# ICR Review

Operations Evaluation Department

Report Number : ICRR10779

| 1. Project Data: | | Date Posted : | 08/15/2000 | |
|---|---|---|---|---|
| PROJ ID : | P000040 | | Appraisal | Actual |
| Project Name : | Power Sector Rehabilitation | Project Costs (US$M) | 35.7 | 17.0 |
| Country : | Angola | Loan/Credit (US$M) | 33.5 | 18.1 |
| Sector(s): | Electric Power & Other Energy Adjustment | Cofinancing (US$M) | 0 | 0 |
| L/C Number : | C2385 | | | |
| | | Board Approval (FY) | | 92 |
| Partners involved : | | Closing Date | 06/30/1998 | 12/31/1999 |
| | | | | |
| Prepared by : | Reviewed by : | Group Manager : | Group : | |
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## 2. Project Objectives and Components

### a. Objectives

The project was aimed at assisting the Government of Angola (GoA) to create minimum conditions of efficiency and reliability in the supply of electric power to the main centers of the country, so as to provide an appropriate basis for economic recovery. The project objectives were to:

1. Lay the institutional foundation for sustainable operations in the sector; and
2. Re-establish the integrity of the transmission grid in the Northern and Central electrical systems that had been heavily damaged or destroyed during the civil war.

### b. Components

The project included seven components:

1. Initiate institutional reforms to separate the regulatory functions of Government from the administration and management of the power utilities and to promote the development of commercially viable and autonomous companies;
2. Rehabilitate the transmission lines and substations in the Quileva -Lomaum-Huambo corridor and of the distribution network of Huambo;
3. Build capacity in the power utilities to improve management and maintenance practices;
4. Undertake engineering studies and supervision of the rehabilitation program in the Northern System;
5. Initiate a pilot program for prepayment metering;
6. Provide technical assistance to the SEEA for coordination of project implementation; and
7. Rehabilitate the Cambambe-Luanda transmission lines and corresponding substations.

### c. Comments on Project Cost, Financing and Dates

The original project cost estimate was US$35.7 million (including US$2.2 million for local costs) of which the IDA Credit was to finance US$33.5 million. As a result of two cancellations to reflect the deletions of some of the rehabilitation works and other small components that could not be completed on time, the credit amount was reduced to US$18.1 million. US$15.3 million has been disbursed leaving a balance of US$2.7 million undisbursed. Component number 7 was to be undertaken through parallel financing from the Africa Development Bank and the European Investment Bank. This funding did not materialize because of the unstable military and political environment following the collapse of the 1991 peace agreement.

The closing date for the credit was extended by one month to July 31, 1998, then by 5 months to December 31, 1998. A final extension was granted in February 1999 for 12 months to December 31, 1999.

## 3. Achievement of Relevant Objectives:

- **Lay the institutional foundation for sustainable operations in the sector** : This objective was partially met. The design and installation of new accounting and management systems was completed under the project and some training has taken place. Engineering studies were completed, but not utilized. In 1996, a General Electricity Law was passed, which opened the sector for private sector participation by requiring the concessioning of all power facilities and the preparation of draft regulations for implementing the law. However, the law did not address the issue of the regulatory infrastructure, thus leaving the responsibility for execution to the Ministry of Energy and Water. The Government approved new statutes for the National

Electricity Company, ENE, which included the establishment of a proper Board of Directors. However, full commercialization of ENE and Empresa de Electricidade de Luanda (EDEL) cannot be achieved until tariffs are raised to adequate levels to meet operating costs based on full accounting of costs and revenues. Valuation of assets studies have not been done and therefore, corporate balance sheets have not been prepared. In late 1998, an action plan for implementing the reform component was agreed between the Bank and the GoA. However, because the Bank was concerned about the impact of the resumption of the civil war on the ability of the GoA to focus on the project, particularly its reform components, the Bank decided to bring the project to an orderly closure, and denied the Government's request for a 2-year extension of the closing date, which was needed for completion of this and other components.

- **Re-establish the integrity of the transmission grid in the Northern and Central electrical systems that had been heavily damaged or destroyed during the civil war** : <u>This objective was not achieved.</u> Except for a 30 km stretch between Biopio and Quileva, the rest of the transmission lines were dropped from the project when it was restructured in 1995. The number of substations was similarly reduced. The Rehabilitation of the distribution networks in Huambo was not completed because Bank funding was canceled as the works could not be implemented within a reasonable time extension of the credit.

**4. Significant Outcomes/Impacts:**

None.

