AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT 2024

ANGOLA

Driving Angola's Transformation
The Reform of the Global Financial Architecture

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ACKNOWLEDGEMENT

The 2024 Country Focus Report for Angola was prepared in the Chief Economist and Vice-Presidency for Economic Governance and Knowledge Management Complex(ECVP), under the direction and supervision of Prof. Kevin C. Urama, Chief Economist and Vice-President, with support from Amadou Boly (Chief Assistant to the Chief Economist), and Amah Marie-Aude Ezanin Koffi (Executive Assistant).

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The team thanks (i) Angola Country Team led by Leila Mokaddem (Director General, Southern Africa Region), Kennedy Mbekeani, Deputy-Director General, Southern Africa Region; and Pietro Toigo (Country Manager, Angola Country Office); (ii) the Macroeconomics Policy, Forecasting and Research led by Abdoulaye Coulibaly, Director, Officer-in-Charge; (iii) the Transition States Department (RDTS) led by Yero Baldeh, Director, (iv) the African Natural Resource Center (ECNR) led by Désiré Vencatachellum, Director, Officer-in-Charge; and (v) the Macroeconomics Policy and Debt Sustainability Division led by Anthony Simpasa, Division Manager, for their contributions.

The data in the report was compiled by the Department of Statistics led by Babatunde Samson Omotosho, Director, with significant contributions from Louis Kouakou (Manager of Socio-Economic Statistics Division, Department of Statistics), Ben Paul Mungyereza (Head of the Statistical Capacity Building Division, Statistics Department), Anouar Chaouch (Senior Statistician, Division 1 of the Statistics Department) and Momar Kouta (Senior Statistical Information Systems Officer, Division 1 of the Statistics Department).

Peer-review comments were received from Yusuf Bob Foday (Senior Economist, ECCE1, COLR), Nikitta Dennis Joseph (Consultant, RDTS), and Danlami Gomwalk (Principal Domestic Linkages Officer, ECNR), and Michael Machokoto (Research Economist, ADOA Analyst/ECMR2). Country Team comments were received from Bruno Alberto Nhancale (Senior Environmental and Social Safeguards, SNSC/RDGS4). Dr Joseph Atta-Mensah, Senior Fellow from Africa Centre for Economic Transformation, acted as an external reviewer.

The cover of the report is based on a general design by Laetitia Yattien-Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Copy-editing was done by the Bank's Language Services Department (TCLS) and layout was done by Lagence Creativ.

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ABBREVIATIONS

ABANC	Angolan Banking Association
AfDB	African Development Bank
AfCFTA	Africa Continental Free Trade Area
ADF	African Development Fund
AGOA	African Growth Opportunity Act
AGBI	African Green Bank Initiative
BNA	Banco Nacional de Angola
BODIVA	Bolsa de Dívida e Valores de Angola (The Angola Securities Exchange)
COP28	United Nations Climate Change Conference (held in Dubai)
CPLC	Community of Portuguese Language Countries
CSP	Country Strategy Paper (AfDB)
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FSDEA	Fundo Soberano de Angola
GDP	Gross Domestic Product
ICT	Information and Telecommunications Technology
IFI	International Financial Institution
IMF	International Monetary Fund
INE	Instituto Nacional de Estatísticas (National Institute of Statistics)
LNG	Liquid Natural Gas
MPLA	Movimento Popular de Libertação de Angola
MSMEs	Micro, Small, and Medium-sized Enterprises
MTFF	Medium Term Fiscal Framwork
NDC	Nationally Determined Commitment
NDP	National Development Plan
OPEC	Organization of Petroleum Exporting Countries
SCDI	State Contingent Debt Instrument
SDG	Sustainable Development Goal
SDG8	Decent Work and Economic Growth Goal
SDG12	Responsible Consumption and Production Goal
SDG13	Climate Action Goal
SDR	Special Drawing Right
SOE	State-owned Enterprise
S&P	Standard and Poor
TVET	Technical and Vocational Education and Training
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNITA	União Nacional para a Independência Total de Angola
VAT	Value-Added Tax
WDI	World Development Indicators (World Bank)
WFP	World Food Programme
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Angolan economy grew by an estimated 0.9% in 2023, compared to 3% in 2022. The sharp slowdown was caused by delays in critical repairs which lowered oil production, while the non-oil sector was affected by disruptions in imported inputs. Growth is expected to remain low in the near term, at 2.7% in 2024, but rising to 4.3% in 2025. However, this is contingent on oil prices remaining elevated and the non-oil sector responding positively to the wide-ranging reforms introduced by the Government in the recent past, including making the exchange rate more responsive to market conditions.

AfDB[1] has estimated that Angola would need approximately USD14 billion annually by 2030 to fast-track its structural transformation and catch up with high performing developing countries from other regions. Given the prevailing limited fiscal space, the bulk of the financing will be mobilized from the private sector, with two-thirds of the amount targeting social and economic infrastructure. With the country currently spending an average USD300 million on infrastructure per year, however, the financing challenge is significant. It calls for considerable public expenditure prioritization, while ensuring efficient reallocation of expenditure, and for diversification of non-oil revenue sources. Furthermore, reforms supporting domestic policy innovation, encouraging public-private partnerships, and a big push from the international community, including attracting higher volumes of FDI inflows are critical to close the country's infrastructure financing gap.

To sustain its ambition and graduate from lower middle-income country into middle-income country status, Angola needs to strengthen its human capital and increase its productivity, particularly in critical sectors like agriculture, manufacturing, and services. Currently, the World Bank estimates Angola's average years of schooling to be 5.4 years, much lower than middle-income countries, which are above 10 years. There is also a wide gap between men's and women's literacy rates (74% versus 44%)[2]. Augmenting both would have positive implications, especially for rural productivity and farm household welfare.

Economic diversification has been and remains Angola's main development challenge. Despite the 5% average growth per year of the agricultural sector over the past five years, the Angolan economy remains strongly concentrated in the oil and natural gas sector, meaning that historically GDP growth has not led to poverty reduction. Angola's medium-term growth outlook has two drivers: (i) the non-oil sector's recovery; and (ii) and structural reforms. Therefore investing towards transforming the state-led and oil-funded economic model into a sustainable, inclusive, private-sector-led growth model is the way forward, while building on Angola's significant potential for clean electricity

1 According to AfDB's African Economic Outlook (2024), for each African country, annual financing needs and the associated financing gap are calculated for both the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063 by assigning median input levels and controlling other factors such as projected demographics (population size and composition, etc.) and the level of GDP per capita to estimate the country's financing needs and gap - if they target reaching the same level of performance as other developing countries in sectors critical for structural transformation.
2 African Development Bank (2018). Cohort Study on Gender-based Disparities in Science and Technology.

generation and agriculture. This reinforces the critical importance of economic diversification, which the Bank intends to keep supporting.

In its search for economic diversification, Angola also has the potential to establish a vibrant tourism industry that can create a large number of jobs in several provinces and generate foreign exchange, while boosting local economies. In the past, tourism was not considered by the Government to be a key sector of the economy. Hence, despite the country's vast landmass, the coastline of 1,600 kilometres, and varieties of fauna and flora, leisure and travel services are still quite rudimentary, with limited domestic destinations and few quality hotels. To compete with more developed tourist destinations in the region, such as South Africa and Zambia, the sector will need capital infusions, including through public-private partnerships, to raise its local and international profile.

Barriers to affordable financing for micro, small, and medium-sized enterprises (MSMEs) should be lifted in private sector development and the structural transformation agenda. These firms at the tail end of the business distribution and the informal sector have proven to be important job creators in the country's urban areas. There is, however, a disconnect between their need for capital and the capacity of the financial sector to deliver credit to them in the current environment. For MSMEs as a group, financial inclusion has remained challenging. Easing credit flows to them will have important demonstration effects and impacts on local production and social welfare.

Angola is already experiencing severe negative impacts of climate change, with incessant flooding in Luanda, exacerbated by poor infrastructure and uncontrolled urban growth, and more prolonged droughts and water scarcity in several provinces. The negative impact on agriculture will have implications for food security, rural livelihoods, and for the sector's role as a supplier of inputs to the nascent agroindustry. Consequently, in addition to participating in the mitigation and adaptation process under the guidance of the United Nations Framework Convention on Climate Change (UNFCCC), Angola should strengthen its capacity to analyze and understand all technical and macroeconomic aspects related to climate change and the global decarbonization agenda. It should also actively participate in opportunities for renewable energy generation, environmental conservation, and carbon credit trading.

In conclusion, Angolan authorities, like many others in Africa, believe that the country's access to secure and predictable financing, with favorable repayment conditions to enable it to invest in economic infrastructure, science, technology, innovation, and information and communtication technology (ICT) is critical to its development. On its own, Angola might not be able to influence the nature and shape of the current international financial architecture, but together with other African countries, agencies, and supporters from the broader international community, it is possible to make change happen.

GENERAL INTRODUCTION

Angola is determined to harness its vast resources to increase its human capital stock, address its elevated levels of poverty and inequality, and engender sustainable and inclusive growth. To reach its threefold goal of "sustainability, equity, and modernity," underscored in its long-term plan, Angola 2025, it must address the latent repurcusions of the civil war, including narrowing the spatial gaps between the rural and urban areas and between the coastal provinces and the hinterland, build climate resilience, and enhance the youthful population's capacity to reap the benefit of the demographic dividend. Consequently, in the late 2010s, the Government launched far-ranging economic reforms – including fiscal and monetary measures, targeted sector initiatives, and the privatization of hundreds of state-owned enterprises (SOEs) – to foster structural transformation and boost climate resilience. More recently, the 2023-2027 National Development Plan (NDP) and the Angola 2050 agenda were designed to promote an economic diversification agenda based on the country's comparative advantage in agriculture, laying emphasis on human capital development to benefit from the demographic dividend.

This Country Focus Report discusses Angola's reforms to transform the economy and boost its climate resilience. It also examines the changes required in the international financial architecture to ease the flow of private investment to Angola. Chapter 1 presents Angola's recent macroeconomic performance and outlook, while Chapter 2 looks at the issues of sustainable growth, productivity, and structural transformation. Chapter three discusses Angola's external financing and the international financial architecture reforms that could improve the country's financing.

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1

MACROECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- **Angola's growth receded in 2023 to an estimated 0.9%, compared to 3% in 2022**. The oil economy declined by 6%, owing mainly to maintenance issues. At the same time, the cost-push effects emanating from the sharp depreciation of the kwanza in mid-2023 as the Banco Nacional de Angola (BNA) allowed for a more market-determined exchange rate, raised import costs and caused growth to contract in the non-oil sector by 2.6%.

