Oil Politics in Angola

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MASTER OF PHILOSOPHY

Sanjeev Kumar Rajak

Centre for West Asian And African Studies
School of International Studies
Jawaharlal Nehru University
New Delhi-110067
India
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CENTRE FOR WEST ASIAN AND AFRICAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI - 110 067, INDIA

Phone Off. : 26704372
Telegram : JAYENU
Fax : 91-11-26165886
91-11-26162292

Dated: 28 July 2004.

CERTIFICATE

Certified that dissertation entitled "**Oil Politics in Angola**" submitted by me in partial fulfillment of the requirements of the award of the degree of **MASTER OF PHILOSOPHY** has not been previously submitted for any other degree of this or any university and is my own work.

Signature of the student

We recommend that dissertation may be placed before the examiners for evaluation.

S. N. Malakar

Dr. A.K. Pasha
Chairperson

Dr. Subodh Narayan Malakar
Supervisor

Dr. A. K. Pasha
Chairperson
Centre for West Asian & African Studies
School of International Studies
Jawaharlal Nehru University
New Delhi-110067

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PREFACE

After the intervention of US in Iraq, the oil politics has emerged as a new paradigm of intellectual and academic discussion. The oil being an important factor for the survival of any nation has acquired the central point of debate. It is hoped that this research will contribute to the intellectual debate about the character of new conflicts, develop thinking about corporate responsibility and, in particular, address the tension between the long term interests of multinational oil companies in stability and a global rule of law and their short term interests in what is often destructive competition. Suggestions are made to oil companies on how to translate codes of conduct into practical measures aimed at minimizing the destabilizing effects of oil development,

provide a basis for the development of new approaches to conflict prevention and peacemaking in these countries, which could assist policy makers, corporate decision makers and activists.

A preliminary hypothesis about the link between conflicts and oil dependence has to do with the character of the state. The work devotes special attention to the roles and responsibilities of multinational oil companies and global powers in oil dependent countries and the interaction between them, on one hand, and government and civil society in the producer countries, on the other hand .The research work comes at a critical time, which presents both challenges and opportunities for work on the relationship between oil and conflict. Expected shortfalls in the supply of oil over the next 20 years are bound to bring increased attention to oil producing counties, their economic and political ills. At the same time, renewed geopolitical interest may well intensify the large number of smoldering conflicts in these countries unless new approaches are developed to deal with these conflicts in a co operative and ethical way. Many multinational companies are beginning to realize the need to broaden the scope of their responsibility in social, economic and political areas and look for ways to incorporate this understanding into their operational framework.

Angola being the second largest producer of oil after Nigeria has attracted the world. This attraction ha also galvanized the social groups of Angola to dominate the oil area which has led the social conflict as a very dangerous outcome.

Thus oil in Angola has accelerated the politics to appropriate the political structure for the dominance of of oil fields. Thus social conflict around the oil politics gas gathered the momentum in Angola.

The present work tries to analyze trends of oil politics in Angola. In my first chapter "Introduction" I have tried to find out the

geographical aspects along with the socio- cultural structure of the Angolan society.. This study is focused to understand the causal relation between the social conflict and the oil politics.
The second chapter entitled as "Oil politics in Angola" tries to explain the oil politics in a conceptual framework so as to understand the oil politics in Angolan context, albeit, international oil politics has been taken as the point of departure. This chapter has been formulated so as to co-relate the ethnicity-geographical locations and their say in polices of Angola so that we can understand the cause of the resentment among the Angolan society against the Angolan government.

The third chapter " Oil Exploration and its Prospects in Angola" tries to find out the avenues of future for the Angola. In this chapter I have first tried to diagnosis of oil and corruption with the governments failure to keep the revenues and balance updated, which has also been a cause for concerned to the IMF and WB for loan and advanced structural programme facility to Angola. This is followed by the prospects in the oil sector.

The current situation is full of promises for the Angola, as the leader of UNITA Jonas Savimbi has died and political conflict can be terminated by giving the social and other facilities to the

UNITA fellows as to assimilate them to bring in mainstream of the Angolan society. The new problems superimposed upon the older issues of class, democracy and socialism in the Western industrial countries, have arisen also in a new context- that the "global village" in which the interdependence is much greater than ever before in human society. It is in this context we need to understand how the Angola will cope with the emerging issues having the oil as the only way of resource for development.

Chapter-1

Introduction

Chapter-1

Introduction

Oil is the backbone for the survival of the economy of a country. Oil not only leads the households but the engine of the country. From Houston to Luanda, London to Lagos, Washington to Baghdad, or wherever else oil is found or sold, the nexus of oil, cash, and politics poses a fundamental challenge to democratic accountability. Oil has contributed to the intellectual debate about the character of new conflicts, develop thinking about corporate responsibility and, in particular, addresses the tension between the long term interests of multinational oil companies in stability and a global rule of law and their short term interests in what is often destructive competition. Oil companies need to know how to translate codes of conduct into practical measures aimed at minimizing the destabilizing effects of oil development, provide a basis for the development of new approaches to conflict prevention and peacemaking in these countries, which could assist policy makers, corporate decision makers and activists.

The US intervention in Iraq under the umbrella of pre-emptive measure is not stand anymore , as it is quite clear that the action (unilateral) was basically to capture the oil reserves of Iraq. This is the testimony to the fact that the oil is most important resource of the time.

As far as Angola is concerned, what can be simply said about the politics of the Angola is that it is nothing less to have a stronghold in the oil rich areas. This will become quite clear as we understand the ethnic and social composition of the Angolan society with their geographical locations and participation in various political parties of Angola, to understand this aspect of oil politics in Angola let us proceed with the set up of Angola .

Geographical and Historical Settings

Angola is physically a country of contrasts. It stretches from the Cabinda enclave in the north, to the Namib and Kalahari deserts in the South. Geo-politically, Angola is bordered by once South African – occupied Namibia in the South, moderate Zambia in the east, conservative and periodically hostile Zaire in the North-East and north, and radical and friendly Congo on the northern border of the Cabinda enclave. This geo-political position has exerted an almost overwhelming influence on Angola's post independence political and economic development and has been largely responsible for thrusting the country, at times, into the forefront of global rivalry between the USA and the former USSR.

Related to Angola's geographical position and the influences of neighbouring states is the ethnic make-up of the population. Several of the larger ethnic groups are not limited to Angola and extend into neighbouring Zaire, Zambia and Namibia. This has led to numerous problems, notably in northern Angola where the large and important kongo tribes stretches into Zaire, creating the opportunity for conflicts of loyalty , porous borders and possible interference in Angolan affairs via the Congo peoples. In the early stages of the rise of African nationalism within Angola, Kongo separatism and nationalism was a strong and divisive influence which detracted from the national liberation struggle.

The majority of the Angolan people live on the plateaux, where the best agricultural land is situated, although there are tendencies towards expansion of urban populations around Luanda, Huambo and Malanje. The largest ethnic group is the Ovimbundu of the central and south-western plateau. They make around one third of the population. The Mbundu (north central plateau area and around Luanda) and the Kongo (north-western Angola) are the next largest groups. Between them, the three groups account for nearly three quarters of the entire population. Other groups include the Lunda- Chowke, Herero, Ovambo and Bushmen. People of mixed race *mescitos,* make up the other group.

Luanda is the capital, largest city and major port. The largest ethnic group in the city is the Mbundu, though there are a disproportionate number *of mescitos* in comparison with the rest of the country.

The main economic areas are the Cabinda oilfields, in the enclave which is physically separated from the rest of the country by the Congo River, coffee –

growing around Uige, diamond –mining around Cafonfo in Lunda province, iron-ore mining at Cassinga.

Pre-colonial History

The earliest unified kingdom in the region was that of the Kongo, situated near the Atlantic in an area straddling what is now the Angolan- Zaire border. The kingdom grew up between the mid fourteenth and fifteenth centuries. By the arrival of the first Portuguese sailors at the mouth of the Congo river in the 1483, seven kings had governed the Kongo. In the late fourteenth century the Congo capital was at Mbanza kongo in present –day Angola. "The Ndongo people lived south/south east of the Kongoin an inland area between the Danze and Cuanza rivers. They were ruled by a king known as the *ngola a kiluanje,* from whom the Portuguese developed the name Angola for the whole region."[1]

By the sixteenth century the kongo kingdom had become large enough to be divided into six provinces, each under a governor responsible to the kongo ruler, who was known as the *mani.* The kingdom had no standing army. The kingdom's currency consisted of the shell found only in the royal fisheries, thus ensuring the full control over the payment of exchange by the king.

Dawn of Portuguese and Colonial Rule

First contact of Angola with the Portugal happened in 1483, when explorer Diogo Cao, landed at the mouth of the Congo and later Affonso ruler of Portugal used the diplomacy of missionaries and trade to enlarge the colonial empire. Angola became the important source of slaves, especially because of Brazil becoming a colony of Portugal.

After the death of Affanso in 1540, an assault on the Kongo capital was resisted by the Jaga Tribe and successfully captured the capital, later on it was regained by the Portuguese along with an area of Mbundu country that came be known as the present Angola.

The area of Portuguese control over Angola gradually increased in the seventeenth century. Following years witnessed the slave trade in full swim and the encounter of Portuguese with Dutch, in which Dutch got the stronghold for few years. This was due to the great pressure from the Britain,

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[1] Keith Somerville, *Angola –Politics, Economics, and Society* (London, 1986), p. 6.

in 1836 that the slave trade was forbade, however this trade continued in overt- covert form for long. In 1858 a law was passed, according to which all the slaves were supposed to be freeman in 1878.

Infamous 1884, African Nationalism and New State called Angola.

In 1884-85, Berlin Conference was held to satisfy the thirsty throat of the colonial master, Angola was not an exception, and this was the year when the area of Angola under Portugal was demarcated in white papers. For around thirty years after Berlin Conference, the Portuguese were engaged in a series of warfare whose objective was to subjugate the peoples of Angola. It has been correctly termed as the 'pacification campaigns', they involved using the military force to extend colonial rule and to stamp out all resistance among the indigenous peoples. It took the Portuguese nearly twenty-five years after the Berlin Conference to control the central and southern plateau areas inhabited by the Ovimbundu, similar was the case in north-east of Luanda , which later on became the base area for the MPLA and FNLA.

The overthrow of the Republican in 1926 and the subsequent rise of the New State under Dr. Salazar led changes to in the economic relation between Portugal and its colonies. The aim of this change was to "transplant"[2] peasants from Portugal to Angola. Under Salazar's rule (1932-68) much of the emphasis in colonial policy was on integrating colonies with Portugal. Salazar wanted to convert Angola self sufficient while at the same time turning it into a market for Portuguese goods. One of the main features of Salazar's rule was the mystique created about the colonies. Pillar of the mystique was the idea of 'pan-Lusitanian community' unified by the Portuguese culture. "The theoretical basis for the colonial policy became known as Lusotropicalism and was founded on the false premises of the historically unique absence of racism among the Portuguese people."[3]

However, in the Republican period (1910-1926), the freer political atmosphere both in Portugal and Angola had led to the establishment of the first African political movements. The *Partido Reformista de Angola* was formed in Luanda in 1910 by assimilated *mescitos* and Africans. But still official control

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[2] ibid. p. 19.

[3] C . J. Bender, *Angola Under the Portuguese: The Myth and the Reality* (Berkeley, 1978), p. 7.

was to stiff to go for reform and this was the stiffness which caused the youngster to go out of the reformist approach and advocate openly for anti-colonialism.

"In 1950, a group of Luanda Africans sent a document to the UN criticizing Portugal's administration in Angola and asked some sort of protectorate."[4] One of the precursors of the modern nationalist and revolutionary movements in Angola was the Movement of Young intellectuals of Angola founded in the early 1940s by educated Angolans, including a future MPLA leader, Viriato da Cruz. These developments in Luanda were paralleled by the establishment of associations in Lisbon involving educated Africans from Portugal's colonies. Among those connected with such groups in Lisbon were Agostinho Neto, Mario Andrade, Lucio Lara and Jose Eduardo dos Santos (all future leaders of MPLA).

In December 1956, a number of small political groupings, based mainly in Luanda and including mescitos as well as blacks came together in Luanda to form the Movimento Popular de Libertaco de Angola (MPLA- Popular Movement for the liberation of Angola). The MPLA claimed 'truly the first party of the masses'[5]. The main competition to the MPLA for nationalist support in the late 1950s came from a movement based among the Kongo people of northern Angola. The movement was founded in 1956, known as UPNA, the moving spirits behind UPNA was Manuel Nekaka, Eduardo Pinock and Holden Roberto. UPNA's strictly Kongo nationalism was a 'tribal anachronism.'[6] UPNA was strongly against the MPLA, because of the fact that former claimed later as the 'long arm of the Russian Communism' and membership of mescitos.

Internationally, the MPLA had a lean time in the late 1950s and up until the Luanda fighting. The movement was not represented at the Afro-Asian People's Solidarity Organisation (AAPSO)meeting at the end of the decade, bur was represented in the second All – African people's Conference in Tunis in 1960. It was here that the first contacts with communists were made.

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[4] L. W. Handerson, *Angola: Five Centuries of Conflict* (Ithaca, 1979) , p.163.
[5] opcite, Keith Somerville (London ,1986), p . 25.
[6] B. Davidson, *In the Eye of the Storm: Angola's People* (London, 1972), p.200 .

1961 onwards, the essence of military base was felt by MPLA, and thus the, successful attempt was made to establish bridgehead in Cabinda, which was followed by the military assistance by Soviet Union and Czechoslovakia. However MPLA was not recognised by the OAU, it was first recognised by OAU 1964. The period of 1966 to 1970 marked the highpoint in the MPLA's guerrilla struggle and military effectiveness. The MPLA's resurgence in the mid-1960s and its clearly socialist outlook explain the Soviet willingness, mirrored by Cuba and other East- European states to extend material support to the movement.

At the time of the movement's growing ascendancy among Angolan nationalists in 1966 another challenge arose, one which was going to have far reaching impact over the Angolan politics. It took the form of third movement, the National Union for the Total Independence of Angola (UNITA), by a disgruntled member of the FNLA/GRAE, Jonas Savimbi, who was the main representative of the Ovimbunu people within the FNLA, Later on he tried to have the relation with the Soviets but rebuffed, while China supported with the materialistic support.

During the late 1960s, the MPLA, s area of operation was Moxico, Cabinda and Dembos forest. Internationally, it was busy in cementing link with other African liberation movements and with socialist states and Scandinavian states. By 1972, it was following a clear Marxist line, but on public platform on ideological issue look down, because it did not wanted the Western hostility, despite of that it had to face the torch of the Westerns, as they were supporting the Portugal with the NATO's military structure.

1975's Portugal revolution brought a change in the policy of Portugal and gave the opportunity for the liberation movement in the colonies to press their their demand for independence and an end to the wars with Portugal. The reality came with the announcement of Spinola that it had conceded the right of independence to the territories of Africa. However , the announcement could not be implemented as per the schedule, because the trio- MPLA, FNLA and UNITA did not came to one platform on the issue of making the government ,rather they were ready for the competition , battlefield if necessary to assume the control of the government, despite of the efforts made by Portugal., Zambia, Zaire and Tanzania.[7]

The difference between the three movements, which led to fighting between them during the war against the Portugal, resulted in extensive and manoeuvring in late 1974 and 1975. Within a month of the Lisbon coup, FNLA received a pile of 450 tonnes of weapons from China, Zaire, Romania and "American funding"[8] to be used, especially in the Northern Angola, similarly the other movements too. However, Republic of Angola, got independence in the year of 1975 from the

handcuff of the Portuguese regime with destroyed economy, and conflicting society, to keep burning for long, the legacies bequeathed by the colonial era are still evident. The 20 year civil war erupting shortly after independence has also had a profound impact on Angola economically and socially. The lack of infrastructure due to minimal provision of such under colonial rule, further deteriorated by the course of the civil war, has only exacerbated the constraints to dealing with Angola's social and economic challenges.

Sixty-seven percent of the estimated 12 million people living in Angola currently live below the poverty line (presently measured by the UNDP as $40 per adult per month).

"The annual population growth rate is estimated at, 2.18% (2002 est.) and is lower than in many other African nations."[9] Although the rte is expected to increase as a result of increased stability, overpopulation is not the root of the poverty problem in Angola. The country is in possession of vast resources that could, if managed correctly, benefit the Angolan population as a whole. The large portion of the Angolan people living in poverty can be contributed mainly to unequal distribution of income and access to resources bequeathed by legacies of the colonial time, civil war and half hearted implementation of development programs.

Poverty has repeatedly been found to correlate with access to primary education. In Angola the correlation between illiteracy rate (often used as an

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[7] opcite, Keith Somerville (London, 1986), p. 41.

[8] J. Stockwell, *In Search of Enemies* (London, 1972), p.67

[9] *UNDP Development Report 1997*, New York, 2003, p.43.

indicator of access to primary education) and degree of deprivation or poverty is 0.99 according to UNDP estimates (1997). Primary education is in other words an absolute must in the country's future development policies. Today (1998est.) the literacy rate of the population age 15 and over is only 42%. The ability to read and write is also unequally distributed between men (56%) and women (28%), and there are high drop out rates at all levels. These statistics are due not only to lack of resources at the schools, but also to poverty in itself as many families can not afford to have their children in school, and are caught in a "poverty trap".

