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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A PROPOSED LOAN

IN THE AMOUNT OF US$450 MILLION

AND

A POLICY-BASED GUARANTEE IN THE AMOUNT OF US$200 MILLION

TO THE REPUBLIC OF ANGOLA

FOR THE FIRST FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

June 2, 2015

Macroeconomic and Fiscal Management Global Practice
Africa Region

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REPUBLIC OF ANGOLA

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of 15 May 2015)

Currency Unit = Kwanzas
US$1.00 = 109.50 kwz

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AGT	General Tax Administration
AML	Anti-Money Laundering.
BES	*Banco Espírito Santo* (Holy Spirit Bank)
BESA	*Banco Espírito Santo Angola (*Holy Spirit Bank of Angola)
BNA	*Banco Nacional de Angola* (Central Bank of Angola)
BOOST	New Budget Analysis Tool
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CFT	Combating Financing of Terrorism
CIT	Corporate Income Tax
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DNI	National Directorate of Tax
DPF	Development Policy Finance
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
ECP	*Estratégia de Combate à Pobreza* (Anti-Poverty Strategy)
FPSO	Floating, Production, Storage, and Offloading
EITI	Extractive Industries Transparency Initiative
FSDEA	*Fundo Soberano de Angola* (Sovereign Wealth Fund of Angola)
FSAP	Financial Sector Assessment Program
GCP	*Gabinete da Contratação Pública* (Office of Procurement)
GoA	Government of Angola
GDP	Gross Domestic Product

GNP	Gross National Product
GRS	Grievance Redress Service
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IBEP	*Inquérito Integrado sobre o Bem-Estar da População* (Integrated Population Welfare Survey)
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INE	National Statistical Institute
INF	*Inspecção Nacional das Finanças* (Office of the Internal Auditor)
IOC	International Oil Company
I-PRSP	Interim Poverty Reduction Support Program
JICA	Japan International Cooperation Agency
JSAN	Joint Staff Advisory Note
LDP	Letter of Development Policy
LPG	Liquefied Petroleum Gas
LTO	Large Taxpayer Office
MDGs	Millennium Development Goals
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MPDT	*Ministério do Planeamento e Desenvolvimento Territorial* (Ministry of Planning and Territorial Development)
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
NDP	National Development Plan
NDPI	National Directorate for Public Investment
NGO	Non-Governmental Organizations
NIR	Net International Reserves
NPL	Non-Performing Loan
OIF	Oil Reserve for Infrastructure Fund
OPDA	Oil Price Differential Account
OPEC	Organization of Petroleum Exporting Countries
PBG	Policy-Based Guarantee
PER	Public Expenditure Review
PEMFAR	Public Expenditure Management and Financial Accountability Review
PERT	*Projecto Executivo da Reforma Tributária* (Executive Program for Tax Reform)

PFM	Public Financial Management
PHRD	Japan Policy and Human Resources Development Trust Fund
PIM	Public Investment Management
PIP	Public Investment Program
PIT	Personal Income Tax
PSRSP	Power Sector Reform Support Program
RAS	Reimbursable Advisory Services
RIF	Reference Interest Rate
ROSC	Report on the Observance of Standards and Codes
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
SETIC	*Serviço das Tecnologias de Informação et Comunicações das Finanças Públicas* (Public Finance Information and Communication Technology Center)
SIGFE	*Sistema Integrado de Gestão das Finanças do Estado* (Integrated Financial Management System)
SIGTC	*Sistema de Gestão do Tribunal de Contas* (Procurement Management System)
SIPIP	*Sistema Integrado de Planeamento do Investimento Público* (Integrated Public Investment Management System)
SME	Small and Medium Enterprise
SNA	National Directorate of Customs
SOE	State-owned Enterprise
SSA	Sub-Saharan Africa
TI	Transparency International
TIMS	Trade Information Management System
UNCAC	United Nations Convention against Corruption
UNDP	United Nations Development Program
UNODC	United Nations Office on Drugs and Crime
UTERT	*Unidade Técnica Executiva para a Reforma Tributária* (Executive Technical Unit for Tax Reform)
VAT	Value Added Tax
WEO	World Economic Outlook

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REPUBLIC OF ANGOLA

FIRST FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

REPUBLIC OF ANGOLA

FIRST FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

Borrower	REPUBLIC OF ANGOLA
Implementation Agency	MINISTRY OF FINANCE
Financing Data	• Loan in the amount of US$450 million on the following terms: IBRD flexible loan, with a fixed spread, level repayments linked to commitments, with a 10 year grace period and 29.5 years total maturity. • Policy-based guarantee of US$200 million to cover a commercial loan of US$300-1,000 million at terms described in Annex 3.
Operation Type	First Programmatic Development Policy Financing (2 single-tranche operations) combining a loan and a policy-based guarantee.
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective is to strengthen the country's fiscal management to create the fiscal space needed to better protect the poor and vulnerable. This will be achieved by: • Introducing fiscal rules for the utilization of the Oil Funds and modernizing tax administration and tax policy to increase non-oil revenue collection (pillar 1); • Increasing value for money by enhancing the efficiency and efficacy of public investment management (pillar 2); and • Moving from untargeted fuel price subsidies to targeted cash-transfers and evidence based policy-making (pillar 3).
Result Indicators	• Fiscal rules linking the Oil Price Differential Account to the budget cycle are in place by December 31, 2017. • Non-oil tax revenue as a share of non-oil GDP increases from 13.4% in 2013 to 15.6% by December 31, 2017. • 100 % of new projects in the 2017 Public Investment Plan are subjected to the new Public Investment Management cycle, systems and regulations. • Fuel price subsidies fall from 5.2% of GDP in 2013 to 2.3% by December 31, 2017. • The percentage of households protected from negative income shocks via direct cash transfers grows from less than 3% of the population in 2013 to 7% by December 31, 2017. • By December 31, 2017, empirical results from the analysis of the *Inquérito de Despesas e Receitas e Emprego da População*-2015 (IDRE-2015) household survey appear in one or more government official documents proposing policy actions.
Overall risk rating	High
Operation ID	P153243 (Loan) and P155323 (Guarantee)

PROGRAM DOCUMENT FOR A PROPOSED IBRD LOAN AND A POLICY-BASED GUARANTEE TO THE REPUBLIC OF ANGOLA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **Since 2007, the Angolan government has started to make headway on long-needed institutional reforms and poverty-reduction programs.** Between 2001 and 2009, the government estimates that poverty[1] fell from 62 percent to 37 percent. Social expenditures (including education; health; social protection; recreation, culture and religion; housing; and environmental protection) increased as a share of GDP from 11 percent in 2008 to 16 percent in 2013. In 2013 the government also initiated a cash transfer program, the *Cartão Kikuia*, as part of its landmark program to fight poverty, *Combate à Pobreza*, aiming to cover 425,000 beneficiaries (about 5 percent of the poor) by 2017.[2] Under successfully completed International Monetary Fund (IMF) programs since 2009, economic stability has been first attained and then maintained, including fiscal adjustment, falling inflation, exchange rate stabilization, domestic arrears settlement, and reserves accumulation. Public financial management (PFM) reforms began in 2007, with results now evident in procurement, expenditure control, monitoring of state-owned enterprises, and public access to budget data (see the detailed account provided in section 5.3). Although challenges remain in many areas, progress has been impressive for a country coming from a history of armed conflict and highly inequitable use of natural resource rents.

2. **While falling oil prices now pose challenges to this progress, reform efforts continue and a revised budget aims to protect spending categories important for poverty reduction.** From 2011-13, oil revenues made up nearly 80 percent of government revenues. After trading above US$100 per barrel (bbl) in the first half of 2014, Brent crude dropped below US$50 in December and was trading below US$60 per bbl as of late March 2015. Angolan government revenue is forecast to fall by more than 9 percentage points of GDP in 2015, with only a small recovery expected in 2016 and 2017. The government has responded by adopting a revised 2015 budget (in March) that protects poverty-reducing expenditures to the extent possible. The total budget for social sectors was cut by 28.6 percent, compared with a cut of 44.3 percent for economic sectors and 35.8 percent for general public administration. The share of capital expenditure allocated to the health and housing sectors increased from 4.7 and 28.1 percent to 4.9 and 39.8 percent respectively, between initial and revised budgets. The Public Investment Plan (PIP) budget dedicated to fisheries, the livelihood of many poor families, has increased by 18 percent. At the program level, *Combate à Pobreza* saw an increase of more than US$200 million from the initial to the revised budget, representing 1.4 percent of the total revised budget (compared to 0.7 percent in the initial budget), and the *Fundo de Apoio Social,* financing schools and health facilities under the Ministry of Territorial Administration, has increased by 20 percent.

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[1] The national poverty line was set at 4,793 kwanzas per month, which translated to about US$2.00 per day during the 2008/09 survey period.
[2] Detailed discussion on the *Cartão Kikuia* is in paragraphs 66-70.

3. **This document proposes a programmatic operation to support the twin goals of eradicating extreme poverty and boosting shared prosperity in Angola, by strengthening policy and institutional reforms to diversify revenue sources, improve the allocative efficiency of public expenditures, and introduce a safety net program**. Pillar 1 supports the establishment of fiscal rules for the Oil Price Differential Account and the modernization of tax administration and tax policy to increase the share of non-oil tax revenue. Pillar 2 aims to increase value for money in public investment and allocate more resources to investments with high socio-economic returns and better targeted towards the poor, by supporting a comprehensive reform of the Public Investment Management System. Pillar 3 supports the introduction of a targeted cash transfer (*Cartão Kikuia*),[3] while phasing out consumer fuel subsidies and establishing a monitoring system to track the impact of these measures on the poor.

4. **The program will help Angola meet its financing needs for the revised 2015 budget, thus helping to protect social gains.** The proposed first operation combines a US$450 million IBRD loan and a US$200 million IBRD policy-based guarantee, the latter expected to leverage at least US$300 million on the syndicated loan market, for a total budgetary impact of US$750 million or possibly much more. This forms part of the government's plan to secure additional financing of about US$1.1 billion, with other financing sources including official finance (e.g., AfDB, JICA), a Eurobond, private credit lines, and domestic borrowing. A similar financing gap is expected for 2016-2017 (Table 3).

5. **Despite recent reforms and ongoing developments, Angola remains a fragile, post-conflict country with weak poverty and social indicators and severe institutional capacity constraints.** The first Integrated Population Welfare Survey (*Inquérito Integrado sobre o Bem-Estar da População*, IBEP) was conducted between June 2008 and August 2009, and the first population census since 1970 was conducted in May 2014. With such limited household data, it is not possible to conduct a thorough assessment of poverty dynamics or of the income growth of the bottom 40 percent. Using the World Bank extreme poverty line of US$1.25 a day and average estimated poverty elasticity in the region, poverty is estimated to have decreased from 77.4 percent in 2001 to 38.8 percent in 2014, and is expected to be 37.7 percent in 2015 and 36.7 percent in 2016. Moving spending from non-targeted fuel subsidies to cash transfers targeted to the poor and other social programs (health and education) should contribute both to poverty reduction and to the income growth of the bottom 40 percent, given that social indicators remain poor. Indeed, life expectancy at birth is 51.1 years, with a probability of 38.5 percent of not surviving to age 40. The maternal mortality ratio, at 450 per 100,000 births, is among the highest in Sub-Saharan Africa. Malnutrition is also acute, with about 30 percent of children under age five suffering from stunting and 16 percent underweight.

6. **Against the backdrop of these acute challenges, including budgetary and external financing needs, and the recent government track record of reform, the proposed series represents a stepping up of the World Bank Group's engagement with Angola at a critical juncture**. Such a reengagement comes with significant risks, particularly fiduciary and macroeconomic. A recent PFM assessment undertaken by the team during identification and pre-appraisal missions has highlighted weaknesses in the Central Bank's control environment and

[3] The program started with transfers that were allowed to be used only in a limited number of dedicated stores. However, constraints on the use of the money have been partly lifted, and a Memorandum of Understanding is being considered with six supermarket chains.

financial management and procurement arrangements; these weaknesses are now being addressed (see the detailed account provided in section 5.3). Macroeconomic risks emanate from potential further declines in oil prices (below the budget price of US$40 per bbl) and potential failure to follow through with proposed expenditure revisions. Yet set against these risks is a unique opportunity to help Angola make unprecedented progress in putting to work its considerable resource endowment to reduce poverty and share its prosperity more widely among the population.

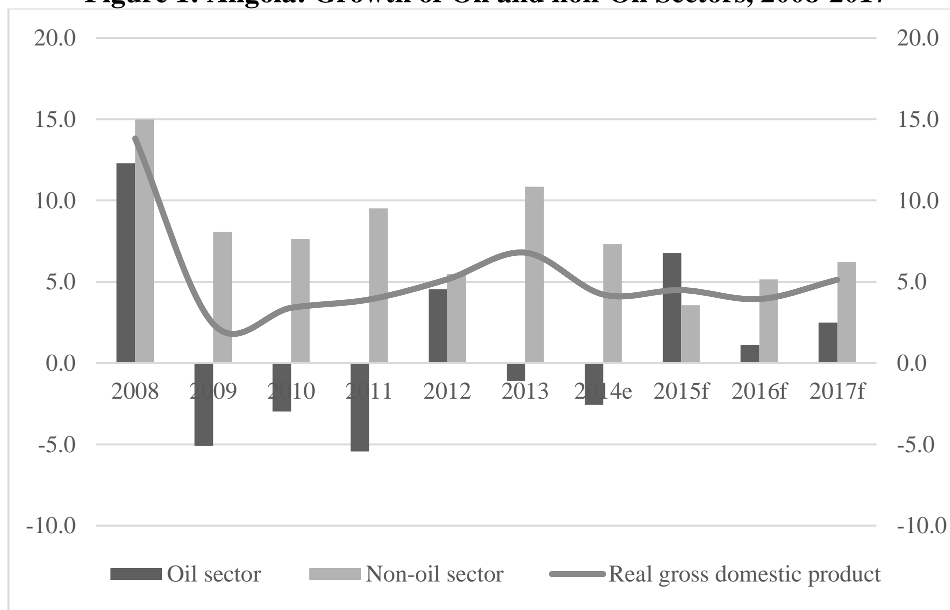
2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

7. **Over the past year, the Angolan economy has slowed due to weak performance of both oil and non-oil sectors**. Having contracted by about 1 percent in 2013, oil production declined by a further 2.6 percent in 2014 due to unscheduled maintenance and repair work in some oil fields. Since 2011, persistent technical problems related to water injection systems, gas cooling and floating, production, storage, and offloading (FPSO) units associated with some projects have prevented the government from reaching its production goal of 2 million barrels a day. Rapid reservoir depletion has also resulted in declining output from some fields. Augmenting these negative output effects, crude oil global prices decreased by nearly 50 percent, from a peak of US$108/bbl in June 2014 to US$55/bbl in February 2015.[4] Growth in the non-oil economy also slowed to 7.3 percent in 2014, from 10.8 percent in 2013, in part due to delays in key electricity and industrial investments. As a result, real GDP growth slowed to 4.2 percent in 2014, from 6.8 percent in 2013 (Figure 1).

[4] Simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US Dollars per barrel.

Figure 1: Angola: Growth of Oil and non-Oil Sectors, 2008-2017



Sources: Ministry of Finance and World Bank staff projections.

8. **Falling oil prices and production have also had a substantial impact on budget balances, moving fiscal position from approximate balance in 2013 to a deficit of about 3 percent of GDP in 2014.**[5] Oil revenues fell significantly and non-oil revenues compensated for this decline only partially. Although public expenditures were not cut in line with the revenue decline, their composition improved in 2014, with recurrent spending adjusting more than capital spending, although interest costs rose with the increased use of market financing.[6] Government also reactivated the fuel subsidy reform program in 2014, resulting in a decline in total fuel price subsidies of about 2 percent of GDP on 2013 levels.

9. **The Angolan authorities' medium-term objectives are oriented towards reducing poverty and increasing shared prosperity, but the global economic context presents new challenges.** Since 2008, the Angolan government has been progressively shifting execution of social expenditures to the provinces (Figure 2). As a share of GDP, these expenditures steadily increased, from 3.4 percent in 2008 to 5.6 percent in 2013. Education has seen the largest shift of expenditures to provinces, from 2 to 3 percent between 2008 and 2013. Given the significantly higher poverty levels in provinces outside Luanda (more than 40 percent, compared with 9 percent in Luanda), this shift illustrates the government's efforts to reduce poverty by decentralizing

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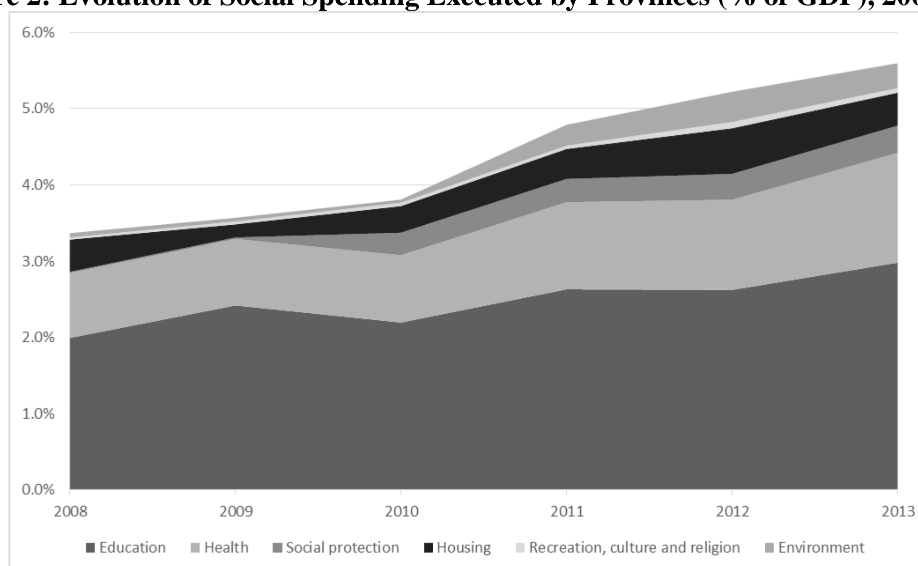
[5] The figures used in this paragraph are based on World Bank, IMF, and Angolan government data. In comments at Negotiations, the Angolan authorities noted that due to timing issues, their 2014 data differ in some cases from those used throughout this document. These differences do not affect our assessment of the macroeconomic framework.

[6] In the past, Angola faced low interest costs because it relied on financing through concessional funds and bilateral credit lines (with low interest rates). With softening oil revenues, increasing financing needs, and the graduating outlook to medium-income status, Angola is expected to rely increasingly on market financing.

service delivery. Still, spending in health and education remains extremely low by international standards. Angola spent only 3.2 percent of GDP on education and 1.9 percent of GDP on health over 2008-2013, compared to sub-Saharan African averages of 4.2 and 2.9 percent, respectively (2010 data). To address this disparity, the government planned in the initial 2015 budget to hire more than 8,000 teachers (4,629 in primary education and 3,905 in secondary education) as well as health workers; this plan is being reviewed in light of the revised 2015 budget.[7]

Figure 2: Evolution of Social Spending Executed by Provinces (% of GDP), 2008-2015



Source: Ministry of Finance (2008-2015).

10. **The current account balance moved from surplus to a small deficit in 2014, reflecting reduced oil-related export earnings and higher imports.** High oil prices had helped keep the current account in surplus since 2010. More recently, lower oil prices and the contraction in oil production described above, combined with structural deficits in the services balance and negative net income, have eroded the current account surplus. Oil exports began to decline in 2013 as domestic production fell. Combined with a slight increase in imports, the trade balance fell from 41.1 percent of GDP in 2012 to 24.3 percent of GDP in 2014, leading to a current account deficit of 0.9 percent of GDP, the first deficit since 2009 (Table 1).

11. **International reserve accumulation has declined but reserve coverage remains adequate.** Net international reserves (NIR) are projected to have reached about US$28 billion, representing 9 months of imports, by the end of 2014. After reaching a historic high of US$36.1 billion in September 2013, NIR declined in the last quarter of 2013 and into the second quarter of

[7] Of the 12.6 percent of GDP allocated to employee compensation in the revised 2015 budget, 26 percent will come from the education sector and 10 percent from the health sector. However, more than half of the increase in the employee compensation (from 10.4 in 2014 to 12.6 percent in 2015) is due to the reclassification of contractual workers from the goods and services category to employee compensation. The budget approved for studies, auditing and consulting (Good and Services category), decreased from US$2.2 billion in 2014 to US$1 billion in 2015, while compensation paid to civil servants increased from US$7 to US$8.5 billion (BOOST database); this plan is being reviewed in light of the revised 2015 budget that froze new hiring across the board.

2014 to US$28.0 billion at end-December-2014, largely due to declining foreign-exchange earnings from oil exports. The level of coverage of international reserves continues to provide an adequate buffer for precautionary purposes. Nonetheless, there is limited scope for drawing them down any further, given current account vulnerabilities associated with the country's concentration of exports in oil and the high (although declining) level of dollarization of the economy and financial system.

12. **After remaining stable during the past four years, the nominal exchange rate has depreciated slightly in recent months.** Angola maintains a managed exchange-rate regime through its central bank, the *Banco Nacional de Angola* (BNA). The BNA currently uses an auction system with a predefined calendar, which allows commercial banks to bid on foreign exchange. Since 2010 the exchange rate has fluctuated within a band of 90.0 to 98.3 kwanza per US dollar. More recently, however, the BNA has accommodated greater exchange rate flexibility. Following the reduction in oil receipts, the BNA halved its monthly sales to US$1.5 billion. The official exchange rate has depreciated gradually, but market participants estimate a current backlog of about US$3 billion in purchase orders at the official exchange rate (see Box 1). On May 15th, 2015, the exchange rate was at a record low against the US dollar, at 109.50 kwanzas per US dollar, down from 97.0 during the first nine months of 2014. The government plans to continue accommodating currency depreciation and forecasts an average exchange rate of 112.5 kwanzas per US dollar for 2015, ending the year at about 120 kwanzas per US dollar.

