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ANGOLA

SELECTED ISSUES

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ANGOLA

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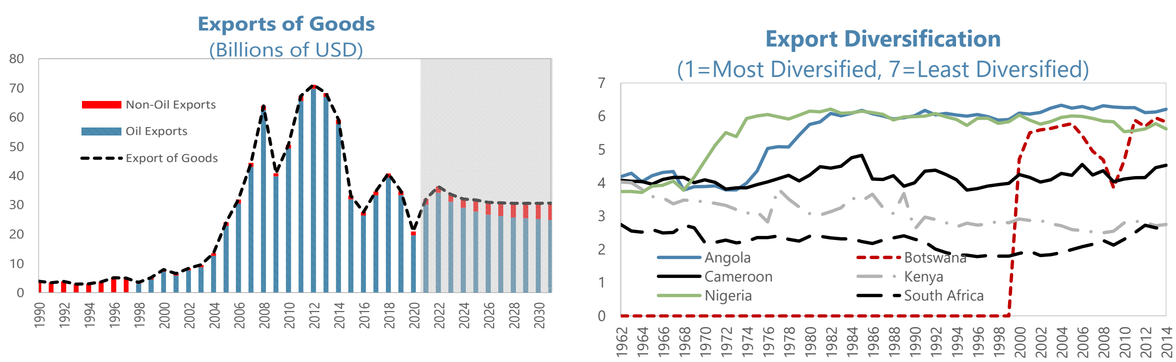
ECONOMIC DIVERSIFICATION

A. Introduction

1. Angola's extraordinary dependence on the oil sector makes it highly vulnerable to shocks and poses challenges to sustained and inclusive growth (Figure 1)**.** Over the last 5 years, crude oil and oil products have accounted for approximately 96 percent of Angola's total exports, 56 percent of fiscal revenues, and 34 percent of Angola's total real gross domestic product. Such dependence leaves Angola highly vulnerable to global shocks and complicates the authorities' efforts to achieve sustained economic growth. This vulnerability has been acutely evident during the Covid-19 pandemic, when a collapse in oil prices and fiscal revenues constrained the authorities' fiscal response, although the authorities have recently made progress in raising non-oil revenues, including via the establishment of a VAT in 2019.

2. Angola's exposure to oil price shocks have been felt in some sectors in the non-oil economy, as well. Some non-resource sectors, such as construction and agriculture, have historically been correlated with the oil sector and tended to underperform when the oil sector contracted. The construction sector in particular has had a high correlation of up to 45 percent with the oil sector. Oil sector volatility can also have financial stability implications. For example, when oil prices began declining in 2018, the government accumulated arrears to suppliers, and non-performing loans increased significantly, threatening financial stability (Figure 2).

Figure 1. Angola: Exports, 1962–21



Sources: Angolan Authorities, UN-COMTRADE and IMF staff estimates.

3. Oil dependency has also brought competitiveness issues typical of Dutch disease (Figure 2). Historically, real effective exchange rate appreciation, driven by high oil prices and the fixed exchange rate regime, has been a drag on non-oil sectors' external competitiveness. Corden and Neary (1982) claimed that capital and labor shifted from non-oil exporting sectors to the production of domestic non-tradable goods to meet the increase in domestic demand in oil exporting countries, like Angola. While data on wage competitiveness in Angola is not available, the dearth of non-oil exports suggests low competitiveness historically (which exchange rate depreciation since 2019 may help correct).

4. Reliance on oil production has contributed to Angola's challenges in fostering inclusive growth. The capital-intensive energy sector provided limited number of formal sector jobs, while the majority of the population has continued to work in rural areas, mostly in subsistence farming. World Bank (2020) reported that poverty rate (combined rural and urban) based on a monetary measure of welfare in Angola was 32.3 percent as of 2019, and rural poverty rate was almost three times higher than urban areas. Using a different measure of poverty, the World Bank estimates that, based on the $1.90/day international poverty line, poverty was about 56 percent in 2020. The Gini coefficient in Angola was 0.51 in 2018, which is higher than sub-Saharan African (SSA) and lower middle-income countries (LMIC) averages.

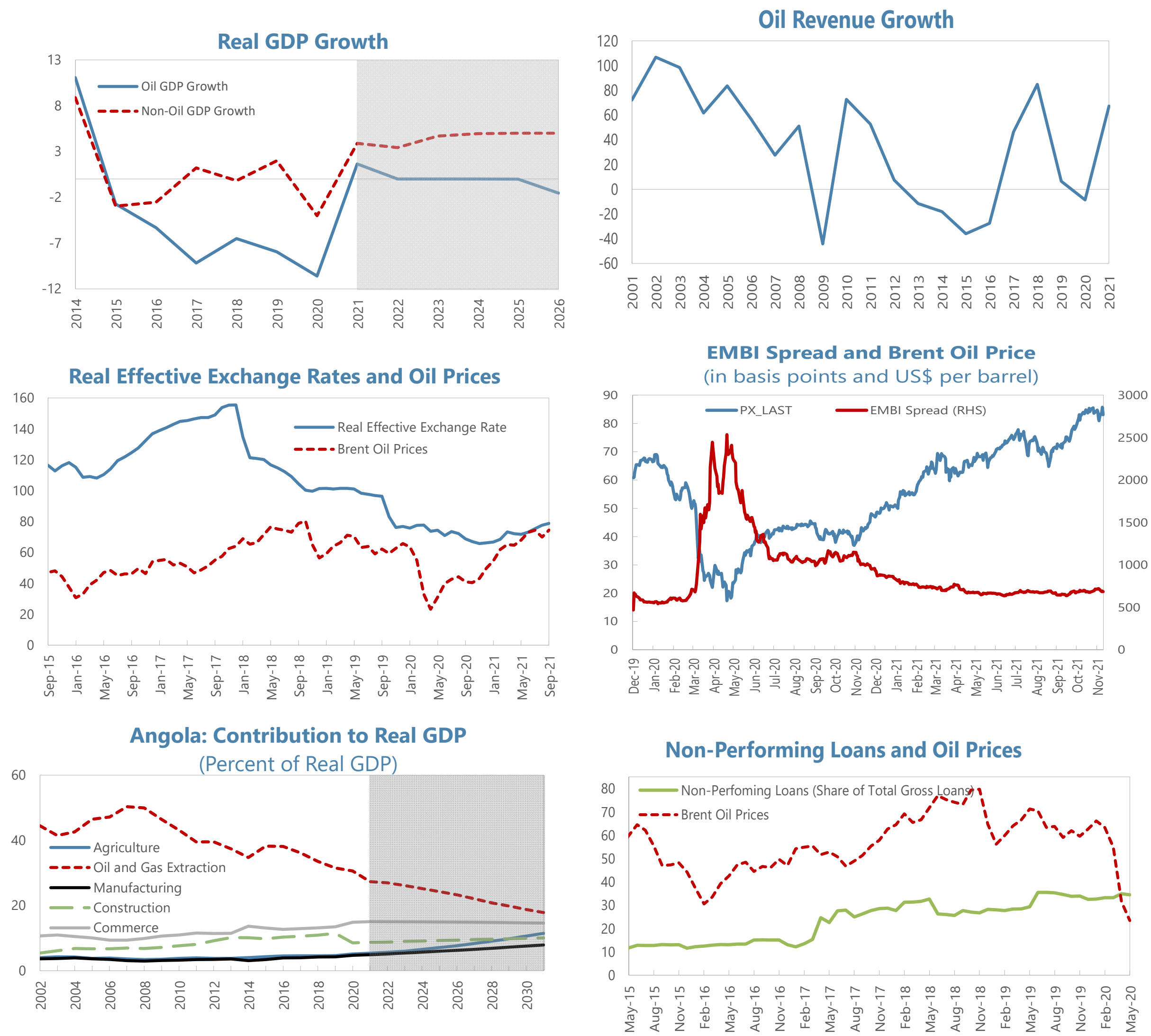
5. Evidence shows a robust relationship between stronger economic growth, lower output volatility, and diversification for low-income countries (LICs) (IMF 2014). The paper also provides an overview of previous literature establishing the macroeconomic benefits of diversification in output and employment, including higher per capita income and more sustainable growth. While Angola is classified as a lower middle-income country, given its high poverty and inequality levels, much of the findings still apply.

