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Dominik KOPIŃSKI
University of Wroclaw
dominik.kopinski@uwr.edu.pl

A SUCCESSFUL FAILED STATE AFTER ALL?

THE CASE OF ANGOLA

ABSTRACT Among African countries Angola stands out as a particularly interesting case where robust economic growth has occurred despite the country having a relatively long list of characteristics of a failed state. This has prompted some scholars to call it "a successful failed state" or "weak but strong". In 2002 Angola emerged from the devastating 25-year long civil war and since then has recorded a burgeoning growth, which only recently came to a halt due to the oil prices collapse. At the same time, Angola is famous for its corruption, lack of transparency and state capture by local elites. This article seeks to provide a critical discussion about the Angolan state, with a special reference to its capacity to provide public goods and finance them. It probes the notion that Angola can be labelled a successful failed state and argues that a perception of the relative success holds only in the time of favourable external conditions and only when major structural and institutional shortcomings of the Angolan economy are ignored.

Key words: Angola, economy, failed state, oil

INTRODUCTION

When the renowned Angolan journalist and human rights advocate Rafael Marques de Morais commented on his blog Maka Angola the decision of José Eduardo dos Santos to step down as President of Angola after 38 years he wrote: "*It's now 2017 and we live in a failed state, trying to keep up appearances with envy and hatred all around*".[1] Even if this is a journalistic hyperbolic writing style, the condition of the Angolan state remains still subject to a passionate debate and there are reasons why this is so.

The Fund for Peace Fragile States Index (formerly Failed States Index) for 2018 ranks Angola 33th out of 178 countries examined (the higher the country is on the list, the more it is vulnerable to failure), which places it in the high warning (orange) zone. One might think that for a text-book example of a petrostate that succumbed to the so called resource curse,[2] still recovering after decades of a brutal civil war,[3] run by an authoritarian regime,[4] this should not come as a surprise. Yet, only in 2010 Angola occupied the 59th place and was generously dubbed by some scholars a "successful failed state",[5] "failed yet successful"[6] or "weak but strong",[7] suggesting that despite numerous fragilities and failures, the state must possess some kind of strength or capacity, even if others still ranked Angola as "critically weak".[8] The somewhat liberally applied "successful" state narrative has gained traction also in the media. For instance, *The New Yorker*'s writer argued that the

1 R. Marques de Morais, "Time to say good bye", *Maka Angola*, 9 February 2017.

2 J.G. Frynas and G. Wood, "Oil & War in Angola", *Review of African Political Economy*, vol. 28, no. 90 (2001), pp. 587-606; J.L. Hammond, "The resource curse and oil revenues in Angola and Venezuela", *Science and Society*, vol. 75, no. 3 (2011), pp. 348–378; I. Amundsen, "Drowning in Oil: Angola's Institutions and the "Resource Curse"", *Comparative Politics*, vol. 46, no. 2 (2014), at <https://doi.org/10.5129/001041514809387333>, pp. 169-189.

3 C. Cramer, "War and peace in Angola and Mozambique", *Journal of Southern African Studies*, vol. 22, no. 3 (1996), pp. 481-490; F.A. Guimaraes, *The Origins of the Angolan Civil War. Foreign intervention and domestic Political Conflict*, Basingstoke 1996; A. Malaquias, "Making War and Lots of Money. The Political Economy of Protracted Conflict in Angola", *Review of African Political Economy*, vol. 28, no. 90 (2001), at <https://doi.org/10.1080/03056240108704563>, pp. 521-536; C. Allen, "Warfare, Endemic violence and State collapse in Africa", *Review of African Political Economy*, vol. 26, no. 81 (1999), at <https://doi.org/10.1080/03056249908704399>, pp. 367-384.

4 A. Vines, M. Weimer, "Angola. Thirty Years of Dos Santos, Review of African Political Economy", vol. 36, no. 120 (2009), pp. 287-294; J. Schubert, *Working the System. A Political Ethnography of the New Angola*, Ithaca–London 2017.

5 Soares de Oliveria derived the term "successfully failed state" from G. Prunier and R.M. Gisselquist, "Sudan: A Successfully Failed State", in R.I. Rotberg (ed.), *State failure and state weakness in a time of terror*, World Peace Foundation, Washington DC 2003.

6 D. Sogge, "Angola 'Failed' yet 'Successful'", *FRIDE Working Paper*, no. 70 (2007).

7 L. Corkin, *Uncovering African Agency: Angola's Management of China's Credit Lines*, London 2013, p. 25.

8 S.E. Rice, S. Patrick, *Index of State Weakness in the Developing World*, Washington DC 2008.

oil boom in Angola has "transformed a failed state into one of the world's fastest-growing economies".[9]

The objective of the paper is to probe this claim using economic lenses and to shed light on the state capacity of Angola to perform economic functions, most notably with regards to providing public goods and mobilising revenues. In our view labelling the Angolan state "strong" or "successful", even if this is meant to provide a more academically nuanced picture of the state with a notoriously bad reputation or merely suggest that the term rather applies to "successful" narrow elites,[10] may be problematic, if this assessment is taken beyond a snapshot, static approach. We intend to show that, over time, considering the collapse of the oil prices in 2014 and "the new normal" that followed afterwards, Angola has been less of a success and more of a failure, at least with regards to the economic realm. Due to its perverse economic model, Angola continues to be highly vulnerable to exogenous forces and its perceived strength hinges squarely on oil prices. This article will argue that over the last 25 years, Angola, which has often been held up as an example of economic success, has not managed to build up sufficient economic strength to deserve such a generous term.

