

## Angola: One year into the Lourenço presidency. What next?

*By Mehdi Benomar*

### Summary

This policy brief analyzes Angola after João Lourenço was elected president of the country on August 2017. The election of Lourenço to presidency marks a pivotal shift for Angola's political system, especially since José Eduardo Dos Santos, the former president, remained leader of the country for thirty-eight years.

### Introduction

After João Lourenço was elected president of Angola in August 2017, succeeding to José Eduardo Dos Santos who had led Angola for thirty-eight years, the country started to break away from the Dos Santos system and a very large number of members of the former president's clan have been sidelined. Over the past year, Angola has experienced a transition rather than real tangible change, as government bodies and civil society largely remain under the influence of the People's Movement for the Liberation of Angola (MPLA). J. Lourenço, a former minister of defense (2014-2017) and former vice-president of the MPLA, was fully aware of this situation when he came to power. It was clear that the country had been weakened by an economic crisis triggered by falling oil prices since 2014 and that its institutions were undermined by cronyism and the rentier economy. After only one year in power, it is too early to take stock of the new administration's measures, but it seems appropriate to examine its early action and to consider various scenarios for Africa's second largest oil producer.

The time that has passed since the election has featured a transition rather than real change, as government bodies,

civil society and the private sector largely remain under the influence of the MPLA party state. This model<sup>1</sup> is still very politically similar to those of Moscow and Beijing; the MPLA is the country's political, social and economic backbone, and it continues to be led by former president Dos Santos before President Lourenço likely takes over next September.

With the country often being labeled as a secondary regional power, after South Africa and Nigeria, Luanda has decided to operate a transition by extending its soft power via larger influence networks, and to generally break away from the Dos Santos system. With this in mind, significant political and economic action has been taken in the past months, such as the President's high-profile diplomatic appearances in Davos or at the European Parliament, the strategic rapprochement with African and European countries (South Africa, Morocco, Rwanda, France, Belgium), or Angola's request to join<sup>2</sup> the International Organization of the Francophonie and the Commonwealth. Even Sonangol, despite its internal

1. Mathias de Alencastro, Angola under Lourenço. Towards a Negotiated Hegemony, Notes de l'Ifri, February 2018.

2. Angola is already a member of the Community of Portuguese Language Countries (CPLP).

problems, has committed to economic diplomacy by resuming operations in oil fields in Iraq, acquired in 2010.

At the continental level, this year Angola obtained a seat at the African Union's Peace and Security Council. President Lourenço and Angolan diplomats have reiterated their resolve to once again become one of Africa's key players.

At the regional level, the political crisis caused by elections in the Democratic Republic of the Congo (DRC) draws most of the attention. The complex bilateral relationship between Angola and the DRC is entangled in numerous disputes regarding the management of refugee flows and especially hydrocarbon exploitation. In 2011, the DRC referred to the UN a longstanding dispute over maritime boundaries and offshore oil fields. While the issue of the continental shelf and maritime boundaries has been settled, there is no framework for joint exploitation as of yet.

This conflict over resources has been effectively contained over the past 20 years by a regional balance in which Kinshasa's claims were kept at a minimum in exchange for Angola's military support for Presidents Laurent-Désiré and Joseph Kabila. In this context, the prospect of a new president in DRC is very concerning for several stakeholders on both sides of the border.

After one year in power, it is too early to take stock of the new administration's measures, but at this stage, it seems appropriate to consider various geopolitical scenarios for Africa's second largest oil producer.

## Pursuing Urgent Reforms and Strengthening the Oil Sector

After a decade of rapid growth (2006-2014), Angola entered a recession in 2016, due to the low oil prices that persisted since 2014. This caused a freeze in public investment, which was dependent on oil revenues; this in turn led to slower than expected GDP growth. Oil exports represent two thirds of tax revenue and 95% of the country's foreign exchange earnings. Overall, extractive industries<sup>3</sup> - in particular diamond mining - represent 98% of revenues, pointing to the failure of economic diversification policies to date.

3. Angola is not a member of the Extractive Industries Transparency Initiative (EITI).

In September 2017, the new Angolan administration naturally started implementing an economic strategy that included measures aimed at diversifying the economy, improving the business environment and revitalizing the oil and gas sector. It renegotiated its cooperation framework with the International Monetary Fund (IMF) and injected fresh momentum into economic partnerships, in particular with South Africa and France.

