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TRANSITIONAL SUPPORT STRATEGY

FOR THE

REPUBLIC OF ANGOLA

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AFC02
Africa Region

Currency Equivalents
US $1 = 65 Kwanza (as of January 2003)

Abbreviations and Acronyms

AAA	Analytic and Advisory Activities
b/d	Barrels per day
BNA	*Banco Nacional de Angola* (Angola National Bank)
CAP	*Caixa de Crédito Agro-Pecuária e Pescas* (Agrculture and Fisheries Credit Union)
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CFR	Country Framework Report
CPAR	Country Procurement Assessment Report
CEM	Country Economic Memorandum
DPT	Diphtheria, Pertussis, Tetanus
ESW	Economic and Sector Work
FAA	*Forças Armadas de Angola* (Armed Forces of Angola)
FDI	Foreign Direct Investment
FLEC	*Frente de Libertação do Enclave de Cabinda* (Cabinda Liberation Front)
FNLA	*Frente Nacional de Libertação de Angola* (Angola National Liberation Front)
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IDP	Internally Displaced Persons
IFC	International Finance Corporation
IMF	International Monetary Fund
JSA	Joint Staff Assessment
LICUS	Low Income Countries Under Stress
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoP	Ministry of Planning
MPLA	Popular Movement for the Liberation of Angola
NGO	Non-Governmental Organization
PCRRP	Post-Conflict Rehabilitation and Reconstruction Program
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SME	Small- and Medium-sized Enterprise
SMP	Staff-Monitored Program
TA	Technical Assistance
TSS	Transitional Support Strategy
UN	United Nations
UNAIDS	United Nations AIDS Program
UNDP	United Nations Development Programme
UNITA	National Union for the Total Independence of Angola
WBI	World Bank Institute

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REPUBLIC OF ANGOLA

TRANSITIONAL SUPPORT STRATEGY

TABLE OF CONTENTS

MAP – IBRD No. 24288

Republic of Angola
Transitional Support Strategy

Executive Summary

i. **Starting before independence in 1975, the conflict in Angola** between the Popular Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA) **was fueled by cold war conditions and by oil and diamond revenues**. The conflict has had a profound impact on social and economic life. Some 750,000 Angolans have died from conflict-related causes, including famine or disease; 440,000 became refugees and over four million were internally displaced. The legacy of the conflict includes widespread poverty, weak governance, resource mismanagement, and limited popular participation. Angola will overcome this legacy only with years of sustained effort following the resumption of the peace process in April 2002. This Transitional Support Strategy (TSS) is the Bank's contribution to this effort.

ii. **The following issues are suggested for Board discussion**:

- Is the TSS an appropriate response to Angola's post-conflict development challenges?
- Is the TSS consistent with the strategies of the Government and the other donors?

iii. **Angola is faced with a difficult double transition: from war to peace and from a state-controlled to a market economy with greater popular participation**. The formal ceasefire agreement signed on April 4, 2002 has given new impetus to this transition. To date there have been no ceasefire violations, and reversal of the peace process is unlikely. The reintegration of some 138,000 ex-combatants and their families into civilian life is underway; in late 2002 some 10,000 refugees and internally displaced persons (IDPs) were arriving back in their home areas every day. New elections, due since 1996, have been repeatedly postponed, but the peace agreement is expected to enable appropriate conditions for elections to be established in 2004.

iv. **Economic data are not always reliable, and reform progress has been mixed**. The Government runs large fiscal deficits, with the result that high inflation continues. Large amounts of public spending are not fully accounted for. Even so, there has been progress in reforming the economy over the past decade. Since 1991, the Government has succeeded in floating the kwanza, removing most price controls, monetizing most wage categories, and privatizing numerous small businesses. In addition, Angola has also cleared all arrears with multilateral creditors. Reformists within the Government have been achieving incremental improvements in the transparency and accountability of public resource management, though much more remains to be done.

v. **The peace agreement provides Angola with a unique opportunity to achieve a permanent reduction in poverty**. The World Bank Group is one of only a few donors in a strong position to provide the technical and financial support needed to do so. This Transitional Support Strategy (TSS) aims to help achieve macroeconomic stability and support implementation of a pro-poor post-conflict public expenditure program. It is

organized around three pillars: (i) enhancing the transparency, efficiency, and credibility of public resource management; (ii) expanding service delivery to war-affected and other vulnerable groups; and (iii) preparing the ground for broad-based pro-poor economic growth. Reflecting the window of opportunity created by the advent of peace, the base-case scenario of the TSS involves IDA financing totaling $125 million during its 15-month implementation period (namely, through FY04).

vi. **The three TSS pillars will be supported by a combination of lending and non-lending programs**. Analytical and advisory activities (AAA) will focus on transparency and governance issues as well as on preparing an enabling environment for broad-based private-sector-led growth. This AAA will help the Bank and the Government to rebuild their stock of knowledge, which is essential to empowering reform-minded officials to implement an appropriate and resourced pro-poor development program. Key products here include a diagnostic study of the oil sector, a procurement review, a PPIAF-funded study on maximizing private-sector participation in infrastructure (FY03 deliverables), a public expenditure management and financial accountability review and a corporate social responsibility study (FY04 deliverables). AAA will also include customized capacity-building activities provided by the World Bank Institute (WBI).

vii. **Limited financing, including the selective use of grant resources, aims to help promote national reconciliation, improve public expenditure management, and expand domestic capacity for service delivery**. In particular, the Angola Demobilization and Reintegration project, presented to the Board with this TSS, will help 138,000 ex-combatants to resume a socially- and economically-productive civilian life; the Economic Management Technical Assistance project, also presented to the Board with this TSS, will help to increase transparency in public resource management; and a third credit in support of the Social Action Fund and an HIV/AIDS project will help to demonstrate the potential of community-driven-development initiatives. In addition, to increase the Bank's effectiveness on the ground at this critical point in Angola's development history, the strategy involves reappointing a Country Manager (already done) and recruiting a senior operations officer to be resident in Angola.

viii. **The strategy's AAA will remain the same regardless of the lending environment, though the scope and timing of key products may change in response to the evolving situation**. Selected post-conflict performance indicators based on the Post-Conflict Performance Rating (PCPR) system will provide the main benchmarks to assess progress in implementing the TSS one year from the current Board discussion (see Annex 1).

ix. **Further lending in outer years would be triggered by decisive progress against selected indicators**, including satisfactory implementation of the demobilization program, completion of the oil sector diagnostic study, and a substantial reduction in extra-budgetary and quasi-fiscal outlays. Alternatively, in the event that conflict re-emerges or governance deteriorates, impeding service delivery and even modest economic reform, the Bank would continue to support AAA but new lending would cease and a gradual disengagement would begin.

I. Introduction

1. Since the early 1990s, Angola has been struggling to achieve a complex double transition: from war to peace, and from a state-controlled to a market economy with greater popular participation. Significant progress has been made on both fronts.

2. On April 4, 2002, UNITA and the MPLA signed a formal ceasefire agreement. No violations of the agreement have occurred to date, and a reversal of the peace is unlikely. The reintegration of some 138,000 ex-combatants and their families into civilian life is now beginning, and the Angola Emergency Demobilization and Reintegration Project (ADRP) presented to the Board together with this TSS proposes to support this important confidence-building process. Some 1.3 million internally displaced persons (IDPs) and refugees have already completed their long-awaited journey home.

3. Peace also gives new impetus to a greater participation in public decision making. This transition started with multiparty elections in 1992 but was abandoned when UNITA's leader Jonas Savimbi, who lost the first round of the Presidential election, alleged fraud and returned to war. Although 70 UNITA deputies later joined parliament, creating an institutionalized opposition, these deputies did not represent Savimbi's movement. New elections, due since 1996, have been repeatedly postponed, but the peace agreement is expected to establish appropriate conditions to hold them in 2004.

4. At the same time, there has been real progress in reforming the Angolan economy. Since 1991 the Government has succeeded in floating the kwanza, removing most price controls, monetizing most wages, and privatizing numerous small businesses. Even so, reform has failed to eliminate Angola's large fiscal deficits, with the result that high inflation remains an enduring feature of the economy, and large amounts of public spending are not fully accounted. Much has been done, and much remains to be done.

5. The peace agreement provides Angola with a unique opportunity to help restart the lives of one-third of the population, rebuild the country's shattered social and economic infrastructure, and so achieve a permanent reduction in poverty. The Bank is in a strong position to provide the technical and financial support needed to help the Government to do so. This TSS aims to help achieve stability and support implementation of a pro-poor post-conflict public expenditure program. It involves three pillars: (i) enhancing public resource management (through AAA and the Economic Management Technical Assistance (EMTA) project, also before the Board); (ii) expanding service delivery to vulnerable groups (through the ADRP, the Social Action Fund, and an HIV/AIDS project); and (iii) preparing the ground for pro-poor economic growth (through AAA and EMTA). Reflecting the window of opportunity created by the peace process, the TSS envisages a temporary rise in Angola's IDA allocation to $10 per capita (or $125 million) during the 15-month TSS period. Given its post-conflict status and its history of performance, Angola is a high-risk high-reward country. Further lending beyond this initial period will depend on decisive progress in several areas, including satisfactory implementation of the demobilization program, completion of the oil sector diagnostic study, and a substantial reduction in extra-budgetary and quasi-fiscal outlays.

II. Causes of the conflict

6. Discord among the key leaders of the liberation struggle caused the Angolan conflict, but Cold War sponsorship and monopolized resource exploitation sustained it. During the final months of Portuguese rule, different pro-independence factions were unable to develop a united front. The MPLA, allied with the Soviet bloc, brought Cuban troops into Luanda in October 1975, a month before independence. In response, UNITA and the *Frente Nacional de Libertação de Angola* (FNLA) sought support from South Africa, which sent troops, and the United States, which gave financial aid. Peace talks only began in December 1988, when Cuba and South Africa agreed to withdraw troops from Angola and the USSR began to turn its attention inward to domestic problems.

7. Throughout the conflict, the MPLA controlled Angola's expanding oil fields, while UNITA controlled many alluvial diamond deposits. The relative value of the controlled resources largely explained the relative strength of the opposing armies following the departure of the conflict's foreign sponsors. As a result of territorial losses since 1998 and the international campaign against conflict diamonds, UNITA's strength was sharply diminished even before Jonas Savimbi was killed on February 21, 2002.

8. Ethnicity played a minor role in the conflict, yet it retains the potential to fracture Angolan social life. The major parties drew the bulk of their support from rival ethnic groups—UNITA from the Ovimbundu, the MPLA from the Mbunda, and the FNLA from the Bakongo. In the 1992 elections, the MPLA succeeded in drawing significant cross-ethnic support. Even so, as shown by the post-election pogrom of Ovimbundu UNITA supporters during the 'battle for Luanda' in November 1992 (resulting in some 6,000 deaths), acute frustration could result in ethnic division in what is now a reasonably peaceful multiethnic coexistence throughout the country.

III. Features of the conflict

9. The conflict has had a profound impact on all aspects of social and economic life. It resulted in widespread poverty, weak governance, resource mismanagement, stalled democratization, and regional destabilization, creating a legacy which Angola will overcome only with years of sustained effort in a context of national reconciliation. Since the conflict started, some 750,000 Angolans, or 7 percent of the population, have died from conflict-related causes, including famine or disease. As of February 2002, some 4.1 million Angolans were IDPs and 445,000 refugees (mostly in DRC, Namibia and Zambia). With improved access to the rural areas, some two million displaced people now depend on international aid for their survival and resettlement needs.