ANGOLA – STRONG, WEAK, FAILED OR FRAGILE?

The discussion about failed states, weak (or "fragile") states and strong states, what they constitute and how they actually "fail" or "collapse", has been going on for a long time. The term itself gained a wider prominence in the early 1990s thanks to Gerald B. Helman and Steven R. Ratner who described a "failed nation-state" as "*utterly incapable of sustaining itself as a member of the international community*".[11] Regardless of the contested methodology, poor appropriateness and questionable usefulness of the failed state concept itself[12], the case of the African state, and the Angolan state in particular, seems quite problematic as it escapes simple generalizations, particularly, when it is measured against the yardstick of the European historical state-building[13] or the European state itself, which "*exists in order to express the identity of the groups of people who inhabit*

9 M. Specter, "Extreme City. The severe inequality of the Angolan oil boom", *The New Yorker*, 1 June 2015.

10 R. Soares de Oliveira, "Business Success, Angola-Style: Postcolonial Politics and the Rise and Rise of Sonangol", *The Journal of Modern African Studies*, vol. 45, no. 4 (2007), at <https://doi.org/10.1017/S0022278X07002893>, pp. 595–619.

11 G. Helman, R. Ratner, "Saving failed states", *Foreign Policy*, vol. 89 (1993), pp. 3-20.

12 R. Kłosowicz, J. Mormul, „Pojęcie dysfunkcyjności państw – geneza i definicje", in R. Kłosowicz (ed.), *Państwa dysfunkcyjne i ich destabilizujący wpływ na stosunki międzynarodowe*, Kraków 2013; C.T. Call, "The Fallacy of the 'Failed State'", *Third World Quarterly*, vol. 29, no. 8 (2008), at <https://doi.org/10.1080/01436590802544207>, pp. 1491-1507; J. Di John, "Failed States' in Sub-Saharan Africa. A Review of the Literature", *Real Instituto Elcano (ARI)*, ARI 5/2011.

13 A. Solli, A. Leysens, "(Re)Conceptualizing the Political Economy of the African State Form: The Strong/Weak State Contradiction in Angola", *Politikon*, vol. 38, no. 2 (2011), at <https://doi.org/10.1080/02589346.2011.580129>, pp. 295–313.

them".[14] The archetypal African states clearly lack this characteristics. If, additionally, one formulates an argument that failed states are in fact "faux states", the states that were "*never really states in the first place, at least not in anything more than a technical sense*",[15] the strong-weak state territory becomes even more difficult to navigate.

For many scholars, following neo-Weberian logic,[16] Angola seems to be a paradoxical and contradictory case – weak but strong (or strong but weak). As argued by Lucy Corkin and other authors, on a political level, Angola exhibits both features of a strong and a weak state[17]. Corkin centres her argument around a dominant relationship the Angolan state has with society. Drawing on the work of Joel Migdal[18] she posits that the state in Angola can be legitimately called "strong" as it is able to penetrate the society, regulate social relations and extract resources and appropriate them. It is true that Angolan political elites have managed to organize the state and tailor its structures to their needs.[19] The ruling party Movimento Popular de Libertação de Angola (MPLA) has been in power since the country's independence, which led to the growth of an entrenched and powerful political elite, centralized around President Jose Dos Santos and its office, the so-called "Futungo".[20] The figure of Dos Santos who "*by the late 1980s had become Angola's all-powerful oil czar, sidestepping the MPLA in decision-making, sidelining most of the bureaucracy, and nominating his minions to all sensitive posts*"[21] is key to understanding the power dynamic in the country.

The state that the ruling political elite represents has constantly demonstrated that it is extremely apt and effective in extracting rents and appropriating the country's abundant resources – oil and diamonds.[22] Particularly oil industry has been held up as an example of how skilfully Angolan political elites have managed to establish a system of generating vast amounts of rent that are necessary for the regime's survival[23]. To add to the "strong" state argument, the state wields monopoly over power and monopoly over both the legitimate and illegitimate violence. Its strength is materially manifested through

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14 C. Clapham, "Rethinking African States", *African Security Review*, vol. 10, no. 3 (2001), at <https://doi.org/10.1080/10246029.2001.9628110>, p. 8.

15 R.E. Brooks, "Failed States, or the State as Failure?", *The University of Chicago Law Review*, vol. 72, no. 4 (2005), p. 1167.

16 S. Audun, A. Leysens, "(Re)Conceptualizing…".

17 L. Corkin, *Uncovering…*, p. 25.

18 J.S. Migdal, *Strong Societies and Weak States. State-Society Relations and State Capabilities in the Third World*, Princeton 1988.

