

Sequencing, Intensity and Duration of Economic Transformation in Angola [1996 SAJE v64(3) p235]

FÁTIMA MOURA ROQUE AND MARIA PAULA FONTOURA *(1)

ANGOLA *(2) HAS A CONSIDERABLE natural resource base - extensive reserves of petroleum, diamonds and other minerals - a good climate and fertile soils, and yet has failed to profit from its economic potential. Social standards and living conditions are well below Sub-Saharan African averages: in 1992, life expectancy was estimated at 44 years, infant mortality at 30 per cent, adult literacy at 41 per cent, and less than 25 per cent of the population had access to safe water.

In the last 15 years of Portuguese colonial rule (between 1960 and 1974), although the economy was structured to serve the interests of the metropole, Angola achieved an average annual real growth rate of eight per cent.

The subjugation by Portugal of the indigenous peoples of Angolan was effected first by conquest, and thereafter by settlement of metropolitan Portuguese on lands taken, in many cases, from tribal ownership. The indigenous peasantry of Angola was, therefore, dispossessed *(3) and forced into contract labour, either as farm workers or unskilled industrial labourers, under harsh conditions. Portugal's own shortage of capital precluded the possibility of effective economic exploitation of Angola through investment, resulting in key agricultural and mining ventures passing into ownership of British American, German and Japanese corporations (Makidi 1983: 123)

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Over time, however, Portuguese private and corporate entrepreneurs established significant land holdings devoted to the production of coffee, sisal, sugar, cotton, tobacco and fruit. A burgeoning manufacturing sector developed out of these agricultural endeavours focused predominantly on food processing, textiles and clothing manufacture. Most of the surplus production for exports had to be supplied to the metropolitan market.

Portuguese colonial possession thus resulted in the formation of two distinct classes: a *petite bourgeoisie* comprising intellectuals and commercial traders; and a *proletariat* divided into industrial and agrarian components *(4). The residual peasantry, whose members engaged in subsistence agriculture, was seen as little more than a source of contract labour by the industrial and agrarian bourgeoisie. Even in the last decade of Portugal's occupation of Angola, the government committed almost no investment to the provision of education and health services for the indigenous populations outside the main cities. Such services as were available for "non-assimilado" people in rural areas were provided by missionaries (both Catholic and Protestant) and private landowners.

Despite these grave structural deficiencies, the Angolan economy on the eve of independence in November 1975, was characterised by efficient agricultural and mining sectors, a relatively diversified manufacturing sector, a well-developed transportation network, and a continuous large and growing trade surplus.

Economic performance after independence has been disappointing *(5). Agricultural output *(6) has decreased enormously and dependence on imported food and food aid has risen; industrial output *(7) has declined dramatically, with some industries disappearing entirely; the circuits of distribution have been destroyed; and GDP per capita has fallen continuously.

By the *mid-1980s* Angola was caught in a severe social, economic and financial crisis. The economy was in profound decline, there were severe external imbalances, and "ad-hoc/partial" policy responses exacerbated the distortions. Table 1 shows some unimportant economic indicators for the period 1990-94.

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The potential for balanced growth and development in Angola was blighted after independence by the destructive civil war, a critical shortage of skills, the decision of the government to institute a centrally-planned, command economy subordinated to a military agenda *(8) gross economic mismanagement, a high level of corruption *(9), and increasing dependence on a single product - oil *(10) - for foreign exchange earnings and government revenues, the latter used to fund non-productive current expenditures.

Table 1: Selected Economic Indicators: Angola, 1990-94

	1990	1991	1992	1993	1994
					PreI. Est
Real growth rate	-5.3	-1.6	1.3	-23.8	9.7
Exports fob (US\$ millions)	3,884	3,449	3,833	2,831	3,008
Imports fob (US\$ millions)	-1,578	-1,347	-1,988	-1,415	-1,633

Trade balance (US\$ millions)	2,306	2,102	1,845	1,416	1,375
Current account: Overall (US\$ millions) % of exports	-262	-628	-859	-1,079	-987
Overall BoP (US\$ millions)	-1,315	-1,503	-1,340	-1,718	-1,446
External Debt (US\$ millions)		9,445	9,750	10,500	11,800
(of which) arrears (US\$ millions)		2,860	4,305	6,000	6,900
Budget deficit as % of GDP	-7.4	-12.1	-37.8	-20.7	-22.0
CPI (end of period)	6.1	175.7	495.8	1,837.7	972

Source: EIU 1993; PES 1994 and IMF 1994,1995.

