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It can't be all about oil - Angola's economy needs to diversify

BETWEEN 1963 and 1974, the Angolan economy grew at an extraordinary 25% a year. This went hand in hand with burgeoning employment. Angola was once the world's fourth-largest coffee and sisal producer, most of it farmed in colonial-style large plantations.

From a peak of $180-million in coffee exports in 1974, the figure was just $250000 in 2010.

Despite an average per capita income of nearly $9000 and enormous mineral riches, today more than two-thirds of Angola's eight million people live under the $2-per-day poverty line, with one-third reliant on subsistence agriculture for their income. There is little formal sector employment apart from the government.

Angola remains stubbornly near the bottom of the United Nation's human development index: life expectancy was just 46 years in 2010, for example, and one-third of adults are illiterate. Following the end of the war in February 2002, the economy grew at more than 11% annually, with a peak of 22.7% in 2007. Yet Luanda is officially the world's most expensive city in which to live. A mid-quality hotel room costs $400, a bottle of water $5 and an omelette a gagging $37.

Perhaps nowhere better illustrates the unfortunate axiom: Africa's poor because it's expensive, and expensive because it's poor.

Oil has helped to stabilise a terrible inheritance. Out of a population of seven million in the '80s, by the end of the war, an estimated 1.5 million had been killed and four million refugees created.

Hard and soft infrastructure, from roads, ports and railways to education and health systems, have had to be rebuilt, in many cases from scratch.

The increasing number of cars, the endless roadworks along with the cranes and skyscrapers now dotting the capital's skyline all illustrate that progress is being made. One indicator, the national budget was, for 2011/12, at an effective $60-billion, 10 times the figure a decade earlier.

A combination of oil and war also explains why sectors such as coffee, once a big employer, have been neglected since independence in 1975. With oil reserves estimated at 13 billion barrels and production by last year more than 1.8 million barrels per day, Angola is sub-Saharan Africa's biggest producer after Nigeria.

Diversification has been difficult in a country where, in spite of the hydro-carbon dividend, long-term electricity blackouts are now a regular feature and where the traffic chaos is world class.

In part this is down to poor planning and a lack of discipline of the pathologically selfish taxis and those who routinely double-park.

Today the lesson from managing natural resources is twofold. First, choose your partners carefully. Angola's investment environment is ultra-challenging and ultra-expensive. It is also potentially ultra-rewarding, which is why there are so many businesses jostling for entry.

But few of them come to do much apart from sell stuff, by means of what are pejoratively termed "container businesses" disgorging their contents on the locals. Importing rather than manufacturing is encouraged in a country where duty-free allowances parallel political contacts.

Only the Chinese have arrived in large numbers to settle - around 300000 at last count. They, too, are here to pick up construction and other government contracts, at one end of the scale, and open up small businesses at the other.

And this is causing some tension. Pandering to Chinese interests above those of Angolans might grease some wheels in the short term, but it will help little in the long run.

Secondly, don't neglect traditional economic sectors in the hunt for instant wealth and gratification - not least since governments, especially those that are weak and of a socialist bent, are poor distributors of natural resource wealth.

To grow, diversify and create employment the ruling MPLA will have to let go of control, allowing space for the private sector to operate and permit its former arch-rival Unita the space to act as a proper political opposition, providing a check and balance to untrammelled power, a key means of ensuring greater competitiveness.

As Dr Onofre Santos, one of seven constitutional court judges, notes: "If there is no diversification in the economy, poverty will continue. The government cannot be the only source of wealth or the agent of development."

By Dr. Greg Mills. Mills has been in Angola researching a new book on growth and jobs