

AFRICA RISK CONSULTING

Angola Monthly Briefing July 2015

Angola Summary 21 July 2015

President Jose Eduardo Dos Santos (1979- present) addresses his plans to step down in 2017 and the nomination of his successor. Despite speculation that his son José Filomeno “Zenú” Dos Santos may succeed him, there are political and legal obstacles to this outcome. Media reports that state-owned oil company Sociedade Nacional de Combustíveis de Angola, E.P. (Sonangol) is bankrupt prove to be a misinterpretation but Sonangol chairman Francisco de Lemos points to flaws in Sonangol’s current operational model. French president Francois Hollande (2012- present) makes a significant state visit, putting bilateral relations on a firmer footing than they have been since “Angolagate”. Angola signs a new accord with the World Bank. The Angolan Center for Corporate Governance (ACGG) calls for corporate governance investigations in the banking sector.

Dos Santos raises succession issues at MPLA central committee meeting

President **Jose Eduardo Dos Santos** (1979- present) has disclosed possible plans to step down from the presidency. In his opening speech at the **Comité Central** (central committee) meeting of the ruling **Movimento Popular de Libertação de Angola (MPLA)** party on 2 July, Dos Santos said he would remain in office until the next elections in 2017:

“In certain restricted circles it was almost taken for granted that the president would not complete his mandate but of course it is not wise to look at this option in the current circumstances.”¹

Dos Santos also raised the question of his successor:

*“An issue that will require deep thought is the selection of candidates...and their subsequent election, including the post of party president and candidates for the election of the president of the republic. In my opinion, it is appropriate to choose the candidate for president of the republic, which is a competence of the Central Committee under the Statute, prior to party president elections at the **Seventh Ordinary Congress** [in August 2016].”²*

In the current constitutional model the leader of a political party automatically becomes president when that party wins the elections. Media reports have tipped the president’s son, **José Filomeno Dos Santos**, also known as **Zenú**, as a potential successor.³ Zenú Dos Santos is currently head of Angola’s sovereign wealth fund, **Fundo Soberano de Angola**, and a former director of Angolan bank **Banco Kwanza Invest**.⁴

The possibility of the president’s son succeeding him has been raised several times, most recently in December at the MPLA Congress. However, at the December congress, Zenú Dos Santos was not admitted to the **Comité Central do MPLA** of which all Angola’s senior politicians are members. Membership of the central committee is a pre-requisite for a future president. Once a member of the

¹ www.portalangop.co.ao, 27 Jun 2015.

² www.portalangop.co.ao, 27 Jun 2015.

³ Mail and Guardian, “Angola: Who’s Who in the Palace?”, 2 Nov 2012.

⁴ Mail and Guardian, “Angola: Who’s Who in the Palace?”, 2 Nov 2012.

central committee, Zenú Dos Santos would then have to be admitted to the central body of the MPLA, the **Bureau Político (BP)**, to become party leader, and president if and when the MPLA wins the next elections. These procedures give legitimacy to the MPLA leadership and are not likely to be abrogated.

*“There are serious obstacles in the way of Zenú’s succession. He has no political experience and has not worked within the MPLA. He would first have to be drafted into the MPLA’s political structures, and if this happens, the question of his candidacy would have to be revised. If the president intends to force through Zenú’s candidacy by determining the Comité Central’s choice of candidate, it will be a test of his control over the MPLA. There is no doubt that this is considerable and that patronage, in the form of oil, diamond and business concessions, has bought off many MPLA members, but it cannot be taken for granted that the MPLA will accept Zenú or even [vice president **Manuel] Vicente** as candidates for leading the party. There are many within the MPLA who do not want Dos Santos family rule to continue, and there are candidates for the presidency from within the party.”⁵*

Luanda-based diplomats do not believe that Zenú Dos Santos is acceptable to the MPLA and think that the MPLA has more power and more of a voice in the matter than might be expected.

