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| Understanding Angola and making the Angolan market work for Rohlig

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This is a handout containing content that is used to stimulate discussion during workshops and similar events on Angola – nothing more and nothing less – interested parties are advised to consult Angola-specific legal, financial, tax, audit, advisory professionals for definitive opinions on the subjects highlighted in this handout.

The choice of content is the responsibility of the author alone.

- 1 Bilateral relationship with South Africa now experiencing a renaissance – increased intensity of high level bilateral political visits – parastatal cooperation – new wave of business interest.
- 2 Need for immediate bilateral implementation of SADC freedom of movement agreement – abolition of visas for business visits, avoidance of double taxation agreement, bilateral economic cooperation agreement including a mutual commitment to good and transparent governance especially in business, more credit lines supported by DTI / ECIC. Awaiting details on an easing of the visa requirements that was delivered during the August 2009 Zuma visit! Important – in the meantime chamber members wishing to do so should obtain invitations from Angola making it clear that the visa applied for is for multiple entries within 6 months, the forms that are filled in and presented to Angolan consular offices should also make this clear and no repeat no arrangements for visits to Angola should be confirmed until the visa is in hand.
- 3 Why do some win and some lose in the investment / trading stakes? Those that win have the following:
 - a. An Investing Board that includes the “necessary ‘ultra-difficult market directorship’ expertise” (a la KING 111).
 - b. The Angola JV Administrative Council (Board) also has the “necessary independent, non-executive directorship expertise” on board – especially if the intention may be eventually to list on the Angolan Stock Exchange and or other similar marketplaces.
 - c. An ultra-level strategy in place to bridge the profound, cross-cultural business diversity gap (= comparatively ultra high degree of difficulty of doing business) between home and Angola – throughout the home and local leadership teams.
 - d. The ultra-level market entry / exit strategy handed down by the Board must define its market competency and:
 - i. Ensure that the company is ultra-informed.
 1. Without the ‘necessary expertise’ (suitably skilled and experienced) the company will almost certainly not know when it’s market specific intellectual capital is without sound foundation and is essentially uninformed – the resulting erroneous assumptions may have profound implications for the effectiveness of your market entry / exit strategy – foresight is better than hindsight.
 - ii. Provide for the exercise of ultra-level due diligence.
 1. Without the ‘necessary expertise’ the company will almost certainly not know when it is ignorant / misinformed – apply best ultra-dd practice i.e. mutual full disclosure – otherwise one may be letting oneself in for some costly and unpleasant surprises.
 - iii. Ensure the application of ultra-level due care.
 1. Without the ‘necessary expertise’ the company will almost certainly not know, until it is too late, that the care regime is neither ultra nor due – the Country Manager or local partner may be running amok and you won’t know it.
 2. Know and apply the Angolan business access protocols but do not let them coerce you into partnerships that may offer no business