13. **Monetary policy has been tightened and inflation maintained at single-digit levels.** Owing to declining global food prices, increased agriculture production, and the efforts of the Angolan central bank to stabilize the nominal exchange rate, in 2014 inflation reached a historic low of 7.48 percent, down from 7.69 percent in 2013.[8] The introduction in March 2014 of a new import tariff schedule and the increase in fuel prices then led to a reversal of the downward inflation trend in August, prompting the BNA to increase the policy rate by 25 bps (to 9 percent) in October 2014 and the reserve requirements for domestic currency deposits from 12.5 percent in November 2014 to 20 percent in early March 2015. This ended an easing cycle that had seen the policy rate cut from 9.25 to 8.75 percent in July 2014, and the short-term interbank interest rate (LUIBOR[9] overnight) declining from around 6 percent at end-2013 to under 3 percent.

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[8] Based on Angola Government data.
[9] Luanda Interbank Offered Rate.

Box 1: The Parallel Exchange Rate in Angola

Significant imbalances have emerged in the foreign exchange market following the steep drop in oil prices. The official exchange rate has depreciated, but market participants estimate a US$3 billion backlog in purchase orders at the official rate. Data from a sample of exchange rate bureaus operating in Luanda indicates that the spread reached 70 percent in December, but more recently has hovered around 20-30 percent. The authorities are managing the exchange rate policy taking into account that a faster pace of devaluation of the kwanza could lead to a return of double digit inflation, given the still high pass-through from the exchange rate to domestic prices. In addition, rapid exchange rate depreciation could increase non-performing loans, due to the high (albeit declining) level of dollarization in the banking system. The ongoing fiscal adjustment will help alleviate pressures in the foreign exchange market, but the potential impact of recently announced administrative controls—such as a priority list for access to foreign exchange—is unclear. The authorities will need to continue to closely monitor developments in the foreign exchange market and be prepared to adjust exchange rate and monetary policies quickly as needed.

Source: IMF and World Bank staff.

Table 1: Angola Main Economic Indicators, 2008-2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Prel.	Proj.	Proj.	Proj.
Real economy (percent change, except where noted)										
Real gross domestic product	13.8	2.4	3.4	3.9	5.2	6.8	4.2	4.5	3.9	5.1
Oil sector	12.3	-5.1	-3.0	-5.4	4.5	-1.1	-2.6	6.8	1.1	2.5
Non-oil sector	15.0	8.1	7.6	9.5	5.5	10.8	7.3	3.6	5.2	6.2
Consumer prices (annual average)	12.5	13.7	14.5	13.5	10.3	8.8	7.3	8.4	8.5	7.7
Consumer prices (end of period)	13.2	14.0	15.3	11.4	9.0	7.7	7.5	9.0	8.0	7.5
Gross domestic product (billions of kwanzas)	6,316	5,989	7,580	9,780	11,011	11,985	12,465	11,812	13,554	15,355
Gross domestic product (billions of U.S. dollars)	84.2	75.5	82.5	104.1	115.3	124.2	127.0	105.0	118.0	131.3
Central government (percent of GDP)										
Total revenue	50.9	34.6	43.5	48.8	45.9	40.5	34.7	25.3	28.3	28.6
Of which: Oil-related	41.2	24.2	33.0	39.0	37.3	30.3	23.8	12.6	15.0	15.0
Of which: Non-oil tax	7.4	9.0	7.8	7.3	6.6	8.1	9.1	10.8	10.8	10.9
Total expenditure	55.4	41.9	40.0	40.2	41.3	40.8	37.6	30.0	30.6	30.6
Current expenditure	41.3	29.5	28.6	30.0	29.0	28.7	26.1	24.6	23.5	23.0
Capital expenditure	14.1	12.4	11.4	10.2	12.3	12.1	11.5	5.4	7.1	7.5
Overall fiscal balance	-4.5	-7.4	3.4	8.7	4.6	-0.3	-2.9	-4.7	-2.3	-1.9
Non-oil primary fiscal balance	-43.7	-29.8	-26.2	-26.9	-29.2	-28.4	-24.4	-14.8	-14.8	-14.4
Non-oil primary fiscal balance (Percent of non-oil GDP)	-100.5	-53.7	-47.4	-51.1	-53.7	-47.7	-37.5	-19.4	-19.8	-19.2
Balance of payments										
Trade balance (percent of GDP)	51.0	24.1	41.1	45.2	41.1	33.7	24.3	14.2	16.1	16.0
Exports of goods, f.o.b. (percent of GDP)	75.9	54.1	61.3	64.6	61.6	55.0	46.4	33.9	35.6	35.6
Of which: Oil and gas exports (percent of GDP)	74.2	52.7	59.8	63.0	60.4	53.9	45.2	32.4	34.1	34.2
Imports of goods, f.o.b. (percent of GDP)	24.9	30.0	20.2	19.4	20.6	21.2	22.1	19.7	19.5	19.6
Terms of trade (percent change)	15.5	-27.4	19.3	24.2	5.8	-1.8	-9.4	-44.3	16.9	8.4
Current account balance (percent of GDP)	8.5	-10.0	9.1	12.6	12.0	6.7	-0.9	-7.0	-4.5	-2.4
Gross international reserves (end of period, millions of U.S. dollars)	17,877	13,679	19,679	27,517	32,156	32,231	27,991	23,617	24,234	25,507
Gross international reserves (months of next year's imports)	5.1	4.6	5.4	7.2	7.8	7.6	9.0	7.0	6.8	6.8
Exchange rate										
Official exchange rate (average, kwanzas per U.S. dollar)	75.0	79.3	91.9	93.9	95.5	96.5	98.2	…	…	…
Official exchange rate (end of period, kwanzas per U.S. dollar)	75.2	89.4	92.6	95.3	95.8	97.6	102.9	…	…	…
Debt (percent of GDP)										
Total public sector debt (gross)	16.6	49.9	39.8	32.2	29.6	34.6	37.9	47.4	43.8	41.1
Oil										
Oil production (millions of barrels per day)	1.906	1.809	1.758	1.660	1.730	1.716	1.672	1.785	1.800	1.850
Oil and gas exports (billions of U.S. dollars)	62.5	39.8	49.4	65.6	69.7	66.9	57.4	34.0	40.3	44.9
Angola oil price (average, U.S. dollars per barrel)	93.9	60.8	76.5	110.3	110.9	107.3	96.9	50.8	59.6	64.9
Brent oil price (average, U.S. dollars per barrel)	97.7	61.9	79.6	111.0	112.0	108.8	98.9	52.8	61.6	66.9
WEO oil price (average, U.S. dollars per barrel)	97.0	61.8	79.0	104.0	105.0	104.1	96.2	50.9	58.8	63.7

Sources: Angolan authorities and IMF staff estimates and projections.

Table 2: Angola Statement of Central Government Operations, 2008-2017

(percent of GDP, except where noted)	2008	2009	2010	2011	2012	2013	2014 Prel.	2015 Proj.	2016 Proj.	2017 Proj.
Revenue	50.9	34.6	43.5	48.8	45.9	40.5	34.7	25.3	28.3	28.6
Taxes	48.6	33.2	40.8	46.3	43.8	38.4	32.8	23.5	25.7	25.9
Oil	41.2	24.2	33.0	39.0	37.3	30.3	23.8	12.6	15.0	15.0
Non-oil	7.4	9.0	7.8	7.3	6.6	8.1	9.1	10.8	10.8	10.9
Social contributions	1.5	0.3	1.0	0.9	1.0	1.0	0.2	1.1	1.3	1.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.8	1.1	1.6	1.6	1.1	1.0	1.7	0.7	1.2	1.2
Expenditure	55.4	41.9	40.0	40.2	41.3	40.8	37.6	30.0	30.6	30.6
Of which: Expenditure in domestic arrears	…	…	*1.8*	*1.6*	*2.0*	*0.6*	…	…	…	…
Expense	41.3	29.5	28.6	30.0	29.0	28.7	26.1	24.6	23.5	23.0
Compensation of employees	8.6	11.1	9.4	9.0	9.4	9.6	10.4	12.6	11.9	11.3
Use of goods and services	8.5	6.4	8.2	10.6	11.9	10.3	8.8	5.9	6.5	6.5
Oil	0.0	0.0	2.2	2.5	2.5	1.4	1.1	0.6	0.7	0.7
Non-oil	8.5	6.4	6.1	8.1	9.3	8.8	7.7	5.3	5.8	5.8
Interest	1.9	1.7	1.2	1.0	1.0	0.8	1.1	2.0	1.8	1.8
Domestic	0.2	0.4	0.4	0.6	0.6	0.5	0.6	1.2	1.0	1.0
Foreign	1.7	1.3	0.8	0.4	0.3	0.3	0.5	0.8	0.8	0.9
Subsidies	7.0	5.2	6.7	7.8	5.0	5.9	3.8	1.7	1.8	2.1
Other expense	15.2	5.1	3.1	1.6	1.8	2.0	1.9	2.5	1.5	1.3
Net acquisition of nonfinancial assets	14.1	12.4	11.4	10.2	12.3	12.1	11.5	5.4	7.1	7.5
Domestic financed	11.1	8.6	9.4	6.7	8.8	8.9	7.1	3.3	4.4	4.7
Foreign financed	3.1	3.8	2.0	1.9	3.5	3.2	4.4	2.1	2.7	2.9
Net lending (+)/ borrowing (-)	-4.5	-7.4	3.4	8.7	4.6	-0.3	-2.9	-4.7	-2.3	-1.9
Statistical Discrepancy	-0.4	0.7	-1.4	1.0	-0.9	0.3	-0.2	0.0	0.0	0.0
Net acquisition of financial assets (+: increase)	13.4	-2.2	1.0	7.6	5.4	0.8	5.0	0.0	0.0	0.0
Domestic	11.9	-2.5	0.9	6.1	2.1	0.8	1.7	0.0	0.0	0.0
Cash and deposits	7.2	-8.8	4.8	7.3	4.3	-0.2	-1.5	0.0	0.0	0.0
Of which: Domestic arrears cash repayment	…	…	-2.2	-0.6	-0.8	-1.6	0.0	…	…	…
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.1	0.0	2.9	0.0	0.0	0.0
Other accounts receivable	4.7	6.3	-3.9	-1.2	-2.3	1.0	0.3	0.0	0.0	0.0
Foreign	1.5	0.3	0.2	1.5	3.3	0.0	3.2	0.0	0.0	0.0
Currency and deposits	1.5	0.3	0.2	1.5	3.3	0.0	3.2	0.0	0.0	0.0
Net incurrence of liabilities (+: increase)	18.1	5.8	-3.8	-0.1	-0.1	1.4	7.7	4.7	2.3	1.9
Domestic	13.0	4.6	-4.0	-0.7	-2.1	-0.1	5.6	2.3	0.9	0.5
Debt securities	9.6	-1.5	-1.0	-1.9	-3.8	-4.5	-0.9	2.3	0.9	0.5
Loans	0.0	0.5	-0.9	-0.6	-0.6	0.1	1.9	0.0	0.0	0.0
Foreign	5.2	1.2	0.2	0.5	2.0	1.5	2.0	2.4	1.4	1.4
Debt securities	5.0	1.9	0.2	0.5	2.0	1.5	2.0	2.4	1.4	1.4
Other accounts payable	0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Non-oil primary fiscal balance	-43.7	-29.8	-26.2	-26.9	-29.2	-28.4	-24.4	-14.8	-14.8	-14.4
Non-oil revenue	9.7	10.3	10.5	9.8	8.6	10.2	10.9	12.7	13.3	13.6
Stock of domestic arrears	12.4	13.1	5.2	3.7	2.8	0.6	…	…		
Public sector debt (gross), face value	16.6	49.9	39.8	32.2	29.6	34.6	37.9	47.4	43.8	41.1

Source: IMF estimates and projections (2015).

Table 3: Balance of Payment Financing, 2008-2017

(Millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
							Prel.	Proj.	Proj.	Proj.
Current account	7,194	-7,572	7,506	13,085	13,853	8,348	-1,090	-7,340	-5,310	-3,138
Trade balance	42,932	18,168	33,928	47,082	47,376	41,903	30,891	14,883	18,957	21,021
Exports, f.o.b.	63,914	40,828	50,595	67,310	71,093	68,247	58,934	35,611	42,012	46,754
Imports, f.o.b	-20,982	-22,660	-16,667	-20,228	-23,717	-26,344	-28,043	-20,728	-23,055	-25,733
Services (net)	-21,810	-18,546	-17,897	-22,938	-21,339	-21,531	-21,636	-15,402	-16,422	-15,534
Income (net)	-13,718	-6,823	-8,087	-9,697	-10,422	-9,900	-8,126	-4,782	-5,676	-6,330
Transfers (net)	-210	-370	-438	-1,362	-1,762	-2,123	-2,220	-2,038	-2,169	-2,295
Capital and financial account	714	2,542	-871	-3,597	-9,349	-9,083	-2,650	3,322	6,071	4,427
Capital account	13	11	1	5	0	3	2	4	7	9
Financial account	701	2,531	-872	-3,602	-9,349	-9,086	-2,652	3,318	6,064	4,418
Foreign direct investment	-891	2,199	-4,568	-5,116	-9,639	-13,164	-324	-200	2,000	-300
Portfolio investment	-1,758	-490	-271	-52	-1,009	-944	-730	-1,367	-202	-321
Other investment	3,350	822	3,967	1,567	1,299	5,023	-1,598	4,886	4,266	5,038
Trade credits	2,419	-2,063	-2,089	-1,061	-1,146	-1,230	-1,275	-833	-677	-709
Currency and deposits	-3,456	-544	2,439	2,039	-1,092	-955	-770	-306	-62	231
Loans	5,023	2,632	1,992	2,463	1,206	6,347	1,267	5,277	4,135	4,501
Medium and long-term loans	3,833	813	3,348	3,274	1,547	6,359	1,132	5,018	4,209	4,401
Of which: Central government, secured (net)	4,190	1,398	173	541	2,283	1,898	2,583	1,418	609	901
Of which: Central government, to be secured (net)	0	0	0	0	0	0	0	1,100	1,100	1,000
Of which: Other sectors (net)[2]	2,090	-751	2,107	2,152	-736	4,460	-1,451	2,500	2,500	2,500
Short-term loans	1,190	1,818	-1,356	-811	-341	-11	135	259	-74	100
Others	-636	798	1,625	-1,874	2,331	860	-820	747	869	1,015
Errors and omissions	39	423	-1,009	-1,928	0	0	0	0	0	0
Overall balance	7,948	-4,607	5,626	7,560	4,505	-734	-3,740	-4,018	761	1,288
Financing	-7,948	4,607	-5,626	-7,560	-4,505	734	3,740	4,018	-761	-1,288
Net international reserves of the monetary authorities (increase -)	-6,641	4,198	-5,118	-7,527	-4,505	734	3,740	4,018	-761	-1,288
Of which: Use of Fund credit	0	367	530	318	137	-261	-500	-356	-145	-16
Exceptional financing	-1,306	409	-508	-34	0	0	0	0	0	0
Memorandum items:										
Current account (percent of GDP)	8.5	-10.0	9.1	12.6	12.0	6.7	-0.9	-7.0	-4.5	-2.4
Trade balance (percent of GDP)	51.0	24.1	41.1	45.2	41.1	33.7	24.3	14.2	16.1	16.0
Exports of goods, f.o.b. (percent change)	44.0	-36.1	23.9	33.0	5.6	-4.0	-13.6	-39.6	18.0	11.3
Of which: Oil and gas exports (percent change)	45.2	-36.3	24.0	32.9	6.3	-4.0	-14.2	-40.8	18.5	11.5
Imports of goods, f.o.b. (percent change)	53.6	8.0	-26.4	21.4	17.2	11.1	6.4	-26.1	11.2	11.6
Terms of trade (percent change)	15.5	-27.4	19.3	24.2	5.8	-1.8	-9.4	-44.3	16.9	8.4
Exports of goods, f.o.b. (share of GDP)	75.9	54.1	61.3	64.6	61.6	55.0	46.4	33.9	35.6	35.6
Imports of goods, f.o.b. (share of GDP)	24.9	30.0	20.2	19.4	20.6	21.2	22.1	19.7	19.5	19.6
Gross international reserves										
Millions of U.S. dollars	17,877	13,679	19,679	27,517	32,156	32,231	27,991	23,617	24,234	25,507
Months of next year's imports	5.1	4.6	5.4	7.2	7.8	7.6	9.0	7.0	6.8	6.8

Sources: Angolan authorities and IMF and World Bank staff estimates and projections, 2015.

[1] Reflects mostly investment recovery in the oil sector.

[2] Reflects mostly state owned enterprises.

14. **To improve the effectiveness of monetary policy, the de-dollarization policy has continued.** In January 2012 the government passed the Foreign Exchange Law for the Petroleum Sector, aimed at decreasing the high level of financial dollarization by compelling oil companies operating in the country to pay their suppliers in domestic currency through Angolan bank accounts. Since the entry into effect of this law, de-dollarization has accelerated, with the share of kwanza-denominated loans increasing and both foreign currency credit and deposits below 50 percent at end 2014 (foreign currency deposits declined to 39 percent as of June 2014 from

53 percent at end 2011 and foreign currency loans declined to 28 percent in June 2014 from 44 percent at end 2011). This will limit somewhat the effect of depreciation on the financial system, though these dollarization levels are still high. As mentioned earlier, the BNA has been limiting the sale of foreign exchange to the banking system and prioritizing based on needs. This delay in availability of foreign exchange is expected to affect businesses intensive in import-export, with a likely upward effect in time on NPLs (Non-Performing Loans). As the new law has increased the volume of operations undertaken by commercial banks, the BNA has been working to strengthen its supervisory role by establishing both a prudential supervision department to monitor financial stability and a consumer-protection department. The BNA has also introduced a series of regulations requiring banks to reinforce their corporate structure and internal auditing systems.

15. **The Angolan financial system remains solid and stable, despite the failure in July 2014 of Banco Espírito Santo Angola (BESA). However, the fall in oil prices will continue to affect the Angolan financial system.** The Angolan financial system has been growing rapidly in recent years and remains dominated by commercial banks. At end 2014, there were 23 active commercial banks with one licensed but not yet active and five more in the licensing process, 17 insurance companies, 5 pension fund management companies, 3 microcredit institutions, and 70 foreign exchange bureaus operating in the financial system. While there has been a noticeable increase in activities in sectors such as insurance, banking assets continue to dominate the system, accounting for nearly 98 percent of total assets. The banking sector remains concentrated, although concentration is decreasing, with the top five banks accounting for 72 percent of total assets in 2013. Stress tests undertaken for the 2011 Financial Sector Assessment Program (FSAP) indicated that the system is vulnerable in several ways such as high credit concentrations, economic dependence on oil revenues, and governance weaknesses, and links to Portugal through the connection of *Banco Espírito Santo Angola* (BESA) to *Banco Espírito Santo* (BES) in Portugal, its majority owner. Indeed, BESA, which accounts for close to 17 percent of the banking system's total assets and about 9 percent of total deposits (IMF, 2014 article IV) came under pressure as a result of the difficulties faced by BES. The good portion of the bank was sold to private sector shareholders and Sonangol (Box 2), in October 2014, ending temporary administration by the Central Bank, which is still supervising the implementation of banking stabilization measures, including the recapitalization of the new bank. According to the most recent BNA data, the proportion of NPLs increased from 5.63 percent in May 2014 to 17.36 percent in November 2014. Much of this is a result of BESA provisioning following its resolution. Nevertheless, the prospect of continued high NPLs remains, as the combined effects of reduced government spending and securitization of government repayments, BESA resolution, currency depreciation, and high credit growth (especially in the real estate/construction sector, which accounts for 25 percent of total domestic credit) are felt. System-side, both capital adequacy and solvency ratios remain high at 19.94 percent and 13.83 percent respectively, as of November 2014.

Box 2: Sonangol

Sonangol is a state owned enterprise that oversees petroleum and natural gas production in Angola. It was officially established in 1976 with exclusive concession rights for liquid and gaseous hydrocarbons in Angola. The company is wholly owned by the Angolan government under Decree 19/99, the law of public companies. It does not have a conventional board of directors, but instead has an Administration Council appointed by the council of ministers for a three-year term. The Administration Council is the primary decision-making body in matters of overall strategy and the authorization for investment expenditures for the Group. Furthermore, it determines corporate strategies regarding performance, profitability and international expansion of Group Sonangol.

Although Sonangol's operations lie largely within the upstream and downstream petroleum sector, it also has investments and joint ventures outside the petroleum industry. In 1983, Sonangol established Sonangola Limited in London in order to trade Angola's oil directly. It was to be the first of several Sonangol subsidiaries to be established globally. Bolstered by the discovery of oil in Angola's deep and ultra-deep waters in the 1990s, its accompanying investments and its political clout in Angola, Sonangol embarked on an aggressive horizontal and vertical integration exercise through joint ventures and acquisitions. In 1991, the company took the first steps towards establishing itself as an operator through the creation of Sonangol Pesquisa e Produção (P&P). Prior to this, it had neither capacity nor experience in oil exploration and production. Sonangol also partners with a diverse range of global oil companies, including, among others, Agip (Italy), Ajoco (Japan), Petrobas (Brazil), British Petroleum (BP), Chevron (USA), Daewoo (South Korea), ExxonMobil (USA), Hydro (Norway), Neste Oil (Finland), Petrogal (Portugal), Sinopec (China), ENI (Italy) and Total (France). On 1 January 2007, Angola became a member of OPEC.

IMF Staff Report of the 2012 Article IV reported that in 2011, larger-than-expected spending on goods and services, surging subsidies, and quasi-fiscal operations (QFOs) conducted by Sonangol on behalf of the government contributed to widen the non-oil primary deficit (NOPD), from 43.6 to 48.2 percent of non-oil GDP. The authorities shared staff's recommendations to improve nonoil taxation, reform public financial management, and reduce fuel subsidies. They stressed their commitment to streamlining QFOs, which were reduced from US$9.3 billion in 2011 to US$3.5 billion in 2013, and noted that Sonangol's authorization for out-of-budget spending on housing programs had already been revoked. Sonangol's concessionaire's revenue was also reduced since 2013 from 10 to 7 percent of its total revenues, but the formula is still not based on a system of cost-based reimbursement for concessionaire expenses incurred to reduce the drain on budgetary resources.

