

AFRICA RISK CONSULTING**Angola Monthly Briefing November 2018****Angola Summary 12 November 2018**

Economic issues continue to dominate Angola's agenda, as the 2019 budget is set and investment in the country increases. The state-owned concessionaire for ferrous metals and gold, Ferrangol-EP, and state-owned national diamond company Empresa Nacional de Prospecção, Exploração, Lapidação e Comercialização de Diamantes de Angola (Endiama UEE) are to lose the rights to award mining concessions. The expulsion of over 400,000 Congolese nationals from Angola creates tensions with the Democratic Republic of the Congo (DRC), and allegations of abuse on both sides of the border, as Angola tries yet again to bring order to the artisanal diamond sector.

Angola expects "positive growth" and investment in 2019

Angola's draft 2019 **Orçamento Geral do Estado (OGE)** (state budget) has been set at AKW 11.2 billion (\$36.1m) on the basis of an oil price of \$68 a barrel, an increase of about 17% above the 2018 budget.¹ The new budget has a strong focus on social development in Angola – health education and infrastructure, which will also be funded through the **Programa de Investimento Público (PIP)** (public investment programme), largely financed by loans from **China** and **Europe**. The previous regime was extensively criticised for failing to invest in the population.

Minister of state for economic and social development **Manuel Nunes Júnior**, said:

*"Health expenditures represent 7% of the total, against 4% in the budget of the current year, while in education the figure is 6%, against the 4% of 2018. The Executive envisages the economic recovery with a positive growth of 2.8% in Gross Domestic Product (GDP) but a shrinkage of 1.1%, against 2.5% of 2017 and 2.6% of the year 2016 of the non-oil sector growth."*²

The amounts allocated to health and education are less than the 10% recommended by the **United Nations**³, but investment in these sectors is a priority for the government's 2019 **Programa de Investimento Público (PIP)** (public investment programme).⁴ The PIP is the main line of financing for projects in the energy and water, transport, education and health sectors, not the national budget. The preliminary PIP for the fiscal year 2019 includes financial income amounting to AKW1.85 trillion (\$6 billion).⁵

Budget state secretary **Aia Eza Silva** said that 2,382 projects have guaranteed financing and are expected to be executed:

¹ Angop, 1 Nov 2018

² Angop, 1 Nov 2018

³ Angop, 1 Nov 2018

⁴ Angop, 23 Oct 2018

⁵ Angop, 23 Oct 2018

“Of that amount, 85% of the projects will be financed with external credit lines and 15% with ordinary resources from the Treasury and internal financing. Priority projects for 2019, in addition to the health and education sectors, will have 7% (4% 2018) and 6% (4% 2018), respectively, of road, rail, energy and water projects, these are mainly works paralyzed due to insufficient financial resources.”⁶

The Angolan government invested nearly \$99.5 billion between 2002 and 2015 in the construction and reconstruction of economic and social infrastructure.⁷ However, the quality of this infrastructure *“is not in an encouraging position, putting the country in 141st place in the international competitiveness index”*, according to economy and planning minister **Pedro Luís da Fonseca**.⁸ Principal opposition party **Uniao Nacional de Independência Total de Angola (UNITA)** president **Isias Samakuva** echoes this view, noting that investment has barely reached the lives of the majority of Angolans, or outside the major cities:

“The government needs to do more to meet the needs of all Angolans. Such efforts do not reach the key areas of the citizens’ lives.”⁹

The international efforts of President **João Lourenço** (2017-present) during 2018 to raise investment in Angola have reportedly netted the country about \$11.2 billion, which will support the PIP.¹⁰ The principal investor is China with the **China Development Bank (CDB)** granting \$2 billion, the **Industrial and Commercial Bank of China** \$3.5 billion, and over \$620m raised from the Chinese **Eximbank**. Additionally, European investment raised \$2.6 billion, the majority being investment of \$500m or more from the **United Kingdom (UK), Germany, Portugal** and **France**. Sources of the remaining \$3.2 billion are not specified.

The budget and PIP investment raise major questions: Will the projects deliver roads, water, schools and hospitals for the broader population, or will investment as before, tend to go to elite projects or poorly executed public works? Lourenço is setting benchmarks for his administration, and expectations are high. He has successfully raised the money needed in Angola and now needs to find private partners who will deliver the projects, who have not been compromised by involvement in previous elite projects.

