

**AFRICA RISK CONSULTING****Angola Monthly Briefing June 2018****Angola Summary 13 June 2018**

*President Joao Lourenço (2017-present) embarks on his first major European tour since his election as president. In France he discusses the political crisis in the Democratic Republic of the Congo (DRC) and bilateral agreements, and signs deals with Total Oil. In Belgium he discusses a new sales system for Angola's diamonds. In both countries he reaffirms Angola's commitment to anti-corruption measures and to reforming Angola's economy, as well as Angola's desire to join the international community. José Filemeno dos Santos and Jean-Claude Bastos de Morais have been charged with crimes relating to the Fundo Soberano de Angola and in Switzerland the authorities are investigating the fund manager Quantum Global. Angola's largest bank, Banco Poupanço e Crédito, is revealed to be carrying a total of \$5.2 billion of underperforming assets and non-performing loans made to the Angolan elite.*

**Lourenço reaffirms commitment to anti-corruption measures during European tour**

President **Joao Lourenço** (2017-present) began a three-day visit to **France** and a two-day visit to **Belgium** on 29 May, the first major **European** tour since his election as president in September. The visits had a complex series of aims: to sign trade deals and bilateral agreements, promote increased international co-operation between **Angola** and European institutions, and to discuss regional politics.<sup>1</sup> As important for Lourenço was to promote his message that he is carrying out "*a real crusade against corruption and impunity*", and wants to create a business climate conducive to private investment in the country.<sup>2</sup> A less obvious objective was to solicit aid in repatriating Angolan capital to **Luanda**, following Angola's new **Lei sobre Repatriação de Recursos Financeiros Domiciliados no Exterior de Pais** (law on repatriation of financial resources domiciled abroad.)<sup>3</sup>

The political crisis in the **Democratic Republic of the Congo (DRC)** became a major issue during the meeting between President Lourenço and his French counterpart, **Emmanuel Macron** (2017-present), at the **Elysée Palace** in **Paris**. Congolese authorities had accused France, **Rwanda** and Angola just prior to President Lourenço's visit, of fomenting a plot against the sovereignty of the DRC.<sup>4</sup> Both presidents affirmed their support for elections in the DRC in December.<sup>5</sup> Lourenço commented:

*"The subject we are dealing with is not a conspiracy but the great need to show President [Joseph] Kabila [2001-present] that he must respect the agreements. I will meet with President Kabila in the coming days to continue to discuss with him until the elections."<sup>6</sup>*

<sup>1</sup> Lusa, 6 June 2018

<sup>2</sup> Lusa, 6 June 2018

<sup>3</sup> Jornal de Angola, 13 June 2018

<sup>4</sup> Le Monde, 29 May 2018

<sup>5</sup> Le Monde, 29 May 2018

<sup>6</sup> Africa News France, 29 May 2018

Lourenço signed a defence cooperation agreement with France, possibly relating to the **Gulf of Guinea**.<sup>7</sup>

On the commercial front, France-based oil company **Total** and Angola's state-owned oil company, **Sociedade Nacional de Combustíveis de Angola EP (Sonangol)**, signed a series of agreements. These include an investment of \$1.2 billion for a deepwater project, **Block 48** in Angola. Total and Sonangol are also creating a joint venture to develop a network of service stations.<sup>8</sup> Total provides 35% of Angola's national oil production.<sup>9</sup> Angola also signed a financial facilitation agreement with France-based banking network **Crédit Agricole** to finance agricultural projects of up to €500m (\$580.6m), and technical support for project preparation.<sup>10</sup>

Lourenço was less successful in getting French aid for asset recovery. Although there is a widespread belief that illicit Angolan assets are hidden in France, the French ambassador to Angola, **Sylvain Itté**, denied that this is so:

*"Firstly, I think most of the Angolan capital is not in France, it is in other countries. So, France is not in the first line to help, specifically, the repatriation of money, because this money is not in France."*<sup>11</sup>

