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Angola Country Report

For the SADC-DFRC 3P



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1 Overall evaluation of Angola's readiness for PPPs

1.1 Background

We evaluated the Member Country by looking at 6 broad categories, containing a number of sub-categories. The six ('6') broad categories include:

- Attractiveness of the member countries
- Availability of domestic capital and debt funding
- Judicial system
- Governance and decision making
- Ease of doing business in the member country
- PPP environment in the member country

The information and indicators were obtained from external sources like World Bank, World Economic Forum, IFC, Ibrahim Index of African Governance, KPMG country reports and actual visits to the member countries (with exception to three ('3') countries, namely , Democratic Republic of Congo, Swaziland and Seychelles). Where possible, KPMG utilised its in-country office to address the categories and answer questions surrounding the projects.

The information included in this report is based on our insight of the local market, desktop research and feedback obtained from our KPMG office in Luanda.

Each sub-category was rated either one ('1'), two ('2'), three ('3') or four ('4') based on the indicators from various reputable sources. Where one ('1') and two ('2') refers to "Developing towards PPP readiness" and three ('3') and four ('4') indicates a "Maturing level of PPP readiness". Where no information was available, no value was given. Where there was an element of subjectivity, KPMG, based on years of experience, applied its own mind in coming up with a value. The overall broad category value is addressed in more detail below.

1.2 Attractiveness of Angola

Attractiveness of the member country	Source of information	Findings
GDP % growth for last 3 years	World Bank data used for 2011	3.90%
Actual GDP in numbers (size of economy), current USD\$	World Bank data used for 2011	104 331 613 337
Lending Interest rates	World Bank data used for 2011	18.8
Inflation rate	www.tradingeconomics.com/country-list/inflation-rate	9.00%
Credit Rating	Country Visit	BB-
Political Stable and Absence of Violence (rating of 0 to 100)	Country Visit	35.8

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Macro-Economic Environment (score 1 to 7)	Country Visit	4.2
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Attractiveness of Angola, overall result is a two ('2')

With a GDP of USD104,331 million, Angola has the second largest economy in the SADC region and has sustained an average growth of close to 4% per annum over the last three years. Its credit rating of Ba3 by Moody's is sub-investment grade but the positive watch is indicative of a country emerging from high political instability and violence as a result of the decades-long civil war. Some USD9billion of public funds was budgeted in 2012 for the development of public infrastructure, making Angola one of the countries allocating around 10% of GDP to infrastructure. This analysis results in an overall value of two ('2'), Angola is thus considered "developing" in terms of this category.

1.3 Availability of domestic capital and debt funding

Availability of domestic capital and debt funding	Source of information	Findings
Number of banks	Country Visit	23
Number of equity investment funds	Country Visit	0
Number of pension funds	Country Visit	0
3 year history of bond issuance	Country Visit	In 2012 Angola sold \$1 billion (R9.54bn) of bonds at a yield of 7 percent, according to data compiled by Bloomberg. The bonds mature in 2019.
Assessment of available capital (local) for investment	Country Visit	Local private equity is abundant but difficult to measure. Local commercial banks have a total amount of roughly USD 14 billion of credit in their assets, according with KPMG Analysis of the Angolan Banking Sector in 2011, of which is not clear the distribution between corporate and private financing. Public Investment Programme amounted to USD. The Public Investment Programme amounted to USD 8 billion in 2011, USD 9 billion in 2012, of which a substantial part is allocated to the development of infrastructures.

Availability of domestic capital and debt funding in Angola, overall result is a two ('2')

Angola is developing a private banking sector and has 23 banks with approximately USD14billion of credit in their assets. There is not a strong capital market yet and it is dominated by the first government bond issuance of USD1billion in 2012. Local private equity is abundant but is not concentrated in large institutions or funds as the equity sources remain fragmented and difficult to measure. This analysis results in an overall value of two ('2'), Angola is thus considered "developing" in terms of this category.

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1.4 Judicial system

Judicial system that contributes to effective commercial dispute resolution	Source of information	Findings
Enforcing Contracts (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	183
Rule of Law (rating of 0 to 100)	Governance indicator, World bank, 2011 data	10.3

We used the key indicator ‘Enforcing Contracts’ from Doing Business as they focuses on how public institutions function in the case of a commercial dispute¹. Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit.

Judicial system of Angola, overall result is a one (‘1’)

Angola scores poorly in the enforceability of contracts, ranking 183rd out of 185 countries in the Word Bank and IFC ratings. The Rule of Law rating is similarly poor with a score of 10.3 out of 100. This analysis results in an overall value of one (‘1’), Angola is thus considered “developing” in terms of this category.