Natural resources companies lose rights to award concessions

The state-owned concessionaire for ferrous metals and gold, **Ferrangol-EP**, and state-owned national diamond company **Empresa Nacional de Prospecção, Exploração, Lapidação e Comercialização de Diamantes de Angola (Endiama UEE)** are to lose the rights to award mining concessions and will focus on their core business of mining under new regulations enacted by the ministry of mineral resources and petroleum.¹¹ In the medium term the companies will be privatised, so this reorganisation is the first step in the process, to produce functioning mining companies. It also moves power over mineral resources back to the ministry. The ministry is creating a new body, the **Agência Nacional de Recursos Minerais (ANRM)** (national agency of mineral resources) to manage the awards of mineral concessions.¹²

Mineral resources minister **Diamantino Azevedo** said:

⁶ Angop, 23 Oct 2018

⁷ Angop, 18 Oct 2018

⁸ Angop, 18 Oct 2018

⁹ Angop, 16 Oct 2018

¹⁰ Angop, 16 Oct 2018

¹¹ Jornal de Angola, 23 Oct 2018

¹² Expansao, 11 Sept 2018

“The intention is to find solutions capable of contributing to the sustainability and growth of the iron production industry in Angola. The restructuring program aims to make Ferrangol EP more competitive and profitable, focusing on the primary value chain, observing international quality standards, hence the company will leave the role of concessionaire and will also trigger its regeneration program, in order to focus on their main business.”¹³

Ferrangol EP is the national concessionaire for metallic mineral resources, iron ore, gold and phosphate, as well as managing and controlling the production of iron ore in Angola.¹⁴ It was created in 1981 to manage the **Cassinga mines (Huila Province)**, with estimated reserves of 1 billion tonnes of ore grading 30% iron metal.¹⁵ Mining operations were hampered due to the **Angolan Civil War** that started in 1975. The area remained largely occupied by the opposition group until the war ended in 2002, but the company resumed production in 2017. Ferrangol's holdings were expanded to include prospecting and management of gold, manganese, nonferrous metals, precious metals and rare earth metals. The company manages three large iron ore concessions in Cassinga, and manganese and gold in the **Cassala-Quitungo** region.¹⁶

Among Ferrangol's business partners is General **Leopoldino "Dino" Fragaso do Nascimento's Cochán Group**. Ferrangol re-awarded mining rights awarded to the **DT Group (Netherlands-based multinational commodity trading company Trafigura and Cochán)** in 2016.¹⁷ The attorney general's office in **Luanda** is currently investigating Dino's extensive business holdings, according to ARC sources there.

While the changes at Ferrangol are imminent, the timescale for Endiama to become solely a mining company was not clarified. Diamonds are Angola's second largest export, valued at \$1.2 billion in 2017.¹⁸ This figure will double as a major new mine at **Luaxe (Lunda Sul Province)** comes into full production in 2022. Angola is well known to have considerable further diamond deposits, both in kimberlite mines and alluvial diamonds, according to an ARC diamond industry source:

*“The situation at Endiama is perhaps more complicated than at Ferrangol, where new concessions are barely operational and older ones, such as DT's Kassinga are likely to be clawed back. Endiama has awarded many concessions to [ruling **Movimento Popular de Libertação de Angola**] **MPLA** players, including those linked to the dos Santos family. Concessions in many cases are dormant or operating as artisanal mines, but there is a legal process involved in reclaiming these for the new minerals agency. Endiama, as a result of its concessionaire status, is a shareholder in all the major mines and this is its main source of income. It isn't clear whether – or how – the existing working concessions will be affected, but going forward Endiama will have to leverage its existing under-utilised mining capacity and begin to mine concessions and market its own diamonds, to produce new income.”*

Endiama has already reported that it has suspended its exploration and mining projects in the **Central African Republic (CAR)** and **Venezuela**. Instead, it will concentrate its efforts

