Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 01-May-2023 | Report No: PIDA36167

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	30-Jun-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) reducing economic 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	500.00

DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

Other

Explanation

The Chair authorized the team to proceed with appraisal. The team was asked to report back to her and seek authorization to negotiate once all prior actions have been completed and related evidence shared with the Legal colleagues.

B. Introduction and Context

Country Context

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. Through recent upwards pressures on global oil prices, Angola is benefiting from significant windfall gains. Growth is estimated at 3.5 percent in 2022, driven by the non-oil sector, and a slight recovery in the oil sector. The Government is taking advantage of this period of high oil prices to further advance important reforms initiated over the past years. 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, reaching 131 percent in 2020, but as oil prices and the currency recovered and fiscal prudence maintained, the ratio is projected to have declined to 65 percent in 2022.

Angola is highly exposed to extreme climate events, and climate change increases vulnerability in a context of already high poverty. Angola's poverty rate (at US$2.15 per day, 2017 PPP) is estimated at 32.7 percent in 2022, high for a middle-income country. A recent driver of extreme poverty has been recurrent droughts in the south of the country. 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. 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 to electricity generation. 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.

To address these challenges, the Angolan authorities have strengthened macroeconomic management, are improving the business environment while reforming State-Owned Enterprises (SOEs), building social protection systems, and adopting policies to mitigate and adapt to climate change. Reforms undertaken include the introduction of a more flexible and transparent exchange rate regime, a new monetary policy framework, the adoption of robust fiscal consolidation measures that supported debt reduction, and the promotion of financial sector stability. Other key reforms aim to combat corruption, strengthen protections against money laundering, and enhance transparency in public investments. To improve transparency in the extractive sector, Angola joined the Extractive Industries Transparency Initiative (EITI) in June 2022. Reforms to improve the business environment, level the playing field within the private sector, in particular for Small- and Medium Enterprises (SMEs), and expand access to credit through the introduction of digital financial services have also been significant. In parallel, the Government has worked to reduce the legacy of state presence in the private sector through an ambitious privatization and SOE reform program. Angola has submitted a revised Nationally Determined Contribution under the Paris framework updated in May 2021 stating its commitment to decarbonization and addressing adaptation challenges with a strong focus on the water sector. Furthermore, the Government is strengthening its social protection system.

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 WBG Country Partnership Strategy (CPS) for Angola through FY19.[1] 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 (Prior Action 1) and Anti-money laundering (Prior Action 2) 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 of the policies supported by the proposed programmatic series will be tracked by a set of results indicators. These include the reduction of fuel subsidies through fuel prices being raised to and maintained at market-cost level, improved financial system integrity through creation of an ultimate beneficial ownership registry and risk-based verifications, increase in the number of poor households, especially female-headed ones, receiving cash transfers, improved water quality reporting, reduced gas flaring and greater uptake of insurance products.

D. Project Description

The program development objective of the proposed DPF series 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

[1] PLR: Report No. 125072, dated 04/25/2018. CPS: Report No. 76225, date 09/26/2013.

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 establish 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

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance will remain responsible for collecting and monitoring information related to program implementation and progress towards the achievement of the results. The Ministry of Finance (MOF), in close collaboration with the Technical Steering Committee for the DPF, is responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPF series. The World Bank has worked closely with the Ministry of Finance and line ministries in order to define results indicators that are clearly spelled out and measurable, giving preference to those that are collected on a regular basis in order to avoid an additional reporting burden.

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

Poverty and Social Impacts

The prior actions supported by this operation 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 result in a small increase in urban poverty in the near-term through the reduction of subsidies to gasoline. The policies supported by the proposed operation 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 and 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 contribute to sustainable and resilient poverty reduction, improve health and social outcomes, and increase economic inclusion. In the near term, without mitigation measures, the gasoline subsidy reform could result in a small increase in urban poverty due to inflationary pressure. This effect will be particularly felt on urban households through public transit costs and basic food items such as fish. The GoA has announced a set of policies to mitigate price-increases on other goods and services and to reduce the short-term negative impact of higher prices on urban households. Efforts need to be made to ensure that the proposed mitigation measures are successfully implemented and accessible across the population. 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.

Environmental, Forests, and Other Natural Resource Aspects

Actions supported by this operation are expected to have an overwhelmingly positive effect 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 significant direct or indirect environmental impacts or risks and have potential for positive impacts due to reduced extreme poverty and improved urban transit systems. 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.

G. Risks and Mitigation

The overall risk of the proposed operation is assessed as substantial. This rating is due to substantial macroeconomic risks, which are primarily based on Angola's dependency on the oil sector and high debt levels. Institutional capacity risks are assessed as substantial due to the constraints the Government faces to implement a complex reform agenda. Political and Governance risks are rated as high, while, Macroeconomic, Sector Strategies and Policies, Institutional Capacity, Fiduciary, Environmental and Social, and Stakeholder risks are assessed as substantial. Risks related to the Technical Design of the Program are also rated as Substantial.

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APPROVAL

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Approved By

Country Director:	Albert G. Zeufack	11-May-2023