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Angola Growth and Inclusion DPF (P166564)

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$500 MILLION TO

REPUBLIC OF ANGOLA

FOR THE

ANGOLA GROWTH AND INCLUSION DEVELOPMENT POLICY FINANCING

May 30, 2019

Macroeconomics, Trade And Investment Global Practice
Africa Region

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REPUBLIC OF ANGOLA - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of date: April 30, 2019)

Currency Unit: Angolan Kwanza (Kz)

US\$1.00 = Kz 319

ABBREVIATIONS AND ACRONYMS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism	IRSEA	Regulatory Agency in Charge of Water and Electricity Tariffs
AQR	Asset Quality Review	Kz	Kwanza
ARC	Competition Regulatory Authority (<i>Autoridade Reguladora da Concorrência</i>)	LDP	Letter of Development Policy
BNA	Central Bank of Angola (<i>Banco Nacional de Angola</i>)	LSPA	Payment System Law
BPC	Bank of Savings and Credit (<i>Banco de Poupança e Crédito</i>)	MEP	Ministry of Economy and Planning
CBR	Correspondent Banking Relations	MFD	Maximizing Finance for Development
CEM	Country Economic Memorandum	MFD	Maximizing Finance for Development
CPF	Country Partnership Framework	MINEA	Ministry of Energy and Water
CPS	Country Partnership Strategy	MTDS	Medium-term Debt Management Strategy
DE4A	Digital Economy for Africa	MTFF	Medium-term Fiscal Framework
DGF	Deposit Guarantee Fund	NDP	National Development Plan
EFF	Extended Fund Facility	NPC	National Payment Council
ESMAP	Energy Sector Management Assistance Program	NPLs	Non-Performing Loans
FATF	Financial Action Task Force	PEM	Macroeconomic Stabilization Program (<i>Programa de Estabilização Macroeconomica</i>)
FDI	Foreign Direct Investment	PER	Public Expenditure Review



IMF	International Monetary Fund	PFM	Public Financial Management
FIL	Financial Institutions Law	PSIA	Poverty and Social Impact Analysis
FX	Foreign Exchange	RFDRP	Oil Revenue Differential Financial Reserve <i>(Reserva Financeira do Diferencial da Receita do Petróleo)</i>
GCI	Global Competitiveness Index	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GoA	Government of Angola	SOE	State-owned Enterprise
IBRD	International Bank for Reconstruction and Development	VAT	Value Added Tax
IFC	International Finance Corporation	WB	World Bank
IGAPE	New Oversight Institute under the Ministry of Finance <i>(Instituto de Gestão de Activos e Participações do Estado)</i>	WBG	World Bank Group

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REPUBLIC OF ANGOLA

ANGOLA GROWTH AND INCLUSION DPF

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P166564	Yes	1st in a series of 3

Proposed Development Objective(s)

The Operation will support the Government of Angola to achieve more sustainable and inclusive growth, through (i) a macro-financial and institutional environment that is conducive to private-sector led growth; and (ii) financial and social inclusion.

Organizations

Borrower: MINISTRY OF FINANCE

Implementing Agency: MINISTRY OF FINANCE

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing	500.00
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DETAILS

International Bank for Reconstruction and Development (IBRD)	500.00
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INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High



Results

Indicator Name	Baseline	Target (2021)
Number of quarterly fiscal accounts published per calendar year, with lags no longer than 45 days for each quarter	0 [2018]	4 [2021]
Index score in the RGI	35 [2017]	60 [2021]
Share of the total deposit accounts insured by a DGF	0% [2018]	90% [2021]
Government transfers to SOEs (operational subsidies, capital transfers) as a share of GDP	5% [2017]	2% [2021]
Number of aggregate SOE reports published per calendar year	0 [2018]	2 [2021]
Energy pricing based on market-based costs and utility tariffs based on cost-recovery principle, systematically adjusted	Ad hoc price adjustments not based on cost recovery or market principles [2018]	Implementation of new fuel pricing. Implementation of utility tariff-setting mechanism in line with revenue requirement [2021]
Number of enforcement decisions issued by the ARC	0 [2018]	3 [2021]
FDI inflows (non-oil sector), as a share of GDP	0.2% [2017]	1% [2021]
Number of poor households registered and receiving cash transfers in the <i>Cadastro Único</i>	0 [2018]	800,000 [2021]
Share of adult population with a transaction account	53% [2018] ¹	70% [2021]

¹ The baseline of the indicator is currently being reviewed. The indicator takes into account all bank accounts in Angola; however, some clients have multiple bank accounts in several banks. The review of the indicator is expected to be finalized by the end of September 2019 following the conclusion of a Financial Inclusion Survey. Baseline and target will also incorporate gender disaggregated data.



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF ANGOLA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) series supports the Government of Angola's (GoA) efforts to maintain macroeconomic stability and lay the foundations for private-sector led economic diversification.** The proposed DPF is the first single tranche operation, in the amount of US\$500 million, in a programmatic series of three IBRD loans. The proposed DPF is organized around two pillars: (i) strengthening the macro-financial and institutional environment and (ii) protecting the poor and vulnerable.

2. **The Angolan economy is at a significant juncture.** The current growth model based on oil wealth is nearly exhausted and has not delivered inclusive growth and shared prosperity. In addition, over-dependence on oil has made growth and macroeconomic management highly vulnerable to external shocks. The challenge for the new Administration of President João Lourenço, the first new leader in almost four decades and in office since September 2017, is to make growth inclusive and less dependent on oil. Prospects of persistently low oil prices and potentially diminishing oil reserves over the longer-term make the call for economic diversification and inclusion even more pressing. Within this context, Angola faces two broad policy challenges that need to be urgently addressed:

- Angola needs institutions that support more sustainable and less volatile growth. The sharp and prolonged decline in oil prices since mid-2014 has reduced oil revenues and caused gross domestic product (GDP) growth to contract over the past three years. The current account deficit (CAD) stood at 8.8 percent of GDP in 2015, large fiscal deficits have been recorded since 2014, public debt has doubled over the last three years. There is also an urgent need to safeguard financial system stability as the undercapitalization of a systemically important state-owned bank, the loss of direct U.S. dollar correspondent banking relations (CBR), and non-performing loans (NPL) are inhibiting the banking sector's ability to provide needed credit for the private sector, especially for small and medium enterprises. Inflation escalated in 2016, reaching a peak of 40 percent in December 2016, before retrenching to 18 percent in February 2019.
- Angola needs a more inclusive growth model that promotes private-sector led diversification and protects the poor and vulnerable. Up to now, Angola has relied on the oil industry and high oil prices to drive economic growth and to rebuild a large part of its infrastructure, which was destroyed during the long Civil War (1975-2002). Inequality remains high, with a Gini coefficient of 0.43 in 2016. In the 2015, Angola ranked 150 (out of 188) in terms of Human Development Indicators. The Human Capital Index (HCI) is at 0.36 and performs below income comparators and the Sub-Saharan Africa's average at all levels. In 2016, about 30 percent of the Angolan population remained below the international poverty line (at US\$1.90/ day and 55 percent if US\$3.1/day is considered). Investment in human capital, effective institutions and a favorable business environment are critical for economic diversification and job creation.

3. **The new Administration is aware of these challenges and has started to implement much needed reforms.** Decisive steps have been taken towards restoring macro-stability and the country's medium-term National Development Plan (NDP, 2018-2022) lays out a road map towards a more diversified and inclusive growth model that is open to supporting a young and growing population. The new Administration has also



shown willingness to tackle entrenched interest and has undertaken several critical reforms, including the passage of laws for greater private sector investment and transparency. The new Administration is advancing plans to open up important sectors to competition, including through privatizations of large-scale state-owned enterprises (SOE). Macro-economic policies have been adjusted to reflect market realities and address imbalances: these include greater exchange rate flexibility; the modernization of monetary policy; plans to reform and better target subsidies; more effective management of natural resource wealth through the creation of a Sovereign Wealth fund with the dual objective of fiscal-stabilization and long-term saving; and a commitment to restructure state-owned banks. The proposed DPF series intends to support Angola in its ambitious and urgent reform strategy.

4. The proposed DPF is fully aligned with the government's priorities and reflects the World Bank's current engagement in Angola. The operation will support the GoA in its efforts to achieve more sustainable and inclusive growth, through (i) a macro-financial and institutional environment that is conducive to private-sector led growth; and (ii) financial and social inclusion. The DPF builds on extensive policy dialogue structured around analytical work, which includes the recent Angola systematic country diagnostic (SCD)², a broad range of technical assistance, and several ongoing and planned World Bank operations.³ The SCD identifies (i) improving governance and macroeconomic stability; (ii) creating productive opportunities for economic diversification, and (iii) building human capital as critical binding constraints to support Angola's transformation from an oil-based, state-led economy to a more inclusive, diversified private sector-led economy.

5. The DPF complements the recently approved International Monetary Fund (IMF) Extended Fund Facility (EFF) program. The EFF, approved on December 7, 2018 supports macro-economic stability to pave the way for sustained and inclusive growth. The key objectives of the program are: (i) to entrench fiscal adjustment in 2018 and 2019, followed by gradual fiscal consolidation to reduce public debt to sustainable levels; (ii) to liberalize the foreign exchange (FX) market, while gradually unwinding exchange restrictions and multiple currency practices; (iii) to modernize the monetary policy framework; (iv) to strengthen financial sector resilience; and (v) to foster private sector-led growth and economic diversification by improving governance and the business environment. The EFF also supports reforms that target improvements in governance, such as enhancing transparency in debt management; restructuring the state oil company Sonangol; improving Public Financial Management (PFM); and strengthening the anti-money laundering/ combating the financing of terrorism (AML/CFT) framework.

6. The DPF series is aligned with the World Bank's Maximizing Finance for Development (MFD) framework, the Digital Economy for Africa (DE4A) initiative and Africa Regional Strategy adopted in 2019. The operation supports MFD-enabling reforms, including macro-financial stability; improvements to the business climate; SOE reform and tariff reform. The DPF series further supports reforms in the telecommunications sector which are expected to enhance competition and market structure, and as such improve the availability, quality and cost of telecommunications services. Increased competition in telecoms, supported by financial inclusion measures, are expected to spur the development of new digital products and services and foster digital entrepreneurship.

² Report Number: 135196. Discussed by the Board on 04/23/2019.

³ Recent analytical work that informed the preparation of the DPF also include: the Financial Sector Development Strategy (2017); the Policy Notes to the New Administration (2018), Angola Social Protection Public Expenditure Review (2018), the Angola Country Economic Memorandum: Towards Economic Diversification (2018), and the Angola Country Private Sector Growth Diagnostic (CPSD) (2018).



This is in line with the World Bank's DE4A; as part of this initiative the World Bank is supporting the GoA with a Digital Infrastructure Reform Road Map.⁴ Together, these DPF-supported reforms are expected to contribute to the Africa Region Strategy's Sustainable and Inclusive Growth Pillar. Additionally, the DPF, through support to expansion and better targeting of the social protection program and promoting financial inclusion will also contribute to the Human Capital, especially as this program will prioritize disadvantaged women households and given the gap in financial access for men and women in Angola.

7. **The overall risk associated with the proposed DPF is assessed as high.** Most of the reforms supported by the operation are part of the NDP and benefit from strong ownership of the government. The most relevant risks are related to macroeconomic, institutional capacity limitations and stakeholder risks from potential resistance to reform from vested interest groups. A sustained decline in oil prices and a stronger than expected reduction in oil production could dampen growth prospects and increase the need for additional fiscal consolidation, while a significant increase in oil prices may lessen reform momentum. A strong commitment to macro-economic stability and structural reforms, together with long-term prospects of declining oil production are mitigating factors here, as they provide strong incentives to pursue a less-oil dependent inclusive growth model. SOE and tariff reforms are expected to unlock significant private investment but may also evoke resistance from vested interests; a planned multi-stakeholder communication strategy on critical reforms, a phased approach to the elimination of subsidies and the establishment of social safety net are expected to cushion the impact. Supporting prior actions with dedicated TA and putting in place a Technical Committee with prior action-specific focal points is expected to help mitigate risks to implementation.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

8. **After a decade of strong economic expansion, growth halted after 2014 due to falling oil prices.** Angola's heavy reliance on oil makes its economic performance highly volatile. The oil sector still accounts for one third of GDP and over 90 percent of exports. The economy grew by 8.2 percent on average during 2004 and 2014, backed by high oil prices and rapidly increasing oil production. With the sharp drop in oil prices in 2014 and macroeconomic adjustment that was delayed until end-2017, growth initially collapsed in 2015 and then contracted over the past three years, averaging -1.5 percent during 2016 and 2018. The oil price crisis also gave rise to twin deficits in the fiscal and current account from 2014 onwards. Public debt has doubled over the last four years, and inflation escalated to over 40 percent in December 2016, exposing significant macro-financial risks.

9. **While the government's initial policy response to the crisis was geared towards adjusting to lower oil prices, the policy stance became more accommodative in 2017.** The GoA was one of the first Sub-Saharan African (SSA) countries to respond to the oil price shock of 2014, addressing its consequences upfront and decisively until 2015: the GoA allowed for some exchange rate devaluation, raised interest rates, cut fuel subsidies, increased non-oil tax rates and government-set prices; and cut current and capital expenditures. The run-up to presidential elections in August 2017 brought about a more accommodative policy stance: fiscal

⁴ Angola Digital Infrastructure Reform Roadmap (World Bank Group, forthcoming, 2019).



consolidation was halted, and the budget deficit increased from 4.5 percent of GDP in 2016 to 6.3 percent of GDP in 2017. To control inflation, the Kz exchange rate was re-pegged in April 2016 and the Central Bank of Angola (BNA) hardened currency controls and started to ration FX⁵. With reduced access to FX, the spread between the official and parallel exchange rate increased substantially, reaching more than 250 percent in 2016.

10. The adjustment towards an adequate macroeconomic framework resumed under the new government and is underpinned by an IMF program. The new government has stressed the need for economic policies that help the economy adjust to a scenario of permanently lower oil prices and to foster economic diversification. The policy response has been anchored in the government's macroeconomic stabilization plan (*Programa de Estabilização Macroeconómica*, PEM), which targets (i) a more flexible exchange rate regime; (ii) a monetary anchor to inflation; (iii) fiscal consolidation and debt sustainability; and (iv) improved macro-financial stability. The new macroeconomic framework will be supported by a three-year IMF Extended Financial Facility (EFF) in the amount of US\$3.7 billion.

11. Angola's external balance has improved since 2015. Since over 90 percent of exports are generated by oil sales, oil prices and production are the main driver of the balance of payments. After posting significant current account surpluses between 2010 and 2013 that averaged 9.4 percent, the external account deteriorated with the collapse in oil prices in mid-2014, reaching a deficit of 8.8 percent in 2015. Trade surpluses declined from an average of 37.6 percent of GDP from 2010 to 2013 to 16.7 percent in 2017, and the current account deficit narrowed to 0.3 percent of GDP in 2017, mainly due to the recovery in oil prices, widespread restrictions on imports and FX shortages. The current account reached an estimated surplus of 1.7 percent of GDP in 2018, supported by favorable terms of trade, currency depreciation and weak economic activity.

12. Exchange rate misalignments were reduced in 2018 with greater exchange rate flexibility. Exchange rate misalignment and depleting foreign reserves prompted the BNA to abandon the fixed peg to the U.S. dollar and ease currency controls in January 2018. The peg, which had been in place at a rate of 166 since April 2016, has been replaced by a crawling peg system, where the exchange rate is determined by regular primary market auctions. The Kz depreciated by about 46 percent in nominal terms against the U.S. dollar in 2018. This broadly eliminated the real exchange rate misalignment, which was estimated at about 20 to 40 percent in real terms at end-2017.⁶ With greater exchange rate flexibility, the parallel-official exchange rate spread narrowed to less than 30 percent by end-2018, compared to 140 percent at the beginning of the year. In September 2018, the BNA also stopped the prioritization of access to FX for select products and firms and ended direct FX sales. FX inflows increased in 2018 with higher oil revenues (82.1 percent increase in nominal terms vis-à-vis 2017) and external borrowing, the latter was mainly due to US\$3.5 billion Eurobonds issuance in May and July. Capital inflows allowed the BNA to increase the level of FX sales relative to 2017, while only recording a moderate loss of international reserves (-11.4 percent by end-2018). Gross international reserves stood at US\$15.8 billion in March 2019, equivalent to 6 months of imports.

13. BNA adopted a restrictive monetary policy to anchor inflation and to offset the impact of the exchange rate devaluation. In preparation for the new exchange rate regime, BNA adopted a monetary target (base money) to replace the fixed exchange rate as an anchor for inflation and tightened in November 2017 reserve requirement by stricter enforcing compulsory deposit requirements. BNA also raised benchmark interest rates

⁵ The BNA introduced a priority list for access to foreign exchange and carried out direct foreign exchange sales to select clients.

⁶ 2018 IMF Article IV and World Bank Angola CEM (2018).



from 16 to 18 percent in November 2017, but interest rates have since been loosened somewhat, to 16.5 percent in July 2018 and 15.75 percent in January 2019 to stimulate economic activity. Money supply (base money) growth has picked up 6.3 percent in February 2019, after contracting by 9.8 percent in 2017. The adopted monetary policy mix has succeeded in lowering inflation, despite a large currency depreciation. Inflation⁷ declined from 23.7 percent at end-2017 to 17.6 percent in March 2019, despite a one-off increase in water tariffs in September 2018. With lower inflation and higher nominal interest rates, real interest rates are approaching positive terms, after negative readings during the past two years.

14. The Government tightened the grip on expenditures in 2018, while working on more structural measures to raise non-oil revenues and contain expenditures. Angola's public finances are primarily influenced by the price of oil given the high proportion of oil revenues in the budget. This caused large swings in the general government balance, from a *surplus* of 8.1 percent of GDP in 2011 to a *deficit* of 6.3 percent of GDP in 2017. Fiscal consolidation and higher oil revenues turned persistent fiscal deficits since 2014 into an estimated budget surplus of 2.2 percent of GDP in 2018. The Ministry of Finance resumed fiscal consolidation in 2018 by reducing expenditures on payroll (there have been no salary increases to government employees), goods and services, and investments in real terms. The GoA has stepped up enforcement against expenditures contracted outside of the budget to avoid further payment arrears which stood at 5 percent of GDP in 2018. Electronic procurement is being used more broadly in an effort to save on government purchases. To support domestic revenue mobilization, the GoA has committed to implement the value-added-tax (VAT) in 2019. The GoA is also implementing a comprehensive reform of SOEs, including subsidy and tariff reform in the water, energy and public transport sector. This is expected to help curb fiscal risks and improve expenditure efficiency (see Box 1).

Box 1. SOEs in Angola: Financial Performance and Subsidies

SOEs play an important role in Angola. With revenues equivalent to 24 percent of GDP in 2017, Angola's SOE sector is significantly larger than the sub-Saharan African average (14 percent). SOEs held over US\$88 billion in assets in 2017, equivalent to over 70 percent of GDP. In 2017, Angola had 51 SOEs that were actively involved in most sectors of the economy, ranging from agriculture, public works, transport, energy and water to banking and finance. A large and poorly performing SOE sector not only poses significant fiscal risks, but also leads to cost-ineffective operation and low quality of service delivery, and crowds out private sector investment. Explicit and implicit liabilities of SOEs can pose additional fiscal risks.

Average financial performance has been poor and many SOEs have needed significant capital injections. SOEs' financial performance has significantly deteriorated since 2012, with net profit declining from US\$6.6 billion in 2012 (5.2 percent of GDP) to losses of US\$574 million in 2017 (0.5 percent of GDP). Excluding Sonangol, Angola's national oil company and largest SOE, financial performance has been even worse: SOE losses excluding Sonangol were US\$740 million in 2017 (0.6 percent of GDP). Several SOEs received an increase in their paid-in capital between 2013 and 2017 through direct equity injections from the Treasury. In 2017 alone, the three state-owned banks (BCI, BDA and BPC) received a total of \$634 million in capital, while Sonangol received US\$5.3 billion.

The subsidy bill for SOEs is large, but difficult to assess as many costs are off-budget. *Operational subsidies* in the form of budgetary transfers to public utilities and other SOEs (covering operational costs, salaries) fluctuate but continue to consume a significant share of the central government budget, with an average of 0.4 percent of GDP for 2014–2018. *Price subsidies* peaked at 7 percent of GDP in 2011, but lower oil price from late 2014 onwards and four consecutive price increases for liquid fuels between September 2014 and December 2015 greatly reduced budgetary costs for liquid fuels. However, even as the world oil prices rebounded starting in early 2016, regulated fuel prices have remained frozen at the

⁷ As measured by the national consumer price index (CPI).



levels set in December 2015, leading to renewed price subsidies. No budget allocations have been provided to reimburse fuel suppliers, as a result of which growing price subsidies have been transferred from the budget to Sonangol. Preliminary results from a cost-of-supply study that estimates supply costs of refined products in Angola⁸ indicate a fuel subsidy bill of around US\$0.4 billion (0.4 percent of GDP) in 2017 and US\$1.8 billion (1.7 percent of GDP) in 2018. These amounts do not take into account the fact that the state-owned power generation company owed Sonangol US\$1.7 billion (1.6 percent of GDP) as of early 2018 for unpaid diesel purchase bills. The increase in off-budget subsidies since 2016 underlines the importance of reforms supported by this operation that aim to establish a mechanism for market-based costing of the supply of all liquid fuels and automatic fuel price adjustments for gasoline and diesel.

To normalize financial relations between the state and SOEs, the GoA is implementing a set of reforms, which are supported by the DPF operation.

- **SOE reform:** Restructure and resize the SOEs by closing insolvent SOEs and privatizing or restructuring inefficient but economically viable SOEs. Strengthen state oversight and management of SOEs through a new oversight institute under the Ministry of Finance (*Instituto de Gestão de Activos e Participações do Estado*, IGAPE) to improve performance and efficiency including active monitoring of fiscal risks. This set of reforms is supported by DPF policy area 3.
- **Pricing and subsidies reform in the fuel, electricity and water sectors:** In the fuel sector, implement a market-based pricing formula for quantifying fuel price subsidies and move toward cost recovery. In the electricity and water sectors, implement a utility tariff-setting mechanism in line with revenue requirement to support the financial sustainability of public utilities. This DPF supports tariff and subsidy reform (policy area 4), while mitigating the impact of such reforms on the poor and vulnerable (policy area 6).

Figure B1.1: Net profit/loss 2012-2017, AOA Mio and Percent of GDP

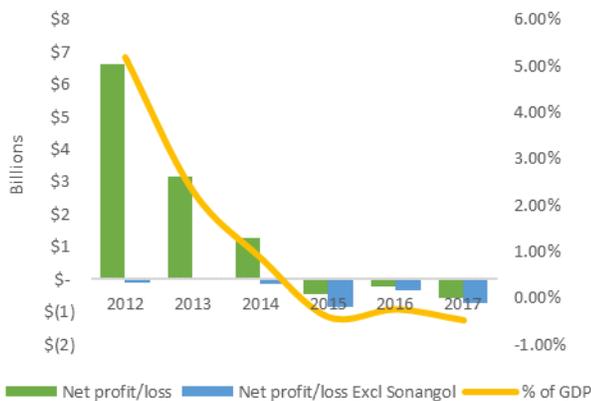
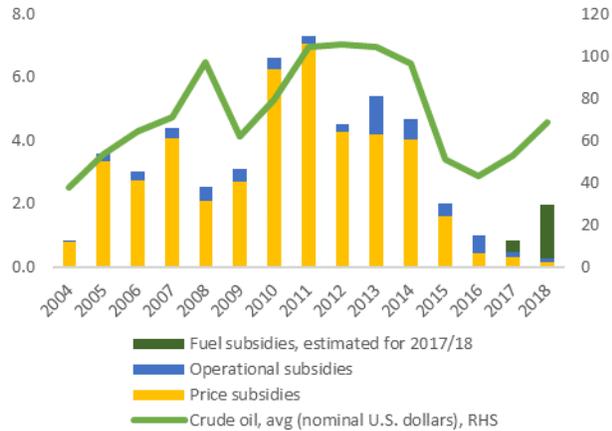


Figure B1.2: Price and operational subsidies, 2008-2018, percent of GDP*



Source: Ministry of Finance, World Bank SOE diagnostic.

* Price subsidies include subsidies that are explicit, or budgetary costs. The fuel subsidy bill estimated for 2017/18 is implicit or off budget as it has been indirectly transferred to Sonangol. The estimate is based on the cost-of-supply study for refined products in Angola for 2017 and 2018; therefore, fuel price subsidies in these two years cannot be compared with price subsidies of previous years.

⁸ The cost-of-supply study is part of the ESMAP project to support pricing and subsidies reform in the fuel sector.



15. Debt has increased on the back of the currency depreciation, larger financing needs and government arrears clearance. Total public debt, including debt of Sonangol, has increased from 39.8 percent of GDP in 2014 to 68.5 percent of GDP in 2017 as a result of larger financing needs and currency depreciation – more than half of the debt is denominated in foreign currency. The debt is very sensitive to exchange rate movements. As of December 2018, the public debt to GDP ratio stands at 89.1 percent due to the currency depreciation and the issuance of domestic bonds to settle government arrears. Debt is of medium- and long-term maturity, although domestic debt (excluding debt issued to capitalize banks) tends to be of shorter maturity. Low domestic debt roll-over rates (below 50 percent) in 2018 and large gross financing needs has promoted the GoA to diversify financing sources, including through the issuance of US\$3.5 billion in Eurobonds. The Government is actively addressing debt vulnerabilities by strengthening debt management and transparency, which is expected to reduce FX vulnerability and lower borrowing costs. As part of the IMF EFF program, the Government is further prioritizing the repayment of oil-backed loans, which is also aligned with a broader commitment to move away from oil-backed financing in the future⁹, as indicated in the Letter of Intent of the EFF. In the context of this DPF operation, the Government has also agreed to prepare, disclose and implement a medium-term debt strategy (MTDS) and an annual borrowing plan (Prior Action 1).

16. Macro-financial linkages in Angola are high and pose significant risks. Lower oil prices since 2014 have contributed to the deterioration of key financial soundness indicators. Delays in government payments to suppliers resulted in higher NPLs. The shortfall in government finances raised public financing needs, which pushed up the yield on government securities and further crowded-out private borrowing. The state also has a significant role in the banking sector, which poses additional macro-financial risks: (i) the direct ownership of three banks (including one of the top five), and Sonangol's significant stake in six banks (including one of the top five banks) pose a direct fiscal risk; (ii) the growing exposure of banks to government bonds and hence sovereign risks. Additionally, there is a considerable ownership stake by politically exposed persons (PEPs) in the banking system. In parallel to the oil price shock, the banking sector suffered with the loss of CBR with US banks in 2016 amid concerns over jurisdictional risks and weaknesses in Angola's AML/CFT framework.