¹³ Jornal de Angola, 23 Oct 2018

¹⁴ Expansao, 11 Sept 2018

¹⁵ Wikipedia - Cassinga

¹⁶ SAPO, 24 Oct 2018

¹⁷ Jornal de Angola, 23 Oct 2018

¹⁸ www.thediamondloupe.com

on exploring and exploiting new diamond reserves in Angola, as well as attracting new investors.¹⁹ Azavedo said diamond-cutting will be removed from Endiama's new remit, but:

*"We want a great part of the production to be polished and polished in the country, which requires more investments."*²⁰

The same type of restructuring programme that applies to state-owned gas company **Sociedade Nacional de Combustíveis de Angola, E.P. (Sonangol EP)** is operative here, and to an extent the same aims apply – to prevent concession awards to political players. There are clear implications that Ferrangol and Endiama will be privatised, but later rather than sooner, and with the aim of boosting industry, both in steel production and in diamond manufacturing, as well as boosting mining. Given the global importance of both the steel and diamond deposits, Angola should have little difficulty attracting investors.

Expulsion of over 300,000 DRC nationals causes tension between Angola and DRC

Angola has expelled over 300,000 illegal migrants from the **Democratic Republic of the Congo (DRC)** in a police operation to remove illegal diamond diggers and traders from the north and east of Angola. The expulsions come at a time when Angola is trying to improve its international reputation in the diamond industry, and create a new diamond sales system, but the problems caused by the expulsions are likely to make markets more wary of Angolan diamonds. Between 330,000 and 340,000 Congolese have returned from Angola since 1 October, according to the **United Nations (UN)**, and they continue to flow in.²¹

An ARC Angolan diamond industry source says of the diggers:

"We think that a proportion of the diggers are brought in to work for illegal buyers; they get what they think are work permits and do not know these are not legal. It is a major problem because of the sheer weight of numbers, and the fact they come back even after being returned. The border is very long, and too easy to cross. Angola is losing diamonds and revenue as these stones are not sold to [state-owned diamond trading company [Empresa Nacional de Comercialização de Diamantes de Angola] SODIAM and may be smuggled out of Angola."

Sixty-seven illicit diamond-mining operations were shut down, and buyers were arrested, with about 26,000 carats of diamonds seized. **Policia Nacional** (national police) commissioner **António Bernardo** said that "Operation Transparency", which started at the beginning of October, is set to last until the year 2020.²²

DRC government spokesman **Lambert Mende** claims the real figure for forced expulsions was no more than 40,000. Mende says:

"One hundred and sixty thousand came back voluntarily. We are having problems with our neighbours regarding the remaining 30-40,000. Those were expelled with brutality and that is the problem we are concerned with. The returns came after an ultimatum expired on Monday 15 October for Congolese migrants working in the informal mining sector in the northeast of the country to leave, but came with little warning. We have an agreement with Angola that whoever among the two countries has to expel irregular

¹⁹ Engineering News, 13 Jul 2018

²⁰ Jornal de Angola, 23 Oct 2018

²¹ Thompson Reuters Foundation, 31 Oct 2018

²² Angop, 17 Oct 2018

migrants should inform the other country, so that it can prepare to welcome its citizens. This was not made for these 40,000 Congolese expelled from Angola."²³

The Angolan foreign affairs ministry invited the DRC ambassador in Angola, **Didier Kazadi Nyembwa**, to inform him about "*Operation Transparency*", as allegations of maltreatment on both sides of the border, and a failure to warn the DRC government in advance of the expulsions have led to tensions between the two countries.²⁴ The foreign affairs ministry assured Nyembwa that the operation is not targeting exclusively citizens from the DRC, but all foreign citizens with an illegal migratory situation in the provinces of **Malanje, Bié, Moxico, Zaire, Lunda Sul and Lunda Norte**.²⁵

In the DRC, however, humanitarian agencies are concerned that a refugee crisis is being created in the border town of **Kamako (Kasai Province)** where 50,000 migrants are stuck with no resources or means to travel home, according to the **International Committee of the Red Cross (ICRC)**.²⁶ **UN High Commissioner for Refugees (UNHCR)** spokesman **Andreas Kirchhof** is concerned that there is a threat of violence:

*"So far, the situation is relatively calm, but there is certainly a risk that ethnic tensions could be exacerbated."*²⁷

