

Formalization of the Informal Economy in Africa: The Experience of Angola

Mario Augusto Caetano Joao
Ministry of Finance of Angola, Largo da Mutamba, Angola
mario.joao@minfin.gov.ao

Disclaimer: This research reflects only the author's perspectives and does not necessarily represent the views of the Ministry of Finance of Angola.

Abstract

This paper examines the dynamics and structural transformation of Africa's informal economy through the lens of Angola's Informal Economy Reconversion Program (PREI) from 2015 to 2024. Transitioning from an initial state-led mapping phase (PREI 1.0) to a sustainable, decentralized framework (PREI 2.0), the initiative successfully formalized over 251,450 operators by late 2022 despite a high baseline informality rate of 79.7 percent. By utilizing microcredit incentives, accelerating social security enrollment, and integrating domestic resource mobilization with financial inclusion, Angola offers a highly replicable roadmap for expanding tax bases and strengthening social safety nets across sub-Saharan Africa.

Keywords: Informal economy, PREI, economic formalization, domestic resource mobilization, Angola, Sub-Saharan Africa.

DOI: 10.7176/JESD/17-4-01

Publication date: June 30th 2026

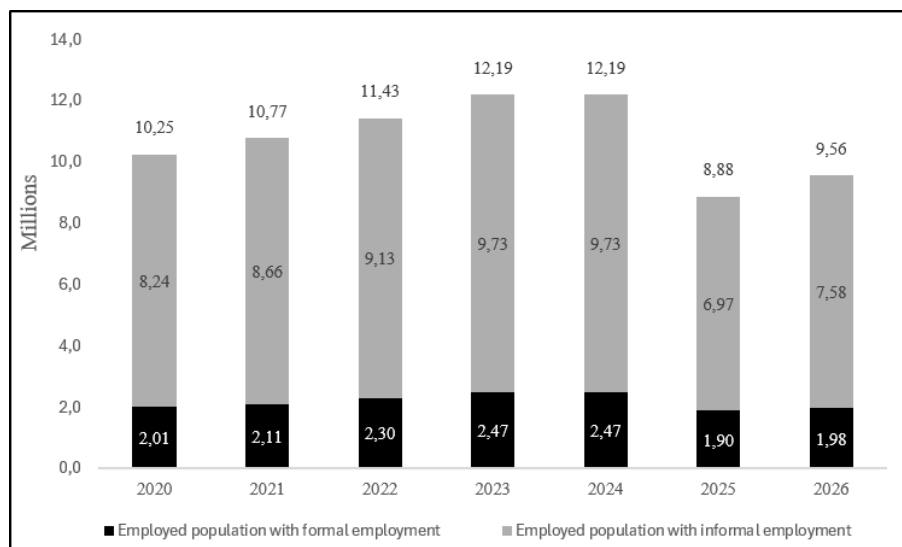
1. Introduction

The informal economy stands as one of the most enduring, pervasive, and structurally complex challenges to sustainable macroeconomic development across sub-Saharan Africa. Characterized by activities that fall outside the regulatory, legal, and institutional frameworks of the state, the informal sector functions simultaneously as a vital social safety net for survival and a significant impediment to long-term economic transformation. For decades, the structural realities of African markets have generated an environment where formal employment is the exception rather than the norm. According to baseline data established by the International Labor Organization (ILO), informality accounts for approximately 76 percent of total employment across the African continent, rising to an extraordinary 79.2 percent within sub-Saharan Africa. This systemic phenomenon deprives millions of workers of fundamental labor protections, traps enterprise activities at low-productivity thresholds, and significantly restricts the fiscal capacity of sovereign states by limiting the reach of domestic tax systems.

In the Republic of Angola, this structural challenge is deeply intertwined with the country's broader post-independence political economy and its macroeconomic history. Following its independence from Portugal in 1975, Angola experienced decades of civil war (1975–2002), which severely disrupted rural agricultural production systems, triggered rapid, unplanned urban migration, and decimated formal institutional frameworks. In the post-conflict era stretching from 2002 to 2014, the country experienced a rapid, commodity-driven economic expansion, with gross domestic product (GDP) growth rates averaging approximately 10 percent annually. However, this growth was overwhelmingly concentrated in the highly capital-intensive petroleum sector, which generated substantial state revenues but failed to build a diversified, labor-absorbing formal economy. Petroleum came to dominate the macroeconomic profile, accounting for roughly 29 percent of GDP, 59 percent of central government revenues, and an extraordinary 94 percent of merchandise export values.

When the global oil price collapsed in late 2014, the structural deficiencies of this oil-dependent model were laid bare. Angola entered a severe and prolonged economic recession spanning 2016 to 2020, characterized by substantial currency depreciations, fiscal contractions, and sharp inflationary spikes. While structural reforms initiated after 2018, including exchange rate liberalization, aggressive fiscal consolidation, and deliberate non-oil sector diversification policies, gradually stabilized the macroeconomic environment, the shock forced large

segments of the population into informal commerce for survival. By 2020, according to Figure 1, the National Institute of Statistics of Angola (INE) revealed that out of 10.25 million workers (total labor force), 8.24 million were employed in the informal sector, representing 80.3 percent, and exposing the deep socioeconomic vulnerability of the domestic workforce.



Source: INE (ine.gov.ao)

Figure 1: Informal labor force in Angola

Recognizing that macroeconomic stability and long-term development could not be sustained while four-fifths of the active labor force operated outside the formal legal system, the Government of Angola launched an ambitious institutional response: the Informal Economy Reconversion Program (PREI). This paper examines the Angolan formalization experience, charting its progression from an initial localized mapping initiative into an integrated, decentralized national policy architecture. By analyzing the structural properties of Angola's informality, the evolution from PREI 1.0 to PREI 2.0, the role of financial inclusion and microcredit magnets, and the integration of formalization with Domestic Resource Mobilization (DRM), this study highlights the lessons, operational methodologies, and systemic policy insights that the Angolan model offers to the broader African continent.