17. BNA has been more proactive in addressing financial sector vulnerabilities. The authorities have made significant progress in improving the legal and regulatory framework for bank regulation and supervision, as well as in addressing weakness in the banking sector. Banking regulation and supervision enhancements include (i) a revised 2015 financial institutions law that includes improvements in corporate governance and internal controls; (ii) all domestic banks have migrated to the IFRS accounting system; and (iii) an asset quality review (AQR) for the twelve largest banks is expected to be completed in 2019 (a structural benchmark under the IMF program)¹⁰. NPLs remain high – at 28 percent at end-2018, but the bulk (almost 70 percent) are concentrated in the largest state-owned bank BPC, which depends on liquidity from BNA and requires recapitalization and operational restructuring to help resolve NPLs, a public asset recovery entity (Recredit) was set up in 2017, which has agreed to purchase BPC's distressed assets. As part of the IMF program, the GoA will limit Recredit's mandate

⁹ The IMF estimates the collateralized external debt stock at US\$19 billion in 2018, which is equivalent to 39.6 percent of external public debt (including Sonangol) or 18 percent of GDP (IMF EFF, 2019). The EFF defines oil-collateralized external debt, as external debt which is contracted by or on behalf of the Central Government, the BNA, and Sonangol by giving an interest in oil. The 2018 Eurobond prospectus refers to oil pre-payment facilities rather than collateralized debt. According to the prospectus, oil-prepayment facilities accounted for 59 percent (about US\$22 billion) in 2017.

¹⁰ Following the AQRs, any bank with capital shortfalls will be required to submit a plan to raise capital from by end-2019 and complete the recapitalization process by June 2020.



to purchase NPLs from only BPC and will introduce a sunset clause to its operations. BPC is undergoing critical restructuring; several branches have been closed and staff has been laid-off. The restructuring plan will be updated in consultation with the IMF, to ensure it is sufficiently capitalized and viable by June 2020. It is important that resolving BPC NPLs does not create a fiscal liability and that Recredit processes follow market practice. The BNA issued a directive to increase the minimum capital requirements for banks from US\$8 million to US\$25 million by end-2018 and this led to the closure of three small banks¹¹. Moreover, the BNA is strengthening the AML/CFT framework for the banking system and the Government has launched a National Risk Assessment (NRA) for AML/CFT in 2017¹².

¹¹ *Banco Mais* and *Banco Postal* did not meet the new minimum capital requirements and *Banco BANC* did not meet required liquidity and capital requirements. All three banks are small and their combined assets account for less than 1 percent of system assets. While these banks are small with a limited deposit base, BNA has pledged to guarantee all non-related deposits and it is important to ensure that this does not generate a new liability for BNA balance sheet. (BNA believes that it can draw on these banks own reserves to address depositor requirements.

¹² See Section 4, Objective 1.2 for further details.

Table 1. Angola: Key Macroeconomic Indicators, 2015-2021

Table 1. Key Macroeconomic Indicators, 2015–21	2015	2016	2017e	2018F	2019F	2020F	2021F
				Projected			
National Accounts and Prices							
	<i>(Annual percentage change, unless otherwise indicated)</i>						
Real gross domestic product	0.9	(2.6)	(0.1)	(1.7)	1.0	2.9	2.8
Oil sector	11.1	(2.7)	0.8	(9.2)	(2.1)	3.2	1.3
Non-oil sector	(3.0)	(2.5)	(0.4)	0.3	2.3	2.8	3.4
GDP deflator	(3.5)	21.8	22.6	34.2	20.1	10.6	7.6
Consumer prices (annual average)	9.2	30.7	29.8	19.6	17.9	11.7	8.0
Consumer prices (end of period)	12.1	41.1	23.7	18.6	16.2	8.7	7.4
Gross domestic product (LCU billion)	13,950	16,550	20,262	26,729	32,424	36,900	40,804
Oil sector	3,105	3,457	4,326	7,607	9,365	10,420	11,227
Non-oil sector	10,845	13,093	15,937	19,122	23,058	26,480	29,577
Gross domestic product (USD billion)	116.2	101.1	122.1	105.7	97.8	101.4	105.9
Gross domestic product per capita (USD billion)	4,171	3,510	4,100	3,480	3,155	3,208	3,286
Fiscal Accounts							
	<i>(As a percentage of GDP, unless otherwise indicated)</i>						
Revenues	24.1	17.5	17.5	21.7	22.4	22.8	22.8
Of which: Oil-related	13.6	8.3	9.9	13.7	13.9	13.6	13.3
Of which: Non-oil tax	8.2	7.4	5.9	6.3	6.8	7.4	7.8
Expenditures	27.1	22.0	23.8	19.5	18.9	19.0	18.6
Primary fiscal balance	(1.1)	(1.7)	(3.0)	6.6	7.2	7.6	7.8
Overall fiscal balance	(2.9)	(4.5)	(6.3)	2.2	3.5	3.8	4.3
Non-oil Primary Fiscal Balance	(14.2)	(9.7)	(12.4)	(6.6)	(6.2)	(5.6)	(5.0)
Non-oil Primary Fiscal Balance (percent of non-oil GDP)	(18.3)	(12.3)	(15.7)	(9.2)	(8.8)	(7.8)	(7.0)
Total public debt	57.1	75.3	68.5	89.1	83.9	76.3	69.6
Selected monetary accounts							
	<i>(Annual percentage change, unless otherwise indicated)</i>						
Credit to the private sector	17.6	(1.0)	(1.0)	30.2	16.3	13.4	12.8
Broad money M2	11.8	14.4	(0.1)	23.6	18.7	13.9	12.7
External accounts							
	<i>(As a percentage of GDP, unless otherwise indicated)</i>						
Trade balance	10.7	14.4	16.7	22.8	22.6	22.1	21.8
Exports of goods and services	29.6	28.0	29.4	39.8	40.9	40.1	39.4
Imports of goods and services	32.7	25.4	23.1	30.0	32.6	31.9	31.1
Foreign direct investment	(7.1)	(1.3)	(3.3)	(2.9)	0.9	1.0	1.2
Current account balance	(8.8)	(3.0)	(0.3)	1.7	0.0	0.2	0.5
Gross international reserves (end of period, USD millions)	24,419	24,353	18,228	16,150	16,378	16,834	17,593
Gross reserves (months of next year's imports)	11.4	10.3	6.9	6.1	6.1	6.1	6.3
Net reserves (USD billion)	24,266	20,807	13,587	10,632	10,782	11,082	11,582
Nominal exchange rate - average	120	164	166	253			
Memo							
Angola oil price (average, USD per barrel)	53.7	40.9	48.4	69.2	66.9	65.9	66.4
Crude oil price (average, USD per barrel)	50.8	42.8	52.8	68.3	66.0	65.0	65.5
Oil and gas production (millions of barrels per day)	1,779.5	1,749	1,762	1,600	1,566	1,616	1,637

Sources: MINFIN, BNA, World Bank estimates, 2019.

Table 2. Angola Key Fiscal Indicators, 2015-2021

Table 2. Key Fiscal Indicators, 2015-21	2015	2016	2017e	2018F	2019F	2020F	2021F
				Projected			
	<i>(As a percentage of GDP, unless otherwise indicated)</i>						
Overall balance	(2.9)	(4.5)	(6.3)	2.2	3.5	3.8	4.3
Primary fiscal balance	(1.1)	(1.7)	(3.0)	6.6	7.2	7.6	7.8
Non-oil Primary Fiscal Balance	(14.2)	(9.7)	(12.4)	(6.6)	(6.2)	(5.6)	(5.0)
Non-oil Primary Fiscal Balance (percent of non-oil GDP)	(18.3)	(12.3)	(15.7)	(9.2)	(8.8)	(7.8)	(7.0)
Revenue	24.1	17.5	17.5	21.7	22.4	22.8	22.8
Taxes	21.8	15.7	15.8	20.0	20.7	21.1	21.2
Oil	13.6	8.3	9.9	13.7	13.9	13.6	13.3
Non-oil	8.2	7.4	5.9	6.3	6.8	7.4	7.8
Social contributions	1.1	1.0	0.8	0.7	0.7	0.7	0.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.2	0.8	0.8	1.0	1.0	1.0	1.0
Expenditure	27.1	22.0	23.8	19.5	18.9	19.0	18.6
Current expenditures	21.8	18.1	17.3	15.3	14.6	14.1	13.5
Compensation of employees	10.0	8.4	7.4	5.8	5.5	5.4	5.3
Use of goods and services	5.6	3.8	4.1	3.5	3.9	3.8	3.7
Interest	1.8	2.8	3.3	4.4	3.7	3.8	3.6
Subsidies	2.0	1.0	0.5	0.3	0.5	0.4	0.3
Other expense	2.4	2.1	1.9	1.4	1.0	0.8	0.6
Capital expenditures	5.3	3.9	6.5	4.1	4.3	4.8	5.1

Sources: MINFIN, World Bank estimates, 2019.

Table 3. Angola Fiscal Financing Needs and Sources, 2017-2021

Table 3. Angola Fiscal Financing Needs and Sources, 2017	2017e	2018F	2019F	2020F	2021F
		Projected			
	<i>(As a percentage of GDP, unless otherwise indicated)</i>				
Gross financing needs	20.0	14.8	12.9	15.3	11.2
Primary deficit	3.0	(6.6)	(7.2)	(7.6)	(7.8)
Debt service	17.0	21.4	16.8	21.4	17.9
External debt service	4.4	7.2	10.5	9.7	8.3
Principal	3.0	5.2	7.4	7.1	5.7
Interest	1.5	2.1	3.0	2.7	2.6
Domestic debt service	12.6	14.2	6.4	11.7	9.6
Principal	10.7	11.9	5.7	10.6	8.7
Interest	1.9	2.3	0.7	1.1	1.0
Other debt creating flows ¹⁾			3.3	1.5	1.1
Gross financing sources	20.0	14.8	12.9	15.3	11.2
Debt issuance	21.8	19.8	12.9	15.3	11.2
Domestic debt disbursements	16.2	11.9	6.8	7.8	6.3
External debt disbursements	5.6	7.9	6.1	7.5	4.9
Statistical discrepancy	(1.8)	(5.0)	-	-	-

Sources: MINFIN, BNA, World Bank estimates, 2019.

1) Includes arrears clearance, recapitalizations



Table 4. Angola External Financing Requirements and Sources, 2017-2021

Table 4: Angola External Financing Requirements and Sources, 2017-21

	2017e	2018F	2019F	2020F	2021F
		Projected			
		<i>(in Million USD)</i>			
Gross financing needs	11,930	10,262	7,358	8,830	6,476
Current account deficit	340	(1,831)	(44)	(200)	(531)
External debt amortization	11,589	12,093	7,402	9,031	7,007
Government	3,610	5,454	7,249	7,160	6,008
Banks	205	323	323	323	323
Other private	7,774	6,316	(170)	1,548	676
Gross financing sources	4,719	7,306	7,508	9,130	6,976
Capital account (net)	6	3	3	3	3
Foreign direct investment (net)	(4,080)	(3,116)	873	969	1,281
External borrowing	8,793	9,428	5,383	6,535	4,063
Government	6,823	7,318	4,683	5,985	3,613
Banks	985	2,110	700	550	450
Central Bank	985	-	-	-	-
World Bank ¹⁾	-	-	500	500	500
IMF	-	991	499	1,123	1,129
Other IFIs ¹⁾	-	-	250		
Change in reserve assets (+ = increase)	(7,211)	(2,956)	150	300	500

Sources: MINFIN, BNA, World Bank estimates, 2019.

1) Only includes budget support operations

Table 5. Angola Debt Sustainability Analysis

Angola Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

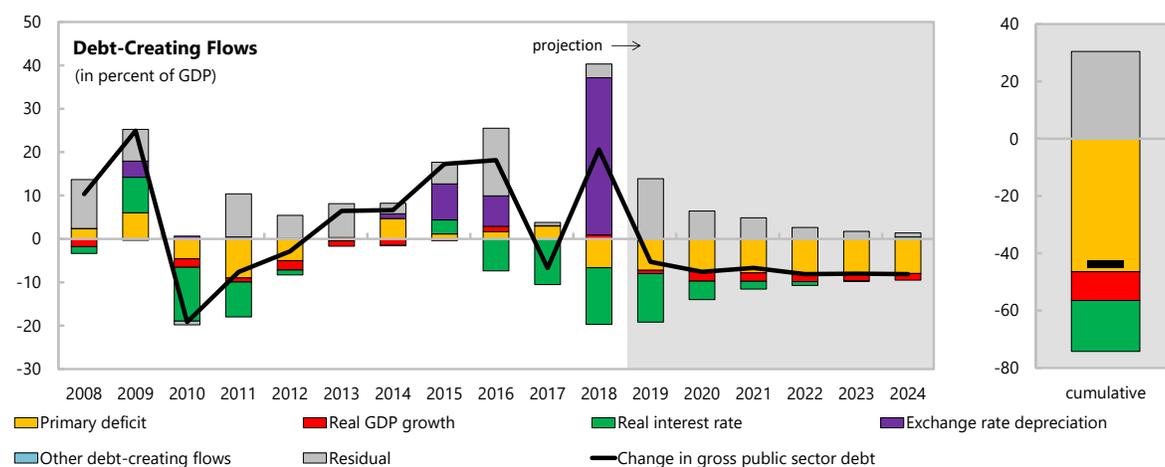
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators^{1/}

	Actual			Projections						As of March 04, 2018		
	2008-2016 ^{2/}	2017	2018	2019	2020	2021	2022	2023	2024			
Nominal gross public debt	42.9	68.5	89.1	83.9	76.3	69.6	61.5	53.5	45.4	Sovereign Spreads		
Public gross financing needs	4.8	20.0	14.8	9.6	13.9	10.1	7.9	5.5	3.5	Bond Spread (bp) 3/ 550		
Real GDP growth (in percent)	4.1	-0.1	-1.7	1.0	2.9	2.8	3.0	3.0	3.1	5Y CDS (bp) n.a.		
Inflation (GDP deflator, in percent)	10.9	22.6	34.2	20.1	10.6	7.6	6.3	5.1	3.9	Ratings Foreign Local		
Nominal GDP growth (in percent)	15.6	22.4	31.9	21.3	13.8	10.6	9.5	8.3	7.0	Moody's B2 B3		
Effective interest rate (in percent) ^{4/}	4.8	5.4	8.5	5.1	5.1	5.2	5.1	5.1	4.9	S&Ps B- B-		
										Fitch B B		

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024		
Change in gross public sector debt	6.0	-6.7	20.6	-5.3	-7.6	-6.7	-8.1	-8.0	-8.1	-43.8	
Identified debt-creating flows	-1.1	-7.5	17.4	-19.2	-14.0	-11.6	-10.7	-9.8	-9.0	-74.2	
Primary deficit	-0.3	3.0	-6.6	-7.2	-7.6	-7.8	-7.9	-7.9	-8.0	-46.5	
Primary (noninterest) revenue and grant	36.0	17.5	21.7	22.4	22.8	22.8	22.9	23.0	23.2	137.2	
Primary (noninterest) expenditure	35.7	20.5	15.1	15.2	15.2	15.0	15.0	15.1	15.2	90.7	
Automatic debt dynamics ^{5/}	-0.7	-10.4	24.1	-11.9	-6.4	-3.7	-2.8	-1.8	-1.1	-27.8	
Interest rate/growth differential ^{6/}	-3.1	-10.4	-12.2	-11.9	-6.4	-3.7	-2.8	-1.8	-1.1	-27.8	
Of which: real interest rate	-2.1	-10.5	-13.1	-11.2	-4.3	-1.8	-0.9	-0.1	0.4	-17.8	
Of which: real GDP growth	-1.0	0.1	0.9	-0.8	-2.1	-1.9	-1.9	-1.7	-1.5	-10.0	
Exchange rate depreciation ^{7/}	2.4	0.0	36.3	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., privatization rec)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	7.1	0.8	3.1	13.9	6.4	4.9	2.6	1.7	0.9	30.5	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[r - \pi(1+g) - g + ae(1+r)] / (1+g+\pi+g\pi)$ times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.



Box 2. Scenario Analysis: Simulating a permanent decline in oil prices on fiscal and external accounts in Angola

Oil price are highly volatile which generates a lot of uncertainty around oil price projections. The OPEC basket price reached US\$50/barrel in mid-December 2018 and has since increased to US\$72/barrel by end-April. The Bank’s Commodity Markets Outlook from April 2019 expects that oil prices will average US\$66/bbl in 2019 and 2021, and this is aligned with the baseline oil price assumption for macro-economic analysis in section 2.1. To assess the macro-fiscal implications of a low oil price scenario, a downside scenario is presented here which assumes that oil prices are 20 percent lower the baseline or equivalent to about US\$55/barrel during 2019 to 2021. Under such a low-oil price scenario, oil revenues would be lower, the current account deficit larger and growth would recover more gradually, additional fiscal financing needs are also projected to emerge:

- **Fiscal accounts:** Assuming that oil production remains unchanged relative to the baseline, a 20 percent decline in oil prices would reduce oil revenue by Kz 2,304 billion during 2019 and 2021 compared to the baseline. This would be equivalent to an average decline in oil revenue of 1.5 percent of GDP per year. The overall fiscal balance would be lower than under the baseline but remain positive (Figure B2.1). With a lower primary balance and higher debt servicing costs, gross financing needs in 2019 would increase from 12.9 percent of GDP to 15 percent of GDP, adding more than 2 percent of GDP in financing needs.
- **External accounts:** Under the low oil price scenario, total exports earnings would decline by US\$18 billion relative to the baseline during 2019 and 2021. This is equivalent to an average decline of 4.4 percent of GDP in export receipts per year. The current account balance would deteriorate from 0 percent of GDP (baseline) to -3.3 percent of GDP in 2019 (Figure B2.2).
- **Public debt:** With lower oil prices, total public debt (including Sonangol) is expected to increase from 89.1 percent of GDP in 2018 to 90.2 percent of GDP in 2019 due to a lower primary balance and lower inflation (GDP deflator); this compares to a projected decline in debt to 83.9 percent of GDP under the baseline scenario. From 2020 onwards, public debt is expected to decrease at a slower pace under the oil price scenario, to 59 percent of GDP by 2024 (assuming oil price remain at US\$55 until 2024). Under the baseline scenario, the public debt stock decreases to 45.4 percent of GDP by 2024.

The authorities are taking policy action to mitigate a sustained decline in oil prices. After submitting the 2019 budget proposal to parliament in October 2018, the Ministry of Finance submitted a supplementary budget proposal to parliament in May 2019 to reflect the impact of a lower oil price, consistent with the IMF EFF program. Fiscal consolidation efforts will further be supported by a commitment to exchange rate flexibility, appropriate monetary policy, and prudent debt management policy.

Figure B2.1: Fiscal accounts, 2017-2021, percent of GDP

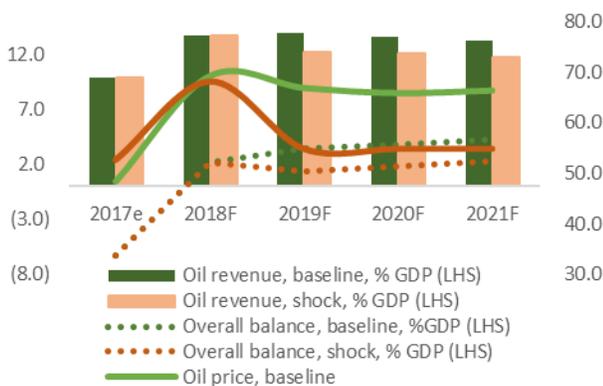
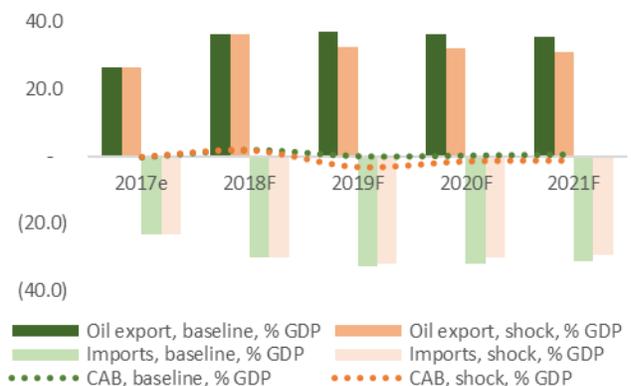


Figure B2.2: External accounts, 2017-2021, percent of GDP



Source: Ministry of Finance, Word Bank estimations.



2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

18. **Growth is expected to resume in 2019, supported by an increase in non-oil sector activity.** GDP contracted in 2018 due to a large decline in oil and gas production. Production levels declined by 9.2 percent, from 1,762 tbbbl/day in 2017 to 1,600 tbbbl/day in 2018¹³. Growth is expected to remain subdued in 2019 due to a faster-than-expected decay in mature oil wells and lower-than-expected production from marginal oil fields. Oil and gas production are expected to stabilize over the medium term at production levels of around 1,630 tbbbl/day from 2021 onwards, as new oil production will be replacing maturing oil fields. Growth in the non-oil sector is projected to gradually increase over 2019-2021, supported by greater FX availability and government measures to boost private investment.

19. **External accounts are projected to remain near equilibrium, and inflation is expected to decline over the medium term.** The CAB is projected to reach a surplus in 2018 with higher oil prices. A pick-up in imports is expected to contribute to a lower trade balance in 2019; thereafter the current account is projected to remain balanced as terms of trade improve and the real effective exchange rate remains close to fundamentals. Inflation is expected to temporarily increase in 2019 due to anticipated increases in fuel prices and utility tariffs, before declining to single digits over the medium term as fiscal and monetary policy remain tight. Exchange rate pass-through from continued exchange rate depreciation is expected to remain limited.

20. **Gradual fiscal consolidation is needed to ensure public debt sustainability.** The supplementary 2019 budget maintains the focus on fiscal consolidation.¹⁴ Fiscal consolidation is expected to be supported by strengthened domestic revenue mobilization and improved PFM. Oil revenues are projected to gradually decrease in real terms in the medium term as oil production levels stabilize around 1,600 tbbbl/day in 2021¹⁵. The introduction of the VAT in mid-2019 and a gradual improvement in tax administration are expected to support non-oil revenue. On the expenditure side, the GoA is planning to reform tariffs and subsidies in energy, water and transport sector, and this is expected to increase financial sustainability. Improved management, divestment and/or privatization of several SOEs is expected to contribute to fiscal savings. Public investments are expected to increase using some of the fiscal space allowed by higher revenues and declining surplus needs overtime.

21. **The DPF supports the government's fiscal consolidation agenda through prior actions in SOE reform, and tariff and subsidies reform.** The government's SOE reform agenda (policy area 3) aims to (i) strengthen SOE oversight and management; and (ii) to restructure and right-size the sector. Better oversight, through more active monitoring of fiscal risks, and more effective SOE management are expected to deliver efficiency gains and cost savings at the SOE level, which, in turn, would reduce SOE losses and (operational) subsidies to SOEs. Efficiency gains from SOE reform are estimated to deliver fiscal savings of about 0.2 percent of GDP (US\$220

¹³ Oil production stood at 1,486 tbbbl/day in 2018, which is below the OPEC production cap for Angola of 1,673 tbbbl/day. The new OPEC cap for the first half of 2019 is set at 1,481 tbbbl/day. This should however not constrain oil production in Angola, which is estimated at around 1,435 tbbbl/day in 2019.

¹⁴ After submitting the 2019 budget proposal to parliament in October 2018, the Ministry of Finance submitted a supplementary budget proposal to parliament in May 2019 to reflect the impact of a lower oil price, consistent with the IMF EFF program. While the initial budget proposal for 2019 was based on a benchmark oil price of US\$68/barrel, and an oil production level of 1,435 tbbbl/day, the supplementary budget assumes a conservative oil price of US\$55/barrel, and an oil production level of 1,459 tbbbl/day. The DPF oil price projections are aligned with the price forecast for crude oil in the World Bank Commodity Markets Outlook, April 2019.

¹⁵ The World Bank Commodity Markets Outlook from April 2019 expects that oil prices will average US\$66/bbl in 2019 to 2021, and this is aligned with the baseline oil price assumption for macro-economic analysis.



million) per year between 2019 and 2021¹⁶. These estimates present a lower bound of fiscal gains from SOE reform and actual savings will likely be higher as enhanced SOE transparency and monitoring will likely reduce contingent liabilities to the GoA, while the divestment and privatization of SOEs will generate proceeds over the medium-term; the fiscal impact from SOE divestment and privatization is difficult to quantify *ex ante* as it will closely depend on the implementation of the SOE privatization program, which is yet to be finalized. Given that the EFF foresees that privatization proceeds will not be used to finance current expenditures, privatization proceeds will likely be used to reduce debt or finance long-term investments¹⁷.

22. Price subsidy reforms is expected to strengthen the financial viability of SOEs, reduce the government's contingent liabilities, and increase economic efficiency. Cost of service (COS) studies in the fuel and electricity sectors are underway to quantify the level of subsidization. In the fuel sector, the total fuel subsidy provided in 2018 is estimated to be about US\$1.8 billion, or 1.7 percent of GDP, of which US\$1.4 billion is attributed to gasoline and diesel¹⁸. The implementation of a market-based pricing formula (Indicative Trigger for policy area 4) will enable the Government to quantify price subsidies more accurately and help plan how to raise prices for gasoline and diesel to achieve cost recovery and eliminate the (off-budget) price subsidies, which are currently borne by Sonangol. To the extent that the Government ultimately pays for off-budget subsidies through budgetary transfers to recapitalize SOEs, as it has done for Sonangol in the past, improving the financial viability of Sonangol would contribute to fiscal consolidation.

23. According to the latest Debt Sustainability Analysis, public debt is expected peak in 2018 and then to gradually decline over the medium-term. Public debt (including Sonangol) is estimated to have increased to 89.1 percent of GDP (US\$77.1 billion) in 2018 due to currency depreciation, higher borrowing needs, and recognized liabilities from government arrears and SOE capitalization. Debt is still deemed sustainable under the baseline scenario and expected to decline to around 45.4 percent of GDP over the medium-term due to prudent fiscal and monetary policies (see Table 5). The assessment is subject to downside risks such as lower oil prices and contingent liability shocks.

