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<u>THIS ACTION IS FUNDED BY THE EUROPEAN UNION</u>

<u>ANNEX</u>

of the Commission Decision on the financing of an individual measure in favour of the Republic of Angola

<u>Action Document for 'Response to COVID-19 crisis in Angola in support of socio-economic relief'</u>

1. Title/basic act/ CRIS number	Response to COVID-19 crisis in Angola in support of socio-economic relief CRIS number: AO/FED/042-923 financed under the 11th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Angola The action shall be carried out at the following location: nationwide, Luanda	
3. Programming document	National Indicative Programme (NIP) 2014-2020 for Angola[1]	
4. Sustainable Development Goals (SDGs)	Goal 1: End poverty in all its forms everywhere Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Goal 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development	
5. Sector of intervention/ thematic area	Economic Governance / Socio-Economic Recovery; Economic diversification and formalisation	DEV. Assistance: YES[2]
6. Amounts concerned	Total estimated cost: EUR 20 000 000 Total amount of EDF contribution: EUR 20 000 000 of which: - EUR 19 400 000 for Budget Support - EUR 500 000 for Complementary Support	
7. Aid modality and implementation modality	Budget Support **Direct management** through: Budget Support: State and Resilience Building Contract	
8 a) DAC codes	51010 - General Budget Support 15111 - Public Finance Management 15114 - Domestic Resource Mobilisation 15142 -Macroeconomic policy	
8 b) Main Delivery Channel	12000 – Recipient government	

[1] The National Indicative Programme 2014-2020 for Angola, adopted by Commission Decision C(2015) 4613 of 10.7.2015, as corrected by Commission Decision C(2015) 9294 of 11.12.2015 and amended by Commission decision C(2018 3723 of 02.06.2018.

[2] Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	☐	☐	x
	Aid to environment	x	☐	☐
	Gender equality and Women's and Girl's Empowerment	☐	x	☐
	Trade Development	☐	x	☐
	Reproductive, Maternal, New born and child health	x	☐	☐
	Disaster Risk Reduction	x	☐	☐
	Inclusion of persons with disabilities	x	☐	☐
	Nutrition	☐	x	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	x	☐	☐
	Combat desertification	x	☐	☐
	Climate change mitigation	x	☐	☐
	Climate change adaptation	x	☐	☐
10. Internal markers	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation		x	
	Migration	x		
	COVID response			x

1 BACKGROUND AND CONTEXT DESCRIPTION

The COVID-19 pandemic has triggered an unprecedented complex global crisis with severe interdependent health, economic and social impacts worldwide, and still many remaining unknowns. The number of cases at global level continues to increase exponentially and strict public health measures like lockdowns have been taken in an attempt to contain the spread of the virus. This global health emergency has triggered a global economic crisis, severely affecting flow of goods, capital and people, hereby posing serious threats to social and economic development.

The International Monetary Fund (IMF) estimates that global growth will fall by 3% in 2020 and anticipates the worst economic downturn since the Great Depression and has coined it *The Great Lockdown*. In sub-Saharan Africa, according to the World Bank, the COVID-19 outbreak has triggered the first recession in the sub-Saharan Africa region in 25 years, with growth forecast at -3.2% in 2020[3] (from 2.4% in 2019).

While the EU and its Member States are sparing no effort to address the sanitary crisis in Europe and the immediate economic and social impact, the EU is playing its part in the global response. The EU has come up with a EUR 15 billion support package from existing external funds to help its partner countries address the sanitary, economic and social impact of the pandemic. The EU's combined objectives are to deliver an effective response immediately, mitigate the short-term economic downturn, and reduce the adverse long-term impact of COVID-19 under a Green Recovery perspective. Our response strategy needs to tackle both the public health and the socio-economic challenges in a coherent and integrated manner. Both the immediate needs and the longer-term will be crucial to mitigating the impact of

3 According to latest IMF "Regional Economic Outlook for Sub-Saharan Africa", updated on June 2020.

COVID-19. The longer-term recovery should avoid a return to 'business as usual' and to an economic growth based on environmental destructive patterns and activities. We have an opportunity to 'build back better', bringing the well-being and the inclusiveness at the centre of a resilient economic recovery, a Green Recovery. The coordinated EU response should balance a contribution to these different needs.

This rapid response has been possible thanks to close interaction with national counterparts and to strong coordination with EU Member States, their development agencies and the European Investment Bank (EIB). Sub-Saharan Africa will tentatively receive an envelope of EUR 2.06 billion to address the immediate health crisis, strengthen health systems, research and preparedness capacities to deal with the pandemic and mitigate the socioeconomic impact of the pandemic. An additional amount of EUR 1.42 in support of investment in Africa will be available in the form of guarantees to allow risk-sharing with private investors, international financial institutions (IFIs) and development banks. The EU reaction in Africa is already under implementation: the European Union has launched three calls for expression of interest under the European and Developing Countries Clinical Trials Partnership (EDCTP) to support research on the coronavirus and strengthen research capacities in sub-Saharan Africa.

