

AFRICA RISK CONSULTING

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Parliament passes the 2016 budget amidst objections from opposition groups over the lack of consultation. The finance ministry notes the need for improved internal controls on expenditure. State oil company Sonangol awards new onshore oil concessions to small, mainly Angolan, oil companies. A number of successful bidders for the oil concessions have links to the ruling Movimento Popular de Libertação de Angola (MPLA) elite, reflecting rampant nepotism and corruption in the country's oil sector. Standard Bank and Bank of America cease supplying United States dollars to Angola, as part of their self-regulation precautions against money laundering and financing for terrorist activities. This creates concerns about inflation and growth of the parallel market.

Angola's parliament passes 2016 budget

The **National Assembly** passed the draft state budget for 2016 on 11 December, with 151 votes in favour, 37 against and 1 abstention.¹ Opposition parties, principally **União Nacional para a Independência Total de Angola (UNITA)** and **Casa CE**, had argued for a revision of the 2016 budget before it was passed and voted against the budget.² The Angolan budget, set at Kwanza 6.429 trillion (\$45 billion), is relatively austere, in the face of the continuing oil price crisis. It is based on an average oil price of \$45 per barrel during 2016.³ The 2016 budget deficit is expected to be 5.5% in 2016, with economic growth of 3.3%. Finance minister **Armando Manuel** said in a statement on the budget,

*"We need to reduce costs in our operations, we need to spend better with the few resources we have. The current moment requires us to become more efficient. We need, at this point, to turn to the exploration of other opportunities that the country offers us."*⁴

Manuel noted that four key areas in the budget are support for productive private investment, the restructuring of the primary sectors of the economy (agriculture and fisheries), strengthening macroeconomic coordination to improve financial stability, and increasing the quality of spending (spending better with the few available resources).⁵

The finance ministry said it would conduct a review of the budget in 2016 if the oil price dropped below the \$45 per barrel envisaged. At time of writing, the oil price was \$37 per barrel. Angolan economist and director of the **Center for Studies and Scientific Research of the Catholic University of Angola, Alves da Rocha**, pointed out

*"Even lower crude prices could compromise the execution of the state budget next year. It may mean the budget forecast is overly optimistic, but I do not think a budget review will be needed."*⁶

¹ Ministry of Finance statement on budget, 11 Dec 2015

² El Pais, 11 Dec 2015

³ Source: Lusa 10 Dec 2015

⁴ Ministry of Finance statement, 11 Dec 2015

⁵ Ministry of Finance statement, 11 Dec 2015

⁶ Source: Lusa 10 Dec 2015

The budget statement also reinforced the need for better internal controls on expenditure, noting MPs' recommendations that:

- Internal supervisory bodies should ensure effective supervision and discipline in the execution of public investment projects and the management of the state budget at various levels.
- The government should pay particular attention to the payment of public debt to small and medium enterprises with a view to strengthening the national business community, and should take appropriate measures to support the private sector, in order to effectively implement the diversification of the economy.
- The government should improve control mechanisms to ensure compliance with the provisions of the law on public procurement and ensure that defaulting managers and violators of the provisions of budget law are held responsible.
- The government should finalise effective civil service control of the armed forces and national police.
- Officers of municipalities and provinces should not use funds for sanitation and urban cleaning for other purposes.
- The government should require large institutional consumers, including central and local government, the public enterprise sector, defence agencies, security and public order, schools and hospitals, to preferentially acquire domestic products.⁷

The finance ministry's recommendations – especially support for the private sector, payment of public debt in a timely manner, and internal procurement of goods where possible – have become crucial in the weakened economy. The summary of deputies' concerns also reflects a mutual desire for stronger controls over public expenditure. These issues are not normally a subject of public debate, but are continuing problems in Angola. The ineffectiveness of supervisory bodies for public expenditure in Angola is notorious, with public funds diverted and misspent. These statements that reinforce the laws, show an unprecedented desire to ensure accountability in public expenditure.