Hence, this study analyzes Angola's experience with formalizing the informal economy from 2015 to 2024 to provide a replicable framework for financial inclusion, formalization, and domestic resource mobilization across sub-Saharan Africa and proposes what policy measures are useful.

1.1 Research Questions

To systematically deconstruct the macroeconomic, institutional, and structural dynamics of the informal economy's transition within the Republic of Angola, this study formulates and addresses the following specific research questions:

- (i) What are the primary structural, demographic, and macroeconomic drivers of informality in Angola?
- (ii) How effective was the PREI execution phase between 2020 and 2022 in successfully formalizing informal economic operators?
- (iii) To what extent do the structural and decentralized mechanisms introduced under PREI 2.0 (2023–2025) enhance the institutional and financial sustainability of newly formalized MSMEs?
- (iv) What is the potential impact of integrating formalized economic entities into the broader national tax and social protection frameworks on expanding Angola's DRM and strengthening social safety nets for vulnerable populations?

1.2 Research objectives

This research aims to evaluate the structural transition, institutional design, and macroeconomic performance of Angola's strategies for formalizing the informal economy. Specifically, the study examines the demographic and geographic distribution of informality, with a particular focus on its disproportionate impact on youth and

women. It assesses the operational achievements of PREI 1.0 against its initial targets and investigates the decentralized sustainability mechanisms established under PREI 2.0. Finally, the research formulates policy recommendations designed to harness the potential of formalization and transform the informal economy into a new frontier for domestic resource mobilization.

1.3 Significance of the research

This research provides a vital theoretical and empirical blueprint for transitioning sub-Saharan African economies away from natural resource dependency. By evaluating Angola's incentive-driven, decentralized formalization model, it offers regional policymakers an actionable framework to expand the non-oil tax base, strengthen social safety nets, and drive inclusive, long-term economic development.

2. Literature Review

2.1 Conceptual Definitions and Theoretical Paradigms of Informality

The informal economy has shifted from being viewed as a temporary post-colonial anomaly into a central area of focus within modern development economics. Coined initially by British anthropologist Keith Hart (1973) during his fieldwork in urban Ghana, the term “informal sector” was used to describe the economic resilience of urban migrants operating outside formal wage employment. The concept gained widespread institutional backing through the ILO comprehensive mission to Kenya in 1972, which defined informality by its core structural features: ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operations, labor-intensive processes, adapted technology, skills acquired outside the formal school system, and unregulated, competitive markets.

Over the decades, as shown in Table 1 below, development literature has organized the analysis of informality into four distinct theoretical schools of thought, each offering unique explanations for its persistence and proposing different policy interventions.

Table 1. Theoretical paradigms of the informal economy

School of Thought	Core Causality Perspective	Policy Recommendation
Dualist School	Exclusion due to a structural mismatch between population growth & modern job creation capacity.	Targeted social support, credit access, and skills training programs.
Structuralist School	Subordination and exploitation of informal labor by formal firms to lower global production costs.	Regulation of value chains; protecting informal labor from corporate exploitation.
Legalist School	Rational evasion of excessive state bureaucracy, high compliance costs, and complex legal entry barriers.	Deregulating markets; streamlining business registry and property rights.
Voluntarist School	Deliberate exit based on a rational cost-benefit analysis of tax burdens versus public goods received.	Strengthening enforcement; aligning public services with tax obligations.

Source: Author.

The Dualist School, championed by structural development theorists like W. Arthur Lewis (1954) and Harris and Todaro (1970), views the informal economy as a separate marginal sector that provides a basic social safety net for survival. Under this framework, informality persists because the modern formal sector lacks the capacity to absorb rapid population growth and urban migration. Dualists argue that informal workers are structurally excluded from modern employment opportunities, forcing them into low-productivity, subsistence operations. Policy interventions from this perspective focus on providing target financial credit, expanding skills training, and delivering social protection programs to help informal workers transition into mainstream formal employment.

The Structuralist School, represented by scholars like Caroline Moser (1978) and Alejandro Portes (1989), challenges the idea that the formal and informal sectors operate independently. Instead, structuralists view them as deeply interconnected, with the informal sector subordinated to the interests of formal capitalist enterprises. In this paradigm, formal firms systematically exploit informal labor, micro-enterprises, and unregulated supply

chains to lower production costs, avoid labor regulations, and maintain flexibility amid global economic shocks. From this viewpoint, formalization cannot be achieved through simple regulatory registry. It requires structural reforms that regulate global supply chains, protect informal workers from corporate exploitation, and change the institutional power balance between capital and labor.

The Legalist School, popularized by Peruvian economist Hernando de Soto (1989, 2000), argues that the informal economy is a rational response by energetic entrepreneurs to excessive state bureaucracy, high compliance costs, and complex legal entry barriers. De Soto asserts that informal operators are not trying to evade the law, but are effectively locked out of the formal legal framework by burdensome red tape and institutional corruption. He notes that this exclusion traps extensive physical assets as “dead capital”, that is, assets that cannot be used as collateral for bank loans, transfer titles legally, or secure commercial contracts. The Legalist prescription focuses on cutting red tape, reducing registration fees, streamlining corporate licensing, and establishing secure property rights to unlock the economic potential of informal actors.

