

AFRICA RISK CONSULTING

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Angola Summary 14 August 2019

In the largest business and economic change the country has seen since independence, Angola is to privatise up to 195 companies including flagship state-owned entities, ending decades of economic centralisation and quasi-privatisations to enrich the elite. The privatisation includes significant national assets previously regarded as strategically important for the state: the state airline, mineral resources, oil and diamonds. The World Bank will support the programme and has signed three new agreements with Angola, including setting up offices in Luanda.

Angola divests state shareholdings in 195 companies

Angola is to privatise the state's shareholdings in major flagship companies – including banks, hotels, and telecoms, agricultural and manufacturing companies – in a major programme that will transform the business landscape of Angola within two years. Minister of state for economic coordination **Manuel Nunes Júnior** presented the **Programa de Privatizações (PROPRIV)** (privatisation programme), which runs until 2022, in **Luanda** on 13 August.¹ State holdings in companies from seven main sectors will be privatised: mineral resources and petroleum, telecommunications and information technology, finance, transport, agriculture, hotels and tourism.²

Vera Daves, secretary of state for finance and treasury and coordinator of the PROPRIV technical support group, explained the reasons for the sales:

*"[Angola is] putting the private sector at the centre of the country's economic development. Also the business environment can and should improve. The disposal of assets under state ownership can help achieve this goal."*³

Nunes Júnior said the programme is not about privatising for its own sake; "a market economy can only function with a strong private sector":⁴

*"Our goal is to build an economy based on strong and sustained growth in Angola, ending its heavy dependence on one product, oil, which generates about 95% of its external resources and over 70% of all tax revenue."*⁵

The privatisation programme includes 30 state-owned flagship companies – "empresas de referência nacional" – that are likely to attract major international investors.⁶ The government plans to privatise four reference companies in 2019, 18 by 2020, seven by 2021 and three by 2022.⁷ Important wholly state-owned companies on the list include Angola's national airline company, **TAAG Linhas Aéreas de Angola EP (TAAG)**; the national oil company and its subsidiaries, **Sociedade Nacional de Combustíveis de Angola EP (SONANGOL)**; state diamond mining company **Empresa Nacional de Diamantes EP (Endiama)** and some subsidiaries; as well as telecommunications company **Angola Telecom** and the state-owned beer company, **Companhia União de Cervejas de Angola (CUCA)**.⁸

¹ Jornal de Angola, 14 Aug 2019

² Embassy of Republic of Angola, Berlin, 14 Aug 2019

³ Jornal de Angola, 14 Aug 2019

⁴ Jornal de Angola 14 Aug 2019

⁵ Macau Hub 14 Aug 2019

⁶ Jornal de Angola 14 Aug 2019

⁷ Embassy of Republic of Angola, Berlin, 14 Aug 2019

⁸ Diario da Republica, 12 Aug 2019

Banks and financial entities from which the government will divest include 95% state-owned **Banco de Comércio e Indústria (BCI)**, insurance company **ENSA-Seguros de Angola SA (ENSA)**, which has about 50% of Angola's insurance market; Angola's securities and debt stock exchange **Bolsa de Dívida e Valores de Angola, SGMR, SA (Bodiva)**; and shareholding in three mainly privately owned banks, **Banco Angolano de Investimentos (BAI)** (Angolan investment bank), **Banco Económico** and **Banco Caixa Geral Angola**.⁹

Manuel Nunes Júnior says one objective of the programme is to finance social development:

*"The proceeds are intended to finance programmes that serve the economic and social development of the country. Revenues should be allocated to the development of the productive sector, where 15% of the revenue from the implementation of the privatisation programme will finance the appropriations of the state budget."*¹⁰

An ARC source who is familiar with the workings of large publicly owned companies says:

*"In addition to the more usual reasons for privatisation, in this case wanting a stronger business sector, Angola's wholly and partly state-owned companies present a set of problems that divestment solves including overly-high running costs which are a drain on the public purse. Further, some corruption cases being investigated in Angola at the moment concern the misuse of funds from public companies. The state is also divesting shareholdings in privately owned companies that benefitted from state funding under the previous presidency, in some cases after the assets have been recovered by the state. Companies owned by the elite will be distanced from the state."*¹¹

Manuel Nunes Júnior noted that not all the companies on the government's list, published in the **Diario da Republica**, were ready for privatisation:

