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Low oil prices and the need to diversify the economy dominate the political and diplomatic agenda in June. President Jose Eduardo Dos Santos (1979- present) visits China and the United Arab Emirates to sign agreements and holds discussion on increased cooperation with Russia before leaving for China. The details of the Chinese agreements remain secret. The Banco Nacional de Angola (BNA) devalues the kwanza for the first time since 2009; the gap between the parallel and official market rates widens. However, oil price rises in June may ease the economic woes. The Kimberly Process Certification Scheme Intersessional meeting in Luanda puts the spotlight back on Angola's diamond industry. Rafael Marques' six month suspended sentence provokes an international outcry.

China visit: no new loans but investment from private sources

In a bid for financial support to face the current economic crisis due to the drop in the oil price, President **Jose Eduardo Dos Santos** (1979- present) visited **China** from 8 to 13 June. The president and his Chinese counterpart, **Xi Jinping** (2012- present), signed bilateral pacts covering trade, transport, electricity and finance for an undisclosed sum of investment. A senior diplomatic source in **Luanda** noted

"The president rarely makes state visits, so the importance for Angola of this visit to China, and the need for additional credit, cannot be overrated. We are hearing unofficially that the total Chinese credit lines and investment deals now amount to somewhere close to \$25 billion. The new accords are being handled directly by the Presidency – they have not been put before Parliament for prior agreement."

The accords involve the construction and infrastructure industries, petrochemical, steel, light industry and agricultural product processing.¹ The Chinese government announced one new project, a \$4.5 billion contract for a hydro-electric dam to be built by Chinese company **Gezhouba** over a six-year period, financed by Chinese bank loans.²

The accords do not appear to be in the form of oil-backed loans. Initially, at least, the credits will come through private investment in a range of sectors, but there is considerable secrecy surrounding the accords and one cannot altogether rule out the possibility of more oil-backed loans."³

The opposition **União Nacional para a Independência Total de Angola (UNITA)** party asked for information in the **National Assembly**, with no success.⁴

*"We have to assume the accords will increase the **China International Fund's** presence in Angola, but there is little information at this moment."⁵*

¹ Chinese official announcement, 9 Jun 2015, Ministry press release, www.minfin.gv.ao

² Reuters, 9 Jun 2015.

³ Source, senior diplomat, Luanda

⁴ Source, Unita, www.unitaangola.com

⁵ Source, senior diplomat, Luanda

"There are a lot of concerns about the conditions of the financial agreement because Dos Santos went to China in a moment of despair, due to the economic crisis, and he did not have much bargaining power."⁶

China has played a key role in building Angola's infrastructure since the end of the civil war in 2002, granting at least \$15 billion in loans to date. Chinese-Angolan bilateral trade was worth \$37.5 billion in 2014, with 50% percent of Angola's oil exports being made to China.⁷ Angola's trade with China matches its combined trade with its next 10 biggest partners.⁸

"The general feeling is that the country is too dependent on China which already imports about half of Angola's oil. Can we rely so much on one country? What will happen if China suddenly withdraws from Angola?"⁹

Angolan and foreign media reported that dos Santos also asked **Beijing** for a moratorium of at least two years on debt repayment and for new credit facilities.¹⁰ In an unusual move, the finance ministry strongly denied the report in an English press release.¹¹

"Neither the President of Angola nor any minister of the Angolan government asked the Chinese government for a moratorium on Angola's debt repayments to Chinese financial or governmental institutions."

Prior to his visit to China, dos Santos received **Mikhail Bogdanov**, President **Vladimir Putin's** (2012-present, 2000-2008) special representative for **Africa** and the **Middle East**, and **Russia's** deputy minister for foreign affairs, with whom he discussed further co-operation.¹² Russia is already a major investor in Angola's diamond industry – both as operator of the **Catoca** mine and several new mining ventures, and in a large-scale prospecting venture. One aspect of the meeting was to discuss closer economic ties between Angola and Russia.

This was also the theme of agreements signed in **Abu Dhabi** between Angola and the **United Arab Emirates (UAE)** as Dos Santos returned from China. The agreements related to potential investments in mining, agriculture oil, gas and the financial sector.¹³

Devaluation of kwanza aims to stimulate foreign currency inflows

The **Banco Nacional de Angola (BNA)** devalued the kwanza by 6% on 2 June in a bid to stimulate foreign currency inflows and curb speculation on the black market. The currency devaluation shows the extent of the continuing economic crisis caused by the drop in oil prices.¹⁴ Central bank governor **José Pedro de Morais Júnior** said the measures were to "...*provoke adjustments. Not only on the FX market but also on the monetary one.*"¹⁵ The actual exchange rate by 19 June was 120 kwanza to the dollar,¹⁶ already higher than the 117 kwanza rate initially reported. The exchange rate on the informal market is much higher at 170-180. The growing differential in the informal currency rate is also likely to affect the inflation rate, expected to stand at 9% in 2015.¹⁷

⁶ Source, political analyst, Johannesburg

⁷ Source, Bloomberg, www.bloomberg.com

⁸ Source, Bloomberg, www.bloomberg.com

⁹ Source, economist, Luanda

¹⁰ Angop, 11 Jun 2015.