In the latter part of the 1980s, faced with severe macro-economic imbalances, recession and rising levels of poverty^{*(11)} as well as a continuing civil war, the Angolan government was forced to abandon tenets of the command economy in its efforts to restore macro-economic balance and promote recovery. Since 1987, under pressure from western creditors and international financial institutions, the authorities have experimented with several reform strategies. These partial reforms and their results are reviewed briefly in section 1.

The economic reform packages of the Angolan government between 1987 and 1994 have been theoretically inadequate, poorly

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delineated and often deficient in execution. Creation of a viable market economy demands a comprehensive transformation of the economic system and its underlying structures, founded on strong and sustained governmental commitment and a social consensus in support of the programme, itself rooted in a humane concept of economic development.

Section 2 summarises the lessons drawn from the efforts of other centrally-planned economies to correct their macro-economic imbalances and examines the policies used to transform these structures and systems. In section 3, the sequencing, intensity and duration of some facets of a structural and systemic transformation programme (SSTP) for Angola is introduced. The complete SSTP^{*(12)} consists of five interrelated facets: (i) emergency, restructuring and foundation-building measures; (ii) macro-economic stabilisation; (iii) micro-economic liberalisation; (iv) privatisation; and (v) sustained transformation. This programme is founded on three prerequisites:

- (a) development and strengthening of market mechanisms;
- (b) restructuring and rationalisation of the public sector; and
- (c) definition of sectoral priorities.

Some components of the programme, the sequence, intensity of their introduction and duration of their implementation over four periods - immediate (1996), short (1997-98), medium (1999-2001) and long (2002 onwards) - are presented in summary.

1. An Overview of Partial Reforms: 1987-95

Attempts by the government to reform the Angolan economy began in 1987, with the introduction of the Economic and Financial Recovery Programme (SEF). The SEF recognised the need to reform the principles of the centrally-planned command economy. The emphasis fell on (i) a limited adjustment of the exchange rate; (ii) reduction of the budget deficit and the scale of inflationary financing; (iii) a programme for restructuring public enterprises through divestiture and liquidation; (iv) financial sector reform by encouraging the establishment of commercial banks and ensuring

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greater availability of credit to the private sector; and (v) removal of price controls on all but selected essential goods (World Bank 1992). In 1989, the government announced an Economic Recuperation Plan (PRE) for 1989-1990, which would have corresponded to the first phase of the SEF. Neither of these plans was, however, implemented.

In August 1990, a Governmental Action Programme (PAG) was introduced, comprising a 100 per cent devaluation of the *kwanza*, combined with wage increases and price liberalisation. The exchange rate adjustment was, however, postponed and the prices of most goods were not de-controlled.

The government attempted a reform of the currency in September 1990 in an effort to effect convergence of the official and parallel exchange rates. The reform involved (i) a sharp reduction of the volume of money in physical circulation, by issuing 5 new

kwanzas (NKz) for each 100 "old" *kwanzas* (Kz) in notes, after which the old notes were demonetized; (ii) blocking 7/8 of all sight deposits; and (iii) a compulsory issue of interest-bearing securities for the residual value of blocked currency and deposits. These measures were, however, unevenly implemented; the results were disastrous, and the reform had to be "partially" reversed. Compulsory reduction of the money supply without effective policies to bring relative prices in line with prices established by market forces resulted in (i) sharp deflation with serious economic and social consequences obstructing the effect of the positive (albeit distorted) stimuli to production and trade; and (ii) public mistrust of the banking system, foreclosing the possibility of non-inflationary domestic financing of the economy through savings, and reinforcement of the dependence on external financing. Successive devaluations^{*(13)} in 1991 and 1992 reduced the new *kwanza* from about NKz30/US\$1 to NKz550/US\$1. In February 1993, the government unified the exchange rates, resulting in a devaluation of the official rate to NKz7000/US\$1, and introduced a system of bi-weekly foreign exchange auctions; the latter were, however, suspended two weeks later. Nominal wages were

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monetized and producer and consumer price controls largely abolished.

In April 1993, however, the Emergency Programme (*PE*) for 1993 was approved by the National Assembly. The *PE* reflected the renewal of the civil war - after the collapse of the Bicesse Peace Accords - and constituted a radical move away from the timid moves towards a market orientation apparent in the previous reform packages, back towards direct state intervention. The *PE* (1993) included a revaluation^{*(14)} of the new *kwanza*, increases in nominal wages for the civil service (in the range of 420-570 per cent), and an increase in subsidies (implicit and explicit and other social benefit payments) "to preserve social and political stability",

A foreign exchange budget was reintroduced^{*(15)} and interest rates readjusted upwards - although they remained very negative^{*(16)} in real terms. Credit to the government was still determined by the budget needs.

