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ANGOLA

SELECTED ISSUES

February 6, 2025

Approved By
The African Department

Prepared by Carmen Avila-Yiptong, Zviad Zedginidze, Victor Duarte Lledo, and Marco Miguel (all AFR).

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HARNESSING NON-OIL ECONOMIC GROWTH: ECONOMIC DIVERSIFICATION IN ANGOLA[1]

A. Introduction

1. **The decline of oil revenues in 2023 underscore the critical need for economic diversification in Angola.** A combination of lower oil production—driven by prolonged maintenance operations at key oil fields—and a drop in global oil prices in the first half of the year led to a 22 percent reduction in oil exports.[2] Separately, the conclusion of a debt moratorium from bilateral creditors raised external financing needs. Consequently, the external and fiscal positions weakened, the exchange rate depreciated, inflation spiked, and economic growth slowed. While recent, this episode illustrates the recurring risks of oil dependency and urgency of diversification efforts.

2. **IMF research, along with the broader literature, demonstrates a strong relationship between economic diversification and enhanced macroeconomic performance in developing countries** (Deléchat et al., 2024). This includes greater macroeconomic stability and faster growth, leading to higher per capita income and improved living standards. For one, diversification helps attract foreign investment, generate employment, and drive rapid output gains in emerging sectors, especially from a low base. For another, diversification, by broadening economic activities, enhances the economy's resilience to shocks and reduces its vulnerability to commodity-driven boom-bust cycles. Moreover, economic diversification is crucial for mitigating transition risks in the context of global decarbonization efforts and the anticipated decline in worldwide oil consumption.

3. **While Angola's reliance on oil has somewhat declined over time, it remains markedly high relative to other sub-Saharan African countries.** Currently, 25 percent of GDP and 60 percent of fiscal revenues are attributable to the oil sector in Angola. Amongst exporters of oil in sub-Saharan Africa (SSA), Angola ranks third in terms of having the greatest share of oil exports to total goods exports (94 percent). Moreover, Angola's performance in key governance and logistic metrics is below the SSA average, with poverty and human capital outcomes also lagging.

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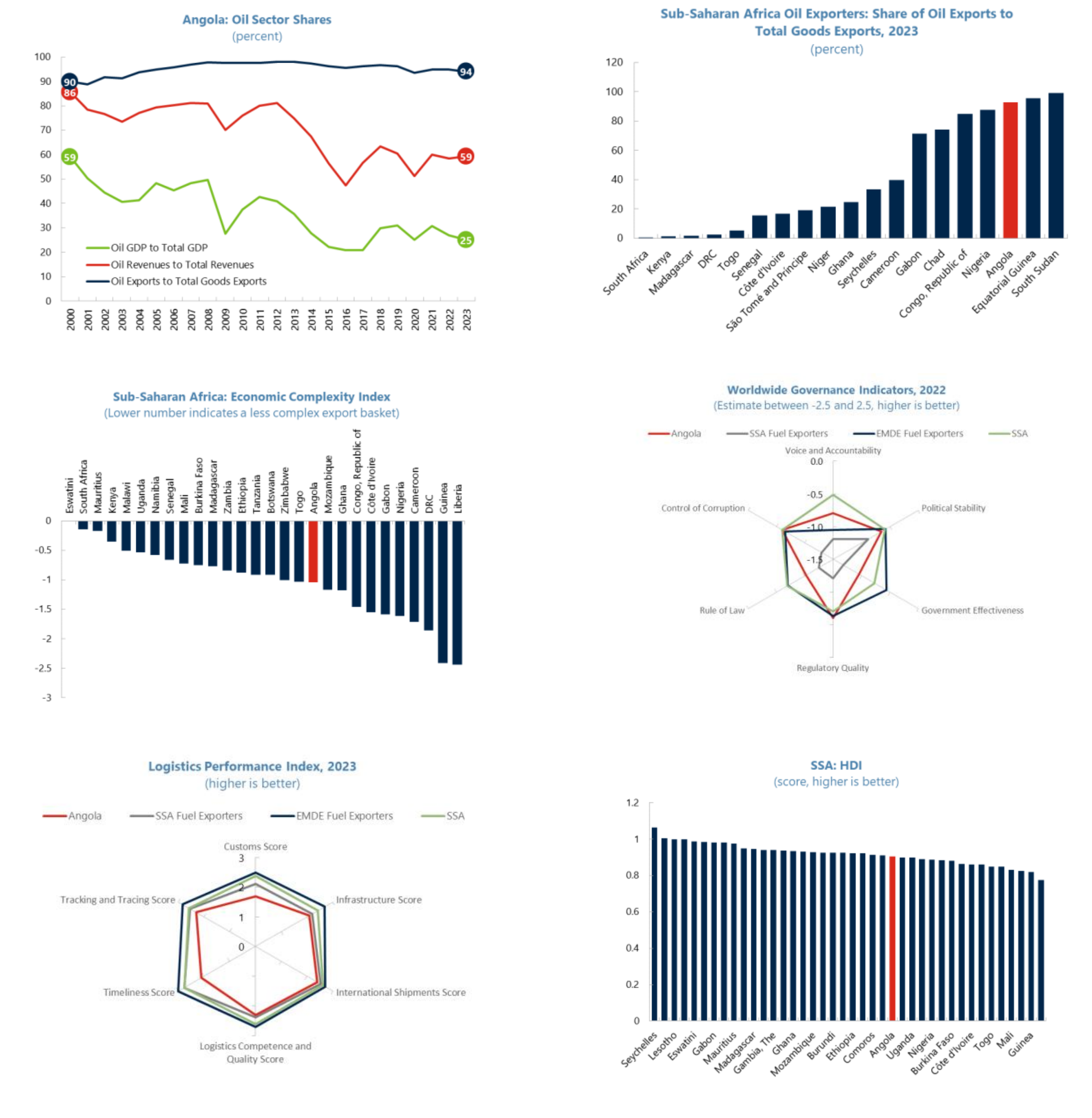
[1] Prepared by Carmen Avila-Yiptong and Zviad Zedginidze.

[2] IMF staff estimates relative to 2022 crude oil exports.

Figure 1. Angola: Oil Dependence



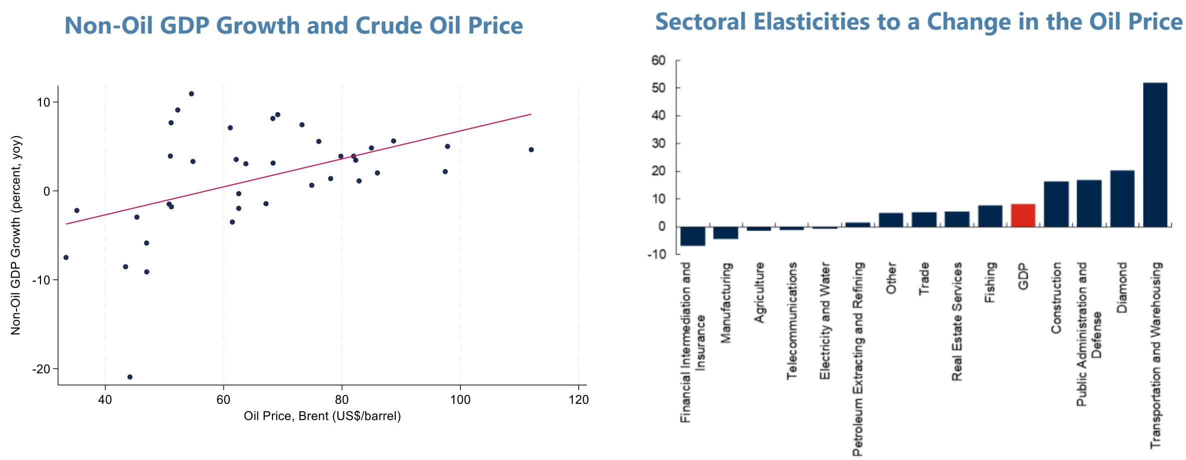
Sources: Angolan authorities, Harvard Economic Complexity Index, World Bank Worldwide Governance Indicators and Logistics Performance Index, World Economic Outlook, and IMF staff estimates.

4. **More than three-quarters of the Angolan economy depends on the oil sector.** Using quarterly GDP growth data between 2014 and 2024, staff estimate that 83 percent of Angola's GDP benefit from higher oil prices.[3] Non-oil GDP growth is also driven by higher oil prices with a

[3] To analyze each sector's dependence on the oil price, we estimate the following equation, $g_t^s = \beta^s log P_t + \varepsilon_t^s$ where g_t^s represents the year-on-year quarterly GDP growth in a given sector, P_t represents the Brent crude oil price, and ε_t^s represents the error term. In other words, β^s is the change in the growth of a given sector brought upon by change in the price of oil (i.e., the elasticity of each sector).

correlation of 47 percent between the two. Transportation, mining, public administration, and construction are the most impacted by the spillovers from the oil sector, with an average elasticity of 22 percent (Figure 2). On the other hand, the analysis shows that growth in the agricultural sector does not move in tandem with oil prices, thus underscoring its potential to support economic diversification.

Figure 2. Angola: Dependence on the Price of Oil



Sources: Instituto Nacional de Estatistica and IMF staff estimates.

5. The authorities' National Development Plan (NDP 2023–27) serves as a medium-term strategy for supporting higher and more diversified economic growth. The plan focuses on regional economic integration, human capital development, food security, and socio-economic progress. The plan also emphasizes governance reforms, infrastructure modernization, and environmental preservation. The NDP aims at a long-term annual overall GDP growth of 3.0 percent, with a 5.0 percent annual growth in non-oil GDP. Emphasizing private sector-led diversification and food security, the NDP highlights agriculture, livestock, and industry as key sectors, with policies geared towards production, export diversification, import substitution, and economic stability.

6. Despite the government's focus on promoting non-oil sector growth, several obstacles persist. A recent UN report (2024) highlighted that, with the current public spending plans included in the NDP, only 47 percent of the Sustainable Development Goals (SDGs) will be attained in Angola by 2030. Among these goals, several related to economic growth, industrialization, infrastructure, poverty, and financial access are considered "off track." More broadly, four key obstacles to Angola's diversification include (i) access to credit, (ii) a mismatch in workforce skills, (iii) an inadequate infrastructure stock, and (iv) challenges in the broader business environment (IMF, 2022). The recent surge in import substitution measures also requires careful consideration due to its negative impacts on access to raw materials, increased consumer prices, and heightened regulatory hurdles for businesses.[4] Moreover, IMF research (IMF 2024b) suggests that while well-designed and effectively implemented industrial (vertical) policies can address market failures, the bar for success is high. Alternatively, lessons from other countries show that broad-based (horizontal) policies—such as maintaining macroeconomic stability, improving infrastructure, developing human capital, and fostering competition—are crucial for diversification.

7. This paper explores the main barriers to economic diversification in Angola and discusses policy recommendations. Drawing on extensive IMF research, the paper provides actionable strategies for fostering economic diversification in Angola's specific context. Section II tackles the issue of skill mismatches, discussing potential remedial policies for addressing human capital constraints and supporting workforce development based on other countries' experiences. Sections III and IV identify key drivers for enhancing productivity, with particular attention to the supply of public infrastructure and the role of the business environment in attracting foreign investments to supplement scarce domestic savings. Section V delves into distortions in financial intermediation, focusing on the structural barriers limiting private sector credit access. Finally, Section V concludes with recommendations, outlining key policies to implement in the current political context.

