

AFRICA RISK CONSULTING**Angola Monthly Briefing October 2018**

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José Filomeno ‘Zenu’ dos Santos and Jean-Claude Bastos de Morais are in preventive custody ahead of their trial for fraud and other charges relating to the Fundo Soberano de Angola (FSDEA) (Angolan sovereign wealth fund). China agrees a further \$2 billion loan to Angola, together with more commercial partnerships, following President João Lourenço’s (2017-present) second visit to China in four weeks. Angola’s state-owned airline, TAAG Angola Airlines, is to be the first privatisation under the new regime and will be a test case for the effectiveness of Angola’s privatisation programme.

Zenu dos Santos and Bastos de Morais placed in preventive custody

José Filomeno ‘Zenu’ dos Santos, former chairman of the **Fundo Soberano de Angola (FSDEA)** (sovereign wealth fund of Angola) board, and **Jean-Claude Bastos de Morais**, head and major shareholder of the **Switzerland**-based **Quantum** group which managed much of the FSDEA’s \$5 billion assets, were placed in preventive detention in **Angola** on 24 September. The **Procuradoria Geral da República** (attorney general) announced the news, adding that dos Santos and Bastos de Morais are being held on charges of fraud, economic crimes, influence peddling, speculation and other crimes, all relating to the management of the FSDEA. Additionally, José Filomeno dos Santos is charged with the attempt to defraud the state of \$5m.¹

“Due to the complexity and seriousness of the facts, in order to guarantee the effectiveness of the investigation, following the interrogations carried out, the Public Ministry determined the application to the defendants of the measure of preventive imprisonment.”²

State prosecutors said the case against the pair relating to the FSDEA involved \$1.5 billion in fraudulent transactions. Prosecutor-general **Alvaro Da Silva Joao** said in a statement:

“The evidence assembled in the case constitutes sufficient evidence that the accused were involved in acts of corruption.”³

Dos Santos is being held in the hospital of the **São Paulo** prison in Luanda, where the amenities are somewhat better than in the main jail.⁴ Angola has no prisons for ‘white collar’ criminals. Bastos de Morais is being held in **Viana**, on the outskirts of Luanda.

The arrests caused strong reactions, with many people seeing it as a watershed moment. In front of the São Paulo prison, people commented on their disbelief at what is happening in Angola, because they never expected to see justice “shake up” personalities of the former

¹ Procuradoria Geral da Republic Press Release, 24 Sept 2018

² Procuradoria Geral da Republic Press Release, 24 Sept 2018

³ Procuradoria Geral da Republic Press Release, 24 Sept 2018

⁴ Angop, 8 Dec 2011

regime of president **Jose Eduardo dos Santos** (1979-2017), alluding to a "new era" with the apparent end of impunity.⁵

However, human rights lawyer **David Mendes**, founder of non-governmental organisation (NGO) **Mãos Livres** and legal defender in several recent political cases, says that the detention of people close to former President dos Santos has a more worrying side:

*"I think we may be running the risk of populism, and for me, all kinds of populism are serious, because populism leads to dictatorships. I do not support populist measures."*⁶

There have been allegations that **Tribunal Supremo de Angola** (supreme court of Angola) president **Rui Ferreira** petitioned a meeting of the **Conselho Nacional de Segurança** (national security council) to release Zenu dos Santos.⁷ However, the supreme court and its president denied asking the national security council to consider this matter, or any other concerning specific cases in the courts.⁸

Reportedly, in the case of José Filomeno dos Santos, preventive detention resulted from evidence of an attempt to escape from the country.⁹ The underlying message is that Zenu dos Santos and Bastos de Morais will go to trial, likely sooner rather than later. The charges against them are clear. In both cases, the scale of the crimes has led to this unprecedented step. Members of the elite have not been accustomed to being put in an Angolan jail when caught out. It is a public demonstration of Angola's seriousness in pursuing anti-corruption measures and criminal prosecutions, and one that was well received. It is also clear that a degree of intrigue surrounds the case.

China lends Angola a further \$2 billion.