The UN human rights office last week also condemned "*serious human rights abuses*" committed during the expulsions and said at least six people had been killed, reportedly by Angolan security forces – which Angola denied. The UN also said returnees have been subjected to extortion and illegal taxation by the defence and security forces in Congo.²⁸

The **World Diamond Council (WDC)** is currently advocating the **Kimberley Process (KP)** for a broadening of the definition of conflict diamonds to address grave and systemic violence, such as has occurred in **Zimbabwe** and in Angola in previous episodes of expulsion.²⁹ WDC president **Stephane Fischler** said WDC executives have initiated discussions with a number of governments and international bodies over the past year:

*"This included holding a series of meetings with representatives of Angola and the Democratic Republic of the Congo (DRC) to discuss the challenges and opportunities in artisanal mining, and the social and economic benefits to communities that come with KP compliance."*³⁰

The problems caused by the expulsions may make markets more wary of Angolan diamonds. They have also exacerbated an already difficult relationship with the DRC. While no one doubts that the presence of hundreds of thousands of illegal migrants mining diamonds (and also smuggling fuel and other goods across the border), is a major problem, the methods used are moot. The Kimberley Process is considering whether to advise the **UN General Assembly** to put in place further controls and monitoring.

²³ Radio France International, 18 Oct 2018

²⁴ Angop, 18 Oct 2018

²⁵ Angop, 18 Oct 2018

²⁶ www.icrcnewsroom.com, 31 Oct 2018

²⁷ Thompson Reuters Foundation, 31 Oct 2018

²⁸ Thompson Reuters Foundation, 31 Oct 2018

²⁹ IDEX online, 12 Nov 2018

³⁰ IDEX online, 12 Nov 2018

Planner

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.

Chronology

12 Nov 2018 **Luanda (Angola)** *Angop* **France**-based oil company **Total** and its affiliates announce further investment in oil **Block 17** in order to develop the CLOV Phase 2 project, which entails drilling of seven additional wells;

9 Nov 2018 **(Angola) (USA)** *CajNews* **Aenergy (AE)** and **General Electric (GE)** enter contract, valued at \$220m, to expand the **Soyo Combined Cycle Power Plant**, which would add up to 750 megawatts to the country's grid.

9 Nov 2018 **London (UK)** *Angop*. The **United Kingdom** makes available £750m (\$64m) to support social projects in **Angola**;

8 Nov 2018 **(Angola) Madrid (Spain)** *Angop*. Angola and Spain prepare to strengthen bilateral cooperation in the area of security and internal order, according to interior minister **Ângelo da Veiga Tavares** during a visit to Madrid;

8 Nov 2018 **Luanda (Angola)** *Angop*. **Italy**-based **ENI** CEO **Claudio Descalzi** announces ENI will make substantial new investment in Angola, in the exploration and development of new offshore areas from 2019, following increase in production of 50,000 barrels/day in the last 12 months in block 15/06.

8 Nov 2018 **Luanda (Angola)** *Angop*. President **Joao Lourenço** announces privatisation of Angolan coffee producer **Cafangol UEE**, now named **Cafangol, SA**, and liquidates **Mecanagro UEE**, the national agricultural mechanisation company;

8 Nov 2018 **Johannesburg (South Africa)** *Africa Investment Forum 2018*. The **African Investment Bank**, the government of **Portugal**, and **Angola, Cabo Verde, Equatorial Guinea, Guinea-Bissau, Mozambique**, and **Sao Tomé and Príncipe** agree \$5 billion in projects as part of a development finance compact;

4 Nov 2018 **Luanda (Angola)** *Angop*. The government of **France** announces credit lines for Angola of €250m (\$282m) for investment in training and agricultural projects.

23 Oct 2018 **Luanda (Angola)** *Angop*. Mineral resources minister **Diamantino Pedro de Azevedo** says the government has taken steps to reverse the downward trend in oil production;

18 Oct 2018 **(Angola) Hanoi (Vietnam)** *Angop*. Angola participates in the 10th International Symposium on Trafficking of Cultural Property, Works of Art and Antiques held in Hanoi;

18 Oct 2018 **Luanda (Angola)** *Angop*. Angola records an 18% increase in non-oil tax revenues from major taxpayers, in first 9 months of 2018, reaching \$1.6 billion (504.3 billion kwanzas.)