Sources: George C. Lwanda (2011), "Oiling economic growth and development: Sonangol and the governance of oil revenues in Angola", Development Planning Division Working Paper Series No. 21; Credit Suisse (2008), "Africa, the commodity warrant"; IMF 2012 and 2014 Article IV Staffs Reports.

16. **Since the WB-IMF 2011 FSAP, the BNA has been strengthening its financial surveillance and supervision capacities.** Nevertheless, there are still gaps in the overall banking resolution framework that require addressing. Over the past few years, the BNA has passed several regulations to improve corporate governance, accounting and auditing standards, AML/CFT,[10] and risk management for the banking system. Additionally, the BNA has been working on introducing stricter loan classification standards and has established a Financial Stability Committee and published three Financial Stability Reports. More recently the BNA started an evaluation of banking assets for the 14 largest banks and is currently discussing the adoption of new regulations, such as the introduction of Basel II principles and the obligation of banks to adopt international accounting standards by 2017. Still, many of these initiatives will take time to be fully implemented and the authorities continue to work to strengthen banking supervision (particularly the bank resolution framework, crisis preparedness, and contingency planning). The World Bank is supporting the preparation of a comprehensive Financial Sector Strategy, led by the Ministry of

[10] Anti-Money Laundering/Combating the Financing of Terrorism.

Finance, which will identify and sequence reforms needed to strengthen supervision, promote financial inclusion, and develop capital markets, including insurance and pensions sectors.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Despite weak international oil prices, medium-term growth prospects remain favorable.** Growth is projected to reach 4.5 percent in 2015, mainly driven by a recovery of the oil sector at 6.8 percent (compared to a contraction of 2.6 percent in 2014). The oil sector is expected to recover starting in 2015 owing to the completion of maintenance work that will bring production back to pre-2010 levels and the exploitation of new oil fields, including the first phase of a pre-salt oil field expected to start operating in 2017. This should bring total production to 1.85 million barrels per day by 2018 under conservative assumptions. The planned increase in oil production in a near-term environment of subdued oil prices takes into account Angola's generally low marginal production costs, estimated by Sonangol at between US$15-20 per barrel, well below projected prices. In contrast, non-oil growth is expected to slow to 3.6 percent on account of the strong fiscal adjustment that has been effected largely through a sizeable decline in investment, of about 6 percentage points of GDP in 2015. The construction sector, which will be hard hit by this cut to investment, will drive the non-oil slowdown, but industry and agriculture should remain resilient, as growth in these sectors is determined to a large extent by investments made over the last few years. Growth is therefore projected at 3.9 percent in 2016 and 5.1 percent in 2017.

18. **Demand-side decompositions of GDP are available up to 2013.[11]** The National Statistics Institute (INE) produced Angola's first national accounts in 2014, with GDP breakdowns from expenditure and income available for 2002-2013. GDP projections and estimates were derived by the Ministry of Planning and Territorial Development (MPDT) from a macroeconomic consistency model called MODANG, with a detailed decomposition by production sector. This model takes as given the forecast of real GDP for different sectors (obtained from other government agencies), adds data from fiscal and monetary policy, and from these inputs derives aggregate demand and prices from macroeconomic identities. The national account data are being used by MPDT for internal purposes. The World Bank is currently providing a macro-modeling technical assistance to MPDT, aiming to introduce a model with the oil and diamonds sectors estimated separately from the rest of the economy (i.e., the model derives private demand and supply in the rest of the economy taking as given oil- and diamonds-related variables), and using general equilibrium restrictions. This model will produce forecasts for the demand decomposition of GDP, given assumed paths for oil and diamonds related variables and for monetary and fiscal policy instruments.

19. **Inflation in 2015 is expected to remain within the BNA medium-term target band of 7-9 percent.** This is due mostly to declining international food prices and increased production in agriculture, where output remains below historic levels. Inflationary risks are mainly associated with pass-through inflation from exchange-rate depreciation, given deterioration of the current account. Nonetheless, a continuing cautious policy stance is expected to help keep the average annual inflation rate in single digits from 2015 to 2019.

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[11] Demand-side decompositions of GDP are available on www.ine.gov.ao. GDP compilation by INE was supported by World Bank technical assistance.

20. **The medium-term fiscal outlook is challenging.** Oil revenue as a percentage of GDP is expected to decline significantly, to 12.6 percent of GDP in 2015 from 23.8 percent in 2014, with the oil price projected at US$51 per barrel in 2015. The authorities are using a more conservative price of US$40/bbl in the revised budget, compared with US$96 in 2014; this will weigh heavily on overall oil profits and the government's receipts based on production-sharing arrangements.[12] Added to this overall bleak picture are risks coming from companies' tax planning, transfer pricing, avoidance and evasion. In particular, performance management and control of SOEs involved in the oil sector pose both revenue and integrity risk. It is worth noting, however, that most international oil companies (IOCs) and analysts agree that Angola's fiscal regime for the oil sector is a broadly sound combination of incentivizing production while maximizing government revenue intake (see, e.g., IMF 2011, Tordo et al., 2009).[13] Angola has to date introduced an appropriate combination of royalties and progressive profit taxes that help ensure revenue without creating an undue burden on investment. The country also runs a relatively efficient and transparent bidding system to maximize government revenue from each oil block.

21. **To increase non-oil tax revenues, the government has undertaken a comprehensive sequence of reforms in both tax policy and administration over the past five years.** These are geared toward simplification and transparency as well as closing loopholes. New tax administration laws enhance both clarity, to help taxpayers comply, and enforcement. Reform measures also focus on extending the reach of the revenue administration beyond Luanda and enhancing taxpayer service, in order to expand the tax base and increase voluntary compliance. These reforms will improve business environment, encouraging formation and registration of small and medium enterprises (SMEs) and reducing the shadow economy, and are being introduced against the backdrop of a merger of tax and customs administration, the creation of a single-window system, and the introduction of a joint tax-customs audit function. With these reforms fully implemented, non-oil tax revenue is expected to rise by about 1.7 percentage points, from 9.1 percent in 2014 to 10.8 percent of GDP in 2015, and to remain at that level over the medium term.

22. **To mitigate the budgetary impact of declining revenues, an aggressive fiscal adjustment aims to protect spending in social sectors.** The government has announced a broad set of adjustment measures to be undertaken in response to weak oil prices. These measures focus on expenditure reduction and include: cuts to subsidy programs which have strained public finances in recent years and a revision of the wage adjustment policy, including a freeze on new hiring and reductions of up to 10 percent in the use of goods and services and consumption of fixed capital. On the capital expenditure side, the adjustment will be underpinned by withholding new projects from the PIP, while maintaining ongoing projects for which external and domestic financing is assured. These, as well as other rationalization measures, should result in a reduction of about 50 percent of planned investments. A revised budget, based on a conservative average oil price of US$40 per barrel, was adopted by Parliament on March 19, 2015. The GDP share of fuel price subsidies is expected to decline from 3.3 percent in 2014 to 1.2 percent in 2015, while capital expenditures will contract to a ten-year low, from 11.5 percent to 5.4 percent of GDP. Between

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[12] Angola receives revenue from its Production-Sharing in several main forms: (i) signature and other bonuses; (ii) the government's (share of) oil profits; (iii) Sonangol's oil profit from equity participations; and (iv) IOCs' taxes on their oil profit. The government's share of oil profit increases the more the IOCs have been remunerated for capital and risk, but specific terms vary by contract.

[13] IMF report (March 8, 2011): Revenue Mobilization in Developing Countries; and Tordo, Silva et al. (2009): Petroleum Exploration and Production Rights: Allocation Strategies and Design Issues (World Bank, No. 179, 2009).

2016 and 2017, capital expenditure is expected to rise slightly but to remain below recent levels, as the oil price stabilizes around US$60 per barrel. Capital expenditure should enable continued government efforts to diversify the economy, albeit at a slower pace, as productive investments have been prioritized and protected from cuts and as the positive effects of the Public Investment Management (PIM) system strengthening reform (better project preparation, selection and monitoring) begin to bear fruit.

23. **Angola is also considering EITI participation to increase the transparency of the sources and uses of oil revenues.** A recent Presidential Decree (239/14, December 22, 2014) created a technical working group, coordinated by the Minister of State and Chief of the Civil House of the President, to initiate dialogue with the Extractive Industries Transparency Initiative (EITI) secretariat to assess the advantages to Angola of EITI compliance and certification.

24. **The overall fiscal deficit is projected to widen in 2015 before narrowing again thereafter.** The overall fiscal deficit is expected to reach 4.7 percent of GDP in 2015, from 2.9 percent in 2014, but remains financeable from sources identified from the local domestic market (about 48 percent) and external borrowing (about 52 percent), including the current Development Policy Fund (DPF) of the proposed series. From 2016 on, projections show lower fiscal deficits, increasing gross financing needs, and moderately rising public debt-to-GDP ratios.

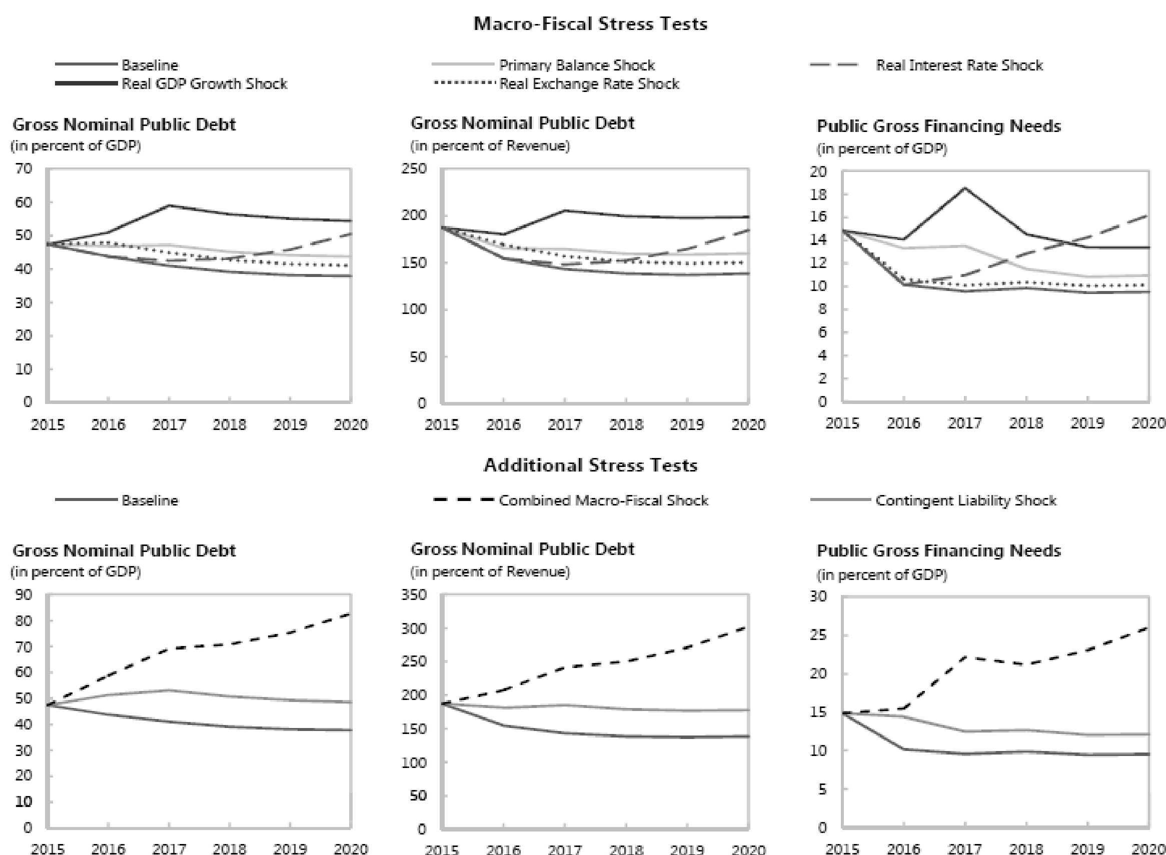
25. **A preliminary Debt Sustainability Analysis conducted in February 2015 concludes that Angola's public and external debt is rising but remains sustainable**. Gross public debt increased by 3 percentage points in 2014, reaching about 38 percent of GDP at end-2014, mostly due to depreciation and increased borrowing to finance the widening deficit. Net public debt (gross debt net of the treasury reserves at the BNA and the Sovereign Wealth Fund) is estimated to have reached 28.3 percent of GDP at end-2014. Gross public debt is projected to increase sharply in 2015 to about 47.4 percent of GDP, given the combined effect of a higher fiscal deficit and further currency depreciation. Over the medium term, debt will remain above 40 percent, but should start trending down if fiscal efforts are maintained. The baseline debt path is highly vulnerable to changes in real GDP, in particular linked to the performance of the oil sector and interest rate shocks, given the high financing needs (Figure 3).

26. **Vulnerabilities have emerged with the rise of short-term debt as well as foreign currency denominated debt (as a percent of total debt)**. Today, short-term debt and foreign-denominated debt represent a large share of total debt since public debt is predominantly in foreign currency (about two-thirds) and financing is mostly local and usually short-term. The government's domestic public debt comprises treasury bills and bonds in both local and foreign currency, with maturities of 2 to 5 years held by the financial market. Risks stemming from a high share of debt in foreign currency, however, are low because the authorities' main fiscal revenue (oil) is also denominated in foreign currency.

27. **The government has recently made significant improvements in debt management, with support from the World Bank and the IMF**. In August 2014, the Bank conducted the first Debt Management Performance Assessment in Angola, followed by training in medium-term debt management strategy (MTDS) in November. Technical assistance was provided to support the formulation of a comprehensive debt management strategy and the development of the domestic government debt market, as well as building the capacity of the Debt Management Office to analyze cost-risk tradeoffs of alternative financing strategies.

28. **The key macroeconomic risks to medium-term outlook projections include both domestic and external factors.** Domestically, upward risks to inflation associated with currency depreciation could pose a challenge to monetary policy. In addition, a slower than projected increase in oil production would significantly undermine growth and fiscal management. In particular, delays in starting the production of new oil fields and unforeseen maintenance work in existing platforms could make it unlikely that oil production meets the target of 1.85 million barrels per day in 2017. Furthermore, the accumulation of expenditure arrears poses a risk that could also undermine fiscal adjustment. This risk is mitigated by improved government systems to control payments. Externally, lower oil prices could lead to further deterioration in the terms of trade and put additional pressure on the current account deficit, which is expected to rise further in 2015 to 7 percent and remain in deficit for the foreseeable future, as import growth outpaces export growth. This risk is mitigated by adequate foreign reserve levels, which are projected to remain above 6 months of imports, in line with the BNA target.

Figure 3: Public DSA Stress Test Scenario



Source: WB estimates and projections, based on IMF methodology (2015)

29. **Overall, Angola's macroeconomic framework for 2015-17 provides an adequate basis for the proposed operation.** While medium-term macroeconomic prospects face the challenge of oil-sector performance, a favorable assessment of the macroeconomic framework is based on the

country's consistent response to falling oil prices, and the commitment to reforms shown in recent years. Inflation is at historic lows and international reserves are adequate. Angola has started to save part of its oil wealth for future generations and initiated progress on significant structural reforms.

2.3 IMF RELATIONS

30. **Angola successfully completed an IMF Stand-By Arrangement (SBA) program in 2012.** The 27-month SBA, approved in November 2009, provided financing of SDR 859 million, or about US$1.4 billion. The economic program supported by the SBA aimed at restoring macroeconomic stability. Under the program, the authorities undertook a significant fiscal adjustment, settled domestic arrears, rebuilt foreign reserves, stabilized the exchange rate, and reduced inflation. Significant progress was achieved in improving fiscal transparency and accountability. Two post-program monitoring missions (the last one being held in January 2013) were satisfactorily completed. Since then, the country is monitored during Article IV missions.

31. **The proposed Development Policy Financing (DPF) builds on close collaboration with the IMF.** The proposed operation and the whole DPF series is consistent with and complements the technical assistance Program being provided by the IMF's Fiscal Affairs Department (see Annex 5 on IMF Relation Note). This cooperation includes the review of macroeconomic developments, including fiscal projections and coordination in the area of tax administration, fuel subsidies and public investment management. As mentioned above, the IMF and the Bank have also provided joint technical assistance to strengthen debt management.

3. THE GOVERNMENT'S PROGRAM

32. **The Government of Angola (GoA) program is guided by three key documents.** The first one, "Vision 2025", documents Angola's long-term aspirations for peace and national reconciliation, sustainable development, the establishment of an integrated national economy and the reduction in inequality. The second, the *Estratégia de Combate à Pobreza* (ECP) 2010-2015, was elaborated through a wide consultation process with communities and contains the priorities of the nine poorest provinces of the country in terms of poverty reduction, agriculture and food security, private sector development, health, education and other public services.

33. **The third is the National Development Plan 2013-2017, which aims to operationalize the "Vision 2025" over the medium term.** The Vision 2025, completed by the Government in 2008, builds on Angola's considerable resources and potential and is designed to offer opportunities to all, with a view to reducing poverty and creating employment opportunities for the majority segment of the population that has not shared the benefits of recent growth. The National Development Plan 2013-2017 underlines both the role of the private sector as a driver of economic growth and the need to better use Angola's abundant human and natural resources. Various policies are outlined to facilitate access to credit, assist emerging economic activities, support the informal economy, and encourage companies to integrate themselves into business clusters. A progress report on the execution of the National Plan is prepared annually, reporting on achievements made and challenges faced in implementation. There is scope for establishing a results-based M&E system to accompany the government's development strategy, but substantial investments are needed for regular collection of statistics.

34. **Some sector-specific initiatives complement the three government-wide strategic documents.** For instance, Education For All, Water For All, and Energy For All are initiatives that aim for major expansion of access to public goods and services by 2017. In the area of social protection, a comprehensive social assistance strategy is under preparation to shift social protection from focusing mostly on supporting ex-combatants and those affected by the conflict to ensure that the poor can also take advantage of opportunities offered by economic growth. The *Cartão Kikuia* program has been developed in that spirit. Programs such as the National Strategy on Food and Nutritional Security and Angola Invest aim to revitalize the national economy through investments to raise productive competitiveness and diversify national industries. Many of these initiatives are expected to be woven together into an Integrated National Strategy on Economic Diversification and implemented in a closely coordinated manner. Featuring prominently in the ongoing discussions on diversification are the planned investments in commercial agriculture and large infrastructure in the energy and transport sectors. The government has stated the intention to provide a series of supportive public goods central to Angola's diversification strategy, including agricultural research and extension services, water for production, electricity for processing, well-maintained feeder roads, business regulatory simplification, strong education and skills training opportunities and well-equipped and staffed health services.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. **The overarching objective of the 2013-2017 National Development Plan is to ensure macroeconomic stability as the economy diversifies**. To ensure a smooth inclusion of the Angolan economy into the global economy, the Plan aims to strengthen the economic fundamentals of Angola by containing inflation below 2-digits, ensure the provision of public goods and services without jeopardizing fiscal sustainability, maintain a sustainable level of net international reserves and protect the domestic economy from external shock. The proposed programmatic DPF in the context of a structural decline in oil price fits under this objective of economic stabilization to support the country's structural transformation.

36. The programmatic DPF will focus on three pillars designed to strengthen fiscal management to create the fiscal space needed to better protect the poor and vulnerable. The first pillar (Introducing fiscal rules for the utilization of the Oil Funds and Modernizing tax administration and tax policy to increase non-oil revenue collection) will support the establishment of fiscal rules to flow back to the budget cycle some revenues from the Oil Price Differential Account while at the same time supporting the government with ongoing tax administration and tax policy modernization, aimed at increasing the share of the non-oil tax revenue. The second pillar (Increasing value for money by enhancing the efficiency and efficacy of public investment management) aims to increase value for money and the quality of public investment by supporting ongoing comprehensive (legislation, regulation and institutional setting) reform of the PIP. The third pillar (Moving from untargeted fuel price subsidies to targeted cash-transfers and evidence based policy-making) aims to create fiscal space for more targeted social transfers (*Cartão Kikuia*, a targeted cash transfer program) by addressing the inefficient and untargeted large fuel subsidy, and by promoting a culture of empirically-based policy making by supporting the government national statistical strategy, including the fielding of regular national household surveys.

37. **The program development objective of this operation is to strengthen the country's fiscal management to create the fiscal space needed to better protect the poor and vulnerable.** By rationalizing the use of oil revenues with adequate fiscal rules (pillar 1), modernizing the non-oil tax policy and tax administration (pillar 1), increasing value for money and quality of expenditures by strengthening the public investment management system (pillar 2), phasing out untargeted fuel subsidies (pillar 3), the government will create the fiscal space needed to expand social expenditures and better protect the poor and vulnerable (pillar 3). In a context where an extremely difficult business climate severely limits private investment growth, the lack of reforms could weigh on the potential for medium-term growth.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

38. **The structure of the operation is built on conclusions from several recent pieces of analytical work undertaken by the World Bank, IMF, and private-sector consultants and fiduciary arrangements take into account the recent experience of the African Development Bank with policy-based lending to Angola.** Tax measures are based on separate evaluations conducted by World Bank staff, by IMF staff, and by McKinsey and Co. (consultancy firm). Public investment was the focus of recent World Bank analytical work. Angola's fuel subsidies have been analyzed in depth by the IMF. Changes in the design of the pilot *Cartão Kikuia* transfer program are being informed by international research and experience as well as increased use of Angolan data. Table 4 summarizes the links between prior actions and their analytical underpinnings.