¹¹ Ministry press release, www.minfin.gv.ao

¹² Angop, 1 Jun 2015.

¹³ ANGOP 13/6/15

¹⁴ Source, senior diplomat, Luanda

¹⁵ Source, Macauhub, www.macauhub.com

¹⁶ Source Banco Nacional De Angola (BNA) website

¹⁷ Angop, 9 Feb 2015.

“This is not a massive change, but there is a significant differential between the informal currency market and the official rate, for the first time in many years, and this tends to push Angola’s inflation rate higher. The massive drop in oil revenues is already affecting the foreign exchange reserves and Angola’s balance of payments. Increased Chinese investment will have an impact, but the crucial need is still to develop new economic sectors and move away from the dependence on extractive industries.”¹⁸

Angolan and foreign analysts said the official devaluation would not be sufficient to shore up the country's foreign currency reserves which fell by 13% to \$26.2 billion between the end of March and May.¹⁹ Economist **Manuel Alves da Rocha**, director of the **Centre for Studies and Scientific Research** of the **Catholic University of Angola**, said that a 20% devaluation of the kwanza would be necessary to produce results.²⁰

The private sector welcomed the action but continues to complain about liquidity difficulties. Several private actors criticised the timing of the government’s reforms, pointing out the challenge in encouraging people to use kwanza when the currency is falling and bank transfers are difficult.

“The way the Central Bank conducts the auctions and uses the foreign currency is not clear. This creates uncertainty. Besides, we know that some banks are facing huge financial problems. Businessmen and investors remain worried.”²¹

The currency devaluation will have an impact on the cost of living due to the country's dependence on imports.²² **Luanda** remains the world's most expensive city for expatriates because of the high cost of rent, imported goods and security.²³

The BNA also increased the volume of foreign currency weekly auctions to commercial banks. The central bank announced on 1 June that it had sold \$400m foreign exchange to Angola’s commercial banks during the last week of May alone.²⁴ In the first week of June, it injected \$936m, a one-year record, reducing to \$300-400m in the following weeks.²⁵

Global oil prices rose in June to \$62 per barrel, rising to a high of \$65 by mid month, from a low of \$45 in January this year.²⁶ Angola’s revised 2015 budget had been based on an oil price of \$40 per barrel, with an expected budget deficit of 7% of GDP but it is too early to predict what effect this rise will have in Angola and whether oil prices will remain at this level.

Angola hosts Kimberley Process Intersessional meeting in Luanda

Angola is overseeing discussion of major issues in its role as current chair of conflict diamond control body, the **Kimberley Process Certification Scheme (KPCS)** at its intersessional meeting in Luanda from 22-26 June. The vice chairmanship is disputed between **Australia** and the UAE, whose Kimberley Process office is based in **Dubai’s Multi Commodity Centre (DMCC)**. According to an observer present at the KP Plenary in November when the issue arose,

“Questions were raised about Dubai’s fitness to be chair of the KP next year; concerns also relate to Dubai’s Kimberley Process implementation and the issue was left until this meeting for settlement, even though we are now halfway through the year.”

The meeting will focus on technical issues and reports from the KP working groups and committees and will also look at the Financial Action Task Force report *“Money Laundering and Terrorist*

¹⁸ Source, senior diplomat, Luanda

¹⁹ Macau Hub citing BNA

²⁰ Source, Lusa, www.lusa.pt

²¹ Source, bank sector actor, Luanda

²² Source, independent consultant, Luanda

²³ www.mercer.com, 17 Jun 2015.

²⁴ ANGOP 01/06 /5

²⁵ Source, Lusa, www.lusa.pt

²⁶ London FT reports, and others June 2015.

Financing through the Diamond Industry”, and what policies the KP should adopt in relation to it. Dubai has significant mention in this report but denies money laundering in the UAE’s diamond industry.

