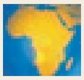
Angola

Part one

Moving onto the world stage



After 40 long years of turmoil, political will in Angola has finally joined forces with its oil wealth. Global petroleum prices are supporting the union, and throughout the country, it shows

It can be seen at seaports, where tankers are loading oil crude or containerships deliver expensive cargo. It can also be judged by the quality of the tarmac at the expanded airport. And it is now in plain view in rural areas where alluvial deposits have created a kimberlite rush. But one can walk off with the same impression after chatting with bankers at an office building or officials at the Ministry of Finance—Angola is the fastest growing economy in the world.

After 40 years of battling with internal conflict, social inequality and corruption, political will has joined forces with high oil prices. Since December 2006, Angola is officially a member of OPEC and has a say in future output quotas. OPEC's Secretrary General, Abdullah Al Badri, recently visited Luanda, the capital. Last year, the country's crude exports of 1.4 million barrels per day (mbpd) amounted to $29.9 billion, an increase of 32% over 2005. Angola is now the second-largest oil producer in Africa and is projecting $50 billion in investment over the next six years.

The economic changes are nothing short of transformational. US officials are now speaking of Angola as a financial hub within 10-15 years. Investors from as far as China and Portugal are sending out feelers to measure the depth of financial intermediation. In 2007, five new banks registered with the Banco Nacional de Angola (BNA, central bank). International oil companies were first to knock on the door. But these days, consultancies like KPMG or private equity groups like the Carlyle Group are busy scouting for market openings. South African banks like ABSA have also expressed interest.

Aguinaldo Jaime
Deputy Prime Minister

"We want to create stability and put in place the right incentives that will allow private capital to come into contact with domestic groups," says Aguinaldo Jaime, the Deputy Prime Minister and go-to person for foreign investors. In the banking sector, for example, Jaime would like to see more investment funds and discount houses. In the diamond trade, he would like the World Summit of 2009 to serve as showcase for Angola's ascent into the world league. Prudent monetary policy, meanwhile, has helped instill confidence in the national currency, the kwanza.

"We've learned from our past mistakes. Angola is now a country that has managed a sustainable reconciliation process. That is the best type of insurance you can find," says Jaime. What is most striking, however, is that even the state oil company realizes a sea change is underway. SONANGOL has begun to publish its financial accounts in a display of transparency. "Four years ago, that was inconceivable. But the Sonangol numbers are clearer in the last 3 to 4 years. We are slowly getting there," says Ari Carvalho, an official with the national investment agency, ANIP.

Virgilio de Fontes Pereira
Minister of Territorial Administration

In Jaime's new operating platform, the private sector will act as a third leg for state institutions while they adopt global standards. "In the past, the state played a decisive role in promoting economic growth. This model has been changed and we are now in a transition," says Jaime. Meanwhile, the government's task will be to create the conditions for the economy to flourish and diversify. "It's all about the internationalization of our economy," says Jaime.

BANKING

The monetary backbone

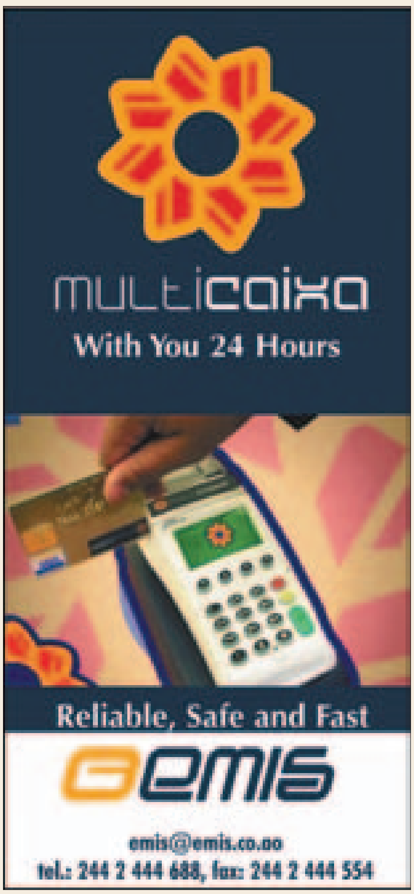
Five new banks entered the financial sector this year, a reflection of an economic buoyancy that no longer stems from oil alone. Up next, the establishment of a stock exchange

