Governance of natural resources rests on a government’s ability to manage resource wealth. It is a daunting task for the governments of resource-rich countries as a developmental trajectory based on the extraction of natural resources may lock countries into a path-dependent outcome with suboptimal results. Natural resources are prone to the resource curse. The curse is associated with slower economic development, conflict, and political struggle in developing countries (Karl, 1997; Ross, 2012). This paper draws on the literature on the resource curse to examine a case study of Angola. The
objective of this paper is to identify natural resource governance options which Angola can use to support its economic and social development as it transitions away from the Dos Santos era of political and economic leadership.

Angola presents an interesting case study from a perspective of qualitative research. It is a resource-rich, post-conflict country. Amongst countries located in the Sub-Saharan Africa, Angola ranks as the third largest economy, second largest oil producer, and the third-largest producer of diamonds (Business Monitor International, 2015a). While Angola has the potential to attain a sustained economic development through diversification, it must overcome the resource curse, which is rooted in Angola’s dependence on extractive industries. As demonstrated by the global collapse in oil prices in 2008 and then again in 2014, Angola’s economic overreliance on the petroleum sector is unsustainable in the long term. In this paper, I propose that Angola’s domestic political actors can cooperate with international organizations and transnational corporations to promote economic diversification, as recommended by Angola’s National Developmental Plan 2018-2022 (Government of Angola, 2018a). The paper focuses on the changes in the Angolan political economy in the aftermath of the 2017 presidential election that marked a change in governing coalition away from a Dos Santos 38-year political reign and toward João Lourenço’s leadership of Angola and the Movimento Popular de Libertação de Angola (MPLA). At the time of this transition, Angola represents a contemporary case for investigating how a change in political leadership creates space for structural economic transformation to reduce the constraints of the resource curse, given political imperatives of retaining access to economic rents to retain political power.

To examine this proposition, the paper proceeds to analyze Angola’s natural resource sector. First, it outlines the existing debates in the resource curse literature. Second, it considers the historical emergence of resource dependence in Angola’s economy and contextual-
izes it within the resource curse debate. Subsequently, it will examine the governance of petroleum extraction, which is the country’s main resource that generates the largest revenue for the government. Lastly, the paper outlines strategies for economic diversification before concluding with a preliminary assessment of President Lourenço’s economic policy adjustments, in terms of their ability to undo negative political, economic, and social consequences of Angola’s oil export dependency.

**The Resource Curse Debate**

Resource-rich countries, blessed with abundant natural resources, are faced with a set of unique problems that are known as the *resource curse* in the literature. This term first appeared in qualitative and quantitative studies conducted in the 1980s and 1990s (Gelb, 1988; Auty, 1993; Karl, 1997). The extensive literature on the resource curse lists a set of pathologies that resource-rich countries may experience. In the realm of economy, states suffering from the resource curse develop slower than their counterparts (Sachs & Warner 2001), exhibit low levels of human development (Ross, 2012), rank high on corruption levels (Leite & Weidmann, 1999), suffer from economic inequality, have rampant poverty, and exhibit high unemployment (Ross, 2012). Scholars examining political aspects of the curse have found a correlation between natural resource abundance and authoritarian regimes (Jensen & Wantchekon, 2004; Ross, 2012). Scholars have also associated the presence of natural resources with an increased likelihood of a prolonged civil conflict (Collier & Hoeffler, 2006; Ross, 2012). Thus, the curse may affect local economy, politics, and society.

As the studies on the resource curse grew into prominence, more scholars became cautious about the existence of the curse. Studies by Brunnschweiler and Bulte (2008), Lederman and Maloney (2008), and van der Ploeg and Poelhekke (2010) are among the few that
challenge the *resource curse* hypothesis after re-examining measurements and data used by other scholars when studying the resource curse. Despite the broader debate about the existence of the curse, scholars tend to agree that resource extraction is generally problematic due to high development costs, volatile revenue, and the enclave nature of the deposits. Resource extraction is especially difficult for countries that possess “point source” resources, such as hydrocarbons, which are confined by geology and are easily exploited by the local elites (Isham, Woolcock, Pritchett, & Busby, 2005). Since natural resources may be a source of a negative social, economic, and political externalities, their governance becomes a very salient issue for scholars, policymakers, and civil society actors.

For the purposes of this study, it is important to note that not all countries will exhibit these problems and that some countries may experience multiple symptoms of the curse. To illustrate, some countries, such as Norway, exhibit virtually no symptoms of the curse, while others, such as Venezuela, appear to exhibit most of the curse’s symptoms. Despite the difference in these outcomes, for most countries, natural resources present a challenge and opportunity, that needs to be properly managed to ensure that it provides benefits while minimizing externalities. In Angola, as I will illustrate in the subsequent section, the curse manifests itself along economic, political, and social dimensions.

