Sub-Saharan Africa’s third-largest economy will stay on a fast growth path. Key drivers will be further rises in oil production, recently announced reform programmes and political stability.

An abundance of natural resources have made Angola one of the leading destinations for FDI in Africa. Most FDI is directed into Angola’s core sector: oil. Huge oil resources have put the country in a strong fiscal position. While this favourable economic climate presents an ideal opportunity for the Angolan Government to make decisive investment decisions, the current transport and logistics infrastructure remains a major challenge for businesses in Angola.

The Angolan Government established a sovereign wealth fund, the Fundo Soberano de Angola (FSDEA), in 2012 and has ring-fenced the equivalent of 100,000 barrels per day of oil revenues (about US$5 billion by October 2012) for priority projects and essential infrastructure.

In addition, government reforms are targeting the improvement of the private sector in Angola. With regard to monopolised sectors, Angola is one of the least competitive...
Angola is well aware of its current business challenges. It also has the financial potential to overcome obstacles in the long run and put itself in a strong position in the region.

**Oil resources boost growth and government spending**

Due to rising oil prices and a tighter monetary policy, Angola grew its current account surplus to 7-10% between 2010 and 2012. Oil accounts for nearly 98% of total revenues, according to the World Bank, and Angola’s main trading partners are China and the USA, followed by France and South Africa.

Angola is a member of the Southern African Development Community (SADC) and this should see an increase in regional trade. Angola’s regional integration will be of further importance as it hopes to become an important supplier to its landlocked neighbouring countries.

A liberal trade regime with low tariffs provides low barriers to trade. Although the government has not yet established foreign trade zones or free trade zones, it has indicated its intention to create three free trade zones in Luanda, Catumbela and Cabinda.

The country is rich in natural resources. While oil still makes up the lion’s share, rising non-oil export earnings (diamonds and gas in particular) provide further support for export receipts. This development is welcome and in accordance with Luanda’s objective of reducing Angola’s dependence on the oil sector by diversifying the minerals sector. The impending commissioning of the country’s US$10 billion liquefied natural gas (LNG) plant near Soyo will provide a further boost to economic growth, in addition to plans to commence iron ore production.

GDP has grown eightfold since 2003 and growth is projected to remain above the 5% level over the next five years. This will be supported by infrastructure spending and increased oil production. At the same time, per capita income has grown sixfold since 2003 to reach US$700 in 2012. But despite aggressive income growth, extreme inequality remains, which limits growth prospects for large-scale investments in the retail market in the near future.

Government expenditure is set to increase by 14% in 2013, based on a major scaling up of capital spending, which will impact positively on economic growth. Following the end of the civil war in 2002, inflation fell from hyper-inflationary levels to settle at 12-15% during 2006-2011.

**Business environment and security a big challenge**

While an inadequate institutional framework is hindering diversification in the economy, the weak business environment is also impeding industrial growth. Angola is rated as the most difficult country in which to do business in the SADC region, having the lowest ranking in the Ease of Doing Business Index.

This rating is attributable to a poor contract enforcement environment, inefficient tax bureaucracy and difficulties encountered in opening a new business. Government is already countering the latter with planned reforms to simplify processes.

Angola has been stable since the 27-year war ended in 2002, and although there is unlikely to be any change in the general thrust of policy, security still remains an issue. Levels of crime are high across the country, especially in Luanda. Ground travel in some parts of Angola can be problematic due to landmines and other remnants of war. The northern province of Cabinda, as one of the country’s most dangerous places, presents distinct safety and security-of-transit risk. Armed groups specifically target and attack expatriates there.

**Frequent electricity outages**

Angola’s power sector is among the least efficient in Africa. A 2010 World Bank survey found that Angolan firms endured six power outages a month lasting on average 14 hours, and that overall, 36 days were spent without electricity. In the same year businesses reported waiting an average of seven days for a new electricity connection. To a large extent businesses have to rely on private diesel generators.

These problems have been recognised by the government and it has committed to investing approximately US$16 billion in the energy sector between now and 2015.
Workers need training

In relation to its size, Angola has a small population of around 20 million. However, population growth is high at 3.1% per year. Levels of urbanisation are also high with more than half of Angolans living in cities.

There is a large surplus of labour and a massive unemployment rate giving employers easy access to labour resources. Although this offers some potential, workers are mainly unskilled and the labour market is heavily restrictive to entrepreneurs and employers, as fixed-term employment contracts are disallowed by law and the legislated minimum wage of $126 is among the highest in Africa.

Dominance of oil and gas

Oil and gas are by far the most important industries in Angola. Given the reliance on export earnings from the dominant oil industry, most economic activity is located in this sector. Even though oil export earnings will remain the country’s dominant source of foreign income for years to come, its share will decrease and other sectors will advance, pushed by the government’s plans to diversify the economy.

Mining, along with the diversification of the minerals sector, offers significant new growth opportunities. Over the short to medium term, the energy, transportation and construction sectors are expected to all benefit from a scaling up of public investment programmes. Despite these programmes, it will be a long way to go to diversify Angola’s highly oil-dependent economy.

