

ANGOLA TOO FAST FOR COMFORT

Cars fill the roads and parking lots as ships queue to enter the port of Luanda



The chronic congestion in Luanda is dismissed by some experts as a "small inconvenience", with more and more investors piling in for a piece of the action in this rapidly growing economy

FRANÇOIS MISSE *IN LUANDA*

On some days, the aircraft arriving in Luanda disgorge hundreds of Chinese workers, all wearing the uniforms and hats of the construction firms that have hired them to work on the many construction sites around Angola.

But any impression that this apparent 'invasion' is evidence of China's scramble to control Africa's new oil Eldorado is dismissed as "a major misconception" by Ary Carvalho, a board member of Angola's Agência Nacional para o Investimento Privado (ANIP). "The investment you see is the Angolan government's investment in its own country," he says. "People forget this. It is a credit line, which Angola is paying for on very good terms, for the railways, roads, schools and hospitals."

Carvalho estimates that China's credit lines to Angola total \$4bn. Others put the figure at \$6bn, if funds via the China International Fund are included, even if not all of this has been spent, as evidenced by the delay in construction of the Benguela railway between Lobito and Katanga in the Democratic Republic of Congo.

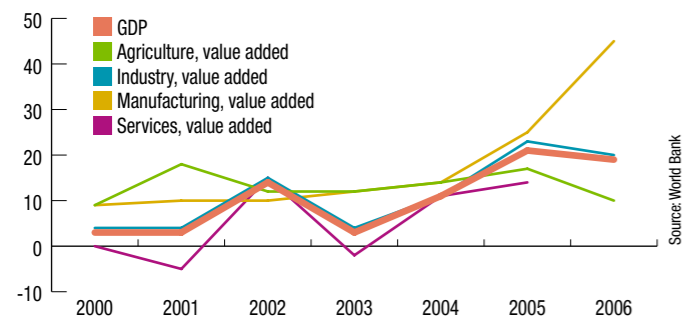
Talk of asset-stripping is certainly misplaced and China's direct share of Angola's oil exploration permits is modest. In 2007, Sinopec had to withdraw from a bid to build a 240,000-barrel per day (b/d) refinery in Lobito because it could not reach agreement with state oil company Sonangol, which wanted a facility that would produce export-quality petrol and diesel for the European and US markets. "Were the project to have been executed by Sinopec, these markets would have been closed to them," explained an oil industry consultant.

EVERYONE'S NEW BEST FRIEND

In any case, investment is also flooding into Angola from Europe and Brazil. By end-2007, Commerzbank and Deutsche Bank had opened credit lines totalling €1.2bn. Those of Brazil's Banco de Desenvolvimento Econômico e Social and Proex have reached a similar amount. Spanish banks have agreed to €600m, and France's Société Générale €300m. Fortis, the Belgian-Dutch bank, allocated \$500m for public-sector investment.

At the same time, the leading source of Angola's imports is not China but Portugal, followed by South Africa, the US, France and Brazil. Carvalho is pleased that newcomers are

Angola non-oil growth graph (annual % growth)



being drawn in. "Now we are diversifying the spectrum of investors," he says. The Portuguese company Mota Engil won the contract to widen Luanda's seafront avenue, the Marginal.

The boom is first and foremost in construction, which accounted for 29.9% of ANIP-approved investment in 2006 (\$794m outside of energy-sector investment and Chinese financing). This puts it ahead of industry (21.8%), hotels and restaurants (12.6%) and mines (10.8%).

IF YOU BUILD IT, THEY WILL COME

Over 5,000km of roads are scheduled for repair in 2008, along with the construction of new ports in Luanda, Lobito, Cabinda and Porto Amboim. Also being built are a refinery in Soyo and an airport in Bom Jesus, financed by China's Exim Bank. Angolans also hope that President José Eduardo Dos Santos can deliver on his recent promise to build a million units of social housing by 2013.

The flip side of the boom is the total congestion of the capital. Outside Luanda's port there is a permanent queue of around 30 cargo ships, often waiting for weeks to unload. Every week another 2,000 new vehicles hit the streets, which are already choked by traffic and blocked

by construction sites. The hotels are saturated. Room reservation a month in advance is essential, despite the opening of five new hotels in 2007, while another ten are still being built.

Because of the housing bubble caused by the influx of foreign companies, added to low agricultural production (even if Angolan fruit and vegetables have returned to the markets), Luanda has dethroned Moscow as the most expensive city in the world in a recent survey. There is even saturation in the telecoms sector, where \$750m has been invested since the end of the war in 2002. The two cellphone operators, Unicef and Movitel, share 5m subscribers in a population of 15-16m. Carvalho describes Luanda's congestion as "a small inconvenience in a big sea of prosperity", and adds, "the world wants Angola to grow faster than we are able to do it."

Some observers predict that the Angolan economy will slow down, while others say it will continue to grow rapidly. After Angola became Africa's largest oil exporter in April, when its output hit 1.9m b/d, the OECD and AfDB's African Economic Outlook forecast a drop in GDP growth, from 20% in 2007 to 11.5% in 2008 and 5.1% in 2009. The main reason cited was falling investment in oil exploration.