These expansionary policies led to a sharp increase in inflation (consumer price inflation reached 1838 per cent in 1993) with the most negative impact on the poorest classes, and to a high fiscal deficit (almost 21 per cent of *GDP*), financed almost entirely by borrowings.

These effects, associated with the destruction of social and economic infrastructures and administrative collapse, aggravated by renewal of the war, led to a sharp deterioration of the economy in 1993. Real *GDP* dropped by 24 per cent from 1992 (the oil sector recorded its first output decline of 7.4 per cent), the deficit on the balance of payments was \$1.7 billion, the total external debt reached about \$10.5 billion (of which almost 50 per cent is arrears), and the level of foreign reserves decreased by 180 per cent (\$271 million), to the equivalent of only 1.5 months of imports.

In the light of the prevailing financial, economic and social crisis, a new stabilisation programme was announced - the Economic and Social Programme (*PES*) - for 1994. The *PES* contained a commitment to a drastic reduction of the budget deficit (to 4.32 per cent of *GDP*), contributing to a reduction of the rate of

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inflation (to 100 per cent per annum, after one year) to stimulate private consumption expenditure and exports^{*(17)}.

The main components of the budgetary adjustment in the *PES* were: (i) a major increase in oil revenues, as a consequence of a more realistic exchange rate^{*(18)} and a commitment to route all oil revenues to the Treasury; (ii) a flexible and realistic exchange rate policy to absorb some of the excess liquidity and to increase government revenue; (iii) rationalisation of subsidies; (iv) a restrictive monetary policy; (v) further tax reforms and improvements in the financial sector, and policies directed specifically to education, health, agriculture and demobilisation.

These policies were described in outline, without identification of any key measures. No estimate of their potential to promote sustainable growth was therefore possible. The privatisation programme proposed was too timid, evidently because of a lack of political will and the absence of a clear conceptual and legal framework for privatisation. Bureaucratic and legal obstacles still inhibited the creation of private companies and no enabling environment for foreign investment could be said to exist.

Several shortcomings in the macro-economic stabilisation measures proposed render the achievement of the official aims unlikely. The IMF mission in December 1994 reported that (i) the exchange rate adjustment was too slow, in part due to excess demand for foreign exchange which the BNA (central bank) was unable to meet; (ii) no significant real reduction was budgeted for in military expenditure^{*(19)}, (iii) expenditure and revenue collection control mechanisms were weak - there was no transparency or co-ordination between the foreign operations of Sonangol (the state oil company), the Treasury and the BNA - and there were serious shortcomings in tax collection. Fiscal adjustment was therefore difficult, also because interest payments - which represented 29 per cent of current expenditures - and the BNA's interest rate policy sent the wrong signals to the money market. The *PES* did not differ substantially in 1995-96, from that for 1994, although it was more ambiguous about the "interventionist"

role of the State in the economy. In May 1996, the President of Angola announced publicly that the objectives of both *PES* - excepting only that related to national defence - had either been very inadequately achieved, or proved wholly unsuccessful. These policy deficiencies show the questionable worth of reforms based chiefly on stabilisation measures in economies with severe structural deficiencies. This is particularly true of economies with a weak and disarticulated productive sector and in which subsistence activities predominate.

In economies over which the state exercises a high degree of control and which are consequently subject to economic, legal and institutional restrictions and characterised by severe structural deficiencies reflected in production distortions, policy measures must be directed simultaneously at eradicating the underlying distortions, strengthening domestic productive capacity and creating conditions for the reduction of poverty and sustainable growth. A focus on addressing the basic needs of the population and improving the distribution of wealth, moreover, is not only morally appropriate, but essential if adjustment programmes are to be sustained over a sufficiently long period to achieve success.

These general conclusions point to a structural and systemic transformation programme (SSTP), rooted in a humane model of economic development^{*(20)}: emergency and foundation building measures and essential restructuring; macro-economic stabilisation; micro-economic liberalisation; privatisation; culminating in sustained transformation (or evolution) of the economy. Effecting such fundamental changes in Angola demands: (i) peace and national reconciliation; (ii) strong and sustained political commitment by the government to the programme; and (iii) a social consensus in support of the measures.

2. Key Elements of a Comprehensive Economic Transformation Programme

(a) Components

The structure of a transformation programme is determined in the

first instance by the initial conditions prevailing in the country (*Sachs 1991, 1994; Solimano 1992/93; Gelb 1992/93; Kornai 1990 and Truu 1994*). Severe macro-economic distortions, highly centralised economies in which enterprises enjoy no appreciable autonomy, inefficient allocation of resources as a result of governmental control of the distribution of goods and a fragile private sector require immediate execution of essential reforms, aimed at correcting the main distortions^{*(21)}.