**Natural Resource Governance Issues in Angola: Historical Legacy and Contemporary Problems:**

Throughout history, Angola’s governance structures, designed to govern natural resources, reflected the needs of dominant political actors. Portuguese colonial administration developed Angola’s first resource-governance structures after the discovery of large petroleum and diamond deposits in Angola. In 1910, the Portuguese government approved Angola’s first oil concession, and in 1956 the Com-
panhia de Petróleos de Angola (Petrangol) began oil extraction (García-Rodriguez, García-Rodriguez, Castilla-Gutiérrez, & Major, 2015, p. 169). While petroleum is Angola’s most profitable resource, it is not the sole resource coveted by foreign extractive corporations. Angola’s abundant diamond reserves began to be exploited in 1917 by the Companhia de Diamantes de Angola (Diamang). Diamang represented a consortium of Portuguese, French, American, and Belgian investors, who enjoyed substantial autonomy from the state (Veranda & Cleveland 2014, pp. 88 and 91). Diamang and Petrangol, with the support of International Oil Corporations (IOCs), were the first administrators and producers of diamonds and oil in Angola.

Angola’s extractive governance arrangements were reshaped after Angola gained independence from Portugal in 1975. The liberation struggle from Portugal was characterized by local anti-colonial revolts and guerilla warfare that lasted from 1961 until the independence (Guimarães, 2016). After gaining independence, Angola suffered from a prolonged civil war between the MPLA, União Nacional para a Independência Total de Angola (UNITA) and Frente Nacional para a Libertação de Angola (FNLA) that lasted around 22 years and ended in 2002, leaving the MPLA government victorious. The parameters of this were shaped by the dynamics of the Cold War as MPLA, UNITA and FNLA received support from various foreign governments (Le Billon, 2001; Guimarães, 2016).

Angola’s history as a post-colonial and post-conflict nation shapes its approach to resource governance. In the post-colonial period, Angola’s economic activities focused on the extraction of domestic natural resources as other economic sectors were underdeveloped (Botchway, 2011). Angola decided to nationalize foreign mining companies and to create state-owned enterprises to manage the extraction of its natural resources. While scholars note that the post-colonial governance arrangements have reproduced colonial extractive structures (Le Billon, 2001; Malaquias, 2001), it is important to
add that governance arrangements have become more fragmented as a result of the civil war. To illustrate this, there were parallel governance arrangements in the resource sector to meet the needs of multiple authorities that were represented by the warring parties—MPLA, UNITA, and FNLA. MPLA relied on oil revenues generated by the parastatal, Sociedade Nacional de Combustíveis de Angola (Sonangol), and used it to finance MPLA’s military operations and state expenditures (Aguilar & Goldstein, 2009). On the other hand, UNITA used illicit money from its diamond revenue to bankroll its military operations (Le Billon, 2001; Weigert, 2011, p. 75). Thus, the presence of natural resources in Angola prolonged the duration of the civil war, as UNITA was unwilling to give up its diamond-generated revenue (Weigert, 2011, pp. 126-7).

Angola’s historical legacy is partially responsible for the state of its current natural resource governance framework. In general, the country follows a continental trend identified by Botchway (2011, pp. 5-7), where African governments that depend on resource rents suffer from “weak regulatory framework for resource exploitation” that may lead to suboptimal management of the resource-generated revenue. Botchway’s argument is supported by the data generated by the Natural Resource Governance Institute (NRGI). Based on the rankings produced by the NRGI (2017), Angola’s resource governance structures are “weak” (with an overall score of 35 in 2017). The NRGI’s (2017) indicators note that the weakness of Angola’s governance structures stems from a weak rule of law, heightened corruption, ineffective government, and lack of transparency. The Institute also stresses that Angola has a non-transparent petroleum sector controlled by Sonangol, which provides limited information about its activities (NGRI, 2017). While Angola’s government has taken steps in 2010 toward improving transparency in its budgets by introducing the 2010 Law on Administrative Probity, the extractive sector has retained its secretive nature (NGRI, 2017). The weak gov-
ernance structure coupled with the country’s dependence on the extractive industries has reinforced the dynamics of the resource curse.

Angola also suffers from the political aspects of the resource curse. While Angola opted for a multiparty presidential system with tri-partite division of power (i.e. it has executive, judicial, and legislative branches) after the civil war ended, Angola’s democratic structure retains elements of authoritarianism (García-Rodríguez et al., 2015, p. 166). The political system is “hyper-presidential”, as the president is the key figure in all three branches of the government (Amundsen, 2014, p. 176). A new constitution adopted by the MPLA government in 2010 has reinforced the presidential power over the governance apparatus, as it abolished the direct election of the president. This resulted in a “de facto absence of separation of powers” (García-Rodríguez et al., 2015, p. 166; Amundsen, 2014, p. 188). As Angola’s leadership relies on natural resources to back up its activities, it does not have to rely on taxation but rather on networks of “patronage and coercion” to rule the country (Le Billon, 2001, p. 79). Angola’s political structure exhibits patronage politics that produce a patrimonial state, which, in some areas, resulted in a “phantom state”, because the state failed to perform its responsibilities, such as the provision of public goods and security, to citizens, such as the provision of public goods and security (Power, 2012; Harvey, 2005). These trends illustrate that Angola’s political system remains dominated by a small elite group. For over 30 years, this group was led by President Dos Santos, who recently retired and was replaced from within the MPLA by João Lourenço in 2017.