24. Debt sustainability is sensitive to exchange rate and oil price dynamics. Around 80 percent of debt is denominated in foreign currency, which makes the debt stock vulnerable to currency depreciation. As more than 60 percent of the revenues comes from oil, lower oil prices make it more difficult to service debt. Debt dynamics are also sensitive to growth and contingent liabilities, related to state-owned banks or non-financial SOEs, pose additional risks.

25. The World Bank has been engaged in technical assistance on debt management to the GoA since 2014. The World Bank, together with other development partners, has been engaged in training and support related to cost-risk analysis and the development of a MTDS since 2014. In 2016 and 2017, the World Bank supported the Financial Sector Development Strategy, which included a pillar on the development of the domestic capital market. In 2018, the World Bank and the IMF have started to re-engage with GoA on both domestic capital market development and the medium-term debt management strategy.

¹⁶ Estimations are based on financial results from 60 SOEs, the exercise assumes a gradual increase in efficiency in financial results (average profit/loss for 2015-2017) over the DPF period 2019-2021.

¹⁷ As per IMF EFF, the GoA commits to not use privatization receipts to finance current spending.

¹⁸ Also see Box 1 on SOE sector. This amount does not take into account the fact that the state-owned power generation company owed Sonangol US\$1.7 billion (1.6 percent of GDP) as of early 2018 for unpaid diesel purchase bills.



26. **The main risks to the economic outlook come from wide oil price fluctuations and slippages in the implementation of the reform agenda.** Capacity constraints and implementation slippages can put the government's ambitious reform agenda at risk. Oil prices and crude oil production constitute another risk. While higher prices may generate complacency towards the need to adjust, lower prices and/or production reduce oil revenues and this may require additional expenditure cuts to maintain fiscal consolidation. Financial sector vulnerabilities need to be addressed to avoid negative spillovers on the economy, including prompt NPL resolution, the restructuring of state-owned banks, and the monitoring of FX-rate risks as banks are transitioning toward a more flexible FX regime.

27. **The macroeconomic framework in Angola is sustainable over the medium term and adequate for the proposed operation.** The depreciation of the currency and the removal of FX restrictions has allowed the current account to reach equilibrium and brought the real effective exchange rate close to fundamentals. The adoption of a market-based exchange rate will allow the exchange rate to respond to oil price fluctuations, bearing most of the adjustment in the future. Domestic equilibrium has not yet been achieved as inflation and debt levels are still high. However, the policy response since late 2017—anchored in the PEM—has been adequate and effective in reducing these imbalances. If implemented successfully, the PEM is expected to strengthen fiscal and debt sustainability, reduce inflation, and improve financial sector stability over the medium term. The economic diversification agenda—backed by the NDP 2018-2022—will be instrumental to enhance private sector-led growth and competitiveness over the medium term, which will help reduce the volatility and pro-cyclicality from commodity dependency and support macroeconomic stability.

2.3. IMF RELATIONS

28. **The IMF approved a three-year EFF with Angola on December 7, 2018.** The IMF program will provide financing for US\$3.7 billion, of which US\$990.7 million was made available for immediate disbursement. The program supports the implementation of PEM, including fiscal consolidation, increased exchange rate flexibility, and financial sector stability. Other pillars of the program include enabling a better business environment; updating the AML/CFT legal framework; and improving governance. The EFF includes conditionalities on public debt and the transparency of debt statistics. The EFF further envisages close collaboration with the World Bank on subsidies reforms, including on mitigating social protection measures. The EFF, which is expected to allow Angola to maintain the current reform momentum, is off to a good start as four out of five performance criteria and all indicative targets for the first review have been met; structural benchmarks are also broadly on track. The first review of the EFF is expected to go to the IMF Board by early June.

3. GOVERNMENT PROGRAM

29. **Since the new Administration took office in September 2017, the short-term agenda has been on achieving macroeconomic stability and creating an environment conducive to inclusive growth.** The PEM for 2018, a follow-up to the six-month interim plan adopted in October 2017 (*Plano Intercalar*), endorsed policies that helped address imbalances in the FX market and in the CA; promoted fiscal consolidation and debt sustainability; and reined in inflation. The move to greater exchange rate flexibility when existing the fixed peg to the US dollar in January 2017 and fiscal consolidation measures adopted in the 2018 budget are consistent with these policies. The supplementary budget for 2019, which reflects a conservative oil price outlook,



maintains a focus on fiscal consolidation; the supplementary budget will likely deliver significant fiscal buffers, if oil prices persistently exceed US\$55/barrel.

30. **The NDP (2018-2022) sets out the medium-term development objectives for Angola between 2018 and 2022.** Released in May 2018, it is aligned with the general planning system law and with the long-term plan Angola 2025, which will be revised and extended to 2050. The NDP contains 10 higher order objectives and is composed by six intervention axes or government priorities, 25 strategic policies, and 83 programs. The six government priorities are: (i) human development and welfare; (ii) sustainable, diversified, and inclusive economic development; (iii) infrastructure development; (iv) peace consolidation, strengthening democracy, good governance, decentralization and state reform; (v) harmonious territorial development; (vi) and ensuring Angola's stability and territorial integrity and strengthening Angola's role regionally and internationally. The GoA expects that the measure set out in the NDP will support an improvement in several benchmark indicators such as Angola's Human Development Index from 0.53 in 2015 (low human development) to above 0.7 (medium human development) by 2025.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

Link to government program

31. **The Growth and Inclusion DPF series aims to support Angola's efforts to maintain macro-financial stability and lay the foundation for private-sector led, inclusive development.** The proposed DPF series recognizes and supports the Angolan authorities' reform efforts to secure macro-stability, improve social outcomes and promote the development of the private sector by strengthening the business environment, including through increased supply of energy and water. The proposed DPF series is closely aligned with the priorities identified in the PEM program and the NDP. The DPF series directly supports six programs from the NDP (see Table 6).

32. **The proposed DPF is fully aligned with the government's priorities and reflects the World Bank's current engagement in Angola.** The DPF builds on extensive policy dialogue structured around analytical work, including the recent Angola SCD, technical assistance, and other current and prospective World Bank engagements. The following interdependent filters were applied to guide the choice of sectors and reforms: (i) criticality and robustness of reforms; (ii) the presence of strong analytical underpinnings and a good knowledge base to inform the choice of actions; (iii) robust implementation arrangements to support reforms including through complementary investment operations and technical assistance (TA); (iv) government ownership to implement the reforms within the operation's timeframe; and (v) coordination with other development partners.

Table 6. DPF Areas and Link to Government Program (NDP program)

DPF areas	Government Program (NDP program)
Pillar 1 - Strengthening the macro-financial and institutional environment.	
Policy Area 1.1: Strengthening debt and natural resource management for fiscal sustainability	2.1.1 Improvement in PFM
Policy Area 1.2: Strengthening financial sector resilience	2.2.1 Improvement in business environment and competitiveness
Policy Area 1.3/1.4: Strengthening management and commercial viability of SOEs/ Supporting pricing and subsidy reform for financial sustainability and effective service provision	2.1.1 Improvement in PFM 3.2.2 Consolidation and optimization of the energy sector 3.3.2 Consolidation and optimization of the water sector
Policy Area 1.5: Leveling the playing field for private investment	2.2.1 Improvement in business environment and competitiveness 2.2.2. Improvement in competition and productivity
Pillar 2 - Protecting the poor and vulnerable.	
Policy Area 2.1: Protecting the poor and vulnerable from shocks	3.2.3 Protecting the most vulnerable and their social and productive reintegration
Policy Area 2.2: Increasing access to finance	2.2.1 Improvement in business environment and competitiveness

Operation description

33. **The series' Program Development Objectives (PDOs) are to support the Government to achieve more sustainable and inclusive growth, through (i) a macro-financial and institutional environment that is conducive to private-sector led growth; and (ii) financial and social inclusion.** The reforms under the two objectives mutually reinforce each other and are expected to make the country more resilient to shocks, raise investor confidence, and foster fiscal sustainability and private-sector-led growth over the medium-term. The operation is organized around two pillars, each including several policy areas:

Pillar 1: Strengthening the macro-financial and institutional environment. Policy areas include: strengthening debt and natural resource management for fiscal sustainability (1.1); strengthening financial sector resilience (1.2); strengthening management and commercial viability of SOEs (1.3); supporting pricing and subsidy reform for financial sustainability and effective service provision (1.4); and leveling the playing field for private investment (1.5).

Pillar 2: Protecting the poor and vulnerable. Policy areas include: protecting the poor and vulnerable from shocks (2.1); and increasing access to finance (2.2).

Lessons learned

34. **The design of the proposed operation incorporates lessons learned from previous DPF.** Four broad lessons emerge from the experience with the first DPF to Angola in 2015 which are of relevance for the current series. First, the need to be realistic in establishing targets and timetables. Second, the need to complement policy reform with institutional building, and calibrate the goals and timing according to the level of capacity available to implement the program. Third, the need to ensure broad ownership and commitment to reforms on the government side, so that the program is not severely affected by the departure of key counterparts. The



fourth lesson relates to the importance of establishing a process for preparing and supervising the operation. Reflecting those lessons, the current operation focuses on reforms where political support comes from the highest level. To ensure successful implementation, all prior actions are further supported by sector-specific World Bank operations and/or TA. The Government has also put in place a Technical Steering Committee, consisting of dedicated focal points for each prior action, to ensure program implementation. The Technical Steering Committee has the objective to support (i) the implementation of the policy areas supported by the DPF, and (ii) the monitoring and evaluation of the prior actions, indicative triggers and results indicators related to the DPF, by ensuring effective communication between the different ministries, agencies and the World Bank to appropriately coordinate the multi-sectoral policy reform agenda supported by the DPF.

Box 3. Four Lessons from 2015 DPF

- **Failure to attain most results indicators under the 2015 DPF highlight the importance of considering the political and institutional constraints to development in Angola.** The execution of the program fell short in those areas where the expected measures called for fundamental managerial and administrative reforms, such as with the Public Investment Program; and the policies required strong political support to overcome vested interest, such as with the consolidation of the social sector programs or the introduction of automatic adjustments to fuel prices.
- **Results indicators should be established according to the sector’s administrative capacity and the ability of the World Bank and development partners to provide the technical assistance needed by the clients.** Experience from the 2015 shows that results were more difficult to reach the larger the gap between administrative capacity and complexity of task.
- **Progress and success require steadfast political support and broad government ownership of the reforms.** For the 2015 DPF, program achievements in many areas of the program varied according to the degree of focus and assistance provided by the central authorities. The lack of priority support was reflected in the inadequate allocation of resources, in failure to fulfil policy commitments, in being proactively engaged and taking corrective measures. Commitment at the highest level is crucial, as it often has a cascading effect: it permeates down to agency and working level staff. As such, policy-based support needs to be accompanied by a strong political commitment to the reforms that goes beyond a commitment that is codified in agreements, but one that is reflected in the repeated actions.
- **A multi-sectorial program requires a multi-sector team from the government as counterparts.** In addition, multi-sectorial program demands more coordination from the government side. A dedicated government staff with project management skills and a certain level of autonomy is key for the success of the project in terms of timeline and achievement of results. The implementing agency was always overstretched throughout the preparation and supervision. The multi-sector committee, which was supposed to be in charge of monitoring the results was never enacted and staff in the Ministry of Finance lacked autonomy to steer the operation.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Strengthening the macro-financial and institutional environment.

Objective 1.1. Strengthening debt and natural resource management for fiscal sustainability

35. **Rationale.** Angola needs an effective long-term strategy to manage its natural resource revenues. A key challenge is to reconcile long-term strategic, national development objectives with medium-term macroeconomic objectives—including the need to manage volatile natural-resource revenue and restoring the sustainability of public debt. An additional concern related to natural resource wealth is that oil-dependency has



left Angola with a legacy of oil-backed loans, which may have adverse macroeconomic, fiscal, and capital market implications. While collateralized borrowing may under some circumstances be a helpful device for regaining capital market access during difficult periods, over the longer-term, it may prevent access to cheaper and deeper mobilization of foreign financing; it may also increase vulnerability to shocks if debt repayments fluctuate with oil prices.¹⁹

36. Angola currently has several special fiscal arrangements for oil revenue management, however they have not proven effective in managing natural resources efficiently. Until recently, there were four funds or accounts capitalized with oil revenue.²⁰ These funds had overlapping objectives and were managed by several bodies, including the Development Bank of Angola, the Sovereign Wealth Fund of Angola, and the Central Bank of Angola. In addition, they lacked clear and transparent rules for capitalization, withdrawals, and portfolio investment consistent with the overall fiscal framework.²¹ The different funds have fallen short of their objectives of fiscal stabilization and long-term investment and are now in-operative. The Government is in the process of consolidating these different funds into a single Fund, as part of a new and effective fiscal framework for natural resource wealth management.

37. Weaknesses around governance and PFM institutions further undermined the current oil revenue management framework. There is limited public disclosure and transparency of fiscal accounts, including for oil revenues and funds/accounts. The absence of regular data reporting further restricted transparency and accountability of the oil funds. Enhancing budget credibility through better planning and preparation, both for the short and medium term, would help to strengthen the framework in which such oil revenues are managed. In addition, strengthening the internal controls over the payment cycle would help to instill more discipline in the use of these resources. Lastly, the preparation of fiscal reports and the strengthening of the public financial reporting regime would boost the transparency with which the resources are used and facilitate scrutiny over their stewardship.

38. Transparency also needs to improve with regards to debt reporting. Comprehensive and public information on debt strategies, operations and policies for public debt management are currently very limited in Angola. Debt transparency and predictability of government's borrowing needs are critical elements for an efficient debt management strategy, as it enables borrowers and lenders to evaluate public debt sustainability and monitor risks. Enhanced transparency also reduces investor uncertainty and in turn contributes to broadening the investor base, lowering risk premiums and decreasing borrowing costs.²²

39. Efficient debt management is critical to address debt-related risks and ensure debt sustainability. Total public debt has more than doubled since 2014 in percent of GDP, and more recently increased to 85.2 percent of GDP in 2018 as a result of larger financing needs and the currency depreciation – around 80 percent of public debt is denominated in foreign currency. Efficient debt management is critical to address debt-related risks and ensure debt sustainability.

¹⁹ See IMF (2003): <https://www.imf.org/external/np/fad/2003/061103.pdf>.

²⁰ While the Sovereign Wealth Fund (FSDEA), the Oil Fund (FP), and the National Development Fund (FND) were set up to promote intergenerational equity and long-term development, lack of a clear and transparent investment strategy has not delivered the expected returns. The Oil Price Differential Account (OPDA), established after the global financial crisis to reduce pro-cyclicality of fiscal policy, has fallen short of its fiscal stabilization objective.

²¹ See Angola Policy Notes for the Incoming Administration (2018).

²² G20 notes on strengthening public debt transparency (June, 2018); OECD sovereign borrowing outlook (2016).



40. The GoA is committed to reduce the public debt-to-GDP ratio of the Central Government and Sonangol (excluding public guarantees) to 65 percent by 2023, including by reducing financing needs through lower borrowing cost, and by improving the debt service profile (IMF EFF). This includes reducing excessive exposure to currency risk and oil-backed financing. The GoA is also committed to utilize oil revenue to repay maturing liabilities and to prepare a medium-term fiscal framework (MTFF) to guide the budget consolidation and preparation process over the next few years.

Prior Action #1 for DPF1: The Borrower, through MINFIN, has improved the transparency and efficiency of public debt management and operations, by introducing the first medium-term debt management strategy (MTDS) and an annual borrowing plan, as evidenced by: (i) the publication of the MTDS in MINFIN's Debt Management Unit on March 26, 2019; and (ii) publication of the annual borrowing plan in MINFIN's Debt Management Unit website on February 5, 2019.

Indicative Trigger #1 for DPF2: To improve fiscal sustainability and the management of natural resources, the GoA has submitted to the National Assembly the law for the establishment of the oil revenue fund with the dual objective of fiscal stabilization and long-term investment.

Indicative Trigger #1 for DPF3: In order to promote transparency and efficient management of natural resources, the GoA has (i) established the working rules of the fiscal stabilization fund (Oil Revenue Differential Financial Reserve (*Reserva Financeira do Diferencial da Receita do Petróleo*, RFDRP) in a Presidential Decree, and (ii) started issuing comprehensive quarterly fiscal and debt reports following international good practices.

Results Indicator #1: Number of quarterly fiscal accounts published per calendar year, with lags no longer than 45 days for each quarter. Baseline (2018): 0; Target (2021): 4.

Results Indicator #2: Index score in the Resource Governance Index (RGI). Baseline (2017): 35; Target (2021): 60.

41. **Substance and criticality.** The GoA is actively engaged in strengthening debt and natural resource management. The Government is addressing debt vulnerabilities through strengthened debt management and transparency. The World Bank and IMF provide technical assistance to the Debt Management Unit (UGD) of the Ministry of Finance in the development of the MTDS and in identifying measures to foster the development of the domestic market for government securities (including through the establishment of benchmark securities, reduce the frequency of primary auctions, and increase the share of domestic financing through competitive auctions). As part of the IMF EFF program, the Government is further prioritizing the repayment of oil-backed loans and other maturing liabilities, which is aligned with the use of oil revenue to reduce the level of debt prior to start capitalizing of the future fiscal stabilization fund (see below on RFDRP). As the capitalization of the fiscal stabilization fund will only start once Central Government falls below 60 percent of GDP, the MTDS will inform the policy decision concerning which liabilities should be repaid (using oil revenue) or rolled over, given their cost and risk profile. In this regard, the GoA is expected to adequately coordinate its fiscal policy and debt management, informed by the MTFF and MTDS, respectively.²³

42. **To improve transparency and efficiency of public debt management and operations, the UGD will publish an annual borrowing plan and the first ever MTDS (Prior Action #1 for DPF1),** in line with recommendations of the IMF and World Bank. The MTDS and Annual Borrowing lay out plans to reduce public debt by repaying selected maturing liabilities, and gradually phase out oil-backed financing for the next three years. The three-year MTDS will be updated on an annual, rolling basis and inform future annual borrowing

²³ The Government is committed to prepare an MTFF under the IMF EFF. The MTDS is expected to be prepared jointly with the MTFF, and both be submitted to the Assembly accompanying the annual budget.



plans. The GoA commits to putting the necessary institutional arrangements in place to ensure the regular updating of the MTDS and future borrowing plans.

43. The GoA is reforming the oil-revenue management framework in an effort to consolidate the different funds and to enhance governance, transparency and accountability of natural resource wealth management.

The GoA has drafted a Proposed Law to create the Oil Revenue Differential Financial Reserve (*Reserva Financeira do Diferencial da Receita do Petróleo*, RFDRP), which consolidates resources that were previously channeled to different funds under one framework.²⁴ Consolidating the different funds into a single fund is expected to provide a sound legal basis for the management of natural-resource revenues going forward. By setting clear objectives for fiscal stabilization and investment, establishing clear rules for transfer and withdrawal of funds, and by providing a legal framework for accountability and governance, the new law will help overcome weaknesses in the previous legislation which undermined fiscal responsibility and transparency,

44. The Proposed Law has been submitted to the National Assembly (*Indicative Trigger #1 for DPF2*). Given the high level of public debt, the Proposed Law includes an objective of medium-term fiscal sustainability, together with the objectives of short-term fiscal stabilization and long-term savings/investments.²⁵

45. The Proposed Law mandates the elaboration of a Presidential Decree within 3 months after its approval, which shall establish further regulation on the RFDRP's management, operations, and investments (*Indicative Trigger #1 for DPF3*). The Presidential Decree will provide specific rules for the investment of RFDRP's resources and will determine the initial capitalization of the RFDRP based on the existing assets held by the FSDEA. The GoA seeks to primarily assign management responsibilities to the Sovereign Wealth Fund of Angola, with possible roles for the Development Bank of Angola and the National Bank of Angola, on the basis of their specialized investment expertise and operational autonomy.

46. Strong PFM is needed to underpin the transparency and accountability of the oil management framework to ensure that its long-term objectives are met. Comprehensive, regular data reporting on oil revenue, budget execution and debt are critical to ensuring consistency between oil-revenue management and the overall fiscal framework. To this end, the GoA will publish comprehensive quarterly fiscal and debt reports that are aligned with international good practice (*Indicative Trigger #1 for DPF3*).²⁶ The commitment to publish quarterly fiscal reports is part of GoA's Memorandum of Economic and Financial Policies for the IMF EFF.

47. Expected results. The GoA's commitment to transparency and accountability of oil revenue and public debt management will be reflected through the publication of quarterly fiscal accounts (*Results Indicator #1*). Better quality and timeliness of government statistics is expected to improve fiscal policy decision making and to increase transparency and accountability in the management of oil revenues and public debt management.

²⁴ The Proposed Law establishes: (i) the RFDRP's objectives (Art.3), including short-term fiscal stabilization and long-term savings/investments; (ii) the RFDRP's sources of revenue (Art.6), mandating an initial capitalization and periodic capitalizations funded with oil revenue; (iii) the RFDRP's use of resources (Art.4), with an explicit distribution of revenues across the government entities responsible for managing the resources of RFDRP, and based on the objectives stated; and (iv) the fundamental principles that must guide the investment of RFDRP's resources (Art.5), including the consistency between RFDRP's objectives, investment strategy, and overall fiscal framework.

²⁵ The fiscal sustainability objective is explicitly reflected in the capitalization rules. The GoA has already indicated commitment to constrain the capitalization from oil revenue in order to support fiscal sustainability, as part of its Memorandum of Economic and Financial Policies for the IMF EFF.

²⁶ One example for international good practice is the EITI Standard 2016, another example is Ghana, where fiscal reporting is also considered aligned with good practice: <https://www.mofep.gov.gh/fiscal-data>.



The reform of the oil revenue management framework will provide a sound legal foundation for the budget fund (RFDRP) capitalized with oil revenue. It will also enhance transparency and accountability of government bodies responsible for its management. This will be reflected in an improved index score in the RGI (*Results Indicator #2*). As a consequence of RFDRP's rules for allocating oil revenue and their consistency with the overall fiscal framework, a reduction of the public debt level and the pro-cyclicality of fiscal policy is to be expected. This, in turn, will strengthen the overall fiscal position and support intergenerational equity.

Objective 1.2. Strengthening financial sector resilience

48. **Rationale.** The financial system is vulnerable to shocks due to a heavy economic dependence on oil and a high percentage of state-owned and state-linked financial institutions. Lower oil prices since 2014 have contributed to the deterioration of key financial soundness indicators. Delays in government payments to suppliers resulted in higher NPLs. The state also has a significant role in the banking sector, which poses additional macro-financial risks. It directly owns three banks (including one of the top five), and in Sonangol, which has a significant stake in six banks. In parallel to the oil price shock, the banking sector suffered with the loss of CBR with US banks in 2016 amid concerns over of Angola's AML/CFT framework (see the section 2.2 for more information).

49. **Since the 2012 Angola FSAP, the authorities have implemented several measures to strengthen the overall financial system supervision and stability, and the AML/ CFT framework.** Authorities have taken important steps to strengthen banking system oversight, working on updating its regulatory framework and on building up the foundations for a more risk-focused supervisory approach. A new Financial Institutions Law (FIL) was passed in 2015, providing the basis for bank resolution, calling for the establishment of a Deposit Guarantee Scheme, and establishing a Financial Stability Council. In addition, the regulatory framework was updated to include capital requirements, risk management, large exposures and interest rates in the banking book. The new regulatory framework further promoted the introduction of IFRS accounting standard. There are still legal, regulatory and operational gaps as well as capacity constraints that need to be overcome to fully implement the vision of the new legal framework; it will be critical to ensure that the authorities have the adequate powers, tools, skills, and information to properly supervise the system, take effective early action, and have an adequate resolution framework in place. The commodity crisis and impact on the banking system have underlined the importance of further strengthening banking supervision, monitoring, and resolution.

50. **The GoA is taking steps to improve the AML/ CFT framework.** Angola was removed from the Financial Action Task Force's (FATF)'s grey list and from the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG)'s monitoring process, in February 2016 and April 2018, respectively. Angola's current AML/CFT regime does however not yet comply with international standards. The GoA plans to submit a revised AML/CFT Law and other related legal and regulatory amendments to the National Assembly in line with FATF standards by end-March 2019; the new law will be informed by World Bank and IMF TA, and will provide, inter alia, legislation with regards to politically exposed persons.

51. As the IMF EFF has conditionality (structural benchmark) on strengthening the AML/ CFT framework, the World Bank is targeting its support on complementary aspects to financial sector stability, focusing on depositor insurance and bank supervision and resolution.



Prior Action #2 for DPF1: The Borrower has strengthened the resilience of the banking system by establishing a Deposit Guarantee Fund (DGF) and approving implementing regulations for the DGF, as evidenced by Presidential Decree No. 195/18 of August 22, 2018 creating the DGF, published in the *Diário da República* on August 22, 2018; and by BNA's Avisos No. 1/19 and 2/19 both of January 11, 2019, regulating the DGF, published in the *Diário da República* on January 11, 2019.

Indicative Trigger #2 for DPF2: In order to improve the regulatory and legal framework for banking supervision and resolution, the GoA has submitted to the Assembly a revised Financial Institutions Law (FIL).

Indicative Trigger #2 for DPF3: In order to avoid and reduce cost of eventual bank failures, the BNA has strengthened the bank resolution framework by issuing the necessary regulations and developing a bank procedures manual.

Results Indicator #3: Share of the total deposit accounts insured by DGF. Baseline (2018): 0%; Target (2021): 90%.

52. **Substance and criticality.** Setting up a DGF (**Prior Action #2 for DPF1**) is a critical step in establishing a proper financial safety net and to ensure a more resilient financial system. The DGF, which is expected to protect bank deposits in case of bank failures, was a requirement of the 2015 FIL, but has not yet been implemented. Having a DGF in place is also important to promote financial inclusion, particularly the mobilization of savings in the formal financial system as clients would have more confidence placing their funds in banks. Participation in the DGF will be mandatory for all banks and the DGF will cover individual deposits of up to Kz 12.5 million.²⁷ It is important that participating banks meet BNA prudential norms prior to joining the DGF, which is planned be rolled out by end-2019.

53. **In order to strengthen banking supervision and resolution, the authorities have submitted a revised FIL law (Indicative Trigger #2 for DPF2)** to the National Assembly, which will provide BNA with the necessary tools and powers for early corrective action and crisis resolution. The revised FIL was informed by a Crisis Simulation Exercise (CSE).²⁸ In a next step, BNA will pass the necessary regulations for bank resolution and develop a manual for bank procedures that will address corporate governance, consolidated supervision, voluntary dissolution, protection of minority interests, and macro-prudential responsibilities (**Indicative Trigger #2 for DPF3**).