1.5 Governance and decision making

Governance and decision making in member country	Source of information	Findings
Institutions (score 1 to 7)	The Global Competitiveness Report 2012-2013, World Economic Forum (score 1 to 7, with 7 being the best)	2.9
Africa’s Governance (score out of 100)	Ibrahim Index of African Governance (score out of 100)	44
Voice and accountability (rating of 0 to 100)	Governance indicator, World bank, 2011 data	14.6
Government effectiveness (rating of 0 to 100)	Governance indicator, World bank, 2011 data	11.4
Regulatory Quality (rating of 0 to 100)	Governance indicator, World bank, 2011 data	12.3
Control of Corruption (rating of 0 to 100)	Governance indicator, World bank, 2011 data	3.8

Governance and decision making of Angola, overall result is a one (‘1’)

Angola also fares poorly in the governance ratings. The Ibrahim Index of African Governance has Angola scoring 44 out of 100 and Governance Effectiveness is also rated by the World Bank at 11.4 out of 100. As an indicator for decision making the Regulatory Quality is a poor 12.3 out of 100 according to the World

¹ Doing Business 2013, the World Bank and IFC

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Bank. This analysis results in an overall value of one ('1'), Angola is thus considered “developing” in terms of this category.

1.6 Ease of doing business in the member country

Ease of doing business in the member country	Source of information	Findings
Starting a business (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	171
Dealing with Construction permits (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	124
Getting electricity (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	113
Register property (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	131
Getting credit (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	129
Protecting investors (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	70
Paying taxes (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	154
Trading across borders (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	164
Resolving insolvency (country ranking from 1 to 185)	Doing Business 2013 – The World Bank and IFC (ranking 1 to 185)	162

Ease of doing business in Angola, overall score is a one ('1')

Angola has improved its ranking in the Doing Business 2013 World Bank and IFC Survey to 70th but remains in the bottom quartile in the rankings for Starting a Business, Trading across Borders, Getting Credit and Dealing with Construction Permits. This analysis results in an overall value of one ('1'), Angola is thus considered “developing” in terms of this category.

1.7 PPP environment in the member country

Enabling environment in the member country for PPPs	Source of information	Findings
Legal system enabling PPPs in the member country	Country Visit	

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<p>- Is there a presence/development of enabling legislation i.e. PPP Law/ regulations etc?</p>	<p>Country Visit</p>	<p>On 14 March Law No. 2/2011 on public-private partnerships (“PPP Law”) came into force in Angola. The goal of this law is to define general rules applicable to the intervention of the State in the determination, conception, preparation, tender process, adjudication, alteration, supervision and overall operation of public-private partnerships.</p> <p>This general framework still needs to be complemented with the necessary regulations. Provision was made for this to happen within 60 days of the publication of the PPP Law and this would have allowed all aspects to be more precisely defined by the time the PPP Law came into force. However, more than two years after the publication of the law, those regulations have not yet been published.</p>
<p>- Does a policy for private participation in the member country exist?</p>	<p>Country Visit</p>	<p>Private participation is often referred by the Executive as one of the main drivers for growth; specifically FDI has been growing at a stable pace of which a substantial part is channelled to develop the scarce infrastructures in the country. Nevertheless to do business in Angola continues to present substantial challenges to the private sector (172th out of 190 countries on Ease of doing business World Bank Index and 157th out of 176 countries on Transparency International’s 2012 Corruption Perceptions Index).</p> <p>A private investment Law is in place and private non-Angolans companies have to pass their investment through the Private Investment National Agency (ANIP) in order to benefit from this law. ANIP is the government body responsible for carrying out national policy on private investment, its promotion, coordination, and supervision. According with this agency, Angola is the seventh African country with major private investments and the 25th in amount of investments out of a total of 208 nations of the world</p>

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<p>- Public Sector appetite/capacity and experience relating to PPPs in the member country</p>	<p>Country Visit</p>	<p>The lack of the regulation (more than two years have passed since the PPP Law was published) indicate that currently the public sector is not as motivated, as it was in the past, to implement a PPP framework. Recently the Economy Minister, Mr. Abrão Gourgel, stated to Bloomberg that the intention is to "move slowly" in implementing new rules. He further stated that several names of the Executive have shown some scepticism in achieving these agreements between the state and private companies. The Angolan officials cite the disappointing results that PPPs reached in Portugal and the UK, giving the example of the renegotiating processes of several PPP in the Portuguese roads sector in order to reduce public costs in the future.</p> <p>Nevertheless the Angolan Government has announced 30 privatizations in the near future signalling its willingness to open public companies to private sector capital. "The new strategy is to sell companies that are not essential, reduce their costs and the amount of state subsidies," said Gourgel in the referred interview to Bloomberg last May.</p>
<p>Is there Political support for PPPs?</p>	<p>Country Visit</p>	
<p>- Is there a PPP focal point/ Unit in the member country?</p>	<p>Country Visit</p>	<p>The Economy Ministry defined, through an executive decree, published in January 2012, the organization and functioning of the PPP Technical Support Cabinet. Its mission is to technically support the Economy Minister with the supervision in the development of PPP, in cooperation with the sector focused Ministerial departments and Direct Executive Administration bodies.</p> <p>The Unit was already structured before the implementation of this legislative action. Its head, Eng. Mário Pires, was appointed as Secretary of State for Public Investment, within the Ministry of Planning. So far we have failed to see a clear successor.</p>