“Zenú will never become president – he is not acceptable to the MPLA.”⁶

“There are many experienced politicians in the MPLA, and several potential candidates for leadership of the party. There is no possibility, in my view, that Zenú will become president. The MPLA will never, never allow this.”⁷

There is a further obstacle to Zenú Dos Santos’ potential candidacy. His mother, **Filomena Fatima Sousa Cunha**, is the daughter of a **Cape Verdean** national.⁸ Under the present constitution, this makes Zenú Dos Santos ineligible for the presidency, as he is not third generation Angolan, a prerequisite for the presidency.

The other principal candidate tipped to succeed Dos Santos is current vice president Manuel Vicente, the president’s nephew.

“Vicente, another candidate for presidency was not very acceptable to the MPLA either, but was drafted in nonetheless. He was put in place, my contacts believe, to take over when the president stepped down and to protect the assets of the president’s children, rather than as a long-term president and leader of the party.”⁹

Speculation about the presidential successor may well turn out to be premature. The Comité Central may urge Dos Santos to stay in office to continue leading international initiatives to resolve Angola’s financial crisis (see below).¹⁰

Sonangol chairman highlights major issues in operational model

Sociedade Nacional de Combustíveis de Angola, E.P. (Sonangol) chairman **Francisco de Lemos** has denied media reports that the state-owned oil company is bankrupt. **Portuguese** newspaper **“Expresso”** published excerpts of an internal report in which de Lemos was quoted as saying **“Sonangol’s operating model has failed and is bankrupt”**.¹¹ Angolan media reiterated the reports.¹² De Lemos called a press conference in **Luanda** and issued a flat denial of Sonangol’s financial bankruptcy on 13 July.¹³

⁵ Source, Angola analyst

⁶ Source, diplomat, Luanda

⁷ Source, diplomat, Luanda

⁸ Source, Angola analyst, and Mail and Guardian, “Angola: Who’s Who in the Palace?”, 2 Nov 2012.

⁹ Source, Angola analyst

¹⁰ Source, Angola analyst

¹¹ Bloomberg, 13 Jul 2015 and Angolan media reports

¹² Sources, several

¹³ Sonangol media release, 13 Jul 2015.

“Sonangol remains a stable and operationally strong company, a solidity that is being extended to the commercial and financial segment...this stability and robustness is measured by debt of \$13.7 billion, while the equity capital is valued at \$21.9 billion.”¹⁴

De Lemos emphasised that in 2014 the operational profit (EBITDA)¹⁵ of the company exceeded its net debt by \$1.65m.¹⁶ With oil being Angola’s dominant source of income, the severe drop in oil prices in 2014 threatened both Sonangol’s operations and a major fiscal crisis.

De Lemos did not deny other elements of the reports that show a deep internal crisis in Sonangol and an unsustainable operational model. *Expresso* said it had a copy of an internal report authored by De Lemos and presented to the Sonangol board of directors at the end of May. Sonangol published its annual report and accounts in mid-May and this, with De Lemos’ failure to deny the existence and accuracy of other parts of the *Expresso* report, tend to confirm the article is accurate. ARC was unable to obtain source commentary on whether the report is accurate, given its extreme sensitivity.

De Lemos reportedly painted a picture of a company dependent on external consultants and contracts for its operations, “ghost contracts”, service contracts throughout the company, from finance, health and logistics chain management to “contracting with ourselves – we fail to learn the know-how and instead learn to hire and subcontract”.¹⁷

“The proliferation of contracts with Angolan service companies, which in many cases are no more than shell companies without technical ability, is not mentioned directly but must play a part. The public-private partnerships which characterise much of the Angolan economy are more often than not ways to cut in the MPLA elite, but are now leading to much less than adequate results for the economy, following the collapse of oil prices.”¹⁸

De Lemos is said to have cut by 40% the value of contracts for services.¹⁹ His report noted that “when you add up all the costs related to the outsourcing of services, net income becomes negative”.²⁰ *Expresso* interpreted and reported this to mean Sonangol is bankrupt.

