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Risk or reward: is it the right time to invest in Angola?

By **TEODORO DE JESUS XAVIER POULSON**

Investing in sub-Saharan African countries should be a straightforward matter. It is a region rich in natural resources and fertile land, with some of the youngest populations on the planet who are increasingly educated and hungry for opportunity.

Angola is one such potentially exciting target for investment, with growth set to gain pace with a projected rise in GDP of 7.1 percent for 2014 and 8.8 percent in 2015.

But despite these promising statistics, how straightforward is it to invest in this former Portuguese colony, where more than 90 percent of GDP rests on the price of a barrel of oil?

Following a 27-year civil war, Angola has come a long way. Economic diversification is a key priority for the government as it attempts to rebalance the economy away from a reliance on oil and diamonds. Promisingly, the country's growth in 2013 came mostly from non-oil sectors, including agriculture, fisheries and manufacturing - as well as from largely publicly funded infrastructure development and construction.

In addition to major investments from the Angolan government, the World Bank signalled in May 2014 that it would provide $1bn specifically for infrastructure development in Angola, while the African Development Bank announced in May 2014 that it will loan Angola $1bn to develop its electricity grid. These cash injections may be used to leverage even greater funding from domestic and overseas banks and pension funds that wish to take part in Angola's infrastructure projects.

The importance of infrastructure upgrades in Angola cannot be overstated. In 2002, when the civil war ended, the nation had serious issues with basic critical infrastructure: energy supply, transport, and access to clean water. The quality of housing was extremely poor and services such as automotive repair shops were non-existent. In 12 years, the government has managed to make notable improvements in these crucial areas.

As Angola's economic fortunes change, so too do its people. It is true that there remains a skills shortage across many industries, but the number of university graduates is rising and the English language is now being heavily promoted by the government. A concentration of technology-savvy consumers can be found among Angola's population of roughly 20 million people, most of whom live in cities and half of whom are under the age of 20. Government policy, which dictates that 70 percent of employees hired by foreign firms should be Angolan, aims to build a skilled local workforce through the transfer of knowledge to Angolans.

The missing middle

Many Angolans run small, self-sufficient businesses often working in isolation as sole traders. At the other end of the spectrum are large international companies and public sector bodies. There is a noticeable 'missing middle': Angola lacks SME's that create jobs, wealth and tax revenues. This is partly due to the young nature of the economy and Angola's indigenous entrepreneurial community. But lack of available capital is also an issue. Set-up costs are high and credit is expensive. The central bank's base rate is around 9 percent. This makes it very difficult for entrepreneurs and innovators to get new ventures off the ground. It is also difficult for young companies to attract the best talent, which often prefers to work for international companies or for the government. These factors slow down the creation of SMEs, which in most developed nations are the real engines of growth.

Despite the lack of a strong SME market, Angola is a country that is ready for growth. The quality of goods and services are relatively poor and consumer goods, purchased in greater volume as disposable incomes rise, are expensive. There are opportunities to bring better goods into the market and to still make large margins, or to localise production while building Angolan and sub-Saharan brands. The market is also not particularly competitive yet, with only a few players in many industries. For many, this could represent an opportunity to be the first to move into a marketplace. Angolans are increasingly travelling internationally, meaning that they have been exposed to quality and are prepared to pay for it, when it is available. The population is also particularly aspirational, with high mobile telephone penetration and a thirst for technology. Those with money are willing to spend it on better products.

Within the tech space, there is very little experience of start-ups, with few programmers and developers for software or apps in the market. This skills gap presents businesses and entrepreneurs with opportunities. The good news for companies seeking funding is that venture capital funds such as the Fundo Activo de Capital de Risco Angola (FACRA) are actively supporting innovators and entrepreneurs by providing financial backing and general support. The government has also made it easier for foreign companies to set up in Angola through the creation of the Angola National Private Investment Agency (ANIP), a body that helps companies navigate the process of setting up businesses. All foreign investments must come through ANIP, and a minimum investment of $1m is required. The agency provides a number of tax incentives for companies, depending on the type of business and proposed location. Job and wealth creation in rural areas away from the main cities will attract greater tax incentives.

As well as providing strong financial incentives, Angola's current social and political stability is attractive to investors. Angola does not have the tribal conflicts that mar some sub-Saharan African countries, and its state security is strong. Working in Luanda also feels safe, and levels of crime are significantly lower than places such as Brazil or parts of South Africa and other sub-Saharan African nations.

Local partners, local knowledge

While doing business in Angola and investing in the country has been streamlined over the last few years, it remains important to understand the way things work. ANIP provides guidance, but it is also recommended to work with a local partner. FACRA frequently fills this function with its partners. Finding such a trusted partner is a great advantage, as it can help a business to understand the norms and practices of the local business community, how to respond to the social nuances of the country, and how to enter the market in a way that is pertinent to the culture of Angola. The partner can advise on process, make useful introductions and smooth the way for a successful start.

Investing in Angola – or any sub-Saharan African nation – is not straightforward. It is important to have the right people around the project and to understand the business climate, ideally through a local partner. Integration is important, just as it is in most parts of the world. By being culturally sensitive and operating in a way that respects the local community, businesses improve their chances of success. There are significant opportunities to enter the Angolan market and to make big margins. There are opportunities to bring innovation and new technologies to the country, to benefit from government funded investment in infrastructure and to get in on the ground in a young economy. After 12 years of investment and a stable, peaceful society, now could be the right time to investigate opportunities in Angola.

Teodoro Poulson leads Fundo Activo de Capital de Risco Angolano (FACRA)'s overall investment strategy, along with sourcing investment opportunities in Angola and across the Sub-Saharan African region. He previously worked for Angola's central bank.

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