54. **Expected results.** The expected results are a more resilient financial system, supported by robust deposit insurance scheme, and a sound legal and regulatory framework for banking supervision and crisis resolution. This set of reforms will be measured by the share of deposits covered by the DGF (**Results Indicator #3**). A broad coverage of deposits insured by the DGF is expected to enhanced customer protection in the event of bank failure and contribute to the overall stability of the Angolan financial system.

²⁷ The DGF management structure will consist of a president (a BNA board member or someone appointed by the board), as well as two other members, one appointed by the Ministry of Finance and one by the banking association. The DGF is expected to make use of BNA administrative facilities. Its funding structure will rely on initial contributions from banks, subsequent annual contributions, and ad hoc contributions, if needed.

²⁸ The Crises Simulation Exercise took place in April 2018 with World Bank TA and participation from Ministry of Finance, National Council on Financial Stability, BNA, Capital Markets Commission. The CSE aimed at providing to the Angolan authorities means to test and enhance their tools and mechanisms for efficiently managing financial distress and potential systemic crisis. More specifically, the objectives of the CSE are: (i) to test how the authorities would respond to the emergence of serious problems in one or more financial institutions, likely including the failure of a systemic bank; (ii) to test intra/ inter-agency coordination, including information sharing, analysis, decision-making and communications; (iii) to ascertain the adequacy of existing laws, regulations, policies and procedures for dealing with such situations; to identify scope for improvement in all the above. The CSE was conducted with World Bank TA under the Financial Sector RAS Project (P147800). An action plan based on the CSE is expected to be finalized in 2019.



Objective 1.3. Strengthening management and commercial viability of SOEs

55. **Rationale.** SOEs have a larger presence in Angola than in most other countries.²⁹ SOEs held over US\$75 billion in assets in 2016, equivalent to over 60 percent of GDP. As of 2017, 70 SOEs provide essential public services in most sectors, ranging from agriculture, banking and finance, public works, transport, energy and water. The financial performance of the SOE sector varies greatly but is generally poor and has deteriorated in recent years. Losses for all SOEs combined, excluding Sonangol, reached US\$ 239 million in 2016 (0.2 percent of GDP) and US\$574 million in 2017 (0.5 percent of GDP). Substantial SOE losses are putting additional strain on an already fragile fiscal environment, and the GoA is under pressure to reform the sector and to reduce its exposure to SOE losses and debts. Service delivery of public companies is also generally poor, and many beneficiaries complain about unresponsive public companies with ineffective service and a lack of client focus.

Prior Action #3 for DPF1: The Borrower has taken the necessary steps to reduce fiscal pressures from SOEs and ensure that SOEs are commercially viable by strengthening the legal and institutional framework for SOE oversight and privatization, as evidenced by: (i) Presidential Decree No. 141/18 of June 7, 2018 approving a new law strengthening the mandate of IGAPE, published in the *Diário da República* on June 7, 2018; (ii) Law No. 10/19 dated May 14, 2019, enacting the Borrower's new privatization law, published in the *Diário da República* on May 14, 2019.

Indicative Trigger #3 for DPF2: In order to strengthen performance, accountability and transparency of the SOE sector, the GoA has (i) published the first aggregated SOE report with financial and operational performance indicators; and (ii) approved a realistic and complete privatization program in line with international best practice.

Indicative Trigger #3 for DPF3: To ensure the implementation of the privatization program in a competitive and transparent way, the GoA has (i) published regular and complete progress reports in line with international best practice; and (ii) completed phase one of the privatization program.

Results Indicator #4: Government transfers to SOEs (operational subsidies, capital transfers) as a share of GDP. Baseline (2017): 5%; Target (2021): 2%.

Results Indicator #5: Number of aggregate SOE reports published per calendar year. Baseline (2018): 0; Target (2021): 2.

56. **Substance and criticality.** The government plan for 2017-2022 outlines measures to restructure and resize the SOE sector and to strengthen state oversight and to address ownership. The GoA is currently preparing a strategy for the full or partial privatization of 53 SOEs and a government commission has been established to lead the divestment/privatization process. A technical committee has drafted the basic principles to guide the privatization program (PROPRIV), including selection criteria, methods for privatization and the institutional set-up for manage the process. A preliminary list of SOEs identified for privatization has been prepared. The World Bank is supporting the SOE reform with a SOE diagnostic and a reimbursable advisory services (RAS) operation that will support strengthened SOE oversight and monitoring and the privatization program, including a review of the preliminary list of SOEs to be privatized. As a first policy action, the GoA has strengthened the mandate of the IGAPE, the new SOE unit³⁰, to lead the reform process (**Prior Action #3 (i) for DPF1**), and has approved a

²⁹ For comparison, with revenues of 20 percent of GDP, Angola's SOE sector well exceeds the African average of 12-14 percent.

³⁰ in 2018 ISEP was replaced by the IGAPE and was placed under the control of Ministry of Finance with a strengthened mandate that includes a leading role in the privatization and restructuring program, SOE oversight and monitoring, management of state assets and funds and loans provided by the state.



privatization law (**Prior Action #3 (i) for DPF1**); the privatization law lays out the guidelines for the privatization process in line with international good practice.

57. To increase monitoring and evaluation of SOEs and increase their performance and reduce fiscal risks, and to reduce the state-foot print in the economy, the GoA will (i) start in 2019 to regularly publish aggregate SOE reports based on international best practice³¹, and (ii) approved a realistic and complete privatization program in line with good international practice, including prior technical screening of companies, their sector and regulatory environment. The privatization program will also detail options, schedules and the phasing of privatization modalities (**Indicative Trigger #3 for DPF2**). To ensure that the privatization program is implemented in a transparent manner, the technical teams will publish regular progress reports. These reports will include information on the methods and processes to ensure value for money, and information on the proceeds from the sale of assets (**Indicative Trigger #3 (i) for DPF3**). The GoA will also complete phase one of the privatization program (**Indicative Trigger #3 (ii) for DPF3**).

58. **Expected results.** The reforms are expected to improve SOE transparency and increase the availability of SOE financial and performance data (**Results Indicator #5**). Greater transparency in turn is expected to improve corporate governance and enhance the financial and operational performance of SOEs and reduce their need for subsidies and other transfers over the medium term. Comprehensive SOE data will be a crucial first step in strengthening the state's role as corporate owner and shareholder, which includes holding companies to account for their performance and initiating reforms when performance fails to meet expectations. Other expected results include a significant reduction of government transfers to SOEs in the form of equity injections and operational subsidies as a share of GDP (**Results Indicator #4**).

Objective 1.4. Supporting pricing and subsidy reform for financial sustainability and effective service provision

59. **Rationale.** General price subsidies represent a burden on public finances and mostly benefit the wealthiest segments of society in Angola. The GoA currently provides consumer price subsidies for liquid fuels and electricity. In the water and sanitation sector, demand subsidies were removed in August 2018, but supply subsidies in the form of general government transfers are still present, although difficult to quantify. Direct transfers of government funds are used to provide subsidies to utilities and, until recently, to the national oil company Sonangol. As the Government stopped direct transfers to Sonangol in 2016, Sonangol has been using upstream profits to cross-subsidize downstream subsidies; this has resulted in a reduction of government revenue from upstream oil profits. Preliminary results from a cost-of-supply study that estimates supply costs of refined products in Angola indicate a fuel subsidy bill of around US\$0.4 billion (0.4 percent of GDP) in 2017 and US\$1.8 billion (1.7 percent of GDP) in 2018; this subsidies bill was indirectly transferred to Sonangol³². Also, Angola's electricity retail tariffs are among the lowest in the world. While the costs to the economy of keeping energy prices and utility tariffs low are high, the benefits are unclear since fuel and utility tariff subsidies predominantly benefit the rich. According to a distributional analysis carried out by the IMF, 77 percent of fuel

³¹ For instance, based on the OECD Guidelines on SOE Corporate Governance (2015): the SOE ownership entity should develop aggregate reporting that covers all SOEs and make it a key disclosure tool directed to the general public, the legislature and the media. The aggregate reporting should result in an annual aggregate report issued by the state, which should primarily focus on financial performance and the value of the SOEs. It should also include information on (i) performance related to key non-financial indicators; (ii) the total value of the state's portfolio; (iii) the state's ownership policy and information on how the state has implemented this policy; (iv) the evolution of SOEs; (v) changes in SOEs' boards; etc.

³² The cost-of-supply study is part of the ESMAP project to support pricing and subsidies reform in the fuel sector.



price subsidies benefitted the richest 40 percent households, while only 10 percent accrued to the bottom 40 percent; lack of physical access to the electricity and water grid and/or inability to afford subsidized energy or water further exclude the poorest households.

Box 4. Tariff and Subsidies Reform in Angola and World Bank Support

According to the GoA, general price subsidies represent a heavy burden on public finances and mostly benefit the wealthiest segments of society (IMF, 2018). The GoA started to reduce subsidies by adjusting water tariffs in August 2018 and plans to adjust electricity and public transportation tariffs as well as gasoline and diesel prices over the course of the next few years. The GoA’s strategy for the electricity and water sectors also targets measures to improve the operational efficiency of SOEs in these sectors.

In an ideal world, utility and fuel prices should be at the cost-recovery levels reflecting efficient operation; there are no sector-specific price subsidies; and assistance to the poor is integrated, sharply targeted, and designed to meet their essential needs. Angola is currently far from the ideal. The current legal and regulatory framework does not support sustainable financial performance of public utilities, because pricing and operational decisions do not reflect cost-recovery principles and are susceptible to political influence. Price subsidies have also not proven efficient and effective in protecting the poor, because they are universal, making them highly regressive and benefitting the rich disproportionately.¹ Angola’s social safety net is currently too fragmented and limited in scope to mitigate the impact of subsidy reform. The absence of a poverty-targeted safety net limits households’ capacity to manage risks and potentially makes the likely adverse social effects of pricing and subsidy reforms significant and increases the risk of civil strife and rejection of the reform.

Critical aspects of tariff and subsidy reforms in Angola are therefore: (i) a rule-based and transparent tariff- and price-setting process for utilities and fuel suppliers, and adequate tariff and price levels to cover efficient costs and gradually support investment; (ii) improved operational efficiency of public utilities and fuel suppliers; and (iii) replacing inefficient, universal price subsidies with effective poverty-targeted social safety nets, and social service delivery to foster investments in human and productive capital to increase the opportunities of poor households to participate fully in the country’s development.

World Bank engagement in tariff and subsidies reform in Angola:

With help of the World Bank, the GoA plans to develop and implement an automatic price adjustment mechanism to ensure that domestic prices of gasoline and diesel fuel are at cost-recovery levels based on import parity, while strengthening poor households’ capacity to manage shocks – particularly those linked to the subsidy reform – through scaling up cash transfers. In the water and electricity sectors, tariff reforms are aimed at recovery of efficient costs and elimination of operational subsidies, coupled with policies to protect poor consumers or increase access to low income areas. The proposed DPF (P166564), the Bita Guarantee (P163610) and the Social Safety Nets Project (P169779) form part of an integrated effort to support reforms that help move Angola towards an effective and transparent pricing-setting mechanism for fuel and utility prices to ensure more efficient operation and fairer access for poor households.

60. In the context of price controls that keep end-user prices artificially low, pricing reform is a pre-requisite for subsidy reform, because when prices are below cost recovery, subsidies have to be offered to fill the gap. This is the case for the water, electricity and downstream petroleum sectors. While the mechanisms for delivering on-budget subsidies lack transparency and quantification suffers from a number of technical problems, off-budget subsidies lack transparency even more, escape regular parliamentary scrutiny, and create significant contingent liabilities for the government. They also erode corporate governance and entrench the market power of the state-owned companies.



61. **More importantly, in the absence of cost-recovery, financial sustainability and effective service provision in the electricity and water sectors are severely constrained.** As an example, the current average electricity retail tariff accounts for only a fraction of the cost incurred by the distribution utility (ENDE). Faced with insufficient tariff revenue, ENDE, in turn, cannot honor payments for electricity supply or transmission services; this cascades losses from insufficient tariff revenue across the entire value chain. Because of the substantial gap to achieve cost-recovery and the unclear flow of funds along the value chain, the sector financial sustainability is impaired, while subsidies that need to be provided by the GoA impose a large burden on public finances. Furthermore, under the current circumstances, power utilities have less credibility as partners of private investors, which may discourage private sector interest in operating and investing in the electricity sector, in line with the GoA's expectations. In addition, lack of financial resources in both utility sectors prevent proper maintenance of the existing assets, leading to accelerated degradation and loss of assets; this further weakens financial positions and quality of service.

62. Political interference in the tariff-setting process further creates uncertainty for operators and prospective investors. This became evident in the new water tariff structure adopted in August 2018, where the regulatory agency in charge of water and electricity tariffs (IRSEA) was overruled by IPREC, the government unit linked to the Ministry of Finance that until recently was broadly in control of setting all prices in Angola. The lack of transparency prevents utilities from planning investments or assuring cost recovery by the approved tariffs. This tariff-related uncertainty not only affects SOEs, but also deters prospective PPP bidders from participating and engaging in Angola's utility sector.

Prior Action #4 for DPF1: The Borrower has initiated a utilities pricing and subsidies reform by carrying out an electricity tariff revision, as evidenced by the issuance and publication of a Ministerial Decree endorsing a new electricity tariff revision.

Indicative Trigger #4 for DPF2: The GoA implements (i) a market-based pricing formula for quantifying price subsidies for four refined products and for making regular adjustments to gasoline and diesel price ceilings with a view to attaining cost recovery over time; (ii) approves the methodology for establishing revenue requirements for electricity utilities; and (iii) transfers full authority to set and enforce revenue requirements for electricity and water utilities to IRSEA, the water and electricity sector regulator.

Indicative Trigger #4 for DPF3: The GoA (i) approves the electricity tariff schedule (lifeline tariff and tariff structure by customer bracket), based on distributional analysis, and (ii) assigns to Ministry of Finance and Ministry of Energy and Water (MINEA) the role and obligation of defining and funding the appropriate mechanism to ensure affordability of the water services.

Results Indicator #6: Energy pricing based on market-based costs and utility tariffs based on cost-recovery principle, systematically adjusted. Baseline [2018]: Ad hoc price adjustments not based on cost recovery or market principles. Target [2021]: Implementation of market-based fuel pricing for gasoline and diesel. Implementation of utility tariff-setting mechanism in line with revenue requirement.

63. **Substance and criticality.** As part of a larger commitment to phase out price subsidies, the GoA has embraced a subsidy and tariff reform, which began in 2016 when direct transfers to Sonangol were stopped and electricity tariffs were raised for the first time since 2006. In August 2018, water tariffs were revised and there is a plan to adjust public transportation tariffs as well as gasoline and diesel prices over the course of the next two years³³. Furthermore, the Council of Ministers has recently approved a 97 percent increase in the average

³³ As in many other countries, two fuels used by households—liquefied petroleum gas (LPG) and kerosene—are considered



electricity tariff and a new tariff schedule, although the related Decree is yet to be published. In parallel, the GoA is planning to scale up cash transfers to mitigate the impact of the subsidy reforms on the most vulnerable.

64. **This DPF supports tariff and subsidy reform in the fuel, electricity and water sectors, while mitigating the impact of such reforms on the poor and vulnerable** (see policy area 2.1). World Bank engagement and technical assistance in the water sector is more advanced, while activities to support tariff and subsidies reform in the fuel and electricity sector have started more recently. This series reflects a phased approach, starting with a prior action in the electricity sector, with reforms in all three sectors to follow under the indicative triggers.

65. **The primary objective is to establish a price-setting process that is transparent, free of political interference, and based on cost-recovery at efficient operation.** An independent regulator with the relevant sectoral expertise should ensure that prices are set and adjusted according to the principle of cost recovery. While comprehensive analysis is being carried out to measure the revenue requirements of public utilities in the electricity sector and, on this basis, to identify a sound methodology for setting and adjusting tariffs, the planned tariff increase is a step in the right direction, which is marked by the GoA issuing and publishing a Ministerial Decree endorsing the electricity tariff revision (**Prior Action #4 for DPF1**). As a next step, a cost of service study and a financial model for the electricity sector, prepared with support from the World Bank, will allow IRSEA to propose a sound methodology for setting and periodically adjusting revenue requirements for the electricity sector utilities. Thereafter, the GoA will approve such methodology and formally transfer authority to IRSEA to set revenue requirements for electricity and water utilities (**Indicative Trigger #4 for DPF2**). Once the methodology is in place, the GoA will be better placed to approve a new electricity tariff schedule (lifeline tariff and tariff structure by customer bracket), based in part on distributional analysis, which will ensure cost-recovery while protecting consumption by poorer electricity customers (**Indicative Trigger #4 for DPF3**). Should tariffs be set below the revenue requirements of utilities, as identified based on the methodology proposed by IRSEA, the GoA would need to provide a subsidy to the utilities equal to the difference between the tariffs and the revenue requirements. For this purpose, the GoA needs to establish a mechanism to ensure that the poorest part of the population can afford the cost of the water and electricity services. Such decision should be made in a transparent manner and should be adequately reflected in the annual budget.

66. **The DPF also supports the financial sustainability of public utilities by ensuring that future fuel prices and utility tariffs will remain aligned with the principle of market-based cost recovery.** With the World Bank's assistance, the GoA plans to develop and implement an automatic price adjustment mechanism to ensure that domestic prices of gasoline and diesel fuel reflect cost-recovery levels based on trade parity. The mechanism may set price ceilings to encourage price competition, whereby the level of emerging competition can be gauged from the degree of departure from the price ceilings. Once there is evidence of adequate competition in the market, fuel prices can be deregulated. The GoA will also implement a market-based pricing formula for quantifying subsidies for kerosene and liquefied petroleum gas. As long as some degree of subsidies is retained for these two fuels, the Government should focus on shifting them from universal to targeted ones. (**Indicative Trigger #4 for DPF2**).

67. **Expected results.** The implementation of new fuel pricing and utility tariff-setting mechanisms will reduce the subsidy burden on the government while a transparent, rules-based tariff setting mechanism based on cost-

politically sensitive and their price subsidies are expected to continue, with subsidy phase-out possibly considered at a later stage.



recovery (*Results Indicator #6*) will remove tariff-related uncertainty for operators and pave the way for private investment.

Objective 1.5. Leveling the playing field for private investment

68. **Rationale.** The economic crisis has revealed the cost of a state-led development model that favored SOEs and government-connected firms, which the Government is now seeking to reform. Private investment, especially foreign, has been constrained by the lack of competition and a restrictive investment policy. Perception based indicators – such as the Global Competitiveness Index (GCI) and the Operational Business Risks index of the Economic Intelligence Unit – suggest a low degree of market contestability. Market players perceive their ability to compete as impaired by government rules and practices; this increasing business risk. In fact, Angola ranks last of 140 countries in the indicators assessing market competitiveness in the GCI 2018 report. The lack of competition has undermined the development of key enabling sectors such as telecommunications, leading to slower expansion of mobile penetration and broadband services. This in turn, is a constraint to the development of digital entrepreneurship and services. Foreign investment has been low outside of oil and gas, which accounted for 82 percent of total foreign direct investment (FDI) between 2003 and 2017.³⁴ The requirement for a 35 percent local partner for investments in energy and water, hotels and tourism, transportation and logistics, telecommunications and information technology, civil construction, and communications, has been a critical aspect that discouraged foreign investors.

Prior Action #5 for DPF1: The Borrower has taken measures to level the playing field for private investments by approving: (i) a new private investment law that eliminates local shareholder requirements for foreign investors, as evidenced by Law No. 10/18 of June 26, 2018, published in the *Diário da República* on June 26, 2018; (ii) a new competition law, as evidenced by Law No. 5/18 of April 30, 2018, published in the *Diário da República* on May 10, 2018; and (iii) the establishment of a Competition Regulatory Authority (ARC), as evidenced by Presidential Decree No. 313/18 of December 21, 2018, published in the *Diário da República* on December 21, 2018.

Indicative Trigger #5 for DPF2: In order to develop and implement an effective competition policy framework, the ARC, has (i) adopted secondary legislation to develop the enforcement tools for protecting markets from non-competitive behavior, and the GoA (ii) has revised legislation to phase out price control mechanisms that may distort competition.

Indicative Trigger #5 for DPF3: In order to foster competition in the telecom sector, the GoA has awarded the 4th mobile license in the form of a new universal telecom license through an open, transparent and fair bidding process, offering market access conditions in line with international best practices, and has adopted pro-competition telecommunication regulations.

Results Indicator #7: Number of enforcement decisions issued by the Competition Regulation Authority. Baseline (2018): 0; Target (2021): 3.

Results Indicator #8: FDI inflows (non-oil sector) as a share of GDP. Baseline (2017): 0.2%; Target (2021): 1%.

69. **Substance and criticality.** The role of the private sector as an engine for sustainable and diversified growth will be fostered through the adoption of new competition and investment policies that address constraints to entry for foreign and domestic investors, and their ability to effectively compete. Greater competition in telecommunication services is critical to increase quality and affordability. To address restrictions to foreign and domestic investment, the GoA has adopted (i) a new private investment law that eliminates the requirement for 35 percent participation by local shareholders and (ii) a new competition law that defines and prohibits anti-

³⁴ Source: FDI Markets database.



competitive practices, complemented by (iii) a Presidential Decree that establishes a Competition Regulatory Authority in charge of enforcing antitrust legislation and curbing anti-competitive behaviors (**Prior Action #5 for DPF1**). In order to develop and implement an effective competition policy framework, the ARC, will adopt secondary legislation to develop the enforcement tools for protecting markets from non-competitive behavior, which should include regulations on anti-cartel enforcement and merger control. At the same time, the GoA should undertake critical complementary reforms to phase out the price control mandate inherited by ARC from the former IPREC (Institute for prices and competition). (**Indicative Trigger #5 for DPF3**). As the economy evolves towards market-based dynamics, it is important to phase out price control mechanisms that may distort competition. Therefore, the GoA should clearly differentiate between markets where price intervention might be necessary due to market failures from those that should function under free market dynamics. This would require reducing the number of products and services currently under price control/monitoring. In this context, the GoA will work towards (i) removing ARC's mandate regarding the review of tariffs of products and services functioning under a fixed price regime, e.g. water and electricity, mandate now held by specialized sector regulators, (ii) reducing the number of products and services functioning under a monitored price regime and reviewed by ARC, and (iii) limiting ARC's role regarding subsidies to assessing their potential anticompetitive effects rather than defining subsidy levels or whether the Government should provide them. Finally, in order to foster competition in the telecommunications sector, the GoA will award a 4th mobile license in the form of a new global telecom license through an open, transparent and fair bidding process, offering market access conditions in line with international best practices, and adopt pro-competition regulations to enable telecommunications infrastructure sharing, spectrum management, national roaming, mobile number portability, interconnection, numbering, and to curb anti-competitive behavior by operators designated as Significant Market Players (SMP) across specific markets (**Indicative Trigger #5 for DPF3**). These pro-competition regulations are essential to ensure that the entry of new player leads to improved availability, quality and price of telecommunications services.

70. Expected results. Reforms in the investment and competition policies are expected to contribute to an overall increase in private investment, especially FDI in the non-oil sector (*Results Indicator #7*). Removing mandatory local shareholder requirements and setting up an effective competition policy framework and regulator are expected to create a more level playing field for the private sector, and contribute to improve investor confidence, reducing the perceived risk of investing in Angola. Under the new competition law, the ARC will enforce decisions on mergers and alleged anticompetitive behaviors (*Results Indicator #8*), thus improving competition dynamics in specific sectors and the entire economy. Stronger competition dynamics in enabling sectors, including in telecommunications, would also contribute to improved quality of services at more affordable prices. This, in turn, can enable the development of a better new digital products and services, such as mobile financial services, fostering digital entrepreneurship. Finally, the enforcement of competition policy and limitation of price control/monitoring will smoothen Angola's transition to a market-based economy and support more competitive market outcomes.



Pillar 2: Protecting the poor and vulnerable.

Objective 2.1. Protecting the poor and vulnerable from shocks

71. **Rationale.** Angola's safety net programs are small, fragmented, categorically targeted and mostly provided as in-kind support (food and inputs). Social protection expenditures are focused mostly on the elderly and post-conflict needs, specifically through support to ex-combatants.³⁵ This makes the system regressive, inefficient and inadequate for a youthful country with high fertility, an extensive informal sector and high rates of multi-dimensional poverty and vulnerability. Currently, there is no mechanism in place that could alleviate the impacts of broad-based subsidy removal on the poor and the basic building blocks for a potential poverty-targeted social safety net system (registry, targeting, and payment mechanisms) needed to provide such support are missing. To support the development of the country, the safety net system needs to help poor and vulnerable weather shocks and support them in investing in their human capital and productive capacity.

72. **The GoA has started a small-scale pilot cash program (targeted to children) and near-cash transfers (targeted to poor households) and is experimenting with the registration of poor households.** The GoA has also started discussions to set-up a social registry (*Cadastró Único*), which will form the foundation for a poverty-targeted social safety net system. While these have provided proof of concept to the institutions in charge, they remain very limited in coverage, with ad hoc procedures and have not fostered system development.

Prior Action #6: The Borrower, through MASFAMU, has taken the necessary steps for the establishment of a nationwide cash transfer program by creating a unified social registry (Cadastró Social Único) as the building block for a nationwide cash transfer program, as evidenced by Presidential Decree No. 136/2019 of May 10, 2019.

Indicative Trigger #6 for DPF2: In order to mitigate the short-term impact of the subsidy and tariff reform, the GoA has set up a poverty-targeted cash transfer using the *Cadastró Único*.

Indicative Trigger #6 for DPF3: In order to improve the effectiveness of the social protection system, the GoA has set up programs to link ex-beneficiaries of the temporary cash transfer program to human development services and productive opportunities.

Results Indicator #9: Number of poor households registered and receiving cash transfers in the *Cadastró Único*.
Baseline (2018): 0; Target (2021): 800,000.

73. **Substance and criticality.** An effective and efficient safety net systems is key to accompany the transition of Angola from oil-dependent to private sector led diversified economy. The safety net systems should strengthen the resilience of the bottom 40 percent, foster equity, and provide opportunities for beneficiaries to fully participate in the economy. The DPF operation will support the establishment of a temporary cash transfer program to mitigate the short-term impact of the subsidy and tariff reform. It will also help establish the key building blocks (registry, targeting, registration and payment) and inform the design of a poverty-targeted, comprehensive social safety net system. Payment system-related aspects for the cash transfer program will be covered under the financial inclusion agenda (see policy area 2.3).