The World Bank takes a more upbeat view. Forecasting 25% growth in 2008, and more in 2009, Ricardo Gazel, senior economist with the Bank's delegation in Luanda, says: "Angola's economy will grow faster than in 2007. Last year, Angola's GDP amounted to more than \$50bn, and this year it could reach \$70bn. It is reaching a high level. The economy will grow less, but I am talking about a larger base." His thesis is supported by previous underestimates of the global price of oil and the coming on-stream of liquefied natural gas (LNG) in 2012, following a \$4bn joint investment by Chevron, Total, ENI, BP and Sonangol, which should allow annual LNG production of 5m tonnes a year.

The non-oil sector is also booming. According to predictions from state miner Endiama, 2008's diamond production should hit 10m carats for the first time, reaching 19m carats in 2009. A dozen companies have recently expressed their interest in relaunching the Cassinga and Cassala Kitungo iron mines in Huila Province (with reserves of more than 1bn tonnes) and building a steel mill near Namibe port for an estimated \$3bn.

Huge hydroelectric projects are being planned. Around 18,000 MW of potential electricity is waiting to be tapped



BRUNO STEVENS / COSMOS

in Angola's rivers, especially the Kwanza Queve Cunene and Catumbela. But the authorities still have to await studies comparing the cost of hydro to other forms of electricity. "Angola has also considerable potential to harness its natural gas," explains Euclides Morais de Brito, charged with internal restructuring at the Empresa Nacional de Electricidade.

NOT VERY BENIGN NEGLECT

Agriculture has been neglected for decades because of the civil war and its legacy of landmines. Today the sector is back, with biofuels in the driving seat. The Israeli LR group is developing the Aldeia Nova project in Waku Kongo, Kwanza Sul Province, hoping to produce 173,000 tonnes of sugar cane and 179,000 cubic metres of bioethanol. South Korea's Export Import Bank is financing a relaunch of the cotton industry, also in Kwanza Sul Province.

Agricultural production has immense potential. The cultivation of an estimated 3.5m hectares of arable land could feed 100m people, according to some agronomists. Although access to growing areas has considerably improved thanks to road reconstruction and demining efforts, barriers remain, not least of which is the lack of access to fertilisers, agricultural credit to farmers and irrigation. There are also uncertainties over tenure, as most land is owned directly by the state.

A related problem is the mass migration towards Luanda triggered by the war, with 4-5m people now living in the capital. Because of the rapid urban expansion, it is hard to persuade people to return to the countryside, where returns on investment are much lower.

Another growth sector is services. Arena-Excomm, which employs 150 people and has

organised most of the exhibitions and construction of stands at the International Trade Fair in Luanda since 2002, has seen the number of exhibitions grow from one to 15 per year, says its director, Bruno Albernaz. Success is such that he has had to employ 30 new Brazilian staff.

Angola's foreign exchange reserves may have hit \$15bn in June, but economic growth remains unbalanced and many challenges remain. The most important is the gap between the salaries of the elite and the 70% of Angolans who live below the poverty line. Per capita GDP of more than \$3,400 means that it is already considered a middle-income country, but life expectancy is not even 42 years, and infant mortality is 260 per 1,000 births. These inequalities are regional as well. In 2006, Luanda had a GDP per capita of \$3,476, compared to \$201 for Bié Province.

At a conference held in Paris at the end of May, economist Alves Rocha argued that Angola "has

Small irrigation projects like this one in Kahenge are intended to restore the agricultural sector to its position of importance

GOVERNMENT PRIORITIES HARDLY SEEM TO MATCH THE NEEDS OF A CIVILIAN POPULATION RECOVERING FROM DECADES OF CIVIL WAR

missed the opportunity to use the benefits of economic growth to better the conditions of life for its population, to increase the provision of free health and education services, to organise national pension and social security funds and to set in motion the mechanisms and processes for a more balanced, just and rational distribution of petroleum rents." Since 2004, a bigger part of the national budget has been committed to certain social sectors – 5.3% for health in 2007 compared to 4.8% in 2004, and 13.2% for social security versus 2.7% – but the education budget has fallen from 7.3% to 6.4% in the same period. The Angolan paradox of huge wealth amid widespread poverty seems likely to persist for a long time to come. ●



ENDIAMA

Angola state diamond miner

IT HAS TAKEN state diamond company Endiama no time to emerge from the end of the civil war. From a net loss of \$2.1m in 2001, turnover in 2007 stood at \$1.3bn, and its president Manuel Arnaldo Calado predicts levels of \$5bn in the next decade. Production is set to top 10m carats in 2008, a record output. Endiama runs a network of subsidiaries controlling all aspects of the mining process, plus a few cultural side projects, including Sagrada Esperança, a football team. It has 14 active

diamond production projects and is prospecting at 15 others. Companies run by Angola's military and political elite get first pickings, but Endiama needs the expertise of foreign partners to access fiddly kimberlite pipes found in volcanic rock. BHP Billiton and De Beers have been happy to help. Endiama is eager to bring its spoils to market but must wait until at least 2009 and the long-delayed launch of the Angolan Stock Exchange to list Sodiam, its sales and production arm. ● GEMMA WARE