

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Country: The Republic of Angola

Project: Power Sector Reform Support Program

Loan Agreement: August 17, 2015

Loan Amount: 23,640 million Yen

Borrower : The Republic of Angola

2. Background and Necessity of the Project

(1) Current State and Issues of the Power Sector in the Republic of Angola

In Angola, 27 years of civil war finally ended in 2002. Since then, the country has been pursuing social and economic reconstruction and development. Power sector, in particular, has been designated as one of the seven key sectors in the National Development Plan (NDP) 2013-2017. Rapid reconstruction of infrastructure which has been largely destroyed during the civil war, is now underway. However, there are still problems left unsolved, such as inadequate power generation; low levels of access to electricity (averaging approx. 30% nationwide and less than 9% in rural areas); limited revenue collection (with over 80% of consumers not metered); inefficient use of electricity (with a transmission and distribution loss rate of over 55%); and consumer tariffs set below the costs of power generation and distribution (the former averaging approx. 0.038 USD/kWh and the latter averaging approx. 0.22 USD/kWh).

Moreover, in order to attract private investment into the power sector as aimed by the Government of Angola, the investment environment needs to be improved. According to the interviews with Japanese companies operating in Angola on the investment environment, there are still many issues to be solved: for example, the minimum amount of investment eligible for tax credits and other incentives is set too high; it takes too long to get approval from the Government for investment projects; foreign currency remittances of over 100,000 USD require approval from the Central Bank; and multi-entry visas are not available. Angola is ranked 181st place out of 189 in the World Bank's "Doing Business 2015" which indicates that it is still more difficult for the private companies to be active in Angola than other neighboring African countries.

Against the backdrop stated above, the Government of Angola is promoting reforms especially in the power sector as it is one of the key sectors, while seeking financial support from international donors. And in this context, Angola requested the Government of Japan to provide fast-paced loan assistance.

(2) Development Policies for the Power Sector and the Rationale of the Project

The Ministry of Energy and Water, responsible for power sector policy development, formulated the National Energy Power Security Strategy Policy (NESSP) 2011 based

on the Vision 2025, which is the nation's long-term development plan. The NESSP 2011 has identified priority actions, including power sector structural reforms; introducing public-private partnerships (PPP); accelerating the implementation of power generation (combined-cycled gasification and hydro power plants), transmission, and distribution projects; and developing policies and frameworks for renewable energy. In order to realize these reforms, the Electricity Sector Transformation Program (PTSE) was also adopted. With ultimate goals of increasing the electricity access rate from 30% to 60% and expanding the power generation capacity from 2,120 MW to 8,742 MW by 2025, targets and actions were defined for each of the four phases of the program to be implemented from 2010 to 2025.

In order to improve the investment environment, the Ministry of Economy of Angola, the ministry in charge, has been taking measures, such as streamlining the procedures for approval of private investment projects and creating a one-window application system. In order to determine specific details, enforcement regulations are being developed for the PPP Law enacted in 2011. Moreover, with an aim to promoting private investment in projects that can contribute to economic growth including power sector development, a new Private Investment Law was enacted and promulgated in May 2011 to provide favorable condition for overseas remittance and tax incentives .

(3) Japan and JICA's Policy and Operations in the Power Sector

Based on the consultations between Japan and Angola on economic cooperation in August 2006, a country assistance policy towards Angola was developed. In the light of Angola being in the transition from post-conflict reconstruction to development stage, the assistance policy defined three priority areas to be addressed in the Rolling Plan for the Republic of Angola (adopted in September 2012): (i) economic development (e.g., human resource development through education and vocational training, basic infrastructure development, and agriculture / food security); (ii) establishment of peace (e.g., social reintegration and resettlement of demobilized soldiers, internally displaced people, refugees, etc. and mine clearance); and (iii) human security (healthcare). This Program is to be implemented as part of the infrastructure development program in the priority area of economic development.