The case of Angola

Angola registered its first case of COVID-19 on 21 March 2020 and since then the number of cases has reached 1 996, with 90 deaths having been registered[4]. Angola declared the State of Emergency on 27 March 2020 and approved the National Contingency Plan to control the Epidemic[5]. The Plan comprised measures to restrain the spread of the novel virus such the restriction of movements and social distancing; closure of non-essential business; ban on all public and private events; closure of the air space and cancellation of all entry visas; mandatory quarantine for all travellers entering Angola; and limitations to commerce and trade. The Government of Angola created a multi-disciplinary taskforce, responsible for the management of the crisis and the exceptional measures. The State of Emergency was extended three times through Presidential Decrees until 25 May. From then on, the Situation of Public Calamity became effective, enacted by Presidential Decree no. 212/20, of 7 August.

Angola is confronted with high levels of multidimensional poverty and inequality, a limited social protection system, a large share of the population in the informal economy and high unemployment, especially among youth and women. Sustainable access to improved water and sanitation facilities remains a challenge. Around 40% of the population has access to basic water and sanitation. Consequently, the health and the social and economic impact of the COVID-19 crisis is severe for Angola. The socio-economic impact of the COVID-19 pandemic has deteriorated the economic outlook. Angola's economy is heavily dependent on just one commodity, oil, which generates approximately 30% of its Gross Domestic Product (GDP), and accounts for 96% of total exports. Due to its oil dependency, the country is facing several challenges including the volatility of oil prices and oil revenues (the main basis for the State's budget), increasing fiscal and external vulnerability, growing poverty and unemployment and limited access to basic social services.

The unemployment rate reached 32% in the first quarter of 2020 according to the National Statistics Institute (INE) which corresponds to 4.74 million unemployed. INE statistics[6] indicate that 40.6% of Angolans (11.9 million people) live under the national poverty line

[4] Data updated on 19 August 2020.

[5] Presidential Decree no. 81/20, of 25 March 2020.

[6] See http://www.angop.ao/angola/en_us/noticias/economia/2020/2/10/Unemployment-rate-estimated,4b76a564-9c05-42dd-896e-f6747e068531.html and https://www.ine.gov.ao/

(12,181 kwanzas/month), and 47.6% live under the international poverty line (USD 1.9/day). The World Bank estimates that this share will increase to 50.1% in 2020.

The Global Health Security Index[7] score for Angola is 25.2 (out of 100), placing the country at 170 among 195 countries worldwide and at 43 among 54 African countries. The score indicates that the country needs to be better prepared to fight epidemics and pandemics. The health system is weak, and suffers from many structural challenges with regards the human resources, procurement of drugs and medical equipment, health information system, etc. Angola has very limited capacity to confront a public health crisis, and in this case, to detect, control, manage and treat COVID–19 cases.

1.1 Context and problem description

Angola's Minister of Finance wrote to the EU Delegation in March 2020 explicitly requesting budget support to mitigate the financial and socio-economic impact from the COVID-19 crisis. All the funds from the National Indicative Programme (2014–2020) for Angola have been committed. However, the European Commission is making additional resources available to Angola in the context of the End Term Review.

Indeed, recent political and economic reform efforts undertaken by the reform minded administration of President João Lourenço, including commitments under the Extended Fund Facility (EFF) of the IMF[8], in combination with the COVID-19 crisis and the socio-economic recovery package from the Government, call for an EU budget support programme to mitigate the devastating socio-economic effects.

The global downturn and its reduced energy demand has caused a crash in oil prices. Hydrocarbons are Angola's main source of fiscal receipts, despite recent efforts under President Lourenço towards economic diversification. Amplified by the COVID-19 shock, Angola is at risk of not meeting debt obligations, with low oil prices and declining production badly affecting Angola's economic activity, export revenues and fiscal buffers. Economic growth is estimated to contract by 4% in 2020 (fifth year of recession), and the tight fiscal situation is leading to a rising debt burden (c. 123% of GDP). The fiscal deficit for 2020 is expected to be -4% of the GDP. To cover the fiscal needs, authorities need to mobilise alternative sources of financing. Beyond the debt renegotiation, the privatisations of State Owned Enterprises (SOEs), the use of the public reserves and the financial assets from the Sovereign Fund, the Government will increasingly have to raise non-oil tax revenue and incorporate informal workers within the tax system. Meanwhile, Value Added Tax (VAT) implementation and inflation could limit consumption, with adverse effects on the Government's capacity to capture its share of the benefits of a more dynamic economy.

The Government wants to increase regional and international trade perspectives by its integration into regional markets (i.e. African Continental Free Trade Area (AfCFTA), Southern African Development Community Free Trade Area (SADC FTA). It also wants to establish a new trade agreement with the EU after Angola's graduation from Least Developed Country (LDC) status to Middle Income Country (MIC) status in the context of the European Partnership Agreement with SADC (EPA-SADC).

[7] https://www.ghsindex.org/

[8] Angola's three-year extended arrangement was approved by the IMF Executive Board on 7 December 2018, in the amount of Special Drawing Rights 2.673 billion (about USD 3.7 billion at the time of approval), the equivalent of 361% of Angola's quota. It aims to restore external and fiscal sustainability, improve governance, and diversify the economy to promote sustainable, private sector-led economic growth.

