion of undernourished people from early 1990s levels (63.9% in 1990-1992).

Table 5

Undernourishment in Angola and relevant country groups

Angola and country groups	**Number of people undernourished**		**Proportion of undernourished people in the total population**			**Change**
	2004-2006 (in million)	**2010-2012 (in million)**	**1990-1992 %**	**2004-2006 %**	**2010-2012 %**	**1990-92 2010-12 %**
Angola	6	5	63.9	35.1	27.4	-57.1
Sub-Saharan Africa	205	234	32.8	27.2	26.8	-18.3
LDCs	233	260	37.9	31.4	30.6	-19.3
Lower middle-income economies	420	395	24.4	18.2	15.6	-36.1

Source: FAO, WFP, IFAD: The State of Food Insecurity in the World, 2012

Though lower than the LDCs average (30.6%), Angola's current level of malnutrition is marginally higher than the sub-Saharan African average (26.8% in 2010-2012), and is almost double the level of lower middle-income countries (15.6%). Given Angola's resources (hydrocarbons; vast and productive land; a young population, still largely living in rural areas), Angola can be considered as having sufficient means and resources to fight malnutrition.

[9] FAO, WFP and IFAD, *The State of Food Insecurity in the World 2012*

Child mortality (under five)

Angola's child mortality was estimated by UNDP at 161 per 1,000 live births (161‰) in 2010[10], and by the World Bank at 167.4‰ in 2012[11]. In either case, the mortality rate is still very high, even after the decrease demonstrated over the past two decades (from 226‰ in 1990). Angola's child mortality rate remains one of the 10 highest in the world. In 2010, it was much higher than the sub-Saharan African average (120‰) or the LDCs' average (108‰).

Table 6
ANGOLA: Child mortality rate (in ‰)

1990	2000	2010	2011	2012
225.8	214.5	177.5	172.6	167.4

Source: World Bank, World Development Indicators, November 2014

There is a need for continued efforts to reduce child mortality further, through an integrated strategy combining action on nutrition, vaccination, health monitoring, and social services.

Secondary school enrolment

Angola's secondary school enrolment ratio was estimated by UNDP at 31%[12] in 2011, while official Angolan sources have indicated a rate of 35.8% in 2011, and 37.9% in 2012 (Table 7).

Table 7
ANGOLA: Secondary school enrolment ratio

Target group	2000	2005	2007	2010	2011	2012
Total	8.9%	20.4%	25.5%	33.7%	35.8%	37.9%
Female[13]			22.2%	24.8%		
Male[14]			28.8%	38.8%		

Sources: Ministry of Education of Angola, July 2013. World Bank database, 2014

Table 7 shows Angola's considerable progress, in the area of secondary school enrolment, since 2000. In 12 years, and mainly after the end of the civil war when the ratio was 11%

[10] UNDP. *International human development Indicators 2013.*
[11] World Bank. *AGO_Country_MetaData 2013.*
[12] UNDP, *Human Development Report 2013*
[13] World Bank data, 2014
[14] World Bank data, 2014

(2002), the performance of the country under this variable has more than quadrupled, putting Angola at par with other LDCs considered on average (36% in 2011)[15], albeit below the middle-income countries average. Yet more progress is needed for Angola to attain the secondary school enrolment levels of other sub-Saharan African countries (40.3% in 2011) or the world average in the same year (71.2%).

There has also been, in the recent past in Angola, an unequal distribution of opportunities to enrol in secondary schools. According to a World Bank study[16], factors like family income, gender, living in rural or urban areas, have had a strong influence on chances of enrolment in secondary school, and have explained high dropout rates. Students from well-off families and generally those living in cities enjoy enrolment ratios at least double the national average.

Also notable is the fact that, while the total secondary school enrolment ratio was 33.7% in 2010, female enrolment was 9 percentage points below average (24.8%), while male enrolment was 5 points above average (38.8%). The gender differential, which is now of 14 points, has more than doubled between 2007 and 2010.