*"Companies such as Sonangol, **Unitel**, **Cuca**, **ENSA-Seguros de Angola S.A**, **Nova Cimangola**, **Sociedade de Gestão de Aeroportos** (airport management company) among others, have the potential to be quite profitable. Admittedly, of the 195 companies listed for privatisation, not all are in a position to be divested, either due to inactivity or technical bankruptcy."*¹²

The government will sell 80 companies, including subsidiaries of SONANGOL, in 2019, and 81 in 2020, with no date given for the remainder. Companies listed for sale are a mix of wholly state-owned companies and privately owned companies in which the state has a shareholding. Shareholding sales will be principally by public competitive tender.¹³ Bodiva chairman and member of the technical group supporting PROPRIV, **Patrício Vilar**, said the privatisation path of reference companies would be individually mapped out in the coming months.¹⁴

Finance minister **Archer Mangureira** expects Angolan companies will carry out due diligence on the suitability of new investors:

*"There is a risk that potential investors involved in illicit practices will seize the occasion to launder money. What we can guarantee is that the programme sets a specific period for investor due diligence. Also every company to be privatised should feel obliged to evaluate all potential buyers."*¹⁵

This new policy is the greatest upheaval in Angolan business policies since independence in 1975 and reverses any remaining socialist model within the business sector, as well as divesting significant

⁹ Diario da Republica, 12 Aug 2019

¹⁰ Diario da Republica, 12 Aug 2019

¹¹ Angola economic analyst, London

¹² Jornal de Angola, 14 Aug 2019

¹³ Jornal de Angola, 14 Aug 2019

¹⁴ Jornal de Angola, 14 Aug 2019

¹⁵ Jornal de Angola, 14 Aug 2019

national assets that had been regarded as strategically important for the state. Privatisation as a policy is not entirely new; privatisations took place during the presidency of **José Eduardo dos Santos** (1979-2017), although not to this extent and with different objectives. For investors, it provides a new level of access to business in Angola, one which the **World Bank** will support, offering more transparency and safeguards (see below). Angola's future business model and the diversification of the economy away from oil, given falling revenues, now depends on the calibre of investors it can attract.

However, the programme comes with potential social costs to the many thousands of people employed by state companies, and an equal potential for political opposition to the programme. The government notes that privatisation of a large number of companies will certainly have some impact on workers' lives and rising unemployment, and expects that not all workers will be retained, but employment law will be respected and consultations will be held with workers in sectors.¹⁶

World Bank and Angola agree financing and support for privatisation programme

The Angolan government has hired the World Bank as a strategic consultant for the PROPRIV privatisation process,¹⁷ following two sets of agreements signed with the World Bank in July, for technical support and project investment. Nunes Júnior stressed that the World Bank has been brought in as a strategic partner to aid in the privatisation and ensure a credible and transparent process for foreign investors:

"The World Bank had been hired due to the complexity of the programme and the fact that it has extensive international experience in the field."¹⁸

"If PROPRIV is not conducted in a transparent manner, it may be paving the way for new practices of monopoly and lack of competition. Hiring the World Bank as a strategic partner aims to convince foreign investors and ensure a clean execution of privatisation."¹⁹

The Angolan government and World Bank have signed agreements to support the implementation of the **Acordo de Assistência Técnica Reembolsável (RAS)** (reimbursable technical assistance) for the PROPRIV programme, and for the reforms and privatisation of public firms and private-public partnerships programme (PPPs). The World Bank has provided \$5.8m in funding for this programme.²⁰ The World Bank's **International Finance Corporation (IFC)**, **Multilateral Investment Guarantee Agency (MIGA)** and **International Development Association (IDA)** will open offices in Angola to provide support to the programmes.²¹

The World Bank increased its project portfolio in Angola to a total of \$2.5 billion in July, after its board of directors approved a new financial package for the country of \$1.32 billion. Funding will be applied to three projects: the project to strengthen the social protection system (\$320m), the budget support operation (\$500m) and the **Bitá** energy and water project (\$500m).²²

The World Bank says the budget support operation is organised around two pillars: laying the foundation for sustainable growth, and promoting social and financial inclusion and effective public service delivery and notes:²³

"Angola needs a more inclusive growth model that promotes private-sector led diversification and protects the poor and vulnerable. Up to now, Angola has relied on the oil industry and high oil prices to drive economic growth and to rebuild a large part of its infrastructure. Inequality

¹⁶ Jornal de Angola, 14 Aug 2019

¹⁷ Macau Hub, 14 Aug 2019

¹⁸ Macau Hub, 14 Aug 2019

¹⁹ Jornal de Angola, 14 Aug 2019

²⁰ Angop, 16 Jul 2019

²¹ Angop, 16 Jul 2019

²² Angop, 16 Jul 2019

²³ World Bank, 27 Jul 2019

remains high... Investment in human capital, effective institutions and a favourable business environment are critical for economic diversification and job creation."

