PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

December 8, 2014

Report No.: AB7688

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Operation Name	AO-Fiscal Management Programmatic DPF
Region	AFRICA
Country	Angola
Sector	Central government administration (35%);General public administration sector (35%);Public administration- Energy and mining (30%)
Operation ID	P153243
Lending Instrument	Development Policy Financing
Borrower(s)	GOVERNMENT OF ANGOLA
Implementing Agency	Ministry of Finance
Date PID Prepared	December 8, 2014
Estimated Date of Appraisal	February 23, 2015
Estimated Date of Board Approval	April 30, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Key development issues and rationale for Bank involvement

The international price of crude oil has declined sharply over the last three months, exposing the Angolan economy to a major fiscal shock. After fluctuating around US$ 108 per barrel during the first seven months of 2014, the price of crude oil has hit a four-year low and is currently below US$ 60 per barrel. If average annual crude prices remain at such level over the medium term, this would be a major shock for an oil-dependent economy like Angola. On average, during 2011-2013, the oil sector in the country represented about 44 percent of nominal GDP, oil exports represented about 95 percent of total exports value, and oil revenue made up about 79 percent of total revenues.

The new context also makes more challenging the Angolan Authorities' medium term objective to diversify the economy away from oil. The current decline of crude oil prices appears to be a medium term structural shift. Supply shocks and, to a lesser extent, demand shocks may explain the lower prices. On the supply side, growing production in the United States along with reduced demand may have caused the slump in crude oil prices. In the last five years, US domestic production increased nearly 60 percent as hydraulic fracturing and horizontal drilling techniques enabled producers to access supplies trapped in shale-oil fields. On the other hand, conflict in the Middle East has not created major disruption in the production of crude. Saudi Arabia —the largest exporter of crude oil in the world— decided to maintain its share in world markets and did not cut production to stop the slide in prices. On the other hand, sluggish demand growth is attributed to the weak recovery in Europe and China's slowdown in economic activity. Given this global environment, Angola needs a countercyclical fiscal policy to be able to continue its efforts to diversify the economy (discretionary expenditures) while protecting the poor and the most vulnerable (automatic stabilizers).

II. Proposed Objective(s)

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-digit, ensure the provision of public goods and services without jeopardizing fiscal sustainability, ensure 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. The proposed programmatic DPF will focus 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.

III. Preliminary Description

The first DPF will include ten prior actions to mobilize oil and non-oil revenues (pillar 1), strengthen the public investment management system (pillar 2) and reduce fuel subsidies while implementing social mitigation measures (pillar 3). The first pillar (oil and non-oil revenue mobilization) 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's ongoing tax administration and tax policy modernization process aimed at increasing the share of the non-oil tax revenue. The second pillar (strengthening of the public investment management system) aims to increase value for money in public investment by supporting the ongoing comprehensive (legislation, regulation and institutional setting) reform of the Public Investment Program (PIP) process. The third pillar (fuel subsidies reform, social mitigation measures and evidence-based policy making) aims to create fiscal space for more targeted social transfers (Cartao Ki Kuia, a targeted cash transfer program) by addressing head-on the inefficient and untargeted large fuel subsidy, and promote a culture of empirically-based policy making by supporting the government national statistical strategy, including the fielding of regular national household surveys.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

In the short and medium terms, the team expects that only the actions under Pillar C are likely to have significant poverty and distributional impacts. As estimated by the IMF (2014), fuel price subsidies were highly regressive prior to the September 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. Nevertheless, poorer households are likely to be negatively impacted by fuel price increases, since they spend a higher share of their total budget on fuel and on products that are impacted by fuel prices. The IMF (2014) estimates that before the September 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 highly impacted by fuel price increases. Therefore, while they are likely to be progressive and reduce inequality in wellbeing, fuel price increases are also likely to increase poverty.

The government's plan to expand the coverage of their flagship cash-transfer program, Cartao Ki Kuia, is likely to partially mitigate the negative impacts of the fuel price increases on the poor. The Authorities intends to target the program to rural areas where most of the poor are live. The team will utilize the national household survey IBEP, which was conducted in 2008-09, to carry an ex-ante empirical analysis of the likely poverty and distributional impacts of the combined fuel subsidy reforms and the expansion of the Cartao Ki Kuia program.

Environment Aspects

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.

V. Tentative financing

Source:	($m.)
Borrower	0
International Bank for Reconstruction and Development	500
Borrower/Recipient	
IBRD	
Others (specifiy)	
Total	

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