



THE KING IS (SORT OF) DEAD, Long Live Investment Prospects

In August 2017 Angolans will go to the polls. For the first time in 37 years a change of leadership will take place. Whether this change is cosmetic or a first crack in Angola's entrenched political patronage system is yet to be determined; however, the election offers a genuine possibility for the opposition to gain some political ground.

In this article we analyse the various factors affecting this period of transition, and examine the risks and rewards affecting investment in the country ahead.

The Movimento Popular de Libertação de Angola – Partido do Trabalho (“MPLA”) announced João Lourenço (“Lourenço”) as its presidential candidate in December 2016. Lourenço, or J-Lo as he is popularly known, is the MPLA Minister of Defence and a long-standing ally to serving President José Eduardo dos Santos (“dos Santos”). Bornito de Sousa, the current Minister of Territorial Administration, will be Lourenço's deputy and is regarded by some key commenters as the pending “power behind the throne”.

Dos Santos' decision to anoint Lourenço in place of his eldest son, José Filomeno de Sousa dos Santos (“Zenu”), or his daughter, Isabel dos Santos (“Isabel”), marks the family's separation from the center stage of Angola's politics as well as its deeper connection to the country's institutions. Declining health is purported to be behind dos Santos' step back from power, but Zenu is chairman of Angola's sovereign wealth fund, managing USD 5 billion, and Isabel, often referred to as Africa's richest woman, has headed state oil company Sonangol since June 2016.

As the election approaches, media reports have speculated that Zenu and Isabel will take a step back from their very public roles. Part of the reason for this is a growing backlash against the dos Santos family which could have an adverse impact on Lourenço's campaign. The MPLA and the dos Santos family are seen as synonymous, blurring the lines between Angola's business and political worlds, and their power has not been seriously challenged since 1979. Regardless of whether Zenu and Isabel relinquish their official positions, the family will retain its financial power, with control over multiple assets, through this transition.

In spite of this, for the first time in nearly four decades, there is a genuine possibility for the Angolan opposition to gain some political ground. The National Union for the Total Independence of Angola (“UNITA”) confidently expects to make progress in its traditional areas of support, and the Broad Convergence for the Salvation of Angola – Electoral Coalition (“CASA-CE”) anticipates particular headway from its key demographics: the under 40s, women and intellectuals.

What Does this Mean for Investors?

For investors, this results in a peculiar combination of 'business as usual' and the first step of what could be a gradual opening up of the political space. The latter remains very much a possibility rather than likelihood. It is not yet clear what the Futungo would look like with Lourenco as President, but dos Santos continues to stage manage the transition: the Politburo appointments made at the MPLA's August 2016 party conference, before the announcement of his retirement, were not indicative of substantive change.

However, the recent Banco Espírito Santo ("BES") banking scandal, which exposed a snapshot into the immense wealth amassed by the Angolan elite over the past years, has accelerated a tide that was already turning. Dos Santos' step back from the political frontline is a sign that he appreciates the need for the appearance, at least, of change.

Corruption allegations have intensified in line with the country's fiscal woes. Angola's previously impressive growth rate has been hit by global oil price drops. World Bank figures put GDP growth rate at 0.9% in 2016, a stark comparison to the 22.6% recorded in 2007. Illustrating the knock-on effect of this, commercial property rental prices in Luanda have halved in the past two years.

Angola also hovers just above the bottom of Transparency International's Corruption Perception Index; a number of international companies have come under the scrutiny of the US Department of Justice and the Securities Exchange Commission as a result of their Angolan operations. Its business environment is difficult; infrastructure is poor; and, government investment into services is low.

Risks and Rewards

The below graphic illustrates some of the immediate and long-term risks and rewards that will affect investment in the country from August and beyond.

Leading opposition parties

- **UNITA:** Founded by Jonas Savimbi, has been led by Isaías Samakuva ("Samakuva") since the former's death in 2002. While UNITA is the second largest political party in Angola, Samakuva is thought of as more of an elder statesman than a politician. The party is expected, however, do well in its traditional Umbundu-speaking regions.
- **CASA-CE:** Founded by Abel Chivukuvuku ("Chivukuvuku"), a former stalwart of UNITA, in 2012, CASA-CE is regarded as the party of Angola's liberal elite. Chivukuvuku enjoys strong support in his key demographics and he is described by political sources as a "safe bet" for future president.

	RISKS	REWARDS
Short Term	SECURITY: As the election approaches, social unrest continues to escalate in Angola. Short-term turbulence is an inevitable side-effect of the August election and the municipal elections that will take place subsequently. MPLA sources report that the party plans to "fight fire with fire", and has pre-emptively armed the police.	DEMOGRAPHICS: Angola's population of approximately 25 million people is growing. High unemployment ensures a steady supply of labour, though this is subject to what is known as the 70/30 principle, whereby 70% of a workforce greater than five people must be Angolan nationals.
Long Term	SOCIO-ECONOMIC IMBALANCE: Angola is simultaneously the home of the continent's wealthiest woman and its highest infant mortality rate. It ranks at 169 out of 175 on the Gini Coefficient, a World Bank measure of inequality. The long-term threat of resultant unrest is an ongoing concern.	DIVERSIFICATION: Angola's natural resources extend far beyond the oil and diamonds that have formed the basis of its recent success. MPLA insiders report that Lourenco plans to enable the diversification of the economy, providing active assistance to investors in varied areas as long as the oil price remains low. This should open up a new market of high-value commodities, including sugar and coffee, to international investment.

Proceed with caution

Angola cannot be written off as an investment destination. It has the third largest GDP in sub-Saharan Africa and is the most successful of its Lusophone countries. As the country enters this period of transition, careful monitoring of the scale, nature and extent of the political change will be an essential component of any existing or planned investment.



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