- **In December 2023, Angola rescinded its Organization of Petroleum Exporting Countries (OPEC) membership**. It can now expand its production and export of oil without export quota encumbrances. However, the envisaged expansion of oil production will require a substantial increase in direct foreign investment in the petroleum and gas sectors.

- **With the bulk of the country's debt denominated in foreign currency, the depreciation of the kwanza in mid-2023 increased the debt/GDP ratio from 69% in 2022 to 84% in 2023**. Fiscal policy tightened to put debt back on a declining trajectory with the goal to reduce it further to 60% by 2025 through fiscal consolidation, including lengthening the tenure of domestic debt. The Government sees the target as a credible fiscal anchor.

- **Looking ahead, growth is expected to remain low in the short term, at 2.7% in 2024 but rising to 4.3% in 2025**. It would return to positive per capita income growth, of about 1.2%, for the first time in five years. However, this is contingent on oil prices remaining elevated and a positive response of non-oil to the macroeconomic policies introduced recently by the Government.

- **The main downside risks to the outlook are:** (i) persistent inflationary pressures, which could put more pressure on real incomes, particularly of vulnerable groups; (ii) rising geopolitical tensions and polarization, which could jeopardize global trade and international investment; (iii) uncertainties from the incomplete subsidiy reform programme; (iv) persistent exchange rate pressures; and (v) climate shocks, which constitute yet another important downside risk to growth recovery in Angola. **Nonetheless, major tailwinds to growth** would include the plans to reinvigorate the transport sector and regional corridors (e.g., Lobito corridor, Moçamedes corridor), investments in energy to become a net exporter of clean hydropower in Southern and Central Africa regions, and investments in agribusiness value chains and light manufacturing.

1.1. Introduction

This chapter provides an overview of Angola's macroeconomic performance in 2023 and its near-term economic outlook and prospects. It discusses changes in monetary and fiscal policies, debt, and the current account, as well as their impacts, while looking at key social indicators. It then discusses Angola's macroeconomic outlook and risks. The chapter concludes with a discussion of what needs to be done to foster macroeconomic stability and high and resilient growth, and hence trigger economic transformation.

1.2 Growth performance

The Angolan economy grew by an estimated 0.9% in 2023. This was significantly lower than the 3.0% growth in 2022, which had raised hopes of a steady and strong recovery, following the COVID-19 pandemic (Table 1). Owing to the steady decline of oil production and the failure of the non-oil sectors to fill the slack in output, per capita growth wasnegative for a significant part of the past decade. Despite the 5% average growth of the agricultural sector over the past five years, oil and related processing activities and their spillovers continue to be the major drivers of the economy (50% of GDP), as well as the main generators of exports (90%), and hence foreign exchange, and government revenue (70%).

On the demand side of the economy, the 15% reduction in government consumption, primarily ascribed to fiscal consolidation, including subsidy reform, was the most significant factor in 2023. Under mitigation, gross capital formation increased by 4.6% and private consumption by 2.3%, while exports declined by -2.8%. The year recorded a notable reduction in imports by -7.3%, owing to the exchange rate adjustment of mid-2023. On the supply side, agriculture which grew by an average 5% over the past five years, was virtually stagnant in 2023, growing at 0.6% impacted by a prolongued drought, while services grew at 2.8%. The industry sector, dominated by oil, declined by -1.3%.

In December 2023, Angola rescinded its OPEC membership after 16 years. It will seek to boost domestic oil production without encumbrances from oil export quotas. However, the envisaged expansion of oil production will require a substantial increase in direct foreign investment. The Government therefore finds itself in a policy bind because any fiscal incentives accorded to foreign investors would likely weaken its fiscal consolidation efforts. However, Angola will not be able to increase oil production without critical

Table 1: **Angola: Macroeconomic and Social Indicators, 2019-2025**

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP growth	-0.7	-5.6	1.2	3.0	0.9	2.7	4.3
Real GDP growth per capita	-4.2	-8.9	-2.0	-0.1	-2.2	-0.4	1.2
Inflation	17.1	22.3	25.8	21.7	13.6	18.1	12.4
Overall fiscal balance, including grants (% GDP)	0.8	-1.9	4.0	0.7	-1.2	-0.9	-1.8
Primary balance (% GDP)	6.5	4.9	7.3	8.1	7.7	6.5	2.9
Current account (% GDP)	6.2	1.6	11.9	9.6	3.5	5.1	3.5
Total population (millions)	32.4	33.4	34.5	35.6	36.68	37.78	38.91
Life expectancy at birth	62.45	62.26	61.64	61.93	63.24	63.43	-

Sources: Data from Angolan authorities, AfDB Statistics Department, April 2024, IMF, World Bank and UN; estimates (e) and prediction (p) based on authors' calculations.

investments in materials and equipment. Despite the production challenges, Angola became Africa's leading oil producer in 2022 because Nigerian production declined even more sharply.

1.3 Other recent macroeconomic and social developments

Monetary policy, inflation, and exchange rate: Inflation was estimated at 13.6% in 2023, much lower than during the previous three years when supply-side factors caused by COVID-19 had increased inflation to above 23%, on average (Table 1). The BNA raised the reference rate twice in early 2024 to 19.5% to lower what it sees as stubbornly high inflation, partly owing to imported inflation.[3] There is a risk, however, that because of the elevated cost of capital, the non-oil sector might fail to fully recover. On the other hand, the de facto floating exchange rate for the kwanza has reduced excess demand for foreign currency, while food imports are also declining. However, Fitch, the rating agency, estimated that in late 2023, the parallel market exchange rate in the capital city, Luanda, operated at a 16% premium over the official rate; this implies that distortions in the market have persisted, though declining.[4]

Fiscal policy: The fiscal deficit was estimated at 1.2% of GDP in 2023, up from 0.7% of GDP in 2022, reflecting weaker oil revenues given the weaknesses in oil production and prices. The end of the debt moratorium from Chinese creditors, enjoyed during COVID-19, also led to a surge in external debt service by USD 9.3 billion in 2023. Overall primary balance surplus declined from 8.1% of GDP in 2022 to 7.7% of GDP in 2023, mostly driven by the non-oil primary balance which recorded significant deficits of 8.5% of GDP in 2022 and 6.3% of GDP in 2023. To improve the non-oil sector's tax effort, the Government has simplified the VAT system to make it easier for individuals and smaller companies to pay taxes. A public-private partnership (PPP) law was adopted in 2019, and a fiscal responsibility law was enacted in 2020. Since 2021, State-owned enterprises (SOEs) have been compelled to publish their financial results on their websites to boost financial transparency and enhance efficiency in the public sector. The momentum of the reform was maintained with partial removal of subsidies for gasoline in June 2023 and for diesel fuels in April 2024. According to the IMF (2023), the Government's fiscal policy aims to lean against the commodity cycle, implying savings during oil booms and easing during busts to ensure the country takes full advantage of any windfalls to strengthen its fiscal buffers.

Public debt: Angola's debt was estimated at AOA 53.1 trillion (or 84.5% of GDP) in 2023, rising from 64.8% in 2022. The sharp increase in the debt/GDP ratio was caused by the one-off sharp depreciation of the kwanza in 2023 and its impact on the country's mostly foreign-currency-denominated debt. The Government's medium-term fiscal target is to reduce total debt to 60% of GDP, mainly through fiscal consolidation, but also by lengthening the tenure of domestic debt and substituting expensive bilateral debt with long-term multilateral debt under favorable terms. Although that debt ratio is unlikely to materialize in the near term, owing to low oil sector growth, the Government still sees it as a credible fiscal anchor. At the beginning of 2024, S&P, the rating agency, affirmed its 'B-' long-term and 'B' short-term sovereign credit ratings on Angola with a stable outlook. The latter balances the country's high debt level and tight financing situation with projected good oil prices and higher oil production, focused domestic reforms, and adequate reserves. The Government is also strengthening its capacity in debt management with support from the IMF and the World Bank.

External position and external financial flows: Angola has maintained a positive current account of above 5% of GDP, on average, over the past five years. Relatively high oil prices have been a key factor, helping to preserve oil export volumes, even when actual oil and gas output was declining. However, against a backdrop of critical but delayed maintenance operations, 2023 recorded a sharp reduction in oil production and exports. The current account balance contracted accordingly, estimated at 3.5% of GDP in 2023 compared to 9.6% in 2022. According to BNA data, foreign direct investment inflows stood at 2.3% of

3 Angola imports about USD 3 billion worth of food annually.
4 See for example www.fitchratings.com.

Box 1: Impact of tighter international financial conditions (transmission channels)

The Government has pursued its goal of macroeconomic stability, characterized by low inflation, through a tough stance on fiscal consolidation to lower the debt burden to 60% of GDP in the medium term (it was 87.2% of GDP in 2023). The focused measures have helped the authorities regain credibility with the IFIs and rating agencies but the tight credit stance has yet to yield lower inflation, while manufacturing output has contracted in recent years. A labor market study (RETFOP, 2021) found that tight financing conditions were partly responsible for the high mortality of micro and small firms in Angola, their low productivity, and, in some cases, their failure to graduate into medium-sized firms. In 2019, for example, 500 firms were "born" in the wholesale and retail sector, while 950 firms in the sector "died" implying a birth/mortality ratio for firms in the sector of close to 50%. Moreover, even though the exchange rate for the kwanza is officially floating, a parallel rate for foreign currency has persisted in the urban areas, indicating that the related reforms are incomplete. Nonetheless, the falling debt levels and fiscal discipline raise optimism for an imminent economic recovery

GDP, compared to 5.9% of GDP in 2022, with the oil sector attracting less foreign direct investment than in the past. International reserves have been stable over the last three years at about USD 14.5 billion or equivalent to 7.5 months of imports of goods and services. This is higher than the 3 months that the IMF usually recommends for countries with flexible exchange rates. According to Fitch, the rating agency cited earlier, the reserves are expected to decline in the medium term as the operations of oil companies recover (and increase their profit repatriation) and the Government puts aside money for debt repayment.

Social developments: Angola had an estimated per capita income of about USD2,570 in 2023, notably higher than for half of African countries. However, this has not translated into superior social indicators. UNICEF (2021) reported, for example, that in 2020/21, close to 40% of Angolan children (totaling two million) under five suffered from stunting, a much higher figure than Africa's average of 30.7%. The World Food Programme (2024) has estimated that climate-change-accentuated droughts in the country's south have increased hunger and malnutrition among householdshere, with 1.6 million people facing food insecurity on a perennial basis. On the other hand, the monetary poverty incidence is high, averaging 40.6% in 2019[5]. In 2008, the World Bank estimated inequality to be 0.43, but it had risen to 0.51 by 2019. Meanwhile, Angola ranked 150th out of 193 countries on the UNDP's Human Development Index for 2022, much lower than many of its low-middle-income peers.