The Government of Angola is committed to the economic diversification towards a more sustainable economic growth and wants to bolster reforms aimed at job creation and formalisation of its large informal economy, which employs about 9 million people, and may represent between 20% and 40% of its GDP, according to IMF estimates[9].

In April 2020, the Government launched a socio-economic recovery stimulus package/action plan, '**COVID-19 Pandemic Impact Relief Measures for Companies and Individuals'**, which reinforces its commitment to accelerating the economic diversification. The action plan for the companies consists of five pillars:

1. Relief measures in the payment of taxes and contributions
2. Financial Support Measures for companies
3. Measures to unblock excess administrative bureaucracy
4. Measures to accelerate the transition from informal to formal activity
5. Measures regarding mobility of workers

Regarding the fourth pillar, the objective of the Government is to accelerate the transition from informal activity to the formal sector and start the implementation of the **Informal Economy Reconversion Programme** (**PREI**) and the **Competitiveness and Productivity Improvement Programme.**

The PREI aims at contributing to economic and social growth, by stimulating decent work and poverty reduction. Its specific objective is reducing the informality levels until 2022, and expects to achieve the following impacts:

1. Improved employment rate
2. Reduced poverty
3. Improved business environment
4. Decreased informal economy
5. Improve family quality life

The PREI wants to establish an **Observatory on the Informal Economy**, which will help quantifying and qualifying the magnitude of the informal economy problem in Angola. As the informal sector is not homogeneous countrywide, the government plans to start implementing the 'formalisation strategy' in Luanda, addressing the organisation of street vendors, markets, freight and passenger transport. Lessons learned for the Luanda pilot experience will be adapted in the future for implementation in other provinces. Ministries of Planning, Finance, Transport, Industry and Commerce, Public Administration, Work and Social Insurance, Territorial Administration and Spatial Planning and Public Works are within the scope of PREI. It will require a multi-sectorial approach.

The Competitiveness and Productivity Improvement Programme emphasises the promotion of the means of digital payments, education and financial inclusion of economic agents, as well as the emergence of fintechs. Through the implementation of the PREI, the government wants to reinforce the social dialogue through a permanent forum of discussion and integrate measures for social protection, including the legal framework for the compulsory social protection system for self-employed workers.

In the longer term, the EU Delegation aims at supporting the Government of Angola to address its economic diversification efforts, as means of reducing the oil dependency and its high external vulnerability. This would also support the country's climate commitments 'to stabilise its emissions, and contribute to climate change mitigation by 2030 (INDC, 2015)'.

[9] *Relatório Final da Economia Informal,* Data from *Inquérito às Despesas, Receitas e Emprego em Angola 2018*.

The formalisation of the economy will bring additional economic and social benefits, will contribute to reduce job insecurity, precarious job conditions and family poverty.

1.2 Other areas of assessment

1.2.1 Fundamental values

Angola has demonstrated commitments to fundamental values. Nonetheless, the following issues call for regular dialogue and monitoring:

- *Human rights and international multilateralism:*

As a Member State of the United Nations Human Rights Council for the period 2018-2020, Angola is increasingly showing willingness to fulfil its international commitments. Angola has been respecting the deadlines foreseen by the UN Treaties bodies reporting system (Angola has currently no delay in the ratified Human Rights Treaties reporting calendar). Angola's ratification of three international Human Rights treaties[10] in October 2019, in addition to the ratification of 10 Human Rights treaties (mainly in 2014) is a positive progress towards the promotion and protection of Human Rights.

Angola went through a peer review in the framework of the 3rd cycle of the UN Universal Periodic Review (UPR) on 7 November 2019. Most of the recommendations (largely focused on women and children's rights) were accepted and supported by Angola. The UPR confirmed progress in areas such as freedom of expression and media as well as challenges when it comes to the advancement of the rights of the child and gender issues, and the lack of framework on Business and Human Rights.

A Decent Work Country Programme was validated in 2018 and its priority number one is 'contribute to the formalisation of informality by extending social protection to informal workers and by a more solid knowledge of the dynamics of the Angolan informal economy'.

International engagements are being translated into national legislation and progress has been made to approve a National Plan for the Elimination of Child Labour in Angola for 2018-2022, the National Action Plan on Traffic of Human Beings, a National Human Rights Strategy (2020-2022), and a new Criminal Code in 2019. The Criminal Code, the first since gaining independence from Portugal in 1975, includes progressive provisions on gender equality and sexual orientation and other Human Rights areas (e.g. same-sex conduct is decriminalised).

- *Political priorities, challenges, democratisation and decentralisation:*

At political level, President Lourenço continues to engage in dialogue with members of civil society, including prominent human rights activists, and the freedom of expression in the media has widely benefited from his arrival to power. More critical reporting and pluralism is an undisputed fact of contemporary Angola. This engagement is contributing to the advancement of freedom of expression and the media.

The first local elections (initially foreseen for 2020, but has been postponed *sine die* in the context of the COVID-19 pandemic) are perceived as an opportunity to further boost support to civil society and fundamental freedoms. Despite intentions, administrative decentralisation across all 18 provinces is lagging behind and the first ever municipal elections are, for now, at

[10] Second Optional Protocol to the International Covenant on Civil and Political Rights, the Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment, and the Convention on the Elimination of All Forms of Racial Discrimination.

a standstill. It is likely that the local elections will be held at the same time as the upcoming Presidential elections in 2022.

