

## AFRICA RISK CONSULTING

### Angola Monthly Briefing March 2016

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#### Angola Summary 18 March 2016

**President Jose Eduardo dos Santos (1979-present) announces his retirement from active politics in 2018, giving no reason for his decision. Corruption investigations in Portugal into vice president Manuel Domingos Vicente leave presidential succession in doubt. The European Commission's investigations into Isabel dos Santos' Winterfell Industries are likely to implicate President dos Santos. The government announces new Chinese investment in Angola; national oil company Sociedade Nacional de Combustíveis de Angola (Sonangol) reveals further oil-backed pre-financing from China's Sinochem Group in December. Angola's debt to China is estimated at \$25 billion. Chinese private investment in Angola looks set to increase this year as the Hangzhou Wahaha Group decides to lead an investment consortium. The governor of the Banco Nacional de Angola, José Pedro de Morais, resigns unexpectedly at the beginning of March. Banking supervision expert Valter Filipe Duarte da Silva replaces him.**

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#### President Dos Santos announces retirement in 2018...

President **Jose Eduardo dos Santos** (1979-present) has informed the **Comité Central do Movimento Popular de Libertação de Angola** (Central Committee of the ruling MPLA) that he will retire in 2018. He announced his intentions during his opening speech at the committee's 11<sup>th</sup> Ordinary Meeting on 11 March.<sup>1</sup> Dos Santos' decision to retire after the next elections – scheduled for August 2017 – follows on from hints he made at the Central Committee meeting in June last year that he might step down.<sup>2</sup> He did not give any reason for his decision to retire from office.<sup>3</sup>

*"Dos Santos has said on several occasions that he may step down as president, most notably in 2001 and in a statement last year. This was received with widespread scepticism. However, this is the strongest, most definite statement he has made about retiring, and it would be difficult for him to renege on it and keep what credibility he has. I think the MPLA wants to send a message to an electorate increasingly disenchanted with the Dos Santos family as Angola begins preparation for the next elections. In other words, Dos Santos has now potentially become an electoral liability for the MPLA as the economic crisis in Angola increases. In discussions I have had in **Luanda** (Angola), the distinction between the president and the party is increasingly made; people blame Dos Santos rather than the party for the condition of the country. It is of course possible that Dos Santos will not resign in 2018, but this will be his last term in office under the existing constitution. However, this decision to retire in 2018 means there will be no visible succession struggle within the MPLA during the run-up to the elections and potentially leaves the president in control of the succession."*<sup>4</sup>

The Central Committee unanimously approved Dos Santos as the MPLA's candidate for the presidency following his opening speech.<sup>5</sup> Dos Santos is currently both president of the MPLA and president of the country, due to the Angolan constitutional model in which the president of the winning political

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<sup>1</sup> Speech of the President of MPLA at the 11th Meeting of the Central Committee. 11 Mar 2016

<sup>2</sup> Angop, 27 Jun 2015

<sup>3</sup> Speech of the President of MPLA at the 11th Meeting of the Central Committee. 11 Mar 2016

<sup>4</sup> Source, Angola analyst, London

<sup>5</sup> Angop, 12 Mar 2016

party also leads the country.<sup>6</sup> Dos Santos will therefore lead the party into the next set of elections, scheduled for August 2017, and will become president if the MPLA wins.<sup>7</sup>

Dos Santos' deteriorating health is the likely reason for his decision to step down. For example, he was too ill to open the Angolan parliament and give the State of the Nation Address in October 2015.<sup>8</sup> The secretary general of the **Organização da Mulher Angolana-OMA (Organisation of Angolan Women)**, **Luzia Inglês**, also noted the president's desire to rest:

*"The announcement was well received, taking into account the sacrifices that José Eduardo dos Santos has made over the years, and it is normal for him to want to rest now. Now we need to prepare ourselves, and look for people suitable to replace him."*<sup>9</sup>

Dos Santos' announcement followed days after unusual criticism of the regime from Angola's **Roman Catholic Church**. The **Conferência Episcopal de Angola e S. Tomé (CEAST)** released a statement on 9 March in the name of all Angola's bishops, saying:

