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A group of 14 lawyers files a petition with the Supreme Court demanding that president José Eduardo dos Santos (1979-present) justify the appointment of his daughter, Isabel dos Santos, as the chairperson of Sonangol. Parliament approves the 2017 government budget, with a 7.3 trillion kwanza (k) (\$44.22 billion) spend and a planned reduction of inflation of 22.7%. The budget is based on an oil price of \$46 per barrel. Angola hosts the Angola China Investment Forum, with the government presenting 100 projects to Chinese investors.

14 lawyers file case against Isabel Dos Santos' appointment as Sonangol head

A group of 14 **Angolan** lawyers on 25 October filed a **Supreme Court** petition demanding that president **Jose Eduardo dos Santos** (1979-present) justify his appointment of his daughter, **Isabel dos Santos**, as chairperson of state-owned oil and gas company **Sociedade Nacional de Combustíveis de Angola (Sonangol)**.¹ The move is unlikely to lead to the removal of Isabel dos Santos as chairperson of Sonangol, but does indicate growing popular dissatisfaction with dos Santos's non-transparent ruling style. **David Mendes**, one of the lawyers who filed the Supreme Court case, said

*"The Supreme Court has accepted our suit and it is a very important step. It is the first time that the court will examine a decision of the president ... The law stipulates that public officials cannot nominate or allow the nomination of family members."*²

Mendes said the Supreme Court has given dos Santos eight days to respond. A member of Angola's ruling **Movimento Popular de Libertação de Angola – Partido do Trabalho (MPLA)** party said dos Santos would not appear in court in person but would send a legal representative.

*"The constitution of Angola is clear, the president does not have to personally explain actions taken during his term in court or in parliament."*³

Dos Santos announced the appointment of Isabel dos Santos as head of Sonangol in a press release published on 3 June.⁴ Local commentators and international media saw the appointment as nepotistic (see *ARC Briefing Angola June 2016*). As one local lawyer states,

*"In our country, the thing that rules is nepotism. [Isabel dos Santos] IDS's nomination was her father's express wish, otherwise he would have consulted others on this decision... Seeing as Angola is ruled by a dictatorship, there is a unilateral desire to have a sole person rule all aspects of national life. Despite my being an experienced lawyer for many years, unfortunately, I cannot say with certainty that a lawyer will ever reverse the president's decision."*⁵

After Isabel dos Santos' appointment on 9 June, Mendes and **Luis Nascimento**, another lawyer involved in the Supreme Court case, claimed the appointment breached public probity laws.⁶

¹ Reuters, 26 Oct 2016.

² David Mendes quoted in AFP, 25 Oct 2016.

³ AFP, 25 Oct 2016.

⁴ www.sonangol.com

⁵ Source, lawyer, Luanda

⁶ www.theguardian.com

“The law on administrative probity defines as an act of corruption, conducive to illegal enrichment, the receiving of economic advantage as commission, percentage, gratification or gift, in a direct or indirect form, among other acts, from a party that might have an interest that might be the subject of, or seeks to benefit from, an action arising from the duties of a public servant.”⁷

Isabel dos Santos’ appointment raises doubts over the legitimacy of Angola’s governance system and the extent to which President dos Santos holds direct control over the strategic oil and gas sector. Some legal practitioners claim the Supreme Court does not allow for fair rulings,

“I have noticed, especially for cases of a political nature, that sometimes Supreme Court judges don’t have the power of immunity to decide on certain issues. This is why [dos Santos] is the first magistrate of this country and judges have always been influenced by his decisions. Unfortunately, the fact that dos Santos elects many Supreme Court judges means that they will often have political sympathy. To me, this is enough to show that the Supreme Court will struggle to make a judgement such as this.”⁸