“Sonangol is clearly not bankrupt but De Lemos is known to want to bring Sonangol back to its core oil competencies and sees the need to increase these and pull back from an over-extended contractual position which weakens Sonangol and removes its know-how. A war of words has broken over whose policies are to blame for the failure of Sonangol’s technical capacities, De Lemos’ or those of previous incumbent Manuel Vicente. If Dos Santos dismisses Lemos, it will be clear where the blame is placed, but if not, then will this debacle impact on Vicente’s future?”²¹

French president makes state visit to Angola

In a boost to bilateral relations between Angola and **France**, President **Francois Hollande** (2012-present), made a state visit to Angola on 3 July.²² A large business entourage accompanied Hollande and three business agreements were signed. The first was with **AccorHotels**, which has established a partnership with Angolan insurance group **AAA** to open 50 hotels with over 6,200 rooms that Accor will manage until 2017. AAA has been in serious financial difficulties for several years and was unable to develop or sell its hotel portfolio. An enhanced co-operation agreement was signed between French oil company **Total** and Sonangol to “accelerate exploration activities” of oil resources in Angola. Total is responsible for 40% of Angola’s oil production and invests \$2.5 billion annually in Angola.

The third agreement was for a partnership between the Angolan **National Institute of Meteorology**

¹⁴ Sonangol media release, 13 Jul 2015.

¹⁵ Earnings before interest, taxes, depreciation and amortisation

¹⁶ Sonangol press release, 13 Jul 2015.

¹⁷ *Expresso*, 11 Jul 2015.

¹⁸ Source, economic analyst, Luanda

¹⁹ Esquerda, “Sonangol: Risco de falência”, 20 Jun 2015

²⁰ *Expresso*, 11 Jul 2015.

²¹ Source, economic analyst, Luanda

²² <http://www.english.rfi.fr/africa/20150703-hollande-praises-angolas-stability-business-centred-visit>

(INAMET), Angolan company **LTP Energias SA** and French meteorological company **Météo Française Internationale (MFI)**.²³ LTP Energias SA is currently a highly anonymous company, which notes that its partners and sponsors include **Swiss-based Quantum Global Wealth Management**, **Paris**-headquartered banking and finance company, **Société Générale**, and two **Brazilian** companies.²⁴

Bilateral relations have thawed considerably in the last two years following “**Angolagate**”, a French judicial investigation between 1993 and 2000 into arms sales to Angola worth \$790m, in which numerous French and Angolan officials allegedly received pay-offs and gifts worth \$56m.²⁵

*“After a seven-year investigation, the French judiciary decided to prosecute 42 people including **Jean-Christophe Mitterrand, Pierre Falcone and Arcady Gaydamak** (the last two had Angolan passports and were closely linked to the Angolan presidency). The investigation hugely embarrassed the Angolan government with numerous allegations of bribe-taking and shady dealings by Angolan officials during the investigation.”²⁶*

A **Cour d’appel de Paris** (Court of Appeal) decision in April 2011 overturned several of the convictions for illegal arms trading, and charges against Falcone and Gaydamak were dropped.²⁷ The illegal arms trading related to the traffic of arms on French soil, which is a monopoly of the French state. There were no **United Nations** sanctions on arms supply to the Angolan government.

New accord with World Bank

The **World Bank** has agreed **International Bank for Reconstruction and Development (IBRD)** financing for Angola, combining a loan of \$450m, and an IBRD policy-based guarantee (PBG) of \$200m to support the implementation of the government’s **First Fiscal Management Programmatic Development Policy Financing Program (DPF)**. The maturity period is 29.5 years, with a 10-year grace period.²⁸

“This represents a stepping up of the World Bank Group’s engagement with Angola at a critical juncture. It is the first IBRD operation since the country’s eligibility to IBRD in 2010. The operation was requested by the Government of Angola in early September 2014, when crude oil price was still in the \$90 range, to strengthen a package of macroeconomic and fiscal management reforms which it initiated.”²⁹

The object of the IBRD is to support the government in the implementation of reforms needed to mobilise oil and non-oil revenues, strengthen public investment management systems and reduce fuel subsidies, while implementing social mitigation measures.