The Voluntarist School, advanced by researchers like William Maloney (2004), views informality primarily as a deliberate decision by rational economic actors to step outside the formal regulatory system. Unlike the Legalist model, Voluntarists argue that informal operators often perform a clear cost-benefit analysis and choose to exit the formal framework because they find the financial burdens of compliance (such as corporate income taxes and social security contributions) outweigh the perceived value of state public goods and institutional infrastructure. Consequently, Voluntarists argue that reducing informality requires stronger enforcement, better auditing tools, and visible improvements in public service delivery to show a clear return on tax obligations.

2.2 Drivers of Informality in Sub-Saharan Africa and the Resource-Curse Nexus

In sub-Saharan Africa, the persistent nature of informality is driven by a combination of historical legacies, institutional bottlenecks, demographic pressures, and specific macroeconomic structural realities. Unlike the historical experiences of East Asia or Western Europe, where economic growth led to a steady transition of labor from agriculture to formal industrial manufacturing, Africa's recent growth phases have largely bypassed manufacturing-led, labor-absorbing industrialization (Rodrik, 2016). Instead, as illustrated in Figure 2 below, many African economies have experienced “premature deindustrialization”, moving workers from low-productivity rural agriculture directly into low-productivity informal urban services.

Source: Author.



Figure 2: Drivers of Informality in Sub-Saharan Africa and the Resource-Curse Nexus

As a result, surplus labor is pushed into informal retail and small-scale services for survival. This structural dynamic leaves resource-dependent countries highly vulnerable to global commodity price shocks. When commodity prices crash, national budgets tighten, currencies depreciate, and formal employment shrinks, forcing even larger segments of the population into the informal economy to weather the economic downturn (Gelb, 1988; Karl, 1997).

2.3 Empirical Evidence on Formalization Strategies: Microcredit, Social Protection, and DRM

As shown in Table 2, international empirical literature on economic formalization has increasingly focused on assessing the impact of multi-sectoral strategies that combine regulatory changes with clear financial and social incentives. Research across diverse developing regions shows that purely regulatory reforms, such as simplifying registration processes or cutting business license fees, frequently result in modest formalization rates when implemented in isolation (Bruhn, 2011; de Mel, McKenzie, & Woodruff, 2013). Instead, sustainable transitions require linking formalization to clear benefits, notably access to credit markets, social safety nets, and formal

business infrastructure.

Table 2. Empirical strategies for sustainable economic formalization

Policy Mechanism	Key Operational Focus	Empirical Impact
Microcredit Links	Tying advanced capital access to regulatory compliance milestones	Accelerates registration rates; supports enterprise expansion and technology adoption
Social Security Networks	Extending pension & insurance coverage to the “missing middle”	Protects vulnerable workers; reduces economic insecurity and prevents reversal to informality
Digital Financial Tools	Deploying mobile money and digital tax declaration platforms	improves transaction transparency; lowers compliance costs for small businesses

Source: Author.

The deployment of specialized microcredit programs has emerged as a particularly powerful incentive for informal actors to register. Access to formal bank capital allows micro-enterprises to expand operations, adopt new technologies, and smooth income fluctuations (Morduch, 1999; Banerjee et al., 2015). Empirical studies demonstrate that when micro-credit programs condition larger loans on regulatory milestones, such as obtaining a tax identification number or registering a municipal license, the incentive to comply increases significantly.

Simultaneously, extending social protection networks to the “missing middle”, the large segment of informal workers who are too affluent for extreme poverty cash transfers but lack formal employer-backed social security, is critical for preserving formalization gains during crises (Barrientos, 2013; ILO, 2021). Providing access to basic pension plans, health insurance, and disability protections reduces the economic vulnerability of newly formalized operators, making them more resilient to personal and macroeconomic shocks and preventing them from slipping back into informality.

From the monetary side, other papers analyze how a substantial informal sector alters monetary policy transmission in Africa (Amoah, B., & Mumuni, A., 2018; Caetano João, M. A., & de Castro, A. M., 2025) They demonstrate that extensive informality weakens the traditional credit and interest rate channels, as informal firms operate outside regulated financial systems, thereby reducing the overall effectiveness of central bank interventions on the broader macroeconomic environment.

There are also contemporary literature analyzing the informality in Angola as a result of historical dynamics, excessive state regulation, and centralized system failures, establishing it as a vital socioeconomic survival network mitigating urban poverty (Lopes, C. M., 2014; Queiroz, F., 2016; Ferraz, J. E. 2020).

Finally, contemporary public finance literature frames the formalization of the informal economy as an essential milestone for domestic resource mobilization in developing countries (Besley & Persson, 2011; Keen, 2012). Expanding the domestic tax base beyond a few large formal corporations and capital-intensive industries is vital for reducing reliance on volatile external resources and foreign aid. Research highlights that modern revenue strategies should avoid heavy-handed, punitive enforcement. Instead, they should focus on leveraging digital financial technologies, such as mobile payment systems and simplified digital tax declaration platforms, to make compliance straightforward and accessible for small and growing businesses. This approach lowers compliance costs, brings informal cash flows into the documented financial system, and helps build a transparent, predictable fiscal framework that supports sustainable development.

3. The African Informality Landscape and the Angolan Context

3.1 The African Informality Landscape

To understand the specific institutional pathways adopted by Angola, it is essential to first contextualize the broader sub-Saharan African informality landscape. The informal sector in Africa is not a homogenous entity; rather, it represents a diverse spectrum of economic actors ranging from vulnerable subsistence street vendors, open-air market traders, and smallholder farmers to sophisticated, unregistered small-scale manufacturing units and cross-border commercial operators. These dynamics reflect a mix of challenges highlighted by the Dualist, Structuralist, Legalist, and Voluntarist schools of thought mentioned in Sub-chapter 2.1. The persistence of this

sector is largely driven by a misalignment between demographic expansion and the structural capacity of the formal economy to generate formal employment opportunities. With Africa experiencing the fastest urban population growth globally, formal private sector development and public sector capacity have been consistently outpaced, leaving informal markets as the primary destination for youth labor absorption.

