

## ACTIONABLE BUSINESS RISK INTELLIGENCE



# **SPECIAL REPORT: 15 February 2021** US ADMINISTRATION STEPS UP INVESTIGATION INTO ANGOLA PRESIDENT AND BUSINESS PARTNERS

An ongoing US investigation into Angola's president and business partners, as uncovered by media sources, will be stepped up under the Biden administration as bilateral relations sour over political violence in Angola and unfolding revelations of new state corruption. The US probe may diminish Angola's ability to maintain multilateral funding and successfully restructure its heavy debt burden.

Based on source reports, Unites States prosecutors have for almost one year been compiling evidence of violations of US laws and regulations by Angola's President João Lourenço, his family, and business partners. Intelligence obtained by PANGEA-RISK has been corroborated by several international media sources as more evidence of the alleged violations spills into the public domain. Under the new Biden administration, the US probe is set to be stepped up and begin to target Angolan banks, companies, and offshore firms to collect further evidence that may also tarnish Angola's relations with multilateral institutions, on whose credit support the country has become increasingly dependent.

Since coming to power in 2017, Angolan President João Manuel Gonçalves Lourenço has launched a high-profile anti-corruption campaign that has almost exclusively targeted the family and associates of his predecessor, José Eduardo dos Santos. By dismissing, prosecuting, and discriminating against dos Santos era officials, Lourenço has sought to consolidate his authority within the government, military, and the governing Movimento Popular de Libertação de Angola (MPLA) party, which he now also leads. Lourenço has also blamed his predecessor's government for the ongoing economic and financial crisis, which has deteriorated since he succeeded dos Santos in September 2017. A depreciating currency, mounting debt, and five years of economic recession have consistently been blamed on dos Santos's previous government, even though such indicators have worsened since Lourenço assumed the presidency (See ANGOLA: FIVE YEARS OF RECESSION SPIKE DEFAULT RISKS).

Various former officials of the dos Santos administration have faced discrimination, prosecution, asset seizures, and other forms of sanctions. Lourenço's government has since 2018 attempted to prosecute dos Santos's eldest daughter, Isabel dos Santos, while freezing her assets and seizing her business interests in Angola and other countries. In August 2020, his government prosecuted and imprisoned dos Santos's son, José Filomeno "Zenú" dos Santos for fraud, money laundering, and trading in influence. Both Isabel and Zenú held influential positions under dos Santos's government, respectively as head of state oil company Sonangol (2016-2017) and chairman of the Fundo Soberano de Angola (FSDEA), Angola's sovereign wealth fund. Former cabinet ministers, central bank officials, military officers, and other state civil servants have faced a similar fate, often in politically motivated investigations and trials.

Lourenço's government has used the high profile targeting of the dos Santos family and its associates as proof of his administration's determination to curb state corruption. This stance has earned Angola a USD 3.7 billion Extended Fund Facility from the International Monetary Fund (IMF) in 2018, which was expanded in 2020, as well as other concessional credit facilities and additional financial support from international partners in response to the coronavirus pandemic. Angola is also eligible to receive more than USD 2.6 billion in debt relief under the World Bank's Debt Service Suspension Initiative (DSSI), which amounts to 4.3 percent of Angolan GDP and a third of the DSSI's total relief for all of Africa (See SPECIAL REPORT: TOWARDS ONE MILLION INFECTIONS IN AFRICA). Such good will, as displayed by Angola's international partners over the past three years, is set to erode quickly when new allegations of state corruption and massive fraud involving the current government are uncovered.

PANGEA-RISK reveals that the United States Government is currently investigating a series of alleged violations of the Foreign Corrupt Practices Act (FCPA) by Angola's President João Lourenço, as well as his family and some of Lourenço's most senior associates. A number of these alleged violations were uncovered by PANGEA-RISK (legacy EXX Africa) in previously published reports that were republished in international media. But recently leaked documents from the US investigation reveal that the family is being investigated for numerous FCPA violations, unlawful banking transactions, bank fraud for the purchase of US-based properties, and a conspiracy to defraud the US Department of Justice by the Lourenço family. In this report PANGEA-RISK explains how US-linked wire fraud, corruption, and embezzlement is likely to impact foreign investors in Angola and frustrate the country's relations with donors and creditors in coming months.



