

AFRICA RISK CONSULTING

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Angola Summary 10 December 2020

The continuing economic effects of the COVID-19 pandemic in Angola is pushing the country to the edge of debt default, according to the most recent ratings agency reports. The government has yet to announce the outcomes of renegotiation of Chinese debt. Angola has been in a State of Public Calamity (Estado de Calamidade) since May, and Luanda is still under a cordon sanitaire. The government says the measures have been effective in slowing the growth of COVID-19 in the country despite criticism that they have restricted human rights. The Mo Ibrahim Foundation in its 2020 Ibrahim Index of African Governance (IIAG) report has ranked Angola the third most improved African country over the last five years, despite Angola's low ranking, at only 43 of 54 African countries. Nazaki Oil And Gaz SA, owned by then chairman of state-owned oil company Sonangol, Manuel Vicente; General Manuel Hélder Vieira Dias Júnior, known as Kopelipa, head of the presidency's military bureau; and General Leopoldino Frago do Nascimento, made \$3 billion through the sale of its rights to Sonangol, despite initially receiving the rights to oil blocks 9/09 and 21/09 from Sonangol at zero cost.

COVID-19 continues to infect the economy ...

The continuing economic effects of the **COVID-19** pandemic in **Angola** are pushing the country to the edge of debt default, according to the most recent ratings agency reports. Angola experienced a deep recession this year, with a fall in gross domestic product (GDP) of over 4%.¹ Oil production has been declining ever since 2016; in 2019, the country produced barely 1.3 million barrels per day (bpd).² In a 7 December report, **United States (US)**-based ratings agency **Fitch Ratings** estimates that Angola's debt-to-GDP ratio is expected to reach 127% in 2021, with debt declining from 2022. The agency believes that Angola's low credit rating of 'CCC' places the country at "high risk of default".³ Fitch notes:

*"The increase in **sub-Saharan** debt will raise concerns about debt sustainability, liquidity and increased sovereign default risk."*

But Fitch believes that domestic spending in Angola will grow by 1.7% in 2021:

"We anticipate that household spending in Angola will start to recover in 2021, after the Covid-19 pandemic led to a contraction in household spending this year."

US-based **Moody's Investor Services** raised concerns about the growing pressure on the **African** banking system due to the pandemic. In Angola, non-performing loans are above 32% from the beginning of 2020 and the rating agency expects non-performing loans (NPLs) across Africa to double this year from the previous year's estimates as repayment schedules expire:

"With higher account provisioning needs, lower business generation and limitation of marginal profit, pressure will erode banks' profitability."⁴

These pessimistic readings belie all Angola's attempts to re-schedule debt repayments. Angola is well aware of its fragile debt situation and in September reached agreement with three of its major

¹ Africa Intelligence 2 Nov 2020

² Africa Intelligence 2 Nov 2020

³ Fitch Ratings, 7 Dec 2020, "Angola's Fiscal Deficit Target Achievable, but High Debt Persists"

⁴ Reuters, 9 Dec 2020

creditors for \$6.2 billion in debt relief over the next three years.⁵ The government told the **International Monetary Fund (IMF)** in September:

“To the extent that unforeseen risks to achieving the medium-term debt target materialise, we will act to mitigate those risks, including by seeking additional debt relief from a wider group of creditors.”⁶

There has been slight movement on the delayed re-negotiation of Angola’s debt to **China**, its largest and most important outstanding debt, of the order of \$20 billion.⁷ However, US-based **Johns Hopkins University** applied economics professor **Steve Hanke** notes that “China wants to avoid further negative public relations” related to its **Belt and Road Initiative** and to “preserve strategically important relationships”. Hanke points to Angola, where China has agreed to provide relief over and above what was promised under the **G20’s Debt Service Suspension Initiative (DSSI)**. The Chinese foreign ministry said in early October that the agreement should be ready “soon”.⁸

