Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 29-Mar-2022 | Report No: PIDC33439

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Angola	P178035		Accelerating Job creation and Economic Transformation (P178035)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EASTERN AND SOUTHERN AFRICA	Oct 10, 2022	Dec 15, 2022	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Economy and Planning	

Proposed Development Objective(s)

Increase private investment and growth of small and medium enterprises in selected economic corridors

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	300.00
Total Financing	300.00
of which IBRD/IDA	300.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	300.00

Environmental and Social Risk Classification	Concept Review Decision
Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **After a deep recession caused by falling oil prices and worsened by covid-19, Angola's economy is showing signs of recovery, but the outlook remains uncertain.** Angola's economy contracted by almost 11 percent between 2015-2020. A drop in oil prices starting in 2014 triggered the economic downturn, driven by lower investment in oil production. Declining oil revenues caused fiscal imbalances, leading to deep budget cuts and concerns about debt sustainability. The Covid-19 pandemic and associated restrictions to curb the virus expansion exacerbated the economic crisis, with GDP contracting 5.4 percent in 2020.[1] The economic recovery started in 2021 (current estimate of 0.2 percent growth), owing to rising oil prices the recovery of non-oil sectors, and expected to accelerate in 2022. Yet, the outlook is uncertain due to the ongoing pandemic, supply chain bottlenecks and oil price volatility.

2. **The recent crisis increased Angola's poverty and inequality, exposing the limits of an oil-driven growth model.** In the post-war years,[2] Angola experienced an economic boom fueled by oil exploration, but the benefits of growth were unequally shared, and more than half of Angola's 32 million people live in extreme poverty. Moreover, the economic crisis increased poverty rates, with projections pointing at almost 54 percent of Angolans living on less than US$1.90 per day (2011 PPP), about 3.5 million people more than in 2018.[3] Despite its oil wealth, Angola underperforms in the Human Capital Index, with a score of 0.36 compared to a Sub-Saharan average of 0.40.[4] Inequality is among the highest in the world, with a Gini coefficient of 51.3, and wide disparities in socioeconomic opportunity represent a hurdle to long-term sustainable growth.[5]

3. **Poverty is higher in rural areas, while a high number of urban poor reflects the lack of income opportunities in cities.** Angola is a highly urbanized country, with 67 percent of people living in cities and 27 percent in the capital, Luanda. Poor access to services, connectivity, and markets contribute to high rates of rural poverty. The largest number of poor live in the provinces of Benguela, Huila, Huambo, Cuanza Sul, and Luanda, which are more densely populated than the Eastern and Southern regions. High levels of urban inequality limit the opportunity of rural-urban migration as an avenue of poverty reduction,[6] pointing at the need to increase job opportunities in both urban and rural areas.

[1] As of March 29, Angola had recorded 99,115 cases and 1,900 deaths of Covid-19. Vaccination has progressed at good pace with over 15.5 million doses administered, while just 19 percent of the population is fully vaccinated (Johns Hopkins University. Coronavirus Resource Center. Accessed on March 29, 2022. https://coronavirus.jhu.edu/region/angola)
[2] Angola's civil conflict (1975-2002) had devastating effects on the country's productive capacity, ravaging infrastructure, killing an estimated 800,000 people, and displacing one-third of the population.
[3] World Bank. Angola Economic Update. October 2021.
[4] World Bank. Human Capital Project. https://www.worldbank.org/en/publication/human-capital
[5] World Bank. 2018. Angola: Systematic Country Diagnostic. Creating Assets for the Poor. Washington D.C.
[6] World Bank. 2018. Angola: Systematic Country Diagnostic. Creating Assets for the Poor. Washington D.C.

4. **Angola's economy does not create enough jobs for a growing and young workforce,**[7] **and informal employment is high.** Angola's fast population growth adds over half a million youth to the workforce every year, yet the economy created just 400,000 jobs annually over 2009-2019.[8] Almost three-quarters of jobs created in the decade up to 2019 were informal, and employment data point at an increase in informal employment since 2020. Lack of job opportunities and low level of skills particularly affect the youth and women.[9] The economic recession and the structural constraints hinder the ability of the private sector to create more and better jobs.

