

## AFRICA RISK CONSULTING

### Angola Monthly Briefing December 2019

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#### Angola Summary 10 December 2019

*The long-delayed trial of José Filomeno dos Santos "Zenú" starts in Angola's Tribunal Supremo (Supreme Court). This is the third attempt to bring José Filomeno dos Santos to trial, together with Valter Filipe Duarte da Silva, ex-governor of the Banco Nacional de Angola (BNA) (central bank), Mais Financial Services S.A head Jorge Gaudens Pontes Sebastião, and BNA official António Samalia Bule Manuel, on charges relating to the illegal transfer of \$500m to London (United Kingdom) in August 2017. The trial is the litmus test for Angola's seriousness in dealing with corruption. State-owned oil company Sociedade Nacional de Combustíveis de Angola, EP (Sonangol EP) rescinds the contract with the United Shine consortium to build a new refinery at Malemba (Cabinda Province) agreed earlier in 2019, citing deficiency in corporate capitalisation and failure to submit documentation including additional technical, commercial and financial studies and signs a new contract between UK-based Gemcorp Capital LLC and Sonangol Refinação SA (Sonanref). External investment and economic reforms, as well as major investigations into elite corruption and major corruption trials dominated the 2019 agenda in Angola. Internal political and economic indicators thus far for 2020 show reduced budgets and continued protests if living standards fail to rise in Angola next year.*

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#### Trial of José Filomeno dos Santos "Zenú" begins

The long-delayed trial of **José Filomeno dos Santos "Zenú"**, previously chairman of **Angola's Fundo Soberano de Angola (FSDEA)** (sovereign wealth fund) and son of former President **Jose Eduardo dos Santos** (1979-2017), began on 9 December in Angola's **Câmara Criminal do Tribunal Supremo** (criminal chamber of the Supreme Court).<sup>1</sup> It is by far the highest profile criminal prosecution case held in Angola, and will attract major international attention. This is the third attempt to bring José Filomeno dos Santos to trial and the start of the trial allays concerns that the case could be dropped, which would severely damage the credibility of Angola's anti-corruption initiatives.

Zenu dos Santos was arrested in September 2018. The first case, which concerned dos Santos' management of the FSDEA, was dropped when co-defendant **Jean Claude Bastos de Morais** was released and charges against him dropped following the discovery that the FSDEA had assigned significant management rights to Bastos de Morais' **Quantum Global company** (see *ARC Briefing Angola April 2019*).<sup>2</sup> The charges were then reduced and the four remaining defendants, Zenu dos Santos, **Valter Filipe Duarte da Silva**, ex-governor of the **Banco Nacional de Angola (BNA)** (central bank), **Jorge Gaudens Pontes Sebastião**, head of **Mais Financial Services, S.A.** and BNA official **António Samalia Bule Manuel**, are now charged with embezzlement and money laundering relating to an alleged illegal transfer of \$500m from the BNA to an account at **Credit Suisse** in **London (United Kingdom)** in August 2017.<sup>3</sup>

The \$500m transfer was to fund an alleged **Strategic Investment Fund** using Mais Financial Services, S.A. as the instrument and was an advance payment to a company formed by the defendants to set up a \$30 billion financing operation for Angola. The finance ministry claimed that Jorge Gaudens Pontes and José Filomeno dos Santos:

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<sup>1</sup> Angop, 2 Dec 2019

<sup>2</sup> Angop, 26 Mar 2019

<sup>3</sup> Angop, 2 Dec 2019

*"... proposed to the executive to set up an Investment Fund and Strategic Plan to fund projects considered strategic for the country. It should be noted that the entire operation would be brokered by Mais Financial Services, which allegedly had the support of a top-tier international banking syndicate."*

Mais was also intending to set up a foreign currency fund,

*"which would put the weekly amount of \$ 300m [equivalent to \$244m] to meet the needs of the domestic foreign exchange market for a period of 12 months."*

According to a court filing in September by his defence team, José Filomeno dos Santos claimed to be a "victim of a scam" by two foreigners who made him believe in a project to create a strategic fund to capture foreign currency and forwarded the project to his father, then-President José Eduardo dos Santos.<sup>4</sup> Following this, dos Santos dismissed his legal team and asked the court to appoint a public defender.<sup>5</sup>

A new trial was scheduled for 25 September but was delayed because the lawyer for Valter Filipe, one of the defendants, was also defending General **António José Maria "Zé Maria"** ex-head of the **Serviço de Inteligência e Segurança Militar** (military intelligence and security service). Maria was found guilty of misappropriating confidential military documents by the **Supremo Tribunal Militar de Angola** (military high court) on 22 November and sentenced to three years in prison, opening the way for the trial of Zenu dos Santos and the other accused.<sup>6</sup>