Comparative data compiled by ILO (2018) underscores the variations in informality across sub-Saharan African nations, as illustrated in Table 3 below.

Table 3. Share of informal employment in total employment (%)

Countries	Total	In the informal sector	In the formal sector	In households
Angola	94.1	77.1	16.5	0.5
Botswana	65.6	52.1	5.2	8.3
Cameroon	90.9	83.7	6.4	0.8
DRC	91.9	88.2	3.7	0.0
Liberia	86.8	79.1	6.0	1.7
Nigeria	92.9	80.4	2.9	9.6
South Africa	34.0	21.8	4.8	7.4
Rwanda	94.3	90.9	1.5	1.9
Zambia	88.0	79.0	2.9	6.1
Namibia	67.0	46.8	5.6	14.6

Source; ILO (2018)

This ILO (2018) data highlights pervasive informality across sub-Saharan Africa. For selected countries, total informal employment peaks in Rwanda (94.3 percent) and Angola (94.1 percent), heavily concentrated within the informal sector, whereas South Africa remains an outlier with a much lower total of 34.0 percent.

3.2 The Angolan Context

Focusing specifically on the internal dynamics of Angola, data in Table 4 from the National Institute of Statistics (INE) 2021 labor force survey, provides a slightly better picture than the 2018 ILO data showed in Table 3 above with a detailed look at how informality is distributed across different demographic and geographic lines.

Table 4. Angolan informal employment key demographic metrics (INE, 2021)

Demographic Indicator Category	Informal Employment Rate (%)
National Informal Employment Average	79,7
Gender: Female Labor Force Informality	88,5
Gender: Male Labor Force Informality	70,8
Geographic Location: Rural Communities	93,4
Geographic Location: Urban Centers	65,9
Age Group Profile: Youth Labor (Ages 15–24)	92,5

Source: INE (ine.gov.ao)

These metrics reveal deep structural imbalances within Angolan society. The high rural informality rate of 93.4 percent reflects the dominance of subsistence agriculture, where formal employment contracts, institutional banking, and commercial regulatory oversight are weak. Conversely, the urban informality rate of 65.9 percent, while lower, highlights the massive concentration of informal trade within major metropolitan hubs like Luanda.

The gender dynamic is equally critical: female informality stands at 88.5 percent, compared to 70.8 percent for men. Women form the backbone of the retail trading system, dominating local open-air markets and neighborhood commercial activities (*zungas*). Finally, the youth informality rate of 92.5 percent among individuals aged 15 to 24 reveals a significant structural challenge: nearly the entire next generation entering the workforce is absorbed by the informal economy, exposing them to long-term income instability and limited skill accumulation.

The economic impact of this massive informal sector is profound. For the state, it creates a structural fiscal constraint. With nearly 80 percent of economic actors operating outside the formal system, the government's ability to raise non-oil tax revenues is severely constrained, extending the country's vulnerability to global oil price shocks. For the economic operators themselves, informality limits their potential for growth. Operating

outside legal frameworks prevents these enterprises from accessing formal bank credit, securing commercial contracts, or obtaining legal protections for their assets. This keeps them trapped in low-productivity cycles, limiting their contribution to national economic diversification.

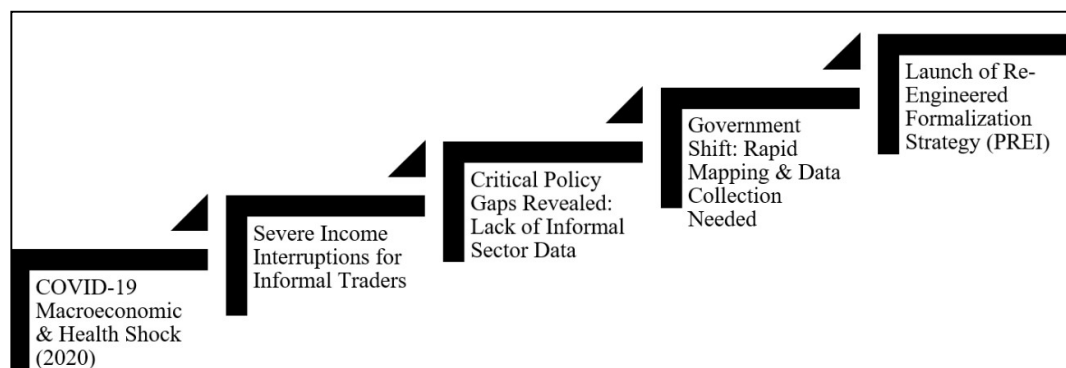
4. Institutional Evolution of Formalization Policies in Angola

Angola's policy approach to the informal economy has undergone a significant institutional evolution over the past decade, moving from fragmented, top-down regulatory interventions to a comprehensive, multi-sectoral strategy. The initial formal efforts to address informality began in 2012 with the creation of the Program for the Formalization of the Informal Economy (Programa de Formalização da Economia Informal—PREI), established under Presidential Decree No. 84/14. This early framework focused on several core objectives, including streamlining the formalization of micro-enterprises, setting up a One-Stop Shop for Entrepreneurs (Balcão Único do Empreendedor—BUE), providing target microcredit, and introducing mandatory training programs in small business management for credit recipients.

Despite its clear theoretical alignment with international best practices, the initial PREI implementation faced significant operational bottlenecks. The BUE infrastructure lacked the deep institutional connections needed to link commercial registration with social security registration or tax identification enrollment. Consequently, many operators who registered at the BUE remained disconnected from the broader formal financial and social safety systems. Furthermore, the microcredit lines faced challenges with weak risk assessment frameworks and limited geographic reach. As noted in later policy reviews, while these initial initiatives established a baseline regulatory intent, they did not lead to a scalable or sustainable structural shift.