The Plano Intercalar was the first set of policies implemented ahead of the 2018-2022 National Development Plan. This plan, which was approved as soon as November 2017, had aimed to boost productivity and to attract FDI flows. Key measures included devaluing the Kwanza, standardizing tax rates, curbing public debt, inflation targeting, and reducing capital requirements for banks...etc.

As this plan was implemented, financial indicators began to stabilize<sup>4</sup>; the IMF approved the measures and authorized Angola to refinance its debt without having to seek an additional loan. In addition, with the 2018 government budget, estimated at \$46 billion, growth rates are expected to rise to 4.9%, a much higher forecast than the IMF's (1.6%).

The country was able to emerge from the recession in 2018, in part thanks to these initial efforts and to the recent increase in oil prices, although the recovery remains fragile. In the context of a global trade war, the situation in Angola - as well as other emerging countries - could become critical given that most of its debt is issued in US dollars.

The Lourenço administration has taken action to boost the oil and gas sector and reassure investors. In addition to falling oil prices, Angola, an OPEC member since 2007, saw its oil exports to the US drop by 75% over a decade [534,000 B/D in 2006 to 135,000 B/D in 2017]. In fact, by 2016, North America only represented 3.6% of the country's crude oil exports, versus 69.7% for Asia and 19.5% for Europe. Against this backdrop, measures were taken to revitalize the sector, including tax cuts, calls for tenders to increase refining capacity<sup>5</sup>, and implementing specific legislation favorable to the natural gas sector.

4. The Central Bank reduced the reference interest rate from 18% to 16.5% (July 2018). According to official statistics, inflation has been slowing down for more than eight months, reaching 20% in June 2018, down from its record level of 42% in December 2016. This trend exceeds authorities' expectations, which predicted 23% inflation in 2018.

5. Sonangol stated that it had received over 60 tenders to build refineries to process 200,000 B/D in Lobito, deliverable in 2022. Angola imports 80% of its refined oil products.

Moreover, the new president has removed his predecessor's key supporters from oil company Sonangol, including most board members, and of course Isabelle Dos Santos, whom the company is investigating on accusations of embezzlement. Lastly, contact was quickly established between the president and Sonangol's main partners (BP, Chevron, ENI, Exxon, Total), who had responded positively to the appointment of Carlo Saturnino, a close friend of Lourenço's and Sonangol's former director of production, who was previously in charge of negotiating contracts with majors.

Falling oil prices have had a negative impact on investment flows, which Angolan decision-makers remain intent on revitalizing. The structure of oil exports reveals a strong dependence on Asian clients, in particular China. With its oil-for-infrastructure deals, China alone represents over 50% of Angola's total exports. Since diplomatic relations were established between the two countries in January 1983, Chinese authorities have loaned over \$60 billion to Angola. As a key partner in Angola's post-war reconstruction, China remains the country's largest supplier with a significant market share, comparable to Portugal's (17% of exports in both cases).

Regarding other partners, there have been clear signs of rapprochement with South Africa ever since Lourenço's first state visit to Pretoria in November 2017. The two countries had entered a strategic partnership in 2009 - the year Jacob Zuma was elected - and since then have established cooperation in diverse sectors such as trade, investment, financial and oil services, mining, telecommunications... During the last visit, the presidents agreed to establish a bi-national commission at the presidential level and to increase customs cooperation. Another sign of a lasting rapprochement, bringing years of an erratic relationship<sup>6</sup> to a close, was the visit of the new president Cyril Ramaphosa to Luanda, shortly after he took office in early 2018.

In Europe, President Lourenço's visit to France last May is indicative of a significant rapprochement. Paris and Luanda signed a defense agreement, a €1 billion contract to finance a deepwater oil drilling project involving Total and Sonangol, and a \$100 million loan agreement from the Agence Française de Développement (French Development Agency) for the farming sector.

6. L'Angola de A à Z, Daniel Ribant, l'Harmattan publishing

## The President's battle plan

Since Lourenço took office in September 2017, Angola has opened up, eliciting a positive response from the international community. However, the administration is under scrutiny when it comes to human rights and combating corruption<sup>7</sup>, given the Dos Santos years' dismal record of accomplishment.

In 2011, large demonstrations triggered by political and social exasperation with the former president's inflexibility made him lose touch with his base and tarnished the iconic image of the first president of an independent and peaceful country.

Despite the wealth accumulated during the prosperous years, nearly two thirds of the country's 29 million people live with less than \$2 a day, maternal and child mortality rates<sup>8</sup> remain very high. The purchasing power of Angolans has halved since 2015.