The appointment of a new head of the Supreme Court at the end of October has resulted in this case coming to court after an inexplicable delay by the previous head of the court, who resigned under some pressure (see *ARC Briefing Angola November 2019*). This very high profile case and its conduct remains the litmus test both for Angola's legal procedures and for the seriousness of President Lourenço's anti-corruption campaign. It is a widely held and very simplistic view that the trials are part of a vendetta by Lourenço against the predecessor who appointed him. This case will demonstrate the validity of the criminal charges and bring into question the judgement of former President José Eduardo dos Santos. It will also demonstrate whether or not there is impunity in Angola, another widely held concern.

### **Sonangol rescinds contract for Cabinda refinery and appoints Gemcorp Capital LLC**

State-owned oil company **Sociedade Nacional de Combustíveis de Angola, EP (Sonangol EP)** has ended its contract with the **United Shine** consortium, agreed earlier in 2019, to build a new refinery at **Malemba (Cabinda Province)**. The refinery is regarded as a priority by the government since it is expected to supply part of the needs of the domestic fuel market. In May, Joao Lourenço sacked **Carlos Saturnino Guerra Sousa e Oliveira** (then chairman of the board of Sonangol-EP) and other directors, and asked for a change in Sonangol priorities and a speeding up of the building of refineries, after a major fuel crisis developed across Angola and three of Angola's largest cities ran out of gasoline and diesel.<sup>7</sup>

The expected full processing capacity of the refinery is 60,000 barrels of oil per day for diesel, gasoline, full oil and Jet A1 production.<sup>8</sup> A second, larger refinery is to be built at **Lobito**, with a capacity to process 200,000 barrels of oil per day. At present all fuel for domestic consumption is imported.<sup>9</sup>

**Sonangol Refinação SA (Sonanref)** has already put in place a new project, having signed a Memorandum of Understanding on 30 October with UK-based **Gemcorp Capital LLP**. Gemcorp will

<sup>4</sup> Jornal de Negócios, 8 Dec 2019

<sup>5</sup> Deutsche Welle, 21 Oct 2019

<sup>6</sup> Angop, 2 Dec 2019

<sup>7</sup> Lusa, 7 May 2019

<sup>8</sup> Angop, 4 Dec 2019

<sup>9</sup> Valor Economico, 12 Nov 2018

undertake the financing and implementation of the project, ensuring realisation within the deadlines.<sup>10</sup>

A spokesperson for Gemcorp confirmed the contact to ARC:

*“Gemcorp and Sonangol Refinação SA [Sonanref] have agreed a joint venture to develop a 60,000bbl/d refinery in Cabinda, Angola. The JV is 90% Gemcorp and 10% Sonanref. The project is located by the northwest coast of the Cabinda Province, near the large offshore oil fields of Angola. Total capex costs are expected to be over \$300m, comprising of three phases creating local economic impact and employment in Cabinda. Expected timeline for the beginning of operations is 18 months. Gemcorp will be overseeing the project and leading the financial and structural aspects.”*

Sonanref terminated the contract with the United Shine consortium for non-compliance, after only five months. The United Shine consortium signed a generic agreement in February and a contract on 4 June, for the implementation of the project.<sup>11</sup> United Shine was selected to build the refinery in November 2018, following a public tender process, with 68 initial applications; the seven final candidates were then assessed for their legal, technical and financial competence through a “due diligence” process carried out by “an independent entity of recognised international reputation”, according to Sonangol.<sup>12</sup>

The United Shine consortium is said to be a single purpose vehicle set up to build the Cabinda refinery, registered only in 2018. ARC sources confirmed that **Arkaday Gaydamak**, known for his previous roles in Angola’s diamond sales monopoly **Ascorp**, and for his involvement in settling Angola’s debt to **Russia** in the 1990s, was a member of this consortium.<sup>13</sup> Sources were unable to confirm reports that United Shine intends to start arbitration proceedings in London against the government of Angola.<sup>14</sup>

According to Sonangol’s communique, the consortium has not demonstrated the ability to prepare or carry out essential activities within the agreed period and Sonangol was forced to terminate the contract, following non-compliance with the agreed actions and a lack of “effective, unconditional and concrete financing or guarantees to ensure the implementation of the refinery in Cabinda”.<sup>15</sup>

Sonangol also noted a “deficiency in corporate capitalisation at the equity level, to ensure the completion of the project”:

*“Failure to submit additional technical, commercial and financial studies to support the project’s completion within the deadline, failure to submit documentation for approval of the private investment project under Angolan law were other shortcomings detected.”<sup>16</sup>*