Angola’s finance minister, **Vera Daves**, began renegotiations with **Beijing** at the end of October. These are complicated by the IMF’s views that Angola should restructure its debts with China and start repaying them in dollars, before the **Bretton Woods** institution commits itself to further loans to Angola. It is moot whether this arrangement suits the Chinese government, which is dependent on oil imports. An agreement has yet to be publicised.⁹

Debt rescheduling is only one part of the solution. **UN Economic Commission for Africa** executive secretary **Vera Songwe** wants to unlock \$500 billion for support in the poorest economies.¹⁰ Songwe says:

“In 2021, a robust liquidity and structural response, recovery and reset toolbox must be developed in partnership between emerging markets, the private sector and the G20.”¹¹

United Kingdom-based financial services company **Standard Chartered** says Angola’s economy is likely to be in recession until 2023, unless there is substantial investment in the oil sector:

“Gross Domestic Product contracted 8.8% in the second quarter of 2020, which is more than our expectation of 5.7%, so we now foresee a 5.2% recession in 2020, and we think that the economy will continue to contract in 2021.”

... as state of public calamity persists

Internally, there has been little change in measures in place since May to curb the spread of COVID-19. Angola experienced a steep increase in COVID-19 cases from the beginning of October, to about 200 a day, but these began to fall back from the beginning of December to fewer than 100 a day.¹² From 26 May, Angola has been in a State of Public Calamity (Estado de Calamidade), with fewer restrictions than the preceding state of emergency. The state of public calamity was extended again in November to 22 December.¹³

Announcing the extension of the state of calamity, minister of state and chief of staff of the president **Adão de Almeida** underlined that the measures “are giving results that are noticeable in reducing the number of infections”.¹⁴ The capital, **Luanda**, remains in a cordon sanitaire until further notice, but

⁵ Reuters, 21 Sept 2020

⁶ Reuters, 21 Sept 2020

⁷ The Africa Report, 8 Oct 2020

⁸ The Africa Report, 8 Oct 2020

⁹ The Africa Report, 8 Oct 2020

¹⁰ Al Jazeera, 19 Nov 2020

¹¹ Al Jazeera, 19 Nov 2020

¹² JHU CSSE COVID-19, Data accessed 10 Dec 2020

¹³ Novo Jornal, 21 Nov 2020

¹⁴ Novo Jornal, 21 Nov 2020

although Angola's borders remain closed, international flights have restarted for essential journeys, including foreign nationals working in Angola, with a negative COVID-19 test (RT-PCR) performed within 72 hours prior to arrival. All travellers entering Angola must submit to quarantine for a minimum of seven days and exit quarantine after a second negative test.¹⁵

The restrictions caused by COVID-19 are impinging on human and political rights, however. The **European Union** has called for respect of human rights and freedom of expression, despite the restrictions, saying there are some concerns in this area that have been expressed to the Angolan government.¹⁶

Angola is expecting delivery of the first doses of a COVID-19 vaccine early next year, according to secretary of state for public health **Franco Mufinda**.¹⁷ Resolving the COVID-19 pandemic will not resolve Angolan's financial problems, however. These derive from the oil price shock and the need to restructure the basis of the economy away from oil dependency. Angola lost billions of dollars in state funds during the reign of former president **José Eduardo dos Santos** (1979-2017), which could have been invested in ways that grew the economy rather than enriching the elite (see below). ARC has reported extensively on the recovery of part of those funds, which may also be used to ameliorate the debt problem. Angola will still have to rebuild from pre-existing problems and a considerably reduced economic base once the pandemic is over.

Mo Ibrahim Foundation ranks Angola third most improved African country

The **Mo Ibrahim Foundation** in its **2020 Ibrahim Index of African Governance (IIAG)** report has ranked Angola the third most improved African country over the last five years, despite Angola's low ranking of only 43 out of 54 African Countries.¹⁸ The IIAG notes that this year it has a new framework that includes additional governance dimensions, encompassing the 'basket' of political, social, economic and environmental public goods and services,

"... that any 21st century citizen is entitled to receive from their government, and that any 21st century government is expected to deliver to its citizens".

