Angola: Present and Future

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The sharp drop in the price of oil on the international markets since 2014 has greatly impacted the economies of countries traditionally producing and exporting this commodity. The severity of the impact is directly proportional to the degree in which individual countries' public finances depend on oil. According to the International Monetary Fund (IMF), the sub-Saharan African countries most penalised by the adverse international climate in 2015 were Angola and Nigeria. In this piece, Paulo Varela, President of the Board of Directors of CCIPA (Portugal-Angola Chamber of Commerce and Industry), outlines the issues facing Angola.

Current context

The drop in revenues from exports and tax in the oil sector, which previously accounted for around 80% of total revenue, forced the Angolan Government to review its 2015 State Budget. A fall in the estimated price per barrel from US $ 80.00 to US $ 45.00 prompted the immediate adoption of austerity measures to contain public spending (by suspending, postponing or cancelling works and projects considered as non-priority under the 2013-2017 National Development Plan). Alternative sources of revenue also had to be identified and steps taken to make the country less dependent on foreign trade.

Indeed, in an oil-dependent country, where revenue from other exports is comparatively low (while diamonds are the second-largest source of income, they accounted for a 'mere' €990 million in 2015, in compared to €8.2 billion in oil revenue), it was essential the Angolan authorities took swift action, implementing measures recognised by the international community as both timely and adequate.

The most impactful measure proposed was the decision to diversify the economy; this encouraged investment in industry-based, non-oil-related areas (there are prolific natural resources in many different economic sectors) and developed primary sector production, especially in agriculture, thus cutting imports. These actions contained the flow of currency out of the country and reduced its dependence (particularly in foodstuffs) on foreign trading partners.

Earlier diversification of the Angolan economy took place during the 2008-2009 financial crisis when measures were imposed by the IMF as part of a structural adjustment agreement. The agreement remained in force until May 2013. However, those in charge of economic development failed to adopt a concerted strategy for the process and consequently, although several large, viable and sustainable projects were implemented, they were low in number and involved few business areas.

In light of the worsening internal crisis, in mid 2015 the Government passed its first laws which it hoped would attract private investment. These included: the abolition of a minimum value for eligible projects, the introduction of benefits and incentives payable to applicants meeting certain objectives and predefined criteria, the repatriation of capital from the outset of the project and the safeguarding of 35% of the investment in areas considered a priority (including media, hospitality and tourism) for Angolan

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investors. In addition, agencies such as the Angolan Agency for the Promotion of Investment and Exports and Technical Support Units for Investment were tasked with promoting and providing support for private investment and fostering Angolan exports. They operate alongside various ministries responsible for investment, including the Presidency of the Republic, which evaluates and decides upon projects with amounts exceeding US $10 million. Angola concedes however, that even with these initiatives, it will struggle to source funds to meet the population's basic needs and support essential projects. Alternative funding, from the public and private sector, in Angolan and foreign currencies, is therefore vital.

In support, the National Bank of Angola (NBA) implemented a series of remedial measures; it issued debt in the form of securities and treasury bonds in Angolan currency (index-linked to the US $) and secured funding from the international banking sector (Goldman Sachs, Bilbao Vizcaya Argentaria, Santander, Deutsche Bank), global development institutions (World Bank, mainly through the International Bank for Reconstruction & Development, the African Development Bank and the European Union), multinational companies (GemCorp Capital) and from other countries via bilateral agreements. In June 2015, a credit line of US $6 billion was negotiated with China and US $ 1.5 billion was also listed in sovereign debt (Eurobonds) on the London Stock Exchange. This was the country's first experience of international money markets and a good opportunity to assess how receptive others were to its requests.

In a bid to keep Angola's net international reserves fairly stable (it currently covers five to six months of imports), the Government extended the time limit for overseas payments and created a payment schedule following guidelines set by the NBA. This it hoped, would contain the outflow of foreign currency. These measures however, led to suppliers suspending exports and as the flow of imports to the country dropped, it severely impacted on sectors whose production was reliant on imported raw materials. Worst hit was the automotive sector and businesses involved in brewing, milling, dairy and glass production. Suspended production inevitably led to an increase in unemployment.

An updated regulatory framework to address the crisis and minimise its harmful effects on the population was needed, and so the Customs Tariff and Excise Duty Regulations were introduced. They increased taxes on luxury products, relieved the tax burden on essential products (especially those considered to be household staples) and introduced taxes on petrol and diesel fuels produced in the country. In addition, new Securities and Urban Rental Codes were approved and a new General Employment Law was passed.

The shortage of currency and a reduction in imports led to a continued devaluation of the Kwanza against the US $ (24% in 2015) and the Euro which were compounded by rising prices and increased inflation. The latter shot up to over 17% in the first months of 2016 (previously the highest rates had been 15.31% in 2010 and 14% in 2009).

