# Guest post: capital is the key to unlocking Angola's SMEs

Aug 18, 2014 5:42am by Jonathan Wheatley



*By Jean-Claude Bastos de Morais*

Small and medium-sized enterprises are the real engine of growth. In developed markets they form the backbone of industry, driving innovation and employing millions. The UK's Department for Business, Innovation and Skills, for example, reported that there were 4.9m private businesses at the start of 2013, employing 24.3m people. All mature markets depend on small businesses to create jobs and drive innovation.

Emerging markets must follow suit if they are to stimulate enterprise and build a robust economy. This is why countries such as Angola need to ensure that the banking sector is not only liberalised and competitive but also prepared to create wider access to capital for SMEs.

On the face of it, doing business in Angola should be straightforward. With annual GDP growth in excess of 7 per cent and a construction boom that is creating jobs and wealth, now should be the perfect time for entrepreneurs and small businesses to invest and expand. One of the most striking things about Angola's extraordinary story is the rapid rise in gross national income and – more importantly – gross national disposable income, which according to the World Bank grew by 27 per cent between 2007 and 2012. Angolans have money in their pockets and a hunger for new goods and services.

Why then does this promising market still have a dearth of SMEs and why is the country continuing to import so many basic goods, from food to engineering equipment?

Exacerbating the problem for locally grown small businesses is the relative ease with which foreign-owned firms can access credit from outside the country, skewing success away from local entrepreneurs. Part of the problem lies in the way information is handled – or simply doesn't exist. Angolan banks – like all banks – only wish to lend to companies that will prove to be creditworthy. Start-ups or individuals without a credit history are locked out of the system. Restrained by a low-information financial sector, banks are simply unable and unwilling to lend to small businesses. Conversely, larger (often foreign-owned) businesses can access capital.

While Angola's banks have made great progress, the cautious lending environment does impede the development of this critical sector. In such a scenario, innovation, goods and services will continue to come from outside the country because they are not being created at home.

The real impact that a lack of access to capital can have on an economy was laid bare during the global financial crisis. As recently as March 2013, Italy's business federation, Confindustria, reported that 29 per cent of Italian companies were unable to meet 'operational expenses' because they were starved of liquidity. The federation suggested that a 'third phase' of the credit crunch was approaching, which would match the severity of the recession during the 2008–2009 period. This outcome, the report said, was due to a 'vicious cycle' where banks are too frightened to lend, driving ever more companies over the edge. In Italy, a thousand companies were going in to receivership every day, according to the report.

One of the answers lies in the history of the nation's financial services industry. Since peacetime in 2002, Angola's banks have been playing catch up, a process that started with the liberalisation of the country's nationalised banks. By 2010, only one of its three largest banks remained under state control and the sector's assets ballooned from $3bn in 2003 to more than $57bn in 2011, according to the IMF. The financial services sector saw the number of banks rise from nine to 23, a development that saw the number of companies with savings and/or checking accounts rise dramatically.

A May 2013 report on the Angolan economy by The Banker points to the development of a more mature banking sector with a sharp increase in the use of credit and debit cards. The report also says that many banks have expanded their networks of ATMs and point-of-sale terminals. Regulatory changes have also made a positive impact. In 2011, the Banco Nacional de Angola implemented new money-laundering rules, a new monetary policy committee, a base interest rate and an interbank rate.

These positive changes are indicative of a rapidly maturing market, yet banks remain cautious when it comes to lending to SMEs. A report from the World Bank suggests that while older, larger and more established companies are able to access capital from banks, younger start-ups and SMEs have greater difficulty in accessing credit.

This paradox – an exciting and rapidly growing economy that is blessed with natural resources but that struggles to stimulate domestic growth – is unusual and damaging for Angola and the wider region. A recent report from the African Development Bank (*Financial Inclusion in Africa*) states that the credit gap for SME lending in sub-Saharan Africa is estimated to be between $70bn and $90bn. Such a figure suggests that there is an endemic problem in the region's capital markets that is damaging the growth of what is arguably the most important economic segment.

This Africa-wide issue was addressed by Sir Paul Collier of the Centre for the Study of African Economies at Oxford University in an article entitled Rethinking Finance for Africa's Small Firms. He comments that, "Providing finance for small firms is globally rated as riskier than for large firms." He also suggests that while the appetite for risk was improving before the economic crisis, this appetite 'evaporated' and with it, the scope for private finance for Africa's small firms. He also references a survey that shows a historic reluctance across sub-Saharan Africa to lend to SMEs. The study by Bigsten et al in 2003 found that small firms have historically had a significantly greater chance of being rejected by banks than larger firms.

Aggravating all this is the fact that while Angola has a large number of entrepreneurs, many of them are micro-entities that exist outside the tax system. This means not only that an exciting SME segment is being stifled but that the exchequer loses out on tax revenues – revenue that could arguably be used to reinvest in the SME sector. There are, however, other avenues for Angola's budding entrepreneurs.

Angola's government has been working hard to incentivise small businesses by offering attractive tax regimes to foreign investors (particularly outside of Luanda). Venture capital firms are also playing an increasingly important role in helping to facilitate growth with SME's. One such is the Angola-based Fundo Activo de Capital de Risco Angolano (FACRA), of whose supervisory committee I am a member. It is a public venture capital fund that specifically supports Angolan SME's in building, innovating and expanding their businesses. FACRA is actively seeking opportunities to support exciting enterprises in the country, particularly those that are innovating in technology, agriculture and engineering – three key growth areas for the Angolan economy.

Organisations such as FACRA are also increasingly being seen as a useful conduit for international companies looking to invest in the country. Local VCs with money to spend are able to help facilitate international expansion in Angola, mitigating risk and providing a much-needed introduction to the local business culture. Ernst & Young's Attractiveness Survey Africa 2013 states that Angola was among the top ten African FDI destinations in 2012 and a recent report from Angola's National Private Investment Agency (ANIP) says that private investment in Angola almost doubled in 2013.

Unlike traditional banking, venture capital companies have a vested interest in doing everything they can to help local and international businesses succeed. Agriculture and manufacturing are two areas that look set to expand further during the coming years and VC funds in Angola may be particularly receptive to international companies seeking investment opportunities in the country. The IMF Angola Economic Update 2013 comments that these two sectors have been growing strongly but not to their full potential. The report states that, "increasing investment to boost productivity in agriculture and manufacturing could make a strong contribution to employment creation, particularly given the human-capital dynamics of the Angolan labour force."

With the right economic indicators in place, enviable natural resources and strong political will, Angola has an enormous opportunity to build a strong, diversified economy through a large domestic SME sector and through the attraction of innovative international companies. Venture capital companies, government and traditional banks all have their part to play in widening access to capital.

*Jean-Claude Bastos de Morais is an international entrepreneur and member of the Supervisory Committee of FACRA.*

Back to beyondbrics

Posted in Global | Permalink

Share Clip Print Email