The most significant recent social policy intervention in Angola is a USD 420 million programme known as "Kwenda". It is financed jointly by the World Bank (USD 320 million) and the Government (USD 100 million), and is intended to lead to a permanent social safety net system. Kwenda aims to support the country's poorest and most vulnerable families, through mainly cash grants but also by fostering social initiatives and building the human capital of low-income households. By the end of 2023, Kwenda had registered 1.5 million rural households from all the country's 18 provinces, while more than one million beneficiaries had already received payment.

1.4 Macroeconomic outlook and risks

Outlook: Growth is expected to remain low in the near term, at 2.7% in 2024 but rising to 4.3% in

5 Four percentage points higher than in 2018. INE, 2019. IDREA Survey. Luanda, Angola.

2025. The higher growth path in 2025 is contingent on oil prices remaining elevated and on the non-oil sector, notably agriculture, manufacturing, and services, responding to the macroeconomic incentives, including a more market-determined exchange rate, introduced in the past two years, and entrepreneurs weathering the escalated cost of capital. Concerning debt sustainability, the Fitch rating agency affirmed a B- rating for Angola in December 2023 with a stable outlook. It emphasized that while the weak indicators on inflation, commodity dependence, and foreign currency-dominated government debt raised concerns, they were counterbalanced by several positive factors, particularly high levels of reserves, current account surpluses projected into the future, and a more manageable debt repayment profile than its peers. Similarly, the IMF's latest Debt Sustainability Analysis of March 2024 showed that Angola's debt was largely sustainable, given the country's emphasis on reform.

Among the key near-term socio-economic challenges, the Government will need to address the country's demographic transition to ensure that Angola's young population can reap the demographic dividend. This will require continued building of the country's human capital stock through adequate health and education services and addressing the rural-urban gaps in access to economic opportunities.[6] Above all, the economy will need to create jobs for the bulk of approximately 700,000 young people who join the labor market each year, even though the formal economy currently creates only a very small fraction (10,000 per year) of the jobs demanded.

Risks: The risks associated with Angola's medium-term economic outlook will primarily be on the downside: First, because of the importance of oil in the economy, fluctuations in oil prices will continue to have outsized impacts on the macroeconomy through government revenue and spending. A sustained oil boom might change the Government's appetite for fiscal consolidation, while a contraction will affect debt financing. Depending on the size of the shock and the funding available, the Government could be forced to reintroduce controls, not least on the foreign exchange market. Persistence of exchange rate pressures and uncertainties from the incomplete subsidy reform programme could put more pressure on the growth outlook.

Diminishing opportunities for income generation in the countryside are pushing large numbers of people to the urban areas and putting immense pressure on social services. However, the challenge also allows the Government to be innovative and far-sighted. It might have to expand the reach of programmes such as Kwenda (mentioned above), while insisting on inculcating entrepreneurial and other marketable skills in its education programmes.

Angola's economic growth has been challenged by debt vulnerabilities and the need to diversify the economy beyond the oil sector to reduce vulnerability to exogenous shocks.

Climate change-induced droughts, especially in the south of Angola, are already adversely impacting food and water security, and, more broadly, livelihoods in the rural areas of the vast country. The negative impact on agriculture, on which two-thirds of the population depend for food, income and employment, and is the main source of employment for women, is having knock-on effects on the rest of the economy. Climate-challenged agriculture might fail to deliver inputs for the budding manufacturing sector or generate employment and decent jobs.[7]

1.5 Policy options to foster high and resilient growth: Supporting macroeconomic stability and economic transformation

Today, Angola's most critical development challenge lies in unleashing the vast potential of its rich natural resource endowment and that of its

6 The « Plano Nacional de Farmação de Quadros, 2013-2020 » (or National Plan for Staff Training/Capacity Enhancement) was linked directly to the Angola 2025 Strategy which also highlighted the importance of skills development.

7 IFAD has recently conducted an overview of the challenges facing Angolan agriculture. See Angola at Ifad.org.

young population to grow the economy and boost structural transformation and climate resilience. The following policy options will be critical:

In the short term

- **In efforts to achieve more rapid disinflation and anchor inflation expectations on a lower cost to the economy, tailored monetary policy adjustments will be needed**. As core inflation remains elevated, the Central Bank needs to keep policy rates high enough to ensure that inflation expectations remain firmly anchored.

- **Addressing exchange rate pressures should be a key short-term priority**. The depreciation of the domestic currency has continued despite various measures. Since Angola has adopted a floating exchange rate regime, the currency should be allowed to adjust as much as possible, as trying to resist movements based on fundamentals could have disastrous consequences on the economy.

- **Investments in agricultural transformation and agrobusiness are critical for boosting local food production and diversifying import sources to address rising food prices**. To achieve this objective, the country needs to adopt an holistic approach that supports critical drivers of agricultural value chains, particularly financial inclusion, improvements to the business environment, entrepreneurship, and stronger focus on skills and employability to promote agribusiness and agriculture competitiveness.

- **Reducing the debt burden through governance reforms to strengthen debt management capacity**: The Government's strong commitment to enhancing debt management is the key for easing the debt burden in the medium to long term. This includes prepayments of collateralized external debt and extending domestic debt maturities to reduce gross financing needs and medium-term vulnerabilities.

Medium to long-term policies:

- **Scaling up domestic resource mobilization is must for Angola to accelerate structural transformation.** The implementation of reforms aimed at diversifying non-oil revenue sources will be critical to enhancing domestic revenue mobilization. These include widening the tax base, improving tax inspections, better enforcement of property tax collection by rolling-out geo-referencing, concluding the e-taxation system to improve tax compliance and efficiency, and improving the medium term fiscal framework (MTFF).

- **It is crucial to create a more conducive environment for private sector investment in infrastructure to accelerate Angola's economic transformation**. Increasing the level of participation of the private sector in the economy is crucially important in the delivery of infrastructure. The Lobito Corridor, the first fully fledged PPP in the country, could be the first step in attracting private sector investment and skills, but it will be important to improve the capacity of the public sector to structure and negotiate them with the private sector. The Bank could provide technical assistance and advisory services to build capacity across the government services, including through the African Legal Support Facility.

- **Accelerating structural transformation efforts and financing their implementation will be key to unlocking Angola's development potential.** While well-designed structural reforms are important to boost the level and sustainability of economic growth, their implementation depends partly on scaling up financing for structural transformation and enhancing spending efficiency. Boosting domestic resource mobilization will play a critical role in that regard, as Angola's Government is primarily responsible for financing the country's development.

- **Angola is highly vulnerable to climate change, ranking 23rd out of 180 countries on the Global Climate Risk Index.** Prolonged drought has pushed populations, especially in the southwest, across borders to neighbouring countries in search of food, water and shelter – de facto climate refugees.[8] Hence, strengthening capacity for mainstreaming all technical and macroeconomic aspects of climate change and the global decarbonization agenda are critical to enhancing climate resilience. This should be complemented with strategies to actively participate in opportunities for renewable energy generation, environmental conservation, and carbon credit trading.

8 See the report on Angola by the Othering & Belonging Institute at UC Berkeley. https://belonging.berkeley.edu

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TAKING STOCK OF ANGOLA'S STRUCTURAL TRANSFORMATION PROGRESS

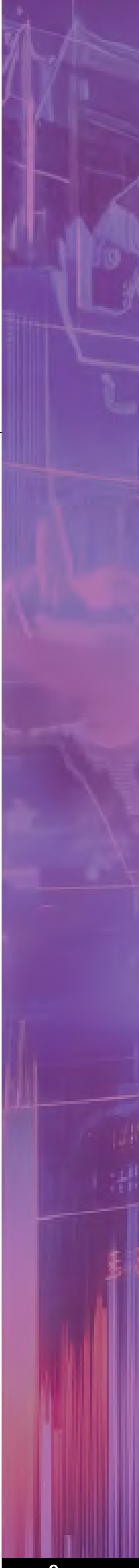
KEY MESSAGES

- **Angola has exhibited remarkable resilience amid multiple shocks, but its structural transformation has been slow and uneven**. The Angolan economy grew by only about 2%, on average, in 1980-2000. However, the return to peace in the early 2000s raised aggregate productivity, and the economy experienced unprecedented rapid growth. However, the growth derived from reasonable oil prices and high oil production levels which started to decline significantly in the 2010s.

- **Angola's economy has been transforming without a significant level of industrialization but through capital-intensive oil sector, mainly because of limited economic diversification.** The increase in oil output, which contributed significantly to growth, has not been matched by a significant job creation, with total employment in industry changing little over time. Transformation has occurred through the reallocation of economic activities from agriculture to other relatively low-productivity sectors, notably personal and retail services, rather than to more productivity-enhancing manufacturing. But this type of sector reallocation has a limited impact on structural transformation.

- **Urbanization and private sector development will jointly determine the pace of Angola's structural transformation.** Both touch on job creation, logistics, and the created environment, while the private sector will increasingly become the leading services supplier in urban areas. However, the pace at which urbanization is happening, under the ceaseless rural-urban migration, is exceeding the planning and administrative capacities of most municipalities. The supply of social services is haphazard, while investments in the underground infrastructure for water delivery, as well as sewage and sanitation management has been sporadic. To turn these challenges into business opportunities will require proper analysis and planning, but they touch on several areas that are key to economic transformation – employment, good infrastructure, and functioning cities.

- **Training and skills development are crucial for building a dynamic Angolan economy.** However, importing foreign labor for technical and menial jobs contradicts the goal of capacity building for Angola's young people. Capacity needs to be built to ensure that TVET centres can deliver the workforce that private companies need.



