INDEPENDENT EVALUATION GROUP

APPROACH PAPER

ANGOLA: COUNTRY ASSISTANCE EVALUATION

Country Background

1. Angola is in south-west Africa and has an area of 1.25 million square kilometers. Its wealth of natural resources and estimated population of 14 million make it potentially one of the richest countries in Sub-Saharan Africa. Yet its gross national income (GNI) per capita of US$1,030 (in 2004) is far below its potential and Angola has among the lowest economic and social indicators on the continent.

2. After gaining independence from Portugal in 1975, civil war and bad economic policies ruined Angola's economy. The departure of some 300,000 Portuguese settlers left the country with weakened capacity that still plagues the country. Ideological differences and economic interests around mineral wealth—exacerbated by superpower rivalry and regional conflicts—drove the civil war, which ended in April 2002. The war left about 750,000 people dead, some 4.1 million displaced, and almost half a million refugees. Non-oil production fell, and the production of important export commodities like coffee and sisal stopped. Self-sufficient in food in the 1970s, Angola received food aid in the 1980s and 1990s. Physical infrastructure was severely degraded; government health and education services disappeared from the interior of the country and contracted in urban and coastal areas; and water and electricity services nearly disappeared. By contrast, oil production, carried out offshore, beyond the war's reach, expanded, accounting for about 50 percent of gross domestic product (GDP) and for more than 90 percent of government revenue. Government expenditures rose, especially for the military, and the fiscal deficit exploded. The deficit was financed by printing money, accumulating payments arrears, and borrowing against future oil production.

3. Following falls in the price of oil in the mid-1980s and the collapse of the Soviet Union, the country's main backer, Angola began to abandon central planning. The president announced in 1987 a plan of *saneamento económico e financiero* (economic and financial adjustment) that began to be applied in 1990. The government liberalized prices in 1991 and 1992, but did not control the budget in its entirety, as "58 percent of expenditures bypassed the Treasury in 1994."[1] The war and lack of political commitment undermined the early reforms. Since the late 1990s the government has carried out some reforms such as abolishing multiple exchange rates, but progress in other fundamental areas, such as budget management has moved more slowly.

4. Budget management has been a problem for economic management, with revenue flows outside formal budgetary channels; discrepancies between actual and declared revenues; and future oil production backing large and unrecorded debt operations. Also, the accounting for revenues from diamonds has been opaque. Notwithstanding the slow progress

1. EIU, Country Profile – Angola, 1996-97, p. 21.

on reform, since the mid-1990s the decline in the intensity of war, higher oil production, some reforms in price policy and better macroeconomic management have contributed to the annual 7.1 percent economic growth and a sharp fall in inflation.

5. Angola has opportunities but also faces difficult challenges. Recent increases in the price of oil and the expanding production capacity of new oil fields portend higher economic growth (15 percent per year or higher) and government revenues. The challenges of resource wealth are magnified by the weak capacity inherited from the prolonged civil war, undeveloped market institutions and a poor governance and transparency record.

World Bank Assistance, FY91-06

6. Angola became a member of the World Bank in 1989; since then the Bank has produced three strategy documents during the period. Formulating an assistance strategy for Angola has been difficult as the country was in conflict until 2002, post-conflict status during the last four years and is now considered low-income country under stress (LICUS) but its GNI is above the International Development Association (IDA) cut-off point, and it is ineligible for International Bank for Reconstruction and Development (IBRD) financing. The Bank currently plans to prepare another strategy and discuss it with the Board in FY07.

7. Although tentative and intended to cover the period 1991-94, the strategy in the early 1990s covered *de facto* the period 1991-2003. The strategy consisted mainly of economic policy advice, technical assistance and pre-investment studies, and financial aid for infrastructure rehabilitation and development, as well as for facilitating the transition to a peacetime economy. In the medium-term the Bank expected to transition towards an assistance program based on (i) building capacity in economic management and helping prepare pre-investment studies; (ii) facilitating the transition to a peacetime economy; (iii) helping rehabilitate the devastated economic and social infrastructure; and (iv) supporting the process of economic reform. The Bank intended to be flexible in designing its lending and non-lending programs, with lending contingent on progress in economic reforms, restoration of peace, and the ability of the government to absorb the assistance. The economic and sector work (ESW) program sought to support the policy dialogue with the government and to provide the intellectual underpinnings for the lending operations.

8. A ***Transitional Support Strategy*** (TSS) in FY03 covered about 18 months and sought to help achieve macroeconomic stability and support implementation of a pro-poor, post-conflict public expenditure program. The ***Interim Strategy Note*** (ISN) that followed in FY05 sought to support the government's program for 2005-06. The two strategies were based on three, similar, pillars: (i) enhancing the transparency, efficiency, and credibility of managing public resources, and intensifying capacity development; (ii) expanding service delivery to war-affected and other vulnerable groups (providing basic services and rehabilitation of emergency infrastructure); and (iii) preparing the ground for broad-based, pro-poor economic growth (especially through improving the environment for private sector growth, identifying pilot interventions in the rural economy, and facilitating better private infrastructure financing).

