Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Feb-2023| Report No: PIDC35221

Public Disclosure Authorized

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Angola	P179512	Angola First Green, Resilient, Inclusive Growth and Diversification Development Policy Financing (P179512)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EASTERN AND SOUTHERN AFRICA	May 23, 2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Angola	Ministry of Finance of Angola		

Proposed Development Objective(s)

The development objective is to support the Government of Angola to promote green, resilient, and inclusive growth by (i) removing market distortions and strengthening fiscal and financial sector resilience (ii) boosting equity by strengthening social inclusion; and (iii) Improving markets and infrastructures to build climate resilience

Financing (in US$, Millions)

SUMMARY

Total Financing	1,000.00

DETAILS

Total World Bank Group Financing	1,000.00
World Bank Lending	1,000.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The proposed Development Policy Financing (DPF), the first in a series of two, supports the Government of Angola (GoA) to conduct key reforms to promote economic diversification, poverty reduction, and resilience to climate and economic shocks. Angola, a lower-middle income country with 34 million people and one of Sub-Saharan Africa's (SSA) largest oil producers, is overly dependent on petroleum, which still accounts for over 90 percent of exports, 60 percent of fiscal revenues, and 33 percent of Gross Domestic Product (GDP) in 2021. This has made growth and macroeconomic management highly vulnerable to external shocks, stunted the non-oil economy, and generated few jobs. Governance challenges have constrained the benefits from Angola's oil wealth, as a third of the country's population remains in poverty. The administration that took office in 2022 for a second term remains committed to structural reforms aimed at addressing the country's governance, economic, and social challenges, with a specific focus on creating an environment conducive to inclusive, diversified, and more resilient economic growth.

Angola's economic recovery remained strong in 2022 after exiting a five-year recession in 2021, aided by a stronger oil sector and improved economic management. During the period of high oil prices in 2005 to 2014, Angola recorded rapid economic growth, though growing oil wealth also resulted in an overvalued currency. When oil prices declined in 2015, Angola fell into a recession, with a cumulative decline of 3.8 percent in real GDP from 2015 to 2019. The sharp drop in oil prices in early 2020 brought on by the Coronavirus Disease 2019 (COVID-19), coupled with measures put in place to contain the pandemic, further exacerbated the economic downturn, and GDP declined by 5.4 percent in 2020. With higher oil prices and the lifting of mobility restrictions in 2021, growth stood at 0.8 percent. Growth is projected to accelerate to 3.5 percent by 2022, driven by the non-oil sector, and a slight recovery in the oil sector. The floating of the exchange rate since 2018 has served as a shock absorber and will support economic diversification but, in the short-term, has led to higher inflation. Rapid currency depreciation also contributed to a steep rise in the debt-to-GDP ratio to 131 percent in 2020, but as oil prices and the currency recovered and fiscal prudence was maintained, the ratio is projected to have declined to 65 percent in 2022.

Angola is highly exposed to extreme climate events, which contributes to greater vulnerability to poverty. The South of Angola has suffered recurrent droughts over the years, and the most recent (between November 2020 and January 2021) was the worst recorded drought in the last 40 years. Effects of climate change may increase both the frequency and the magnitude of future droughts, particularly in the south but also in other parts of the country. Water availability is projected to decrease in the future in southern regions of the country, posing challenges not only to water supply and agriculture but also to electricity production. The length of dry seasons, frequency of dry spells as well as temperatures are expected to increase. This will hurt agricultural productivity, lead to further migration to cities and urban centers, and increase the overall vulnerability of populations in climate sensitive areas. Climate change will also lead to higher frequency of floods in Angola's largest cities where more than 60 percent of the population resides.