B. Improving Human Capital: Bridging the Skills Gap

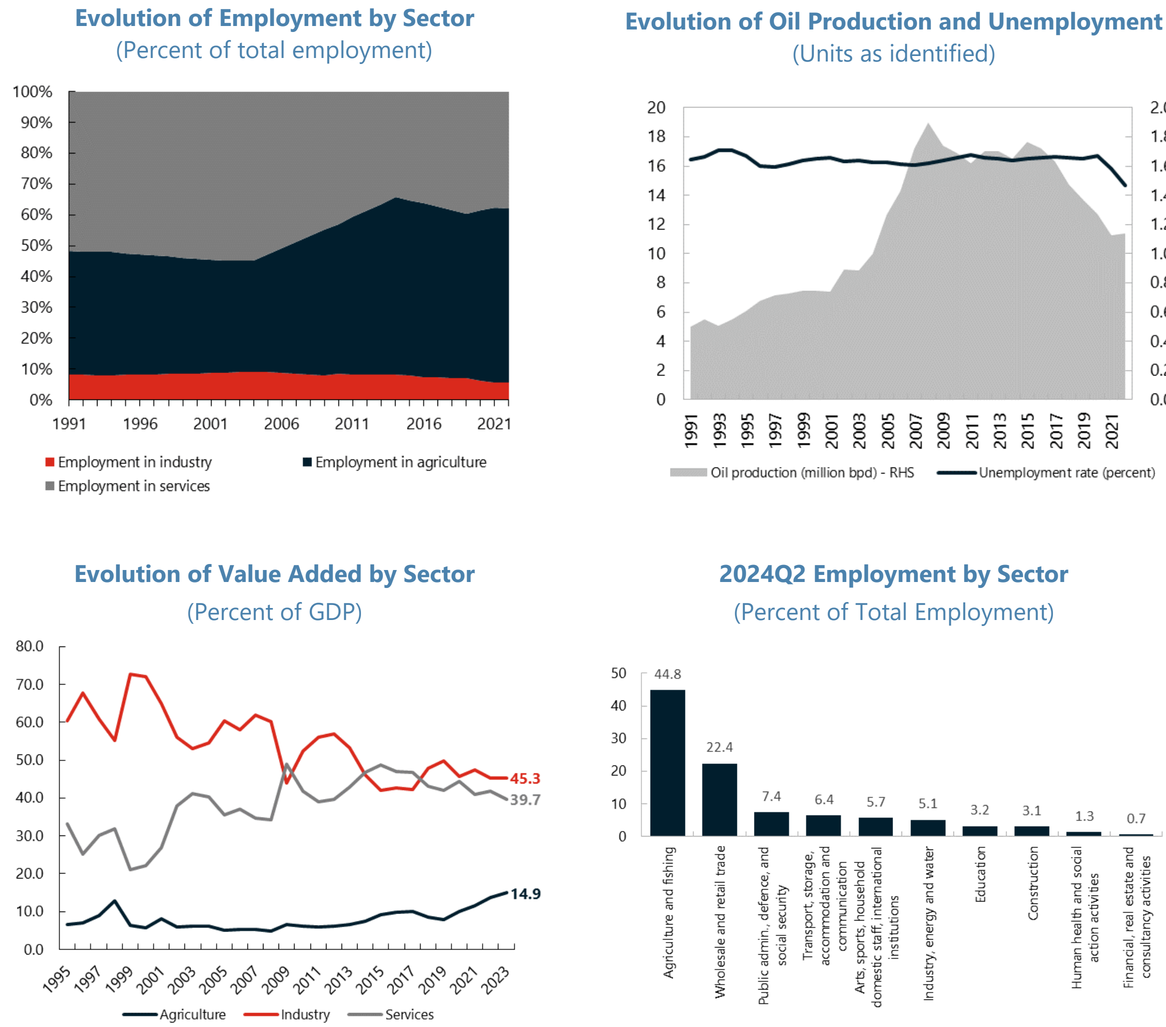
8. While Angola's economy has heavily relied on oil, employment remains concentrated in the non-oil sector. As oil production climbed in the mid-1990s to the early 2010s, unemployment and the share of employment in the industry sector have been flat (Figure 3).[5] At the same time, employment in the agriculture sector has steadily increased and, currently, represents almost half of total employment.[6] This suggests that economic activity in the oil sector has not translated into robust job creation and labor market opportunities. In fact, resource-intensive countries in SSA like Angola tend to create fewer jobs from economic growth due to their reliance on low-employment resource extraction activities (IMF, 2024a).

[4] Angolan authorities have implemented import substitution measures to promote national production and accelerate diversification. For example, Presidential Decree 213/23 mandates licensing prior to importing a broad range of consumer goods. Broader government initiatives, such the Program for National Production Support, Exports Diversification, and Import Substitution (PRODESI) and the National Plan for the Promotion and Development of Livestock (PLANAPECUARIA), include import substitution measures, along with other policies efforts, to boost domestic production.

[5] The industry sector includes mining and quarrying, manufacturing, construction, and public utilities (electricity, gas, and water).

[6] These estimates include both formal and informal employment.

Figure 3. Angola: Employment Indicators



Sources: International Labor Organization, World Bank World Development Indicators, Instituto Nacional de Estatistica, and OPEC.

9. A large part of Angola's labor market is concentrated in the informal sector—currently estimated at around 80 percent (Instituto Nacional de Estatística, 2024). This is coupled with limited educational attainment and workforce skills. The average years of schooling in Angola is 5.8 years. While secondary school enrollment has reached 54 percent, less than a quarter of the population above 25 years old has completed upper secondary school. This points to the large share of under-skilled workers in Angola's labor force, which may lack the necessary skills to harness non-oil opportunities. In fact, the latest World Bank Enterprise Survey shows that 26 percent of surveyed firms find that an "inadequately educated workforce" is a severe business constraint in Angola.[7]

[7] The latest World Bank Enterprise Survey for Angola was conducted in 2010. The Sub-Saharan Africa average for firms identifying an uneducated workforce as a severe business constraint is 15 percent.

Moving forward, these education outcomes will be particularly relevant for Angola's economic diversification and resilience, as 65 percent of the population is between the ages of 0 and 24 years old.[8]

10. Enhancing human capital and boosting workforce skills is critical for economic diversification. Better human capital outcomes can translate into a more productive workforce which can meet the needs of higher value-added sectors and attract foreign investment. While broader human capital improvements, including better health conditions and gender inclusion, offer valuable pathways for boosting economic diversification, this analysis will focus on education policies for addressing the skills gap in Angola. Extensive literature has shown that education and human capital performance are strongly associated with diversification. In fact, after trade openness, improving secondary education enrollment is the most important driver of export diversification in commodity-exporting countries like Angola (Giri et al., 2019).

11. The NDP includes ambitious policies to improve education, employment, and innovation outcomes.[9] The authorities plan to increase educational attainment, literacy rates, and the population's employability – particularly youth employability. This will be achieved through the expansion and modernization of the education system, including improved access to technical and vocational training. The NDP aims for greater education-related spending for increasing the number of teachers, boosting digital access and literacy, encouraging business innovation and entrepreneurship, and increasing internship and trainee programs. The 2025 General State Budget has allocated 2.2 trillion Kwanzas to education-related expenditures (2 percent of GDP in 2025) with some of this spending earmarked for education modernization, education-related public investment projects, and efforts to boost labor market skills. Although this represents a modest increase relative to 2024, it still falls short of the SSA average of 5.8 percent of GDP.[10]

12. Human capital and education investment reforms support diversification.[11] Emerging economies have implemented various education policies to spur economic and structural transformation, including:

- **Targeting education outcomes to serve priority sectors:** India shifted its economic structure towards services exports by applying a suite of policies, including investments in tertiary education, to develop a pool of educated English-speaking workers who could serve the services export sector (Deléchat et al., 2024). As a result, the value-added from the services export as a

[8] See World Bank (2024) for additional analysis on the policy gaps and opportunities relating to youth employment in Angola.

[9] The NDP is centered around two pillars: (i) boosting domestic production and employment and (ii) improving human capital.

[10] The SSA average is calculated excluding Angola using the latest available data from the World Bank. The share of education spending to GDP for Angola is calculated using the numbers from the budget and differs from World Bank historical data. This difference may be explained by differences in data coverage as the World Bank data includes general government current, capital, and transfer expenditures, as well as spending funded by international transfers to the government.

[11] See Deléchat et al. (2024) for various emerging market country cases of the application of diversification policies.

share of GDP rose by more than 20 percentage points since 1990. This economic transformation highlights the importance of prioritizing strategic public investments in education that boost the relevance of skills and strengthen the competitiveness of the labor force to respond to the changing economic needs.

- **Expanding technical and vocational education and training (TVET):** As part of Vietnam's Doi Moi ("rejuvenation") initiatives for macroeconomic transformation in the late 1980s, vocational and specialized training centers were established to meet the needs for skilled personnel in key manufacturing and trade-oriented sectors (Baum, 2020). The prioritization of "out-of-school" training was executed by setting up TVET training establishments across the country, including both highly populated urban centers and rural areas. With the contribution of TVET reforms, manufacturing exports as a share of total merchandise exports grew by 40 percentage points, reaching 86 percent from the 1990s to 2022. The emphasis on TVET has helped address supply-side constraints in employment and labor productivity, including the skills gap (i.e., developing job-relevant skills amongst the labor force) and mobility challenges (i.e., mismatch between rural workers and access to relevant training).

- **Coordinating human capital objectives and national economic development planning:** By linking its education objectives with its national development plans, Korea successfully supported its transition to a high-income economy with a robust services sector. Coordination and collaboration between relevant government ministries has been a valuable component in boosting human capital development (Soh et al., 2023). Since the 1960s, the country has utilized inter-ministerial committees and policy councils, which include ministry representatives and private sector and human resource development experts, to develop coherent and coordinated education and growth policies. Coordination with the private sector in delivering education can also provide a worthwhile effort in improving education delivery efficiency and quality, strengthening curriculum relevance and design, and mobilizing additional funding for human capital development (e.g., Mauritius).

13. Efforts to improve the labor force's skills will serve Angola well in its pursuit of diversification. The plans outlined in the NDP hold promise for the country's diversification needs as a more qualified and skilled workforce will better respond to the evolving demands of the labor market. At the same time, a more qualified and trained workforce will be better able to seize new opportunities from economic diversification and transformation, including the shift towards decarbonization. However, targeted and strategic reforms will be imperative in boosting labor market skills and advancing the diversification agenda while balancing Angola's funding challenges and need for fiscal consolidation. The authorities should:

- Further investigate and execute targeted policies to address the skills gap in high-priority, emerging sectors vis-a-vis improved public investment efficiency and job-relevant and innovative education curricula and vocational training that meets the private sector's needs.

- Seek to boost coordination amongst the different government actors involved in the execution of the NDP, while also consulting private sector stakeholders who could support the development and the delivery of human capital formation policies.

14. Broader structural reforms could also help boost Angola's human capital outcomes. A recent IMF staff discussion note (Budina et al., 2023) finds that "first generation reforms" (i.e., governance, business regulation, and external sector reforms) boost human capital formation through an increase in secondary and tertiary school enrollment. The authors attribute this increase in education enrollment to various channels, including greater competition and exposure to more productive foreign firms as well as the adoption of new technology.[12] This underscores the importance of broader governance, regulatory quality, and trade reforms for supporting Angola's ability to climb the export quality ladder, which will be investigated in the following section. A holistic approach to addressing growth and structural bottlenecks will therefore enable Angola to boost its workforce's skills and qualifications.