- advantage. Recognise and avoid offered protocols that may not driven by sound business principles.
3. Say NO to arguments about “political costs”, bribery / threats / coercion / extortion and report such behaviours to the Chamber (SA Corruption Act of 2004).
 4. Be informed on the criminal and civil implications of the business judgement rule contained at article 71 of the new South African Companies Act of 2008 (effective mid-2010) iro dereliction of duty and negligence on the parts of Directors.
- e. Enter the market sustainably and in good faith.
- 4 Seven years after peace came to Angola in 2002, after several decades - for backgrounder see - <http://www.state.gov/r/pa/ei/bgn/6619.htm>.
- 5 Successful, free (but perhaps not entirely fair), multiparty elections held in September 2008 and expected every 4 years thereafter (next one in 2012) (civil war lasted from 1961 to 2002). Outcomes:
- f. Democratically elected MPLA is the dominant party with 80% + of the votes
 - g. A shallow democracy as a consequence of an ultra-small opposition.
 - h. A closed democracy – characterised by secrecy and limitations on freedom of expression.
- 6 Depending on the outcome of the work of the constitutional commission the Presidential election may, only may, take place during 2010 – follow developments at <http://www.comissaoconstitucional.ao/> .
- 7 Angola - surface area 1 246 700 km² surface area (South Africa 1 214 470 km²) – located in tropical Africa.
- 8 Population ≈ 17 to 18 million (a best estimate after the registration of voters process ended in early 2008 – preparation for first full scale national census since 1961 to be funded in 2010 budget).
- 9 Population mainly concentrated:
- i. Around growth nodes located mainly on the Western littoral (Greater Luanda / Lubango / Benguela Lobito / Cabinda), on the planalto (Greater Huambo / Kuito and Malanje), in some of the other 12 provincial capitals and
 - j. Along active economic corridors (as opposed to the notional, regional SDI’s and the sub-regional North – South corridor project).
 - k. Ports:
 - i. Primary = Luanda (multiple facilities) / Lobito / Namibe
 - ii. Secondary = Cabinda / Soyo / Porto Amboim
 - iii. Future = Dande
 - l. Big new international airport under construction beyond Viana, outside Luanda.
 - m. 2030 Provision for massive urban expansion of Greater Luanda northwards along the Luanda / Dande / Caxito (Sassa Bengo) corridor.
- 10 Angola (OPEC’s latest member and OPEC Chair for 2009) is presently Africa’s biggest oil exporter (inter alia due to the ongoing troubles in the two African oil producing nations with bigger reserves i.e. Niger delta in Nigeria and Libya’s weak E&P governance) - about 2 million bpd – OPEC-related commitment to reduce to 1600000 bpd – negotiating an easing of this obligation with OPEC.
- 11 AngolaLNG refinery at Soyo at the mouth of the Congo River, now under construction (Bechtel), aims to convert gas from offshore oilfields that would otherwise be flared into about 5 million tonnes of LNG per annum – cost of refinery about US \$ 8 billion – market USA. Visit the AngolaLNG website at <http://www.angolalng.com/project/default.htm>
- 12 SONAREF oil refinery at the Port of Lobito - design and construction licensing of contractors awarded to KBR early in November 2008 – project estimated to be worth US \$ 6.4 billion to produce 200000 barrels of petroleum products per day. Visit the SONAREF website via **Home > Areas of Activity > Downstream > SONAREF**
- 13 Bolsa de Valores e Derivativos de Angola (BVDA) (Angolan Stock Exchange) to be launched during 2009 / 2010 – follow developments at <http://www.bvda.co.ao/MainForm.aspx> . See also the capital markets regulatory authority website at <http://www.cmc.gv.ao/> .
- 14 GDP Growth IMF estimate was 26.6% for 2008 (due to weak oil and diamond prices and

- international financial crisis GDP is now declining – World Bank GDP expectation is 0% for Angola for 2009)
- 15 Consumer inflation August 2009 = 13.9% y/y and easing
- 16 Exchange rate US \$ 1.00 ≈ Kwanza round 85
- 17 Prime lending rate 15.82%
- 18 Money supply M2 about 30%
- 19 Foreign reserves now around US \$ 12 billion (notionally covering about 12 months of imports) but weakening – banks now having increasing trouble obtaining USD to pay client creditors – only 10% of USD demand being met by the BNA.
- 20 Angola has paid off its Club of Paris debt with the exception of a nominal, interest-related amount.
- 21 Financial services – banking and insurance – becoming world class – although only less than 8% to 10% of Angola’s families are banked, the financial services now function at a level sufficient to support Angola’s national and foreign trade and investment – unfortunately unpredictably at times.
- 22 Civil Law = e.g. presumption of guilt (in contrast to e.g. South Africa Roman-Dutch Law = presumption of innocence) – implication - be driven rather driving yourself – driving himself cost a South African national’s employer a lot in compensation.
- 23 Ranking in various international economic and governance indices still far too low but showing small signs of improvement. Best ranking performance is 9th in the percentage of female MPs in parliament index. Just overtaken by South Africa.
- 24 Market becoming freer / more competition being encouraged.
- 25 Good and transparent governance – a stated aspiration of the Angolan people - a way to go however – monitor Angola’s governance status at <http://info.worldbank.org/governance/wgi/index.asp> !
- 26 After government, the oil and gas parastatal Sonangol is the biggest internal investor into the Angolan non-oil and gas economy
- 27 Government budget expenditure / income
- n. 2008 ≈ US \$ 34 billion @ US \$ 55/barrel = 70% of national revenue. Note - some ministries return up to 40% of annual budget allocation that goes unspent due to lack of capacity to deliver.
 - o. 2009 ≈ US \$ 42 billion @ US \$ 55/barrel (now adjusted down to US \$ 37/barrel = US \$ 37 billion).
 - p. Plans to sell USD 9 billion worth of Treasury Bonds during 2009 to finance development now approved by parliament.
 - q. BNA recently spent around USD 5 billion to shore up the USD / KZ exchange rate – banks now obliged to maintain 30% in reserves (as opposed to the previous 15% to 20%) to achieve the same outcome – but making payments for imports unpredictable / uncertain and LOCs difficult to impossible. This is being addressed by the GRA – see http://www.angolanainternet.ao/portalempresas/index.php?option=com_content&task=view&id=1364&Itemid=71 – the expectation is that the situation may normalize by the turn of the year 2009 / 2010. Late in September 2009 Angola did agree on relief measures with the IMF and the initial indications are that the official KZ / UDS exchange rate may be stabilizing at around KZ 85 to 1 USD – the parallel rate may remain at around KZ 97 / 1 USD for a while.
- 28 Economic diversification especially in the industrial / manufacturing sector
- r. Special Economic Zones
 - s. Free market – objective; but more likely for the foreseeable future to be a mixed economy with the GRA playing a very substantial role.
 - t. Competitiveness
 - u. Good and transparent governance – commitment is there; implementation is proving another matter.
 - v. Massive housing project with import duty exemption for imported materials.
 - w. Massive low-end retail project - Presild’s Nosso Super network, the new building materials supply initiative and associated CLOD logistics network.
 - x. Financial services