- *Regional Peace and Security:*

The Great Lakes region is increasingly at the centre of attention of Angola's pan-continental diplomacy. Angola's mediation led by President João Lourenço, and facilitated by the Democratic Republic of Congo (DRC) in the ongoing process to normalise the relations between Rwanda and Uganda, are a token of Angola's regional projection as a peace-builder.

At the same time, Angola is increasing its presence in regional and international organisations and acts as a hegemon within Central Africa. Angola has just assumed the presidency of the Commission of the Economic Community of Central African States (CEEAC).

Angola is engaged in promoting regional maritime security. The country has a 1650 km coastline and may be particularly vulnerable to the growing instability in the Gulf of Guinea region because of increasing piracy related incidents. For this reason, Angola, as host nation of the Gulf of Guinea Commission, is a key strategic actor in strengthening the regional Yaoundé maritime security architecture in the world deadliest and piracy prone hotspot.

Angola recently ratified the Paris Agreement (11/08/2020).

1.2.2 *Macroeconomic policy*

Angola has been implementing stability-oriented policies in the context of the three-year Extended Fund Agreement approved by the IMF Executive Board in December 2018, for the amount of USD 3.7 billion, the equivalent of 361% of Angola's quota[11]. The EFF provides assistance aiming at restoring external and fiscal sustainability, improve governance, and diversify the economy to promote sustainable, private sector-led economic growth.

Despite the adverse external and domestic socio-economic conditions resulting from the COVID-19 pandemic, the Angolan authorities have made every effort to maintain their commitments towards the economic reforms, and the IMF´s macroeconomic conditionality. However, the sharp decline of the oil price and oil production, together with the impact of the lockdown measures, are expected to hit the country as follows:

- Before the COVID-19 pandemic struck, and following a GDP contraction in 2019 of (-0.9 %), the IMF had predicted a gradual GDP recovery from 2020 (+1.8%) onwards (average +2.7 % in 2021-22 and +5% in 2023). However, recent figures indicate that the economy is estimated to contract by -4% in 2020 (fifth consecutive year of recession)[12], depending on the length of COVID-19 pandemic and the fluctuation of oil prices.
- Fiscal needs: Although the 2020 Budget was based on a very conservative stance (oil price assumption was USD 55 per barrel), consistent with the structural reforms, the fall of the Brent prices (below USD 30 per barrel during the onset of the COVID-19 pandemic) and the drop of Angolan oil production created an estimated budget gap of USD 6.7 Billion.[13] Oil prices are now estimated to average about USD 40 per barrel for 2020-2021. Authorities may need to mobilise alternative sources of financing to cover the fiscal needs. Beyond the debt moratorium with major creditors, they count

[11] The largest IMF programme in the Sub-Sahara Africa region.

[12] IMF foresees a recession of 4% of the GDP in 2020. GDP expected to contract between 3.1% and 5.3% (worst-case scenario) according to African Development Bank.

[13] USD 3.8 billion in 2020 and 2.9 billion in 2021.

on funds coming from the privatisations, the unblocking of credit lines already open, the use of the public reserves and the financial assets from the Sovereign Fund.

- Debt: According to the Fiscal Sustainability Law, the government aims at reducing the debt-to-GDP ratio to 60% in the medium term. Far from this target, the debt will peak at 123% of the GDP at the end of 2020[14]. Angola needs to renegotiate approximately USD 2.5 billion of its external debt.

- Unemployment and poverty: The unemployment rate reached 32% in the first quarter of 2020[15], which corresponds to 4.74 million people unemployed from an active population of 14.8 million. One in three people of working age does not have a job. In addition, over 70% of the Angolan employed population works in the informal economy[16]. The absence of a robust social safety net has left many of these families under the poverty line. Angola's Gini coefficient (0.51, one of the highest in Africa), reflects large inequalities at the national level.

- Monetary policy and inflation: The IMF has advised the National Bank (BNA) to not interfere in the current kwanza depreciation, encouraging the continuation of the exchange rate liberalisation initiated in October 2019. The kwanza has lost 70% of its value in front of the USD since 2018, and it continues to depreciate. The gap between the formal and the informal exchange market has raised to 30%, from the 6% reached in April 2020.

  As result of the import dependence (national production is still below the consumption needs) and the exchange rate devaluation, the inflation rate is expected to peak at 25% at the end of 2020, according to Government sources.

The authorities announced the following measures to cope with the crisis:

- Presidential authorisation to the Minister of Finance to prepare the revision of the 2020 State Budget. The breach between the 2020 budget assumptions and the real economic trends urged the government to revise the State Budget[17]. The revision establishes cuts in expenditures (debt service has been cut by 25.5% of the total expenditures). Only social sectors – with a moderate increase in health and education – have been maintained at pre-revision levels, and a sharp decline in tax revenue (reduction of 28.9%, mainly due to the fall in oil revenue (-47.1%) and a moderate fall in the non-oil revenue (-7.5%)).
- Debt negotiation: Angola has been able to renegotiate USD 1 billion in the context of the *G20 Debt Service Suspension Initiative* (DSSI) and 1.5 billion with its major creditors, including Chinese lenders (bilateral and commercial), to whom the country owes USD 22 billion (45% of external debt). Angola has already obtained a 3-year moratorium with two big creditors, and it is under negotiation with a third one. Payments will be rescheduled from 2024 onwards.
- The Government has also requested a USD 740 million top up to the EFF, which needs to be approved in the context of the IMF Board's third review to the EFF. If

[14] Expansão, *"Angola pede mais 740 milhões USD ao FMI*". 24 de Julho de 2020.