The project to strengthen the social protection system is part of the income transfer policy to protect low-income families. This programme, which will benefit one million households, aims to mitigate the impact of subsidy reforms on consumer purchasing power as a consequence of the short-term adjustment of prices of goods and services such as electricity, water and fuel tariffs. Finance minister Manguieira acknowledged the need to protect the more vulnerable from the fast pace of economic changes taking place:

"With regard to the social protection system we have the technical collaboration of the World Bank, and more than making cash transfers to vulnerable families, the important thing will be to create conditions for these families to achieve their self-support."

The Bitá water project in Luanda is financed by **China's** credit line funding. **Empresa Publica de Aguas de Luanda (EPAL)** (Luanda public water company) signed four agreements with Chinese company **Sinohydro Corporation Lda**, which will construct the project.²⁴ The World Bank funding is applied to this debt:

*"The project will improve access to potable water service in selected areas of Luanda by mobilising commercial financing for the Government of Angola. The guarantee is proposed to be applied to **United States** dollar-denominated international commercial debt."²⁵*

The World Bank's practical and financial support for the two-pronged approach to economic and social development in Angola is likely to prove crucial to success. Improving the livelihoods of the most excluded, if it can be done, will be crucial to acceptance of the vast changes now taking place in the rest of the economy.

Planner

Q3 2019 Luanda (Angola) A working group coordinated by the finance minister will conduct the international public tender to award Angola's fourth global telecommunications operator licence;

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

15 Oct 2019 Luanda (Angola) Start of 2020 session of **Assembleia Nacional** (parliament)

2019 – 2022 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.

2019 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; Public procurement procedures for the subprojects of this initiative will be launched in Q3 2019, with a pre-qualification phase for companies submitting financing proposals for their BOT investments.

Oct 2019 - 2025 Luanda (Angola) ANPG will launch new oil bidding round with 31 blocks to public bidding from 2019, the first blocks will be nine offshore oil blocks in the **Namibe Basin**: blocks 11, 12, 13, 27, 28, 29, 41, 42 and 43.

2019 Saurimo (Angola) New diamond hub will open, comprising a diamond cutting and polishing factory, a professional technical training school and supporting institutions and industries;

2019 Luanda (Angola) Trials of **Jose Filomeno dos Santos** and other high-ranking ex-officials variously charged with defrauding the state, embezzlement or theft, will take place during the year. No

²⁴ Angop, 29 Mar 2017

²⁵ World Bank, 16 Jul 2019

trial dates are confirmed as yet;

24 Oct 2019 **Sochi (Russia)** President **João Lourenço** is to take part in the **Russia-Africa Summit**;

18 Nov – 6 Dec 2019 **Luanda (Angola)** Angola will host **African Union's (AU)** 18th Session of the International Law Commission followed by the AU's 8th International Law Forum, entitled "*Constitutional Democracy, Rule of Law and Fight against Corruption*";

2020 **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;

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

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

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

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

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

2021 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

12 Aug 2019 **Luanda (Angola)** *Jornal de Angola* Government announces that at least 195 companies will be privatised;

12 Aug 2019 **Geneva (Switzerland)** *All Africa United Nations Conference on Trade and Development (UNCTAD)* urges Angola to reassess and rationalise its policies to support the development of high quality small and medium entrepreneurial activities in Angola;

8 Aug 2019 **Luanda (Angola)** *Jornal de Angola* The **Procuradoria Geral da República** (attorney general's office) denies it is filing a lawsuit against former president **José Eduardo dos Santos** but says the ex-president, who has been in **Barcelona (Spain)** since April, may be called for questioning as part of the evidence-gathering process for criminal judicial procedure against various ex-public managers;

