

ANGOLA

Momentous change in Africa's fifth economy

The new administration of President Lourenço is setting the records straight and opening up a new era

Over the past two decades, Angola has transformed from a poor, war-torn country into sub-Saharan Africa's third-largest economy and its second-largest oil exporter. Since the end of a 27-year civil war in 2002, the country has used its oil wealth to develop, modernize and build its infrastructure, while Luanda morphed from a sleepy provincial town into a thriving, skyscraper-lined modern capital. Indeed, Luanda, which sits on one of Africa's most spectacular bays, has become a magnet for foreign companies and expats, earning in the process the improbable distinction of most expensive city in the world alongside Hong Kong.

“Macroeconomic stability is a necessary means to achieve our goal of making the private sector stronger.”

João Lourenço
President of Angola

Now a soft revolution is taking place. After 38 years in power, President José Eduardo dos Santos stepped down in 2017, paving the way for João Lourenço to be elected in September that year. A retired general who fought for the independence from Portugal and later in the People's Movement for the Liberation of Angola (MPLA) during the civil war, Lourenço was the chosen candidate of his predecessor.

Up to here, nothing unusual in Africa. But the way Lourenço has framed his presidency as soon as he came to power has stunned Angolans and the international community alike. In his inaugural speech, the president, known as JLo in the country, announced sweeping changes to an economic system that had become over the years tightly controlled by a small

group of presidential favorites. Moreover, he declared war on corruption, which has been endemic for years. Indeed, according to the international NGO Transparency International, Angola is ranked 167 out of 180 countries.

President Lourenço is well aware his country is at a crossroads. His most pressing task is to steer the economy away from a model based almost exclusively on oil, which accounts for 95% of exports. Another priority is to reduce its dependence to Chinese investment. Lourenço is determined to step up cooperation with western companies, in particular but not only in the oil sector, and has sought help from the International Monetary Fund (IMF). In June, the latter commended Angola for having made “strides in setting a reform agenda geared towards macroeconomic stability and growth that benefits all its people.”

In his 2018 State of the Nation address, President Lourenço announced a series of measures to balance the books and offset the drop in oil prices, which has had a huge impact on the economy since 2014. He said the first results of the Macroeconomic Stabilization Program, launched in early January 2018, were “encouraging.” The plan envisages fiscal consolidation, greater exchange rate flexibility, reducing the public debt-to-GDP ratio to 60% over the medium term, improving the profile of debt through liability management, settling domestic payment arrears, and implementing anti-money laundering legislation.

President Lourenço announced that the deficit, which reached 5.6% of the GDP last year, was forecast at “less than 1% of the GDP for 2019, with an estimated increase of 9.8% in tax revenue.” He also noted that inflation



Luanda, Angola's capital, has become a thriving and modern city

dropped from 42% in 2016 to 23% last year and is forecast to reach 19% this year, while the spread between the official and parallel exchange rates went from 150% to about 20%. And although the relatively sluggish oil prices continue to weigh heavily on Angola's GDP growth, it is forecast to grow slightly this year and next.

But, “while macroeconomic stability is important for the performance of the economy, it is not an end in itself,” said Lourenço in his presidential address. “It is

a necessary means to achieve our major goal of increasing domestic production, making the private business sector stronger and more competitive, promoting exports from the non-oil sector of the economy, and reducing imports of essential consumer goods.” In other words, diversification and opening up the economy are top priorities. This opens new opportunities for foreign investors. It is also undoubtedly the beginning of a new era for resource-rich but until now governance-poor Angola.

Facts and figures

Situated in southern Africa on the South Atlantic Ocean, between Namibia and the Democratic Republic of the Congo, Angola has an area of 1,246,700 sq km comparable to that of South Africa, or twice the state of Texas.

Its population is estimated at just over 30 million (28.4 million according to the national statistics agency's 2017 data), with 45% being under the age of 15 and about 40% living below the poverty line.

Angola has a wealth of resources, the two main ones being oil and diamonds. The Catoca diamond mine is one of the largest in the world. Oil production and its supporting activities contribute about 50% of GDP, more than 70% of government revenue, and more than 90% of the country's exports. Angola is an OPEC member and subject to its direction regarding oil production levels. Diamonds contribute an additional 5% to exports. Subsistence agriculture provides the main livelihood for most of the people, but half of the country's food is still imported.

GDP purchasing power parity: \$193.6 billion (2017 est.)

GDP real growth rate: — 2.5% (2017 est.)

GDP per capita (PPP): \$6,800 (2017 est.)

GDP composition (2011 est.): agriculture: 10.2%;

industry: 61.4%; services: 28.4%

Source: CIA World Factbook

Improving the business climate and wooing investors

The government has acted fast to revamp the legislative framework in order to make it more secure and investor-friendly

Improving the business climate and wooing foreign investors are top priorities for Angola as it strives to wean itself off its over-dependency on oil. As oil revenues dwindle and other sectors of the economy have yet to offset the shortfall, the government has taken a series of initiatives to facilitate private and foreign investment.