One major factor of the low ratio of secondary school enrolment in Angola has always been the high dropout rate at primary school level, which was estimated at 68.1% in 2011, the third highest dropout rate in the world (after Chad and Uganda)[17]. One reason for this is that immediately after the end of the civil war, there were high proportions of new teachers who were not trained to teach. The dropout phenomenon at primary school level has in turn caused increases in dropout numbers at secondary school level.

Another factor has impacted negatively on girls' enrolment in secondary school: teenage pregnancy, which is measured through the number of births per 1,000 women aged 15-19. This ratio was estimated at 148‰ in 2010[18] , the fourth highest in the world, much higher than the sub-Saharan African average (105.2‰) or the LDCs average (90.9‰). Angolan authorities have been conscious of the need for special efforts to decrease girls dropout ratios at all levels in order to prevent the many negative consequences of having less educated women in society (early marriage, lower income, etc.).

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[15] Idem
[16] *World Bank Country Study*. *Angola 2005*.
[17] UNDP, Human Development Report 2013
[18] UNDP, idem

Adult literacy

UNDP reported an adult literacy rate of 70.1% in 2010[19]. Meanwhile, authoritative sources in Angola have indicated rates of 66.8% and 65.6% in 2001 and 2009[20], respectively (see Table 8). Latest World Bank data indicate a rate of 70.6% (2011).

Contrary to expectations, the adult literacy rate appears to have decreased in Angola between 2001 and 2009, while all other socio-economic development indicators were rapidly improving. One possible explanation for this negative trend may have been the lack of reliable data, since there was no population census in many years. A new census took place in 2014; it is expected to cast light on the literacy situation.

Table 8
ANGOLA: Adult literacy rate

2001	2009	2011
66.8%	65.6%	70.6%

Source: Instituto National de Estatistica (INE) 2011, MICS 2001, IBEP 2009. World Bank database, 2014

Like the privilege of school enrolment, literacy is unevenly distributed among Angolans. As Table 9 shows, urban population segments and men are almost twice more literate than rural people and women. Income disparity also has a strong influence on literacy. A 2005 study indicated that the richest 20% had a literacy rate of 95% (men) and 86% (women), while counterpart figures among the poorest 20% were 62% and 27%, respectively.

Table 9
ANGOLA: Adult literacy rate by category of adults

Categories	2000	2009	2011
Total population (15 and above)	67.4%		70.6%
Urban population		81.8%	
Rural population		44.8%	
Men	82.9%		82.5%
Women	54.2%		59.1%
Ratio of young literate females to males (age 15-24)	75.4%		83.2%

Source: INE, IBEP 2011, Vol. 1; World Bank, World Development Indicators, 2014

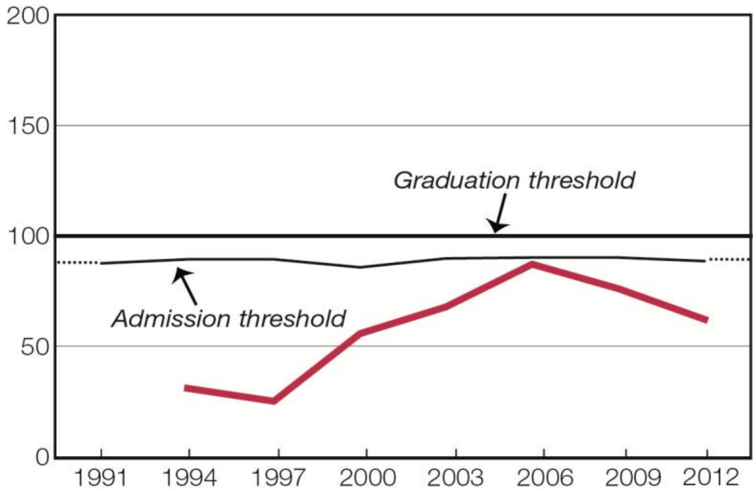
[19] UNESCO estimate as reported by UNDP in HDR 2013
[20] INE, IBEP 2009

These facts illustrate the need for more educational investment in Angola, an area of public action in which poor women of rural areas should not be forgotten.

