

## AFRICA RISK CONSULTING

### Angola Monthly Briefing December 2014

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#### Angola Summary 14 December 2014

*President José Eduardo dos Santos (1979-present) urges close monitoring of 2015 budget spending after a sharp fall in global oil prices. Domestic and foreign economists warn government to cut spending and revise its “expansionist” budget. The ruling Movimento Popular de Libertação de Angola (MPLA) holds its congress but delays election of new leadership until 2016, leaving unanswered until then questions about whether dos Santos will seek to remain in power after 2016 or transition to a successor. Dos Santos instructs the party to start preparing for the next parliamentary/presidential elections in 2017. Repeatedly-postponed local elections will not now take place until after that. Angola’s (anti-MPLA) youth movement tries to stage more frequent demonstrations, but is disrupted by the police. Angola falls further in the rankings of a respected global corruption index, indicating that the government is failing to implement stated anti-graft policies.*

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#### Dos Santos urges close watch of 2015 spending as oil prices slump

During the opening speech of the **Movimento Popular de Libertação de Angola (MPLA)** party’s congress on 4 December in **Luanda**, President **José Eduardo dos Santos** (1979-present) put the economy centre-stage. Dos Santos said that due to the recent sharp drop in global oil prices, the ruling party needed to monitor closely execution of the planned 2015 budget. Failing to do so would put monetary and financial stability at risk and imply negative impacts for the population.<sup>1</sup>

Oil prices have slumped more than 40 percent since June on mounting signs of oversupply and lacklustre demand due to weak global economic growth. In early December, Brent crude prices hit a five-year low – below \$65 per barrel – and fell below \$60 on 16 December. Angola, Africa’s second-biggest crude producer, relies on oil output for over 95% of its export revenues and 45% of gross domestic product (GDP).

The oil price slump has already hit the kwanza, Angola’s currency, hard; it has lost 3% of its value since September. The price of Angola’s sovereign bond has also slipped, more than those of other sub-Saharan African issuers. On 11 December, amid the gloomy outlook, the MPLA majority in parliament approved a “*highly expansionist*”<sup>2</sup> 2015 budget, based on an estimated average oil price of \$81 per barrel for the coming year, and economic growth of 9.7%. The budget itself contained a combination of a 19.1% rise in public spending and an estimated fall of nearly 4% in state revenues, resulting in a fiscal deficit of 7.6%.

Even stronger warnings from both within and outside Angola have greeted Dos Santos’s public note of caution. The **World Bank**, which has been preparing to provide Angola with \$1 billion in budget support, said the government may have to revise the 2015 budget radically, i.e. cut costs and improve efficiency in public spending. If oil prices keep falling “*Angola’s 2015 fiscal deficit may exceed the [current budgetary] estimate, raising the spectre of an [International Monetary Fund] IMF intervention*”.<sup>3</sup> Angola is seen as one of the four global oil exporters “*most vulnerable to credit downgrades*”<sup>4</sup> if oil prices fall further, which could raise the country’s borrowing costs. Offsetting this,

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<sup>1</sup> [www.mplao.ao](http://www.mplao.ao), 4 Dec 2014.

<sup>2</sup> Source, Observatório Político e Social de Angola, Luanda-based NGO

<sup>3</sup> Source, economist, Johannesburg

<sup>4</sup> Source, Moody’s rating agency, London

Angola's indebtedness level is relatively low (estimated at 35.5% of GDP in 2015), but the IMF has warned that large fiscal deficits will sharply increase financing needs and the debt ratio. It has urged the government to return to a programme of fiscal surpluses.

Finance minister **Armando Manuel** said the lower oil prices demand from Angola "*an exercise in austerity and a re-prioritisation of public spending*".<sup>5</sup> Even this admission has, however, been received with criticism. Using the term 'austerity' shows the government "*has faced reality [rhetorically], but speech itself is not enough, it needs to be [more] effective [in delivery]*".<sup>6</sup> Analysts say that the administration could have taken account of falling oil prices and edited the budget before parliamentary approval and, even now, could table a revised version before parliament which is "*more adequate to the current reality of the oil market, in other words, more austere*".<sup>7</sup>

### Local elections still distant as MPLA conference marks start of 2017 election plans

As most observers expected, the agenda of the MPLA's **Extraordinary Congress**, held in Luanda on 4-6 December, did not include the election of a new leadership. Dos Santos said publicly that would happen only during an **Ordinary Congress** of the party, the next one of which has been delayed to 2016,

*"to time it with the holding of general elections (in 2017) and to align the [party's] leadership mandate with the political power that will come from [an expected win in] the elections".<sup>8</sup>*

The MPLA's extensive forward planning on such issues denotes the customary confidence of an institutional ruling party that dominates Angolan society at all levels. The party does not separate its own interests and operations from those of the state and its main slogan includes the words "*victory is certain*". Unless serious ill-health weakens the ageing dos Santos – repeatedly rumoured to have received specialist medical treatment in **Europe** for unspecified conditions – the decision to defer leadership succession questions leaves him facing no challenge until 2016. But it also leaves Angola's main forward political question unanswered for at least two more years: will dos Santos run in the 2017 elections or will he nominate a successor to hand over power in a managed transition? The deferring of formal debate on the MPLA leadership issue will not stop informal jockeying within the MPLA, as other regional countries like **Zimbabwe** have seen.