74. **In terms of instruments, the GoA has started small scale pilot cash (targeted to children) and near cash (targeted to poor households) transfers and is experimenting with the registration of poor households.** The GoA has also started discussion to set up a social registry (*Cadastró Único*), with a common data collection

³⁵ See Angola Social Protection Public Expenditure Review (2018).



instrument to support proxy-means tests for targeting. The *Cadastro Único* will become the building block for a nationwide, poverty-targeted social safety net. While technical discussions have advanced on the *Cadastro Único* and the database was piloted, the regulatory framework has been formalized (**Prior Action #6 for DPF1**) to promote clear assignation of responsibility for implementation and coordinated use across existing safety nets and other social programs. The *Cadastro Único* needs to become the gateway to social assistance interventions and a key coordination tool for sectoral program managers.

75. **Based on their welfare status, households included in the *Cadastro Único* would then be targeted on poverty criteria (through the application of a proxy-means test) and registered for a temporary mitigation cash transfer program.** With technical and financial assistance from the World Bank, the Government will set-up payment mechanisms to provide one-year income support to poor households in urban areas (**Indicative Trigger #6 for DPF2**). The temporary income support will consist of a flat household-level unconditional cash transfer to compensate for the average expected subsidy-removal loss in income among the first two quintiles.³⁶

76. **Based on the findings of the Social Protection PER, the analysis of the *Cadastro Único*, household data and an assessment of existing safety nets, the GoA will then be in position to assess poor households' needs and link them to interventions that help address structural causes of poverty.** Such interventions will seek to foster poor and vulnerable households' access to key health and education services so as to address key issues keeping human capital low (high maternal and child mortality, low schooling attainment, high fertility) and productive opportunities to address their low productivity. Such interventions range from conditional cash transfers, fee waivers for health and education, school meals, labor-intensive public works, skills training and support to income generation. Building on the decentralization of social assistance, municipalities will select the most relevant programs to link ex- beneficiaries of the temporary cash transfer program to human development services and productive opportunities (**Indicative Trigger #6 for DPF3**).

77. **Expected results.** Accurate information about poor and vulnerable households will enable policy-makers and program managers to get a better diagnostic of their needs and design evidence-based interventions that can help poor households manage risks and invest in their human capital. The *Cadastro Único* can provide a powerful tool to align interventions in the social and economic sectors and across levels of government, especially in the context of decentralization. The temporary cash transfer program is expected to have an immediate poverty alleviation impact for beneficiary households (**Results Indicator #9**), as well as second round effects on the local economy, through increased expenses in food, medicines, and rents. In addition, such programs have been shown to increase the acceptability of subsidy reforms, to mitigate the potential for social unrest, and to support the transformation of the social contract from universal subsidies to poverty-targeted social assistance. Experience from the cash transfer program will also inform the productive and financial inclusion agenda in the restructuring and consolidation of the social safety net system.

Objective 2.2. Increasing access to finance

78. **Rationale.** Access to finance and its cost are critical binding constraint for economic development in Angola. Policy initiatives in support of financial inclusion should target reforms that broaden the credit information infrastructure, improve the insolvency regime, strengthen payment systems and promote digital retail payments (especially mobile payments), and improve consumer protection and financial literacy.

³⁶ Specific amounts etc. will be determined based on PSIA.



Advancing mobile financial services (fintech and digital financial services) is a priority given the potential for financial inclusion of the unbanked in both rural and urban areas.³⁷ Increased use of electronic payment instruments will make transaction more secure and reduce the potential for misuse and misappropriation of funds. Private and public investments in mobile payments would promote financial inclusion for the unbanked in both rural and urban areas and should help close the gender gap in financial inclusion. Beyond supporting financial inclusion, a safe and efficient national payment system is the backbone of the financial sector and is critical to financial stability and enables economic growth. It is also a pre-requisite for the digital economy, facilitates tax collection and the application of AML/FCT and anti-corruption laws. Government social welfare payments benefit from an efficient national payment system and increased use of electronic payment instruments as they enable better identification of beneficiaries, faster and more efficient payment execution, and easier and safer access to benefits.

79. **The 2005 Payment System Law, which provides the legal and regulatory framework for Angola’s financial payment infrastructure, is outdated and does not support the adoption of digital finance and the inter-operability of payment systems.** Furthermore, there needs to be a more systematic dialogue between the authorities and market players to promote common standards and encourage cooperation upstream and competition downstream, and this is by excellence a domain where BNA should take the leadership and enhance its role as an overseer and catalyst of market initiative. In the light of international best practices and experience, implementing a National Payment Council (NPC) that brings together the relevant public and private sector actors can help the BNA in fully playing that role and promoting the development of modern payment means, in particular mobile payments.

80. **The limited state of development of Angola’s mobile payment services underscore the need for updating the legal and regulatory framework, promoting new market entrances and competition, and increasing inter-operability.** Current electronic retail payment instruments essentially rely on bank accounts and even e-money products (including money) are offered by banks. While mobile phone coverage is available in all municipalities and approximately 47 percent of the population owns a mobile phone (around 13 million people), there are currently only three mobile payments products available to unbanked clients in Angola: Xikila Money from Banco Postal, BNIX from BNI, and e-Kz from BAI. Their scope and usage are limited, the three systems are independent (closed loop-schemes), and there is no inter-operability with other payment systems, such as the *Multicaixa* card system. This makes these products less convenient and useful for end users. Payment system reforms are expected to support sector development and bring in private investments for additional mobile service providers and new products and services.

Prior Action #7 for DPF1: The Borrower, through BNA, has taken the necessary measures to strengthen and modernize the national payments system, by restructuring the BNA’s payments systems unit to ensure independent and adequate oversight, as evidenced by BNA’s Despacho No. 28/2019 of March 6, 2019.

Indicative Trigger #7 for DPF2: In order to strengthen and modernize the national payments system, the GoA has submitted (i) a new payments system and services law and the BNA has passed (ii) the implementing regulations of the new law which includes the activation of the National Payments Council (NPC).

³⁷ According to the Central Bank (Banco Nacional de Angola or “BNA”) only 53 percent of the adult population has access to a bank account, such reduced number is due to severe limitations in terms of points of access to financial services – namely branches ATMs and points-of-sale, an inadequate card payments infrastructure, a limited number of alternatives in terms of payment accounts, and a low level of financial literacy mostly in the rural areas.



Indicative Trigger #7 for DPF3: In order to expand access to finance for cash transfers recipients and help ensure program efficiency, security, and transparency, the Government has issued regulations to pay related benefits using non-cash means such as a payment card or mobile money transfers.

Results Indicator #10: Share of adult population with a transaction account. Baseline (2018): 53%; Target (2021): 70%.

81. **Substance and criticality.** A safe and efficient national payment system (comprising all the relevant clearing, switching and settlement systems) combined with a solid and enabling legal and regulatory framework allows for greater competition; cost reduction; and a wider choice for end users through the offering of a broader scope of payment instruments and channels. Supported by World Bank TA³⁸, the BNA is currently working on a new Payment System Law (LSPA) and the related regulations covering licensing rules applicable to service providers (such as mobile payments providers), as well as the activation of the National Payments Council.³⁹ As a first step in the reform process, the BNA will restructure its payment systems department to better align the mandate and responsibilities of the payment systems oversight team at the BNA with international standards (in particular the CPMI-IOSCO Principles for Financial Markets Infrastructures) and best practices; it will also improve the ability of the oversight team to oversee new payment systems providers and products (**Prior Action #7 for DPF1**). The restructured department will have a key role in overseeing the development and supervision of new non-bank payment systems providers, and of new retail payments products and services. The LSPA is expected to provide a comprehensive framework for payment systems, including clear rules for the provision of payment services, operation of payment systems, and market entry. The new law will also grant BNA adequate powers and tools for effective oversight and supervision. The law will promote competition by allowing the entry of new players in the market, such as *Telcos* and the use of agent networks.

82. The approval of the LSPA and the activation of the NPC (**Indicative Trigger #7 for DPF2**) therefore mark critical steps in establishing an efficient, safe, reliable and modern national payments system. Adopting supporting regulatory and policy measures which include regulations for payments systems providers, and the implementation of the mobile payments strategy will be instrumental in supporting digital payments. Specifically, these would include the regulations for licensing, authorization and operation of payment systems operators and payment service providers (including e-money and the use of agents).

83. Government social welfare payments may also benefit from an efficient national payment system and increased use of electronic payment instruments as they enable better identification of beneficiaries, faster and more efficient payment execution, and easier and safer access to benefits. In order to support the expansion of

³⁸ The World Bank has been supporting the LSPA through the FIRST Payment Systems Modernization TA (P166484), including through a comprehensive review of the national payments system's legal and regulatory framework and an assessment of Angola's instant and mobile electronic payment systems, drafting of the new Payment Systems Law and related regulations. Bank TA is also assisting in the review and rationalisation of the current strategy for the implementation of the mobile payments' strategy, namely in the selection of the most adequate infrastructures and arrangements as well in the necessary coordination between the BNA and INACOM (the telecom regulator).

³⁹ NPCs are an internationally recognized best practice and have been implemented in many countries. The NPC would bring together a broad range of relevant actors from public and private sides, including representatives of payment services users and providers (banks but also non-banks providing payment services), various BNA Departments, Telecom Regulator, *Empresa Interbancária de Serviços* (EMIS)- current Switch Operator, other Telecom providers, and other relevant authorities. This would ensure effective mobilization and commitment around common goals, and effective consultation of all relevant parties. A supplementary regulation to the draft law for the operationalization of the National Payments Council will support this.



cash transfer programs (see policy area 2.a), the GoA has issued regulations to pay related benefits into a payment card that can be used in the current *Multicaixa* card system (**Indicative Trigger #7 for DPF3**).

84. Expected results. The expected results are a better and broader offering of safe digital payment services by banks and non-bank financial institutions, that meet the needs of banked and unbanked populations, particularly in terms of affordability and accessibility. This will promote financial inclusion and support economic transactions and the digital economy. This set of reforms will be evaluated through the share of the adult population with a transaction account (*Results Indicator #10*).

Table 7: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Operation Pillar 1: Strengthening the macro-financial and institutional environment.	
<p>Prior action #1: The Borrower, through MINFIN, has improved the transparency and efficiency of public debt management and operations, by introducing the first medium-term debt management strategy (MTDS) and an annual borrowing plan, as evidenced by: (i) the publication of the MTDS in MINFIN’s Debt Management Unit on March 26, 2019; and (ii) publication of the annual borrowing plan in MINFIN’s Debt Management Unit website on February 5, 2019.</p>	<p>Country Economic Memorandum (CEM) (World Bank Group, 2018) Angola Policy Notes (World Bank Group, 2018) Angola’s Oil Price Differential Account: Simulations and Suggestions for Improvements (World Bank Group, 2017)</p>
<p>Prior action #2: The Borrower has strengthened the resilience of the banking system by establishing a Deposit Guarantee Fund (DGF) and approving implementing regulations for the DGF, as evidenced by Presidential Decree No. 195/18 of August 22, 2018 creating the DGF, published in the <i>Diário da República</i> on August 22, 2018; and by BNA’s Avisos No. 1/19 and 2/19 both of January 11, 2019, regulating the DGF, published in the <i>Diário da República</i> on January 11, 2019.</p>	<p>Angola Financial Sector Development Strategy 2018-2022 (World Bank Group) Financial Sector Assessment Program 2013 (World Bank Group, IMF) Bank Runs and Moral Hazard: A Review of Deposit (World Bank Group, 2018)</p>
<p>Prior action #3: The Borrower has taken the necessary steps to reduce fiscal pressures from SOEs and ensure that SOEs are commercially viable by strengthening the legal and institutional framework for SOE oversight and privatization, as evidenced by: (i) Presidential Decree No. 141/18 of June 7, 2018 approving a new law strengthening the mandate of IGAPE, published in the <i>Diário da República</i> on June 7, 2018; (ii) Law No. 10/19 dated May 14, 2019, enacting the Borrower’s new privatization law, published in the <i>Diário da República</i> on May 14, 2019.</p>	<p>Angola SOE Diagnostic (World Bank Group, forthcoming 2019) Country Private Sector Diagnostic (World Bank Group, 2018)</p>
<p>Prior action #4: The Borrower has initiated a utilities pricing and subsidies reform by carrying out an electricity tariff revision, as evidenced by the issuance and publication of a Ministerial Decree endorsing a new electricity tariff revision.</p>	<p>World Bank ASA on fuel subsidy reform and electricity cost-of-service study (forthcoming, 2019) Revisiting Subsidies for Water and Sanitation Services (World Bank Group, forthcoming 2019).</p>
<p>Prior action #5: The Borrower has taken measures to level the playing field for private investments by approving: (i) a new private investment law that eliminates local</p>	<p>Country Private Sector Diagnostic (World Bank Group, 2018) A Step Ahead: Competition Policy for shared Prosperity and</p>



<p>shareholder requirements for foreign investors, as evidenced by Law No. 10/18 of June 26, 2018, published in the Diário da República on June 26, 2018; (ii) a new competition law, as evidenced by Law No. 5/18 of April 30, 2018, published in the Diário da República on May 10, 2018; and (iii) the establishment of a Competition Regulatory Authority (ARC), as evidenced by Presidential Decree No. 313/18 of December 21, 2018, published in the Diário da República on December 21, 2018.</p>	<p>Inclusive Growth (World Bank, 2017) Breaking Down Barriers: Unlocking Africa's Potential through Vigorous Competition Policy (World Bank Group, 2016) Angola Digital Infrastructure Reform Roadmap (World Bank Group, forthcoming, 2019)</p>
<p>Operation Pillar 2: Protecting the poor and vulnerable.</p>	
<p>Prior action #6: The Borrower, through MASFAMU, has taken the necessary steps for the establishment of a nation-wide cash transfer program by creating a unified social registry (<i>Cadastro Social Único</i>) as the building block for a nationwide cash transfer program, as evidenced by Presidential Decree No. 136/2019 of May 10, 2019.</p>	<p>Angola Social Protection Public Expenditure Review (PER) (World Bank Group, 2018)</p>
<p>Prior action #7: The Borrower, through BNA, has taken the necessary measures to strengthen and modernize the national payments system, by restructuring the BNA's payments systems unit to ensure independent and adequate oversight, as evidenced by BNA's Despacho No. 28/2019 of March 6, 2019.</p>	<p>Angola Financial Sector Development Strategy 2018-2022 (World Bank Group) Financial Sector Assessment Program 2013 (World Bank, IMF) Payment Aspects of Financial Inclusion http://www.worldbank.org/en/topic/financialinclusion/brief/pafi-task-force-and-report Angola Digital Infrastructure Reform Roadmap (World Bank Group, forthcoming, 2019)</p>

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

85. The DPF series reflects the priorities and objectives of the 2018 Performance and Learning Review (PLR), which updates and extends the Country Partnership Strategy (CPS) FY14–FY16 through to FY19⁴⁰. The policy areas of the DPF series are expected to contribute to both focus areas of the CPS; complement investment lending under the CPS; and create the policy underpinnings that can, together with the International Finance Corporation (IFC), harness private sector opportunities. For example, DPF support to publish and regularly update the Medium-Term Debt Management Strategy and to establish an oil revenue fund (Indicative Trigger 1.2) aligns to the CPS objective under focus area 1 which seeks to strengthen resilience to macroeconomic risks. These measures will strengthen fiscal management and reduce pro-cyclicality of fiscal expenditures, and build on the Oil Price Differential Account ASA (P159791). Support to strengthen the management and commercial viability of SOEs, including pricing and subsidy reform for financial sustainability and effective service provision of providers; to increase access to finance; and to improve the competition framework reflect CPS focus area 1 to promote diversified growth and competitiveness, and specifically the objective to improve the business environment and deepen financial inclusion. The DPF focus on levelling the playing field for private investment is also closely aligned with the CPS's objective under focus area 2 of laying the groundwork for expanded access to cost-effective economic services (water, electricity, ICT, transport connectivity). These areas are further supported by ongoing and recently completed ASAs and lending operations, including the country economic memorandum CEM (P162993); the joint World Bank and IFC country private sector diagnostic CPSD (P167838

⁴⁰ PLR: Report No. 125072, dated 04/25/2018. CPS: Report No. 76225, date 09/26/2013.



and IFC AS); the subsidy reform ASA (P168918); the business environment RAS (P163763); the information and communication technology ICT; energy sector analytics; lending for smallholder and commercial agriculture; and the Luanda Bitá Water Supply Guarantee. IFC planned analytics on ICT, access to finance, and agribusiness are also expected to support these focus areas and to help harness private sector opportunities.

86. The agenda on protecting the poor and vulnerable under DPF Pillar 2 is closely related to the CPS focus areas 2 to increase efficiency of social programs and strengthening social protection by reducing broad based subsidies and establishing a safety net system that targets the poor and vulnerable. It relates to World Bank projects in social protection and health, including a local development project and a planned social safety net project (P169779) building on rapid social response (RSR)-supported ASA in social protection, and the health system performance strengthening project (HSPSP).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

87. The authorities undertook exhaustive consultations with a wide range of stakeholders on some of the specific reforms supported by this DPF series. Some of these reforms are included in the PEM and the NDP 2018-2022. The development of the private investment law and the competition resulted from a participatory and inclusive consultation process led by the Ministry of Economy and Planning (MEP), which included stakeholders from public institutions and local governments, the private sector, development partners, civil society organizations, professional associations the academia and the parliament. Authorities have also conducted consultations on the design of a long-term social protection system; the temporary cash transfer program; and the strengthening of the management and commercial viability of SOEs. As these reforms are rolled out there will be a continued demand for consultations with the private sector, trade unions and other beneficiaries such as community-based organizations, faith-based organizations, women’s organizations and traditional leaders. Ongoing Energy Sector Management Assistance Program ESMAP projects that support pricing and subsidies reform in the fuel and power sector include the development of a communication strategy, and the Social Protection Project will also include a communication strategy to build understanding of and support for the subsidies reform.

88. During the process of preparing the DPF series, the World Bank collaborated with the IMF, the IFC and the AfDB. Overall, the proposed DPF program is consistent with IMF policy advice, as outlined in 2018 Article IV staff report and the EFF program document. Particularly, the World Bank has collaborated with the IMF on the review of macroeconomic developments, including fiscal projections, the analysis of debt sustainability and the elaboration of the MTDS. Within the FCI Global Practice, which is a joint World Bank-IFC Practice, the team received inputs both from the World Bank and the IFC arms of FCI. The AfDB is also currently preparing a budget support operation for Angola and is planning to complement the policy areas of the DPF series.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

89. Overall, the proposed DPO supports policy and institutional changes that are expected to have poverty-reducing effects in the medium- to long-term. However, there will be distributional effects in the short-run that



should be addressed. Reforms to improve oversight and privatization of SOEs as well as reforms on fuel, electricity, and water tariffs are likely to improve the fiscal position of the government and to improve macro-stability and economic growth in the medium to long-term. In turn, this could help prevent economic crisis-induced increases in poverty. Policy reforms regarding fuel, electricity, and water tariffs are expected to have the largest direct and indirect impact among the proposed changes, and are expected to increase poverty in the short-run. Targeted cash transfers under the planned social safety net project (P169779) explicitly seek to tackle these adverse impacts of the tariff reforms; and are likely to have poverty-reducing effects, depending on several factors, including targeting, size and duration of the transfers, and coverage. Reforms seeking to improve access to finance could help reduce poverty. Reforms aimed at improving competition and introducing a higher level of foreign investment could also help decrease poverty through the channels of prices, wages of the employed, and potential job creation.

90. The fuel, electricity, and water tariffs are expected to contribute to poverty reduction and have positive distributional impacts in the medium- to long-term. In the short-run, they are likely to have negative distributional effects. Tariff structure adjustments will increase available fiscal space, and as a result may have welfare-improving effects in the medium- to long-run. The tariff reform could also allow the fuel, electricity, and water providers to become more financially sustainable and to use additional revenue to expand and improve access, mainly to underserved rural areas. Previous analyses carried out on the fuel subsidies reform by the World Bank (2016) and the IMF (2015) had pointed out that the fuel subsidies have mainly benefitted the rich. Similar studies by IMF and by the World Bank indicated that this is also the case in Mozambique. Fuel subsidies were benefiting those in the top income quintiles as well as people, i.e. truck drivers, from the neighboring countries. A recent IMF study (IMF, 2012) confirmed a similar finding for most developing countries. Yet, the World Bank study on Angola, carried out in 2016 (World Bank, 2016) concluded that through direct (lower household consumption) and indirect (higher prices of goods and services due to higher fuel expenditures) effects, the poverty headcount rate was likely to increase due to the envisioned fuel tariff reform. A similarly careful analysis would be necessary for the electricity and water tariffs using the same household consumption survey (IBEP, 2008).

91. Annex 5 presents a preliminary Poverty and Social Impact Analysis (PSIA) of the direct and indirect impacts of an increase in electricity tariffs using household survey data from the *Inquerito sobre Despesas, Receitas, e Emprego de Angola (IDREA)*, which is carried out by the National Statistics Institute (INE) between March 2018 and March 2019. The results are based on the first 6 months of data from the survey (March 2018 to August 2018). Data are therefore preliminary and may change due to the increase in the sample size and possible seasonality in the pattern of expenditures. The main findings from the PSIA are that the increase in electricity tariffs is likely to have significant negative impacts on the welfare of the poor in Angola although 95 percent of all electricity consumption (by value) is concentrated in non-poor households (top 3 quintiles). More specifically: (i) access to electricity among poor households in rural areas is severely limited and any across-the-board increase in the price of electricity is likely to further discourage access in rural areas; (ii) poor urban households with electricity access spend approximately 4 percent of their consumption expenditure budget on electricity, so any price increase will be difficult for poor urban households to absorb; and (iii) leaving electricity prices unchanged for the poorest 20 percent of the population would only carry a very small fiscal cost. The PSIA further lays out how reforms in the DPF series and the Social Safety Nets Project (P169779) mitigate the impact of subsidy reform on the poor and vulnerable. A full-fledged PSIA will be carried out during the period of



implementation of the DPF after the price and tariff increases accompanying the subsidy reform are determined and the full 12 months of the household survey data have been accessed (expected in June 2019).

92. Improving the current social protection system by introducing one that consists of cash instead of in-kind transfers is to be welcomed and is more likely to tackle the adverse impact of the fuel, electricity, and water tariff reform than the current system in place (*Cartão Kikuia*). The poverty-reducing effect of the envisioned cash transfer will crucially depend on the exact size of transfers, targeting, transparency of allocation mechanisms, as well as other practical considerations. The current system in place, *Cartão Kikuia*, had multiple problems serving the poor as illustrated in a recent World Bank report (2016). The main problems consisted of (i) too low transfers, (ii) non-transparent targeting, and (iii) the in-kind nature of the transfers. The latter consisted of vouchers to be redeemed in so-called *Kikuia* stores or to be used for a set of products that could be purchased with the card. The main problems were: (i) available stores are concentrated in the capital city, (ii) the supply of products in existing stores is low, (iii) there are reported technical problems in card recognition, and (iv) budget allocations to the program did not materialize consistently. All of the above explains why most beneficiaries are not able to use the 10,000 Kwanza theoretically available on the card. This amount is far below the 60,000 (close to US\$200) needed to effectively reduce poverty – because family size is currently not taken into account. Hence, planning for transfer amounts to compensate for the average expected subsidy-removal loss in income among the two bottom quintiles and hence increase coverage are to be welcomed. Going forward, it will also be crucial to clearly communicate eligibility criteria through social and traditional media and within municipalities, as well as improving targeting mechanisms. Setting up the social registry (*Cadastro Único*) is a step in the right direction. Depending on the start date of the new social safety net program and availability of the most recent household survey (mid-2019), the poverty-reducing effect of the cash transfers could be studied.

93. Improved financial inclusion and a more resilient financial system will benefit the poor. Modern development theory sees lack of access to finance as a cause of persistent income inequality and slower growth. Small enterprises and poor households face greater obstacles with access to finance, especially in developing countries. There are large disparities in access to finance across regions, types of businesses, and gender. Even though Angola has a relatively high number of automated teller machines (ATMs) and commercial bank branches per inhabitants, the percentage of adults with a transaction account in a financial institution is less than 30 percent according to the 2014 Findex Data. All women, and adults in rural areas had even more restricted access (only 22 and 18 percent, respectively). As mentioned earlier, mobile payments, which could help reduce the rural-urban and gender gap have not yet been taken up in Angola. Reforms to expand agency banking and e-money are expected to have a positive impact on vulnerable groups by expanding financial services in rural areas and by reducing transaction costs through electronic systems, with the potential for accounts to be maintained at relatively low costs to savers and borrowers.

94. Promoting innovations and improvements in financial products and delivery models (such as e-money and agency banking) through the DPF supported reforms to the legal, regulatory, and institutional framework for payments systems would benefit women in particular given the current gender gap access. Having a more resilient financial system will also benefit the poor as financial crises harm the poor disproportionately. If there is also fiscal retrenchment, there may be cuts to social spending. Thus, the DGF supported by the DPF series is expected to minimize the fiscal costs associated with the resolution of financial institutions and protect the savings of smaller depositors.



95. **Potential poverty-reducing effects could arise from leveling the playing field for private investment, removing barriers for foreign investors as well as anti-competitive practices.** Moving from a market structure dominated by incumbent operators to a competitive one could have welfare-improving effects through prices, wages of the employed, and job creation. Going forward, these effects can only be verified and quantified once the specifics of the reforms become clearer.

5.2. ENVIRONMENTAL ASPECTS

96. **Angola's legal environmental framework is in place; however, further efforts are needed to strengthen the administrative capacity and implementation framework to manage environmental risks.** The legal framework addresses most aspects related to environmental protection, pollution, and improving the living environment. The Environment Framework Law (EFL)⁴¹, and relevant subsequent decrees, establish the general conditions for public consultations, enforcement, prevention and control of pollution; it also lays out requirements for environmental assessments. In Angola, the National Institute for Environmental Management (approved by Presidential Decree No. 11/11) is responsible for implementing and monitoring environmental policies. Other duties include mainstreaming environmental policies into sectoral policies; and establishing and maintaining environmental management systems. The Fund for the Environment approved by Presidential Decree No. 09/11 has been established as a financial mechanism to support management of the environment at the national level.

97. **The institutional and regulatory system for environmental management appears to be in place, however, government capacity to handle and manage potential environmental risks associated with Prior Action #3; Prior Action #4 and Prior Action #5 is weak.** The legislation identifies project types that are subject to an Environmental Impact Assessment (EIA), however, it does not categorize projects into A, B, C (or similar) in terms of project scale or anticipated impacts. There is also no clear definition of risk ratings; and guidelines for preparing EIAs are general and do not cover all sectors. The National Environmental Assessment Directorate (DNPEIA) under the Ministry of Environment is responsible for reviewing Environmental and Social Impact Assessments (ESIA) and audit reports. However, the directorate faces several challenges, including limited human and technical capacity; these challenges are also discussed in a recent World Bank study. The Ministry of Environment is conscious of these limitations and is in the process of hiring a consultancy firm to: (i) assist the updating and revision of environmental legislation in an effort to meet international standards, and (ii) train technical staff in environmental and social management.