The degree of poverty, including access to resources, is unevenly distributed across regions and groups. There is high income discrepancy between urban and rural areas, indicating that the investment of resources has continued to be heavily concentrated in urban areas. The latter has contributed to increased rates of rural-urban migration, only to move the problem of poverty in rural areas to a problem of overpopulation in urban areas (mostly Luanda). Income is however extremely unevenly distributed also in the main cities as the richest 10 percent earns 30 percent of the income generated while the poorest 10 percent earns only 2.2 percent.

We will see later that this unsolved political settlement remained a cause of the ethnic conflict and thus, a challenge for the national unity and development.

The present Angola is having an area of 1245790 sq. km., geographically located in the South-West Africa with the capital Luanda. "Angola is comprised of various ethnic groups like Ovimbundu (37%) , Mbundu (23%), Kongo (14%), Lunda – chowke (9%), Nganoguela (7%), *Mescitos* (2-3%), others (6-7%)"[10] strongly divided in their respective ethnic lines possessing their loyalty to traditional affiliation for different political parties and a challenge to national unity and integration.

The story of success and failure of Angola, whether in pre – independence or post independence, its story of more or less of betray, breach of faith and trust among the ethnic groups. The present situation of Angola is a continuity of the

[10] Tony Hodges, "Angola to 2000 : Prospects for Recovery", *The Economist Intelligence Unit* (New York, 2001), p.28.

past which was based on the hostility, animosity and looking each other with suspicions.

Oil exploration in Africa is a newly emerged effort, which has drawn the attention of the developed nation in Sub- Saharan Africa. The political turmoil in the Middle East seems to alienating the West, whatever may be the reasons, but still they can't refute the linkages with them because of the fact that the major driving force for the industry and economies are located in these countries. The West will continue to do so till no other avenues and alternative for the 'America's second Kuwait' is found somewhere else. In this sense the Sub- Saharan Africa can provide the alternative for the West, Because of oil presence in these countries, a secret to West for long times. Now when the major offshore and onshore are unveiled, their political imperatives to begin refresh politics there. Before we further proceed for the discussions, let us look at the major countries with their capacity in oil sectors.

From the year of 1975, Angola has witnessed, the series of civil war, presence of UN peacekeeping force, play ground of the US- USSR rivalry, but the most devastating factor in the underdevelopment of Angola has been the UNITA – MPLA conflict, till 2002.

However, the demand of the present situation is not hostile towards the development rather of socio- economic development. The economic boom what Angola is going to witness is due to the oil as a factor.

Angola is the second largest oil producer in Africa, and its size together with its oil and gas wealth provides it with both political and economic clout. The geographical location of the country provides it with substantial advantages. Situated in the Atlantic Basin, it is closer than the main Middle Eastern oil producers to two of the world's three largest markets for crude and petroleum products – Western Europe and USA[11]. The advantage of location and the quality of Angolan crude usually yield price premia.

Angola has played a critical role in the international oil market on more than one occasion. In the early 1980s, for instance, it found itself subjected to two powerful forces pulling in opposite directions: the market forces operating in the Atlantic Basin where the supply of sweet, light crude was increasing

[11] The third market consists of the industrialised and industrialising far Eastern countries.

rapidly in the North Sea, and those of the OPEC price administration system. It was therefore on the boundary which separated two competing pricing systems, in the difficult interface between the rigid oil order prevailing in the Gulf and the dynamic emerging markets of North West Europe and the Eastern seaboard of North America.

For all these reasons, the study of the Angola is relevant to the understanding of important aspects of the world oil market.

There are, however two other aspects sets of reasons which make the political economy of the Angolan oil a subject of interest. As we shall see later in the study, one of the features that place Angola apart from most oil producers is the presence of the foreign oil companies throughout the country's oil history. The dependence on foreign companies is to be found in all sectors of the oil industry but is most apparent, and indeed significant, in the upstream. This raises a host of interesting questions on the pattern of fiscal incentives offered by the Angolan government for exploration and production, the crude oil pricing system and the attitude of foreign companies to political risk.

Secondly, oil is the central to the development of Angola and constitutes the basic pillar of the economy. In 2000 Angola obtained 88% of its foreign earnings from exports by the oil sector, which in the mid 1990s accounted for about 80% of government revenue[12]. Oil operations in fact provide the only immediate hope for the development of the rest of the economy. And while the oil industry invariably received much attention from the successive Angolan governments, and foreign oil companies received the necessary incentives to continue their presence, the story of oil in Angola is one of the missed opportunities, administrative disorganisation, and resource management. The performance of the economy has been disappointing despite the success achieved from time to time on the oil disinvestment or production fronts. The country has entered 2000s

With a weak economy burdened with foreign debt and beset by structural, particularly balance of payments problems.

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[12] *International Trade Statistics Year Book*, 2001, 2002, UN.

Chapter-II

Oil Politics in Angola

Chapter-II

Oil Politics in Angola

Oil is the most important commodity and a major resource of the energy of the present day. It is the pre- requisite for the industrial sector; Agro based industrial development and traditional agriculture. Many of the scholars opine that 1973 as the start of the oil politics, but in my opinion Industrial Revolution led the oil politics, because from than onwards the West felt the hunger and thirst of oil. They came to know that their own oil reserves would not be able to meet their own oil demand.

The race of grabbing oil will result in the debate and turmoil on a global level. This will not affect those countries who are neither oil seeker nor have large oil reserves too. Most of the third world countries are included in this list. Some of the consequences of the oil politics are discussed below. The wealth of the middle- East and the Oil rich African countries are lying on the bank of the West, this situation enables the West to hijack, dictate and interfere in the policy making of these countries and further aggravate the economic and social condition of these countries. The developed countries because of their pervasive influence mold the policies of these countries according to their own vested interests. The West , especially USA and UK, is considered to be the promoters of the political democracy, but in reality on one hand they force the different countries to induct the political governments , on the other hand, they have been in overt and covert forms supporting those monarchies and kingship to suit their vested interests (monarchy in Saudi Arabia and military and other form of dictatorship in different countries , as we have observed in the case of Angola , the support to UNITA was/is less because of the communism factor than the oil factor). This shows the dual standards practiced by the developed countries. In all case, one must be clear about one thing; the prime motive of the West is to have easy access to the oil of oil reserves of oil rich countries. Oil lust of the West, often results in political and physical war. Attempts to forceful regime change under fake doctrine of pre-emptive measures have exposed the real intensions of these developed countries. The only aim of the pre-emptive measures of the West is to induct a political change under observation, which can act as the puppet on the fingers of the Boss. US attack on Afghanistan and recent attack on Iraq shows that US and UK want to have strategic geographical position from where they can control and manipulate the oil reserves.

All this is happening because of the critical position of the oil in the world's energy balance and the uneven distribution of reserves give oil a lot of economic, strategic and political importance. The oil price and the control of supplies are thus potentially conflicting potential issues. In addition, oil becomes linked directly or indirectly to other issues. Since most countries are net importers of oil and rely heavily on this oil for total energy supply, the price of oil and its control can have direct implications for their freedom of action on economic and foreign policy. Oil is thus; linked to such matters as the rate of economic growth, the level of economic development, the level of employment, and the rate of inflation, trade policy, and general foreign policy orientation. "It is also linked to the political cohesion of the world's political blocs and to the development of the LDCs"[13]
The political importance of means that change in the international oil market can have consequence for the international distribution of power. The best example is provided by Arab oil-exporting countries, which in the 1970s have dramatically improved their ability to improve foreign policy goals.

"The international oil industry has an oligopolistic structure because it is dominated by limited number of private international and state-owned oil companies. Their long-term interest and policies often determine their short term behavior."[14] In addition, the oil companies and the governments normally

[13] Willrich Mason, with Joel Darmstdter, et.al. *Energy and World Politics* (New York,1975),p.180.
[14] Sampson Anthony, *The seven Sisters* (London,1975), p.3.

have close relation of consultation and cooperation. The major agents on the international oil market are thus limited number of companies and governments. "Consequently, the patterns of oil production, distribution, and consumption are less the result of market forces than is the case with many other commodities. Instead, political intervention and long – term consideration have a greater impact, and the nation –state is the more important agent."[15]

The dramatic character of oil crisis of 1973-1974 overshadowed some of the long term economic problem with the demand and supply of the energy. "The crisis produced in a few months economic and political change in the oil market. These changes were a kind of "oil revolution"[16], a transition from the first oil regime to the second oil regime."[17]

Thus, from above observations what can be said about the oil politics is that by the theory of economics when the supply of commodity is less and the demand is high ,than the cost of the commodity is bound to increase, taking this as the assumption in case of oil one can easily state the very cause of oil politics. "Oil Politics" is the process in which one country tries to enhance its own oil reserves by adopting various means, which includes friendly gesture, cooperation, agreements, and the diplomacy of "most favored nation" and often the coercive methods of war.

Oil Politics- In Angolan Context.

Oil exploration in Africa is a newly emerged effort, which has drawn the attention of the developed nation in Sub- Saharan Africa. The political turmoil in the Middle East seems to alienating the West, whatever may be the reasons, but still they can't refute the linkages with them because of the fact that the major driving force for the industry and economies are located in these countries. The West will continue to do so till no other avenues and alternative for the 'America's second Kuwait' is found somewhere else. In this sense the

[15] Tugendhat and Hamilton, *Oil* (London,1997), p.250.
[16]ibid, page-179.

Sub- Saharan Africa can provide the alternative for the West, Because of oil presence in these countries, a secret to West for long times. Now when the major offshore and onshore are unveiled, its political imperative to begin refresh politics there. Before we further proceed for the discussions, let us look at the major countries with their capacity in oil sectors.

(Production of crude petroleum, estimates '000 metric tones, including natural gas liquids)

	2000	**2001**
World Total	3,584,000	3595,000
Africa	370,700	370,900

Leading Sub-Saharan African producers	**2000**	**2001**
Angola	36,400	36,000
Cameroon	4,500	4,100
Congo, Rep.	14,200	14,000
Gabon	16,400	15,000
Nigeria	103,300	105,200

(Source: BP , Statistical Review of World Energy, 2002)

[17] Noreng Oystein, *Oil Politics in 1980s-Patterns of International Cooperation* (London,1980),p.27.

BASIC STATISTICS OF ANGOLA	
RESERVES	
Crude oil:	0.7 thousand million tones (5.4 billion barrels)
PRODUCTION	
Crude oil:	742 000 bbbl/day
CONSUMPTION	
All products:	1.3 million tones
REFINING	
Total capacity:	39,000 bpd
No. refineries:	1

(Source: BP , Statistical Review of World Energy, 2002)

Beside this small profile, other countries includes, Cote d'Ivoire, Benin, Senegal, Sudan, Chad, Guinea, Mozambique, Swaziland, Eritrea, South Africa, Tanzania, Madagascar and Zimbabwe,

The four African members of the OPEC (Nigeria, Gabon {withdraw in 1996}, Libya and Algeria) formed the African Petroleum Producer's Association (APPA) in 1987. Angola, Benin Cameroon and others joined in the subsequent years. This organisation co-operates with OPEC in maintain the price of oil.

Africa, produces 15% of the US oil imports and may double in 15 -20 years, are alluring for US. African oil offshore are generally not affected by the conflict. Angola for example, pumped oil throughout its civil war period till 2002.

(London,1980),p.27.

On the other hand, the 19 year old civil war in Sudan is more of an oil war than the Southern struggle for autonomy. Nicholas Shaxson, a specialist writer in politics and economics of oil producing African (Sub-Saharan) argues that most of the African oil light and sweet, ideal for US refineries which make light products in contrast to the Middle East where US strategies fear oil embargo.

Bill Clinton's visit to Nigeria signaled the formal engagement of the US with new oil - producing province, the gulf of Guinea, reducing the role of Persian Gulf in American security calculations. The production of Sub-Saharan African oil over the last decades has dramatically altered the balance of power in the global oil market. "Powell's visit to Angola and President Bush's meeting with the leaders of many of the Sub-Saharan African Oil producing country testimonies the US vital interest in Sub-Saharan Africa."[18]

World Banks' Project in Cameroon and Chad by kicking off gas pipeline aimed at developing West African oil as an alternative to supplies from the Middle East, is another example of the oil politics in the Sub- Saharan Africa. The politics in Angola is nothing less than the politics to control the rich oil enclaves.

Modern independent Angola has a short but turbulent and chaotic economic history. To the dramatic consequences of almost permanent civil wars and international military intervention , one should add the effect of disastrous economic policy. A main reason for this situation is Angola's exceedingly rich endowment of natural resources. In fact, Angola is moving rapidly to a position as the main African oil exporter.

Angola's modern history is filled with violence and shattered dreams. After independence most observers had high expectations about Angola' future. The country is rich in natural resources and was expected to generate a positive development in quite short time . For various reasons, the development since independence has taken another path of disarray. War has been the ruler rather than the exception and three peace accords have failed to change that. "The

[18] www.bbc.news.com/africa/ukedition.,Tuesday, 20 May, 2003.

economy survives due the incomes from a steadily expanding oil sector. However, the living standards has deteriorated significantly for common people during the mid and late 1990s"[19] . many observers have singled out the civil war surge after the 1992 election as a crucial event, both because of its unprecedented degree of destructiveness and because it started an accelerated deterioration of the public sector. Consequently , economic and political power is extremely centralized in the hands of narrow group and there is a serious lack of transparency in public affairs. The lack of effective protection for human rights and democratic institutions has a serious and negative impact for the development of the civil society.

While dealing with the oil politics in Angola one needs to understand the political structure and social composition of the Angolan society. The very existence of the different political factional groups itself is the testimony to the ethnic and oil politics in the different provinces of the Angola. The ethnic composition in the provinces of Angola is a key factor in understanding the oil politics in Angola. Thus, when we are analyzing the oil politics in Angola ,we should attempt to analyse the following points:-

1. What are the areas, where oilfields are found?
2. What is the social-ethnic composition of that area?
3. Which political party or organization has the hold in that area?
4. What is the nature and composition of cadre of the concerned political party/organization?
5. Is there any external party involved? If yes, than what is the interest of the same?

In my following section, in order to analyze and explain the Angolan oil politics , I will highlight and examine the above mentioned questions.

Angola is a key player in Africa's oil industry as both a major producer and exporter. It is the second largest producer of oil in Sub-Saharan Africa after Nigeria and offshore Angola is recognised as a world-class area for oil exploration and production. Angola produces crude oils that have an

[19] Renato Aguilor and Asa Stenman , "Angola- A History of Oil, War, and Economic Policy" in Mats Lundahl, ed. , *From Crisis to Growth in Africa* (London, 2003), p.25.

API gravity ranging from 32 degrees to 39.5 degrees and a sulphur content of 1.12% to 0.14%.

Angola's economy is highly dependent on the oil sector, which accounts for 40% of GDP and 80% of government revenues. There has been massive investment from international oil companies. Production increased to over 740,000 bpd in 2001 and estimates are that production will reach 1 billion bpd by 2003. Its oil reserves are estimated at 5.4 billion barrels and its gas reserves at 700 billion cu metres. Excellent discoveries in the late 1990's and early 2000's in deepwater make Angola's upstream potential very positive. There is promising geology, a good record of exploration success, low operating costs and relatively attractive fiscal terms.

The main oil producing areas in Angola are Block Zero (70% of Angolan crude) situated off the Cabinda enclave, Block 3 off the northern coast, and Blocks 1 and 2 off Soyo. There have been significant discoveries of major oilfields in Blocks 14 (Kuito), 17 (Girassol, Rosa, Dalia, Lirio) and 15 (Kissanje, Marimba, Hungo). These off shore discoveries have stimulated interest in Angola's deepwater concessions

Angola has estimated reserves of 1.6 Tcf of natural gas. Approximately 85% of the gas is flared although some is re-injected to enhance recovery. The government is implementing strategies to reduce flaring and to increase the commercial use of natural gas including its conversion to LPG for domestic consumption. There are plans for a liquefied natural gas (LNG) project.

In contrast to the country's promising upstream prospects that have guaranteed interest and substantial investment from foreign oil companies, its downstream industry has been ravaged by the civil war and has never had a sufficient period of stability to recover.

The Fina Petroleos de Angola refinery at Luanda is old and in need of funds to finance a programme to upgrade and de-bottleneck the plant. It has a capacity of 39,000 bpd, which is mostly domestically consumed although a small amount of products are exported. Sonangol has plans to build a new refinery, which will be based in Lobito.

The Angolan oil industry, both upstream and downstream, is dominated by the state oil company Sonangol established in 1976. Since 1978, it has been sole concessionaire in Angola. Foreign companies participate in Angola through joint ventures (JVs) and Production Sharing Agreements (PSAs).

As of now it is clear that the oilfields are not limited to a given particular area, rather is distributed in the different province of the Angola, thus it becomes administratively difficult to control and regulate the same. The major hindrance in administrating the oil rich area is ethnic-UNITA factor. If we see the Angola in its longitudinal form, then Angola could be well divided into three parts, i.e. northern ,central and south-central part based on their respective ethnic composition. The northern part is dominated by the Congo affiliated ethnic group, namely Kongo, among which FNLA is a dominating political party.