2.1. Introduction

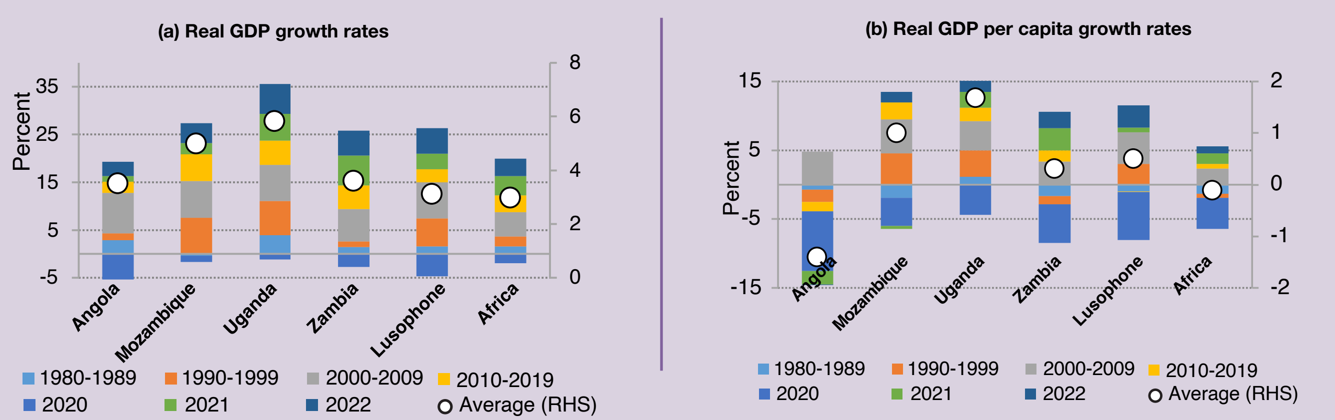
This chapter aims to provide a comprehensive This chapter discusses Angola's progress in recent years and the rapidly changing regional and global context in its pursuit of structural transformation. It examines Angola's growth performance since the 1980s, with comparisons to its African peers and the broader region. It also estimates the resources required to fast-track its domestic social and economic commitments, including mandates from Africa 2063 and Agenda 2030. It then assesses Angola's financial needs and discusses how they could be addressed

2.2 Taking stock of economic performance and transformation

From 1980 to 2000, Angola was in the depths of civil war, with little economic activity outside the extractive industry.[9] Figure 2.1 compares its performance to Mozambique and Zambia in Southern Africa, as well as to Uganda in East Africa. The performance of Angola's peers highlights the relevance of economic structure and/or regional effects (for instance, dependence on extractives and/or inclement weather) as factors. The Angolan economy grew by only about 2%, on average, over this period, implying a negative per capita growth of about 1%. Zambia, Angola's western neighbor, also experienced negative per capita growth over the two decades, partly due to low copper prices and adverse weather patterns. Less mineral-dependent Mozambique and Uganda had better growth performance, i.e., they witnessed fewer disruptive external shocks. Average African growth was about 3.3%, while average growth in Lusophone Africa was much lower, given the challenges in Angola.

The end of the civil war in 2002 coincided with sharp increases in global oil prices, which dramatically impacted Angola's growth performance. Over the 2000-2009 period, the average growth was 8.5% (Figure 2.1), implying an average per capita growth of 5%. The country was enjoying a peace dividend, but it did not last long. When oil prices started declining in the early 2010s, the Government was forced to take extraordinary measures, including borrowing from abroad to close the fiscal deficit, but most importantly, it curbed social expenditure. From 2010 to 2019,

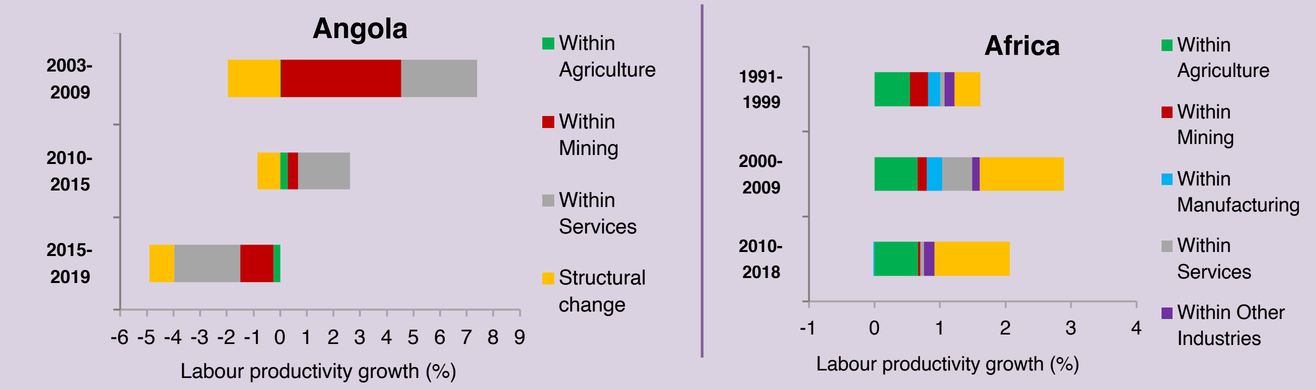
Figure 2.1: Angola's GDP growth and per capita GDP growth vs Africa and Peers, 1980-2022 (%)



Note: The decades are based on simple averages
Source: African Development Bank statistics and IMF World Economic Outlook database

9 By disrupting agriculture and other economic activities, but keeping oil production, which was offshore, safe from military attacks, the civil war in the late 1970s between the People's Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA) unwittingly turned Angola into an oil-based economy. See also Gonçalves (2023).

Figure 2.2: Angola and Africa's: Aggregate labor productivity growth: Contribution from within and structural change



Source: Staff calculations using the Economic Transformation Database (ETD) (Kruse et al. 2023)

average growth returned to the low levels of the past, because of the resumption of civil war and declining oil prices.

2.3 Angola's structural transformation: Drivers, bottlenecks and opportunities

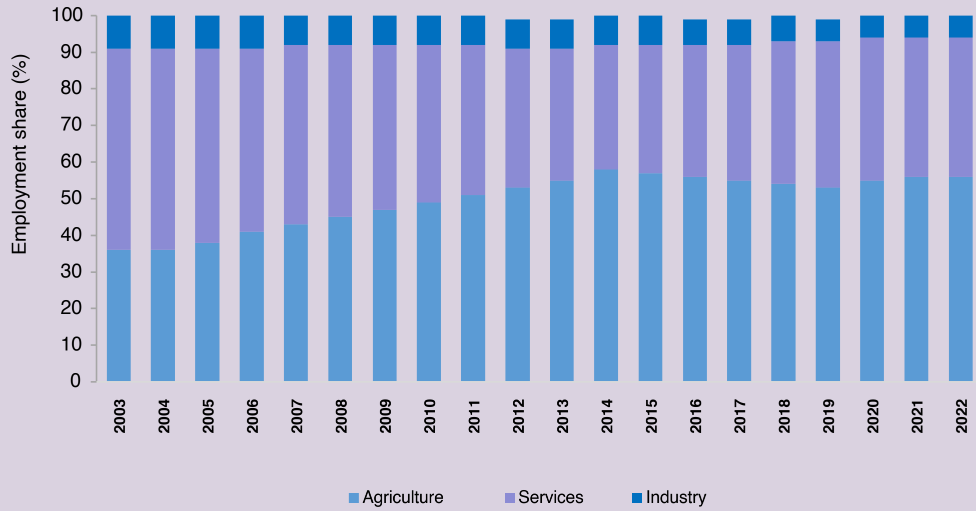
2.3.1 Structural/economic transformation

According to the AEO (2024), structural transformation means the shift of an economy's structure from low-productivity, labor-intensive activities to higher productivity, capital and skill-intensive activities. In the case of Angola, the return to peace in the early 2000s positively impacted aggregate labor productivity growth (Figure 2.2) – the period also witnessed the highest real growth of GDP (above 10%) in the country's history. The components of productivity growth within industry (which includes construction) and within services were strong, as individuals and businesses took advantage of the opportunities offered by the return to peace, even though from a low base. For agriculture, however, there was no indication of productivity growth. By the early 2010s, however, aggregate labor productivity growth had leveled off considerably. It collapsed after 2014, as the economy entered an era of turbulence.

Between 2003 and 2022, the labor movement in the Angolan economy mainly took place between agriculture and services, with industry's share in employment changing little, if at all (Figure 2.3).[10] It is revealing that with the end of the civil war, agriculture's share in total employment rose significantly from 36% in 2002 to 58% in 2014, while that for services declined from 55% in 2002 to 34% in 2014. It is plausible that with peace, more people have returned to their farm holdings, while also moonlighting in the urban areas – it is a portrait of the impermanence associated with socio-economic transition. At the macro level, there has been a significant increase in investment in agriculture, forestry, and fisheries. Overall, it could be concluded that Angola's economy has experienced little structural transformation, with a limited level of industrialization, and with labour remaining trapped in low productivity agriculture

10 A simple aggregation of the economic sectors was used here. For example, agriculture includes livestock, forestry, and fisheries; services include wholesale and retail, transport and storage, finance and insurance, and public administration etc.; and industry includes extractives, manufacturing, electricity, and water.

Figure 2.3: Angola: Employment shares: agriculture, services, and industry (%), 2003-2022



Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2024

and low-skill service sector, while the capital and skills-intensive oil sector dominates growth, but with little job creation.

2.3.2 Drivers to accelerate structural transformation

Achieving tangible social welfare improvements should be a key part of Angola's structural transformation agenda. Hence, food security, lowering the disease burden, improving schooling, and boosting climate resilience should take centre stage. However, East Asian countries (most recently Vietnam) have demonstrated that social welfare could be achieved without prohibitive public expenditure through good planning, efficient use of available resources, and a dedicated bureaucracy.

Urbanization can be a potent force for structural transformation in Angola. The higher productivity sought by the country will be primarily obtained in urban areas because residents there are malleable, keen to improve themselves, and have tangible education and technical skills.[11] However, as part of the legacy of the civil war, unplanned urban settlements without access to potable water, proper sanitation, security, and income-generating opportunities have expanded in most cities of the country. They will threaten Angola's march to "modernity" if not addressed.

Training and capacity building are indispensable, but must be demand-driven. Angola already has an extensive basis for training at its universities and other tertiary institutions. Moreover, its TVET institutes produce thousands of graduates annually in fields ranging from mechatronics to multimedia. However, employers, especially the new investors, find the skill sets available in Angola inadequate for their needs and, in several cases, insist on hiring foreign workers instead. The foreign workers are not only costly, but their employment also runs counter to the widespread expectation that the new firms would help boost the skills of Angolans and increase their productivity.

11 See for example the chapters in Kayizzi-Mugerwa et. al. (eds) (2014), **Urbanization and Socio-economic Development in Africa**, Routledge, New York.

Box 2: AfDB's role in supporting growth and structural transformation in Angola

Angola joined AfDB in 1980, five years after its independence. Given the distractions of the post-independence civil war which lasted 27 years until 2002, Angola seldomly borrowed from the Bank. However, following the establishment of a Country Office in Luanda in 2011 and the preparation of the first AfDB Country Strategy Paper (CSP) (2011-2015) for Angola, which focused on "Entrepreneurship and Support to SMEs," Bank lending to the country rose significantly, totaling USD 1.58 billion in five years. The second CSP (2017-2022), which was extended for one year to 2023, had the theme "Inclusive Growth through Agricultural Transformation."