As the wheels of Angola's economy spin, so do the multipliers of its banking sector. With GDP growth of 25% projected for 2007-2008, domestic banks have fast become the backbone of Angola's economy. They also hold sway over much of the FDI flowing into the country, a figure that amounted to $1.4 billion in 2005-2006. This year, five new banks have been established as a result of favourable economic conditions, bringing the total number to 18.

The oil boom is not solely responsible for this financial buoyancy. Civil engineering projects, water supply, transportation, construction and education have also helped deepen financial intermediation. Since 2007, banking syndicates have funneled $400 million into infrastructure. Meanwhile, credit to the private sector was up 90% in 2006 and earnings at commercial banks are climbing. For policymakers, this is proof that Angola is on track to becoming a middle-income country.

So far, the IMF has noted the positive rise in the deposit-to-currency ratio. According to ANIP, the national investment agency, there are $10 billion on deposit at Angola's banks, along with $4 billion in loans. The system is well capitalized, with 15% of risk-weighted assets in 2006. Non-performing loans have dropped from 10.4% in 2002 to 4.8% last year. Still, the IMF has pointed out that the ratio of broad money-to-GDP, at 20%, is relatively low.

Meanwhile, demand for the kwanza, Angola's currency, remains strong. Ever since the government began to transfer public salaries into the banking system, the percentage of under-banked Angolans has dropped. The measure also contributes to educating the public about the advantages of modern banking. The next move should be to set up a stock exchange and spur the growth of investment funds and leasing companies. Suddenly, big South African banks like ABSA are scouting for acquisitions up north.



BESA

Growth potential

Measuring banking activity can be elusive. Most analysts agree that growth in Angola's banking sector in 2004-2005 was outstanding. If inflation is reined in at the government target of 10% this year, investment will continue to pour in. Only the more recent of Angola's 18 banks are specialized in project finance but the sector was still able to finance large-scale projects. The ratio of capital per client, meanwhile, has also increased. Still, not all agree that everything is perfect.

Alvaro Sobrinho
CEO BESA

For Alvaro Sobrinho, the CEO of BESA, it will take consistent use of the macroeconomic toolkit for Angola to stay on course. According to Sobrinho, exceptionally low interest rates in 2006 trimmed profits at financial institutions. Their growth did not run in parallel with the country's galloping GDP. Sobrinho thinks this largely reflects the low percentage of bank depositors. Breaking the habit of stashing money under one's pillow is not easy.

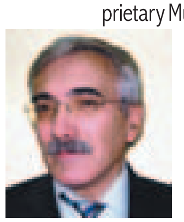
"The growth potential is huge. But it's difficult to talk about a future strategy as it depends on government policy," says Sobrinho. For 2007, the government budget is very ambitious in terms of public works. If turnover is high at the large companies operating in Angola, Sobrinho thinks it will spur real banking growth. But more predictability in the short-term on liquidity and monetary policy would also help.

Today, BESA has $200 million in deposits and market share stands at 10%. Since entering the market in 2002, it has focused on private companies. Sobrinho's institution is involved in large-scale construction projects that often contain elements of technology transfer, largely with Portuguese and Brazilian firms. But his main thrust in the future will be with young Angolan entrepreneurs. "Our main objective is to be profitable," says Sobrinho.

EMIS

The front line of 'bancarizacao'

Angola has been exporting oil for decades. But the country's extended civil war meant that not all oil receipts were invested efficiently. Today, the economy is undergoing a rapid adjustment phase in which wartime distortions are disappearing. With oil prices at $100 per barrel, GDP has skyrocketed. But a more sustainable growth rate of 8%-10% would be better for other financial institutions like EMIS Angola.