15. In addition, addressing Angola's weak social infrastructure, particularly newborn and children health outcomes, will be important to support medium- and long-term diversification. Although this section has focused on the importance of workforce skills and education, efforts to diversify the economy will also depend on the authorities' ability to develop a strong and healthy workforce. Angola's future growth could benefit from the demographic dividend (i.e., the large pool of working age citizens relative to the non-working age population). Currently, 45 percent of the population is between the ages of 0 and 14. However, without supportive policies to tackle malnourishment and stunting, poor vaccine access, and inadequate water and sanitation services, the economic impact of the next generation's workforce may be limited. The emphasis of human capital development in the NDP is encouraging and further efforts to reallocate budget resources to these social infrastructure needs will be crucial.

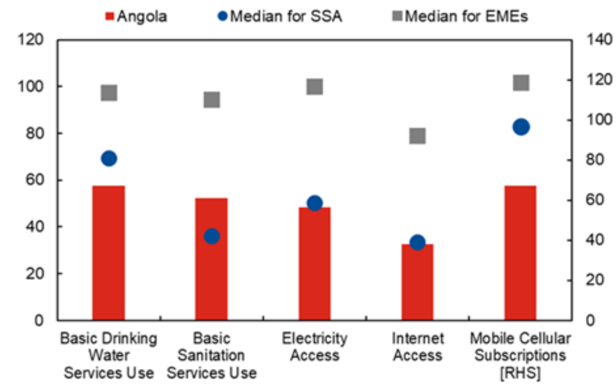
C. Driving Total Factor Productivity: Addressing Critical Infrastructure Needs

16. Public investment in infrastructure offers a pathway to diversification by boosting the economy's productive capacity and output. Infrastructure investment can raise output by (i) increasing aggregate demand in the short-run vis-a-vis the fiscal multiplier and the potential crowding in of private investors and (ii) expanding total factor productivity in the long run vis-a-vis a larger infrastructure stock (IMF, 2014). These investments can also facilitate and promote growth by acting as enablers for other economic activity along the value chain (e.g., improving the efficiency of the movements of goods, services, and labor; facilitating business operations; and, reducing business costs). High-quality and efficient infrastructure, coupled with macroeconomic stability, increases productivity thus allowing a country to be better positioned to diversify its economy and leverage high-value, emerging sectors.

[12] See Diouf et al. (2024) for elaboration on the channels through which the adoption of digital technologies can promote diversification.

17. Infrastructure development in Angola lags behind its peers thus presenting challenges to productivity and business investment. A large share of the Angolan population still does not have access to basic infrastructure services (Figure 4). Moreover, 36 percent of firms in Angola note electricity as a severe constraint on their business operations.[13]

Figure 4. Angola: Infrastructure Access
(LHS, percent of population; RHS, per 100 persons)



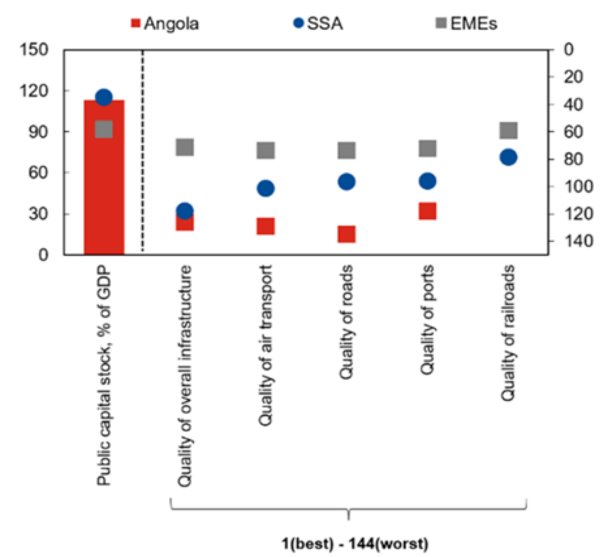
Source: IMF Expenditure Assessment Tool.

Note: Data presented in the graph is for the latest available value.

18. At the same time, public investments seem to have had a limited impact in improving the coverage and quality of infrastructure landscape. Public capital expenditure has averaged 7 percent of GDP over the last two decades, yet a significant infrastructure deficit persists. In fact, infrastructure quality in Angola is consistently below its SSA and emerging market peers across multiple metrics (Figure 5).

19. The NDP and the authorities' long-term development plan, "Angola 2050", highlight infrastructure modernization as a key pillar. The authorities plan to build and modernize infrastructure that will support economic activity in domestic production and tourism, among others. While this holistic approach is welcomed, the infrastructure quality gap raises questions on public investment management and efficiency, including project allocation, cost-benefit analysis, and fiscal sustainability.

Figure 5. Angola: Infrastructure Quality
(LHS, percent of GDP; RHS, rank)



Source: IMF Expenditure Assessment Tool.

Note: Data presented in the graph is for the latest available value.

20. Although infrastructure development is a core component in Angola's diversification plans, improving the management and efficiency of public investment is paramount. An IMF study (2015) finds

[13] World Bank Enterprise Survey, 2010.

that countries with better public investment management (PIM) tend to have greater infrastructure quality and economic growth. This indicates that transparent and well-governed practices relating to the planning, allocation, and implementation of public investment projects are essential for Angola to benefit from the productivity enhancements and growth benefits of infrastructure projects (Figure 6). Policies and practices to boost the stock and quality of infrastructure per unit of government spending, i.e., public investment efficiency (PIE), are also required to improve the value for money from making public investments.

Figure 6. Angola: Public Investment Performance

Source: IMF, 2015.

21. Ongoing efforts to modernize Angola's legal framework for public investment are welcomed. Under the direction of the Ministry of Planning, institutional reforms are taking place to update and streamline the rules relating to the approval of public investment projects. These updates will also align the public investment framework with the NDP. The authorities are encouraged to align these institutional reforms with the recommendations made by the IMF's 2019 Public Investment Management Assessment (PIMA). Strengthening PIM and PIE will support the country's diversification plans and its ability to capitalize on the opportunities presented by the Lobito Corridor.[14] Boosting capacity in project appraisal and monitoring to minimize leakages of public funds and cost overruns will also be important. Capacity development should be done in tandem with the review of institutional and legal frameworks for assessing public private partnerships (PPPs) to reduce corresponding fiscal risks and to increase the "payoff" of making such infrastructure investments.

22. Finally, strengthening macroeconomic stability is a prerequisite for advancing Angola's diversification plans. Bolstering the macroeconomic environment helps create fiscal space and reduce debt financing costs for necessary infrastructure spending. Along with efforts to reduce inflation and improve local currency debt markets, fiscal discipline, debt sustainability, and adherence to the Fiscal Sustainability Law are of utmost importance.[15] Aligning the medium-term fiscal framework with infrastructure development and maintenance needs is recommended. In

[14] The Lobito Corridor is a railway network that connects the Democratic Republic of Congo, Zambia, and Angola to the Lobito port, acting as a gateway for international and regional trade. A multinational initiative is underway to improve the infrastructure along the Corridor and to invest in related sectors to boost growth, promote capital investment, and facilitate trade.

[15] Angola's Fiscal Sustainability Law sets a government debt target of 60 percent of GDP and non-oil primary deficit target of 5 percent of GDP.

addition, the easing of pro-cyclical fiscal policies and the re-prioritization of public capital expenditures towards critical infrastructure projects will support the authorities' plans to diversify the economy without compromising debt sustainability, output gains, and investor interest in Angola.

D. Fostering a Growth Friendly Environment: Deregulating the Market

23. A favorable business environment in Angola can support revitalizing foreign investment and fostering the growth of domestic firms. The business environment involves a set of conditions outside of firms' control that have a significant influence on how businesses behave throughout their life cycle.[16] The Business Enabling Environment (BEE)—a new benchmarking exercise developed by the World Bank—assesses a country's business environment by evaluating (i) the regulatory framework, (ii) the provision of related public services affecting firms, and (iii) efficiency with which the regulatory framework and public services are combined in practice (Figure 7).[17]

Figure 7. Angola: A Supportive Regulatory Environment for Private Sector Growth

Source: World Bank, 2022.

24. The regulatory environment in Angola needs improvement. Progress in various governance metrics, including regulatory quality have stagnated, and the perception of corruption and government effectiveness continue to underperform.[18] These institutional challenges, as well as broader market bottlenecks, hinder Angola's growth potential and ability to diversify. Policy corrections in the following areas offer pathways towards a more diversified and business-friendly economy in Angola:

- **Business entry:** Burdensome rules and procedural requirements may deter business startups and formalization. Based on anecdotal evidence, business entry barriers contribute to the high level of informality in Angola, highlighting the significant untapped potential to expand the tax base, increase formal employment, and boost productivity by addressing gaps in business entry

[16] See World Bank, 2022.

[17] Angola has not been evaluated in the inaugural 2024 report but is expected to be included in the 2025 edition.

[18] See Angola Selected Issues Paper "Governance and the Fight Against Corruption in Angola: Quid Vales? Quo Vadis?" Also see Angola Selected Issues (IMF Country Report No. 22/12) "Economic Diversification".

regulations. The authorities have already begun simplifying new business licensing. Continued streamlining of Angola's regulatory framework for business entry will support entrepreneurs and micro, small, and medium enterprises (MSMEs) in formalizing their businesses. Offering digital services for providing business information and firm registration and reducing the time required to register a new firm are recommended.[19]

- **Property administration and construction permits:** Constraints in real estate and land registration, along with barriers to transparent and timely construction permits present challenges for private sector firms in setting up and growing their business activity. The authorities are currently undertaking efforts to boost communication and technology use to increase property registration. These initiatives, together with further efforts to boost the efficiency of property and building transactions, will be worthwhile.

- **Taxes and dispute resolution:** A transparent and well-defined tax system is an enabling factor for economic growth by generating public revenues and supporting the government's ability to provide public goods and services which support firms' operations. Cumbersome tax rules and filing procedures, together with an unclear tax system and slow tax administration services, stunt business activity, restrict investment, and engender tax evasion. At the same time, slow commercial dispute resolutions brought upon by inefficient institutional frameworks and court systems can slow business activity and deter domestic and foreign investment. The authorities have initiated a review of Angola's tax system with hopes to streamline and modernize tax filings and collection. These efforts are welcomed and should seek to enhance tax predictability and offer digital taxpayer services. It will also be important for Angola to improve the efficiency and quality of its dispute resolution ecosystem, including boosting the timeliness of judicial proceedings, the enforceability of contracts, and access to a credible complaint mechanism.

- **Trade restrictions:** Open trade presents valuable opportunities for firms and the overall business environment. Through international trade, the domestic market can benefit from increased competition and productivity, along with access to knowledge and technology from abroad and cheaper production inputs and consumer prices. Although intended to increase food security, the introduction of import substitution measures to boost domestic production should consider the economic costs of increased cost-push inflation. As such, efforts to reduce non-tariff trade barriers, ease business restrictions (e.g., simplify visa procedures), and modernize customs management (currently being undertaken by the authorities) are encouraged.