The central part is dominated by the Mbundu dominated ethnic groups, who constitutes about 25% of the population and *mesticos* as well as assimilods, this central part is the main part of the Angola and this part is dominated by the MPLA political party, who is the ruling party since the time of independence.

Than, comes the central-southern part of Angola, where Ovimbundu, ethnic group is dominating group ,constituting around 35% of the Angolan population, UNITA, has the stronghold in this area.

A small exclave, Cabinda, is located some 30 km (about 20 mi) to the north and is bounded on the north by the Republic of the Congo, on the east and south by the DRC, and on the west by the Atlantic Ocean.

Movimento Popular de Libertação de Angola (MPLA) was founded in 1956 with its initial core of supporters from Africans and mestiços in the capital, but the party is now heavily supported by the Mbundu, an ethnic group which makes up an estimated 25 percent of the population. (Mainly located in the

North West region of Luanda, Bengo, Kwanza Norte and Malanje). The MPLA was early on influenced by Marxism and received diplomatic and military support from communist countries including the USSR.

Frente Nacional de Libertação (FNLA) had mainly Bakongo supporters and received assistance from the US and China as counter weight to USSR supported MPLA. FNLA was however fractioned from the very beginning, and one of the major splits of the organization resulted in the foundation of União Nacional para Independência Total de Angola (UNITA) in 1966.

UNITA received minimal support from abroad, but built a political base of support among the Ovimbundu (the largest ethnic group, dominating in the southern central zone from Benguela to western Moxico), with whom the MPLA and FNLA had little contact. Presence of anti-colonial mestiços and whites was significant in the MPLA, while negligible in UNITA and the FNLA. UNITA and FNLA emerged as racial, populist nationalist groups differing from the Marxist based MPLA ideologically. Frente de Libertação do Enclave de Cambinda (FLEC) was a small secessionist movement that has had little impact due largely to factional strife.

When Angola gained independence in 1975, the MPLA established a one-party state. There was significant fighting between the independence movements, and although the FNLA and FLEC soon ceased to pose a significant military threat to the Luanda government, the threat from UNITA continued. In the late 1980s it became clear that neither side could win a military victory, and the first peace accords (the Bicesse Accords) were reached in May 1991. In addition the MPLA issued constitutional reforms implementing measures of democratization.

With the signing of the peace accords, democratization efforts, and scheduling for Angola's first elections, the prospects for peace and stability seemed promising. The democratization efforts were however partial, and freedom of expression was still limited. When elections were held in 1992, it was evident that the reconciliation process between the government and UNITA had not come as far as expected. The MPLA won a fair election supervised by international election monitors, and Eduardo dos Santos was elected as the first President of the Republic of Angola. UNITA did however not accept the election results and accused the MPLA of cheating. Consequently the worst period of the almost 20 year old civil war broke out. The death tolls in this period alone was higher than that of the whole war so far, vast numbers of people were displaced, and the nation was in complete disarray.

Intense mediation efforts between the parties led to the signing of the Lusaka Peace Protocols in 1994, and in April 1997, new efforts to stabilize the political situation accumulated in the formation of the Government of Unity and National Reconciliation. The new government integrates members of UNITA and other parties in vice president and minesterial posts, and the UNITA deputies elected in the 1992 elections have taken their seats in the National Assembly. Dr. Savimbi, the leader of UNITA has however not assumed his position as he claims to fear for his safety.

Several years of conflict has naturally scared the population on both sides. Although the agreements are signed, the psychological attitudes are difficult to alter. Occasional eruptions of violence still occur, and measures of trust building and unification are badly needed. Dr. Savimbi has according to numerous sources continuously presented an aggressive authoritarian image, and is seemingly uninterested in transition to democratic party politics.

The majority of UNITA's supporters, the Ovimbundu, are traditionally socially and economically disadvantaged; therefore, the importance of addressing the issues raised by this people is extremely important in order to prevent a largely ideological and personalistic battle from becoming a matter of ethnic conflict. Now that millions of Angolans, who were displaced or exiled during the course of the war, are returning, posing the challenges of resettlement and reasserting the question of access to resources; failure to address these issues could have serious consequences.

As can be seen from the analysis above, social, political and ethnic issues are heavily intertwined in the Angolan society. All three aspects do therefore have to be taken into account when approaching the challenges posed in conjunction with recovery of the country. Foreign investors, NGO's and others will have to be sensitive to this situation in order to approach their mission in a beneficial manner. Otherwise their involvement, although motivated by good intentions, can have undesirable consequences for the Angolan society, and in turn, for the project of the third parties

Oil has also proved a mixed of blessing and curse for the province in terms of the civil war. Soyo became a prime target for UNITA because of its crude oil storage depots and onshore oil production sites. The then Belgian company Petrofina suspended onshore operations after UNITA attacked Soyo in 1993. Production did not resume until February 1996.

In fact since the time of independence a policy of reconciliation of interests and integrity of various ethnic groups was not allowed to take place. The political parties were and are backed by the external sources, which have created an atmosphere of conflict. The root cause of the civil-war or as scholars have termed it the ethnic conflict is basically and mainly is oil, because of two reasons- firstly external agents want to have a hidden control over the rich oil sources and the other reason is that the only resource for the monetary source for the political parties is by means of oil, as oil is the only source generating resource for Angola. The keen interest of US to be there in Angola is despite of the fact that the giant of communism expansion has evaporated, oil interest still remains unearthed. If UNITA or the FNLA is getting any external hand to fight against the MPLA i.e. the government the reason is simply the oil, not only this but even if the other factions wants to a have a say in the political platform in Angola one needs to have the proper source, without which they will be simply handicapped, here again the importance of oil surfaces, because this is the only source by which the insurgents can get the sources.

The oil politics in Angola does not have only the domestic political root, but it has the international market connotation too, because, firstly the local people are not getting any benefit in terms of the wealth or infrastructure or social development, secondly, international oil corporations are engaged in oil sucking at the cost of local development, which is further sustained by the non-transparent oil policy and account sheet of the SONANGOL which can be inferred from the following observations.

Major Stakeholders in the oil sector of Angola

Angola is rich in natural resources, including the oil asset, but the independent Angola witnessed the lack of skilled manpower as well as the technical knowledge to explore the same, with a ravaged economy, now the country cant be run with merely the Marxist philosophy, but it needs a more strong economy to face the double jeopardy-one created by the colonial experience and the other to feed the hungry and thirsty people who sacrificed their blood to make the motherland free of handcuffs, in such a condition , to develop a economy was needed whose only hope was depending upon the oil resources, thus it was a compulsion for the Angolan government to invite the foreigner to develop the oil sector , while the alien took the full advantage to be invited to attend the rebirth ceremony of Angola. Albeit, that time no one expected the far reaching catastrophic consequence.

Key foreign companies active in the upstream area have invested more than $US 8 billion in Angola. They include Energy Africa, Agip, Chevron, Elf, and Texaco, which manage the operation of Angola's producing oilfields. In addition, over thirty oil companies have interests in the various oil fields. Three companies Sonangol, Fina and Sonangalp provide product distribution and marketing in Angola. The small market and the poor infrastructure are hindering foreign investment in the downstream. The Belgian oil company, Petrofina, plays an active role both in the upstream area as a major producer, as well as in the downstream area in partnership with Sonangol.

The Ministry of Petroleum regulates the oil industry in Angola. The current Minister of Petroleum is HE José Maria Botelho Vasconcelhos.

Despite the havoc wrought by the civil wars, the upstream economy remains relatively unaffected. Angola's economy therefore relies heavily on its oil exports. Angola's offshore is considered to be a world class exploration area. Angola has reserves estimated at 5.4 billion barrels and a production rate of 750,000 bpd.

Since independence, the economy has been dominated by the oil export industry and drained by the need to carry on the war against the UNITA insurgents. Because of the collapse of the cash-crop economy, particularly the cultivation of coffee by large-scale plantations, in 1988 the economy depended totally on the oil sector to generate funds. As a result of increased oil production, GDP had risen steadily from Kz109.4 billion in 1982 to Kz144.9 billion in 1985.

Unfortunately, however, as the war against UNITA continued, most revenue from oil sales was quickly spent on the nation's defense forces. The relationship between oil profits and defense requirements became most acute in 1986 when the price of oil dropped, reducing government revenues and resulting in a jump in the percentage of government spending on defense.

At the same time, the war has also wreaked havoc in the already suffering agricultural sector, forcing the government to use precious foreign exchange to import food. Once a food exporter, Angola by the late 1980s was importing half of its grain requirements to compensate for reduced production in the war-torn rural areas.

Oil Exploration off the Coast of Cabinda.

Following independence, the new government enacted sweeping changes in the oil industry and claimed sole rights over all of the petroleum deposits in the country. Under the Petroleum Law No. 13/78, enacted on August 26, 1978, the government established Sonangol as the exclusive concessionaire of the state's hydrocarbon resources. The company was divided into several directorates, including one for the development of hydrocarbons and another for the distribution of byproducts on the domestic market. The hydrocarbons directorate was responsible for reaching agreements with private companies for the development of local resources. In 1978 it divided Angola's offshore area (except for Cabinda) into thirteen blocks of approximately 4,000 square kilometers each for development by private companies. By 1981 exploratory drilling had been conducted on Blocks 1 through 4, and production began in Blocks 2 and 3 in 1985.

Sonangol was empowered to enter into two types of agreements with foreign companies: joint ventures, in which Sonangol and its private partners shared in investments and received petroleum produced in the same proportion (51 percent Sonangol, 49 percent foreign); and production-sharing agreements, in which the foreign company served as a contractor to Sonangol, made the necessary investments, and was compensated by receiving a share of the oil produced. Sonangol also could stipulate a price cap in the production-sharing agreements that would allow windfall profits to accrue to Sonangol and not to the foreign companies. In practice, all of the new areas opened up for exploration and production since independence have been subject to production-sharing agreements, while the areas previously under production--primarily in Cabinda--were joint-venture operations between Sonangol and foreign companies. In addition, Sonangol also participated in joint-venture companies that provided services and supplies to the oil exploration and production companies.

Except for Cabinda, production in the offshore fields started after independence. In offshore Block 1, the first seismic work began in May 1982, and the first drilling commenced in December of that year. Activity in Block 2 began in 1980, and by 1985 two fields were producing (Cuntala and Essungo) a total of 11,700 barrels per day In addition, oil was discovered by the end of 1985 in the West Sulele formation in Block 2. Sonangol had started construction in Block 2 of the Kwanda operational base to provide support for operators in Blocks 1, 2, and 3. Block 3 also started exploration activity in 1980, and by 1986 at least six wells there were considered commercial. A major development project was being initiated in Block 3 for the Palanca and Pacaca fields and for a sea-loading terminal. The other blocks in exploration were 4, 5, 6, 7, and 9; Blocks 8, 10, 11, and 12 had not been opened by the government as of the end of 1985 .Oil was also produced in onshore fields in the Cuanza and Congo river basins. There were forty-six wells in the Cuanza River Basin, near Luanda, where production began in 1959. In 1986 Sonangol estimated that the field had a life of another five to six years at then-current levels of production. Being an old field, it had very low production costs. The

oil fields in the Congo River Basin, however, were far more productive, yielding nearly eight times the amount raised in the Cuanza River Basin. From 1981 to 1985, between 30,700 bpd and 39,900 bpd were produced in the Congo River Basin, but an average of only about 4,200 bpd was produced in the Cuanza River Basin.
In addition to its production agreements, Sonangol has actively invested in the development of production capabilities and in exploration and distribution projects. In 1979 the company compiled the available data on the sedimentary basins and carried out a seismic survey program on the continental platform, upon which the subsequent division of the continental shelf platform was based. Furthermore, the company has made major investments in expanding its ability to distribute petroleum at home and abroad since it assumed direct responsibility in 1977 for marketing Angolan oil (Cabgoc marketed Cabinda oil, which accounted for almost half of Angola's oil production). Some of Sonangol's other major investments included gas injection facilities in Cabinda; development of the Takula, Lumueno, Quinfuquena, Quinguila, Essungo, and Cuntala fields and the offshore Cabinda fields; construction of the Kwanda oil field service base; and construction of the Quinfuquena oil terminal.

New arrangements have also been made for the future development of several production areas. Financing totaling US$350 million has been secured for the development of the Takula fields in Cabinda, owned jointly by Sonangol and Cabgoc, from an international consortium of banks. Cabgoc has also signed three new joint-venture contracts on oil research and exploration in Cabinda. Under the terms of these contracts, Cabgoc was to be responsible for the total cost of the research operations and was to be reimbursed by Sonangol only if commercially viable oil was discovered.

As a result of the many joint-venture and production-sharing agreements reached by the government. US$798 million had been invested in exploration and US$1.2 billion in development. The largest investors were Cabgoc and Sonangol in Cabinda and the French firm Elf Aquitaine and its partners in Block 3. This increased investment has led to higher production. For example, production in Cabinda more than doubled.

Cabinda Oil Politics

Cabinda is the largest producer of the oil in Angola and the whole Angola's burden is maintained by the this province , despite of this , Cabinda has been for long suffering from the lack of any infrastructural and social development, this has finally compelled the Cabinda to take the gun-culture and started asking for its autonomy, as a result during his February, 2004, trip to meet U.S. President Bush in Washington, Angolan President Jose Eduardo dos Santos caused great surprise by announcing that he supported the idea of holding a referendum on the self-determination of Cabinda.

However, the Angolan head of state said that he would not only be seeking the opinion of the people of Cabinda province, but of the whole nation of Angola. Given that Cabinda has a population of 170,000 while Angola as a whole has an estimated 12 million; there is little doubt about the outcome of such a referendum. Would the rest of the Angolans allow the tiny oil-rich enclave of Cabinda to go free? It seems unlikely.

Cabinda's independence movement, the Front for the Liberation of the Enclave of Cabinda (FLEC), had little time for Jose Eduardo dos Santos' comments. They reacted by saying they would only accept an East Timor type of referendum supervised by the United Nations.

The Cabinda issue has been a divisive one for Angolans since colonial times. The first independence movement, the Movement for the Liberation of the Enclave of Cabinda (MLEC) was founded in 1960 after a number of Cabindan nationalists, including Andre Mingas and Pedro Benge, were arrested in 1959 and deported to the infamous Tarrafal concentration camp on the Cape Verde Islands. These two men were arrested alongside several Angolan activists, with whom they had been agitating for independence. For the first time, it was becoming clear that a coordinated nationalist movement was being formed across the Portuguese territory, and the colonial authority was anxious to stamp it out.

Two other groups – the Committee for Action and Union of Cabinda (CAUNC) and the Maiombe Alliance (ALLIAMA) – were formed shortly afterwards. In August, 1963, the three movements united to form FLEC under the leadership of the charismatic Luis Ranque Franque.

However, FLEC, which came to represent solely the interests of Cabinda, was marginalized during talks held in the southern Portuguese town of Alvor, which paved the way for Angola's independence. FLEC was not allowed to participate in the talks, held between three Angolan nationalist groups – the MPLA, UNITA and FNLA – and the colonial authorities following the collapse of the fascist government in Portugal on April 25, 1974. The Portuguese believed that the interests of FLEC were included in those of the three main nationalist movements.
Article Three of the Alvor Accords, signed in January, 1975, stated that Cabinda was to remain an integral part of Angola. The Cabindans were extremely unhappy about this, and FLEC took their grievances to the Organization of African Unity and to the United Nations. The creation of a pro-communist government in Angola further alienated FLEC, and they decided to take up arms.

The movement operated a guerrilla-style war, mainly attacking government troops stationed in Cabinda. Another tactic was to kidnap Chevron employees, as well as Portuguese expatriates, as a way of raising their international profile, although most of the hostages were eventually freed.

FLEC split apart in the 1980s, with the formation of FLEC-FAC and FLEC Renovada, each pursuing different strategies on how to fight for independence. Today, FLEC-FAC continues to carry out some military activities but the organization was greatly weakened following the downfall of the Zairean president Mobutu Sese Seko in 1996 and the re-seizure of power by President Denis Sassou-Nguesso in Congo-Brazzaville in 1997. Like UNITA, FLEC lost key allies across its borders but the organization still commands huge support within Cabinda.

Limited progress has been made towards reaching a peaceful solution in Cabinda. During the 1990s several meetings took place between the different Cabindan factions and the Angolan government under the auspices of Gabonese President Omar Bongo. Angola's former interior minister, Santana Andre Pitra, better known as Petrov and himself a Cabindan, led the negotiations for the central government.

Although no peace agreement was reached during the successive rounds of Libreville talks, the fact that the two sides have been talking represented a major step forward. The Angolan government is furthermore trying to convince FLEC members to lay down their arms and join the administration.

Last year, a state-sponsored conference on the constitutional future of Angola was held in Cabinda. Politicians, religious leaders and academics discussed the controversial issues of local autonomy, decentralization and constitutional reform. The fact that the government decided to hold such a meeting in Cabinda is a sign that it is taking the issue of the enclave more seriously, realizing that the only way to solve the problem is through dialogue. It should be noted that FLEC-FAC was not present at the conference.

Since the early 1990s, the central government has adopted a different approach towards Cabinda. It has taken heed of the complaints about the lack of infrastructure and development in Cabinda. The government now reinvests 10 percent of Cabinda's oil revenues back into the province, and living standards are improving. This has not been enough to satisfy the separatists, however, and Cabinda's status looks to be an issue that will run on despite the end of the broader civil war.