Jose G. de Matos
Member of the Board EMIS

"It's very important to have a competitive banking sector. It's the only way to channel savings toward the reconstruction effort," says Jose G. de Matos, a member of the board at EMIS. An efficient allocation of resources would, in turn, stimulate foreign investment. That is why EMIS is encouraging the use of debit cards like its proprietary Multicaixa. The next move is to introduce credit cards. In 2007, EMIS will close the year with 17 million transactions.

The current buzzword in Angola is 'bancarizacao', a term that denotes bank penetration. Matos notes that the number of ATM machines has already reached 400, 30% of which are in rural areas. EMIS officials, whose clients are also shareholders, think bank penetration will rise to 11% by 2011. By then, EMIS will have 1.8-2 million customers. "This will increase the circulation of money in the banking network, which will have a positive effect on the sector due to multipliers," says Matos.

FOR MORE INFORMATION CONTACT: **PRESS TRIBUNE, 405 Kings Road, Chelsea, London, SW10 0BB. Tel: +44 (0) 207 493 5599, Fax: +44 (0) 207 629 5825**

This report can also be read online: **www.press-tribune.com**

BNI

The dynamics of BNI

Angola's transformational growth is anchored in a dynamic financial system. Banks are playing an educating role, teaching potential customers everything from money management to investment options. In 2006, domestic inflation fell from 19% to 12%, just shy of the government target. The Bank of Angola (BNA) intervened several times to mop up excess liquidity and keep the local currency from appreciating. Oil and diamond revenue have since fed into banks and real estate.

"The situation in Angola has occurred elsewhere before. There is room here for all types of banks, as long as they come with innovative solutions that meet market demands," says Mario Palhares, Chairman of Banco de Negocios Internacional (BNI). With favorable macroeconomics, bankers like Palhares are focusing on organizational strategies. He thinks state-led investment in infrastructure will turn the cogs of other sectors. As an example, he points to the construction boom in Luanda, which has triggered demand for building materials. Banking, after all, is all about the multiplier effect.

> **'There is room here for all kinds of banks as long as they bring innovative solutions'**

"Stability and high profitability have made Angola a very attractive place for new banks," says Palhares. For BNI, a corporate and retail institution established in 2006, the growth in the number of new banks in the country in the last two years sends a positive signal that the economy is dynamic. Over the next 5 years, BNI expects the competition to generate new products. But he also plans to woo the 80% of Angolans who do not yet own a bank account. At BNI, there are leasing and factoring services. There is no lack of mortgage facilities either. "Customers are demanding solid and adaptable banks," says Palhares.

The Investment Law of 2003 set the scene for business opportunities. New banks like BNI now cover a portfolio of activities that most commercial banks cannot afford to cover. So far, BNI has centered on large-scale infrastructure, telecommunications and the diamond trade. In civil construction, the preferred formula has been the public-private partnership (PPP). After all, the government of Angola is not only a buyer of output, but also a large spender. The inflows from civil engineering projects are partially behind BNI's consolidation in Luanda, Lobito, Lubango and especially Cabinda, the hydrocarbon heartland.

Mario Palhares
CEO BNI

In terms of new deposits, BNI has created a 24/7 express network. By end-2007, Palhares plans to work with retail customers through credit and debit cards. "Our service to individuals will be based on plastic. Salaried workers will be able to implement direct deposit plans and we will concede loans through the card system as well," says Palhares. In the medium-term, a farmer will learn about additional perks, such as the ability to finance the acquisition of machinery through the card system. "All that will be done through our 24/7 express network," says Palhares.

In little more than a year, domestic institutions like BNI have proven that Angola is a rapidly evolving market. Its small team of qualified professionals has already partnered with US, Portuguese and Brazilian financial institutions. As for 2007, Palhares says he has already surpassed the business plan for this year. Helping to launch business opportunities for domestic firms is his new mission. "If this does not happen, our economy will remain vulnerable," he concludes.