United Shine was expected to purchase the refinery of **Libyan** state-owned and **Netherlands-**headquartered **Tamoil** (owned by **Oilinvest Group**) for installation in Cabinda.<sup>17</sup> Gemcorp confirmed that the refinery is no longer part of this project:

*“A new refinery will be built in the **United States (US)** by **Houston-based VFuels LLC**. VFuels, an international engineering and construction firm, will provide technical and operational expertise in the project.”<sup>18</sup>*

<sup>10</sup> Angop, 4 Dec 2019

<sup>11</sup> Angop 4 Dec 2019

<sup>12</sup> Valor Economico, 12 Nov 2018

<sup>13</sup> Africa Intelligence, 29 Nov 2019 and ARC sources Luanda Dec 2019.

<sup>14</sup> Africa Intelligence, 2 Dec 2019 and ARC sources Luanda Dec 2019.

<sup>15</sup> Angop, 4 Dec 2019

<sup>16</sup> Angop, 4 Dec 2019

<sup>17</sup> Africa Intelligence, 2 Dec 2019

<sup>18</sup> Gemcorp press statement

Gemcorp Capital LLC has been operating in Angola since 2015, when it first provided project financing to the major **Laúca Hydroelectric Plant** on the **Kwanza River (Kwanza Norte Province)**.<sup>19</sup> Most recently Gemcorp, Russia-based **Sberbank PJSC, Russian Export Center JSC**, and Russian state development corporation **VEB.RF** have signed a \$5 billion master service agreement to create a framework to finance the trade between Russia and **African** countries.<sup>20</sup> Russian capital is taking on fresh importance in Angola following the **Russia-Africa Summit and Economic Forum in Sochi** (Russia) in October, with a promise of \$10 billion funding from Russia.<sup>21</sup>

Ending United Shine's contract does not denote a new era of contractual issues in Angola. Instead it appears to show a failure of both public tender and due diligence processes in a vital public contract, from Sonangol's standpoint. If arbitration proceedings are opened, these may reach a different conclusion.

### Angola: 2019 in review, a year of living dangerously

The 2019 agenda in Angola was dominated by external investment and economic reforms, as well as major investigations into elite corruption and major corruption trials. The year has ended with the opening of the most high-profile criminal trial, that of José Filomeno dos Santos, which will conclude in 2020, and a major re-entry of Russian capital into Angola.

The year opened with the **International Monetary Fund (IMF)** finalising a \$3.7 billion loan for Angola's macro-economic stabilisation.<sup>22</sup> In March and April, the **World Bank** and the IMF reviewed Angola's economic reforms (see *ARC Briefing Angola April 2019*). Both the IMF and the World Bank expected, and got, major economic reforms in Angola, including a major programme of privatisation, reducing fuel price subsidies in Angola and the introduction of VAT this year, as well as reform to legal systems and more transparency.

Angola is changing the laws on the governance of financial institutions, amending the **Lei de Prevenção e do Combate ao Branqueamento de Capitais, Financiamento do Terrorismo** (anti-money laundering and terrorist financing law), the Angolan payments system, and the law governing the Banco Nacional de Angola (see *ARC Briefing Angola November 2019*).

In the largest business and economic change the country has yet seen since independence, Angola decided to privatise up to 195 companies including flagship state-owned entities previously regarded as strategically important for the state: the state airline, mineral resources, oil and diamonds. The Angolan government hired the World Bank as a strategic consultant for the **Programa de Privatizações (PROPRIV)** (privatisation programme), which set up offices in Luanda to support the privatisation programme (see *ARC Briefing Angola August 2019*).

Restructuring Sonangol and selling off many of its non-core subsidiaries is also high on Angola's agenda, both this year and next (see *ARC Briefing Angola December 2018*). Angola's **Agência Nacional de Petróleo e Gás (ANGP)** (national petrol and gas agency) launched a new oil and gas bidding round for 55 oil blocks, to be offered over a five-year period. Angola intends to increase oil production by 46,000 barrels a day in 2020, which should help improve state revenues. Any rise in oil prices will of course improve Angola's budgets which was also impacted by the **Organization of the Petroleum Exporting Countries (OPEC)** in the 2019 budget.<sup>23</sup>

The **US Treasury** announced that it would carry out an assessment that should allow US correspondent banks to return to doing business with Angolan banks (see *ARC Briefing Angola April 2019*). This has not yet taken place – the shortage of foreign currency in Angola continues and has worsened, affecting all types of imports and foreign payments.