Marketing

Petrangol's output was about 32,000 bpd in 1985, sufficient to meet domestic demand for most products except butane and jet fuel, while a large surplus of fuel oil was produced for export (585,900 tons in 1985). The facilities for bottling propane and butane were also expanded at a cost of US$7 million.[20] The capacity of the Petrangol oil refinery on the outskirts of Luanda was increased to 1.7 million tons a year in 1986. In 1987 Sonangol was exploring the possibility of having some of its crude petroleum refined in Portugal.

The supply of petroleum products for the domestic market was controlled by Sonangol and increased 8 percent between 1980 and 1985. Initially, Sonangol shared the market with Shell and Mobil, but Sonangol bought out the Angolan subsidiaries of these companies in 1981 and 1983. Subsequently, Sonangol also purchased two Portuguese companies that bottled gas, gaining a monopoly over the distribution of refined products. Among these products, butane gas accounted for 65 percent of the total gas consumed locally and was used primarily in homes in urban areas. In addition, Sonangol distributed gasoline, gas oil, and lubricating oils. Its greatest distribution problems were the lack of storage facilities throughout the country and problems associated with the domestic transportation network.

In response to the fall in oil prices in 1986, the Angolan government began considering regional cooperation to protect the interests of oil suppliers. In that year, Angola was invited to join the Organization of Petroleum Exporting Countries (OPEC). Although it declared its willingness to act in concert with OPEC members to avert the growing crisis in oil prices, Angola joined the African Petroleum Producers' Association, which included four OPEC members (Algeria, Gabon, Libya, and Nigeria) and three non-OPEC oil producers (Cameroon, Congo, and Benin). Together, these eight countries produced 188 million tons of oil in 1986, equivalent to about one-fifth of OPEC's production and 6.4 percent of world production.
In the late 1980s, the major foreign oil companies operating in Angola were American. Chevron, which had taken over Gulf, owned 49 percent of the shares in the offshore Cabinda blocks, Angola's largest production area, where output was fairly stable in 1986 and 1987 at about 200,000 bpd. In 1986 President Ronald Reagan's administration pressured American oil companies

[20] A Word Wide Look at Reserves and Production, *Oil and Gas Journal*, New York, Vol.100,

and equipment suppliers to withdraw their interest in the Angolan oil industry to protest the presence of Cuban troops in Angola. Chevron therefore withdrew 20 percent of its interests from Cabgoc and sold its shares to the Italian firm Agip. Conoco, however, rebuffed this pressure and became the third American oil company to begin operations in Angola in offshore Block 5. Texaco, another major operator in Angola, operated in offshore Block 2, near Soyo, where it held a 40 percent interest in a production-sharing consortium. It also had a 16 percent interest in some of the onshore fields in the Congo River Basin.

While all this is happening at the nose of the government, it has failed to bring any reconciliation, cause? Simply the failure of the government to expand its base to the rural and other ethnic group beside Mbundu and allies. Other reason is that "there is a complicated and non-transparent relationship between the Central Bank, the Ministry of Finance and the SONANGOL, the public oil company. This relationship has been a major contentious issue with the international financial institutions, donors and the other political parties."[21]

Similarly, other reasons behind the oil politics are –that oil sector is growing enclave without much contact with non-growing rest. The incomes from the oil production have not been used for investment in human capital and physical infrastructure for a broad based and sustainable economic growth. "Oil and war both have contributed to create an extremely centralized political and economic power."[22] For the overall development of the Angolan society what is needed is to think, if there is any possibilities of breaking the vicious circle of war, excessive centralization, a deteriorating policy environment and

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No.49,Dec.22, 2003. p.46-47.

[21] Opcite ,Renato Aguilor and Asa Stenman (London, 2003),p-29.

[22] Ibid. p.5.

distortionary short-run policy circle? In solving these questions two key issues arises: - reconciliation of the interests of the different ethnic groups and the transparency of the oil finances. These are very sensible issues since they touch upon the incomes of the influential groups in the Angolan society. Thus, Angola's main development problem is a political with oil dimension. The country has the resources needed to change the situation radically in the short run, what is needed is the political will to arrive at an agreement, the government will be able to take measures that would improve the situation for the citizens at large and masses at common, especially the poorest and most vulnerable groups. Thus, the main challenge in the near future is, without doubt, that of finding a solution to the conflict and stops the war. If Angola has to implement some broad –based holistic development model and improve the pattern of income and wealth distribution, it is necessary to diversify production and expand the dynamics and fortune of the oil sectors to the other non- growing sectors and other parts of the economy. The investment with the highest rate of return both in economic and social terms then is probably is social infrastructure. Oil politics in domestic sense will continue to exist in the form of ethnic conflict till, a part of the income from the oil production is not used to rebuild the confidence of the rural and marginalized ethnic group, to rebuild the health sector and the educational sector so that a building block in the construction of sustainable and equitable development in Angola is developed.

Chapter – 3

Oil and Its Prospects in Angola

Chapter – III

Oil and Its Prospects in Angola

In my first and second chapter I have tried to outline the political aspects of the oil in Angolan political and social background, which has a colonial legacy, attached. In my current chapter entitled as the "oil and prospects in Angola" I will try to analyze the various lacuna in the Angolan oil sector which has been described as the pertinent cause for the slowdown of the economy as well as the negative to the development of the Angolan society. This becomes more important because of the given fact that in order to find the remedies and the prospects, diagnostic of the disease and than only one can prescribe some of the remedies and the prospects of recovery.

The Angolan government has consistently mismanaged its substantial oil revenues and, despite rhetorical commitments, has yet to demonstrate a meaningful commitment to reform. In recent years, literally billions of dollars in oil revenues have illegally bypassed the central bank and remain unaccounted for. Such missing revenues reflect a failure of government accountability more generally and are directly linked to the Angolan government's continuing failure to foster institutions that uphold the rule of law and human rights.

The sums involved are staggering. From 1997 to 2002, unaccounted for funds amounted to some U.S.$4.22 billion. In those same years, total social spending in the country including Angolan government spending as well as public and private initiatives funded through the United Nations' Consolidated Inter-Agency Appeal-came to $4.27 billion. In effect, the Angolan government has not accounted for an amount roughly equal to the total amount spent on the humanitarian, social, health, and education needs of a population in severe distress.

Due at least in part to such mismanagement and corruption, the government also has impeded Angolans' ability to enjoy their economic, social, and cultural rights. It has not provided sufficient funding for essential social services, including healthcare and education. As a result, millions of Angolans continue to live without access to hospitals and schools, in violation of the government's own commitments and human rights treaties to which it is a party.

In recent years, as oil revenues surged, the Angolan government has refused to provide information about the use of public funds to its population, undermining their right to information. It has failed to establish hundreds of courts and allowed the judiciary to become dysfunctional, undermining Angolan's ability to hold government officials and others accountable. And it has not fully committed to free and fair elections, thus removing another avenue of accountability.

Had the government properly accounted for and managed the disappeared funds it is likely that more funds would have been allocated to the fulfillment of economic, social, and cultural rights, such as increased spending on education, health, and other social services. The government of Angola has not complied with its obligations under international human rights law because it has misallocated resources at the expense of the enjoyment of rights.

When a government is the direct beneficiary of a centrally controlled major revenue stream and is therefore not reliant on domestic taxation or a diversified economy to function, those who rule the state have unique opportunities for self-enrichment and corruption, particularly if there is no transparency in the management of revenues. Because achieving political power often becomes the primary avenue for achieving wealth, the incentive to seize power and hold onto it indefinitely is great. This dynamic has a corrosive effect on governance and ultimately, respect for human rights. Instead of bringing prosperity, rule of law, and respect for rights, the existence of a centrally controlled revenue stream-such as oil revenue-can serve to reinforce or exacerbate an undemocratic or otherwise unaccountable ruler's or governing elite's worst tendencies by providing the financial wherewithal to entrench and enrich itself without any corresponding accountability. Human rights typically are among the first casualties. This has happened in Angola.

Despite repeated efforts by diverse actors to promote greater transparency-including multilateral financial institutions, nongovernmental organizations (NGOs), corporations, and even other governments-the Angolan government has sought to maintain the status quo. The Angolan people, who have endured decades of war while seeing their country's resources mismanaged and its social development stunted, continue to be the primary victims of government recalcitrance.

The International Monetary Fund (IMF), interested in transparency for economic reasons, has been an important force pushing for greater fiscal transparency in Angola. Human Rights Watch does not take a position on the work of the international financial institutions per se, but can and does examine the positive or negative impact IMF activities can have on human rights. Whatever one thinks of the IMF's economic prescriptions, its efforts to promote transparency in the oil sector in Angola have been an important source of leverage for those interested in human rights improvements in the country.

The IMF and Angolan Government

The Angolan government and IMF have had a strained relationship since the mid-1990s. It has been characterized by periods in which the government has faced dire economic conditions and has appeared to sincerely negotiate a reform program [1]._ with the Fund, followed by periods of improved economic conditions in which it abandons the reforms. The principal reason that reform programs have failed is the government's lack of political will. Throughout this process, increased transparency has been a key condition for further cooperation with the IMF. There was some progress in 2000 when the government agreed to the Oil Diagnostic; a study to determine how much oil revenue is actually deposited in the BNA (National Bank of Angola), as part of a larger economic reform program. However, that reform program

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[1] The program of reforms included increased transparency and disclosure of incoming revenues and outgoing expenditures; assessing the function of government institutions; and widespread economic reforms.

collapsed in October 2001 after the government received repeated extensions, but still failed to implement promised reforms. Nevertheless, the Oil Diagnostic continued. But relations with the IMF were extremely strained, largely because of the government's consistent inability or unwillingness to provide the IMF basic information to assess the state of the economy.

The Angolan government's decisions to negotiate agreements with the IMF consistently have been motivated by severe economic difficulties that inflicted severe hardship on Angolans as a whole. In 1994-95, the rapidly devaluating Kwanza and hyperinflation highlighted the dire economic circumstances. The situation further deteriorated in 1996, prompting further negotiations with the IMF even though a program had just expired. In 1997-98[2]. the global price of oil collapsed, starving the government of its key source of revenue during a ceasefire with UNITA. Emmanuel Carneiro, the then Minister of Planning and Economic Development, outlined the government's motivations to negotiate with the IMF in a 1998 speech he gave while he was in Washington, D.C:

"New economic and political realities-namely the decline in world oil prices, deteriorating social conditions within Angola, and the continuation of the peace process-have created a new impetus to restructure our economy. We must move forward on economic reform, on an agreement with the IMF and with the peace process".[3]

The first SMP began in July 1995 but was abandoned by the IMF in December 1995.[4] Shortly thereafter, the economy further deteriorated and the government began preliminary negotiations for another SMP. In November 1997, the IMF sent a country representative to Angola in anticipation of a new agreement. The IMF believed that the period of relative peace was going to become a permanent peace and that an IMF program would facilitate much-needed reconstruction and reforms[5].A new SMP was negotiated in mid-1998,

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[2] Tony Hodges, *Angola: From Afro-Stalinism to Petro-Diamond Capitalism* (New York , 2001), p. 106-07

[3] Emmanuel Carniero, former Minister of Planning and Economic Development, speech before the U.S.-Angola Chamber of Commerce, (Washington, D.C., August 27, 1998).

[4] opcite,Tony Hodges, (New York,2001), p.109.

[5] Human Rights Watch, Luanda, May 31, 2001.

but was not implemented because of "presidential objections."[6]The IMF country representative at the time recalled the situation:

In 1997, people really believed, especially the IMF, that there would be a real peace and that a major reconstruction program would be needed involving the World Bank and the Fund. But after three months, it was clear in Angola that there would not be peace. After six months there was no commitment to reform[7].

By the end of 1998, the ceasefire with UNITA had collapsed and the war began anew. Nevertheless, the government and IMF continued to negotiate an SMP. The two parties finally reached an agreement on April 3, 2000[8].It was an ambitious agreement scheduled to run until December 2000. The government committed to implement a wide range of economic and institutional reforms, including the Oil Diagnostic. These measures, if implemented, would likely have increased transparency and accountability particularly in the management of oil revenue and government expenditures. Successful implementation would have led to further lending and cooperation with the IMF and World Bank[9]. However, by December 2000, the government was far behind schedule in implementing reforms. The IMF and government agreed upon an extension that effectively began another SMP scheduled to run from January to June 2001. The government partially implemented some important reforms; including continuing the Oil Diagnostic and conducting an audit of the central

[6] Government of Ang ola, "Government of Angola and International Monetary Fund Reach New Agreement," press release, April 5, 2000.

[7] In addition to the Oil Diagnostic, the monitoring program set out a series of ambitious reforms that the government must undertake before becoming eligible for Enhanced Structural Adjustment Facility loans from the international financial institutions, including: creating an integrated financial management system; eliminating domestic fuel subsidies; limiting subsidies to indebted state-owned enterprises; eliminating tax exemptions that are not a part of international agreements; eliminating import licenses and non-tariff barriers; simplifying commercial licensing; progressively adjusting tariffs for public services such as water and electricity to market levels; liquidate the Caixa de Credito Agropecuria (CAP); defining a strategy to deal with the country's external debt; clearing arrears payments to multilateral financial institutions; gradually eliminating external commercial credits to the central bank; creating a register of debt service payments, including oil-backed loans; preparing a restructuring of the financial system, including privatization of state banks; revising of the special foreign exchange regime; presenting a policy document on privatization; implementing a pilot program involving the privatization of five state-owned companies; publishing comprehensive statistics on government accounts and macroeconomic indices; and preparing a plan for tax reform.

[8] International Monetary Fund Reports (August 14, 2001), "Angola: Preliminary Conclusions of the IMF Mission," mission concluding statement, pp. 23.

bank, but many others were incomplete or unfulfilled. For example, the government did not provide adequate data on revenues and expenditures. The IMF reported:

"There has been some progress in the implementation of the structural measures under the program, namely the preparation of the reports from the diagnostic study of the oil sector...the completion of the external audit of the 1999 accounts of the central bank, and the liquidation of the CAP bank. Many of these and other measures, however, remain to be completed, and urgent action is required to improve the production and publication of data on government revenues and expenditures from all sources, including that on external debt transactions"[10].

The government also started a Ministry of Finance website that was intended to make public data on some oil production and revenues, but that website was not updated, nor was the information comprehensive[11].

Although the government failed to adequately implement two consecutive SMPs, the IMF agreed to extend the program until October 2001, but with significant new requirements in order to increase transparency, including:

Identifying and eliminating or including in the treasury account all extra budgetary expenditures; strengthening the control of the treasury over fiscal operations and foreign debt transactions; publishing data on oil and other government revenues and expenditures, as well as on external debt; conducting a financial audit of the 2000 accounts of the central bank; hiring an independent international company to implement international accounting standards in Sonangol; and seeking the assistance of the World Bank for a complete overhaul of the procurement system[12]. During 1997-1998, the government was not interested in real reform; it wanted the IMF program because it was short of cash while oil prices were low and because it wanted international approval to start the war again. They craved legitimacy for the

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[9] See: www.minfin.gv.ao.

[10] Opcite,International Monetary Fund (August 14, 2001), pp-41.

[11] Human Rights Watch interview with Corentino Santos, Luanda, May 31, 2001.

[12] Human Rights Watch interviews with key officials , March 14, 2002 and November 27, 2002.

war effort and this was never a sincere exercise in reform...now [in 2001] the motivations are different. The government is seeking international legitimacy again...it cannot use the war as justification for poor economic management. Discontent is growing and the international community is unconvinced of government performance...It also realizes that it needs money and debt relief. It cannot use oil-backed loans to finance itself[13].

The lack of commitment to reform was also reflected in the government's unwillingness to provide basic information to the IMF. The government would not provide key data such as full information on oil-backed loans, on unexplained expenditures, and on oil bonus payments[14].This led to an increasingly tense and strained relationship between the government and the Fund. Publicly, the IMF issued an unusually bleak statement after its annual visit to Angola during February 2002. The Fund noted that the economic situation had deteriorated "despite a massive increase in oil and diamond-related income over the last three years[15]. " The Fund noted that poverty and humanitarian needs had increased even as government revenues, primarily because of growing oil revenue.

In relation to the transparency of government operations, the discussions centered on the need to identify and eliminate or include in the treasury account all extra budgetary and quasi-fiscal expenditures; record and transfer to the treasury all revenues, including the total amount of signature oil bonuses; ensure that all foreign currency receipts and government revenues, including Sonangol receipts, are channeled through the central bank as mandated by the law; eliminate all subsidy and tax arrears to and from Sonangol; publish data on oil and other government revenues and expenditures, as well as on external debt; and conduct independent financial audits of the 2001 accounts of Sonangol and of the central bank.[16]

The IMF did not suggest that a new SMP was imminent or even under negotiation, but only noted that it had "reviewed economic developments in 2001 and prospects for 2002, as well as progress made in the implementation

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[13],International Monetary Fund (February 19, 2000), "Angola-2002 Article IV Consultation: Preliminary Conclusions of the IMF Mission," mission concluding statement, pp, 12 .