*"In recent times, the poverty of our people has worsened ominously. Economic instability is slowly paralysing the economy. The economic and financial crisis in which the country is immersed is not only the oil price fall, but also the lack of ethics, mismanagement of public funds, widespread corruption, the mentality of cronyism, nepotism and discrimination derived from the growing politicisation of public functions, at the expense of competence and merit. There is an alarming increase in the gap between the poor and the few who have taken hold of national wealth; wealth often acquired dishonestly and fraudulently. Witness also the lack of discretion in the use of public funds and exorbitant public spending."*<sup>10</sup>

### ...as it remains unclear if Vicente will succeed him

According to the constitution, the vice president – currently **Manuel Vicente** – can succeed the president if the president resigns or dies in office.<sup>11</sup> However, the MPLA is yet to nominate a candidate for the post of vice president in the next elections. The MPLA's **Seventh Ordinary Congress**, which will meet in August,<sup>12</sup> will ratify the candidates for the posts of president and vice president.<sup>13</sup>

*"The current vice president, Manuel Vicente, is well known to be at odds with the MPLA party but is a protégé of the president. The MPLA does not want him to become president and party leader, and his political profile in Angola has been very low in the last year ... his political role appears much reduced. He spends much of his time representing Angola abroad, since Dos Santos no longer travels much. This reduced profile and the fact that **João Lourenço**, the minister of defence, has been leading the continuing negotiations with **China**, make me suspect that in fact he will not be reelected as vice president. There have also been too many scandals involving Vicente for him to be a credible president, certainly as far as the international community is concerned. However, Dos Santos may need Vicente in place to protect his assets as he retires. Thus the eventual successor will likely be a compromise between Dos Santos and the MPLA. Dos Santos has also left himself room to manoeuvre the decision by declining to step down before the elections."*<sup>14</sup>

<sup>6</sup> Constitution of the Republic of Angola 21 Jan 2010

<sup>7</sup> African Review 20 Nov 2015

<sup>8</sup> Janes Country Risk 15 Oct 2015

<sup>9</sup> ANGOP 11 Mar 2016

<sup>10</sup> CEAST Statement 9 Mar 2016

<sup>11</sup> Constitution of the Republic of Angola 21 Jan 2010

<sup>12</sup> ANGOP 27 Jun 2015.

<sup>13</sup> Constitution of the Republic of Angola 21 Jan 2010

<sup>14</sup> Source, Angola analyst, London

Portugal's public prosecutor is also investigating Vicente for bribery.<sup>15</sup> He allegedly paid a former Portuguese public prosecutor at least €200,000 (about \$226,000) to drop a money laundering investigation that stemmed from Vicente's purchase of a high-end apartment in the **Estoril Sol Residence in Cascais** in January 2012.<sup>16</sup> It is the first time a member of the government of Angola has been indicted for corruption in Portugal.<sup>17</sup> The ex-prosecutor, **Orlando Figueira**, worked for Portugal's **Departamento Central de Investigação e Acção Penal (DCIAP)** (Central department of investigation and penal action) at the time. The DCIAP is a department established under the public prosecutor's office in Portugal that carries out white-collar and organised crime investigations.<sup>18</sup> It also investigated two money transfers to Figueira from **Primagest**, a subsidiary of national oil company, **Sociedade Nacional de Combustíveis de Angola (Sonangol)** with a Portuguese branch. Vicente was the head of Sonangol at the time of the alleged offence.<sup>19</sup> Vicente has denied all knowledge of payments to Orlando Figueira, and will likely be immune from prosecution due to his position in government.<sup>20</sup>

### European Commission investigates possible misuse of public funds by Dos Santos

Portuguese parliamentarian **Ana Gomes** has requested a **European Central Bank** inquiry into the due diligence processes surrounding the purchase of Portuguese electronics group **EFACEC** Portugal by **Isabel dos Santos'** company **Winterfell Industries**, in partnership with Angola's **Empresa Nacional de Distribuição de Electricidade (ENDE)**.<sup>21</sup> The president is implicated through his signing of a decree in August 2015 that ENDE would buy 40% of Winterfell Industries for an unknown price.<sup>22</sup> Gomes says,