[15] National Institute for Statistics (INE). *Folha de informação rápida*. Available at www.ine.gov.ao

[16] According to the survey "*Despesas, Receitas e Emprego em Angola*", in 2018, 72.6% of the employed population has an informal job.

[17] The Revision of the 2020 Budget has been approved by the National Assembly, Law nº31/20 of 11 August 2020. Revised 2020 State's budget: total revenue is -15.7% of initial State's budget 2020; The Revised 2020 State's budget is 45.5% fiscal revenues (current revenues and other revenues) and 54.5% financial revenues (disbursements and equity revenue); Current revenues are composed of 17.3% non-oil revenues and 21.9% oil revenues.

approved, the Angolan debt to the IMF will be equivalent to 6.2% of the national GDP.

- The Government of Angola launched a socio-economic recovery stimulus package and action plan, under the name of the "*Alivio Economico*"[18] targeting the productive and informal sectors and the individuals. Concerning companies and economic activity, the action plan consists of five pillars:
    1) Relief measures in the payment of taxes and contributions,
    2) Increased credit lines to SME's,
    3) Reducing red tape and bureaucracy,
    4) Accelerating the transition from informal to formal activity which includes the implementation of the Informal Economy Reconversion Programme (PREI),
    5) Ensuring adequate labour mobility.

  For individuals and families, measures included social security contributions, increased water and energy security in households, enhanced distribution of basic commodities for the most vulnerable and the launching of cash transfers.
- The Government announced the provision of up to 40% of the Sovereign Wealth Fund's net financial assets of USD 1.5 billion to complement efforts to mitigate the economic impact of COVID–19[19].
- Provision of some countercyclical measures to improve the business environment (toward a more diversified private-sector oriented economy): establishing unified corporate tax and developing robust regulations for public-private partnerships.
- Measures to help businesses during the COVID–19 crisis: easing access to credit, allowing commercial banks to use 2.5% of net assets from the compulsory deposits and a USD 40 million credit line to small and medium enterprises from the Angolan Development Bank with 180 days grace period at a subsidised interest rate.

The authorities receive additional support from World Bank, African Development Bank (AfDB), IMF, *Agence française de Developpement (AFD)* and EIB. Close monitoring of the situation will be performed in coordination with the IMF and other partners such as AfDB and AFD. In conclusion, the response to the crisis is assessed as relevant and credible to restore key macroeconomic balances.

1.2.3 *Public Financial Management (PFM)*

Angola has demonstrated progress in Public Financial Management (PFM) and Domestic Revenue Mobilisation (DRM) through the following key reforms:

- Improved PFM laws to make fiscal institutions more effective
- Comprehensive, credible, and policy-based budget preparation
- Strengthened identification, monitoring, and management of fiscal risks
- Improved Public Investment Management
- Improved coverage and quality of fiscal reporting
- Enhanced Domestic Revenue Mobilisation

[18] "COVID-19 Pandemic Impact Relief Measures for Companies and Individuals" – April 2020. Established by Presidential Decree nº98/20 de 9 April. www.alivioeconomico.org

[19] Established by Presidential Decree nº98/20 de 9 April.

On fiscal discipline and budget comprehensiveness and credibility: Angola has recently approved the Fiscal Sustainability Law, which will help to enforce the fiscal discipline and incorporates a series of PFM practices that make a medium-term fiscal framework (MTFF) a legal requirement and an integral part of the budget process and calendar, defining also the MTFF's minimum content.

There are currently no PFM assessment reports from the national government and no Public Expenditure and Financial Accountability (PEFA) framework is in place. Past budgets - prior to 2019 - were often subject to significant revisions during the year with regard to expenditure items, especially in the area of public investment. Such revisions resulted in the accumulation of arrears, a clear indication of deficiencies in implementing the budget. However, the 2020 Budget opened up for a new cycle in Angola's PFM, enhancing the transparency and the comprehensiveness of the budget.

On identification and management of fiscal risks: Under the Law of Fiscal Sustainability, a requirement of the MTFF is the Medium-term Fiscal Strategy Report. This Strategy Report includes scenarios on critical economic parameters (revenues, oil prices, growth, exchange rate, etc.) to capture economic risks and their potential estimated impact on the fiscal variables. The macroeconomic framework of the MTFF and the sensitivity/risk analysis of macroeconomic parameters, will help to improve budget credibility and address fiscal risks.

On Public Investment Management: The high degree of non-competitive public procurement processes has been undermining the value proposition for public investment projects in the past[20]. The authorities are currently revising its public procurement legislation to facilitate the application of more competitive processes.