In power for over 35 years, including 23 of the 27 years during which the MPLA fought and defeated rebel group **União Nacional para a Independência Total de Angola (UNITA)**, dos Santos was only elected indirectly to office for the first time in 2012 in controversial elections. The MPLA won a large majority in the first election (following a new constitution in 2010) in which the leader of the party with most votes in a parliamentary election became president. Dos Santos can run for a second and final formal mandate under the current constitution in 2017. Most analysts expect that he will do so if his health holds for the next two years.

However, in two rare television interviews in 2013, dos Santos said he had been in power "*perhaps too long*"<sup>9</sup> and that his party was considering options for a transition to a successor.<sup>10</sup> He also noted that any such transition would have to guarantee social stability, a caveat which (combined with his near-total silence on the matter since 2013) has continued to fuel "*obsessive speculation [about succession], which is entirely justified*".<sup>11</sup>

Current analyst speculation centres on whether dos Santos will eventually back one of the two front-runners, his son, **José Filomeno dos Santos** (also known by his nickname '**Zenu**'), whom dos Santos

<sup>5</sup> Source, Angola Finance Ministry website, Luanda

<sup>6</sup> Source, economist, Luanda

<sup>7</sup> Source, economist, Luanda

<sup>8</sup> [www.mpla.ao](http://www.mpla.ao), 4 Dec 2014.

<sup>9</sup> Interview with Portugal's SIC Notícias, 6 Jun 2013.

<sup>10</sup> Interview with TV Bandeirantes, 12 Nov 2013.

<sup>11</sup> Source, political analyst, Oxford

appointed to head the country's sovereign wealth fund, or vice-president **Manuel Vicente** (former head of the national oil company **Sonangol**) or another successor. There is also *"doubt surrounding what the MPLA members [especially senior cadres] feel"*<sup>12</sup> about any of these options. The December congress did little to answer these questions but did provide *"a clear and direct instruction"*<sup>13</sup> from dos Santos for the party to focus on until 2017.

Another electoral topic that has split the government and its critics – delays in setting a date to hold Angola's first local elections – was raised again on the sidelines of the MPLA congress. In 2001, the government announced that the ballot would take place in 2013 or 2014, but a firm date was never set. In October, dos Santos said Angola (by which he meant the MPLA) still had to map its local constituencies, define how local leaders and organs would be elected, what powers and responsibilities they would have and how local authorities would be financed. He questioned whether this preparation work could realistically be done before the 2017 general election.

MPLA parliamentary bench leader **Virgílio de Fontes Pereira** said on the sidelines of the party congress that local elections cannot arrive in Angola *"by parachute"*<sup>14</sup> since the country's reality as a post-conflict nation means *"it cannot yet have electoral cycles like those of a normal country."* His warning for Angolans to face the matter with *"realism and objectivity"* was read as *"a final confirmation that the MPLA wants to hold and win the general election first in 2017 and only then move onto the riskier challenge of local elections."*<sup>15</sup>

UNITA has called for the elections to be held *"urgently"* as it views political decentralisation as key to solving Angola's economic and social inequality problems. The local elections also offer an opportunity for UNITA to regain a foothold in Angolan politics, especially in areas where it has traditionally enjoyed support. The party has been severely weakened since the 27-year civil war ended just over a decade ago. The MPLA's apparent decision to delay the local elections almost indefinitely may also be motivated by a desire to deny UNITA (and its electoral base) an opportunity to recover.

### Youth movement increases anti-government protests

The day after the MPLA congress ended, a youth movement that has held anti-government demonstrations since 2011 tried to stage another protest in central Luanda. The attempt was the second in two weeks, and the third within two months, showing that the movement is increasing the pace of its campaign. Though small in numbers – there are rarely more than twenty youths at the demonstrations – the police have reacted aggressively, resulting in violence and arrests at most protests. During the most recent attempted demonstration, police detained the youths before they reached the protest venue and later released them *"in the outskirts of Luanda"*.<sup>16</sup> Police have declined to comment on the matter.

Inspired by the **Arab Spring** and using social media as its main communication tools, the youth movement has urged dos Santos to resign. It also wants the government to protect human rights and distribute Angola's oil wealth more evenly. Analysts say that the MPLA is worried that a small-sized demonstration could quickly escalate on the back of high youth unemployment and disaffection with economic inequality in urban areas. The president has dismissed the movement, saying the youths are *"frustrated and do not represent most Angolans"*, but the protestors have survived the clampdown and remain determined:

<sup>12</sup> Source, political analyst, Oxford

<sup>13</sup> Source, political analyst, Luanda

<sup>14</sup> Comments broadcast by Angolan state TV channel TPA Internacional on 8 Dec 2014.