In light of this and with the aim to contain price escalation on essential products, the Government adopted new measures in February 2016. They comprised:

- The creation of a National Price Council – chaired by the Minister for Finance, members include Ministers for the Economy, Territorial Planning and Development, Trade, Agriculture and Fisheries and Transport, plus the Governor of the NBA. The Council's powers allow it to formulate a Government-approved national pricing policy, develop, manage and implement 'market regulation policies' and monitor and take action against activity that could impact prices.
- The publishing of a 'watched prices' list – this ensures the prices of 32 essential products and services, such as rice, milk and bread, are controlled.
- Agreements that the Government is to be responsible for setting the prices of gas, paraffin for lighting, plumbed water, electricity and urban public transport.

Where minerals are concerned, Angola's resources include diamonds (production in 2016 is expected to reach some nine million carats); ornamental stones – granite, marble and limestone; construction materials – sand, clay and gravel; and ores – gold, silica and mercury.

Areas of focus

The Government's key focus was in the primary sector (as Euronews says: "Angola is exchanging black gold for green gold"). This sector is fundamentally important; it ensures the population's basic needs are met and can replace significant volumes of imports, stemming the currency outflow. In recognition of this, rural and livestock development programmes have been implemented and water supplies to rural areas improved and extended under the 'Water for All' programme. Farmers are being provided with seeds and tools, a rural trade programme has been adopted with the aim of stimulating agro-industry and livestock, and the large coffee plantations are once again investing in producing and exporting coffee. Fisheries have also received special attention; incentives via the provision of licences, vessels and nets, foster eco-friendly local fishing, supporting around 500,000 families.

Where minerals are concerned, Angola's resources include: diamonds (2016 production is expected to reach some nine million carats), ornamental stones (granite, marble and limestone), construction materials (sand, clay and gravel) and ores (gold, silica and mercury). Yet to be fully-exploited, this sector has considerable growth potential. Particularly when you consider companies still import finished construction materials and export raw unprocessed stone which is subsequently re-imported in differing formats, but typically finished-off, polished and ready-to-buy. A parallel can be drawn with the timber sector where resources cannot be fully exploited due to difficulties in accessing logging sites and transporting the cut logs. Also a lack of electricity for processing means generators have to be used, making the costs prohibitive.

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When it comes to electricity and, more specifically, its generation, Angola has the second-highest hydroelectric potential in southern Africa. It has taken steps to maximise this, building essential hydroelectric plants and connecting them to the grid. New plants including the Capanda and Cambambe dams in Kwanza Norte province will provide an additional 960 megawatts of electricity from June 2016 when the first of four installed turbines comes into operation. In Laúca - 65% of construction work is complete and the first two turbines will be operational in June 2017, generating 267 megawatts of electricity. Production will increase by a further 77 megawatts when the third turbine comes into operation in December, the same year. Soyo – a combined cycle dam - will generate 750 megawatts of electricity in 2017 from natural gas. Angola's electricity project is long-term and one that requires heavy investment in both generation and distribution by the Government and its partners. It is a project that must be concluded urgently; the viability of the country's industry depends upon it.

A further area of focus is the environment. Environmental impact studies are compulsory for certain projects, consulting firms have to be registered, support programmes to protect the local fauna and flora and combat the poaching and killing of endangered species are underway and the creation of nature reserves is encouraged. In the latter, the Kaza Transfrontier Conservation Area is especially important as it has a huge impact upon tourism. Following on from Angola's participation in the 21st United Nations Conference on Climate Change (COP21), the country will be hosting official celebrations for World Environment Day on 5 June 2016. The theme for the event is 'The Fight against the Illegal Trade in Wild Fauna and Flora' – a subject particularly important and topical for the African continent.

Logistics are equally a priority as it is essential products reach end consumers. The main railway lines have been rehabilitated, roads and bridges are being repaired and restored and work to build the deep-water port at Caio in Cabinda has been scheduled for Q1 2016. Various projects are also being implemented to improve conditions for road traffic in the capital and surrounding areas, including resurfacing the main roads and providing passenger ferries across the river to connect Luanda with the neighbouring areas.

2016: preparing for the future

Despite the efforts and measures adopted by the Government, and the positive results achieved from them, 2016 did not start well for Angola. The price of oil continues to fall in the international markets (with the occasional small rise followed immediately by further drops) and the geopolitical climate in the Middle East (the conflict between Iran and Saudi Arabia and Iran's return to the oil market) have not facilitated an increase or international stability in prices.

However, some of Angola's problems earlier this year originated from factors arising late in 2015 and although unconnected to the price of oil, have negatively impacted its external economic and business relations. In November the US Federal Reserve suspended, via North-American banks, the sale of dollars to the Angolan banking system. It alleged the country's financial system failed to comply with internationally-approved rules regarding money laundering and the financing of terrorism. This, combined with the oil price crisis, contributed to a lack of currency in the country, which in turn has led to a steep rise in prices.

In response, the NBA adopted a series of initiatives recommended by the inter-governmental body, the Financial Action Task Force (FATF). Top priority was given to regulatory reform and the enforcement of 23 out of 41 new regulations. These included; the licensing of banks, risk governance and credit management, the establishment of an 'appropriate legal framework', the development of faster and more precise 'automated customer monitoring procedures', leading to better control over transactions in progress, the autonomy of the Financial Information Unit (FIU) and a recommendation to the private sector for 'more cohesive and better quality reporting'.