The IIAG says Angola is one of only two countries showing increasing improvement in governance in its 10-year trend, with a plus 4.8% change over the decade, and one of only eight countries that managed to improve in all four categories over the decade. This reflects that Angola comes from a low starting point but shows a fairly consistent year-on-year increase.¹⁹ The IIAG also notes concerns about generally declining governance indicators in many countries, so the improving trends in Angola are perhaps more positive than the country's low scores in many categories suggest.

The four governance categories are security and rule of law, participation rights and inclusion, foundations for economic opportunity and human development, with Angola's strongest category being human development, which has risen from 36.5% in 2010 to 42.3% in 2019.

The data on Angola clearly reflect the country's current strengths and weaknesses. The single strongest trend is one of increasing anti-corruption, +10.8% over the last five years, followed by rule of law and justice, and increased transparency and accountability, which still has a low score of 29.2% but shows an improvement of 8.5% since 2015.²⁰

The table below shows extracted IIAG partial data for key governance issues for the last five years:

¹⁵ Novo Jornal, 21 Nov 2020

¹⁶ Lusa 18 Nov 2020

¹⁷ Portal de Angola, 10 Dec 2020

¹⁸ <https://iiag.online> Dec 2020

¹⁹ iiag.online

²⁰ iiag.online

Overall Governance for Angola

MEASURE	2016	2017	2018	2019	AT '16-'19
OVERALL GOVERNANCE	36.0	37.2	39.3	40.0	+4.0
SECURITY & RULE OF LAW	37.4	38.8	41.6	44.1	+6.7
Security & Safety	83.2	82.6	80.9	81.2	-2.0
Rule of Law & Justice	30.3	31.7	34.6	39.9	+9.6
Accountability & Transparency	20.7	22.6	25.7	29.2	+8.5
Anti-Corruption	15.2	18.4	25.1	26.0	+10.8
PARTICIPATION, RIGHTS & INCLUSION	34.9	36.3	39.5	39.3	+4.4
FOUNDATIONS FOR ECONOMIC OPPORTUNITY	31.7	31.7	34.6	34.3	+2.6
Public Administration	26.8	24.0	30.2	30.8	+4.0
Business Environment	24.9	25.6	30.3	28.8	+3.9
Infrastructure	32.0	33.8	34.7	34.2	+2.2
Rural Sector	43.3	43.3	43.3	43.3	0.0
HUMAN DEVELOPMENT	40.0	41.9	41.5	42.3	+2.3

The data also show the weakness of the economy and economic inclusion, a category that is unlikely to show improvement next year, following the impact of COVID-19 and very low oil prices. The business environment is rated as quite weak at 28.8%, as is the country’s infrastructure. The rural sector has remained static, but at a moderate level, and ranks as one of the strongest sectors in the category of economic opportunity.

Only three of the ten Southern Africa countries – Angola, Eswatini and Zimbabwe – have improved in security and the rule of law, while Angola is the only one to have improved in participation, rights and inclusion, despite being the worst scoring country overall in Southern Africa. The IAG noted an overall decline in the sector across Africa, since 2015.

The IAG says, rather bleakly:

“Firstly, African citizens are enjoying less freedom to associate and assemble freely in 2019 compared to 2010, and the situation has worsened at an even faster pace since 2015. Compared to 2010, political parties are also less able to operate freely and have less equitable access to state-owned media and public financing campaigns. The speed of decline has been more than five times as fast between 2015 and 2019 than over the decade and the largest indicator of deterioration is that of Civil Society Space.”

Nonetheless, there have been some distinct improvements in Angola’s civil life. Politically, freedom of association has doubled in the last 10 years, political pluralism and civil society space have increased, together with media freedom, which is now ranked 27 of 54 countries, so the trend in Angola is for increased freedoms, not fewer.