- 29 Agriculture as an example:
- y. GRA / MPLA high priority agriculture and forestry policies and actions for 2009 – 2012:
 - z. High potential arable land = at least 7 million, well watered, high potential hectares (cf South Africa = about 3 million, unreliably watered, high potential hectares).
 - aa. Commercial farming activities expanding fast especially in association with new and rehabilitated irrigation projects.
 - bb. High potential arable land is generally nutrient depleted and may require inputs to correct the nutrient status.
 - cc. Public and private distribution of fertilizer services expanding fast.
 - dd. Bio-diesel enabling legislation to be approved shortly.
 - ee. Hunger / food aid / agricultural development circumstances are unlike those in other African countries. For a start Angola is a lower, middle income economy rather than a low income economy and, according to the UN agencies operating there, it is now in a development phase rather than an aid phase. Angola is still in the UNDP HDI low human development category – see detail at http://hdrstats.undp.org/en/countries/data_sheets/cty_ds_AGO.html .
- 30 Visit ANIP at <http://investinangola.com/engDefault.asp> for more detail on the investment process and visit the Guiche Unico at <http://gue.minjus-ao.com/> for detail on the incorporation process.
- 31 A new Mining Code may soon emerge from Parliament – follow the work of the Comissão Técnica Revisão da Legislação Mineira at http://angolanainternet.ao/com_mineira/ .
- 32 Uranium will be treated as a special case in a similar fashion to the oil / gas and diamonds resources.
- 33 Diamonds have in the past generated some US \$ 10 billion in revenue pa. GRA / Sodiam / Ascorp are acting to stabilise the local rough diamond prices. Only 10 out of 16 commercial diamond miners left in the diamond fields – the other 6 have either abandoned their investments due to the depressed diamond market or placed them under care and maintenance. If rough diamond prices reach a critical level diamond mining investment may resume – there are signals that this may be happening now.
- 34 Sales of cut and polished diamonds remains difficult.
- 35 New constitution soon – of some substance perhaps – maybe leading to a Third Angolan Republic?
- 36 Trade and investment opportunities still there? Yes!
- 37 Still there and making their respective impacts:
- ff. The red, lateritic dust that penetrates into every nook and cranny, especially of your electronics.
 - gg. The termites that voraciously consume any untreated or poorly treated wood products.
 - hh. The seasonal, torrential, tropical downpours that cause sporadic and, at times, very costly economic disruption.
 - ii. Business opportunities that can be transformed into deals / projects.
 - i. Infrastructure:
 - 1. AngolaLNG / SONAREF Lobito / Westcor / Cambambe upgrade / distribution of electricity.
 - 2. Railways – standard (commercial) and narrow gauge (tourism).
 - 3. Roads / bridges
 - 4. Railways
 - 5. Ports
 - 6. Airports / landing strips
 - 7. IT / fibre optic cable
 - ii. Energy
 - iii. Wholesale / retail
 - iv. Tourism / hotels / resorts
 - v. Construction and allied urban re-development and expansion – million homes project
 - vi. Agriculture and agri-business
 - vii. Manufacturing and Industrial development based on technology and

