Investors race to cash in on Angolan opportunities

Barbara Njau | 11/12/2013 9:03 am

Angola's work to improve its infrastructure is paying dividends in terms of foreign investment into the country's mining and financial services sectors.

The remote city of Saurimo in the north-east of Angola has become an unlikely draw for investment, with global firms including South African diamond miner DeBeers and Brazilian construction and petrochemicals conglomerate Odebrecht flocking to the country to stake a claim in the Catoca mine, which contains diamond-rich kimberlite.

A diamond bonanza, which was sparked after the government introduced a mining code in 2011 to encourage more FDI into Angola's mining industry, has transformed this remote region into one of the country's hottest investment destinations. Moreover, the government's efforts to rehabilitate road, rail and port infrastructure, 70% of which was destroyed during the country's 27-year-long civil war, significantly reduced the costs of doing business outside Angola's capital city, Luanda. This was another critical step in attracting FDI into Saurimo.

"In diamond mining, you don't have to export large volumes of goods; however, the problem is how to make the fuel reach your mines," says Luis Chambel, the owner and manager of economic geology consultancy Sínese. "Twenty years ago all the diesel had to be flown in [to the diamond mines] on airplanes and this now can be done on land."

Increasing production in the Catoca mine, which is now the world's fourth largest kimberlite mine according to the Israel Diamond Institute, enabled Angola's diamond production, worth $800m in 2004 to become an industry worth $1.1bn in 2012, according to data from Sínese and financial advisory services company Eaglestone. Mr Chambel claims that the government's infrastructure programmes, including its Five Roads Project, which is working to rebuild select national roads, have been essential to attracting diverse forms of investment.

Financial services

Angola's economic growth has centred on its oil sector, which remains the largest contributor to the government's coffers, accounting for 75% of government revenues according to Ecobank. But the financial services sector has also emerged as a key beneficiary of Angola's infrastructure build-out.

As cities beyond Luanda become ever more connected through new roads and railways, market-seeking banks have begun expanding their operations across Angola. Data from greenfield investment monitor **fDi** Markets reveals that in the past 10 years, financial services attracted the largest share of greenfield projects. Between 2003 and 2013, the sector attracted 125 projects, while the coal, oil and natural gas sector ranked in second place, attracting just 31 greenfield projects in the same period. The success of Standard Bank Angola, a subsidiary of the South Africa-based Standard Bank, which opened its first branch in the country in 2010, illustrates that financial services firms have begun looking beyond facilitating oil-related projects, to serving the banking needs of small-scale consumers throughout Angola.

"Angola is considered a priority market for Standard Bank Group and this economy is very important within the sub-Saharan African context," says Pedro Pinto Coelho, chief executive of Standard Bank Angola. "We started this journey four years ago with a team of six people and today we are close to 500 employees spread across the country. We have grown by more than 100% in revenues and in assets this year, and we expect to continue growing well above the market growth rate."

Mobile phone banking

Although Mr Coelho admits that much of the bank's work remains focused on facilitating oil-related projects, he says financial services firms have begun seeking opportunities in less conventional activities, including mobile phone banking. "Our bank has financed large-scale projects in the energy sector and we are the predominant transactional bank for this industry," says Mr Coelho. "However, the key trends we plan to see include the increasing penetration of e-banking replacing a cash-led system. The spread of mobile phones and the internet will shift clients towards more electronic payments."

Yet for all its achievements, government efforts still cannot match investor needs. Dated regulation has constrained innovation in banking practices and highly stringent collateral requirements have reduced the availability of credit for banking firms. As a result, Angola's financial regulatory structure lags behind its regional peers, including Kenya and South Africa, whose developed financial institutional frameworks encouraged the rapid dissemination of pioneering banking practices such as mobile phone-based money transfer and microfinancing service M-Pesa. Yet Mr Coelho maintains that creating such enduring institutions will take time and the government's proactive approach to improving doing business in Angola has placed it on the right track for success.

“The outlook for our operations is very positive,” says Mr Coelho. “The de-dollarisation of the economy is gaining momentum,” he adds, referring to the central bank's work to restore stability and investor confidence by decreasing the country's dependence on the US dollar. “Inflation continues to decrease. The capital markets will play a more relevant role in the future, yet the speed at which this will occur will depend on the steps towards the creation of a strong local institutional investor community,” says Mr Coelho.

This article is sourced from fDi Magazine

fDiMagazine
THE BUSINESS OF GLOBALISATION