In Belgium, Lourenço's objectives were rather different and the outcomes possibly less specific. Lourenço had meetings with King **Philippe of Belgium** (2013-present), **European Union (EU)** vice-president **Federica Mogherini**, the **European Council** head, **Donald Tusk**, and the general secretary of the **Africa Caribbean and Pacific (ACP)** group, **Patrick Gomes**. The foreign affairs ministries of Angola and Belgium signed a memorandum on bilateral political consultations.<sup>12</sup>

The focus of Lourenço's visit was **Antwerp**, where Angola is considering setting up a new diamond sales system for its \$1 billion diamond industry, having removed what are delicately termed 'preferential buyers' from Angola's diamond sales system.<sup>13</sup> Lourenço told the Belgian diamond industry,

*"It has been said that Angola has been absent from Antwerp, but that is set to change. We are going to be represented in Antwerp, and will work together in partnership. The responsible institutions have been instructed to see that Angola can return to this great diamond centre."*<sup>14</sup>

President Lourenço made it clear during these state visits that he wanted to go beyond the traditional **Portuguese** speaking community alliances and take Angolan's foreign policy into new areas. Angola is considering applications to join **La Francophonie**, and to join the **Commonwealth of Nations**. **Mozambique**, also a member country of the **Comunidade do Países de Língua Portuguesa (CLCP)** (community of Portuguese-speaking countries,) joined the Commonwealth in 1995. It was the first country without historic ties to the **United Kingdom (UK)** to join. In an interview with **Euronews** on 1 June, during his visit to France, President Lourenço said:

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<sup>7</sup> Euronews, 1 June 2018

<sup>8</sup> Le Monde, 29 May 2018

<sup>9</sup> Le Monde, 29 May 2018

<sup>10</sup> Angop, 30 May 2018

<sup>11</sup> Jornal de Angola, 11 Jun 2018

<sup>12</sup> Jornal de Angola, 11 Jun 2018

<sup>13</sup> IDEX Online, 7 June 2018

<sup>14</sup> IDEX Online, 7 June 2018

*"Angola is surrounded, not by Portuguese-speaking countries, but by French-speaking and English-speaking countries. Therefore, let us not be surprised that we are thinking of now asking to join the Francophonie and maybe the Commonwealth later."<sup>15</sup>*

Lourenço is reversing the isolationist policies of his predecessor, **Jose Eduardo dos Santos** (1979-2017), and seeking closer direct political ties in Europe as well as direct investment in Angola, evidently with some success. While improved relations with France are clearly very important to Angola, developing a new diamond sales system in Antwerp that gets better returns for Angola's diamonds will boost the economy, particularly if Angola is successful in expanding diamond mining. Little help with asset tracing appears to be forthcoming, although it is widely believed that France, **Luxembourg**, Portugal, **Spain**, the UK, and Belgium to an extent, are home to concealed assets, as well as the better known offshore islands.

### **Zenu dos Santos and Bastos de Morias face criminal charges over FSDEA**

The **Direcção Nacional de Investigação e Acção Penal da Procuradoria-Geral da República (DNIAP)** (national office of investigation and criminal action of the Attorney General's office) is investigating the former chairman of the board of directors of the **Fundo Soberano de Angola (FSDEA)** (sovereign fund of Angola), **José Filomeno dos Santos**, and **Swiss-Angolan Jean Claude Bastos de Morais**, president of Switzerland-based **Quantum Global**, which previously managed the assets of the FSDEA. The DNIAP's criminal lawsuit focuses on aspects of the asset management of the FSDEA.<sup>16</sup> Swiss authorities are also separately investigating Quantum's activities in Switzerland.<sup>17</sup>

The DNIAP did not elaborate the charges against either man, but Bastos de Morais must present himself to the authorities every two weeks and is banned from leaving Angola.<sup>18</sup> However, after the Attorney General's office questioned Bastos de Morais on 25 May, he attempted to leave Angola the same day.<sup>19</sup> The **Serviço de Migração e Estrangeiros (SME)** (migration and foreigners service) prevented him from leaving and confiscated his passports.<sup>20</sup> Dos Santos already has the same restrictions in place, following the charges against him relating to an attempted \$500m fraud (see *ARC Briefing Angola April and May 2018*).

