REVOLUTIONISING ANGOLA’S ECONOMY - AVM ADVOGADOS

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The country’s new foreign exchange rules came into force this summer and promise to transform the local currency and economy

Angola is shaping up to be one of the oil-rich jurisdictions that can use its natural resources to establish a genuine economic legacy, says António Vicente Marques, Founding Partner of AVM Advogados, the Angolan law firm.
As Africa’s biggest petroleum exporter, the country’s oil resources are the dominant force in the country’s economy. Petroleum accounts for more than 90 percent of exports and more than 80 percent of government revenues.
So when the Angolan Government last year brought in a new foreign exchange regime for the industry – some of the provisions that came into force on July 1st, 2013 – oil firms were faced with having to make drastic changes to their payment policies, explains Vicente Marques.
The Foreign Exchange Law for the Petroleum Sector (FELPS) replaces the previous rules, whereby international companies used to be able to pay non-resident entities via non-local bank accounts.
The new law requires that staff wages be paid into Angolan bank accounts, while payments for goods and services provided by resident contractors and service providers have to be made in

Kwanzas, the local currency.
“Oil is priced in US dollars so all the international companies in Angola that are selling oil abroad do so in US dollars,” says Vicente Marques. “But these companies also used to pay their suppliers in US dollars, however, the Government did not want to face a dual-currency issue so now these payments must be made in Kwanzas.”
As such, international companies receive US dollars for their oil, but now must deposit them into local accounts for staff or convert them into Kwanzas to pay local providers.
The move has sent shockwaves through the market, particularly as failure to implement this policy may mean a withdrawal of the oil licence as well as criminal charges, he says, but there is the feeling that the reforms will help considerably in building the local currency.
The reliance on oil (hence US dollar payments) created an economy where US dollar payments from oil companies filtered down to their providers and then filtered on down to the wider local market.
According to Vicente Marques, while the Kwanza exchange rate has actually been stable against the US dollar in recent years, the Government did not want to run the risk of the currency being devalued – hence the new law strengthens the Kwanza.
Oil companies have adapted quickly to the change, and in fact Angola is starting to see the new regime reshape the wider economy. “These measures will make the Kwanza stronger, as other companies and suppliers in the economy are forced to move towards the Kwanza,” he says. “While the legislation was intended for the oil and gas sector, it is actually starting to be applied by various other businesses. As an example, the firm recently had a tourism company say that they wanted to take bookings in Kwanzas and to stop paying staff in US dollars.”
The provision for oil companies to pay non-resident suppliers from local bank accounts will come into force from October 1st, 2013. Companies will also have to make quarterly submissions to the Angola National Bank about their various agreements with non-residents and residents.
Vicente Marques predicts that the up-coming changes will also have a significant impact on the local banking sector. He points to the vast number of new Angolan bank accounts that will have to be created, as well as to the countless fees to be made on commissions, charges and other related services when running such accounts, processing payments and – of course – exchanging US dollars into Kwanzas.
“This is a huge opportunity for local commercial banks,” he adds.
“Angola has more than a billion barrels of oil for sale, and the money will have to be filtered through local accounts with payments in the local currency, so bank charges will be substantial – it could make Angolan banks billions.”