Table 4: DPO Prior Actions and Analytical Underpinnings

Operational Content	Analytical Underpinnings
Pillar 1- Introducing fiscal rules for the utilization of the Oil Funds and modernizing tax administration and tax policy to increase non-oil revenue collection	
Prior action #1. Integrated tax and customs administration including through the establishment, institutionalization and provision of a governance structure for the AGT.	The analysis of the issues being faced and evaluation of current reforms being taken in Angola's tax administration are underpinned by the diagnostic framework of tax administration in Gill (2000). Experience and lessons learned from tax-customs integration worldwide were taken into account in reviewing the legal, organizational and procedural aspects of the on-going and planned reforms following the creation of General Tax Administration (AGT) in Angola (December 2014). The Fiscal Affairs Department of the IMF completed a mission in September 2014, which supported the government's on-going revenue administration reforms. The *Projecto Executivo da Reforma Tributária* (PERT) since being established, conducts comprehensive reviews of both tax administration and tax policy on continued basis.
Prior action #2. Streamlined tax policy to support the modernization of tax administration in order to ensure compliance by taxpayers, simplify procedures, expand the tax base, reduce distortions and enhance equity.	Tax policy and administration review is centered on the key principles of a good tax system including efficiency, effectiveness, simplicity, and equity. In Angola, McKinsey assisted with the review of tax policies and tax gap analysis and provided specialized training on tax policy and administration.

Pillar 2- Increasing value for money by enhancing the efficiency and efficacy of public investment management	
Prior action #3. Enacted a revised budget law that, among other things, adjusts the 2015 PIP downwards by 50 percent to reflect declining oil prices. Prior action #4. Strengthened the PIP by restructuring it, approving a manual for monitoring risky projects, and developing performance indicators to monitor and measure project performance. Prior action #5. (a) Created a joint committee (the Joint Committee) comprised of representatives of MPDT and MoF chaired by the Minister of Finance with mandate to design and implement the necessary actions to attain full integration of the SIPIP and SIGFE. (b) Initiated the integration of the SIPIP and SIGFE through the following measures: (i) creation of an electronic process for internal budget readjustments of the PIP, including budget units, MPDT and MoF; (ii) merging of MPDT and SIGFE mailing lists for automated alerts for the purpose of: (A) withholding or releasing (as the case may require) budget funds for new projects; (B) activation of additional budget credits; and (C) activation of budget ceilings; and (iii) allowing MPDT to access SIGFE for purposes of extracting PIP budget execution reports at project level; and (D) allowing MOF to access SIPIP for purposes of preparing the annual PIP budget.	The special topic of the Angola Economic Update 2 (June 2014) provided a detailed diagnostic of the Angolan PIM system and suggested that the establishment of a standardized system for project appraisal that clearly articulates criteria for determining a project's expected return should be regarded as a priority objective. The African Development Bank's ongoing Institutional Capacity Building for Public Investment Program is also focusing on these issues.

Pillar 3- Moving from untargeted fuel price subsidies to targeted cash-transfers and evidence based policy-making	
Prior action #6. Increased retail fuel prices in order to start the phasing out of inefficient and untargeted fuel subsidies which jointly resulted in the following increases in fuel prices: (a) gasoline and diesel: 50%; (b) liquefied petroleum gas: 21.6%; (c) kerosene: 34.6%; (d) heavy and light fuel oil: 100%; and (e) asphalt: 18.8%.	The IMF TA report "Fuel Price Subsidy Reform: the Way Forward" (February 5, 2015) proposes a three-stage reform that would eliminate subsidies and result in fiscal savings of 2.2 percent of GDP by 2018. The report shows how a gradual and sequenced reform can cut the fiscal cost of fuel price subsidies while reducing the negative impact of the reform on the welfare of lower-income groups.
Prior action #7. Expanded social protection by completing the registration of 50,000 families in the Borrower's pilot *Cartão Kikuia* cash transfer program. Prior action #8. Strengthened evidence-based policy making by approving the National Strategy of Statistical Development for 2015-2025 (ENDE 2015-2025). Prior action #9. Initiated monitoring of its social programs by concluding the preparatory work to launch the 2015 Survey Expenditure, Revenue and Employment of the Population (IDRE-2015), including the: (a) design of a national sample frame based on the 2014 census ensuring national and provincial representativeness; (b) design and programming of the electronic questionnaire for the IDRE-2015 survey; and (c) finalization of the IDRE-2015 sample.	Many of the conventional concerns regarding the risks of small targeted cash transfers leading to dependency and disincentives to work, have not been supported by the empirical evidence (Fiszbein et al, 2009). When compared to energy subsidies, their impact on the public budget is expected to be much smaller due to better targeting (World Bank, 2012).
Fiduciary Arrangements	
Proposed mitigation measures included the opening of a Special Account at the Central Bank to receive the proceeds of budget support. With mitigation measures, there is scope for the World Bank to maintain an approach based on a limited use of country procedures and systems, consistent with OP 8.60.	Before undertaking a budget support operation, the African Development Bank conducted a Country Fiduciary Risk Assessment that concluded that fiduciary risks for a budget support operation were substantial. World Bank follow-up on the AfDB assessment indicates that although progress has been made since the AfDB assessment was conducted in February 2014, mitigation measures are still needed. Section 5.3 provides a thorough PFM assessment, which documents the progress made and mitigation measures.

Pillar 1 - Introducing fiscal rules for the utilization of oil funds and modernizing tax administration and tax policy to increase non-oil revenue collection

39. **Formalizing and providing discipline to the use of oil revenues through the national budget is a key policy priority in Angola.** The government sets a reference oil price that is used to project the amount of oil revenue going to the budget. The 2014 budget set a reference price of US$98/bbl, the initial 2015 initial budget set a reference price of US$81/bbl, and the revised 2015 budget set a reference price of US$40/bbl. The difference between forecast government petroleum revenues using the reference price and actual petroleum revenues received is transferred to the Oil Price Differential Account (*Fundo do Diferencial do Preço do Petróleo*, OPDA). The OPDA is managed by the BNA on behalf of the Treasury and is expected to act as fiscal buffer for the country. The size of the OPDA remains quite small compared to the budget: as of July 2014, the balance of the OPDA was about US$480 million, which is only of the order of about 1 percent of total government revenue.[14]

40. **The OPDA is expected to support fiscal stabilization: clarifying the rules governing the OPDA and financial flows into it is a central objective of government policy and of the proposed program.** Although the OPDA is supposed to be playing the role of a stabilization fund, it is not yet operational and there is no legal document conferring on it any formal stabilization function.[15] The Bank is therefore working with MOF on fiscal rules to govern the OPDA before a Presidential Decree introducing these rules is enacted (trigger #1). The related results indicator is that fiscal rules linking the OPDA to the budget cycle will be in place by the end of 2017.

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[14] In addition to the OPDA, the government has set up a Strategic Financial Oil Reserve for Infrastructure (*Reserva Estratégica Financeira Petrolífera para Infraestruturas*, OIF), which is supported by funds received from the selling of 100,000 bbl/day. Similar to the OPDA, the OIF is also managed by the BNA on behalf of the Treasury and is expected to act as a fiscal buffer for the country. In addition, a Sovereign Wealth Fund (FSDEA) was established in 2012 with an initial US$5 billion endowment. The FSDEA is managed by an independent board of directors with three objectives: capital preservation, return maximization and promotion of social and economic development in Angola. Fiscal stabilization is not the core objective of the FSDEA and there are no clear rules specifying the circumstances under which resources from the FSDEA could be used to cover higher-than-expected fiscal deficits. As of July 2014, the balance of the OIF was about US$1.8 billion, and funds under management by FSDEA were about US$5 billion. In future, FDSEA is expected to receive additional endowments from the OIF equivalent to 50,000 bbl/day. This asset stock of about US$7 billion in OPDA, OIF and SPDEA combined is small compared with budget revenues of about US$50 billion (2013).

[15] Other than the mandate given to the President of the Republic to decide the use of these funds.

Prior Action #1: Integrated tax and customs administration including through the establishment, institutionalization and provision of a governance structure for the AGT.[16]

Prior Action #2: Streamlined tax policy to support the modernization of tax administration in order to ensure compliance by taxpayers, simplify procedures, expand the tax base, reduce distortions and enhance equity.

41. **Increasing non-oil tax revenues is central to strengthening the government's ability to deliver services with lower oil revenues.** The operation therefore supports a reform program, already underway, creating a unified tax and customs administration and modernizing tax policy to broaden the base and increase revenues.

42. **Angola's current tax structure is complex and narrowly focused.** Angola's non-oil taxes include the industrial tax (corporate income tax, CIT), personal income tax (PIT), consumption tax, customs duties, property tax and stamp tax. Consumption tax is narrow-based with multiple exemptions, resembling an excise duty on imports, domestically produced goods, and selective services, with rates ranging from 2 percent to 30 percent.[17] PIT is complex: salaried individuals pay progressive rates in 14 brackets with the highest rate of 17 percent. The self-employed are taxed at 15 percent. Angola does not have a value added tax (VAT).

43. **Tax administration suffers from several weaknesses.** Key taxation functions are carried out manually. Approaches to identify and bring in new taxpayers are ineffective. The National Directorate of Tax (DNI) has inadequate presence outside Luanda and lacks training. Auditing is confined to desk audit and the lack of risk-based auditing and a modern IT support curtails information exchange between tax and customs administrations. Despite adequate legal provisions, collaboration from commercial banks is lacking. Transfer pricing laws cannot be enforced due to lack of specialized trained staff. Initial efforts on improving compliance include the establishment of a large taxpayer office (LTO), which collects almost 60 percent of tax revenues. However, the LTO suffers from similar administrative shortcomings to the rest of the system, absence of call centers or web-based communication channels hinders taxpayer service, and there has been no formal segmentation of other taxpayers groups (e.g., SMEs). The outcome of weak tax administration is evident; low rates of registration (12 percent of the population), high levels of taxpayers ceasing to file (70 percent), and an estimated overall tax gap of between 30 percent and 40 percent.

44. **Tax reform started in 2010 and has addressed both tax policy and administration.** The 2010 Tax Reform Project (*Projecto Executivo da Reforma Tributária*, PERT) aimed to create a coordinating agency for tax reform. A 2011 Presidential decree then set guidelines for the integration of tax and customs and a broader reform strategy, creating a single General Tax

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[16] For brevity, the full wording of the prior actions as given in Annex 1 is not reproduced here.
[17] PWC 2014. Worldwide Tax Summaries: Corporate Taxes 2014/15.

Administration (AGT), introducing new information technology (IT), and modernizing tax policy.[18] A legislative package of three tax administration codes (the general tax code, the tax procedures code, and the tax collection code) was enacted in October 2014 and published in December 2014.[19] A further series of policies covering the nonoil sector (notably the CIT, PIT, tax on invested capital, and stamp duty) were revised and published in October 2014. The CIT rate has been reduced from 35 to 30 percent, several exemptions eliminated, and the minimum income exemption increased. Policy simplifications and administrative measures should over time mitigate initial revenue losses from policy reforms.[20] Several subjective exemptions (e.g. cooperatives, associations, agricultural activities, new industries, etc.) have been eliminated and clarity has been improved on deductibles, amortization and depreciation, and withholding tax, following international practice.

45. **Customs reform has progressed in tandem with tax reform.** SNA is acquiring the ASYCUDA WORLD system as the IT platform on which to build customs modernization, embracing the single window system, and adopting the Revised Kyoto Convention on customs procedures to increase efficiency.[21] Reengineering customs processes also requires coordination with planned IT development and procedural reforms in other agencies dealing with trade flows (e.g., import licensing, Ministry of Health; Agriculture; National Council of Shippers).

46. **The proposed operation supports the continuation of these efforts.** Prior Actions #1 and #2 are the establishment, institutionalization, and provision of a governance structure for the AGT, and the introduction of a comprehensive package of new tax policy and administration codes. Trigger #2 will continue the modernization of tax administration by establishing and making AGT fully functional by December 30, 2015, including: (1) completing the AGT organizational structure and management appointments; (2) completing and institutionalizing the new Strategic and Implementation Plan for AGT; (3) creating and implementing a new Code of Ethics; and (4) establishing an internal institution within AGT responsible for coordinating across departments the implementation of the strategic plan for cultural and operational integration between tax and customs administrations as well as change management. Trigger #3 targets institutional measures and the necessary training to support implementation of the new tax policy and tax administration laws. These measures aim to enhance voluntary compliance through a balanced approach to ensure the rights of taxpayers to tax-related information, taxpayer services, and appeal on the one hand; and on the other hand to improve enforcement efficacy across all major tax functions, ranging from registration, filing, return processing, auditing, tax collection and arrears management.

47. **Over the medium term these measures are expected to lead to an increase in no-oil revenues.** The target under the program is for non-oil tax revenue as a share of non-oil GDP to rise from a level of 13.4 percent in 2013 to 15.6 percent by 2017.

[18] Presidential Decree No. 155/10 (July 2010) and subsequent Ministry of Finance Executive Decrees No. 130/10 and 131/10.

[19] Presidential Decree No. 324/14; and Ministry of Finance Order no. 5513/14.

[20] For more detailed explanation, see PWC (2015): Angolan Tax Reform 2015.

[21] http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/conventions/pf_revised_kyoto_conv/kyoto_new.aspx

Pillar 2 - Increasing value for money by enhancing the efficiency and efficacy of public investment management

48. **The quality of public investment management (PIM) is a key determinant of economic growth and poverty reduction.** Public investment directly affects the economy by channeling resources into new public capital and increasing returns to private-sector investment. Weaknesses in PIM system can involve a non-comprehensive capital budget, inadequate prioritization and thus an inappropriate composition of public investment, and inefficiently implemented projects. By increasing value for money, a stronger PIM helps to improve public service delivery, creates fiscal space, and contributes to reducing poverty. The Angolan government's capital expenditures have recently been of the order of 10 percent of GDP per year and the basic structures for a PIM system have recently been adopted, but further reforms are necessary.

49. **Angola has made a number of advances in PIM.** Specifically the National Directorate for Public Investment (NDPI) in the Ministry of Planning and Territorial Development (MPDT) has developed a capital budgeting tool that requires spending units to produce results chains with clearly defined indicators, improving project appraisal, selection, and monitoring. A new information system (*Sistema Integrado de Planeamento do Investimento Público*, SIPIP) maintains a comprehensive database of investment projects.

50. **NDPI is also building the skills of its staff**. NDPI faces significant human resource needs, as do the agencies and provinces responsible for preparing and implementing investment projects. NDPI has recently recruited new staff to speed up the implementation of its institutional capacity building project for public investment. A diagnostic of technical needs related to PIM (covering MPDT and Offices of Studies and Planning in ministries' sector departments and in provincial departments) has been completed and a new PIM human resources model for PIM is to be proposed. The government is planning to create a technical career path for "planning, regional development and public investment management." Approximately 150 staff will be trained in project preparation, cost estimation, appraisal, financial planning, and monitoring and evaluation.

51. **Despite these efforts, deficiencies and challenges remain.** First, the process of formulating and implementing the PIP is scattered across line ministries, provincial and municipal governments, and the executive branch, while NDPI coordinates inclusion of the projects in the PIP. This process is complex, compromising the ability of NDPI to oversee the process and enforce compliance with legislation. Second, a large proportion of projects do not follow the proper project management cycle, from design, to appraisal, selection, budgeting, implementation and monitoring. Third, ability to appraise economic impact of projects remains limited and difficulties persist in integrating complementary projects within the same investment program. Finally, large gaps exist between PIP project resource allocations and implementation, mainly due to burdensome administrative procedures.

52. **The PIP will also have to be scaled back.** The lower oil price necessitates reducing both current and capital expenditure and thus limiting the PIP. The PIP is not yet anchored in a comprehensive medium-term expenditure framework to ensure predictability of project execution. The original 2015 PIP was large, not only in terms of amount (over 10 percent of GDP), but also in absolute number of projects. The revised PIP represents 5.4 percent of GDP.

53. **The proposed operation supports the government's efforts to strengthen PIM**. The program focuses on three activities: (i) updating the legal and regulatory framework, (ii) improving the PIP and the SIPIP, and (iii) linking SIPIP to other software systems. These activities aim to strengthen linkages between strategic planning and budget composition; improve project management and monitoring and evaluation of implementation and results achieved. Once the reforms are implemented, all new projects included in the 2017 PIP and budget will be subject to the new PIM cycle, system, and regulations and ongoing projects will be better implemented and monitored. It is expected that these reforms will have a significant positive impact in terms of quality and pertinence of public expenditures, as well as improving the quality of service delivery.

Prior Action #3: Enacted a revised budget law that adjusts the 2015 PIP downwards by 50 percent to reflect declining oil prices.

54. **In March 2015, the GoA adopted a revised budget law that cuts the 2015 PIP by more than half in real terms, to 5.4 percent of GDP.**[22] Special care is taken to protect social-sector projects and to remove old projects with no identified source of financing, projects with low levels of execution or contract readiness, and projects not linked to strategic priorities.

55. **Recently enacted PIM legislation and regulations need to be modified**. A change to Presidential Decree 31/10 will focus on developing a law outlining general principles, objectives, and processes for development and management of the PIM System. It will clarify roles and responsibilities in the different governmental entities involved; propose legal solutions that better link the PIP to national strategies and priorities; and strengthen the control functions of NDPI. Additional operational procedures will be covered by this legal framework, with guidelines for the annual execution of the investment budget and uniform standards for project formulation, appraisal, and evaluation. Trigger #4 is the adoption of the Presidential Decree and the binding operational procedures to implement it.

Prior Action #4: Strengthen the PIP by restructuring it, approving a manual for monitoring risky projects, and developing performance indicators to monitor and measure project performance.

56. **Efforts have been implemented to improve the PIP.** A cleaning-up of the 2014 PIP, removing projects that either did not belong in the investment budget or were not deemed ready for approval, resulted in savings of approximately US$600 million. The MPDT has adopted a manual for monitoring strategic and risky projects through field visits to check issues such as the level of physical implementation and the validity of information uploaded in SIPIP, detect large differences between financial and physical implementation and possible cost overruns, and assess quality. Performance indicators linking projects to results have also been adopted by MPDT. Prior Action #4 is the restructuring of the PIP and the adoption of the project monitoring manual and

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[22] Based on Angola Government data.

performance indicators. Trigger #5 will be the implementation of a revised PIM process through the development and systematic use of manuals and templates for preparation of projects, application of prioritization criteria, better implementation, and improved monitoring.

57. **The expected outcome is to ensure better value for money from the PIP.** These actions will lead to an improved 2016 PIP, with projects that are better prepared and appraised by trained staff at all levels, using new methodologies, manuals, templates and costs projections. Projects will pass through a single standard methodology using objective eligibility and prioritization criteria developed by the MPDT, and will be better implemented by the sectors, agencies and provinces. The MPDT will proactively monitor the 2016 PIP through a new system of indicators (nearly 400 output indicators and 100 results indicators have been defined). The results indicator for the program is that all projects in the 2017 PIP will be subjected to the new PIM cycle, systems, and regulations.

Prior Action #5: (a) Created a joint committee comprised of representatives of MPDT and MoF to design and implement the necessary actions to attain full integration of the SIPIP and SIGPE; (b) Initiated the integration of the SIPIP and SIGFE.

58. **PFM and PIM system reforms have been implemented at various levels of government, but hitherto without any comprehensive strategy or oversight.** This has resulted in duplications, incompatibilities, and poor sequencing. Two examples illustrate this situation. First, the strengthening of the SIPIP has not been integrated with development of the information system of the Ministry of Finance (SIGFE). Coordination between the two ministries could be greatly improved and duplication reduced if both systems were better synchronized. Second, NDPI is preparing a portal of suppliers for the control of physical and financial execution of projects, while a contract database is being implemented in the Procurement Agency (an independent agency under the MoF). Furthermore, the Court of Accounts has its own IT system, which will include all procurement contracts subject to prior clearance, and a database of suppliers "*Cadastro de Fornecedores*" is being developed by the Direction of Public Assets direction (*Direcção do Patrimônio do Estado*).

59. **The integration of the information systems of the MPDT and MoF, SIPIP and SIGFE, (Prior Action # 5) has been initiated through the following measures:**

- Creation of an electronic process for internal budget readjustments of the PIP that includes the Budget Units, MPDT and MoF
- Adding the MPDT to the MoF SIGFE mailing list for automatic alerts for the following procedures:
  - a. Withholding/release of budget funds for new projects
  - b. Activation of additional budget credits
  - c. Activation of budget ceilings
- Giving MPDT access to SIGFE's PIP budget execution reports at project level
- Giving MOF access to SIPIP for the annual PIP budget proposal.

60. **A joint committee, led by the MoF, was created with the mandate to develop the required actions for full integration (Prior Action #5).** The Committee members will be from the MoF and the MPDT. Trigger #6 will be the enactment of regulations linking information systems and databases that are related to planning, budgeting, PIM, and contracts in the MoF and the MPDT. The expected outcome of these actions is effective information sharing and limited duplication, which will improve the governance of the PIM system and of the overall PFM structure in Angola.

Pillar 3- Moving from untargeted fuel price subsidies to targeted cash transfers and evidence-based policy-making

61. **With downward movement in crude oil prices, the fiscal space created by the reduction of fuel price subsidies could be used for targeted cash transfers.** More than 90 percent of fuel subsidies go to diesel, gasoline, and liquefied petroleum gas (LPG). The gap between domestic fuel prices and international prices is large and varies among products. For instance, international prices are 441 percent higher than domestic asphalt prices, while international gasoline prices are 50 percent higher than domestic gasoline prices. Besides being costly, fuel price subsidies are inefficient and inequitable, crowding out poverty-reducing spending. More than 50 percent of subsidies go to the richest 20 percent of households (IMF, 2014) and Angola's spending on fuel subsidies is roughly the same as outlays in education and about half of health spending. Subsidies also create incentives for smuggling, effectively financing low-cost fuel consumption in neighboring countries, and create rent-seeking and corruption. Finally, subsidies create incentives for overconsumption and worsen traffic congestion—after malaria, road accidents are the second leading cause of death in Angola.

62. **This pillar supports efforts to rationalize expenditures through three areas of policy action.** The first two, eliminating fuel price subsidies and replacing them with targeted cash-transfers to the poor, aim to create the fiscal space for priority spending and more effectively fighting poverty with well-designed and targeted interventions. The third, implementing the National Statistical Strategy 2015-25 and its main household survey, the IDRE-2015, emerges from the authorities' recognition that good statistics are a key input for monitoring the effects of these reforms on the wellbeing of Angolans, especially the poor.