5. Angola and the economic vulnerability criterion

Graph 3

ANGOLA: distance from the graduation threshold under the economic vulnerability criterion (based on the *Economic Vulnerability Index*)



The growing divergence between the performance under the income criterion and the score under the vulnerability criterion (at 62% of the graduation threshold in 2012) is almost entirely explained by hydrocarbon exports, and must be interpreted with caution. Only two of the eight indicators entering the *Economic Vulnerability Index* portray Angola as a relatively vulnerable economy: merchandise export concentration is much higher in Angola than in other continental African LDCs (by 113%), and goods and services export instability has been greater by 47%. Both observations, namely, the extreme economic concentration and high instability (actually, growing increases) in export values are explained by a single economic factor: hydrocarbon extraction. Whether this context can be considered a reflection of higher economic vulnerability is debatable, given the windfall income effect dominating the national economic landscape, and the ensuing opportunity to accelerate the pace of economic and social progress and build resilience.

Like all economies, including oil-rich States, Angola is vulnerable to natural and economic shocks, notably because it is structurally exposed to relevant risks. These issues have been palpable in recent months, particularly in the context of falling oil prices.

Exposure to shocks: primary activities as a percentage of GDP

Over the past decade, agriculture, fisheries and other primary activities, while occupying many Angolans, accounted for a modest share of the country's GDP. As Table 10 shows, the share fluctuated around 10%. Given the circumstances and pace of Angola's growth for reasons explained earlier, the stability of primary activities in proportion to the economy as a whole has been a remarkable performance.

Table 10
ANGOLA: Share of agriculture in GDP

2002	2007	2011	2012
9.5	6.6	9.9	10.8

Source: World Bank, World Development Indicators, 2014

Before the oil era, agriculture played a major role in the Angolan economy, making the country a major food exporter. Before gaining its independence (1975), Angola was once the third largest exporter of coffee in the world. It was also a major exporter of maize until the 1970s, with exports once amounting to 400,000 million tonnes, almost all of which was produced by smallholders[21].

The contribution of the primary sector is expected to at least remain stable, or possibly to increase in the future, given the high priority the Government attaches to agriculture and related primary activities, in conjunction with the major infrastructural development efforts being pursued (roads, railways, and other infrastructural rehabilitation). The abundance of productive land (once all land mines have been cleared) and the growing quest for a lesser dependence on food imports are factors of the expected revival of Angola's primary sector.

Exposure to shocks: merchandise export concentration

Angola's merchandise exports are among the most concentrated in the world. Over the past 10 years, the level of concentration was second only to that of Iraq, with a merchandise export concentration index score of 0.968 in 2013 (see Table 11). This is more than double the average index score of LDCs (0.408) or sub-Saharan African countries (0.421). Crude petroleum oil has been almost the only export product, accounting for more than 95% of the

[21] The World Bank, *Angola: Oil, Broad-based Growth and Equity, 2007*

country's export revenue. Diamonds represent almost all the rest. Liquefied natural gas was expected to account for a notable proportion of total exports in 2013, but it does not seem to have been the case.

Table 11

Countries with highest export concentration index scores in recent years

Countries or groups	**2002**	**2007**	**2012**	**2013**
Iraq	0.977	0.966	0.980	0.980
Angola	**0.901**	**0.926**	**0.966**	**0.968**
Micronesia (Federated States of)	0.732	0.816	0.946	0.965
Nauru	0.464	0.509	0.942	0.936
Timor-Leste	-	0.562	0.918	0.935
Sub-Saharan Africa	0.292	0.448	0.460	0.421
Least Developed Countries (LDCs)	0.317	0.477	0.432	0.408
Middle-income countries	0.093	0.101	0.089	0.083

Source: UNCTADStat, November 2014

This relatively unique level of economic exposure points to the need for durable economic diversification in Angola. Reducing the country's economic dependence on a single product is generally considered to be the most desirable avenue for resilience-building. If successful, diversification could also have a powerful poverty reduction impact and fuel genuine structural progress for the benefit of all Angolans.