19 R. Marques De Morais, "Corruption in Angola: An impediment to democracy", *Maka Angola* (2011), p. 5.

20 The term Futungo stems from Futungo de Belas, the Presidential complex on a seaside hill in the outskirts of Luanda.

21 R. Soares de Oliveira, *Oil and Politics in the Gulf of Guinea*, New York 2007, p. 135.

22 P. Le Billon, *Wars of Plunder. Conflicts, Profits and the Politics of Resources*, London 2012.

23 C. Hackenesch, *The EU and China in African Authoritarian, Regimes, Governance and Limited Statehood*, Palgrave Macmillan, London 2018, p. 150. See also: A. Malaquias, "Making"…; R. Soares de Oliveira, *Oil…*; T. Hodges, *Angola. Anatomy of an oil state*, Lysaker 2004; L. Corkin, *Uncovering…*

uninterrupted rule of Dos Santos himself, whose prime concern has always been to block the emergence of any serious domestic challenge to his rule.[24] The latter is in line with the argument that a state is "politically weak" when rulers can be replaced easily[25] (those states will choose low taxes due to the constraints they face). The political elite in Angola cannot be replaced easily and for many years oil has played a significant role in petrifying the power dynamic in the country, rendering the country seemingly "stable" or "durable" as a result. Along the same line, Helena Pérez Niño and Philippe Le Billon describe the Angolan state as "*robust from a durability and authority perspective*".[26] Amid a widespread failure, political elites of Angola that represent the state can be called "successful"[27] if success is measured "against its own parameters"[28]. Admittedly, Angolan state can be considered strong, at least by regional standards, if the concept is assessed against military force.[29] In 2014 Angola was the largest military spender in Sub-Saharan Africa with 26 per cent of the total, even though it has since then been surpassed by Sudan and South Africa.[30]

The same state, however, can hardly be characterized as "strong" or "effective" if one examines other features, particularly state bureaucracy, which in the case of Angola is famous for its incompetence. A striking exception that somewhat proves the general rule is the state-owned oil giant, Sonangol, which Soares de Oliveira calls an island of competence amid Angola's inefficient bureaucracy apparatus.[31] In fact, as characterized by Nicholas Shaxson Angola is "*the two-speed nation where the apparatus of government was stripped down to little more than its sovereign, extractive core, leaving the rest to wither*".[32] Apart from the notorious Sonangol, paramilitary and military forces that protect the regime, most state institutions "*barely work and are not able to fulfil their functions*".[33] This is also confirmed by Hodges, who writes that the state apparatus had been crippled and largely ineffective in Angola throughout the civil war, with the exception of the armed forces and the police.[34] Corkin, again drawing on Migdal,[35] claims that Angolan state displays numerous signs of weakness. This is because of following reasons: (1) Dos Santos uses a tactic called "politics of survival" to retain a grip

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24 D. Sogge, "Angola"...

25 D. Acemoglu, "Politics and economics in weak and strong states", *Journal of Monetary Economics*, vol. 52, no. 7 (2005), p. 1202.

26 H. Niño Pérez, P. Le Billon, "Foreign aid, resource rents and institution-building in Mozambique and Angola", *WIDER Working Paper*, no. 102 (2013), p. 25.

27 R. Soares de Oliveira, "Business"..., p. 614.

28 G. Prunier, R.M. Gisselquist, "Sudan"..., p. 104.

29 J. Herbst, *States and Power in Africa, Comparative Lessons in Authority and Control*, , Princeton 2014; A. Solli, A. Leysens, "(Re)Conceptualizing"..., p. 307.

30 Stockholm International Peace Research Institute, *Fact Sheet*, May 2018.

31 R. Soares de Oliveira, "Business"..., p. 595.

32 N. Shaxson, *Poisoned Wells. The Dirty Politics of African Oil*, London 2007, p. 183.

33 R. Soares de Oliveira, "Business"..., p. 614.

34 T. Hodges, *Angola, From Afro-Stalinism to Petro-Capitalism*, Bloomington 2001, p. 44.

35 J.S. Migdal, *Strong Societies*...

on power, (2) he has prioritized regime survival over the growth of the country[36]. Having said that, there is some merit to the claim that the Angolan state is weak in terms of capacity to perform its functions, and strong in terms of how it has a dominant relationship with the society and how non-state actors with their deep pockets, using state apparatus, are apt in draining the country's resources.

Having said that, the case of Angola is not a straightforward by any stretch and should be approached with caution, perhaps, as proposed by Rotberg, as a special category of weak state that is "*an autocracy, that rigidly controls dissent and is secure but at the same time provides very few political goods*".[37] Drawing on Acemoglu and Robinson, Angola may be also perceived strong but weak (or weak but strong) because the state can control society easily and does not need to invest much in its own capacity.[38] This duality and paradox also transpires from the analysis of Helena Pérez Niño and Philippe Le Billon when they argue that the strength of the Angolan state *"remains (precariously) based in the centralized control and limited handouts of a party-state, rather than on the legitimacy of inclusive governance or the effectiveness of a developmental state*".[39] Lastly, the final verdict vastly hinges on the lenses scholars apply to the state as a unit of analysis. This is the argument of Solli and Leysens who posit that neo-Weberian approach may not be suitable nor sufficient theoretical backing to describe the Angolan state.[40]

Contrary to political scientists, economists tend to judge state capacity using slightly different criteria. For economists, state efficiency (or strength) is displayed mostly through its capacity to tax citizens[41] and conduct other state functions, such as the ability to regulate the economy, guarantee property rights, undertake industrial policy or address numerous socio-economic problems associated with the provision of public goods or addressing the so-called public bads. Even within tax collection capacity, there may be differences as to what type of taxes the state is good at collecting. If this capacity means mobilizing revenues from natural resources which are relatively easy to extract and/or at the border tax-like payments (e.g. tariffs), but at the same time there is no fiscal contract between the state and citizens, meaning the state for its survival does not need to tax its citizens through personal income and property tax, it can hardly be called effective (this is the case of Angola, which will be examined later), at least in the economic sense (Acemoglu also uses the term political power by which he means "*ability to remain entrenched from the citizens*").