Sonangol announces results of bidding for on-shore oil blocks

Angola's state-owned oil company **Sonangol** announced the results of bidding for ten onshore oil blocks on 30 November.⁸ Angola currently produces about 1.77 million barrels of oil per day through off shore drilling, and Sonangol had previously said that half of Angola's oil reserves could be contained in the on-shore blocks, with an expected output of 700,000 barrels per project over the life of the concession (see *ARC Briefing Angola August 2015*). Sonangol has awarded all three concessions in the **Baixa Congo (CON)** basin and five out of seven in the **Kwanza (KON)** basin.⁹ The list of pre-qualified operators for this bidding round contained all the major oil companies operating in Angola and some new names, including **Austria's OMV, Colombian state oil company Ecopetrol, Abu Dhabi's Mubadala Petroleum, London-based Dragon Oil, United Kingdom (UK)-based Sterling Energy** and mining major **Glencore**.¹⁰

Sonangol stated that Angolan domestic companies would have to pay \$1m for each block in which they are registered.¹¹

*"The concessions are awarded on the basis that each consortium has to provide bank guarantees for the work they will carry out."*¹²

Sonangol's own oil production subsidiary, **Sonangol Pesquisa & Produção**, is a partner in four of the blocks, although not an operator.¹³ **SOMOIL**, a relatively well-known Angolan oil producing company

⁷ Ministry of Finance statement on National Assembly, views. 11 Dec 2015

⁸ Sonangol media statement, 30 Nov 2015

⁹ Sonangol media statement, 30 Nov 2015

¹⁰ Sonangol list of pre-qualified operators for on-shore bidding round 2015

¹¹ Sonangol media statement, 30 Nov 2015

¹² Sonangol media statement, 30 Nov 2015

whose shareholders include vice president **Manuel Vicente**,¹⁴ will operate the Baixa Congo basin 1, and is consortium member in the Kwanza basin block 17. **Grupo Simples**, which also has oil production experience, is operator for Kwanza basin block **KON 6** and consortium member in block **KON 9**.

Other Angolan oil companies named as operators have no track record in oil production and are relatively unknown. These include

- **Alfort Petroleum**, operating block **KON 8**;
- **AIS** in block **KON 9**; and
- **Sunshine**, (reportedly a **Hong Kong**-registered oil company) operating three blocks, **KON 5**, **KON 17** and **CON 6**.¹⁵

Other companies also reflect the continued dominance of politically connected Angolan elites in accessing oil blocks. This includes **Poliedro**, whose shareholders include the sister and niece of former MPLA leader and president, **Agostinho Neto** (1975-1979), and **Prodoil**, headed by **José Pacavira Narciso**, brother-in-law of President **Jose Eduardo Dos Santos** (1979-present).¹⁶

*"Despite Sonangol's optimism, the status of these reserves, as proven reserves or only probable, is unclear. If there are proven reserves, one would have expected that oil majors would be interested in the blocks, given that there is a considerable lead time before any new wells could come on stream. It is well known, though, that oil majors are currently cautious about taking on new investments due to very low oil prices. It is as likely that Angola's onshore blocks so far allocated do not have very significant reserves, since all the companies in the consortia for the blocks are very small, and in many cases lack previous experience of oil production."*¹⁷

Sonangol believes that substantial oil reserves exist in these blocks, and this makes them lucrative and strategic for the country's revenue.¹⁸ The majority of oil companies that will extract from the blocks are linked with Angolan political elites, highlighting the continuing corruption in the country's biggest industry.

Banks suspend dollar dealings in Angola

International banks have suspended supplying dollars to privately owned Angolan banks due to money laundering concerns. **The Bank of America**, which supplied foreign currency to Angola through its **South African** broker, **Rand Merchant Bank (RMB)**, suspended dealing in **United States** dollars in November.¹⁹ It was the largest supplier of dollars to Angola.²⁰ **Standard Chartered Plc**, also announced on 5 December that it has ended its dollar-clearing operations with commercial banks in Angola, due to a higher perceived risk and problematic implementation of know-your-customer (KYC) regimes.²¹

*"We have taken the decision to exit the US dollar-clearing business, and other offshore business we offer to Angolan commercial banks."*²²

The banks will not completely pull out of Angola, and will continue to work with the **Banco Nacional De Angola (BNA)** and the ministry of finance, and local interbank activities. Standard Chartered

¹³ All names of consortium member companies drawn from SONANGOL announcement 30 November 2015

¹⁴ Africa Confidential July 2012

¹⁵ Sonangol announcement, 30 Nov 2015

¹⁶ From oil industry sources in Luanda and corporate documents

¹⁷ Source, analyst

¹⁸ See ARC Briefing Angola November 2015

¹⁹ Story confirmed by diplomatic sources in Luanda.