<sup>19</sup> Jornal de Angola, 5 Jan 2015

<sup>20</sup> Sberbank press release, 23 Oct 2019

<sup>21</sup> Angop, 25 Nov 2019

<sup>22</sup> IMF, 26 Dec 2018

<sup>23</sup> Angop, 5 Dec 2019

Private investment to grow the infrastructure was also high on Angola's agenda. At the beginning of the year, China agreed a \$10 billion investment package (see *ARC Briefing Angola Jan 2019*). At the end of the year, Russia agreed a similar sum for investment in Angola.

Anti-corruption initiatives and the clawing back of state assets held by private companies have been a major plank of President Lourenço's policies this year, including:

- The voluntary repatriation of stolen assets held abroad, followed by forcible repatriation of those assets not brought back;
- The return of corporate assets paid for with state money to the state, such as **Biocom**, **Grandes Moagens**, **Média Nova** and the **Mabubas** and **Lomaum** dams (see *ARC Briefing Angola Feb 2019*);
- The first major corruption conviction, of **Augusto Tomás** who was minister of transport from 2007<sup>24</sup> to 2018<sup>25</sup> for mishandling funds of the **Conselho Nacional de Carregadores (CNC)** (national freight council). He was sentenced to 14 years' imprisonment for embezzlement (see *ARC Briefing Angola Sep 19*).

Internal political and economic indicators thus far for 2020 show reduced budgets and continued protests if the living standards fail to rise in Angola next year. Indicators for the 2020 state budget show reduced public investment by the state.<sup>26</sup> Inflation is expected to bottom out at AKW550/\$1, which means food and other imported necessities should not continue to rise in price.<sup>27</sup> Tax reform is planned to reduce the tax burden on the lowest paid. Much of the new investment is aimed at import substitution. The most significant political event will be the local and municipal elections later in 2020, which will provide regional autonomy to Angola's 18 provinces and a devolved budget, although the complete legislation package has yet to be passed.<sup>28</sup> These elections will be a test of how the ruling party is regarded and the stability of Angola's new political and economic order.

## Planner

2019 – 2022 (**Angola**) **Programa de Privatizações (PROPRIV)** (privatisation programme) to manage government divestment of 195 companies; the first tranche of 80 companies will be launched in 2019 and 81 offered for tender in 2020.

19 Dec 2019 **Luanda (Angola)** Final global vote in national assembly on draft law on municipal elections;

Dec 2019 (**Angola**) Finance ministry to publish on its website a report on the state's debts to economic agents following a demand from the **International Monetary Fund (IMF)**, under the Expanded Financing Program with Angola;

20 Jan 2020 (**Angola**) President **João Lourenço** to attend the **United Kingdom** summit on investment in **Africa**;

Q1 2020 (**Angola**) President **João Lourenço** will make his first official visit to **Japan**;

Apr 2020 **Luanda (Angola)** Luanda's **Novo Aeroporto Internacional de Luanda (NAIL)** (new international airport) to open;

2020 **Luanda (Angola)** Government to construct a new administrative political centre in **Praia do Bispo** which will be implemented based on the build, operate and transfer (BOT) model;

2020 (**Angola**) **Agência de Recursos Naturais** (national resources agency) to be set up, to take over all mining concessions within the country, together with partial privatisation of mining;

<sup>24</sup> Wikipedia

<sup>25</sup> Portal de Angola, 20 June 2018

<sup>26</sup> Angop, 3 Dec 2019

<sup>27</sup> Expansao, 29 Nov 2019

<sup>28</sup> Angop, 4 Dec 2019

2020 - 2025 **(Angola) World Bank** to provide funding to increase economic diversification for a five-year period.

2020 **(Angola) Luaxe** kimberlite mine, managed by **Russia**-based **Alrosa**, begins production;

2020 **(Angola)** First local and municipal elections;

2020 **(Angola)** Terrestrial oil blocks in the **Congo** and **Cuanza** basins will be opened to tenders.

2021 **(Angola)** Six offshore oil blocks and free areas of oil blocks 31 and 32 will be offered for tenders.