The themes of growth and transformation have continued with the completion of the current CSP, covering the 2024-2029 period. Its two pillars are: (i) economic diversification for inclusive growth, with agricultural value chains as vehicles, and (ii) support for sustainable infrastructure development, with the sectors of focus being agriculture, energy, water, sanitation, and transport, especially transnational corridors. The CSP has responded well to the country's National Development Plan (2023-2027), which mainly emphasizes the promotion of balanced development across the country, human capital development, the reduction of social inequalities, and the modernization of infrastructure. As part of its support to Angola, the Bank has undertaken knowledge work in several areas, including assessing the country's climate resilience and human capital and skills training.

The Presidential decree on local content in the oil sector issued in 2020 is intent on reducing local content requirements to boost investment and push local companies to diversify outside oil. It is based on three eligibility regimes in supplying goods and services to the oil sector i.e., exclusivity (100% Angolan companies), preference (Angolan companies and those incorporated under Angolan law) and competition (goods and services not included in the first two regimes can be supplied by any other company). It is conceivable that the technical capacities garnered by local companies under this decree could be applicable in other areas of the economy as to foster diversification beyond the oil sector. The welding expertise acquired on oil platforms, for example, could be useful in large-scale construction projects, while the standardized health, safety and environmental regulations in the oil sector could also find broad application in manufacturing and other sectors of the economy.

A key challenge for the Government will be how to identify and boost emerging private sector alternatives to the petroleum industry. A recent study of labor demand and productivity[12] in Angola based on data from the National Institute of Statistics (INE) suggests that while the country's entrepreneurial spirits are alive and well, public-private sector dialogue is deficient. The Government needs to establish a mutually beneficial relationship with the private sector to move forward on structural transformation. Although the infant industry argument (or picking winners) might no longer work, having a good knowledge of the needs of the private sector in terms of development of agricultural value chains to boost local food supply, reduce dependence on imports, as well as improve infrastructure and the regulatory framework, the quality labor is paramount. This requires establishing a formal framework for discussing issues affecting the private sector; this is where the Government could share its policy priorities.

2.3.3 Key bottlenecks to fast-paced transformation

Taking advantage of all the opportunities available in the country is crucial to creating

12 The study was undertaken under a project financed by the European Union "Revitalização do Ensino Técnicó e da Farmação Profissional de Angola (RETFOP)" completed in 2021. It was conducted by Camoes Instituto da Cooperação e da Lingua and Expertise France.

decent employment. The post-war reconstruction efforts in Angola had seemingly created vast opportunities for both manual and technical work. Nonetheless, the foreign companies contracted were often forced to hire labor from abroad, blaming it on inadequate training and skillsets in the country. Companies argued that the TVET centres in the country were not always up to the task. Hence, they incurred retraining costs to get their Angolan employees up to speed, causing unnecessary delays. There is therefore a strong case for ensuring that Angolan young people are able to acquire the skills demanded by the private investors. This will also require active engagement between the TVET centres and prospective employers, with the latter specifying their skillset needs explicitly.

High dependence on capital-intensive oil sector coupled with a gradual reallocation of labour from low-productivity agriculture to other relatively low-productivity services sectors without a marked level of industrialization has led to limited structural transformation.

The private sector is mentioned in all the government's policy statements as the de facto future engine of the economy, i.e., post-petroleum. In practice, what the private sector policymakers have in mind might be quite different from the hustle and bustle of the micro and small firms that comprise most of the business sector in Angola today. It is wrong to think that policies crafted for the needs of large companies, with 100 employees and more, can be carried over to small companies employing five people or less without serious issues of congruence.

The Government has attempted to simplify the process through ongoing reforms, but more work is needed to reduce transaction costs for firms at the tail end of the business distribution. To level the playing field, especially for local entrepreneurs, structural barriers to private sector development must be addressed, including limited access to financing and inadequate capacities for exporting. The process should begin with easing licensing, which could be applied digitally. There is also the issue of credit, mentioned earlier, which requires the Government's urgent attention as efforts to alleviate it have had little impact. A line of credit could be developed for micro and small firms at the Development Bank of Angola as the first line of defense. It could, for example, be funded by imposing a small surcharge on oil revenues. It would be an innovative example of using extractive resources for economic diversification and sustainable development.

Angola is not a landlocked country and it has the potential to develop several transport modalities – road, rail, and sea – but the size of the country and lack of resources make prioritization critical. Providing access to hinterland provinces, attracting investment or providers of modern services, and opening transport and trade routes to neighboring countries would be an optimal strategy.

2.4 Finance to fast-track Angola's structural transformation: How much is at stake? Country's commitments to structural change.

2.4.1 Structural change strategy in Angola's strategies and plans

Angola's National Development Plan 2013-2017, the first five-year government plan under Vision *Angola 2025,* states that the policy goal is to "improve the quality of life of the Angolan people – from Cabinda to Cunene" i.e., to leave no one behind. The theme of sustainable growth and social inclusion appears in all national development plans, including the most recent one for 2023-2027. The latter has two interrelated pillars: increased national production, employment, and human capital development. The focus areas include consolidating democracy, promoting balanced development, human capital development, reducing inequality, and infrastructure modernization.

To emphasize the role of agriculture, livestock, and fisheries in the diversification effort and as a means to promote inclusion along the value chains, the Government has introduced three flagship initiatives: the National Cereal Promotion

Box 3: AfDB is unlocking structural transformation in Angola through the High 5s

Angola's development trajectory is being significantly propelled through strategic partnerships with international institutions across multiple sectors. The Bank has been unlocking structural transformation in Angola through transformative investments cutting across several High 5 priorities, in particular:

- ***Feed Africa:*** The USD 101 million Cabinda Province Agricultural Value Chain Development Project targets 51,000 economically-active smallholders in rural areas;

- ***Light up and power Africa:*** The Bank has also committed to the USD 530 million Energy Sector Efficiency and Expansion Programme to finance the construction of a 343 km 400 kV central-south transmission that will connect the north and south transmission grids in Angola. The project will avoid the consumption of 46.8 billion of litres of diesel per year in the south, cutting 80 megatonnes of CO2 emissions, and enable the Government to save more than USD 130 million per year in diesel subsidies;

- ***Improve the quality of life for the people of Africa:*** The Bank is currently supporting the implementation of the USD 123.7 million Urban Water Supply and Sanitation Service Delivery Institutional and Sustainability Support Project. In addition, the USD 90 million Angola Science and Technology Development Project aims to provide young people and women with appropriate skills for the private sector. The programme has already granted scholarships to 234 girls in 146 secondary schools, sponsored 80 Master's, 31 PhD, and 11 Post-Doctoral degrees, as well as financed the construction of a Science and Technology Park in Luanda.

Plan (PLANAGRÃO), the National Fisheries Promotion Plan (PLANAPESCA) and the National Livestock Promotion Plan (PLANAPECUÁRIA). The emphasis on promoting the value chains, including smallholder farmers and their activities, instead of merely the large-scale producers and processors is innovative and consistent with Angola's structural transformation agenda.

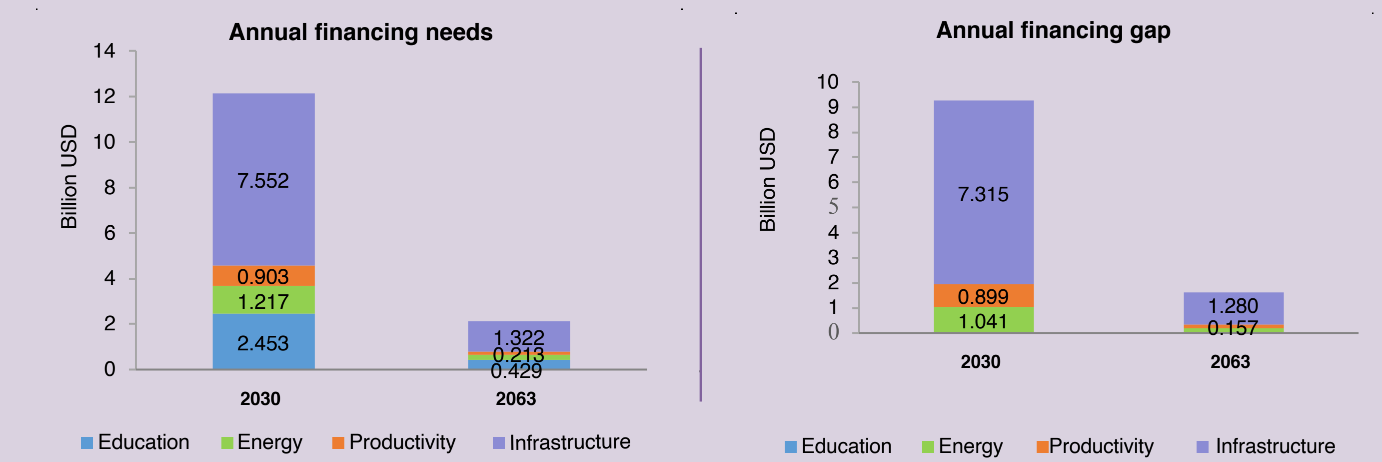
However, several African countries have discovered that dismantling oil dependency places the economy and policymakers in a vicious circle. [13]When oil revenues are high, as in Angola during the global financial and commodity crises at the end of the 2000s, the urge to diversify or curb domestic expenditure (and "save for a rainy day") dissipates. On the other hand, when oil revenues decline, there is little left for diversification efforts. In other words, diversification rarely works during oil booms, but could work during a prolonged oil recession when policymakers start looking earnestly for alternatives.

2.4.2 Financing needs and financing gap

The AfDB staff has estimated that Angola would need approximately USD 14 billion per year to meet its SDGs by 2030 and Africa 2063 commitments, with the bulk (USD 8.9 billion) going to infrastructure (Figure 2.4). However, the financing gap is quite substantial, with only about USD 300 million available annually for infrastructure, leaving an annual gap of USD 8.6 billion. The investment needed in education would

13 Jensen (2018) provides an interesting discussion of the challenges of policy making in Angola with oil revenue as the key (and often only) instrument.

Figure 2.4: Estimated annual financial needs and financing gap to fast-track structural transformation in Angola



Source: Staff calculations using the Economic Transformation Database (ETD) (Kruse et al. 2023)

be USD 2.9 billion per year, but the total investment would be covered by government resources. The needs and gaps in energy and productivity are smaller because the private sector has or will assume a prominent role in their provision. The SDG Index for 2023 indicates that Angola was on track to achieve only SDG 12 on "responsible consumption and production" and SDG 13 on "climate action."

