

AFRICA RISK CONSULTING

Angola Monthly Briefing February 2016

Angola Summary 18 February 2016

National oil company Sociedade Nacional de Combustíveis de Angola (Sonangol)'s restructuring committee makes public Isabel dos Santos' involvement as a member, and announces that it will report recommendations in March. Analysts view her presence as intended to influence its decisions, thus representing further centralisation of the company's managerial control under the president's family. Government announces strategies to boost the Angolan economy including short-term loans, foreign investment, and Chinese financing. Banco Nacional de Angola (BNA) increases anti-money laundering oversight in order to comply with global regulatory standards and increase supply of foreign currency to its weakening economy.

Restructuring committee reveals Isabel dos Santos' involvement in Sonangol

The **Comité de Avaliação e Análise para o Aumento da Eficiência do Sector Petrolífero** (Evaluation and analysis committee to increase oil sector efficiency) has revealed that President Eduardo dos Santos (1975-present)'s daughter **Isabel** is a member of the state oil company restructuring committee. The government set up the committee in October 2015 to restructure the national oil company, **Sociedade Nacional de Combustíveis de Angola (Sonangol)**.¹ The committee became operational in January 2016.² The *casa civil* (chief of staff), secretary of the council of ministers, and minister of state **Edeltrudes da Costa** are all members of the committee.³ During a press release, the committee responded to allegations in the **Angolan** and **Portuguese** media that its role is to privatise Sonangol:

*"[Our role is] to identify new forms of organisation that will make a competitive and attractive [oil] sector for international operators, as well as improve the performance of Sonangol. Additionally, we intend to identify ways to establish domestic production capacity, and support the oil industry in Angola, and reducing imports and production costs. Unlike the information presented by some media, the committee's objective is not the evaluation and sale of assets or of the Sonangol Group."*⁴

The committee also includes the minister of finance, the governor of the **Banco Nacional de Angola** (BNA, National bank of Angola), and a representative of Sonangol EP.⁵ External consultants to the committee include **The Boston Consulting Group (BCG)**, a world leader in management consulting; Portuguese law firm **Vieira de Almeida**, with over 15 years' experience in the Angolan oil sector; and **PriceWaterhouseCoopers**.⁶ The committee also announced that it was supported by Isabel dos Santos, "a businesswoman with over 15 years of experience in the Angolan business sector".⁷

The presence of the president's eldest daughter as a member of the committee has led to sharp criticism and increased concern that Sonangol's assets will be privatised, despite the committee's

¹ Ministry of Finance announcement Luanda 26 Oct 2015

² Ministry of Finance announcement Luanda 26 Oct 2015

³ Ministry of Finance announcement Luanda 26 Oct 2015

⁴ Press release by Committee of Evaluation and Analysis to Increase Oil Sector Efficiency 22 Jan 2016

⁵ Ministry of Finance announcement, Luanda, 26 Oct 2015

⁶ Press release by Committee of Evaluation and Analysis to Increase Oil Sector Efficiency 22 Jan 2016

⁷ Press release by Committee of Evaluation and Analysis to Increase Oil Sector Efficiency 22 Jan 2016

assurances to the contrary.⁸ Isabel dos Santos is a shareholder in Portuguese oil company **GALP Energia**, in which Sonangol is also jointly represented with her through a company named **Esperaza Holding**.⁹ However, Dos Santos does not have other known oil interests.¹⁰ She is a longstanding business partner in banking with the principal shareholder of GALP, **Americo Ferreira de Amorim**.¹¹ It is unclear if this background justified her involvement in the committee. Journalist and critic **Rafael Marques** said of Isabel's involvement:

"We are facing a worsening (economic) crisis with few solutions in sight, and the only solution that the president sees, is concentrating more power in the hands of his children because of fear of losing his grip on power. The president runs the country as private property, this is an effective privatisation of the state."¹²

Isabel dos Santos has built much of her fortune on the back-door privatisation of Angola's diamond sales.

*"Isabel dos Santos was a member of the committee to manage **Endiama**, the state diamond company, in the mid 1990's – her first foray into the diamond industry. A few years later, by 2000, she was a principal shareholder in **ASCorp**, the company that had the monopoly to buy Angola's diamonds. Isabel has remained a major diamond buyer in Angola, and this is the basis of her fortune. The question is whether the same type of tactic is coming into play in the oil sector. Her half-brother, **Zenu dos Santos** controls Angola's \$5 billion sovereign wealth fund. The two of them may end up controlling the vast majority of the country's wealth, to the private benefit of the presidential family."¹³*

The committee has insisted that the sale of Sonangol's assets (as part of the restructuring process) is not under consideration.¹⁴ The company holds assets in a variety of sectors, such as the now almost defunct **China Sonangol International**, equity holdings in banks, an airline, housing, and various service contracts.¹⁵ The committee will report its recommendations to the higher level **Commission for Readjusting the Oil Sector** in March 2016. The committee's outcomes are likely to be known within weeks, with the probability of recommending both immediate and longer-term changes to Sonangol's structure and operations. The privatisation of the parastatal itself is unlikely, given that it is the most important and largest source of revenue to the state.