In this article we follow fiscal criteria or economic power of the state to discuss the condition of the Angolan state. We use a description of a weak state provided by Acemoglu who observes that weak states *"underinvest in public goods because self-interested political*

[36] L. Corkin, *Uncovering*..., p. 26.

[37] R.I. Rotberg, "Failed States, Collapsed States, Weak States. Causes and Indicators", in: R.I. Rotberg (ed.), *State failure and state weakness in a time of terror*, Washington DC 2003, p. 5.

[38] D. Acemoglu, J.A. Robinson, "The Emergence of Weak, Despotic and Inclusive States", *NBER Working Paper*, no. 23657 (2017).

[39] H.P Niño, P. Le Billon," Foreign aid"..., p. 15.

[40] A. Solli, A. Leysens, "(Re)Conceptualizing"...

[41] D. Acemoglu, "Politics"..., p. 1202.

elites undertake investments only when they expect future private rewards".[42] Acemoglu also argues that the capacity of the state is highest when it is "consensually strong", i.e. only when the society's control over politicians is strong and it can replace them if they fail to provide sufficient amount of public goods. This is clearly not the case of Angola.

PRELUDE: THE COLLAPSE OF OIL PRICES

Most analyses where Angola is placed under the rubric of "successful failed state" or "weak but strong", have been largely inspired by relatively recent events stretching back to the Peace Agreement signed in 2002 between MPLA and União Nacional para a Independência Total de Angola (UNITA) which ended the Africa's longest war. Most importantly, this pivotal turn coincided with the beginning of the commodity super cycle.[43] Setting aside the short-lived turbulences surrounding the global financial meltdown around the year of 2009, the commodity super cycle has pushed the prices of oil from 28 USD per barrel in 2002 to 110 USD per barrel in 2014. This has provided Angola with much needed financial firepower to rebuild its war-torn infrastructure and make the state apparatus operational in the most basic sense. It is arguably also something that has helped Angola "uncover its agency"[44] and quite successfully project its strength in the international affairs, which was famously demonstrated by the Angolan government's decision to turn down the assistance of the IMF in 2002[45] and the following "Easternisation" of its foreign policy.[46] Most importantly though, given the argument put forward in this paper, the unprecedented oil bonanza had helped the local elites, centred around Dos Santos and Futungo, to consolidate power and carefully tailor the system to their own needs. A decade after the end of the civil war Angola's economy was ten times bigger and "flush with cash and confidence", as Ricardo Soares De Oliveira writes.[47]

The situation changed abruptly in 2014 when the prices of oil took a nosedive, bringing with it a range of major challenges.[48] Due to an extremely and unusually heavy reliance on oil, this event brought devastating effects upon the Angolan economy and

42 Ibid., p. 1202.

43 O. Canuto, "The Commodity Super Cycle: Is This Time Different?", *PREM*, no. 150, Washington DC 2014.

44 L. Corkin, *Uncovering…*

45 I. Campos, A. Vines, "Angola and China: A Pragmatic Partnership", Working Paper Presented at a CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation", 5 December 2007, p. 18; M. Power, A.C. Alves (eds.), *China and Angola: A Marriage of Convenience?*, London 2012, p. 53.

46 A.C. Alves, "The Oil Factor in Sino–Angolan Relations at the Start of the 21st Century", *SAIIA Occasional Paper*, no. 55 (2010); L. Corkin, "Uneasy allies: China's evolving relations with Angola", *Journal of Contemporary African Studies*, vol. 29, no. 2 (2011), pp. 169-180; A. Vines, "Angolan agency and Chinese and US oil politics, 1975-2014", in D. Zweig, Y. Hao (eds.), *Sino-US Energy Triangles: Resource diplomacy under hegemony*, London 2015, pp.129-148.

47 R. Soares De Oliveira, "Angola's Perfect Storm", *Foreign Affairs*, 28 October 2015.

48 L. Corkin, "After the Boom: Angola's Recurring Oil Challenges in a New Context", *The Oxford Institute for Energy Studies Paper*, no. 72 (2017); R. Soares De Oliveira, "Angola's Perfect Storm"…

also brought the growth miracle to a halt. It is estimated that 97 per cent of the Angolan export comes from oil and a staggering 75 per cent of the government revenue is also derived from the petroleum sector. According to United Nations Development Program (UNDP) data, Angola is the second least diversified economy in the world, after Iraq.[49] It makes Angola's "success" very closely related to developments in the global oil market. The falling prices of oil have affected the local currency, kwanza, which soon started to depreciate, placing the official peg to the dollar under stress and adding to inflationary pressures. The national budget, which has been already meagre, has suffered severe cuts ever since. As a result, both fiscal and current-account deficits are now still large by any standards (5.3 per cent and 4.5 per cent of GDP respectively),[50] which has complicated policy-making in multiple ways.