**5. Significant Shortcomings (including non-compliance with safeguard policies):**

- The collapse of the 1991 peace accords meant that this had become a very high risk operation for the Bank and for the country. Other donors who had shown interest in the power sector program (EIB, AfDB), but had not yet completed processing their financing arrangements abandoned their efforts. The ICR noted that the Bank should have explicitly considered whether the portfolio risks were acceptable or not, yet there is no record of such deliberation. Instead, the first supervision mission (October 1993) recommended some modifications to the project, but the substantive changes were not formally agreed for two more years, when the project was restructured in September 1995. The two-year delay in restructuring the project was ostensibly taken in preparing new components, but was excessive in the light of the actual studies undertaken during the period. The restructuring that eventually took place still failed to shift the focus of the project to the main load centers around Luanda, which might have attracted more Government attention and achieved better project outcomes.
- The piecemeal extensions of the credit closing date meant that the contract for rehabilitation works could not be signed until the credit extension had been granted for a period long enough for implementation. When the final extension was granted in February 1999 (for 12 months), there were only 10 months left for completion of the rehabilitation works, whereas the works required a longer period. Although there were valid reasons for the piecemeal extensions, this impacted negatively on project implementation.
- The inclusion of an ambitious reform component in an immediate post conflict situation, coupled with an equally ambitious implementation timetable, and in the absence of any clear demonstration of the Government's commitment to reforms, was ill conceived.
- The conditionalities on long run marginal cost pricing were agreed despite the fact that there was inadequate data to calculate long run marginal cost.
- The Government's implementation performance was unsatisfactory. It did not adjust electricity tariffs every six months as had been agreed, often citing the difficult macroeconomic conditions and the poor quantity and quality of supply as constraints against higher tariffs. The Government only made slow and tentative steps towards converting the utilities into corporate bodies and reforming the legal and regulatory framework for the sector, with the result that all these actions remain incomplete, eight years after the project started.

| 6. Ratings: | ICR | OED Review | Reason for Disagreement /Comments |
|---|---|---|---|
| Outcome: | Unsatisfactory | Unsatisfactory | |
| Institutional Dev .: | Modest | Negligible | OED rates Institutional Development Impact as Negligible for the following reasons:<br>• The project made only very minimal accomplishments in terms of establishing and defining "rules of the game."<br>• The Government was ambivalent toward private sector development.<br>• These limiting factors are exacerbated by the continued civil and political strife in the country. |
| Sustainability: | Unlikely | Unlikely | |
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| **Bank Performance :** | Unsatisfactory | Unsatisfactory | |
| **Borrower Perf .:** | Unsatisfactory | Unsatisfactory | |
| **Quality of ICR :** | | Satisfactory | |

**NOTE**: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

**7. Lessons of Broad Applicability:**

- For countries emerging from post conflict situations, it is necessary to start with simple rehabilitation projects . Reform components should be modest in design and allow for longer implementation periods than would ordinarily be used. This approach minimizes the Bank's portfolio risks as well as the country's risks . A simple rehabilitation project, centered around the Luanda area could, perhaps, have resulted in quick and visible improvements, in terms of the quantity and quality of power supply . This would have provided the necessary incentives for consumers to pay higher tariffs and facilitated cost recovery in the sector .
- When restructuring projects, it is desirable to reassess the project risks in detail and consider fundamental changes, including closure. Had a fundamental risk assessment been carried out in 1992 when the war broke out again, a decision might have been reached to close the project . The decision that was taken in 1999 to close the credit in an orderly fashion came too late and would have been unnecessary had the project's risks been assessed in detail in 1992/93.
- Piecemeal extensions of credit closing dates to obtain leverage on Government implementation of important measures have disruptive delaying consequences on project implementation . The benefits of this approach should be carefully weighed against the costs .
- Progress in attaining key sectoral reforms is more likely if such reforms take place within an overall environment of market price reform. Raising electricity tariffs was made more difficult by the failure of other key prices, particularly salaries, to move in tandem .
- The frequent changes in Task Managers, with each one laying a different emphasis on project priorities and Bank procedures appears to have contributed to some of the delays in implementation . There were a total of five Task Managers during the life of the project . Since some changes in Task Managers are unavoidable, a reasonable degree of continuity during implementation could have been secured through shared portfolio management responsibilities between HQ and field staff, particularly on procurement and disbursement issues. This is particularly important for countries /sectors within significant capacity constraints . In this particular case, such an arrangement would have facilitated communication, which the borrower perceives to have been deficient.

**8. Assessment Recommended?** ○ Yes ● No

**9. Comments on Quality of ICR:**

Overall, the quality of the ICR is satisfactory . It covered the important areas thoroughly and objectively . The great care taken in the preparation of the Lessons Learned section is highly satisfactory .