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Transcript

Policies and Practicalities: Angola's Business Environment

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Alvaro Sobrinho

I am delighted to be here and I would like to thank Chatham House for hosting and Alex, an experienced voice on African affairs, for agreeing to Chair. I am looking forward to hearing your views and a good discussion.

Let me start at the beginning. I am deeply proud to say Africa is on the rise. Six of the world's ten fastest growing economies between 2001 and 2010 were in my continent. In Angola, our GDP increased on average 17% between 2004-2008. Opportunities in Africa are now being compared to business opportunities in China in the early 1990s. In my view, they are even greater.

Yet, of course, we also face huge challenges. Africa is home to enormous humanitarian struggles with poverty, sickness and poor education. As we deal with these through increasing aid programmes, we must also tackle the greater challenge of making sure economic opportunity and success is shared and sustainable. Only then can we hope for a successful Africa for all.

And a key part of this is what I am here to talk about today –inspiring our own entrepreneurs and business leaders and investing in a sustainable future.

We must not be complacent regarding the gift natural resources have given us. We must use it as a springboard to invest in our future and create opportunities for Africans to take charge of their own lives and to invest for our long-term success.

Across Africa there have been too many barriers for enterprise. If you are a young businessman in Swaziland, you should expect to wait 56 days to register your company. If you are a small sized business in Niger expect to wait over year to find a warehouse. Similarly, for too long if you wanted to start or grow a business in Angola you had to struggle for credit or advice. We must knock down these barriers.

Last year, the new laws relating to micro, small and medium sized firms have been brought in. These laws are now creating 'one-stop-shops', opening across Angola to offer advice and support, but also crucially, access to credit. Walk into any of the eight 'Entrepreneur Counters' already open and you can gain credit up to the value of \$6,500.

On top of that, new firms will immediately qualify for government assistance on training and reduced tax rates. And to give these new start-ups a stable and solid market, government departments and large private companies are being told to source increased supplies from them. Soon, 25% of all the

government goods and services will be purchased from one of these companies.

And – most importantly – we know Angolans are ready for this opportunity.

A couple of years ago a study found that almost a quarter of our population was already involved in start-up activity, around 1 in 4 women and 1 in 5 men. We are the only country in Africa with more female than male entrepreneurs.

In the same report, over 50% of people in Angola believed they had the expertise and knowledge to start a business.

Giving people this opportunity will not just give people the chance to make a better life for themselves, but put our economy on a sustainable, long-term path.

As part of this sustainable footing, we must also look at the large private sector firms to drive new programmes.

At my bank, Banco Espírito Santo Angola, we are calling for more responsible investment in terms of how we run our business and the projects we fund.

Internally, I am proud to say we are now running a full carbon footprint tracking system for all our activities. We're the first bank in Angola to do this and one of the first in the region. It is part of the behaviour change needed at the top of our corporate sector.

And we are investing in sustainable external programmes, too. A few years ago BESA was part of the founding group of companies that created BioCom, the Bioenergy Company of Angola. Focusing on the production of sugar and ethanol in the Cacuso region, BioCom, is expected to generate over 160,000 MWh of electricity per year.

African finance for Africa's future – it's what we believe in.

So, as with much in my country, things are changing and moving fast. The last decade has brought many benefits but also many lessons. The changes I have talked about are key to transforming the Angolan economy into a long-term and stable project that can begin to open doors and opportunity to all. I would be delighted to share any further details of our activities and look forward to hearing your thoughts and experiences today.

Thank you.

Summary of Questions and Answers

Question:

What are the prospects for closer cooperation between Angola and South Africa? This cooperation would greatly help the whole region both in security and developmental terms. Unfortunately, the relationship seems unstable. What is the current situation and what are the prospects?

Alvaro Sobrinho:

The relationship between Angola and South Africa is of significance for security and development for the whole region. Under President Zuma the relationship has become much closer. It is mainly business oriented, for example in tourism where South Africa has a comparative advantage, or in financial services. Standard Bank has become first foreign bank to open a branch in Angola. But relations between people are also getting closer. There are for instance many Angolans in South Africa and some South Africans in Angola and travel is easier than before. This is also very important for business relations. Of course, as the second largest producer of oil on the African continent, Angola is also particularly interesting to South Africa for its energy needs.

But cooperation has not yet worked out as expected. This is still before us.

Question:

Capital that is being generated in Angola is transferred and invested in Portugal – for example in utilities. What are the countries in the Southern Africa region that Angola is investing in? Are Angolan companies expanding into Africa as South African companies have been doing?

Alvaro Sobrinho:

On the point of expatriation of capital – this has been limited in the past, and we might see a further relaxation in the future. On Investment in Africa: It is the strategy of the government of Angola for companies to invest in several countries in Africa such as the Republic of Congo, the Democratic Republic of Congo, Mozambique, Namibia, and Equatorial Guinea. The main areas of investment are telecommunications and banking. In telecoms, UNITEL is set to invest US\$1bn in DRC in preparation to take over the largest player there. In the banking sector, BESA is looking to take over a bank in Congo-

Brazzaville, but our first priority is to invest in Angola. The Angolan banking sector is highly developed but as of yet there is no capital market.