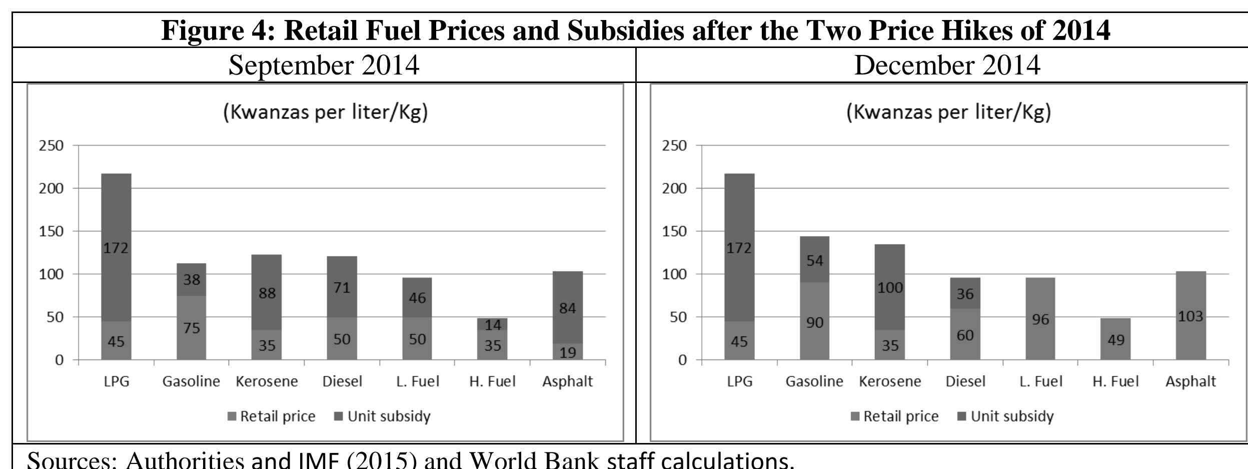
Prior Action #6: Increase retail fuel prices in order to start the phasing out of inefficient and untargeted fuel subsidies

63. **The authorities have started to reduce fuel price subsidies.** In September 2014, in order to reduce the fiscal cost of fuel subsidies, the GoA raised fuel prices for the first time in three years. The prices for gasoline and diesel increased by 25 percent, while LPG increased by 22 percent, kerosene by 35 percent, heavy fuels by 100 percent, and asphalt by 19 percent. More recently, in December 2014, the GoA raised the prices of gasoline and diesel by a further 20 percent. In addition, the prices of light and heavy fuel oils, as well as the price of asphalt, were liberalized and are now determined by the market.

64. **Domestic fuel prices are still considerably below international prices.** As seen in Figure 3, even after the effects of the September 2014 and December 2014 decrees, subsidy levels are still large for some fuels, with gaps between international and domestic prices ranging from 60 percent for diesel and gasoline to 383 percent for LPG. (For light and heavy fuel oils and asphalt, there are no further subsidies.)

Figure 4: Retail Fuel Prices and Subsidies after the Two Price Hikes of 2014

September 2014 | December 2014



Sources: Authorities and IMF (2015) and World Bank staff calculations.

65. These decrees of September 2014 and December 2014 (prior action #6), were the first of a planned series of fuel price increases aimed at reducing fuel subsidies from 3.8 percent of GDP in 2014, to 2.3 percent by 2017, 1.0 percent by 2018, and zero by 2020. Trigger #7 will support continued implementation of the subsidy reform through the passing of a Presidential decree establishing a relation between fuel (gasoline and diesel) price increases and public transport fare increases, and introducing an automatic upward fuel price adjustment for gasoline and diesel. The expected outcome of these measures is to free up fiscal space and to allow the scaling-up of priority spending on key infrastructure and poverty alleviation programs. The results indicator for the program is the end-2017 target of 2.3 percent of GDP or less being spent on fuel subsidies.

Prior Action #7: Expand social protection by completing the registration of 50,000 families in the pilot Cartão Kikuia cash transfer program.

66. **There is now international consensus that the most effective way to mitigate the negative impact of fuel subsidy reforms on poor and vulnerable households is through the use of targeted cash transfers.** Cash transfers give beneficiaries the flexibility to purchase the level and type of energy that best suits their needs. Moreover, cash transfers provide the poor with a regular flow of income and have been shown to increase productivity in the long run. While current fuel subsidies are regressive, benefiting the well-off more than the poor, their reduction is still likely to affect poor households as well. The increases in fuel prices enacted in September and December 2014 are likely to have already resulted in a decrease in the real incomes of households in the bottom 40 percent of the income distribution. This and future negative effects may be mitigated by the planned expansion of the government's main targeted cash transfer program, *Cartão Kikuia*. By end-2014, 50,000 families were enrolled in the program (Prior Action #7), and 90,000 more families are expected to be enrolled by end-2015 (Trigger #8).

67. **The *Cartão Kikuia* program is an unconditional cash transfer program that gives households 10,000 kwz (approximately US$100) per month.** Beneficiary households must meet at least one requirement of a list of criteria that includes:

(i) Household is female headed
(ii) Household has at least one member with a disability
(iii) Household has at least one member who is a former combatant or a war veteran
(iv) Household has at least one member who is a senior citizen or has a chronic disease
(v) Household has at least one malnourished child
(vi) Household has a high dependency ratio
(vii) Household has at least one orphan child.

68. **Key program design features are that beneficiary households are female-headed and that the permitted use of the transfer is expanding beyond government-owned Kikuia stores to the private sector.** According to preliminary data from the population census and IBEP, it is estimated that in rural Angola there are currently about 252,000 households headed by women. Current beneficiaries, drawn from this population, can only purchase goods with *Kikuia* cards in stores belonging to the program (*Lojas Kikuia* or Kikuia Stores), which are run by government contractors. However, the GoA has also started to establish partnerships with privately-owned stores and supermarkets, given that the network of Kikuia stores will not keep be able to keep pace fast with the planned expansion of the program.

69. **While *Cartão Kikuia* transfers are likely to reach the poor better than fuel subsidies, there is considerable room to improve targeting.** The GoA has established quotas of beneficiaries for each province, based on the estimated proportion of households meeting the eligibility criteria in the 2008/09 IBEP household surveys, applied to the provincial population count of the 2014 census. Provincial governors (who are not elected but directly appointed by the President) then decide how to distribute the provincial quotas across municipalities. Municipal administrators are then responsible for distributing municipal quotas among c*omunas*; *comuna* administrators are in turn in charge of distributing their quotas among households. This approach is similar to the approach adopted by the Brazilian *Bolsa Família* program in 2003. While it admits the possibility that governors and administrators will target friends or political supporters, the experience of Brazil suggests that, if quotas are well computed, the program's overall targeting performance may still be satisfactory. Nevertheless, the local system of household selection and the use of registration information, are important for targeting.[23] In this regard, the World Bank will continue to engage actively with the *Cartão Kikuia* program team to provide technical assistance on improving targeting systems.

70. **It will be crucial to monitor the targeting of the *Cartão Kikuia*.** The World Bank is supporting implementation of the national household budget, income and employment survey (IDRE-2015) in order to be able to assess the targeting outcome of the program in 2016. The survey will include questions to capture *Cartão Kikuia* beneficiaries and thus allow a thorough analysis of the targeting performance of the current method. In addition, combining 2014 population census data and 2015 IDRE survey data, it will be possible to prepare a detailed poverty map with an

[23] Paes de Barros, de Carvalho, Franco and Mendonça, August 2008, "A Importância das Cotas Para a Focalização do Programa Bolsa Família", IPEA, Rio de Janeiro.

estimated number of poor families at the level of the *comunas*. Quota-setting will then become less subjective and grounded on more precise local poverty estimates. The GoA has requested technical assistance from the Bank to prepare the poverty map.

71. **The Ministry of Finance is also planning to centralize all social programs in a single register to facilitate monitoring and evaluation.** Currently, social programs are scattered across various ministries (including the Ministry of Social Affairs, the Ministry of Commerce and the Ministry of Veteran Affairs, among others). Trigger #9 will develop and implement a *Cadastro Único* (single register) of all social programs. The expected outcome of these actions is better coordinated and more easily monitored social programs. The results indicator for the program is that the percentage of households receiving cash transfers rises from less than 3 percent in 2013 to more than 7 percent by end-2017.

Prior Actions #8: Strengthen evidence-based policy making by approving the National Strategy of Statistical Development for 2015-2025 (ENDE 2015-2025).

Prior action #9. Initiate monitoring of social programs by concluding the preparatory work to launch the 2015 Survey on Expenditure, Revenue and Employment of the Population (IDRE-2015).

72. **The government has put in place a financed strategy for a set of household surveys to enhance the quality of empirical evidence upon which policies are debated and formulated.** The authorities have stated their intention to develop a statistical system with more frequent household surveys that will allow them to better identify needs, set policy goals, and monitor progress. Without good statistics, policy-makers cannot learn from experience to design effective social programs adaptively. The National Strategy for Statistical Development (ENDE-2015-25) is now in force (Prior Action #8) and lays out the set of surveys planned for the next decade and respective budget allocations.

73. **Regular household surveys help monitor poverty, inequality and social indicators, and can also help to assess the targeting and effectiveness of social programs.** A main component of the national statistical system is the survey *Inquérito de Despesas e Receitas e Emprego da População-2015* (IDRE-2015) (or Population Budget, Income and Employment Survey-2015) that is planned to be fielded in 2015. To ensure that the IDRE-2015 is concluded by end-2015, it will be necessary to: (i) design the national sample frame that ensures national and provincial representativeness, based on the 2014 national census; (ii) design and electronically program the IDRE-2015 questionnaire; and (iii) design the IDRE-2015 sample.

74. **Prior Action #9 is the successful completion of these preparatory steps for the launch of IDRE-2015.** Trigger #10 is the actual carrying out of IDRE-2015 and making the data public. The expected outcome of these actions is more rigorous evaluation of the coverage and targeting of social programs, aiming to reduce extreme poverty. As mentioned above, IDRE-2015 will be used to prepare poverty maps which can enable better targeting of anti-poverty programs. Trigger #11 is the preparation of an initial poverty map, using the 2008-09 IBEP survey in conjunction with the 2014 census, and an assessment of the allocation of *Cartão Kikuia* (and possibly other programs) using this baseline dataset, to begin assessing the quality of the targeting method. This work will dovetail with broader planned capacity-building efforts of the World Bank to inform the

scale-up, targeting, and costing of social protection programs and strengthening of their institutional arrangements.[24] Reflecting this emphasis on the use of data to inform the design of social programs, the results indicator for the program in this area is that by end-2017 empirical results from the analysis of the IDRE-2015 household survey appear in one or more government official documents proposing policy actions.

4.3 LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

75. **The current World Bank Group Country Partnership Strategy (CPS) for Angola covering FY14-16 marks a key turning point.** After emerging from a devastating 27-year civil war in 2002, the country has achieved a remarkable period of reconstruction, recovery, and rapid growth. With its sharp rise in per-capita income, Angola became IBRD-creditworthy in FY10 and transitioned at end-FY14 to IBRD status. The CPS was broadly formulated to allow new areas of engagement as policy dialogue evolves. The proposed program, requested by the government with clear orientation on the pillars, is therefore in line with that spirit.

76. **The proposed programmatic DPF fits under the third pillar of the CPS, aiming to build resilience to potential shocks from the global economy**. Prepared with significant local consultations and strong government ownership, the World Bank Group's CPS aims to: (1) support integrated national economic diversification through timely knowledge and technical assistance support on spatially balanced rural development, energy sector expansion and development, and private and financial sector development; (2) enhancing the quality of services in education, health, and water and sanitation, and deepening the protection of the vulnerable and marginalized citizens; and (3) building adequate human and institutional capacity to enable sound economic management, develop skills needed in a diversifying economy, and build resilience to potential shocks from the global economy or climate change.

77. **This operation will complement a renewed engagement both on statistics and on public investment management.** The Statistical Institute (INE) has requested technical assistance from the World Bank in three main areas: national accounts; sampling for household and establishment surveys; and poverty analysis. INE has also expressed interest in becoming a regional training center for statistics. The form of this engagement (either as Reimbursable Advisory Services, RAS, or as an IBRD project) is still under discussion. The MPDT has shown interest in RAS to strengthen the PIM system.

78. **The Bank's existing and envisaged work program supports pro-poor elements of the government agenda.** The current IDA portfolio[25] focuses on water services in provincial cities, on municipal health, on a local development program (social fund), on smallholders in agriculture, and on education. Similarly, upcoming IBRD operations under preparation would further support, inter alia, smallholder agriculture and water services in provincial cities.

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[24] Trust fund resources are being put in place to support: (i) capacity-building for modification and scale-up of social protection programs and institutional arrangements; (ii) targeting methodology for social protection programs; (iii) design of an activation/graduation model for beneficiaries to graduate into productive activities.

[25] Angola became IBRD creditworthy in 2010 and de facto graduated shortly thereafter; no further IDA operations have been processed. The proposed DPF would be the first IBRD operation.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

79. **The government established a framework of consultation in the context of the preparation of the *Estratégia de Combate à Pobreza* (ECP) 2010-2015.** This framework will be used as needed in the context of the reforms included in the proposed programmatic Fiscal Management DPF. Since the Constitutional reform in 2008, the State budget is also thoroughly discussed in Parliament, starting with a general discussion in early November and followed with sector-specific budget proposals before its adoption in early December. Since the three pillars of the proposed series are addressing public financial management issues (revenue mobilization, public investment, and expenditure rationalization), the Parliament also provides a consultation venue the authorities could use as needed.

80. **In addition to the IMF, the Bank team is working closely with the African Development Bank, which is currently providing budget support**. The AfDB Power Sector Reform Support Program (PSRSP) is a budget support operation (US$1 billion, in two tranches) supporting the restructuring of the power sector (unbundling of generation, transmission and distribution segments), as well as the improvement of the power sector regulatory environment, private-sector participation in the power sector, budget credibility and transparency, and efficiency and value for money in procurement. JICA is also planning to undertake a budget support operation (US$200 million) anchored on part of the AfDB policy matrix. UNICEF is also providing technical assistance to the Ministry of Social Affairs to develop an integrated social protection program.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

81. **Actions under Pillar 3 of this DPF series are expected to have significant positive poverty and distributional impacts in the short and medium term.** It is estimated that the overall package of policy reforms will have a positive distributional and poverty impact in the medium term, once subsidies are reduced to 1 percent of GDP and the cash transfer program *Cartão Kikuia* is fully rolled out by 2018. Simulation exercises carried out with the IBEP 2008-09 survey suggest that the unmitigated removal of fuel price subsidies would likely hurt the poor, increasing the poverty rate by 5.5 percentage points by 2018. However, the *Cartão Kikuia* cash transfer program, once fully rolled out by 2018, is likely to more than compensate the poor for this negative welfare losses. It is estimated that the combined impact of eliminating subsidies and expanding the cash transfer program to the national level will jointly reduce poverty by 2.5 percentage points by 2018.

82. **As estimated by the IMF (2014), fuel price subsidies were highly regressive prior to the September and December 2014 reforms.** Approximately 76 percent of their total fiscal costs were benefiting the richest 40 percent of households in Angola. Only 11 percent was benefiting the bottom 40 percent of the population.

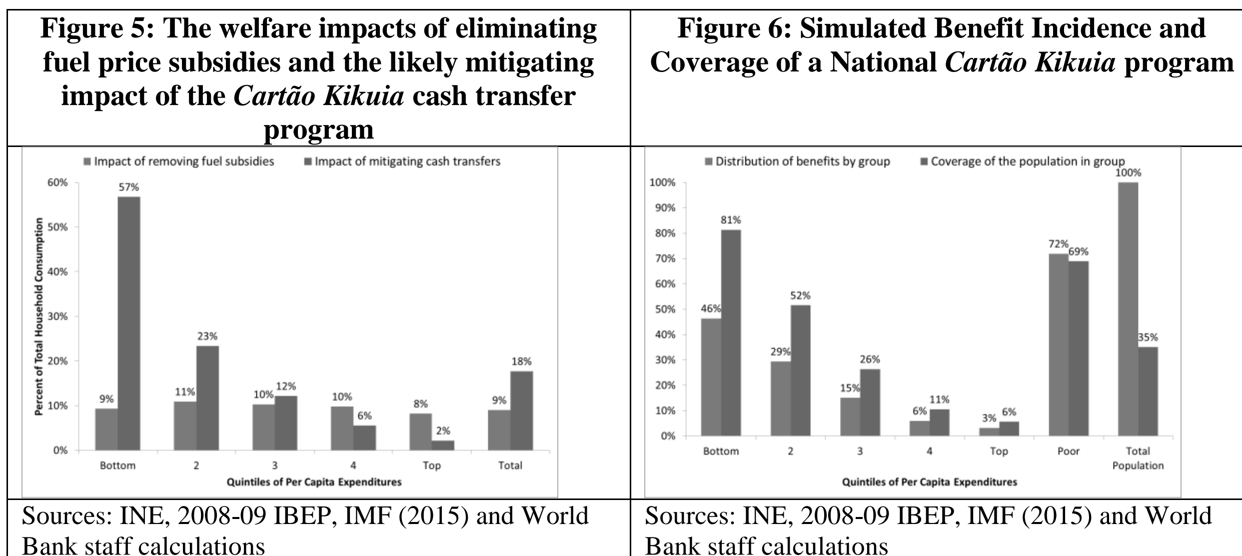
83. **Nevertheless, poorer households are also likely to be negatively affected by fuel price increases, since they spend a higher share of their total budget on fuel and on products that are affected by fuel prices.** The IMF (2014) estimates that before the September and December 2014 reforms, households in the bottom 40 percent of the income distribution spent 6 to 7 percent of their total budgets directly on fuel. In addition, they spent more than 60 percent of their budget

on agriculture and fishing products and transportation. All three items are likely to be affected by fuel price increases. Therefore, while fuel price increases caused by the removal of subsidies are expected to be progressive, they could still lead to an increase in poverty if they are not mitigated. It is estimated that the unmitigated impact of removing all fuel subsidies on poverty would be of about 5.5 percentage points by 2018, raising headcount rates from a baseline of 36.6 percent to approximately 42.1 percent.

84. **The government's plan to expand coverage of *Cartão Kikuia* to all poor households could mitigate the negative impacts of the fuel price increases on poverty during the same period, if it is well targeted**. The program is targeted at rural areas, where most of the poor live. Following the current targeting criterion for the program, and assuming that when expanded to urban areas the government will apply Proxy Means Testing methods for selecting urban beneficiaries, a simulation of the impact of the program on poverty indicates that once fully implemented, *Cartão Kikuia* will more than compensate for the negative impact on the poverty rate of removing all fuel subsidies. The results show that the program is likely to bring poverty down from 42.1 to 34.1 percent of the population by 2018, lower than the baseline pre-reform rate of 36.6 percent.

85. **Moreover, this expected impact on poverty is likely to be cost effective,** since it will be obtained with a total cost to the country of approximately 1.5 percent of GDP, less than a third of what the government was spending on fuel subsidies in 2013. As can be seen in Figure 5 this likely cost effectiveness is expected if the program is well targeted. The simulations of the program with its proposed targeting system indicate that, once fully implemented, the real incomes of the bottom two quintiles will increase by approximately 57 and 23 percent, respectively. For the top three quintiles the increases are likely to be much smaller (12, 6 and 2 percent, respectively). The simulations of the errors in targeting indicate that a fully implemented program would cover approximately 70 percent of the poor, more than 80 percent of those in the bottom 20 percent of the income distribution, and two thirds of those in the bottom 40 percent. The results also indicate that less than 30 percent of the transfers would go to the non-poor. These "leaked" transfers would mostly go to those in the third quintile of the income distribution.

Figure 5: The welfare impacts of eliminating fuel price subsidies and the likely mitigating impact of the *Cartão Kikuia* cash transfer program	**Figure 6: Simulated Benefit Incidence and Coverage of a National *Cartão Kikuia* program**



Sources: INE, 2008-09 IBEP, IMF (2015) and World Bank staff calculations	Sources: INE, 2008-09 IBEP, IMF (2015) and World Bank staff calculations

5.2 ENVIRONMENTAL ASPECTS

86. The reforms supported by the proposed development policy credit are not expected to have significant effects on the environment, forest or other natural resources. The prior actions are focused on three pillars designed to strengthen the country's fiscal management in the midst of the expected sharp decline in oil price over the medium term, providing a general budget support. Hence the prior actions are not likely to have adverse impacts on the country's environment. During design it was also determined that there was no need to perform a detailed climate change and disaster risk screening.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

87. **Angola has seen steady improvements in PFM reforms in recent years**. While no single over-arching PFM reform program is in place, several different reforms are taking place in areas such as procurement, tax and publication of budget data. Many of these reforms have achieved good results. A greater focus on closing the implementation gap is needed, and better coordination of efforts could bring benefits, but these reform efforts reflect current commitment by individual institutions and the authorities as a whole to drive their own reform agenda. The Bank dialogue with the authorities on PFM issues is good and improving, but has been uneven, due to a number of factors including the size and focus of the World Bank portfolio.

88. **Angola's CPIA score has remained largely constant since 2007 at around 2.7 (compared with a 3.2 average for SSA IDA countries)**, with a slight reduction (0.2) driven by lower scores on Structural Policies and Public Sector Management Institutions clusters, in particular Quality of Public Administration; the Government has found it difficult to attract and retain personnel. The weakest cluster is Public Sector Management and Institutions at 2.3 compared to the Southern Sahara Africa (SSA) IDA average of 2.9. Recent PFM improvements have focused on fiduciary aspects, and the sub-cluster of Transparency, Accountability and Corruption in the Public Sector is one of three sub-clusters (along with Gender Equality and Trade) closest to the SSA average (2.5 vs 2.7).

89. **Angola's current cycle of PFM reforms started in 1999 while the conflict was still ongoing**. The ambitious reform program, while only partially executed, achieved a few significant results. The next round of PFM reforms were guided by the Interim PRSP (I-PRSP) and included reforms in a number of core PFM areas, many supported by the World Bank through its Economic Management Technical Assistance Project which started in 2003 and closed in 2011.