5. **Women have additional challenges to access good jobs.** Angola has relatively high female labor force participation (73.9 percent vs. 79.2 percent for men), but the quality of women's employment is significantly lower than men. Also, women work in more informal jobs with poor working conditions.[10] Lower levels of education restrict labor market opportunities and earnings for women early in their lives and contribute to higher levels of poverty for women. Angolan laws generally do not discriminate against women, with a few exceptions like access to certain occupations,[11] but access to economic opportunities for women is constrained by informal institutions and norms.

6. **Angola has a unique opportunity to leverage its natural wealth and market size to transform its economy and create jobs.** Angola's post-war growth was driven by oil-fueled government spending, while the contribution of the private sector was traditionally low and negative between 1996-2014.[12] Oil still represents over 60 percent of fiscal revenues, 33 percent of GDP, and over 90 percent of exports, putting Angola among the world's least diversified countries. This is despite the country's immense natural wealth, including underdeveloped potential for agriculture and fisheries, and large mineral resources.[13] Angola can tap into this potential to transition to a more inclusive and sustainable growth model, anchored in a stable macroeconomic framework, private sector-led economic diversification, productivity growth, and greater regional and global economic integration.

7. **A resilient recovery needs to consider Angola's vulnerability to shocks and climate change.** Angola's oil reliant economy is vulnerable to global commodity boost-and-boom cycles, as the prolonged recent recession showed. An acceleration of decarbonization globally would reduce demand for Angola's main export commodity, adding urgency to the need to diversify the economy. On the other hand, rising temperatures[14] and changing rain patterns, including a possible increase in extreme weather events such as droughts or torrential rains, pose a threat to sectors with the highest potential to contribute to diversification, such as agriculture and fisheries. The poor are most vulnerable to the impact of climate change, due to lack of savings and insurance to project their livelihoods, while an increase in weather-related disasters would add pressure to public finances.

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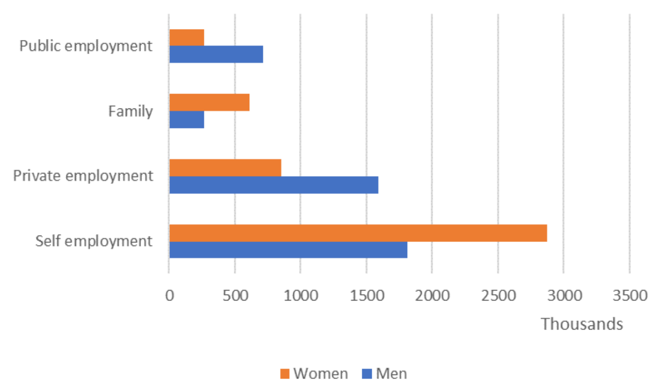
[7] Angola has the second highest global fertility rate (7.2). About half of Angola's population are under 15 years old.
[8] World Bank. Forthcoming. Creating Good Jobs for Angolans. Washington D.C.
[9] World Bank. 2020. Angola Poverty Assessment.
[10] Women are more likely to have informal employment (90 percent) compared to men (72.3 percent), while informal employment is highest among the youth (94.3 percent).
[11] World Bank. 2020. Women, Business, and the Law. https://wbl.worldbank.org/en/wbl
[12] World Bank. 2018. Country Economic Memorandum: Toward Economic Diversification. Washington D.C.
[13] Angola is a significant diamond exporter, representing 7% of world exports. It also produces attapulgite (fuller's earth), cement, crushed stone, granite, gravel, gypsum, lime, limestone, marble, quartz, salt, sand, and has untapped deposits of iron, gold, copper, zinc, lead, manganese, and phosphate.
[14] Mean annual temperatures have increased by approximately 1.4ºC since 1951. The rate of warming is about 0.2 [0.14 – 0.25] ºC per decade. (Pinto et al. Regional climate messages for Angola, Technical report for Angola's Climate Change and Development Report (CCDR), Draft. December 2021)