This policy landscape faced an unprecedented crisis with the arrival of the COVID-19 pandemic in 2020. The pandemic hit Angola during a period of existing economic contraction, intensifying the vulnerabilities within the informal sector. State-mandated public health restrictions, lockdowns, and restrictions on movement severely disrupted informal trade networks, cutting off daily income streams for millions of families who relied on informal markets for survival.

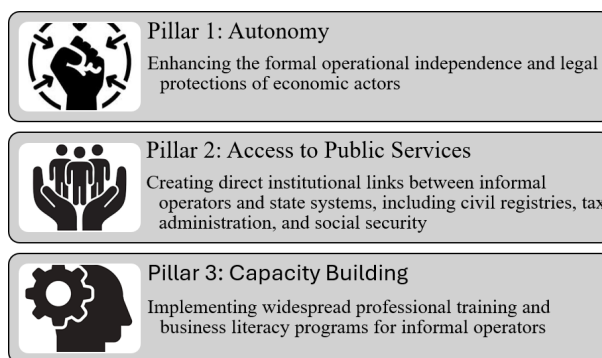
A comprehensive assessment conducted by the International Labour Organization (ILO) in 2021 highlighted the severe impact of these containment measures on informal actors, revealing widespread income losses, supply chain disruptions, and increased poverty levels. However, this crisis also highlighted, as shown in Figure 3 below, a major structural gap for the state: the total lack of systematic, high-frequency data on the informal sector, which made it extremely difficult for the government to design and target effective social protection programs or economic relief measures.



Source: Author.

Figure 3. Formalization Strategy (PREI) Re-Engineered

Faced with this challenge, the Angolan government recognized the need to re-engineer its formalization strategy. Rather than viewing formalization simply as a regulatory requirement, the Government reframed it as a core component of its macroeconomic stabilization and social resilience policies. To address the data gap and build a scalable operational model, Angola entered into a strategic financial and technical cooperation agreement with the European Union in 2020. Under this partnership, the European Union committed €20 million over a three-year implementation period (2021–2023) specifically to fund a revamped version of PREI. This financial support was structured around three core operational pillars as illustrated in Figure 4 below.



Source: Author.

Figure 4. PREI Operational Pillars

By anchoring this partnership within the Ministry of Economy and Planning, Figure 4 shows that Angola established the institutional foundation needed to transition from a localized mapping project into a comprehensive national policy architecture.

4.1 PREI 1.0: Operational Execution and Strategic Mapping

The launch of PREI 1.0 marked a transition to an execution-focused phase, running from 2020 through the end of 2022. The core operational goal of PREI 1.0 was to implement a nationwide field campaign to systematically identify, register, and formalize informal economic operators. To achieve this, as shown in Figure 5, the program designed a unique formalization value chain structured across three progressive levels of institutional integration.

Source: Author.

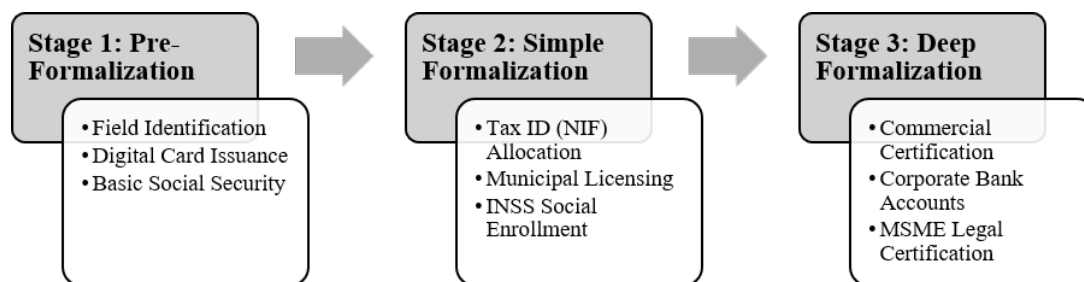


Figure 5. PREI formalization value chain & complementary institutional services

This phased approach allowed the Government to customize its services to the diverse needs of different operators, dividing them into three distinct target groups:

- a) **Most Vulnerable Operators:** Focused primarily on individual street vendors, open-air traders, and small-scale mobile operators. These individuals received a unique Digital Card that granted them official municipal recognition, exempted them from sudden administrative sweeps, and provided entry-level access to basic social protection frameworks and business training programs.
- b) **Micro-Entrepreneurs:** Targeted small-scale operators with fixed physical locations, such as market stalls or workshops. In addition to the Digital Card and social benefits, these operators received simplified, low-cost bank accounts, targeted financial literacy training, and initial access to microcredit lines.
- c) **Unregistered Companies:** Focused on larger, established commercial operations that were functioning entirely outside the legal system. For this segment, PREI 1.0 acted as a complete regulatory gateway, providing a streamlined process for Tax Identification Number (NIF) allocation, commercial registration certificates, micro-, small-, and medium-sized enterprise (MSME) certifications, and formal integration into the National Social Security Institute (INSS).

To maximize field enrollment, PREI 1.0 deployed mobile registration centers directly into major informal markets, reducing the bureaucratic compliance costs and travel burdens that typically discourage informal actors from registering. This field-focused strategy led to significant progress that exceeded initial policy targets. As shown in Table 5 below, the official performance reviews maintained by the Angolan Government, the program achieved substantial growth.