The exact whereabouts of at least part of the FSDEA's assets remain in doubt. In an interview given during his official visit to France, President Lourenço said his government was trying to trace the resources of the FSDEA (see above). He also noted that there appeared to be no returns on the FSDEA's investments:

*"We are in the process of seeking to recover these resources. As you know, \$5 billion have been made available to the Sovereign Fund; at this point there should be more than that because this is an investment fund and when it is invested, there should be returns. What we do know is that we have less than this initial value. We have an idea of where these resources are: in **Mauritius**, in **England**, in other corners of the planet and we are now in a process of recovering those same resources."<sup>21</sup>*

<sup>15</sup> Euronews, 1 June 2018

<sup>16</sup> Lusa News Agency, 12 June 2018

<sup>17</sup> Lusa News Agency, 12 June 2018

<sup>18</sup> Lusa News Agency, 12 June 2018

<sup>19</sup> Expansão, 26 May 2018

<sup>20</sup> Expansão, 26 May 2018

<sup>21</sup> Lusa News Agency, 12 June 2018

Lourenço noted that the old FSDEA directorate did not pass all information about the location of its resources were not all passed over to the new directorate:

*"The normal course of action would be, in the processing of the handover from one board to another, that the previous board of directors should have opened up about it, transparently and said where those resources are. This did not happen, or if it happened, it was not convincing."*<sup>22</sup>

Quantum Global's funds in Mauritius have already been frozen, following the visit of an FSDEA delegation. In the UK, Angola applied to the **High Court** for an order to freeze Quantum Global's accounts (see *ARC Briefing Angola April 2018*). The government announced that the FSDEA's accounts would be audited, and called for tenders for the audit.<sup>23</sup>

In Switzerland, three bodies are investigating Bastos De Moraes, although the Swiss **Bundesamt für Justiz** (Federal Office of Justice) said that it had not received a request for judicial assistance from Angola.<sup>24</sup> The **Bundesanwaltschaft (BA)** (Swiss Federal Prosecutor's Office) started criminal proceedings in April on suspicion of money laundering. The BA raided four Quantum premises in **Zug** (Switzerland) on 17 May and seized documents.<sup>25</sup> BA spokesman **Anthony Brovarone** said the procedure is related to "possible crimes against the assets of the **Banco Nacional de Angola (BNA)** (Angolan central bank) and the FSDEA".<sup>26</sup>

Swiss financial market supervisor **Finma** has also become active in the Angola case, according to its spokesman:

*"Finma is currently investigating capital assets of the BNA and the Angolan sovereign wealth fund."*

The **Eidgenössische Steuerverwaltung** (Swiss Federal Tax Administration) is also investigating Quantum for possible tax evasion. All three agencies are working together on this case.<sup>27</sup>

This is likely to be the largest financial criminal case coming out of Angola, and a watershed in accountability for the wholesale looting of the Angolan state, involving the mismanagement of the \$5 billion FSDEA and the apparent concealment of parts of its assets. The case is leading to international investigations into the assets and activities of Quantum Global, the sacked fund manager. Swiss investigations into possible crimes against the BNA add a further element to this case. The only known issue relating to the BNA is the fraudulent transfer of \$500m, for which Zenu dos Santos has already been charged, raising the possibility that Quantum was involved in this fraud.

### **Banco Poupanço e Credito crumbling under toxic debt load**

The survival of **Banco Poupanço e Credito (BPC)** (savings and loans bank) is at stake, according to the bank's auditors, UK-based international auditors, **UHY - Auditores & Consultores**.<sup>28</sup> UHY warned in May:

<sup>22</sup> Euronews, 1 June 2018

<sup>23</sup> Jornal de Angola, 31 May 2018

<sup>24</sup> 20 Minutes Zurich 17 May 2018

<sup>25</sup> Tages Anzeiger, Zurich 18 May 2018

<sup>26</sup> Tages Anzeiger, Zurich 18 May 2018

<sup>27</sup> Tages Anzeiger, Zurich 18 May 2018

<sup>28</sup> Lusa, 30 May 2018

*"The bank's capacity to continue operations depends on the success of its future activities, the maintenance of its customers' deposits and the continued financial support of its shareholders."<sup>29</sup>*