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- Does an existing PPP track record in the member country exist?	Country Visit	<p>PPP is often used in broad terms to define a relationship in which public and private sectors are both present. The concession model has been also used in the ports and energy sectors. Nevertheless as far as we are aware there is not a proper PPP in place. The few efforts have failed due to the lack of a proper framework and lack of confidence from the private sector in this type of long term partnership schemes.</p> <p>According to the Executive there is a 10% target in 2017 of the Public Investment Programme to be finance via PPP. In 2011 PIP amounted to USD 8 billion, in 2017 this is estimated to grow to USD 18.5 billion.</p>
Private sector capacity, capability and appetite	Country Visit	
- Are multiple firms active in the PPP market?	Country Visit	<p>Typical private agents of a PPP market are well represented in Angola, namely construction / EPC companies, engineering companies, law firms and consultancy firms. Most of those have relevant experience in the PPP model gained internationally (Portugal, Brazil. etc) and have showed availability to analyse this type of projects. Nevertheless, our frequent interactions with private agents indicate that most still look at the use of the PPP model with degrees of scepticism, mainly due to the lack of regulation and Government capacity.</p>
- Does capacity exist in the private sector?	Country Visit	<p>Most of the referred private agents have been building their capacity with the natural growth they are experiencing in the market. Angola is seen by the Portuguese and Brazilian companies as a gate for Africa resulting in a greater robustness of their operations.</p>

PPP environment in the Angola, overall score is a two ('2')

KPMG, based on years of experience, applied its own mind in coming up with a value.

Although Angola has a law on Public Private Partnerships that was enacted in March 2011, it has to date not enacted the necessary regulations to allow practical implementation of the law. This inactivity indicates scepticism from government leaders as to the need to implement PPPs in the country given its focus on implementing public finance infrastructure allocations more effectively.

There is a form of PPP Unit in the Economy Ministry that was established in 2012. Its mission is to technically support the Economy Minister with the supervision in the development of PPP, in cooperation with the sector focused Ministerial departments and Direct Executive Administration bodies.

A number of concessions in the port and energy sectors have been concluded but these were not done under a formal PPP regulatory environment.

This analysis results in an overall value of two ('2'), Angola is thus considered "developing" in terms of this category.

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1.8 Observations

Our results are based on the most recent verifiable information available at time of the report. Reputable external sources were used where appropriate and fact based observations were made.

Although several attempts have been made, we have not been able to arrange a meeting with the Treasury/PPP Unit team in Angola. This is something we can still consider to do, if required, however it needs to be planned for a later stage of our assignment.

1.9 Conclusion

As for many other countries in Africa, there is a need to develop infrastructure in Angola. This has been appointed as one of the bottlenecks which can hamper growth in the country. The Government is looking of ways to use oil revenues to fund and finance PPP infrastructure projects. One good example of this is the Sovereign Wealth Fund ((FSDEA) created recently. There is also a social pressure to deliver these projects as most of the population have no access to electricity and water and there is lack of public healthcare and education services.

The Government have taken some actions in the last few years; however there is a lot to be done as there is a perception of corruption and lack of transparency in terms of the relation between public and private sectors and amongst Government structures. The unsolicited approach and contract direct awarding have been used quite extensively and not always with the desirable outcomes. An evidence of this is the lack of multilaterals and international DFI's institutions in the country. As the indicators above show, there is also a great room for improvement in terms of the ease of doing business.

It seems the PPP model is not highly considered and definitely not if compared to other African countries. As mentioned previously, the lack of regulation (more than two years have passed since the PPP Law was published and it is still not enforced) indicate Government and public sector in general is not as motivated as it was in the past to implement a PPP framework. Recently the Minister of Economic Affairs, Mr. Abr ao Gourgel, stated to Bloomberg that the intention is to "move slowly" in implementing new rules. He further stated that several names of the Executive have shown some scepticism in achieving these agreements between the State and private companies. The Angolan officials cite also the disappointing results that PPPs reached in Portugal, Spain and the UK, giving the example of the renegotiating processes of several PPP projects in the Portuguese road sector and the Spanish Renewable sector.

Nevertheless the Angolan Government has announced 30 privatizations to occur in the near future signaling its willingness to open public companies to private sector capital. It is widely accepted private sector will be required to improve and enhance the infrastructure capacity in Angola. Given Angola is rich in offshore oil, the need for project financing is not as big as in other countries in Africa and perhaps the model to be used will not necessarily include PPPs.

Overall Angola is thus considered "developing" in terms of this assessment.

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