3.1 Poverty and key social indicators

10. Angola ranks 161th out of 173 countries on UNDP's Human Development Index for 2002, and the Millennium Development goals are distant (see Table 1, page 6). Over two thirds of the population live in poverty, while almost one in three Angolans are

extremely poor (see Box 1, page 5); to keep the number of poor from increasing, Angola would need to grow at a rate of about 7.3% a year. Although available data indicate that urban poverty has worsened in recent years—to a large extent due to the influx of IDPs and economically-driven migrants—poverty is a more serious phenomenon in rural areas. A 1998 survey found that food expenditures accounted for 76% of total spending by rural households, evidencing an extreme degree of food insecurity within the rural population. Malnutrition is also acute in Angola; 2001 data[1] indicated that 45% of children under five suffered from stunting (low height-for-age) and 31% were underweight, slightly above Sub-Saharan African averages (41% and 30% respectively). The same data also showed that child immunization rates for diphtheria-pertussis-tetanus (DPT), measles, poliomyelitis, and tuberculosis generally improved between 1996 and 2001, climbing from 34% to almost 69%, though they remained well below the rates prevalent in developing countries as a whole. Even so, it appears that malaria is currently the principal cause of mortality in Angola (according to the Ministry of Health, it accounted for 76% of all deaths recorded in 2000), and HIV/AIDS is the greatest emerging threat. UN data indicate that the HIV prevalence rate in expectant mothers rose from 3.4% in 1999 to 8.6% in 2001[2]. In addition, water and sanitation indicators are also unsatisfactory: in urban areas access to piped water almost doubled since 1996, but is still a low 61.6%.

Box 1: Poverty, Extreme Poverty, and Inequality

The National Institute of Statistics (INE) carried out a Household Living Conditions survey in 1994-1995, covering five provincial capitals: Luanda, Luena, Cabinda, Lubango, and Benguela. A poverty line of approximately US$40 per month and an extreme poverty line of $14 per month were defined for the analysis of the survey data. On this basis, it was found that 67% of the population lived in poverty, while 13.4% lived in extreme poverty. The analysis of the data also indicated that a large variance on the headcount index could be observed across surveyed capitals: it ranged from 60.6% in Luanda to 70.9% in Cabinda.

A new Household Budget Survey was conducted in 2000-2001. Seven cities were surveyed, the capitals of the provinces of Cabinda, Luanda, Lunda Norte, Benguela, Namibe, Huila and Cunene. Although the data generated in this survey is not strictly comparable to data produced in the 1994-95 survey, the preliminary results are nonetheless striking: the overall Gini coefficient was estimated to be 0.51, compared to 0.45 in 1994-95, showing a significant increase in inequality in Angola. While the overall poverty headcount index settled at 62.6%, the proportion of the population living under extreme poverty was estimated at 23.7%, a substantial increase from the levels recorded in 1995. As noted in the UN Common Country Assessment 2002, every extremely poor household is also food insecure, since the extreme poverty line was established at a level just sufficient to fulfill minimum caloric requirements.

[1] From INE/UNICEF (2002). *Inquérito de Indicadores Múltiplos* (MICS 2). Luanda, November.

[2] In the absence of national HIV sero-prevalence surveys, it is very difficult to monitor the spread of the infection in the country, with the result that proxy measures need to be used. Ignorance about the disease is likely to become a contributing factor to its proliferation. The 2001 MICS 2 survey (see preceding footnote) shows that only 17% of interviewees correctly identified the main methods of prevention against the disease.

11. In short, the combination of war and periodic drought have exacted a devastating toll on the Angolan population. Although Angola has exceptionally rich farm land in the central region, agricultural potential is largely unexploited due to insecurity, uncertain land tenure policies, and the presence of landmines (Angola presents one of the highest per capita landmine injury rates in the world), and overall agricultural growth has been negative over most of the last decade. Food security became increasingly precarious as able-bodied males were conscripted into the armed forces, crops were raided or destroyed, and input delivery systems were strained to the point of collapse. Public health continues to be poor despite improvements in preventative measures such as child immunization and anti-malarial spraying; population migration and concentration accelerated the spread of infectious disease; key social infrastructure, including water supply systems, was destroyed; and qualified health professionals left their posts for better jobs elsewhere, making under-funded clinics and hospitals increasingly less effective. Throughout the conflict, Angolans also paid a high price in lost social cohesion. Families were split asunder, and growing numbers of war-disabled people, war orphans, and street children became increasingly visible victims of the conflict.

Table 1: Millennium Development Goals
(latest available)

Eradicate extreme poverty	
Population living below $1/day (%):	--
Children underweight:	30.5
Achieve universal primary education	
Gross primary enrolment ratio:	91
Literacy rate (15-24 years old, %):	66.8
Promote gender equality	
Female literacy rate (15-24 years old, %):	54
Reduce child mortality	
Under-five mortality (per 1,000):	150
Infant mortality (per 1,000):	128
Improve maternal health	
Maternal mortality rate:	--
Combat HIV/AIDS and other diseases	
Adult HIV/AIDS prevalence (%):	2.8
Malaria prevalence (per 1,000) : 155	--
TB prevalence and death rate:	--
Ensure environmental sustainability	
Access to safe water (%):	38
Access to improved sanitation (%):	44

Source: INE/UNICEF MICS2, 2002.

3.2 Governance issues

12. Transparency International in 2002 ranked Angola among the five most corrupt countries in the world (in a list of 102). Since independence, the availability of oil and diamond revenues in a conflict environment has created tremendous opportunities for corruption. Privileged access to state contracts, regulatory agencies, foreign partnerships, elite health and education facilities, privatized state assets, and subsidized credit and foreign currency enriched a few at the expense of the many. It also resulted in a hugely inefficient allocation of resources; high levels of consumption; and a business climate characterized by favoritism, kickbacks, connected transactions, and other distortive and non-transparent practices. In addition, severe weaknesses in Angola's fiduciary framework have led to the occurrence of very large unexplained discrepancies in the country's fiscal accounts, varying from 2 to 23 percent of GDP between 1997 and 2002. It has been estimated that total unexplained discrepancies[3] in 2001 amounted to 10% of

[3] Unexplained discrepancies are calculated as the difference between recorded inflows and recorded expenditures. Since Angola's Integrated Financial Management Information System (SIGFE) produces information on recorded revenues and expenditures, the presence of such discrepancies indicates that

GDP, or more than $900 million. IMF- and Bank-funded capacity-building has been attempting to reduce these unexplained discrepancies, *inter alia* by addressing technical impediments. Achieving a substantial reduction of extra-budgetary and quasi-fiscal outlays is a key indicator of progress under this TSS as well as a key condition for continued lending beyond this initial TSS period.

3.3 Regional destabilization

13. Angola has been a major player in subregional conflicts. In 1995, when the new Congolese government of Pascal Lissouba allied itself with UNITA, the Government provided troops in support of Denis Sassou-Nguesso, which proved decisive in the 1997 and 1998/99 wars. Angola also intervened in the DRC, helping to install the government of Laurent Kabila. The resolution of the conflict in Angola will contribute to stability in the greater Great Lakes region. The Government is already participating in the regional peace process through its agreement to the Lusaka Cease-Fire Agreement, and President Dos Santos has recently taken an active role in promoting peace. In September 2002, he brokered an agreement between President Kabila, DRC, and President Museveni, Uganda, under which the two Presidents agreed to the normalization of relations, including a timeline for the total withdrawal of Ugandan troops from the DRC.

3.4 Electoral processes

14. Conflict has slowed electoral processes in Angola. A first democratic opening occurred with the Bicesse Accords (May 1991), which provided for the restoration of government administration and multiparty elections, with support from the UN. Unfortunately, the Accords were never fully implemented: the UN was unable to establish control; elections occurred in September 1992 in a still-militarized context; and lack of a power-sharing agreement ensured discontent in the losing party. When the first round of the Presidential elections gave Dos Santos 49.6% of the vote against Savimbi's 40.1%, Savimbi alleged fraud and returned to war. A second opening began with the Lusaka Accords (November 1994), which called *inter alia* for UNITA participation in government and establishment of a UN peacekeeping force (by 1996 it comprised 7,500 people). In April 1997 the 70 UNITA deputies elected in the 1992 elections formally joined the national assembly and, for the first time since independence, the MPLA (which held 129 seats) faced an institutionalized parliamentary opposition. A setback occurred in September 1998, when a dissident faction, UNITA *Renovada*, broke away from Savimbi, and UNITA deputies who remained loyal (the "Savimbists") left the parliament. Following the April 2002 peace accord, UNITA was formally reunified (in October 2002). There is now hope that the post-Luena peace has created a real opening and that the conditions required for free and fair elections will be established over the coming 18 to 24 months. With Savimbi's death, and President Dos Santos's announcement (in August 2001) that he will not contest the next elections, Angola may have a new political leadership by 2004.

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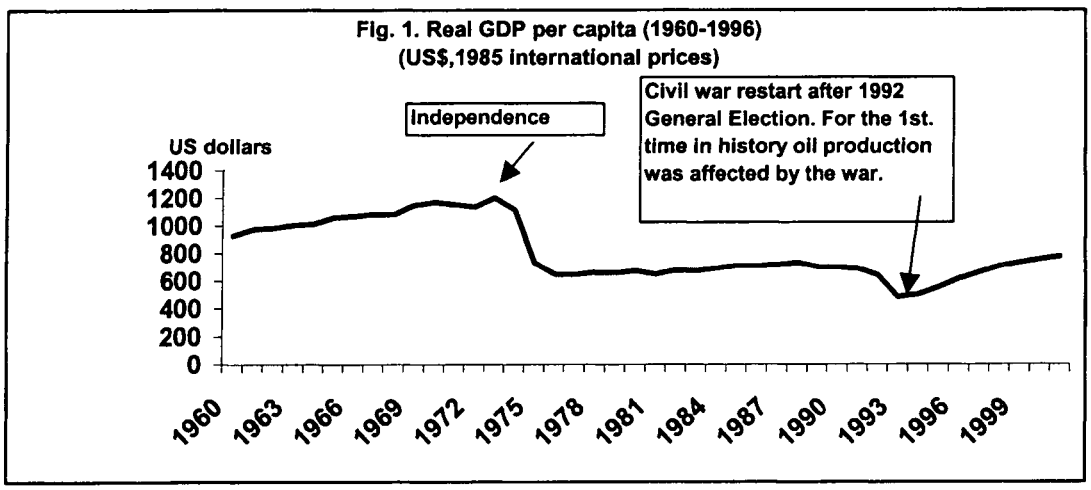
transactions occur outside the domain of SIGFE. These "missing expenditures" can only be captured when the fiscal balance as reported by SIGFE is cross-checked with the available information on the financing side.

IV. The Angolan Economy

4.1 Post-independence shock

15. As Figure 1 shows, the Angolan economy suffered a major shock in 1974-76, when some 340,000 Portuguese settlers—who had supplied most of Angola's skilled labor and organizational capacity—fled the country. Angola has never fully recovered. After independence, most sectors of the economy went into long-term secular declines that continue today. The oil sector was the only real exception, but increasing oil production did not outweigh the declines everywhere else. Combined with continuing population growth, Angola's per capita GDP (now $500) has fallen to less than one-half of pre-Independence levels. The reasons include:

- The conflict itself, which depleted human and social capital, destroyed economic infrastructure, and discouraged investment;
- The adoption, initially, of a central-planning system, which stifled initiative and introduced numerous economic distortions;
- Continued macroeconomic mismanagement, which resulted in chronic high inflation, fiscal and balance-of-payments imbalances, very high external debt (now mostly oil-guaranteed and in arrears), and high levels of poverty; and
- Corruption and poor governance, which resulted in inefficient resource allocations, low levels of investment, an extremely large unemployment pool[4] and a business climate unattractive to foreign investors.