Sectoral and Institutional Context

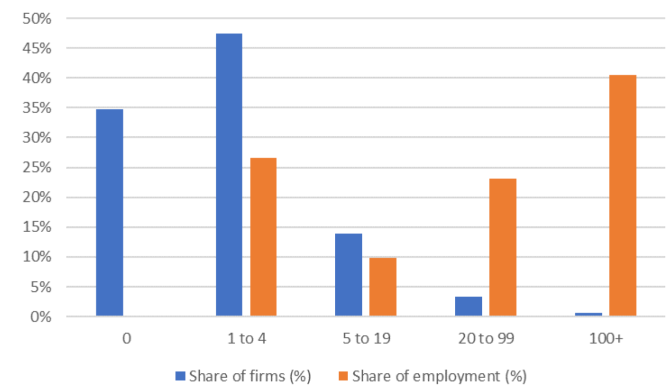
8. **Most Angolans are self-employed, while the private sector represents a small share of jobs.** Over half of working Angolans (52 percent) are self-employed,[15] and another 10 percent work for family members. About 27 percent are privately employed,[16] and another 11 percent work for the public sector (figure 1).

Figure 1. Employment by type and gender



Source: IDREA (2018)

Figure 2. Firm and employment distribution by size (business census)



Source: REMPE (2019)

9. **Angola's private sector is dominated by micro-enterprises and concentrated in Luanda and service sectors.** According to preliminary data from the recent business census, 81 percent of firms employ less than five workers (figure 2).[17] Half of firms are concentrated in Luanda province, followed by far by Benguela (8 percent) and Huambo (6 percent). Overall, firms primarily operate in commerce and other services, which are also the sectors that employ most people. Wholesale and retail firms account for 60 percent of the total firms and about one third of the workers in the business census. Women are underrepresented in the private sector and tend to own smaller firms in services sector.

10. **Formal firms create more jobs on average than informal firms.** Sixty-one percent of the firms in the business census are registered with a government entity. These formal firms tend to be larger, with an average of 9.3 workers in their first year of operation, compared with 6.4 on average for all firms, and just 2 for informal (non-registered) firms.[18] Formal firms increase their workforce by an average of ten additional jobs per decade, while informal firms, in contrast, are only able to create around 2 additional jobs in their first decade, and then stagnate at 7 to 8 workers on average for the rest of their lifetime.

11. **Angola's private sector is constrained by a difficult investment climate, infrastructure bottlenecks and weak capabilities for firms and workers, although recent reforms are improving the fundamentals for private investment.** Angola lagged other SADC countries, except Mozambique and DRC, in the 2019 Global Competitiveness Index with a classification of 136 of 141 countries. In particular, Angola received low scores in innovation capacity, institutions, and

[15] Includes those declaring themselves self-employed and working for auto-consumption. Data from the household survey (*Inquérito sobre Despesas, Receitas e Emprego em Angola*, IDREA) 2018.
[16] Includes those reporting working for the private sector (15%) or declaring themselves employers (7%), working in private residencies (4%), cooperatives (0.3%), church (0.2%), and international organizations (0.1%).
[17] Ibid.
[18] REMPE, 2019

product markets. Over the last four years, the government has implemented a broad reform agenda to shift the role of the government from a direct economic actor to an enabler of private activity. The regulatory environment for businesses remains difficult, although recent reforms have reduced red tape to start and operate firms.

12. **Access to finance is one of the most binding constraints to economic diversification in Angola**. Private credit to GDP dropped from 27 percent in 2015 to 11.4 percent in 2020, as banks became more prudent about lending to the private sector in the face of high NPLs and focused on government securities. Cost of finance also increased further in 2021 as the Central Bank raised interest rates to 20 percent due to its tight monetary policy parameters. Angolan banks are especially risk averse when dealing with SMEs, with an even higher level of collateral being required for loans to SMEs as compared to loans to larger firms. The use of immovable collateral is constrained by gaps in formal title over land and buildings, which hinders the development mortgage lending instruments.

13. **The DRC could become one of Angola's biggest export markets for non-oil products.** Official statistics state that the DRC only imports 1 percent of its consumable goods from Angola, but anecdotal evidence suggests a variety of goods manufactured in Angola reach the DRC, especially the provinces of Kongo Central and Kinshasa. Among the most traded products with the DRC are alcoholic beverages, juices and soft drinks, corn flour, rice, sugar, frozen food, gray cement and iron bars, canned meat and sardines, soaps and detergents, pasta, and biscuits.[19] Presently, informal trade across the Angolan borders is prevalent, but there is potential to further develop exports to the DRC as part of efforts to promote regional integration. Transport corridors connect Angola to the DRC through road and rail networks, although infrastructure and trade facilitation bottlenecks along these corridors remain a hindrance to trade.