The same observer noted that the final contentious issue on the KP agenda is whether any of the **Central African Republic (CAR)**’s diamonds may now be exported under KP auspices. The KP suspended CAR’s diamond exports in May 2013, following reports that rebel groups were illicitly trafficking diamonds from CAR. The KP noted that the possible introduction of rough diamonds produced in CAR into the legitimate diamond trade threatens the integrity and credibility of the KPCS. The KP’s roadmap for CAR’s re-admittance to the KP includes enhanced monitoring by the KP and the footprinting of CAR’s diamond production by the KP’s **Working Group of Diamond Experts**. The CAR has also to implement a new, secure notification of KP certificates.²⁷

Angola provided technical support to the CAR in April 2015. This included technology for artisan mining in the CAR, equipment for diamond trading and financial support of \$11m.²⁸ Angola strongly supports the CAR’s re-admittance to the KP, and led the recent KP Mission to the CAR to report on progress to the intersessional meeting.

Rafael Marques six month suspended sentence provokes international outcry

The Kimberley Process meeting is taking place under the long shadow of **Rafael Marques de Morais**’ six-month suspended sentence for criminal libel. According to a **United Kingdom (UK)**-based journalist and author who followed the trial:

“The defamation trial was concluded on 28 May, following a series of absurdities and irregularities – chief of which being that the allegations in the book were never even addressed. Despite making the outrageous charge that Marques had fabricated it all, the judge initially dropped the charges. He quickly made an about-turn, sentencing Marques first for a month, and then later to a six-month jail sentence, suspended for two years.”²⁹

The president of the **American Bar Association** sent a letter of protest to Angola on 3 June, saying the association

“is concerned that the proceedings leading to the conviction and six-month suspended sentence of Angolan journalist and human rights advocate Rafael Marques de Morais were marred by procedural irregularities inconsistent with international fair trial standards”.³⁰

The case relates to allegations made in Marques’ 2011 book *“Blood Diamonds: Corruption and Torture in Angola”* that the **Forces Armada Angolana (FAA)** and security companies owned by FAA generals engaged in abusive treatment of illegal artisan miners. The allegations have been widely publicised, but what has not been publicised is the major change of policy in Angola since 2012, according to a consultant who examined this sector in Angola last year.³¹ She noted that

*“there has been a massive drop in recorded cases of violence against illegal miners since Rafael wrote his reports. The many [Democratic Republic of the Congo] DRC nationals mining illegally are being returned without violence, at the moment, and the government is now legalising the small miners, and intends that the sector, which produces about 10% of Angola’s diamonds and supports about 100,000 miners, will receive support to develop into a professional small-scale mining sector. This will be largely self-funding and is part of the government’s **Poverty Reduction Plan**. If fully implemented, this policy will stabilise the mining zones.”*

²⁷ Source: Kimberley Process documents re CAR.

²⁸ Source Endiama Press Release, 8 Apr 2015.

²⁹ Source, writer on Angola’s oil industry and politics

³⁰ ABA Press Release, 6 Jun 2015.

³¹ Source, London-based consultant who spent four weeks in Angola examining progress in registering ASM miners

Diamonds are Angola's second largest export after oil, at \$1.5 billion per year and with the fall in oil prices, it has become a government priority to increase the country's diamond production potential, both through developing the artisan sector and by opening new industrial-scale mines.³²

*"The Marques trial was ill-conceived and should have been dropped in the wider interest of improving conditions in the mining zones."*³³

Implications

Angola is again looking towards China and, to an extent, Russia to resolve the major economic problems posed by the fall in oil prices. The national plan aimed at stimulating internal investment and the growth of small and medium enterprises has so far not been as successful as expected due to both internal factors and the oil price drop. Angola is turning to foreign investors, rather than loans, to decrease oil dependence. The Chinese agreements and the rise in oil prices this month should ensure that the economy continues to grow, but whether that will have benefits outside the elite circle is moot. The long-term consequences are also problematic in terms of the real cost of the help and increased dependence on China. What is clear is that external investors in new industries are essential for Angola's future economy.

Despite China's support, business environment prospects are gloomy. The banking sector faces problems in transferring money and obtaining liquidity; companies are laying off workers to reduce business input costs. Dos Santos will face increasing pressure from the population – as inflation and unemployment increase, the social situation will become more difficult for the ruling **Movimento Popular de Libertação de Angola (MPLA)** party to control.

While Angola is looking east for economic solutions, it is looking west for political credibility. Angola's chairmanship of the Kimberley Process is part of its policy of developing its international diplomatic presence and status, as well as bringing more legitimacy to the country's diamond industry. Angola has been a non-permanent member of the **United Nations Security Council** since January 2015, and is chair of the **International Labour Organisation (ILO)** for 2014-2015. However, Angola's higher profile international presence is set against a background of criticism of the elite-owned economy and human rights issues that lead Angola to look to less critical investors.

³² Source, diamond industry consultant, London

³³ Source, diamond industry consultant, London

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