6. Domestic and global oil industry trends underscore the urgency of non-oil sector growth for Angola. Oil production has been declining since 2015, mainly due to diminishing oil investment, recurring technical problems and, more recently, the Covid-19 pandemic. Angola's National Oil, Gas, and Biofuel Agency (ANPG) finds that, without new investment, there could be a further steady decline in oil production as existing oil fields mature, further threatening growth and stability.

7. Climate change and the associated long-run global movement toward carbon neutrality pose challenges to Angola – as well as potentially opportunities. In the long run, the global decarbonization will probably reduce demand for Angolan oil, although there is considerable uncertainty about the scale and pace of this reduction in demand. At the same time, Angola's geography is well-suited to producing renewable energy, in the form of hydroelectric, solar, and wind power. Investment into alternative clean energy combined with more sustainable agricultural practices would also promote environmental protection (Box 1). Angola needs to increase attention to aligning itself with global trends aimed at reducing carbon emissions, even though its contributions have historically not been significant. In 2015, land use and land use change contributed an estimated 70 percent of the total CO_2 emissions in the country, whereas the energy sector contributed 18 percent. In the last 20 years, government expenditure on environmental protection has been less than 0.6 percent of gross domestic product, whereas greenhouse gas emissions have been on the rise.

8. The rest of this paper will discuss bottlenecks to diversification and corresponding horizontal and vertical policy recommendations. In section B, we will identify bottlenecks to economic diversification from three points of view leading to specific recommendations, stressing quick wins and the most binding bottlenecks to the growth of non-oil sectors in Angola: governance, business climate, and infrastructure and human capital. In section C, we propose policies to promote economic diversification, including horizontal policies addressing issues in the overall environment and vertical policies boosting promising industries.

Figure 2. Angola: Selected Economic Indicators, 2001–35



Sources: Angolan Authorities, Bloomberg LP, INS Database and IMF Staff Estimates

B. Bottlenecks to Diversification

9. **Achieving higher and sustained medium-term growth requires robust growth in non-oil output, enabled by an improved business environment supporting productivity growth.** Fund staff projects overall GDP growth to gradually recover in the medium term and reach 4.0 percent by 2030. This would imply real investment growth of about 3.8 percent per year for the rest of this decade (following six years of real investment contraction), and moderate productivity gains following a similar

extended period of falling productivity.[1] With staff projecting flat oil production growth through the medium term, most of the investment and productivity gains would need to originate from the non-oil sector. And, with fiscal space likely to remain limited, as the authorities continue to bring down the public debt ratio, much of the needed investment will need to come from the private sector and improvement in public investment efficiency.

10. This section reviews specific aspects of Angola's enabling environment in the context of needed medium-term improvements in private investment and productivity. Angola ranks poorly across nearly all sub-rankings of the Global Competitiveness Index (GCI, 2019), including enabling environment (macroeconomic stability, as discussed above, as well as infrastructure), and especially skills and innovation capability (Figure 4). A strong enabling environment is needed to attract private investment and boost productivity. This includes macroeconomic stability, competitiveness, governance (including the anti-corruption framework), and the regulatory environment. At the same time, improving infrastructure and human capital is also critical to boosting productivity.

11. While Angola has taken important steps to improve many of these areas in recent years, it still lags well behind peers in most. Angola has established Programs for National Production Support, Exports Diversification and Import Substitution (PRODESI), which aims to support national production, export diversification and import substitution, as a part of the national development plan 2018–22. PRODESI reports that since its launch in 2018, it has helped create 66,878 jobs, and add an estimated 537.493 billion kwanzas to GDP, which cumulatively accounts for around 2 percent of 2020 GDP (Box 2). Successfully diversifying the economy will require stronger improvements along many lines. This paper aims to identify the priorities for these reforms, with an emphasis on "quick wins" that are relatively easier to implement and yield more rapid returns by relaxing bottlenecks.

C. Macroeconomic Stability

12. Macroeconomic stability is a prerequisite for economic diversification. A pillar of the current IMF-supported program is preserving and reinforcing macroeconomic stability. During the program period, Angola has strengthened fiscal and debt sustainability, although the debt to GDP level remains high, and allowed for a flexible exchange rate, which works as an external shock absorber. Reducing the degree of pro-cyclical fiscal policy will be particularly important to non-oil sector development. Recent efforts to tighten monetary policy and focus the BNA's mandate on price stability signal a strong commitment by the authorities to reducing high inflation. And the passage of the Public Finance Sustainability Law, Financial Institutions Law and new BNA Law has helped create the legal and institutional basis for stability going forward. Compared to its peers, Angola still has room to improve macroeconomic stability, one pillar of the GCI (Figure 4).

