

# PESTEL analysis of Angola

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## **Introduction**

PESTEL is a strategic management tool that provides useful framework to analyze the environmental pressures on Business. It is an external analysis of the macro-environment in which a business operates. These factors are beyond the control of an organization or a country but are important to be aware of while undergoing business strategy. The main objective is to understand the affect on business or trade policy because of external factors of a country which is different to others. Each and every organization has to go through complete analysis of a particular country before taking any decision or any further step to enter and start a new business which involves Political, Economical, Social, Technological, Environmental and Legal also called PESTEL analysis. Therefore as a group we have chosen Angola and we have done PESTEL analysis of Angola to start business successfully.

## **Overview of a country:**

Angola is one of the fastest growing countries in South Africa boarding the South Atlantic Ocean, between Namibia and Democratic Republic of the Congo. Luanda is the capital of Angola. Angola declared its independence on 11<sup>th</sup> November 1975 from Portugal. Angola is Republic country. Jose Eduardo Dos Santos is the President of Angola. Portuguese is the official language in Angola but the most widely spoken language is Umbundu. It has a very large trading environment, with several countries ranging in products from gas to textiles. 39% of its population lives below poverty line. (CIA- the World Fact book) In corruption it is on 147<sup>th</sup> rank out of 179 countries. (Transparency International Corruption Index, 2007)

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## **Political and legal factor:**

One of the important factors for any country which affect trade policy is their legal rule, regulation and their government. If the government is stable then there is less chance of risk because legal rule and regulation would not be change in short time. Angola is a Republic country. It declared its independence on 11<sup>th</sup> November 1975 from Portugal so 11<sup>th</sup> November is the national holiday. Angola's legal rules and regulations are based on Portugal Civil law system and customary law which is modified to accommodate political pluralism and mostly increased use of free markets. Their constitution has abrogated by Portugal Constitution which is adopted by People Assembly in 1992.

**Political stability:** Political stability is one of the most important factors for any organization to enter in any country because if there is no political stability like Pakistan then the legal and trade policy will be kept change at short time therefore it would be difficult to any firm to sustain their for a long time. In Angola after every five year election is being contested for president post by direct vote of the citizenry. Last time it was held on 5<sup>th</sup> September 2008 (next to be held in September 2012). Jose Eduardo Dos Santos has elected as president Similarly, Cabinet also appointed by the president. In the same way, Jose Eduardo has been president since 1992. So for next 5 years there are more chances of stability of the government.

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**Labour laws:** Availability of labour, labour cost and labour law also can affect the organization profit and operations. If there is scarcity of labour or labour cost is high then it decreases the profit but Angola has one of the cheapest labour forces in the world which make it stand on 57<sup>th</sup> rank out of 179 countries. So, to protect the labour rights the government has made a law called Labour laws Article 1/99D (2). According to this law 7-hour workdays and 40-hour workweeks, with one 30-minute rest period for each 4 hours of work is legal in Angola. One day of rest weekly also mandatory in Angola. In April 1992, the Government of Angola signed a Memorandum of Understanding with the International Labour Organization under the International Program for the Elimination of Child Labour (IPEC) where the minimum working age is 14 years. (**Angola's General Labour Law (Law No. 2/00), 2009**)

**Labor force - by occupation:**

- Agriculture: 82%
- Industry and service: 18%

**Company law:** After 1992, the Angola government has formed “The Government of Angola’s National Agency for Private Investment (ANIP)” which helps to carry out Government policies designed to support the growth of a diversified, stable economy that allows Angola to participate more fully in the global economy. It is the most important framework for the current legislation on corporate governance in Indonesia. Under the Private Investment Law (PIL - Law 11/03), a company is a separate legal entity in which Directors and Commissioners represent the company. Every company must register their Memorandum of Account under this Company Law. (**Investment in Angola, 2009**)

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**Prime lending rate:** If we talk about their commercial Bank prime lending interest rate it is quiet decent which is 12.41% which is 17,71% in 2007 and their Central bank discount rate is 19.83% . (CIA, 2009) It shows that an organization can get the loan easily at low interest rate and it has to pay less interest.