- expertise transfer.
- viii. Fishing
 - ix. Banking
 - x. Other
- jj. The diseases (including rabies, malaria <http://www.medicalnewstoday.com/articles/155449.php>, bilharzia, HIV/AIDS, tuberculosis, sleeping sickness, cholera and poliomyelitis) and parasites (including hookworm, flatworm and tapeworm) of Africa's tropics continue to impact negatively on the performance of the national and foreign investor human capital base – see <http://wwwn.cdc.gov/travel/destinations/angola.aspx>. See this link for travel health, medevac and related solutions http://www.internationalsos.co.za/development/product_travel_membership.asp “Infant and maternal mortality rates too high; Too few health workers; Too few doctors”.
 - kk. The killer fresh water fin-fish disease (Epizootic Ulcerative Syndrome or EUS <http://www.reliefweb.int/rw/rwb.nsf/db900SID/PSLG-7U6GSU?OpenDocument>) that is decimating fish stocks in the Zambesi River basin. Up to 50 fin-fish species at threat.
 - ll. The fruit-bats (macaquinhos “do fruto” or *Eidolon helvum* or Straw-coloured fruit bat; Hammer-headed bat *Hypsignathus monstrosus* and others) considered a delicacy by some, especially in the North or plain protein for others and eaten with relish from time to time by those that are either unaware or simply ignore the fact that these mammals may be a vector for haemorrhagic fever viruses such as those causing Marburg and Ebola <http://www.nature.com/nature/journal/v438/n7068/full/438575a.html>; <http://web.scidev.net/en/health/neglected-diseases/news/fruit-bats-blamed-for-ebola-outbreaks.html>; <http://www.scidev.net/en/news/scientists-find-more-signs-of-bats-role-in-ebola-.html>.
 - mm. The locals that assert that there is an Angolan kangaroo species to be found on the planalto – the small mammal in question is actually a species of lebrão (m.) lebre (f.) i.e. the *Pedetes capensis* or Springhare or Springhaas (not to be confused with a lebré which is a mastiff dog).
 - nn. The MEDEVAC insurers that are now insisting on evidence that expat subscribers are actually taking malaria prophylaxis – failure to do so can have serious insurance financial consequences in the event of an evacuation for cerebral malaria.
 - oo. The business travellers that contract malaria in “airport lounges” far removed from tropical Africa due, inter alia, the warmer temperatures brought about by climate change and the migration of mosquitoes by aircraft.
 - pp. The road accidents which, in Angola, remain as severe a threat to one's physical well-being as they are anywhere else on the African continent.
 - qq. New Road Code effective since 1 April 2009.
 - rr. Swine flu control measures.
 - ss. The Portuguese / Brazilians / Spanish / Germans / US / French / Brits / Irish / Canadians / Israelis / Lebanese / Kenyans / Australians / Italians / Swiss / Namibians / Scandinavians (Norway; Denmark; Sweden; Finland) / Chinese / Russia / CIS States / Former Eastern Europeans / Koreans / Cubans / Japanese / Indians / Malaysians / Filipinos / Zambians / Zimbabweans / etc
 - tt. The law firms and consultants that might provide comprehensive, sound and impartial professional advice to foreign investors and traders – always test the performance of your advogado against the code of conduct of the Ordem dos Advogados (Law Society) www.oaang.org . Remember that only Angolan citizens may practice law in Angola. Test all legal intermediaries, South African and Angolan, against the same code of conduct. Be aware that in the event of an ill-considered JV meltdown your Angolan legal firm of choice will almost certainly decline to take on your partner of influence (elite or bank) in the courts.
 - uu. Interacting with law firms via intermediaries can make expensive services more expensive.
 - vv. Victims of civil or criminal acts that immediately denounce their understanding of the questionable circumstances of the act or acts to the local magistrado (public prosecutor).

