

## AFRICA RISK CONSULTING Angola Briefing May 2016

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### Angola Summary 28 May 2016

*Oil minister José Maria Botelho de Vasconcelos announces that state-owned oil and gas company Sociedade Nacional de Combustíveis de Angola (Sonangol) will restructure to retract from drilling, production and oil block operation activities. Sonangol plans to limit its responsibilities to management and monitoring. Domestic political and economic commentators criticise the involvement of Isabel dos Santos, daughter of President José Eduardo dos Santos (1979-present) in the restructuring process. Ratings agency Moody's lowers Angola's long-term issuer and senior unsecured debt ratings from Ba2 to B1, with a negative outlook. This is likely to weaken Angola's ability to issue debt, with high interest rates and less investor attention as a result. The Tribunal Supremo (supreme court) orders the release of activist José Marcos Mavungo from prison, deeming a six-year sentence from the Cabinda provincial court erroneous. Despite the support of multiple international human rights and jurist organisations, there is still potential for political involvement in the ruling.*

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### Government announces restructuring of Sonangol

Petroleum minister **Jose Maria Botelho de Vasconcelos** said on 27 April that the government plans to restructure state-owned oil and gas company **Sociedade Nacional de Combustíveis de Angola (Sonangol)**.<sup>1</sup> The objective of the restructuring is to “increase efficiency and profitability”.<sup>2</sup> Sonangol had announced its restructuring in October 2015, but did not confirm this until January (see *ARC Briefing Angola February 2016*). De Vasconcelos detailed the form that the restructure will take:

*“Sonangol will remain the exclusive national concessionary company of the [oil] sector, separating itself from all present activities, including drilling, production and operation of oil blocks, [outside of management and monitoring responsibilities].”<sup>3</sup>*

Two new state organisations – the **Conselho Superior de Acompanhamento do Setor Petrolífero (COSAP)** (superior council of oil sector accompaniment) and the **Agência para o Setor Petrolífero (ASP)** (oil sector agency) – will assume responsibility for the regulation and administration of the oil and gas sector respectively.<sup>4</sup> The superior council will manage the government's shareholding and relationship with Sonangol and report directly to president **Jose Eduardo dos Santos** (1979-present).<sup>5</sup> The petroleum agency will negotiate contracts and liaise between the government and the private sector, including international oil majors such as **United-States (US)**-based **Exxon** and **Chevron**; **France**-based **Total**, **United Kingdom (UK)**-based **BP** and **Italy**-based **ENI**.<sup>6</sup> Currently, Sonangol operates with at least 17 subsidiaries and has direct and indirect stakes in **Portugal**-based **Millennium BCP** and **Galp**, management of which it will cede to COSAP.<sup>7</sup> ASP will maintain the coordination, regulation and evaluation capacity of all activity in the sector whilst taking a dominant role in negotiation of oil block attribution and resolution.<sup>8</sup> A **Boston Consulting Group (BCG)** Angola

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<sup>1</sup> Reuters, 28 April 2016.

<sup>2</sup> Reuters, 28 April 2016.

<sup>3</sup> Oil ministry statement, 27 May 2016.

<sup>4</sup> Reuters, 28 April 2016.

<sup>5</sup> Reuters, 28 April 2016.

<sup>6</sup> Reuters, 28 April 2016.

<sup>7</sup> Económico, 27 May 2016.

<sup>8</sup> Económico, 27 May 2016.

market analyst stated that the full restructuring process could take over a year, as the process is only now being defined.<sup>9</sup>

The presidential decree of 26 May recognises that Sonangol is active at all levels of the oil and gas industry, from drilling to production, refining, transport and downstream distribution, but will seek to solely operate as a management and monitoring actor with regards to concession activity.

*“Oil sales account for 95% of Angola’s foreign exchange earnings, making Sonangol the biggest source of state funding. In 2015, Sonangol’s net debt soared 41% year-on-year to \$7.8 billion and revenues plummeted due to falling crude prices.”<sup>10</sup>*

BCG and Portugal-based law firm **Vieira de Almeida e Associados** will organise and undertake the restructuring. The firm of President dos Santos’ daughter, **Isabel dos Santos**, will also play an active role in this restructuring (see *ARC Briefing Angola February 2016*). The decision to include Isabel dos Santos in the process, according to some local commentators, risks the credibility of Angola’s tendering system:

*“Why did they choose Isabel dos Santos’ firm and not another? I am certain that from the international perspective this is not well accepted, and therefore puts into question Angola’s reputation. I personally don’t feel comfortable when I go abroad and they ask me about her [Isabel dos Santos] stake as a consultant in Sonangol’s restructuring.”<sup>11</sup>*

*“This decision to restructure the company has been pondered for several years. Following a consultancy decision made by a United States firm in 2004, it was evaluated that Sonangol basically did everything... it was deemed that there was no reason for Sonangol to have stakes in banks and all the rest. I used to joke that all that Sonangol lacked was a beauty salon!”<sup>12</sup>*