Angola’s economic performance is affected by the fluctuation of global commodity prices due to its dependence on petroleum exports (OECD Publishing, 2011; Morakabati, Beavis, & Fletcher, 2014). During periods of high commodity prices, it seems that Angola does not suffer from the curse. To illustrate this, Angola’s economy grew by 14.9 percent annually when oil prices were high (2002-2008). This growth is captured in figure one, based on the World
Bank’s data. During this period, Angola ranked among the fastest growing economies in the 2001-2010 period (The Economist, 2011). As Angola’s economy grew, public debt declined from 49.9 to 28.7 percent of the GDP (The International Monetary Fund (IMF), 2015). However, as commodity prices fell, Angola’s economic recovery reversed. Angola’s economic growth begun to cool down in 2008, reflecting a global drop in commodity prices. This trend reverberated into the public debt that began to rise as of 2012. The IMF (2015) predicts that the public debt ratio will reach 53 percent of GDP by 2016. These two economic trends suggest that the global commodity prices are important determinants of the condition of Angola’s economy. The fluctuation in the GDP growth suggests that the economic development focused on petroleum is not sustainable.

![Angola's GDP growth (annual %)](https://example.com/figure1)

**Figure 1**: Angola’s Annual GDP Growth (%) (Based on the World Bank’s World Development Indicators Data, 2018)

Other economic indicators suggest that Angola’s economy suffers from multiple aspects of the resource curse. Angola has high levels of income inequality, with a Gini coefficient of 42.7 (Muzima, 2018). The data shows that the distribution of the resource wealth among the Angolan population is highly unequal and skewed in favour of the elites. High levels of inequality are associated with high
rates of unemployment (20 percent) and poverty (37 percent) (Muzima, 2018). Additionally, Angola’s economic performance is aggravated by high levels of corruption. In 2014, Angola ranked as the 161st most corrupt country (Transparency International, 2014). Angola’s weak economic performance is associated with the low ranking on human development index (149th out of 188 countries; see The United Nations Development Programme, 2014). All of these indicators suggest that Angola is facing economic and socio-political difficulties.

Furthermore, Angola suffers from the Dutch Disease, where an inflow of foreign capital increases the value of the domestic currency and lowers competitiveness of Angola’s products on the global markets. A World Bank’s economic study (2013) notes that the “appreciation of the Angolan kwanza is significantly diminishing the competitiveness of the non-oil economy by making imports relatively cheap compared to the domestic goods” (p. vii). The World Bank (2013, p. 18) data indicate that Angola’s currency has appreciated by approximately 12 percent since 2004. High prices of non-traded goods are reflected by high living costs in Angolan cities. For example, the Mercer’s Cost of Living ranking (2015) has ranked Luanda as the most expensive city in the world for expats for three consecutive years. Currency appreciation inhibits the growth of other economic sectors, such as manufacturing (The World Bank, 2013, p. 3). In Angola, manufacturing accounts for less than 10 percent of GDP (Muzima, 2018). As global oil prices fall, Angola’s currency depreciates to make domestic products more competitive, but new problems arise.

The recent drop in global oil prices resulted in budget cuts and a reduction in public spending by 50 percent (Mendes, 2015). These budget cuts are borne by the poorest segments of the population, who do not have access to proper sanitation, food, and healthcare. Since the budget cuts occurred, the sanitary and sewer systems collapsed resulting in an outbreak of a disease in Angola (Coroado,
The government has also implemented a set of oil subsidy cuts that increased the price for fuel in Angola (The Economist Intelligence Unit, 2015). Higher prices for fuel will likely be passed on to the consumers in the form of an increase in the prices of other products. Furthermore, the fall in oil prices increases the propensity of domestic governments to borrow funds abroad. As the oil prices fell, Angola’s budget was reduced by a quarter. The country had to access loan packages—worth of $10 billion USD - from international investors to support its development plans and to stabilize its domestic economy (England, 2015). If Angola’s economy was more diversified, then the government would have been able to maintain internal economic stability despite the fall in oil prices (Morakabati, Beavis, & Fletcher, 2014, p. 417).

In the social realm, Angola appears to suffer from the social aspects of the resource curse. The Angolan government negotiates with separatist groups seeking to gain control over oil that is discovered on their territory. Separatists remain active in Angola’s oil-rich province of Cabinda. The residents of Cabinda do not self-identify as Angolans, instead, they prefer to be seen as “Cabindans” in pursuit of independence (Reed, 2009, p. 11). Cabinda’s separatist movement is carried by the Frente para a Libertação de Enclave de Cabinda (FLEC) that fought for Cabinda’s independence since the colonial era (Reed, 2009, pp. 36 and 48-49). The group seeks to gain control over Cabinda’s oil industry, which produces over a half of Angola’s petroleum (García-Rodríguez et al., 2015, p. 169; Reed, 2009, p. 1). The government often suppresses the secessionist attempts to maintain its grip over the province (Reed, 2009, pp. 7 and 11). In 2006, the government signed a peace deal with the separatist group. Yet, Cabinda’s separatists continue their operations. For example, in 2010 separatists attacked Togo’s football team and Chinese workers (BBC news, 2010). Therefore, Cabinda’s secessionist movement elevates security risk for the businesses operating in Angola (Business Monitor International, 2015a).
The economic, social, and political aspects of the resource curse in Angola are linked to its dependence on the petroleum sector, which accounts for the majority of Angola’s exports (90 percent) and about a half of the country’s GDP (OPEC, 2018). While the sector has been often associated with the resource curse (Le Billon, 2001; Ross, 2012), it may harbour opportunities for the government if managed sustainably.