98. Some prior actions to be implemented under this DPF are likely to have environmental effects, and hence need to receive scrutiny and close supervision. The following approach is proposed:

- **DPF Prior Action #3** (legal and institutional framework for SOE oversight and privatization). Under the right conditions where basic standards of good national and international practices are in place, the strengthened legal and institutional framework for SOE oversight and privatization can yield environmental benefits and contribute to sustainable outcomes. Privatization can generate environmental, occupational health and safety, as well as social and economic benefits; it also offers an opportunity to make strategic decisions that positively effect long-term economic and environmental

⁴¹ Lei de Bases do Ambiente: No.5/98, of June 19, 1998.



performance and sustainability. As part of the SOE diagnostic, issues related to environmental performance and liabilities (e.g. site contamination) should be identified, and Environment Key Performance Indicators (KPIs) should be developed to help SOEs set up an environmental management system. KPIs should address efficient use of resources for effective corporate governance and management; examine waste reduction, and increased productivity of assets; it should also focus on improved access to capital which is intended to increase investments in new cleaner technologies and equipment.

- **DPF Prior Action #4** (electricity tariff revision). Good electricity, energy and water policy reforms should aim at improving effectiveness of public expenditures, reducing unnecessary costs, raising the quality of service, and minimizing social and environmental impacts. The overuse of fuel, electricity and water contribute to a scarcity in the supply and thus to an increase in overall costs. In the long term, the rise in demand of these resources may place additional burdens on threatened environmental areas. Consumers play a large role in increased environmental benefits, as their understanding and acceptance of reforms to subsidies in the water, electricity, fuel and public transport sector will influence the success of these reforms. Analytical work on the scope of energy subsidies and suggestions for the G20 initiative, carried out by the World Bank (2010), shows that the phasing-out of fossil fuel subsidies may lead to reduced demand for fossil fuels, either through improvements in energy efficiency or through substitution with other fuels or inputs. Reforms to water subsidies may promote more efficient use of water and therefore decreases in water consumption thus generating environmental gains. It could also generate unintended consequences if it leads to excessive use, especially in agriculture and industry.
- **DPF Prior Action #5** (new investment law). The new investment law will likely create a safe and promising business environment, which will favor business development. This prior action may lead to more investment opportunities with associated health and safety, and environmental risks. The investment law should focus on long-term value creation and should consider not only economic value but also issues such as sound corporate governance and environmental sustainability. In addition, applicable principles need to include a precautionary approach to environmental challenges; and should encourage the development and diffusion of environmentally friendly technologies.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

Public Financial Management

99. **PFM in Angola is underpinned by a relatively new and evolving legal and regulatory framework.** The 2010 Constitution is at the apex of this framework, establishing the general principles for PFM. The framework is also composed of various laws, regulations and decrees that are intended to guide the translation of these principles into practice to establish the duties and responsibilities of relevant officials. These laws and regulations have been developed and revised in recent years in a number of areas, including revenue administration, procurement, debt management, SOEs, internal controls and external scrutiny. The government's aim is to strengthen transparency and accountability in the management of public finances in the country. The move to modernize the framework is rooted in the government's vision for enhancing transparency in the country, and this move demonstrates its commitment to improving governance and strengthening the PFM environment.



100. **The budget classification system is one of the strengths of the PFM environment.** The classification system is adequate to support the budget preparation process and has been systematically applied over the last few years. Budget proposals presented to the legislature contain most of the components expected of such documentation, including macro-economic assumptions on aggregate growth, inflation and exchange rate, fiscal deficit, debt stock, including details at least for the beginning of the current year, summarized budget data for both revenue and expenditure, and explanation of budget implications of new policy initiatives. In addition, the responsibility for the management of public finances is clearly demarcated within the current laws. Within the Executive Branch, the Ministry of Finance has the primary responsibility for supervising the preparation of budget proposals and for its execution. It is also responsible for ensuring that the internal control environment within which this execution occurs is sufficiently strong. The legislative branch is also charged with performing the external scrutiny over the budget preparation and execution, and in the latter, they are aided by the Supreme Audit Institution. In addition to the demarcation of responsibilities, other strengths of the current PFM arrangements include a budget classification system that helps to ensure that budget documents contain a sufficient level of detail. Some of the measures introduced by the Government to increase its non-oil revenues have been effective and have helped to cushion some of the damage caused by the repeated falls in oil prices since 2014.

101. However, several weaknesses underly the government's efforts to revise and strengthen its legal and regulatory framework. Commitment controls on government payments are weak and have contributed to the accumulation of arrears in the past; weak commitment controls have further eroded budget credibility. The budget continues to lack adequate transparency and Angola scores relatively low on the Open Budget Index, particularly with regards to budget transparency (25 out of 100), public participation (7 out of 100) and budget oversight (33 out of 100). Government control over fiscal risks is weak, particularly those arising from SOEs and autonomous agencies.

102. The existing weaknesses form the basis of the conclusion that fiduciary risks are substantial. In order to mitigate this, the government's PFM reform program aims to address these weaknesses by increasing transparency and accountability in public resource management; strengthening commitment controls in the payment cycle to make budget execution more robust; improving the financial reporting regime and the quality of financial information for decision making and monitoring; reinforcing the overall internal control environment; and building the capacity of the supreme audit institution. The Government is also in the process of strengthening domestic revenue management, including the administration of taxes and customs duties.

103. The assessment of the PFM environment concludes that the country's budget management system is adequate for this operation.

Foreign Exchange Control Environment

104. **The IMF completed a safeguards assessment of the National Bank of Angola in April 2019.** The assessment indicates that some safeguard risks exist as a result of current weaknesses in internal audit, the legal framework, and the bank's governance structures. In addition, there appear to be some areas that require strengthening, including reserves management and accounting controls. Despite these weaknesses, the assessment also reflects a series of reforms that have been undertaken by the central bank, which is under new management, particularly with respect to internal governance and the control environment. The central bank is implementing a new foreign reserves management framework, and its financial statements are audited by a



reputable firm of accountants. In addition, the IMF continues to monitor the implementation of these reforms through an existing program with the Government.

105. Based on the review of the safeguards assessment, the World Bank concludes that the control environment governing the central bank's operations, within which the loan's FX would flow, is adequate for the purposes of this operation.

Disbursement and Auditing

106. **Funds flow arrangements that are typical for development policy loans will be adopted for this operation.** It is envisaged that upon approval of the Loan and at the request of the Borrower, the World Bank will disburse the loan proceeds into a bank account held in the Central Bank of Angola. The account is denominated in foreign currency and forms part of the country's official foreign exchange reserves. The Central Bank will immediately credit the disbursed amounts to the single treasury account managed by the Government, which will then account for the receipt of the loan in its budget management system, using regular budget management procedures. The Government will provide a confirmation to the World Bank that: (i) the loan proceeds were received into the foreign currency denominated account; and (ii) an equivalent amount was credited to the Single Treasury Account. This confirmation will be sent to the World Bank within 30 days after the disbursement. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, the World Bank would require the Government to refund the amount. The World Bank concludes that the reforms that are being undertaken by the Government to address identified weaknesses in PFM and its commitment to the implementation of these reforms are satisfactory. As a result of this and based on conclusions of the FX control environment, no additional fiduciary arrangements are necessary for the operation.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

107. **The Ministry of Finance will be responsible for collecting and monitoring information related to program implementation and progress towards the achievement of the results.** The Ministry of Finance, in close collaboration with the Technical Steering Committee for the DPF, will be responsible for coordinating necessary actions among the agencies involved in the reform program supported by this DPF series. The World Bank has worked closely with MOF and line ministries in order to define results indicators that are clearly spelled out and measurable, giving preference to those that are collected on a regular basis in order to avoid an additional reporting burden. For example, some indicators are included in the NDP, which has a robust results framework that is closely monitored by MEP. Other indicators are already being regularly produced by the BNA, supported by World Bank TA and other operations, or will also be produced to comply with structural benchmarks as well as data reporting requirements for IMF EFF.

108. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank



Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

109. **The overall risk associated with the proposed DPF is assessed as high.** Most of the reforms supported by the operation form part of the PEM and the NDP and benefit from strong ownership of the government. The most relevant risks are related to macroeconomic, institutional capacity categories and stakeholder risks.

110. **Political and governance risk is substantial.** Angola's institutional and governance environment is currently weak, but the new administration is continuing to build a track record of meaningful reforms (including removal of domestic ownership requirement for local investment; strengthening the mandate of the competition authority; the establishment of an anti-corruption unit; the dismissal of several high-profile officials from the previous administration; and the launch of investigations into possible malfeasance at several public entities.) Some sets-backs are to be expected as the Government strives to improve transparency and address corruption. The EFF also entails measure to support the authorities' anti-corruption efforts, including strengthening PFM; eliminating direct sales of FX and priority list for access to FX; revamping the AML/CFT framework and restructuring the public corporate sector.

111. **Macroeconomic risks arise from the uncertainty in the external outlook and domestic developments.** A sharp decline in oil prices, a stronger than expected reduction in oil production and tighter global financing conditions could dampen growth prospects and increase the need for additional fiscal consolidation. This may lead to a re-orientation of reform and spending priorities away from social services. Mitigating factors include the government's commitment to macroeconomic stability, which is supported by the IMF EEF program. A significant increase in oil prices may also lessen reform momentum in the short-term, but long-term prospects of declining oil production provide strong incentives to pursue a less-oil dependent growth model.

112. **Risks related to sector strategies and policies, and technical design are substantial.** The Government is embarking on a far-reaching, multi-sectoral reform agenda that seeks to transform the country from a government-led, oil-dependent economy to a private-sector led, diversified growth model, with increased social and financial inclusion. This requires a well-designed, comprehensive reform agenda, with adequate sequencing of reforms. To mitigate these risks, all prior actions are supported by sector-specific World Bank operations, RASes and/or TA. The Government has further also put in place a Technical Steering Committee to ensure reform coordination and program implementation.

113. **Angola's institutional capacity to implement some of the supported reforms will require some strengthening.** As most measures supported by the DPF called for fundamental managerial and administrative reforms, it will be critical that implementation capacity is strengthened in step. The approach of the DPF series to support all prior actions with TA and/or investment operations is expected to help mitigate this risk. The Technical Committee of prior action-specific focal points is also expected to facilitate DPF-supported reform areas.



114. Fiduciary risks are deemed to be substantial. Angola's PFM system is underpinned by a relatively new and evolving legal and regulatory framework. The Government is committed to enhancing transparency and accountability in the management of public resources and strengthening the PFM environment. Although there are strengths resulting from recent reforms in the budget preparation process, some key weaknesses remain. These are particularly in budget credibility, commitment controls and the internal control environment. It is envisaged that the implementation of government reforms outlined in section 5.3 will continue to mitigate fiduciary risks and help improve the financial management environment.

115. Environment and Social risks are substantial. Despite effort to mitigate the social impact of subsidies and tariff reform through the implementation of a safety net program, some residual social risks relate to coverage as the lower middle class, which will likely be most affected by the subsidies reform, and some economic operators, such as small urban transportation firms, will not benefit from cash transfers. While the proposed monthly cash transfers are significant for the poorest, they may not likely adequately compensate for the full impact of subsidies removal in all sectors. To mitigate social risks, the SSN Project focuses initially on the urban poor who are more likely to be affected by the tariff/price reforms compared to the rural poor. The SSN project further supports the development of a broad-based communication strategy about the subsidies reform and the cash transfer program. The ongoing SOE diagnostic will provide an assessment of SOE staffing and help inform potential mitigation measures. The World Bank is also in the process of preparing health and education projects which will support human development services and benefit the lower middle-class.

116. Stakeholder risks arise from potential resistance to reform from vested interest. Lessons from the 2010 DPF highlight the importance to consider the political constraints to development in Angola. The execution of the program fell short in areas where the expected measures called for fundamental managerial and administrative reforms, or where policies required strong political support to overcome vested interest, such as with the consolidation of the social sector programs or the introduction of automatic adjustments to fuel prices. While these risks still exist, they are mitigated by political support for reforms at the highest level as well as coordination with other IFIs, such as the IMF and the EU. Prospects that MFD-enabling reforms supported by the operation, such as improvements to business climate, SOE reform and tariff reform, may unlock significant private financing, which may also help lessen resistance from vested interests. To mitigate any adverse impacts related to subsidies and the new safety net reform, the Government has started to work on a multi-stakeholder communication strategy. The proposed operation also supports a phased approach to the elimination of subsidies by supporting the establishment of the registry of beneficiaries first so that a cash transfer program can effectively target the most vulnerable.



Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● High
9. Other	
Overall	● High



ANNEX 1: POLICY AND RESULTS MATRIX

POLICY MATRIX			Results		
Prior Actions under DPF 1	Indicative Triggers for DPF 2	Indicative Triggers for DPF 3	Results Indicator	Baseline	Target
<i>Pillar 1--- Strengthening the macro-financial and institutional environment.</i>					
<i>Policy Area 1.1: Strengthening debt and natural resource management for fiscal sustainability</i>					
Prior Action 1: The Borrower, through MINFIN, has improved the transparency and efficiency of public debt management and operations, by introducing the first medium-term debt management strategy (MTDS) and an annual borrowing plan, as evidenced by: (i) the publication of the MTDS in MINFIN’s Debt Management Unit on March 26, 2019; and (ii) publication of the annual borrowing plan in MINFIN’s Debt Management Unit website on February 5, 2019.	Trigger 1: To improve fiscal sustainability and the management of natural resources, the GoA has submitted to the National Assembly the law for the establishment of the oil revenue fund with the dual objective of fiscal stabilization and long-term investment.	Trigger 1: In order to promote transparency and efficient management of natural resources, the GoA has (i) established the working rules of the fiscal stabilization fund (RFDRP) in a Presidential Decree, and (ii) started issuing comprehensive quarterly fiscal and debt reports following international good practices.	Number of quarterly fiscal accounts published per calendar year, with lags no longer than 45 days for each quarter. Index score in the Resource Governance Index (RGI)	0 (2018) 35 (2017)	4 (2021) 60 (2021)
<i>Policy Area 1.2: Strengthening financial sector resilience</i>					
Prior Action 2: The Borrower has strengthened the resilience of the banking system by establishing a Deposit Guarantee Fund (DGF) and approving implementing regulations for the DGF, as evidenced by Presidential Decree No. 195/18 of August 22, 2018 creating the DGF, published in the Diário da República on August 22, 2018; and by BNA’s Avisos No. 1/19 and 2/19 both of January 11, 2019, regulating the DGF, published in the Diário da República on January 11, 2019.	Trigger 2: In order to improve the regulatory and legal framework for banking supervision and resolution, the GoA has submitted to the Assembly a revised FIL.	Trigger 2: In order to avoid and reduce cost of eventual bank failures, the BNA has strengthened the bank resolution framework by issuing the necessary regulations and developing a bank procedures manual.	Share of the total deposit accounts insured by a Deposit Guarantee Fund (DGF)	0% (2018)	90% (2021)



Policy Area 1.3: Strengthening management and commercial viability of SOEs					
<p>Prior Action 3: The Borrower has taken the necessary steps to reduce fiscal pressures from SOEs and ensure that SOEs are commercially viable by strengthening the legal and institutional framework for SOE oversight and privatization, as evidenced by: (i) Presidential Decree No. 141/18 of June 7, 2018 approving a new law strengthening the mandate of IGAPE, published in the Diário da República on June 7, 2018; (ii) Law No. 10/19 dated May 14, 2019, enacting the Borrower’s new privatization law, published in the Diário da República on May 14, 2019.</p>	<p>Trigger 3: In order to strengthen performance, accountability and transparency of the SOE sector, the GoA has (i) published the first aggregated SOE report with financial and operational performance indicators; and (ii) approved a realistic and complete privatization program in line with good international practice.</p>	<p>Trigger 3: To ensure the implementation of the privatization program in a competitive and transparent way, the GoA has (i) published regular and complete progress reports in line with international best practice; and (ii) completed phase one of the privatization program.</p>	<p>Government transfers to SOEs (operational subsidies, capital transfers) as a share of GDP.</p>	<p>5% (2017)</p>	<p>2% (2021)</p>
<p></p>	<p></p>	<p></p>	<p>Number of aggregate SOE reports published per calendar year.</p>	<p>0 (2018)</p>	<p>2 (2021)</p>
Policy Area 1.4: Supporting pricing and subsidy reform for financial sustainability and effective service provision					
<p>Prior Action 4: The Borrower has initiated a utilities pricing and subsidies reform by carrying out an electricity tariff revision, as evidenced by the issuance and publication of a Ministerial Decree endorsing a new electricity tariff revision.</p>	<p>Trigger 4: The GoA implements (i) a market-based pricing formula for quantifying fuel subsidies and for setting fuel price ceilings (ii) approves the methodology for establishing revenue requirements for water and electricity utilities; and (iii) transfers full authority to set and enforce revenue requirements for electricity and water utilities to IRSEA, the water and electricity sector regulator.</p>	<p>Trigger 4: The GoA (i) approves the electricity tariff schedule (lifeline tariff and tariff structure by customer bracket), based on distributional analysis, and (ii) assigns to Ministry of Finance and MINEA the role and obligation of defining and funding the appropriate mechanism to ensure affordability of the water services.</p>	<p>Energy pricing based on market-based costs and utility tariffs based on cost-recovery principle, systematically adjusted.</p>	<p>Ad hoc price adjustments not based on cost recovery or market principles (2018)</p>	<p>Implementation of new fuel pricing. Implementation of utility tariff-setting mechanism in line with revenue requirement (2021)</p>
Policy Area 1.5: Leveling the playing field for private investment					
<p>Prior Action 5: The Borrower has taken measures to level the playing field for private investments by approving: (i) a new private investment law that eliminates local shareholder requirements for foreign</p>	<p>Trigger 5: In order to develop and implement an effective competition policy framework, the ARC, has (i) adopted secondary legislation to develop the enforcement tools for protecting markets from non-competitive</p>	<p>Trigger 5: In order to foster competition in the telecom sector, the GoA has awarded the 4th mobile license in the form of a new universal telecom license through an open,</p>	<p>Number of enforcement decisions issued by the ARC</p>	<p>0 (2018)</p>	<p>3 (2021)</p>
<p></p>	<p></p>	<p></p>	<p>FDI inflows (non-oil</p>	<p>0.2%</p>	<p>1% (2021)</p>



<p>investors, as evidenced by Law No. 10/18 of June 26, 2018, published in the Diário da República on June 26, 2018; (ii) a new competition law, as evidenced by Law No. 5/18 of April 30, 2018, published in the Diário da República on May 10, 2018; and (iii) the establishment of a Competition Regulatory Authority (ARC), as evidenced by Presidential Decree No. 313/18 of December 21, 2018, published in the Diário da República on December 21, 2018.</p>	<p>behavior, and the GoA (ii) has revised legislation to phase out price control mechanisms that may distort competition.</p>	<p>transparent and fair bidding process, offering market access conditions in line with international best practices, and has adopted pro-competition telecommunication regulations.</p>	<p>sector) as a share of GDP</p>	<p>(2017)</p>	
<p>Pillar 2--- Protecting the poor and vulnerable.</p>					
<p>Prior Actions under DPF 1</p>	<p>Triggers for DPF 2</p>	<p>Triggers for DPF 3</p>	<p>Results Indicator:</p>	<p>Baseline</p>	<p>Target</p>
<p>Policy Area 2.1: Protecting the poor and vulnerable from shocks</p>					
<p>Prior Action 6: The Borrower, through MASFAMU, has taken the necessary steps for the establishment of a nation-wide cash transfer program by creating a unified social registry (<i>Cadastro Social Único</i>) as the building block for a nationwide cash transfer program, as evidenced by Presidential Decree No. 136/2019 of May 10, 2019.</p>	<p>Trigger 6: In order to mitigate the short-term impact of the subsidy and tariff reform, the GoA has set up a poverty-targeted cash transfer using the <i>Cadastro Único</i>.</p>	<p>Trigger 6: In order to improve the effectiveness of the social protection system, the GoA has set up programs to link ex-beneficiaries of the temporary cash transfer program to human development services and productive opportunities.</p>	<p>Number of poor households registered and receiving cash transfers in the <i>Cadastro Único</i></p>	<p>0 (2018)</p>	<p>800,000 (2021)</p>
<p>Policy Area 2.2: Increasing access to finance</p>					
<p>Prior Action 7: The Borrower, through BNA, has taken the necessary measures to strengthen and modernize the national payments system, by restructuring the BNA's payments systems unit to ensure independent and adequate oversight, as evidenced by BNA's Despacho No. 28/2019 of March 6, 2019.</p>	<p>Trigger 7: In order to strengthen and modernize the national payments system, the GoA has (i) submitted a new payments system and services law and the BNA has passed (ii) the implementing regulations of the new law which includes the activation of the National Payments Council (NPC).</p>	<p>Trigger 7: In order to expand access to finance for cash transfers recipients and help ensure program efficiency, security, and transparency, the Government has issued regulations to pay related benefits using non-cash means such as a payment card or mobile money transfers.</p>	<p>Share of the adult population with a transaction account</p>	<p>53% (2018)</p>	<p>70% (2021)</p>



ANNEX 2: IMF RELATIONS ANNEX

IMF Executive Board Approves US\$3.7 Billion Extended Arrangement Under the Extended Fund Facility for Angola (**Press release, December 7, 2018**).

- Executive Board decision allows an immediate first disbursement of SDR 715 million (about US\$990.7 million) to Angola.
- Angola's Extended Arrangement under the Extended Fund Facility (EAEFF) aims at supporting country's economic reforms.
- Improving governance, reducing risks associated with state-owned enterprises, addressing structural obstacles to competitiveness and improving access to finance, amongst others, will be key to accelerate private-sector-led economic growth.

On December 7, 2018, the Executive Board of the International Monetary Fund (IMF) approved a three-year EAEFF in an amount of SDR 2.673 billion (about US\$3.7 billion or 361 percent of Angola's quota) to support Angola's economic reform program.

The EFF⁴² supported program will help Angola restore external and fiscal sustainability and lay the foundations for sustainable, private-sector-led economic diversification. Critical pillars of the program include fiscal consolidation to bring debt to safer levels; increased exchange rate flexibility to regain competitiveness; and supportive monetary policy to reduce inflation. Other pillars of the program include strengthening the banking system; enabling a better business environment; updating the AML/CFT legal framework; and improving governance.

The Executive Board's Decision allows for an amount of SDR 715 million (about US\$990.7 million) to be immediately made available to Angola. The remaining amount will be phased in over the duration of the program, subject to semi-annual reviews.

Following the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The Angolan authorities are implementing a Macroeconomic Stabilization Program which is focused on strengthening fiscal sustainability, reducing inflation, promoting a more flexible exchange rate regime and improving financial sector stability. They are also implementing a National Development Plan for 2018–22 to address structural bottlenecks and promote human development, public sector reform, diversification and inclusive growth. The authorities also intend to improve governance and fight corruption. These efforts are supported by an IMF program under the Extended Fund Facility.

"Fiscal consolidation is a core element of the program. The authorities' plan is to increase non-oil revenue, including by introducing a value added tax, eliminating subsidies and clearing domestic arrears. Protecting the

⁴² The Extended Fund Facility (EFF) was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. It provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period.



poor and most vulnerable is an important element of the program. In this regard, the sequencing of reforms and putting in place off-setting measures will be important. Strengthening public financial management will improve the allocation of scarce public resources and strengthen policy formulation and implementation. Upfront fiscal consolidation in 2018 and gradual consolidation in the medium term is necessary to place public debt on a downward trajectory and create space for much needed infrastructure and social spending. Sound policy implementation can mitigate risks from international oil prices. Strengthened debt management and transparency is critical to address debt-related risks.

“The exchange rate depreciation and the commitment to a market-determined exchange rate are critical steps towards eliminating foreign exchange shortages and restoring external competitiveness. The liberalized exchange rate regime will be supported by tight monetary policy to anchor inflation expectations and allow accumulation of international reserves.

“Safeguarding financial sector stability is critical for the success of the program. The authorities plan to improve governance and credit-risk management at public banks. An asset quality review for largest banks is expected to inform possible recapitalization and restructuring needs. A reexamination of policies that create foreign exchange mismatches in bank balance sheets would help promote financial sector stability. Pressures on correspondent banking relationships will be mitigated by submitting a new AML/CFT law to Parliament.

“Structural reforms under the program will aim to diversify the economy to reduce fiscal risks and foster private sector development. They will include restructuring state-owned enterprises and improving the business climate, strengthening economic governance, and continuing to fight corruption.”



ANNEX 3: LETTER OF DEVELOPMENT POLICY



REPÚBLICA DE ANGOLA
MINISTÉRIO DAS FINANÇAS
GABINETE DO MINISTRO

Excelentíssimo Senhor
Dr. David Malpass
Presidente do Banco Mundial
1818 H Street, NW
Washington, DC. 20433
EUA

1243/53/01/GMF/2018

Assunto: Carta de Políticas de Desenvolvimento

Exmo. Senhor Director,

A República de Angola passa por um momento único e transformativo. Em agosto de 2017, o nosso país passou por eleições livres e multipartidárias em um momento de fortalecimento da democracia, que resultou na primeira transição de poder em nosso país.

O novo governo delineou suas diretrizes no Plano Intercalar e no Plano de Estabilização Macroeconómica, que depois foram incorporados ao novo Plano de Desenvolvimento Nacional – PDN 2018-2022. O Plano é composto por seis eixos estratégicos, dos quais destaca-se dois primeiros: (i) desenvolvimento humano e bem estar; e (ii) desenvolvimento económico sustentável e inclusivo.

O primeiro eixo constitui uma dimensão central de todo o plano, na medida em que a melhoria do bem-estar dos cidadãos e da qualidade de vida das famílias angolanas, a redução da pobreza e das desigualdades e a promoção do nível de desenvolvimento humano são condições essenciais para o progresso económico e social do País e constituem uma prioridade para o Executivo. Para ele contribui o segundo eixo, através de um desenvolvimento económico sustentável e diversificado, mas também inclusivo, com a geração de oportunidades de emprego.