[4] The latest estimated unemployment rate for Luanda is 32.3% (1998), which is likely an underestimate.

4.2 Angola's enclave economy

16. Although Angola has large mineral deposits, high agricultural and fishing potential, and good prospects for irrigation and hydroelectric power, economic performance in agriculture, manufacturing and commerce is very poor and well below levels achieved in the 1970s. Over the last 35 years, economic activity collapsed in almost all sectors except oil and diamonds (see Table 2). As a result, the non-mineral economy virtually disappeared as a contributor to national output and a source of foreign exchange. While in 1966 more than 80% of Angola's exports were composed of nine commodities, including coffee (48%), diamonds (18%), sisal (5%), fish flour, cotton, corn, timber, oil and gas, and iron (2% each), by 1990 oil accounted for 93% of the total and diamonds for 6%; all other export commodities had disappeared. Today the Angolan economy is heavily dependent on imports and highly vulnerable to terms-of-trade shocks resulting from fluctuations in oil prices (in both 1986 and 1998 a sudden drop in oil prices put tremendous pressure on Angola's ability to service its debt).

Table 2: GDP Composition Over Time (%)

Sector	1966	1970	1987	1996	2000
Agriculture, forestry and fisheries	14.2	9.0	12.6	7.5	5.8
Mining (oil and diamonds)	6.3	10.7	51.0	59.9	67.0
Manufacturing	8.7	10.7	3.7	6.8	3.0
Construction	6.3	7.3	2.5	3.2	2.9
Electricity and water	0.9	0.9	0.3	0.0	0.0
Transport and telecommunications	6.3	5.9	2.7	0.0	-
Commerce	34.0	30.3	7.2	14.8	14.5
Banking and insurance	2.8	3.3	1.4	0.0	-
Services	20.4	21.8	18.6	7.8	6.8
Total GDP	100.0	100.0	100.0	100.0	100.0

Source: Government of Angola National Institute of Statistics; IMF, *Recent Economic Developments*, Staff Report 00/111, August 2000.

4.3 Prospects for economic growth

17. Angola's GDP growth in the medium term will continue to be dominated by crude oil production, with 17% annual growth projected for 2002 as the deepwater Girassol oilfield (block 17) comes on stream, adding 192,000 b/d to output. Total production is expected to double by 2010 to almost 2 million b/d, with production from deepwater blocks overtaking mature fields in Cabinda and in shallow water blocks, and it will grow still more beyond 2010, as ultra-deepwater blocks come on stream. Angolan exports of rough diamonds, which have increased from 1.4 million carats in 1997 to over 5 million in 2002, is also expected to remain strong, though falling carat prices may result in slower growth in export revenues ($382 million in 1997 to $800 million in 2002).

18. Against these prospects, there are two key challenges confronting Angola today. The first involves making better use of oil and diamond revenues to reduce its very deep and widespread poverty. To achieve this aim, the Government will need to focus its medium-term attention on: (i) completing the transition from a centrally-planned to a market economy; (ii) adopting and maintaining a sound macroeconomic policy stance;

(iii) creating employment opportunities; and (iv) improving governance and adopting a more transparent, efficient, and pro-poor public expenditure framework. The second challenge involves expanding economic sectors which made a significant wealth-generating contribution to Angola's past and can do so again in the future. The economy's response to pro-market economic reforms and improved security conditions could be substantial; even before the peace agreement in April, agriculture, manufacturing, and trade and commerce had shown strong year-to-year improvements over 1999 to 2001 (see Table 3).

Table 3: Real Growth Rates, Selected Sectors (%)

Sector	1999	2000	2001
Agriculture, forestry, fishing	1.3	9.3	18.0
Manufacturing	7.1	8.9	9.8
Trade and commerce	4.4	3.4	6.0
Mining (oil, LPG, diamonds)	5.8	2.0	1.0
Real GDP growth (market prices)	3.3	3.0	3.2

Source: Angolan Ministry of Planning; National Institute of Statistics.

Box 2: Natural Resource Extraction in Angola: Oil and Diamonds

The bulk of Angola's revenues come from two sources—oil and diamonds. These are both enclave sectors, with minimal linkages to the rest of the economy. Angola is the second largest oil producer in sub-Saharan Africa, after Nigeria, with reserves estimated at 12.4 billion barrels (of which 3.7 billion (30%) had been produced by December 1999). Currently, Angola produces about 1,000,000 b/d, mostly from mature fields (Blocks 0, 2 and 3) operated by various major oil companies (the so-called supermajors); blocks 14 and 17, which produce about 250,000 b/d, are the only deep-water blocks currently in production. Total production is expected to reach 2.0 million b/d in 2010 as new production from ultra-deepwater blocks comes onstream. Oil-related inflows take different forms: oil tax revenues, which comprised 70% to 90% of total annual Government revenues from 1995-2001 (about $3.2 billion in each of 2000 and 2001); one-off signature bonuses, which oil producers pay to the Government when blocks are awarded for development (in 1999, these bonuses reputedly totaled $870 million, or 16.1% of 1999 GDP, for blocks 31, 21, and 33); and oil-guaranteed loans, which involve selling future oil production in exchange for present loans (in recent years, Angola's macroeconomic disequilibria and low creditworthiness have made other sources of financing unavailable).

Angola is also the world's fifth largest diamond producer, with an estimated 8% share of world export value. The exploitation of alluvial reserves has traditionally dominated the sector. Until recently, only one kimberlite pipe, Catoca, was commercially exploited, but in 2002 the giant Camafuca Camazambo kimberlite pipe, reputedly the largest of its kind in the world, began production. Official (Government-controlled) diamond production reached $746 million in 2000, yielding tax receipts of $66 million. The UN estimates that UNITA's diamond production for the same period amounted to $100 million, falling sharply from $300 million in 1999 due to territorial losses. With the recapture of mining sites formerly under UNITA control, and the launching of the Camafuca mine, official production is expected to increase substantially.

4.4 Implementing policy and institutional reforms

19. The Government has a poor reform record. Past efforts have been erratic, with periods of progress succeeded by stagnation, drift, and sometimes reversal. The conflict is part of the explanation. The intensification of hostilities often resulted in increased military spending and associated fiscal indiscipline or dampened the political will to complete reforms. But powerful vested interests are also part of the explanation; a political and economic elite has obtained large rents from Angola's social structures and has also been loath to lose them.

20. The reform program began in 1987, when a steep fall in oil prices shifted Angola's balance of payments and current account into deficit and the Government began to experience difficulties meeting its debt service obligations. Few measures were implemented under the *Programa de Saneamento Económico e Financeiro* (SEF), which was intended to introduce market-oriented reforms, though it led Angola to join both the Bank and the Fund (in 1989). The *Programa de Acçao do Governo* began disastrously in September 1990 with an attempt to control inflation through strict monetary policy, a currency change, and a freeze of 95 percent of the value of all bank accounts; these actions were abandoned in 1991. But over 1991-92 the Government successfully devalued the currency, removed most price controls, monetized wages, and privatized numerous small businesses. An ill-fated attempt in February 1993 to introduce a foreign exchange auction resulted in a steep fall in the new kwanza's value and a public backlash; in March 1993 these measures were reversed and the new kwanza was pegged at an inflated exchange rate. A year later growing economic pressures forced the Government to return to a path of devaluation, fiscal stabilization, and tight monetary policy under the *Programa Económico e Social* (PES). By mid-1995, the official value of the new kwanza approached convergence with its value on the parallel market, and the Government took the opportunity to introduce a new currency, the kwanza *reajustado*.

21. The first Staff-Monitored Program (SMP) was negotiated with the IMF in July 1995, but by December it was seriously off-track. The managed currency float was abandoned; the gap between the official and parallel exchange rates grew; and monetization of the large fiscal deficit created hyperinflation. By July 1996, with annual inflation exceeding 10,000 percent, the Government had launched the *Nova Vida* Plan, which restored some administrative controls, including a fixed exchange rate, price controls, and restrictive import licensing. Tighter fiscal and monetary policy led to lower inflation, but at the cost of increasing public domestic debt through the accumulation of arrears. Inflation crept up again in 1997 as it became clear that fiscal adjustment was again being postponed.

22. Angola's current cycle of reforms started in 1999, despite the resumption of full-scale war in late 1998. Staged devaluations reduced the gap between the official and parallel exchange rates; in May 1999 the currency was allowed to float; in December 1999 the kwanza was re-introduced, interest rates were liberalized, and significant tax and tariff reforms were carried out; and in April 2000 the Government agreed to implement a new SMP. Although some progress was made under this SMP and its

immediate successor, which ended in June 2001, important quantitative benchmarks, such as the inflation rate, were not met[5] and a number of key structural measures were not completed. It is now likely that the Government will need to complete strong prior actions aimed at increasing fiscal transparency and eliminating Angola's large quasi-fiscal imbalances before it can reach agreement on a new program.

23. In September 2002, the Government approved an economic program for 2003-04 which aims to consolidate the peace, achieve macroeconomic stability, improve service delivery, rehabilitate economic infrastructure, extend state administration across the nation, promote economic growth in the non-oil sectors, and create the conditions for new general elections. The Government at the same time revised the budget for 2002 to reflect increased expenditures resulting from peace-related activities such as servicing quartered soldiers, extending humanitarian assistance to IDPs in newly accessible areas, and completing emergency infrastructure rehabilitation[6]. This expansionary stance was maintained in the proposed 2003 budget, which is likely to further fuel inflation; recent data show that the recent downward trend in inflation has been reversed.

24. The macroeconomic situation in Angola continues to be extremely fragile and preliminary data indicate that the 2002 fiscal results were poor. Annual inflation, due to rapid increases in the monetary base and the velocity of money, largely fueled by fiscal laxity, was 106% in December 2002. Oil revenues as reported by the Government showed a decline as a share of GDP, but they may have been underestimated. Domestic payment arrears accumulated further, to about 2% of GDP. The fiscal deficit for 2002 on an accrual basis exceeded 8% of GDP, which was more than double the 2001 deficit and also interrupted a trend-decline in overall fiscal deficits that started in 1999. In addition, financing of the deficit depleted Angola's offshore oil-bonus account, necessitated expensive international borrowing, and resulted in a large expansion of central bank credit to the Government and a corresponding depletion of gross international reserves (these are now equivalent to one month of imports, the lowest level in a decade). Available preliminary data also show that Government spending as a percentage of GDP is almost twice the average for sub-Saharan Africa; that budgetary allocations for health and education remain below the average for sub-Saharan Africa; and that almost half of total government expenditures were executed outside the regular budgetary framework. In early February, the new Minister of Finance announced several measures to stabilize the currency and contain dollarization. At his request, the IMF's Fiscal Affairs Department and its Monetary and Exchange Affairs Department will help, in the coming months, to strengthen budgetary controls and provide advice on central banking operations.

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[5] Although hyperinflation has not reappeared, dollarization–as measured by the share of foreign currency in M2, which reached 75% in 2001—is intensifying in Angola.

[6] Military spending decreased from 31.3% of total government expenditure in 1999 to 14.8% in 2000 and 12.4% in 2001, even before Savimbi's death. Following Government victories in 1999, the conflict shifted to a relatively low-level guerrilla warfare until it ended in 2002. The 2003 budget forecasts a slight increase in total defense and public security spending to 18% of total expenditures, but the composition of spending is expected to change, with more being allocated to public security than to defense.