**Petroleum Extraction and Investment:**

**Opportunities and challenges**

Angola is currently the second largest petroleum producer in Sub-Saharan Africa with 9 billion proven crude oil reserves located both onshore and offshore (EIA, 2015). While half of these reserves are in Cabinda, the majority of the oil projects are concentrated offshore because onshore production was complicated during the civil war (EIA, 2015). The majority of Angola’s petroleum is extracted from Africa’s two most productive basins: Lower Congo and Kwanza (Malaquias, 2001). The Kwanza basin is preferred by the IOCs because it has pre-salt formations that are geologically predisposed to hold larger quantities of hydrocarbons (EIA, 2015). Relative political stability today enables corporations to extract oil onshore in the Cabinda province. The onshore fields will provide new opportunities that are less capital intensive than the offshore fields.

Extractive corporations operate under Angola’s domestic regulations. Under the Dos Santos’ administration, Angola’s petroleum activities law No. 10/04, adopted on November 2004, set a regulatory framework for the oil industry. This law reaffirmed that oil revenues are public, owned by the state, and managed by Sonangol, a state-owned oil company (Miranda & Associados Sociedade de Advogados, 2004). This affirmation is rooted in the United Nation’s resolution 1803 (XVII) granting “Permanent Sovereignty over Natural Resources” to the resource-rich states to ensure that natural re-
sources are extracted on the basis of national interests and for the benefit of local people (The United Nations General Assembly, 1962). Yet, it is unclear whether Angolans will benefit from the extracted resources or whether the majority of wealth, which will be captured by the elite through Sonangol, which manages oil operations.

Sonangol dominates Angola’s oil industry and serves several functions in the oil sector. Under Dos Santos’ leadership, Sonangol had a mandate to develop a vibrant domestic oil sector, maximize government’s oil revenue, promote local employment and private sector, and engage in the governance of the oil sector (Heller, 2012, pp. 836-839). The company allocated oil resources among foreign investors through joint ventures or production-sharing agreements. The former type of agreement allowed corporations to share the investment and production, while the latter provided an investor with a share of production after the investment is made (García-Rodríguez et al., 2015, p. 170). Under the new Lourenço government, the concessionary responsibilities and regulation migrated from the hands of Sonangol to the newly created National Petroleum and Gas Agency to increase transparency and efficiency (Presidential Office, 2018).

As oil prices began to decline, Angola’s government has altered some of its policies to attract foreign investment into the extractive sector. The government issued the Presidential Decree No.3 in 2012 to allow public and private companies to reduce their participation in production-sharing contracts from 50 to 35 percent and exempted them from a requirement to provide financing for research and social projects (The United Nations Conference on Trade and Development, 2012). To further sweeten the investment climate, Angola adopted a new investment law no. 14/15 in August 2015 to cut bureaucratic red-tape and lower tax burdens for foreign investors (Ernst and Young, 2015). The government has also reaffirmed its commitment to attract foreign investment in September 2015 by issuing the
President Order 182/15. This order adopted a “fast lane” approach to investment by speeding up processing times (Angola Hub, 2015). In 2018, Angola also cut the taxation rate for marginal oil fields—with production tax lowered to 10 percent from 20 percent and income tax from 50 percent to 25 percent—to stimulate foreign investment (Eisenhammer, 2018a).

Despite the adoption of new laws, foreign investment in Angola’s oil sector declined in light of the low-price environment (Business Monitor International, 2018). Other factors can also be responsible for falling FDI in Angola’s hydrocarbon sector. Investors may be deterred from investing in Angola due to certain legal constraints, such as the Foreign Exchange Law, issued in 2012, that requires foreign oil firms, engaged in Angola’s oil extraction, to use Angola’s bank accounts to make their payments in local currency, kwanza (KPMG, 2014). While this law may discourage investment, it is an important mechanism for local diversification as the law is meant to increase the capacity of Angola’s financial sector by promoting de-dollarization of the Angolan economy. De-dollarization increases foreign currency reserves, increases the use of kwanza, and reduces capital flight (Mecagni et al., 2015, pp. 46-47). As dollarization of Angola’s economy declines, local people who are getting paid in kwanza may benefit from increased use of the currency.

Angola plans to increase its oil production by exploring new projects with IOCs and other international partners. A recent launch of the Kaombo ultra-deepwater offshore project by Sonangol in partnership with Total, Sonangol Sinopec International, ESSO, and Galp in 2018 is a case in point. The field will increase Angola’s oil production by 1.794 million barrels per day by 2019 (Business Monitor International, 2018). Angola has multiple other oil producing fields in operation that Sonangol explores in partnership with Western IOCs and other national companies from China. Angola’s oil production will also rise with the help of the CLOV floating production project which is the largest of its kind (Oil and Gas: Angola,
2014a). The CLOV project combines resources from four oil fields (Cravo, Lirio, Orquidea, and Violeta) that will add up to 505 million barrels to Angola’s proven reserves. These plans may partially help to offset losses in tax revenue and falling exports that occurred in 2014 after the oil prices plummeted (Oil and Gas: Angola, 2014b). However, these projects have become complicated by a complex relationship between Sonangol and foreign oil-extractive companies (Business Monitor International 2018, p. 19).