Subjacente à todo o plano está a ideia de que o actual modelo de desenvolvimento baseado somente na exploração de recursos naturais não será suficiente para crescer e desenvolver a economia de Angola, principalmente para gerar os empregos necessários à grande população jovem do país. Outro aspecto importante e transversal ao plano é a sua contribuição para uma maior transparência e integridade na gestão pública.

Em pouco mais de um ano de sua implementação, o governo já registra progressos no campo da estabilidade macroeconómica, diversificação da economia e nas áreas sociais. Em 2018, Angola abandonou o câmbio fixo e eliminou várias restrições cambiais, que constrangiam o sector privado e impediam o ajuste frente aos novos preços do petróleo no mercado internacional. A inflação reduziu-se em cinco pontos percentuais, não obstante a desvalorização cambial e o realinhamento de algumas tarifas públicas.

Adicionalmente, em 2018 registrou-se o primeiro superávit fiscal desde 2014, fruto de um esforço de consolidação fiscal empreendido por todo o governo. A proposta de orçamento de 2019 consagra um aumento das despesas na área de saúde e agricultura, ao mesmo tempo que mantém uma trajetória de superávits fiscais com vistas a redução da dívida pública. Por último, Angola também comprovou o seu compromisso com a educação, ao manifestar seu desejo de tomar parte do projecto do Capital Humano liderado pelo Banco Mundial.

Todas essas mudanças estão sendo realizadas durante um período mais turbulento da economia mundial. O ciclo de expansão que se seguiu após a crise de 2008-09 está chegando ao seu fim. A taxa de crescimento das economias desenvolvidas e da China está desacelerar, e as condições monetárias internacionais tornaram-se menos acomodáticas. O nível de incerteza política - como a saída do Grã-Bretanha da União Europeia e as sucessivas brigas comerciais com imposição de tarifas entre as principais economias mundiais - também atingiu níveis mais altos, configurando um quadro de maior volatilidade, o que dificulta o ajuste macroeconómico e a atração de novos investimentos privados, principalmente para sectores não ligados aos recursos naturais.



Dieante dessa conjuntura de maior volatilidade dos preços das commodities, que afeta nosso país principalmente pela variação do preço do petróleo, cujo preço em 2018 já atingiu máxima de US\$ 85,63 por barril até a mínima de US\$ 51,49, o Governo de Angola recorreu aos parceiros multilaterais para apoiar o país nessa transição. O objetivo é contar com apoio técnico e recursos financeiros, que deem sustentabilidade ao processo de ajuste e transformação do país, protegendo ao mesmo tempo a população mais vulnerável.

Nesse sentido, o governo assinou recentemente um programa de três anos com o Fundo Monetário Internacional (FMI) no valor de US\$ 3.8 mil milhões, e gostaria de contar com uma série de três operações de políticas de desenvolvimento para apoiar as reformas detalhadas abaixo, que foram extraídas do PND 2018-2022.

As reformas do programa estão divididas em duas áreas: (i) fortalecimento do ambiente macro-financeiro e institucional; e (ii) proteção dos mais pobres e vulneráveis. A primeira área concentra todas as reformas necessárias para a estabilização macroeconómica, enquanto a segunda trata de medidas para mitigar eventuais efeitos negativos das reformas na população mais vulnerável e dotá-las de activos para alcançar a inclusão.

Como aludido anteriormente, uma das principais dificuldades para a gestão macroeconómica e financeira é a volatilidade dos agregados macroeconómicos trazida pela flutuação do preço do petróleo e a dependência da economia ao sector petrolífero. No médio prazo e com apoio do Banco, o governo pretende criar um mecanismo de estabilização fiscal.

Para o curto prazo, o governo está trabalhar na melhoria da gestão e transparência da dívida pública, em linha com a iniciativa do G-20, por meio da elaboração e publicação de uma estratégia de gestão da dívida de médio prazo, que é a primeira acção prévia da primeira operação. Nesta estratégia, o governo reforça o seu compromisso de não mais contratar empréstimos bilaterais com garantias de petróleo, dando preferência, por sua vez, em empréstimos externos contratados de maneira mais transparente e competitiva para assegurar os melhores termos financeiros.



O sector financeiro também é afectado pela excessiva dependência da economia ao petróleo, o que pode gerar descasamento de activos e passivos dos bancos, créditos mal-parados entre outros problemas. Na realidade, o sector bancário Angolano exhibe algumas fragilidades o que levou o Banco Nacional de Angola a aumentar o capital mínimo dos bancos, o que acarretou na liquidação recente de três pequenos bancos. Nesse sentido, é muito importante contar com o apoio do Banco Mundial para fortalecer a resiliência do sector bancário, sendo a criação do Fundo de Garantia de Depósitos, a segunda acção prévia a ser apoiada por essa série de operações.

Angola tem muitas empresas públicas, muitas delas actuam em sectores essenciais à competitividade da economia e bem estar da população, tais como no sector da electricidade, transportes, telecomunicações, água e saneamento. O desempenho dessas empresas tem sido aquém do desejado, motivando despesas de subsídios para o orçamento, além de riscos fiscais. A participação de empresas públicas dominantes, além de uma regulação fraca, afastam o investimento privado dessa área. Por isso, o Governo de Angola reformulou o órgão de supervisão das empresas públicas, está a revisar tarifas desses serviços e comprometeu-se com princípios de transparência e estabilidade regulatória, que permitirão maior participação do sector privado, por meio da lei de privatizações, que é também uma acção prévia da primeira operação.

Com o mesmo objetivo de criar as condições para atrair o investimento privado, o governo extinguiu restrições ao capital privado estrangeiro como a necessidade de parcerias com empresas locais e valores mínimos de investimento. O governo também criou a primeira lei que coíbe práticas anti-competitivas em Angola e criou a Autoridade Reguladora de Concorrência (ARC) para zelar pelo cumprimento da lei. Essas duas medidas são acções prévias da primeira operação.

Na mesma senda, o governo definiu como competência exclusiva das agências reguladoras a definição e aplicação da metodologia previsível e transparente de fixação das tarifas nos sectores regulados como electricidade, água e saneamento, e combustíveis. O governo entende que o princípio basilar dessa metodologia é que as tarifas pagas às empresas públicas devem equivaler aos seus requisitos de receita anual e reflectir os custos totais reais incorridos por essas empresas para



prestar o serviço que lhes é confiado. O governo compromete-se também a pagar subsídios por meio do orçamento, respeitado o equilíbrio fiscal, sempre que optar por fixar tarifas abaixo dos níveis recomendados pelo órgão regulador.

O Governo de Angola desenhou o seu programa de estabilização macroeconómica de forma a minimizar os impactos sociais do mesmo. Uma das principais medidas mitigadoras é o desenvolvimento e implantação de um programa de transferência de renda focado nos mais pobres e vulneráveis. Tendo em vista a vasta *expertise* do Banco Mundial nesse tema, o Governo de Angola conta com o apoio do Banco Mundial para o implementar o programa de transferência de renda. Por isso, o estabelecimento do cadastro único de beneficiários, primeiro passo do programa de transferência de renda, é uma acção prévia da operação.

Uma infra-estrutura importante para viabilizar o programa de transferência de renda e para acções de inclusão financeira é um sistema nacional de pagamentos. Este permite que os benefícios sociais sejam pagos diretamente aos beneficiários por meio de cartão bancário e permite a criação de contas bancárias simplificadas e mais baratas, ampliando o acesso da população ao sector financeiro. Por esta razão, a reestruturação do sistema de pagamentos é a sétima e última acção prévia da operação.

Todas essas acções concorrem em última instância para o combate à pobreza e promoção da prosperidade compartilhada, missão do Grupo Banco Mundial. Face ao acima exposto, para o sucesso destas reformas contamos com o apoio do Banco Mundial. Somos igualmente a realçar que o Executivo está disponível, pronto a tomar medidas adicionais que se mostrem apropriadas para garantir a consecução desses objectivos.

Sem outro assunto de momento, subscrevemo-nos com votos de elevada estima e consideração.

GABINETE DO MINISTRO DAS FINANÇAS, em Luanda, 9 de Maio de 2019.

O Ministro,


Archer Manguerra



Letter of Development Policy - Unofficial Translation



REPÚBLICA DE ANGOLA

MINISTÉRIO DAS FINANÇAS

Gabinete do Ministro

Mr. David Malpass
President
World Bank Group
1818 H Street, NW
Washington, DC. 20433
USA

Ref. No. _____ /GMF/MINFIN/2019

SUBJECT: Letter of Development Policy

Dear President Malpass,

The Republic of Angola is going through a unique and transformative point in time. In August 2017, Angola went through free and multiparty elections in a moment of democratic strengthening, which resulted in the first transition of power in our country.

The new government outlined its guidelines in the Interim Plan and the Macroeconomic Stabilization Plan, which were later incorporated into the new National Development Plan - PDN 2018-2022. The PDN is composed of six strategic pillars, of which the first two stand out: (i) human development and well-being; and (ii) sustainable and inclusive economic development.

The first pillar is central to the overall plan, since improving the well-being of citizens and the quality of life of Angolan families, reducing poverty and inequalities, and promoting the level of human development are crucial for the country's economic and social development and a priority for the Executive. The second pillar also contributes to this objective through sustainable and diversified but also inclusive economic development, with the generation of employment opportunities.

The underlying idea of the PDN is that the current growth model, which is solely based on oil wealth, will



not be sufficient to achieve the economic growth and development needed to generate the necessary jobs for the young and growing population in Angola. Another important and cross-cutting aspect of the plan is a commitment to greater transparency and integrity in public financial management.

In just over one year, the government has already made progress in macroeconomic stability, economic diversification and social areas. In 2018, Angola abandoned the fixed peg to the U.S. dollar and eliminated several foreign exchange restrictions, which had constrained the private sector and prevented the economy from adjusting to lower international oil prices. Inflation declined by five percentage points, despite a large currency depreciation and the adjustment of some utility tariffs.

In 2018, the first fiscal surplus was registered since 2014 as a result of the fiscal consolidation effort undertaken by the entire government. The 2019 budget proposal proposed an increase in health and agricultural expenditure, while maintaining a trajectory of fiscal surpluses to reduce public debt. Finally, Angola has also demonstrated its commitment to education by expressing interest to take part in the World Bank-led Human Capital project.

These developments are taking place during a turbulent period for the global economy. The cycle of economic expansion following the 2008-09 crisis is coming to an end. The growth rate of developed economies and China is slowing, and international monetary conditions have become less accommodative. The level of political uncertainty - such as Britain's potential withdrawal from the European Union and successive trade disputes with the imposition of trade tariffs among the major world economies - has also reached higher levels, creating a more volatile environment, which hinders macroeconomic adjustment and the attraction of new private investments, especially for sectors not linked to natural resources.

Faced with greater volatility of commodity prices, which affects our country mainly due to the variation of the oil price, which in 2018 ranged from a maximum of US\$85.63 per barrel to a minimum of US\$51.49, the Government of Angola turned to multilateral partners to support the country in this transition period. The objective is to sustain the process of adjustment and transformation of the country through technical support and financial resources, while protecting the most vulnerable population.

In this regard, the government has recently signed a three-year program with the International Monetary Fund (IMF) in the amount of US\$3.8 billion. The government of Angola would like to request a series of three development policy operations (DPOs) to support the reforms outlined below, which are part of the PND 2018-2022.

The program reforms are divided into two pillars: (i) strengthening the macro-financial and institutional environment; and (ii) protecting the poor and most vulnerable. The first pillar covers reform efforts to support macroeconomic stability, while the second pillar includes measures to mitigate possible negative effects of reforms on the most vulnerable population and to equip them with assets to achieve inclusion.



As mentioned above, one of the main difficulties for macroeconomic and financial management is the volatility of the macroeconomic aggregates due to fluctuations in the international oil price and the dependence of the economy on the oil sector. In the medium term and with World Bank support, the government intends to create a fiscal stabilization mechanism.

In the short term, the government is working to improve public debt management and transparency, in line with the G20 initiative, through the development and publication of a medium-term debt management strategy, which is the first prior action of the first operation. In this strategy, the government reinforces its commitment to no longer contract bilateral loans with oil guarantees, preferring, in turn, foreign loans contracted in a more transparent and competitive way to ensure the best financial terms.

The financial sector is also affected by the economy's heavy economic dependence on oil, which can lead to mismatches in bank balance sheets, non-performing loans and other problems. In fact, the Angolan banking sector exhibits some weaknesses, which led the National Bank of Angola to increase the minimum capital requirements of banks, resulting in the recent liquidation of three small banks. With the support of the World Bank, the government will strengthen the resilience of the banking sector, including with the creation of the Deposit Guarantee Fund, the second prior action to be supported by this series of operations.

Angola has many state-owned enterprises. Many state-owned enterprises operate in sectors that are essential to the competitiveness of the economy and the well-being of the population, such as the electricity, transport, telecommunications, water and sanitation sectors. The performance of these companies is generally poor and has deteriorated in recent years, generating fiscal pressures for the budget and fiscal risks. The presence of dominant state-owned enterprises, in addition to weak regulation, can crowd-out private investment. Therefore, the Government of Angola has reformed the state-owned enterprise oversight unit, which is committed to transparency and regulatory stability. The privatization law, which is a prior action of the first operation, is also expected to increase private sector participation.

With the same objective of creating the conditions to attract private investment, the government has removed restrictions on foreign private investments such as the need for partnerships with local companies and minimum investment values. The government has also created the first law to curb anti-competitive practices in Angola and created the Competition Regulatory Authority (ARC) to enforce the law. These two measures are prior actions in the first operation.

Along the same lines, the government acknowledges that the sector regulator should have the full authority to define and apply a predictable and transparent methodology for setting tariffs in regulated sectors such as electricity, water and sanitation, and fuel. Specifically, the GoA understands that the tariffs paid to the public utilities should equal their annual revenue requirements and reflect the actual total costs incurred by such utilities for providing the service they are entrusted with. The GoA also recognizes that it would need



to provide a subsidy to the utilities, reflected in the annual budget, whenever it decides to set tariffs below the revenue requirements of utilities.

The Government of Angola has designed its macroeconomic stabilization program in a way to minimize social impacts. One of the main mitigating measures is the development and implementation of a cash transfer program focused on the poorest and most vulnerable. Given the World Bank's extensive expertise in this area, the Government of Angola has asked for the support of the World Bank to implement the cash transfer program. The establishment of a single social registry, the building block of the cash transfer program, is a prior action of the operation.

A national payments system is an important infrastructure for the cash transfer program and financial inclusion measures. An efficient payment system would allow paying social benefits directly to the cash transfer recipients through bank cards and create simplified and cheaper financial accounts, thus expanding the population's access to the financial sector. Therefore, the restructuring of the payments system is the seventh and last prior action of the operation.

All these actions ultimately contribute to the fight against poverty and the promotion of shared prosperity, which is the mission of the World Bank Group. In light of the above, we are counting on World Bank support for the success of these reforms. We would also like to emphasize that the Executive is available and ready to take additional measures, as appropriate, to achieve these objectives.

Sincerely,

Office of the Minister of Finance, in Luanda, Angola, 15 March 2019.

The Minister

Archer Manguera



ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening the macro-financial and institutional environment.		
<p><i>Prior action #1:</i> The Borrower, through MINFIN, has improved the transparency and efficiency of public debt management and operations, by introducing the first medium-term debt management strategy (MTDS) and an annual borrowing plan, as evidenced by: (i) the publication of the MTDS in MINFIN’s Debt Management Unit on March 26, 2019; and (ii) publication of the annual borrowing plan in MINFIN’s Debt Management Unit website on February 5, 2019.</p>	No	No
<p><i>Prior action #2:</i> The Borrower has strengthened the resilience of the banking system by establishing a Deposit Guarantee Fund (DGF) and approving implementing regulations for the DGF, as evidenced by Presidential Decree No. 195/18 of August 22, 2018 creating the DGF, published in the Diário da República on August 22, 2018; and by BNA’s Avisos No. 1/19 and 2/19 both of January 11, 2019, regulating the DGF, published in the Diário da República on January 11, 2019.</p>	No	No
<p><i>Prior action #3:</i> The Borrower has taken the necessary steps to reduce fiscal pressures from SOEs and ensure that SOEs are commercially viable by strengthening the legal and institutional framework for SOE oversight and privatization, as evidenced by: (i) Presidential Decree No. 141/18 of June 7, 2018 approving a new law strengthening the mandate of IGAPE, published in the Diário da República on June 7, 2018; (ii) Law No. 10/19 dated</p>	Yes - positive	Yes – both positive and negative



May 14, 2019, enacting the Borrower’s new privatization law, published in the Diário da República on May 14, 2019.		
<i>Prior Action #4:</i> The Borrower has initiated a utilities pricing and subsidies reform by carrying out an electricity tariff revision, as evidenced by the issuance and publication of a Ministerial Decree endorsing a new electricity tariff revision.	Yes - positive	Yes – negative in the short run but positive in the medium- to long-term
<i>Prior Action #5:</i> The Borrower has taken measures to level the playing field for private investments by approving: (i) a new private investment law that eliminates local shareholder requirements for foreign investors, as evidenced by Law No. 10/18 of June 26, 2018, published in the Diário da República on June 26, 2018; (ii) a new competition law, as evidenced by Law No. 5/18 of April 30, 2018, published in the Diário da República on May 10, 2018; and (iii) the establishment of a Competition Regulatory Authority (ARC), as evidenced by Presidential Decree No. 313/18 of December 21, 2018, published in the Diário da República on December 21, 2018.	Yes - positive	Yes – both positive and negative
Operation Pillar 2: Protecting the poor and vulnerable.		
<i>Prior action #6:</i> The Borrower, through MASFAMU, has taken the necessary steps for the establishment of a nationwide cash transfer program by creating a unified social registry (<i>Cadastro Social Único</i>) as the building block for a nationwide cash transfer program, as evidenced by Presidential Decree No. 136/2019 of May 10, 2019.	No	Yes – positive
<i>Prior action #7:</i> The Borrower, through BNA, has taken the necessary measures to strengthen and modernize the national payments system, by restructuring the BNA’s payments systems unit to ensure independent and adequate oversight, as evidenced by BNA’s Despacho No. 28/2019 of March 6, 2019.	No	Yes - positive



ANNEX 5: POVERTY AND SOCIAL IMPACT ANALYSIS

117. **The PSIA focuses on the prior actions with the most impact on poverty and social development:** the increase in the electricity tariffs (prior action #4) and the linkages to the social safety net, including the set-up of a social registry (*Cadastro Único*, prior action #7). The PSIA includes a section on the reform context, description of reforms, and the poverty impact of electricity tariff reforms (both direct and indirect impacts, estimated by micro-data simulation). The PSIA further lays out how reforms in the DPF series and the Social Safety Nets Project (P169779) mitigate the impact of such reforms on the poor and vulnerable.

118. **This annex also presents some key descriptive statistics on the patterns of household expenditures on fuel products and water.** The GoA started to reduce subsidies by adjusting water tariffs in August 2018 and plans to adjust gasoline and diesel prices over the course of the next few years. Since the preliminary data from the IDREA survey only covers the first 6 months of the survey up to August 2018, the analysis focuses on the patterns of household expenditures on water and fuel products. A fully-fledged PSIA will be carried out during the period of implementation of the DPF after the price and tariff increases accompanying the subsidy reform are determined and the full 12 months of the household survey data are accessed.

Reform context

119. **According to the GoA, general price subsidies represent a heavy burden on public finances and mostly benefit the wealthiest segments of society (IMF, 2018).** The GoA started to reduce subsidies by adjusting water tariffs in August 2018 and plans to adjust electricity and public transportation tariffs as well as gasoline and diesel prices over the course of the next few years.

120. **The subsidy reform is expected to have adverse social and economic impact on households.** For instance, higher energy prices will affect households in two ways: directly through higher household expenditures on energy and indirectly through higher expenditures on other goods and services for which energy costs are significant, such as passenger transportation and food that is transported long distances⁴³. Since the GoA is reforming prices and subsidies across multiple sectors, the impact of the subsidy reform is expected to have a cumulative impact on households. Also, sector reforms could reinforce each other: according to the IMF⁴⁴, the transportation, fishing, electricity and water, and the mining sector are the most fuel-intensive sectors in Angola, so its costs are especially sensitive to fuel prices and subsidy reform. This requires a phased and coordinated approach.

121. **This DPF (P166564), the Bitá Guarantee (P163610) and the Social Safety Nets Project (P169779) form part of an integrated effort to support reforms that help move Angola towards an effective and transparent pricing-setting mechanism for fuel and utility prices to ensure more efficient operation and fairer access for poor households.** More specifically, this DPF supports tariff and subsidy reform in the fuel, electricity and water sectors (see policy area #4), while mitigating the impact of such reforms on the poor and vulnerable (see policy area #6). This DPF series reflects a phased approach, starting with a prior action in the electricity sector (prior

⁴³ World Bank (2018). Analyzing the Incidence of Consumer Price Subsidies and the Impact of Reform on Households — Quantitative Analysis : Households (English). Energy Subsidy Reform Assessment Framework (ESRAF) Good Practice Note.

⁴⁴ IMF (2015). Technical Assistant Report—Angola—Fuel Price Subsidy Reform. The Way Forward.



action #4), with reforms in all three sectors to follow under the indicative triggers. Mitigation measures are introduced in the first DPF (*prior action #6*).

Background electricity sector

122. **Angola’s electricity retail tariffs are among the lowest in the world.** While comprehensive analysis is being carried out to measure the revenue requirements of public utilities in the electricity sector and, on this basis, to identify a sound methodology for setting and adjusting tariffs (see policy area #4), the electricity tariff increase is a step in the right direction. The new tariff schedule maintains the social tariff (lifeline) for electricity customers with a consumption below 120 kWh/month (Domestica Baixa Tensao Social BTDS I) at 2.46 Kz/KWh. Customers with a consumption between 120 and 200 kWh/month under BTDS II category will now pay a fixed charge (80 Kz) and a higher variable tariff at 6.41 Kz/KWh.

Figure 5.1a: Old tariff vs. new tariff schedule

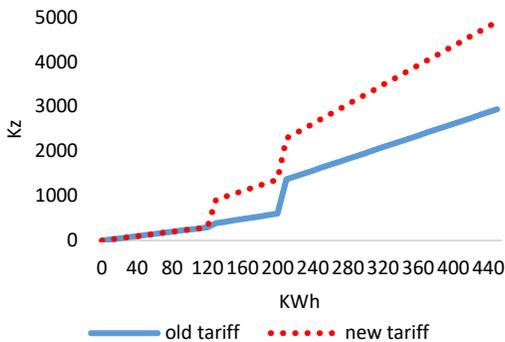
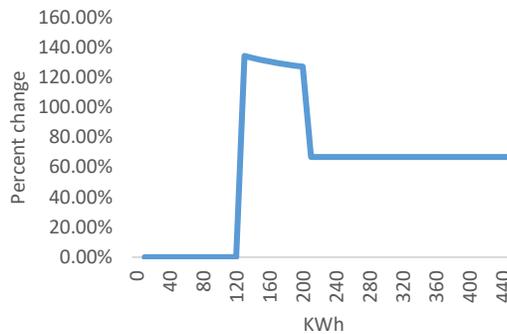


Figure 5.1b: New tariff increase as percent of old tariff



Source: Decreto Executivo

Methodology

123. **Direct and indirect impacts of an increase in electricity prices are estimated** using household survey data from the *Inquerito sobre Despesas, Receitas, e Emprego de Angola* (IDREA), which is conducted by the National Statistics Institute (INE) between March 2018 and March 2019. The statistics presented here are based on the first 6 months of data from the survey (March 2018 to August 2018). Data are therefore preliminary and may change due to the increase in the sample size and possible seasonality in the pattern of expenditures.

124. **Direct impacts:** The consumption expenditure module in the Angola IDREA survey includes expenditures on electricity. Assuming an inelastic demand for electricity, the decrease in purchasing power (over other goods and services) is associated with an increase in the price of electricity by multiplying the total value of current electricity consumption (measured as a share of total consumption expenditure) by the proposed rate of increase in the electricity price. This yields an estimate of the loss in purchasing power that each household would experience under the new proposed electricity price schedule.⁴⁵

125. **Indirect impacts:** Electricity tariff increases can also produce indirect impacts on the consumer prices of non-electricity goods and services produced using electricity as in input. When the price that producers pay for

⁴⁵ The product of the share of the electricity expenditures in the household budget multiplied by the increase in the electricity tariff (in percent) yields the amount by which the household will have to reduce expenditure over the rest of the budget.



inputs rises, the price of goods and services produced using that input may, under certain assumptions, also rise, creating an “indirect” burden on households.

126. An Input-Output matrix for Angola for the year 2015 is used to assess those indirect effects.⁴⁶ A “price shifting” model of price-setting behavior in firms; and a fixed production technology assumption are used to estimate the indirect impact of the proposed electricity price increase.⁴⁷ For the estimates of the indirect impact of an electricity price increase, it is assumed that prices in the agricultural and food and beverage sectors would not be affected.⁴⁸ Abstracting from price effects on agricultural goods and foods and beverages from the electricity price increases implies that a major portion of household consumption (especially for poorer households that have higher food shares) will be not affected by those price increases.

Results

Main messages:

- 95 percent of all electricity consumption (by value) is concentrated in non-poor households (top 3 quintiles), however...
- Electricity access for poor households in rural areas is severely limited; any across-the-board price increase could further discourage access in rural areas.
- Poor urban households with electricity access spend approximately 4 percent of their consumption expenditure budget on electricity, so any price increase will be difficult for them to absorb.
- Leaving prices unchanged for the poorest 20 percent of the population would only carry a small fiscal cost

127. **A large fraction of the poorer households does not have access to electricity, and access is much higher in urban areas than the rural areas.** Figure 5.2 below summarizes “coverage” or rates of access to electricity among households in national, urban, and rural areas by quintile of per capita expenditure (PCE) at the national level. Coverage is very thin in rural areas: approximately 5 percent of the overall rural population has access to electricity, while less than 3 percent of the poor rural population⁴⁹ has access to electricity. Urban areas provide greater access across the board; more than a quarter of the poor urban population has electricity access.