[1] Specifically, with average GDP growth of 3.5 percent over 2022-30, this implies an average capital, labor, and TFP contributions of 1.0, 2.0, and 0.6 percentage points, respectively, with a gradual increase in TFP's contribution over this period.

D. Governance

13. Governance has improved in recent years but remains weak relative to peers.[2] Angola's governance scores across most of the World Governance Indicators (WGIs)[3] have improved since the launch of reforms under President João Lourenço's administration.[4] Angola has achieved progress in legislation, SOE reforms, Public Financial Management (PFM), Medium-Term Fiscal Framework and Medium-Term Expenditure Framework (MTFF and MTEF), AML/CFT and fighting against corruption.[5] Since late 2018, high-ranking officials have been investigated and prosecuted, and the Attorney General's Office reports that it has recovered an estimated $7 billion total in financial and real assets, as of September 2021. However, Angola still lags far behind its SSA and LMIC peers in all WGI categories. (Figure 3)

- *Fiscal governance*, an important driver of government effectiveness, is improving but shortcomings remain. Angola has made strong progress in addressing numerous shortcomings in fiscal transparency and government finance statistics with the publication of the fiscal reports starting 2019. Many shortcomings are centered on public investment management, which is of high relevance given the need for public investments in Angola's enabling environment. Particular weaknesses in public investment management exist around budgeting, project selection, procurement, SOE and PPP oversights, and availability of funding. The tax administration needs also to be strengthened on compliance risk management, audit function, e-filing for large and medium sized taxpayers, information management and governance of the IT function.

- Angola also still lags behind on *regulatory quality and the rule of law*. Some progress has been made since 2017 on regulatory quality, but less headway has been made on the rule of law. Angola has promulgated several new laws, such as the Insolvency Law, Competition Law, and Private Investment Law, but implementation calls for improvement in capacities in many areas. Angola still ranks well below its SSA and LMIC peers in both areas in WGI.

14. While improving, weak governance across the dimensions highlighted above in turn creates vulnerabilities for corruption. Perceptions of corruption in Angola have, per both WGI's control of corruption index and Transparency International's Corruption Perceptions Index (CPI),

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[2] The 2017 IMF policy paper on the role of the Fund in governance issues defines governance as the set of "institutions, mechanisms, and practices through which governmental power is exercised in a country, including for the management of public resources and regulation of the economy." For the purposes of this chapter, corruption is defined as "quality of governance can impact its effectiveness and efficiency in achieving desired outcomes." (IMF, 2017). See Angola Selected Issues, 2018b (18/157) for a further discussion of these concepts.

[3] The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

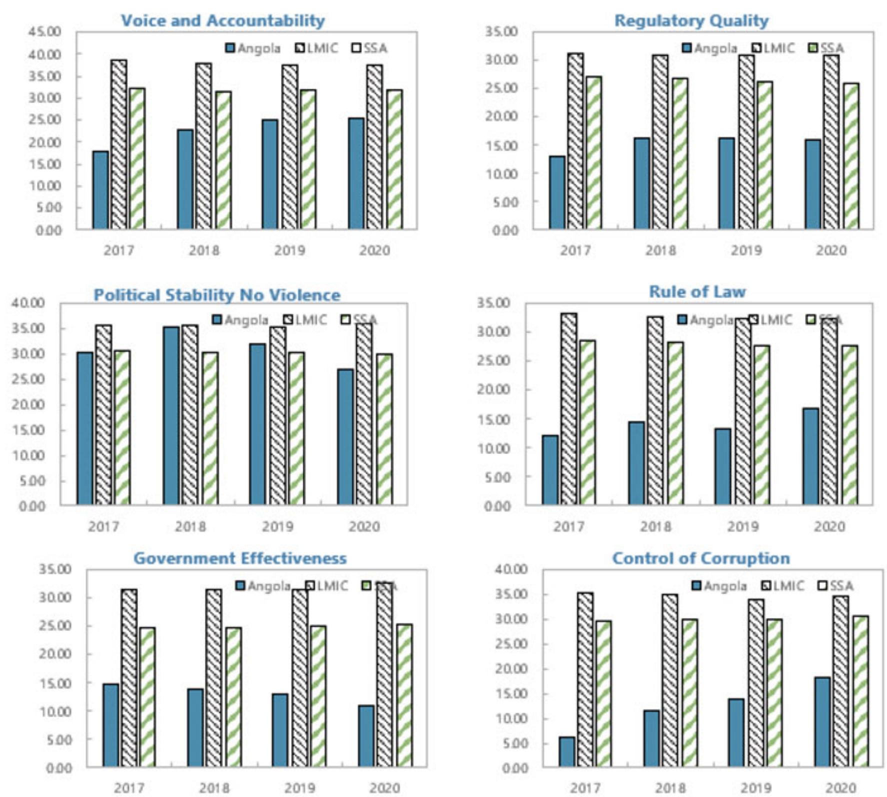
[4] An exception is government effectiveness, which has not improved in recent years, although progress in this area generally moves relatively slowly.

[5] See IMF Staff Report for the 2020 Article IV Consultation.

improved since 2017 but remain relatively weak; Angola is still well behind the SSA and LMIC WGI averages (Figure 3).

15. Enhancing governance, including by reducing corruption and boosting government effectiveness, is associated with stronger medium-term economic growth. IMF staff analysis has found, for example, that a worsening of a country's corruption indicator from the 50th to the 25th percentile is associated with a 0.8 to 1.4 percentage point decline in GDP per capita, as well as declines in investment, FDI, and tax-to-GDP ratios.[6] Separate analysis[7] estimates that a 10-point improvement in a country's WGI is associated with a 1¼ percentage point increase in medium-term GDP growth. This relationship would imply a medium-term growth increase of 0.7 percentage points if governance in Angola were to improve to a level in line with the SSA average and an increase of 1.1 percentage points if governance in Angola were to improve to a level in line with the LMIC average.

Figure 3. Angola: Governance Indicators, 2017–20



Sources: WGI and IMF Staff Calculations.

[6] IMF 2018a.

[7] Hammadi et al 2019

E. Business Climate

16. Angola's weak business climate is another bottleneck to growth and diversification. Angola's shortcomings relative to SSA and LMICs are spread across most major sub-categories of the GCI. Angola ranks particularly low on indicators that are closely related to the business climate, including financial markets and product markets, where there has been little visible improvement in recent years (Figure 4).