A Public Investment Management Assessment (PIMA) has been conducted by IMF/FAD (Fiscal Affairs Department) in December 2019. While the Ministry of Finance (MINFIN) broadly agreed on the recommendations of the report, the authorities have not endorsed the report yet. The authorities are likely to need advice and assistance in designing an action plan and on implementing some critical recommendations embodied in the PIMA diagnostic, which are designed to positively impact on the effectiveness and quality of the public investment programme.

In January 2020, an African Regional Technical Assistance Centre (AFRITAC) mission that came to Angola to assess the treasury cash management and matters of payment arrears, noticed that there is an urgent need to reconcile programming for public investment expenditure and the process of budgeting for it. In fact, this has been the key source for payment arrears and weakness on the treasury management.

The Government has recently drafted the Amendment to the Public Contracts Law, which is pending approval by the National assembly.

On coverage and quality of fiscal reporting: Identified gaps in fiscal reporting are essentially linked to the incomplete coordination of data collected in the various IT systems used beside the "Sistema Integrado de Gestão Financeira do Estado" (SIGFE), the integrated financial management information system where the expenditure process is recorded, and to the fact that not all expenditures are reported in a timely fashion. The coverage is required to be expanded and revised to adhere to the new requirements of the anticipated Law of Fiscal Sustainability. Following the monitoring and fiscal execution reporting needs for the Law of Fiscal Sustainability, a new fiscal execution report will offer more information, detailing some additional fiscal parameters by breaking down some accounting lines, introducing

[20] Public investment in Angola accounted for 5.5% of GDP in 2017.

reporting on financing and debt, and introducing a restructured table of accounts facilitating a reporting aligned with the GSFM 2014 standard[21].

On Domestic Revenue Mobilisation and Tax Regime: In October 2018, Angola started to implement the VAT. A new Tax Administration Strategic Plan was approved in October 2019. Proposals for amendment of Labour Income Tax Code (IRT) and the Industrial Tax were also approved by the National Assembly.

The PFM reform strategy in Angola, endorsed by the Government in the Fiscal Sustainability Law, remains relevant and credible. The crisis context will however require close monitoring of:

- Any exceptional spending should be specially reported in the context of the quarterly budget execution reporting, published six weeks after the end of the fiscal quarter.
- Procurement procedures for any special measure for emergency spending should be transparent and published in the website of the Agency for "contratação publica".

1.2.4 Transparency and oversight of the budget

The entry point is met since 2020 State's Budget and its revision was published and budgetary information is generally accessible, timely, comprehensive, and sound. In 2019, Angola scored 36 in budget transparency and 33 in budget oversight (out of 100), according to the Open Budget Index. However, part of its recommendations have been applied to the Budget 2020, which open up for a new budget cycle, and correct some of the past bad practices. External audit and control are also performed by the *Angola Tribunal das Contas*. The crisis context will however require close monitoring of:

- Existence and operation of Special and other Extra Budgetary Funds, should be specially reported in the context of the quarterly budget execution reporting, published six weeks after the end of the fiscal quarter.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Political -Increased risk of social unrest due to the economic crisis. - Uncertainty on the decentralisation process with the postponement of the local elections to an undefined date. - Access to justice, accountability of state authorities, and excessive force by security organs are still major challenges. - Government's continued public denial of the humanitarian crisis. - Continued distrust between Civil Society and Government.	Medium	-Continuing the EU's constructive dialogue with the Government of Angola for improving the respect of human rights, democratic processes and the fundamental rights. -Closely monitoring of the decentralisation and election process, including the pending legislative proposals by the Angolan Parliament. -Closely monitoring political situation in the Cabinda enclave and the Lundas, taking into account the security situation in the Great Lakes region, in particular in the Democratic Republic of Congo.

[21] The IMF's Government Finance Statistics Manual 2014.

Macroeconomic: - International environment and impact of COVID-19 on the economy are longer and more severe than expected and increase its vulnerability to external shocks. - IMF Extended Fund Facility goes off-track. -Risk of debt default.	High	-High level dialogue with IFIs and the Government on the macroeconomic and socio-economic impact, including the need to prioritise economic diversification for inclusive growth in the medium term. -Substantial financing from IFIs and prospects for debt suspension from G20/China. -Continue the EU's support to the Government of Angola in fostering macroeconomic stability, including the structural reforms aimed at fiscal and external accounts consolidation – via the implementation of the IMF's Extended Fund Facility. -Continue the EU's support to Government of Angola's programmes fostering economic diversification, namely the PRODESI (Programme for Economic Diversification) and PAC (Programme for Access to Credit).
Developmental: -Rising social (including gender) and geographic inequalities with individuals and families living in poverty disproportionally impacted by crisis	High	-To advocate with Angola institutions, mainly through the Ministry of Economy and Planning, for the inclusiveness of the public policies reform agenda, ensuring that social sectors are not left behind, and supporting the implementation of pro-poor and social protection measures along with the economic reforms.
Public Finance Management: -Risks of insufficient transparency and controls in budget execution and reporting, in relation to COVID emergency spending	Medium	-Continue providing technical assistance to Ministry of Finance - through an EU project implemented by the IMF - to develop a mid-term fiscal framework, improve the budget and the capacity to analyse fiscal risks. -Monitoring of procurement especially for COVID-19 emergency funds -Monitor exceptional spending, which should be specially reported in the context of the quarterly budget execution reporting, published six weeks after the end of the fiscal quarter.