Under the previous administration, Sonangol was able to shape the conditions for the presence of foreign actors in the oil sector through the management of concessions. In 2015, Sonangol revealed plans to auction 15 new oil and gas concessions in the Congo and Namibe basins with hopes to increase oil production in 2015-2016 (Oil and Gas: Angola, 2015a). The auction was conditional on a corporate partnership with Sonangol. Sonangol was also able to cancel concession rounds to reflect changes in the oil prices (Business Monitor International, 2018, p. 9). Thus, the opportunities for foreign actors to gain access to new oil fields in Angola production depended on the decisions of Sonangol. This practice provided Sonangol with a bargaining tool to negotiate better conditions for itself from foreign partners at the time of high oil prices—following the prediction of the ‘obsolescing bargain model’ developed by Raymond Vernon (1971). Sonangol’s power to shape the terms of contract with foreign companies will likely erode under Lourenço’s administration, which created the National Petroleum and Gas Agency to oversee distribution of concessions.

New opportunities in Angola’s oil sector are closely tied with Angola’s strategy to strengthen its political and economic position by diversifying its foreign partners. In 2007, Angola became one of the Organization of Petroleum Exporting Countries’ (OPEC) members. Angola’s membership in the OPEC club expands Angola’s political ties with like-minded countries and enables plurilateral coordination of petroleum production in a way that ensures a secure en-
ergy demand at stable and reasonable prices. Some scholars propose that by joining OPEC, Angola attained greater bargaining leverage against investors that compete for Angola’s oil (García-Rodríguez et al., 2015, p. 170). This competition is also shaped by oil prices, as noted earlier, and the number of different actors in the industry. For example, the entry of Chinese state-owned companies during the period of high oil prices was beneficial for Angola as China offered a unique package of incentives to Angola. The resources-for-infrastructure deals, regarded as the ‘Angola model’ by scholars, have supported local diversification initiatives and increased Angola’s bargaining power against Western investors (Habiyaremye, 2013). With time, China was able to surpass Angola’s largest trade partner, the US, and became the largest export destination for Angola’s oil (Observatory of Economic Complexity, 2013).

Potential challenges to new investment in the oil sector are related to the peak oil hypothesis, where oil production grows until a certain maximum point is reached and subsequently begins to fall due to a decline in reserves (Bardi, 2009). Some of Angola’s oil fields have reached peak production in 2008 (EIA, 2015). Therefore, there are potential difficulties in maximizing production in fields that are near depletion, as they require technological advances (IEA, 2006, p. 96). Although new reserves can be discovered to replace the falling production, these new reserves may face several constraints, such as technological limitations. Recent technological progress permits the expansion of offshore oil production, which allows corporations to drill at greater depths at reduced risk (IEA, 2006, pp. 94-96). However, only corporations with sophisticated technology are able to access deep and ultra-deep offshore oil reserves (Aguilar and Goldstein, 2009, p. 1557). In addition to geological and technological limits, political considerations may play an important role. New oil investment may be hindered by potential violence and secessionist attempts in Cabinda. As discussed earlier, the secessionist movement in Cabinda is still active, although much weaker since 2002 accord-
ing to Soares de Oliveira (2016). If this movement regains its strength, it may destabilize existing political and economic arrangements in the oil sector.

**Angola’s Political Economy and Economic Diversification:**

Angola’s early attempts to promote economic diversification were hindered by the civil war that locked Angola onto a developmental path focused on the extraction of oil and diamonds at the expense of other economic sectors (Le Billon, 2001, pp. 60-61; Malaquias, 2001, p. 524). The reliance of the warring parties on natural resources has reinforced the prominence of natural resources in the local economy, while other economic activities became marginal due to an unstable politico-economic environment. Therefore, Angola’s present economy remains overly dependent on the extraction and export of petroleum. Angola’s dependence on petroleum extraction grew in the post-conflict environment to such an extent that Angola became the second most concentrated economy in the world (Da Rocha, Santos, Bonfirm, Paulo, Kolstad, & Wiig, 2014). This dependence is associated with a productive deficiency, which is defined as “an absolute and increasing reliance on revenues derived from the finite and non-renewable resources of crude oil” that is linked to a rentier economy (al Kuwārī, 2012, pp. 102).

Angola’s dependence on petroleum is economically, politically, and socially unsustainable because the petroleum sector is not well integrated with the rest of the economy (Le Billon, 2001, p. 61; IEA, 2006). Since offshore oil production is shallowly integrated, a development model based on a prolonged extraction of oil will lead to a lopsided growth that will hinder the development of other economic sectors. Additionally, the capital-intensive nature of the sector provides limited employment opportunities (Le Billon, 2001, p. 61). Since the petroleum sector is not well integrated into the domestic
economy, economic diversification will be necessary to reduce Angola’s economic, political, and social instability. Under the Dos Santos neopatrimonial regime, economic benefits (and wealth) were concentrated in the hands of elites through patronage networks. Under this system, the economic benefits often fail to reach the rest of the population. While economic solutions, such as economic diversification, may alleviate the resource curse, change in Angola’s governance model is necessary to ensure that economic diversification will provide equitable benefits to Angola’s population at large. In the next paragraphs, I will outline the benefits of economic diversification before turning to governance aspects that can enhance the benefits of economic diversification.