17. Many of the factors identified by GCI exacerbate firms' difficulty in accessing bank credit, which is a particularly significant hurdle to diversification. Credit to the private sector as a share of GDP has declined over the past several years, and much of the private lending that does take place is limited to trade financing and support under the government backed lines, which does not promote much domestic production. The difficulties stem from three areas:

- **Enabling environment:** Angola's credit infrastructure is weak, although progress is being made toward establishing, expanding, and upgrading a credit bureau and electronic moveable property registry. A new corporate insolvency law was recently passed, which will be important in enabling banks to recover collateral in the event of a default. However, Angola has also lacked a strong corporate insolvency framework, including the related regulations and institutional capacity necessary to implement such a framework, although progress has been made in this area (see paragraph 12). These shortcomings have made banks reluctant to lend to the private sector.[8]

- **Supply:** The reluctance to lend to the private sector is exacerbated by the government's high fiscal financing needs, which means that banks have a low-risk, relatively high-return alternative to riskier private sector lending. Fortunately, the Angolan government has made efforts to mitigate the crowding-out effects by committing to a debt reduction path. PRODESI has supported credit to numerous (848) projects since 2019, the majority in 2020–21. The bulk of these projects (530) received support through the Covid-19 lines of credit established by Presidential Decree 98/20, managed by the Angolan Development Bank (BDA). In 2020, the BNA, under Aviso 10, asked banks to provide a minimum of 2.5 percent of their net assets to finance domestic production, although it raised some concerns that this financing might not involve a prudent assessment of risks of borrowers. As of September 2021, around 287 projects were supported and the credit granted to the real economy within the scope of Aviso 10/20 was 528.99 billion kwanza, 1.5 percent of 2020 GDP.

- **Demand:** On the borrowing side, many firms – in particular, MSMEs (inclusive of the agricultural sector, see below) – lack the capacity to develop and implement business cases, produce required documentation, and offer acceptable collaterals to apply for loans. In some

[8] Angola took steps to improve the efficiency of commercial justice by setting up a specialized chamber to handle commercial, and commerce and intellectual property disputes in the Tribunal de Comarca de Luanda. Yet, the court will need to be equipped with sufficient human and technical resources to avoid the delays in civil litigation. The specialized chamber will also handle insolvency cases under the new legal framework.

sectors, the Angolan government, in particular PRODESI, has taken steps to help with loan applications (Box 2). However, the authorities need more efforts to tackle this bottleneck.

18. Angola remains relatively closed in terms of cross-border trade (Figure 5). Angola remains relatively restricted in terms of cross-border trade, as its prevalence of non-tariff barriers is ranked 127 over 141 countries in GCI. Such restrictions discourage regional and intra-continental trade, which is typically less commodity-driven than trade with the rest of the world.[9] As such, the growth of such trade would be beneficial to the development of non-natural resource-focused sectors in Angola.[10] The Angolan government has taken steps to streamline certain administrative processes by adopting new system for custom clearance. More efforts need to be made to bring down non-tariff barriers and facilitate international trade. For example, there has been little progress in implementing coordinated border management, risk management systems, and automation. Angola still requires licenses from the Ministry of commerce for every trade shipment, in addition to product-specific approvals. Finally, the National Trade Facilitation Committee could achieve further improvements.

19. A still challenging regulatory landscape is another weakness in the business climate. The business climate and governance issues are closely related. Governance indicators mentioned above on the regulatory quality and rule of law are also important for investor confidence. The WGI regulatory sub-index lags well behind the SSA average. Issues include lengthy and bureaucratic processes to obtain approvals and permits that leave open opportunities for discretionary application of these rules. Such barriers to entry can stymie the private sector investment, domestic competition (Figure 5) and innovation that Angola needs to achieve economic diversification. The Agency for Private Investment and Promotion of Exports of Angola (AIPEX) has plans to facilitate the administrative processes, including a new single window mechanism for investors. However, more steps need to be taken to streamline the processes and reduce redundant red tape. In particular, investment licensing should be streamlined and handled by a separate agency besides AIPEX.

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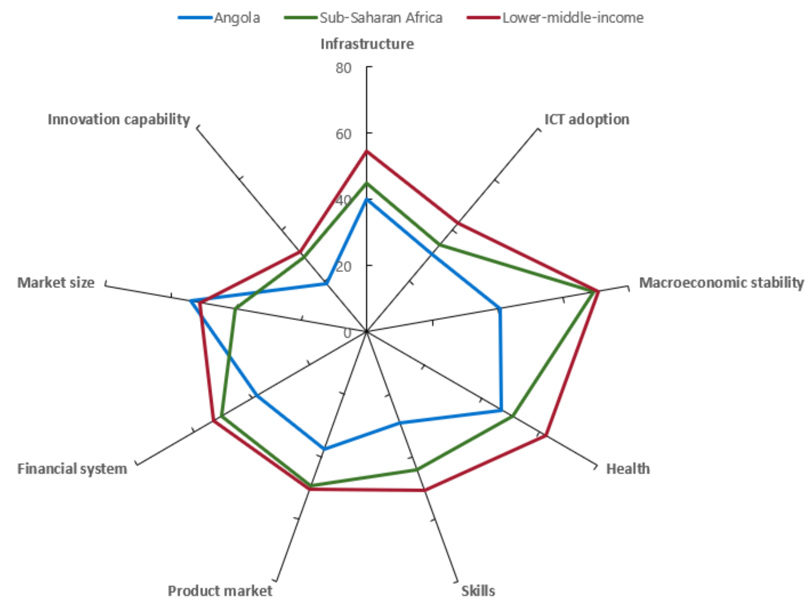
[9] See IMF Staff Report for the 2020 Article IV Consultation with Angola.

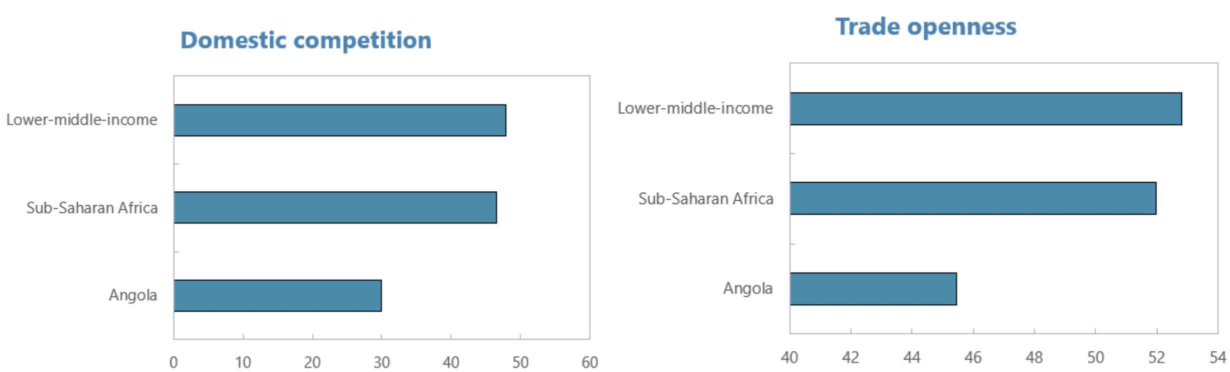
[10] IMF (2019)

Figure 4. Angola: Competitiveness and Business Environment



Sources: IMF Staff calculations and Global Competitiveness Report 2019
The World Economic Forum's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness.