Table 5. PREI 1.0 target metrics vs. actual formalization outputs

Year	NDP Target	EU-Angola Goal	Achieved
2020	500	-	255
2021	750	100,000	49,256
2022	750	100,000	201,939
Total Output	2,000	200,000	251,450

Source: MEP & INAPEM, 2023

This data demonstrates a major operational shift. While the original National Development Plan (NDP) framework had set a modest target of formalizing 2,000 operators by 2022, the re-engineered, EU-supported PREI framework set a far more ambitious target of 200,000 registrations. By the conclusion of PREI 1.0 in late 2022, the field teams successfully processed 251,450 economic operators, significantly exceeding the target and establishing a robust database for future economic planning.

A critical factor driving this high registration rate was the integration of a dedicated financing mechanism. To incentivize formalization and provide immediate economic relief during the pandemic recovery, the government established a targeted microcredit program overseen by the Active Venture Capital Fund of Angola (Fundo de Capital de Risco Activo de Angola—FACRA). Under this framework, Presidential Decree No. 98/20 created a specialized financing line tailored specifically for women and young entrepreneurs operating within the informal economy. During the PREI 1.0 implementation cycle, this initiative funded 4,919 individual microcredit projects, distributing a total of \$9.3 million.

To ensure that these capital allocations directly supported real economic diversification, the microcredit program prioritized projects aligned with key structural sectors:

- a) **Primary Agricultural Production:** Focused on expanding local cultivation of vital food crops, including corn, wheat, rice, legumes, roots, tubers, and fresh vegetables;
- b) **Poultry and Livestock Farming:** Funding small-scale poultry units for domestic meat and egg production, as well as cattle acquisition for livestock fattening and processing;
- c) **Food Processing and Value Addition:** Supporting artisanal and small-scale manufacturing units engaged in processing local agricultural outputs and producing beverages;
- d) **Logistics and Rural Distribution:** Financing transportation and storage solutions specifically for agri-food and fisheries products to reduce post-harvest losses and improve supply chain connections between rural producers and urban consumer markets; and
- e) **Services and Technology:** Providing entry-level capital for small-scale aquaculture, urban solid waste recycling ventures, neighborhood transport operations, vocational training providers, and local software development or cultural production teams.

By linking formal financial credit directly to regulatory registration, PREI 1.0 successfully demonstrated that formalization could provide clear, tangible benefits to informal operators, shifting the narrative away from purely regulatory enforcement.

4.2 PREI 2.0: Building Systemic Sustainability and Decentralization

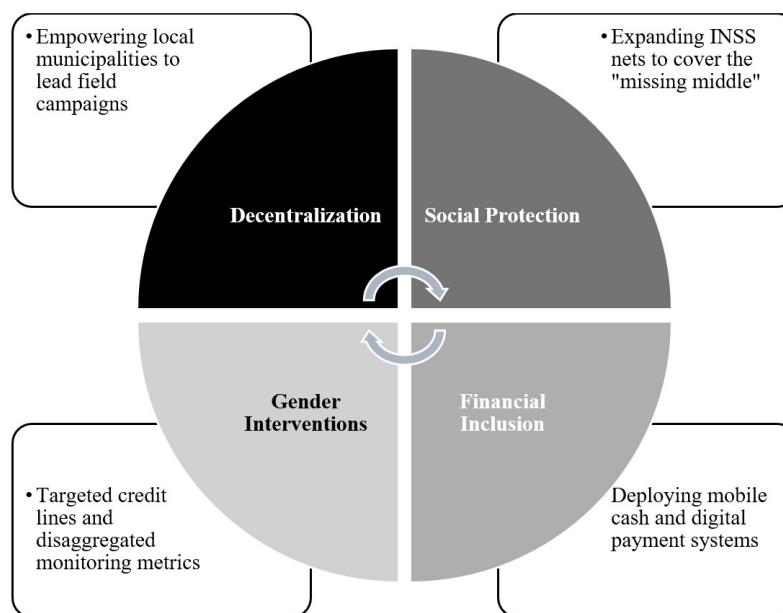
Following the conclusion of the initial mapping phase, the PREI 2.0 (2023–2025) was launched to transition the initiative from a temporary field project into a permanent, institutionalized national framework. Aligned with the country's updated National Development Plan 2023-2027, PREI 2.0 introduced a comprehensive set of operational guidelines designed to address the long-term sustainability, systemic integration, and local ownership

of the formalization process.

The operational architecture of PREI 2.0 was structured around several core principles:

- (i) **Budgetary Realignment:** Ensuring that annual national planning and municipal budget allocations are directly linked to the operational costs and monitoring metrics of formalization initiatives;
- (ii) **Gender-Responsive Implementation:** Mandating the complete disaggregation of all operational indicators by gender and requiring that program decisions explicitly account for and address the specific structural challenges faced by female economic actors;
- (iii) **Preventative Sustainability:** Creating regulatory mechanisms to continuously onboard new economic actors entering the workforce while simultaneously developing policy tools to prevent already formalized businesses from slipping back into informality during economic downturns;
- (iv) **Decentralized Administration:** Moving operational management away from central ministries and empowering local municipalities and decentralized services to lead formalization campaigns, improving the quality and accessibility of public services at the community level;
- (v) **Policy Interoperability:** Building direct operational connections between PREI 2.0 and other major national economic programs, including the Action Plan for Employment Promotion (PAPE), the Support Program for Production, Export Diversification, and Import Substitution (PRODESI), the National Social Action Policy, and the regulatory frameworks of the National Social Security Institute (INSS);
- (vi) **Social Protection Expansion:** Focusing specifically on expanding social safety net coverage to the “missing middle”, vulnerable informal operators and recently formalized businesses that still face significant financial insecurity; and
- (vii) **Digital Financial Ecosystems:** Accelerating the deployment of digital financial tools, including mobile payment systems, micro-insurance products, and digital guarantee frameworks, to reduce reliance on cash and improve market access.