2.4.3 Closing the financing gap through domestic resource mobilization

Like many oil producing countries, Angola imposes several taxes on oil production. Besides the production-sharing arrangement, there is a petroleum income tax, a petroleum transaction tax, and a petroleum production tax. Such taxes can seem buoyant when oil output and prices are high, but outrightly disincentivize when profitability declines. While oil production peaked in 2010 at 1.8 million barrels per day, with unprecedented revenue increases, revenue declined perceptibly in the following years, forcing the Government to undertake tax reforms. The goal was to broaden the non-oil tax base, reduce dependency on oil revenue, and improve tax administration.[14]

After a slow start, Angola has made significant progress in tax reforms with tax coverage expanding appreciably. For example, the number of businesses and institutions registered with the Angolan General Tax Authority (AGT) for tax purposes increased by two and a half times between 2013 and 2020 to 215,523. On the other hand, the number of single payers increased by 265% to 5.6 million over the same period. Meanwhile, AGT introduced VAT in 2019 at a standard rate of 14%, but with sectors such as hotels and restaurants able to charge a VAT of 7%, i.e., half the standard rate, as a form of incentive to economic activity. However, the impact of the tax reform on revenue was far from significant because of the opt-outs embedded in the system. Indeed, the COVID-19 pandemic and its impacts on revenue compelled the Government to take firmer measures in 2023, with increases in excise taxes, reductions in fuel subsidies, and general enforcement of tax compliance. These steps have slightly impacted government revenue positively, and it will take a while to determine whether it is sustainable.

Government revenue has fallen short of meeting the country's critical spending needs. Estimates done by AfDB staff suggest that Angola

14 Fjeldstad, et. al. have argued that unwinding a tax regime based on oil revenue is complicated because oil rents have a pervasive political economy that touches many other economic activities.

would need to raise its annual tax-GDP ratio by 10 percentage points to close the financing gap for meeting its SDGs (Agenda 2030) from its own resources (Figure 2.5). On the other hand, a 2 percentage points increase in the tax-to-GDP ratio would be needed to close the financing gap concerning the Africa 2063 financing gap. However, it should be noted that Angola is not one of the most critically challenged countries in Africa as regards financing gaps.

2.5 Concluding remarks and policy conclusions

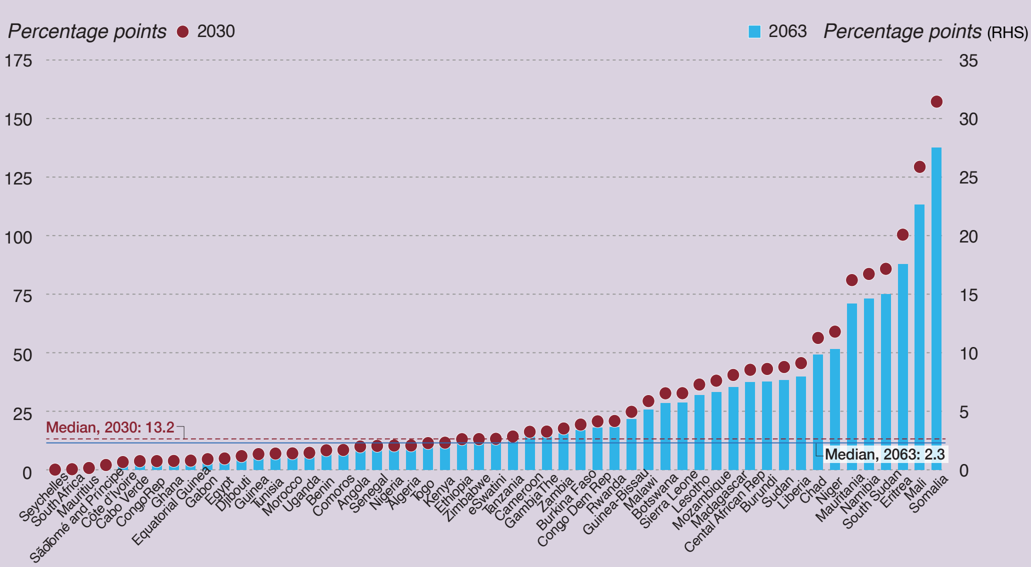
The above analyses strongly suggest that accelerating Angola's structural transformation will require a multi-pronged approach, mainly consisting of the following policy reforms:

Establish and institutionalize endogenous development plans and policies tailored to areas of comparative advantage as priorities and implement them consistently, while avoiding policy reversals that tend to disrupt progress. Angola needs to strengthen its commitment to the implementation of the economic diversification agenda anchored on agricultural value chains so as to reduce dependency on food imports, and diversify beyond the oil sector to reduce vulnerability to exogenous shocks.

Scale up investments to build requisite human capital suited to local realities, circumstances and development priorities. Angola needs to scale up investments in education at all levels to build and improve the quality and relevance of technical and soft skills required to drive its development agenda tailored to local contexts and circumstances. More specifically, the country needs to prioritize scaling-up skills in science, technology, engineering, and mathematics (STEM) to leverage its resources and drive structural transformation.

Scale up domestic resource mobilization (DRM) and prioritize prudence in public financial management (PFM). There is need for Angola to own its development agenda and have the primary responsibility for financing its structural transformation. Tax-to-GDP ratio - around 18.8% of GDP in 2023 - is above above Africa's average of 15.6%; consequently, instead of increasing the tax

Figure 2.5: Required increase in tax-to-GDP ratio to close the estimated annual financing gap in Africa



Source: Staff calculations and database from AfDB statistics, Sachs et al. (2023), UNESCO, CIA, NASA, IMF, and World Bank burden, the country should strengthen domestic resource mobilization by broadening the tax base and improving tax collection. Furthermore, Angola should also aim at increasing non-tax revenues such as property income and royalties as these taxes were low at 6.7% of GDP in 2023. Strengthening tax compliance through improved tax inspections and audits is critical to boosting domestic revenue mobilization. Enhancing the formalization of the informal economy could also boost DRM. Angola's economy is predominantly informal, with an informal employment rate of 79.9% (INE, 2023). Therefore formalizing the informal sector by providing greater access to resources and information, pension schemes, social insurance, or other incentives could help to broaden the tax base and enhance revenue collection. Angola also needs to roll out electronic procurement to enhance efficiency in public finance. The application of e-procurement alone in 2021-2023 is estimated to have saved the Government the equivalent to USD 34 million, i.e. 79% of the initially projected expenditure for the three years.

Build and deepen markets (for goods and services, and capital and financial services) at national and regional levels. Ongoing investments in the development of the Lobito Corridor are expected to enable completion of the international corridor, bringing to fruition ongoing Bank investment on the Democratic Republic of Congo and Zambia section. This will also enable Angola to better position itself to benefit from the Africa Continental Free Trade Area (AfCFTA) agreement. Angola can also become a net exporter of clean hydro-power, evacuating 4GW of installed capacity, and contribute to the decarbonization of the Southern and Central African regions. However, institutional support and capacity building, especially for structuring PPPs, is critical to harnessing the investments.

Create targeted and streamlined incentives to catalyze mobilization of private capital flows to support Angola's endogenous development plans in key sectors for structural transformation. Given that the financing needs for structural transformation are huge (e.g., about USD 14 billion/annually), Angola could incentivize private sector participation (domestic and external) to support structural transformation. The use of innovative financing instruments, such as blended financing, could increase private participation in infrastructure for green growth by derisking the sector. The development of sustainable finance instruments (including green bonds and loans, and sustainability bonds and loans), as well as carbon markets, could boost private sector investment in green sectors.

Invest in natural capital accounting beneficiation and conservation, and include it in the national accounts system to expand the economy. According to the World Bank (2021)[15], Angola's natural capital wealth grew by 58% over the 1995-2018 period, driven mainly by oil and natural gas resources. However, these estimates underestimate the country's natural wealth amidst the abundance of fishery resources, marine biodiversity, and green wealth. Therefore, multilateral development banks, bilateral donors, and development finance institutions should seek greater synergy in enhancing capacity-building for natural capital accounting in resource-rich developing countries, including Angola, so as to expand the the economy. Recent data from AfDB (2023) show that Angola is not deriving a fair share of its natural resources rents, which declined from 40.2% in 2010 to 25.5% in 2020. Angola was admitted to the Extractive Industries Transparency Initiative (EITI) in June 2022, and a first report covering the fiscal year 2021 was published in December 2023. International development partners' support for strengthening the country's capacity to design an action plan with legal and institutional reforms will be critical to ensuring adequate reconciliation and disclosure of information consistent with EITI standards.

15 World Bank. 2021. The Changing Wealth of Nations 2021: Managing Assets for the Future. Washington, DC: World Bank. doi:10.1596/978-1-4648-1590-4.

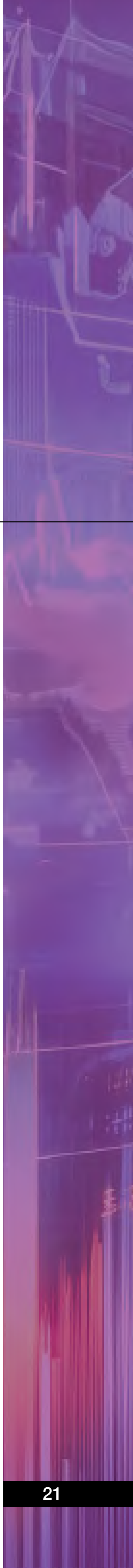
Invest in youth entrepreneurship development programmes to harness Angola's demographic dividend. With an estimated 65% of the population under the age of 25, Angola is in the pre-demographic dividend phase and needs to take proactive steps to create jobs and skills. With the second fastest demographic growth rate in Africa, annually 700,000 Angolans enter the labor market and 8 out of 10 people are in informal activities. Only 5.3% of the population has tertiary education and only 4% of Angola´s population have TVET qualifications. Reaping the benefits of the demographic dividend from Angola's young people would significantly depend on investment in human capital development, and creation of economic and job opportunities for young people. The Bank's ongoing investments of USD 90 million in the Science and Technology Project, as well as the planned operation for enhancing skills and entrepreneurship under the Jobs for Youth in Africa Strategy will provide opportunities for decent jobs, thereby creating hope for young people and women for a brighter future.

Launch an ambitious national digitalization programme for broad-based policy implementation to accelerate structural transformation. The Central Bank of Angola is working towards a competitive digital transformation of the financial system and is preparing a financial inclusion strategy and a mobile payment switch that is expected to be launched in 2024. The country is also making inroads into the satellite communications industry through ANGOSAT-2 – a satellite which is providing Angola with the means to minimize the digital divide, allowing commercial and social communication services for accelerated growth, improved services, and innovative contributions.