- **Financial openness:** Sound exchange rate policies and FX market efficiency are important underpinnings of a business-friendly economy. These conditions attract foreign direct investment and facilitate business activity by enabling firms to easily conduct transactions with international suppliers and customers. The authorities should seek to eliminate exchange restrictions and improve currency convertibility to attract foreign and domestic investments. It

[19] See Cui and Yao (2024) for an example of the impact of digitalization on informality. The authors find that, in Greece, advances in digital infrastructure and the provision of digital services have been associated with a reduction of informality.

will also be important for Angola to address the challenges leading to its recent grey listing such that creditworthy domestic firms do not face undue constraints in access financing or international business opportunities.[20]

E. Financial Intermediation: Enhancing Access to Credit

25. Access to private sector credit in Angola remains constrained. Since 2000, credit to the private sector as a share of GDP has been below the SSA average (Figure 8). Credit-to-GDP reached 6 percent in 2023 and has been on a downward trend over the last decade thus presenting a challenge to private sector led non-oil growth. Moreover, Angola lags behind its SSA peers on the IMF Financial Development Index (Financial Institutions) depth metric (i.e., a measure of private sector credit, pension fund and mutual fund assets) despite its relatively stronger performance in financial access and efficiency.[21] Barriers to financial development and private sector credit in Angola include:

- **High informality rate:** The non-oil economy is characterized by a high level of informality, which leads to information asymmetries and low capacity for private sector firms to provide financial institutions with sufficient credit information. These informal sector firms may also be marked with low financial literacy and administrative capacity thus hindering their ability to showcase bankable projects to lenders.

- **Limited collateral availability:** Challenges in property registration in Angola prevent business owners from being able to leverage their properties as collateral when seeking financing thus preventing banks from being able to assess their creditworthiness and risks.

- **High inflation and elevated nominal interest rates:** Unfavorable macroeconomic and monetary conditions have disproportionately constrained long-term lending in kwanzas.

- **Sovereign-bank nexus:** High levels of government borrowing at high nominal rates have led to increased banks' holdings of public debt. This heightened exposure to the government may potentially crowd out lending to the private sector.

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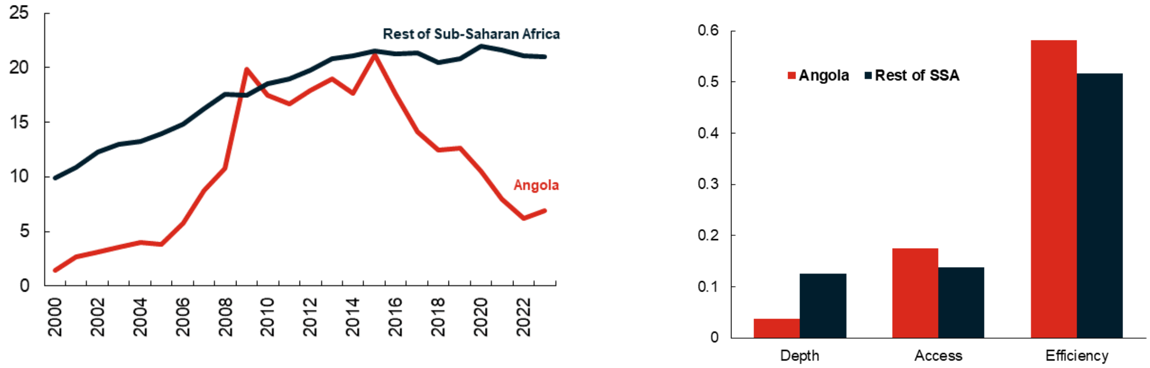
[20] See Box 2, Angola: Staff Report for 2024 Article IV Consultation Staff Report.

[21] Financial access is measured by the number of commercial bank branches and ATMs per 100,000 adults. Financial efficiency is measured by (i) net interest margin, (ii) lending-deposit spread, (iii) non-interest income to total income, (iv) overhead costs to total assets, (v) return on assets, and (vi) return on equity. See Sahay et al. (2015) for more details.

Figure 8. Angola: Private Sector Credit

Credit to the Private Sector
(Percent of GDP)

Financial Development Index: Financial Institutions



Sources: Angolan authorities, Instituto Nacional de Estatistica, African Regional Economic Outlook, and IMF staff estimates and calculations.

26. The NDP stresses the importance of expanding access to credit to address growth challenges in the private sector, especially amongst MSMEs. The authorities are currently targeting a private credit stock of 12.5 percent of non-oil GDP by 2027 – almost double the 2023 stock. The NDP outlines several initiatives to boost commercial banks' role in the provision of credit to the private sector. Measures to expand and facilitate the access to credit include the streamlining of documentation requirements for loan applications, the investigation of alternative collateral assets for loans, and increased training for credit risk management. Microcredit and international credit lines are also noted as mechanisms for boosting financing to the private sector. [22]

27. A robust enabling environment for credit growth could yield tangible benefits for economic diversification. Emerging market economies can experience an increase in output of up to 2 percent following the implementation of reforms related to business regulation and domestic credit markets (Budina et al., 2023). As such, advancing the following strategies should be prioritized:

- **Advance property registration efforts,** which will allow entrepreneurs to use real estate as collateral for obtaining credit.

- **Continue refining the monetary policy implementation framework** to rein in inflation and provide sufficient room to lower domestic currency lending rates.

- **Expand credit bureau coverage** and enhance technological access to borrowers' credit information.

[22] However, lending schemes at interest rates below market rates and/or the BNA policy rate should be avoided.

- **Boost supervisory efforts** to enhance banks' credit risk assessment and management practices while also streamlining the documentation requirements for MSMEs. This could include developing guidance for loan appraisal and encouraging banks to adopt robust methodologies for assessing borrowers' creditworthiness, while maintaining flexibility to address the specific needs of MSMEs.

F. The Way Forward for Diversifying Angola's Economy

28. Accelerating Angola's diversification efforts will (i) support growth, (ii) reduce poverty and inequality, and (iii) boost the economy's resilience to external shocks. Given its dependence on crude oil, Angola is particularly vulnerable to international price volatility leading to low growth and boom-bust cycles. The Angolan government has made promising policy commitments to boost non-oil growth, and the NDP provides a solid foundation for the country's path towards a more diversified economy. However, heightened fiscal pressures and growing political uncertainty, including the planned 2027 presidential elections, create a challenging environment for implementing the necessary structural policies.

29. A well-designed package of reforms is essential for advancing Angola's economic diversification plans in the context of heightened fiscal risks and political pressures. This paper offers policy recommendations to advance non-oil growth in the areas of skills and human capital development, infrastructure, market regulations, and credit access. The sequence, combination, and prioritization of reforms is of great importance for the authorities to deliver the largest "payoff" for these policy changes. For instance, Budina et al. (2023) highlight that the gains from policy reforms in emerging markets are amplified when they are combined. The paper finds that the bundling of "first-generation reforms", i.e., governance, market regulations, and external sector policies, can significantly boost output. Following the recommended policy changes, output gains are estimated to reach 4 percent in the first two years and, subsequently, increase to 7.6 percent after four years when these first-order reforms are combined.

30. Balancing fiscal sustainability and diversification needs will require strong policy coordination and political will. While valuable efforts have been made to advance non-oil sector growth, the authorities must develop a coherent policy agenda which reflects the urgency of diversification along with the fiscal constraints and political feasibility. It is important for Angola to lay the groundwork for its diversification strategy by implementing broad-based "first-generation reforms" which will frontload the output gains by eliminating the most restrictive market bottlenecks and structural barriers. Doing so will allow the country to maximize the growth and diversification gains from policy reforms while also improving economic resilience and investment attractiveness.

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GOVERNANCE AND THE FIGHT AGAINST CORRUPTION IN ANGOLA: QUID VALES? QUO VADIS?[1]

A. Introduction

1. **Governance and anti-corruption reform efforts experienced a strong momentum during President's Lourenço's first administration (2017–22)**. Angola achieved progress in several governance fronts with the approval of new legislation; reforms to public financial and investment management (PFM and PIM) systems; increased oversight of state-owned-enterprises (SOEs) and financial institutions; and improvements in fiscal and resource management transparency, and central bank governance.[2] This period was also marked by an unprecedent fight against corruption leading to the imprisonment and prosecution of high-profile figures, the creation of an anti-corruption unit, and a movement of the legal framework towards best international practices. This progress was reflected in improvements in several governance indicators.

2. **However, the reform momentum appears to have lost steam.** Some reports by independent observers flag that reforms have progressed more slowly than anticipated; further progress on fiscal transparency has stalled and by some measures even backtracked; high-profile investigations are lingering; and some recent opinion surveys are reporting growing corruption perceptions (Figure 1).[3] Moreover, notwithstanding some recent improvements in the legal framework, Angola was once again added to the Financial Action Task Force's (FATF) grey list of countries with anti-money laundering/countering terrorism financing (AML/CFT) weaknesses (FATF, 2024).[4]

3. **This paper reviews Angola's reform effort to strengthen good governance and fight corruption since 2022.** It builds on an initial assessment done in 2018 (IMF, 2018a) and subsequent updates (IMF, 2022b; IMF, 2024a; IMF, 2022a). In doing so, it takes stock of governance reforms and assesses their impact on key governance outcomes over time and relative to peers. The paper also estimates the macroeconomic impact of closing governance gaps and proposes reform priorities. Section 2 provides a framework to define and assess progress and impact in strengthening governance and fighting corruption. Section 3 quantifies and benchmarks Angola's initial progress relative to peers and past reform efforts and updates its macroeconomic impact. Section 4 takes stock of recent governance reform efforts. Finally, Section 5 concludes with a list of proposed priorities.

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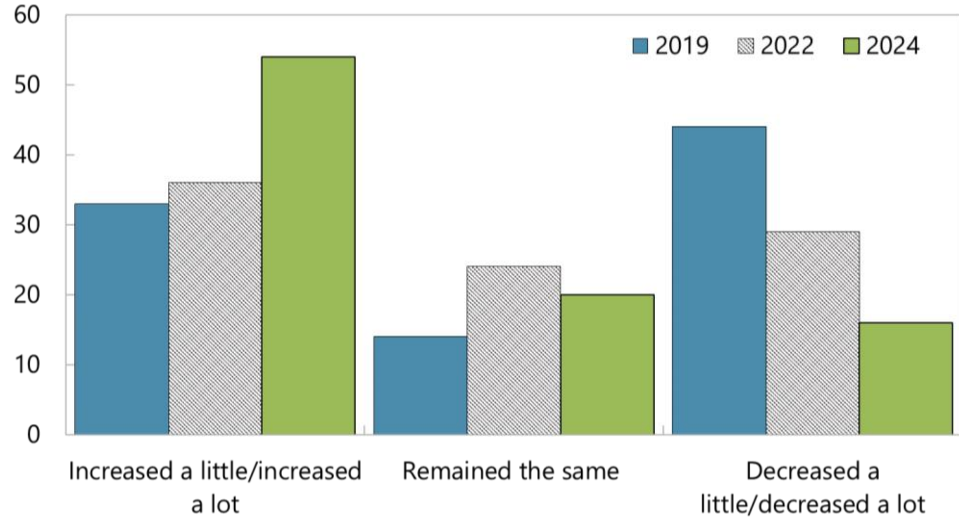
[1] Prepared by Victor Duarte Lledó and Marco Miguel.

[2] President's Lourenço's first administration lasted from 2017–22. See IMF (2018a, 2022a, 2022b) for stock-tacking exercises during this period.

[3] See International Budget Partnership (2024) and Afrobarometer (2024).

[4] FATF is the global standard-setter on AML/CFT practices.

Figure 1. Angola: Corruption Perceptions, 2019–24 1/
(Percent change relative to previous year)



Sources: AfroBarometer and IMF staff calculations.
1/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

B. Framework

4. The paper follows IMF policies to define and link governance and corruption.[5] Governance can be broadly defined as the "framework for exercising authority" while "good" or "weak" governance refers to the "quality" of governance and its impact on outcomes. The Fund defines governance as the process of managing a country, including its economic, legal, and policy aspects. Corruption is defined as "the abuse of public office for private gain." The core set of acts that are almost universally recognized as being "corrupt" are those that involve criminality (e.g. bribery, embezzlement, money laundering, obstruction of justice). This definition is widely accepted in the literature and used by the Fund and other international organizations.[6] Corruption is said to be "systemic" when it is no longer a deviation from the norm but is rather manifested in a pattern of behavior so pervasive and ingrained that it becomes the norm. Corruption is a symptom of weak governance and thus combating corruption cannot be delinked from strengthening governance overall. Weak governance may ultimately stem from lack of capacity, accountability, transparency, and coordination (IMF,1997; IMF, 2022b).