The government also recognizes the importance of facilitating capital mobility to the companies. This in part depends on agreement between states, and there are problems when discussing with different authorities. Capital repatriation from Angola may also become more difficult with the advent of a new law for oil companies (exchange law) which states that all payments must be conducted in local currency (kwanza) through local banks.

Question:

Following on the previous question, it seems that Portugal and Brazil are the two countries that benefit the most from Angola's growth. And since you have mentioned the strategy of investing in surrounding countries, how stable are investments in dictatorships?

Alvaro Sobrinho:

There is a general feeling, that Portugal and Brazil benefit most from investments and profits are not being reinvested in Angola. In reality, however, this is not the case of Brazil. It is true for Portugal, where public companies invest. I do not know the strategy for Portugal, but the investment of Angolan public companies has to be thought about: there is a crisis in Europe and the returns are very small. So there is maybe some truth in this. Maybe there is a need for a different strategy. The need in Angola for investment is much greater, especially if these investments help solve our social problems. At the same time, we do learn from past mistakes, and try to improve the contracts we make with foreign investors.

Regarding the investments in dictatorships, we are speaking of private money here, not public. It is a private company's strategy. They see a return there. In Congo the return for BESA is within 2 years because there are no banking services there - that is a big opportunity.

Question:

A new law introduced in Angola requires foreign oil companies to use the Angolan banking system. What impact does that have on the Angolan market?

Alvaro Sobrinho:

This law will only be implemented in January 2013. The impact on local banking system will be positive. We expect US\$2bn per month to strengthen the Angolan banking system. This will have direct impact on the whole economy and will be very important for financing businesses and entrepreneurs. The banks need funds especially as there is no capital market in Angola. Although not all banks are able to manage this kind of money, the largest five are ready, and there are no expectations for new entrants.

Oil companies have very stringent requirements for Angolan banks and argue that there is no capacity in the financial system to deal with this influx of money. But discussions of this law have been going on for 10 years and local banks are now ready to receive this capital inflow.

Question:

What is your opinion on Chinese investment in Angola?

Alvaro Sobrinho:

I do not understand the strategy behind Chinese investments in Angola. They have gained a very strong position in 2003-04 after the end of the war, when China was one of the first countries to invest in Angola. Whereas the EU and US didn't want to assist in reconstruction and only asked for loan repayments, China provided loans with 25 years repayment schedules and zero interest.

Question:

What is your opinion on the government support for non-oil Small and Medium Enterprises? And how can you bring the informal sector into the formal economy?

Alvaro Sobrinho:

In the last two months the government introduced a special fund to support SMEs. In a way this is only the beginning of SMEs and of private sector in Angola. That is because 80-90% of firms are in the informal sector. They have no accounts, no accountability and don't pay tax. Most of them are family companies. Forced registration is one way to achieve greater formalization, and I suppose that by requiring registration in order to get access to the funding some of those businesses might formalize. But there is no real political intention or strategy to achieve greater formalization.

Nevertheless it is very important. SMEs have potential to create around one million new jobs. And employment is the biggest problem in Angola. The biggest companies do not create the most employment. It is SMEs which do. Unemployment is the basis for most of social problems in the country, and expectations amongst Angolans are very high.

Question:

Is business potential in Angola politically controlled?

Alvaro Sobrinho:

The business opportunities are controlled by people in power at any given moment. This is a major problem, but not unique to Angola, look at Russia. There are wide gaps between rich and poor and economic opportunities for the elite only. To change the situation we need a new mentality, as this is a mentality problem. Now we have a new generation, educated in the West and hopefully they will be able to make a major change. The children of the elite are a major driver of change, and the mentality is changing at the very moment.

Question:

What is the impact of corruption of business environment, and how effective are the anti-corruption laws?

Alvaro Sobrinho:

Corruption is the main question for investors in Africa and in Angola as well. It's important to talk about it and find ways to fight corruption. It is a matter of changing practices. But recently, there has been a major improvement. People, especially at the local level, begin to perceive corruption as something bad, as a problem. And they also begin to speak openly of it. Corruption is mentioned in the media and corrupt people and practices are pointed out. This is a positive sign for the future. Also, in the coming years we will benefit from people going to study and work in the West and then bringing back the good practices back to Angola. There is a change in attitude already taking place.

Question:

Do you agree that big companies in Angola do not create enough employment? This is also the case of the BIOCUM investment that your bank has made.

Alvaro Sobrinho:

I agree that there is too little engagement of local populations around most of biggest investments. Also Biocomm should invest in and integrate the local populations more. But this is something we work on. When making decisions on business development, e.g. opening a new branch, one of the main things we focus on is to find out local needs and respond to those. We have done this successfully at BESA and have been recognized by the UN for our efforts.

Question:

Do you think that the regulatory framework of Angolan banking system is good enough? What about anti-laundering regulations?

Alvaro Sobrinho:

There is now an anti-money laundering law, and a new unit in the BNA. Standards of compliance have changed. For BES and BESA the standards are the same, however the practice is different. The implementation of rules in Angola is very difficult. There is overburdening bureaucracy and some actors are just not prepared to engage with that. One example is the requirement to know your customer. This is very difficult in Angola. Firstly, there is the problem of identification of people who often do not have identity cards. Also it is very difficult to know where funds are originating from as most deposits are made in cash. It may only be possible to implement around 50% of laws but we are working hard to increase this rate every year.