2021 **(Angola)** National elections;

2022 **(Angola)** End date for **Banco Poupanca e Credito's** recovery plan

## Chronology

8 Dec 2019 **Luanda (Angola) Angop**. Prices of land plots sold by the Angolan state have been reduced by 50% to \$45 and \$107 per square metre, from \$90 and \$214 respectively;

5 Dec 2019 **Luanda (Angola) Angop**. **African Union Peace and Security Council (PSC)**, chaired by Angola, meets in Luanda, and looks at tensions in the **Great Lakes** region;

5 Dec 2019 **Luanda (Angola) Angop**. Mineral resources and petroleum minister **Diamantino Azevedo** says Angola plans to increase oil production in 2020, from 1,390,000 barrels of oil per day to 1,436,000;

4 Dec 2019 **Luanda (Angola) Angop**. Draft law on municipal elections approved for final global vote in **National Assembly** on 19 December; local and municipal elections will take place in 2020;

3 Dec 2019 **Luanda (Angola) Angop**. The ministry of construction and public works will reduce investment from 3.5% in 2019 to 1.3% in 2020;

3 Dec 2019 **Addis Ababa (Ethiopia) Angop**. **African Union Commission on International Law (AUCIL)** chair **Sebastião Izata** says Angola now occupies top place in its fight against corruption in **Africa**, at the opening the **8th Forum on International Law**;

2 Dec 2019 **Luanda (Angola) Angop**. Former **British** prime minister **Tony Blair** and a multi-sector British delegation arrive in Luanda for talks on business links and investment;

2 Dec 2019 **Luanda (Angola) Angop**. Angola becomes president of the **African Union (AU) Peace and Security Council (CPS)** until March 2020, with the holding of a ministerial meeting of the **African Union** defence body in Luanda on December 4-6;

2 Dec 2019 **Luanda (Angola) Club-KNet**. Hotel and tourist village **Belo Horizonte**, owned by former oil minister **Botelho de Vasconcelos**, collapses with alleged debts of over \$16.3m (AKW800m);

1 Dec 2019 **Luanda (Angola) World Health Organization (WHO) press release**. WHO supports countrywide vaccination polio programme in attempt to end a polio outbreak that started in May; 4.5 million children are vaccinated to date;

1 Dec 2019 **Lobito (Angola) Angop**. **Grupo Leonor Carrinho & Filhos, Limitada (Portugal)** signs agreement with the Port of Lobito and the **Benguela Railway Company (CFB)** to transport about two million tonnes in cargo per year from its factories to Lobito Port;

29 Nov 2019 **Luanda (Angola) Expansao**. Devaluation of kwanza likely to reach AKW550/\$1, according to CEO of **Banco Angolana Investimento**;

28 Nov 2019 **Luanda (Angola) Angop**. **Agência Nacional de Petróleo e Gás (ANPG)** (national oil and gas agency) has receipts of 5% of the profit obtained by all oil exploration blocks in Angola

during 2019;

27 Nov 2019 **Luanda (Angola)** *Angop*. The **Comissão Econômica do Conselho de Ministros** (economic commission of the council of ministers) drafts new Angolan tax laws, including reducing taxes for lower paid and amending the **Industrial Tax Code**;

26 Nov 2019 **Luanda (Angola)** *Angop*. **South Atlantic Cable System (SACS)**, the first transatlantic cable connecting Angola to **Brazil**, is selected by **South Africa**-based **Vodacom** as the direct route to its Point of Presence (POP) in **Miami (United States)**;

25 Nov 2019 **Luanda (Angola)** *Angop*. **Parliamentary Commission for International Relations of the Russian Federation** deputy speaker **Chepa Alexey** says **Russia** will provide at least \$10 billion in new funding to Angola for unspecified socio-economic investment;

23 Nov 2019 **London (United Kingdom)** *Balancing Act*. **Isabel dos Santos** says she will consider expanding mobile phone company **UNITEL** in **other** African countries over next five years;

22 Nov 2019 **Luanda (Angola)** *Angop*. State secretary for budget and public investment **Aia-Eza da Silva** says Angolan state-owned companies' assets represent about 45% of all Gross Domestic Product (GDP);

21 Nov 2019 **Luanda (Angola)** *Angop*. Angola signs co-operation agreement with the **Antwerp World Diamond Council**, **Belgium**'s governing body for the sector, and new mining exploration agreements between Angolan diamond companies and foreign companies in the mining sector at Angola's first **International Mining Conference**;

21 Nov 2019 **Luanda (Angola)** *Angop*. **Assembleia Nacional** passes new law on prevention and combating money laundering and terrorism financing, in which politically exposed persons (PEPs) are defined as public office holders and their relatives to the third generation in the law and are subject to reinforced diligence;

19 Nov 2019 **Luanda (Angola)** *Angop*. Angolan commercial banks approve credit for 13 new projects worth \$43.7m submitted as part of the **Programa de Suporte à Produção, Diversificação de Exportação e Substituição de Importação (PRODESI)** (production support, export diversification and import replacement programme);

15 Nov 2019 **Ondjiva (Angola)** *Angop*. Work begins on medium- and long-term drought alleviation measures, with new water catchment and pumping stations two major dams are to be built on the **Cunene River** at a cost of \$200m.

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