# The US investigation into Lourenço



ANGOLA PRESIDENT JOÃO LOURENÇO

Based on intelligence source reports, US prosecutors have for almost one year been compiling evidence of violations of US laws and regulations that are directly linked to the João Lourenço administration in Angola. The evidence is focussed primarily on violations of FCPA legislation, as well as an array of other laws including the US Bank Secrecy Act, the Foreign Agents Registration Act (FARA), the Travel Act, the USA Patriot Act, and multiple violations of Foreign Assets Control Regulations (OFAC). The evidence includes information obtained through a US Department of Justice (DOJ) plea deal with Brazilian conglomerate Odebrecht S.A., which involves claims of bribes and illegal commissions paid by Odebrecht to companies held by President Lourenço, his wife, and their close business partners. The investigation is also looking into fraudulent and suspicious transactions made by other companies controlled by Lourenço, including military procurement firm Simportex EP, various banks, construction

firms, and holding companies under his control.

PANGEA-RISK source intelligence has been corroborated as more evidence of the alleged violations spill into the public domain. In February 2020, the Associated Press news agency disclosed FARA statements filed by Washington DC-based lobbying firm Squire Patton Boggs showing that some USD 625,000 out of a total of USD 1.042 million fees paid by the Angolan government to the firm were redirected to an outside consultant, namely Malta-registered ERME Capital Ltd between August and November 2020. ERME Capital was incorporated in early 2019 and has since received more than USD 4 million in redirected funds from Angola's government. Isabel dos Santos has claimed that the company has been used to fund the media campaign against her and her family's business interests. ERME Capital is managed by Pedro Pinto Ferreira and Maria Mergner, who are friends of Angola's former vice president Manuel Vicente. Vicente has been a close ally of President Lourenço and a political and business rival to Isabel dos Santos. If the FARA statements disclosed by Associated Press are genuine, the Angolan government would undoubtedly be in violation of US law on foreign agents' registration through the irregular contracting of US-based lobbying firms (See: https://efile.fara.gov/docs/2165-Supplemental-Statement-20210129-35.pdf).

In order to establish its jurisdiction over these alleged violations, the US investigation is focussed on transactions involving US interests such as the use of its currency and US-based banks, the involvement of US-based or US-listed companies, as well as real estate properties and other purchases made within the US by the Lourenço family. Other violations being investigated include Received by NSD/FARA Registration Unit 01/29/2021 2:56:51 PM

#### Breakdown of Outside Consultants for Republic of Angola (Erme Capital Ltd.)

07/30/2020	VENDOR: Erme Capital Ltd; INVOICE#: 24; DATE: 7/30/2020 - Wsh - Subcontractor services for July 1 to July 31, 2020	\$104,166.67
08/26/2020	VENDOR: Erme Capital Ltd; INVOICE#: 25; DATE: 8/26/2020 - Wsh - Subcontractor Services for August 1 to August 31, 2020	\$104,166.67
09/18/2020	VENDOR: Erme Capital Ltd; INVOICE#: 26; DATE: 9/18/2020 - Wsh - Subcontractor Services for September 1 to September 30, 2020	\$104,166.67
11/06/2020	VENDOR: Erme Capital Ltd; INVOICE#: 27; DATE: 11/6/2020 - Wsh - Subcontractor Services for October 1 to October 31, 2020	\$104,166.67
11/18/2020	VENDOR: Erme Capital Ltd; INVOICE#: 28; DATE: 11/18/2020 - Wsh - Subcontractor Services for November 1-30, 2020	\$104,166.67
12/10/2020	VENDOR: Erme Capital Ltd; INVOICE#: 29; DATE: 12/10/2020 - Wsh - Subcontractor Services for December1 to December 31, 2020	\$104,166.67