In this respect, there is today a consensus among theoreticians with regard to the intensity of application of corrective measures that the package must be "global" and the transformation directed, from its inception, at reforming the economic system and its structures, as well as at correcting the most serious structural and cyclical imbalances. This insight emerged from experience with the "partial" reforms implemented in certain east-bloc^{*(22)} economies, which led to market disruptions, rapid growth of parallel markets, inflation, aggravated by loss of control over the money supply by the authorities, overvaluation of the currency, sharply increased foreign debt and severe distortions of the balance of payments. It was stimulated further by insights derived from the macro-economic adjustment policies implemented in the Latin American^{*(23)} economies in the 1980s and the timid reforms undertaken in certain African^{*(24)} economies.

Economists today generally agree that a "global" transformation programme must comprise the following components^{*(25)} (or combinations of elements):

- (i) Macro-economic stabilisation^{*(26)}: Control of inflation and budget and balance of payment deficits.
- (ii) Institutional reform: Creation of institutions appropriate to a market economy (establishment of rights of private ownership, competition law, banking and other financial institutions, a tax system, foreign investment regime, etc.)
- (iii) Privatisation: Transfer, on a substantial scale, of state assets to the private sector. Hard budget constraints imposed on those

enterprises that remain in the hands of the state.

(iv) Micro-economic liberalisation: Permitting market forces to set prices after freeing prices and opening up the economy. This includes gradual liberalisation of imports and exports, gradual convertibility of the currency and selection of the exchange rate indicated for macro-economic stabilisation, reduction of barriers to trade, creation of an open foreign investment regime and progressive elimination of restrictions on the circulation of capital.

(v) Sectoral promotion: Careful definition of those sectors which in terms of their economic potential (and social impact deserve temporary stimulation by means of industrial-support policies. Such policies may include tariff protection (which is less disruptive than quantitative import restrictions) against competitive imports for a limited period, and corporate restructuring.

(vi) Social protection: Certain measures to limit the negative impact of economic transformation on social conditions. The

institution of measures to stimulate effective competition necessarily results in the destruction of a significant proportion of previously state-supported productive capacity, resulting in unemployment and falling incomes. This impacts directly on social conditions and consequently on the level of support available in society for reform policies. There is thus consensus today that intensive retraining programmes for those who face unemployment and social insurance measures for the most vulnerable members of society are essential from the outset.

These major components of a generic transformation package have been identified from the experience of the former east-bloc economies in transition^{*(27)}. All are applicable to Angola, as are two others^{*(28)}.

(vii) Sustained transformation: Long-term measures directed at maintaining economic growth over time, such as rehabilitation and construction of physical and social infrastructure, sustained investment in education and skills training and active participation in regional institutions.

(viii) Good governance and accountability^{*(29)}: Long-term

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measures to reduce the size of central and regional governments and increase their efficiency in their areas of competence; and to reform the public service, rendering it less bureaucratic and more capable of providing a high quality of service in those areas appropriate to a competitive and dynamic market economy.

A key characteristic of "global" transformation is that all components need to be considered (though not implemented simultaneously. Sachs (1991: 238) describes such a programme as a "seamless web". Partial reforms cannot succeed as each part of the programme has an essential role in strengthening the others.

A programme comprising many different reforms presents, from the perspective of the need to systematise it, problems relating to the sequence and intensity of implementation of the measures and the articulation of the policies. There are a number of important linkages in this regard.

(b) Duration and Intensity ("Speed") of Implementation

The debate about the "speed" of implementation (more correctly, intensity and duration) of a transformation programme has been encapsulated in the choice between a "gradual" transformation (in which the measures are executed, gradually over a period of five years or more) and a "shock" or "big-bang" approach (in which all changes are executed in a period of two years or less).

In general terms, gradualism is condemned by those in favour of shock therapy as facilitating the exploitation of market distortions, signalling to economic actors in a highly visible way the 'advantages' of the parallel market. Gradualism is seen as the prolongation of an inevitable disease, the temporary collapse of a transition economy, while radical reform is seen as a solution impacting on the disease, at least, by consolidating the transformation.

The "gradualists"^{*(30)}, meanwhile, focus above all on the costs of a "shock" approach in the case of sharply debilitated economies without experience of market transactions. For example, when a large percentage of state enterprises are not viable producers at

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market prices, it is not possible to liquidate them immediately without huge social costs. A more gradual approach also enables governments to minimise the risks attendant on bad policy decisions and to effect corrections in the process of reform. They also argue that the creation of institutions and infrastructures to underpin a market economy - and the modification of the behaviour of economic agents - is not possible in the short term.

