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Angola Economic Briefing – Issue #5

Welcome to the Angola Economic Briefing — a twice-weekly essential update and analysis on Angola's political economy, from Zitamar Consulting LLP.

The Angola Economic Briefing is produced by the team behind *Zitamar News*, Mozambique's premier English-language business news service since 2015 — in partnership with Angola-focused Moxico Risk Consulting LLP, and Mark Bohlund, a seasoned Africa economist formerly of IHS Markit and Bloomberg.

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FDI likely to remain on downward trend (UNCTAD)

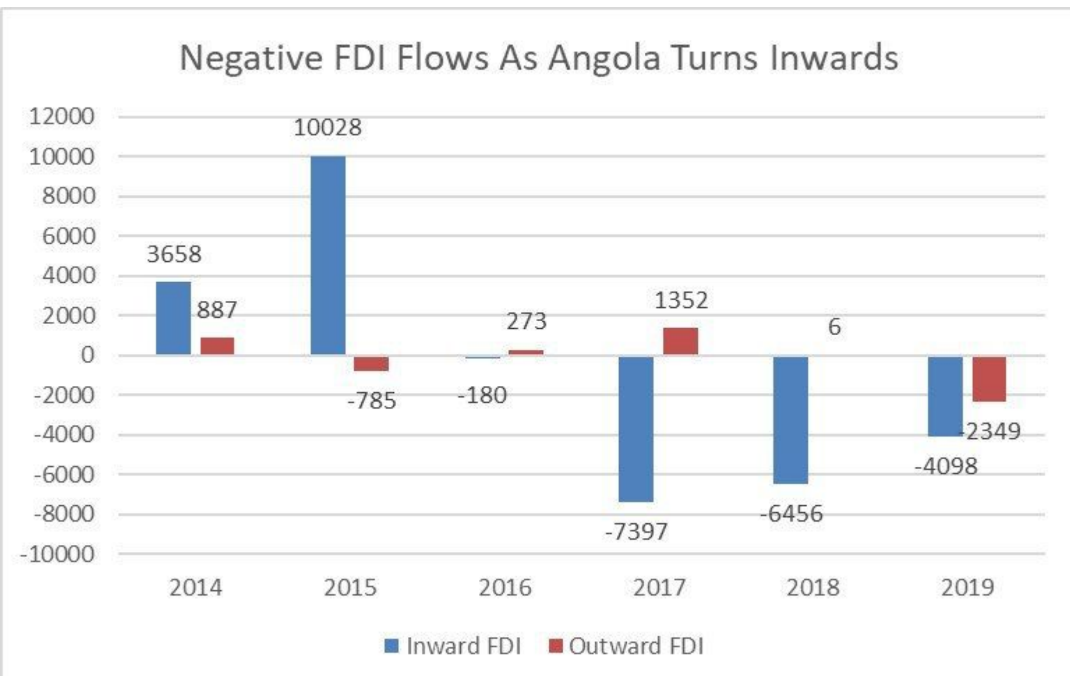
Summary:

Inward foreign direct investment into Angola was negative for a fourth consecutive year in 2019 according to the latest edition of the World Investment Report released by the United Nations Conference on Trade and Development (UNCTAD) released on 16 June. This was due to a continued disposal of Angolan assets by foreign investors, on the back of declining oil revenue and a contracting economy. The inward FDI foreign investment flows in 2019, such as a $100mn investment in an offshore field by Indonesian PT Pertamina, were relatively modest. Outward FDI was also negative, but for the first time since 2015, as overseas assets were sold and funds repatriated. In Sub-Saharan Africa as a whole, greenfield foreign direct investment in the mining sector, which includes oil and gas, fell from $16.8bn in 2018 to $2.6bn in 2019, illustrating the headwinds for Angolan FDI.

Analysis:

Foreign companies are likely to continue to divest their holdings in Angola in 2020, as the Covid-19 pandemic and low oil price keeps investment weak in the oil and gas sector (see Angola Economic Briefing 16 June). The ProPriv (see Angola Economic Briefing 5 June 2020) privatisation programme is unlikely to draw in any substantial foreign direct investment in the near term, with the sale of a stake in state-owned oil behemoth Sonangol being pushed into the future. The Angolan government is pursuing the overseas assets of Isabel dos Santos, the daughter of former president Eduardo dos Santos, but this is likely to be a drawn out process unlikely to bring large repatriations in the near term.

Chart of the Day



Debt relief opens for Chinese oilfield investment ([The Africa Report](#))

Summary:

Angola could put stakes in its offshore oilfields on the table in negotiations with China for debt relief, according to Verisk Maplecroft. The political risk consultancy expects the Angolan government to offer its Chinese counterpart increased equity stakes in the oil fields where Angolan and Chinese oil companies are partners in order to reduce ongoing payments by crude cargoes. Angola could also offer Chinese companies preferential treatment in newly discovered assets, such as marginal fields, where fiscal terms are attractive at lower crude prices, and undeveloped acreage held by dormant indigenous companies.

