



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 14-May-2024 | Report No: PIDIC00102



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	27-May-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)?

Is this project Private Capital Enabling (PCE)?

SUMMARY

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00



Decision

The review did authorize the preparation to continue

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. Concept 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, 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 and improving petroleum sector regulations.
- Strengthening fiscal and financial sector resilience
- Consolidating the existing Sovereign Wealth Funds (SWFs) and establishing investment policy frameworks for the consolidated SWFs.
- Reducing price distortions and the discretion to impose price controls in key sectors.
- 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 expansion of cash transfer program (Kwenda) to urban areas.

c. **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
- Reducing GHG emissions from oil and gas operations

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

Poverty and Social Impacts

6. In general, the prior actions supported by this operation are expected to have positive economic and inclusion impacts in the long-term, though fuel subsidy reform risks increasing poverty in the near-term. Only two of the prior actions have the potential for significant impacts on poverty and equity: the fuel subsidy reform and the expansion of the cash transfer program. Though gasoline and diesel subsidies in Angola are highly regressive, an increase in prices is expected to lead to higher cost of living. The recent 48 percent increase in diesel prices is estimated to increase poverty by about 121,000 people. Two-thirds of these individuals will be 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 into urban areas will result in lower urban poverty, these benefits are unlikely to arrive in time to offset the near-term



impacts of the diesel subsidy reduction and the end of the gasoline subsidy for exempt sectors as these reforms have already gone into effect.

Environmental, Forests, and Other Natural Resource Aspects

7. The prior actions supported by this proposed DPO are likely to have significant environmental effects. PAs #1, 2, 8 and 9 are likely to have positive effects on the environment since these reforms are expected to result in reduced carbon emissions, mitigate the risk that logging activities are carried out without or with a fraudulent permit, and promote sustainable management of water resources. However, PAs #3 and 7 are likely to have negative effects on the environment: increasing investment in energy transmission will lead to more physical investments with their associated environmental, social, health and safety (ESHS) environmental risks. The investment policy frameworks for the consolidated SWFs shall integrate environmental, climate and labor rights commitments. To bridge enforcement and environmental compliance gaps, Angola should adopt detailed secondary legislation empowering regulators to monitor and enforce the reduction of flared and vented volumes through operational standards and guidelines, regular recordkeeping and reporting, and site inspections. In addition, it needs to address the Environmental and Social Risk Management (ESRM) capacity constraints.

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APPROVAL

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