The selection^{*(31)} of the appropriate "speed" of reform should also take account of the economic history of the country and the extent of the macro-economic dislocation it is experiencing. Thus, if the country has a recent history of partial reforms at the commencement of a comprehensive transformation, and no serious macro-economic distortions are apparent, a gradual approach is indicated. On the other hand, it is possible to take a more radical approach when the government enjoys popular support. The option of selecting a radical approach appears, however, to be merely theoretical.

The only known case of a "shock" approach to transformation is that applied in the former German Democratic Republic (GDR), but this may be seen as an exceptional case as the GDR benefited, in a manner not available to other economies, from the provision of institutions, infrastructures and financial assistance, as well as the absorption of many of the costs of adjustment by the erstwhile German Federal Republic. Indeed the prolonged recession and the enormous social costs occasioned in this particular case sparked a debate about the possibility of accelerating the transition.

While the Polish reform of 1990 is traditionally described as an example of a "shock" transformation, a radical approach is apparent only in the macro-economic stabilisation and price liberalisation components. Many criticisms have been forthcoming about the absence of policies calculated to stimulate supply (Rosati 1991). The privatisation process, meanwhile, fell far short of expectations, in part because of institutional weaknesses. It now appears that the "shock" reform in Poland may, more correctly, be characterised,

with the benefit of hindsight, as one distinguished by "partial

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radicalism". The other cases similar to that of Poland, like Bolivia 1986, Bulgaria 1991, Romania 1991 and the former Czechoslovakia 1991, would fall into the same category.

The true lesson revealed by these cases is that serious distortions require urgent measures, for example, in terms of price and wage and salary policies, unification of markets, exchange rate adjustment, more flexibility in foreign exchange allocation and less interventionist and more market-friendly governmental policies. In general terms, gradualism is the only viable approach, albeit combined with shock therapy in the case of more serious distortions. In summary, gradualism is the indicated approach, provided it is applied "energetically". No example of a successful economic transformation in the short term is known.

The debate can be resolved by recognising that a mix of radical and gradual responses will be required in each case of transformation. Success will be achieved when, taking into account the scale and nature of the initial macro-economic distortions, the social cost of rectification and the need to secure continued commitment to the programme by the government of the day, it proves possible to identify correctly which measures must be applied radically and which in a more gradual manner.

(c) *Sequential Phasing*

An important part of the current debate about transformation pertains to the effective implementation, in sequence, of the indicated economic policy measures. This may be seen as a search for the answer to the question: "What should be done first?"*(32)

Apart from reasonably widespread agreement, however, that certain reforms have proved adequate when, at the end of the process, market forces are sufficiently well established to continue to operate without further stimulation, this topic is the subject of much dispute.

For example, should price reform precede other liberalisation measures, so that prices come to reflect the true costs of production and marketing, or should price liberalisation be phased in, with a

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view to avoiding excessive profits in areas of continuing monopoly, while stimulating the production of basic consumer goods in order to minimise social costs?

Should trade reform be implemented rapidly, subjecting the economy to the discipline of world markets, or should it be phased in a way that obviates the enormous social costs of the first course in economies with a structure of production weakened by decades of protectionism?

Should the institution of private ownership and privatisation of state assets be effected rapidly and in a generalised manner, thereby contributing to healthier state revenue flows, improvement of corporate management, development of private initiative and attraction of foreign investment, or should it be undertaken more gradually, in tandem with the creation of efficient financial institutions and the provision of well-trained personnel?

It is clear, meanwhile, that the divergent opinions offered as precedents with regard to what approach to adopt, simply result in partial (and occasionally distorted) perspectives of transformation programmes. In the context of a comprehensive programme of reforms on all levels, the question of what should be done first has little relevance. The question of the intensity (or "stress") of application of the various measures, executed in phase with one another in the course of the transformation programme, is more to the point. For example, measures of an institutional nature and those effecting liberalisation must be applied with higher intensity at the commencement of transformation, as they are necessary to stimulate the working of a market economy. Other measures can be implemented later, such as the rehabilitation or provision of infrastructure and privatisation of large state enterprises. The conditions prevailing at the inception of the programme provide important clues as to the initial priorities, and indicate the distortions which required to be addressed urgently and firmly, i.e. radically (see Table 2).