Table 4: Recent Progress in Policy and Institutional Reform (1999 – 2002)	
Action	**Remarks**
A. *Promoting macroeconomic stability*	
• Establishing an interbank foreign exchange market and liberalizing the exchange rate.	• The spread between official and parallel rates persists, albeit at a much lower level than before 1999, due to pre-existing capital account controls.
• Liberalizing interest rates.	• Real deposit rates have remained highly negative, due to the expansionary stance of monetary policy and limited competition in the banking system.
• Launching of an open market instrument ("Titulos do Banco Central", TBCs) by the BNA[7].	• This instrument will soon be replaced by Treasury bonds, solving a long-standing issue concerning the remuneration of the TBCs.
• Streamlining import duties and abolishing restrictive import licensing.	• The IMF's Trade Restrictiveness Index rating for Angola is 3 (moderately open), but ratification of the SADC Free Trade Protocol is still pending.
• Eliminating customs exemptions not contemplated in international accords.	• Most exemptions have been eliminated, including nondefense goods for the military.
• Initiation of a civil service reform process to reduce the number of employees by one-fifth.	• Nearly 15,000 out of a total of 30,000 targeted employees have been retrenched.
• Adjusting fuel prices and electricity and water tariffs to eliminate unwarranted subsidies.	• Administrative prices have been adjusted haphazardly, especially after expiration of the last SMP; new proposals are being considered.
• Launching the 2001-2005 Privatization Program.	• The Program is now being implemented, but key firms—such as the main national airline (TAAG)—and utility companies were left out of the process.
• Reforming the financial sector, including by liquidating CAP (a bank) and initiating the privatization BCI (another bank).	• CAP's liquidation is nearly complete and a financial advisor has been hired to assist in the privatization of BCI.
• Launching a Program for the Modernization of Public Finance Management (PMGFP).	• Implementation has started; the program will be supported by the Bank's proposed EMTA project.
• Signing an operational Protocol between BNA and the Ministry of Finance.	• The Protocol has been signed, but Sonangol's responsibilities towards BNA and the Treasury still need to be clarified.
B. *Improving governance, including budgetary transparency and accountability*	
• Launching a Diagnostic Study of the Oil Sector.	• The study is nearing completion. The revenue projection model is operational; five quarterly reports have been produced; and the final report is near completion.
• Completing a full financial audit of BNA's accounts.	• 1999 accounts have been audited and the 2000 accounts audit is approaching completion; the auditing process to become a regular practice.
• Establishing a Tribunal of Accounts.	• The Tribunal was created by law in 1996, but staffed in 2001. Constraints include limited political clout and shortage of skilled personnel.
• Placing customs administration under Crown Agents.	• Crown Agents is in place and Customs Modernization Program is underway.
• Launching the official website of the Ministry of Finance.	• The website has been launched; it contains information on budget execution; fiscal legislation; external debt and oil exports (on a company-by-company basis); and links to the IMF's website.
• Initiating a complete review of the public procurement system.	• The review is nearing completion, with assistance from NORAD and the Bank. A Steering Committee has been appointed to oversee the reform action plan emerging from the review.

[7] To facilitate a shift towards indirect monetary control instruments.

25. Angola's public external debt reached nearly $10 billion by end-2001, of which almost half is in arrears (mostly owed to official bilateral creditors). Angola has been selective in honoring its debt-service obligations and is current in its payments on oil-guaranteed debt, which comprised 43% of total debt as of end-1999. In the absence of a formal, Fund-supported program, which would enable engagement in debt-rescheduling discussions with the Paris Club, Angola has conducted bilateral discussions with some creditors, including notably Portugal (in November 2002 agreement was reached for restructuring nearly $1 billion of Portuguese debt).

V. The Government's Post-Conflict Program

26. Angola has the potential to become one of the most prosperous economies in sub-Saharan Africa. It has abundant resources, but at present these are not being used effectively to achieve Angola's long-term development goals. Stability and economic recovery can only be obtained in Angola if the Government implements a well-structured development program into the medium and long term. The Government of Angola is pursuing its long term goals with a program that addresses several priorities, including:

- **Restoring and maintaining macroeconomic stability**. This will occur through the continuation of an economic stabilization and structural reform program that the Government has been attempting to implement since late 1999. The Bank will continue to work through the TSS period to support Government efforts to formalize this program into an IMF Staff Monitored Program.
- **Revitalizing the rural sector**. Agriculture provides income to about one-half of Angolans, and enhancing the ability of smallholders to increase agricultural productivity and bring their excess produce to market is key to reducing rural poverty. To this end, the Government intends to focus on restoring security in the rural areas, providing secure access to land, improving market information and expanding rural transportation.
- **Rebuilding social infrastructure**. Revitalizing the economy at the community level is critically important to successful reconstruction, and providing Angola's rural population with access to health, education and other basic services is undoubtedly the most urgent need in Angola today. In particular, primary educational outcomes need to improve dramatically (they are now among the lowest in the world) and health care interventions need to be refocused on the key child killers—malnutrition, malaria and HIV/AIDS. To this end, the Government aims to re-establish state administration across the country and rehabilitate or build basic social and economic infrastructure (such as schools, clinics, and markets). Several generations of lost skilled labor in these sectors must also be replaced through education and training.
- **Improving transportation links to markets, especially in war-affected areas.** Thirty years of war have imposed a heavy toll on Angola's transport infrastructure. Destruction or lack of maintenance of roads, bridges, and railways, aggravated by the presence of land-mines, has resulted in the isolation of large parts of Angola's vast territory (Angola's territory is larger than that of France, Germany, the U.K., and the Benelux countries combined). To increase access to

markets, reduce the prices of agricultural and imported goods, and facilitate the return of IDPs and refugees to their areas of origin, large investments are needed to restore key transportation infrastructure, including ports. Such investments are expected to have significant short-term returns through reviving agriculture, increasing rural incomes, lowering food and non-food prices in the interior, and improving access to health and education services.

- **Encouraging private sector participation**. Angola's poor will not reap the benefits of peace and economic development unless the reforms needed to attract private investment are completed. Additional capital and new management will help to improve service delivery in the key cross-cutting sectors of electricity and gas, water and sanitation, transport, and telecommunications, which in large part determine the competitiveness of the overall business environment. An adequate regulatory framework will help to attract investment, secure appropriate government revenues, provide employment, enhance local value-added, protect the environment, and prevent past abuses associated with natural resource extraction from continuing or reemerging.

5.1 The Interim Poverty Reduction Strategy Paper (I-PRSP)

27. The Government recognizes that the conflict has resulted in a difficult legacy, which includes high numbers of IDPs; the destruction of much social and economic infrastructure; structural constraints related to land, demography, agriculture and human resources; and institutional weaknesses in the public and private sectors. In an effort to overcome this legacy, which constitute a key challenge to Angola's medium-term socio-economic transformation, the Government's draft interim PRSP proposes actions which can be summarized along five broad themes:

- Undertaking economic and institutional reform (particularly in public finance and administration) to promote macroeconomic stability and sustainable growth;
- Expanding the human capital base, by strengthening and restructuring professional training as well as the delivery of health and education services;
- Rehabilitating social and economic infrastructure, concentrating on water supply, housing, electricity, transportation and communication;
- Promoting pro-poor growth through rural development, artisanal fishing, and small and micro enterprises, with a focus on private sector development; and
- Strengthening public sector capacity and institutions, including at the provincial and local levels (through restructuring and deconcentration).

28. The draft document contains elements of a program of consultations with civil society, a summary of interventions at the sectoral level, and a preliminary monitoring and evaluation strategy, but the required three-year macroeconomic framework is not yet available. In light of the ceasefire agreement, the interim PRSP is being revised to focus on a few areas where real improvements can be made in the short run; the Government plans to complete a fully costed interim PRSP in mid-2003.

5.2 The post-conflict reconstruction program

29. In addition to the interim PRSP, the Government, with technical assistance from the Bank, is also preparing a post-conflict Rehabilitation and Reconstruction Program (PCRRP), which is divided into two phases. The first 'priority' phase, which will be implemented over 2003 to 2005, will be part of the interim PRSP and will focus on consolidating the peace and reestablishing state administration throughout the country. More particularly, the program aims to assist some 1.5 million returning IDPs and refugees; enhance food security; improve rural life and service delivery; reestablish critical transportation links; and expand Government capacity at the provincial and district levels. Interventions are expected to focus on the areas of social reinsertion, health and education services, water supply and sanitation, road transportation, and electricity, among others. The Government expects to appeal to donors for support for this program at a conference to be held in 2003. In addition, a follow-up 'stabilization and recovery' program, expected to be based on a full PRSP and implemented over 2005 to 2010, will aim to accelerate growth in the non-oil/non-diamond economy, improve service delivery, rehabilitate infrastructure, support the construction of community infrastructure, and deepen institutional and policy reforms.

VI. From Humanitarian Aid to Development Assistance: A Transitional Strategy

6.1 Past Bank engagement and the current portfolio

30. Amid high expectations of lasting peace and economic reform, seven projects were approved in the period between the signing of the Bicesse Accords in 1991 and the resumption of war in late 1992. An eighth project was approved some six months after fighting resumed; a ninth in late 1995, after the signing of the Lusaka Protocol; a tenth in early 1998 to support the then expected return of IDPs to their communities (Social Action Fund (FAS) 1); and finally an eleventh in June 2000 (FAS2, a successor project to the successful 1998 project) . These operations are summarized in Table 5 (page 17). In addition to the IDA activities, the International Finance Corporation (IFC) approved support for a soap manufacturer in Angola (in 1998) and the Multilateral Guarantee Agency (MIGA) has issued four guarantees. In mid-1999, as a result of unstable economic conditions, the resumption of significant fighting, a shrinking portfolio and lack of conditions conducive to new lending, the Bank reduced its Country Office to a Liaison Office and declined to replace a vacating Resident Representative.

Table 5: Status of IDA Lending Operations (as of October 15, 2002)							
Project Name	**Approval**	**Closing**	**IDA Amount**	**Undisb. (US$million)**	**% Disb.**	**Rating ***	
Eco. Man. Cap.-Building	6/19/91	12/31/98	23.0	0.94	95.9	U	
Infrastructure Rehab.	7/16/91	3/31/99	37.7	8.35	78.7	MS	
Lob. Urban Env. Rehab.	1/7/92	9/28/01	45.6	3.85	99.9	S	
Education I	6/2/92	9/30/99	27.1	1.6	94.0	S	
Power Sector Rehab.	6/11/92	12/31/99	33.5	2.7	45.0	U	
Financial Inst. Modern.	9/3/92	4/30/02	21.0	0.2	98.9	S	
Transport Recovery	9/3/92	6/30/00	41.0	1.2	97.0	S	
Health	5/11/93	12/31/99	19.9	0.85	95.0	U	
Social Action Fund (FAS) 1	12/21/95	6/30/01	24.0	0.08	99.9	S	
Post-Conflict Social Rehab.	4/15/98	1/30/03	5.0	0.2	95.0	S	S
Social Action Fund (FAS) 2	6/30/00	2/29/04	33.0	9.93	70.0	S	S

Note: Ratings for closed projects are from OED Outcome ratings, for ongoing projects are from the most recent Project Status Report (indicating a rating for Development Objectives and for Implementation Progress).

31. As Angola enters this new post-conflict era, IDA has only one active project in Angola, FAS2, with a total commitment of $33 million (the project is rated satisfactory), and IFC has only one investment. All Bank activities for the next 12 months have been designed within the purview of this TSS, with the single exception of FAS2—a community-driven development project of the type that would be appropriate in Angola's post-conflict context in any case.

6.2 Current and recent donor activities

32. In 1995, following the Lusaka Accords, a Brussels meeting between the Government and its partners resulted in donor pledges of over $1.0 billion in development assistance. These funds were subsequently held back due to insufficient progress in the peace process and lack of a clear reform agenda. Even so, UN institutions as well as numerous international and local NGOs have remained active in Angola. Their work has been focused primarily on humanitarian activities, including food and medicine distribution, provision of basic health care, light repairs to existing infrastructure, and support to small-scale income-generating activities. For CY03, the UN is preparing a new Consolidated Interagency Appeal (CAP) (the CAP for CY02 was for $292 million; as of September 2002, only $143 million, or 49 percent, had been received). There has never been a Consultative Group meeting for Angola.