Although Angola’s rankings in the IAG remain in the low to moderate levels, overall there has been a steady improvement in governance and some significant improvements over the last two years, demonstrating that the political changes in Angola have some substance to them. Angola still scores very low on the anti-corruption scale but has improved considerably. The trends shown for Angola do demonstrate continuing improvement, in some cases contrary to the trends in the rest of Africa.

Manuel Vicente and partners made \$3 billion from Nazaki SA oil company

Underlining the low score that the IAG attributed to Angola for accountability and transparency and anti-corruption in its latest rankings, the case of Angolan oil company **Nazaki Oil and Gaz SA** is also an object lesson in rent seeking in the oil sector and how Angola’s elite made easy money under former president dos Santos. Nazaki came to prominence in 2011, when one partner in the block, US-based **Cobalt International Energy LP**, an oil company majority-owned by US-based financial group

Goldman Sachs was the object of a US **Security and Exchange Commission (SEC)** investigation which partly concerned Nazaki's ownership.²¹

The problem of hidden ownership is one that many companies have faced doing business in Angola. Nazaki was a partner with Cobalt in two oil blocks, 9/09 and 21/09.²² The principal shareholder of Nazaki was **Grupo Aquattro Internacional**, then owned by three politically exposed persons (PEPs): **Manuel Vicente**, then chairman of state-owned oil company **Sonangol**; General **Manuel Hélder Vieira Dias Júnior**, known as **Kopelipa**, head of the presidency's military bureau; and General **Leopoldino Fragoso do Nascimento**.²³ Cobalt claimed they were unaware of this. The SEC later dropped all charges against Cobalt,²⁴ but further exposures of Nazaki's dealings were to follow in Angola.

At the time Sonangol agreed the concessions and the partners, Vicente was chairman of the company and awarded his own company shares in the two consortia, at no cost to Nazaki, although a signature bonus was to be paid. The Angolan executive approved the consortia for the two oil blocks on 11 June 2009, when Sonangol was granted exclusive rights for the exercise of hydrocarbon research, prospecting, development and production in the respective concession areas of blocks 9/09 and 21/09. Nazaki became a partner with Cobalt in both concessions.²⁵ Cobalt said it was assigned the partnership with the Angolan company and there was no choice in the matter,²⁶ a comment familiar to ARC sources made by many companies entering joint ventures in Angola at that time:

*"In connection with entering into our Risk Services Agreements for Blocks 9 and 21 offshore Angola, two Angolan-based E&P companies were assigned as part of the contractor group by the Angolan government. We had not worked with either of these companies in the past, and, therefore, our familiarity with these companies is limited."*²⁷

Four years later, on 1 January 2013, Sonangol, at the time chaired by **Francisco Lemos José Maria**, now president of the **Bolsa de Valores e Derivativos de Angola** (Angolan debt and securities exchange), and Nazaki entered into a purchase and sale agreement in which the parties agreed to transfer 15% of the participatory interests in each of the blocks for \$1.5 billion. Vicente and his partners at Nazaki sold the company's rights to the two blocks, acquired at zero cost, to Sonangol for \$1.5 billion plus expenses. **Portuguese** news agency **Lusa** said it saw the statements showing Sonangol made three transfers to Nazaki's bank account at **Banco Angolano de Investimentos** on 28 December 2012, 28 January 2013 and 25 November 2013. A total of €2.53 billion (\$306 billion) was transferred.²⁸

The transfers were made despite the fact that government decrees ejecting Nazaki from the partnership stated that Nazaki had demonstrated that it *"did not possess the legal requirements to be associated with the National Concessionary"* and that it had repeatedly failed to comply with its economic and financial commitments related to its payment of the costs associated with the operations of the partnership.²⁹

Manuel Vicente is reported to be moving to **Dubai (United Arab Emirates)** as soon as his term as a deputy (member of parliament) in the **Assembleia Nacional** ends next year, to escape potential prosecution in Portugal and Angola. Vicente has instructed his business manager, **Rui Santos**, former director of **Deloitte Angola**, to finalise the purchase of a luxury property valued at \$16m.³⁰