(4) Other Donors' Activity

The African Development Bank (AfDB), a co-financier of this Program, agreed in 2014 to provide a loan of one billion USD (disbursed during the period from 2014-2015) to the Power Sector Reform Support Program. The first tranche of the loan (600 million USD) was disbursed in December 2014 after the AfDB had confirmed the completion of the necessary policy actions.

Meanwhile, the Government of Angola requested the World Bank for financial aid, and the two started discussions in November 2014 on a development policy loan in the amount of 500 million USD for the following three sectors: tax administration

reforms; subsidiary reforms; and public investment management.

(5) Necessity of the Project

As described above, Angola has been enjoying steady economic growth since the end of the civil war in 2002. In order to diversify the industrial structure and thus ensure sustainable economic development in this stable situation, the investment environment should be improved by promoting reforms centered on the power sector, which is one of the key development areas.

In co-financing with the AfDB, this Program will assist the Government of Angola in addressing high priority policy and institutional issues and development challenges, especially in the power sector as it is designated as a key sector. This Program is in line with the assistance policies of the Government of Japan and JICA, which may contribute to developing a favorable business environment for Japanese and other private companies operating in Angola. Therefore, it is highly necessary and relevant for JICA to support the implementation of this Program.

3. Project Description

(1) Project Objective(s): By supporting structural and legal reforms in the power sector, facilitating private investment in that sector, improving budgetary reliability and procurement efficiency, and improving legal systems to attract investment in Angola, this Program aims to strengthen the efficiency, competitiveness, and sustainability of the power sector, increase the transparency and efficiency of public financial management, and improve the investment environment, thereby contributing to sustainable economic development in the country.

(2) Project Site/Target Area: The entire territory of the Republic of Angola

(3) Project Components: In order to ensure that the Government of Angola to accomplish the power sector reforms, this Program is designed to specify policy actions to be taken by the end of June 2015 and assess their achievement levels before disbursing the fund. The policy actions to be completed by the end of June 2015 were defined based on discussions with the Government of Angola as well as the AfDB's Operations Policy Matrix for the Power Sector Reform Support Program. Policy actions to improve the investment environment were added, based on the results of interviews with Japanese companies, in order to facilitate private investment in the power sector. Detailed policy actions are described in the attachment.

(4) Total Project Cost

23,640 million Yen (Yen Loan Amount: 23,640 million Yen)

(5) Project Implementation Schedule

January 2015 to June 2015 (total of 6 months): project completion is defined as the completion of all disbursements.

(6) Project Implementation Structure

1) Borrower: The Republic of Angola

- 2) Guarantor: none
- 3) Executing Agency: The Ministry of Finance of the Republic of Angola
- 4) Operation and Maintenance System: Coordinated by the Ministry of Finance, the competent ministries responsible for the policy actions specified in the Operations Policy Matrix are to monitor the policy and institutional improvements.

(7) Environmental and Social Consideration/Poverty Reduction/Social Development

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: This Program is likely to have a minimal adverse impact on the natural environment and society under the JICA Guidelines for Environmental and Social Considerations (published in April 2010).

2) Promotion of Poverty Reduction

This Program is categorized as a poverty-integrated project since the new tariff scheme to be introduced by a policy action of this Program is designed to benefit the poor.

3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Handicapped etc.)

This Program is classified as a gender-integrated project (Activities: The Operations Policy Matrix includes policy actions to promote gender mainstreaming in policy making processes. The Ministry of Family and Promotion of Women is to draft an action plan for central ministries to apply gender mainstreaming in their policy-making processes as well as organize workshops on gender mainstreaming for government officials and civil society.)

(8) Collaboration with Other Donors

This Program is to be implemented in co-financing with the AfDB. Moreover, since the World Bank is also planning to provide a development policy loan, JICA will monitor this Program while exchanging information with the World Bank.

(9) Other Important Issues

This Program is expected to mitigate climate change by promoting the use of renewable energy sources and ensuring the efficient supply of electricity.