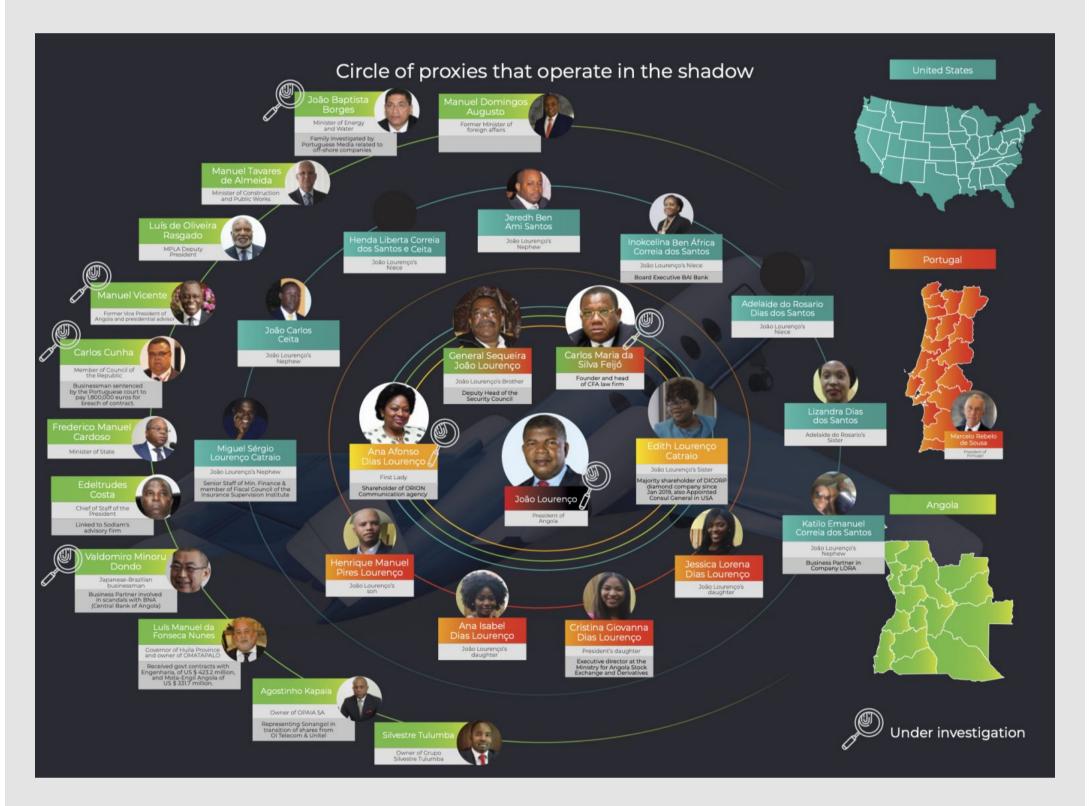
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suspicious travel to the US, the irregular contracting of US-based lobbying firms, unexplained wealth within the US, and a conspiracy to defraud the US DOJ. The investigation is therefore trying to prove that Lourenço and his government are not only in violation of Angola's own probity laws, but have also fallen foul of US statutes, laws, and regulations.

If the US finds it has jurisdiction, the implications for President Lourenço and his network of family members and associates will be far more widespread and severe, including potential asset freezes, travel bans, bank account suspension, and other targeted sanctions against Angola's most prominent family and its co-conspirators.

