

AFRICA RISK CONSULTING

Angola Monthly Briefing March 2015

Angola Summary 26 March 2015

All sectors, including oil and gas, implement cost-reduction programmes after the National Assembly passes the revised 2015 budget. The 25% overall spending cuts and 45% cuts in public investment result in increased unemployment and wage reductions in the formal economy. While the articulation of a clear public policy and budgetary framework will help reassure markets, slashing public spending could trigger increased public disaffection. Flooding in Lobito, made worse by landslides and erosion, causes 71 deaths, underlining the failure of government sanitation and urbanisation policies. The government faces international NGO criticism for increasing restrictions on civil rights defenders and what is widely seen as a politically motivated campaign against the journalist and activist, Rafael Marques.

2015 revised budget begins to have wider impact

The spending cuts announced in the revised 2015 budget (see *ARC Angola February 2015 Briefing*) will impact on all parts of the economy, not just the public sector. This is because key economic actors such as national oil company **Sociedade Nacional de Combustíveis de Angola, E.P. (Sonangol)** are also subject to significant investment cuts because they are state-owned.

"Sonangol, the national oil company, is strongly pushing to cut costs, putting pressure on the majors and renegotiating its contracts with oil service providers."¹

"All the international oil and service companies in Angola are implementing cost reduction programmes, including staff reductions. Exxon is the exception, as they say they are already lean and efficient."²

According to several analysts, ongoing projects in the oil and gas sector will continue, but at a slower pace, and planned new investment projects may be postponed if the oil price does not increase before the end of the year.

"Some oil service companies [have] also complained to the authorities [since late 2014] about delays in payments owed by Sonangol via Angola's commercial banks (itself a consequence of the Sonangol's cash-flow problems in 2014); this issue [at least] seems to have been taken care of in recent weeks."³

In reality, the entire public sector and state companies have been experiencing a cash flow crunch affecting payments for goods, services and salaries. The government has said it will protect certain sectors, such as the military, police, state security, the oil industry and the state media. But others could lose out.

"Angola's commercial banks are following the conservative policy of the [Banco Nacional de Angola (BNA)] central bank. They have to meet the legitimate demands of their clients as well as reassuring them, which is not easy. Nevertheless, on the back of the revised budget, the financial sector is more confident than at the beginning of the year, when uncertainty was higher."⁴

The fall in public investment is harming importers of consumer goods:

¹ Source, independent analyst, Luanda

² Source, oil sector actor, Luanda

³ Source, oil sector analyst, Luanda

⁴ Source, bank sector actor, Luanda

"We had to revise our business development, reduce our activity, cut our staff by 40% and roll back wage increases for those who we were able to retain. And we are not the only ones in that situation."⁵

Construction and real estate companies are also facing difficulties.

"Some projects are cancelled or postponed: we have to wait and see. It is an uncomfortable situation."⁶

The government has tried notionally to soften the effects of the economic crisis. For example, it has extended existing policies aimed at reducing the imports to avoid shortages. However, sources say that government attempts to boost non-oil exports and reduce imports have been a consistent failure since they were first mooted over a decade ago.

The government has also launched a modernisation of immigration services to start granting multiple-entry tourist and ordinary visas to foreign visitors.

"Angola's visa-issuing policy is notoriously inefficient and complex. This measure is welcome in a country that needs to do everything it can to become more attractive to investors and create new revenue streams. But it is long overdue and is much more likely to have a positive impact when the economy is doing well and investors want to come in."⁷

Bad weather causes 71 deaths in Lobito

A total of 71 people have died since 11 March in flooding following heavy rains in the coastal city of **Lobito** in **Benguela** province, with 36 children among the victims. The storm destroyed at least 119 homes and eight schools, triggering landslides, pushing water into the city and leaving layers of mud on streets. The government announced \$1m in aid to help the victims, temporarily relocate them and secure the disaster areas.