Table 6: Net Official Development Assistance (US$ millions)					
	1996	1997	1998	1999	2000
Bilateral	**294.4**	**227.0**	**214.5**	**251.8**	**189.1**
US	25.0	22.0	28.8	48.1	37.3
Japan	5.2	12.0	17.9	22.0	21.5
Sweden	36.2	27.8	22.5	17.8	17.1
Norway	25.2	24.5	23.1	19.8	16.6
Spain	41.8	30.9	25.2	35.8	16.2
Portugal	33.5	29.4	23.9	19.8	13.4
Multilateral	**178.7**	**127.7**	**121.4**	**135.7**	**111.5**
UN/WFP	10.4	13.5	2.7	27.6	38.4
EU	94.3	70.2	65.4	53.0	36.9
IDA	37.8	27.9	35.8	38.8	23.7
UNICEF	15.9	3.9	4.9	4.7	4.4
UNHCR	0.5	0.1	0.5	1.6	3.1
UNDP	3.7	7.7	7.6	7.5	2.0
Total	**473.1**	**354.7**	**335.2**	**387.5**	**306.7**

Source: OECD, Geographical Distribution of Financial Flows to Aid Recipients.

33. Following the signing of the April 4 ceasefire agreement, the Government plans to hold an international donor conference in 2003 in order to discuss implementation of the priority phase of its Post-Conflict Rehabilitation and Reconstruction Program. Continued political stability, completion of the interim PRSP, and agreement on an IMF-supported program would provide many donors with scope for increased activities in Angola.

Box 3: Current Donor Activity in Angola

Aid to Angola falls across a continuum from humanitarian assistance (focused on emergency relief and channeled outside Government structures, through UN agencies and NGOs) to development assistance (focused on policy and institutional reform and channeled through Government structures). A brief summary of the annual aid flows of the major donors follows:

- **The UN**. A Consolidated Interagency Appeal (CAP) for $386 million was launched in December 2002; of this the bulk is for WFP food aid. A new Common Country Assessment was completed in mid 2002 and a UN Development Assistance Framework is expected in 2003. A Bank-UNDP MoU is also being prepared under the *Low Income Countries Under Stress (LICUS)* Initiative.
- **AfDB**, following the clearance of arrears in 2001, is building a new portfolio in Angola. Projects in the areas of agriculture, health, education, fisheries, and basic infrastructure are expected to result in total commitments of more than $50m over the next 12 months.
- **The EU** provides about $45m annually. Areas of focus include health and rural food security, with cross-cutting interest in macroeconomic management, democratization and human rights. A new Country Support Strategy was prepared in Brussels in 2002.
- **US** humanitarian aid of $35m consists mostly in food aid channeled through WFP. Development assistance of $10m focuses on agriculture and food security; health care; and democracy and human rights. Another $6m of transitional aid supports health, agriculture and UN logistics.
- **NORAD** provides assistance mainly in support to demining, macroeconomic (especially oil-revenue) management, statistics production and generation.
- **SIDA** provides about $14m of aid. A Luanda-focused bilateral health program continues, but most aid is channeled through the UN and NGOs in the areas of health, education, demining, and human rights. The last bilateral agreement was concluded, in close consultation with **NORAD**, in 2002.
- **France** provides about $10m in bilateral aid, including food aid through WFP and support to the university and the Alliance Française. It also provided $8m in post-Luena food aid to IDPs.
- **DfID** resumed activities in Angola in 2002 and is providing TA in support of PRSP consultations, demobilization and community-based organizations in a few of Luanda's *musseques*.

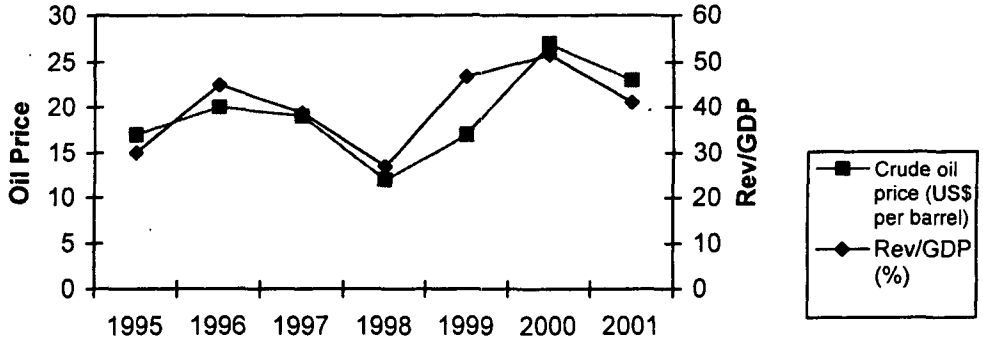
6.3 A window of opportunity

34. The cease-fire agreement of April 4, 2002, provides Angola with a unique opportunity to achieve a permanent reduction in poverty. To seize this opportunity, the Government and its partners need to consolidate the peace by: (i) demobilizing surplus security forces; (ii) addressing the humanitarian crisis and rebuilding the country; and (iii) promoting political inclusion through a process that leads in due course to general elections. Despite its natural resource wealth, Angola remains a poor country; GNP per capita in 2001 was only $500. Although its domestic resource envelope is expected to increase substantially over the medium run, in the short run the country's enormous reconstruction needs outstrip its ability to pay for it. The revised 2002 budget, after taking into account increased post-conflict expenditures, projected an overall deficit on a commitment basis of 5.3% of GDP, but the actual figure is estimated to be higher than 8%. A complete picture of Angola's financing needs over the next two-to-three years will depend critically on oil prices, oil production increases, and the country's emergency post-conflict needs (Angola's macroeconomic situation is extremely sensitive to even small changes in oil prices, as Box 4 below illustrates). With the help of the Bank and within the context of the interim PRSP, the Government is preparing a costed and prioritized post-conflict reconstruction program which will be embedded within a realistic macroeconomic framework.

Box 4: Angola's Vulnerability to International Oil Price Volatility

Angola's main source of fiscal revenues is taxation of the oil sector, including the state-owned oil company Sonangol. As a result, fiscal revenue is very sensitive to international crude oil price volatility. Revenues have not always been able to keep pace with expenditures – a problem made worse at times of oil market slumps. There are also no mechanisms with which to stabilize revenues. The chart below demonstrates the behavior of total revenue with fluctuations in oil prices over time.

Fig.2 Total Revenue vis-à-vis Evolution of Oil Prices



Non-oil tax revenues and non-tax revenues have played only a marginal role in Angola's public finances, although the GoA has introduced a number of tax measures since 1999 aimed at reducing dependency on oil revenue. Recent projections by Bank staff indicate that even a $1 reduction in the price of crude oil can result in the loss of several hundred million dollars in oil export and tax revenues. In the absence of an institutional framework conducive to proper petroleum revenue management in Angola, the country's domestic resource envelope is largely at the mercy of fluctuations in international oil prices.

6.4 The Bank's Transitional Support Strategy

35. The Bank has a critical role to play in supporting Angola's complex transition to a stable, democratic, market economy. It has significant experience in three critical areas: the design and implementation of post-conflict recovery programs, including demobilization and reintegration; the timely mobilization of resources in support of post-conflict recovery; and the provision of AAA to help shape the longer-term agendas for achieving growth, reducing poverty, and improving governance. Through selective investments, the Bank aims to help address severe macroeconomic imbalances (without adjustment lending); create transparent and accountable mechanisms for service delivery; and build consensus within the Government and among its development partners about future reforms. Engagement of the donors and the Government around an agreed set of priority interventions, particularly in the social sectors, will in turn help to establish stability, initiate economic transformation, and yield demonstrable results, which are themselves crucial to building a stronger reform constituency in the country. It is well known that conflict breeds poverty: this TSS, by helping the Government to achieve macroeconomic stability and implement a pro-poor post-conflict spending program increasingly focused on service delivery, will help to contain conflict and thereby create an economic environment that is conducive to achieving a permanent reduction in poverty in Angola.

36. In light of these overall objectives, the Bank's TSS is organized under three pillars: (i) enhancing the transparency, efficiency, and credibility of public resource management; (ii) expanding service delivery to war-affected and other vulnerable groups; and (iii) preparing the ground for broad-based pro-poor economic growth (see Table 7).

Table 7: The Bank's Transitional Support Strategy (March 2003 to June 2004)

Pillar	AAA	Financing
Enhancing the transparency, efficiency, and credibility of public resource management	• Country Procurement Assessment Review • Public Expenditure Management and Financial Accountability Review • Corporate Social Responsibility (CSR) Study • WBI capacity-building	• Economic Management Technical Assistance (EMTA), $17 million (before the Board with this TSS)
Expanding service delivery to war-affected and other vulnerable groups	• Post-Conflict Rehabilitation and Reconstruction Program (PCRRP) Technical Assistance (TA) • CSR Study • WBI capacity-building	• Angola Demobilization and Reintegration Program (ADRP), $33 million grant (before Board with this TSS) • Social Action Fund 3 (FAS3), $55 million • HIV/AIDS, $20 million
Preparing the ground for broad-based pro-poor economic growth	• Country Economic Memo. • Oil Revenue Man. Study • Country Framework Report (CFR) on Infrastructure • PCRRP TA • CSR Study • WBI capacity-building	

37. ***Analytical and advisory activities (AAA)***: The goals of the TSS reflect the Government's priorities as stated in the interim PRSP and in the PCRRP. They also recognize that improved public expenditure management in Angola is a necessary condition for effecting improved public expenditure policy, and that the Government is unlikely to achieve lasting progress until it establishes and maintains a realistic macroeconomic framework. Thus, the TSS places heavy emphasis on AAA requested by the Government, with a particular focus on transparency and governance issues, as well as on the enabling environment for broad-based growth. This AAA will help the Bank and the Government to rebuild its stock of knowledge, which is essential to guiding Angola's future development program. The proposed AAA will also include customized capacity-building activities provided by the World Bank Institute (WBI). To increase the Bank's effectiveness on the ground, the strategy involves reappointing a Country Manager and recruiting a Senior Operations Officer for the Bank's office in Luanda.

38. ***Financing, including the use of grant resources***: Financial support is planned to amount to up to $125 million during the 15-month TSS period. Of this, $20 million in grant resources will be fully allocated to an HIV/AIDS project (see paragraph 45), in accordance with the IDA13 Agreement. An addition $33 million in grant resources, made available as a special post-conflict allocation, will finance the IDA contribution to the ADRP (presented to the Board with this TSS), which is also expected to be supported by $53 million in grant resources made available from the Multi-Donor Trust Fund associated with the Multi-Country Demobilization and Reintegration Program (see paragraph 43). The ADRP was chosen for grant financing because: (i) project activities have a strong human-development impact; (ii) the demobilization of ex-combatants, by consolidating stability and encouraging resettlement and renewed economic activity in the rural areas, is central to poverty reduction in Angola; (iii) resource management for the ADRP is simplified when all donor resources are available in the same form; and (iv) the Government requested grant resources for this project.