[14] ibid. p.29.
[15] ibid , p. 62 .

of measures contemplated in the lapsed staff-monitored program for January-June 2001...The discussions did not involve the formulation of an economic program that could be monitored by Fund staff."[17]

Given the anguish of IMF what can be well deducted from the above information is that the IMF is keenly interested in the cdevelopment of Angola and hence what can be said about the prospects with the IMF is that if Angola comes to the right track of accountability and transparency , good relation between Angola and the IMF can be developed, on the other side Angola can well bargain the oil potential in its offshore and onshore.

The Oil Diagnostic

As early as 1996, the IMF wanted a full audit of incoming and outgoing oil revenues as part of an SMP. However, those negotiations stalled because the government would not agree to an audit and other reforms. The Oil Diagnostic represented a compromise between the IMF's desire for an audit and the government's desire to do nothing[18]. It was finally included in the April 2000 SMP. It was not a full audit, but a study conducted by an internationally recognized accounting firm to determine how much oil revenue is generated in comparison to how much oil revenue is actually deposited in the central bank. Although the initial agreement to carry out the Oil Diagnostic was reached in April 2000, procedural delays held up the announcement of the monitoring contract for several months. On November 20, 2000, the Angolan government announced that KPMG had been awarded the U.S. $1.6 million consulting contract to conduct the Oil Diagnostic. The government would pay 68 percent of the costs of the program while the World Bank would pay the remainder under a prior loan it extended to the Ministry of Finance[19].. In fact, the agreement between KPMG and the government explicitly states that "the consultants [KPMG] shall not be expected or required to consider or investigate or conduct any form of enquiry into the conduct, practices,

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[16] opcite ,Human Rights Watch (Luanda, May 31, 2001).

[17] "Petróleos sob Auditoria Internacional," *Jornal de Angola*, November 20, 2000; and "Angola Announces Audit of Oil Industry", Associated Press, (Paris) ,(November 21, 2000), pp-23

[18] Contract for the Oil Diagnostic between the World Bank, the Government of Angola, and KPMG, Appendix A, "Description of the Services," p. 23.

[19] "Description of the Services," p. 24 (emphasis in original).

honesty, integrity or standards of, or nature or quality of work performed by, any person who has or may have had, any involvement in or connection with, directly or indirectly, the facts, matters, circumstances or events which shall be diagnosed, monitored, studied, assessed or considered by the consultants during the performance of these services.[20]"

The key to the Oil Diagnostic's success would be government cooperation since the data KPMG required would have to come from the government, cross referenced by information from companies. Past efforts by the international financial institutions to monitor oil revenues in other countries had been unsuccessful because of the inability or unwillingness of governments to provide adequate information. This problem also plagued the Angolan Oil Diagnostic. For example, KPMG was awarded the contract in November 2000, but it was unable to complete its first report until July 2002. The IMF reported that the delay arose "mainly because the data on the central bank accounts and external loans was not provided to the consultants" in a timely manner[21].

Only the executive summary of the first report has been released on the website of the government's U.S. embassy[22]. In June 2001, Human Rights Watch asked Aguinaldo Jaime, then central bank Governor, when the government would publish the Oil Diagnostic reports. He replied: "the reports are public-the government has seen them[23]." Two years later, Jaime, now Deputy Prime Minister, told Human Rights Watch that the government had not committed to publishing the full reports[24]. Instead, the government only committed to publish the executive summary of the first report by December 2002 and the final report's executive summary shortly after it was finished[25].

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[20] See: www.angola.org.

[21] *Human Rights Watch* interview with Aguinaldo Jaime, the former central bank Governor of Angola and current Deputy Prime Minister, (Washington, D.C) , (June 12, 2001).

[22] *Human Rights Watch* , interview with Aguinaldo Jaime, Deputy Prime Minister of Angola, (London), (June 16, 2003).

[23] Government of Angola, Ministry of Finance, "Press Release by the Ministry of Finance on the Oil Diagnostic," November 5, 2002.

[24] Human Rights Watch interview with Aguinaldo Jaime, Deputy Prime Minister of Angola, London, June 16, 2003.

[25] ibid .

The Oil Diagnostic: Oil Revenue Discrepancies

KPMG's July 2002 Oil Diagnostic report, known as the "Inception Report,[26]" provided the first third-party scrutiny of how Angola's oil revenue is managed by the government. It was not an audit, but it did reveal how the government mismanaged the country's principal source of income. The Oil Diagnostic is especially significant because oil revenue is the Angolan government's principal source of income. Angola is the second largest oil producer in sub-Saharan Africa and enabled the government to pursue vigorously its conflict with Jonas Savimbi's rebel National Union for the Total Independence of Angola (UNITA) movement until April 2002, after Savimbi was killed and the war with UNITA ended. Between 1995-2002, oil revenues comprised approximately 70 to 89 percent of government revenues and from 85 to 92 percent of exports, according to the IMF. In 2000, when the Oil Diagnostic was announced, oil accounted for 89 percent of government revenue, more than U.S. $4 billion. In 2001, oil accounted for about 81 percent of government revenue and was estimated to be at least 75 percent of government revenue in 2002[27].

From the start, it was clear that the key to the Oil Diagnostic's success would be government cooperation since the data KPMG required would have to come from the government, cross referenced by information from companies. Past efforts by international financial institutions to monitor oil revenues in other countries had been unsuccessful because of the inability or unwillingness of governments to provide adequate information. This problem also plagued the Angolan Oil Diagnostic. For example, the Inception Report was due in April 2001, but KPMG did not actually finish it until July 2002 due to delays in receipt of data from the government.

In its July 2002 report, KPMG presented the following table showing aggregate incoming oil revenue:

[26] The full title of the report is: *Current Assessment of the Angolan Petroleum Sector: Inception Report* by KPMG for the Ministry of Finance, Government of Angola, July 2002.

[27] opcite, IMF, "Angola: Staff Report for the 2002 Article IV Consultation," p. 32.

Table 1: Sources of Incoming Oil Revenue 2000[28] (Please see the Appendix)

KPMG appeared to have obtained better data from the government a year later, however, when the July 2003 executive summary was published. In that report the amount of revenue from loans was revised downward to approximately U.S.$1 billion. The following table shows the revised incoming oil revenue for 2000:

Table 2: Revised Incoming Revenue in 2000[29].(Please see the Appendix)

Taxes and Royalties

Under Decree 30/95, all taxes and royalties of all oil companies, including Sonangol, must be paid into a special Petroleum Account housed within the BNA. Private companies were paying the BNA account during 2000 as the following table shows:

Table 3: 2000 Tax Receipts Received by the Angolan Central Bank from Private Companies[30] (Please see the Appendix)

While private companies apparently abided by the system of paying into the account, Sonangol did not. KPMG reported a discrepancy of U.S. $2.0 - 2.6 billion between the revenues the Ministry of Finance claimed it had received and what the BNA said it had received.

The following table illustrates the discrepancies:

Table 4: Total Taxes And Profit Oil Received By All Companies In 2000 (U.S.$ And Kwanzas Millions)[31] (Please see the Appendix.)

Sonangol's Tax and Royalty Discrepancies

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[28] The source for this table is *KPMG*, Inception Report, p. 22.

[29] *KPMG*, Avaliação do Sector Petrolífero Angolano Sumário Executivo Relatório Inicial, July 2003, p.18.

[30] *KPMG*, Inception Report, p. 111.

[31] ibid, p –130.

A major controversy surrounding oil revenue has been the role of private companies. Their inability or unwillingness to publish their payments to governments has drawn substantial criticism from the press and NGOs.. In the case of royalties and taxes, KPMG found that the Ministry of Finance reported that it had received U.S.$114 million to U.S.$418 million more than Sonangol's Fiscal Report said it had paid. The following table illustrates the discrepancies:

Table 5: Discrepancies Between Sonangol's Fiscal Report and Two Sets of Figures from the Ministry of Finance Tax Directorate (U.S.$ Millions)[32]. (Please see the Appendix)

According to the Inception Report, the Ministry of Finance did not attempt to reconcile these discrepancies, nor did it have any procedures in place to reconcile the discrepancies.

Sonangol's Profit Oil Discrepancies

Table 6: Comparison between Profit Oil Paid to Ministry of Finance versus Profit Oil Received in 2000 (US$ Millions) (Please see the Appendix)

Reconciling Incoming Revenues

Despite these limitations and numerous discrepancies between royalties, taxes, and Profit Oil owed versus what was actually paid, KPMG was able to approximate how much money was sent to the government and how much illegally bypassed the central bank. KPMG's analysis showed that throughout 2000, Sonangol had underpaid the BNA by more than U.S.$2.1 billion, based on the Ernst & Young reports. Even though it owed over $2 billion in taxes and Profit Oil, Sonangol paid less than U.S. $20 million, less than 1% of what it owed, to the BNA. KPMG attributed the discrepancies to two major factors: an underpayment of taxes by Sonangol to the BNA and its failure to remit any of its Profit Oil to the central bank. KPMG could not determine the overall

[32] ibid, p – 137.

accuracy of the Ministry of Finance records nor could it reconcile discrepancies within various Ministry of Finance figures for the same transactions, raising further questions as to how the money actually was used.

Other Revenues

Signature Bonus Payments

Signature bonus payments were particularly important since these were large cash payments from oil companies in exchange for lucrative offshore oil blocks. The government has rarely disclosed the amount and use of those funds. In the past, approximately U.S.$970 million in bonus payments were used for opaque arms purchases. Even though no signature bonus payments were made in 2000 it was extremely important to provide a historical record of signature bonuses to determine how much money the government had previously received.

All of the oil blocks awarded in Angola, except for Block 0 and Block 4 have included a signature bonus payment from the oil companies to the government. While no signature bonuses were paid in 2000 and did not constitute part of government revenue for this year, KPMG did provide the amounts for signature bonuses paid in prior years, while the bonus payments for Blocks 16 and 34 were disclosed from other sources. The following table details these payments.

Table 7: Signature Bonus Payments by Block, Year, and Amount. (Please see the Appendix)

Expenditure Discrepancies

The IMF concluded that from 1997-2002, the Angolan government could not account for about U.S.$4.2 billion in expenditures-an average of about U.S.$703 million, or about 9.25 percent of the country's GDP, per year. The scale of discrepancies is staggering. For example, if 9.25 percent of the U.S. GDP "disappeared" in 2002, the loss would total approximately U.S.$966 billion. The IMF noted that the lack of transparency and accountability over the use of funds was the main obstacle to greater humanitarian relief and social development. It rejected the government's argument that excessive opaqueness, mismanagement, and a failure to fully implement reforms were caused by a lack of capacity, but instead concluded that they were due to lack of political will[33].

Missing Funds

Perhaps the most disturbing disclosure by the IMF in its March 2002 and July 2003 reports was the sheer size of unaccounted for funds, which it describes as "discrepancies," in government expenditures. The report included a stark account of how much money had been spent for unexplained purposes and were effectively missing. Contrary to some public reports, the amount was not exactly U.S. $1 billion per year for the prior five years, but had varied with the year. Nevertheless, the total amount of lost funds was substantial. It totaled about U.S.$ 703 million per year from 1997 to 2002, or about 9.25 percent of the country's GDP.

In Angola, the largest discrepancies occurred in 1997 and 1999, when unaccounted for monies totaled nearly U.S.$1.8 billion (23.1 percent of GDP) and more than U.S.$1.1 billion (18.4 percent of GDP), respectively..

It is possible that the actual discrepancies were far more than the IMF estimated because the IMF included in its calculations "ex post" extra budgetary expenditures for goods and services, even though the uses of such expenditures were not fully explained. These expenditures were in addition to the discrepancies above. The government provided accounts of such extra budgetary expenditures sometimes months after the IMF had requested explanations for them[34], and the IMF noted that the "total amount and nature of these expenditures had not been fully identified[35]."

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[33] "Angola: Staff Report for the 2002 Article IV Consultation," pp. 31-33; and International Monetary Fund (IMF), "Angola: Staff Report for the 2002 Article IV Consultation," March 18, 2002, p. 33; and International Monetary Fund (IMF), "Angola: Selected Issues and Statistical Appendix," July 11, 2003, pp. 107-109.

[34] "Angola: Staff Report for the 2002 Article IV Consultation," p. 32

[35] The source of this tables are : "Angola staff report for the 2002 Article IV Consultation," pp. 31-33; and "Angola : selected Issues and Statistical Appendix2003," pp.- 107 – 109.

The following table shows the amount of these expenditures from 1997 to 2001:

Table 9: Ex Post Extra budgetary Expenditures for Goods and Services 1997-2001 (U.S.$ millions) (Please see the Appendix)

The IMF believed that some of these funds were actually spent on goods and services, but the government's inability to adequately account for them also created suspicions of mismanagement and potential corruption.

Indications of Corruption.

The World Bank and Transparency International generally define corruption as "the abuse of public office for private gain." The World Bank notes that this definition includes situations when "public officials accept, solicit, or extort bribes; and when private actors offer bribes to subvert or circumvent public policies for competitive advantage and profit." Corruption can also occur in the absence of bribes. For example, the World Bank considers patronage or nepotism by government officials, theft of state assets, or diverting state revenues as corruption[36].

The World Bank also distinguishes between two forms of corruption: state capture and administrative corruption. Corruption has a corrosive impact on human rights. Where there is a significant financial incentive to hold onto power and officials use corrupt means to resist democratization, corruption can undermine the ability of individuals to choose their government and participate in elections.

In Angola, corruption appears to be a persistent problem, and the IMF concluded that corruption played a substantial role in the discrepancies noted in its reports. While not all of the unexplained discrepancies could be

[36] The World Bank Report, " Helping Countries Combat Corruption: The Role of the World Bank" (Washington, D.C.: The World Bank, 1997), p.8; and Transparency International, "Frequently Asked Questions About the Corruption Perceptions Index: 2002," press release, (August 28, 2002).

attributed to corruption, there were signs that corruption was a major factor. The IMF highlighted Angola's declining living standards when it cited a 2000-2001 confidential Angolan Ministry of Planning study that found the percentage of households living under the poverty line and that in extreme poverty have increased since a similar survey was carried out in 1995. While poverty levels increased, the IMF reported that expenditures of the richest 10 percent of Angolans had increased during the same period and led to a wider gap in income inequality. The IMF went further and described the specific types of corruption present in Angola.

Cross-country analyses have shown a strong positive correlation between, on the one hand, easily appropriable rents arising from the exploitation of mineral resources and, on the other, higher levels of corruption, slower economic growth, and higher poverty rates. Petty corruption is widespread in Angola. Typical examples involve cases of civil servants receiving a facilitation fee in exchange for the processing of applications or licenses, as well as widely reported incidents involving the economic police, in which it extracts bribes from small businesses in the process of verifying compliance with operating licenses and profit margins. On a larger scale, corruption involves monopolistic practices maintained by political access and public banks engaging in connected lending (to companies where there was no expectation of repayment or to nonexistent ones) that eventually necessitates bailouts from the treasury.

The IMF highlighted two oil-related transactions that raised suspicions of corruption. The first was the government's underreporting of a U.S.$400 million signature bonus payment for Block 34 and the second was a questionable series of transactions to repay Russian debt that led to Swiss authorities freezing U.S.$750 million in Angolan funds deposited in Swiss banks.

War as an Impediment to Economic Reform

Angolan officials have long maintained that war was the major impediment to economic reform. For example, in August 1998, shortly before the country resumed a state of all out war, Emmanuel Carneiro, the former Minister of Planning, said:

The last few months have brought increasing violent actions by UNITA... Not only do such actions set the peace process back, they also hamper economic reconstruction efforts and impede economic activity[37].

It is true that war required significant expenditure and much of Angola's infrastructure was degraded or destroyed because of the war. Landmines, displacement, and lack of government control over key areas of the country also impeded economic diversification and development. However, the war would not have prevented increased transparency by the government or investment in programs to improve respect for human rights in areas under government control; nor would it have affected the oil sector since virtually all of the oil industry was offshore.

Angola was not under any embargoes during the 1990s and afterwards. The government often has claimed that it had no choice but to give funding for the war precedence over other claims on revenue. Military and security expenditures have historically been the largest government expenditure, averaging about 13 percent of GDP and about 19 percent of total government expenditures from 1997 to 2002. This explanation, while plausible, does not account for the massive discrepancies in expenditures and thus does not address whether necessary military and security expenditures could have been maintained while allocating sufficient resources for humanitarian and social needs.

From 1997 to 2002, unexplained expenditures were sometimes greater than total reported military expenditures and strongly suggest that military expenditures were not the reason for the government's failure to provide for basic needs and were not the primary destination of diverted oil revenues.

The following table compares military expenditures with unexplained discrepancies:

Table 10: Comparison between Military and Security Expenditures and Unexplained Discrepancies 1997-2002[38]. (Please see the Appendix)

[37] Former Minster of Planning Emmanuel Carneiro, Speech at the US-Angola Chamber of Commerce, Washington, D.C., August 27, 1998.

Overall, the most serious impediment to development was the government's mismanagement of the economy and not the war. Had the unaccounted-for funds been available to it, the government could have easily sustained the same levels of military expenditures while spending more funds on social and economic development. This was also the opinion of the IMF.