As a consequence of the changes introduced, and following feedback from FATF specialists who after visiting Angola in January this year reported: "No assets relating to the financing of terrorism were identified," the NBA announced, in late February, that as Angola and its national banking institutions had been found to be "strictly abiding by the rules of compliance," the country "was no longer under international surveillance in respect of money laundering and the financing of terrorism."

This acknowledgement and the recent regulatory reforms should soon alleviate the severe difficulties faced by the Angolan banks in accessing dollars on the international markets. This will give a much-needed boost to a well-developed financial system which is on a par with the best in Europe and Africa.

Regarding financial services, Angola's insurance sector witnessed a year of consolidation and growth in 2015. New products were developed to meet the country's needs, and an increasing number of companies, offering more comprehensive cover, led to a surge of interest from Portuguese and South African companies operating in the sector.

In addition to ratifying its 2016 State Budget, the Angolan Government approved a strategy for economic recovery, signalling the start of a new and more stable era where tax revenue is non-dependent on oil. It involved the issuing of guidelines around; taxation, monetary policy, foreign trade and the real economy. The Government pledged to take greater control of the country's deficit, seek increased financing and improve the efficiency and effectiveness of foreign investment. Greater priority is being given to promote exports and there are plans to adjust the public debt repayment schedule, increase non-oil-related tax revenue, optimise public expenditure on staff, pensions, operations and the acquisition of financial assets, rationalise the import of goods and services and generally increase domestic production of basic export goods. Tax reforms are also being introduced; the Council of Ministers approved a draft law governing banking operations and transactions, which in turn will increase revenue and enable taxpayers to cross-reference banking transactions.

Although the Angolan Government took action at the first signs of the crisis, the measures adopted were ineffective and inadvertently contributed to the worsening economy in 2015. As mentioned earlier, a key trigger was an increase in the global supply of oil and subsequent fall in demand. Contributory factors included; the return of Iran and other oil-producing countries to the international market, the failure by OPEC to apply production restrictions, the exporting of shale oil by the US, a fall in European consumption due to its economic crises and climate change and a slowing of China's economy to 7% in 2015 (the lowest in 25 years) which prompted a drop in imports from Angola, China's biggest supplier of crude.

Angola's difficulties have severely affected relations with its foreign partners and there's still some way to go before confidence in its economy returns.

2016 will be a year of constraint and austerity, reflected in the GDP deficit forecast of 5.5% in the State Budget. Economic growth however, is predicted to reach 3.3%, supported by an estimated 48% increase in revenue from the oil sector and 12% from non-related industries. Equally positive is feedback from the World Bank; in its 2016 Doing Business Report, it ranks Angola two places higher than in 2015 (181, up from 183). Perhaps measures to improve its business environment with easier company registration and lower costs for new business set-ups are working.

While the (slow) process of diversifying the economy is underway, Angola's economic and financial recovery currently depends on the increase in the international price of oil, which the IMF says could start happening towards the end of 2016.

A country cannot go however, from being a mono-producer and mono-exporter to having an industrialised and diversified economy easily or quickly. It is a lengthy process that requires a great deal of work, mental stamina, financial capacity and heavy investment in the training of local manpower. If, however, an internal project is approached from a medium or long-term perspective (with a view to securing the presence of enterprises and entrepreneurs in the market), structural costs are likely to fall, expatriate workers can be replaced by qualified local workers and if the project has Angolan roots – ie is set up locally and particularly if it involves Angolan partners - local consumers will look upon it more favourably. Angola firms are equally favoured when it comes to applying for funding, programmes and support through official bodies (eg the Ministry for the Economy's Angola Invest programme, the Angolan Development Bank or Angolan banking system), since there is no shortage of local currency and credit rates are low. Angola also has an abundance of natural resources that can be used as raw materials for various industries, making entrepreneurs less reliant on currency from commercial banks.

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Portugal has equal confidence in Angola succeeding in the face of adversity. At the opening session of the conference '40 Years of Angolan Independence – Building a Sustainable Future', held in Lisbon on 29 February this year, the Angolan Ambassador to Portugal, Professor Dr José Marcos Barrica, affirmed: "No crisis can hold out in Angola, it's all a matter of time!"

The Portugal-Angola Chamber of Commerce and Industry also believes the Angolan Government is doing everything in its power to put this complicated episode in the country's economic history behind it and that, once the crisis is past, nothing will be the same as before. The characteristics of the Angolan economy will change, requiring a different approach to bilateral relations. More than ever, it will be necessary to take advantage of existing synergies, the shared cultural identity and common language. It is in everyone's best interests – Portuguese and Angolans alike – to gradually increase local production and build sustainable partnerships, supported by the authorities of both countries.

Portuguese companies and entrepreneurs have already shown they are more than capable of rising to Angola's socio-economic challenges; they are present in every province, operate in every sector and so will continue to be long-term partners for Angola. •

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