The room for manoeuvre of the government has been further constrained by an already worryingly huge and still growing public debt that reached 68.6 per cent of GDP in 2017 and is projected to exceed 70 per cent in 2018 (around 50 per cent of the public debt has been contracted internally).[51] The bulk of Angola's foreign debt is held by China, which happens to be also the largest exporter to Angola, but also the main destination of the country's export. After long resistance, the Angolan government unpegged the kwanza and eased currency controls in January 2017, which nonetheless came with a high social and political price. Considering the fact that Angola has to import up to 80 per cent of consumable goods and even more shockingly 80 per cent of fuel, depreciation of kwanza quickly translated into accelerating inflation which in February 2018 stood at 23.4 per cent. Although state capacity was already fragile during the boom time, the recent oil shock has revealed a monumental capacity deficit, particularly in terms of provision of public goods. This will be the subject of the following section.

Public goods provision gap

After 27-year-long civil war Angola was shattered and had enormous developmental gaps to close in nearly every aspect of social and economic life. Despite having a "success" label on it, the state has failed to fulfil some of its fundamental functions and provide basic services to its citizens – a yardstick commonly used to gauge the state capacity and its fragility. This section will focus on three of them: infrastructure, education and healthcare.

The war had brought destruction of truly monumental proportions to the country's basic infrastructure. The World Bank estimated that more than one third of the roads and bridges were destroyed, as well as 70 per cent of the railways; three major ports were left without maintenance and barely operational.[52] No wonder the government of

49 "Export Dependence and Export Concentration. Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty", *UNDP Bureau for Development Policy*, New York 2011.

50 World Bank, *Macro Poverty Outlook*, April 2018.

51 "Angola's debt service exceeds tax revenue in 2018", *Macauhub*, <https://macauhub.com.mo/2018/06/04/pt-servico-da-divida-de-angola-excede-receita-fiscal-em-2018/> 4 June 2018.

52 World Bank, "Country Partnership Strategy (FY14-FY16) for the Republic of Angola", *Report No. 76225-AO*, Washington DC 2013.

Angola prioritized investment projects in its development agenda, also to detriment of other pressing social needs (see below). Roads, bridges, railways, alongside with signature, prestigious projects, such as football stadiums and luxury government buildings, have been carried out by the government on a massive scale in the first years after the Peace Agreement was signed. This was followed by the boom in other areas, particularly in public housing which became an electoral gimmick in 2008 and afterwards. Although many projects brought a significant change and eased the most pressing bottlenecks, the government actions have raised numerous contentious issues.

First, most investment projects have targeted Luanda, the capital and other urban areas, leaving Angola's poor relatively unattended. Second, many projects can be characterized barely as a survival strategy of the regime, which used them to reward political allies and co-opt opposition[53]. Projects were rarely judged against a social rate of return or using the criteria of value for money. It has been a commonplace for companies to be selected on a basis of their political connections or insider status.[54] Second, due to a lack of oversight and politically-influenced procurement processes, the quality of investment projects have been dubious. The famous case in point is the General Hospital in Luanda which was evacuated only 4 years after opening its doors due to construction flaws.[55] Third, the infrastructure reconstruction in Angola has been a showcase of an incredible waste of money and corruption, whose material manifestation is a myriad of 'white elephants' and vanity projects haunting the Angolan landscape. Fourth, many projects have been financed using famous oil-for-infrastructure deals, ostensibly known as "Angola model". The origins of the term itself are arguably "nowhere near Angola",[56] nevertheless oil (and oil prices) is a central yardstick for terms of loans extended by China. Institutionally, the provision of infrastructure has been hampered from the very start, because it has been organised under auspicious of shadow government structures of the state, particularly Office of National Reconstruction created by the President in 2004[57] to manage infrastructure reconstruction, which removed official budgetary oversight and made the government itself unaccountable for shoddy deals and unsustainable projects.[58] And since about half of total investment in Angola is of a public nature (one of the largest share in the region),[59] low quality of public investment has a detrimental impact on the overall picture.

53 C. Hackenesch, *The EU and China in African Authoritarian, Regimes, Governance and Limited Statehood*, London 2018, pp. 156-157.

54 R. Soares de Oliveira, "Illiberal peacebuilding in Angola", *The Journal of Modern African Studies*, vol. 49, no. 2 (2011), at <https://doi.org/10.1017/S0022278X1100005X>, p. 294.

55 "Safety fears for a Chinese built hospital in Angola", *BBC World Service*, 7 July 2010.

56 L. Corkin, *Uncovering…*

57 C. Hackenesch, *The EU…*, p. 157; S. Croese, "State-led housing delivery as an instrument of developmental patrimonialism. The case of post-war Angola", *African Affairs*, vol. 116, no. 462, 1 January 2017, at <https://doi.org/10.1093/afraf/adw070>, pp. 80–100.

