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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Jul-2024 | Report No: PIDDA00108

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Angola	P179513	Second Green, Resilient, Inclusive Growth and Diversification Development Policy Loan	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
EASTERN AND SOUTHERN AFRICA	18-Nov-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
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 (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	No
Is this project Private Capital Enabling (PCE)?	Yes

SUMMARY

Total Financing	**500.00**

DETAILS

Total World Bank Group Financing	**500.00**
World Bank Lending	500.00

Decision

The review did authorize the preparation to continue

Explanation

B. Introduction and Context

Country Context

1. **Angola's oil-dependent economy is highly vulnerable to fluctuations in global oil prices, posing a challenge for macroeconomic management and economic diversification.** In 2023, the oil sector accounted for a quarter of GDP, 60 percent of tax revenues, and 95 percent of exports. The dependency on oil has stunted the non-oil economy and undermined economic diversification. The 2014-16 oil price crisis and COVID-19 pandemic led to a five-year recession (2016-2020), but the economy has started to recover since 2021. The global energy transition also reinforces the need for economic diversification as the risk of oil becoming a stranded asset increase.

2. **Economic diversification away from oil is needed to boost economic growth and reduce poverty.** Diversification remains elusive while oil production is in structural decline and global decarbonization looms in the medium term. Angola needs to urgently improve business environment to attract private investment, achieve economic diversification to support growth, job creation, and poverty reduction. With abundant agricultural and arable land and favorable climatic conditions, agriculture and agro-processing have high potential to drive this diversification. However, Angola will need to build climate resilience as its exposure to extreme climate events, such as severe floods and droughts, can undermine economic diversification efforts. Authorities have adopted a proactive approach to improve macroeconomic management, strengthen business environment, establish social protection systems, and strengthen climate resilience. Such reforms include the introduction of a more flexible and transparent exchange rate regime, fiscal consolidation, fuel subsidies removal, and the promotion of financial sector stability.

Relationship to CPF

3. **The proposed operation is aligned with the World Bank Group's strategy for Angola**. While a new Country Partnership Framework (CPF) is being prepared, the Bank's current activities focus on the pillars of the previous CPF: (i) supporting integrated national economic diversification; and (ii) enhancing quality-of-service delivery and instituting a strong social protection program to improve quality of life and equip individuals to play a greater role in the country's development. The proposed operation is underpinned by analytical work, such as the 2019 Country Private Sector Diagnostic, 2022 Public Finance Review, and 2022 Country Climate and Development Report.

C. Proposed Development Objective(s)

4. 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.

Key Results

D. Project Description

5. **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 and inclusive growth in key sectors such as agriculture, green energy, and telecommunications. The operation is organized around three pillars, each including several policy areas:

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

- Correcting fuel prices distortions through subsidy removal and fighting smuggling.
- Strengthening fiscal and financial sector resilience, especially through strengthened AML/FCT legislation.
- Improve fiscal policy resilience to external shocks by consolidating existing Sovereign Wealth Funds (SWFs) and establishing clear investment and management policy frameworks for the consolidated SWFs.
- Reducing price distortions and the discretion to impose price controls in key sectors.
- Improving public procurement transparency.
- Improving management and accountability of SOEs.

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

- Mitigating subsidy reform impacts by strengthening social protection through expanding the cash transfer program (Kwenda) to urban areas.

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

- Promoting adoption of electric vehicles in the public transport system.
- Boosting private investments in electricity transmission.

E. Implementation

Institutional and Implementation Arrangements

6. **The Ministry of Finance will collect and monitor information related to program implementation and progress towards achieving the results.** The Ministry of Finance and the Ministry of Planning will be 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 Ministry of Finance and line ministries to define results indicators that are clearly spelled out and measurable, giving preference to those collected regularly to avoid an additional reporting burden. For example, some indicators are included in the National Development Plan 2023 - 2027, which has a robust results framework that is closely monitored by the Ministry of Planning. Other indicators are already being regularly produced by the BNA.

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

Poverty and Social Impacts

6. **The prior actions in this operation are expected to have positive long-term economic and inclusion impacts, but the fuel subsidy reform may increase poverty in the short-term.** They are also expected to improve the efficiency and equity of public spending, support economic diversification, and build climate resilience. Only two actions in this operation have significant offsetting impacts on poverty and equity: diesel subsidy reform and the expansion of the cash transfer program. Diesel subsidies in Angola are regressive, and the April 22 increase in gasoline prices by 48 percent is expected to raise the overall consumer price index level by 1.0 percent, with fish and transportation seeing increases of 3.5 and 3.9 percent, respectively. This is estimated to increase poverty by about 0.4 percentage points (121,000 people), with two-thirds of this increase from urban areas. The expansion of the Kwenda program to include urban areas has the potential to reduce this figure to about 7,000 people. Though the expansion of the Kwenda program in urban areas is an important step in tackling poverty in Angola, these benefits are unlikely to arrive in time to offset the near-term impacts of the diesel subsidy reduction. All in all, various simulations show that by using between 25 to 30 percent of fiscal savings (around 1.0 percent of GDP), it is possible to fully compensate for the impact of a total removal of fuel subsidy, whether on the prices of fish and transportation to protect the welfare of the poorest 30 percent.