President **João Lourenço** (2017-present) made his second visit to **China** in four weeks, to finalise new Chinese financing agreed during the **Forum on China-Africa Cooperation (FOCAC)**, held in **Beijing** in September.¹⁰ The \$2 billion credit line is part of the agreement that Angola's finance ministry and the **China Development Bank (CDB)** signed during Lourenço's two-day visit. Prior to the new credit line, Angola owed China an accumulated debt estimated by the Angolan government at \$23 billion.¹¹

There is little transparency about the exact terms of the agreements, and in particular whether there has been any movement on re-negotiating repayments of the previous oil-backed loans from China; these agreements were reached when the oil price was higher than at present.

Finance minister **Archer Mangureira** said that the government will use part of the Chinese government's \$2 billion financing to pay debts the government owes to Chinese creditors.¹²

"The authorities intend with this credit granted, to make a medium and long-term amortisation of the debt. The credit will be destined to finance projects that can leverage

⁵ Lusa, 25 Sept 2018

⁶ Lusa, 25 Sep 2018

⁷ Angop, 8 Oct 2018

⁸ Angop, 8 Oct 2018

⁹ Club-K net, 6 Oct 2018

¹⁰ Angop, 10 Oct 2018

¹¹ Angop, 10 Oct 2018

¹² Angop, 10 Oct 2018

the productive sector, in such a way that, in the medium and long-term could increase the volume of revenues, mainly of those turned to exportation.”¹³

Mangueira also said that the Angolan government will “*seek to reduce the pressure on the balance of payments and the debt stock, besides creating new areas to boost the economy and spaces for socio-economic development.*” Several infrastructure projects are to benefit from this new credit line: construction, energy, water and industry, all of which are expected to leverage the productive sector, diversify the economy and change the current trajectory of the country's public debt.¹⁴

China's President **Xi Jinping** (2013-present) expects that improved relations with Angola and a closer alignment with **China's Belt and Road** initiatives will emerge from the new agreements:

“China is confident of the future of bilateral cooperation [and the need to] cement political mutual trust, strengthen high-level contacts, deepen strategic communication, and implement the results of the 2018 Beijing Summit of the FOCAC ... and advance the Belt and Road Initiative.”¹⁵

Some concrete outcomes have already emerged. Angola and China signed an agreement that puts an end to double taxation in commercial transactions.¹⁶ Major Chinese mobile phone manufacturer **Huawei Technologies Co. Ltd** is to set up an office in Angola. Huawei has been working with the government of Angola over a 20-year period, having invested more than \$60m developing the 2G, 3G and 4G technological systems, and is currently working in the Angolan infrastructure and communications sectors.¹⁷

Angola has also entered into a strategic cooperation agreement with three Chinese companies to restructure the national bridge building company, **Empresa Nacional de Pontes UEE (ENP)**.¹⁸ The consortium of Sino-Angolan companies is made up of ENP, China's **Adisandra, Feront** and the **China Beijing Railway Group - CRBG**. ENP denied earlier reports that it had been privatised¹⁹, but clearly the partnership amounts to a partial privatisation. Construction and public works minister **Manuel Tavares de Almeida** has said that ENP will be privatised “*in the medium term*”.²⁰ ENP has debts of about \$18m and the new agreement allowed it to pay 56 months of pay arrears to its employees.²¹ The consortium has paid \$2m and guaranteed the payment of arrears.²²

Clearly Angola and China have reinforced their political economic and commercial ties and have reached agreements over the very high level of Angolan debt to China. This has been achieved prior to completing negotiations with the **International Monetary Fund (IMF)** and is an indicator that the agreements with the IMF will have to work within the framework of Angola's bilateral relationships. A two-year Extended Fund Facility (EFF) is expected to be concluded with the IMF by the end of the year.