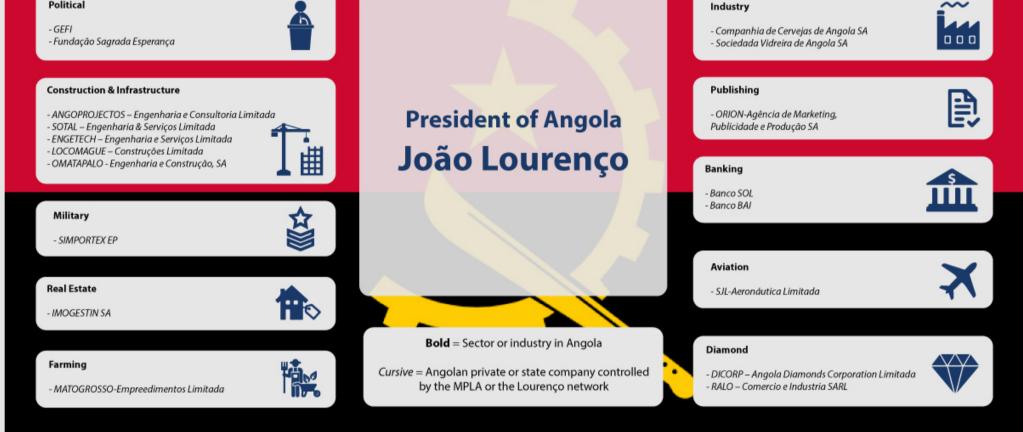
### The Lourenço network revealed

The Lourenço network is a collection of family members and close business associates who are reportedly engaging in ownership obfuscation activities in order to misappropriate Angolan state funds to its own privately held companies, as well as to the MPLA ruling party for re-election campaign funding. The network of companies includes some well-known politically affiliated holding companies, such as Gefi S.A (Gestão e participações financeiras), which has long been implicated in opaque state contracts, but also a new set of firms controlled by the network that act across industries such as construction, banking, real estate, and military procurement. PANGEA-RISK previously revealed some of these allegations in a report focussed on the operations of Ministry of Defence purchasing company Simportex, which is controlled by Lourenço, and the company's role in opaque military hardware purchases that also involved companies and individuals implicated in the Mozambique hidden Ioan scandal (See SPECIAL FEATURE: FALL-OUT OVER MOZAMBIQUE DEBT SCANDAL RISKS SPILL-OVER INTO ANGOLA).



TURNING STATE ASSETS INTO PRIVATE ASSETS

Industry



The Lourenço network consists of an inner circle of family members, including Lourenço's wife Ana Afonso Dias Lourenço, children, nieces and nephews, and brothers and sisters. Ana Lourenço, for example, controls Orion Agência de Marketing, Publicidade e Produção SA (Orion), which helps to finance the MPLA party and to enrich the family itself. A second circle of influence involves prominent business associates, cabinet ministers, public officials, and Lourenço's most trusted advisers such as former vice president Manuel Vicente, who has been implicated in numerous corruption scandals in Angola and internationally. The different layers of influence and companies interrelate in a complex manner to obfuscate ownership and embezzle public funds for the benefit of the network and the MPLA.

### Violations of US FCPA law



and prosecutorial jurisdiction of the US.

ANA LOURENÇO FIRST LADY OF ANGOLA

A good example of the manner in which the Lourenco network operates has been revealed in the plea agreement filed by the Eastern District of New York in the Odebrecht S.A. matter. According to the plea deal's report, the beneficiaries of many of the bribes and illegal commissions paid by Odebrecht include companies controlled by Lourenço's network including the MPLA marketing firm Orion which was founded by Ana Lourenco and Banco SOL in which Lourenco has a 5.42 percent shareholding. The plea agreement revealed that Odebrecht paid USD 20 million to Orion in 2017. Local sources have reported that parts of the Odebrecht payment were used to finance the MPLA's re-election campaign in the August 2017 legislative elections that brought Lourenço to power the following month. In this case, the payment would be a violation of anti-money laundering regulations and Angola's Probity Law. The illicit transaction between Odebrecht and Orion was made in US dollars, thus also invoking the investigative

The US investigation is also focussing on numerous other FCPA violations that involve the Lourenço network. One of these involves a company called Omatapalo – Engenharia & Construção, S.A. (Omatapalo), a company linked to President Lourenço, which was granted at least three state projects at the value of more than USD 450 million in 2019. Omatapalo is also subcontracted for the USD 4.5 billion hydroelectric dam under construction in Cambambe, Cuanza-Norte province. The US investigation is looking into opaque tender awards, including more than USD 500 million in contracts awarded in 2020, which would be in violation of Angola's Probity Law.