**Business or individual tax system:** Angola's tax system is also persisting foreign companies to invest in Angola or establish their manufacturing plant in Angola. Angola government has divided their cities in to three zones where if any company starts business in 1<sup>st</sup> zone then they will get tax redemption for 15 years. If they invest in 2<sup>nd</sup> or 3<sup>rd</sup> zone then the government will give 12 year and 8 year redemption in tax. (Anglo Chamber of Commerce, 2009)

## **Economical factors:**

Angola is considered as a one of the fastest developing economy country. Due to the government policies and treasure of national resources, their GDP growth has been increasing rapidly from last few years. They spend 23.5% of their GDP to develop their nation. According to last announced budget it had revenues \$28.62 billion and out of this it spent \$21.88 billion to grow the economy in 2008. They have hub of natural resources such as in Oil production, it has 17<sup>rd</sup> rank, in natural gas production and in export it is on 12<sup>th</sup> position. Angola is on 1<sup>st</sup> position in industrial production growth rate which is 14.5%. (CIA, 2009)

**GDP:** Angola has made significant economic advances through last years. Angola's debt-to-GDP ratio in recent years has declined because of increasingly robust GDP growth which was 21% (\$100.9 billion) in 2007 compare to 18.5% (\$82.1 billion) in 2006 and compression to the world Angola is on the 5<sup>th</sup> position in GDP growth. 9.2% of GDP earning from agriculture, 25.5% from service sector and the major part 65.1% comes from industry. (The World Bank, 2009)

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**Per capita income:** If we talk about per capita income, it was \$8,200 in 2006 which was increase up to \$9000 in 2008 and comparison to the world it is on the 112<sup>th</sup> rank in per capita income.

## **Exchange rate:**

Kwanza is the currency of Angola which is improving rapidly.

- Kwanza per US dollar – 75.02 (2008) compare to 88.3 (2006)
- Kwanza per Indian rupee- 1.92

**FDI:** FDI is one of the most important factors for every country. It plays a vital role in Angola growth rate. It is a developing country so they have good inflow of FDI. They have huge reserve of gold and foreign currency. It was \$16 billion in 2008 compare to \$13.96 billion in 2007 and they are on 45<sup>th</sup> position in FDI stock. As it has mentioned above that till 8 to 15 years there is totally tax rebate which persuade multinational companies to start business in Angola.

**Inflation rates:** Inflation rate is still high but it has come down. It was 12.9% in 2008 compare to 21.3% in 2006. The major reason behind it is economic downturn.

**Balance of payment:** The export which is \$66 billion is more than import which is \$18 billion in Angola. The current account balance of Angola is \$17 billion in 2008 which was \$8.8 billion in 2007. The government spending has increased due to the country trying to alleviate widespread poverty and well being of the country. The government revenue has over doubled in the past 4 years while spending has increased by 3 times. (CIA, 2009)

## **Social factor:**

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**Population:** Angola is one of the smallest countries. It is on the 69<sup>th</sup> position all over the world with total 16.6 million populations which is growing at 2.13%. The birth rate in Angola is 43.69 births/1,000 populations and the mortality rate is 24.25 deaths/1,000 populations.

**Age factor:** Angola is considered as nation of young people. The total median age is 27.6 years in which for male it is 27.1 years and for female its 28.1 years

**Age structure:**

- 0-14 years: 43.1%
- 15-64 years: 54%
- 65 years and over: 2%

**Education:** If a country has good literacy rate then it has bright future. Same thing apply on Angola. 67.4% of its populations are literate in which male are 84% but female literacy rate is low which is only 56.8%. 3.6% of their GDP is spent on education.

**Technological factor:**

Angola is still poor in technology and infrastructure. There is no such a big IT company in Angola which can help them to improve the infrastructure and technology. The government is also persuading multinational companies to start IT business in Angola and improve the infrastructure and technology.

**Transport system:** Angola has 39 airports, railways with 2864 km and water ways covering 1300 km. It has 6 merchant moraine in which all of 6 is registered in foreign country.

**Communication system:** The communication system in Angola is very poor which maintained only 1 million landline users and 6 million mobile phone users. It has interisland

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microwave system, HF radio police net and domestic satellite communications system coverage which makes its communication system better.

## **Key finding and analysis:**

Angola is on the 139<sup>th</sup> position in internet users. Only 4.2% of their populations use internet. It shows that there is huge market for Information Technology business because there is large number of SMEs which is engaging in oil and gas business, we can target them and we develop the software according to their need and demand.

After analyzing all political and legal factor of Angola, it shows that the government is also convincing multinational firms to enter in Angola by giving rebate in taxes, lending and interesting rate. It also helps to increase the profit of a company because the money which they have to pay as tax to the government that can be used in other operations as working capital.

After analyzing economical factors of Angola we can say that there is positive environment for every multinational company to start business in Angola because it is one of the fastest growing country, it has cheap labor, it has powerful currency which is almost equal to Indian currency and it has huge reserve of foreign currency and gold.

To overall freedom to establish the manufacturing plant or start a new business in Angola will take average 68 days compare to world 38 average days. Angola's weighted average tariff rate is 6.2% which show the total trade freedom is 72%. (Economics of Index Freedom, 2009)

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