Angola has two choices to attain economic diversification. It can support business activities that add value to its natural resources, or it can invest in other economic sectors and develop new socioeconomic capital (Turok, 2014). Both options are dependent on the government’s ability to effectively manage the extractive sector and to invest its oil-generated revenue into other economic sectors (OECD Publishing, 2011, p. 18). In this section, I will discuss both options. First, I will provide two examples of inter-sectoral diversification in the oil sector. The first example focuses on the liquefied natural gas (LNG) sector and the second on the refining sector. Second, I will discuss Angola’s attempts to diversify its economy to other sectors, such as mining and agriculture. Subsequently, I will briefly discuss local content policies that can support the development of local capacity, which is essential for economic diversification.

Angola has the potential to expand its role in the global hydrocarbon value chain by increasing its production of natural gas and refined petroleum products (AFDB, OECD and UNECA, 2014, p. 201). Angola has already started developing its capacity in LNG with the support of the government and Sonangol. This move supports inter-sectorial diversification to reduce reliance on oil. Angola did not have a gas industry until 2013. Prior to that, Angola flared...
around 70 to 80 percent of the natural gas that was a by-product of oil extraction (IEA, 2006). Gas flaring is not only environmentally damaging but also economically inefficient practice as the resource could be captured and sold on the international market for profit. To generate profits from the LNG industry, the government and international corporate actors agreed to construct Angola’s first LNG plant, Angola LNG, which was completed in 2012. The plant that cost around $10 billion dollars is a joint venture between Sonangol (22.8 percent), Chevron (36.4 percent), Total (13.6 percent), British Petroleum (13.6 percent), and Eni (13.6 percent) (Angola LNG, 2017).

Angola produced its first LNG in 2013 and shipped it to Brazil (Oil and Gas: Angola, 2013). Experts project that Angola will produce 5.2 million tonnes of LNG per year from the Soyo plant for the next 30 years (Oil and Gas: Angola, 2013). The company responsible for the management of the LNG plant signed multiple sale agreements with several companies, such as Glencore and Vitol SA, to sell LNG (Angola LNG, 2017). The LNG facility adds value to the existing oil production and prevents environmentally damaging disposal of natural gas. While this diversification strategy is still based on the hydrocarbon sector, the production of a different hydrocarbon product enables Angola to enter a different market niche.

Local content policies are currently being implemented in the hydrocarbon industry to support economic diversification. Domestic laws and production sharing agreements (PSAs) in the oil sector help to integrate local businesses into the global supply chains (Ovadia, 2014, p. 138). Local content or the ‘Angolanisation’ policy is embedded in the new petroleum law, which stipulates that foreign companies should purchase local goods and services of similar quality to support local businesses and should promote local education/training (IEA, 2006, p. 106). The Angolan government under President Dos Santos devised three mechanisms that strengthened local content requirements. First, it introduced tax incentives for oil
exploration and production by domestic corporations. Second, the government requires foreign oil corporations to use Angolan banks to process oil-related transactions in local currency and, lastly, it devised investment in manufacturing and oil sectors through Sonangol Industrial Investments (Ovadia, 2014, p. 141-143). These policies can be the first step toward diversifying away from the oil and gas industry while keeping the industry functional.

Angola’s policymakers may also promote the development of the latter stages of the hydrocarbon supply chain by developing domestic refinery capacity. Currently, Angola has only one refinery in Lobito that was constructed in 1955. This refinery is inefficient and operates at full capacity (IEA, 2006, p. 20). Since the refinery operates at full capacity, it will be unable to meet the increase in demand for refined oil products. Since Angola lacks adequate domestic refining capacity, the majority of the oil produced in Angola is refined in the US or in China (IEA, 2006, p. 97). Angola’s refining potential may increase with the help of foreign investment in Angola’s downstream sector. Just in 2018, the government received 63 proposals from both domestic and international companies to build a refinery in Angola (Agência Angola Press, 2018). Angola has already embarked on two attempts to build refineries with the support of Chinese companies. Angola’s development of the Sonaref refinery in Lobito, with the help of a loan from China Development Bank (Oil and Gas editors, 2014), was postponed in August 2016. Angola’s other refinery, Soyo, which will be built by China Tianchen Engineering Corp, is currently undergoing a review by the Government and developers. If completed, the two projects will help Angola alleviate dependence (its currently at 80 percent) on imported refined oil products (Agência Angola Press, 2018). These refineries may also likely generate more domestic jobs.