58 R. Marques de Morais, "The Angolan presidency. The epicentre of corruption", *Pambazuka News*, 5 August 2010.

59 IMF, "Angola: Selected Issues", *Country Report No. 18/157*, June 2018.

The infrastructural boom in Angola is hard to underscore, but it is now also very clear that the success in this dimension and the capacity of the state to deliver hinges badly on oil prices. In the past years the oil prices provided a reality check for the Angolan state and painfully revealed its fragility. The United Nations Economic Commission for Africa (UNECA) report which uses data from the period between 2014 and 2016 is a revealing illustration of how plans can sail away from realities when exogenous factors change.[60] The report mentions a number of infrastructure projects scheduled for upcoming years, which however are unlikely to materialize as intended. Two high profile examples include New Luanda International Airport, whose construction has been paralyzed and is now rescheduled for 2019[61] and a strategic Lobito Oil Refinery which had continued to struggle for more than a decade and was eventually suspended in 2016 by the decision of Sonangol.[62] In both cases, financial difficulties caused by oil prices collapse have been cited among main reasons for delays.

The other two areas to assess the state capacity in Angola are education and healthcare, which expectedly have greater impact on human capital formation. Angola has consistently ranked very low in Human Development Index (HDI), where both education and healthcare constitute two thirds of the index value. Whereas the country should be given credit for the progress made in the aftermath of the civil war, critics argue that the allegedly "successful" state, with burgeoning economic growth and at least 10 years of fairly uninterrupted commodity boom, should have done much more to improve the livelihood of Angolans. Angola is currently near the bottom in the HDI index, in 2017 occupying 150th place out of 188 countries assessed.[63] With HDI value at 0.533, this puts Angola in the low human development category, below countries such as Swaziland, Pakistan or Syria. Importantly, the HDI numbers have remained nearly unchanged since 2011. The life of average Angolans is problematic to reconcile with the narrative of economic success pedalled by the media and "successful failed state". In terms of health, the average Angolan can expect to live 52.7 years. Almost 1 in 10 children die at birth and 15.6 per cent do not live to the age of five, which is one of the worst child mortality rate in the world. Public health expenditure stands at 2.1 per cent of GDP, which places Angola among the worst spenders globally (9th place from the bottom) (WDI 2018). One should also mention enormous disparities between Luanda, the capital, and the rest of the country. For instance, in 2006, 98 per cent of Angolan medical doctors were based in Luanda[64]. In terms of education, only 71.1 adult Angolan can read and write, mean years of schooling is 5.0 (with expected years of schooling at 11.4) and only 47 per cent of teachers are trained to teach, which badly affects the quality of education. One study found that a significant share of 3rd graders could not read a single word on an oral reading assessment (World Bank 2012). The government

60 UNECA, *Angola: country profile 2016*, Economic Commission for Africa, Addis Ababa 2017.

61 "New Luanda Airport starts operating in 24 months' time", *ANGOP. Agencia Angola Press*, 29 October 2017.

62 EIU, "Work on Lobito refinery halted", *The Economist Intelligence Unit*, 24 August 2016.

63 All the data in this section has been derived from Human Development Report 2017.

64 R. Soares de Oliveira, *Oil and Politics*..., p. 103.

spends 3.4 per cent of GDP on education, which is less than its African peers (IMF 2018b). As much as 67 per cent of these funds are allocated to primary education.[65]

Although Angola is above the average for low human development group (0.497) and above the average for Sub-Saharan Africa (0.523), it is mostly due to a relatively high GDI per capita which constitutes one third of the HDI index (according to the World Bank classification, Angola until recently was an upper-middle-income country). The Angolan government has poured considerable funds to both educational and health sector, the results, however, have been far from satisfactory. To cite the recent IMF Article IV Staff Report, which uses a lot of conciliatory language "*Angola's social spending is insufficient, effective, and titled towards areas that contribute relatively less to human capital formation*"[66]. Major reasons have poor governance which still haunts the country, along with corruption and weak transparency, but one should not underestimate the monumental development gaps that Angola had to face after the end of the civil war. Importantly, with oil prices low, any meaningful progress in this respect is even harder to achieve. In the past years, the Angolan government has been forced to slash its budget spending on multiple occasions, which has often affected education and health sectors,[67] sometimes indirectly, e.g. through deteriorated waste collection and water sanitation, which in 2016 triggered yellow fever health crisis.[68] Even though one should give credit to the government for commitment to a range of social programmes, the current oil price environment clearly demonstrates a strikingly low state capacity in leaner times. As noted by Rui Verde, Maka Angola Legal Analyst, low oil prices "undo Angola".[69]

Financing public goods

Since the end of the civil war in 2002, the provision of public goods in Angola has been riddled with challenges and far from satisfactory, yet the Angolan state cannot be denied some impressive efforts to improve the livelihood of its citizens and rehabilitate the war-torn infrastructure. Problematically though, most of these efforts occurred in the boom years, when financial firepower was not an issue and the government, flush with oil proceeds, could afford to finance even most ambitious projects. The past years demonstrated, however, that when the stream of oil revenue dries out, the state capacity in this respect diminishes drastically. This brings us to the issue of financing public goods and how the new oil price environment has exposed weaknesses of the Angolan state.

Angola represents a perfect example of a petrostate with a highly unsustainable model of financing public goods. The national budget is heavily dependent on oil proceeds and the role of taxes, such as consumption and income taxes, is limited, at least

65 World Bank, "Angola Learning for All" Project Information Document, Appraisal Stage, 2012.

66 IMF, *Angola Country Report No. 18/156*, International Monetary Fund, Washington DC 2018.

67 "Oil and Luanda's best-laid plans", *The Africa Report*, 4 May 2015.