Political analysts fear the appointment could negatively impact investors’ perception of Angola and, more broadly, indicate that dos Santos is trying to move his daughter closer to the political sphere, potentially even contesting for president. The chairperson of Sonangol, which provides 90% of Angola’s export revenue, is arguably one of the most powerful positions in Angola after the presidency.⁹ Dos Santos will step down in 2018, after elections in 2017, which puts him in a strong position to choose his successor.¹⁰

There appears relatively little doubt about the result of the petition. As one local legal educator states,

“There are two possible conclusions we can draw from this. First, the Supreme Court will consider that [Isabel dos Santos] IDS’s nomination did not break the law, and we will then see a pro-regime parade for the victory, after which many leaders will be able to name their family members for positions of power. Second, the result will be the opposite, and probably the highest profile legal precedent in Angola’s history. To say that the latter appears unlikely is an understatement.”¹¹

Parliament approves 2017 budget and ministers revise 2016 budget

Parliament on 17 November approved the proposed 2017 budget. The total budget is 7.3 trillion kwanza (k) (\$44.22 billion), a 5.7% increase from k6.9 trillion (\$41.8 billion) in 2016.¹² As many as 150 members of parliament (MPs), comprising predominantly MPLA and **Frente Nacional da Libertação de Angola (FNLA)** MPs, voted in favour of the budget.¹³ A total of 32 MPs – members of opposition **União Nacional para a Independência Total de Angola (UNITA)** party and the **Convergência Ampla de Salvação de Angola-Coligação Eleitoral (CASA-CE)** political alliance – voted against it.¹⁴

“For the first time, the finance ministry made the proposed budget public on the same day as it presented the document before parliament. This time, with regards to the 2017 budget, it was not necessary to play influences in order to gain access to the document insofar as a budget debate. It is a positive point for our new finance ministry team.”¹⁵

⁷ www.makaangola.org

⁸ Source, lawyer, Luanda

⁹ Bloomberg, 2 Jun 2016.

¹⁰ Reuters, 3 Jun 2016.

¹¹ Source, law professor, Luanda

¹² Agência Lusa, 17 Nov 2016.

¹³ Agência Lusa, 17 Nov 2016.

¹⁴ Agência Lusa, 17 Nov 2016.

¹⁵ Source, economics professor, Luanda

The 2017 budget is based on a price of \$46 per barrel of oil, compared to \$40.90 in the revised 2016 budget (see below). The 2017 budget holds the same growth outlook – 2.1% of gross domestic product (GDP) – as the revised 2016 budget, passed in late October.¹⁶ As one local analyst states, this growth rate appears more favourable than the reality,

“It is clear that Angola, as a developing African economy, is struggling a lot with the current price of oil. Although this is a positive growth rate, Angola’s population growth is greater than this – 2.7% per year. As such, this growth rate will translate into little benefit for the majority of Angolans. Moreover, in real terms, the actual level of growth that this will bring to Angola’s economy is small.”¹⁷

The level of debt to fund the 2017 budget is 32%.¹⁸ The government says that the level of debt to GDP is expected to lower to 53% in 2017, down from over 60% in 2016.¹⁹ Local analysts criticise the government for its level of debt repayment within the budget,

“If we look at the proposed 2017 budget, contrary to what government tells us, we can see that social aspects are not the priority. With the speed of indebtedness of governments of previous years, the government’s priority for 2017 is the payment of debt.”²⁰

Angolan media reported on 24 October that the council of ministers had reviewed the budget. Secretary of state for budget **Aia-Eza da Silva** said the budget is based on projected growth of 2.1% and inflation of 15% in 2017 measured from the consumer price index (CPI).²¹ This would lead to a 22.7% reduction in inflation, from the current level of 38.5%.²² Moreover, the 2017 fiscal budget deficit is expected to come in at 5.9%, which da Silva indicated was a “...sustainable level compared to the estimated debt figures...” for 2017.²³