Another criterion which ought to guide the sequencing of measures is the need to ensure that policies implemented in each

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phase are complementary and well co-ordinated. It is sufficient to point out that rapid liberalisation of domestic prices and a sharp fall in the exchange rate will lead to a vicious circle comprising successive bouts of inflation and devaluation of the currency, unless the budget deficit has first been reduced to a level permitting its financing without recourse to excessive money creation.

Likewise, unless liberalisation of domestic markets is synchronised with external liberalisation, investment and production will respond lethargically and resources will be inefficiently deployed in production. Finally, an increase in savings and their efficient employment is dependent on reform of the banking system and the creation of incentives for savings and investment.

Effecting these linkages properly is one of the most difficult, but also most critical, tasks.

3. Sequencing, Intensity and Duration of Economic Transformation *(33)

Sequencing of reform has been extensively analysed in the literature on structural adjustment in economies in transition. It is well established, for example, that when inflation is high, macroeconomic stabilisation is needed before reforms that change relative prices - such as trade reforms - are undertaken; that goods markets should not be liberalised later than factor markets and that the capital account liberalisation should generally follow that of the trade account.

Fischer and Gelb, in a classic paper in 1991, however, observe that: "... a linear sequence of individual policy changes is not the right concept..." when considering comprehensive economic reform. They note that the approach is more correctly one of introducing "...groups of complementary policy reforms, sequentially". Specific domestic circumstances are also relevant: "...the details of the reform path to be followed by a country depend on the state of the economy, on the tolerance of the population for the disruptions that are sure to accompany the

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reform process, and on the political situation in each country." The degree of macroeconomic disequilibrium initially encountered is thus not the only factor affecting the design and sequencing of reforms; non-economic factors - politics, history, culture, and geography - may also be very important.

The sequence in which components of the transformation programme are incorporated, and the intensity and duration of the introduction of the various measures, are fundamental decisions that need to be carefully considered at the outset. Some generic prescriptions can be ventured. Statutory and institutional reform, measures directed at the correction of macroeconomic imbalances, and factor price liberalisation must be implemented vigorously at the beginning of any programme, as they are vital for the stimulation of a market economy. Other measures can (and often should) be implemented later: the privatisation of large SOEs, the establishment of uniform tariffs, the elimination of exchange controls and programmes to encourage higher foreign investment. Some measures must be implemented gradually - either because of the high social costs involved or because they depend on the success of others already in place: fiscal reform and financial sector development (both dependent on the passage of new laws or statutory amendment, implementation of training and institutional change management), downsizing and re-organisation of the public sector (a major challenge in many societies where private sector development has been forbidden or repressed) and the elimination of exchange controls, in conditions where there may be entirely inadequate foreign reserves. Finally, there are certain measures that should be implemented for the entire duration of the transition; others need only have a shorter life span.

All these complementary relations and their effective co-ordination depend, of course, on the initial economic, social and political conditions in the country.

In Angola, the immediate priority in a structural and systemic transformation programme (*SSTP*) is emergency measures to (i) help meet the basic needs of the population - through social programmes

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including a social safety net - thereby assisting in the reduction of poverty; (ii) permit war refugees to return home and demobilised former combatants to be trained and reintegrated into civilian society; (iii) rehabilitate the most urgent needed social and economic infrastructures, a task also requiring the clearing of land mines; (iv) negotiate appropriate agreements with the Bretton Woods institutions; and (v) restructure external debt, debt service obligations and debt arrears.

The many severe macroeconomic distortions, destroyed infrastructures, institutional weakness of both the public and private sectors, reassertion (in 1993) of command measures and the reversal of earlier partial micro-economic liberalisation programmes, as well as pervasive corruption among the elites, mean that the economic transformation of Angola will be a long and complex process. Addressing the formidable challenges of reconstruction and development will necessarily involve high social costs during the transition. The government will have to provide strong and coherent leadership, ensure the people's understanding of the benefits of the programme and persuade them to accept the inevitable transitional costs. To ameliorate these, however, Angola will need humanitarian aid, technical assistance, development aid for reconstruction of economic and social infrastructures, concessionary finance for construction of a social safety net and appropriate debt relief.