Patchy improvement in logistics performance

Source: World Bank

According to the 2012 Logistics Performance Index (LPI) released by the World Bank, Angola is one of the world’s worst performers when it comes to ‘trade facilitation’ logistics, ranking 138th out of 155 countries included in the Index, and 30th out of 42 African countries.

The latest LPI shows there has been a slight improvement since 2010, although the 2012 assessment still lags the level recorded in the first LPI in 2007. While international shipments and logistics quality and competence remain more or less stable compared to Angola’s 2010 ranking and value, timeliness and track & trace capabilities are declining (evidenced by the high level of goods lost in transit).

In contrast, the ratings of Angola’s customs procedures and infrastructure have made significant progress, rising up the ranks an impressive 50 and 57 places respectively. Reforms are gathering pace. Since 2001, the government has been taking steps to update customs legislation and modernise the customs administration. This has achieved good results and while allegations of corruption remain frequent, trade laws and regulations have been promulgated, import documentation requirements have been simplified and customs clearances at all borders have been computerised.

Transport infrastructure and operations

A major obstacle for investments into industries other than oil is the poor quality of Angola’s transport infrastructure. Overall, infrastructure was severely damaged by the 27-year-long civil war that ended in 2002, while periodic flooding during the rainy season also takes its toll.

In the Global Competitiveness Report 2011/2012, Angola ranks 141th of 142 countries regarding the quality of its overall infrastructure. Angolan manufacturers stand at a very high risk of losing their goods in transit.

Despite the weakness of the country’s infrastructure, Angola is one of very few African countries
that do not face a significant infrastructure funding gap. Thanks to its large oil reserves, Angola has the financial resources to address structural issues and to rebuild the country’s shattered infrastructure, expand the economy and modernise and better connect its cities.

There is not only the potential, but also the political will to address infrastructure needs. According to the country’s president, José Eduardo dos Santos, rehabilitating and expanding the nation’s ports, highways and railways will be essential to transforming Angola into a ‘logistical hub of considerable importance in Southern Africa’.

Another key factor in infrastructure funding is Chinese investment in Angola. Thanks to an ‘infrastructure for oil’ trade agreement, China has been making significant strides in changing the Angolan infrastructure landscape, via the construction of large railways, roads, and housing projects in areas like the city of Kilamba Kiaxi.

In return, Angola became China’s main supplier of oil and even overtook Saudi Arabia in 2010. China will continue to be a key investor in Angola as one of its biggest trading partners.

Transport infrastructure in Angola is mainly concentrated around the capital Luanda and along the coast. While roads connect the three port cities of Luanda, Lobito and Namibe, railway lines should be connecting the port cities with the hinterland. However, railway lines have just recently been rehabilitated and rebuilt or are still under construction, so the transport of goods continues to congest Angola’s road network, especially around Luanda.

In spite of rapid growth, the Port of Luanda has become notorious for lengthy delays and has tremendous capacity constraints. The port has an excessive general cargo vessel pre-berth waiting time of 144 hours – the sub-Saharan African average is about 18 hours. To save costs, Angolan traffic is frequently being diverted to the Port of Walvis Bay in Namibia, some 2000km south of Luanda.

To reduce traffic at the Port of Luanda, the Government of Angola gave the go-ahead for the construction of a new commercial port at Barra do Dande (north of Luanda) in 2011. Additionally, the Port of Lobito, about 500km south of Luanda, is to be extended. The Government also plans to spend US$1.25 billion on the rehabilitation of the Port of Lobito. This programme will extend the berthing area to a total of 7.8km and increase capacity to a total 11 million tons of general merchandise and 700 000 TEUs/year.

**New ports and capacity needed**

Angola’s international trade is entirely dependent on the country’s ports, which account for 95% of imports. Ports will be essential for Angola’s plans to become an important regional supplier to its landlocked neighbouring countries. The country currently has four important ports of trade: Luanda, Cabinda, Lobito and Namibe. These are all deep-water ports and open to international shipping.

The port of Luanda serves as the nation’s main conduit for international trade, handling about 80% of the country’s imports. It is one of the fastest-growing ports in Africa and already working as a gateway to the surrounding landlocked countries, namely the DRC, Zimbabwe and Zambia.

**Key indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population size (million, 2012)</td>
<td>20.8</td>
</tr>
<tr>
<td>Population growth (2012-2020, avg p.a.)</td>
<td>3.1%</td>
</tr>
<tr>
<td>GDP (US$ billion, 2012)</td>
<td>115</td>
</tr>
<tr>
<td>GDP growth forecast 2012-2017 (avg, y/y rate)</td>
<td>5.7%</td>
</tr>
<tr>
<td>GDP per capita (US$, 2012)</td>
<td>5 700</td>
</tr>
<tr>
<td>Global competitiveness index 2011 (global rank/144)</td>
<td>139 (2.96) (score 1-7)</td>
</tr>
<tr>
<td>Corp. Income Tax (CIT) rate</td>
<td>35.0%</td>
</tr>
<tr>
<td>Top exports</td>
<td>Petroleum oils and oils obtained from bituminous minerals, crude (97.3%)</td>
</tr>
<tr>
<td>Logistics Performance Index 2012 (global rank/155)</td>
<td>138 (2.28) (score 1-5)</td>
</tr>
<tr>
<td>Global Competitiveness Index 2011 – Infrastructure (global rank/144 (score 1-7))</td>
<td>140 (1.89)</td>
</tr>
</tbody>
</table>
US$3.3bn spent to rebuild railway lines

Landmines and flooding remain key security issues

Three rail lines, no network

Despite these ambitious projects, productivity, infrastructure and operational equipment also require attention and new investment. Significant further investment will also be necessary to improve both coastal and inland infrastructure.