A second method to diversify Angola’s economy is to expand investment in economic sectors that are currently underutilized and
underperforming. In this case, Angola should use its oil-generated revenue to support other economic sectors (OECD Publishing, 2011, pp. 52-53). Agriculture, fisheries, livestock, forestry, mining, tourism, services, and construction are some of the sectors with great economic potential (OECD Publishing, 2011, pp. 52-54). All of these sectors are currently operating below their potential, due to a lack of regulation and deficiencies in human capital. To illustrate, agriculture utilizes only 3 percent of the arable land and thus has the potential to expand its productive capacity in the future (OECD Publishing, 2011, pp. 53). Similarly, fisheries can benefit from the expansion. They are the third most important sector in Angola, after oil and mining (The Food and Agriculture Organization, 2014). In the mining sector, Angola can increase investment in diamond extraction that was previously hindered by the UNITA rebels (Malaquias, 2001, p. 525). Angola is currently the third largest producer of diamonds in Sub-Saharan Africa and has the potential to expand its production (Business Monitor International, 2015b). Therefore, Angola has the potential to benefit from expanding production in the non-oil extractive sectors.

The mineral sector is expected to grow and attract an inflow of foreign investment as Angola seeks to diversify its economy. Angola’s new mining code that entered into force in 2012 streamlined foreign investment in the extractive sector. The code allows investors to take on majority ownership in locally owned companies and reduces taxes for mining firms (Business Monitor International, 2015b, p.15). Angola’s diamond sector is a beneficiary of the relaxed investment environment. Foreign investors interested in this sector partner with Endiama, a national company responsible for the governance of the diamond sector, to gain concessions for mining operations. Russia, Brazil, and Israel are dominant players in the diamond industry and exercise substantial control over the sector. Endiama is currently looking for investors in diamond concessions in Luanda Norte, Luanda Sul/Moxico, Malanje/Cuanza Sul, Ul-
ge/Bengo/Zaire, Moxico, and Planalto Central provinces (Endiama, 2016). These concessions provide an opportunity for new investors to enter Angola’s mining sector. As hydrocarbon prices remain low, the mining sector will continue to benefit from the relaxed investment environment. According to media reports, Russian companies remain the largest investors in the diamond sector as foreign investors face an unfavourable market environment, which will be reversed with the help of new regulations drafted in 2018 (Eisenhammer, 2018b).

Similarly, agriculture may regain an important role in Angola’s economy. In 2018, the World Bank (2018) announced that it will give Angola a loan worth $130 million USD to support the development of commercial agriculture under the Commercial Agriculture Development Project. This loan covers over half of the estimated cost of the project - $230 million USD. The feasibility study prepared by the World Bank notes that Angola has supportive environmental conditions that have substantial potential for agricultural development, as only 8 percent of arable land is currently cultivated. This 8 percent accounts for 5 percent of GDP and over 9 percent of income for rural Angolans (The World Bank, 2016). Since Angola’s agriculture was decimated during the war, the country was initially dependent on imports of foodstuffs, which negatively impacted local food security (The World Bank, 2016). The revival of agriculture with local and foreign support will have substantial benefits for Angola.

Under Dos Santos’ leadership, the Angolan government made an early commitment to support diversification in the 2014 election and in the Plano Nacional de Desenvolvimento 2013-2017 (National Developmental Plan, 2013-2017) (Ministério do Planeamento e do Desenvolvimento Territorial, 2012). Diversification was first mentioned in The National Medium Term Plan for 2009-2013 but remained on the sidelines of Angola’s development strategy (Da Rocha et al., 2014). Commitments to pursue economic diversification were
renewed by João Lourenço after he assumed Presidential office in 2017. In his inaugurate speech, the new president stressed the importance of economic diversification for the economic well-being of the country (Lourenço, 2017). In light of these promises, it is important to consider the potential changes in Angola’s governance under the new leadership that may have ramification for the economy.

The commitment of the new administration to economic diversification is enshrined in two core strategic documents—“Macroeconomic Stabilization Program 2017-2018” (Government of Angola, 2018a) and the “National Developmental Plan 2018-2022” (Government of Angola, 2018b). Under Lourenço’s leadership, the government turned to the international community and investors to achieve economic diversification. An example of this is Angola’s growing relationships with Germany (Agência Angola Press, 2018) and international organizations, such as the IMF and the World Bank. It is plausible to conclude that international actors may play an important role in the country’s objective to develop the non-fossil fuel sectors of Angola’s economy.

As a president and a newly-elected leader of the MPLA, João Lourenço plays a central role in steering the economy away from the neopatrimonial model. Immediately after the election, Lourenço made a commitment to change the policies adopted by the Dos Santos regime. At the sixth congress of the MPLA, Lourenço made a commitment to eradicating “corruption and nepotism…that have taken place over the last few years” (Africa Research Bulletin, 2018). After assuming leadership, the new leader of the MPLA has replaced ministers connected to Dos Santos and Dos Santos’ family members from the leadership positions in Angola’s leading organizations and companies (Africa Research Bulletin, 2018; Vines, 2018; Pilling, 2018).

2 Isabel dos Santos left Sonangol and José Filomeno dos Santos was dismissed from his Chairman position at the Fundo Soberano de Angola
By liberalizing the economy from the grip of the old ruling elite, Lourenço has created room for economic reforms (Pilling, 2018a). Lourenço’s administration also added progressive laws to repatriate illegally obtained financial resources of Angola’s nationals (Government of Angola, 2018c) and to raise capital levels (Almeida & Mendes, 2018). After loosening the grip of the previous regime on the economy, Lourenço concentrated his efforts on attracting new foreign and domestic capital to support economic diversification (Pilling, 2018a).