The US investigation also looks back at the time when Lourenço served as Angola's defence minister from 2014 to 2017. He then approved the procurement of USD 450 million in military hardware from Privinvest, which is the company at the heart of the Mozambique hidden loans scandal that was revealed in a report by PANGEA-RISK in 2016. The procurement was done through Simportex EP, which is controlled by Lourenço, and involved many of the same individuals who have since been indicted by US authorities for their role in the Mozambique scandal, including Iskandar Safa, founder and CEO of Privinvest Group, and Jean Boustani, as well as several former Credit Suisse bankers who have also been charged by US authorities.



FORMER ANGOLA VICE PRESIDENT MANUEL VICENTE AND VENEZUELA PRESIDENT NICOLAS MADURO

Opaque military procurement has continued under Lourenço as president, including the 2018 contract worth EUR 62.7 million with ALL2IT – Infocomunicações,SA, which is a company known to be associated

with his nephews. The deal is financed by Banco Angolano de Investimentos (BAI), in which both Lourenço and Vicente are shareholders. Ongoing US court trials, such as the May 2020 case made by Aenergy S.A., focus on violations of Angola's Probity Law by senior officials such as Energy Minister João Baptista Borges, while claiming US jurisdiction on important Angolan corruption issues. The US investigation also implicates Minoru Dondo, a Japanese-Brazilian businessman, who has secured contracts worth billions of dollars since 2004 that have already triggered French and Brazilian investigations. Such deals have implicated other senior presidential advisers, such as current chief of staff Edeltrudes Costa, as well as Manuel Vicente and Lourenço family members, who all seem to have benefitted from such contracts and have amassed considerable unexplained wealth.

#### Ties to US interests



banks under the control of the Lourenço network, such as Banco BAI and Banco SOL. The US investigation is seeking to identify direct US-based or nested correspondent accounts to catalogue the entities or individuals being used to facilitate the purchase of assets with funds directly linked to bribery and corruption in the US and elsewhere. The outcome of this review may identify potential violations of the Bank Secrecy Act and related statutes, as well as mail fraud or wire fraud, the Travel Act, and the FCPA.

According to evidence collected by the US investigation, such unexplained wealth has been managed by

A key focus of the US investigation is the residential property owned by the Lourenço family in the US, most notably their home in Bethesda, Maryland which was purchased in 2013 for USD 1.73 million. The US investigation is looking into several potential internal revenue violations involving this property. The Lourenço family also has homes in Washington DC, Virginia, and Texas. The US investigation is seeking to

US SECRETARY OF STATE MIKE POMPEO WITH ANGOLAN PRESIDENT JOAO LOURENCO

find the source of income for the purchase of these properties, as well as other unexplained wealth such as luxury travel to the US by the Lourenço family over the past few years.

Another focus of the US investigation that is aimed at determining any violation of US laws and harm to US interests is the lobbying activities conducted by Squire Patton Boggs (SPB) on behalf of Angola's government. The investigation is looking into possible violations of legislation such as FARA, the FACP, and the Travel Act, as well as money laundering statutes. SPB's ties to various individuals and entities in the Lourenço network, such as Manuel Vicente, are also being investigated for a suspected conspiracy to defraud the US DOJ. The US investigation will be considering whether the latest FARA statements disclosed by the Associated Press are evidence of irregular contracting of US-based lobbyists.

The US investigation marks a break in relations between the US and Angola, which have notably improved in recent years as Chinese credit facilities have dried up and Angola's government has sought the support of the IMF and other multilateral lenders to support its budget and commit to economic reforms and transparency initiatives. However, the investigation seems to have stalled toward the end of 2020 as supporters of then-president Donald Trump, such as prominent fundraiser Elliott Broidy, lobbied on behalf of the Angolan government. A defence company owned by Broidy won big contracts from the current Angolan government. Broidy pleaded guilty in October 2020 in a separate foreign lobbying case and he was pardoned by Trump in January 2021. Another supporter of strengthening Angola-US relations was former US secretary of state Mike Pompeo, who visited Luanda in February 2020 and met with President Lourenco to discuss strengthening economic ties and supporting Angola's fight against corruption.