Relationship to CPF

The proposed DPF series reflects the priorities and objectives of the 2018 WBG Performance and Learning Review (PLR) for Angola which updated and extended the FY14–FY16 World Bank Group Country Partnership Strategy (CPS) for Angola through FY19. Policy areas supported under the DPF series contribute to the two CPS focus areas; complement investment lending under the CPS; and create policy underpinnings that can, together with the IFC, harness private sector opportunities and contribute to stronger and more inclusive growth. For example, DPF support to fuel subsidy reform and Anti-money laundering align with the CPS objective under Focus Area 1 which seeks to strengthen resilience to macroeconomic risks. Support under the DPF to strengthen the management and commercial viability of SOEs, increase access to finance; and improve the insurance industry are aligned with CPS Focus Area 1 on promoting diversified growth and competitiveness, specifically the objective to improve the business environment and deepen financial inclusion. The actions in the DPF series on resilient infrastructure regulations are also aligned with CPS Focus Area 2 of laying the groundwork for expanded access to cost-effective economic services (water, electricity, telecommunications, transport connectivity). The proposed operation is also aligned with preliminary strategic directions of a forthcoming Country Partnership Framework (preparation delayed due to COVID-19 and ongoing elaboration of the authorities' new NDP). These areas are further supported by ongoing and recently completed ASA and lending operations, including the 2022 Public Finance Review, the joint World Bank and IFC 2019 Country Private Sector Diagnostic (CPSD) (P167838 and IFC AS); Angola Energy Sector Engagement Programmatic TA Program (P169765); Angola Energy subsidy reform (P168918); the Angola Digital Infrastructure Reform Roadmap (P170015); Smallholder Agriculture Development and Commercialization Project (P154447); and the Luanda Bita Water Supply Guarantee (P163572). The DPF series is also aligned with conclusions and analysis from the 2018 SCD, which highlights economic diversification and human capital investment as key reform areas.

C. Proposed Development Objective(s)

The development objective is to support the Government of Angola to promote green, resilient, and inclusive growth by (i) removing market distortions and strengthening fiscal and financial sector resilience (ii) boosting equity by strengthening social inclusion; and (iii) Improving markets and infrastructures to build climate resilience.

Key Results

Results targeted under the proposed programmatic series of DPFs include:

- Reduction in the annual fiscal expenditures on fuel subsidies
- Creation of a fiscal stabilization fund and operating under appropriate rules
- Increase in the number of poor families receiving cash transfers
- Increase in the percentage of the population with access to electricity
- Increase in insurance penetration
  Decline in gas flaring

D. Concept Description

The proposed series' program development objective is to support the Government of Angola in promoting green, resilient, and inclusive growth by (i) removing market distortions and strengthening fiscal and financial sector resilience (ii) boosting equity by strengthening social inclusion; and (iii) Improving markets and infrastructures to build climate resilience. Reforms under the three objectives mutually reinforce and complement each other and are expected to make the country and its population more resilient to shocks (including those caused or exacerbated by climate change, foster fiscal sustainability and equity enhancing policies and create the regulatory environment for private-sector-led, inclusive growth in key sectors such as agriculture, green energy and telecommunications. The operation is organized around three pillars, each including several policy areas:

Pillar 1: Reducing economic distortions and strengthening fiscal and financial sector resilience. Policy areas include:

- Correcting fuel prices and improving petroleum sector regulations
- Strengthening fiscal and financial sector resilience
- Improving management and accountability of SOEs

Pillar 2: Boosting equity by strengthening social inclusion: Policy areas include:

- Mitigating subsidy reform impacts by strengthening social protection
- Improving equity and access in urban public transport through targeted support

Pillar 3: Improving markets and infrastructures to build climate resilience. Policy areas include:

- Boosting investments in electricity access and transmission
- Improving regulation of water resources and utilities
- Deepening insurance markets to support climate resilience and growth in agriculture
- Reducing GHG emissions from oil and gas operations