90. **Despite some positive results, more effort is needed to consolidate and build on the gains of past reform efforts**. Better results could be achieved with a greater focus on fully implementing past reforms. In addition, there is a significant lack of recent technical assessments and studies to assess progress to date and inform ongoing and planned reforms. The most recent PFM-related analyses (apart from the annual Economic Update) were the World Bank Public Expenditure Management and Financial Accountability Review (PEMFAR), Country Economic Memorandum (CEM), Country Procurement Assessment Report (CPAR), and Public Expenditure Review (PER) all dating from 2005 through 2007. The section below outlines the most salient PFM issues as of early 2015. A public expenditure management and financial accountability report (PEMFAR) is currently under preparation by the African Development Bank and the Bank is working with the team in charge.

91. **A gap remains between budget targets and income and expenditures out-turns, although the trend is improving.** For example, in 2009, the Public Investment Program was executed at only 23 percent, increasing substantially to 71 percent in 2010 and 89 percent in 2012. In 2013 this figure was 69 percent, but with large variations amongst budget entities. The government has recently provided the Bank team with detailed budget data from the electronic PFM platform (SIGFE). An expenditure analysis of trends since 2008 is underway with World Bank support, using a new budget analysis tool (BOOST). The previous practice of allowing significant off-budget expenditures by state owned enterprises and public agencies is being reined in, as evidenced by the decision to include the previous off budget quasi fiscal operations of Sonangol into the 2013 budget. The collection and reporting of oil revenues is done through an improved flow of funds report. The budget process is being conducted in a more open and participative process in recent years, but there is relatively limited information and time available for a real public debate on the government budget proposal before it is submitted to parliament for debate and approval early December.

92. **There is an ongoing effort to improve the alignment of the budget with the national development strategy**. A medium term fiscal framework is in place but the link between this framework, the National Development Plan (NDP) and the annual budgets still needs strengthening. The MPDT is finalizing the development of a budget planning tool for the investment budget that will require spending units to show how their activities and expenditures support NDP goals by requiring them to fill out a results chain with detailed indicators and link these with the results matrix of the development plan. Expenditure arrears are now defined in line with international practice (over 90 days), and the authorities reported that arrears were negligible as of November 2014.

93. **Public access to fiscal information has also seen improvement in recent years with increased frequency of publications and comprehensiveness of fiscal data.** The Ministry publishes quarterly budget execution reports on its website in addition to reports on petroleum and diamond production and related income to the state. A citizen's budget was prepared for 2015, and a widely circulated newsletter prepared by MoF explains the most important recent and upcoming

public finance reforms and the implications of these changes for the government budget. The government's decision to publish the BOOST data mentioned above is a significant commitment to additional budget transparency. The BOOST tool and dataset provides detailed budget and expenditure information in a user friendly format for analysis on public finance trends by policy makers, academia and the public. Operational and financial data on state owned enterprises has also been improved by the setting up of an Institute of Public Enterprises in 2011 responsible for monitoring a new SOE strategy aimed at increasing financial and service delivery performance and ensure regular reporting on the state enterprise sector. The Institute has prepared two detailed SOE portfolio reports (2011-12 and 2013) which were shared and discussed in two national SOE forums. The Institute notes that around 60 percent of the 93 SOEs are submitting all the required reports and documentation to GoA on time. The government's SOE strategy aims to increase company transparency and reporting, improve service delivery performance and reduce public service obligations of SOEs and related subsidies, including for Sonangol. It also aims to clear debt arrears, and privatize, liquidate and merge a number of companies (39 companies went through this process in 2012).

94. **The government has not issued revised budgets in the last 4 years but adjustments are made within existing budget envelopes**. An exception is the 2015 budget which was revised in March 2015. In-year budget adjustments are discussed and approved by internal technical committees comprising the budget directorate of the Ministry of Planning and the Treasury. In line with recent efforts to control spending, budget units are not given immediate commitment and cash releases corresponding to the full amount budgeted and approved for the year. Instead the Ministry of Finance issues quarterly envelopes and monthly commitment limits. Better controls of budget expenditures were introduced in 2012 with the requirement of MoF signature for all expenses over 1.5 million USD; a corresponding commitment control function was programmed into SIGFE.

95. **The implementation of the 2010 procurement law has been slow but is picking up speed.**[26] Procurement is decentralized to procurement units inside the ministries. An evaluation committee is used for the award of tenders. However procurement units are not fully staffed and there is a shortage of qualified staff. There has been a lack of institutional oversight, external audits are not carried out in a timely manner and actions on audit findings remain weak. Overly complex procurement procedures, (including the freedom of contracting units to set high prices for access to bidding documents), the absence of standard bidding documents and model contracts, and a lack of oversight and transparency is leading to long delays and poor value for money in public contracts.

96. **The government is aiming to remedy these weaknesses with the recent establishment of a regulatory agency.**[27] The *Gabinete da Contratação Pública* (GCP) [Office of Procurement] became operational in December 2013. It is responsible for oversight and monitoring of compliance with the procurement law, receiving tender complaints and adjudicating these, with power to annul contracts found to have violated the rules. Suspected cases of collusion or procurement fraud can be referred to Internal Inspection (INF) or *Tribunal de Contas*, for further audit and investigation and sanctions, including criminal prosecution. The GCP has recently set

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[26] The law is currently being revised in order to adjust it to current dynamics.
[27] The revision of the law assigns more power to the procurement office.

up two systems: a procurement portal which eventually will include all public tenders and a complaint hotline and an e-procurement system to capture information on the entire procurement cycle including electronic copies of all contracts, with e-signature abilities, and approvals/controls at each stage of the process. This system aims to prevent frequent contract revisions and cost overruns through the establishment of firm limits for these. Attempts to circumvent procurement thresholds by splitting up larger contracts into several smaller contracts to the same supplier will also be prevented through limits on the number of contracts that can be signed with the same supplier over a certain period. The system will also be linked to the service provider database under development (*Cadastro de Fornecedores*) and managed by the Direction of Public Assets (*Direcção do Patrimônio do Estado)* which will keep a record of corporate and individual service providers with a view to ensure quality and eventually ban individuals or companies found guilty of illegal practices[28]. The procurement authority recently published its first bulletin on procurement statistics for the first semester of 2014, and the second semester report is under preparation. The GCP is coordinating the ongoing effort to reform the 2010 Procurement Law. The legal package has been drafted and is awaiting discussion in the Council of Ministers, after which it will be submitted to Parliament. New regulations will address a number of issues such as electronic procurement, including the supplier database, and standard bidding documents, amongst others.

97. **A number of electronic systems have been developed to improve the management of public funds.** The SIGFE (*Sistema Integrado de Gestao das Finanças do Estado)*, is the main system. It is comprehensive, covering all budget units and capturing all expenditures. There are more efforts needed to ensure the full use of system functionalities, including the ability to scan and upload accompanying documents such as signed contracts, invoices, etc. Several other systems exist or are in the process of development. Most of these complement SIGFE, such as the procurement portal, the contract database being piloted (also for procurement) and the state property registry (also in the process of being finalized). The Ministry of Planning has developed its own system to monitor the public investment portfolio (SIPIP), but this system is not directly linked with SIGFE, with the result that the information on budget allocations and execution in the SIPIP is often outdated and there are sometimes significant differences in data between MPDT and MoF. This is important given the role of MPDT in elaborating and monitoring the public investment program (PIP). The tax department and customs use other platforms, with reconciliation carried out on a regular basis. The Supreme Audit Institution has recently developed its own system to manage audit caseloads (SIGTC) and the process of contract pre-approval.

98. **There is a need to ensure a coordinated approach to systems development in order to identify opportunities for sharing of information, systems and platforms.** This will avoid waste of resources and duplication of effort. The recently established institute for PFM related information systems "*Serviço das tecnologias de informação e comunicações das finanças públicas* (SETIC)" is well placed to lead a cross-ministerial effort, but would need political backing. Prior Action #5 contributes to that effort to streamline systems by focusing on the integration of the SIPIP and the SIGFE.

99. **The office of the Internal Auditor (*Inspecção Nacional das Finanças* (INF) was strengthened in 2012, receiving additional personnel and getting direct access to SIGFE.** But

[28] The database has been populated with approximately 1,600 service providers as of June 2014.

its reach and coverage remains limited, at approximately 43 audits per year (out of 500 budgetary units) and three regional offices. INF prepares an annual work plan that is approved by the Minister of Finance and shared with the *Tribunal de Contas* for coordination purposes. Its priorities are determined by staff knowledge and experience rather than any clear selection criteria; in practice much of their work is consumed by requests from the Ministry of Finance. Any findings of wrongdoing are handed over to the *Tribunal de Contas* for further prosecution and eventual sanctions. INF's work has largely focused on financial audits and investigations so far, despite the fact that its mandate includes broader operation/functional audits, in line with international standards. With increased capacity, this may change.

100. **Angola's supreme audit institution's independence and powers were reduced in 2010 but its capacity and reach has increased significantly**. The budget framework law of 2010 states that the Tribunal de Contas (Tribunal) must be requested by Parliament to audit the national accounts. It has been requested to do so every year since. The Tribunal is now fully staffed and all chambers are working. It enjoys judicial powers and can take binding decisions on non-compliance discovered by their audits. It has recently published its opinion on the government accounts for 2011 and 2012 which are published on their website; in December 2014 it submitted its opinion of the 2013 accounts to Parliament. The Tribunal carries out approximately 20 financial audits a year. These reports are used to identify cases handled by the justice system and are not published. However, the Tribunal has recently published a two volume jurisprudence compilation of recent cases settled by the justice system. The Tribunal has so far focused on financial audits only, but has begun the process of moving towards functional/operational audits with the development of a manual and plans to pilot and phase them in over the next year. The development of an electronic platform, SIGTC (*Sistema de Gestão do Tribunal de Contas*), linked to SIGFE has helped the Tribunal ensure closer in-year monitoring and risk based audit planning. The Tribunal is also responsible for the verification and pre-approval of procurement contracts. It has approximately 36 staff dedicated to this function, clearing between 3,000-4,000 contracts per year.

101. **In November 2009, the President of the Republic declared a "zero tolerance" policy on corruption.** It was followed by the adoption of the Public Probity Law (*Lei de Probidade Pública*) in March 2010, and in 2012 an anti-corruption body, established in the Prosecutor General's office (*Office for Preventing and Combating Corruption*), which became operational in 2013. The unit is headed by an Assistant Prosecutor General and is staffed by two magistrates and six technical experts. Angola is undergoing its first United Nations Convention against Corruption (UNCAC) Peer Review (Angola ratified the UNCAC in 2006) and has recently submitted the self-evaluation to UNODC and the reviewing countries (Liberia and East Timor). Angola is planning to make the UNCAC Review report public once it is finalized. The new Anti-Corruption unit has an action plan in place and is working on 11 corruption cases which are mostly in the early investigative stages. Significant technical assistance is required to ensure sufficient capacity to handle complex financial and economic crimes. Angola's ranking on the Transparency International (TI) corruption index and its scores on WGI Control of Corruption indicator have improved in recent years, although they remain within the lowest ten percent.

102. **Public Financial Management bottom-line assessment.** Angola's overall public financial management and procurement systems remain relatively weak. There is however a credible commitment of the authorities to address remaining weaknesses, as evidenced by a number of positive reforms (on budget transparency and public access to information, Sonangol's

quasi-fiscal operations, procurement institutional framework and IT systems for instance), as well as the authorities' agreement to proceed with a PEMFAR as a diagnostic basis for further reforms.

103. **The overall financial mechanisms of the Central Bank (National Bank of Angola) have been improving gradually over time.** The first ever IMF safeguards assessment, which was finalized in May 2010, found that the National Bank of Angola (BNA) is subject to annual external audits by a reputable firm and has taken steps to address audit qualifications. The assessment confirmed, however, weak governance and transparency practices at the BNA, including lack of timely publication of annual financial statements. The assessment also made recommendations to enhance the legal framework and independence of the central bank, and to strengthen the control framework in the areas of reserves management and internal audit. Since this assessment, the BNA has adopted measures to enhance governance and accountability, including the production of its financial statements. Since financial year 2011, the BNA has been publishing its annual financial statements on a regular and timely basis. Since 2010, the BNA has introduced and consolidated several supporting bodies to its Board of Directors, such as the monetary policy committee, the financial stability committee, and the investments committee. The board of the BNA has strengthened its internal audit function; in January 2011, it reconstituted its audit board. It also adopted in December 2010 guidelines for the management of international reserves and in May 2011 conducted a first semi-annual internal audit of their implementation. Lastly, Angola's de facto exchange arrangement has been classified since October 2009 as a "stabilized arrangement", meaning that the BNA intervenes actively in the foreign exchange market in order to stabilize the exchange rate by selling part of the oil-revenue related foreign exchange in auctions to banks.

104. **Foreign Exchange Environment bottom line assessment.** Despite progress made since the 2010 safeguards assessment and in the absence of an updated assessment, the risks related to the foreign exchange environment at the Central Bank remain relatively high. Since this is the Bank's first budget support operation in Angola, additional fiduciary risk mitigation measures provided for by OP 8.60 will be triggered. The paragraphs below detail these measures.

105. **Disbursement.** The proposed IBRD loan would be disbursed in a single tranche of US$450 million. It would be made available upon effectiveness and disbursed on the basis of a withdrawal application. The loan will follow the Bank's disbursement procedures for development policy lending. The loan will be deposited with the BNA into a dedicated account that forms part of the country's official foreign-exchange reserves. The Recipient shall ensure that upon the deposit of the loan into said account an equivalent amount in Angolan Kwanza is credited in the recipient's budget management system in a manner and at an exchange rate acceptable to IBRD. Within one week of receipt of the deposit, the recipient will report to the World Bank the amounts deposited in the foreign-currency account and credited to the Treasury management system for budgeted expenditures. Disbursement will not be linked to specific purchases. The government will ensure that the credit proceeds are used for budgeted expenditures, except for purposes or items on IBRD's "negative list" as agreed during negotiations and specified in the Financing Agreement. If the proceeds of the loan are used for ineligible purposes, as defined in the Agreement, IBRD will require the recipient to refund an amount equal to the amount of said payment to IBRD promptly upon notice from IBRD. Amounts refunded to the Bank upon request shall be cancelled.

106. **Auditing.** An audit of the dedicated account will be carried out by the existing external auditor of the BNA, in accordance with terms of reference to be agreed upon with the government with the aim of verifying that the flow of funds between the Central Bank and the Public Treasury

are appropriate and in line with the Financing Agreement provisions. Audit costs will be met by the government. The audit will be due within six months of the disbursement of the loan proceeds.

107. **IBRD documentation for the loan.** The terms and conditions of the IBRD Loan will be contained in the IBRD Loan Agreement to be entered into by the Borrower and IBRD. The IBRD General Conditions for Loans (dated July 31, 2010) shall constitute an integral part of the IBRD Loan Agreement. The said General Conditions include, among other provisions, a Negative Pledge provision (Section 6.02)[29] by which the Borrower will be required to abide when entering into the IBRD Loan Agreement.

5.4 MONITORING AND EVALUATION

108. **The Ministry of Finance will monitor and evaluate this operation.** To facilitate the coordination of the operation, the government will appoint, as soon as possible, a technical counterpart team, with a main DPF coordinator and a coordinator for each of the three reform pillars. The appointed team of coordinators will be in charge of the monitoring and evaluation of the operation, using the result framework found in Annex 1. All the data needed for the monitoring and evaluation will be regularly collected by the Ministry of Finance.

109. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

110. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at

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[29] Section 6.02. *Negative Pledge.*
(a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other External Debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any Lien is created on any Public Assets as security for any External Debt, which will or might result in a priority for the benefit of the creditor of such External Debt in the allocation, realization or distribution of foreign exchange, such Lien shall, unless the Bank shall otherwise agree, *ipso facto* and at no cost to the Bank, equally and ratably secure all Loan Payments, and the Member Country, in creating or permitting the creation of such Lien, shall make express provision to that effect; provided, however, that if for any constitutional or other legal reason such provision cannot be made with respect to any Lien created on assets of any of its political or administrative subdivisions, the Member Country shall promptly and at no cost to the Bank secure all Loan Payments by an equivalent Lien on other Public Assets satisfactory to the Bank.

(b) The Borrower which is not the Member Country undertakes that, except as the Bank shall otherwise agree: (i) if it creates any Lien on any of its assets as security for any debt, such Lien will equally and ratably secure the payment 18 of all Loan Payments and in the creation of any such Lien express provision will be made to that effect, at no cost to the Bank; and (ii) if any statutory Lien is created on any of its assets as security for any debt, it shall grant at no cost to the Bank, an equivalent Lien satisfactory to the Bank to secure the payment of all Loan Payments.

(c) The provisions of paragraphs (a) and (b) of this Section shall not apply to: (i) any Lien created on property, at the time of purchase of such property, solely as security for the payment of the purchase price of such property or as security for the payment of debt incurred for the purpose of financing the purchase of such property; or (ii) any Lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after the date on which it is originally incurred the Bank, equally and ratably secure all Loan Payments, and the Member Country, in creating or permitting the creation of such Lien, shall make express provision to that effect; provided, however, that if for any constitutional or other legal reason such provision cannot be made with respect to any Lien created on assets of any of its political or administrative subdivisions, the Member Country shall promptly and at no cost to the Bank secure all Loan Payments by an equivalent Lien on other Public Assets satisfactory to the Bank.

any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

111. The overall risk of this operation is high, mainly due to high fiduciary and macroeconomic risks.

Risk Categories	Rating (H, S, M or L)
1. Political and governance	S
2. Macroeconomic	H
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environment and social	M
8. Stakeholders	M
9. Other	
Overall	H

112. **Fiduciary and overall risk (High).** A thorough PFM assessment conducted on the Government of Angola's use of foreign exchange and budget resources highlighted weaknesses in both BNA's control environment and PFM and procurement arrangements. These weaknesses are being proactively addressed by the authorities through remedial actions that are monitored by the World Bank, the IMF and the African Development Bank. Although the ongoing reforms go in the right direction, the team's bottom-line assessment is that Angola's current PFM weaknesses, combined with this operation being the first World Bank budget support operation in Angola, require the triggering of fiduciary risk mitigation measures foreseen in OP 8.60. As such, IBRD will require the establishment of a dedicated account in the BNA for the deposit of the IBRD loan proceeds, and request an audit of the dedicated account to be carried out by the existing external auditor of the BNA, in accordance with terms of reference to be agreed upon with the government with the aim of verifying that the flow of funds between the Central Bank and the Public Treasury are appropriate and in line with the Financing Agreement provisions. Audit costs will be met by the government.

113. **Macroeconomic risk (High).** Macro-fiscal risk is also important and can lead to social tensions. On March 19, 2015, Parliament adopted a revised 2015 budget using an average oil price of US$40, which reduces revenues by US$16 billion compared with the initial budget. There is a risk that the government might not adjust to the new budget oil price and continue with expenditures closer to recent levels by accumulating arrears instead of implementing the cuts foreseen in the revised budget. There is a further small risk that actual oil prices might turn out lower than this budget price. Similarly, the fiscal space expected from fuel subsidy reform might not materialize if government fails to implement the reform fully. Tax reforms might also yield

lower non-oil revenues than expected. All such fiscal slippage would also have medium-term impact on Angola's public debt profile and servicing costs. The measures supported by the proposed program are in many cases designed to directly mitigate some of these macroeconomic risks. In particular, the tax measures supported by the program encourage diversification of revenue sources, mitigating macroeconomic risk, while the strengthening of information systems should increase the government's ability to respond as needed to exogenous macroeconomic shocks through appropriately designed fiscal adjustment.

114. **Political risk (Substantial).** While government's commitment to implement the reforms is strong, the tough fiscal adjustment expected in the revised 2015 budget might turn out politically difficult to implement. This could either derail the fiscal adjustment needed, or lead to policy reversal on the safeguarding of key social expenditures such as the cash transfer program (*Cartão Kikuia*). To be credible vis-à-vis its population eager to see the rolling out the *Cartão Kikuia* program, the GoA has publicly committed to preserve and fully execute the budget allocation to the program, and reflected this commitment in the revised 2015 budgeted.

115. **Implementation risk (Substantial).** Angola's public sector is relatively weak. Relatively low and stagnant public sector salaries have made it difficult to attract competent personnel, particularly compared with the petroleum sector. The reforms under this operation therefore hinge on the shoulders of small group of competent civil servants, who are also involved in many other reform initiatives. Public salary increases in the last few years aim to address this capacity constraint. Technical assistance is also planned by the GoA and the Bank to strengthen the government teams involved in the reforms under the DPF. For instance, the Social Protection Global Practice of the World Bank has mobilized funds to assist the GoA in the improvement of the targeting of the Cartão Kikuia program.