In March this year, it officially established the new Private Investment and Export Promotion Agency (AIPEX), whose mission is to stimulate growth, diversify the economy and expand private sector participation. In June, it signed an agreement with the Angolan American Chamber of Commerce to produce Angola's first investment guide.

Another important step was the revision of the Private Investment Law, including the removal of the obligation for foreign companies to partner with a local company to do any business. The amended law also removes the obligation for any joint venture to have 35% of its capital owned by an Angolan business partner.

In addition, the legislation removes restrictions on small scale foreign investment: up to now, the minimum investment required was \$230,000. This provision was meant to protect Angolan investors but in practice it prevented medium-sized foreign companies from entering the market.

A more secure environment

Other key provisions of the new Investment Law are the establishment of a new competition authority that will ensure fair competition in all the economic sectors, the end of monopolies in some key sectors such as telecommunications and cement production, and the suppression of the requirements to employ Angolans. The

legislation also states the objectives of reducing bureaucracy and creating a more secure investment environment, although it doesn't specify how.

Apart from improving the legal framework, the government also hopes its economic policy will entice more private and foreign players to invest in the country, in particular through its privatization program whereby 74 state-owned companies, predominantly in the industrial sector, are set to be sold off. This information was given in May to investors as part of the country's Eurobond issuance, according to Reuters.

New investment opportunities

Angola's first ever stock exchange, called Bodiva and created in 2016, is set to play a role in the privatization program. Bodiva started as a debt and securities stock exchange and will launch in earnest its stock market activity next year.

The chairman of the country's Capital Markets Commission (CMC), Mário Gavião, said in November that the privatization program was due to be approved soon and that it will follow a specific timetable, which he said, "will be a major boost to the share market," according to the Macau-based information website Macauhub.

Will this be enough to lure back foreign investors? While the flow of foreign direct investment (FDI) reached \$4.1 billion in 2016, according to Santander Trade, which cites UNCTAD figures, it declined sharply last year, with a negative inflow of -\$2.25 billion. The current FDI stock is \$12 billion, estimated at 9.9% of the GDP.

Most of the FDI come from four countries: China, the USA, France and the Netherlands. China has played a major role in rebuilding the country in the years

that followed the end of the civil war, in 2002.

As of 2015, according to Reuters, there were 50 Chinese state companies and 400 private businesses operating in Angola. But although China is set to keep playing a major role, the government is also keen to boost other countries' investment, not the least because it repays China in oil, which curtails its capacity to sell crude on world markets.


So far, American involvement has been mainly focused on the oil sector, with major companies operating in the country such as Chevron and ExxonMobil. While US exports also concentrate in the oil and gas sector, the US Department of Commerce says that "medium-term potential exists for US companies in the areas of agriculture, industry, energy, water and transportation." In particular, it identifies prospects in agricultural equipment; health; marine technologies (fisheries and ports); aviation and rail, and agricultural products.

Angola is the United States' third largest trading partner in

sub-Saharan Africa and one of its three strategic partners together with Nigeria and South Africa. The bilateral dialogue has focused on eight key areas: political-social/regional stability, trade/economic growth, health, energy, agriculture, regional security cooperation (focused on maritime security and peacekeeping), education, and consular affairs.

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Although Angola is far from being a priority for the Trump administration, Washington has now an opportunity to prevent China — its current trade war foe — from having a greater grip on Angola's economy by encouraging more American investment in this strategic African country.



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A future maritime logistics hub

With 1,600 km of coastline, four operational seaports and two other ports under construction, Angola is set to become a regional trade and logistics platform

In the vast revamping of the economy undertaken by Angola's new government, the modernization of the transport infrastructure is absolutely key. The government ambitions to build a "modern, efficient and sustainable transport sector, but also to become a world reference in terms of public-private partnerships," said in November the Minister of Transport, Ricardo de Abreu, quoted by Angop news agency.

In particular, in this country with 1,600 km of coastline, ports are strategically important not only for the dominant oil and gas sector, but also, obviously, for all trade. Angola has four sea ports: Luanda, which handles 70% of the country's imports; Lobito, in the central part of the country, which is mainly specialized in minerals; Cabinda, in the eponymous enclave in neighboring Democratic Republic of Congo, which provides for the oil and gas industry; and Namibe in the south, which is primarily used for fishing.

Two new ports are set to be built: the deep water Caio Port, which is located in Cabinda and should be ready by 2020, and Porto de Dande, another deep water facility situated 50 km north of the capital, which will mainly shift cargo from the port of Luanda.