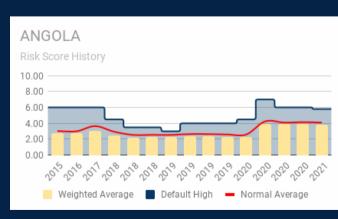
LARRY MIZEL, ELLIOTT BROIDY AND JEFF SESSIONS AT A CHAIRMAN'S GLOBAL DINNER IN WASHINGTON D.C., 2017

However, such strong relations are unlikely to be maintained under the new Biden administration in the US, while sources in the DOJ have commented that the investigation into the Lourenço network will again be stepped up in coming months. For the new administration in the US, it is becoming increasingly clear that the targeting of the dos Santos family in Lourenço's anti-graft campaign has merely shrouded the creation of a new network of state patronage and embezzlement of public funds. Moreover, increasingly frequent outbreaks of anti-government unrest and the security forces' often brutal suppression of peaceful demonstrations are tarnishing Angola's reputation. The country's government is fast losing the support of its population, as established in PANGEA-RISK's polling survey published in November 2020 (see ANGOLA SURVEY).

The implications of the US investigation into Angola's president and this network are set to have important implications for the country's relations with the US and international partners like the IMF, as well as other creditors and investors. 💽

# INSIGHT

The US investigation into President Lourenço, his family, and business network comes at a critical time for Angola, which has been stuck in a deep economic recession for five years. Angola's fiscal and external accounts are in deficit, raising pressure on the exchange rate and foreign exchange reserves and incentivising economic transactions in the parallel exchange rate market. The main concern is that Angola will be unable to service and repay its massive debt pile.

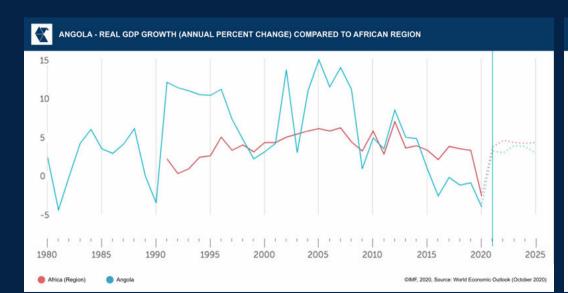


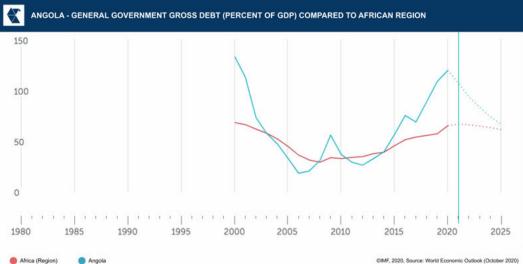
In January, Angola said it had secured three years of payment relief from Chinese creditors. Angola owes more than USD 20 billion to several Chinese entities, including USD 14.5 billion to the China

Development Bank and nearly USD 5 billion to the Export-Import Bank of China, as well as further loans borrowed from China's largest lender, the ICBC. There were rumours of such a deal last year, but negotiations stalled because China is reluctant to accept a haircut on its debt to Angola. However, China has now realised that it can no longer expect a timely repayment of its Angolan loans, that servicing deferrals are only a temporary solution, and that defaults will become inevitable in 2021.

Several sources close to Angola's finance ministry claim that the IMF had made its disbursements conditional on Chinese debt restructuring and that the terms of the Chinese deals have been disclosed to the Fund under confidentiality terms. Angola has come under greater pressure from the IMF to engage in debt restructuring deals with CDB, which holds about 75 percent of Angola's total USD 20 billion Chinese debt and which remains classified as a commercial creditor rather than bilateral lender. Angola also comes under great pressure this month as it is due to make a repayment of USD 1.1 billion to a commercial lender later in February. Local sources also state that Angola does not seek to extend its IMF programme this year because of the tight conditionalities. Instead, Angola is seeking to invest oil field decommissioning funds into government debt to provide a short-term solution for the state.