The predatory behavior of a caste protected by monopolies, the MPLA's entryism and generalized corruption have compelled the president, shortly after taking office<sup>9</sup>, to make good on his key campaign promise, which was to combat corruption. A law to repatriate illegal offshore funds came into force last March. This law makes offenders liable for prosecution and aims to repatriate nearly \$30 billion, according to the central bank. Further policies to boost investment have also been adopted.

As a more direct measure, the president aimed to quickly regain control of the country's public institutions<sup>10</sup> by removing members of Dos Santos' inner circle from Sonangol, most security services, the central bank, the media and the diamond industry. With support from the British and Swiss judiciary, José Filomeno, the former president's son, was forced to step down from the sovereign fund (FSDEA), which he headed, and is currently under international investigation for fraud and embezzlement. Created in 2011, the FSDEA had a \$5

7. Le pays est régulièrement dans les profondeurs des classements internationaux, 168ième sur 178 selon Amnesty en 2017.

8. According to a 2014 study conducted jointly by UNICEF, the WHO, the World Bank and the UN, Angola's under-5 mortality rates were among the world's highest (UNICEF).

9. Is Angola's new president serious about reform? Africa's second-largest oil producer is even more corrupt than Nigeria. President João Lourenço will struggle to clean it up, The Economist May 2018.

10. The President's nickname of "relentless remover" went viral on social media, as he appointed on average 3 people a day. Source: Primeiros cem dias do presidente angolano, January 2018, Diario de Noticias

billion portfolio and is currently under the supervision<sup>11</sup> of the Ministry of Finance.

While the number of dismissals was striking, Lourenço's political reinstatement of General Fernando Garcia Miala by presidential decree was seen as a real coup-de-force. Garcia Miala, Lourenço's new director of intelligence, was accused of plotting the assassination of the former president during a military ceremony in 2006, when he headed the foreign intelligence service. He was convicted to a four-year prison sentence in 2008 for insubordination to the head of State, a sentence which many Angolans considered to be a conspiracy.

The numerous rapid changes, which clearly had been planned before the presidential election, raise some doubts about the current political balance. The opposition and civil society fully expect, instead of score-settling between the Dos Santos and Lourenço clans, authentic accountability, by prosecuting wrongdoers and with court decisions that strengthen the rule of law.

Operation FIZZ is a significant example. It involves former vice-president of Angola Manuel Vicente, who is accused of corrupting Portuguese magistrates in connection with Angola's massive holdings<sup>12</sup> in Portugal, allegedly linked to capital flight. The Vicente trial became a political and judicial imbroglio between Luanda and Lisbon, as Angola systematically refused to extradite Vicente. Finally, as of last April, the public prosecutor of Lisbon agreed to transfer the trial to Luanda. The Vicente case, which features an influential figure in the oil industry, reveals latent domestic and transnational conflicts of interest in this transitional phase.

Regarding individual liberties, demonstrations seem better tolerated than in the past. The acquittal of Rafael Marques, a journalist, was a clear signal in favor of freedom of the press. Under Dos Santos, R. Marques was regularly prosecuted for exposing corruption and the violation of basic rights. However, last month, the Luanda prosecutor acquitted him of a public accusation, following Marques' investigation into a property speculation and corruption case involving a former attorney general.

11. Angola Sets Up Body to Oversee \$5 Billion Fund After Probe, Bloomberg.

12. L'Angola a investi au Portugal entre € 10 et 15 milliards entre 2002 et 2013, Le pouvoir Angolais au Portugal, Celso Filipe, 2013.

## Conclusions

Generally speaking, the election of a new president in Angola has not affected the country's stability. Socio-economic development will require reforms and better governance. Political messages and ongoing changes are encouraging many partners to affect a rapprochement. Significant adjustments in security (military, intelligence, police, and governorate of the Cabinda enclave) are signs of the administration's increased vigilance to maintain internal stability and to manage exterior threats.

At a time when the political game is open to questioning, the administration must also manage the transition without arbitrarily exercising power or simply reacting to the previous system. The tolerance towards demonstrations which used to be brutally suppressed, the salary increase for civil servants through several decrees, and, of course, the symbolic verdict at the Marques trial are all positive yet sparse signs in favor of fundamental liberties.