The government has yet to fund and implement a long-term, much delayed housing plan for Lobito. For some years, rains in the rapidly expanding but unplanned suburbs have eroded natural protection against flooding and landslides, which has increased the exposure of downtown areas to flooding and devastation.

"The scale of that tragedy can be explained by the configuration of Lobito, with crowded slums and suburbs on the upper part of the city and a centre next to the ocean."⁸

*"It above all underlines the absence of emergency plan, the lack of sanitisation and the failure of urbanisation policy in the city. And this does not only affect Lobito but every major city in the country, starting with **Luanda**."⁹*

Since the disaster, the question of responsibility has been aired publicly. Local authorities and government members insisted that people in Lobito had settled in risk areas despite several prohibitions and warnings. Civil society organisations have responded that people had no choice but to build their houses where they could, with no public infrastructure available and as close as possible to the city, jobs and schools.

"This sad event shows the poverty and the despair of a huge part of the Angolan population as well as the crucial need for land redistribution in the country."¹⁰

The disaster also highlights the problem of governance in Angola:

"Local and regional authorities have not enough power, financial means and human resources to implement efficient policies because of the over-centralised state."¹¹

⁵ Source, importer, Luanda

⁶ Source, real estate actor, Luanda

⁷ Source, analyst, London

⁸ Source, civil society, Lobito

⁹ Source, civil society, Luanda

¹⁰ Source, analyst, Johannesburg

¹¹ Source, analyst, Luanda

In addition, "public policies are not discussed and elaborated with population but strongly imposed by the central administration"¹², which seems unable to develop dialogue between authorities and citizens.

*"The only good thing that came out of this terrible situation is the huge show of solidarity all around the country with the people of Lobito, sending food and help to the city. It has been a long time since we saw this kind of civic action."*¹³

International NGOs denounce intimidations of civil rights defenders

In a wider context of growing tension between the government and its critics, the Angola chapter of the **Fédération Internationale des Ligues des Droits de l'Homme (FIDH - OMCT)** and the Angolan NGO **Associação Justiça Paz e Democracia (AJPD)** have criticised judicial and administrative harassment, acts of intimidation, threats and other restrictions on freedom of association and expression aimed at human rights defenders in Angola.

*"The authorities of Angola [deliberately] maintain human rights defenders and journalists in a situation of vulnerability. This situation must come to an end and Angolan authorities must accept dissenting voices."*¹⁴

The two bodies argue that a draft government regulation aimed at curtailing the activities of NGOs, if adopted in its current form, would lead to the extinction of independent human rights organisations in Angola.¹⁵

In parallel, five others organisations, including **Amnesty International**, called for the immediate release of two human rights defenders in **Cabinda**, the activist **Jose Marcos Mavungo** and the lawyer **Arao Bula Tempo**. Amnesty International's deputy director for **Southern Africa**, **Muleya Mwananyanda**, described the arbitrary detentions as "*the latest disturbing example of growing repression of dissenting voices, peaceful protest and freedom of expression in Angola, particularly in the province of Cabinda*".¹⁶

These NGOs have also given vocal support to respected journalist and anti-corruption activist **Rafael Marques de Morais**, who went on trial on 24 March accused of making "*false accusations*" after a complaint from seven Angolan generals. The charges are seen locally as politically motivated. In a book published in **Lisbon** in 2011, the journalist accused the generals of being linked to murder, torture and land grabs in the lucrative diamond fields of Angola's remote north-east regions. The state first tried to launch a civil suit for defamation in **Portugal** in 2012, but the public prosecutor dismissed the case in early 2013 because of lack of evidence.

The Luanda trial was adjourned until 23 April, after just one day: the judges reportedly have to adjudicate several procedural questions raised by the defence before the hearings can continue. The FIDH and AJPD commented before the opening day on 24 March:

*"Rafael Marques has been targeted by the authorities for many years. The procedural irregularities observed since Marques was indicted in January 2013 clearly show that he won't get a fair trial. The case is an opportunity for the Angolan government to send a message of hope assuring that a fair trial is possible in the country."*¹⁷

If found guilty, Marques could be jailed and fined \$1,2m.