¹³ Angop, 10 Oct 2018

¹⁴ Angop, 10 Oct 2018

¹⁵ President Xi Jinping quoted in Angop, 10 Oct 2018

¹⁶ MacauHub 08 Oct 2018

¹⁷ Angop, 11 Oct 2018

¹⁸ Angop, 11 Oct 2018

¹⁹ Jornal de Angola, 16 Oct 2018

²⁰ SAPO, 2 Aug 2018

²¹ Jornal de Angola, 16 Oct 2018

²² Macau Hub, 8 Oct 2018

Angola's state airline is first major privatisation under new policies

Angola's lossmaking state airline, **TAAG Angola Airlines**, is the first major entity to begin the process of privatisation under Angola's new IMF-backed policy.²³ TAAG's new board of directors, led by chairman **Rui Carreira**, was appointed on 6 October following a presidential decree signed on 20 September, which transformed TAAG from a public company to a Sociedade Anónima (SA). The new board will lead the privatisation process, which will be effected by entering into joint ventures.²⁴ Carreira was previously deputy director of TAAG and of Angola's aviation regulator, **Instituto Nacional da Aviação Civil (INAVIC)**.

Carreira gave some indicators of how the process will work, and TAAG's priorities:

"Privatisation of the company will be done gradually, to create adequate and attractive conditions for private investment, aiming to reframe the commercial, financial and operational aspects in the current context in which TAAG will no longer have the support of the State."²⁵

Carreira noted that the airline needs to be transformed into a "more competitive" company.²⁶ The airline was being slowly turned around by the previous management team, which was appointed by **Emirates Airlines** in late 2015, under a 10-year management contract to restructure the airline and make it profitable by 2019.²⁷ The airline made losses of \$140m in 2015.²⁸ The contract ended abruptly in 2017 when Emirates was unable to repatriate its own flight revenue from Angola.²⁹

TAAG was previously controlled by the **Ministerio de Transporte** (transport ministry). Transport minister **Ricardo de Abreu** expects that TAAG will now be a "transparent, professional company, competent in the provision of air transport service, led by a team capable of starting the process of modernisation and re-launching TAAG".³⁰

TAAG is to acquire eleven medium-haul aircraft under the company's modernisation programme in 2019, as well as state-of-the-art Boeing 787 aircraft for long-haul routes. This is a major capacity increase; the current TAAG fleet consists of 13 Boeing aircraft, three 777-300ER bought between 2014 and 2016, five 777-200 and five 737-700. These latter fly domestic and regional routes.³¹ The purchase of new aircraft, expected to be completed by 2020, will allow TAAG to compete on an equal footing with other airlines in the **African** market. TAAG will operate out of the new **Luanda** international airport once it is completed.³²

TAAG's losses were due to embezzlement as well as mismanagement. The highest profile case was in December 2011, when the Luanda-based government body, **Tribunal da Contas** (court of auditors, the oversight body for state-owned companies), took the unprecedented step of publishing the names of the entire ex-board of directors of TAAG and accusing them of

²³ LUSA, 6 Oct 2018

²⁴ LUSA, 6 Oct 2018

²⁵ LUSA, 6 Oct 2018

²⁶ LUSA, 6 Oct 2018

²⁷ CAPA, 23 July 2016

²⁸ CAPA, 23 July 2016

²⁹ Air Transport World, 10 July 2017

³⁰ LUSA, 6 Oct 2018

³¹ CAPA, 23 July 2016

³² LUSA, 6 Oct 2018

embezzlement while in office, relating to \$22m missing from TAAG's accounts in 2006.³³ Total losses from the airline were said to be \$100m. INAVIC grounded the entire TAAG fleet on safety grounds in October 2006 due to a complete lack of maintenance.³⁴

Following this, TAAG was banned from flying into **European Union** airspace due to safety concerns, from July 2007 until June 2016, when the ban was lifted. However, in 2009 TAAG was allowed to fly to **Portugal** under an agreement between the civil aviation authorities of Portugal and Angola.³⁵ TAAG currently flies to Portugal, **Brazil** and **China**, with flights to 11 African destinations as well as 12 domestic routes.

This is Angola's first major privatisation under the new regime and will be an important test case and model for the future privatisation of more than 70 state-owned companies. State-owned firms control vast assets in industry, fisheries, agriculture, banking and transport and communications. The Angolan government is also considering a partial privatisation project for state oil company **Sonangol**, but only after June 2019, according to mineral resources and petroleum minister **Diamantino Azevedo**.³⁶ In previous privatisation under former president dos Santos, assets were transferred to political supporters. So, more is at stake than improving the running of the airline; it will be a test of how far Angola can begin to break away from past business practices.