Table 2 illustrates the sequence, intensity and duration of some facets (and a number of specific measures) of the *SSTP* to facilitate a smoother transition from a centrally-planned to a market economy in Angola^{*(34)}. The intensity and duration of implementation of the several measures in each phase are crucial variables in achieving the necessary positive trade-off between the social and economic costs and benefits of transformation, in order to maintain the commitment of the government and the support of the population. As may be inferred from the summary analysis in section 2, the selected approach may be described as "gradualism", with "radical" correction of the main distortions at the start of the

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Table 2: Sequencing, Intensity and Duration of Economic transformation

CATEGORIES

MEASURES

	Immediate 1966	Short 1997-98	Medium 1999-2001	Long 2002(p)
MACRO-ECONOMIC STABILISATION	Budget Deficit Reduction (1)		Reduction of BoP deficit (2)	
	Exchange rate adjustment (1)	Fiscal Reform (2)(p)		
	Monetary Restraint (1)(p)			
	Social Safety net (1)(p) (emergency)	(institutionalisation)		
SYSTEMIC TRANSFORMATION	Price Liberalisation(1)		Trade Liberalisation(2)(p)	
		Elimination of Production Subsidies (2)		
	Micro-economic Liberalization		Foreign Exchange Liberalisation (2)	
	Restructuring and Institution-building	Good Governance (1)		Real Positive Rates (2)
		Legal and Institutional Reform (1)(p)		
		Privatization of small and medium SOEs (1)		
		Private Sector Development (1)(p)		
		Commercialization of large SOEs (1)		Privatisation of large SOEs (2)(p)
		Rehabilitation of Infrastructure (1)		Infrastructure construction (2)(p)
			Human capital Development (1)(p)	
		Financial sector Development (2)(p)		
	Creation of Investment Inventory (1)			Investment Promotion and Marketing (2)

Source: Moura Rogue 1996

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SSTP. These "radical" measures are denoted in Table 2 with the indicator "1". Other measures which have very high social costs or are exceptionally difficult to implement in a seriously debilitated economy - denoted with the indicator "2" in the Table - will have to be implemented gradually.

The emergency measures, most of those necessary for stabilisation and some of the liberalisation measures, as well as programmes for institutional reform and the development and strengthening of a market economy, must be implemented immediately with high intensity, sustained, in the case of some, for many years.

In a country with high inflation (over 3000 per cent in 1995) and a non-sustainable balance of payments deficit (see Table 1), macroeconomic stabilisation policy is an essential complement to liberalisation, and as Fischer and Gelb (1991) put it, "...for countries with severe internal and external imbalances, macroeconomic stabilisation has to be the initial priority"*(35). Consistent application of the stabilisation measures and extensive liberalisation are needed for improved productivity and to raise the incomes of a large part of the population. Rapid structural change and institutional reform are essential for growth and to create conditions that will make it possible to sustain application of the SSTP over time.

The transition from a centrally managed economy in Angola to a socially orientated market also needs: (i) a legal framework for the proper functioning of markets (laws of property, contract, the financial sector, foreign investment); (ii) the establishment (and application) of an effective tax system and public sector institutions (strengthening the budget, revenue and financial sector regulatory offices and promoting good governance; (iii) an enabling environment for domestic and foreign investment, to help ensure the success and sustainability of macroeconomic stabilisation; and (iv) investment in strengthening of the human capital base, an essential factor for long run growth and a fully integrated position in the regional and global economy.

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The lessons to date are that the methodology of privatisation of SOEs, farms, housing and commercial real state is important

for the success of transformation programmes. Privatisation, moreover, must be seen as the beginning, not the end, of a process of reorganising the ownership and incentive structure of firms (World Bank 1996). In the Angolan case, for instance, if restructuring and privatisation (at least of small and medium SOEs)⁽³⁶⁾ is not initiated at the outset of the programme - see Table 2 - SOEs will exert continuous pressure for subsidies and privileged access to state banks, leading to higher inflation and widening budget deficits.

Finally, to ensure that the transformation is effectively sustained, a particular effort will have to be made to consolidate certain measures over a longer period. These include investment in human capital and employment creation; promotion of R & D and appropriate technologies; support for private sector development; promotion of linkages between the primary and secondary sectors; co-ordination of the development of infrastructures with macroeconomic policies and regional priorities; development and effective implementation of an environmental protection regime;

and encouragement of popular participation in economic decision-making and implementation; promotion of regional co-operation and economic integration, and the reduction of poverty. These measures are fundamental for economic growth, and for a humane model of development.

Strong and sustained political commitment, good governance and accountability, and social consensus in support of the *SSTP* are, moreover, essential to enable the economic authorities to implement the necessary transformation of the Angolan economy.

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Endnotes

1

Professor, Faculty of Economics, Universidade Nova de Lisboa and Professor, Instituto Superior de Economia e Gestão, Universidade Técnica de Lisboa, respectively.

2

Angola is the third largest African country south of the Sahara, with a population of about 10.9 million in 1993, growing at an annual rate of 2.8 per cent.

3

Decree No. 58470 (1901), renewed in 1919 and abolished by Decree No. 43894 (1961). See Makidi 1983.