Corruption: -Increased risks for corruption leading to increased developmental, macroeconomic and PFM risks, as well as reputational risks.	High	-Supporting the consolidation of an effective National Asset Forfeiture System to counter illicit financial flows (through a project implemented by the United Nations Office on Drugs and Crime UNODC). -Continue supporting the implementation of the regional PALOP/Timor Leste (*Países Africanos de Língua Oficial Portuguesa)* project on anticorruption.
Assumptions		
• The Government maintains its strategy to fight the health and socio-economic effects of the pandemic • The Government of Angola adheres to its IMF-backed reform agenda. Gradual fiscal consolidation is implemented to ensure debt sustainability. • Strong close coordination between the EU, IMF, WB, AfDB and AFD; space for civil society.		

3 COMPLEMENTARITY, SYNERGY AND DONOR COORDINATION

In the EU response to the crisis, synergies are sought between this programme and the following operations:

- 'Improving synergies between social protection and Public Finance Management project', a pilot initiative implemented jointly by UNICEF and International Labour Organization (ILO). Through this project, the EU supports the social protection policies being part of the National Development Plan and a clearly mentioned objective is to extend the Social Protection coverage to at least the 40% of the economically active population by 2022.

- Support Programme on Public Finance Management and Financial Sector reform :
  - Public Finance Management project in Angola, implemented by the IMF, aimed at supporting the Angolan Ministry of Finance to develop and implement a Medium-Term Fiscal Framework (MTFF) and to improve public investment governance.
  - Supporting the strengthening of a National Asset Forfeiture System, implemented by the UNODC, to enhance Angola's ability to counter money-laundering and illicit financial flows, as well as corruption.

- Private Sector Development Programme which focusses on value chains and access to finance.

In the response of the international community, close coordination will be ensured between the EU and the following entities and interventions:

- IMF Extended Fund Facility - USD 3.7 billion loan on macro-economic stability and public financial reforms.

- The PEFA Assessment – Foresees the joint collaboration between AFD and African Development Bank, Swiss Embassy, World Bank, IMF and the EU Delegation. Co-funded by AFD and the EU.

- Budget Support loan of EUR 200 million from AFD to support the effective implementation of macroeconomic reforms (tbc). Joint implementation with the World

Bank and the African Development Bank. Synergies with the IMF Extended Fund Facility.

- Budget support loan of USD 700 million from African Development Bank, of which one of the components is focused on economic diversification including formalisation of the economy.
- Budget support loan of USD 500 million from World Bank for a Development Policy Operation (DPO) on macro-financial, private-sector led growth and financial and social inclusion.
- A USD 320 million loan from the World Bank to strengthen the national protection system project[22] providing temporary income support to poor households in selected areas of Angola and strengthen the delivery mechanisms for a permanent social safety net system. The programme aims to help ensure that the social safety net helps poor people become more resilient to economic shocks and provides opportunities for them to strengthen their human capital and reach their full potential. The project employs a two-track approach— a short-term cash transfer programme to mitigate the impact of subsidy reforms on the poorest 40% of households and medium-term investments to strengthen the delivery mechanisms for a permanent social safety net system. Long-term, the project will help establish the foundation for a shift from universal, inefficient price subsidies towards poverty-targeted cash-based safety nets to better fit the needs of a young population that will require more and better investments in health, education, and skills for the future. This Programme Kwenda, which started on 31/05/2020 for 4 years, will also receive funding from the Government of Angola (USD 100 million). The target population is 1 million families.
- EIB possible future operations in response to COVID-19 and its programmes in support of the SMEs (FIPA, a Private Equity Fund of EUR 7 million - First private equity fund in Angola targeting established and/or start-up local SME's outside the oil sector.
- United Nations Socio-Economic Response & Recovery Framework COVID-19 in Angola, which may require USD 49 million for the entire implementation (2020 – 2021), out of which, 29% of the funds have been secured and 71% are to be mobilised.

For the purpose of ensuring complementarity, synergy and coordination, the Commission may sign or enter into joint donor coordination declarations or statements and may participate in donor coordination structures, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

4 DESCRIPTION OF THE ACTION

The Action consists of a new budget support contract.

The overall objective of the project is to mitigate the impact of the COVID-19 crisis in Angola with a focus on socio-economic relief. The specific objective of the project is to accelerate the formalisation of the informal economy.

The rationale of the intervention is that the combination of the COVID-19 impact and lockdown with the absence of a robust social safety net has left many of the families in the informal economy under the poverty line. In the medium-term, such formalisation will also

[22] http://documents1.worldbank.org/curated/pt/876771558571812077/text/Stakeholder-Engagement-Plan-SEP-Angola-Social-Safety-Nets-P169779.txt

contribute to domestic revenue mobilisation and the economic diversification efforts by the Government.