Figure 5. Angola: Domestic Competition and Trade Openness



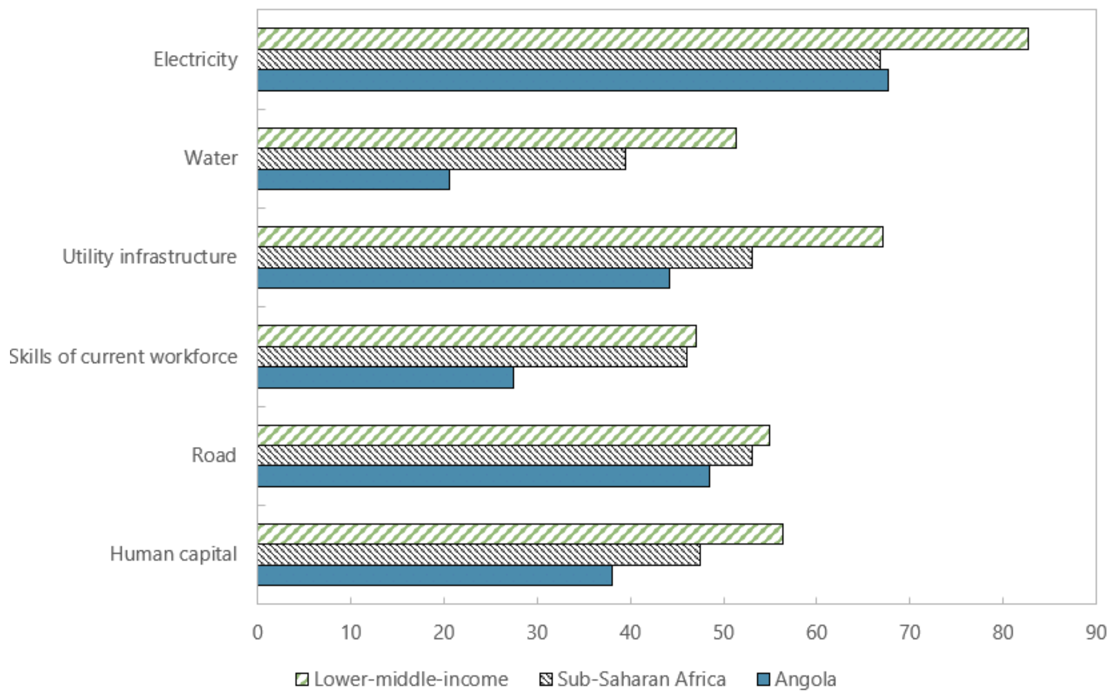
Sources: Global Competitiveness Index and IMF staff estimates.

F. Infrastructure and Human Capital

20. Infrastructure gaps and an under-skilled labor force create further drags on productivity, posing obstacles to diversification. Infrastructure gaps remain despite sustained public investment in recent decades (Figure 6). Angola's infrastructure and information and communication technologies (ICT) adoption are ranked below both the SSA and LMIC average (see below). Fund technical assistance finds the same, with particular shortcomings around electricity and water provision. A recent

World Bank study[11] likewise finds significant needs with regard to Angola's logistics and transport infrastructure, which is particularly significant in the context of the low trade openness discussed above. Many of Angola's infrastructure gaps stem from lack of planning capacity, insufficient concessional financing, and low public spending efficiency — while past public investment levels and execution rates have been reasonable, large gaps remain in terms of access for all and the quality of infrastructure provided. [12]

Figure 6. Angola: Infrastructure and Human Capital



Sources: Global Competitiveness Index and IMF staff estimates. Human capital consists of health and skills subcategories under Global Competitiveness index.

21. Relative to peers, Angola's labor force is under-skilled, and its educational system underperforms. Angola performs relatively worse than the SSA and LMIC averages with regard to skills in GCI. The average number of school years in Angola is four, while Angola ranks among the lowest of all countries in the index in terms of skills and vocational quality training. The World Bank finds low social returns to human capital and significant skills mismatches in Angola, despite the fact

[11] Fiess et al 2018.

[12] Historically, some infrastructure projects, which required large spending, has been lack of usage, such as underused railways and a new airport with few passengers, according to Angola Road Sector Public Expenditure Review by the World Bank.

that schooling and literacy have improved since the end of the civil war. Education spending is also relatively low in Angola[13].

G. Policy Recommendations

Horizontal Policies

22. Angola should continue efforts to strengthen macroeconomic stability and improve governance, focusing on fiscal governance, competitiveness, and the fight against corruption.

- Reinforcing the macroeconomic stability achieved under the Fund-supported program is key to undergirding any efforts at economic diversification. This means continued fiscal consolidation, driven by non-oil revenues, to keep the debt-to-GDP ratio on a downward, sustainable trajectory; continued efforts by the monetary authorities to tackle inflation and achieve positive real interest rates; a continued flexible exchange rate regime that allows the kwanza to act as a shock absorber and preserves international reserves; and further efforts on the structural reform agenda, including those reforms aimed at preserving financial stability.[14] The effectiveness of these policy initiatives requires that the authorities follow through on implementing the necessary supporting regulations and build the human capacity to implement the laws (see paragraph 12 and 13), including by training judges, accountants, lawyers, and private and public sector officials.

- Policies to address Dutch disease should focus on avoiding exchange rate overvaluation and enhancing productivity. Avoiding exchange rate overvaluation would encourage foreign direct investments, lower imported input prices for non-oil sectors, and promote overall economic growth. The authorities' move to a more flexible exchange rate in recent years is a positive step in this regard. Separately, promotion of non-oil sector industries that have a comparative advantage such as the agriculture sector can help to absorb the labor supply through job creation. Horizontal policies to improve productivity, particularly with regard to infrastructure and human capital (see below), will also help to boost competitiveness.