5. IMF governance assessments focus on state functions that are macro-critical. Those are functions that, if ineffectively performed, may hinder macroeconomic performance, and exacerbate

[5] See IMF (1997and 2018b).

[6] It is also consistent with the provisions of the United Nations Convention Against Corruption..

external and internal imbalances.[7] IMF policy defines them to include (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). This paper will exclude for the assessment a discussion of financial sector oversight and central bank governance and operations, two topics that will be covered in more depth in the next Article IV report building on the forthcoming 2025 Financial Sector Assessment Program.

6. Weak governance and corruption have been shown to impact state functions through multiple channels.[8] They do so by fostering inefficient and uncertain policies, rent seeking, and corruption, eroding trust in government, and, in many cases, hampering the social acceptability of reforms needed to strengthen governance and fight corruption in the first place, thus creating a vicious circle (IMF, 2024b; IMF, 2024c).

- **Fiscal Governance.** Weaknesses in fiscal governance and corruption undermine domestic revenue mobilization, including by reducing tax compliance and increasing tax evasion; distort budgetary choices in detriment of social and economic priorities; result in public spending waste, low quality public investment, and outright misappropriation; and foster loss-making and inefficient state-owned enterprises and public banks.

- **Market Regulation.** Complex, inaccessible, or opaque regulatory frameworks can create opportunities for public officials to exploit discretionary authority in return for bribes or other forms of corruption resulting in uncertainty and discriminatory treatment.

- **Rule of Law.** Weak enforcement of property rights and legislation, including anti-corruption laws can erode trust in government and undermine the availability of credit and investment more generally.

- **AML/CFT.** A weak AML/CFT framework can undermine the integrity of the financial system, allow proceeds of corruption to be concealed, restrict cross-border transactions, reduce capital flows, and raise the cost and reduce the volume of public and private external financing (Kida, et al., 2021; Koker, et al., 2023).[9]

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[7] "Macroeconomic performance" includes GDP growth, inflation, unemployment, fiscal sustainability, and external competitiveness. "Imbalances" are misalignments in an economy that can lead to instability and exacerbate its vulnerability to shocks undermining macroeconomic performance. Internal imbalances include excessive fiscal deficits or persistent deviations from target inflation; external imbalances include excessive current account deficits or overvalued exchange rates.

[8] See Newiak, et al., 2022 for a comprehensive overview of the channels with empirical evidence for sub-Saharan Africa.

[9] Such economic and financial impact can become particularly significant when AML/CFT weaknesses lead countries to enter enhancing monitoring lists (grey or black-lists) by global standard setting institutions such as the FATF.

Table 1. Angola: Pairwise Correlations for SSA, 2005–22

	Governance		Corruption	
Governance	WGI	ICRG	CCI	CPI
WGI	1.00			
ICRG	0.84	1.00		
Corruption Perceptions				
CCI	-0.94	-0.75	1.00	
CPI	-0.93	-0.78	0.95	1.00

Sources: WGI, Transparency International, ICRG, and IMF staff calculations.

Note: WGI = Worldwide Governance Indicators; ICRG = International Country Risk Guide; CCI = Control of Corruption Indicators; CPI = Corruption Perceptions Index.

7. This paper relies on Fund staff work on governance-related issues for Angola complemented by analysis of several third-party indicators (TPIs) of governance and corruption perceptions.[10] It relies on the following TPIs: two main aggregate measures of governance—Kaufmann and Kraay's Worldwide Governance Indicators (WGI) and International Country Risk Guide's (ICRG) Political Risk Rating, and two measures of corruption perceptions—WGI's Control of Corruption Indicator (CCI), and Transparency International's Corruption Perceptions Index (CPI).[11] These indicators cover different countries and time periods but are highly correlated with each other (Table 1), and some of these correlations are high by construction (e.g., CCI is a component of aggregate WGI). To facilitate cross-country comparison, governance (corruption perceptions) indicators are normalized to 0-100, where 0 is the weakest (highest) and 100 the strongest (lowest) performance.

C. Measuring Initial Progress

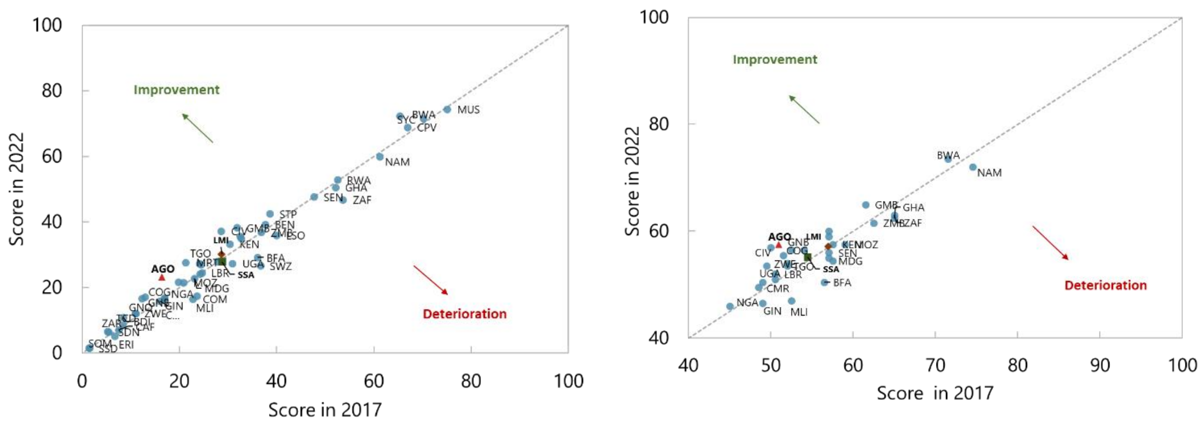
8. Governance and anti-corruption reforms lost momentum, with progress remaining slow. Following the 2017 presidential elections, Angola made notable advancements across various governance categories, advancements that are reflected both in the WGI and in the ICRG (Figure 2). A closer look reveals that most of this progress occurred during the first two years of the new government, and since then, advancements for the most part have been timid, especially in the dimensions of voice and accountability and regulatory quality, which stagnated (Figure 3).

[10] In line with Fund policy, this chapter uses multiple indicators of governance and corruption. TPIs help provide a general view of a country's governance and corruption relative to peers, but have limitations and should be interpreted with caution, including because some are based on perceptions (e.g., WGI and CPI), and their scores are subject to uncertainty and to methodological changes (e.g., in 2012 the CPI's compilation method for aggregating different data sources was simplified to include just one year's data from each data source).

[11] The aggregate WGI used in this chapter was constructed by Fund staff by combining its six individual components: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. See (Kaufmann, et al., 2010) and http://info.worldbank.org/governance/wgi/index.aspx#home.

Figure 2. Sub-Saharan Africa: Governance Indicators, 2017–22
(Units)

WGI in 2017 and 2022 (higher better governance) **ICRG in 2017 and 2022 (higher better governance)**



Sources: WGI, ICRG, and IMF staff calculations.

Note: SSA denotes the average for Sub-Saharan Africa. LMI denotes the average for lower middle-income countries. The dotted grey line is a 45-degree line.

9. Initial progress in political stability and rule of law has been reversed. Scores for the political stability and absence of violence indicators in 2022 were below those recorded in 2017. This deterioration is also captured by alternative indexes such as the latest Bertelsmann Stiftung's Transformation Index (BTI) 2024, which indicates that fundamental rights, including freedom of expression, association and assembly indicators have significantly deteriorated in recent years. WGI scores for the rule of law, in turn, have been declining since 2020, reflecting a diminished confidence in the judicial system. Alternative TPIs such as the 2023 World Justice Project Rule of Law index (WJP Index) also point to a deterioration in fundamental rights, order and security and civil justice indicators compared to the previous period.

10. Government effectiveness remains Angola's Achilles' heel.[12] This indicator includes categories such as quality of bureaucracy, excessive bureaucracy/red-tape, quality of infrastructures, among other indicators that measures the government capacity to carry-out its main functions. The corresponding WGI score declined from 2017 to 2020, only reversing its downward trend in 2021; however, the latest score remains below the 2017 figure.

[12] Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. (https://www.worldbank.org/content/dam/sites/govindicators/doc/ge.pdf)

Figure 3. Angola and Peers: Governance Indicators, 2017–22 [1]

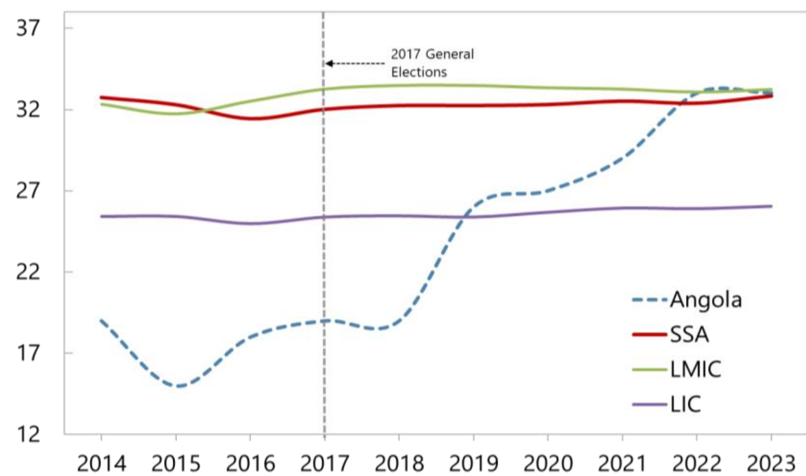
(Normalized Estimates - 0 (weak) and 100 (strong) governance performance)

Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2023 and IMF staff calculations.

1/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible. Estimates normalized using Rescaling (Min – Max Normalization).

11. Angola has made strides in combating corruption. According to the Transparency International's Corruption Perceptions Index for 2023 (Transparency International, 2024)[13], Angola has made progress in combating corruption. From 2017 to 2023, the country has experienced significant improvement, increasing its CPI score from 19 in 2017 to 33 in 2023. This progress is largely due to the government's commitment in implementing anti-corruption measures, including the ongoing asset recovery process and the investigation and prosecution of high-ranking officials involved in embezzlement of public funds and assets. As a result, Angola's anti-corruption initiatives have aligned its CPI score with the average for Sub-Saharan Africa (SSA) and low middle-income countries. It is important to notice that, as in the case of other indicators, progress has leveled off after 2022 (Figure 4).

Figure 4. Angola and Peers: Corruption Perceptions Index, 2014–23 1/
(Scale from 0 – highly corrupt to 100 – very clean)



Sources: Transparency International and IMF staff calculations.

Note: SSA = Sub-Saharan Africa; LMIC = Lower middle income countries; LIC = Low-income countries.

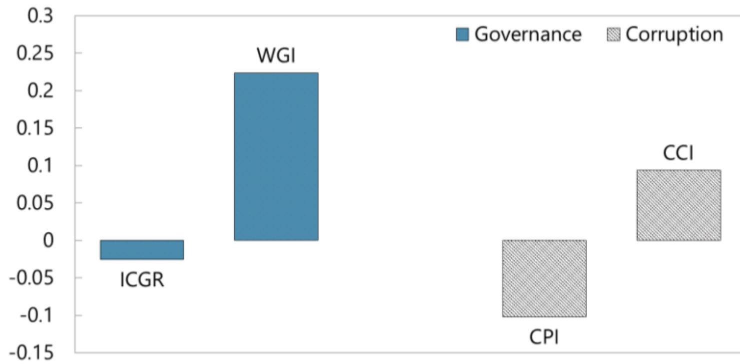
1/ Use of these indicators should be considered carefully, as they are derived from perceptions-based data.