Increasing port capacity and traffic means that Angola also needs to strengthen its logistics capabilities. A leader in this area is the Angolan company Cabship. Established in 2009, it provides logistical solutions to the oil and gas, mining, energy, and construction industries and has offices in Cabinda, Soyo, and Luanda as well as affiliate offices in Cape Town, Dubai and Houston.

"Our services are unique in Angola; no other company does what we do," says Cabship's Chairman and CEO, João Filipe. "We started as freight forwarders, shipping agents and stevedoring and we evolved into management of docks and terminals, in particular for the oil industry. We are also involved in the whole supply chain of pe-

troleum materials. Through its association with Global Logistics Network, Cabship has the ability to handle freight from anywhere in the world."

Filipe says there is "tremendous growth potential" in logistics, and hopes that the sector will attract foreign investment and know-how. "We could create logistic hubs through public private partnerships or build-operate-transfer schemes not only for the oil and gas industry but also for telecommunications, pharmaceuticals, minerals, construction and agriculture." In particular, he hopes for more cooperation with the United States in the oil and gas sector, in petrochemicals, and in renewable energy. "There are many areas in which Angolan and US-based companies can collaborate. As Angolan entrepreneurs, we need to start a dialogue with the US to create an environment for good business to flow," says Filipe.



João Filipe
Chairman & CEO, Cabship

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Telecoms market gearing up for a big shake-up

Long rigidly controlled by the state, the telecoms sector is about to be revamped with privatizations, new operators and a boost in connectivity

Telecoms are one of, if not the most important sector in Angola's government's plans to diversify the economy and boost private sector participation. More broadly, increasing affordable mobile and internet access is also a priority in terms of social development. This is why the government has been acting fast to reorganize, liberalize and expand a sector hitherto rigidly controlled by the state.

At the moment there are only two partially public mobile operators, Unitel and Movitel, and the

“We want to deliver Angola Telecom to the market as a strong and valuable company, at its best for investors.”

Eduardo Sebastião,
CEO, Angola Telecom

lack of proper competition has created a market where prices are high and quality of service poor. Meanwhile, in the fixed line segment, there is also a duopoly between the historic parastatal Angola Telecom and MStelecom, a subsidiary of the national oil company Sonangol.

“The market here is very promising and interesting,” says Angola Telecom's CEO, Eduardo Sebastião. “The population growth rate is high, at close to 3%, and Angola is still a virgin market with a lot that remains to be done. So there are enormous investment opportunities.”

Angola Telecom is slated to be partially privatized in the short term as the government aims to sell 45% of its shares. In March, Jornal de Angola reported that the evaluation phase for the determination of Angola Telecom's equity value and the amount of shares to be sold was under process, and that the next stage would be to

draw up the terms of reference and the submission of tender documents, after which the tender will open to interested bidders. “We want to deliver Angola Telecom to the market as a strong and valuable company; we want investors to see it at its best,” adds Sebastião.

The public operator is also looking to enter the mobile market by 2020 at the latest as the government has announced it would deliver two new mobile licenses, bringing the total to four. The country currently only has 11 million registered mobile cards.

Now another development is set to boost this promising market: earlier this year, Angola Cables, a subsidiary of Angola Telecom operating in fiber-optic telecommunications cables, switched on its South Atlantic Cable System (SACS), a 6,500-km subsea digital information highway connecting Luanda with Fortaleza in Brazil.

According to Angola Cables' CEO, António Nunes, “it is a gigantic leap forward in trans-Atlantic connectivity, which will fast-track commercial activity in the ICT sector and stimulate emerging economies in Latin America and Africa.”

And yet another technological leap is to happen in 2020, when Angola launches its first telecom satellite, Angosat-2.

Already, businesses in Angola are expecting improved connectivity will boost their operations and

turnover. For example, Integrated Solutions Angola (ISA), an IT solutions provider that works with some of the largest companies operating in the country, including Sonangol, the Port of Luanda, BP and ConocoPhillips, expects costs to go down. “The SACS is a huge step as the connectivity issue is key for many businesses,” says ISA's Executive Director, Msuega Tese. “In the technology sector, this will be a huge step, as we expect the cost of connectivity to decrease. The issue of connectivity is key for businesses. When we solve it, most SMEs will adopt cloud solutions to run their business.”

The government's e-ambitions

go far beyond the telecoms market. President Lourenço is keen to foster widespread use of mobile telephony and internet. “The new government wants everyone to have digitally access to the information they need,” explains Miguel Cazevo, Director of the National Institute for the Promotion of the Information Society (INFO-SI). “INFO-SI has projects such as Angola Online and Angola Digital. We are doing our best to allow internet access all over the country.”

In a country where the population is young and fast growing, education in particular is an area where authorities hope digital technology will be a game changer.



Eduardo Sebastião
CEO, Angola Telecom



Miguel Cazevo
Director, INFO-SI

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