Shocks beyond domestic control: natural shocks

Several natural disasters hit Angola in recent years. These included floods and drought. Flooding and inundation have been the most frequent types of natural disasters in Angola, particularly hard on the provinces of Cabinda and Cunene. At the same time, drought and desertification, notably in southern and coastal regions, have affected the largest numbers of people, and have had the longest lasting consequences. The latest drought, in July and August 2013 in five southern provinces of the country, affected 1.8 million people and caused death and malnutrition.

The authors of the Maplecroft's Risk Index consider that drought represents an "extreme risk" for Angola, and the country ranks 17th out of 197 countries under this index. Table 12 shows some of the consequences of natural disasters in Angola over the past 20 years.

Table 12

ANGOLA: Natural disasters and hazards, 1993-2012

Disasters and consequences	1993-2002	2003-2012
Number of events	9	22
Number of epidemics	7	9
Total number of deaths	169	372
Total damage in US $ million	10	0

Source: World Bank, World Development Indicators. CDP 2012.

According to the Angolan Minister of Environment (quoted from a conference on the environment in Poland in 2013), the Government of Angola has a preventive policy on drought and desertification, and a national mitigation strategy. It has also been implementing initiatives to prevent and/or mitigate the consequences of disasters.

Among the population groups at risk are those living in low-lying areas, a facet of exposure reflected in the Economic Vulnerability Index. Unauthorized settlements on marginal land in coastal cities have exacerbated the problem. Table 10 shows the proportion of Angolans living in areas that do not exceed 5 meters above sea level.

Table 13

ANGOLA: Percentage of population living in areas below 5 meters above sea level

Year	Proportion
1990	2.06 %
2000	2.06 %
2012	5.28 %

Source: World Bank, World Development Indicators. CDP 2012

Shocks beyond domestic control: instability of agricultural production

Agricultural production grew rapidly over the past 10 years. As Table 14 shows, average annual growth between 2002 and 2012 was close to 10%, and the overall value added of the sector multiplied almost tenfold in current US dollars, from $1.35 billion to $13.2 billion.

Table 14
ANGOLA: Evolution of agriculture and food production, 2002-2012

Indicators	2002	2004	2006	2008	2009	2010	2011	2012
Food production index score (2004-2006 = 100)	80.72	93.2	104.09	124.26	157.57	165.88	182.36	150.18
Agricultural value added (current, million US $)	1,351	2,397	4,751	7,702	8,117	9,672	11,440	13,184
Agricultural value added (constant 2005, million US $)	1,795	2,397	3,334	4,332	4,587	5,016	5,367	5,743
Agricultural value added (annual % growth)	12.1	17	26.6	27.7	5.8	9.3	7	7
Cereal yield (kg/ha)	646.1	583.3	464.3	571.4	629.3	662.4	552.2	839.3

Source: World Bank, World Development Indicators, 2014

The agricultural sector grew very strongly until 2008 (particularly between 2004 and 2008), then less rapidly. The 7% growth performance in 2012 was achieved despite severe drought conditions in at least 10 of Angola's 18 provinces, especially in the coastal regions and central highlands[22]. Overall, there has not been much agricultural instability in Angola, as the sector more or less always grew, even in adverse periods. Yet Angola remains heavily dependent on imported food, which accounts for nearly 15% of total annual imports of goods. According to the World Bank[23], a 30% increase in food import prices would double the inflation rate (to nearly 20%), and could cause a stagnation, if not a reduction in the country's GDP. To alleviate the risks related to food imports, Angola needs to produce more food, and to diversify its food production. This implies increasing labour and land productivity, which is among the lowest in the region. For example, cereal yield per hectare, in 2010, was estimated at 644 kg in Angola while it was 1,336 kg, on average, in sub-Saharan Africa as a whole.