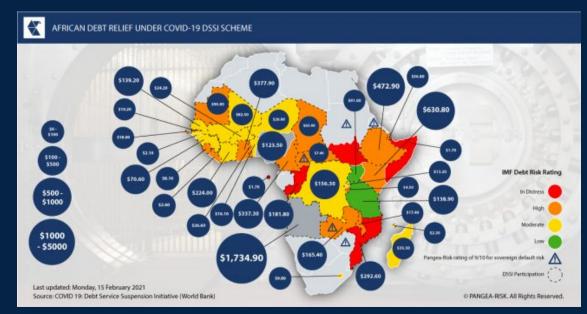
However, such actions are unlikely to reduce Angola's debt burden, while the cost of servicing the debt is set to increase further. The cost of servicing the debt accounted for 56.8 percent of total expenditure that was foreseen in the 2020 budget and could rise further. The country now relies heavily on IMF assistance and other multilateral financial support. While the IMF forecasts that Angola will return to moderate GDP growth this year, other sources such as Standard Bank believe that the country will see a sixth consecutive year of recession. Regardless of the economic outlook, at least in the medium Angola will have to continue to rely on multilateral support for its budget.





However, the IMF facility is conditional on improvements in transparency and economic reforms. As a result of the US investigation, IMF disbursements are at risk of being frozen, which has happened in other African countries such as Nigeria and Republic of Congo last year. Coronavirus relief is also more likely to be stalled as details of the US investigation are revealed and the reputation of Angola's government is tarnished by allegations of massive state corruption and fraud, as well as the media reports of heavy-handed crackdowns of anti-corruption protesters. Other multilateral institutions will be cautious to lend more funds to Angola. Participation in the World Bank's DSSI, which has created some USD 1.782 billion in savings from deferred bilateral loan interest so far, and Chinese debt restructuring have mitigated the risk of sovereign non-payment for Angola, even though public debt now stands at 120 percent of GDP. The IMF has cautioned that debt dynamics remain extremely sensitive to further oil-price volatility. Debt relief could be stalled or may not be renewed as the US investigation unfolds.

Meanwhile, investors in Angola's key sectors will face contract frustration and reputational risks as the US investigation probes local counterparties with political affiliations in the Lourenço network. In the construction and infrastructure sector, contracts signed with ANGOPROJECTOS, SOTAL, and ENGETECH will be at primary risk of being probed by US authorities, causing potential contract delays and punitive fines. These three companies, in which President Lourenco and Angolan Minister of Construction and Public Works Manuel Tavares de Almeida both hold direct and indirect stakes, could have obtained more than USD 1.2 billion in state contracts that violate tender regulations and Angola's Probity Law. Similarly, banking transactions by Banco SOL and Banco BAI, which are both controlled by the Lourenço network, will be probed by US authorities as the



investigation unfolds. These banks' counterparties are increasingly at reputational risk as the DOJ steps up its investigation and releases evidence of violations of US laws and regulations by these banks and other companies.

Any contracts signed with Lourenço's holding companies that obfuscate ownership, such as JALC – Consultores e Prestação de Serviços Limitada, Comeng – Engenharia e Construcao Civil Lda, AZURY, and related firm, Atenium – Servicos de Consultoria SA, will face even greater scrutiny and reputational risks. Investors who have partnered with such entities will become a focus of the US investigation. For Angola, the timing of the US investigation could not come at a worse time as investment inflows have dropped, much-hyped privatisations have stalled, and oil revenues have dropped. For the Biden administration, Angola is a less important commercial partner than under the previous US administration, indicating that the DOJ investigation will continue this year and begin to target Angolan assets in coming months.