Take proactive actions to enhance the governance of macroeconomic policies and the business environment to improve risk profiling and perceptions, as well as harness innovative global capital and financial instruments needed to build capacity in project preparation. Angola needs to build capacity in project preparation and implementation, enhance the governance of macro-economic policies, and improve the investment climate so as to enhance risk profiling and perceptions. The country could emulate from the Bank's Strategy for Economic Governance in Africa and develop strategic reforms to promote transparency and accountability in public service delivery, thereby stimulating government effectiveness and creating business enabling environments.

3

FINANCING STRUCTURAL TRANSFORMATION IN ANGOLA: THE NEED FOR REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE



KEY MESSAGES

- **The Angolan authorities have stressed that the country needs secure and predictable access to financing with favorable repayment conditions to enable it to invest in economic infrastructure, science, technology, innovation, and ICT.** Moreover, they also note that a fair representation in the world's central decision-making bodies is crucial to changing the international financial architecture.

- **Domestic resource mobilization (DRM) is an important means of financing the State in Angola**. However, with oil, which accounts for 30% of GDP, contributing about 70% of government revenue, the revenue effort in the non-oil sectors is still very low. The non-oil sector is dominated by the informal sector. MSMEs are frail, with a high mortality rate. This implies that outside the oil sector the bigger firms take up the slack, and hence feel the pressure from the Angola General Tax Adminstration (Administração Geral Tributária) (AGT) more than others. This could be a disincentive for creating businesses in the country. Nonetheless, poor tax compliance is a serious factor, while there is evidence of outright tax evasion.

- **Eurobonds are now considered by several African countries to be feasible sources of financing for climate-resilient infrastructure projects or those targeted at greening the economy.** This is a cautionary tale of how the lack of affordable development financing impacts debt sustainability in African countries.

- **In broadening its search for financing alternatives, Angola is keen to take advantage of its prominence within the Lusophone community.** The community provides cultural and economic links to several continents, and offers opportunities for shared prosperity, including broader access to markets and capital.

- **A recent national dialogue on climate change financing held in Luanda urged the Government to be proactive in looking for climate funds, while also looking for ways of partly financing the climate-change agenda from its own domestic resources.** This would include exporting renewable energy and involving the private sector in climate actions, such as carbon credit trading.

3.1. Introduction

This chapter looks at Angola's efforts in expanding and diversifying its resource envelope at a time of broadening needs, thanks to climate challenges, but also because of the crucial social demands of its youthful population. The chapter examines Angola's views on the reform of the international financial architecture, while looking at ways through which the country could mobilize additional resources for development. Finally, the chapter discusses the evolution of Angola's debt, the nascent climate finance issue, and the lessons to be learned for the way forward.

3.2 Angola's stance on the need for reform of the international financial architecture

Angola has been a strong African voice concerning the need for reform of the international financial architecture. During the Summit of Heads of State and Government of the Group of 77 + China held in Havana, Cuba, in September 2023, President João Lourenço was unequivocal in stating that low-income countries, such as Angola, required access to secure and predictable financing, with favorable repayment conditions to enable them to invest in economic infrastructure, science, technology, innovation, and ICT. Achieving that objective, he noted, required fair representation in the world's central decision-making bodies and far-reaching reform of the international financial architecture. He hoped that such reform would, with time, perhaps make it possible for Angola and similar countries to become industrialized.

Angola deemed the financing received during COVID-19 from the IFIs to be timely and largely appropriate, but insufficient. The authorities used the SDR allocation of about USD 1 billion from the IMF to strengthen the international reserve and the budget. Given the enormous financing needs, nothing was left but to commit to resilience or alleviating the debt burden. Advocacy groups in Angola have argued that reforming the international financial architecture should also include strategies for enhancing financial sector capacities in low-income countries to respond to international mandates, such as anti-money laundering and financing of terrorism (AML-FT) legislation. For example, the Angolan Banking Association (ABANC) has noted that the delayed implementation of AML-FT in Angola was costly for banks in the country.

3.3 Domestic resource mobilization

Angola has depended primarily on oil revenue for several decades, while the non-oil sector's share has been below 30% on average. Already in 2010, the first AfDB Country Strategy Paper for Angola had noted that while oil had provided adequate resources for the Government, even allowing for a surplus, its undue dependence on oil implied a high risk of exposure to external shocks. This was the case for much of the 2010s. In 2019, Angola introduced excise and value-added taxes in a bid to raise revenue and enhance tax efficiency. Despite the impact of COVID-19, the new taxes have had a positive impact on non-oil revenue. Accordingly, while estimated oil revenue declined from 13.6% of GDP in 2022 to 11.9% of GDP in 2023, that for non-oil was pointing in the oppositite direction, rising from 9.6% of GDP in 2022 to 10.1% of GDP in 2023. However, with oil reveues declining, the total revenue has fallen, despite the slight increase in non-oil revenue. The Government has resorted to eliminating fuel subsidies and finding ways to tax the informal sector.

Taxing the informal sector in some form is a potential source of revenue. However, businesses in the informal sector operate in makeshift premises with limited supply of infrastructure and social services. Taxing the informal sector is fraught with political economy difficulties, as the bulk of those making a living in the informal sector do not feel obliged to pay taxes (Projecto RETFOP, 2021), have relatively low income, and operate in makeshift premises. The Government will need to break their latent resistance by extending modern services to the informal sector, and to educate sector participants on the importance of of paying taxes.

Growing the private sector, as well as encouraging public private partnerships (PPPs), have been a key strategy of the Government. At the end of the 2010s, the Government introduced a Revised Private Investment Law of 2018, followed by a Privatization and PPP Law (2019), both expressly targeted at improving the business environment in the country. However, AfDB (2023) has observed that in Angola PPPs have been most popular among the sectors that currently enjoy subsidies from the Government, so the partners are essentially rentseekers that would not want to allow the businesses in which they are involved to graduate and start paying taxes.

3.4 Mobilizing additional resources for Angola's transformation

In 2011, the Government, by presidential decree, established an oil fund worth USD 5 billion, with administrative, financial, and asset autonomy. In June 2013, the oil fund became "Fundo Soberano de Angola" (FSDEA), the country's sovereign wealth fund. It has three operating principles: first, savings and transfer of wealth to future generations; second, maximization of returns; and, third, fiscal stabilization. FSDEA's investment policy categorically states that not less than 20% and not more than 50% of its portfolio would be invested in treasury bills and other securities in G7 economies, while the rest would be invested in high return emerging markets. [16] FSDEA can be a powerful vehicle for Angola to manage its resource wealth, while learning how to operate within the multifacted global finance climate. However, given the political turbulence of the 2010s, FSDEA has adopted a cautious investment stance overall.

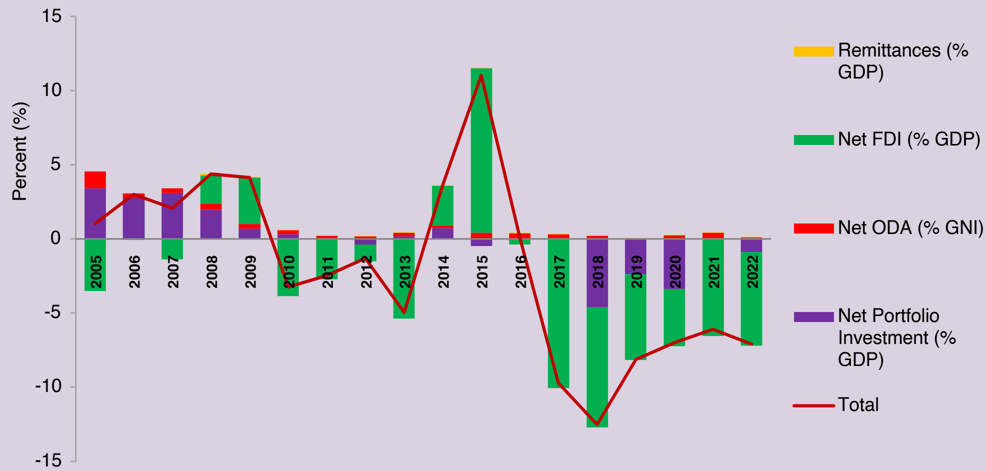
Angola returned to the Eurobond market in 2022 for the second time since 2015. The post-COVID-19 inflows from IFIs delayed the fiscal crisis, but were insufficient, given the pressing need for growth and climate action. It issued a 10-year bond worth USD 1.75 billion, oversubscribed twice over, with a yield of 8.75%[17]. The sale attracted much interest from US and EU institutions. The Government and other stakeholders saw it as a vote of confidence in the economy, given its improved rating by S&P from CCC+ to B-. It is a possible gate opener to increased private investment and, in the absence of extreme weather conditions and other external shocks, could herald a period of high and sustainable growth levels. However, it is somewhat a cautionary tale that in the absence of cheaper alternative forms of financing for low-income countries, Eurobonds, with such short tenure and high coupon rates, are considered by many African countries to be feasible sources of funding for climate-resilient infrastructure projects or for those targeted at greening the economy.

Angola established a Capital Market and Stock Exchange in 1997, which underwent several iterations. However, it was not until Bolsa de Dívida e Valores de Angola (BODIVA) was established by Presidential Decree in 2014 that operations started in earnest. By 2015, it had

16 Its website indicates that FSDEA has invested USD 1.1 billion in the Africa Infrastructure Capital Venture Fund,essentially focused on Angola, which would account for over 20% of its portfolio. During the pandemic, the fund was de-capitalized for USD 2.5 billion to support the treasury, with USD 1.5 billion to be repaid. In 2024, FSDEA revised its investment policies allowing the fund to invest part of its resources in alternative projects in value chains in the domestic market (e.g., forestry, cash crops, vegetal and animal protein, fertilizer production, pharmaceuticals, etc.). The fund is also embarking on mainstreaming environmental and social governance principles in all its investments.

17 High borrowing costs stifle Angola's structural transformation. For instance, empirical evidence (AEO, 2024) shows that in 2021 alone, and even after discounting for the risk related to COVID-19, African sovereign Eurobonds were issued with yields above 5% and, in five countries, yields exceeded 8%. In contrast, the average sovereign bond yield for advanced economies was 1.1% and 4.9% for emerging market economies.