Government announces strategy to boost Angolan economy

Angola's government has outlined its strategy to tackle the economic crisis resulting from the sharp fall in global oil prices.¹⁶ It primarily rests on attempting to open a new economic cycle of stability that is not dependent on oil tax revenues. The government announced that it is resorting to short-term debt to increase domestic production, particularly of basic food products, and accelerate the production of export commodities.¹⁷ **Job Graça**, minister of planning and territorial development said,

"The fundamental pillars of the strategy include the use of existing lines of credit balances, previously contracted for public purposes to finance private projects of high profitability, and promotion of diversification into exports in the framework of targeted programmes to be approved by the government for each of the selected products."¹⁸

⁸ Press release by Committee of Evaluation and Analysis to Increase Oil Sector Efficiency 22 Jan 2016

⁹ Source GALP Energia Annual report & Global Witness

¹⁰ Source GALP Energia Annual report & Global Witness

¹¹ Annual reports Banco BIC

¹² Interview with Deutsche Welle radio 30 Jan 2016

¹³ Source, diamond industry expert, London

¹⁴ Press release by Committee of Evaluation and Analysis to Increase Oil Sector Efficiency 22 Jan 2016

¹⁵ Source, analyst

¹⁶ Angop, 28 Jan 2016

¹⁷ Angop, 28 Jan 2016

¹⁸ Angop, 28 Jan 2016

Graça stressed that the targeted programmes will facilitate better coordination between private and public investment, which will focus on public infrastructure projects and promoting the diversification of the economy.¹⁹ The government will also target national entrepreneurs with international partners, who will be the key implementing agents of these targeted programmes and production arrangements.²⁰

Virgílio de Fontes Pereira, head of the **Parliamentary Group** of the **Movimento Popular de Libertação de Angola (MPLA)** ruling party indicated that the government would fast-track the programme.

“It is necessary to work in an accelerated way so as to increase the production of exportable products in the country, and generate foreign exchange for Angola in the short term. This will increase the volume of the entry of foreign currencies from the non-oil sector, while there will be less pressure on foreign exchange reserves for the purpose of importing consumer goods produced elsewhere in the world.”²¹

Fontes Pereira hoped that the subsequent job creation would lead to better distribution of the national income and produce a more a robust economy. However, an analyst noted:

“This is the ‘Dutch Disease’ in action in Angola. The economy has depended on the oil sector since independence and failed to develop other sectors until recently. The government’s programme may not be effective, since it is heavily dependent on bringing in foreign investment while attempting to mobilise Angolan capital. Many, though by no means all, Angolan entrepreneurs are hesitant to invest in Angola, a country whose growth rate is dropping, and with the known reputational risk and complexity of doing business there.”²²

Although the parliament enacted the **Private Investment Law** in 2015 to make foreign investment in Angola easier, foreign investment in key sectors is still restricted to joint ventures with Angolan citizens, state-owned companies or private Angolan companies that hold at least 35% of the share capital.²³ Those sectors are

- Power and water;
- Hospitality and tourism;
- Transports and logistics;
- Civil construction;
- Telecommunications and information technologies;
- Mass media.

Sector-specific statutes govern private investment in the most lucrative sectors, which are petroleum, mining, and banking industries.²⁴ **Cui Aimin**, **China’s** ambassador to Angola took a positive view of Angola’s current economic situation:

*“Angola has abundant natural resources that can contribute in diversifying the sources of revenue for state coffers. Angola is the fifth country in Africa with the fastest economic growth levels, and the third in the **sub-Saharan** region, a position that makes it possible to overcome this difficult time more easily. Angola and China will continue to cooperate, especially in the fields of construction, agriculture, transport, health, education and culture.”²⁵*

The MPLA’s strategy for diversification will depend heavily on attracting foreign investment, as well as Angolan entrepreneurs. Angola has the resources to develop agriculture and fisheries and become

¹⁹ Angop, 28 Jan 2016

²⁰ Angop, 28 Jan 2016

²¹ Angola: MPLA Augurs New Economic Cycle 28 Jan 2016

²² London based analyst 16 Jan 2016

²³ Angop, 28 Jan 2016

²⁴ Angola Private Investment Law, Law 14/15 of 11 Aug 2015

²⁵ Angop, 29 Jan 2016

a food exporter, with markets nearby in southern and central Africa, although the country has a small manufacturing base. The capacity for rapid, short-term development seems unlikely, although long-term prospects exist, if the investment increases.