4. Targeted Outcomes

(1) Quantitative Effects

1) Operation and Effect Indicator

This Program will be evaluated against the outcome indicators of the Operations Policy Matrix as specified in the attachment.

2) Internal Rate of Return

Not calculated.

(2) Qualitative Effects

The improvement in the efficiency, competitiveness, and sustainability of the power sector; the improvement in the transparency and efficiency of public financial management; and the improvement of the investment environment

5. External Factors and Risk Control

- (1) Prerequisites: none
- (2) External Conditions: none

6. Evaluation Results and Lessons Learned from Past Projects

(1) Evaluation Results of Past Similar Projects

The ex-post evaluation of the Development Policy Support Program (II) and (III) in the Philippines suggested that, while it has been recognized that the policy actions taken in the program had contributed to the progress in the improvement of the investment environment, the progress should be informed and shared among Japanese companies operating in the relevant country in order to ensure the on-the-ground effectiveness and sustainability of the program,.

Meanwhile, according to the ex-post evaluation of the Power Sector Restructuring Program in Sri Lanka, because some labor unions strongly opposed, the Electricity Reform Act with a clause specifying the separation of the Electricity Board, which was required as a condition of the second tranche, was not enforced. As it was a big obstacle to the implementation of the program, the ex-post evaluation suggested that it is important to discern whether a clear path has been laid out for reforms before an operations policy matrix is developed.

Moreover, the performance evaluation report on the Energy Sector Restructuring Program in Pakistan, for which the Asian Development Bank had approved a loan in 2000, identified lessons for the smooth and successful implementation of similar programs, such as close coordination with co-financiers (e.g., the International Monetary Fund (IMF) and the World Bank) and technical cooperation to support the achievement of policy actions.

(2) Lessons for the Project

In light of the above mentioned recommendations, this Program was designed based on a survey, in cooperation with the Japanese Embassy in Angola, by interviewing Japanese companies operating in the country. Their requests, such as streamlining the procedures for visa application and overseas remittances, were reflected in the policy actions to improve the investment environment.

Moreover, a loan assistance experts are to be dispatched to closely monitor the achievement levels of policy actions and facilitate the understanding of the Government of Angola about Yen loan procedures.

The experts are to follow up on the achievement of the Operations Policy Matrix created by JICA as well as the overall Operations Policy Matrix prepared by the AfDB

by monitoring the progress of investment environment improvement.

7. Plans for Future Evaluation

(1) Indicators to be Used

Refer to the attached Operations Policy Matrix for the monitoring indicators.

(2) Timing

This Program shall be completed upon the completion of the fund transfer. The impact of the Program will be evaluated in coordination with the ex-post evaluation by the AfDB in about two years after the completion of the Program.

Attachment: Operations Policy Matrix

Power Sector Reform Support Program in the Republic of Angola: Policy Matrix

(Attachment)