- Near-term fiscal governance reform priorities include: (1) updating and reinforcing the legal requirements for investment project preparation and analysis; (2) strict implementation of the Law on Public Financial Stability to strengthen budget formulation and planning for public investment; (3) improving expenditure control and cash management procedures; (4) strengthening SOE and PPP oversight by publishing audited financial reports of major SOEs, implementing proper PPP processes and improving transparency on contingent liabilities inherent in PPPs; (5) ensuring efficient oversight of public contract awarding; and (6) prioritize the investment project pipeline by favoring high returns.

[13] IFC 2019.

[14] Sahay et. al. 2015 finds that the set of regulatory reforms that promote financial depth is essentially the same as those that contribute to financial sector stability.

- The authorities have, in recent years, introduced a competition law to spur domestic markets and a program to support private investment (AIPEX) under the Private Investment Law. In addition to full implementation of these reforms, the authorities should continue to improve their corporate insolvency framework, especially the capacity to implement the law over medium term. The authorities are encouraged to streamline licensing and reduce unnecessary red tape. The authorities are also encouraged to promote domestic competition by implementing the competition law of 2018 and associated presidential decrees which guarantee an autonomous Competition Authority.

- In 2018, the Attorney General's Office (PGR) finalized an anti-corruption strategy for 2018–22 focusing on strengthening the capacity of anti-corruption units and courts and enhancing prevention and repression of corruption crimes. The creation of a specialized anti-corruption unit was also an important step in bolstering Angola's anti-corruption framework, and the authorities should maintain efforts in this area. Building on their recent work, the authorities should finalize the comprehensive government strategy under development to continue fighting against corruption, involving all government agencies, and strengthen their partnership with the UN system and a broad range of civil society (IMF 2021a).

23. The Angolan authorities have taken encouraging steps to improve the business environment and boost private sector credit, although more can be done in this area. The authorities are also in the process of developing a credit bureau, which will help banks price credit risks, and an electronic moveable property registry, which will facilitate collateralization. The further development of mobile money in Angola – for transfers and, eventually, banking products — could also help with financial access, especially for individuals and MSMEs, as has been the case in, for instance, countries in the East African Community. An opening up of the telecommunications sector would help to foster such a development (see below).

24. Recent initiatives in Africa can help the authorities boost cross-border trade. The full implementation of the African Continental Free Trade Agreement (AfCFTA) could help boost intra-African trade and thus promote activity and employment in non-oil sectors in Angola. Initial steps toward implementation in Angola are welcome. However, non-tariff barriers can be as much, if not more, of an obstacle to trade as tariffs.[15] As such, to receive the full benefits of the agreement it would be crucial to complement AfCFTA implementation with improvements to trade and transport networks. Separately, the authorities should eliminate recently-imposed administrative import restrictions and avoid the introduction of quantitative import restrictions on certain goods in 2022, which is under consideration. While these measures are being considered as part of the authorities' diversification plans, such restrictions would be distortive, hinder competitiveness, and, given their cost-pushing impact, complicate efforts to maintain macroeconomic stability. (IMF 2021a)

25. Infrastructure improvement is another high priority. Steps outlined in this paper to upgrade Angola's public investment management system should underpin this objective and help achieve a better return on public investment. Improving logistics — in particular, building and maintaining road networks and improving the operations of Angola's ports and airports — should be

[15] IMF 2019.

a priority, as should improving electricity availability by strengthening utilities' performance and ensuring their financial viability. National Electrification Analysis by Government of Angola supported by the World Bank identifies a national plan by blending grid and off-grid solutions to bring electricity to 80 percent of the population by 2030 optimally at least cost. Water utility facilities should be enhanced and expanded to improve Angola's water supply. And ICT infrastructure should be improved to increase digital access, relying in particular on increasing competition in the telecommunications sector (see below).

26. Policies should be supported by a mix of public and private financing (IMF 2021b). Public financial support will be important and will be improved via envisioned fiscal governance reforms to make capital spending more efficient. However, private sector financing should also play a role. As such, continuing opening sectors (such as telecommunications[16]) to foreign investment will be important, as will measures to attract foreign capital, such as business environment improvements.

27. It is also critical that the authorities invest more in education and human capital development. This can include greater investment in teacher training, expansion of vocational training programs and their closer tailoring to the needs of the labor market, and, potentially, alternative forms of education service delivery to increase access to education. An active jobs strategy – with a focus on youth, women, and the informal sector – could also help develop a more adaptable labor market and reduce skills mismatches.

Vertical (Industrial) Policies

28. The vertical policies, which target sectors that have great potential and address market failures, could complement the above horizontal policy recommendations to stimulate non-oil growth in Angola. Cherif and Hasanov 2019 claims that vertical (industrial) policies played an important role behind the Asian Miracle. Our paper focuses on two sectors considered central to non-oil growth and employment – agriculture and telecommunications. Angola holds a comparative advantage in agriculture, and the sector plays a key role in employment. Moreover, IMF (2014) found considerable scope for agriculture productivity gains in many LICs, and that reforms in this sector can be important for economic diversification, with particular benefits in coming via lower barriers to trade. The ICT sector is a potential source of growth in its own right but, as noted above, can also be an enabler for growth in other sectors.[17]

Agriculture Sector

29. The development of the agriculture sector will not only boost non-oil growth but also help meet social needs. The agriculture sector plays an important role in the Angolan economy, accounting for around 8 percent of GDP and 50 percent of total employment.[18] Furthermore, most

[16] US-owned telecoms provider Africell is set to launch in Angola, and Argentine food company Arcor is constructing its first plant outside Latin America on the outskirts of Luanda, according to FT news. (link)

[17] Katz and Callorda (2019) estimate that a 10 percent increase in mobile broadband penetration in Africa would result in an increase of 2.5 percent of GDP per capita.

[18] ILO data in 2020.

Angolans in rural areas rely on subsistence farming.[19] As such, an improvement in the agriculture sector could also benefit low-income households more, enhance social inclusion, and address inequality.

30. Angola, with vast arable land, abundant water resources, and increasing food demand, has comparative advantages in the agriculture sector but faces multiple challenges. Prior to the civil war and the development of oil, agriculture was an economic driver in Angola.[20] In the 1970s, Angola exported up to 250,000 tons of coffee, compared to only 1,200 tons in 2017.[21] Today, the sector faces several constraints. First, the sector, which is comprised largely of smallholders, lacks regular access to quality infrastructure (in particular, water infrastructure), research and information systems, and quality inputs, such as seeds and fertilizer. These shortcomings significantly hamper productivity, particularly in the context of more variable weather driven by climate change. Second, government support for the sector comes largely in the form of border measures, such as non-tariff barriers to trade, and, to a lesser extent, production-based subsidies. The former makes the sector less competitive and increases food prices for Angolan consumers – equivalent to a regressive tax – while the latter can be distortive and inefficient.