39. ***Pillar I: Enhancing the transparency, efficiency, and credibility of public resource management.*** Most Bank support to this pillar will take the form of AAA. This includes the following items:

- *An ongoing diagnostic study of the oil sector*: This forward-looking assessment of the sector, commissioned by the Ministry of Finance in 2000 with partial financial support from the Bank through the (now closed) Financial Institutions Modernization project, aims to help improve transparency in oil revenue management by enabling more accurate projections of oil prices, export volumes, and state revenues; designing and installing a monitoring system; assessing production, export metering, and financial management and procurement in the sector; and recommending institutional and regulatory reforms.
- *An ongoing Country Procurement Assessment Report* (CPAR): The CPAR, whose implementation the proposed Economic Management Technical Assistance (EMTA) project will support, will help to establish procurement procedures and practices that are consistent with international practice.

- *A planned Public Expenditure Management and Financial Accountability Review* (PEMFAR): This review, which will start in FY03 and be completed in FY04, will assess accountability procedures in Angola and identify areas for improvement, with particular focus on the budget cycle (preparation, execution, control, accounting, and auditing), resource mobilization, external audit, parliamentary oversight, accounting, and the payments system.
- *A proposed study on Corporate Social Responsibility*: This study will focus on enhancing the social investment and community development efforts of oil companies. Work will be done to sensitize oil companies to the importance of transparency and good governance with a view to reducing the collective action problem that currently discourages greater transparency by any individual company (if any one company attempts to implement more transparent policies, its competitive position may be compromised).
- *Training and awareness raising seminars and workshops supported by the World Bank Institute* (WBI) on governance and transparency issues: In the context of the LICUS initiative, Angola has become one of WBI's focus countries. Two programs are especially pertinent, namely: (i) natural resource management and (ii) good governance (focused on strengthening parliament and the media).

40. All AAA under this and the other TSS pillars is intended to complement the IMF's work in Angola. Bank staff worked closely with Fund staff in the design, monitoring, and evaluation of the two most recent SMPs (April to December 2001 and January to June 2002). Future work with the Fund is expected to help clarify long-standing concerns involving foreign loan contracts, production sharing agreements, oil exploration bonuses, and the accounts of the national oil company Sonangol; identify the nature of the Government's large extrabudgetary outlays and unexplained discrepancies in the fiscal accounts; and assist the Government in identifying the sources of and remedies for its quasi-fiscal operations as well as establishing a sound Protocol of Financial Relations between the central bank and the Treasury. It is hoped that the Government will reach agreement with the IMF in the medium term on a formal program, resulting in greater transparency and effectiveness in Government spending and greater access to external resources, including concessional lending.

41. One IDA credit is expected to support this pillar, namely, the Economic Management Technical Assistance (EMTA) credit ($17 million) presented to the Board with this TSS. The proposed credit aims to help the Government to address its severe macroeconomic imbalances and increase transparency in public resource management by: (i) strengthening the internal control capabilities of the Ministry of Finance; (ii) strengthening the ability of the Ministry to generate reliable information on the state's non-financial assets; (iii) helping to improve public debt management, control and recording; (iv) strengthening the overall planning process and establishing clear guidelines for monitoring and auditing the execution of the Public Investment Program; and (v) improving the collection, analysis and dissemination of key socio-economic data.

42. ***Pillar II: Expanding service delivery to war-affected and other vulnerable groups.*** The main AAA instruments supporting this pillar include the social investment

component of the Corporate Social Responsibility study and customized capacity-building activities to be provided by WBI, especially in the areas of Social Protection, and Community Empowerment and Social Inclusion.

43. On the lending side, the main instrument supporting this pillar is the proposed Emergency Demobilization and Reintegration Program ($33 million in IDA grant resources and $53 million in donor trust fund resources). The project, which is before the Board with the TSS and was prepared by a Bank-led multi-donor/agency team within the framework of the Multi-country Demobilization and Reintegration Program (MDRP) for the greater Great Lakes region,[8] aims to help promote economic stability in Angola and throughout the greater Great Lakes region by supporting a national program that will demobilize 105,000 UNITA and 33,000 FAA ex-combatants and reintegrate them into civilian life. It also aims to facilitate the reallocation of Government expenditures from military to social purposes. The ADRP's reintegration sub-projects are expected to cover areas such as agricultural rehabilitation; employment generation; formal and informal sector training and apprenticeship; medical rehabilitation (for disabled ex-combatants); and family reunification (for underage ex-combatants).

Box 5: UNDP/World Bank LICUS Partnership Initiative

In the context of the Low-Income Countries Under Stress (LICUS) initiative, the Bank and UNDP are preparing a framework for collaboration in several key areas in Angola. These include: (i) governance and transparency; (ii) service delivery; and (iii) capacity building.

In the area of governance, UNDP will complement the Bank's activities, as indicated in this TSS, through its PRIMA II program, which focuses on reform in the civil service and public administration. UNDP and the Bank will also cooperate on the Corporate Social Responsibility study.

In the area of service delivery, besides close cooperation between UNDP's Basic Rural Service project and the Bank's complementary Social Action Fund (FAS), UNDP will take an active part in implementing the Bank-led ADRP. In particular, UNDP is expected to manage a project intended to jump-start the social and economic reintegration process in advance of ADRP effectiveness, with funding made available through the Multi-Donor Trust Fund associated with the MDRP. In addition, it is expected to bid successfully to operate as one of the ADRP's primary contractors.

The Bank and UNDP are also collaborating in the design and implementation of capacity-building activities, particularly in the areas of statistics and public finance management, and this collaboration may extend to public procurement reform in the near future. In consultation with the Bank, UNDP (together with DFID) has financed key consultants advising the Government on the preparation of a suitable macroeconomic framework (to be presented in the interim PRSP) and on costing and prioritizing activities within the framework of the PCRRP. A more permanent mechanism for the provision of technical assistance in the area of macroeconomics–possibly through the joint appointment of a Luanda-based consultant to provide continuous assistance to the Government–is being actively pursued under this collaboration framework.

44. To assist in expanding service delivery, a third credit in support of the Social Action Fund (FAS3, $55 million) is expected to be presented to the Board in late FY03. FAS is currently in its second phase, supported by a second IDA credit (FAS2, US$33 million) and various co-financing donors.[9] FAS2 has a central coordination office in the Ministry

[8] DFID, GTZ, ILO, OCHA, UNDP, UNDPA, UNICEF, and USAID have all been formally involved in project preparation.

[9] FAS2 is cofinanced by Norway, Sweden, Italy as well as the private oil company BP.

of Planning as well as nine provincial offices which, working with local authorities and NGOs in 38 of the 72 districts of the provinces covered, provide basic social and economic infrastructure at the community level. Since the end of the conflict, disbursements have been running at a high rate of about $1.5 million a month. FAS3 is expected to be an expanded Social Investment Fund operating along community-driven development (CDD) lines, with the following building blocks: (i) participation and social inclusion; (ii) empowerment of community-based organizations and local administration; and (iii) broad civic engagement. FAS3 is also expected to expand into districts and provinces that were previously inaccessible as a result of the conflict as well as to diversify service delivery and expand into new areas of intervention such as reintegration support.

45. At the request of the Government, the Bank is also preparing an HIV/AIDS project ($20 million grant, to be presented to the Board in FY04) under the Multisectoral HIV/AIDS Program to support the work of the National AIDS Committee, which was formally appointed in October 2002. HIV/AIDS prevalence is uneven and still low in newly reopened areas, but rates of increase are rapid: 30 percent of tested sex workers in Angola have HIV, and experience outside Angola suggests that the resettlement of refugees, combatants and other mobile populations can result in sharply rising rates of infection in the general population. Angola has a rare opportunity to control a problem that has ravaged many of its neighbors, and the Bank aims to help it to pursue this opportunity aggressively.

46. Resources committed to the projects under this pillar will be used to facilitate capacity-building and the transfer of knowledge; to increase the IDA's leverage in policy design and implementation; and to ensure that critical post-conflict activities are adequately funded and utilize implementation arrangements (such as a project implementation unit for FAS and EMTA and a professional financial management and procurement unit for the ADRP) that will channel project resources to the intended beneficiaries in a transparent and accountable manner.

47. ***Pillar III: Preparing the ground for broad-based, pro-poor economic growth***: Although consolidating stability and improving public resource management are priorities for Angola today, Angola also needs to build the foundation for broad-based pro-poor economic growth. At least initially, this will require considerable work to rebuild the country's knowledge base, which is outdated. The results of this AAA are expected to help inform preparation of the stabilization phase of the Government's post-conflict program. The AAA program envisaged includes:

- *A Country Economic Memorandum* (CEM): The only CEM for Angola was completed in 1991, and a few smaller pieces of AAA followed in 1991-94. Updating this work will help to inform the Government's full PRSP. The document would assess Angola's long-term growth potential, identify the deficiencies of macroeconomic policymaking, and formulate the structural reforms needed to unleash private-sector-led growth, particularly in the non-oil, non-diamond economy. Completion is expected in 2004.

- *An ongoing PPIAF-funded Country Framework Report (CFR) on infrastructure*: The CFR aims to identify the policy, financial, and institutional framework most suitable to maximizing private sector participation in infrastructure in Angola. The sectors covered include electricity, downstream natural gas, water supply and sanitation, solid waste (in Luanda), telecommunications, ports, airports, roads, and bridges. This product, like the CEM, will be a critical input into the full PRSP and the Government's medium-term post-conflict program.
- *An oil revenue management study*: This cross-country study aims to address the serious social and economic underperformance of oil-dependent economies, including Angola. Specifically, the project addresses issues of revenue collection, management, and distribution. Expected outputs will include reference materials and stakeholder workshops, of which one is expected to be held in Luanda. This work will be pursued in close coordination with WBI's natural resource management program.

48. No lending in support of this pillar is currently envisaged during 2003, though lending may occur in 2004, under the next TSS, provided that the Government makes decisive progress in satisfying key progress indicators (see next paragraph and Annex 1).

6.5 Progress indicators

49. Progress in implementing the TSS will be assessed on a regular basis against a set of indicators set out in Annex 1. These indicators were selected in light of the post-conflict performance indicators governing Bank resource allocations to post-conflict countries. A subset of six key indicators has been selected as benchmarks for determining whether IDA lending will continue beyond the TSS period. These indicators include:

- A 50% reduction in extra-budgetary and quasi-fiscal outlays over 2003.
- Satisfactory implementation of the first year of the Public Finance Modernization Program, including strengthening of the integrated financial management system.
- Publication of all Government tax revenues.
- Completion of the diagnostic study of the oil sector and movement to BNA of all oil revenues (except those earmarked to service oil-backed debt) and their inclusion in BNA's annual audit.
- Satisfactory implementation of the ADRP, including issuance of photographic identification cards and transportation to chosen areas of destination for all ex-FMU ex-combatants by June 30, 2003.
- Operationalization of the National AIDS Commission.

50. Provided that the Government makes substantial progress in each of the areas indicated, further lending would be considered for Angola in FY05, in a TSS Progress Report to be presented to the Board in approximately 12 months. This Progress Report would also indicate what had been achieved to date. If, subsequently, the Government prepares a full PRSP (including a macroeconomic framework) and also reaches agreement with the IMF on a program, a full Country Assistance Strategy would be prepared.

6.6 Key assumptions and benefits

51. The key benefits of early Bank assistance in Angola's post-conflict period would be to promote stability in Angola, and by implication in the greater Great Lakes region, thus helping to establish the conditions for pro-poor social and economic development. Bank engagement is already helping to provide a framework for other donors and the private sector to engage in Angola's recovery, and such engagement will in turn provide the Government with an opportunity to establish a credible track record for achieving stability and transforming the economy.

52. Lending in the 12-month TSS period assumes that Angola will remain on a post-conflict path characterized by growing national reconciliation; accelerating economic reform; and successful project-specific discussions with the Bank and other major external partners. It also assumes: (i) that there will be continuing progress in completing outstanding Government commitments as recorded in the Lusaka Protocol and the MoU Addendum to that Protocol; and (ii) that a costed and prioritized interim PRSP, including a sound macroeconomic framework as well as a clear statement of Angola's post-conflict financing requirements, will be completed.