68 "Angola faces health crisis as oil price drop leads to cutbacks", *Reuters*, <https://af.reuters.com/article/africaTech/idAFKCN0VK1AP> 11 February 2016.

69 "Angola: Low oil prices undo Angola", *All Africa*, <https://allafrica.com/stories/201603091018.html> 8 March 2016.

by international standards. This is not unusual in resource-abundant countries, in fact scholars have discussed this specific pattern extensively in the past, particularly how it adversely affects state formation[70] and democratic mechanisms.[71]. A lack of fiscal contract between the state and citizens cripples the ownership of the latter, lessens democratic pressure and scrutiny over public expenditures, eventually rendering the state unaccountable.[72] According to taxation-leads-to-representation paradigm[73] states willing to tax must offer things in return to its citizens, such as public goods and representation. Instead of levying more standard consumption (e.g. VAT) or income (e.g. PIT) taxes in a diversified formal economy, they often prefer to rely on natural resource rents, tax the extractive sector (e.g. concession rights) and use some easy-to-collect revenues (such as duties or export tax). Taxing the extractive sector comes, however, with its own hurdles as administrative capacity to identify tax liabilities, collect taxes and deter possible evasion in Africa remains greatly insufficient.[74] The bottom line is that resource-rich states are revenue satisfiers, not revenue maximisers,[75] i.e. they may be freed from putting more effort into revenue mobilisation by broadening the tax base or making tax-collection more effective. Regardless of the democracy-hindering effect, during a commodity boom such a model might work relatively well, but when the market changes and oil-related revenues start shrinking it can seriously backfire, wracking havoc on the economy. This is the case of Angola today.

According to a recent IMF report, in 2017 the oil sector in Angola accounted for about 64 per cent of budget revenues and over 95 per cent of exports.[76] Given the volatility of commodity prices, it not only makes budget planning extremely difficult, but takes a heavy toll on public spending (see the previous section). If the government wants to smooth out public spending, it has to tap into more debt, which is exactly what is happening in Angola now, with debt levels reaching historical heights in the post-war period. According to the Bank, the public debt in Angola in 2017 amounted to 69.6 per cent and it is projected to reach 70 per cent in 2018.[77] This is the first time

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70 M. Moore, "Revenues, State Formation, and the Quality of Governance in Developing Countries", *International Political Science Review*, vol. 25, no. 3 (2004), at <https://doi.org/10.1177%2F0192512104043018>, pp. 297-319.

71 M.L. Ross, "Does Oil Hinder Democracy?", *World Politics*, vol. 53, no. 3 (2001), pp. 325-361.

72 Idem, "The Political Economy"...; T.L. Karl, "Ensuring Fairness: The Case for a Transparent Fiscal Social Contract", in M. Humphreys, J.D. Sachs, J.E. Stiglitz, *Escaping the Resource Curse*, New York 2007; D. Brautigam, O. Fjeldstad, M. Moore, "Taxation and State-Building in Developing Countries: Capacity and Consent", Cambridge 2008, at <https://doi.org/10.1017/CBO9780511490897>.

73 M.L. Ross, "Does Taxation Lead to Representation?", *British Journal of Political Science*, vol. 34, no. 2 (2004), pp. 229-249.

74 See for example M. Stürmer, "Let the Good Times Roll? Raising Tax Revenues from the Extractive Sector in Sub-Saharan Africa During the Commodity Price Boom", *German Development Institute, Discussion Paper* 7/2010.

75 M.L. Ross, "The Political Economy"..., p. 312.

76 IMF, *Angola*...

77 "Angola's debt service exceeds tax revenue in 2018", *Macauhub*, 4 June 2018.

when debt servicing exceeded tax revenues. The declining budget revenues, combined with spending cuts also affect consumption and investment, which have been falling in the past years, leading to contraction of GDP.

Fiscal numbers in Angola illustrate the problem of overreliance on oil revenues in petrostates discussed in the literature. In 2014 oil-related taxes constituted 67 per cent of all budget revenues (mostly concession rights), whereas other taxes only 25 per cent. Shifting these proportions, without taking on more debt, running higher fiscal deficit (but also keeping inflation at bay), is hard. Furthermore, revenue mobilisation and boosting non-oil revenues in Angola is a daunting task for a number of institutional reasons. It is crippled by corruption which is legendary in Angola,[78] the lack of transparency of government's handling of money, and generally a very weak revenue management. It all results in potentially less revenues flowing in to the government coffers. Furthermore, IMF points out that paying taxes in Angola is extremely burdensome,[79] which results in a large informal market and a widespread practice of tax evasion and avoidance. Also, it only compounds corruption, as it is easier to pay bribes than overcome multiple bureaucratic obstacles. The link between corruption and tax capacity and tax effort is corroborated by the literature.[80] The tax base in Angola is very narrow, for example, 400 large state-owned enterprises are responsible for around 50 per cent of non-oil fiscal revenues. That is why the recent effort to hike taxes and import duties to close the budget gap may be insufficient and concentrated on a narrow group of taxpayers.