The Impact of Lack of Transparency and Accountability on Human Rights and Development

A considerable amount of research by the World Bank, IMF, and academic specialists has shown that a country's reliance on natural resource revenues, particularly oil, can impede economic growth and diversification and facilitate corruption. It is particularly problematic when the government is the direct beneficiary of economic activity and is therefore not reliant on domestic taxation or a diversified economy to function[39]. This dynamic is known as the "Resource Curse" or as one academic labeled it, "The Paradox of Plenty.[40]"

In this context, a key indicator of the quality of governance is whether a government is committed to transparency, accountability, the rule of law, and human rights. When a ruler or a governing elite are undemocratic or otherwise unaccountable to their citizens, poor management, poor economic decision-making, corruption, and human rights abuses thrive. Instead of improving the overall situation, the existence of a centrally controlled stream of revenue-such as oil revenue-can serve to reinforce or exacerbate an undemocratic or otherwise unaccountable ruler's or governing elite's worst tendencies by providing the financial wherewithal to entrench and enrich itself without any corresponding accountability.

These problems are clearly present in Angola. There have been many efforts to reform government practice, but most have not been effective, despite

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38 opcite ,"Angola: Selected Issues and Statistical Appendix, 2003," p.109.

39 Alan Gelb and associates, *Oil Windfalls: Blessing or Curse?* (New York, 1988), p . 29 .

40 The Paradox of Plenty: *The Paradox of Plenty: Oil Booms and Petro States* (Berkeley, 1997) , p. 43 .

pressure from international institutions, governments, nongovernmental organizations (NGOs), and companies. The Angolan government does not make information about its financial dealings available to the public, or even to international institutions. The government's behavior has had a negative impact on the ability of the public to exercise oversight of the use of public funds and in the absence of true democracy, there are few avenues for public accountability.

The government's failure to allocate adequate financial resources to health and education, at least in part because of mismanagement and corruption, contravenes its obligations under articles 12 and 13 of the ICESCR[41]. Moreover, the Angolan government has repeatedly failed in its treaty obligation to report on its compliance with the covenants as required under

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[41] Article 12 of the ICESCR states: 1. The States Parties to the present Covenant recognize the right of everyone to the enjoyment of the highest attainable standard of physical and mental health. 2. The steps to be taken by the States Parties to the present Covenant to achieve the full realization of this right shall include those necessary for: (a) The provision for the reduction of the stillbirth-rate and of infant mortality and for the healthy development of the child; (b) The improvement of all aspects of environmental and industrial hygiene; (c) The prevention, treatment and control of epidemic, endemic, occupational and other diseases; (d) The creation of conditions which would assure to all medical service and medical attention in the event of sickness.
Article 13 of the ICESCR states: 1. The States Parties to the present Covenant recognize the right of everyone to education. They agree that education shall be directed to the full development of the human personality and the sense of its dignity, and shall strengthen the respect for human rights and fundamental freedoms. They further agree that education shall enable all persons to participate effectively in a free society, promote understanding, tolerance and friendship among all nations and all racial, ethnic or religious groups, and further the activities of the United Nations for the maintenance of peace. 2. The States Parties to the present Covenant recognize that, with a view to achieving the full realization of this right: (a) Primary education shall be compulsory and available free to all; (b) Secondary education in its different forms, including technical and vocational secondary education, shall be made generally available and accessible to all by every appropriate means, and in particular by the progressive introduction of free education; (c) Higher education shall be made equally accessible to all, on the basis of capacity, by every appropriate means, and in particular by the progressive introduction of free education; (d) Fundamental education shall be encouraged or intensified as far as possible for those persons who have not received or completed the whole period of their primary education; (e) The development of a system of schools at all levels shall be actively pursued, an adequate fellowship system shall be established, and the material conditions of teaching staff shall be continuously improved. 3. The States Parties to the present Covenant undertake to have respect for the liberty of parents and, when applicable, legal guardians to choose for their children schools, other than those established by the public authorities, which conform to such minimum educational standards as may be laid down or approved by the State and to ensure the religious and moral education of their children in conformity with their own convictions. 4. No part of this article shall be construed so as to interfere with the liberty of individuals and bodies to establish and direct educational institutions, subject always to the observance of the principles set forth in paragraph 1 of this article and to the requirement that the education given in such institutions shall conform to such minimum standards as may be laid down by the State.

article 40 of the ICCPR and articles 16 and 17 of the ICESCR. Angola acceded to the ICCPR and ICESCR in October 1992.

Even in cases where Angola may not have violated its human rights treaty obligations, it has clearly undermined the ability of Angolans to enjoy their rights and to exercise adequate oversight of the government. Two areas where this has occurred are elections and funding of the judiciary. The government's failure to hold elections since 1992 has prevented Angolans from holding their government accountable and has undermined the government's commitments under article 25 of the ICCPR. The under funding of the judiciary has prevented Angolans from having adequate recourse when their rights are violated, impeding another mechanism of government accountability.

Underfunding of the Judiciary and the Right of Access to Justice

Gross mismanagement and misuse of funds also has had a dramatic impact on the welfare of the Angolan population. It impedes social development and economic stability, and undermines economic and political support for institutions necessary to protect human rights, often the same institutions necessary to combat corruption and increase transparency. In Angola, one such under funded institution is the judiciary. It is difficult to determine exactly how much money is allocated to the judiciary. However, studies of Angola's judiciary have noted a chronic lack of resources to rebuild or maintain judicial infrastructure or pay salaries of judges. For example, the International Bar Association repeatedly noted these problems in its July 2003 assessment of the Angola's judiciary[42].

Inadequate Funding of Health, Education, and Social Services

In the case of Angola, the scale of financial mismanagement is so large and the under funding of essential social services so glaring that it compels the conclusion that funds needlessly have been diverted away from services and

[42] International Bar Association, "Angola: Promoting Justice Post-Conflict" (London: International Bar Association, 2003) , p. 10 .

institutions critical to fulfillment of Angolans' economic and social rights. The U.N. Secretary-General's April 2001 report to the Security Council on the U.N. mission in Angola noted:

Social and economic rights remained a serious problem in Angola...Despite recent initiatives, there is still a gap between Angola's substantial revenues and the funds allocated to improving the living conditions of the population. A larger effort is needed from the government, with the support of the international community, to provide for more basic rights and develop a stronger strategy against poverty in Angola[43].

An overall sense of the impact that lack of transparency and mismanagement have had on the well-being of the country's population can be derived from a comparison of the total amount of unaccounted for funds and the total amount of social spending. As noted earlier, Angola is one of the poorest countries in the world. Approximately 70 percent of Angolans live in poverty and the country ranked 164th out of 175 countries in the United Nations Development Programme (UNDP) 2003 Human Development Index[44].

Overall, Angola's social spending is far below its regional neighbors. Between 1997 and 2002, the average spending on social programs (including health) for Cameroon, Chad, the Republic of Congo (Congo-Brazzaville), Equatorial Guinea, Gabon, Mozambique, Nigeria, and South Africa was about 6.7 percent of total government spending annually. Angola, however, only spent about 3.45 percent of its budget on social programs annually[45].

Education spending is similarly low. The average for Cameroon, Equatorial Guinea, Mozambique, Nigeria, and South Africa was about 12.7 percent of government expenditure from 1997 to 2002. In Angola, it was only 4.9 percent of government expenditure during the same period[46]. In addition to the government, the U.N. and NGOs in Angola provide essential assistance to

[43] "Report of the Secretary-General on the United Nations Office in Angola," S/2001/351, p. 5.

[44] United Nations Development Programme (UNDP), Human Development Report 2003 (New York: Oxford University Press, 2003), Annex III: Human Development Indicators.

[45] World Health Organization, "Angola: Selected Indicators," available at www.who.int.

[46] United Nations, Consolidated Inter-Agency Appeal 2003 (New York: United Nations, November 2002), p.1.

millions of Angolans. In 2003, the U.N.'s Consolidated Inter-Agency Appeal, the combined request from the U.N. and NGOs to provide humanitarian assistance in Angola, requested U.S.$313,843,200 to fund all of its humanitarian activities, including food aid, health, education, landmine clearance, resettlement of internally displaced persons (IDPs), and human rights protection for IDPs. The appeal stated that 1 million Angolans were dependent on "external aid to survive" and a total of 3.7 million required various forms of humanitarian assistance-about 36 percent of the total population. From 1997 to 2002, requests under the Consolidated Appeal ranged between U.S.$80.9 million and U.S.$289.1 million, but donors only funded between 43.9 percent and 81 percent of these requests.

An important reason for such low levels of government funding is the unexplained diversion of funds. It is revealing to compare the amount of money the U.N. needed for humanitarian needs; the amount of money the government spent on education, health, and other social services (social security, welfare, and housing); and the disappeared funds. The contrasts are striking as the following table shows.

Table 11: Comparison of Angolan Government social expenditures, United Nations Humanitarian Assistance, and Government Discrepancy (U.S.$ millions).[47] (Please see the Appendix)

As the table shows, unexplained expenditures in every year from 1997-2002 were far greater than both the total amount that the UN requested and what it received for humanitarian programs, except in 1998. In aggregate, the unexplained expenditures were some U.S.$3.1 billion more than the amount requested under the Inter-Agency Appeal and U.S.$3.6 billion more than the appeal actually received. That sum is staggering more than six times the amount of money received under the Inter-Agency Appeal has disappeared at a time when international assistance was providing for the critical needs of about 30 percent of Angolans.

Social Bonus Payments from Companies

Payments made by oil companies to Sonangol for social projects were not utilized. Social bonus payments were made as part of the contracts with oil companies that were exploring and producing in Angola. Technically, this is social spending, but it falls outside of formal government spending since Sonangol designates the use of the funds. There has been no audit or other detailed accounting of the use or effectiveness of such funds. These bonus payments were either payable in a single lump sum either in the year the contract was signed or when exploration began. They can also be paid annually; beginning with the year the contract is signed .
Table 12: Exploration Bonuses (U.S.$ Millions) (Please see the Appendix)[47]

In addition to the exploration bonuses, the IMF determined that approximately U.S.$100 million had been paid for Block Thirty Four. Thus, since 1997, Sonangol has received at least U.S. $165 million from oil companies for social projects, but the government has not provided an accounting of those funds. Thus, a mechanism to coordinate all forms of social spending should be developed in order to adequately coordinate the use of resources. This is especially important given the sizable amount of corporate bonus payments directed to social projects.

The Angolan Government's Obligation to Fulfill Economic, Social and Cultural Rights.

The ICESCR acknowledges that different countries have different levels of resources available to them and does not unrealistically require countries to immediately devote more resources than they have to fulfill their obligations. Rather, the covenant calls upon governments to progressively implement those rights commensurate with the amount of resources available.
Gross misallocation of resources to the detriment of the enjoyment of economic and socials rights can constitute a human rights violation. The

47 KPMG- A project conducted by IMF, Report , 2002.

Gross misallocation of resources to the detriment of the enjoyment of economic and socials rights can constitute a human rights violation. The diversion of funds from health services and facilities is a case in point. Article 12 of the ICESCR requires that states "recognize the right of everyone to the enjoyment of the highest attainable standard of physical and mental health."

Had the government properly accounted for and managed the disappeared funds it is likely that more funds would have been allocated towards the fulfillment of economic, social, or cultural rights, such as increased spending on education, health, and other social services. The government of Angola has not complied with its obligations under international human rights law because it has misallocated resources at the expense of the enjoyment of rights.

The disappearance of funds has been a major impediment to human rights improvements. During the last years of the war, the humanitarian and human rights situation continued to be poor even in areas under government control.

With the war now over, the pattern of distribution of national resources should be redirected to address the rehabilitation needs of the population, especially children and youth. In particular, budgetary allocations should reflect a clear priority to basic social services, especially the provision of education, medical facilities, and food.

The government's apparent callousness towards humanitarian assistance has had a chilling effect on donors and UN Inter-Agency Appeals have never been fully funded . (for details see Table 11 in Appendix) .

The failure to adequately fund the demobilization program has a direct impact on human rights. The program includes components to provide human rights education to demobilized soldiers, their families, and the communities that where they settle, assistance to women, and child soldiers

Increased government expenditures alone would not fully resolve the dire humanitarian situation in Angola. But, the availability of additional funds could facilitate major improvements, but the magnitude of Angola's humanitarian and social needs and welcomes international assistance in order to fully fund the U.N. Inter-Agency Appeal.

International Initiatives to Promote Transparency

Since about 1999, the international community has increasingly recognized the need for transparency in natural resource rich states. In many countries, such as Angola, Azerbaijan, Chad, Equatorial Guinea, Kazakhstan, and Nigeria, oil revenues have been misused, undermining democracy, facilitating corruption, and depriving the public of important services. Five major initiatives to address this problem, described below, are the IMF's transparency efforts; World Bank programs; the U.K.-sponsored Extractive Industries Transparency Initiative (EITI); and the G-8 statement on corruption and transparency. All of these initiatives would have beneficial impacts on transparency, if implemented. However, the initiatives are at different stages of development and have differing potential for influencing practices in Angola.

The IMF

Perhaps the best opportunity to press for increased transparency in Angola lies with the IMF. Although its relationship with the government has been strained and there is no formal program at the moment, the IMF is still crucially important for the government because the country has a considerable amount of debt, no access to financing or loans other than oil-backed loans, and the government has no credibility with the international community in terms of its economic management of the economy[48].

It appears that the financial situation of the Angolan government has deteriorated considerably since March 2002 because of falling oil revenues, low foreign exchange reserves, high debt, and an inability to secure adequate financing or donor assistance[49].

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[48] Human Rights Watch Interviews, Washington D.C. , May 20 , 2003.

[49] According to the June 2003 Economist Intelligence Unit report on Angola, the country's oil exports are expected to fall sharply from U.S.$8.6 billion to U.S.$6.8 billion, due largely to a falling oil price. Foreign exchange reserves (the amount of money needed to pay for imports) fell sharply through 2003, to about U.S.$469 million. This is only enough to cover about 1.3 months worth of imports and far lower than the minimum 2.5 to three months that the IMF recommends for a country. The fall in reserves was largely attributed to the need to repay oil-backed loans. The Economist Intelligence Unit reported that from June 2001 to March 2002, Approximately 39.7 percent of Sonangol's oil production was pledged for the repayment of oil-backed loans. This volume of oil totaled approximately U.S.$2.5 billion. By June 2003, Sonangol secured a U.S.$1.15 billion loan from a consortium of banks led by BNP Paribas. It was reportedly the largest single oil-backed loan secured by the government. The five-year loan pledged 20,000 barrels per day (bpd) in the first year, 40,000 bpd in the second year, and 50,000 bpd in the remaining three years, for a total of 75 million barrels pledged for this loan.

One of the major priorities of the government has been to hold a donors conference after the end of the war with UNITA for the reconstruction of the country. The government hoped to secure as much as U.S.$1.5 billion in assistance from the international community for the reconstruction of the country and believed that donors would be readily provide funds.
It is too early to determine what steps will be implemented because the IMF and the government have not begun to negotiate a new SMP and because of the government's historical failure to implement such reforms. As recently as July 2003, the IMF once again reiterated that, "greater transparency lies at the heart of the reform process."

The World Bank

Prior to 2003, the World Bank's last loan to the government was a U.S.$33 million loan in 2000 primarily for assistance with education, water, and health projects. Most of the Bank's lending took place between 1991 and 1999, but due to poor economic conditions and the resumption of the war, the Bank reduced its presence in the country by mid-1999. While there are many encouraging aspects to the design of these programs, implementation will depend on the government's will to act on them.

Liberalization and Reform

It is perhaps a truism that in order for reform to be pursued, it must be perceived to be in the best interests of those who must make the decision to do it. In the case of Angola there are particularly high obstacles to achieving this

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Some observers believed that this loan, in conjunction with prior loans, has virtually committed all of Sonangol's oil production to repay loans. One observer with detailed knowledge of the Angolan economy told Human Rights Watch that Angola normally keeps a "buffer" of oil production that is not collateralized for loans so that banks are comfortable that the country's oil production is sufficient to repay outstanding loans. However, the government has reduced this buffer making new loans very risky for banks. At this writing, Angola had an estimated 70-100 million barrels of annual oil production that had not been mortgaged, worth approximately U.S.$300 to U.S.$400 million.[213] Similarly, the Angolan ambassador to the U.S., Josefina Pitra Diakité, said that 40 percent of the government's U.S.$8.2 billion in expenditures were designated for oil-backed loan repayments. Angola's total debt is estimated between U.S.$8 billion and U.S.$11 billion.

perception, stemming from the current structure of oil-derived foreign exchange inflows and the distortions they induce.

The most important political obstacle is that the oil rents are controlled by the central government and allocated by those in charge of it. What this has meant in the past is that the political elite has been insulated from the economic problems afflicting the rest of the population due to their ability to control foreign exchange receipts and purchase needed consumption items from abroad. While most of the population has been suffering from the collapse of domestic production and rampant hyperinflation, those in a position of privilege have had preferential access to foreign markets, creating an artificial enclave economy in Luanda.

Not only has foreign exchange been allocated preferentially, but there has also been a problem of preferential exchange rates as well. Government purchases have been made in many instances at an overvalued official exchange rate, providing those with access the opportunity for quick profits on an enormous scale by purchasing goods at official exchange rates and reselling them at parallel market prices.