Planner

22 Oct 2018: **Assembleia Nacional** (national assembly) opens for the 2nd legislative session of the IV Legislature;

23 - 24 Nov 2018: President **Joao Lourenço** to make state visit to **Portugal**;

Dec 2018: Amnesty for repatriation of illicit funds held offshore by Angolan nationals expires;

Dec 2018 - Jan 2019: Angola expects negotiations on the support programme requested from the **International Monetary Fund** (IMF) to be completed by December and that it will start early in the 2019 fiscal year;

2019: Angola **Public Investment Program** for fiscal year is set at \$3.3 billion, for projects in the energy and water, transport, education and health sectors. 85% of this budget expected to be funded from external credit lines.

June 2019: Expected completion date for transfer of **Sonangol's** contracts, concessions and relations with international oil companies to the **Agência Nacional de Petróleo e Gás (ANGP)** (national petrol and gas agency);

2020: First local and municipal elections to be held in Angola;

2021: National elections;

2022: End date for **Banco Poupanca e Credito's** recovery plan.

³³ ARC sources 2011

³⁴ Folha 8, 31 Oct 2006

³⁵ Macau Hub, 14 Jun 2016.

³⁶ Angop 9 Oct 2018

Chronology

17 Oct 2018 **Lunda Norte (Angola)** *Angop*. Over 200,000 illicit **Congolese** miners are expelled from Angola during **Operation Transperença** amid **United Nations** fears that a humanitarian crisis will result in **Kasai**;

16 Oct 2018 **Luanda (Angola)** *O Pais*. The **Câmara Criminal do Tribunal Supremo** (criminal chamber of the supreme court) rejects request to release the former transport minister, **Augusto da Silva Tomás**, from preventive detention;

14 Oct 2018 **Huila (Angola)** *Jornal de Angola*. Former governor of Huila province, **João Marcelino Tyippinge**, is under criminal investigation for embezzlement;

9 Oct 2018 **(UAE) (Angola)** *Angop*. Angola's national defence minister **Salviano de Jesus Sequeira** makes a two-day visit to United Arab Emirates to sign accords in defence co-operation;

8 Oct 2018 **Luanda (Angola)** *Lusa* Angolan economist **Manuel Alves da Rocha** estimates that Angola's growth rate will not exceed 2.8% by 2022, comparing forecasts by the Angolan government, the **International Monetary Fund** and the **World Bank**;

8 Oct 2018 **(Angola) (Portugal)** *Lusa*. The office of Angola's attorney general acknowledges that it is still analysing the lawsuit filed by the Portuguese court, accusing the former Angolan vice-president **Manuel Vicente** of crimes of active corruption, money laundering and document falsification;

6 Oct 2018 **Luanda (Angola)** *Lusa* Angolan government allocates \$387.86m (115 billion kwanzas) to implement 16 health projects, including the construction and equipping of hospitals, central medical warehouses and related infrastructure;

6 Oct 2018 **(IMF) (Angola)** *Lusa* **International Monetary Fund (IMF)** agrees to postpone the entry into force of Value Added Tax (VAT) in Angola to the second half of 2019;

5 Oct 2018 **Luanda (Angola)** *Lusa*. **Isabel dos Santos** drops her case for criminal defamation against SONANGOL CEO **Carlos Saturnino** for his claims that she illegally transferred \$38m from SONANGOL;

2 Oct 2018 **Luanda (Angola)** *Angop*. Angola's 79 customs offices will be equipped with the Automated System for Customs Data (ASYCUDA World) by the year 2019;

30 Sept 2018 **Luanda (Angola)** *Daily Nation*. Head of **Fundação Eduardo dos Santos, (FESA)**, **Ismael Diogo**, detained on charges of misappropriating \$20m;

19 Sept 2018 **Luanda (Angola)** *Angop* **Banco Nacional Angola (BNA)** announces that it will end the direct sale of foreign exchange on 1 October and will authorise the resumption of FX sales by commercial banks and other authorised financial institutions;