Figure 6 presents a policy matrix with four key pillars centered around an integrated cycle: Decentralization empowers local municipalities; Social Protection expands INSS safety nets to include the “missing middle”; Financial Inclusion deploys mobile cash and digital payment systems; and Gender Interventions utilize targeted credit and disaggregated monitoring. These elements work together to form a comprehensive approach to social and economic policy.



Source: Author.

Figure 6. PREI 2.0 Policy Matrix

To guide this phase, it was further established clear, multi-year performance indicators in coordination with international development partners, as shown in Table 6 below.

Table 6. PREI 2.0 Systemic Performance Indicators and Chronological Targets

Operational Indicator Metric	Year 1 (2023)	Year 2 (2024)	Year 3 (2025)
Operators Registered with Social Security	150,000	250,000	Continuous
MSMEs Enrolled through Single Window	100,000	150,000	Continuous
Annual Expansion of National Tax Base	--	+18% vs Y1	+18% vs Y2
Integrated Online Formalization Platform	In Development	Live Coverage	5+ State Serv.

Source: PREI Sustainability Memorandum,

A central element of the PREI 2.0 long-term strategy is the nationwide expansion of a tiered microcredit program, which acts as a powerful financial incentive for sustainable formalization. Recognizing that a single approach cannot fit the entire informal sector, PREI 2.0 divides its microcredit interventions into three distinct operational tiers:

- Tier 1 (Low Formalization Magnet): Focuses on entry-level informal traders and individual operators with minimal regulatory requirements. The primary goal is to provide immediate, low-barrier capital to bring vulnerable operators into the state database, targeting the financing of at least 10,000 individual projects.
- Tier 2 (Medium Formalization and Base Expansion): Targets established micro-enterprises and market cooperatives. Access to this capital tier is directly contingent on the enterprise obtaining a Tax Identification Number (NIF) and enrolling its workforce in the basic social security registry, with an operational goal of funding 6,000 projects.
- Tier 3 (High Formalization and Deep Integration): Aimed at growth-oriented small businesses and formalizing commercial partnerships. This tier requires full commercial licensing, formal accounting practices, and complete regulatory compliance, targeting 2,000 advanced projects to help them transition into the mainstream formal financial market.

By structuring financial assistance in this way, PREI 2.0 ensures that access to capital directly supports progressive regulatory compliance, helping informal operators steadily integrate into the formal economy.

5. Analytical Discussion and Policy Insights for Sub-Saharan Africa

The structural evolution of Angola's Informal Economy Reconversion Program (PREI) provides critical policy

lessons for sub-Saharan Africa. Moving beyond traditional punitive enforcement, Angola demonstrated that sustainable formalization hinges on tangible incentives, such as microcredit, simplified social security, and digital IDs, that make registration more beneficial than remaining informal.

A core innovation is its phased approach, dividing the process into (i) pre-formalization, (ii) simple formalization, and (iii) deep formalization. This gradual pathway prevents low-income operators from being overwhelmed by complex regulations, allowing them to formalize in sync with their business growth. Furthermore, the shift from PREI 1.0 to 2.0 underscores the necessity of administrative decentralization. By transferring operations to municipal authorities, the program reduced bureaucratic costs and enabled local tailoring, placing formalization tools directly within communities.

However, Angola's experience also reveals persistent challenges. Initial registration and credit are insufficient without continuous support. Without ongoing business training, market infrastructure, and long-term finance, many newly formalized enterprises risk reverting to informality. Thus, for formalization to be lasting, it must be tightly integrated with broader national strategies for economic diversification, industrial development, and technical education, ensuring that formal status translates into genuine, sustainable economic integration.

6. Conclusion and Policy Recommendations

6.1 Conclusion

The formalization of the informal economy is a critical prerequisite for achieving sustainable macroeconomic stability, expanding domestic resource mobilization, and ensuring inclusive social growth across sub-Saharan Africa. As demonstrated by the case of Angola, the transition from a commodity-dependent economy toward a diversified, resilient economic model cannot be accomplished while a vast majority of the active labor force operates outside legal and institutional frameworks. Through the re-engineering of the Informal Economy Reconversion Program (PREI), Angola has developed a comprehensive model that successfully balances field execution with long-term institutional sustainability. By shifting the policy focus toward positive incentives, financial inclusion, and decentralized administration, the Angolan framework offers a actionable blueprint for regional policymakers.

6.2 Strategic Policy recommendations

Based on the analytical findings and operational insights detailed in this study, the following strategic recommendations are proposed for strengthening and expanding economic formalization initiatives across Africa:

- (i) Institutionalize Incentives over Enforcement: Regional governments should prioritize creating clear, tangible benefits for formalization, such as access to specialized credit lines, public contracts, and social safety nets;
- (ii) Implement Phased Formalization Pathways: Avoid complex, all-or-nothing registration requirements. Develop a step-by-step regulatory pathway that allows micro-enterprises to gradually build compliance as their operational capacity grows;
- (iii) Empower Local Authorities through Decentralization: Transfer operational management and registration infrastructure to municipal governments. Ensure local authorities have the necessary fiscal and administrative resources to lead localized formalization campaigns;
- (iv) Embed Gender Equity into Program Design: Recognizing that women form the backbone of informal retail trade across Africa, design specialized credit facilities, social protection benefits, and training programs tailored specifically to support female entrepreneurs;
- (v) Accelerate Digital Financial Integration: Leverage mobile money platforms, digital registries, and electronic tax declaration tools to simplify compliance, reduce transactional costs, and bring informal cash flows into the secure, formal financial system;
- (vi) Connect Formalization with Comprehensive Business Support: Ensure that regulatory registration is accompanied by ongoing access to financial services, continuous business literacy training, and integration into national value chains to prevent businesses from returning to informality; and
- (vii) For resource-dependent economies like Angola, the formalization of the informal economy could be seen as the next frontier for Domestic Resource Mobilization (DRM) with complementary tax

instruments such as value-added tax (VAT).