²¹ Jornal Economico, 16 Nov 2020

²² Jornal Economico, 16 Nov 2020

²³ Financial Times, 15 Apr 2012

²⁴ FCPA Blog, 7 Mar 2011

²⁵ Jornal Economico, 16 Nov 2020

²⁶ FCPA Blog, 7 Mar 2011

²⁷ FCPA Blog, 7 Mar 2011

²⁸ Jornal Economico 16 Nov 2020

²⁹ http://securities.stanford.edu/filings-documents/1053/CIEI00_01/201551_r01c_14CV03428.pdf

³⁰ Portal de Angola, 10 Dec 2020

The Nazaki story demonstrates how easy it was for Vicente to insert his own company into an oil consortium by using his powers as chair of Sonangol, in a clear conflict of interest. What is not so well explained is why Sonangol then bought back Nazaki's rights for such very large sums, even though the company had received the concessions for zero cost and had apparently not complied with the terms of its contract. Nor is it clear whether any of these dealings are under investigation in Angola.

Planner

14 Dec 2020 **Luanda (Angola)** Final vote on draft state budget; the general budget 2021 foresees income and expenditure of 14.78 billion kwanzas (\$22.4m) based on a conservative price of a barrel of oil of \$39. Social and economic sectors receive the larger portion of the budget, 39% and 15.5% respectively.

2019-2022 **(Angola) Programa de Privatizações (PROPRIV)** (privatisation programme) to manage government divestment of 195 companies;

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

Jan 2020-Dec 2021 **(Angola)** Angola serves on **World Food Program (WFP)** Executive Committee;

Q1 2021 Hearing of **Melbourne Investments v SODIAM** takes place at **London Court of Arbitration**, despite death of shareholder and manager, **Sindika Dokolo**;

2021 **(Angola)** First local and municipal elections are in the planning stages but implementation is delayed by **COVID-19** and an election date will be set, probably for 2022;

Q1 2021 **Cabinda Lifua A** oil platform scheduled for completion to support offshore **Takula-Bloc-0** field Cabinda; Lifua B and C phases will follow;

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

2021 **(Angola)** National elections;

Dec 2021 **Talatona, Luanda (Angola)** \$60m **Huawei Technology Park** to be completed

Q4 2021 **(Angola) Angolan Diamond Exchange** to open;

2022 **(Angola)** Angola to host 10th **African, Caribbean and Pacific Group** summit;

2022 **(Angola)** End date for **Banco Poupança e Crédito's** recovery plan;

2022 **Luanda (Angola)** Luanda's **Novo Aeroporto Internacional de Luanda (NAIL)** (new international airport) expected to open;

2025 **(Angola)** Three major refineries at **Lobito** with capacity to refine 200,000 barrels/day, **Soyo** (100,000 barrels/day) and **Cabinda** (60,000 barrels/day), are expected to give Angola crude oil refining capacity of 360,000 barrel per day this year, meeting domestic needs and ending fuel imports;

2027 **(Angola)** State-owned oil company **Sonangol's** Strategic Exploration and Production Plan 2020-2027 gives Sonangol 10% of national production by this date, producing 120,000 bpd.