53. In general, the TSS assumes that peace will continue throughout 2003 and beyond and that a further 1.3 million IDPs and refugees will return home. Service delivery in the rural areas is expected to improve modestly as the Government and its partners are able to reach larger parts of the country for the first time in many years. In addition, relations between the Government and the donors are expected to improve as the Government gains experience in working with its partners in peacetime and makes progress in improving transparency and accountability in public financial management (the recent creation of the Ministry of Finance website is an example). At the same time, and partly as a result, donor assistance will begin to move away from emergency humanitarian assistance (which bypasses Government channels) and towards development assistance (which passes through Government channels).

6.6 Risks and risk mitigation measures

54. Significant re-engagement with Angola, as outlined in this TSS, is a high-risk undertaking, but it also has potential for high returns. The greatest risk of all involves missing this enormous opportunity to consolidate stability, promote economic reform, and help millions of people to escape the poverty and despair that conflict inevitably brings. To seize this opportunity, the Government and its partners need to demonstrate that the peace will deliver real benefits to the average Angolan, including in particular ex-combatants, IDPs and refugees that will be considering a return to their home areas. Improved security and service delivery in the rural areas has already encouraged hundreds of thousands of people spontaneously to resettle, and as this continues and returnees resume economic activity in their home areas, they will bring about a substantial and permanent reduction in the level of poverty in Angola. The Bank, as one of Angola's most respected development partners, has a key role to play in encouraging this unequivocally positive development, and it must act now to do so. Waiting, before

acting, until all outstanding governance issues are satisfactorily addressed, risks missing this singular opportunity to improve the quality of life of the average Angolan. That risk is simply too costly to take.

55. In addition to this overall risk of inaction, program implementation in Angola faces five major risks over the next few years:

- There is the *political risk* that UNITA's expectations following the signing of the April MoU will not be met and that dissatisfaction will lead UNITA ex-combatants to return to war. The ADRP is designed to help mitigate this risk. Most observers currently believe that a return to war is highly unlikely, though dissatisfied UNITA ex-combatants could engage in banditry, which may have a similar adverse impact on security and economic productivity.
- There is an *economic risk* that the Government will not be sufficiently committed to economic reform to bring about a steady (even if slow) improvement in the transparency and accountability of public financial management, with the result that relations with external partners deteriorate rather than improve. This is a substantial risk that the Bank is trying to mitigate through EMTA, its AAA, improved donor coordination, and more intensive dialogue in the post-conflict period, achieved in part by the appointment of a Country Manager. The Bank Group will also improve dissemination of its analytical work to raise awareness of its poverty-reduction activities and the impact of the Government's various policy choices.
- All activities are subject to an *implementation risk* arising from severe capacity constraints on the part of the Government. This risk is being mitigated through the specialized implementation arrangements devised for each operation as well as through the support of selected consultants to fill urgent temporary needs. Where capacity and institutional constraints in strategic areas compromise growth and poverty reduction, alternative institutional arrangements will be explored (as occurs in the FAS and EMTA through the use of a PIU and in the ADRP through establishment of a professional Financial Management and Procurement Unit).
- Angola's political and economic prospects are increasingly linked to those of the sub-region, such that there is a *risk of adverse political economic developments in neighboring countries*, particularly DRC, South Africa and Zimbabwe, that can put Angola's economic prospects at risk. The Bank is already coordinating its work in southern Africa to support efforts to mitigate regional crises and their spill-over effects. Angola's gradual diversification of trade with other countries in the region and the world, along with its active participation in regional organizations, will also mitigate this risk.
- Angola also faces the *risk of external shocks*, including in the form of oil price fluctuations that sharply reduce its development resources. To help mitigate this risk, the Bank (particularly through the oil revenue management study) will support Angola's efforts to manage its oil revenues more responsibly and predictably.

56. Successful implementation of the TSS will depend on effective mitigation of the underlying risks. To this end, enhancing cooperation with the Government and strengthening coordination with other donors will be pursued as a crucial element of the TSS. In particular, the Bank is committed to reinforcing cooperation with the Government by: (i) strengthening the Country Office (a Country Manager has been appointed and a Senior Operations Officer is being recruited); and (ii) requiring a sufficient level of Government ownership before proceeding with key Bank activities. In addition, the Bank's collaboration with its partners will be strengthened by: (i) pursuing donor coordination through specific partnership frameworks, such as the LICUS-oriented MoU with UNDP under preparation; and (ii) consolidating a transparent decision-making process that invites donor input on specific activities (as has been the case in the ADRP, where up to eight partners formally participated in missions).

6.8 Exit strategy

57. In case the Government fails to meet the progress indicators included in Annex 1, the Bank would disengage with Angola on an incremental basis depending on the seriousness of the failure. If implementation of the lending program were impeded, new lending would be cut back incrementally, through revision of the implementation schedule and partial suspension of activities. In particular, IDA might not propose a third credit to support FAS or it could restructure, cancel, and/or close (parts of) EMTA and/or the ADRP. AAA would continue for some time despite lower levels of lending, although if AAA were also shown to be ineffective, it too would be cut back. If both lending and AAA were cut back, the reduced work program in Angola would automatically result in the downsizing (and at the limit closure) of the Luanda Office. A decision to scale back would involve an assessment of the probability of successful implementation of the TSS, given the changing risks in a dynamic environment, and any such decision would be taken, whenever feasible, following consultation with other donors.

6.9 Schedule for Board consultations

58. In about 12 months, Bank staff will prepare an updated Progress Report on TSS implementation for presentation to the Board. Based on the post-conflict performance indicators articulated in Annex 1, the report would assess the evolving situation in Angola, review progress on the reform agenda and TSS implementation, and articulate a strategy for Bank engagement for the following 12-month period.

James D. Wolfensohn
President
By Shengman Zhang

Washington, D.C.
March 4, 2003

Annex 1: Post-Conflict Performance Indicators

(Progress against bolded indicators will be monitored for Year 2 lending; see paragraph 49.)

A. *Security and reconciliation*

Indicator	Progress indicators	Output/outcome indicators
Public Security	Gradual extension of State administration across national territory.	Unrestricted movement of people around the country.
Reconciliation	Successful implementation of key outstanding GoA commitments of Lusaka Protocol and April 4 MoU.	Integration of key stakeholders into the main elements of the national dialogue. Provision of promised support and services to demobilized ex-FMU
Demobilization and Disarmament	**Satisfactory implementation of the Demobilization and Reintegration Program.**	Orderly demobilization of ex-FMU not integrated into the FAA or police.

B. *Economic recovery*

Indicator	Progress indicators	Output/outcome indicators
Management of inflation, external debt, and the adequacy of the budget	**A 50% reduction in extra-budgetary and quasi-fiscal outlays over 2003.**	Increased transparency in public financial management.
Trade policy, foreign exchange, and price regimes	Continuing progress in the implementation of the customs reform program.	Increased customs revenue collection, reduced clearing times, and reduced non-gazetted payments.
Management and sustainability of the recovery program	Satisfactory implementation of the first year of the Post-Conflict Rehabilitation and Reconstruction Program.	Improved delivery of essential social and public services.

C. *Social inclusion and social sector development*

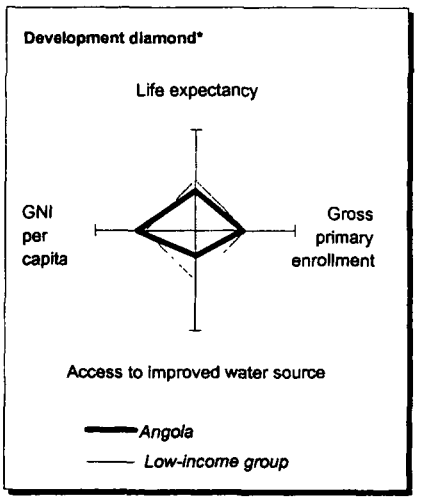
Indicator	Progress indicators	Output/outcome indicators
Reintegration of displaced population	Satisfactory reintegration of displaced populations in accordance with GoA norms	Substantial reductions in the numbers of IDPs and refugees
Education	Number of classrooms rehabilitated or constructed.	Increased access and completion rate for primary-school-age children.
Health	**Operationalization of National AIDS Commission.**	Increased HIV/AIDS awareness in at-risk populations.

D. *Public sector management and institutions*

Indicator	Progress indicators	Output/outcome indicators
Budget formulation and efficiency of revenue mobilization	**Satisfactory implementation of the first year of the Public Finance Modernization Program.**	Increased aggregate fiscal discipline.
Administration and rule-based governance	Implementation of civil service retrenchment program.	Increased flexibility to review public sector remuneration.
Transparency and accountability in the public sector	**Completion of the diagnostic study of the oil sector and movement to BNA of all oil revenues (except those earmarked to service oil-backed debt) and their inclusion in BNA's annual audit.**	Increased transparency in the flows of funds generated in the oil sector.

Angola at a glance

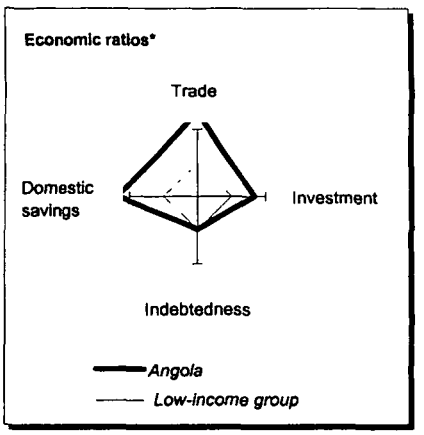
POVERTY and SOCIAL	Angola	Sub-Saharan Africa	Low-income
2001			
Population, mid-year *(millions)*	13.5	674	2,511
GNI per capita *(Atlas method, US$)*	500	470	430
GNI *(Atlas method, US$ billions)*	6.7	317	1,069
Average annual growth, 1995-01			
Population *(%)*	2.9	2.5	1.9
Labor force *(%)*	3 0	2.6	2.3
Most recent estimate (latest year available, 1995-01)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	35	32	31
Life expectancy at birth *(years)*	47	47	59
Infant mortality *(per 1,000 live births)*	128	91	76
Child malnutrition *(% of children under 5)*	41	..	..
Access to an improved water source *(% of population)*	38	55	76
Illiteracy *(% of population age 15+)*	..	37	37
Gross primary enrollment *(% of school-age population)*	91	78	96
Male	99	85	103
Female	83	72	88



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

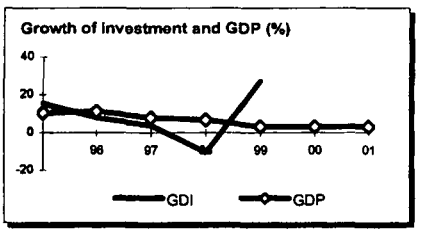
	1981	1991	2000	2001
GDP *(US$ billions)*	..	10 2	8.9	9.5
Gross domestic investment/GDP	.	15.3	35.4	34 0
Exports of goods and services/GDP	.	35.6	92.3	74 5
Gross domestic savings/GDP	.	19.5	63.1	46.3
Gross national savings/GDP	..	10.3	47.1	33.1
Current account balance/GDP	..	-5 4	10.0	-2.0
Interest payments/GDP	.	0.8	3.1	2.3
Total debt/GDP		87.5	114 5	97.6
Total debt service/exports	.	9.1	14.3	14 3
Present value of debt/GDP	..	..	108.9	..
Present value of debt/exports	..	..	114.7	..