"Looking at the redistribution implicit in any serious reform program, it is clear that the political elite in Luanda will not be better off in the short run after implementation of a reform program which eliminates these preferences and distortions. It is simply not accurate, and certainly not persuasive, to attempt to make the case for reform on the basis of a supposed improvement in the situation for the political elite because it will not happen. Rather, a case for reform must rest on the fact that the problems afflicting the Angolan economy are well known, and the trajectory of the economy, and that of the elite who benefit from the current situation will inevitably result in a less favorable situation in the long run if reforms are avoided in the short run[50]. In addition, there are real questions as to whether political and social stability can be maintained if the situation for the general public continues to deteriorate.

[50] Steven Kyle , *Briefing note For Consulting Assistance on Economic Reform II Discussion* Paper No. 25, "Angola: Current Situation and Future Prospects for the Macroeconomy" August, 1999.

Foreign debt, if it is never paid down (as has been the case to date) never stops growing. Oil production growth does. While the outlook in 1999 may appear favorable due to the imminent opening of new production, there is no reason to believe that current growth rates in output can be maintained forever. If, in fact, oil production growth cannot be maintained forever, then the day will inevitably come when oil output must once again be dedicated in its entirety to service foreign debt, as would have been the case in a very few years if the new oil fields had not been discovered. Angola is not a unique case. Exactly the same problem has plagued other oil exporting countries as they have struggled to cope with the consequences of huge oil financed inflows of foreign exchange. Nigeria is perhaps the closest parallel case, given the fact that it, too, was a relatively low income sub Saharan African country which produced large agricultural surpluses for export and which also suffered a destructive civil war. Nigeria also ran up huge foreign debts in the process of fighting the civil war and pumping out its oil windfall, and like Angola, suffered from massive overvaluation, inflation, and distortion of the domestic economy. The lesson is clear: Those elites which profited from the situation in the short run are worse off now than they would be had they been able to pursue reforms early in the process.

In terms of poverty alleviation, there is a fortunate aspect to the political economy of reform in that the benefits from the current situation are concentrated in a relatively few hands, so removal of them will not affect the vast majority of the population in the short term. In effect, they are already living at parallel market prices and so liberalization will not make their situation any worse than it already is. In the long run, an adjustment and liberalization program has substantial potential to improve the situation of the poor, since they will benefit from growth in sectors such as agriculture where Angola has a strong comparative advantage.

Macro Strategy and Political Economy in the Long Run

There are two important areas of potential problems in achieving a national consensus on a macro strategy for growth and development. The first is the issue of mineral rents from oil, diamonds and other sources, and the decision as to how and when to spend the income. The second is the difference in economic interests between agricultural regions and urban populations. This last is a common area of debate in many countries both low income and high income (see, for example, the extensive studies summarized in Krueger, Schiff and Valdes). As noted above, Angola possesses oil and mineral wealth in abundance, and currently relies on that income to a far greater degree than is the case in any other country in the world outside of the Persian Gulf. According to the most recent figures, as much as 50% of national income derives from oil alone, and this figure can be expected to remain high even if the non-oil economy is successfully rehabilitated due to the discovery of what are reported to be huge new fields in off-shore areas. At the most general level, there are two main issues involved with this income:

1. How fast to exploit the various mineral resources.
2. How to spend the money.

How Fast to Exploit the Oil

Much has been written about the dangers of excessively rapid exploitation of oil reserves in developing countries. For example, Gelb et. al. have shown in numerous case studies, including several directly relevant to Angola, that the distortions which result from large expenditures in the near term can in the end leave a country worse off than it was in the beginning. Given Angola's markedly greater dependence on these revenues than any of the countries whose experience forms the basis for these observations, there is good reason for caution. The issue is that large inflows of foreign exchange have the potential to generate highly undesirable effects on the domestic structure of production and consumption due to the short run incentives to capture the large rents available. However, distortions in the domestic economy can be avoided if the foreign exchange bonanza is spent on imports rather than domestically produced goods and services. In the Angolan case, this is what has for the most part been occurring to date on both the input side of oil production and on the expenditure side once receipts have been received. Even so, a substantial amount of the demand created by the oil windfall has fallen on non-traded goods, particularly in urban areas, where services and housing account for a large share of expenditures by those with access to foreign exchange.

The offshore nature of current Angolan production, and the original location of much of the production in the physically separate province of Cabinda, have reinforced the oil companies' historical inclination to extract the oil with virtually no linkages with the domestic economy. Accordingly, there are no significant effects in terms of 'resource pull' from the rest of the Angolan economy. It is likely that this situation will persist in the future given the fact that Angola continues to contract extraction out to various foreign oil companies and the fact that deep offshore reserves require technology which is controlled by these companies. In the case of diamonds, the sector is not physically isolated as is the case for oil (diamonds are located primarily in the northeastern provinces) but the production process does not rely on large quantities of domestically produced inputs.

On the expenditure side, all of the oil money has accrued to the central government apparatus, which has spent by far the largest part of its income on imports. During the height of the civil conflict this was largely unavoidable, as large purchases of weapons were needed. In terms of consumption items, the physical barriers to trade between the large coastal urban centers and the rest of the country made it extremely difficult for any of the expenditures to translate into demand for domestic products. Everything from clothes to food to consumer durable has been imported. All of this has resulted in a balance of payments that has remained severely in deficit while pressures on the real exchange rate have been far less than would be the case if some of the oil funded demand had fallen on domestic production. Even so, it is clear even to a casual empirical observer of the urban economy in Luanda and other cities, that prices are quite high by international standards.

One possible solution would be to save some of the money offshore, or to pump the oil out at a slower rate. The first option is one that has not been achieved with any great degree of success by any oil exporting country to date. There are simply too many pressures on the government officials both personally and in their official capacities to spend the money when it becomes available. Even so, the government can achieve much the same effect by using revenues to pay off past foreign debt to the extent possible. So far, this has not occurred, both because of political issues surrounding debt repayment and because the government has been mortgaging future oil production to servicing current debt obligations.

This is why the present situation offers some opportunities which have not been possible in the past. Given the large new oil fields coming on line now and in the near future, there is a window of opportunity for the government to use the additional windfall to make the adjustments needed to get out of the vicious circle of mortgaging increasing amounts of current production to future debt service. The alternative is to spend the money now and continue the pattern of the past, but at a higher level of debt.

How to Spend the Mineral Revenues

The highly overvalued exchange rate that is the almost inevitable result of large inflows of oil money has negative effects on those sectors most exposed to international trade, either because they produce export products, or because they face actual or potential import competition. Accordingly, the factors of production employed in these sectors suffer, and to the extent they can, migrate toward uses in which they can earn greater rewards, in this case the urban centers where oil money is received and spent. Though Angola floated the kwanza in May of 1999, the years of overvaluation, which preceded this action, have taken their toll.

The hardest hit sector in Angola has agriculture, together with associated processing and transforming industries. Angola has historically demonstrated a strong comparative advantage in agriculture and most of the population works in this sector. This means that from the point of view of both poverty and equity, there is a powerful case to be made to minimize overvaluation to avoid penalizing this sector.

The strong underlying comparative advantage in agriculture suggests a government investment strategy directed toward provision of infrastructure and public goods, which can help lower costs of production. Obvious candidates are rehabilitation of the country's transportation system, including roads, ports and railroads, as well as investments in agricultural research and extension. All of this is, of course, predicated on a successful continuation of the peace process and resettlement of rural populations in producing areas. Investment in human capital, especially primary education, is another area where high long-term returns can be gained. In addition, lack of public services such as water and sanitation, as well as electricity and other utilities are a serious constraint to industrial investment and rehabilitation.

The question of how and where to spend oil revenues is where political considerations tend to be important in any country, and particularly so in Angola. The political divide that has led the country to the present state of devastation pits the largely urban and coastal base of the MPLA against the largely rural and agricultural base of the UNITA forces, which have their core of support in the agricultural breadbasket of the central highlands. This means that issues of urban-rural balance and investment in agriculture visa a vis other sectors are immediately and automatically a bone of contention between the two sides in this long running political and military conflict.

In summary, the experience of other oil countries, and the theoretical literature on Dutch Disease effects, show that the distortions induced, particularly via the exchange rate, create very adverse conditions for other sectors. As noted above, in the Angolan case agriculture is the most important of these, both in terms of its share of the labor force and due to the well demonstrated comparative advantage enjoyed by the country. There is also a wide range of light manufacturing activities, which would be rapidly developed by the private sector given appropriate conditions.

Finally, it needs to be recognized that all of the discussion about Angola's future depends on the assumption that peace can be maintained and that the process of political reconciliation continues. Without this, and without a continuation of the mine clearance and resettlement, which began after the signing of the Lusaka Accords, there is little basis for any progress.

Toward a Long Run Model of the Angolan Economy

A counterpart group of economists for the modeling effort has been identified. The leader of the effort is to be Pedro Luis of the Ministry of Planning together with Dr. Alves da Rocha who heads the Planning Ministry's modeling team. An existing short run model built on a two-gap framework is being extended and modified to allow examination of the trends discussed above.

Primarily, the issues to be addressed are those of oil revenues, internal and external balance, and the relative importance of other tradable sectors in contributing to long term growth.

While necessarily simple in structure, a model such as this can make it clear that short run decisions regarding government expenditures and oil revenues add up to a long run trajectory for the economy that may well not be the best that can be achieved. Bringing this awareness to the highest levels of the Angolan government is a task that can have immense benefits for the Angolan people over the long term: Though oil-induced macroeconomic imbalances have their origins at the level of the national government, the experience of all oil exporting countries is that the effects of these imbalances are felt at the lowest levels of society. Ultimately, helping the most vulnerable together with placing the whole country on a sustainable growth path is the goal of this analytical effort.

Thus, in short the prospects of Angola with reference to the oil sector lies in the following areas:-

1. Good relation with the International Financial Agencies.
2. Mutually trusted relation with the developed countries specially USA, UK, Germany and others who are running out of the middle – East.
3. Being a non- member of OPEC it can directly influence the international oil market.
4. The revenues and taxes collected from the oil sector can be well utilised for the holistic development of the Angola with reference to Infrastructure, transportation, education and Health services.

CONCLUSION

Chapter –IV

Conclusion

Conclusion

20 years of civil war has taken its toll on the southern African nation of Angola. The country has since independence was achieved from Portuguese colonial rule in 1975, experienced political as well as economic instability. Although a peace agreement was signed in 1994, reports on military activities still provide an uncertain environment for policy planners, domestic and foreign investors, and the general population of Angola. Recovery of the country requires immense human and capital input, and while the government does not have the ability to provide the funds needed to rebuild the country on their own, foreign investment (FI) is encouraged.

When transnational corporations (TNCs) operating in developing countries are discussed in international development forum, it is often with a negative connotation. Developing countries in desperate need for increased revenues and foreign exchange at times agree to contracts that would be unacceptable elsewhere. Reports of pollution, negative impact on the local population and their way of living, unproportionate repatriation of revenues leaving the host country with minimal resources for reinvestment, and unacceptable working conditions for local employees have been and continue to be reported, leading some to conclude that the net benefit (socially and economically) of foreign investment (especially with regards to direct investment) is minimal to the host country.

There is however a trend among TNCs to take social responsibilities into account when planning, coordinating and operating a business enterprise in a developing country. Corporations increasingly realize that it is beneficial, also from a corporate point of view, to conduct foreign subsidiaries in a socially responsible manner.

The Angolan government depends largely on foreign investors for the exploration, production and marketing of oil. Oil is the engine of the Angolan economy and provides for more than 90% of the country's foreign exchange, 94% of government revenues and 46% of GDP[1]. The fact that the country relies mostly on foreign companies to exploit this tremendous resource naturally poses a danger of

[1] *UNDP Development Report Angola 1997*, UNDP, New York, NY, 1997.

exploitation. U.S. firms have significant concessions in Angola, and although most financial data is confidential.

In order to paint a realistic picture of the political economy of oil in Angola and the impact of foreign companies, I in the first part of this work provided a background analysis of the social, political and economic situation of the country. The second part of the paper is devoted to describing and analyzing the oil industry and the oil politics in Angola in a conceptual framework.

Angola was under Portuguese colonial rule from 1915 to 1975, and as in many other African nations, the legacies bequeathed by the colonial era are still evident. The 20 year civil war erupting shortly after independence has also had a profound impact on Angola economically and socially. Only in the last decade under Portuguese rule did the colonials start investing in the provision of education and health services for the populations outside the main cities. The war has further prevented the country from having sufficient funds and management available for social and economic development. The lack of infrastructure due to minimal provision of such under colonial rule, further deteriorated by the course of the civil war, has only exacerbated the constraints to dealing with Angola's social and economic challenges.

Sixty-seven percent of the estimated 12 million people living in Angola currently live below the poverty line[2]. The annual population growth rate is estimated at 2,8 percent, and is lower than in many other African nations[3].. Although the rate is expected to increase as a result of increased stability, overpopulation is not the root of the poverty problem in Angola. The country is in possession of vast resources that could, if managed correctly, benefit the Angolan population as a whole. The large portion of the Angolan people living in poverty can be contributed mainly to unequal distribution of income and access to resources bequeathed by legacies of the colonial time, civil war and half hearted implementation of development programs.

Poverty has repeatedly been found to correlate with access to primary education. In Angola the correlation between illiteracy rate often used as an indicator of access to primary education and degree of deprivation or poverty is 0.99 according to UNDP estimates (1997). Primary education is in other words an

[2] presently measured by the UNDP as $40 per adult per month.

absolute must in the country's future development policies. Today (1990 est.) the literacy rate of the population age 15 and over is only 42 percent. The ability to read and write is also unequally distributed between men (56%) and women (28%), and there are high drop out rates at all levels. These statistics are due not only to lack of resources at the schools, but also to poverty in itself as many families can not afford to have their children in school, and are caught in a "poverty trap".

The degree of poverty, including access to resources, is unevenly distributed across regions and groups. There is high income discrepancy between urban and rural areas, indicating that the investment of resources has continued to be heavily concentrated in urban areas. The latter has contributed to increased rates of rural-urban migration, only to move the problem of poverty in rural areas to a problem of overpopulation in urban areas mostly Luanda. Income is however extremely unevenly distributed also in the main cities as the richest 10 percent earns 30 percent of the income generated while the poorest 10 percent earns only 2.2 percent (UNDP, 1997).

Although ethnic conflict was not the principal fuel of the civil war, the potential for such conflict is present. Angola has numerous ethnic groups; Ovimbundu 37%, Mbundu 25%, Bakongo 13%, Mestiço 2%, European 1%,Other 22% [4]. Already in the struggle for independence, the three principal independence movements were rooted in different parts of the country, with their principal base of support among one of the three main ethnic groups . A separatist group also emerged in the enclave of Cabinda, the oil rich province separated form the rest of Angola by a 25 mile strip of territory belonging to the Democratic Republic of Congo, former Zaire.

Movimento Popular de Libertação de Angola (MPLA) was founded in 1956 with its initial core of supporters from Africans and mestiços in the capital, but the party is now heavily supported by the Mbundu, an ethnic group which makes up an estimated 25 percent of the population. (Mainly located in the North West region of Luanda, Bengo, Kwanza Norte and Malanje). The MPLA was early on

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[3] *UNDP Development Report 1997*, UNDP, New York, NY, 1997.

[4] Hodges, Tony, Angola to 2000:Prospects for Recovery, The Economist Intelligence Unit, New York, NY, 1993,p-24

influenced by Marxism and received diplomatic and military support from communist countries including the USSR.

Frente Nacional de Libertação (FNLA) had mainly Bakongo supporters and received assistance from the US and China as counter weight to USSR supported MPLA. FNLA was however fractioned from the very beginning, and one of the major splits of the organization resulted in the foundation of União Nacional para Independéncia Total de Angola (UNITA) in 1966.

UNITA received minimal support from abroad, but built a political base of support among the Ovimbundu (the largest ethnic group, dominating in the southern central zone from Benguela to western Moxico), with whom the MPLA and FNLA had little contact. Presence of anti-colonial mestiços and whites was significant in the MPLA, while negligible in UNITA and the FNLA. UNITA and FNLA emerged as racial, populist nationalist groups differing from the Marxist based MPLA ideologically. Frente de Libertação do Enclave de Cambinda (FLEC) was a small secessionist movement that has had little impact due largely to factional strife.

When Angola gained independence in 1975, the MPLA established a one-party state. There was significant fighting between the independence movements, and although the FNLA and FLEC soon ceased to pose a significant military threat to the Luanda government, the threat from UNITA continued. In the late 1980s it became clear that neither side could win a military victory, and the first peace accords (the Bicesse Accords) were reached in May 1991. In addition the MPLA issued constitutional reforms implementing measures of democratization.

With the signing of the peace accords, democratization efforts, and scheduling for Angola's first elections, the prospects for peace and stability seemed promising. The democratization efforts were however partial, and freedom of expression was still limited. When elections were held in 1992, it was evident that the reconciliation process between the government and UNITA had not come as far as expected. The MPLA won a fair election supervised by international election monitors, and Eduardo dos Santos was elected as the first President of the Republic of Angola. UNITA did however not accept the election results and accused the MPLA of cheating. Consequently the worst period of the almost 20 year old civil war broke out. The death tolls in this period alone was higher than that of the whole war so far, vast numbers of people were displaced, and the nation was in complete disarray.