Results chain			**Indicator**[23]	**Source of data**
IMPACT	Impact (overall objective)	To mitigate the impact of the COVID-19 crisis in Angola with a focus on socio-economic relief	1. National debt to GDP Ratio 2. Poverty rates disaggregated by province and by sex 3. Human Development Index 4. % of SMEs and individuals – self-employed benefiting from COVID-19 response fiscal measures and remaining in business (disaggregated by SME size and type and by sex)	1.Budget execution report (quarterly published by Ministry of Finance on its website) 2. IMF Staff reports (quarterly) 3. National Poverty assessment WB/UNDP reports 4.National Statistics Institute (INE)
OUTCOME(S)	Outcome 1 (specific objective)	To accelerate formalisation of the informal economy	- Proportion of informal employment in non-agriculture employment, disaggregated by sex -Number of SMEs (created) -Number of economic agents who transit from the informal to the formal sector, disaggregated by sector and where relevant by sex (individual entrepreneurs) -Number of jobs created	-State Budget (Budget Execution Report) -INE -Database on informal economy -Registers of the Social Security -General Tax Administration (AGT)
INDUCED OUTPUT(S)	Induced Output(s)	1.1 The magnitude of the informal economy in Angola is quantified and used for policy making.	Extent to which monitoring data on the informal economy is used for policy making	-INE -Annual report from the Multisectoral Commission on Formalisation
	Induced Output(s)	1.2 Increased measures for employment creation	- % of SMEs and individuals –self-employed benefiting from COVID-19 response fiscal measures	-Database of informal economy -INE
	Induced Output(s)	1.3 Increased digital and financial inclusion of citizens and economic agents	-Number of mobile money users[24]	-Records of the mobile money application(s)

For that purpose, the budget support contract will assist Angola through financial transfers, policy dialogue, performance assessment and capacity development (direct outputs).

[23] Formulation of the indicators has to be in a neutral form starting with the measurement unit as in the example (number of; percentage of; status of). Please note it is NOT required to specify baselines and targets.

[24] The mobile money indicator is a first step to measure the financial inclusion of the workers who are becoming part of the formal work-circuit. The level of financial inclusion can be understood based upon how many of the registered workers are indeed using mobile money. If for example the number of formalised workers is 100 but only 20 of them are identified of using digital payments, it means that more effort is needed to stimulate the financial inclusion.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the Republic of Angola.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented is 36 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 19 400 000 and for complementary support is EUR 500 000. This amount stems from the most recent forecasts of the fiscal impact of the crisis[25].

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

i. Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.

ii. Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.

iii. Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information.

iv. Satisfactory progress in the implementation of the COVID-19 strategy for socio-economic relief and the action plan of the Informal Economy Reconversion Programme (PREI) and continued credibility and relevance thereof.

b) The performance indicators for disbursement that may be used for variable tranches will cover the following areas:

i. Improved evidence on the magnitude of the informal economy: e.g. creation of a database on the informal economy;

ii. Degree of formalisation: e.g. number of economic agents who transit from the informal to the formal sector/number of jobs created;

iii. Degree of financial inclusion: e.g. number of mobile money users.

The chosen performance indicators and targets to be used for disbursements will apply for the duration of the action. However, in duly justified circumstances, the Government of Angola may submit a request to the Commission for the targets and indicators to be changed.

[25] Revised State Budget for 2020 is estimated at 13.4 billion kwanzas, reflecting a reduction of 15.7%.

Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support component consists of a fixed and a variable tranche to be disbursed indicatively:

Indicative breakdowns	Total	2021	2022
Fixed tranche	15 000 000	15 000 000	
Variable tranche	4 400 000		4 400 000
Complementary support, Evaluation and Communication	600 000		
Total	20 000 000	15 000 000	4 400 000

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Kwanzas will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[26].

5.4.1 Procurement (direct management)

The Technical Assistance package[27] to support the Ministry of Finances and the Ministry of Economy and Planning in implementing and monitoring the COVID-19 Socio-economic Relief Plan and the Informal Economy Reconversion Plan and to provide on demand support will be awarded in full respect of EU appropriate rules and procedures for providing financing to third parties, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

Subject	Indicative type	Indicative trimester of launch of the procedure
Technical Assistance package	Services	1th trimester 2021

[26] www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

[27] Could include indicatively elements supporting social dialogue and support amongst others.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (in EUR)
5.3 Budget support	19 400 000
5.4.1 Complementary support	500 000
5.8 Evaluation, 5.9 Audit/expenditure verification	75 000
5.10 Communication-visibility	25 000
Total	20 000 000

5.7 Organisational set-up and responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

A Budget Support Committee will be set up to oversee the implementation of the programme and conduct policy dialogue on the issues covered by this budget support. This committee will be co-chaired by the Ministry of Economy and Planning and the European Union Delegation and comprise the Ministry of Finance, the Multisectoral Commission on the Informal Economy and all relevant stakeholders associated with the implementation of the PREI, including other donors. The Budget Support Committee will meet at least once a year.

A Technical Committee chaired by the Ministry of Economy and Planning comprising key ministries (Ministry of Public Administration, Work and Social Insurance and other ministries involved in the PREI) and agencies and other partners (including the European Union) active in the implementation of the formalisation of the economy, and will meet every three months to track progress in the implementation of the indicators.

Other stakeholders involved in the macroeconomic surveillance of the country can also be part of the Budget Support Committee, as well as other donors.

Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the importance of the action, an ex-post evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.