<sup>15</sup> Source, political analyst, Luanda

<sup>16</sup> Source, youth movement leader, Luanda

*“The recent attempts show they are resilient and continue to attract international attention that damages the government.”<sup>17</sup>*

In a report published in November, **Amnesty International** highlighted the alleged violations suffered by the protesters, including use of excessive force and arbitrary arrests by police, and urged the government to allow Angolans to demonstrate peacefully.<sup>18</sup>

### Angola falls on Transparency International’s corruption index rankings

The youth movement accuses dos Santos of doing too little to fight widespread corruption, a shortcoming that Angola’s low ranking on **Transparency International’s** most recent **Corruption Perceptions Index** underlines. Dos Santos has vowed publicly several times to combat corruption but critics have highlighted that, despite some important formal legal reforms on transparency, Angola’s legal and institutional framework is still very weak on corruption.

*“Angola is struggling to shake-off its reputation as one of the world’s most corrupt countries; there seems to be little progress.”<sup>19</sup>*

Angola scored very low on respected non-governmental organisation (NGO) Transparency International’s 2014 Corruption Perceptions Index, published on 3 December. The leading international corruption study measures “perceived levels of public sector corruption” and ranks countries based on a “corruption perception” scale ranging from 0 (highly corrupt) to 100 (very clean). Angola scored a mere 19 points compared to 23 points a year earlier. Overall, the Index ranked Angola 161<sup>st</sup> out of a total of 175 countries, worse than its 153<sup>rd</sup> position in 2013. The government regularly dismisses the index, saying it does not reflect the reality on the ground, but large numbers of external stakeholders and financial institutions do take it seriously: “if Angola wants to show it is working to decrease corruption, [the reality is that] it must score better in this index.”<sup>20</sup>

In contrast, Angola’s most prominent anti-corruption activist, **Rafael Marques de Morais**, was due to face trial in a Luanda court on 15 December, charged with criminal libel. The case was brought by seven generals who say Marques’ book – “*Blood Diamonds: Torture and Corruption in Angola*” – libels them by alleging responsibility for human rights abuses over many years in north-eastern Angola, where the generals own a mine and run associated security companies. Marques originally issued a legal complaint against the generals, which Angola’s MPLA-friendly prosecutorial service dismissed. Seventeen NGOs, including **Reporters Without Borders**, the **Committee to Protect Journalists**, and **Human Rights Watch**, have written to the **United Nations** and the **African Commission on Human and People’s Rights**, urging them to pressure the Angolan government to stop the proceedings. The start of the trial has now been postponed to 24 March 2015 after a request by Marques, who said that some witnesses would not be able to appear at the December hearing.

*“[This whole business could backfire on the MPLA]. When this trial does eventually start, one certain outcome will be to bring more attention to rights abuses and corruption in Angola.”<sup>21</sup>*

### Implications

Dos Santos’ main challenge in 2015 will be to manage the external shock caused by the sudden slide in oil prices and stabilise the Angolan economy through a time of weak global growth. The first task involves the management of market and party expectations and should start with a revision of the budget estimates on growth and spending. But dos Santos and the MPLA have shown in the past that they are not good at adapting to external shocks and handling situations beyond their control: the

<sup>17</sup> Source, political analyst, Luanda

<sup>18</sup> “Punishing Dissent: Suppression of Freedom of Association and Assembly in Angola”, Amnesty International, Nov 2014.

<sup>19</sup> Source, political analyst, Lisbon

<sup>20</sup> Source, political analyst, Lisbon

<sup>21</sup> Source, Angola political analyst, Lisbon

slump in oil prices in 2008-2009 drove the government to seek external financial assistance from the IMF. Angola's under-performing non-oil sector will be crucial in supporting growth, but Angola may first seek to improve its performance in terms of oil output, after a weak 2014 (which also hit revenues), to bolster public finances.

As dos Santos and the MPLA enter the second half of their formal five-year electoral mandate, the need for economic belt-tightening would undermine their political goals for 2017. The expansionary budget clearly serves a forward electioneering function, and needs to demonstrate results to a frustrated electorate in infrastructure construction and essential public services. A skilful operator who controls almost every aspect of Angolan society, dos Santos should have the experience to manage the economic turbulence and popular expectations. But the MPLA has always put its political objectives ahead of economic policy, and experience suggests that it would only reform the budget when left with no option. A major complicating question remains, however, uncertainty about who will contest the 2017 election at the head of the MPLA and the possibility of transition to a successor; but it will only be answered (barring a health crisis affecting dos Santos) in 2016.

Angola's election to a temporary seat on the **United Nations Security Council** and its diplomatic role in helping to stabilise the **Great Lakes Region** earlier in 2014 – notably ongoing insurgencies in the eastern **Democratic Republic of the Congo** – boosted Angola's external image. However, these advances have proven short-lived, as the focus has returned to the government's heavy handling of nascent domestic protest movements and even-worse rankings on corruption.