Chronology

- 8 Dec 2020 **Luanda (Angola)** *Angop*. **Isabel dos Santos** loses control of **Vidatel Ltd** after **Commercial Division of the Supreme Court of the British Virgin Islands** decides to transfer to judicial administrators all inherent rights and all bank accounts held and controlled by Vidatel, a company she owned;
- 8 Dec 2020 **Luanda (Angola)** *Angop*. The trial of **Manuel António Rabelais**, accused of embezzlement and money laundering between 2016 and 2017, will start on 9 December;
- 7 Dec 2020 **Luanda (Angola)** *Angop*. The Angolan government and the Representative of the **United Nations Food and Agriculture Organisation (FAO)** in Angola sign the Country Programming Framework (CPF) agreement for the 2020-2023 period;
- 7 Dec 2020 **Luanda (Angola)** *Angop*. Angola joins the **Free Trade Agreement for the African Continent**, which 30 of 54 African states have ratified and which enters into force in January; the first phase will see elimination of tariffs on 90% of products and aims to create an extensive free trade area, with a market estimated at \$2.5 trillion;
- 6 Dec 2020 **Luanda (Angola)** *Angop*. Angola sets oil production at 1,267,000 barrels per day in 2021, reducing output by 261,000 barrels per day, following an **Organisation of Petroleum Exporting Countries (OPEC)** meeting;
- 6 Dec 2020 **Luanda (Angola)** *Angop*. Political party **Partido Do Renascimento Angolano – Juntos Por Angola (PRA-JA) Servir Angola** headed by **Abel Chivukuvuku** says **Tribunal Constitucional** (constitutional court) decision to reject the party's appeal against an earlier decision to disallow disallowed the formation of the new party is "*political and not juridical*";
- 5 Dec 2020 **Luanda (Angola)** *Angop*. **Angola** announces it expects to receive 15 million doses of vaccine against **COVID-19** by April 2021;
- 2 Dec 2020 **Luanda (Angola)** *Angop*. The **UNITA** parliamentary group asks **National Assembly** to set up a parliamentary inquiry commission into the management of state-owned **Banco de Poupança e Crédito (BPC)** based on the recorded losses in the 2019 report and accounts of 404.7 billion kwanzas (\$618.5m);
- 1 Dec 2020 **Luanda (Angola)** *Angop*. Angola's draft state budget 2021 is scheduled for final vote on 14 December;
- 30 Nov 2020 **Luanda (Angola)** *Angop*. Angola is elected to the rotating presidency of the Conference of Ministers of the **Organisation of Petroleum Exporting Countries (OPEC)** for the 2021 mandate;
- 28 Nov 2020 **Luanda (Angola)** *Angop*. Angolan mineral, oil and gas resources minister **Diamantino Azevedo** proposes that Angola and the **Democratic Republic of the Congo (DRC)** develop a joint mechanism for co-operation with the public and private hydrocarbon sector in the DRC, for the marketing of petroleum products between the two countries and combatting fraud and smuggling of fuel;
- 28 Nov 2020 **Luanda (Angola)** *Lusa*. Former **AAA Insurance Group** head **Carlos São Vicente** challenges his preventative detention and the freezing of his assets by the courts, pending his trial;
- 24 Nov 2020 **Luanda (Angola)** *Voice of America*. The **United States (US)** imposes a new travel rule for citizens of 15 **African** countries, including Angola, who will have to issue a bond of up to \$15,000 to visit the US, during a six-month pilot programme, which is intended to act as a deterrent for those who exceed their visas;
- 24 Nov 2020 **Luanda (Angola)** *Lusa*. Finance minister **Vera Daves de Sousa** says Angola is aiming to start the privatisation process of large companies such as state-owned oil company **Sonangol** or state-owned diamond company **Endiama** by the end of 2021 or the beginning of 2022;

22 Nov 2020 **Luanda (Angola)** *Lusa*. Angolan telecommunications company **Unitel SA** initiates a lawsuit in **London (United Kingdom)** against offshore **Unitel International Holdings (UIH)**, owned by **Isabel dos Santos**, to recover a debt of more than €350m (\$424.5m);

18 Nov 2020 **Luanda (Angola)** *Lusa*. The **Agência Nacional de Petróleo, Gás e Biocombustíveis (ANPG)** (Angolan national petroleum, gas and biofuels agency) announces that its programme to relaunch oil exploration activity this year has been delayed by **COVID-19**;

18 Nov 2020 **Luanda (Angola)** *Lusa*. Three political activists from **Cabinda**, detained in June, are charged with rebellion, outrage and illegal association;

18 Nov 2020 **Luanda (Angola)** *Lusa*. The **World Trade Organisation** asks the Angolan government to revoke a law that imposes import restrictions, including the payment of fees, on 54 key products.

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