Angola: A new era dawns

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For investors seeking a footprint in Africa’s largest markets, Angola has remained an enigma following the end of the country’s 27-year civil war in 2002. Under the presidency of José Eduardo dos Santos, the ruling Movimento Popular de Libertação de Angola’s (MPLA’s) management of the economy was opaque.

However, a new President, João Lourenço, was inaugurated in September 2017, bringing an end to 38 years of rule by his predecessor dos Santos. Since acceding to power Lourenço has begun to implement sweeping changes. In this briefing, we assess the outlook for Angola’s political and investment climate under new leadership, and the implications for companies looking to enter the Angolan market.

Angola: A new era dawns

Inauguration of President João Lourenço ends 38 years of rule by his predecessor José Eduardo dos Santos. The new president said he would fight economic crimes and corruption and strengthen the rule of law.

Lourenço dismisses Isabel Dos Santos, daughter of the former president, as CEO of the state oil company Sonangol.

Lourenço launches a working group to identify areas for administrative and organisational reform in the extractives sector, whose findings will be reported in April 2018. Sonangol announces an internal inquiry into suspicious financial transfers worth tens of millions of dollars. Visa-free travel takes effect between Angola and South Africa.

Sonangol calls for tenders for oil product imports, hinting at a relaxation of the near monopoly held by Swiss trader Trafigura under the previous administration Isabel Dos Santos’ leadership. Lourenço launches ‘PEM’, a strategic plan aimed at diversifying the economy, increasing efficiency in public spending and controlling the deficit. The reserve bank of Angola announces it is scrapping the Kwanza’s peg to the dollar in favour of a hybrid currency system.
Lourenço imposes his authority

João Lourenço was inaugurated as President of Angola on 26 September 2017, following a managed transition in which the electorate had no direct say. Dismissed by many as a hand-picked puppet, put in place to safeguard the dos Santos family’s economic interests, his first five months in office have proven surprising. Lourenço has dismissed over 60 senior government officials, many of them close allies of dos Santos, including:

- Presidential Secretary for Economic Affairs, Carlos Aires da Fonseca Panzo
- National Treasury Director, Edson Augusto dos Santos Vaz
- Head of Military Intelligence (SIMS), António José Maria “Zé Maria”
- National Police Commander, Ambrósio de Lemos
- Governor of the Central Bank, Walter Filipe da Silva
- The boards of the powerful state-owned diamond companies ENDIAMA and SODIAM
- The boards of four state-owned news services: Angola Press News Agency (news wire: ANGOP); Rádio Nacional de Angola (Angolan National Radio: RNA); Jornal de Angola (the state daily newspaper); and Televisão Pública de Angola (Angolan Public Television: TPA).
- Executive Director of the Capital Markets Commission, Mário Edison Gourgel Gavião

Most significantly, on 15 November 2017 the new President dismissed Isabel dos Santos, daughter of the former president, as CEO of the state oil company Sonangol. He has also cancelled lucrative contracts between state entities and other children of dos Santos, such as José Filomeno dos Santos (“Zenú”) and Welwitschia dos Santos, while ending Isabel dos Santos’ monopoly-control of the cement industry in Angola.

More recently steps have been taken to reform and open up the oil sector, previously a closed shop controlled by the dos Santos patronage network. In December 2017 Lourenço launched a working group tasked with identifying areas for administration and organisation reform in the extractives sector (particularly around the Secretariat of the State for oil).

The group will report its findings in April 2018. In the meantime, in January 2018, Sonangol called for tenders for oil product imports, hinting at a relaxation of the near monopoly that Swiss trader, Trafigura, has enjoyed thanks to its close relationship with the Luandan authorities under dos Santos. Sure enough, two months later, in mid-March, the tender was awarded to Glencore and Total.

Lourenço’s motivations: The liberal view

In his inauguration speech on 26 September, Lourenço noted that his government would “fight against economic crimes and the corruption that is rampant in some institutions” with the aim of “strengthening the rule of law to prevent illegal actions that may discredit, internally and abroad, the financial and banking sector”. He highlighted the glaring economic inequalities in Angolan society, and said that he would strive for “the meritorious distribution of available resources”, taking particular aim at inefficient monopolies within the Angolan economy, many of which have been handed out to dos Santos allies as patronage. He stated very clearly in his electoral campaigning that “the law is for everyone”, vowing to end the impunity that those connected to the ruling party seemed to enjoy under dos Santos.

These early moves have encouraged some observers to believe that Lourenço’s agenda has genuine reformist intent, rather than just a consolidation and continuation of the status quo that saw some $28 billion go missing from government budgets from 2002 to 2015.