Policy Area (Objectives)		Responsible Ministry	Policy Action*3 (Goals to be achieved by the end of June 2015)	Lead Donor	Operation and Effect Indicator*4		
					Outcome indicators	Baseline	Target
1. Improvement of operational efficiency, competitiveness, and sustainability of the power sector	Power sector restructurement	Ministry of Energy & Water	<ul style="list-style-type: none"> • Signing of a tripartite agreement between newly unbundled or founded generation, transmission and distribution companies 	AfDB	Electricity sector revenue collection (US\$ millions)	90 (2013)	108 (2015) 140 (2016)
	Improvement of sector regulatory environment		<ul style="list-style-type: none"> • Formulation of draft amendment of the Presidential Decree establishing Instituto Regulador do Sector Electrico (Institute of Energy Sector Regulation: IRSE) by 2015 • Appointment of a new CEO of IRSE 		% of Grid Customers metered	Less than 20% (2013)	40% (2016)
			<ul style="list-style-type: none"> • Drafting of revisions of a new tariff system (if Ministry of Finance does not approve the original proposal) • Submission of a progress report of re-paid electricity metering program 		Distribution System Availability Index*1 in %	Less than 60% (2013)	75% (2016)
2. Promotion of private investment in power sector	Improvement of incentives and business environment for private sector participation	Ministry of Energy & Water	<ul style="list-style-type: none"> • Formulation of guidelines to consider a fixed-price purchase system for renewable energies 	AfDB	No. of IPP projects awarded in the electricity sector based on new regulations	0 (2013)	At least 6 contracts based on renewable energy (2016)
3. Strengthening of transparency and efficiency of public finance	Strengthening of budget credibility and transparency	Ministry of Finance	<ul style="list-style-type: none"> • Drafting of a revised National Inspectorate of Finance Regulation 	AfDB	Increase of execution rate of the public investment program	50% (2013)	75% (2016)
			<ul style="list-style-type: none"> • Selection of a consultant for preparing an action plan for the mid-term public financial management reform 			Variance between expenditure outturns and original budget	More than 25% (2013)
	Improvement of efficiency and value for money in procurement	Ministry of Finance	<ul style="list-style-type: none"> • Drafting a revision of the procurement law 				
			<ul style="list-style-type: none"> • Drafting a procurement regulation 				
<ul style="list-style-type: none"> • Preparation of Standard Bidding Documents 							

Power Sector Reform Support Program in the Republic of Angola: Policy Matrix

(Attachment)

Policy Area (Objectives)		Responsible Ministry	Policy Action*3 (Goals to be achieved by the end of June 2015)	Lead Donor	Operation and Effect Indicator*4		
					Outcome indicators	Baseline	Target
4. Promotion of gender mainstreaming and environmental consideration	Gender mainstreaming in policy decision making process	Ministry of Women & Family Affairs	<ul style="list-style-type: none"> Drafting of a gender action plan Organization of gender mainstreaming workshops 	AfDB	a) % of women in board (*2) and b) % of women in Senior Management positions	a)23% (2013) b)23% (2013)	a) 30% by 2016 b) 30% by 2016
	Strengthening of environmental consideration in the	Ministry of Energy & Water	<ul style="list-style-type: none"> Pre-announcement for hearing of opinion for draft revision of tariff system Formulation of proposed EIA license for the electricity sector 		Number of women who received professional training*2	1500 (2013)	Additional 1200 in 2015 Additional 1200 in 2016
5. Improvement of investment environment	Amendment of Private Investment Law	Ministry of Economy	<ul style="list-style-type: none"> Drafting an amendment of Private Investment Law 	JICA	a) Incorporation fee and No. of days required b) Construction license fee	a) US\$ 3,000, 3 months b) US\$ 4,333	a) US\$ 110, 8 days b) US\$ 400
	Improvement of application for Visa	Ministry of Interior	<ul style="list-style-type: none"> Starting of Multiple Entry Visa issuance 	JICA	Average No. of days required for overseas remittance	3 weeks	1 week
	Improvement of overseas remittance procedures	Central Bank	<ul style="list-style-type: none"> Issuance of overseas remittance guidance to private banks 	JICA			
			<ul style="list-style-type: none"> Abolition of the Central bank Registration System for foreign capital transaction (import) Full dissemination of information on procedures related to foreign affiliates' overseas remittance of their incoming profit 				
Enhancement of stable operation and transparency of private sector business regulations	National Private Investment Agency	<ul style="list-style-type: none"> Training for National Private Investment Agency personnel 	JICA				

*1 Ratio of distribution system available time to distributing period (demand).

*2 The number of personnel of power utility company and IRSE shall be the parameter.

*3 Loan assistance expert(s) will be dispatched to monitor the progress of policy matrix and fully inform loan assistance procedures.

*4 Operation and Effects Indicators in ex-post evaluation include (i) all the indicators (Policy Goal 1 to 4) agreed between AfDB and the Government of Angola. As for (ii) the indicator related to JICA's policy matrix (Policy Goal 5), a) Incorporation fee and No. of days required, and b) Construction license fee are included in the ex-post evaluation.