31. Improving agricultural productivity and competitiveness requires a shift in the manner of government support of the sector toward more provision of public goods. The authorities' PRODESI program appropriately targets the agriculture sector as a priority for non-oil sector development (Box 2). The training and capacity-building programs provided by PRODESI and the Ministry of Agriculture for farmers is a positive step toward addressing some of the sector's shortcomings noted above. However, at a more fundamental level, the authorities should shift their means of support away from price support – in particular, trade restrictions – and private subsidies and toward providing public goods. This includes building water irrigation networks, information systems for weather events, and improved access to inputs such as seeds and fertilizers. The authorities should also build a climate resilient agricultural sector as the sector suffers from rising temperature and increased rainfall variability due to climate changes (Box 1).

ICT Sector

32. A robust ICT sector can enable non-oil growth, but the sector is underdeveloped in Angola. A more dynamic ICT sector would be a source of growth in its own right but could also have a multiplier effect, supporting economic growth in other sectors by enhancing productivity and boosting social inclusion. For example, in the past 15 years, the global digital economy has grown an estimated two and a half times faster than overall GDP.[22] However, in Angola, this sector is underdeveloped compared to peers. Mobile phone penetration is relatively low (43.1 per 100 people, versus 91 in SSA),

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[19] According to IFC 2019, the agricultural sector was the main source of income for 90 percent of the 9.6 million Angolans living in rural areas. Smallholders represented over 80 percent of agricultural production and 92 percent of land under cultivation.

[20] Angola was the third-largest coffee producer in the world in 1970s.

[21] FAOSTAT 2017 data

[22] Huawei & Oxford Economics 2017.

as is internet access (14.3 percent, versus 22.9 percent in SSA).[23] In parallel, mobile money use, which has been a game-changer in terms of financial access and poverty reduction in other parts of Africa, is very low in Angola.[24]

33. Development of the ICT sector has been constrained by limited market competition, a shortage of skills, and an insufficient regulatory framework. While four operators hold global unified licenses, the sector is dominated by Unitel, which is largely state-owned. This structure has meant limited competition and private investment, and, in turn, limited knowledge transfer given Angola's low domestic skills base. As a result, internet access is expensive in Angola (costing three times as much as in South Africa and well above regional peers) and frequently of low quality. Angola's regulatory framework also inhibits ICT development and competition: For instance, weak regulation for infrastructure sharing means that smaller operators cannot expand or compete at levels they should be. Angola has taken important steps to promote greater regulatory independence, most notably by enacting the new Law on Independent Administrative Entities in October 2021, including the telecommunications regulator (INACOM), which will bolster the agency's independence. The implementation of the new law is still ongoing.

34. The authorities should take bolder further steps to open the ICT market to better enable economic diversification. The authorities should continue opening the sector to private investment, reduce government cross-ownership in operators, and—importantly—implement infrastructure-sharing rules based on global best practices to improve service quality and increase competition in the sector, which is a key reform highlighted in the policy dialogue with the World Bank. They should also work to reduce international wholesale bandwidth pricing, which is currently significantly higher than in African peers. Lastly, they should grant sufficient autonomy to INACOM to help ensure a level playing field in the sector.

H. Conclusions

35. Taking policy action to spur economic diversification is imperative to achieving sustainable and inclusive growth in Angola. Angola's economy is overly dependent on the oil sector, leaving the economy as a whole vulnerable to swings in global oil prices. This is compounded by symptoms of Dutch disease, which can erode competitiveness and hold back the development of other sectors. The development of non-oil sectors is all the more critical for achieving sustainable growth considering uncertain long-term prospects for local oil production and global trends toward carbon neutrality.

36. The Angolan authorities are moving in the right direction, although some efforts should be intensified and accelerated. PRODESI is working in the right direction and tackling some bottlenecks mentioned in this paper. However, efforts on implementation should be reinforced, while the policy response should also take a holistic focus on building the conditions for enhanced access to credit provided by the private sector. Boosting growth in non-oil sectors requires the Angolan

[23] GCI 2019 report.

[24] Institute of International Finance 2021

authorities to continue strengthening macroeconomic stability by capitalizing on the achievements made under the Fund-supported program. It also requires that further improvements be realized in productivity, in particular by making improvements to Angola's infrastructure and human capital. Continuing to improve governance and the business environment—especially by opening up access to credit for SMEs and individuals, reducing the administrative burdens on investment, reducing price controls of goods and services—will be crucial in establishing an environment in which innovation and entrepreneurship can help spur growth of other sectors. The agriculture and telecommunications sectors, in particular, appear to be good candidates on which the authorities could focus their efforts to provide more public goods and spur competition.

Box 1. Angola: Climate Change, Carbon Neutrality, and the Angolan Economy

Wide-ranging adaptation measures are an urgent priority in strengthening the climate resilience of agricultural and infrastructure sectors. Aquaculture and fisheries are the most vulnerable to rising sea levels; to combat this, the government is promoting development of sustainable industrial and artisanal fisheries. Adopting climate-resilient agricultural techniques, such as conservation agriculture to increase water holding capacity of soils, diversifying bean cultivation and legume species, and protecting plants from pests, will promote food security as climate change is expected to have a moderate dampening effect on national production of staples such as maize, beans and cassava. Large-scale reliable irrigation will ensure stable production of crops in semi-arid coastal and southern provinces. Angola should upgrade standards for urban infrastructure, which is key for growth in services, and remap settlements, particularly housing along the coast, to protect its population from rising sea levels and flooding; since currently planned infrastructure will face the long-term effects of climate change, upgrading standards is an urgent need.

With agriculture employing more than half of the population, it is crucial to make the sector more productive and diversify opportunities in rural areas to combat climate change. Improving access to credit and streamlining market links will create more income generating options. Targeted training of local stakeholders, as well as climate change awareness and sensitization will improve the climate resilience of communities. Recently, agropastoralists in drought prone areas such as Bie, Huambo and Malanje, have been trained on soil fertility and sustainable land management.[1] Organization of communities to adopt climate-resilient land use practices will also limit emissions and the disruptions to the environment.