As Minister of Defence, Lourenço was noted for his Spartan lifestyle, especially by comparison to his lavish-spending peers in the MPLA such as General Hélder Vieira Dias (“Kopelipa”) and Manuel Vicente. Investigative journalists in Angola have uncovered no evidence of expansive business interests, unaccountable wealth or conflicts of interest, which is unusual for a senior MPLA politician.
Lourenço has been careful to differentiate himself from his unpopular predecessor: making himself accessible to international oil company executives, joining Twitter, and more visibly travelling around Luanda and Angola’s provinces, rather than holing up in the Presidential Palace.

**Government Appointments and Anti-Corruption Measures**

Lourenço appears to be serious about building an accessible, accountable meritocracy at the heart of government, promoting a number of competent technocrats to replace dos Santos’ picks, such as José Lima Massano as Governor of the Central Bank. He also seems serious about tackling the rampant corruption in which lucrative reconstruction and development projects are awarded to people in the former president’s inner circle, with their involvement concealed behind layers of partnerships.¹

A number of the early dismissals, such as that of Carlos Aires da Fonseca Panzo and Edson Augusto dos Santos Vaz, have been publicly justified by allegations of corruption or embezzlement. These allegations either emanate from the Angolan Criminal Investigation Service (SIC) or from foreign agencies in Switzerland or Portugal. Lourenço has also appointed José Carlos Marcolino Moco, an ally and outspoken critic of dos Santos’ rule as a non-executive director of Sonangol. Moco, a former Angolan prime minister, along with other senior MPLA members such as Ambrosio Lukoki, has in the past called for the prosecution of dos Santos under corruption charges.

Two investigations into corruption in, and around, Sonangol have also been announced.

- In December 2017 Sonangol announced it had launched an internal inquiry into suspicious financial transfers worth tens of millions of dollars.
- In March 2018 Angolan prosecutors opened an investigation into possible corruption at Sonangol under Isabel dos Santos’ leadership. The investigation will probe irregular financial transfers identified by Sonangol’s management.

**Economic Reform**

Lourenço’s reputation as a supporter of economic liberalisation is one of the reasons he was side-lined by dos Santos in the December 2003 MPLA Party Congress, a demotion that took him over a decade to recover from politically. He has already moved to soften the dos Santos economic policy position.

The dos Santos administration dismissed the idea of reaching an agreement with the IMF due to the related financial transparency requirements. Lourenço has indicated in public statements that he may reverse this position, and in January 2018 he met IMF Managing Director Christine Lagarde on the margins of the World Economic Forum in Davos. Lagarde reportedly commended Lourenço on recent policy announcements including the Programa de Estabilidade Macroeconomica (“PEM”) launched in January 2018. The PEM is part of Lourenço’s drive to diversify the economy, make public spending more efficient, and control the deficit.

Lourenço’s administration has also taken clear steps to rein in spiralling foreign debts (predominantly owed to bilateral lenders such as China).² Most significantly, early in January 2018 the Banco Nacional de Angola (“BNA”) announced it was scrapping the Kwanza’s peg to the dollar, and implementing a hybrid system under which the Kwanza will be traded within defined limits that will be managed (but not disclosed) by the BNA. We expect the BNA to allow the Kwanza to devalue by roughly 20%. This change should allow Angola to service debt obligations and maintain depleting forex reserves, though it will prove uncomfortable for hard currency investors with exposure to Angolan companies earning in Kwanza.

**Bilateral Relations**

Lourenço has strengthened relations with South Africa, and taken steps to further integrate Angola into the Southern African Development Community, and its Free Trade Area; a move that will help with his stated aim of diversifying Angola’s economy away from oil dependence.

Visa-free travel between South Africa and Angola took effect on 1 December 2017. In March 2018 during a brief visit to Luanda newly inaugurated President Cyril Ramaphosa stated that the two nations were entering “a new era” of “meaningful” co-operation.³ The apparently friendly relationship between the two Presidents reflects their similar situations; both have replaced notoriously corrupt predecessors from the same political party, and are grappling with how best to restore economic confidence and satisfy public demands for redress, whilst maintaining party unity and control.

Lourenço’s early reforms have already paid dividends in the form of increased investor confidence. This is reflected in the $1.5 billion of bonds due in 2025, which have returned over 8% since Lourenço’s inauguration, making them the best performing bonds in the emerging markets index.

¹ Angola has been regarded as one of the world’s most corrupt jurisdictions – ranked 164th of 176 by Transparency International – and several foreign firms have been implicated in corrupt practice. For instance, Odebrecht, the Brazilian construction giant, admitted in a New York federal court in 2016 that it had paid $50 million to secure contracts in Angola and agreed to pay up to $4.5 billion to settle bribery cases.

² The Angolan 2018 budget forecasts that 22% of Angola’s revenues would fund interest payments.