	1981-91	1991-01	2000	2001	2001-05
(average annual growth)					
GDP	3 6	3.1	3.0	3.2	11.7
GDP per capita	0.7	-0.3	-2 8	0.1	9.3
Exports of goods and services	2.9	..		..	..

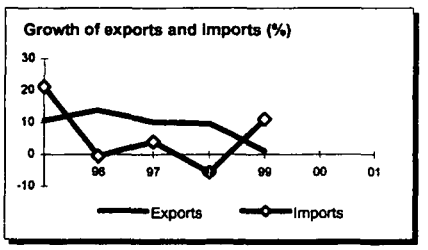


STRUCTURE of the ECONOMY

	1981	1991	2000	2001
(% of GDP)				
Agriculture	..	28.8	5.8	8.0
Industry	.	40.0	72.8	66.8
Manufacturing	..	7.5	3.0	3.8
Services	..	31.2	21.4	25.3
Private consumption	..	26.2	..	.
General government consumption	.	54.3	..	..
Imports of goods and services	..	31.5	64.6	62.2



	1981-91	1991-01	2000	2001
(average annual growth)				
Agriculture	0.3	2.5	9.3	18 0
Industry	4.2	5.8	3.5	4.1
Manufacturing	-10 5	1.9	8.9	9.8
Services	1.9	-1.5	-0.2	-4.4
Private consumption	-5.6		..	.
General government consumption	7.2	.	..	..
Gross domestic investment	-4.5	.	..	..
Imports of goods and services	-4.7	..	..	..

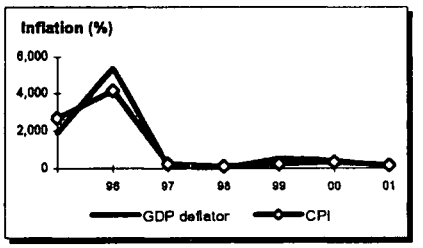


Note: 2001 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

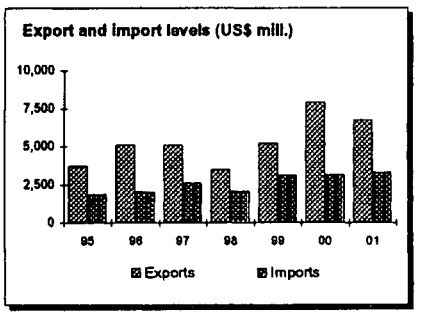
PRICES and GOVERNMENT FINANCE

	1981	1991	2000	2001
Domestic prices				
(% change)				
Consumer prices	..	85.3	325.0	152 6
Implicit GDP deflator	.	120.8	408.0	127.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	.	22.0	51.7	41.1
Current budget balance		-21 4	6 9	10.5
Overall surplus/deficit 1/	.	-26 3	-9.0	-7 5



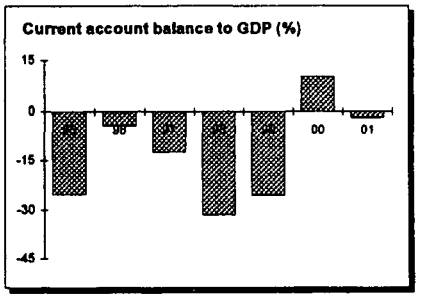
TRADE

	1981	1991	2000	2001
(US$ millions)				
Total exports (fob)	.	3,449	7,885	6,754
Crude oil	..	3,161	6,951	5,820
Diamonds	..	190	738	738
Manufactures	..	56	132	112
Total imports (cif)	..	1,347	3,147	3,316
Food	.	57	..	.
Fuel and energy	.	.	..	.
Capital goods	..	269	..	..
Export price index *(1995=100)*	.	109	165	143
Import price index *(1995=100)*	..	96	78	77
Terms of trade *(1995=100)*		114	212	185



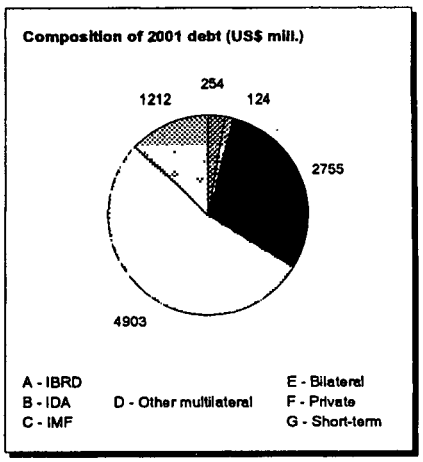
BALANCE of PAYMENTS

	1981	1991	2000	2001
(US$ millions)				
Exports of goods and services	.	3,620	8,181	7,057
Imports of goods and services		3,196	5,728	5,888
Resource balance		424	2,453	1,169
Net income	.	-1,004	-1,797	-1,609
Net current transfers	.	28	229	247
Current account balance	..	-552	885	-193
Financing items (net)	..	552	-254	-315
Changes in net reserves	.	0	-631	508
Memo:				
Reserves including gold *(US$ millions)*	..	321	1,198	732
Conversion rate *(DEC, local/US$)*	..	6 60E-8	10 0	22.1



EXTERNAL DEBT and RESOURCE FLOWS

	1981	1991	2000	2001
(US$ millions)				
Total debt outstanding and disbursed	..	8,887	10,146	9,248
IBRD	..	0	0	0
IDA	.	0	226	254
Total debt service	.	336	1,205	1,043
IBRD	.	0	0	0
IDA	..	0	0	0
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors		76	-5	-196
Private creditors	..	58	-492	-626
Foreign direct investment	..	665	878	1,347
Portfolio equity	..	0	0	0
World Bank program				
Commitments	..	62	33	0
Disbursements	.	0	24	12
Principal repayments	..	0	0	0
Net flows	..	0	24	12
Interest payments	..	0	0	0
Net transfers	.	0	24	12



1/ Excludes change in payment arrears

Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 01/30/2003

Indicator	2000	2001	2002	2003
Portfolio Assessment				
Number of Projects Under Implementation [a]	9	6	4	2
Average Implementation Period (years) [b]	4.6	5.6	3.1	3.7
Percent of Problem Projects by Number [a, c]	40.0	0.0	0.0	0.0
Percent of Problem Projects by Amount [a, c]	20.2	0.0	0.0	0.0
Percent of Projects at Risk by Number [a, d]	40.0	25.0	0.0	0.0
Percent of Projects at Risk by Amount [a, d]	20.2	4.8	0.0	0.0
Disbursement Ratio (%) [e]	61.4	16.7	48.6	77.6
Portfolio Management				
CPPR during the year (yes/no)	no	no	no	no
Supervision Resources (total US$)	719	471	320	149
Average Supervision (US$/project)	80	79	80	75

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	8	8
Proj Eval by OED by Amt (US$ millions)	223.3	223.3
% of OED Projects Rated U or HU by Number	37.5	37.5
% of OED Projects Rated U or HU by Amt	25.8	25.8

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

IFC & MIGA

Angola - IFC and MIGA Program, FY 2000-2003

	2000	2001	2002	2003
IFC approvals (US$m)	0.00			

Sector (%)

Investment instrument(%)

MIGA guarantees (US$m)	20.81			

Operations Portfolio (IBRD/IDA and Grants)
As of February 1, 2003

Closed Projects 9

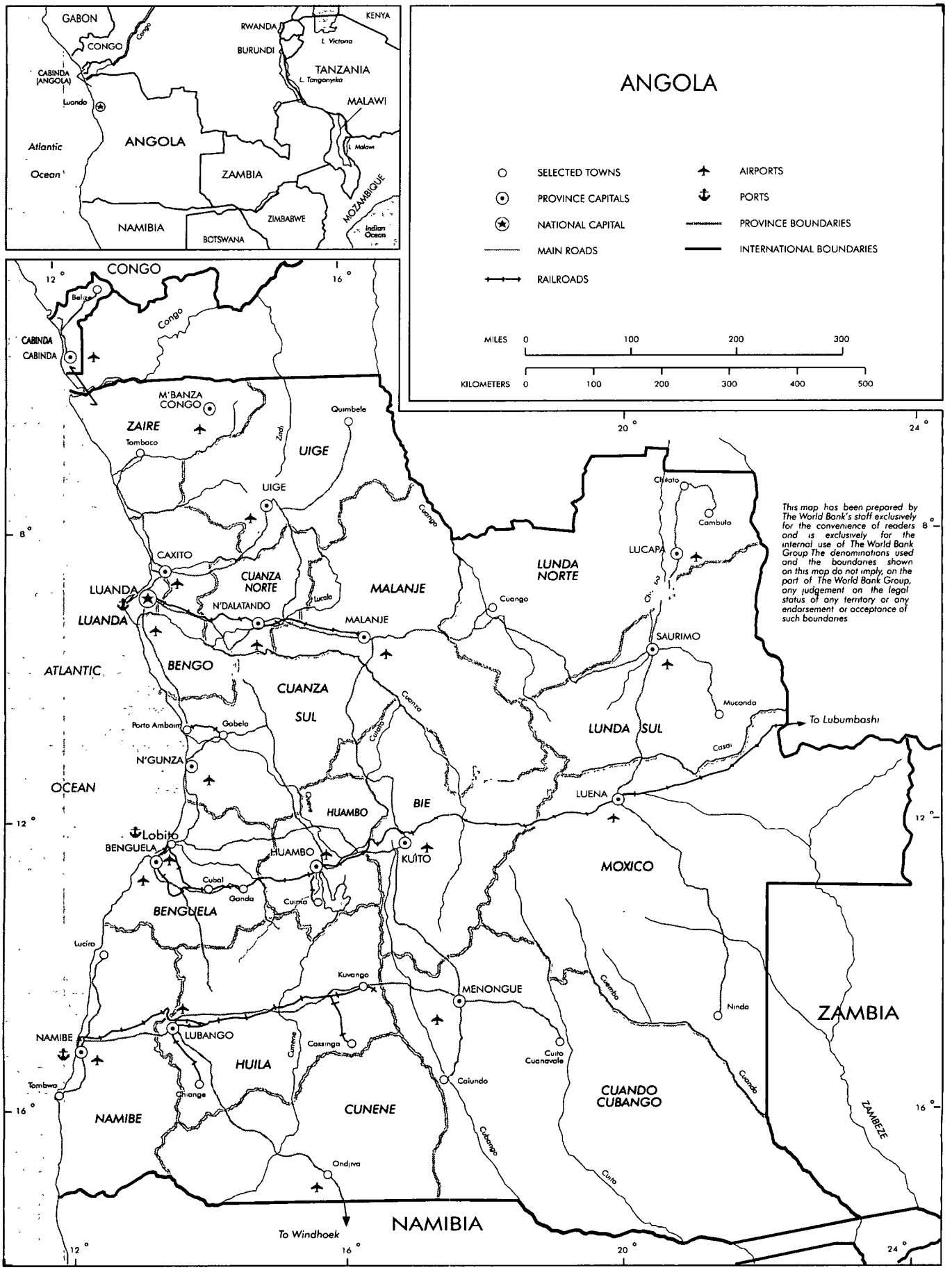
IBRD/IDA *	
Total Disbursed (	32.10
of which h:	0.00
Total Disbursed (	243.62
of which h:	3.32
Total Disbursed (	275.72
of which h:	3.32
Total Undisburse	3.59
Total Undisburse	0.00
Total Undisburse	3.59

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Developm. Objectives	Last PSR Supervision Rating: Implem. Progress	Fiscal Year	Original Amount in US$ Millio: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actua Disbursements[a]: Orig.	Frm Rev'd
P056393	SOCIAL AC	S	S	2000		33			3.457	-19.9	-4.3134

a Intended disbursements to date minus actual disbursements to date as projected at appraisal

IBRD 24288



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IMAGING

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