6 Aug 2019 **Zurich (Switzerland)** *Expansao* **Africa Growth Corporation (AFGC)** claims compensation of between \$55m and \$165m from the Angolan state and the **Andrade** family (General **António Francisco Andrade** and his children, Captain **Miguel Kenehele Andrade** and attorney **Natasha Andrade Santos**) for alleged fraud and expropriations in 2017;

5 Aug 2019 **Luanda (Angola)** *Angop* **National Diamond Trading Company (Sodiam)** raised \$368.66m for the sale of 2.65 million carats of diamonds in Q1 2019, an increase of 31.5% over the same period in 2018;

1 Aug 2019 **Luanda (Angola)** *Angop* Angola ratifies international human rights treaties including the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment and the Second Optional Protocol to the International Covenant on Civil and Political Rights;

31 Jul 2019 **Luanda (Angola)** *Angop* Asset recovery office of the attorney general's office announces the return to the state of the port terminals of **Luanda** and **Lobito**, which were under the management of **Soportos - Transporte and Descarga, SA**, belonging to General **Manuel Hélder Vieira Dias "Kopelipa"** and his family;

31 Jul 2019 **Luanda (Angola)** *Angop* Sales of Angolan crude oil in the second quarter of 2019 totalled 121.8 million barrels at \$8.5 billion, an increase of 65,400 barrels over Q1 with **China** the main buyer at 69%, followed by **India** with 10%;

30 Jul 2019 **Luanda (Angola)** *Angop* The **United Arab Emirates** plans to invest \$2 billion in the installation of a tractor assembly line in Angola, electricity and gas production and agriculture during the next six months;

26 Jul 2019 **Beijing (China)** *Forum on China-Africa co-operation* **Angolan** foreign minister **Manuel Domingos Augusto** attends forum to discuss China-Angola accords and future co-operation, including continuing Chinese private investment in Angola;

25 Jul 2019 **Lunda Norte Province (Angola)** *Angop* **United Nations High Commissioner for Refugees (UNHCR)** and the government of Angola assess the repatriation process for 20,000 refugees from **Democratic Republic of the Congo (DRC)**, noting that Angolan authorities need to reach agreement with DRC for compliance with repatriation norms;

24 Jul 2019 **Luanda (Angola)** *Angop* President **João Lourenço** dismisses interior minister **Angelo Barros da Veiga Tavares**, agriculture minister **Marcos Alexandre Nhunga**, and economy and planning minister **Pedro Luís da Fonseca**, replacing them with **Eugénio César Laborinho** (interior), **António Francisco de Assis** (agriculture and forests), and **Manuel Neto da Costa** (economy and planning), giving no reason for the changes;

24 Jul 2019 **Luanda (Angola)** *Angop* The Angolan government and the **World Bank** sign the previously agreed Development Policy Financing (DPO) agreement, worth \$500m and National System Reinforcement agreement of Social Protection, valued at \$320m;

22 Jul 2019 **Luanda (Angola)** *Angop* Mineral resources and petroleum minister **Diamantino Azevedo** announces that bidding for nine offshore oil blocks in the **Namibe Basin** will open in October;

18 Jul 2019 **Luanda (Angola)** *Angop* The **World Bank** increases its project portfolio to Angola to a total of \$2.5 billion, after its board of directors approves a new financial package for the country in the total value of \$1.32 billion funding for three executive structuring initiatives: social protection system strengthening (\$320m), budget support (\$500m) and the **Bitá** energy and water project \$500m;

16 Jul 2019 **Luanda (Angola)** *Angop* **World Bank** signs three agreements to support the implementation of the reimbursable Technical Assistance (RAS) and Reforms and Privatizations of Public Firms and Private-Public Partnerships Programme (PPPs) at a cost of \$5.8m to support the programmes.

16 Jul 2019 **Luanda (Angola)** *Angop* The **World Bank's International Finance Corporation (IFC)**, **Multilateral Investment Guarantee Agency (MIGA)** and **International Development Association (IDA)** will open offices in Luanda;

12 Jul 2019 **Luanda (Angola)** *Angop* National police seize \$350,000 and €84,200 (\$94,445) in currency being smuggled into the **Democratic Republic of the Congo (DRC)**;

11 Jul 2019 **Luanda (Angola)** *Angop* Trade minister **Joffre Van-Dúnem Júnior** says economy diversification in Angola will necessarily involve the further creation of public and private partnerships.