Environmental, Forests, and Other Natural Resource Aspects

7. **The prior actions supported by this proposed DPO are likely to have significant environmental effects.** Prior Action 1 on fuel subsidies (enforcing the fight against the smuggling of petroleum products) will likely have positive environmental effects as it will contribute to limit the proliferation of filling stations and illegal petroleum product transport with their associated negative environmental impacts and safety hazards. The revised AML/CFT Law under PA# 2 should be used to tackle illegal timber logging that threatens key forest in Angola's Cabinda. E.g., the revised Law should require the Government to establish a beneficial ownership registry to determine the ownership structure of logging companies operating in Angola. The investment policy frameworks for the consolidated (SWFs) to be established under PA#3, shall integrate environmental, climate and labor rights commitments through dedicated provisions and these will have positive environmental effects. Strengthening CSOs role in procurement monitoring under Prior Action #5, could have positive environmental outcomes especially in relation to large-scale public and private investment projects (e.g., transport and hydropower projects). Prior Action 7 on the working arrangements of community health and sanitation agents (ADECOS) in support of Kwenda shall also have a positive effect as it will contribute to mitigate the occupational health and safety hazards along the sanitation service chain. Prior Action #8 on fleet and electric buses in the formal bus system, is likely to have positive effects on the environment since these actions are expected to result in reduced carbon emissions whereas Prior Action #9 shall lead to more investments with their associated environmental, social, health and safety (ESHS) environmental risks. The revised Environmental Impact Assessment Regulations No. 117/20 of April 22, 2020, requires a prior environmental assessment for energy transmission facilities. However, the Ministry of Environment is under-resourced and portrays a weak monitoring and enforcement of regulations. Adequately resourced and trained institutions are key to ensuring effective reporting and enforcement. To bridge enforcement and environmental compliance gaps, the following measures will be adopted: the Tertiary Education, Science, and Technology Project (P179154) has mainstreamed into its design a longstanding capacity building program to address Environmental and Social Risk Management (ESRM) capacity constraints. A capacity need assessment is under finalization and the outcome of the assessment will inform the development of a cross-disciplinary curriculum in ESRM tailored to Angola.

G. Risks and Mitigation

8. **The overall risk of the proposed operation is assessed as substantial**. Political and Governance, Fiduciary, and Macroeconomic risks are rated high, while Sector Strategies and Policies; Institutional Capacity for Implementation and Sustainability; Environment and Social; and Stakeholder risks are assessed as substantial.

9. **Political and Governance risks are high due to the high level of political sensitivity associated with some of the reforms**. While the proposed reform will address regressive subsidies as well as parallel market and the opportunity for fuel smuggling, their removal will have an outsized impact on the poor and thus lead to political and governance risks, such as civil unrest. Efforts to mitigate these risks include expanding cash-transfers program (Kwenda) and improving communication.

10. **Macroeconomic risks are high due to the high exposure to the oil sector**. Angola's overdependence on the oil sector poses a major risk to macroeconomic stability and growth, as the oil sector is the main source of fiscal and export revenues. Thus, stronger-than-expected decline in oil prices and/or weakness in crude oil production can result in significant macro-fiscal imbalances, including high risk of debt distress. However, the authorities' strong commitment and efforts to diversify the economy has been translated in robust growth of the non-oil economy. In addition, the authorities have requested the IMF technical assistance to address the macroeconomic risks from the oil dependence. The reforms supported by this operation also contributes to reduce the oil-related fiscal procyclicality.

11. **Fiduciary risks are High from inherent weaknesses within the country's PFM systems**. The Government's systems are underpinned by a relatively new and evolving legal and regulatory framework, as explained in Section 5.3. While the Government is committed to enhancing transparency and accountability in the management of public resources and strengthening PFM, key weaknesses remain—in particular, around budget credibility, commitment controls, and internal controls. Efforts to mitigate these risks include the implementation of reforms outlined in Section 5.3.

12. **Sector Strategies and Policies risks are substantial due to the complexity of the proposed reforms**. The multi-sectoral reforms, aimed at transforming the country from a government-led, oil-dependent economy to a private-sector led, diversified, and inclusive growth model, require substantial government buy-in and imply significant sectoral risks. These risks are partially mitigated by the support through parallel, sector-specific World Bank-financed operations.

13. **Institutional Capacity for Implementation and Sustainability risks are substantial due to the limited capacity within Angola´s institutions to execute the complex reforms**. The multisectoral reforms require both high-level and technical coordination and information sharing between central and sectoral ministries, as well as between SOEs and autonomous agencies. To mitigate these risks, the World Bank has built a multi-agency reform coalition and engaged in extensive technical and political dialogue with relevant stakeholders. Many of the agencies and ministries involved also are recipients of technical assistance from parallel World Bank engagements and other development partners. Even so, residual risks remain substantial.

14. **Environmental and Social risks are substantial due to the expected impact of the proposed reforms on certain groups**. Increases in gasoline and diesel prices will disproportionately impact the poor given the indirect impact of fuel price increase on the price of basic goods they consume, and to a lesser extent, because a high percentage of their income dedicated to fuel consumption. Hence, adequate social mitigation actions are needed. The expansion of Kwenda program, as well as expected improvement in service delivery on health and education from activities supported by the World Bank will contribute to attenuating the impacts of the reforms on the poor.

15. Stakeholder risks are substantial due to the influence of potential vested interests opposed to some of the proposed reforms. This may include vested interests involved in fuel smuggling, mismanagement within public institutions, illegal financial transactions, and beneficiaries of the status quo in the electricity transmission market. To mitigate these risks, high-level political support has been constructed for the reform agenda and clear communication of the benefits of the reforms has been developed to ensure that the potential winners are aware of the benefits of the policy reforms.

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APPROVAL

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