³ President Ramaphosa identified “tourism, energy, infrastructure development and broad investments, and power and all those sectors of economy” as areas in which the two nations were seeking to “work together”: 

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Lourenço’s motivations: The illiberal view

However, there are countervailing indications to suggest that President Lourenço’s early reform actions are designed not to open up the country’s politics and economy, but simply to replace one patronage network (that of dos Santos) with his own.

On this view, his call of key public figures under charges of corruption is little more than a well-established populist strategy for removing political opponents and consolidating his rule. Given the problems the dos Santos regime faced due to the global drop in oil prices in 2014, diversifying the economy away from oil dependence is also a pragmatic move to ensure Lourenço’s political survival, rather than any reflection of his liberal tendencies. This pragmatic aim is best achieved through appointing competent technocrats such as José Lima Massano, and seeking to reduce some of the excesses of the dos Santos era in terms of high-level corruption.

There is clear evidence that Lourenço’s anti-corruption drive is highly targeted. According to sources interviewed by our Angola research team, one of his first moves upon inauguration was to contact Portuguese Minister of Foreign Affairs Augusto Ernesto dos Santos Silva and request that he keep the Portuguese money-laundering investigation into Manuel Vicente and General Carneiro archived. This is not the move of someone concerned with ending impunity. Furthermore, the replacement of de Santos affiliates has not occurred across all levels of government. Diamantino Pedro Azevedo, the newly appointed Minister of Mining and Resources4 has appointed subordinates closely connected to his predecessor, Jose Maria Botelho de Vasconcelos, including his former Chief of Staff Massamba Cardoso.5

Likewise, his appointment of Carlos Saturnino as Isabel dos Santos’ replacement at Sonangol is highly problematic for those arguing he is putting a meritocracy in place. Not only did Saturnino oversee a disastrous period in Sonangol’s exploration and production from 2015 to 2016 (when the state company invested in highly unprofitable areas such as Iraqi Kurdistan), but he is also closely linked to former Sonangol CEO Manuel Vicente, who was widely alleged to have mismanaged the company and engaged in corruption before his departure in 2012. One of Lourenço’s other nominations to the Sonangol board, Luís Ferreira do Nascimento José Maria, is also currently under investigation for money laundering in Portugal.

Lourenço may be seeking to financially weaken dos Santos and his allies, to the point that he is able to force dos Santos to surrender his position as President of the MPLA. Through this position dos Santos continues to wield significant power in Angola’s National Assembly, and could block Lourenço’s policy agenda. This is the last barrier to Lourenço’s political control of Angola.

The introduction of visa-free travel between Angola and South Africa can also be viewed as a direct economic attack on dos Santos’ patronage network. Many dos Santos supporters enjoy Empresário de Confiança status, giving them privileged access to foreign currency and import-duty exemptions. This group monopolises Angola’s import market and is shielded from South African competition by high import tariffs and trade barriers, which Lourenço is seeking to dismantle.

Lourenço’s economic reforms to liberalise and stabilise the economy are also being implemented in parallel with certain populist policies (including rumoured public-sector wage increases), as well as a possible $2 billion Eurobond issue. The issue is part of a rash of Eurobond issues by African sovereigns, already totalling $10.7 billion in 2018. This figure is piquing investors’ concern over the continent’s rising debt burden, which is almost equal to FDI.6 According to Standard Chartered, Angola’s total debt service-to-revenue ratio (without this rumoured Eurobond issue) will rise to 116% in 2018.

Likewise, Lourenço’s comments on banking-sector reform are a direct threat to Isabel dos Santos, Africa’s richest woman, who has significant stakes in all four of the largest private banks in Angola (BAI, BFA, BIC and BE). Lourenço’s changes might therefore be a consolidation of the MPLA’s control, rather than a significant break with the past. As Lourenço chips away at the dos Santos family’s economic interests, we are likely to see risks concentrated in the banking sector, which will remain the key source of funding for the dos Santos patronage network.

With no wide-scale reforms of Sonangol under Carlos Saturnino, Angola would remain reliant on oil exports, and debt default risks from Sonangol will remain high. Reputational risks stemming from corruption threats to international operators in joint ventures with state firms will also remain significant.

Snapshot: Key decision-makers in the new administration

1. Minister of State and Head of the Casa da Segurança Pedro Sebastião
2. Minister of State and Head of the Casa Civil Frederico Manuel dos Santos e Silva Cardoso
3. Vice President Bornito de Sousa
4. Central Bank Governor José Massano
5. Minister of Mines and Oil Diamantino Pedro Azevedo
6. President of National Assembly Fernando da Piedade Dias dos Santos (“Nandó”)

4 The Ministry of Mining and Resources was created after President Lourenco combined the ministries for oil and mining in October 2017.
5 The Ministry of Mining and Resources’ new chief of staff is Massamba Cardoso. As well as heading Angola’s national oil institute, Cardoso served as Vasconcelos’ chief of staff in the early 2000s and then again from 2008.
6 S&P expects borrowing to hit $57 billion this year, almost matching total FDI of $59 billion in 2016.
In their early stages, the motivations for Lourenço’s reforms are irrelevant to Angola’s economic outlook. Whether he has liberal or illiberal motivations, we will see an opening up of the economy, more prudent fiscal policy, and a move away from reliance on opaque Chinese loans to both Sonangol and the Angolan state.