ANNEX 1: POLICY AND RESULTS MATRIX
Result Framework of the Angola Fiscal Management Programmatic Development Policy Financing

Prior Actions under DPF 1	**Triggers for DPF 2**	**Results Indicators** Baseline year: 2013 Target year: 2017
Pillar 1- Introducing fiscal rules for the utilization of the Oil Funds and Modernizing tax administration and tax policy to increase non-oil revenue collection		
	Trigger # 1: Adopt a Presidential Decree introducing fiscal rules governing the flow in and flow out of the Oil Price Differential Account	RI #1: Fiscal rules linking the Oil Price Differential Account to the budget cycle are in place by December 31, 2017
Prior action #1: Integrated its tax and customs administration including through the establishment, institutionalization and provision of a governance structure for the AGT as evidenced by the: (a) Presidential Decree No. 324/14 published in the *Diário da República* No. 220 dated December 15, 2014; and (ii) Ministry of Finance Order n. 5513/14 published in the *Diário da República* No. 149 dated December 24, 2014.	Trigger # 2: Implement institutional and operational measures to make the AGT fully functional by December 30, 2015: (1) AGT organizational structure completed and management of all departments fully staffed; (2) New strategic plan and implementation plan for AGT approved by both the AGT Board and Minister of Finance; (3) New dedicated Code of Ethics completed and applied to entire staff at AGT; and (4) New management unit reporting directly to the chair of the AGT Board established to coordinate implementation of strategic cultural and operational integration between tax and customs administrations as well as change management.	RI #2: Non-oil tax revenue as a share of non-oil GDP increases from 13.4% in 2013 to 15.6% by December 31, 2017
Prior action #2: Streamlined its tax policy to support the modernization of tax administration in order to ensure compliance by taxpayers, simplify procedures, expand the tax base, reduce distortions and enhance equity as evidenced by the: (a) Industrial Tax Code (Law No. 19/14, of 22 October) published in the *Diário da República* No. 192 dated October 22, 2014; (b) Personal Income Tax Code (Law No. 18/14) published in the *Diário da República* No. 192 dated October 22, 2014; (c) Tax on Invested Capital Code (Presidential Decree Law No. 2/14) published in the *Diário da República* No. 190 dated October 20, 2014; (iv) New General Tax Code (Law 21/14, of 22 October); (v) Tax Enforcement Code (Law 20/14) published in the *Diário da República* No. 192 dated October 22, 2014; and (vi) Procedures Code (Law No. 22/14) published in the *Diário da República* No. 217 dated December 5, 2014.	Trigger # 3: By December 30, 2015, continue major operational business process reengineering and staff training to support implementation of new tax laws: (1) complete the pilot phase of updating registration database for the group of corporate sector; (2) expand the taxpayer base through a mix of new operational initiatives, e.g., create mobile teams and task force to reach hard-to-tax groups of taxpayers and those located outside of Luanda; (3) develop new tax forms as commensurate to the revised tax laws; (4) introduce e-filing, make it compulsory to large taxpayers; (5) update and improve strategic plan and manual for tax audit; and (5) continue training on new tax codes.	

Prior Actions under DPF 1	Triggers for DPF 2	**Results Indicators** Baseline year: 2013 Target year: 2017
Pillar 2- Increasing value for money by enhancing the efficiency and efficacy of public investment management		
Prior action #3: Enacted a revised budget law that, among other things, adjusts the 2015 PIP downwards by 50 percent to reflect declining oil prices, as evidenced by the Revised 2015 Budget Law published in the *Diário da República* No. 49 dated April 9, 2015.	Trigger # 4: The GoA, has adopted: (i) a new Presidential decree that establishes the principles, objectives, processes and methodologies for the development and management of the Public Investment System, PIP and projects within it; and (ii) binding annual operational procedures for public investment management	RI #3: 100 % of new projects in the 2017 Public Investment Plan are subjected to the new Public Investment Management cycle, systems and regulations
Prior action #4: Strengthened the PIP by restructuring it, approving a manual for monitoring risky projects; and developing performance indicators to monitor and measure project performance as evidenced by the letter from the Minister of Planning and Territorial Development dated May 11, 2015 attaching the (a) report on the cleaning up of the 2014 PIP; (b) manual of preparation and execution of field visits for structural projects issued by the National Directorate of Public Investment on December 2014; and (c) table of performance indicators issued by the National Directorate of Public Investment on December 2014.	Trigger #5: The GoA implements a revised public investment process through the development and systematic use of manuals and templates for preparation of projects, application of prioritization criteria, better implementation and monitoring	
Prior action # 5: (a) Created a joint committee (the Joint Committee) comprised of representatives of MPDT and MoF chaired by the Minister of Finance with mandate to design and implement the necessary actions to attain full integration as evidenced by the Ministerial Decree signed by the Minister of Finance and the Minister of Planning and Territorial Development in May 2015. (b) Initiated the integration of the SIPIP and SIGFE through the following measures: (i) creation of an electronic process for internal budget readjustments of the PIP, including budget units, MPDT and MoF; (ii) merging of MPDT and SIGFE mailing lists for automated alerts for the purpose of: (A) withholding or releasing (as the case may require) budget funds for new projects; (B) activation of additional budget credits; and (C) activation of budget ceilings; and (iii) allowing MPDT to access SIGFE for purposes of extracting PIP budget execution reports at project level; and (D) allowing MOF to access SIPIP for purposes of preparing the annual PIP budget proposal as evidenced by the Minutes of the Joint Committee meeting dated May 11, 2015.	Trigger # 6: Regulation for linking information systems and databases related to planning, budgeting, PIM, treasury, contracts in relevant Ministries and institutions enacted promoting effective, open collaboration and limiting duplication.	

Prior Actions under DPF 1	**Triggers for DPF 2**	**Results Indicators** Baseline year: 2013 Target year: 2017
Pillar 3- Moving from untargeted fuel price subsidies to targeted cash-transfers and evidence based policy-making		
Prior action #6: Increased retail fuel prices in order to start the phasing out of inefficient and untargeted fuel subsidies which jointly resulted in the following increases in fuel prices: (a) gasoline and diesel: 50%; (b) liquefied petroleum gas: 21.6%; (c) kerosene: 34.6%; (d) heavy and light fuel oil: 100%; and (e) asphalt: 18.8% as evidenced by Executive Decree No. 289/14 published in the *Diário da República* No. 179 dated September 26, 2014 Executive Decree No. 405/14 published in the *Diário da República* No. 405/14 dated December 24, 2014.	Trigger #7: Further implementation of the subsidy reform: • Presidential decree establishing a relation between fuel (gasoline and diesel) price increases and public transport fares increases • Introduction of an automatic upward fuel price adjustment (gasoline and diesel)	RI #4: Fuel price subsidies fall from 5.2% of GDP in 2013 to 2.3% by December 31, 2017
Prior action #7: Expanded social protection by completing the registration of 50,000 families in the Borrower's pilot *Cartão Kikuia* cash transfer program, as evidenced by the letter from the Minister of Commerce dated April 2, 2015, describing the process used to target municipalities and register beneficiaries.	Trigger #8: Register 90,000 more families, for a total of 140,000 beneficiaries by the end of 2015. Trigger #9: Develop and implement a *Cadastro Único* of all social programs	RI #5: The percentage of households protected from negative income shocks via direct cash transfers grows from less than 3 % of the population in 2013 to 7% by December 31, 2017
Prior action #8: Strengthened evidence-based policy making by approving the National Strategy of Statistical Development for 2015-2025 (ENDE 2015-2025), as evidenced by the publication of the said Strategy in the *Diário da República* No. 64 dated May 7, 2015.	Trigger #10: IDRE-2015 is carried out and the anonymized data is made available to the public for analysis. Trigger #11: Prepare a poverty map combining the data from the 2014 National Census and the 2008-09 IBEP survey, and use the poverty map to assess the targeting of the *Cartão Kikuia* resources, as well as the allocation of the main other poverty reduction programs.	RI #6: By December 31, 2017, empirical results from the analysis of the *Inquérito de Despesas e Receitas e Emprego da População*-2015 (IDRE-2015) household survey appear in one or more government official documents proposing policy actions
Prior action #9: Initiated monitoring of its social programs by concluding the preparatory work to launch the 2015 Survey Expenditure, Revenue and Employment of the Population (IDRE-2015), including the: (a) design of a national sample frame based on the 2014 census ensuring national and provincial representativeness; (b) design and programming of the electronic questionnaire for the IDRE-2015 survey; and (c) finalization of the IDRE-2015 sample, as evidenced by the letter from the General Director of INE dated May 7, 2015 attaching the preparatory work for the IDRE-2015.		

ANNEX 2: RATIONALE FOR A POLICY-BASED GUARANTEE

1. **The PBG will enable the government to secure needed financing at a reasonable cost, while minimizing transaction risk in a climate of volatility.** It is expected that the proposed PBG would allow Angola to borrow at improved terms, including longer tenor (7-10 years) and reduced rates. The borrowing rates achieved by the PBG would be significantly below the rates available to Angola for an external bond or market loan in today's uncertain market environment, in the absence of an IBRD guarantee. The perceived transaction risk would be reduced through the direct engagement of the World Bank team with financial partners, supporting a process that ensures the best possible financial terms. In recent operations, lenders have placed strong value in the Bank's role to mitigate risk, not only for guaranteed components but also for uncovered amounts of the same transaction where we are participating. The debt management office in the Ministry of Finance has indicated that it is not interested in arranging the partially-guaranteed financing through the bond market, where terms would be difficult to lock in at an earlier stage and which would be vulnerable to market volatility at the time of closing. In addition, the authorities have expressed a desire to avoid secondary trading activity of this particular funding operation. The PBG is also expected to lead to financing diversification for Angola, by initiating interest among large foreign banks and financial institutions that may currently have little knowledge or exposure to the country.

2. **Reducing transaction risk and further diversifying the investor base is particularly important given the uncertainty of the external environment, especially the oil market.** Funding costs in external markets have reached a record low in the last year, but spreads for countries negatively affected by the decrease in oil prices have increased appreciably in recent weeks. The PBG would enable the government to meet its funding needs and maximize its envelope usage at a time when needs are greater and the outlook is challenging.

3 **The PBG would help leverage the Bank's capital.** The proposed PBG would leverage the World Bank's capital by helping Angola to increase the total volume of funding raised. In order to maximize debt capacity, the PBG (for a maximum amount of USD200 million) would guarantee a partial amount of debt service on a loan in an amount of at least US$300 million, and potentially up to $1,000 million representing significant risk sharing with the private sector

4. **The recent experiences of middle-income borrowers who have used PBGs to support market access have been favorable**. In FY2012, FYR Macedonia undertook a PBG-supported EUR 130 million commercial loan, which extended the maturity of government debt by 50 percent and produced a savings of at least 300 basis points (bps) per annum. More recently, the same government availed itself of another PBG in 2013 to raise EUR 250 million, achieving longer maturities and similar levels of savings, through an even more leveraged structure. The experience of neighboring Montenegro and the earlier experience of Serbia is also encouraging.[30] None of these countries had real market access and both utilized PBGs to raise funding under attractive terms, significantly better than those expected on a standalone basis at that time. Moreover, the latter PBG-backed transactions paved the way for subsequent standalone funding transactions by all three borrowers. Montenegro and FYR Macedonia have each issued an unenhanced Eurobond under favorable terms since using the PBG, and Serbia has raised over US$5 billion in the bond market, on a standalone basis. Angola also hopes to access the bond market on its own terms, in a separate transaction in the near future.

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[30] In July 2012, Montenegro borrowed with the support of a PBG, EUR100 million during a period of heightened volatility and greatly impaired market access at an otherwise unavailable maturity and with an estimated savings of up to 400bp p.a. Serbia raised EUR292 million and achieved a doubling of its tenor and an improvement in borrowing costs of at least 400bp through a PBG-supported transaction that closed in February 2011.

ANNEX 3: OUTLINE OF INDICATIVE TERMS AND CONDITIONS OF POTENTIAL WORLD BANK GUARANTEE OF LOAN TO THE REPUBLIC OF ANGOLA

This term sheet contains a summary of indicative terms and conditions of a potential IBRD Policy-Based Guarantee (the IBRD Guarantee) for a private-sector loan to the Republic of Angola.

This term sheet does not constitute an offer from IBRD to provide an IBRD Guarantee. The provision of the Guarantee is subject, inter alia*, to satisfactory appraisal by IBRD of the related Program, review and acceptance of the underlying financing structure and transaction documentation, and the approval of Management and the Board of Directors of IBRD in their sole discretion.*

IBRD Guarantee and Guaranteed Loan:

Guarantor:	International Bank for Reconstruction and Development (IBRD).
Borrower:	Republic of Angola.
Guarantee Beneficiaries:	Commercial bank lender(s) to be identified (the Lender).
Purpose:	The proposed Policy Based Guarantee forms part of a programmatic Development Policy Financing, which focuses on three pillars designed to strengthen fiscal management over the medium term in the midst of the recent sharp decline in oil price. These include (1) Oil and non-oil revenue mobilization; (2) Strengthening of the public investment management system; and (3) Fuel subsidies reform and social mitigation measures.
Guarantee Term:	[5-10][31] years.
Guaranteed Event:	Failure by the Borrower to repay the [principal amount] or [principal and interest amounts] of the IBRD Guaranteed Loan at [stated maturity[32]].
Guarantee Support:	The IBRD Guarantee would cover any outstanding scheduled payment of [principal] or [principal and interest] (up to US$ equivalent 200,000,000), which the Lender would have otherwise received from the Borrower under the IBRD Guaranteed Loan Agreement, but for the occurrence of a Guaranteed Event, during the period of [ ] through [ ] (**IBRD Callable Period**). [For the avoidance of doubt, the Lender shall not make any demand under the IBRD Guarantee until after the commencement of the IBRD Callable Period and then only in respect of scheduled amounts that fell due and payable during (and not prior to) the IBRD Callable Period].

[31] To be ultimately determined based on underlying loan maturity.
[32] Structure to be determined following market soundings.

IBRD Guaranteed Loan Principal Amount:	Principal amount of US$ equivalent [300,000,000-1,000,000,000].[33]
IBRD Guaranteed Loan Interest Rate:	A fixed interest rate equivalent to [5][10][34] year EUR swap rate plus a margin of [ ]bp[35].
Maturity:	[5] [10][36] years.
Currency:	US$.
Governing Law:	New York Law or English Law
Negative Pledge:	The terms of the IBRD Guaranteed Loan and the IBRD Guarantee will restrict the ability of the Borrower and IBRD, as the case may be, to create certain liens on their property or assets without equally and ratably securing the IBRD Guaranteed Loan or the IBRD Guarantee, respectively.
Status of the IBRD Guarantee:	The obligations of IBRD under the IBRD Guarantee will constitute direct, unsecured obligations of IBRD ranking *pari passu*, without any preference among themselves, with all its other obligations that are unsecured and unsubordinated.
Status of the IBRD Guaranteed Loan:	The IBRD Guaranteed Loan will constitute direct, general, unconditional, unsecured and unsubordinated external indebtedness of the Borrower ranking *pari passu* with all other unsecured and unsubordinated external indebtedness of the Borrower.

IBRD Guarantee Provisions:

IBRD Policy-Based Guarantee:	IBRD will guarantee to the Lender the payment by the Borrower of up to US$ equivalent 200,000,000 of [the principal] or [the principal and interest] of the IBRD Guaranteed Loan at scheduled maturity and will agree to pay on demand from the Lender as provided in the IBRD Guaranteed Loan Agreement, the amount of such [principal] or [principal and interest] which is due and payable by the Borrower, provided that the maximum aggregate amount of [principal] or [principal and interest] for which IBRD shall have liability shall not in any circumstances exceed the amount of the IBRD Guarantee as described above (*see Guarantee Support*).
Demand Notice for Payment under the IBRD Guarantee:	The Lender will notify IBRD no later than thirty (30) business days after the scheduled maturity date of any amount of [principal] or [principal and interest] that has fallen due and

[33] To be confirmed.

[34] 10 year or weighted average of 5 year and 10 year EUR swap rates

[35] To be confirmed.

[36] To be confirmed.

	payable and remains unpaid after the scheduled maturity date. Such notice shall also constitute a demand on IBRD for payment. IBRD shall have 30 days from and inclusive of its receipt of such demand notice to make payment in respect thereof. The obligations of IBRD under the IBRD Guarantee constitute a guarantee of payment and not of collection. Any demand notice must be received by IBRD within thirty (30) business days of the date any amount of [principal] or [principal and interest] referenced in such demand notice becomes due and payable under the IBRD Guaranteed Loan Agreement.
Reduction of Demand:	If after the Lender has made a demand on IBRD for payment under the IBRD Guarantee but before IBRD has made payment of the amount so demanded, the Borrower pays the Lender (or the Lender recovers otherwise than from IBRD) any sum which is applied to the satisfaction of the whole or any part of the such [principal[or [principal and interest] amount, the Lender shall promptly notify IBRD of such fact and IBRD's liability under the IBRD Guarantee in respect of such demand shall be reduced by an amount equal to the portion of [principal] or [principal and interest] so paid by the Borrower (or so recovered by the Lender) and so applied.
No Discharge:	Neither the obligations of IBRD under the IBRD Guarantee nor the rights, powers and remedies conferred upon the Lender with respect to IBRD by the IBRD Guarantee or by applicable law or regulation shall be discharged, impaired or otherwise affected by: (i) any insolvency, moratorium or reorganization of debts of or relating to the Borrower; (ii) any of the obligations of the Borrower under the IBRD Guaranteed Loan Agreement being or becoming illegal, invalid, unenforceable, void, voidable or ineffective in any respect; (iii) any time or other indulgence being granted to the Borrower in respect of its obligations under the IBRD Guaranteed Loan Agreement or (iv) any other act, event or omission (other than the failure of the Lender to make a demand under the IBRD Guarantee) which might otherwise operate to discharge, impair or otherwise affect any of the obligations of IBRD under the IBRD Guarantee or any of the rights, powers or remedies conferred on the Lender by the IBRD Guaranteed Loan Agreement or be applicable law or regulation.
No Amendment without IBRD Consent:	The IBRD Guarantee shall terminate and any written demand from the Lender pursuant to the IBRD Guarantee shall be void if any amendment is made to the IBRD Guaranteed Loan

	Agreement, or any waiver or consent is given in writing with respect thereto, without IBRD's prior written consent.
IBRD Obligations Binding:	IBRD's obligations under the IBRD Guarantee shall be binding upon IBRD and inure to the benefit of the Lender and shall be enforceable only by the Lender, provided that the obligations of IBRD under the IBRD Guarantee shall not be treated as a separate obligation of IBRD independent from the [principal] or [principal and interest] amount guaranteed, and the benefit of such obligations may only be transferred by a Lender in accordance with the provisions below, as more fully described in the IBRD Guaranteed Loan Agreement.
Assignment:	Except as IBRD may otherwise agree, any assignment of the IBRD Guaranteed Loan may be made only to an assignee established as a bank or financial institution duly licensed to carry out banking or financial business in its country of domicile. Such assignee may be a partly or wholly government-owned institution, but cannot be an export credit agency, multilateral institution or state entity. Such assignee must not have been declared ineligible to be awarded an IBRD- or IDA-financed contract in accordance with World Bank Sanctions Procedures and must not be an entity included on the consolidated list of individuals and entities maintained by the United Nations Security Council Committee established pursuant to United Nations Security Council Resolution 1267. The assigning Lender shall provide advance notice of potential assignments to IBRD as provided in the IBRD Guaranteed Loan Agreement.
Subrogation:	Upon payment by IBRD of amounts under the IBRD Guarantee, IBRD shall, to the extent it has not been reimbursed by the Borrower under the Indemnity Agreement (as discussed below), be immediately entitled to recover from the Borrower the amount so paid by IBRD in respect of [principal] [principal and interest] and for this purpose IBRD shall be immediately subrogated to the rights of the Lender to the extent of the amount in respect of [principal][principal and interest] so received by such Lender, regardless of whether such Lender has been fully prepaid or repaid by the Borrower, and the Lender shall forthwith assign or transfer to IBRD, without representation, warranty or recourse, all of such Lender's claims, interests, rights and security which it then has against Republic of Angola under the IBRD Guaranteed Loan Agreement in respect of [principal][principal and interest] so received.

Withholding of Payment:	If at any time between the effective date of the IBRD Guaranteed Loan Agreement and the maturity date of the IBRD Guaranteed Loan (i) there is substantial evidence that the Lender has, in connection with the IBRD Guaranteed Loan, engaged in fraudulent, corrupt, coercive or collusive practices or (ii) the Lender has been declared ineligible to be awarded a contract financed by the International Bank for Reconstruction and Development or the International Development Association in accordance with the World Bank Sanctions Procedures, then IBRD shall be entitled to withhold payment of all amounts otherwise payable under the IBRD Guarantee by IBRD on account of such Lender.
Role of IBRD:	The Lender will acknowledge and agree that IBRD will be acting under the IBRD Guaranteed Loan Agreement solely in its capacity as guarantor of the [principal][principal and interest] of the IBRD Guaranteed Loan as provided therein and in no other capacity. IBRD shall incur no liability under the IBRD Guaranteed Loan Agreement nor have any other duties or responsibilities, except to the extent expressly specified in the IBRD Guaranteed Loan Agreement or in any document delivered by IBRD under or pursuant to that agreement.
Cross-Default Restriction:	IBRD may require a cross-default-related provision in the IBRD Guaranteed Loan Agreement, including a restriction on the ability of the Lender to accelerate the IBRD Guaranteed Loan upon a default by the Borrower under any World Bank loans such that the IBRD Guaranteed Loan may only be accelerated in the event of a material default on World Bank loans.

IBRD Guarantee-Related Fees:

IBRD Guarantee Fees:	IBRD charges a guarantee fee of 0.5% per annum [for up to 8 year avg life][37] on the present value of IBRD's exposure under the IBRD Guarantee, payable up front in advance by the Borrower. If Guarantee Fee not paid upfront in advance, IBRD may terminate the IBRD Guarantee if the IBRD Guarantee Fee is not paid by either of the Borrower or the Lender on or before the fourteenth (14th) business day following the date of a notice provided by IBRD to the Lender.
IBRD Front-end Fees:	IBRD charges a one-time front-end fee of 0.25% of its maximum exposure (in this case, an amount of up to US$ eq 200,000,000) for Policy-Based Guarantees. This fee is payable by the Borrower.
Stand-by Fees:	TBD.

Conditions Precedent to the IBRD Guarantee:

Conditions Precedent:	Usual and customary conditions for financing of this type, including: a) Satisfaction of relevant programmatic conditions, in form and substance acceptable to the IBRD; b) Delivery of relevant legal opinions, in form and substance acceptable to the IBRD; c) Payment in full of the Front-end Fee and the Guarantee Fee; and d) Execution and delivery of (i) an IBRD Guaranteed Loan Agreement among the Lender, the Borrower and IBRD and (ii) an Indemnity Agreement between IBRD and the Borrower.