Call for corporate governance investigations in banking sector

Carlos Feijó, architect of many of Angola’s most important post-war laws and head of the **Angolan Center for Corporate Governance (ACGG)**, has called for investigations into corporate governance in the banking sector.³⁰ The scope of the ACGG includes the study of the main governance systems of banking, legal and institutional frameworks in Angola. Feijó is an MPLA loyalist and until 2012 was minister of state and chief of staff in the President’s Office (Head of the **Casa Civil**) as well as secretary of the Council of Ministers, a post he has held twice.

“Feijó is very close to the president and this new centre and the decision to study the corporate governance of the banking sector makes me consider whether the point is to whitewash Banco

²³ Macau Hub, 6 Jul 2015.

²⁴ ltp-energias.net

²⁵ Chatham House, British-Angola Forum

²⁶ Chatham House, British-Angola Forum

²⁷ Le Parisien, 25 Feb 2011.

²⁸ World Bank press release, 30 Jun 2015.

²⁹ World Bank press release, 30 Jun 2015.

³⁰ Angop, 10 Jul 2015.

Kwanza, whose directors have been the subject of major media attention. Zenú Dos Santos was a director of Kwanza and is head of the Sovereign Wealth Fund, which is being managed by Swiss entity Quantum. The outcome of Feijó's inquiries should be very interesting, and possibly constitute an attempt to rehabilitate Zenu's international reputation."³¹

The decision to study the Angolan banking sector may have roots in the collapse of **Banco Espirito Santo Angola (BESA)** and Sonangol's massive involvement in the banking sector.³² However, the initiative is "equally well a response to the current economic crisis in Angola and the clear need for fiscal reforms".³³

Implications

Dos Santos' probable resignation as president in 2017 is a watershed in Angolan politics. The present potential candidates are both politically exposed persons (PEPs) with a track record of alleged corruption and it is moot whether the ruling MPLA will accept either candidate. However the party may not be powerful enough to broker its own candidate. If Dos Santos does step down, the final choice of candidate will give a clear message about the future of Angola, and whether it remains a fief of the Dos Santos family.³⁴ Many MPLA supporters do not want that future and the intense criticism of the circle around Dos Santos may mean that the obvious candidates are excluded in favour of someone more politically acceptable to the party and the population, but who will not attempt to recover, nor investigate, Dos Santos family money.³⁵ Considerable political upheaval is possible if Dos Santos forces through an otherwise unacceptable candidate.

The misleadingly reported "bankruptcy" of Sonangol is likely to have sent shockwaves through potential investors. What the reports have revealed is an overextended but not bankrupt company, with too many service contracts and an internal failure of capacity, which was hidden until forced out into the open by the collapse of oil prices. It remains to be seen whether De Lemos will be allowed to continue as chairman and rebuild the company, but as the reports point out, the current model of operation is now unsustainable and changes must be made or Sonangol may indeed collapse, with serious ramifications for the broader Angolan economy.

Despite successes in bringing World Bank money and more foreign investment into Angola, the next few months are likely to remain crisis times for Angola, both politically and economically. Internal fiscal reforms are clearly a key area that can improve Angola's present financial position. The absence of good corporate governance and real fiscal accountability in Angola is conspicuous for those familiar with business practices in the country. If the ACGG gains a mandate to investigate corporate governance in the banking sector, the outcomes are likely to demonstrate that many Angolan banks are as poorly run as BESA, but outcomes depend entirely on the terms of reference and how thorough these are. There is likely to be resistance from shareholders and officers of the banks into anything more than the simplest enquiries.

³¹ Source, economic analyst, Luanda

³² Source, economic analyst, Luanda

³³ Source, economic analyst, Luanda

³⁴ Source, Angola analyst

³⁵ Source, Angola analyst

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