### Moody’s downgrades Angola’s credit rating

International ratings agency **Moody’s Investor Service** on 29 April downgraded the Angolan government’s long-term issuer and senior unsecured debt ratings from Ba2 to B1, and assigned a negative outlook, down from stable in 2015.<sup>13</sup> Moody’s also lowered Angola’s long-term local-currency bond and deposit country ceilings from Baa3 to Ba1, its long-term foreign-currency bond ceiling from Ba1 to Ba3, and long-term foreign-currency deposit ceiling from Ba3 to B2.<sup>14</sup> Moody’s downgraded Angola’s credit rating because the government’s financial and external position has deteriorated sharply due to the structural downward shift in oil prices.<sup>15</sup> Angola’s reliance on hydrocarbons and low oil prices are greatly reducing Angola’s near-term growth prospects, a key driver of credit support in the past.<sup>16</sup> Moody’s negative outlook position for Angola reflects ongoing imbalances in the foreign currency market which, due to limited options for replenishing or increasing foreign currency reserves, will continue to put downward pressures on official foreign currency reserves, and the kwanza exchange rate.<sup>17</sup>

*“The government’s options for replenishing reserves have diminished, however, discussions are underway with the **International Monetary Fund (IMF)** for a possible loan facility, which if successful could provide a boost to reserves. While Angola plans reforms that would enhance growth in the non-oil economy and increase its balance sheet flexibility, those plans are unlikely to bear fruit in the near-term and do not offset the downside risks posed by external pressures.”<sup>18</sup>*

<sup>9</sup> Expresso, 20 May 2016.

<sup>10</sup> Reuters, 28 April 2016.

<sup>11</sup> Source, economist, Luanda

<sup>12</sup> Source, newspaper editor, Luanda

<sup>13</sup> Moody’s, 29 Apr 2016.

<sup>14</sup> Moody’s, 29 Apr 2016.

<sup>15</sup> Moody’s, 29 Apr 2016.

<sup>16</sup> Moody’s, 29 Apr 2016.

<sup>17</sup> Moody’s, 29 Apr 2016.

<sup>18</sup> Moody’s, 29 Apr 2016.

Local economic commentators believe that Moody's revision of Angola's credit rating does not substantially change an already dismal perception of the country's debt attractiveness for investors:

*"The immediate consequence is an increase in interest rates [for Angolan sovereign debt]... Internationally, Angolan sovereign debt is already considered garbage... With the reduction of its credit rating, investors will see Angolan debt... as even worse, with the drop in oil prices... [and] will limit the country's ability to issue debt, which is very worrying. Not long ago Angola's sovereign debt interest rates were 4%, which today are around 18% when you consider foreign exchange rates with the kwanza."*<sup>19</sup>

A Sonangol senior manager states that the consequences of the Moody's downgrade will be disastrous:

*"This is bad, really bad... I think that the drop in oil prices should affect the rating not only in terms of the drop in the price of oil, but also take into account the scarcity of dollars within the country. The largest risk with this rating is the retraction of investors... At this moment you can't invest in Angola anyhow – the economy is disoriented and does not have indicators which suggest a short-term recovery."*<sup>20</sup>

### Supreme Court releases activist from prison

The **Tribunal Supremo** (supreme court) on 20 May ordered the release of activist **José Marcos Mavungo** from prison where he had spent 433 days since his arrest.<sup>21</sup> The supreme court ruled there was insufficient evidence to maintain the six-year sentence that the provincial court of **Cabinda** handed Mavungo in March 2015 for allegedly planning a violent protest with a group of men in possession of explosives.<sup>22</sup> Judge **Simão de Sousa Victor** said there was no concrete evidence relating to the crimes with which prosecutors had charged Mavungo.<sup>23</sup> These charges included trying to incite insubordination and violence against the state.<sup>24</sup>

Mavungo is a well-known human rights activist in Angola and has been markedly outspoken against the state's operations in Cabinda province.<sup>25</sup> He is a member of the **Mpalabanda Associação Cívica de Cabinda (ACC)** (Mpalabanda Civic Association of Cabinda) – one of very few human rights organisations operating in the province.<sup>26</sup> The ACC is critical of the continuing conflict in the province between the **Frente para a Libertação do Enclave de Cabinda (FLEC)** (Front for the freedom of the Cabinda enclave) and the government, which appears to be a larger conflict than the Angolan government acknowledges (see *ARC Briefing Angola April 2016*).<sup>27</sup> In 2010 Mavungo stated that activists were facing a "true manhunt" as he claimed people were facing arbitrary detention and military persecution in Cabinda.<sup>28</sup> The provincial court of Cabinda banned the ACC in 2006. The ACC deemed the ruling unjustified and unfair and continued denouncing the conflict, the FLEC and the government's alleged crusade against human rights activists.<sup>29</sup>

Several major international human rights' organisations – **Amnesty International**, **Human Rights Watch** and the **International Federation for Human Rights (FIDH)** – spoke out against what they deemed the arbitrary detention of Mavungo, condemning the Cabindan judiciary and "a blatant violation of freedom of expression".<sup>30</sup> Several international judicial organisations – the **South African**

<sup>19</sup> Source, economist, Luanda

<sup>20</sup> Source, Sonangol senior manager, Luanda

<sup>21</sup> Multiple sources: [www.hrw.org](http://www.hrw.org); VOA, 20 May 2016.