Analysis:

The sale of energy sector assets is a potential way to reduce Angola's large indebtedness to China, which is estimated by the IMF to be in excess of $20bn. Many Chinese natural resource companies take a longer-term view aimed at supplying the mammoth Chinese economy with necessary commodities. Reduced focus on shareholder value and less stringent requirements of transparency and adherence to ESG (Environmental, Social, and Governance) standards than listed companies in Europe and North America also give Chinese companies more leeway to operate in complicated jurisdictions like Angola. These factors have seen a large part of the mining sector in the neighbouring Democratic Republic of Congo transferring into Chinese hands in recent years. A similar development is possible in the Angolan energy sector, with assets recently sold to Sonangol by foreign operators, such as Block 15/06, high on the list of potential deals. However, the appetite of Chinese oil companies for overseas deals has abated and relations between Angola and the joint-venture company Sonangol Sinopec International (SSI) have frequently been difficult.

Angola, UAE ratify tax agreement to remove trade barriers ([Xinhua](#))

Summary:

The Angolan and the United Arab Emirates (UAE) governments have ratified a Convention to Avoid Double Taxation and Tax Evasion, according to a statement released by the Angolan General Tax Administration on 16 June. The agreement, which comes into force on 1 January 2021, will help cross-check information on values, accounting and tax declared in the two countries.

Analysis:

Economic ties between Angola and the UAE remain modest. However, a memorandum of understanding (MoU) between Prince Sheikh Ahmed Dalmook Al Maktoum and the Angolan Ministry of Agriculture was signed in December 2019 for the establishment of a tractor assembly line in a Special Economic Zone (ZEE) in Luanda, an estimated $100m investment. Larger multinationals are likely to remain wary of operating in Angola due to operational difficulties and reputational risks, opening the door for less-established players.

Government unveils diamond mining investment hub in Saurimo (Angop)

Summary:

On 15 June Minister of Mineral Resources, Oil and Gas, Diamantino de Azevedo, unveiled plans for the new Diamond Development Hub in Saurimo, Lunda Sul. Azevedo noted that the facility would be open by the end of the year, with the objective of bringing together companies related to the mining economy, across the whole diamond value chain. Comparisons were made with a Special Economic Zone, as the hub would create investment opportunities including retail space, banks, offices, convention centers and training areas.

Analysis:

This has been a month of significant progress for Azevedo's ministry in terms of pushing through mining-sector reforms, which should be very encouraging to potential investors. On 10 June, the highly experienced South Africa-trained mining engineer Jacinto Ferreira dos Santos Rocha was named Chairman of Angola's newly created mineral resources concessionaire, the Agência Nacional de Recursos Minerais. This agency will take over concessionaire status from national diamond company ENDIAMA, opening up the industry, encouraging further investment and increasing state revenues. Tax revenues from the diamond sector are up 41.6% in the past two years, according to national diamond trading company SODIAM. The diamond sector is proving the fastest to reform of all Angola's strategic economic sectors.

Parliament approves property tax package (Angop)

Summary:

On 17 June, parliament approved legal amendments to a number of laws, including the property tax code — aiming to increase tax revenue by increasing the tax base, through taxing unproductive agricultural land in order to encourage its profitable use. The revenues will be collected by the local authority.

Analysis:

Minister of Finance Vera Daves has been an enthusiastic advocate for the change, that devolves both the assessment and collection of this property tax to future municipal administrations (which will likely be elected at some stage before September 2021). Daves believes that this will provide the majority of the funding for these new authorities. This tax affects formerly exempt parcels of land, such as scrubland, unproductive agricultural land over seven hectares and land with housing worth less than 5 million kwanzas (around $8,500). The tax on real estate transfers has also been changed from a sliding scale (which went up to a 15% effective rate) to a flat 2% rate. The net effect of these changes is to broaden the tax base, reduce the top tax rates and, according to Daves, the aim is to ensure that parcels of agricultural land and 'houses that are unoccupied, for a long period of time…[are] used, or rented or sold'.

Tensions over UN ‘recognition’ of FLEC separatists (AfricaMonitor)

Summary:

Angolan authorities have reacted with ‘embarrassment’ at the inclusion of the Front for the Liberation of the Enclave of Cabinda (Frente para a Libertação do Enclave de Cabinda: FLEC) in a list of sixteen separatist organisations, during an official statement by UN Secretary General António Guterres. Guterres was recognising armed groups who had agreed to a temporary ceasefire with his envoys, due to the COVID-19 pandemic.

Analysis:

Tensions between Angolan authorities and the UN arose following Guterres’ 23 March appeal for a global ceasefire. On 30 April Guterres listed the 16 armed groups that had responded to his call, including FLEC in Cabinda. This story has only now been picked up by mainstream Angolan media and social media sources, and is being touted as the first official ‘recognition’ of FLEC by the UN for over forty years. This comes at a time of increased tensions between the Angolan Armed Forces (FAA) and FLEC, following a series of deadly clashes that began on 4 June, which have included alleged FAA incursions into DRC territory. The Angolan government remains highly sensitive to the issue of separatism in the oil-rich Cabinda exclave, and the amplification of this comment by Guterres is likely to lead to bureaucratic difficulties for UN agencies working in Angola (and NGOs associated with them), such as the UNHCR in Lunda Norte, which deals with displaced Congolese refugees.