

Funding gap

Concerns about currency are making some clients fearful of investing in African countries such as Angola, but increasing demand for alternative sources of financing is creating opportunities for the continent's lawyers

The slump in global oil prices, which plummeted from more than \$100-a-barrel to around \$40-a-barrel during the last 18 months, is being felt by many African countries. In Angola, where two-thirds of the country's income is generated from oil revenues, the price drop prompted the government to cut public investment by more than 50 per cent last year.

Bruno Xavier de Pina, partner and head of PLMJ's Angola desk, says the decrease in prices has had a huge impact. "In petro-markets like Angola or Nigeria, the whole economy has been hit by the fall," he explains. "In the case of Angola, we need to add the huge additional impact of some foreign exchange policies that have been in place since 2012 and are aimed at reducing the use of dollars in the economy and increasing the use of the local currency, the kwanza, to 'de-dollarise' the economy and achieve 'kwanzization'."

The policies have led to a drastic shortage of dollars and, consequently, a significant devaluation of the kwanza. This is causing a range of difficulties for investors, including problems related to the importation of goods and services, as well as trouble concerning the payment of salaries of expatriate workers.

'Contaminated economy'

Pedro Guimarães, partner and head of the energy and natural resources department at FCB Sociedade de Advogados, states that falling prices have "contaminated the whole economy in Angola". He adds: "Despite this, the Angolan government has been making an effort, legislatively and on the ground, to try to encourage the diversification of the economy and to bring investors to other

sectors of the economy. But the fact that there is less hard currency around has made it more difficult for investors to get their dividends repatriated, which then leads to others being less willing to invest for fear that their investments may become trapped in Angola."

Duarte de Athayde, managing partner at Abreu Advogados, says the current currency constraints are prompting a search for alternative funding, which is expected to lead to an "increasing demand for legal assistance in the banking and finance field, as well as in capital markets, both in the issuing and trading of securities". He continues: "The securitisation of different economic interests, structured through special purpose vehicles, such as investment funds and venture capital, will also be attractive opportunities for qualified lawyers to deliver added value services."

While Mozambique is not as reliant on oil and gas, the country was expecting the new wealth generated from recently discovered gas reserves to be a major contributor to the economic

development of the country. Rui Mayer, the partner who heads the oil and gas team and Angola and Mozambique desks at Cuatrecasas, Gonçalves Pereira, says that the current market conditions have created big problems, given the sudden shortage of foreign currency and the reduction in foreign investment. "There were, of course, reactions," he adds. "It is possible to identify efforts to diversify the productive basis of the economy. However, most likely the result of these efforts will only be felt several years from now."

Cheaper energy

There is a view that the lower prices are actually something of an opportunity to encourage diversification. Indeed, countries that import energy now pay less for it. Francisco Ferraz de

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Duarte de Athayde
Abreu Advogados



Carvalho, partner at Linklaters in Lisbon, believes that the situation



brings as many challenges as opportunities. "Many assets are now available in the market at a significantly lower price than



“Many assets are now available in the market at a significantly lower price than 12 months ago.”
Francisco Ferraz de Carvalho
Linklaters

12 months ago...and those who have the financial strength and the confidence to enter the market now can make significant profits in the coming years," he argues. "Also, in non-oil rich countries, the impact on the balance of trade and public accounts has been positive and this will help these countries to grow more sustainably."

Mozambique benefits from its strategic location as a gateway to the Southern African Development Community (SADC), which brings together around 250 million consumers. Meanwhile, its diverse natural resources, hydro-electric potential, minerals (gold, precious stones, titanium and bauxite), extensive coastline (ideal for fishing and exports) and aluminum are new areas of interest. Agriculture, construction and public works, transport, communication and tourism are also expected to attract more attention.

Rui Amendoeira, a partner from Vieira de Almeida, observes that most African countries maintain relatively ambitious plans for infrastructure development and revitalisation. "These programmes may be delayed or scaled down to a certain extent but they are unlikely to be scrapped altogether economic environment notwithstanding," he comments, citing the electrification of Africa, good governance policies and

increased transparency and accountability as examples.

Xavier de Pina points out that African countries are currently facing many diverse challenges. "In some regions, as in the case of West Africa, particularly Angola, M&A operations emerging from restructuring projects are definitely an opportunity," he observes. "Infrastructure projects should still be seen as a must for law firms in Africa, there is no doubt that Lusophone Africa – despite the

international macroeconomic context and respective impact on the local economies – maintains great potential and a high level of growth."

Eastern promise

Given such a climate, law firms must be linked to sectors where their clients are doing business, according to De Athayde. "There are many opportunities for our clients in Africa, in particular in the non-oil sectors such as mining, agriculture, infrastructure, rail, roads, ports and airports, telecoms, IT, fishing, energy, water, health, education and tourism," he says. De Athayde says the strengthening of China's economic presence in Africa was a major turning point in international economic relations and consequently expects more in the way of bilateral Chinese-African deals.

Ferraz de Carvalho highlights renewable energy as well as M&A activity in the insurance sector as significant areas of opportunity. "I think that a diversification of sources of investment and funding is necessary to allow the development of the infrastructure capacity

that Africa needs to develop its potential," he argues. "I anticipate that development institutions and export credit agencies will continue playing a significant role in that, but I anticipate that the role of commercial lenders, funds and alternative credit providers will increase."

Raposo Bernado partner Joana Andrade Correia, observes that, before the change in the economic climate due to the fall in oil prices, law firms concentrated their focus on project finance related to natural resources and basic infrastructure. However, now law firms are offering more sophisticated legal services related to areas such as corporate mergers and acquisitions, private equity, venture capital, and sovereign and infrastructure bond issues. "Law firms needed to readjust their activities to this new scenario, mostly through establishing partnerships with local firms, as well as winning lucrative business advising governments and investors," Correia remarks.

With African economies experiencing a period of transition, what is the future for law firms operating in such jurisdictions? Liliana Malheiro Tomás, partner at MLGTS, foresees further opportunities in positioning law firms as "partners and preferential advisors" to clients in order to help

“Foreign exchange policies aimed at reducing the use of dollars in the economy have had a huge impact.”

Bruno Xavier de Pina
PLMJ



provide confidence to investors. She concludes: "Law firms also need to understand the new legal framework and take opportunities in the diversified economies."