4

The petite bourgeoisie was comprised exclusively of whites, mestiços and a small number of assimilados ("acculturised" black Angolans).

5

See Table 1 in Moura Roque 1994 for the economic policies of the Angolan government since independence.

6

Angola was until the mid-1970s a large net exporter of agricultural products, which constituted 60 per cent of total exports in 1973, and fell to zero in 1993.

7

Between 1960 and 1973, value added in manufacturing had grown at an estimated real rate of about 11 per cent a year. After independence, the situation changed completely. The industrial production index in 1993 had fallen to 25 per cent of the level in 1974, and most branches of manufacturing were operating at 15-20 per cent of available capacity. The only manufactured goods still being exported were refined petroleum products.

8

In 1990-91, Angola allocated a higher percentage of GDP than Iraq to military expenditures; it had the second highest ratio of military spending to total expenditure on education and health (210 per cent), in the world in that year. Myanmar was first; Somalia was third (Economist 1994).

9

"Around the world underdevelopment connotes low levels of income and health and education. But it is also associated with corruption, ethnic discrimination and exploitation" (Klitgaard 1994).

10

In 1993, oil represented 98.9 per cent of total export revenues, and oil-related revenues accounted for an average of about 60 per cent of total government revenue in 1989-92.

11

According to PES (Angola's Economic and Social Programme for 1994), 82.5 per cent of all Angolans live in absolute or relative poverty. See, also, Moura Roque and Fontoura 1994 for additional socio-economic indicators.

12

See Moura Roque 1995 for a detailed description and analysis of the programme.

13

The second devaluation, in November 1991, introduced a four-tiered exchange rate system.

14

The foreign exchange auctions were suspended, and on April 14 the exchange rate was revalued by 75 per cent - from 7000 to 4000 NKz to the dollar.

15

The government, however, reaffirmed its intention to maintain a unified exchange rate and said that the rate would be adjusted periodically to reflect relative price movements domestically and abroad.

16

Highly negative interest rates indicate that inflation is high and that depositors are heavily taxed, discouraging domestic savings.

17

According to estimates now available, these objectives are far from being achieved.

18

A more realistic exchange rate would cause expenditures denominated in foreign currency - debt service and imports - to increase; the overall impact will also be determined by the value of exports reflected in the current account.

19

Military and relief-related expenditures accounted for 40 per cent of non-interest current expenditure, i.e. 16 per cent of GDP.

20

See Moura Roque 1995 for the discussion of the six policy objectives required to sustain a humane model of economic development in Angola.

21

These general conditions fit the Angolan case very well. Certain radical elements at the outset of the programme, with "shock" measures to address the main distortions will also be necessary (see Table 2).

22

Examples are Hungary since 1968, Poland in 1989, Bulgaria in 1990 and Russia in the 80s.

23

E.g. Mexico and Chile after 1982, and Bolivia after 1986.

24

Tanzania 1986, Zambia 1985-90, Angola 1987-89-92, Ghana 1971-83, Mozambique 1987-89.

25

See Islam 1993.

26

Husain 1994 emphasises the evolution of structural adjustment programmes over time from an approach based purely on stabilisation and the reduction of expenditure to a comprehensive set of measures addressing poverty and supply stimulation.

27

For other combinations of phases see, for instance, Gelb and Gray 1991, Moura Roque 1991, Rosati 1991, Mandelbaum 1993.

28

Besides the sustained transformation phase, Moura Roque 1994, 1995 also emphasises two basic pre-requisites for the success of the programme - development and strengthening of the market economy; restructuring and rationalisation of the public sector - and an overall efficiency condition, i.e. good governance and accountability. See also Moura Roque and Fontoura 1994, for an additional pre-requisite: sectoral priorities.

29

See, for instance, United Nations 1990, Islam 1993, Fischer 1992/93, Boyer 1994, McKinnon 1994.

30

See Marer 1993.

31

See Islam 1993 and Fischer 1992/93.

32

The importance of the measures being thought as "interdependent" is used by Sachs 1991 as an argument to justify his preference for "radical" measures. Fischer 1992/93, on the other hand, uses the term "interrelated" to justify the difficulty associated with "radical" reform, as the speed with which the several reforms are implemented cannot be identical in all cases.

33

this Section Draws Heavily on Moura Roque 1996.

34

The sequencing, intensity and duration of the overall economic transformation programme for Angola is in Moura Roque 1996.

35

While initial success in reducing inflation from very high levels can be achieved within a few months, stabilisation can be assumed only by following consistent policies over a period of years.

36

Larger SOEs must be privatised later, as they require financial institutions and skilled people in short supply.