The government of Angola is preparing a new National Development Plan (NDP) for the period 2023 – 2027. The incoming NDP 2023 – 2027 set out three priorities for the country in the medium term, such as: (i) promotion of economic diversification; (iii) human capital development; (iii), and infrastructures. The government aims to reduce the high dependence to the oil sector by supporting the development of the agribusiness sector, and thus improving the country´s food security. In addition, the NDP also foresees the development of the manufacturing industry to support the creation of high value-added jobs. Another priority sector to support the economic diversification is tourism and commercial services. To promote more access to job markets opportunities, create a skilled labor, reduce informality, and thus poverty reduction, the government aims to support the development of the country´s human capital level through improving investments in education, health, and social protection. Finally, to support the economic diversification process, the NDP established as objective increase access to a quality and reliable basic infrastructure, specifically access to water, electricity, transport, and telecommunications.

The proposed operation is fully aligned with the Government's priorities and reflects the World Bank's growing engagement in Angola. The proposed DPF builds on extensive policy dialogue structured around analytical work, including the 2019 Country Private Sector Diagnostic (CPSD), 2022 Public Finance Review (PFR), 2022 Climate Change Development Report (CCDR) and other ongoing and proposed World Bank Group engagements. The following interdependent filters were applied to guide the choice of sectors and reforms included in the DPF series: (i) criticality and robustness of reforms; (ii) presence of strong analytical underpinnings to inform the choice of actions; (iii) robustness of implementation arrangements to support reforms including through complementary investment operations and TA; (iv) Government ownership to implement the reforms within the operation's timeframe; and (v) coordination with other development partners.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

A partial analysis of the expected poverty and social impacts of the prior actions supported by this operation suggest that they are expected to have positive economic and inclusion impacts in the long-term while reducing rural poverty in the near-term. However, they may also increase urban poverty in the near-term. The operation's prior actions are expected to increase the efficiency and equity of public spending, support economic diversification, and contribute to building climate resilience and improved electricity and water/sanitation infrastructure. In the medium- and long-term, these policies are expected to help generate more jobs and more resilient livelihoods, increase household and economic resilience, increase local agricultural production, and increase access to essential services. These are expected to lead to sustainable and resilient poverty reduction, improve health and social outcomes, and increase economic inclusion. In the near term, without mitigation measures, it is possible that the subsidy reform will result in a poverty increase of about

250,000 Angolans due to inflationary pressure. This effect will be particularly felt on urban households through public transit costs and basic food items such as fish. In order to reduce the short-term potential negative impact of the higher prices on urban households, efforts need to be made to ensure that the proposed transportation subsidies are successfully implemented and accessible across the population who uses these services (including those without official identification or mobile data plans). On the other hand, the planned expansion of cash transfers in rural areas is expected to decrease rural poverty while the prior actions related to the electricity sector are expected to result in increased rural electrification. More analysis is needed to better understand the poverty and equity implications of most of the prior actions being supported, including those supporting the electricity and water and sanitation sectors.

Environmental, Forests, and Other Natural Resource Aspects

Actions supported by this operation are expected to have overwhelmingly positive effects on the environment, forests, and natural resources. Actions and reforms under Pillar 1 are likely to have positive environmental impacts. Fuel subsidy reform is expected to result in a reduction of fuel consumption, contributing to fiscal savings, reduced greenhouse gas emissions and local pollution. The change in fiscal incentives from removing these subsidies is very significant (equivalent to a per ton carbon tax of US$236 and US$278 for gasoline and diesel respectively). This will also provide appropriate incentives for investments in energy saving technologies and renewable energy (e.g., to replace diesel generators). The exclusion of cooking gas (LPG) at this stage of the reform is expected to minimize negative impacts such as increased deforestation as result of an increase in the use of traditional fuels such as wood and vegetal charcoal (for domestic use). Reforms under Pillar 2 are not expected to have any direct or indirect environmental impacts or risks. Reforms under pillar 3 are expected to have positive effects from improved water resources management and electrification using renewable energy sources. Electrification of remote rural areas can also help alleviate pressure on ecosystems from use of traditional fuels.

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APPROVAL

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