MINING & DIAMONDS

Diamonds in store

Over the next three years, Angola could turn into the world's number one producer of diamonds thanks to a revamped and regulated sector

Diamonds are at the heart of much of the armed conflict in sub-Saharan Africa. Angola has been no exception, with years lost to production during its civil war. The sea change came in 2002, when demand for metals and precious stones began to spike in commodity markets. Now, organizations such as the Association of Diamond Producers (ADPA), founded in 2006 and led by Angola's Edgar de Carvalho, are trying to find a middle ground—diamonds are about peace and harmony.

Over the next 3-4 years, Angola could turn into the world's first producer. According to ENDIAMA, the state diamond company, only 40% of the territory has been explored. In 2006, precious stones contributed 6% to GDP, or more than 9 million carats valued at $1.2 billion. But their impact on the economy at large is enormous. With a new round of 170 exploration concessions, the government of Angola is seeking to address the missed opportunities. More than 15 licensees are currently carrying out exploration work. By 2008, ENDIAMA expects to draw up a new mining law. Meanwhile, economists at the ADPA are working on a system to improve market control for diamond output.

"Five years ago we started to evaluate the diamond reserves all over the national territory. We concluded that diamonds occur naturally throughout Angola," says Manuel Arnaldo Calado, the Chairman of ENDIAMA. Now that Angola adheres to the Kimberlite Process, a transparency protocol, illegal trafficking has fallen substantially. By 2010, Calado thinks Angola will surpass production from South Africa and Botswana. To mark its ascent to world status, Luanda will host a summit for global experts in 2009. Its title? The reputation of diamonds.

CATOCA

Sustainable carats

Global demand for precious stones, such as those mined at CATOCA, has risen by 10%

With annual global demand for precious stones up 8%-10%, Jose Manuel Ganga exudes optimism. The General Manager of CATOCA, Angola's largest mining operation, says there is now a critical time window for the industry's comeback. First discovered in 1917, no one knows exactly the amount of alluvial diamond deposits in Angola. What is known, however, is that rural areas are largely unexplored.

"The real potential in Angola today is for kimberlite deposits, which is where we are strongest. Several companies are prospecting and because of the high mineral levels, we have no doubt that kimberlite mining will be economically viable," says Ganga. A type of igneous rock that is considered a carrier of diamonds and garnet, kimberlite occurs naturally in vertical pipes. "Ten out of every 100 kimberlite mines in Angola are profitable. You don't find that anywhere else in the world," says Ganga.

Jose Manuel Augusto Ganga Junior
General Director CATOCA

Currently, CATOCA produces approximately 70% of Angolan output. Since 2002, when civil war ended here, the framework for mining firms has changed dramatically. In the last 5 years, Ganga notes a gradual increase in output levels as a result. The entry of foreign miners also means new technology will be introduced at placer deposits. ENDIAMA, the state diamond company, has signed off concessions to De Beers, Alrosa and BHP Billiton. Rio Tinto is also said to be interested in an exploration license.

At ENDIAMA, meanwhile, officials are confident that operations like Ganga's will number in the fifties. Manuel Arnaldo Calado, the chairman, mentions the more environmentally sustainable technology being implemented in Luo, one of the new concessions. "Because of its location in the middle of a lake, Luo requires more complex exploration techniques. But potential there is comparable to CATOCA," says Calado. Other placer deposits include Carnafuca, Camazango and Chiri.

"Angola will extract more than 10 million carats by 2008. We're planning to increase our production by around 2 million carats," says Ganga, whose company is working on partnerships with other mining outfits. CATOCA has so far made new finds in Luemba, not far from its main operation. By 2011, revenue should reach $400 million, of which $150-$180 million are net profits. Social impact programs will ensure that locals in the region benefit too. But in the end, it all depends on how much treatment capacity can be stepped up at CATOCA.