Banco Nacional de Angola increases anti-money laundering oversight

The Banco Nacional de Angola (BNA) has announced a series of steps to strengthen Angola's governance and compliance supervisory framework.²⁶ These measures reportedly emanate from the decision of two international banks to stop supplying dollars to Angola as of November 2015, amid concerns about potential money laundering.²⁷ The BNA instructed that all institutions under the bank's supervision should submit audited reports by 31 December of each year. It issued self-assessment questionnaires on the implementation of money laundering / anti-terrorist financing requirements by bank and non-bank financial institutions.²⁸ It will verify the feedback from the local institutions for completeness, transparency, and overall progress in meeting the stringent requirements of the **Financial Action Task Force (FATF)**.²⁹ In addition, the BNA issued a detailed series of guidelines to support the bank's supervisory role in achieving full FATF compliance within the country's financial system. It also held training sessions with all financial entities under its supervision to guarantee the successful implementation of the mandated procedures.³⁰

BNA governor **Jose Pedro de Morais Junior** commented,

“Angola has made considerable progress in the journey of adopting stronger governance and compliance requirements designed to meet global standards. We have enacted new legislation and implemented policy reforms. As part of our efforts to strengthen appropriate and effective oversight, the BNA has issued new and detailed guidelines, referrals and manuals to reflect prevailing international best practices and align them with our objective of being fully compliant with FATF standards and policy recommendations. We are confident that all of these measures will support financial institutions as they look to meet their legal and regulatory requirements effectively and efficiently. By ensuring such success, the BNA will foster the integrity of Angola's financial system by putting it in good standing globally.”³¹

Morais noted that the BNA had also adopted other FATF-recommended initiatives. These include:

- Joining the **Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)**;
- Enactment of laws to provide a legal basis for freezing, seizing and confiscation measures for the proceeds of money laundering and terror financing;
- Amendment of law to criminalise terrorism financing;
- Enactment of regulations and procedural arrangements to implement the obligations set out by **United Nations Security Council**;
- Establishment of a fully operational and effectively functioning **Financial Intelligence Unit**;
- Protection of the Financial Intelligence Unit's operational independence and autonomy;
- Improving **Customer Due Diligence (CDD)** measures.³²

De Morais also said that the BNA will announce further significant developments within Angola's financial system during the current year, especially concerning more governance and compliance requirements. The BNA also aims to have all of the country's financial assets certified and fully

²⁶ Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

²⁷ Financial Times 2 February 2016

²⁸ Angop, 12 January 2016

²⁹ Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

³⁰ Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

³¹ Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

³² Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

compliant with FATF.³³ Morais said that Angola has made considerable progress in adopting stringent requirements that will prevent money laundering and terrorist financing:

*"We have enacted legislation and implemented policy reforms. As part of our efforts to strengthen the appropriate and effective supervision, the BNA has issued guidelines reflected in the standards and recommendations of the FATF. We are confident that all these measures will support the financial institutions to meet their legal and regulatory requirements efficiently. By ensuring this success, the BNA will promote the integrity of the financial system in Angola. Our aim is to continue to implement structural reforms in order to strengthen the Angolan financial system, and to mitigate the potential money laundering risks and terrorist financing."*³⁴

These measures have been sufficient to remove Angola from the "grey" list (partially compliant countries) of the Financial Action Task Force against money laundering and combating terrorist financing, according to Angola's ministry of finance.³⁵ A FATF working group visited Angola for two days at the end of January 2016, to meet with actors in the financial services sector and evaluate Angola's progress, ahead of a report on Angola's compliance, to be issued later this year.³⁶ Angola's improvement to its AML/ATF regimes has come only after the **Bank of America and United Kingdom's Standard Chartered Plc** decided to stop supplying dollars to Angola, citing concerns about the country's "Know Your Customer (KYC)" regimes and a higher perceived level of risk in relation to money laundering (see *ARC Briefing Angola December 2015*). This has exacerbated the shortage of dollars in Angola and has pushed the BNA into taking stronger regulatory action.

Implications

The government's reorganisation of Sonangol aims to improve efficiency in the oil sector and create a model for the industry that will allow it to continue through what is expected to be a long period of low oil prices. It will require a delicate balancing act between the need to improve the effectiveness of the sector and lift Sonangol from its state of technical bankruptcy due to years of murky business practices, and the need to preserve elite oil interests in the sector, even where these may compromise Sonangol's effectiveness. Sonangol is unlikely to be privatised, although some of its non-oil divisions may become further 'public-private partnerships' with new partners, or be sold off to concentrate on the company's core business of oil extraction. Isabel dos Santos' inclusion in the committee's work is of major concern for the longer term, because of fears of meddling by the presidency.

Years of corrupt business practices may make the MPLA's new economic strategy to diversify the economy more difficult. The government has tried to make manufacturing and agribusiness sectors more attractive, although restrictions to foreign investment remain. Chinese investment has the potential to increase the influx of forex in the agricultural and mineral sectors, and contribute to the sectors' productivity.

The BNA's increased oversight of the banking sector is motivated by the need to secure the supply of dollars coming into Angola, through becoming compliant with FATF. The new regulations will improve governance in the banking sector as banks must now report on their own compliance to the BNA on a yearly basis. The BNA has had a poor reputation for governance, but the ongoing dollar crisis is forcing it to become more compliant with international money laundering and terrorist financing regulation.

³³ Banco Nacional de Angola Announces Continued Governance and Compliance Measures. 11 January 2016

³⁴ Angop, 12 Jan 2016

³⁵ Angop, 12 Jan 2016

³⁶ Ministry of Finance statement, Luanda 16 Feb 2016

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)