The government’s initial 2016 budget, passed in November 2015, was based on a price of \$45 per barrel of crude oil. The government then passed a revised 2016 budget on 19 October, based on the lower oil price of \$40.90 per barrel.²⁴ The smaller 2016 budget included a deficit of 6.8% GDP compared to the original forecast of 5.5%.²⁵ The smaller 2016 budget was predicated on a real year-on-year GDP growth forecast for 2016 of 0.8% in the oil sector and 1.2% in the non-oil sector.²⁶ Oil prices have remained largely above this level over the past year (except the January to April period), and current prices are around \$49.95.²⁷ Today, most analysts foresee a price above \$45 for the remainder of 2016, including **United States (US)-based Goldman Sachs, Morgan Stanley, Bank of America and Citi Group**. The **World Bank’s** estimate for 2017 is at least \$50 per barrel.²⁸

Angola hosts China investment forum

Over 600 companies took part in the **Angola China Investment Forum (ACIF) in Luanda** on 7 and 8 November.²⁹ The high participation rate indicates that **Chinese** companies remain interested in investing in Angola despite the slow economic growth due to low international oil prices.³⁰ At the opening of the ACIF, China’s ambassador to Angola, **Cui Aumin**, indicated that despite the economic

¹⁶ Agência Lusa, 17 Nov 2016.

¹⁷ Source, economics professor, Luanda

¹⁸ Agência Lusa, 17 Nov 2016.

¹⁹ Agência Lusa, 17 Nov 2016.

²⁰ Source, economics professor, Luanda

²¹ www.macauhub.com

²² Source, economics professor, Luanda

²³ www.macauhub.com

²⁴ www.angop.ao

²⁵ www.angop.ao

²⁶ www.macauhub.com.mo

²⁷ Multiple sources: Portal de Angola, 17 Nov 2015; www.nasdaq.com.

²⁸ Oil Price, 24 Oct 2016.

²⁹ www.allafrica.com

³⁰ www.allafrica.com

constraints in both China and Angola, there is a “good prospect for development” and that China is ready to help finance investment in Angola.³¹ As part of the ACIF, the Angolan government highlighted over 100 new projects in the construction, infrastructure, industry, agriculture, energy, water, mineral resources, housing and educations sectors. This is part of efforts to attract Chinese investment and diversify the Angolan economy away from the oil and gas sector.³² As one local consultant states,

“The relationship between China and Angola remains very strong. The problem has to do with the lack of Angolan government funds due to the drop of oil revenues since the collapse of crude oil prices. China is Angola’s chief financier... and Chinese funding goes largely to public-private partnerships. As such, Chinese companies only accept business opportunities that are associated with Chinese credit.”³³

Local sources also allege that Chinese-led business initiatives, often in joint ventures with the Angolan government, are susceptible to corruption,

“A lot of the projects go through the planning ministry and provincial governments. People in these areas of government have no qualms showing their wealth, because they know that the finance ministry needs them to get these projects off the ground. It’s almost impossible to find these officials living in poverty. In Luanda, these officials live in large condominiums and are owners of large fleets of luxury cars.”³⁴

Implications

The court petition, with support from legal practitioners and educators critical of the dos Santos regime, is unlikely to contradict or reverse Isabel dos Santos’ appointment. However, it will bring the issue to the attention of the international community and local critics, which may increase vocal opposition to dos Santos’ regime. Further evidence of the alleged illegality of Isabel dos Santos’ appointment could worsen Angola’s credit reputation.

The 2017 budget proposes an increase in spending in a climate of low oil prices and high inflation. If both of these factors are reversed, Angola’s growth outlook and expenditure appear feasible. If government increases its indebtedness over this period, oil prices drop and inflation increases, Angola could face a significant debt crisis.

Sino-Angolan economic relations remain strong, while Chinese lending props up Angolan government spending. However, there are allegations that Chinese state-backed investment ignores certain investment risks, including scrutiny of lower-level corruption risks.

³¹ www.allafrica.com

³² www.allafrica.com

³³ Source, consultant, Luanda

³⁴ Source, consultant, Luanda

About Africa Risk Consulting:

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