Having said that, broadening the tax base, especially considering the current circumstances, will not be particularly easy for numerous reasons. First, introducing new taxes would affect the poor, if it is conducted without special precautions such as tax exemptions on food or health and education services.[81] Second, by doing so the government is risking resistance in the society, particularly given the "exiguous taxpaying culture" in Angola[82] and the poor provision of public goods. This in turn could potentially undermine the position of the ruling elite. Third, since the Angolan government has generally failed to diversify the economy, broadening the tax base would at the same time require broadening of the economic activity. Last but not least, reforming the tax system would also require integrating larger swathes of the economy into the formal sector (according to the recent ILO report nearly 60 per cent of Angola work in the non-agricultural informal economy).[83] For all these reasons, the state capacity in Angola seen as an ability of the state to finance public goods beyond oil is weak.

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78 R. Marques De Morais, "Corruption in Angola: An impediment to democracy", *Maka Angola* 2011.

79 IMF, *Angola*.

80 R. Fenochietto, C. Pessino, "Understanding Countries' Tax Effort", *IMF Working Paper*, no. 244 (2013),, Washington DC 2013; A. Baum, S. Gupta, E. Kimani, S.J. Tapsoba, "Corruption, Taxes and Compliance", *IMF Working Paper*, no. 255 (2017), Washington DC 2017.

81 *Angola: country profile 2016*, Economic Commission for Africa, Addis Ababa 2017.

82 E.J. Anderson, "Will Tax Reform Drive Equitable Development in Oil-Dependent Angola?", *SAIIA Policy Briefing*, no. 70 (2013).

83 *Women and Men in the Informal Economy: a Statistical Picture*, International Labour Organisation, Geneva 2018.

CONCLUSION

After 27 years of a fierce and gruelling civil war Angola has managed to impress the world with its burgeoning economic growth, a major rehabilitation of its infrastructure and organizing its state apparatus around the modernization project. All of this occurred in a very fortunate time, when the prices of oil, the backbone of the Angolan economy, continued to soar, filling it the state coffers and providing a financial power to pursue a brighter future. Dos Santos regime has been relentlessly consolidating its grip on power, with the state wielding a complete monopoly over legitimate and illegitimate violence, enriching the elites, at the same time alienating the people who "*were happy not to be shot at and did not challenge the status quo*"[84]. All this led to creation of a very durable and – for a lack of better word – stable regime.

Nevertheless, the majority of Angolans, particularly outside of the capital, Luanda, have not enjoyed the fruits of this upward economic trajectory. Angola has been constantly ranked at the very bottom of many development and institutional rankings, with one of the highest child mortality, worst corruption etc. This has led many scholars to cast the Angolan state as "weak but strong" or as famously coined by Soares de Oliveira – a successful failed state.

This article shows that despite characteristics of a seemingly strong state, from the economic standpoint the Angolan state capacity remains extremely weak. The fragility of Angola has been particularly revealing in the past years, when the prices of oil, after taking a nosedive in 2014, stayed far below the level required to balance the budget. The oil price collapse wreaked havoc on the Angolan economy, contracting GDP, fuelling inflation and increasing both fiscal deficit and public debt to dangerous levels. Whereas state capacity had been already weak before these developments, it seems that now, when the state is left to its own devices, is unable to effectively fulfil basic economic functions. It struggles to provide public goods and mobilize budget revenues beyond the oil sector. All this is not very surprising, given the tragic history of Angola, its point of departure in 2002, and generally what the literature tells us about the political machinery of petrostates, but perhaps should cast a different light on the country's perceived "success".

The end of Dos Santos' 38 year-old rule, which came as he stepped down in September 2017, and severing his family's tentacles in the Angolan economy by the new President João Lourenço, has brought some hope that the country would be finally entering serious reforms[85]. One of the Angola's "two constants", as described by Lucy Corkin (the other being oil), has been finally removed.[86] There is, however, little certainty whether the new president is genuinely a reformist or his clean-up is merely a show for public consumption.

[84] R. Soares de Oliveira, *Magnificent and Beggar Land, Angola Since the Civil War*, Oxford 2015, p. 20.

[85] "Angola's new president, João Lourenço, has made an encouraging start", *The Economist*, 5 May 2018.

[86] L. Corkin, "After the Boom"...

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Prof. Dominik KOPIŃSKI, Ph.D. – holds PhD (2009) and Habilitation (2015) degrees in economics from Faculty of Economics, Wroclaw University of Economics and works as an assistant professor in the Institute of International Studies, University of Wroclaw. Dominik Kopiński is a co-founder and vice president of Polish Centre for African Studies. He was a Fulbright Fellow at the Elliott School of International Affairs, George Washington University (Senior Advanced Research Award 2015-2016), a visiting scholar at Fudan University (China), Orfalea Center for Global & International Studies, University of California, Santa Barbara (United States), Universidade de Lisboa (Portugal), University of Plymouth (United Kingdom). He published extensively on Sub-Saharan Africa, development aid, China-Africa relations and natural resource policies. His work appeared, among others, in *African Affairs, Journal of Contemporary African Studies, Africa Spectrum* and *Global Governance*. Dominik Kopiński conducted field research in Zambia, Botswana, Ghana, Namibia and South Africa. Outside the academic realm, he has provided consulting services for Polish business and authored several reports on investment and trade opportunities in Sub-Saharan Africa, including a series of reports published by CEED Institute (funded by Jan Kulczyk).