D. Macroeconomic Impact

12. Addressing corruption and enhancing governance positively influences economic performance, particularly in Sub-Saharan Africa. Mills and others (2022) found that improving SSA governance to match the global average could increase GDP per capita by 1 to 2 percentage points per year. The literature shows that weak governance and corruption negatively impacts the economy's capacity to collect revenues and guarantee an efficient allocation of resources. Using a sample of 147 countries, Baum and others (2017) estimated that corruption has a negative impact on aggregate revenue performance of about 0.6 percent of GDP annually.

[13] The CPI ranks 180 countries and territories around the globe by their perceived levels of public sector corruption, scoring on a scale of 0 (highly corrupt) to 100 (very clean).

Figure 5. Angola: Estimated Gains from Governance Reforms
(Increase in real GDP per capita growth from improving Angola´s governance and corruption perceptions to the SSA average)



Indicators	Elasticities
Governance:	
WGI (Aggregated)	$g_{it} = 0.036GOV_{it} + 0.087GOV_{it}SSA$
ICRG	$g_{it} = 0.107GOV_{it} + 0.089GOV_{it}SSA$
Corruption:	
WGI CCI	$g_{it} = -0.02GOV_{it} - 0.093GOV_{it}SSA$
Transparency International CPI	$g_{it} = -0.012GOV_{it} - 0.09GOV_{it}SSA$

Note: ICGR = International Country Risk Guide; WGI = World Governance Indicator; CPI= Corruption Perceptions Index; CCI = Control of Corruption Indicator.
Sources: Worldwide Governance Indicators, World Bank, and IMF staff

13. There remains potential for realizing gains through enhanced governance in Angola. Previous analysis estimated that reforms aimed at aligning Angola´s quality of governance and corruption perceptions level with the SSA average could result in an annual increase in real GDP per capita between 0.75 – 1.25 percentage points (IMF, 2018a). This section evaluates whether these findings remain relevant today, considering the progress made in governance and corruption perception since the previous analysis. We compared the potential gains using elasticities from Mills and others (2022) alongside data from SSA countries.[14] Our conclusions are as follows:

[14] The paper estimates a time impact of corruption and Governance on GDP per capita growth in a sample comprising 190 countries over the period 1984–2015. The baseline specification is:

$$g_{it} = \beta_0 + \beta_1 GOV_{it} + \beta_2 GOV_{it}SSA + \beta_3 SSA + B' X_{it} + \tau_t + u_i + v_{it}$$

where g is real GDP per capita growth, GOV is governance (or corruption perceptions), SSA is a dummy variable for the SSA region, X is a column vector of country-specific explanatory variables, τ denotes time-fixed effects, and μ and ν denote unobserved country fixed effect and error term, respectively. Subscripts i = 1, 2, ..., N, and t = 1, 2, ..., T index country and time, respectively. Vector X includes controls that have been typically considered by similar studies in the literature: initial GDP per capita, investment, schooling, inflation, and terms of trade.

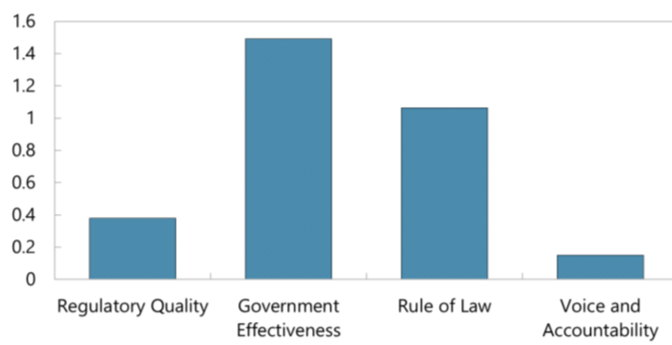
- **Compared to the previous analysis the overall gains from improving governance and corruption perception are significantly smaller, between 0.09–0.22 percentage points, as there has been a notable reduction in the gap between Angola's scores and the region average (Figure 5)**. Only improvements in the aggregate WGI and the CCI would lead to a positive increase in GDP per capita growth, as the gap is not entirely closed. In contrast, for the ICRG and CPI indicators, no gains are anticipated since Angola's scores already exceed the regional averages.

- **However, a closer examination of the subcategories within the WGI reveals substantial opportunities for significant gains (Figure 6).**[15] The gains could increase real GDP per capita growth by about 0.4 to 1.5 percentage points annually, with the largest impact from improving government effectiveness. Improving its subcategories could lead to more efficient public services, enhanced judicial effectiveness, and a reduction in corruption, all of which are critical for fostering a conducive environment for investment and economic growth.

Figure 6. Angola: Estimated Gains from Governance Reforms

Increase in real GDP per capita growth from improving Angola´s WGI subcategories to the SSA average.

(Percentage points)



Indicators	Elasticities
Voice and Accountability	$g_{it} = 0.004GOV_{it} + 0.099GOV_{it}SSA$
Government Effectiveness	$g_{it} = 0.046GOV_{it} + 0.074GOV_{it}SSA$
Regulatory Quality	$g_{it} = 0.036GOV_{it} + 0.085GOV_{it}SSA$
Rule of Law	$g_{it} = 0.017GOV_{it} + 0.072GOV_{it}SSA$

Sources: Worldwide Governance Indicators, World Bank, and IMF staff

[15] Control of Corruption and Political Stability are excluded from the analysis because the former is treated as a standalone measure of governance and the effects of the latter are already captured by the inflation measure in the original model (Amine, et al., 2019).

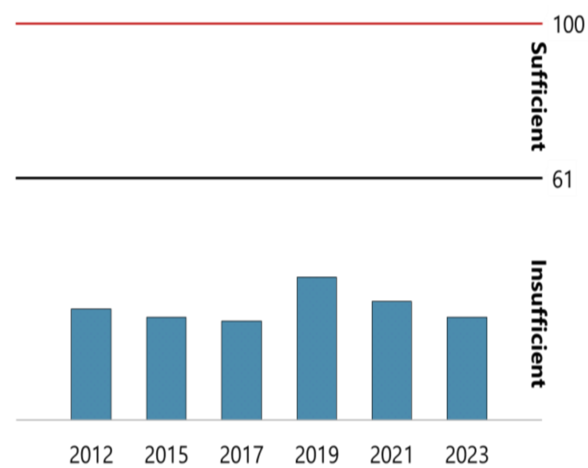
E. Stocktaking of Reforms

14. This section takes stock of the latest reform efforts with a view to identify gaps and reinvigorate the reform momentum. It will take a closer look at the recent reform efforts in the previously described macro-critical state functions to identify gaps and reform priorities.

Fiscal Governance

15. Progress in fiscal transparency has stalled and even reversed in some areas. Several shortcomings in the quality and timeliness of government finance statistics and fiscal reporting have been addressed since 2017. Inconsistencies between below and above the line reported fiscal data are being addressed. Consolidated and detailed fiscal data, including on non-oil revenues, have started to be published during the fiscal year. And so were quarterly and annual budget execution reports up to 2020. However, measured by the Open Budget Survey (OBS), this initial progress has stalled and even reversed (Figure 7).[16] Angola's transparency score (still significantly lower than regional peers') has deteriorated since 2019. The drop in the country's rank is mostly explained by delays in publishing budget execution reports as well as fiscal revenues (Table 2). These shortcomings continue to undermine the timely monitoring of budget execution and have been pointed by investors in several countries as creating uncertainty and unfavorable perceptions of sovereign risk resulting in lower credit ratings and higher borrowing costs.[17]

Figure 7. Angola: Transparency Score
(Units)



16. The publication of the fiscal strategy and medium-term fiscal framework in the 2025 budget will help improve future transparency scores. It will do so by increasing the comprehensiveness and medium-term orientation of the budget proposal. Further improvements in fiscal transparency would require resuming the timely publication of budget reports and improving the quality of fiscal data, while extending their comprehensiveness (e.g. by including extra-budgetary funds, quasi-fiscal activities, contingent and future liabilities, and tax expenditures).

[16] See International Budget Partnership (2024).

[17] See Arbatli and others (2015).

Table 2. Angola: Public Availability of Budget Documents

Document	2012	2015	2017	2019	2021	2023
Pre- Budget Statement	Not Produced	Not Produced	Not Produced	Not Produced	Not Produced	Not Produced
Executive´s Budget Proposal	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public
Enacted Budget	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public
Citizen Budget	Not Produced	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Published Late, or Not Published Online, or Produced for internal Use only
In-Year Reports	Available to the Public	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only	Available to the Public	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only
Mid-Year Review	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only	Not Produced	Not Produced	Not Produced	Not Produced
Year-End Report	Available to the Public	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only	Available to the Public	Available to the Public	Available to the Public
Audit Report	Not Produced	Published Late, or Not Published Online, or Produced for internal Use only	Not Produced	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only	Published Late, or Not Published Online, or Produced for internal Use only

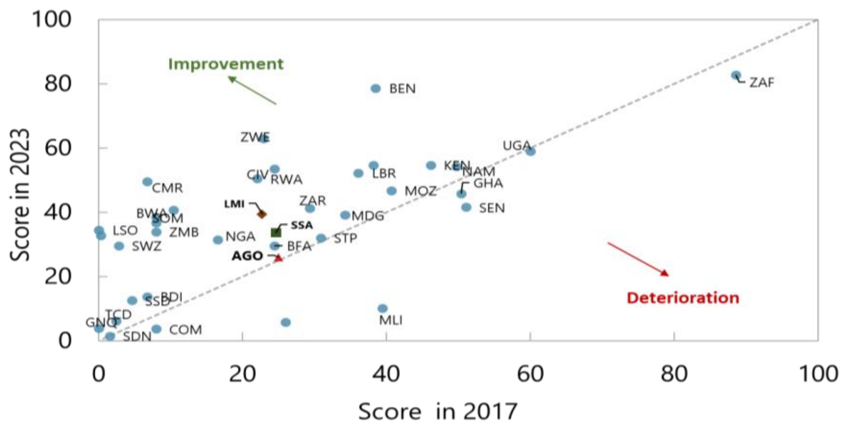
Available to the Public — Published Late, or Not Published Online, or Produced for internal Use only — Not Produced

Source: Open Budget Survey.

17. Progress on budget oversight and participation has stalled. OBS reports also show no improvements on budget oversight in Angola's scores since 2021. Angola's National Assembly continues to provide little oversight of the planning and implementation stage of the budget cycle. Angola's Supreme Audit Court (*Tribunal de Contas*) continues to issue ex-post audit reports on the yearly General State Accounts, which do not cover all government entities, and no follow-up on its audit recommendations. Space for civil society and the public to contribute to budget formulation and to monitor budget implementation remains constrained.[18] Progress in budget oversight would require, among other things, that (i) the National Assembly debates budget policy before the budget proposal is tabled, (ii) legislative committees examine in-year budget implementation, (iii) the National Assembly is consulted following budget revisions, and (iii) the *Tribunal de Contas* has sufficient funds and autonomy to perform its obligations. Greater participation in the budgetary process will require, among other things, that (i) the Ministry of Finance develop mechanisms to enhance public consultation at the budget formulation stage, (ii) the National Assembly makes budget public hearings more inclusive, and (iii) the *Tribunal de Contas* contributes to audit investigations.