This change has been positively received by the international community. The Managing Director of the IMF, Christine Lagarde, has welcomed political reforms by referring to Angola’s efforts to reduce corruption and increase checks and balances (IMF, 2018a). IMF promised to support Angola’s efforts to reform. IMF’s support translated to $3.7 billion USD extended arrangement to support Angola’s macroeconomic reforms, including diversification (IMF, 2018b). As noted earlier, Angola’s reforms are also supported by the World Bank, which supports the Commercial Agriculture Development Project in Angola (The World Bank, 2018). Along with the return of international donors, the IMF’s and World Bank’s financial support may help Angola to improve its economic woes. International support will have to be matched by domestic efforts to support governance arrangements.

While several initiatives to promote economic diversification are in place, there are several constraints that inhibit Angola’s diversification from occurring. A potential limitation to Angola’s diversification is the over-specialization on a single economic sector/commodity that attracts substantial foreign investment (OECD Publishing, 2011, p. 11). This problem is compounded by Angola’s loss of biodiversity and arable land, which were severely damaged during the civil war due to the presence of landmines (OECD Pub-
lishing, 2011, p. 57). The commercial development of agriculture is also hindered by the issues linked to land tenure/property rights\(^3\) that arise due to regulatory gaps, which increase vulnerabilities of landowners to land grabbing. Another issue is associated with a lack of infrastructure that is necessary to support other economic activities, such as tourism. Angola is currently ranked at the bottom (139\(^{th}\) out of 144 countries) of the *Travel and Tourism Competitiveness Index Ranking* (World Economic Forum, 2015). If the government develops infrastructure, Angola will likely benefit from the tourism sector, which is backed by the United Nations Development Programme and is part of the domestic tourism programme.

Certain economic sectors, such as tourism and agriculture, will require substantial time and effort to be rebuilt. A central problem that underlined the inability to diversify is linked to governance. International agencies note that Angola’s efforts to diversify its economy were hindered by weak governance structure, and corruption (IEA, 2006, p. 30). This problem may be corrected by the new government under Lourenço as discussed in the earlier paragraphs. If political concerns related to corruption and mismanagement of the economy will be alleviated, Angola will have a chance to support the aforementioned economic activities.

**Conclusion**

Angola’s economy is currently overly-dependent on the extraction of hydrocarbons, which are associated with the resource curse. Although other natural resources are also extracted, they assume a secondary role in Angola’s economy. This paper proposed that Angola’s dependence on a single commodity leads to negative economic, political, and social outcomes. Since commodity prices are volatile\(^3\)

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\(^3\) For more information, see the work of The Lutheran World Federation on land grabbing in Angola
and cyclical, dependence on a single commodity is economically unsustainable (Ross, 2012). A recent drop in oil prices has exposed problems of economic overreliance on a single commodity. A decline in commodity prices served as a warning sign. It suggested that a development model based on a single commodity is prone to economic instability. In light of the falling oil revenue, Angola’s economy showed signs of unsustainable development based on excessive spending of revenue or borrowed funds backed by the oil collateral. Even in periods of high prices, resource extraction remains problematic. For example, high oil prices are associated with the Dutch Disease, which decreases the competitiveness of non-petroleum economic sectors. Thus, economic diversification may contribute to a more balanced economy. However, as demonstrated in this paper, economic diversification is a complex process and requires a strong commitment from the government and corporate actors.

This paper argued that Angola can attain a balanced model of development if it diversifies its economy from dependence on a single commodity - petroleum. As I proposed in this paper, diversification can be achieved by pursuing a dual-track strategy by diversifying within the petroleum industry and by diversifying outside of this sector. Whereas the Dos Santos administration seemed more interested in economic control than diversification, President Lourenço has taken a number of steps towards broadening the Angolan economy. The change in the political guard may not correct the political curse unless a proactive policy is implemented by the new elite to correct economic mismanagement of the past decades. Current media reports indicate that several economic changes are taking place, including the dismantling of monopolies close to the Dos Santos regime and higher capital requirements for banks (Pilling, 2018b). The change that is afoot needs to be expedited and expanded beyond the replacement of the old political regime with new elites, which may continue following the same path (Cotterill, 2018). While some observers are more skeptical than others about political
changes, it is plausible that by correcting underlying political issues Angola’s economy will climb out of the crisis.

The change will rest on the ability of the new administration to implement the necessary political and economic framework to promote other economic sectors, such as agriculture and mining. With the support of foreign investors, Angola’s government has succeeded in developing the LNG sector but was less successful in promoting domestic refining capacity. Although the inter-sectoral diversification is beneficial, it will not reduce Angola’s vulnerability to fluctuating commodity prices. To avoid this, Angola needs to diversify into non-fossil fuel sectors, such as diamond mining, agriculture, and tourism, among others. Additionally, Angola can benefit by diversifying its investors, trade partners and aid donors. For example, China’s rising influence in Angola is linked to the expansion of local infrastructure (Habiyaremye, 2013). New investors, partners, and donors may help Angola’s economy to diversify by investing and promoting other economic activities that do not focus on resource extraction.

References