[37] For a guarantee with an average life of 8-10 years, a maturity premium of 10bp would be applied, rendering a guarantee fee of 0.60% applied to the NPV of IBRD's exposure

IBRD Documentation:

IBRD Guaranteed Loan Agreement:	The terms and conditions of the IBRD Guarantee would be contained in the IBRD Guaranteed Loan Agreement among IBRD, the Borrower and the Lender. IBRD will represent and warrant to the Lender that (in addition to standard representations about due authorization, capacity and enforceability) its obligations pursuant to the IBRD Guaranteed Loan Agreement rank *pari passu* with all other unsecured and unsubordinated obligations of IBRD. The Lender will represent and warrant that it has not engaged in and are not engaging in fraudulent, corrupt, coercive or collusive practices, and will covenant, *inter alia*, to apply all amounts received by them under the IBRD Guaranteed Loan Agreement towards payment of the [principal][principal and interest] amounts covered by the IBRD Guarantee which were the subject of the demand notice.
Indemnity Agreement:	The Borrower would enter into a separate Indemnity Agreement with IBRD. Under the Indemnity Agreement, the Borrower would undertake to indemnify IBRD on demand, or as IBRD may otherwise determine, for any payment made by IBRD under the terms of the Guarantee. The Indemnity Agreement will follow the legal regime, and include dispute settlement provisions, which are customary in agreements between member countries and IBRD. Any obligation by the Borrower to reimburse IBRD for payments made under the IBRD Guarantee will rank *pari passu* with all other external indebtedness of the Borrower, including external indebtedness of the Borrower to IBRD. The Indemnity Agreement will also contain provisions on the deposit and use of proceeds of the IBRD Guaranteed Loan. The Borrower shall agree to deposit the proceeds of the IBRD Guaranteed Loan in an account acceptable to IBRD, with appropriate tracking of amounts deposited therein in the Borrower's budget management system. The Borrower will make withdrawals from such account for use in support of its development policy program, and will agree not to use such withdrawals to finance any excluded expenditures, which shall include, *inter alia*, goods included in groups or subgroups of the United Nations Standard International Trade Classification, Revision 3, military goods, environmentally hazardous goods, certain payments prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, or

	expenditures with respect to which IBRD determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower. If any such withdrawals are used for excluded expenditures, the Borrower shall deposit an equivalent amount in the account or prepay the Lender an equivalent amount. In the event that the Borrower fails to make any payment to or to indemnify IBRD under the Indemnity Agreement or otherwise defaults on its obligations under the Indemnity Agreement, IBRD shall be entitled, in addition to any other rights and remedies it may have, to suspend or cancel in whole or in part the Borrower's right to make withdrawals under any loan or guarantee between IBRD and the Borrower or under any development credit agreement or financing agreement between IBRD and the Borrower, or to declare the outstanding principal and interest of any such credit or loan due and payable immediately.

ANNEX 4: LETTER OF DEVELOPMENT POLICY

REPÚBLICA DE ANGOLA
MINISTÉRIO DAS FINANÇAS
GABINETE DO MINISTRO

Dr. Jim Kim
President
World Bank Group
1818 H Street, NW
Washington DC 20433
USA

1121 **/73/01/GMF/2015**

Tuesday, 12th of May 2015

RE: Republic of Angola Letter of Development Policy

Dear President Kim,

1. The sharp decline in crude oil prices since Jul 2014 has brought uncertainties about the global economic outlook, as evidenced by the downward adjustment to global economic growth forecasts from 3.4 percent in the June 2014 Global Economic Prospects (GEP) to 3 percent in the January 2015 GEP, confirming a global economy still struggling to gain momentum since the financial crisis of 2008. This global context is doubling affecting Angola negatively, as a still oil-dependent economy with nearly 98 percent of its export proceeds and 78 percent of its revenues derived from the oil sector, and as a more and more integrated economy in the global market. In such uncertain external context, the Government of the Republic of Angola (hereinafter, the Government) has taken immediate measures to shore up the economy and protect the poor and vulnerable as revenues projected for 2015 are cut by 35.7 percent, while at the same accelerating medium term reforms to strengthen fiscal management to create the fiscal space to scale up growth-sustaining expenditure to support the diversification of the Angolan economy. This Letter of Development Policy presents the country's recent macroeconomic and fiscal performance and measures that have been taken

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to mitigate the expected sharp fall in revenues, the Government medium and long-term development agenda and how the reform program under the Development Policy Financing (DPF) with the World Bank fits in this agenda, and the monitoring and evaluation system put in place to ensure a smooth implementation of the DPF.

Recent Macroeconomic and Fiscal Performance

2. In the second half of 2014, the World economy was shaken by a sharp fall in oil price by 50 percent and therefore Angolan economy was naturally affected and led to a new reality with oil price expected to remain below $60 over 2015 and possibly beyond. Real GDP is estimated to have increased by 4.7 percent in 2014 (preliminary figures), down 2.4 percentage points compared to 2013, and 3.3 percentage points compared to the goals of the National Development Plan (NDP) 2013-2017 of 8 percent. The oil sector contracted by 12 percent due to various technical problems, unscheduled maintenance in some fields and essencially due the inexpected oi price drop, while the non-oil sector contracted by 1 percent (preliminary figures). The negative impact on the current account of the decline in oil resulted in a loss of gross reserves of US$ 3 billion. Should oil price remain at such level over the year, the loss in net international reserves could amount to US$8 billion, which would correspond to a 28 percent contraction of reserves level reached by the end of 2014 (US$26.9 billion).

3. In 2014 inflation continued its downward trend to stand at 7.5 percent, 0.2 percent lower than in 2013. However, as depreciation pressure on the kwanza might reverse the downward trend of inflation due to imported inflation. Indeed, the official exchange rate average slightly depreciated over 2014, by 5.29 percent, from KZ/US$ 97.619 in 2013 to KZ/US$ 103.069 in 2014. It reached KZ/US$ 106.3 in February 2015. At the same time, changes in the monetary base and the money supply were aligned with the objective to contain inflation below double digit, with the monetary aggregates M3, M2 and M1 growing respectively at 13.9 percent, 13.9 percent and 16.5 percent between 2013 and 2014.

4. On the fiscal side, revenues were estimated in 2014 to have reached KZ 4,098 million (about US$41.7 billion), 12.3 percent lower than in 2013, due to the drop in production and oil prices. Oil revenues increased by 22.2 percent to KZ 2,969.8million (about US$30 billion), while non-oil revenues increased by 13.83 percent to KZ 1,128,230 million (about 11 billion) as a result of ongoing tax administration and tax policy reforms. On the other hand, total expenditures declined by 7.5 percent to reach KZ 5,209,300 million (about US$47

billion), putting the fiscal deficit on commitment base at KZ 806.6 million (about US$1.04 billion) in 2014, representing 7 percent of GDP in 2014.

5. For 2015, real GDP growth was revised downwards from 9.7 percent in the initial 2015 Budget to 6.6 percent, but the economy is still expected to accelerate compared to the growth rate of 4.7 percent recorded in 2014 as daily oil production reaches 1.83 million barrels per day. Indeed, as originally planned, the real economic growth should be led by the oil sector, whose most recent forecasts point to an expansion of 9.8 percent instead of 10.7 percent initially projected. Updated forecasts for growth in the non-oil sector were however significantly revised downward to 5.3 percent, from 8.2 percent registered in 2014.

The Government Medium-Term Development Agenda

6. The higher development objectives set in the NDP 2013-2017 are:

a) The preservation of national unity and cohesion.

b) The pursuite of basic initiaves necessary for the development.

c) The improvement in quality of life.

d) The insertion of youth in the labor force.

e) The development of the private sector.

f) The competitive insertion of Angola in the international context.

7. The decline in oil imposes many challenges in the short and medium term to achieve the main macroeconomic objectives set out in the NDP 2013-2017, which are summarized in the Table below.

Table 1: Priorities for Fiscal Policy in the NDP 2013-2017

Sustainability of Public Accounts	Tax Policy Instruments
Ensure that economic growth is realistically consistent with the long-term sustainability of public finances.	On Revenue side: Mobilization of non-oil tax revenues and establishment of a fiscal stabilization fund
Ensure, through the Medium Term Fiscal Framework, fiscal discipline and the sustainability of public finances in the medium term while securing public spending to protect the poor and vulnerable.	On Expenditures side: • Continue to improve the quality of public expenditure through an effective inter-sectoral allocation process • Continue the rationalization efforts of public spending within each sector, with a special focus on the use of subsidies in the economy and other financial support provided by the state to public enterprises

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8. These medium-term strategic areas are underpinning the reform program supported by the World Bank Development Policy Financing operation, through (i) the introduction of fiscal rules for the utilization of the Oil Price Differential Account and the modernization of the tax administration and tax policy; (ii) the enhancement of the efficiency and effectiveness of public investment management; and (iii) the move from untargeted subsidies to targeted cash-transfers and evidence-based policy making.

Introducing Fiscal Rules for the Utilization of the Oil Price Differential Account and Modernizing Tax Administration and Tax Policy

9. Given the volatility of oil revenues that currently 80 percent of total Governmnet revenues, a series of fiscal rules reflecting best practice in public financial management is needed for fiscal stabilization purposes. The economic commission from the Council of Ministers just approved on 27th of March the Presidential Decree whose publication will be done soon, establishing the rules of handling and use of the proceeds of the Oil Price Differential Account, underlined by the principles of transparency, good governance and accountability applicable to public finance management. The Oil Price Differential revenue is determined by the difference between the oil return taking into account the market price, and oil revenues projected in the Budget, taking into account the budgetary oil price reference and holding constant the amount of oil production. There can therefore be flow-in and flow –out of the Account depending of the actual level of production and market oil price, with the resources accumulated in the Accounted to be used for stabilization purposes. As part of the the second DPF reforms, the government will work with the World Bank team to thoroughly review the Presdiential Decree, revisit the underlining technical and institutional consideration as needed, and revise accordingly the Presdiential Decree. This constitutes the first trigger of next operation. As of now, the new Presidential Decree sets the following conditions of using the Account:

- When financing would raise the debt stock over beyond 60 of GDP;
- When the contraction of financing leads to an excessive debt service or an increased country risk in terms of cost of financing;
- The use of these resources should not, over a 5 years period, lead to an increase of more than 10 percent of recurrent public expenditure, except in circumstances of a State of emergency;

- Give priority to capital expenditures in the utilization of the Account, except when the tax revenue covers less than half of structural current expenditure (such as salaries and minimum operating expenditure) and non-negotiable debt service.

10. The Stabilization Fund needs to be complemented with increased non-oil tax revenues. The Ongoing Tax Administration and Tax Policy reforms are done in this spirit. These measures include:

- The integration of Tax and Custom Administrations through the creation of the AGT, whose Board of Directors has already appointed and working to fully operationalize the new structure;
- A number of tax codes were modernized, namely the Industrial Tax Code (approved by Law no. 19/14, of 22 October 2014); the Personal Income Tax Code (approved by Law no. 18/14, of 22 October 2014); the Tax on Invested Capital Code (approved by Presidential Decree Law no. 2/14, of 20 October 2014); the Stamp Duty Code (approved by Presidential Decree Law no. 3/14, of 21 October 2014). Together with the introduction of other significant changes in the various Angolan taxes, these laws revoke all legislation previously in force that contradicts the new tax codes.

11. These reforms effort will continue with introduction in the coming years of a full-fledged Value Added Tax. Some preparatory are currently under way to identify the modalities to effectively introducing this tax. For the next DPF operation, the reforms will focus on the implementation of institutional and operational measures to make the AGT fully functional by December 30, 2015: (1) AGT organizational structure completed and management of all departments fully staffed; (2) New Strategic Plan and Implementation Plan for AGT approved by both the AGT Board and Minister of Finance; (3) New dedicated Code of Ethics completed and applied to entire staff at AGT; and (4) New Management Unit reporting directly to the Chair of the AGT Board established to coordinate implementation of strategic cultural and operational integration between tax and customs administrations as well as change management. By December 30, 2015, we will also continue major operational business process reengineering and staff training to support implementation of new tax laws: (1) Complete the pilot phase of updating registration database for the group of corporate sector; (2) Expand the taxpayer base through a mix of new operational initiatives, e.g., create mobile teams and task force to reach hard-to-tax groups of taxpayers and those located outside of Luanda; (3) Develop new tax forms as commensurate to the revised tax laws; (4)

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Introduce e-filing, make it compulsory to large taxpayers; (5) Update and improve Strategic Plan and Manual for tax audit; and (5) Continue training on new tax codes.

Enhancing the Efficiency and Effectiveness of Public Investment

12. The objective of the Governmnet of Angola is to build an integral Public Investment Management (PIM) system that improves coordination in the National Directorate of Public Investments (NDPI) and ensures that projects financed with public funds are linked to strategic priorities appropriately formulated, appraised and selected, efficiently implemented and monitored comprehensively. Stronger PIM will help with improving value for money by enhancing the efficiency and effectiveness of public investment. To achieve that objective, the Government is focusing on the following activities (i) updating the legal and regulatory framework, (ii) improving the Public Iinvestment Plans (PIP) and the IT system helping to handle it (SIPIP), (iii) better coordination and linkage of the SIPIP to other relevant software systems in other public administrations such as the Financial Management System of the Ministry of Finance (SIGFE) and the IT system of the Procurement Authority (IGTC), and (iv) promoting skilled human capital for PIM.

13. To improve the Medium Term Fiscal Framework under which investment projects are articulated, the Government is also reinforcing the macroeconomic projection tool that is use to project the country's macroeconomic framework, using the richet set of national account statistics recently released by the National Institute of Statistics (INE), with the support of the World Bank technical assistance. The Government ambitions to develop a statistical system with more frequent household surveys that will allow to better identify needs, set objectives, and monitor progress of implemented policies. The National Strategy for Statistical Development (ENDE-2015-2025) was approved during the month of February 2015 by the Council of Ministers. The set of surveys that are planned to take place in the next decade, and their respective budget allocations, will be carried out according to the published version of the ENDE-2015-2025. A main component of the national statistical system is the survey "Inquerito de Despesas e Receitas e Emprego da Populacao-2015" (IDRE-2015) (Population, Budget, Income, and Employment Survey -2015) that is planned to be fielded in 2015. Once the IDRE-2015 is completed, its data and the data from the 2014 national census will be used to prepare poverty maps which can assist the Government in better targeting its anti-poverty and social programs.

Moving from Untargeted Fuel Price Subsidies to Targeted Cash-Transfers

14. Besides being fiscally costly, fuel subsidies are inefficient and inequitable. They crowd out growth-enhancing spending, create incentives to smuggling, effectively financing low-cost fuel consumption in neighboring countries. In addition, they provide rent seeking opportunities and raise governance challenges. During the last quarter of 2014, the Government raised fuel prices for the first time in four years. The prices for gasoline and diesel increased by 25 percent, while liquified petroleum gas (LPG) increased by 21.6 percent, kerosene by 34.6 percent, heavy fuels by 100 percent, and asphalt by 18.8 percent. In December 2014, the Government raised the prices of gasoline and diesel further by 20 percent. In addition, the prices of light and heavy fuel oils, as well as the price of asphalt, were liberalized and are now to be determined by the market.

15. The Cartao Kikuia is pilot cash transfer program that is part of the Poverty Reduction Program "Combate da Pobreza". The program has already enrolled 50,000 familie, 99 percent of which are headed by females. Our Government is planning to gradually reduce these fuel subsidies, and create by the same occasion some fiscal space to scale up better targeted social expenditure through cash transfer programs. The program plan is to enroll 90,000 more families in 2015. The Cartao Kikuia program is an unconditional cash transfer program that transfers 10,000 Kwz (approximately US$100) per household per month. Beneficiary households must meet at least one requirement of a list of criteria that includes:

- Household is female headed
- Household has at least one member with a disability
- Household has at least one member who is a former combatant or a war veteran
- Household has at least one member who is a senior citizen or has a chronic disease
- Household has at least one malnourished child
- Household has a high dependency ratio
- Household has at least one orphan child.

16. While Cartão Kikuia transfers are likely better targeted to the poor than untargeted fuel price subsidies, there is likely considerable room for improving its targeting system. Currently, we establish quotas for the number of beneficiaries for each province in the country. These provincial quotas were computed via the estimation of the proportion of households meeting the criteria above with the 2008/09 IBEP household surveys. These

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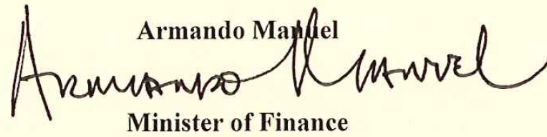
proportions were then applied to the total provincial population count of the 2014 national census. The provincial governors (who are not elected but are appointed by the president) then decide how to distribute their provincial quotas of Kikuia beneficiaries across their municipalities. Municipal administrators are then responsible to distribute their municipal quotas among their several comunas, and comuna administrators are then put in charge of distributing their comuna quotas among resident households. Nevertheless, while setting the quotas well can contribute to good targeting, they do not tell the whole story since quotas account for only a portion of the gain focus of the selection system currently used. In other words, much of the focus gain is due or the merits of the local system of selection of families to be registered, or use the registration information for the selection of families to be benefited. Therefore, we hoping to get the support of the World Bank though TA on these other factors that contribute to good targeting systems. As part of the reform program of next DPF operation, we will prepare with the assistance of the Bank team a poverty map combining the data from the 2014 National Census and the 2008-09 IBEP survey, and use the poverty map to assess the targeting of the Cartão Kikuia resources, as well as the allocation of the main other poverty reduction programs.The Ministry of Finance is also planning to centralize all social programs in a single register to facilitate monitoring and evaluation. Currently, various social programs are scattered across various ministries (e.g. Ministry of Social Affairs, Ministry of Commerce and Ministry of Veteran Affairs among others). The World Bank DPF will provide the TA needed to develop and implement a Cadastro Unico of all social programs.

Project Monitoring and Evaluation

17. The Ministry of Finance is the main counterpart for implementation of the DPF series. To facilitate coordination of reforms the Government has established the following Technical Team to work closely with the World Bank Team on both the loan and the Guanrantee component:

- João Boa Francisco Quipipa
- Angélica Eugénia Calembe Paquete
- Bantu Anfaná Teixeira dos Santos
- Manuel António Freire

18. The Ministry of Finance will also regularly collect key monitoring and evaluation indicators needed to assess progress toward the expected results of reforms planned under DPF series.



Armando Manuel

Minister of Finance

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ANNEX 5: FUND RELATIONS

Assessment Letter for the World Bank

March 20, 2015

Recent economic developments and outlook

1. **The oil price shock is having a significant impact on the Angolan economy**. In line with the World Economic Outlook (WEO) assumptions of January 20, 2015, the price of the Angolan oil basket is expected to average US$51 per bbl in 2015, leading to a decline, relative to 2014, of 11¼ percent of GDP in fiscal revenue, and US$23 billion (22 percent of GDP) in exports. Growth in 2014 is estimated at 4.2 percent, as robust growth in the nonoil sector (7.3 percent) more than offset a temporary decline in oil production (by 2.6 percent) due to unforeseen events. Growth is projected at 4.5 percent in 2015. While oil production has increased in recent months following the completion of repair work that constrained production in 2014, nonoil GDP growth is expected to halve to 3.6 percent in 2015 with the construction and service sectors adjusting to cuts in public investment (see below).

2. **The authorities have taken steps to contain the impact of the oil shock**. The retail prices of gasoline and diesel were raised in September and December 2014 by a total of 50 percent (first increases in three years), significantly reducing fuel subsidies;[38] and improvements in nonoil tax administration are being implemented. The kwanza is being gradually devalued (at a pace of about 20 percent a year) since late September, and international reserves have been used to smooth the devaluation, declining by about US$3½ billion since end-June, to US$28 billion (9 months of next year's projected imports) at end-2014. Monetary policy has been tightened, with increases in the central bank policy rate by 25 bps (to 9 percent) in October 2014 and in the reserve requirements for domestic currency deposits from 12½ to 15 percent in November 2014 and to 20 percent in early March 2015.

3. **The revised budget for 2015 approved by the National Assembly in late February (first round voting) envisages an improvement of 9½ percent of GDP in the nonoil primary balance**. With a conservative oil price of US$40 per bbl (US$81 per bbl in the original budget), the fiscal adjustment is targeted, mainly, through spending cuts in goods and services, reduced fuel subsidies, and a scaling back in public investment, with the latter accounting for a significant share of the fiscal adjustment. Financing for the projected overall fiscal deficit of 4.7 percent of GDP (assuming an average oil price of US$51 per bbl) appears achievable, but will necessitate a diversification of sources to avoid an excessive reliance on local bank financing which tends to be shorter term and could unduly increase the exposure of banks to government debt. The authorities have recently selected three investment banks to advise them on a maiden Eurobond placement.

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[38] Preparations for rationalizing fuel subsidies were underway prior to the drop in international oil prices.

4. **Significant imbalances have emerged in the foreign exchange market**. The official exchange rate has depreciated gradually, but market participants estimate a considerable backlog in purchase orders at the official rate. The parallel market has been volatile, with the spread reaching 70 percent, but settling at 20-30 percent more recently.

Risks

5. **Implementation of the fiscal adjustment will be challenging**. While the revised budget for 2015 seems appropriate, its implementation needs to be carefully monitored to avoid the recurrence of payments arrears accumulation. Preliminary data suggest that no new arrears were accumulated in 2014.

6. **Foreign exchange market imbalances could create inflationary pressures and threaten the health of the banking system, but need to be addressed**. A faster pace of devaluation of the kwanza could lead to a return of double digit inflation given the still high pass-through of the exchange rate to prices in Angola. In addition, a larger exchange rate depreciation could cause an increase in nonperforming loans due to the high (albeit declining) level of dollarization in the banking system. The ongoing fiscal adjustment will help alleviate pressures in the foreign exchange market, but the potential impact of recently announced administrative controls—such as a priority list for access to foreign exchange—is unclear. The authorities will need to continue to closely monitor developments in the foreign exchange market and be prepared to quickly adjust exchange rate and monetary policies as needed.

Fund relations

7. **The 2014 Article IV consultation discussions were concluded by the IMF Executive Board on August 29, 2014**. An IMF staff team visited Angola during February 16-21, 2015, to discuss recent economic developments and outlook. The 2015 Article IV consultation mission is tentatively scheduled to begin in late July. Angola also continues to benefit from technical assistance provision by the Fund, particularly in strengthening public financial management.