*"The Angolan state may be indirectly and illegally financing a private investment from Isabel dos Santos, since Winterfell Industries, based in Madeira in August (2015), made the acquisition of Efacec, when the president of Angola had authorised the Angolan state's purchase of 40% of Winterfell for an undisclosed sum. This operation raises the possibility of the Angolan government indirectly and illegally financing the private investment of Isabel dos Santos."*<sup>23</sup>

Isabel dos Santos said that the Angolan state has not yet concluded its purchase of the Winterfell Industries stake, and that she paid for the purchase of EFACEC herself, with backing from commercial banks.<sup>24</sup> **Vera Jourová**, European commissioner for justice, consumers and gender equality, has taken up the case, writing to the **Banco de Portugal** (Central Bank of Portugal) to ask if it complied with the due diligence and the rules for the prevention of money laundering, considering that Isabel dos Santos, the president's daughter, is a politically exposed person (PEP).<sup>25</sup>

### New China financing and investment...

Angola has started a further pre-finance oil deal with China, operational from February 2016 with China's state-run **Sinochem Group**. It will cover approximately six cargoes of oil per month in addition to the three to five cargoes already agreed with Chinese firm **Unipecc**, subsidiary of **Sinopec**.<sup>26</sup> The agreement is believed to be worth at least \$5 billion in advance financing to be repaid with oil, although it may also involve some restructuring of older debts.<sup>27</sup> In its annual report released

<sup>15</sup> Diario de Noticias Lisbon 24 Feb 2016

<sup>16</sup> Diario de Noticias Lisbon 24 Feb 2016

<sup>17</sup> VOA 25 Feb 2016

<sup>18</sup> Diario de Noticias Lisbon 24 Feb 2016

<sup>19</sup> Diario de Noticias Lisbon, 24 Feb 2016

<sup>20</sup> ANGOP 3 March 2016

<sup>21</sup> Question for written answer to the European Central Bank. Ana Gomes and others. Oct 2015

<sup>22</sup> Diário da República Iª Série n.º 117 18 Aug 2015

<sup>23</sup> Algarve Daily News 16 Oct 2015

<sup>24</sup> Wall Street Journal Europe 29 Feb 2016

<sup>25</sup> "EC questions Portugal over €195 million investment" 15 Feb 2016

<sup>26</sup> Reuters March 14 2016

<sup>27</sup> Reuters March 14 2016

in February, Sonangol indicated that its net debt had increased 41% in 2015, and revenues had dropped 54%. The debt comprises both outstanding investment and operational costs owed to foreign oil companies.<sup>28</sup> Sonangol said that the results and the company's financial performance would remain under pressure, and it could place some planned investment projects under review.<sup>29</sup> Oil analysts believe that Angola has no further capacity to take on oil-backed debt. It does not have enough oil to sell on the markets, given existing production sharing agreements with oil companies in Angola and that oil-backed debts are now estimated to have ballooned to \$25 billion.<sup>30</sup>

Despite the limits on oil-backed financing imposed by the current oil price crisis, Chinese investment in Angola is likely to increase this year, as the Chinese government encourages private entrepreneurs to continue to invest in Africa. **Zong Qinghou**, chairman of major beverage maker **Hangzhou Wahaha Group**, told a panel discussion during the **Chinese National People's Congress** last week that his Wahaha Group would lead a consortium of Chinese private companies to invest in Angola. The Chinese foreign minister **Wang Yi** also supports the venture and stated that he will facilitate state support for private ventures investing in this manner.<sup>31</sup> Zong Qinghou told the panel:

*"I've met the Angolan president and several ministers and they cordially invited **Zhejiang** companies to invest there. My plan is to form a big group of private businesses to offer Angola whatever help they need from us in their industrialisation process. Natural gas reserves, copper and diamond mines and arable land in Angola are all attractive to Chinese businesses."*<sup>32</sup>

### ... as Banco Nacional de Angola chairman resigns.

Central bank **Banco Nacional de Angola (BNA)** has changed its governor. **José Pedro de Morais** resigned from his post of governor on 4 March. **Valter Filipe Duarte da Silva**, a lawyer and specialist in banking supervision has since replaced him. Before he resigned, de Morais addressed the 5th **Specialised Commission of Parliament** at the meeting of the **Cabinet Council's Economic Commission** and managers of commercial banks. He indicated that, despite the current crisis, the economy would remain stable.<sup>33</sup>