- ww. The rumour-mongers
 - xx. The dodgy agents / middle-persons / influence-peddlers.
 - yy. Payment dodgers – send nothing to Angola without secure payment arrangements in place - insist on 50% with order and 50% at warehouse / factory gate. Beware the final payment avoidance syndrome.
 - zz. The changing of the goal-posts after the deal is sealed.
 - aaa. The filho / filha factors.
 - bbb. The fear factor.
- 38 Bridge the cross-cultural business diversity gap, inter alia, by looking for strategic business partnerships not only with locals but also within the successful foreign business community – base this search on the non-negotiables of verifiable, in-country track records, mutual full disclosure, legal compliance and uncompromising commitment to the principles of good governance. Beware of doing business with Angolan companies that chose to incorporate “anonymously” (Sociedade Anónima or SA) and in so doing fail to display transparency / apply full disclosure / disclose the names of all shareholders. By doing so in a weak governance environment such as Angola’s you may betray your obligations to the principles and codes of good governance. Also beware the extraterritoriality of external legislative regimes that could send you to jail for contravention of the bribery and corruption clauses in or in respect of Angola.

“Making the Angolan market work” - summary

- 1 Market Profile
 - a. Politically stable and functional democracy since peace in 2002 – confirmed in September 2008 – presidential election 2010? – next general election 2012 - a new constitution on the way to usher in a “third Republic” – monitor the development of the new constitution at <http://www.comissaoconstitucional.ao/>
 - b. Macro-economically stable since 2003 – easing now / Club of Paris debt mostly settled / foreign reserves = USD 12 billion – macro-economic stability possibly under short term / temporary threat.
 - c. MPLA / GRA development commitments for 2009 – 2012 = physical and technological infrastructure development and maintenance = a top priority
 - d. MPLA / GRA clear and unequivocal commitment to good and transparent governance / Tribunal de Contas
 - e. A lower middle income, developing, Gulf of Guinea / West African / SADC state / GDP 2008 above 15% - due to the financial crisis expected to drop into single digits during 2009 – World Bank suggests GDP at 0% for 2009 – the GRA expects a GDP recovery to around 6% in 2010.
 - f. National budget 2008 USD 34 billion; 2009 USD 42 billion @ USD 55 / barrel (now adjusted down to reference oil price of USD 37 / barrel)= 70% of revenue from oil / gas / diamonds – effect of oil price drop? Exchange rate \approx Kz = 77/78 and easing = 1 USD / Inflation = 13.9%
 - g. Security = generally safe and secure
 - h. GRA leadership now “shaking the institutional performance and delivery trees” – e.g. TAAG / ANIP / Transport ministry / other institutes / BNA
- 2 Market Opportunities
 - a. National / provincial / municipality / private sector / public private partnerships
 - b. All sectors of the economy
- 3 Market Challenges
 - a. Assuring your in-market corporate governance / company performance
 - b. Doing business 2009 <http://www.doingbusiness.org/economyrankings/> ranks Angola as 168 out of 181 = ultra high degree of business environment and corporate governance difficulty – TI corruption perceptions index as well at http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table .
 - c. Bureaucracy / weak institutional capacity / weak organisational capacity – incapacity to spend budgetary provisions sometimes means that up to 40% is returned to fiscus