[18] According to the OBS report, the budget process - comprising formulation, approval, implementation, and audit - allows public participation solely during the approval phase. This participation occurs through a public hearing related to the approval of annual budget, conducted by the National Assembly.

Figure 8. Sub-Saharan Africa: Transparency Score
(Units)



Sources: Open Budget Survey and IMF staff calculations.

Note: SSA denotes the average for sub-Saharan Africa. LMI denotes the average for lower middle-income countries. The dotted grey line is a 45-degree line.

18. Greater fiscal transparency in the resource sector is being pursued under the Extractive Industry Transparency Initiative (EITI). Angola became an EITI *implementing* country in June 2022. The first EITI report (December 2023) was unable to reconcile data from the authorities and extractive companies and to disclose contracts and beneficial ownership. A second EITI report (October 2024) started a data reconciliation pilot for an oil and a diamond company. It also flagged the continued lack of disclosure of contracts, licensing, allocation, beneficial ownership, and off-budget expenditures. An on-going validation process to determine Angola's EITI membership is looking at disclosure and transparency, stakeholder engagement, and EITI's expected impact. A decision is expected to be announced by June 2025, accompanied by a time-bound action plan with corrective actions.

19. Domestic arrears remain a challenge reflecting persistent weaknesses in expenditure controls and cash management. With IMF TA and the introduction of a new legal framework in 2021 that regularize existing arrears[19], large balances accumulated since 2014 have been reduced and the stock of arrears has stabilized. Notwithstanding these efforts, new arrears have continued to emerge, reflecting (i) weak budget commitment control procedures, (ii) delays in recognizing and budgeting for arrears due to inadequate invoice recording, and (iii) weak cash flow forecasting. Addressing these challenges will require greater enforcement of budget execution rules, recording invoices at the verification stage to allow for a more realistic budgeting of arrears, strengthening cash flow forecasting and management practices.

20. There has been limited progress in addressing weaknesses in the appraisal, selection, and execution of public investment. An IMF-World Bank public investment management

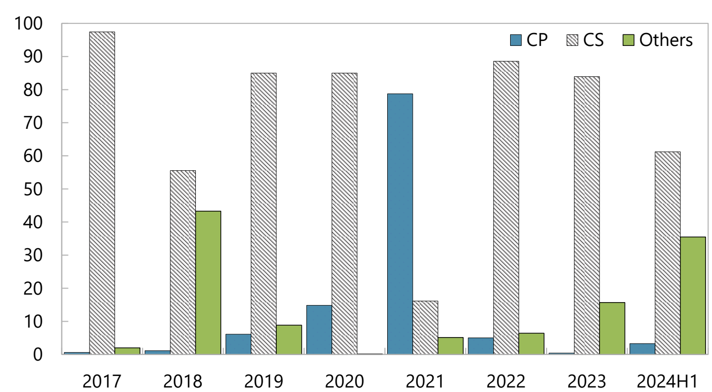
[19] Presidential Decree 235/21 from September 2021.

assessment (PIMA) conducted in 2019 identified Angola's institutional design of public investment management (PIM) is comparable to many developing countries, but its effectiveness is very low. Key weaknesses included (i) weak capacity to implement and enforce project appraisal, development, and selection rules; (ii) the absence of a budgeting function developed along a multiyear framework and aligned with the Fiscal Sustainability Law; and (iii) weak controls during execution.

21. Most of the needed PIMA improvements do not require changes to the legal framework but stronger capacity to implement and enforce the current rules. With IMF TA, a PIMA workshop was conducted in 2023 to train relevant staff, take stock on reform progress, and update the PIMA action plan. The workshop revealed limited progress in addressing identified key PIM weaknesses. It pointed to the need to reinforce the action plan by (i) continuing training at the National Department of Public Investment (DNIP) at the Ministry of Finance, as well as in other line ministries and subnational government; (ii) strengthening the enforcement of existing rules through the removal of regulatory inconsistencies across government; (iii) enhancing the Ministry of Finance/DNIP gatekeeping role; (iv) implementing digitalization and public dissemination of rules, selection criteria, costs, execution, and ex-post evaluation of public investment projects; and (v) accelerating the preparation of a medium-term expenditure framework (MTEF). A Ministerial reform in 2024 moving DNIP from the Ministry of Finance to a newly created Ministry of Planning poses additional challenges, as it will require building capacity of the DNIP staff at the Ministry of Planning ensuring the Ministry of Finance effectively exercise its gatekeeping role and strengthening coordination between the Ministry of Planning and Finance in the PIM oversight.[20]

Figure 9. Angola: Public Procurement

(Percent of total expenditures on capital and goods and services)



Sources: Relatório Anual de Contratação Pública and IMF staff calculations.

CP = Concurso Público; CS = Contratação Simplificada; Others - See footnote n. 20

22. The public procurement has improved, but it remains subject to corruption vulnerabilities, which should be promptly addressed. Progress has been particularly noticeable up to 2020 with the adoption of a modern legal and regulatory framework (Public Contract Law 41/20), a regulatory agency (National Public Procurement Services- SNCP in the Portuguese

[20] Presidential Decrees 92 and 93 from April 2024.

acronym), and an electronic platform (SNCPE), and growing transparency in the publication of bid winners. The recent approval of the 2024-28 Public Procurement Plan to guide the execution of annual plans (APPs) was another welcome step.[21] Notwithstanding this progress, a Methodology for Assessing Procurement Systems (MAPS) diagnostic conducted by the African Development Bank (AfDB) and published in 2024 reveals that Angola's procurement system presents significant gaps in the institutional framework, operations and market practices, and control and audit systems.[22,23] Moreover, as indicated in the PIMA, the legal framework is not robust enough to guarantee that most investment projects follow open and transparent procedures. Contracts awarded through non-competitive bidding (*Contratação Simplificada* - CP) have accounted for over 80 percent of all contracts and remain the dominant form (Figure 9).[24] In 2023 and the first half of 2024, open competitive bidding (*Concurso Público*) accounted for only 0.4 and 3.3 percent of contracts, respectively.[25] This practice raises significant concerns regarding transparency, accountability and fairness and can lead to corruption and inflated contract prices. The following gaps are also worth noting:

- ***Legal and Institutional Framework.*** Provisions that discipline or limit SOEs' participation as bidders in public procurement processes are absent. APPs are only required to be published 30 days after the publication of the budget and, as a result, do not inform the budget. SNCP does not have sufficient administrative independence and financial autonomy to fulfill its regulatory authority.

- ***E-Procurement***. Reliance on SNCPE has been very limited, with less than 4 percent of contracts awarded since its launch in 2018. SNCPE does not administer CP contracts and does not cover the whole procurement cycle, being limited to the pre-award and award phases with the post-award phase missing.

- **Control of Corruption.** Civil society participation in improving the integrity of public procurement is limited, with no engagement in social audit and control of public procurement.

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[21] The Angolan Public Procurement Plan 2024–28 includes measures to enhance transparency, promote accountability, and combat corruption within public administration. It also aims to integrate modern technologies and improve the efficiency of the National Public Procurement System.

[22] See African Development Bank, 2023

[23] Out 55 indicators assessed, Angola presented significant gaps in 34 of which 7 out 18 in legal and regulatory framework; 10 out 14 in institutional framework and management; 6 out 6 in operations and market practices; and 11 out of 17 in control and audit systems.

[24] The data only includes goods and services and capital expenditures reported to the SNCP. The others includes: Limited Tender Without Submission of Applications (Concurso Limitado *Sem* Apresentação *De Candidaturas*); Limited Tender by Prior Qualification (Concurso *Limitado por Prévia Qualificação*); Negotiation Procedure (*Procedimento por Negociação*) Limited Tender by Invitation (Concurso Limitado por Convite); Dynamic Electronic Procedure (Procedimento Electrónico Dinâmico); Emergency Contracting (Contratação Emergencial).

[25] In 2020 and 2021, the proportion of contracts awarded through competitive bidding accounted for roughly 15 and 80 percent of the contracts reported to the SNCP. However, this period coincided with the peak of the COVID-19 epidemic, during which less than 4 percent of the executed expenditures were reported to the SNCP, despite the high execution rates of expenditures in 2020 and 2021 reaching 98 and 147 percent, respectively. Therefore, the underreporting of the contracts during this period may help explain the unusually high share of contracts awarded through competitive bidding.

There is a notable absence of data regarding the adoption of Corruption Prevention Plans by public procuring entities. Information on beneficial ownership is not provided by contractors.

23. SOEs oversight has improved, while privatization of large SOEs has been limited. SOEs oversight has been hampered by the absence of robust legal, monitoring, supervision, and auditing instruments. Gaps in the law exempted SOEs from submitting investment plans to IGAPE, the government agency overseeing them, as well from regular external audits. Moreover, contrary to the law, several SOEs were not providing annual reports to IGAPE. Some of these gaps have been addressed since 2019, when the largest SOEs started publishing their annual reports.[26] In 2023, about ¾ of SOEs (70 out 94) provided annual reports to IGAPE of which just under 90 percent (62 out of 70) have been independently audited. Furthermore, information on subsidies, capitalization, and dividends for each SOE has been regularly published by IGAPE. New legislation approved in 2024 increased the frequency of audits from annual to semiannual. Other aspects such as the quantification and management of fiscal risks have not yet been enhanced. The privatization program has proceeded slowly and has been extended until 2026. A roadmap for SOEs reform approved in 2022 with measures to limit state's participation, improve control and fiscal risks mechanisms, increase transparency and the quality of the financial reports, and prioritize and accelerate reforms in energy, transport, and telecommunication sectors is expected to further improve SOE oversight and accelerate privatization.[27]

24. Measures have been taken to improve the integrity of tax administration. A 2018 Tax Administration Diagnostic Tool (TADAT) jointly conducted by multiple development partners, identified several gaps in Angola's revenue authority (AGT) core tax functions with respect to the integrity of its taxpayer database, risk management practices, tax dispute, and accountability and transparency that makes it vulnerable to corruption. With IMF TA, the AGT has set clear goals and started implementing corrective measures, including the digitalization of tax services and procedures, the adoption of risk management practices and a result-based framework, auditing, and an organizational restructuring with a more precise definition of roles and responsibilities.

AML/CFT

25. Angola AML/CFT legal framework has strengthened since 2020. The enactment of an AML Law in 2020 prepared with IMF TA, addressed previous recommendations by the FATF. It did so by improving the criminalization of money laundering (ML) and terrorism financing (TF) offences, providing for identification and verification of beneficial ownership, and widening the scope of sanctions, among other requirements. Efforts to enhance the capacity of law enforcement agents in investigating AML/CFT cases has also been stepped up (see below). A mutual evaluation conducted by a FATF-affiliated body (the Eastern and Southern Africa Anti-Money Laundering Group - ESAAMLG) conducted in 2022 recognized such improvements but identified weaknesses in other areas such as the risk-based supervision outside the banking sector and designated non-financial businesses and professions (DNFBP), access to beneficial ownership (BO) information, and

[26] Law nº 11/13 - Public Enterprise Sector Base Law.

[27] Presidential Decree nº 13/22.

enforcement of the legal framework.[28] Based on these results, Angola entered a one-year observation period to address these deficiencies.