²⁰ Reuters, 26 Nov 2015

²¹ Reuters, 2 Dec 2015

²² Reuters, 2 Dec 2015

opened a subsidiary in Angola only in January 2014, in a joint venture with **Empresa Nacional de Seguros de Angola**.²³

The US department of justice and **Securities Exchange Commission (SEC)** have previously investigated both Standard Chartered and Bank of America, which may have influenced the banks' latest decision.²⁴ The banks' decisions to withdraw dollars are principally self-regulatory since Angola's anti-money laundering and anti terrorist financing laws have been generally weak. Money launderers also evade risk assessments and KYC processes through hidden ownership.

The **Financial Action Task Force (FATF)**, a global organisation enforcing financial regulations, once described Angola as "*inadequately compliant*".²⁵ However, the FATF said that Angola has made significant progress to improve its anti-money laundering (AML) regime and combating the financing of terrorism (CFT) through

- adequately criminalising money laundering and terrorist financing;
- establishing an adequate legal framework and procedures for the seizure and confiscation of funds related to money laundering and the identification and freezing of terrorist assets;
- establishing a fully operational and effectively functioning financial intelligence unit;
- improving customer due diligence measures;
- ensuring that an appropriate legal basis exists to provide AML and CFT-related mutual legal assistance; and
- ratifying the **United Nations (UN) Convention for the Suppression of the Financing of Terrorism** and the **UN Convention on Transnational Organised Crime**.²⁶

Angola has substantial dollar reserves. **International Monetary Fund (IMF)** representative **Max Alier** indicated that Angola has \$25 billion of foreign reserves in the treasury, together with \$5 billion held by its **Sovereign Wealth Fund**.²⁷ The cessation of dollar transactions will mostly affect SME's and some individuals, especially those who hold dollar accounts and already face stringent limits on withdrawals. This will also discourage imports, and force small businesses to buy dollars on the black market to pay suppliers. The value of the kwanza against the dollar has been falling due to the slump in global oil prices. The exchange rate was Kw133/\$, with a parallel market exchange rate of Kw255/\$ by the end of November, which will worsen as the supply of dollars diminishes.²⁸ The **Associação Angolana de Bancos (ABANC)**, Angolan association of banks) had previously issued a warning about the possible foreign currency shortages, and proposed the use of credit and debit cards and international bank transfers instead of cash.²⁹

*"Developments in international financial markets in the field of anti-money laundering and terrorist financing have been imposing pressure on banks to control the use of cash, in order to significantly limit its use as means of payment, and to encourage in place the use of payment cards and transfers."*³⁰

Implications

Angola's new austere budget reflects the country's financial strain as a result of low global oil prices. The government has been making concerted attempts to reduce public spending, which includes restructuring Sonangol (see *ARC Briefing Angola November 2015*). Its call for a review of public

²³ Standard Chartered website.

²⁴ BOA investigated over the movement of cash by an alleged arms dealer, and Standard Chartered in relation to Iran sanctions, both in 2012

²⁵ FATF website

²⁶ FATF "Improving Global AML/CFT Compliance: on-going process – 23 October 2015"

²⁷ Jornal De Noticias Luanda, 28 Nov 2015

²⁸ Source, analyst

²⁹ ABANC statement, 5 Nov 2015

³⁰ ABANC statement, 5 Nov 2015

spending indicated in the budget statement is unprecedented, although it is not likely to influence a paradigm shift in the MPLA-led government's corrupt practices, especially in the oil sector.

Sonangol's new bidding round for ten onshore blocks has resulted in virtually unknown Angolan and foreign oil companies being granted the oil exploration concessions. Some of the companies have no identifiable track record in oil production, and some of the Angolan companies have demonstrable links to the political elite. This shows the extent of corruption and nepotism in the oil sector. However, the current slump in global prices is likely to persist, and will continue to affect the oil sector's profitability in Angola.

The impact of banks' withdrawal of dollars from the Angolan market is likely to be substantial and to drive up inflation. The withdrawal appears to be related to improved AML-CFT measures in Angola in general, but mainly influenced by the banks' internal self-regulatory measures rather than new concerns about money laundering. However, risk assessment and KYC regimes remain weak in Angola. Banks and business people will resort to the use of electronic transactions, and other currencies, especially the South African rand and the euro. A parallel market for dollars is likely to emerge.

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