Agricultural activities, land use and change in land use and energy sectors are also key contributors to greenhouse gas emissions. In 2015, land use and land use change contributed an estimated 70 percent of the total $CO2$ emissions in the country, whereas the energy sector contributed 18 percent.
These emissions are catalyzed by deforestation and forest degradation, including slash-and-burn agricultural practices. Lack of adequate adaptive capacity and low government expenditures on environmental protection may hinder Angola from achieving its target, which is to reduce its emissions by 14 percent by 2025.[2]

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[1] Global Environment Facility (GEF) projects are incorporating the Food and Agriculture Organization's Self-evaluation and Holistic Assessment of climate Resilience of farmers and Pastoralists (SHARP) in their training.

[2] Nationally Determined Contribution of Angola 2021.

Box 1. Angola: Climate Change, Carbon Neutrality, and the Angolan Economy (concluded)

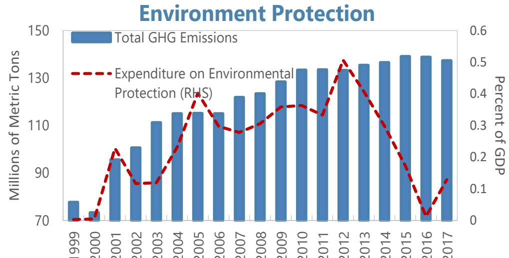
Angola will benefit from early climate change mitigation and adaptation measures. The nation has faced significant challenges due to climate change, with occasional droughts leading to high food inflation (that is currently above 30 percent y/y). Since December 2020, Angola has experienced episodes of drought with below average rainfall in Southern and South Western provinces. The country's low coping capacity has left it particularly vulnerable to worsening climate change. As a priority, water collection and storage systems should be constructed to combat adverse weather conditions, such as increased frequency of drought and unreliable rainfall (Figure 1). Mitigation measures—which include reducing greenhouse emissions by taking existing greenhouse gases from the atmosphere through forestation and improved conservative agricultural practices that sequester carbon in soils such as protection of forestry and waterways—will be necessary for carbon neutrality goals (AFR IMF REO, April 2020). Reducing gas flaring in oil production, eliminating fuel subsidies, reducing deforestation and promoting more sustainable and intensive agriculture would also be effective mitigation methods. Overall, Angola's investments should be aimed at reducing pollution, adopting clean technology, and ameliorating existing environmental damage.

The global pursuit of carbon neutrality will enhance the importance of diversification of the Angolan economy. Over the next 15–20 years, global oil demand may decline as global policies focus on climate change. Although these long-term trends are subject to high uncertainty, Angola should prepare for this global shift by promoting growth in sectors that promote carbon neutrality and rely less on fossil fuels. Early adoption of environment-friendly technological innovation and renewable energy production is a priority, as these factors have a strong negative influence on carbon emissions. In 2019, only 45.7 percent of Angola's population had access to electricity. As of 2017, Angola's main renewable energy source was hydropower with 70 percent of electricity generated from water sources. New technology such as on-grid large-scale solar panels in drier South and South Eastern Angola, wind, and use of other alternative green energy have been proven effective in promoting clean energy in peer countries. Angola's geolocation and diversity of topography have resulted in three climatic zones which increases its potential for expansion and diversification of renewable energy sources.

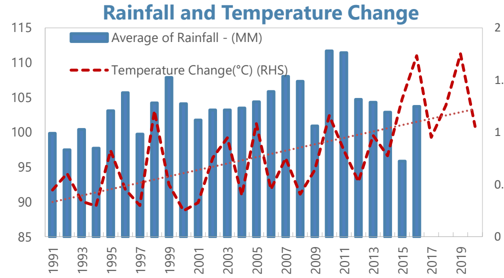
Angola has committed to contribute to global efforts in reducing carbon emissions. Since 2007, there have been more than 10 legislative and executive policies geared towards environmental protection. Angola ratified the 2015 Paris climate change accord and developed tools to monitor its greenhouse gas emissions. However, effective implementation of these laws and regulations has been delayed, in part because decarbonization can be expensive. The authorities can provide leadership to industry players by supporting environmental regulators and policymakers in efforts to reduce the use of fossil fuels and increase the use of renewable energy sources. The Nationally Determined Contribution of Angola released in 2021 lays out plans to ensure climate change mitigation and adaptation in its key sectors.

Box 1. Figure1. Angola: Climate Change Indicators and Carbon Emissions

Total GHG Emissions and Expenditure on Environment Protection



Rainfall and Temperature Change



Sources: IMF Climate Change Dashboard and IMF Staff Estimates.

Box 2. PRODESI — Programs for National Production Support, Exports Diversification and Import Substitution

PRODESI, Approved by Presidential Decree No. 169/18, is an executive branch program to accelerate diversification of national production and wealth generation in areas of production with potential for greater export value generation and import substitution. It covers almost all production sectors in Angola.

Its main objectives of PRODESI are 1) to increase the production and sales volume of priority products and sectors, accelerating diversification and leveraging national comparative advantages; 2) to reduce foreign exchange expenditure with the basic basket; 3) to increase and diversify foreign exchange sources other than oil; 4) to increase sources of foreign investment and the volume of foreign direct investment in production; 5) to strengthen the national business environment.

PRODESI, partnered with the World Bank, African Development Bank and FAO etc., provide three types of service. First, it supports producers in the National Production Disclosure Portal (PPN), by offering training, education and improving business climate. 21,072 producers have registered in the PPN. Second, it holds 46 national fairs to support sales with 719 million kwanza transaction, particularly in agriculture. In 2021H1, 50 B2B meetings were held by PRODESI. Third, it offers financial support to the projects under PRODESI framework. Banks received 1,481 projects under the PRODESI framework, 840 of which has been approved with credits of 690.7 billion kwanza. Since 2018, PRODESI has created 66,878 jobs, and added an estimated 537.493 billion kwanzas to GDP (around 2 percent of 2020 GDP).

PRODESI is working in the right direction and tackling some bottlenecks mentioned in this paper. However, efforts on implementation should be intensified and accelerated. We recommend PRODESI spend more efforts on improving the business climate by reducing the administrative burdens on investment, particularly less licensing and price controls of goods and services. Also, it should focus in a holistic way on building the conditions for enhanced access to credit provided by the private sector.

Box 2. Table 1: Economic Impacts from PRODESI

	# of jobs	GDP (Million kwanza)
Manufacturing	27,087	95,880
Agriculture	13,223	196,501
Trade and Distribution	9,219	65,284
Livestock	7,525	12,468
Food and Drink	5,887	138,828
Fishing	3,523	19,219
Aquaculture	249	1,313
Services	154	8,000
Continental Fishing	11	0
Total	66,878	537,493

Sources: PRODESI.

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