⁴⁶ The IO matrix for Angola was accessed from the website: <http://worldmrio.com/countrywise/>

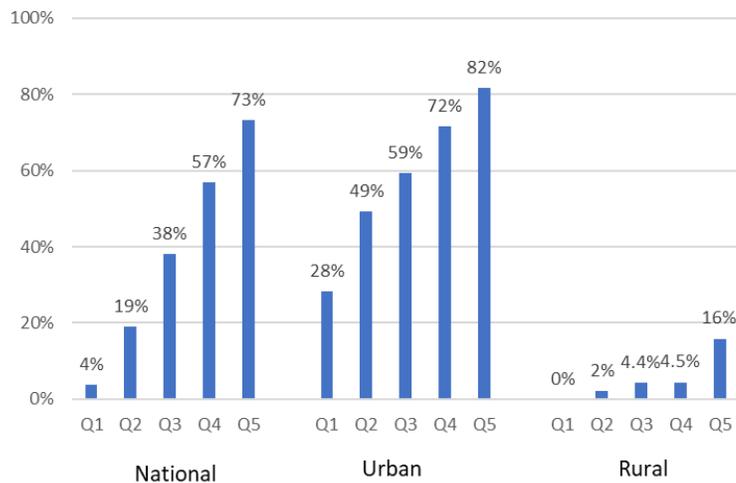
⁴⁷ see Chapter 7 in the Commitment to Equity Handbook (Nora Lustig, ed.) from 2018 for a more complete and detailed explanation.

⁴⁸ It is also assumed that a 30 percent (for example) price increase for electricity alone translates into a 15 percent increase (overall) in the combined Electricity, Gas, and Water sector. In other words, it is assumed that half of the value of gross output in the combined Electricity, Gas, and Water sector comes from Electricity alone; and also that the Gas and Water subsectors will not experience an increase in price as a consequence of the increase in the Electricity prices.

⁴⁹ The poor population is defined as those individuals with household per-capita expenditure less than US\$1.90 per day in purchasing power parity terms.



Figure 5.2: Coverage, or electricity access rates, by region and quintile



Source: World Bank staff estimates based on IDREA 2018-2019.

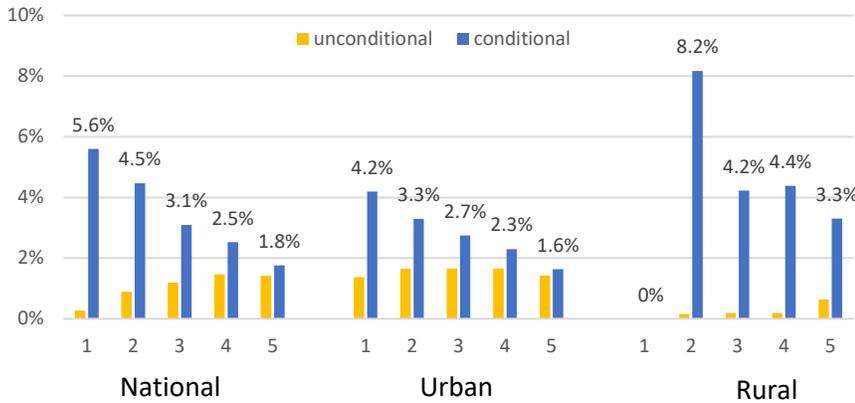
128. Among poor households (bottom 20 percent of PCE) those that report expenditures on electricity (i.e. *conditional* on expenditures) spend just under 6 percent of their total expenditures on electricity. Figure 5.3 presents the mean value of electricity consumption measured as a share of the value of total consumption by quintile of PCE for total households (*unconditional* on expenditures), and for households with expenditures on electricity (*conditional* on expenditures). The *unconditional incidence* of electricity expenditure is relatively low for households in the bottom two quintiles in both urban and rural areas. This is primarily due to the fact that fewer households in the lower quantiles of PCE have access to electricity (also see Figure 5.2 above). However, for *conditional incidence*, the situation is quite different: in both urban and rural areas, households at the bottom two quintiles that report electricity expenditures dedicate larger shares of their total consumption expenditure to electricity than households in the third, fourth, or fifth quintiles. Poor urban households that report expenditures on electricity spend approximately 4 percent of their consumption expenditure budget on electricity. As such, any price increase will be difficult for poor urban households to absorb.

129. The median level of total household consumption expenditures at the bottom 20 percent (Quintile 1) of the distribution of PCE is Kz 22,808 per month, the median household size is 7.4 members. Using median values, the share of 6 percent of total expenditures on electricity implies an expenditure of Kz 1,369 per month or a consumption of approximately 210 KWh at the old tariff schedule. Assuming the same level of consumption of electricity after the tariff increase (i.e., 210 KWh per month), the new electricity tariff implies a small increase (by 5.4 percent) in electricity expenditures among households consuming that amount of electricity (since the tariff at 210 KWh increases from Kz 1,371 to Kz 1,426).



Figure 5.3: Share of spending on electricity by quintile of PCE

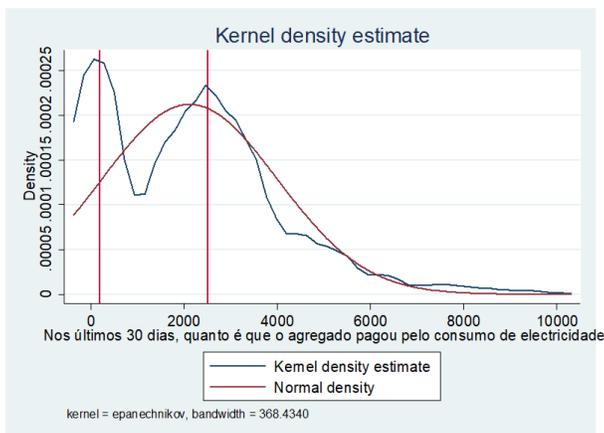
All households (unconditional) and households with access to electricity (conditional)



Source: World Bank staff estimates based on IDREA 2018-2019.

130. A closer look at the distribution of spending on electricity among households that report expenditures on electricity provides a preliminary estimate of households to be affected by the new tariff schedule. Spending of households on electricity is concentrated around two peak values: Kz 180 per month (about 75 KWh) and Kz 2,500 per month (about 390 KWh), see Figure 5.4. In the new tariff schedule, clients with a monthly consumption of less than 120 KWh remain in the BTDS I category and pay the same variable cost 2.46 Kz/KWh. The estimated number of clients in this category is very small: 3,000 out of around 1.5 million of total ENDE customers. Under the previous tariff schedule, clients with a monthly consumption of less than 200 KWh paid 3 Kz/KWh and no fixed charge (or a maximum of Kz 600 per month). With the new tariff schedule, these clients will now pay 80 Kz (fixed charge) and 6.41 Kz/KWh (or a maximum of Kz 1,362 per month). The number of clients in this category is estimated at 7,000 customers.⁵⁰

Figure 5.4: Distribution of spending on electricity for households with access to electricity



Source: World Bank staff estimates based on IDREA 2018-19

⁵⁰ It should be noted that the World Bank has not had any means to verify the number of electricity customers in each electricity consumption bracket. The estimates above appear overly low and may derive from the inadequate commercial system of ENDE.



131. **The preceding access and spending patterns suggest that an electricity price increase is likely to have a relatively minor impact on the poverty headcount ratio, and very likely to have a negative effect on the welfare of the households that are already poor.** Given that only a few poor or near-poor households have access to electricity, higher electricity prices are likely to discourage access to electricity by poor and near-poor households who might otherwise be seeking access to electricity. On the other hand, poor households that currently have access to electricity may no longer be able to afford access if the price were raised.

132. **Estimates of the direct and indirect impacts of electricity price increases confirm that the impacts on measures of inequality and poverty are small.** Panels 5a, 5b, and 5c in Figure 5.5, summarize the impact a 10 or 30 percent increase in the price of electricity on the Gini coefficient of inequality (panel 5a), the poverty headcount ratio (5b) and the poverty gap (5c). A 10 and 30 percent increase in the price of electricity are chosen as an illustration to simplify the analysis of the impacts⁵¹. Estimates are provided for the direct effects of 10 percent and 30 percent tariff increase at the national level and separately for households in urban and rural areas, as well as for the combined direct and indirect effects of a 30 percent increase in tariffs. The higher price of electricity is modeled generating an (immediate) loss of purchasing power over other real goods and services for the same level of consumption expenditure. Along similar lines, the indirect increase in the price of other goods and services (resulting from the increase in electricity prices for industrial or commercial customers) also creates reductions in purchasing power more generally.

133. Panel .5.5a, b, and c, indicate essentially no change in inequality after the imposition of a 10- or 30-percent electricity price increase. This result is driven by the assumption of similar responses on the demand side across the distribution of consumption (i.e. for richer and poorer households) which implies that the purchasing power of all households is reduced by the same *relative* amount.

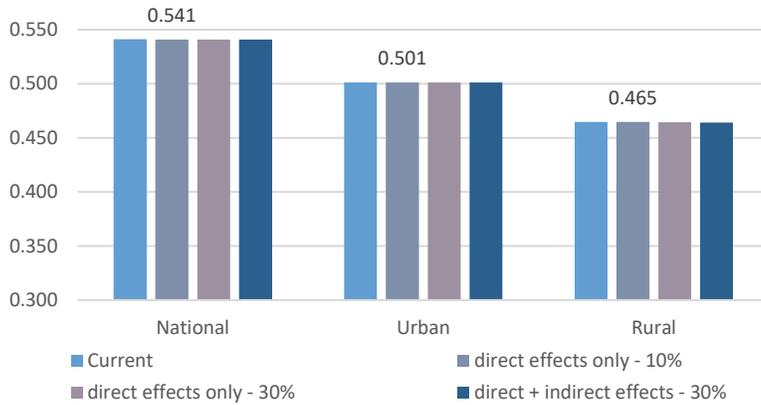
134. Figures 5.5a, b, c also demonstrate that an electricity price increase is expected to contribute to a small increase in the poverty headcount ratio and the poverty gap in *urban* areas or among the poor or near-poor households *with* access to electricity. In rural areas, there are too very few poor or near-poor households with access to electricity in the sample and as such the analysis does not find a significant impact of an electricity price increase on headcount poverty; the inclusion of indirect impacts (in rural areas) also does not affect the overall poverty headcount or poverty gap as the indirect impacts are estimated to be approximately 0.1 to 0.15 percent of total consumption expenditure for the first four quintiles of the rural population.

⁵¹ Future simulations of the poverty and social impacts of the new tariff schedule will use the exact tariff rates corresponding to different levels of electricity consumption.

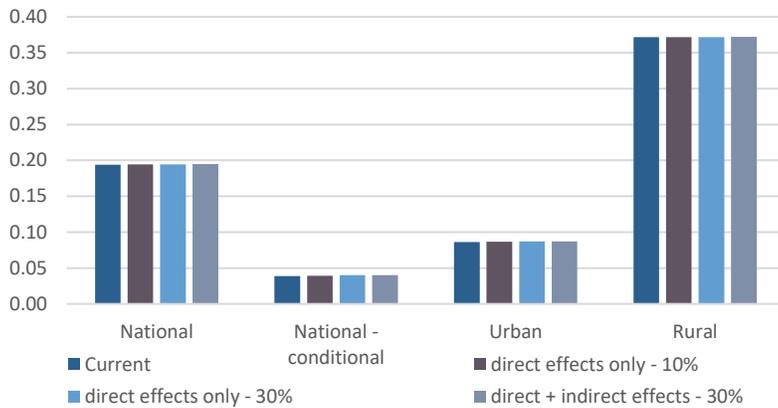


Figure 5.5: The Inequality and Poverty inequality impacts of the electricity tariff reform

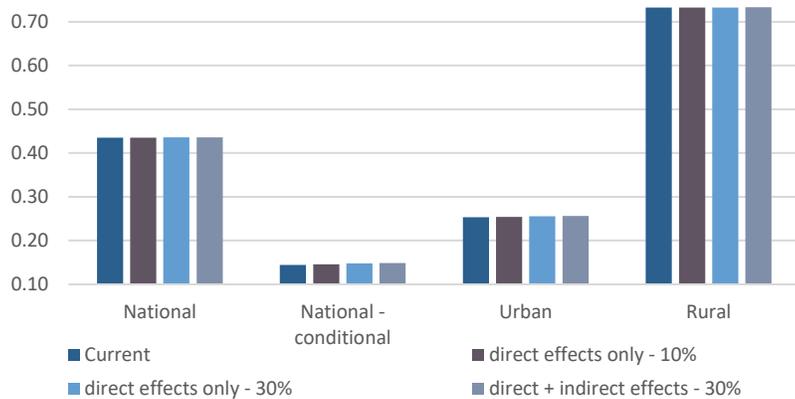
5.5a: Gini Coefficient; for current and post-electricity-price increase consumption



5.5b: Poverty Headcount ratios for current and post-electricity-price increase consumption



5.5c: Poverty Gap for current and post-electricity-price increase consumption



Source: World Bank staff estimates based on IDREA 2018-2019.



135. **Richer households consume the bulk of electricity.** Concentration shares quantify the cumulative value of electricity consumption from all households in any given quintile of consumption expenditure as a share of cumulative electricity consumption across all consumption expenditure quintiles. For example, the richest 20 percent of households in Angola (Quintile 5) have a 62 percent concentration share of electricity consumption, i.e. households in the top 20 percent of the consumption distribution account for nearly two-thirds of all electricity consumption (by value). Meanwhile, the poorest 20 percent of households in Angola (Quintile 1) account for less than 1 percent of total electricity consumption (by value).

136. Figure 5.6 presents the concentration shares of total consumption expenditure as well as of electricity expenditure for all households (panel a), urban households only (panel b), and rural households (panel c). At the national level, the bottom 40 percent of households account for just over 5 percent of all electricity consumption (by value). In rural areas, the bottom 20 percent of households account for approximately *none* of all rural electricity consumption, while the top 20 percent of rural households account for more than 80 percent of all rural electricity consumption.

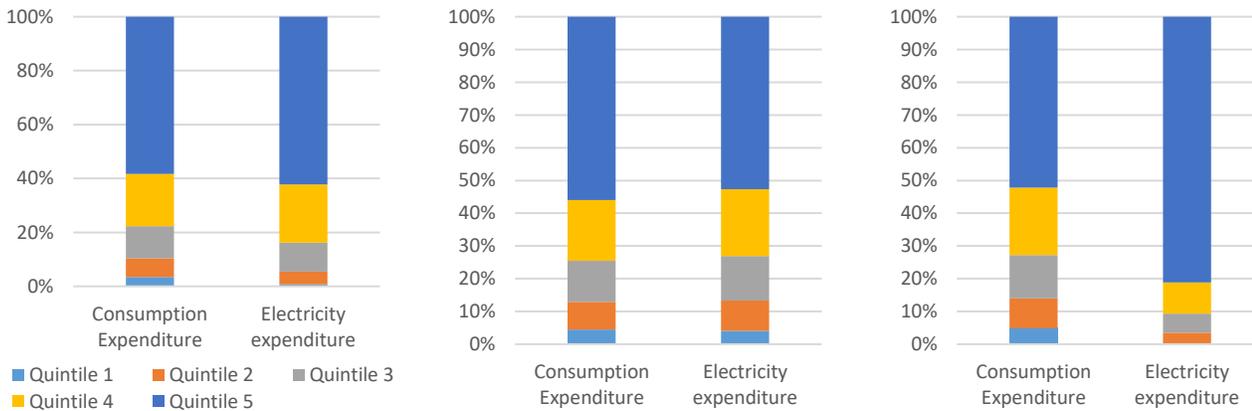
137. **The concentration shares above indicate that any reductions (savings) in government expenditures associated with the higher electricity prices will be derived primarily from households in the top 60 percent of the PCE distribution.** This also implies that if electricity prices were to remain unchanged (at their current level) for the bottom quintile – the loss in total expected expenditure savings would be less than one percentage point.

Figure 5.6: Concentration shares of electricity consumption at the national level and for Urban and Rural households separately

5.6a: National (Urban & Rural households combined)

5.6b: Urban households only

5.6c: Rural households only



Source: World Bank staff estimates based on IDREA 2018-2019.

Descriptive statistics on the fuel and water sector

Water sector

138. **Among all households (*unconditional* on expenditures, irrespective of whether households have access to water), poorer households in urban areas spend a comparable share of their household expenditures on water as richer households.** Households in the bottom two quintiles living in urban areas spend 1.5 and 2.8 percent of their total household expenditures on water, compared to 2.1 percent for urban households in the top quintile. Accordingly, the urban poor are likely to be strongly affected by increases in water tariffs (Figure 5.7a).

139. **Among households that do have access to water (*conditional* on expenditures), poor households residing in rural areas spend a comparable share of their household expenditures as poor urban households.** Households in rural areas in the lowest quintile spent 5.9 percent of their total household expenditures on water between March and August 2018 (Figure 5.7b).

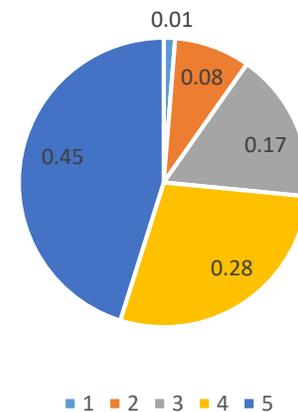
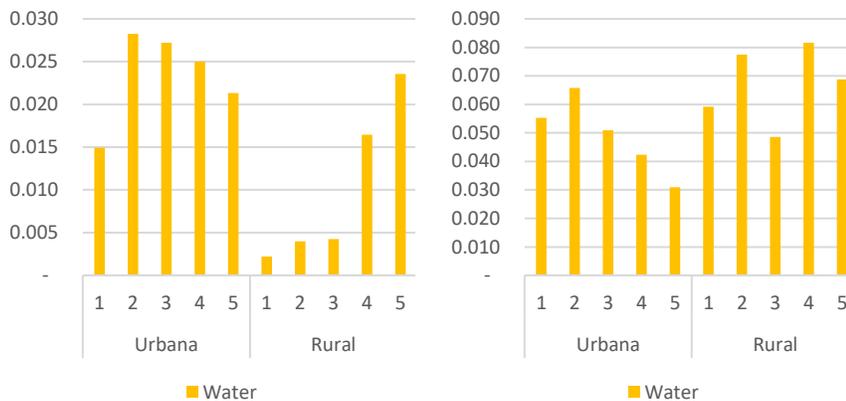
140. **The largest bulk of water is consumed by wealthier households.** Less than one percent of total water expenditures is incurred by the poorest households, whereas 45 percent of expenditures are incurred by those in the top quintile (Figure 5.8).

Figure 5.7: Water expenditures relative to household expenditures by quintiles and urban-rural breakdown

Figure 5.8: Consumption of water by consumption quintile in 2019

5.7a: unconditional

5.7b: conditional



Source: World Bank staff estimates based on IDREA 2018-19 (first 6 months of IDREA survey data)

Fuel sector

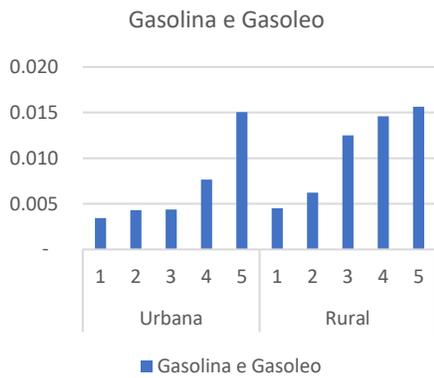
141. **Currently, better off households consume the largest share of fuel products. In 2018, 72 percent of expenditures for gasoline and diesel were made by households in the top quintile.** This sharply contrasts with expenditures from poorest households who consumed less than two percent of the overall spending on the same products. The current structure of subsidies is regressive, meaning that benefits are more heavily skewed towards the rich than they are towards the poor.



142. **Poorer rural and urban households that currently use fuel and diesel will be strongly affected by fuel price increases.** In both rural and urban areas, poor households who currently afford fuel and diesel are likely to be hit hard by fuel price increases. Conditional on current expenditures, households in urban areas in the bottom quintile currently spend 7.2 percent on fuel and diesel. Households in the bottom quintile residing in rural areas spend 10 percent of their total expenditures on fuel and diesel (Figure 5.9b).

Figure 5.9: Fuel and diesel expenditures relative to household expenditures by quintiles and urban-rural breakdown

5.9a: unconditional



5.9b: conditional

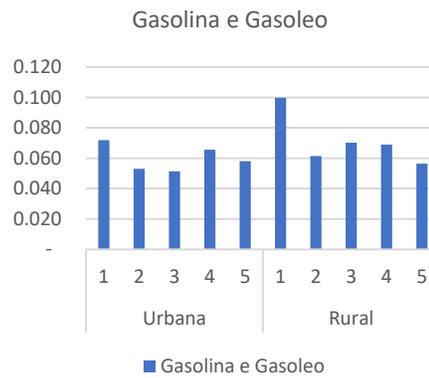
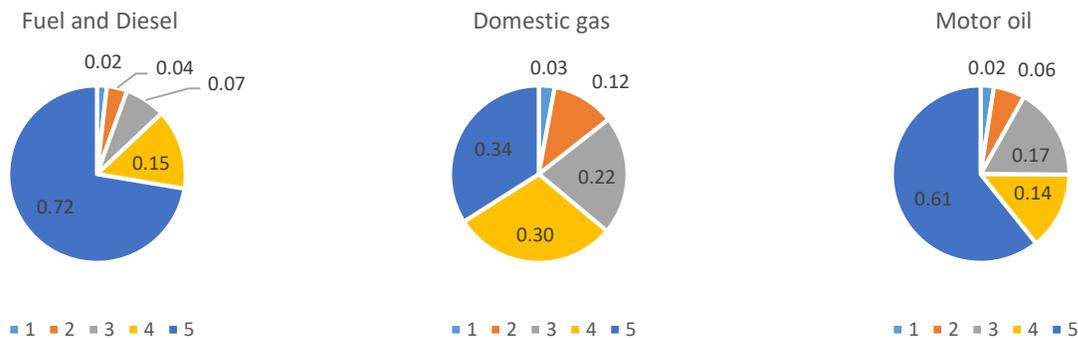


Figure 5.10: Consumption of fuel products by consumption quintile in 2018



Mitigation measures

143. **Mitigating the impact of tariff adjustments and fuel price subsidy removal requires an effective social safety net that can provide targeted social transfers.** Given the reduction in households' purchasing power as a result of direct and indirect price increases, cash transfers have been used and have demonstrated their effectiveness to smooth short-term adjustments for poor households. Many countries have used safety net measures to protect the poor from subsidy reforms by increasing the benefit level of their transfers (Indonesia,



Jordan) strengthening their social protection system (Armenia, Brazil, Egypt, India, Indonesia, Iran, Jordan, Nigeria, and Pakistan) and introducing new programs (Ghana, Indonesia, Ukraine, Yemen)⁵².

144. Angola's safety net programs are small, fragmented, categorically targeted and mostly provided as in-kind support (food and inputs). Social protection expenditures are focused mostly on the elderly and post-conflict needs, specifically through support to ex-combatants.⁵³ This makes the system regressive, inefficient and inadequate for a youthful country with high fertility, an extensive informal sector and high rates of multi-dimensional poverty and vulnerability. Currently, there is no mechanism in place that could alleviate the impacts of broad-based subsidy removal on the poor and the basic building blocks for a potential poverty-targeted social safety net system (registry, targeting, and payment mechanisms) needed to provide such support are missing. Mitigating the impact of tariff adjustments and fuel price subsidy removal requires a poverty-targeted transfer program, which can mitigate the increased poverty impacts of the price shock among those already poor and those vulnerable to poverty.

145. The World Bank is supporting the GoA in strengthening and expanding the social protection system. The support is linked to the World Bank supported Letter of Development project (LDP) and analytical activities supported by the Rapid Social Response Trust Fund such as a recently completed Social Protection PER. It also builds on the lessons learnt from small pilot cash transfer programs run by the GoA. The objective of the new social protection project (P169779) is to provide temporary income support to poor and vulnerable households in selected areas while strengthening the delivery mechanisms for the development of a basic social safety net system⁵⁴. As a key building block for a nationwide cash transfer program, the DPF supports the set up of the social registry (*Cadastro Único*, Prior Action #6 for DPF1).

146. To respond to the shock and mitigate poverty impacts of the subsidy reform, a temporary cash transfer program will be introduced. The temporary income support will consist of a flat household-level unconditional cash transfer to compensate for the average expected subsidy-removal loss in income among the first two quintiles (approximately Kz 5,000 per month)⁵⁵. The cash transfer will prioritize the poor who are living in the 40 municipalities with a higher concentration of poor living in urban areas; given the sectors affected by the subsidy reform (water, electricity, transport and fuel), urban areas are likely to be most affected by the reform. Beneficiary households would be selected using a combination of geographical targeting and a poverty verification process (Proxy Means Test) involving household surveys and a final community validation⁵⁶. The cash transfers will last for one year, after which those households below the poverty line will be integrated into other

⁵² Yemtsov, Ruslan; Moubarak, Amr. 2018. Assessing the Readiness of Social Safety Nets to Mitigate the Impact of Reform: Energy Subsidy Reform Assessment Framework (ESRAF) Good Practice Note 5. ESMAP Paper. Washington, D.C.: World Bank Group.

⁵³ See Angola Social Protection Public Expenditure Review (2018).

⁵⁴ Project components include technical and financial assistance (i) to set-up the key delivery systems (registry, targeting, registration, payment and operation management systems) for a comprehensive poverty-targeted social safety net; (ii) to launch a one-year temporary cash transfer program targeted to poor and vulnerable households in urban areas in conjunction with a communication campaign about the reform package; and (iii) to strengthen the poverty focus of existing safety nets so as to increase their effectiveness in terms of human capital outcomes and productive inclusion.

⁵⁵ Transfers to be received by the beneficiary households amount to the equivalent of 10 percent of the poverty line per individual i.e. KZW 5,000.00 (approx. US\$15.00) per month and per family (close to the average poverty gap of KZW 5,500.00). Preliminary simulations (World Bank, 2016) showed that this amount would cover for the estimated welfare impacts of a fuel subsidy reform in urban areas. This amount maximizes the cost-benefit ratio of the transfers in terms of estimated poverty reduction impacts.

⁵⁶ It is expected that the project would support the registration of up to 2 million potentially eligible households in the selected areas. The information will form the basis of the unique social registry (*Cadastro Social Unico*).



existing safety nets programs. Efficient payments systems will be built under the social protection project to ensure that most payments are made through competitively selected external payment agencies.

147. **A communication strategy for the subsidy reform and the safety net programs will help increase the support for the reform and the cash transfer program.** The social protection project will support the Ministry of Finance, the Ministry of Social Communication, and MASFAMU to set up a communication strategy and system for the social protection sector and specifically for the subsidy reform. Communication activities will provide key information to external (citizens) and internal (civil servants) audiences to help create awareness and understanding of the reform, including rationale in the overall reform agenda, calendar, planned mitigation measures, and improve participation/outreach. The communication strategy will use different instruments according to the targeted audience: social communication with the general public, operational communication with beneficiaries and potential beneficiaries, and internal communication to foster a whole-of-government approach around the subsidy reform.

Figure 5.7: Targeted municipalities and total number of beneficiary families