26. Unaddressed lingering AML/CFT weaknesses have led to the inclusion of Angola in FATF's grey list in 2024.[29] A FATF report issued after the one-year observation period expired acknowledged some improvements in the AML-CFT legal framework to facilitate access to BO information, enhanced national cooperation and coordination, increased understanding of ML by law enforcement agencies, and enhanced use of financial intelligence by competent authorities.[30] The FATF report, however, concluded that previously identified strategic weaknesses, among other areas, in (i) risk-based supervision, (ii) enforcement of timely access to BO information, (iii) a demonstrated increase in ML and TF investigation and prosecutions, and (iv) an effective process to implement targeted financial sanctions without delay had yet to be addressed. The report formulated an action plan to be operationalized and implemented by January 2027. [31]

Market Regulation

27. The authorities took positive steps to improve regulatory quality. Following a significant revamping of the legal framework to bring market regulation closer to best practices with the approval of the Competition Law, the Corporate Insolvency Law, and the Privatization Law through 2022, the latest reform period has been marked by efforts to strengthen the capacity to enforce these new laws. This has been achieved by the Competition Regulatory Authority (ARC in the Portuguese acronym), which, since it was initially set up in 2018, has launched investigations into companies operating in the oil and food and beverage sectors (Bertelsmann Stiftung, 2024).[32] To reduce discretionary price controls and promote a more market based framework for key sectors (e.g., utilities, health, education) a new legal regime that transfers the mandate of price regulation from the Ministry of Finance to sectoral regulators was submitted to Parliament in August 2024.

Rule of Law and Fight Against Corruption

[28] See ESAAMLG, 2023.

[29] The grey list identifies countries with strategic deficiencies in their AML/CFT system. Those deemed not sufficiently committed to act are blacklisted. Angola had been previously greylisted in 2010 and de-listed in 2016.

[30] Amendments to the law approved by Parliament in May 2024, which includes: (i) obligation for legal entities to keep in a country register of its members, shareholders, and other related persons; (ii) requirement for legal entities to ensure BO information availability to the authorities upon request; and (iii) obligation for financial institutions to verify their customers' BO information.

[31] FATF Action Plan has six strategic recommendations : 1) enhancing its understanding of ML/TF risks; 2) improving risk-based supervision of non-financial banking entities and DNFBPs; 3) ensuring competent authorities have adequate, accurate and timely access to beneficial ownership information and that breaches to obligations are adequately addressed; 4) demonstrating an increase in ML investigations and prosecutions; 5) demonstrating the ability to identify, investigate and prosecute TF; and 6) demonstrating an effective process to implement targeted financial sanctions without delay.

[32] See Bertelsmann Stiftung, 2024.

28. Implementation of judiciary reforms have stalled since 2022 with some progress on building capacity.[33] Increasing the independence, accessibility, agility, and capacity of the judiciary system is critical to strengthen Angola's ability to enforce contracts, secure property rights, and tackle corruption. Some progress was observed on the legal front through 2022 under the Justice and Law Reform Commission (JLRC) set up in 2020 with the approval of several laws aimed at modernizing legal processes such as a new procedural penal code, strengthening the independence of the Supreme Court, and creating mid-level regional appeals, lower levels, and specialized courts to foster access and increase procedural speed. Some of these new courts have already been created. On the other hand, progress on the digitalization of records and court proceedings has been held back by the procurement process to select service providers. Progress has stalled since 2022 following the expiration of the 2020 JLRC mandate and delays in creating a new one. The creation of a new JLRC in June 2024 to finalize several unfinished legal instruments and the reorganization of the judiciary system over the next 1 ½ year is expected to reinvigorate the reform momentum. With support from the European Union and United Nation Drugs and Crime Office, more than 1,000 law enforcement agents, among judges, magistrates, and police officers, have benefited from training on critical areas such as financial investigations, fiscal fraud, recovery of illicit assets, and money laundering.

29. There has been significant progress in the voluntary recovery of illicit assets. Efforts have been stepped up since the publication in 2018 of the Law of Repatriation of Financial Resources in Angola. The law allowed for the voluntary repatriation of Angolan assets held abroad in exchange for a tax exemption and amnesty from criminal charges related to assets not declared and outside Angola, so long as they were returned within 180 days of the promulgation of the law. The same law established the National Asset Recovery Service, (*Serviço Nacional de Recuperação de Activos*, SRNA) under the Attorney General's Office with a mandate to identify, locate, as well as seize physical and financial assets, whether transferred abroad or within Angola. SNRA published in 2023 a list of assets recovered since 2019, amounting to $19 billion, of which $7 billion were recovered domestically, including shares in banks and companies, real estate, and cash. The list was updated in 2024 with an additional US$308 million of assets seized, of which US$83 million in cash fully recovered and deposited at the BNA. However, clear rules and greater transparency are needed regarding the management, sale, and allocation of the proceeds of recovered assets. Moreover, recourse to the recovery of assets based on conviction has been limited and the restitution of assets seized in other jurisdictions has been limited as well.[34]

30. However, progress in law enforcement has been undermined by the commutation of sentences and a relative morosity in pursuing high-profile corruption cases. Progress in demonstrating the capacity of the judicial system to sanction corruption cases through 2022 has been recently questioned with the commutation of the sentence by the Supreme Court and early release of a former Minister of Transport charged with embezzlement, violation of budget execution

[33] See União Europeia, 2024.

[34] See União Europeia, 2024.

norms, and abuse of power.[35] Another high-ranking official under former President dos Santos accused of embezzlement, fraud, document forgery, influence peddling, criminal association, and abuse of power is still awaiting trial after more than five years.[36]

31. A national anti-corruption strategy was adopted in 2024. A National Strategy for the Prevention and Repression of Corruption – ENRP – (2024–27) was enacted in July 2024. This strategy was the first national strategy adopted in Angola and a priority action envisaged under the 2023–27 National Development Plan (NDP).[37] The strategy establishes general objectives and actions in three areas: (i) prevention including through education, training, private sector involvement, reform of the asset declaration legal framework, and simplifying and digitizing government procedures and services; (ii) detection including via the adoption of smarter systems to identify beneficiary owners and corruption acts and effective whistleblower protection; and (iii) repression through measures that include the digitalization of judicial procedures, capacity building of law-enforcement agencies and magistrates, greater inter-agency coordination, collaboration with the private sector and civil society, and accelerated recovery and improvement in the management of illicit assets. The ENRP is managed by a multisectoral commission appointed by the President and supported by two technical groups: one for prevention and detection led by the General Inspectorate of the State (IGAE), the internal government auditor, and the other on repression led by the Attorney General Office (PGR).

32. The anti-corruption strategy is particularly thin on concrete actionable measures, notably on how to strengthen existing institutions. The ENRP is a welcome step towards a more holistic and integrated framework to fight corruption in Angola. However, to be effectively implemented, the strategy needs to spell out concrete and actionable measures in several key areas.[38] This is particularly the case in the areas of prevention regarding envisaged reforms in the asset declaration of high-ranking officials and politically exposed persons; detection with respect to the implementation and enforcement of a beneficial ownership registry and an effective whistleblower protection system, and repression by spelling out measures to strengthen the financial and technical independence of the judiciary. This, in turn, will require (i) a gap analysis of the existing legislation and administrative procedures, capacity and autonomy of institutions to better specify existent actions; (ii) prioritization and sequencing of actions within and across different pillars; (iii) the development of measurable and monitorable indicators for each of these actions; (iv) the costing of each of the actions; and (v) the elaboration of a coordination and governance mechanism, notably on the selection of members and corresponding responsibilities for each of the technical

[35] Former Minister Augusto Tomás, initially sentenced in 2019 to 14 years for these charges following an investigation by the General Inspectorate of Public Administration in several state-owned enterprises under his supervision. He was the first high-ranking official accused of corruption charges under President Lourenço's administration.

[36] General Kopelipa, former Minister of State and Chief of the Presidential Military House under President Dos Santos.

[37] Other governance and anti-corruption actions in the (Ministério da Economia e Planeamento de Angola, 2023) include (i) build capacity in law enforcement agencies and courts, (ii) digitalization of judicial proceedings, and (iii) implement processes for preventing, detecting, and correcting irregularities in budget execution and public procurement.

[38] This also includes the action plans prepared by IGAE on the prevention and detection pillar and the action plan prepared by the PGR on the repression pillar.

groups. This operationalization will also need to take into consideration the ENRP's interface with other NDP programs of state modernization and capacity.

F. Conclusions and Priorities Ahead

33. Angola has achieved some progress in the governance and anti-corruption fronts since the last assessment, but the strong momentum observed through 2022 has abated. Gaps in most governance indicators relative to peers remain sizeable after some initial reduction and have started to widen in some cases. Recent surveys indicate that corruption perceptions are rising after having significantly fallen in 2022–23. Closing these gaps is expected to deliver higher economic growth. To some extent, this assessment reflects an uneven reform progress and, in the case of fiscal transparency reversal. While there is still scope for improvement, the legal framework in most of these functions is broadly appropriate and aligned with international best-practices, consistent with legal reform efforts since the last assessment. However, progress in building the needed institutional autonomy, independency, and technical capacity to enforce this legal framework supported by the adoption of more transparent, publicly accessible, participatory, and digitally automated procedures have generally lagged.

34. The following priority actions are required to reinvigorate the reform momentum:

Fiscal Governance

i. Fiscal Transparency and Oversight

a. Increase the coverage, clarity, and consistency of budget execution reports.
b. Strengthen Parliament's and civil society's budget oversight.
c. Ensure the operational autonomy of the Supreme Audit Court.
d. Adhere to EITI by disclosing companies' license, contracts, payments, beneficial ownership.
e. Enforce the timeliness and frequency of independent audits of SOEs according to the law.

ii. Public Investment and Procurement

a. Strengthen the capacity, autonomy at (and collaboration between) the Ministries of Planning and Finance to appraise, select, and prioritize project.
b. Adopt an MTEF to support prioritization of projects.
c. Enforce the Ministry of Finance gatekeeping role in the Public Investment Program.
d. Strengthen IGAE's capacity and autonomy to conduct in-year and ex-post evaluations.
e. Strengthen SNCP's capacity and autonomy to oversee and enforce procurement rules.
f. Ensure APPs informs the budget.
g. Make competitive bidding and disclosure of the beneficial owner the norm for all public contracts.

h. Include all public contracts in all stages of the public procurement cycle in the electronic platform.

iii. Tax Administration Integrity

a. AGT to complete the digitalization of tax services and procedures, the adoption of risk-based audits, and complete its organizational restructuring to safeguard institutional accountably and integrity.

AML/CFT

a. Strengthen technical capacity, coordination, and communication across all institutions responsible for the implementation of the FATF strategic recommendations and action plan.

b. Ensure the timely implementation of the FATF strategic recommendations and action plan and removal of Angola's from FATF's grey list.

Market Regulation

a. Strengthen the capacity and autonomy of ARC to curb anti-competitive practices.

b. Operationalize the legal framework to introduce a more market-based framework for regulating key sectors (health, education, utilities).

Rule of Law and Fight Against Corruption

i. Judiciary Reform

a. Finalize legal instruments to make the judicial system more expedient and independent.

b. Sustain capacity building efforts with the support of development partners.

c. Create and operationalize lower-level and specialized courts.

d. Accelerate the digitalization of records and courts proceedings.

ii. Recovery of Illicit Assets

a. Foster transparency in the management and sale of recovered assets and their proceeds.

b. Increase recourse to the recovery of assets based on conviction.

c. Step up efforts to seek restitution of assets seized in other jurisdictions.

iii. Anti-Corruption Strategy

a. Conduct a gap analysis of the legal framework and institutional capacities.

b. Specify actions, including through the adoption of measurable indicators.

c. Prioritize, sequence, and cost actions across the three pillars.

d. Setting up the governance structure of the Multi-Sectoral Committee.

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