Inland water transport is hardly possible in Angola. The Cuanza River, south of Luanda, is navigable by ship 200km inland, but most of Angola's rivers are not suitable for transportation.

Aviation

Capacity does not appear to be a major issue in the Angolan air transport system. There are 31 airports in Angola with paved runways. The Quatro de Fevereiro International Airport just outside Luanda is the country's busiest airport and serves international and domestic airlines. TAAG Angola Airlines is the national flag-carrying airline of Angola and one of the most successful airlines in Africa.

The major challenge facing the aviation sector is safety, which is a Government priority. All Angolan airlines are on the European Union blacklist, with the exception of specified Boeing 777s and Boeing 737s operated by TAAG.

New airport

Notwithstanding capacity issues, the construction of Luanda’s new international airport, which is to be completed in 2014, will create the largest airport in Africa. It will offer capacity for over 13 million passengers per year, and will have a cargo terminal with an annual capacity of 35 000 tonnes.

Caminhos de Ferro Namibe (Moçãmedes Railways)

This links the port of Namibe to the southern provinces of Kuando Cubango and Hull (town of Menongue) and on to the border of Namibia. It was officially reopened in August 2012, but closed again for work to improve the line and is due to reopen in the second half of 2013.

A feasibility study for a fourth railway line linking Luanda with Cabinda is being undertaken. The line will cross the Congo River and 40km of the DRC to enter Angolan territory again in Cabinda. In December 2012, the constructions of a 300-km branch line linking Moçãmedes Railways and the Namibian railway system was announced. The project was due to commence in the first quarter of 2013.

Regional cooperation is essential to the joint plan to repair, maintain and operate the Lobito Corridor railroad linking Angola, the DRC and Zambia. Utilising this rail line, Angola now has the opportunity to play an important role in the outflow of the minerals coming from the Copperbelts in Zambia and Katanga (DRC), which would further increase the country’s profile within SADC.

Roads

Most of the freight in Angola is transported by road on trucks, since inland water navigation is not an option and the few railway lines have just started operations. According to the World Bank’s AICD, transportation causes a significant bottleneck in Angola’s economy.
Angola

Poor road infrastructure and transport logistics inhibit Angola’s overall economic development. With World Bank and AICD estimates of paved roads ranging between 10.4% and 17%, four-wheel drive is generally necessary for travel outside of major towns.

The poor condition of the road network is in no small part due to the civil war, when much of the network was destroyed, and the impact of periodic torrential flooding. Still, the main transport routes are traversable. Specifically, the main links in the western half of the country appear to be in reasonable condition, while roads on the eastern side are sparser and more dilapidated.

Safety is a big issue on Angola’s roads. Landmines remain a problem outside major urban areas. There is extra risk during Angola’s rainy season, which runs from November to April, as mines may become displaced and end up outside recognised minefields. In addition, roads and bridges are often washed away by sudden floods during the rainy season.

Angola is part of two major trans-African corridors. The first runs from North to South, linking Tripoli in Libya with Cape Town in South Africa. The second one, running from East to West, links Beira in Mozambique with Lobito in Angola. Despite these noble aspirations, the quality of both these trans-African corridors and Angola’s regional roads is inferior. This situation makes it more difficult for Angola to develop regional trade with surrounding countries and discourages surrounding countries from making greater use of Angola’s ports.

Various role players are involved in road rehabilitation, notably:

- The Government in the form of public-private partnerships;
- Chinese investments; and
- Natural resource companies.

With Angola being one of the highest spenders on roads in Africa, infrastructure development is expected to be the essential driver of economic growth over the next few years and this can be expected to have a positive impact on the growth of the transport and logistics industry in Angola.

Conclusion

Based on our analysis, we have assessed the investment potential for Angola’s transportation and logistics sector as shown in the graphic below.

Angola – Investment potential assessment

| 1. Demographics and resources | ![Attractive](http://example.com) |
| 2. Economics | ![Attractive](http://example.com) |
| 3. Business environment | ![Average](http://example.com) |
| 4. Trade and logistics | ![Unattractive](http://example.com) |
| 5. Transport infrastructure | ![Strong improvement expected](http://example.com) |

Key:  
- Attractive  
- Average  
- Unattractive  
- Strong improvement expected  
- Some improvement expected  
- Stagnation/marginal change expected

End notes

2. Angola Quarterly update from NKC also states $10bn, as well as the following two articles:  
5. http://angolaairport.net/airport/  