*"If there is no mismanagement we can meet the needs of the most essential sectors of our society for medical drugs, basic essential goods and basic raw materials for the manufacturing sector."*<sup>34</sup>

De Morais stressed the need for an orderly system to grant foreign currency to avoid panic in the market.<sup>35</sup> However, analysts disagree with de Morais' positive assessment of the future of the Angolan economy:

*"It is clear that the granting of foreign currency in Luanda is far from orderly. Small businesses have to obtain it on the black market and individuals are unable to get access to the foreign currency they hold in their accounts, despite theoretically being allowed to withdraw \$5,000. It is more than likely that forex is going only to the larger companies and elite players. Imported drugs are being diverted to the black market; imported basic goods are not available in the shops and the nascent manufacturing sector is in urgent need of investment, so Morais' comments are wishful thinking."*<sup>36</sup>

Duarte da Silva's expert academic and professional background is likely to enable him to manage the country's financial woes well. His master's thesis in law is titled "Prudential Supervision of Banking in Angola: A Study compared to the Portuguese law". In 2012 he published "The National Bank of

<sup>28</sup> Sonangol press release 25 Feb 2016

<sup>29</sup> Sonangol press release 25 Feb 2016

<sup>30</sup> Reuters March 14 2016

<sup>31</sup> South China Morning Post 7 Mar 2016

<sup>32</sup> South China Morning Post 7 Mar 2016

<sup>33</sup> Angop 4 Mar 2016

<sup>34</sup> De Morais quoted in Angop 4 Mar 2016

<sup>35</sup> Angop 4 Mar 2016

<sup>36</sup> Source, Angola analyst, London

Angola and the Financial Crisis”, a legal and financial study on banking supervision and the 2007 financial crisis.<sup>37</sup>

### Implications

Dos Santos has made a fairly strong commitment to resigning after the 2017 elections. While it is not yet definite that he will keep this commitment, it seems probable that this time he means what he says. He also faces acute internal pressure, with serious criticism coming from the normally quiet Catholic bishops, and hints in the president’s speech of pressure from inside the MPLA. The economic crisis in Angola is worsening and there is growing popular anger at the country’s income disparities, and the failure of the promised poverty reduction measures to alleviate these, due to Angola’s massively reduced oil income. Dos Santos’ announcement took place as voter registration processes have begun, amidst concerns within the MPLA about its electability while Dos Santos remains leader. Dos Santos’ health has also been problematic for some time and this is likely a crucial factor in his resignation. Dos Santos also faces external pressure from the investigations in Portugal. It seems unlikely that the cases against Isabel dos Santos will escalate. However, that case (and the case against Manuel Vicente) are indicative of some of the pressures on Dos Santos, which are likely to continue and possibly escalate while he remains in office. Dos Santos succeeded the first president of Angola, **Agostinho Neto** (1975-1979), in 1979 and will have been president of Angola for 39 years in 2018, if he is re-elected.

It is unlikely that Manuel Vicente will be the MPLA’s choice for the vice presidential role in August since he is unpopular with the MPLA. João Lourenço is one possible candidate but there is ongoing jostling for the post within the MPLA. It is likely that the party will push Vicente out of office, but the latest Portuguese investigation may compromise this, depending on whether the charges go forward and whether he needs to retain government immunity to avoid prosecution. There is little room in Angola now for further oil-backed loans, so external investment will become much more critical to the survival of the economy. A major new Chinese consortium now intends to look for investment outside the fields of oil and construction, widening China’s interest in Angola’s natural resources.

De Moraes’ resignation at the beginning of the month was unexpected. This may be due to his inability to regulate the foreign exchange systems in Angola, and the forex operations of the banking sector, and consequences on the country affording imported basic goods. Duarte, his replacement, is an expert in banking regulation. It remains to be seen whether he can check any of the abuses in the banking system and effect any structural changes.

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<sup>37</sup> O Pais 5 Mar 2016

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