- d. Congestion – Greater Luanda / ports / roads
 - e. Weak governance environment / bribery and corruption
 - f. Cronyism / patronage
 - g. Most expensive place in the world for expats to do business <http://www.eca-international.com/showpressrelease.aspx?ArticleID=6941>
- 4 Solutions / Market entry strategy
- a. Assurance actions required – exercise good corporate governance / communication → branding / image-building / establishment and maintenance of relationships / always engage in organised private-public dialogue through membership of e.g. the SA-ACC or US-Angola Chamber.
 - b. At home appoint to your Board a non-executive director with the necessary (King 111) market-specific governance and business environment experience, knowledge and skills (perhaps designated “Special Representative of the Board to Angola”) to enhance your relationships and market-specific compliance with provisions of Codes such as the UK Combined Code or US Sarbanes-Oxley or RSA King 111 Code, laws and regulations (including the new RSA Companies Act and the extraterritorial ones), etc.
 - In Angola appoint an independent, non-executive director / Chairman with the necessary (King 111) Angola-specific experience, knowledge and skills to the JV Board to assure good company direction and good governance.
 - c. Access the Angolan market safely and affordably:
 - a. Be extremely well informed.
 - b. Exercise thorough due diligence.
 - c. Apply extreme care.
 - d. Enter the market in good faith.
 - d. Resolve disputes through informal / formal discussion with partner / mediation / arbitration – litigation can destroy both budget and business relationship.
 - e. Ensure the sustainability of your business by taking a diachronic (long term) as opposed to a synoptic (short term) view of the Angolan business environment.
 - f. Always remember that the other Angola-specific foreign investors and or traders in Angola are all stakeholders in the success and or failure of your investment in and or trading venture with Angola and their interests simply must be discounted as much as your own in all the strategies handed down by your Board.
 - g. Angola is the most expensive place in the world for expats doing business.
 - h. Angola is an ultra-difficult market in which to conduct business.
 - i. Angola still occupies an unenviable position in the CPI index.
 - j. The Angolan market offers great promise to the diligent and careful investor or trader.
 - k. Always have an exit strategy and always share it with your Angolan partner from the outset. Monitor the criteria for exit, jointly and frequently.

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South Africa – Angola Chamber of Commerce – seven years of members doing better business and mitigating their compliance risk by applying this code of conduct in trade with, and investment in, Angola.

Article 1: Extortion and coercion

No one may, directly or indirectly, demand or accept a bribe.

Article 2: Bribery and "Kickbacks"

- a.) No Member may, directly or indirectly, offer or give a bribe and any demands for such a bribe must be rejected.
- b.) Members should not (i) kick back any portion of a contract payment to employees of the other contracting party, or (ii) utilize other techniques, such as subcontracts, purchase orders or consulting agreements, to channel payments to government officials, to employees of the other contracting party, their relatives or business associates.

Article 3: Agents

Members should take measures reasonably within their power to ensure:

- a) that any payment made to any agent represents no more than an appropriate remuneration for legitimate services rendered by such agent;
- b) that no part of any such payment is passed on by the agent as a bribe or otherwise in contravention of these Rules of Conduct; and
- c) that they maintain a record of the names and terms of employment of all agents who are retained by them in connection with transactions with public bodies or State enterprises. This record should be available for inspection by auditors and, upon specific request, by appropriate, duly authorized governmental authorities under conditions of confidentiality.

Article 4: Financial Recording and Auditing

- a) All financial transactions must be properly and fairly recorded in appropriate books of account available for inspection by boards of directors, if applicable, or a corresponding body, as well as auditors.
- b) There must be no "off the books" or secret accounts, nor may any documents be issued which do not properly and fairly record the transactions to which they relate.
- c) Members should take all necessary measures to establish independent systems of auditing in order to bring to light any transactions which contravene the present Rules of Conduct. Appropriate corrective action must then be taken.

Article 5: Responsibilities of Members

The board of directors or other body with ultimate responsibility for the member should:

- a) take reasonable steps, including the establishment and maintenance of proper systems of control aimed at preventing any payments being made by or on behalf of the member which contravene these Rules of Conduct;
- b) periodically review compliance with these Rules of Conduct and establish procedures for obtaining appropriate reports for the purposes of such review; and
- c) take appropriate action against any director or employee contravening these Rules of Conduct.

Article 6: Political Contributions

Contributions to political parties or committees or to individual politicians may only be made in accordance with the applicable law, and all requirements for public disclosure of such contributions shall be fully complied with. All such contributions must be reported to senior corporate management.

Article 7: Company Codes

These Rules of Conduct being of a general nature, members should, where appropriate, draw up their own codes consistent with the ICC Rules and apply them to the particular circumstances in which their business is carried out. Such codes may usefully include examples and should enjoin employees or agents who find themselves subjected to any form of extortion or bribery immediately to report the same to senior corporate management. Members should develop clear policies, guidelines, and training programmes for implementing and enforcing the provisions of their codes.

With acknowledgement to the ICC <http://www.iccwbo.org/>

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