Shocks beyond domestic control: instability of exports of goods and services

The volatility of oil prices on the international market is the main factor of the instability of Angola's exports. Changes in oil production have also had some effects on exports, but

[22] The World Bank, Angola Economic Update, June 2013
[23] Idem

production swings were never frequent or significant. Unlike prices, production is generally little dependent on external influences.

Table 15 shows the historically high instability in crude petroleum prices, through a price instability index covering three decades, a period over which upward changes in oil prices were more frequent, substantial and lasting than downward changes. These data are reminders of the importance of not interpreting the positive, price-related changes as negative economic factors insofar as such "positive shocks" entail increased instability of exports (because of substantial deviations from a long-run trend), therefore a worsened performance under the Economic Vulnerability Index. The recent falls in oil prices, on the other hand, are a genuine form of economic vulnerability, as explained in the box below.

Table 15

ANGOLA: Crude petroleum price instability indices and trends

Indicators	1983-1992	1993-2002	2003-2012	2008-2012
Price instability index score	20.1	15.3	18.5	19.1
Average annual price change, in current US $	-4.6	5.4	12.7	7.7
Average annual price change, in constant US $	-9.3	5.6	9.6	6.0

Source: UNCTADStat, 2013

<u>Box 1</u>: Oil in Angola, a source of strength and vulnerability at the same time

Oil production and its associated activities account for about 85% of Angola's GDP, and 96% of its exports. Daily oil production, in September 2013, was 1.74 million barrels, making Angola the second largest oil producer in Africa, after Nigeria. The average price of the “Angola mix” in 2012 was $110 per barrel. Total annual production of crude oil is now estimated at 635 million barrels (2013), generating export receipts around $70 billion. **However, the recent drops in oil prices (below $60 per barrel) might cut this income level by half and cause budgetary problems in Angola.**

Oil is mainly exploited offshore (4 miles deep on average: 1 mile below sea level, and 3 miles below seabed), thus requiring sophisticated services from abroad. Proven reserves are estimated to be between 9 and 13 billion barrels, depending on the source. **Most recent sources tend to confirm the 13 billion barrel estimate**. If current levels of production are maintained and if there are no new discoveries, reserves could be exhausted within 20 years. This is a short period, and a potentially serious source of economic vulnerability in the long run. Wealth from oil extraction therefore needs to be wisely invested, toward durable diversification of the economy, and structural transformation for the benefit of all.

As observed in other oil-rich countries (Dutch disease phenomenon), diversifying on the basis of windfall profit is not easy. While oil can bring wealth and higher standards of living for many people, it can also complicate life for many others, and for businesses. The continuous influx of large amounts of foreign currency has resulted in the appreciation of the national currency, the kwanza. This has inflated local prices of food and housing, making Luanda one of the most expensive cities in the world, for Angolans and expatriates alike. The mushrooming oil-based economy has undermined the competitiveness of local businesses in the non-oil sector (making foreign goods and services cheaper than local ones), and diverted talented human resources from other economic sectors toward the oil industry.

6. <u>Concluding remarks</u>

In March 2012, Angola was found pre-eligible for graduation from LDC status by virtue of the exceptional ("income only") graduation criterion. Unlike the normal graduation rule, whereby graduation will be considered for any country that meets at least two of the three graduation thresholds, the "income only" rule postulates that the country will qualify for graduation if it has enjoyed, in two consecutive reviews of the list of LDCs and in a sustainable manner, a per capita GNI at least double the graduation threshold irrespective of its performance under the other two criteria (human assets, economic vulnerability).

The rationale for recognizing a graduation case under the "income only" exit rule is that rapid (typically, oil-propelled) prosperity should allow prompt action toward socio-economic transformation at national level, without concessionary external support. A rapidly growing ability to autonomously fuel structural progress therefore justifies the idea of bringing an end to a country's LDC status. Angola nevertheless is an economically vulnerable country as the wealth which should enable Angolans to build economic resilience is unstable. This reinforces a plea not unknown in recent LDC history: oil-rich LDCs with a graduation agenda, like all other graduating countries, will need a sound "smooth transition" strategy.