6.3 Accomplishment of research objectives

This study successfully accomplished its research objectives by thoroughly analyzing the institutional transition and macroeconomic impacts of Angola's informal economy reconversion strategies between 2015 and 2024. By utilizing structural data from the National Institute of Statistics, the paper mapped out the demographic profiling of informality, emphasizing targeted solutions for vulnerable youth and female traders. Furthermore, the empirical analysis successfully measured the operational outputs of PREI 1.0 against its international milestones, while comprehensively evaluating the decentralized, sustainability-focused frameworks established under PREI 2.0. Finally, the research successfully synthesized these operational lessons into an integrated domestic Resource mobilization roadmap.

6.4 Limitations of the research

The primary limitation of this research is the reliance on high-frequency, self-reported administrative data from field campaigns, which may introduce measurement errors or survival biases regarding formalized micro-enterprises. Additionally, because the institutional mechanisms of PREI 2.0 are structurally designed to run through late 2025, the long-term econometric data required to fully measure its impact on non-oil tax revenue mobilization and business survival rates across rural municipalities remains partially restricted.

References

- Amoah, B., & Mumuni, A. (2018). Informal sector dynamics and monetary policy transmission in West Africa. *African Development Review*, 30(2), 145–158.
- Banerjee, A., Duflo, E., Glennerster, R., & Kinnan, C. (2015). The miracle of microfinance? Evidence from a randomized evaluation. *American Economic Journal: Applied Economics*, 7(1), 22–53.
- Barrientos, A. (2013). *Social assistance in developing countries*. Cambridge: Cambridge University Press.
- Besley, T., & Persson, T. (2011). *Pillars of prosperity: The political economics of development clusters*. Princeton, NJ: Princeton University Press.
- Bruhn, M. (2011). License to sell: The effect of business registration reform on entrepreneurial activity in Mexico. *Review of Economics and Statistics*, 93(1), 382–386.
- Caetano João, M. A., & de Castro, A. M. (2025). Macroeconomic stability: Drivers of inflation in Angola. *Journal of Economics and Sustainable Development*, 16(2), 21–35.
- Lopes, C. M. (2014). A economia informal em Angola: breve panorâmica. *Revista Angolana de Sociologia*, (14), 61–75.
- Ferraz, J. E. (2020). *O Poder da Economia Informal*. Luanda.
- Queiroz, F. (2016). *Economia Informal: O Caso de Angola*. Almedina.
- de Mel, S., McKenzie, D., & Woodruff, C. (2013). The cost of formality: International evidence from randomized trials. *World Bank Economic Review*, 27(3), 540–546.
- de Soto, H. (1989). *The other path: The invisible revolution in the third world*. New York: Harper & Row.
- de Soto, H. (2000). *The mystery of capital: Why capitalism triumphs in the West and fails everywhere else*. New York: Basic Books.
- Gelb, A. H. (1988). *Oil windfalls: Blessing or curse?*. New York: Oxford University Press.
- Harris, J. R., & Todaro, M. P. (1970). Migration, unemployment and development: A two-sector analysis. *American Economic Review*, 60(1), 126–142.
- Hart, K. (1973). Informal income opportunities and urban employment in Ghana. *Journal of Modern African Studies*, 11(1), 61–89.
- International Labour Organization. (1972). *Employment, incomes and equality: A strategy for increasing productive employment in Kenya*. Geneva: ILO.
- International Labour Organization. (2018). *Women and men in the informal economy: A statistical picture* (3rd ed.). Geneva: ILO.

- International Labour Organization. (2021). *Extending social security to workers in the informal economy: Lessons from international experience*. Geneva: ILO.
- Karl, T. L. (1997). *The paradox of plenty: Oil booms and petro-states*. Berkeley, CA: University of California Press.
- Keen, M. (2012). Taxation and development: What have we learned from fifty years of research?. *National Tax Journal*, 65(4), 863–884.
- Lewis, W. A. (1954). Economic development with unlimited supplies of labour. *The Manchester School*, 22(2), 139–191.
- Maloney, W. F. (2004). Informality revisited. *World Development*, 32(7), 1159–1178.
- Ministério da Economia e Planeamento de Angola. (2023). *Relatório de execução do programa de reconversão da economia informal (PREI)*. Luanda: MEP.
- Morduch, J. (1999). The microfinance promise. *Journal of Economic Literature*, 37(4), 1569–1614.
- Moser, C. O. (1978). Informal sector or petty commodity production: Dualism or dependence in urban development?. *World Development*, 6(9-10), 1041–1064.
- National Institute of Statistics of Angola (INE). (2021). *Inquérito ao emprego em Angola (IEA)*. Luanda: INE.
- Portes, A., Castells, M., & Benton, L. A. (Eds.). (1989). *The informal economy: Studies in advanced and less developed countries*. Baltimore, MD: Johns Hopkins University Press.
- Republic of Angola. (2014). *Presidential Decree No. 84/14: Approving the Formalization of the Informal Economy Programme*. Luanda: Diário da República.
- Republic of Angola. (2020). *Presidential Decree No. 98/20: Establishing the Credit Line for Micro-Enterprises and Informal Operators*. Luanda: Diário da República
- Rodrik, D. (2016). Premature deindustrialization. *Journal of Economic Growth*, 21(1), 1–33.