*"The generals want to stop him. But they and the regime have the most to lose. If the trial is judged to be unfair or if Marques goes to jail, they will face a negative international reaction damaging Angola's long (and expensive) PR efforts to boost its image. Besides, the trial emphasises only negative issues for the regime, diamonds, violence, corruption."*¹⁸

¹² Source, civil society, Luanda

¹³ Source, political analyst, Luanda

¹⁴ www.fidh.org, "They want to keep us vulnerable"

¹⁵ www.fidh.org, "They want to keep us vulnerable"

¹⁶ www.amnesty.org, "Angola: Activistas detidos devem ser libertados imediata e incondicionalmente"

¹⁷ Source, civil society, Luanda

¹⁸ Source, political analyst, Johannesburg

MPLA seeks diplomatic support from its friends

The government has responded to its financial problems in standard fashion, with intense diplomatic activity aimed at securing support from its closest friends. Cuba's first vice-president **Miguel Diaz-Canel** paid a three-day official visit on 19 March, meeting foreign minister **Georges Chicoty**, president of the national assembly **Fernando da Piedade Dias dos Santos** and vice-president **Manuel Vicente**. The Portuguese Secretary of State for Cooperation, **Luis Campos Ferreira**, also visited Luanda for two days to prepare the bilateral **Strategic Cooperation Programme** for 2015-2018, which will give greater focus to joint business in agriculture and energy.

"In a period of turbulence, the government uses such activity to try and show the population that it has support and friends on the international stage."¹⁹

President **José Eduardo dos Santos** (1979-present) visited **Namibia** for the 25th anniversary celebrations of the neighbouring country's independence and the inauguration of president-elect **Hage Geingob**.

"The Angolan leader has been working on a regional and African stature for the last two years. This trip is part of it, playing the local solidarity and investing in foreign affairs."²⁰

In Angola, the visit was largely criticised, especially on the internet and social networks. One prominent site noted *"The president has the time and will to go to Namibia but not to Lobito where his support could have given a great signal to a community in crisis."* The contrast between Angola's economic situation and the booming Namibian economy has also attracted media comment.

Finally, a large delegation of the ruling **Movimento Popular de Libertação de Angola (MPLA)**, headed by party vice president **Roberto de Almeida**, spent one week in **China** in mid-March, officially to strengthen the financial partnership between the two countries.

Implications

Following the initial shock of the economic situation, the government seems to be getting a grip on the immediate financial crisis caused by the oil price slump. The oil sector, banks and the rest of the economy at least now have a public policy basis for adjusting to the new economic reality. But the major challenge for the government is still to come: managing the political and social consequences of a 25% cut in public spending in a country with already high levels of poverty and income inequality. While the government could use the economic situation as an opportunity to be more open to new ideas and change around economic policies, transparency, and sustainable economic growth, *"it is not known for seeing such opportunities"*.²¹ The crisis could equally trigger significant popular disaffection.²²

The government's actions on civil rights show a continuing tendency to circle the wagons when faced with a challenge. The tragic event in Lobito underlines once again the failure of the state's social policies and undermines the image of the country abroad. The Rafael Marques' trial widens the avenues for criticism against the regime and will further weaken its popular standing.

Although the short-term financial situation is dire, the markets will likely keep faith for a while on the back of Angola's strong record in repayment of loans.²³ But Angola may – if oil prices do not recover by 2016 – have to ask international institutions such as the **International Monetary Fund** for support. It will not then be in the best position to push back against the institution's likely demands or requirements for reform.²⁴

¹⁹ Source, political analyst, Luanda

²⁰ Source, political analyst, London

²¹ Source, economist, Luanda

²² Source, economist, Luanda

²³ Source, political analyst, Johannesburg

²⁴ Source, political analyst, Johannesburg

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)