Our view is that Lourenço’s motivations are more likely to be liberal than illiberal. His reforms of Sonangol are moving forward at a rapid pace and, once implemented, will make it harder for the company to be exploited as a source of patronage in the future.

Likewise, his moves to invite in the IMF and fully integrate the Angolan economy with the SADC are destroying opportunities for corruption rather than redirecting them. With much-needed banking sector reform, correspondent bank dollar clearing services should return, and commercial credit should become more readily available in the Angolan marketplace, helping to grow and diversify the economy.

However, as the cases of Aung San Suu Kyi in Myanmar and John P. Magufuli in Tanzania have demonstrated this year, external observers should be wary of ascribing liberal motivations to incoming heads of state in highly centralised, quasi-authoritarian states. Lourenço has been a member of the MPLA since Angola’s independence, supporting the party’s highly illiberal rule of Angola as Minister of Defence since 2014. During this time, he has argued against the economic development of the restive Cabinda enclave and been responsible for security forces that have committed widespread human rights abuses both in Cabinda, and in Angola’s diamond producing regions of Lunda Norte and Lunda Sul.

Longer-term, it remains to be seen how committed Lourenço is to implementing the difficult but necessary changes required to put Angola’s political and economic landscape on a more positive trajectory.
Implications for investors

Lourenço’s actions have already led to tangible evidence of increased investor confidence and interest.

Mining – particularly diamond mining – is one sector where moves to break the stranglehold of Isabel dos Santos have already led to increased investor interest. Since December the Ministry of Mining and Resources, under Minister Azevedo, has been working on a new trading system, which is likely to allow for the presence of foreign traders.7 A forum on mining opportunities in Angola – particularly diamond, copper, iron and gold - held at South Africa’s mining Indaba in February 2018 was attended by senior representatives of De Beers, Rio Tinto, MMG, and Ivanhoe mines.

The following economic sectors are also likely to become more open to foreign investment and fair(er) competition under the Lourenço administration, including:

- **Telecoms:** This strategic sector stands out as a major opportunity. In November 2017, a tender for a fourth telecoms license, and a planned sale of 55% of state-owned Angola Telecom, were both announced. MTN has publically indicated it is considering a bid. According to one interviewee for this report, “Lourenço has broken Isabel’s monopoly and I hear Vodacom has signed to become the fourth network provider.” The winner of the tender has yet to be announced, however, in February 2018 Vodacom had its multi-service licence in Angola renewed by telecom sector regulator Inacom.8

- **Cement and construction:** This sector appears promising in the medium term given its role in the country’s ongoing post-war reconstruction; but as yet Lourenço has not taken firm steps to loosen Chinese control.

- **Tourism:** The Angolan government is committed to a strategic drive to boost tourism as part of a 2011-2020 Strategic Plan, entitled the Tourism Master Plan. The plan has now entered its second phase of implementation, which includes a focus on regional visitors (i.e. from South Africa). Any operator working to increase tourism footfall into Angola will enjoy significant government support.

 Investors new to the Angolan market will benefit from engaging constructively with the Lourenço administration and aligning with its reform agenda. The new government is making an effort to publish its strategic plans (i.e. PEM) and companies should seek to align themselves with the priorities set out in these. Also, the government’s one-stop-shop for business incorporation – see here – is, despite its dated marketing strategy, becoming more effective and has registered over 75,000 companies over the past decade.

For long-standing investors in Angola – in the oil and gas sector especially – we recommend development and implementation of a strategy to actively disassociate from the dos Santos family and its immediate allies, to reduce the risk of contract revocation under the new administration. This may entail, for example, a comprehensive review of existing local logistics, oil servicing and security contracts, and of any downstream partnerships associated with the dos Santos family.

As one interviewee stated, “many joint ventures under the dos Santos administration were never run efficiently to begin with, and were only profitable due to juicy contracts with the state that could be revoked at any time. So, any joint venture held by a foreign investor with a dos Santos affiliate is now at risk of contract revision, non-payment, contract cancellation or payment delays.”

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7 Previously all diamonds produced in Angola were sold and exported via the state-owned firm Sodiam, which was largely under Isabel dos Santos’ thumb.

8 The licence allows Vodacom to provide telecommunications services, except mobile telephony and TV. Vodacom has been providing enterprise ISP services in Angola since the end of 2017.

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