As applied to BPC, this is a dire warning. BPC is revealed in the **Palanca-2 Eurobond** issue prospectus, issued in May, to have non-performing loans (NPLs) of 71.1% of the bank's total loans, equivalent to 447% of the bank's own funds, at the end of 2017. At that point the bank had a total of \$5.2 billion of underperforming assets and NPLs.<sup>30</sup> In March 2017, the bank's shareholders – the **Ministerio de Finanças** (finance ministry), the majority shareholder with 75%, **Instituto de Segurança Social** (social security fund) 15%, and the **Caixa de Segurança Social das Forças Armadas Angolanas** (Angolan armed forces' pension fund) 10%<sup>31</sup> – had agreed a rescue and restructuring plan. A new board of directors was appointed, and 'underperforming' assets and the non-performing loans were to be sold to **Recredit – Gestao de Activos SA**, a new state-owned entity initially established to rescue BPC, but later extended to other banks, to be financed by the issue of government domestic bonds.<sup>32</sup>

In March this year, the government authorised a special issue of **Obrigações do Tesouro Nacional em Moeda** (OTNM) (national currency treasury bonds) to be delivered directly to the BPC "as a capital increase" of 180 billion kwanzas (\$804.6m) for the recapitalisation of BPC, the largest bank in the country.<sup>33</sup> This follows a bail-out by the government of 67.5 billion kwanzas (\$405m) in February 2017. A UK-based journalist familiar with Angola's banking system and BPC says:

*"BPC has been notorious for its incompetence, to put it no higher, for a decade or more. The state has progressively removed functions from BPC since 2010 – the payment of state salaries and some government domestic payments were removed from the bank's remit. The bank's current indebtedness places it second only to **Banco Espirito Santo Angola (BESA)** in issuing toxic loans. But, unlike privately-owned BESA, BPC cannot simply be allowed to fail. Its shareholders are also major customers; BPC pays the pensions to the Armed Forces, and pensions and welfare payments to Angolans as well as some government domestic payments. If payments from the BPC stopped, the social effects could be dramatic, as can be gauged by the demonstrations by ex-soldiers in 2012, when pension payments were stopped due to theft of the funds. So, rescuing this failing bank is a political necessity."*

Like BESA, BPC is said to have made loans to the Angolan elite. In mid-2017, lists of debtors to the bank were circulating in Luanda. The lists named businessmen and politicians linked to the ruling political party, **Movimento Popular de Libertação de Angola (MPLA)**.<sup>34</sup>

BPC is currently the most indebted bank in Angola. BPC's debt overload demonstrates that banking regulation and supervision have not improved in this state-owned bank, since the collapse of Banco Espirito Santo Angola in 2014, in the face of toxic debt. The government has established Recredit as the means to remove underperforming assets and NPL's from the banking system, but without higher levels of banking supervision and accountability for

<sup>29</sup> Lusa, 30 May 2018

<sup>30</sup> Palanca-2 Prospectus, 3 May 2018.

<sup>31</sup> Jornal de Angola, 15 Aug 2008

<sup>32</sup> Palanca-2 Prospectus 3 May 2018.

<sup>33</sup> Lusa 12 March 2018

<sup>34</sup> Lusa 10 July 2017

mismanagement or theft of funds, the underlying problems in much of the sector cannot be solved.

### Planner

June 2018 New Foreign Exchange law to be signed into law, compelling Angolan nationals to declare assets held abroad.

June 2018 Bill on Repatriation of Financial Resources Domiciled Broad to be signed into law.

July 10-14 2018 **FILDA – Feira Internacional de Luanda**, Angola's yearly trade fair, will be held at the **Parque de Exposições de Luanda, Pólo Industrial de Viana**.

