IJ Insight: Angola- not just a Chinese takeaway

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Search for 'Angola' on the BBC News website and one of the first items that comes up is a story about a railway originally built in the colonial era, first by the Portuguese, then under contract by the British – and now restored by the Chinese.

The 1,344km Benguela railway, stretching from the Atlantic ocean to the Congolese border, was the backbone of the country's export trade when it was completed in 1929. It was wrecked during Angola's ruinous civil war from the 1970s onwards.

When the war ended in 2002, the railway was largely beyond use. But since then, the line has been progressively repaired by China Railway Construction Corporation. A 194km stretch from Lobito on the west coast to Cubal is now open, and the Chinese are extending the line.

It is a familiar story for any industry player seeking to do business in Africa: the Chinese are everywhere. Mozambique, another former Portuguese colony, has a foreign affairs ministry building that has been described as "a slab of concrete topped with a pagoda".

Indeed, for decades China has happily ploughed billions of dollars worth of development funding into infrastructure in Africa, partly to help its firms secure footholds in the continent and partly as 'soft power', winning friends in presidential palaces and spreading its power and influence.

With Chinese contractors backed by Chinese banks and the long arm of the Chinese government happy to do deals with little or nothing in the way of governance rules, investors may decide not to bother with a country like Angola.

But the government has other ideas, and is keen to attract a greater diversity of firms to the country's projects.

As a project finance lawyer working in Angola since 2003, Francisco Amaral can expect to work on some of those deals. Amaral last month joined the major law firm Vieira de Almeida as they followed other Portuguese firms and set up a practice in the country.

"They are now trying to get some private investors," Amaral affirms. "That's the aim for the next few years, to capture some private investors." What is wrong with the Chinese? "I think it's mainly concerning the quality. China has a lot of people working now in Angola, they respond very quickly to that kind of construction that's needed, but the quality is sometimes not so good."

How many deals are there to be done? "Everything is to be done," Amaral says. The government is seeking to invest more in housing, mining, oil and gas including LNG (the country has an estimated 9.5 million barrels of reserves), power supply, hospitals, rail and roads. According to the Planning Ministry, US$1 billion was privately invested in energy supply projects in 2010 and a further US$800 million on 'transforming industry' – likely to increase demand for more infra improvements.

Certainly the country still suffers from a lack of power station capacity, despite that US$1 billion, and the new mining projects need more water supply.

Investment took a hit in 2010 as shockwaves from the financial crisis hit Angola, but “this year we think things are different,” he says hopefully. Local banks’ balance sheets were “not that exposed”.

One particularly eye-opening statistic is for the eventual rehabilitation of no less then 73,000km of road, almost the entire network, of which less than 8,000km is paved. The state announced earlier this year it would invest some US$4.3 million in roads over the next few years. It sounds like a project which in Africa could be parcelled up into countless little jobs for small contractors, but in fact the government appears to trying to leverage private finance.

To this end, a law was published in January (and came into force last week) on public-private partnerships. The law lays down the fundamentals of how a PPP is structured, such as:

- the public partner in the contract may be a state-owned company or agency as well as the national or local government
- the contract must be included in the government’s general plan of PPPs, except under exceptional circumstances
- the project must be better value for money than if it were procured through conventional public procurement – although the law recognises that the private provider must be adequately compensated
- the contract is liable to be rebalanced if financial conditions change, for example if the public sector imposes new conditions
- a special purpose vehicle must be set up
- risk allocation must be clearly identified in the contractual structure

How robust the law is remains to be seen, especially since the accompanying regulations have not yet been published.

“The general principles you find in PPP in Europe are there,” adds Manel Protasio, another VdA partner. “I would expect sophisticated European investors to recognise it.”

Unsurprisingly for a Portuguese-speaking country with a Portuguese-based canon of law, the country has attracted industry players from Portugal and Brazil. Mota Egil and Soares da Costa are engaged in projects, as are banks such as Banco Espirito Santo and Banco Comercial Portugues.

But that has not stopped other investors from taking an interest. Investec, headquartered in South Africa, did a sizeable number of deals in Angola in the first half of the decade, mainly in arranging and advisory roles and mostly in oil and gas. Though its investment banking arm has not worked on a transaction for five years, it intends to return when it eyes the right deal (it has plenty of business to do in South Africa) and its asset management arm remains active in the country. Expect the bank to snap up a telecoms or energy deal.

The PPP law may be just the catalyst. For it is clear that having a legal system at once Portuguese and not European is a disincentive to many investors put off by the unfamiliarity of it all. Currency risk is another factor: according to some bankers, insurance pricing for Angolan deals is going up and insurers are at, or near, capacity.

If these obstacles can be overcome, Western banks can look forward to a healthy pipeline of deals in the next five years. For all their charms, the Chinese are not expected to have all the fun. Who wants some?