9. Lending and non-lending services would support the strategies. During 1991-2005 the Bank granted 16 credits for US$487 million and per capita lending plus grants reached

about US$3 per year. Amid high expectations, following the elections of 1992, IDA approved eight credits in FY92-93. The war resumed in 1993, however, and lending fell sharply in FY94-02. After the peace agreement of 2002, lending resumed with three grants and two credits. For analytical and advisory assistance (AAA) the strategies envisioned a diagnostic study of the oil sector, reviews of fiduciary issues, a country economic memorandum (CEM), and capacity needs and investment climate assessments. The recent strategies stipulate that AAA would remain the same regardless of the lending environment, but should conflict reemerge or governance deteriorate the Bank would stop lending and disengage gradually.

Methodology

10. The country assistance evaluation (CAE) will evaluate the relevance of the Bank's strategy in relation to the government's own strategy and the country's development constraints. For each main program objective, the CAE will evaluate progress toward achieving the objective, including the balance between lending and non-lending, the number of operations, the efficacy with which the strategy was implemented, and the results achieved. This will be done in two steps. The first will review whether the program achieved a particular objective or planned outcome and had a substantive impact on the country's development. To the extent possible, given the lack of comprehensive and reliable data, this analysis will compare the performance indicators set out in the strategies and projects (or baseline values if the strategies lack indicators) to actual results using performance indicators from recent Bank documents, findings of the CAE mission, and other publicly available information. The second step will review the Bank's products and services (lending, AAA, and donor coordination) used to achieve a particular objective. An assessment will also be made of the contributions to the results by the Bank, other donors, the government, as well as exogenous factors. Given the donor presence in humanitarian and development assistance (about US$400 million per year, or 3 to 4 percent of GDP in the 1990s), the CAE will examine the Bank's role in donor partnerships and aid coordination.

11. The CAE team will undertake a field mission, and it will interview relevant government officials, program beneficiaries and Bank staff in the field and in headquarters. The team will also review all ESW and project and program documents produced since 1991, as well as relevant past and ongoing IEG studies (Capacity Development in Africa, HIV/AIDS, Community-Driven Development, Social Funds, Private Sector Development in Energy, the LICUS review, and the ongoing regional cooperation study), internal Bank documents for ESW and projects, QAG reviews, WBI and DEC evaluations, and evaluation reports from other official donors (bilateral donors such as Italy, Portugal, Sweden, and the United States and multilateral assistance from the European Community and the World Food Program) and private donors.

Focus and Strategy

12. The CAE will look at the relevance and coherence of the strategy to address Angola's problems. The evaluation will look at the Bank's program, paying attention to the experience in post-conflict and LICUS countries, as well as to its approaches in this type of countries.

Based on the objectives set out in the early 1990s, 2003, and 2005 strategies, the CAE will focus on the following objectives and evaluative questions.

Building capacity in economic management, supporting economic reform, and enhancing transparency, efficiency, and credibility of the management of public resources

13. This was an important objective given Angola's record of economic management and its dependence on oil for government revenue and foreign exchange earnings. Relevant questions for this objective and the role of the assistance are:

- Did the Bank correctly assess the country's needs and development problems?
- Did the capacity for economic management improve, and did economic management improve, as reflected in economic outcomes (such as inflation, growth, employment, indebtedness, balance of payments)?
- Did the quantity and quality of basic economic information (e.g., GDP growth, public expenditure and revenue) improve?
- Did transparency in the source and use of public resources increase and, as a result, did the government use the resources more effectively?
- How has the Bank's assistance program addressed concerns about the misuse of public resources and how effective has it been in promoting a better use of such resources?

Facilitating transition to a peacetime economy, helping rehabilitate the economic and social infrastructure and expanding service delivery to vulnerable groups

14. The war destroyed Angola's infrastructure, so reestablishing it was necessary to integrate the domestic market, improve access to international markets, increase the efficiency of production, and provide basic services for the population. Relevant questions for this objective are:

- Did the Bank provide analytical work and resources in a timely manner for demobilization and reintegration? How well has the Bank's program helped this effort, and to what extent has cooperation with other donors contributed to the program's performance?
- How well did Bank programs complement other donors' efforts?
- Has Bank assistance contributed to improve the quantity and quality of infrastructure (roads, electricity, and water supply) and health and education services?

Preparing the ground for broad-based, pro-poor economic growth

15. Angola has yet to take steps to establish a reasonably functioning market economy, in particular those related to improving the business climate and to creating the conditions for the growth of the non-oil sector. Besides looking at the diagnostics necessary for growth, relevant questions for this objective are:

- Did the Bank select lending and non-lending services appropriate for promoting growth?

- Has Bank assistance paid adequate attention to poverty and poverty reduction and agriculture's role in it, as well as the related rural-urban linkages?
- Has Bank assistance helped remove barriers to investment and create conditions for private sector development of infrastructure?

Timing and Peer Reviewers

16. The Country Assistance Evaluation is intended for CODE discussion in advance of the next Angola strategy discussion, which is currently scheduled for the Board in the second half of FY07. A CAE mission to Angola will take place in June 2006. The task manager will be Mr. Jorge García-García (ext. 35298). Peer reviewers will be Mr. Gerard Kambou (IEGCR) and Ms. Linda van Gelder (PRMPR).