September 2018 Joao Lourenço takes over Presidency of MPLA from **Jose Eduardo dos Santos**

2020 First Local and Municipal elections to be held in Angola.

2022 End date for BPC's recovery plan

### Chronology

13 June 2018 **Angola (Luanda) Lusa**. The Attorney General says criminal cases against **Jose Filomeno dos Santos** and others over the illegal transfer of Angola's \$500m to a foreign bank are almost ready to go to trial;

12 June 2018 **Angola (Luanda) Angop** Angola develops policies for reducing child labour;

11 June 2018 **Angola (International Hydroelectric Power Association) Angop**. Angola moves from 11th to 5th in **Africa** hydropower ranking, with a capacity of 1,108MW.

11 June 2018 **Angola (Soyo) Angop**. Chief of the General Staff of the **Forças Armadas Angolanas (FAA)**, army general **António Egídio de Sousa Santos**, inspects state of readiness of FAA troops at border with the **Democratic Republic of the Congo (DRC)**;

11 June 2018 **(Angola) (UAE) Angop**. UAE-based **Emirates Airlines** increases flights to **Luanda** to five a week;

7 June 2018 **Angola (Ministry of Health) Angop**. Major malaria outbreak of at least 1.5 million cases, and 3,853 deaths from malaria, were recorded in the first six months 2018.

5 June 2018 **Angola (Lubango) Angop**. Government to invest \$120m in **Matala Dam** substation in 2018;

5 June 2018 **Brussels (Belgium) Angop**. Memorandum on bilateral political consultations between the foreign affairs ministries of Angola and Belgium signed in **Brussels**;

4 June Angola **(France) Angop**. France-based **Total EP** is awarded rights to ultra deep water Block 48 in **Lower Congo** basin;

1 June 2018 **(Angola) (China) Angop** Angola and the **China Chamber of Commerce (CAC)** sign a partnership agreement with **Agência Sol Turismo** and **Banco Sol** to promote Angola's tourism sector;

30 May 2018 **Stockholm (Sweden) Angop**. Angolan foreign affairs minister **Manuel Augusto** and his Swedish counterpart, **Margot Wallstrom**, sign a memorandum of understanding on Bilateral Consultations;

30 May 2018 **(Angola) (USA) Angop**. Chairman of the Foreign Relations Commission of the

**United States** House of Representatives, **Ed Royce**, and a 7-person delegation visit Angola, with a view to increasing co-operation;

30 May 2018 **(Angola) (France)** *Angop* Foreign minister **Manuel Augusto** confirms that Angola is interested in joining the international organisation of **La Francophonie** as an observer;

30 May 2018 **(Angola) (France)** *Angop*. President **João Lourenço** meets Angolan and French businessmen to promote private sector investment in Angola as the way forward for the Angolan economy;

28 May 2018 **Angola (World Bank)** *Angop*. Angola and the World Bank sign a \$110m investment agreement for Angola's health sector;

26 May 2018 **Angola (MPLA)** *Angop* Angola's ruling **Movimento Popular de Libertação de Angola (MPLA)** party president, **José Eduardo dos Santos**, reaffirms he is leaving his political life in 2018, of "his own free will".

25 May 2018 **Angola (BNA)** *Angop* **Banco Nacional de Angola (BNA)** reduces the mandatory national currency reserves from 21% to 19%, to increase credit in the economy;

24 May 2018 **Angola (London)** *Angop*. **British Airways** announces it will no longer fly to Angola as from June this year;

24 May 2018 **Luanda (Angola)** *Angop*. The finance ministry announces it has created a budget control system to improve the management of public financial resources and implementation of the General State Budget;

24 May 2018 **Kigali (Rwanda)** *Angop*. The Angolan and Rwandan governments sign a civil aviation agreement for seven flights a week between the two countries;

22 May 2018 **Angola (IPI)** *Angop*. The **International Press Institute (IPI)** names journalist **Rafael Marques de Morais** its 70th World Press Freedom Hero;

15 May 2018 **Angola (MinFin)** *Angop* **Credit Suisse Bank** grants Angola \$700m loan for unspecified strategic projects.