Figure 3.1: Angola: External Finance Flows



Source: Own Computation based on World Development Indicators (2024) data

launched over-the-counter trading operations. It has 20 members, with several companies lining up for membership, while the BNA is an associate member. Moreover, it auctions treasury bills in a secondary market. In 2018, the Exchange introduced an investor portal online, complete with a market simulator, and by 2020, it had reached a turnover of AOA 1 billion (about USD 2 million). Importantly, BODIVA is facilitating the privatization programme, launched in 2019 by the Government, which includes several companies in the finance and petroleum sectors. In 2021, the Bank of Commerce and Industry was privatized through an auction organized by BODIVA. Ultimately, liquidity is the lifeline of the exchange, and even though it is growing, BODIVA's current turnover is modest. In 2022, BODIVA exchanged memorandums of understanding with the stock exchanges of Mozambique and Cabo Verde, intending to benefit from the joint experience. Nonetheless, BODIVA could do well to check out possibilities for cross-referencing and learning from the much larger and dynamic Johannesburg Stock Exchange.

In recent years, remittances have become a prominent means of financing balance of payments gaps for low- and medium-income countries across the globe, sometimes exceeding foreign direct investment.[18] However, this phenomenon has been curiously missing in Angola. The nominal volume of remittances from the Angolan diaspora and others has never exceeded its peak of USD 82 million in 2008 (0.09% of GDP) and hovered around USD 5 million per year during the 2010s, but have since declined to residual levels of 0.01% of GDP in 2022 (Figure 3.1). The reason for such low levels of remittances is partly linked to Angola's colonial legacy and location. In colonial times, Angolans did not migrate to South Africa to work in the mines because of the distance. On the other hand, the civil war drove populations into neighboring countries, not to the West, where the bulk of the remittances to Africa came from. However, Angola has huge personal remittances that are going in the opposite direction. After reaching a peak of 11.2% of GDP in 2025, FDI inflows – mostly channeled to the oil sector - have

18 For example, figures from AfDB's Statistics Department indicate that Mozambique's remittances amounted to 5.7% of GDP in 2019, compared to FDI inflows of 5% of GDP the same year.

declined sharply and have been volatile in tandem with global oil prices.

For a long time, the countries belonging to the Lusophone Africa region had taken something of a backseat in asserting their common needs and crafting strategies for strategic collaboration. However, that changed with the creation of the nine-member Community of Portuguese Language Countries (CPLC), which also has some 33 associated countries, in 1996. Angola is keen to take advantage of the Community's cultural and economic links to push for shared prosperity, including broader access to markets and capital in the global arena. The frequent visits to Angola by President Lula da Silva of Brazil, current leader of the G20 Group, augurs well for the country's rising regional profile. During his last visit to Angola in early 2024, he and President João Lourenço signed several cooperation agreements, including Brazil's crucial support for the transformation of the agricultural sector.

3.5 Dealing with Angola's debt

Angola's commitment to economic diversification reform and building of strong external buffers have ensured a stable outlook by major credit ratings agencies. This is the same outlook that had been given to the country in late 2022 and what S&P gave in February 2022, before Angola went to the Eurobond market later in the year. At the same time, steady progress is being made to gradually reduce dependence on oil for revenue and exports as diversification is a pillar of the transformation strategy. The rating agencies point, in mitigation, at its high international reserves in comparison to to its peers and the fact that a substantial portion of the debt is contracted on concessional terms from bilateral and multilateral donors. A relatively large fraction of the external debt (40%) and some domestic debt is owed to State-owned companies and banks in China. The Government created an escrow account attached to its oil earnings to guarantee servicing of the Chinese debt. However, China has been a crucial partner in constructing and repairing the country's infrastructure, which was destroyed during the civil war.

Looking ahead, Angola is developing a debt strategy based on a well-managed but diversified debt portfolio. It aims to issue regularly on the Eurobond, for both signaling and portfolio reasons, like the bond issue it undertook in 2022, which enabled it to retire part of a more expensive earlier issuance. In addition, Angola has, since 2018, adopted a stated policy of maximizing multilateral debt over bilateral. However, as noted earlier, Angola's debt sustainability will be determined by the oil sector's performance for an exceedingly long time in the future.

3.6 Financing climate action

Angola contributes only a small fraction (0.25%) of global greenhouse gas emissions. However, official estimates suggest that it will be one of the most affected by climate change in Africa. Its ranking on the climate vulnerability index is 144th out of 192 countries, putting it in the last quartile of the most affected countries in the world. As regards "readiness," defined by Notre Dame University, the owner of the index, as "the country's ability to leverage investments and convert them to adaptation actions," the country ranks 171st of 192 countries. The incessant floods in the capital, Luanda, exacerbated by poor infrastructure and uncontrolled urban growth, as well as more frequent drought conditions in the south, tend to cause severe damage to infrastructure all over the country, demonstrating Angola's precarious situation as climate change effects escalate. The World Bank (2022) has estimated that from 2005 to 2017, Angola's adverse weather and related climate-change impacts destroyed farms, infrastructure, housing, and other assets worth some USD 1.5 billion.

Angola submitted its first nationally determined contribution (NDC) to UNFCCC

Accelerating structural transformation in Angola and the rest of Africa will require a reform of the global financial architecture that can help mobilize resources on affordable terms to support growth, poverty reduction and intended climate change needs to enhance resilience

in Paris in 2011 and a revision in 2020. As the Green Climate Fund (2023) noted, the cost for Angola's identified NDC mitigation contribution through 2025 is estimated at USD 44 billion, and USD 144 million for adaptation contribution. However, due to lack of data and technical expertise, many estimates of the required resource packages are imprecise. In any case, the sums are often bigger than what the international community is willing to spend on a single country.

A recent national dialogue on climate change financing in Luanda in April 2024 briefly brought out the funding issue. First, several participants suggested that the authorities need to be proactive in looking for climate funds. Finding all the information required for Angola to access climate funding sources was necessary. Moreover, the Government needs to explore ways of ensuring that the resources will be accessible at decentralized government levels, reduce unnecessary bureaucracy, and provide good governance and transparency. It is also necessary to know where they are found and how Angola could apply for them as much as possible. Secondly, activating the National Climate Fund, suggested by the National Strategy for Climate Change, was crucial to start mobilizing resources and for the National Commission for Climate Change and Biodiversity to implement climate action. In conclusion, participants underscored various ways in which parts of the climate change agenda could be financed from their own domestic resources. This would include exporting renewable energy and involving the private sector in climate actions, such as carbon trading. Beyond climate financing, efforts towards integration of circular economy and green growth into policy development with focus on aligning sustainability initiatives with economic objectives are critical.

3.7 Discussion and policy recommendations

The current international financial architecture is not very favorable for financing the structural transformation of Angola. Indeed, the country is facing several constraints, including the unfavorable risk perception on the international capital market, and relatively high risk ratings from international financial agencies, a downward trend in official development assistance and climate financing largely outside the identified needs.

- **Adding the country's voice to benefit from acceleration of greater low-cost concessional financing for development.** On its own, Angola may not be able to influence the nature and shape of the current international finance architecture. However, together with other African countries, agencies, and supporters from the broader international community, it is possible to make change happen. This coalition of the willing needs to be categorical about what is required to change the financing of African development more sustainably, while also making it plain that African governments are willing to commit to good governance and accountability.

- **Adding the country's voice and benefit from reform of the global debt architecture to make it more transparent, nimble, accessible, and affordable to developing countries**. Angola could add its voice alongside the group of African Negotiators as they engage with Credit Rating Agencies (CRAs) to improve their rating criteria by taking into account the value of natural capital, among others, in assessing a country's debt risk profile. This includes reforms to reduce the amount of subjectivity in credit ratings assigned to African countries by increasing transparency and distinguishing between the model-based and discretionary components of their sovereign ratings. In that regard, efforts to accelerate the creation by the African Union of an African Credit Rating Agency (ACRA) should be pursued. African countries, including Angola, could also argue for more transparency in lending terms and conditions through voluntary disclosure of information, to avoid being trapped into signing contracts for resource-backed loans, etc. Bilateral creditors should also facilitate debt restructuring mechanisms under the G20 Common Framework.

- **Angola needs to adopt reforms to strengthen its national climate fund and disaster management systems** with appropriate and independent governance structures. This should be complemented by IFIs' proactiveness in first introducing and using State-contingent debt instruments (SCDIs) and making a concerted effort to incentivize widespread adoption of sovereign SCDIs to support better public debt management, climate-proofing of public finances, and facilitating faster response with a built-in debt deferral mechanism for pre-agreed shocks, to help avoid further human suffering and economic loss. The uptake of SCDIs would help move governments in developing countries, including Angola, towards faster and more reliable post-disaster finance.

- **Angola could join the group of African countries and advocate for a stronger voice of the continent in MDBs and IFIs, aligned with the growing continent's share of world GDP and population.** For instance, the G20 could expand its membership beyond South Africa and the African Union by inviting two or three more African countries. The IMF and World Bank could further democratize their decision-making processes by introducing a double majority rule for most decisions (majority of shares plus majority of member countries) and change the rules allocating IMF quotas and voting rights at the World Bank to reflect new economic and demographic realities.

- **Angola could add its voice to the group of African countries and advocate for reform of the GFA, particularly the ways in which investments needed to deliver on global public goods**—especially climate and pandemic preparedness—as well as on the SDGs, are channeled. The current system has been unable to mobilize adequate financing for the continent, and Angola, in particular. To meet these financing challenges, the world needs a global financial architecture that can support the development of new and innovative financing mechanisms and mobilize resources at scale and affordable cost to fund sustainable development.

- **Climate financing is a major new theme for Angolan policymakers and other African countries to consider.** Tackling the climate crisis will require significant investment in climate mitigation and adaptation infrastructure across multiple sectors including energy and agriculture, and in adaptation for water and health. The country hosts a wealth of both natural and human capital, with a growing, increasingly educated and young labor force, as well as large reserves of oil and gas mineral resources - both of which are required for a green transition. The country's enormous renewable energy potential, particularly wind, solar, and hydro-power, make it an extremely attractive prospect for private investment. Angola could leverage sustainable climate finance resources and innovative mechanisms (e.g., green bonds, blue bonds, and sustainability bonds) from MDBs, bilateral donors, and DFIs for adaptation projects that are directly linked to development and economic transformation. The country could also tap into the African Green Banks Initiative (AGBI) launched by the African Development Bank and benefit from blended finance instruments for climate financing, technical assistance, and green finance facility (e.g., equity and subordinated debt, and debt financing).

- **Lastly, Angola has been called a low middle income country for at least one decade, but it has resisted getting off the formal list of LDCs at the UN (2023)**. It fears that formally becoming a middle-income country could jeopardize the duty-free access to advanced markets that it currently enjoys. However, as the saying goes, “if you are at the fork of the road, take it.” Angola will have to make some hard decisions in its bid to promote structural transformation and fully occupy its place among middle-income countries.

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