14. **As part of economic diversification efforts, government policies aim to fill the industrial infrastructure gap by promoting industrial development poles (IDPs).**[20] Two IDPs are operational, i.e., Luanda (Viana Industrial Pole) and Benguela (Catumbela Industrial Pole) with active manufacturing and service businesses, and four others[21] are in earlier stages of development. Still, even in the most advanced IDPs, investments are needed to improve their internal infrastructure (road network, electricity and water distribution, collection and treatment of solid waste, effluent drainage). The government strategy is to gradually develop the poles based on demand and attract private capital for their development and management.[22]

Relationship to CPF

15. **The proposed project is aligned with priorities for reducing poverty and building shared prosperity laid out in the 2018 Systematic Country Diagnostic and the objectives of the Country Partnership Strategy (CPS) 2014-2016, which was extended in 2018.** The proposed project directly supports the revised focus area one in the CPS: Promoting Diversified Growth and Competitiveness by supporting improvements in the enabling environment for businesses and access to financial services and promoting investments to develop value chains. The investments in economic transformation under this project contribute to the World Bank Group (WBG) twin goals by supporting opportunities for business growth and job creation.

[19] International Trade Center. 2020.
[20] Ministério da Indústria e Comércio. 2021. Plano de Desenvolvimento Industrial de Angola 2025
[21] Caala in Huambo, Lucala in Cuanza Norte, Malanje in Malanje, and Negage in Uige. The IDP of Futila in Cabinda is also considered among the most advanced.
[22] Ibid.

C. Proposed Development Objective(s)

Increase private investment and growth of small and medium enterprises in selected economic corridors

Key Results (From PCN)

16. **Success in achieving the PDO will be measured by the following outcome indicators**: results indicators will be gender disaggregated and include targets for female beneficiaries.
    - Value of private sector investment generated in the supported corridors (Amount USD)
    - Increased access to finance to MSMEs
    - Increase in sales of beneficiary firms (percentage)
    - Additional jobs (full-time equivalent) created by supported MSMEs
    - Private Capital Mobilization (PCM from the Partial Credit Guarantee through the participating banks and PCM through the PPP investments along the economic corridors)

D. Concept Description

17. **The project's guiding principle is to generate private investment to support inclusive and sustainable economic transformation and job creation, focusing on selected economic corridors, and developing the foundations for Angola's regional integration and trade.** To maximize impact, the project will combine national level and localized interventions, and firm level support to i) create an enabling environment for trade and investment; ii) mobilize private investment to increase productivity and jobs; iii) address deficiencies in productive infrastructure to develop value chains and increase access to markets. The corridors of focus, and within them, the specific provinces where project activities will be concentrated, will be selected based on objective criteria and consider the experience with place-based policies, for which the existence of economic fundamentals is seen as a necessary condition for effectiveness.[23]

18. **The proposed project will be structured in four interrelated components:** 1. Enabling environment for trade and investment: this component will strengthen the regulatory and institutional environment for private investment and trade by supporting regulatory reforms, capacity building and selected investments in government systems, small works, and equipment; 2. Catalytic investments in productive infrastructure: this component will support improvements in productive infrastructure (e.g. industrial infrastructure, storage, logistics centers) and quality infrastructure (e.g. labs and certification centers) in economic hubs for the corridors of focus, where private sector demand is confirmed. It will seek to promote private sector participation to ensure a sustainable business model and potentially mobilize private investment through public private partnerships; 3. Supporting firm growth: this component will support interventions in the supply and demand sides of access to finance, and business development services to improve firm growth, productivity and market access for MSMEs in the project corridors, with special attention to addressing the specific constraints of women-owned MSMEs; 4. Project Management and M&E will provide the necessary technical and financial support for the implementation of the project and results measurement.

[23] Grover, Arti; Lall, Somik V.; Maloney, William F. 2022. Place, Productivity, and Prosperity: Revisiting Spatially Targeted Policies for Regional Development. Washington, DC: World Bank

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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APPROVAL

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