<sup>22</sup> Multiple sources: [www.hrw.org](http://www.hrw.org); VOA, 20 May 2016.

<sup>23</sup> VOA, 20 May 2016.

<sup>24</sup> Público, 21 May 2016.

<sup>25</sup> Público, 21 May 2016.

<sup>26</sup> [www.frontlinedefenders.org](http://www.frontlinedefenders.org)

<sup>27</sup> [www.frontlinedefenders.org](http://www.frontlinedefenders.org)

<sup>28</sup> Ibinda, 12 Apr 2010.

<sup>29</sup> RTP Notícias, 26 Jul 2006.

<sup>30</sup> Multiple sources: [www.amnesty.org](http://www.amnesty.org); [www.fidh.org](http://www.fidh.org); [www.hrw.org](http://www.hrw.org)

**Litigation Centre (SALC), Lawyers for Human Rights, Front Line Defenders** and the **International Commission of Jurists (ICJ)** in September 2015 condemned the sentencing as politically motivated, demanding Mavungo's immediate release.<sup>31</sup>

Mavungo joins a long list of activists who have experienced severe government repression. One of Mavungo's lawyers, **Luís do Nascimento**, noted in September 2015 the frequency with which the supreme court has dismissed cases similar to Mavungo's since 2010:

*"These are all sentences that, once they arrive at the Supreme Court or Constitutional Court, are cancelled."*<sup>32</sup>

Another of Mavungo's lawyers, **Francisco Luemba**, applauded the supreme court's decision:

*"We always said that an independent court, a free court, cannot take a decision such as the decision the provincial court of Cabinda made, because Mavungo was innocent. He is, as he should have been, put free."*<sup>33</sup>

Despite the supreme court ruling in Mavungo's favour, **Filomeno Vieira Lopes**, member of the **Grupo de Apoio aos Presos Políticos Angolanos (GAPPA)** (support group for Angolan political prisoners) notes the strong link that the judiciary across the country maintains to political power:

*"One act such as this is not enough to exculpate the judiciary from its bond to political power. The Angolan judiciary is dependent upon a lot of political factors. There are several cases underway which have been subject to political meddling. Therefore, even if in this case the decision was correct, we do not know if it was also a political decision."*<sup>34</sup>

On his release, Mavungo said in an exclusive interview with ARC that he will continue to strive for justice and freedom of speech:

*"The fight continues in the sense that there are more people that have been assassinated, persecuted; there are cases of injustice, unfair judgements, theft of public funds, children that spend 433 days without a father because of a capricious need of somebody in power. I... faced these evils and cannot cross my arms."*<sup>35</sup>

## Implications

The restructuring of Sonangol will certainly reduce the scope of the state-owned oil company, which for a long time has held a very broad set of interests. The restructuring indicates the frailty, and perhaps inefficiency and lack of competitiveness, of Sonangol, which could explain the devolution to a less technical and capital-demanding negotiating and management role. Nevertheless, Isabel dos Santos' involvement raises doubts as to the credibility and legitimacy of the restructuring process. As the Dos Santos family and other government officials have used Sonangol as a private investment vehicle for decades, the restructuring will raise the question of how the assets will be distributed and the dynamics of the power play between stakeholders during this process. It will also reveal the future involvement that the government may have in the historically heavily state-controlled entity.

Moody's lowering of Angola's credit ratings is a further knock to the country's economy. Government lending will be severely impaired as long as oil prices remain relatively stagnant. The reversal of this blow will probably be slow, and will depend largely on external factors – such as investor interest and commodities prices – firmly outside of Angola's control.

The supreme court ruling is an encouraging example of the potential for the judiciary to overrule bad legal practice that aims to contain vocal opposition against the government, or in this case, against

<sup>31</sup> [www.amnesty.org](http://www.amnesty.org)

<sup>32</sup> VOA, 14 Sept 2015.

<sup>33</sup> Source, defence lawyer, Luanda

<sup>34</sup> Source, GAPPA member, Luanda

<sup>35</sup> Source, José Marcos Mavungo, Luanda

activism in Cabinda. However, it does not undo a long list of examples of Angolan government meddling with the judiciary, and does not exclude the possibility of this being the case for the Mavungo ruling. It is possible that Dos Santos is responding to investors' concerns surrounding the legal system. Even so, Angola would need many more such cases to improve its reputation of having a highly opaque and ineffectual judiciary. Mavungo's response to his release reveals that he continues to believe there are significant systemic flaws in both the judiciary and freedom of speech throughout Angola.

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