Despite the recent pickup in oil prices, economic recovery will remain a central concern for the new administration, in particular through policies aimed at diversifying the fishing and farming sectors. However, reform implementation is slow, as it is dependent on inadequate government bodies and mechanisms which provide only limited leeway.

Concerning extractive industries, oil exports (50% to China) and diamond exports (50% to the United Arab Emirates, 25% to Belgium) remain very concentrated on a small number of clients. In the first phase of Lourenço's presidency, priority has been given to oil in order to attract investors. Regarding Sonangol, a reform plan is underway to make the company more agile<sup>13</sup> and to refocus on its core business by divesting from its real estate, services and telecommunications assets in the very near future.

The transition in Luanda is also raising domestic policy expectations. A crisis over the control of the MPLA, fueled for months by tensions between the two presidential clans, seems to have turned to the advantage of President Lourenço, who is expected to take over next September. However, the MPLA remains beset by intense internal struggles, and just like with other historical parties in the region, such as the ANC in South Africa or the Zanu-PF in

13. Statement to the media by Sonangol's CEO Carlos Saturnino (RFI, AFP)

Zimbabwe, the renewal of the political class is clearly not on the agenda.

In order to break away from the Dos Santos era and impact the political class, public opinion and activists, President Lourenço may prepare a surprise by not personally seeking the leadership of the MPLA, creating a precedent in Angola where the party has always been led by the Head of State.

Challenging the MPLA's hegemony could also help Lourenço to allow the main opposition parties (UNITA, CASA-CE) back into the political arena to unite parties over reforms initiated since last September. Of course, this scenario carries the risk of political deadlock as many Dos Santos supporters are MPLA members (former ministers, members of parliament), but, if the endeavor is successful, it would lend new legitimacy to President Lourenço by placing him above party politics.

Regarding its diplomatic relations, Angola seeks to open up its markets in a strategic way and is focusing on forming tactful partnerships. The strong existing ties with Brazil, China, Portugal and Russia do not seem to have been altered by Dos Santos' departure. Concerning defense, the United States remain a key partner; Angola is the US's third largest economic partner in Sub-Saharan Africa. In addition, for various reasons including regional stability, economic integration, and forming closer relations with Africa and Europe, partnerships have been expanded; as was the case with South Africa and France, and others have been initiated, with Morocco<sup>14</sup> and Rwanda.

Lastly, regionally, Luanda is logically involved in current initiatives and in building alliances aimed at finding a solution to the complex situation in the DRC, where the collapse of the Congolese mosaic of 200 ethnic groups would have dramatic consequences for the entire region. From the very beginning of his term, President Lourenço strongly reminded President Kabila of the importance of holding elections, as the last constitutional mandate of Kinshasa's "Raïs" had ended in late 2016.

Angola's official position on the matter, supported by regional bodies (Southern African Development Community, the International Conference of the Great Lakes Region), has sometimes been weakened by the Angolan president's contradictory statements. He has

declared that Angola would not hesitate to take military action in DRC, as his country has done several times before, only to concede that "President Kabila should be given the benefit of the doubt"<sup>15</sup>.

Given these uncertainties, one interpretation could be that the Angolan army's military advantage is not as clear as in the early 2000's: the crisis has tightened the Angolan defense budget, and, in the DRC, the regular army is more structured now than it was before Joseph Kabila came to power in 2001. The Armed Forces of the DRC (FARDC) also have far more experience in the field, as they have had to fight various rebel militias across the country and to manage a quasi-permanent emergency in the east.

Angola and the DRC now seem more interested in economic integration than conflict, such as the one that arose in 2009 through waves of migrant expulsions by both Kinshasa and Luanda. Flights between Kinshasa and Luanda resumed in 2015, after a six-year hiatus. More recently, trains connecting Dilolo (Katanga, southeast DRC) to the deep-water port of Lobito (Atlantic coast, Angola) started to run once again, after a 34-year interruption due to insecurity. This 1,300 km railroad makes transport of raw materials such as copper and cobalt (which are strategic for the DRC) more competitive. Before railroad traffic resumed, minerals from the DRC were transported in trucks through Zambia, increasing transport time and costs. Lastly, trade between the two countries remains driven by a cross-border dynamic<sup>16</sup> based on trade relations between citizens of the DRC and Angola.

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15. Interview à RFI, Mai 2018

16. Les dynamiques transfrontalières d'échange commercial entre la République Démocratique du Congo et l'Angola dans la province du Kongo-central. July 2017, François Layinga, Irenees

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