Intense mediation efforts between the parties led to the signing of the Lusaka Peace Protocols in 1994, and in April 1997, new efforts to stabilize the political situation accumulated in the formation of the Government of Unity and National Reconciliation. The new government integrates members of UNITA and other parties in vice president and ministerial posts, and the UNITA deputies elected in the 1992 elections have taken their seats in the National Assembly. Dr. Savimbi, the leader of UNITA has however not assumed his position as he claims to fear for his safety.

Several years of conflict have naturally scared the population on both sides. Although the agreements are signed, the psychological attitudes are difficult to alter. Occasional eruptions of violence still occur, and measures of trust building and unification are badly needed. Dr. Savimbi has according to numerous sources continuously presented an aggressive authoritarian image, and is seemingly uninterested in transition to Democratic Party politics.

The majority of UNITA's supporters, the Ovimbundu, are traditionally socially and economically disadvantaged; therefore, the importance of addressing the issues raised by this people is extremely important in order to prevent a largely ideological and personalistic battle from becoming a matter of ethnic conflict. Now that millions of Angolans, who were displaced or exiled during the course of the war, are returning, posing the challenges of resettlement and reasserting the question of access to resources; failure to address these issues could have serious consequences.

As can be seen from the analysis above, social, political and ethnic issues are heavily intertwined in the Angolan society. All three aspects do therefore have to be taken into account when approaching the challenges posed in conjunction with recovery of the country. Foreign investors, NGO's and others will have to be sensitive to this situation in order to approach their mission in a beneficial manner. Otherwise their involvement, although motivated by good intentions, can have undesirable consequences for the Angolan society, and in turn, for the project of the third parties.

The Angolan economy has been crippled by years of civil war and the resulting continued government spending and concentration on war efforts rather than economic policy planning. Little progress has been made in reforming public enterprises and financial institutions or improving public sector management. The economic legacies bequeathed by Portuguese colonial rule are still evident, especially in the critical shortage of skilled professionals, and high levels of corruption has been an important impediment to implementing sound economic policies. As Domestic investment and saving rates are currently lower than recommended by most economists due largely to the uncertain environment and inflation rates near 1000 percent. There are severe shortages in the domestic market, and a previously largely self-sufficient country is now importing food and other necessities. Due mainly to excessive war efforts, Angola also faces a large fiscal deficit, and the country's external debt did in 1995 reach $8.8 billion.

The lack of sufficient book keeping and inability by government officials to explain the expenditure of large portions of revenues, have led the IMF and the WB to deny providing the country with badly needed debt rescheduling and renewals. This has in turn resulted in the government acquiring loans from other sources to be repaid at extremely high interest rates, further binding the generated revenues in years to come

As noted above the MPLA was a Marxist influenced party, and soon after consolidating power in 1975, the government launched substantial nationalization reforms. In December 1991 the government did however revise the constitutional law, and marked the formal establishment of a market economy. The transition from a plan economy has not been easy, and the reforms have been only partially implemented while disrupted by the course of the civil war.

The major reason for the government's decision to privatize the economy was to attract foreign investment. Reconstruction of the Angolan economy did as earlier mentioned, require substantial capital which the government was in no position to provide. The government was however caught between the potential disadvantages in conjunction with allowing FI and the potential benefits to be accumulated from such activity.

Considering the tumultuous political situation the government was, and still is, reluctant to allow FI in certain sectors for social and political reasons; monopoly substitution, foreign ownership, ownership of strategic national interests by private investors, and the fear of being criticized by political supporters are all sensitive matters in a political economy in unbalance. The benefits of FI in form of increased income and opportunity, access to foreign capital, technology and management expertise, access to global markets, and enhanced efficiency are however crucial in order for the Angolan economy to move on.. But as noted in the very beginning of this paper, the foreign owned activities must be conducted in a socially responsible manner in order to be of mutual benefit to the country and the corporation involved.

The Angolan government's foreign investment policy has recently been revised and is now more favorable to foreign investors. The procedures are being simplified and expedited, and foreign companies are guaranteed equal treatment. As of 1994 foreign investors were allowed to transfer abroad dividends, profits and proceeds of the sale of investments; the percentage share that is allowed to transfer is however unclear, and could potentially leave the Angolans with little economic return on foreign investment. Special fiscal incentives are however applied to those companies employing a certain amount of Angolan employees and provide them with professional training and benefits equal to foreign employees. The latter provides for one way of enhancing the skills base of the Angolan population and for security of Angolan employees. The reoccurring question is whether these rules are being enforced.

Although the Angolan economy is now in a dismal condition, the country has tremendous resources that could, if managed correctly, turn Angola into one of the wealthiest nations in southern Africa. Numerous oilfields are located along the Angolan coast, there are several diamond mines in the interior, and the Southern part of the country has rich agricultural, livestock and fish resources and good prospects for mineral development. At the present time, the government does not have control over most of the diamond industry, but as the political situation stabilizes, the industry has potential to become a major contributor to the nations GDP.

Today the oil industry is the engine of Angola's economy. Oil accounts for 46% of Angola's GDP, 90% of its total exports and more than 94% of government revenues (UNDP, 1997). The oil industry was the only sector of the Angolan economy that was not affected by the course of the war. This due mainly to the offshore location of the majority of the producing oil wells. An ironic contributing reason was however also that while the civil war was raging and UNITA rebels were financed by the CIA, Cuban troops protected the oil production, mostly carried out by American owned companies.

Angola is currently the second largest producer of oil in Africa, producing an estimated 700-800.000 barrels a day. As the country is not bound by the production quotas of OPEC, the government continues to encourage increased production volumes in order to spur additional revenues, and production volumes may therefore overtake that of Nigeria. Almost all oil produced in Angola is exported, as the domestic electric generation is achieved mainly by hydroelectric resources.

Discoveries of oil were made already in 1910, but commercial discoveries did not start until 1952. As oil production had reached reasonable levels already under colonial rule, the first priority of the post independence government was to develop a national oil policy. The national oil company Sociedade Nacional de Combustiveis de Angola (Sonangol) was created and became the sole concessionaire for oil exploration and production.

The state owned company was granted to enter associations with foreign oil companies in order to acquire sufficient resources needed to carry out extensive oil exploration, development and production, and the company has since its creation been involved in all stages of the oil industry. The extent to which the state company is involved is however now being liberalized.

Due to the extreme dependence on the oil industry and the lack of capital to exploit the resource on their own, the government provides beneficial investment opportunities to foreign oil companies. In addition, low operating costs and favorable geology attract many foreign investors. The Economist Intelligence Unit reports that the overall exploration rate has been extremely impressive; in the 1987-1991 period, 57 discoveries were made for 88 exploration wells which constitutes a 65 percent success rate. Comparatively the success rate was 22 percent in the UK sector of the North Sea for the same period. These factors combined with increased stability in recent years have resulted in an FI increase in the industry from $2.7 billion in 1980-86 to $4 billion in 1993-97[5].

The geographic region where the oil industry operates is divided into more than 30 blocks. In order to acquire a concession for an exploration block, a foreign

[5] A contribution from Embassy of Angola (India).

investor is obligated to drill a minimum of four oil wells, each of which costs about $20 million. Due to the high risk costs, companies do therefore often enter collaborative agreements. American oil companies with significant involvement in the Angolan oil sector include Chevron, Texaco, Mobil, Exxon and Occidental, and Elf, Agip, Energy Africa and Saga from other parts of the world.

Collaboration with foreign investors occur in the form of joint ventures and production sharing agreements (PSAs). In the first case the investment costs and production are divided according to the party's share in the venture; in the latter the foreign partners act as contractors to Sonangol, finance all investment costs, recoup their investments with "cost-oil" and share "profit-oil" with Sonangol on a sliding scale linked to internal rate of return rather than cumulative production. The latter serves to increase the incentive to invest in achieving higher production levels.

PSAs are attractive both to the government and to foreign investors; the government avoids the risk costs, and the foreign companies are able to frontload the cost-oil, enabling them to amortize investment quickly. As the government encourages the PSA option, the tax rate is lower than for the joint venture option; in a PSA the foreign company pays 50 percent on retained profit oil, while in a joint venture the foreign partner pays production royalties, income tax and excess profit tax exceeding the 50 percent charged in the PSA option. As described earlier the taxes collected from the oil industry constitutes the vast majority of government revenues.

In general, there seems to be a tendency among TNCs to use an increasing number of local employees in operations abroad. The workforce in the oil sector of Angola did in 1996, according to the UNDP Human Development Report 1997, consist of 9000 Angolans and 1000 foreigners. Due to expansion of the oil industry and the turnover rate of expatriates, the current numbers of nationals and expatriates involved in the industry are however likely to be higher. The rate of Angolans employed on an administrative level is not available, and is most likely low considering the lack of Angolan skilled personnel. The UNDP states that the Angolans find the sector attractive to work in, as the working conditions are better than in most other sectors of the economy. The oil sector is however extremely capital intensive and has very few linkages to the rest of the economy.

The increasing dependence on one product for foreign exchange earnings and government revenues makes the country vulnerable to price changes in oil. According to an US-Angola Chamber of Commerce estimate, for every one-dollar drop in oil prices, Angola loses $120 million in projected income. As the taxes from the oil industry provides for most of the government's income, this puts the country in an extremely vulnerable situation. The government is attempting to reform the tax system in order to provide a more efficient and enforceable system and to broaden the base of sources for government revenues. Ultimately this does however depend on the development and income generation of non-oil industries.

Although the industry is capital intensive and provides for few jobs, the revenues generated could, if managed correctly, have spurred growth in other sectors. The revenues earned have however been used mainly to fund non-productive expenditures large portions of funds are not traceable) and a big portion of the revenues are mortgaged for several years to come against Angola's external debt. As recent as 1997, the Angolan government managed to negotiate fresh credit from Portugal, Spain and Brazil by guaranteeing payment against future oil production.[6]

Roughly 45 percent of the oil sector export earnings flow out of the country due to imports of equipment and other goods used by the oil industry, exploration costs, shipping, travel of expatriate oil workers, interest payments on loans, the repatriation of profits, and the transfer of expatriate salaries. After the expenses above are covered, little is therefore left to reinvest in productive operations that could increase the country's PPF.[7].

There is still potential for the oil industry to expand. Angola has large proven reserves, and as mentioned above the geological conditions are extremely favorable. A domestic refinery currently serves the domestic demand for oil, but it does not at the present time have the capacity to refine much of the oil exported. Studies have however been carried out regarding establishing a grass – root refinery in the Southern part of Angola in order to potentially serve other south African nations with refined oil.

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[6] US-Angola Chamber of Commerce, Report 1997.

[7] Tony Hodges, " Angola to 2000:Prospects for Recovery", *The Economist Intelligence Unit*, (New York, 1993)

There is no doubt that oil is a great asset to Angola. The debt burden, civil unrest, corruption and the lack of management skills and knowledge required to exploit the resource and reinvest the profits in a responsible and beneficial manner have however been impediments to exploit the industry to its full potential, contributing to leaving the nation in a dismal economic condition.

The prospects for economic growth as well as social and economic stability do to a large extent depend on whether the political unrest stabilizes. The opening of the CUA may also be postponed due to recent reports of escalation of conflict. Many have pointed out that Dr.Savimbi, the leader of UNITA, may not be interested in any sort of power sharing agreement with the MPLA, and it is difficult to see how the country will achieve peace if the personal stance of Dr. Savimbi is not resolved.

In this turbulent atmosphere it is extremely important that foreign corporations conduct their business in a socially responsible manner. The potential is certainly there for the country to benefit socially and economically from the presence of foreign oil companies, but this requires correct management and genuine interest both from the corporate and the Angolan government's side.

Foreign investment, debt rescheduling, privatization, tax reforms and long term economic development planning are crucial factors on Angola's road towards a stable, sustainable economy; the development of a skilled work force is however crucial if these reforms are to be planned and implemented, and the country to assume a more self-sufficient role. The contribution by foreign companies in improving the country's skills base is therefore of tremendous value.

Although one can not expect that transnational corporations around the world will adapt the extent of involvement in the host country's social affairs as that of Citizens Energy, Mobil, Saga, and Energy Africa in this particular case, this case does provide a lesson for the governments of developing nations and for transnational corporations in general. Governments of developing countries can learn from this case that they do have the ability to implement decrees of the sort passed by the government of the Republic of Angola in order to maximize the social benefit of foreign investment; whereas transnational corporations should note that although there is commercial competition between foreign investors, it is possible to cooperate on social projects to the benefit of the host country and the corporations themselves. Increased consumer awareness and global means of communication have contributed to making it commercially profitable to engage in social projects extending beyond what has traditionally been considered to lead to profit maximization.

Finally what can be said about the oil politics in Angola is that it is interwoven with unequal distribution of the resources to the various ethnic communities in various regions of the Angola, any conflict is deep-rooted with the cause of getting a stronghold in the oil sectors of the Angola, which is the only way of resources generation after diamond. It is thus significant to note that after the death of UNITA leader Jonas Savimbi , Government should take into the consideration the social responsibility and afford the minimal basic infrastructure supplemented with health and educational support so that mutual hostility among the have and have not can be brought to an end . Angola has a vast resource of development, which can be best utilized only given the population are taken into the confidence by fulfilling their demands. Further, the prospects of Angola in oil sector lies in its well management, transparency, and updating of all the transactions, the value of the Angola will further increase in the coming times, because of the given fact that after the Iraq war, the West will move more towards these African countries where the secret of future oil lies and Angola being the second largest oil producer can well bargain its potentialities, secondly Angola can well altered the oil equation in Sub- Saharan Africa as it will replace Nigeria by becoming the largest oil producer, finally Angola , being a non- OPEC member has the potential to influence the international oil market . Thus, Angola needs to go slow and make the policy, which can be suitable for more bargaining in international oil market.

APPENDIX

APPENDIX

Table 1: Sources of Incoming Oil Revenue 2000

source of incoming oil revenue for 2000	**amount (u.s.$ millions)**
Taxes (Royalties, Petroleum Income Tax, Petroleum Transaction Tax), except for Sonangol	1,697
Sonangol taxes	1,355
Concessionaire Profit Oil	1,075
SUB-TOTAL:	**4,127**
Concessionaire Commission	134
Signature Bonus Payments	-
Payments to Provincial Governments (Cabinda and Zaire)	149
SUB-TOTAL	**283**
Active Loans received under the Cabinda Trust for the past 10 years	1,418
Active Loans received under the Soyo Palanca Trust over the past 10 years	1,075
SUB-TOTAL	**2,493**
Sonangol Net Profit after tax from un-audited financial statements	406
Total Incoming Oil Revenues minus loans	**4,816**
Total Incoming Oil Revenues including loans	**7,309**

Table 2: Revised Incoming Revenue in 2000

source of incoming revenue for 2000	**amount (u.s.$ millions)**
Taxes (Profit Oil, Petroleum Income Tax, Petroleum Transaction Tax), excluding Sonangol	1,697
Taxes for Sonangol	1,355
Profit Oil for the Concessionaire	1,075
Payments to the Provinces of Cabinda and Zaire	149
Signature Bonus Payments	-
Loans received in 2000	1,000
Loans between states	94

Sales by Sonangol of petroleum products	102
TOTAL	**5,472**

Table 3: 2000 Tax Receipts Received by the Angolan Central Bank from Private Companies

Company	**Tax Receipts from BNA (U.S.$ millions)**
Cabinda Gulf Oil Company	954.004
Elf Exploration Angola	34.476
Elf Petroleum Angola	235.583
Agip	286.273
Texaco Panama	17.266
Petrogal	8.517
Braspetro	18.771
Ajoco	3.978
Angola Japan Oil Co.	19.412
Ina-Naftaplin	2.888
Naftagas	2.227
Sonvol	.237
Svenska	1.966
Omega	.036
Total Angola	24.839
Total Fina Elf S.A.	21.214
Sonangol	18.712
TOTAL	**1,650.400**

Table 4: Total Taxes And Profit Oil Received By All Companies In 2000 (U.S.$ And Kwanzas Millions)

	Accounting Department Ministry of Finan	**Tax Department Ministry of Finance (MinFin)**	**Ernst &Young Fiscal Report**	**Revised MinFin Total Adjusted Minus 1999 Taxes and Profit Oil Paid in 2000 and Including Profit Oil for 2000 Paid in 2001**	**Central Bank of Angola (BNA)**

	ce (Min Fin)				
Amount in U.S.$	4,469.136	4,276.196	3,881.962	3,654.893	1,650.400
Amount in Kwanzas	40,773.580	39,013.312	37,174.210	-	

Table 5: Discrepancies Between Sonangol's Fiscal Report and Two Sets of Figures from the Ministry of Finance Tax Directorate (U.S.$ Millions)

Description	Royalties	Petroleum Income Tax	Petroleum Transactions Tax	Petroleum Income Tax (50%)	TOTAL
Sonangol Fiscal Report Revenues Paid	295.828	423.517	164.316	53.478	937.140
Revenues Received According to Tax Directorate (1)	344.929	530.142	176.917	-	1,051.988
DISCREPANCY (1)	**+49.101**	**+106.625**	**+12.601**	**-53.478**	**+114.848**
Sonangol Fiscal Report Revenues Paid	295.828	423.517	164.316	53.478	937.140
Revenues Received According to Tax Directorate	468.280	733.511	153.533	-	1,355.324

(2)					
DISCREPANCY (2)	**+172.352**	**+309.994**	**-10.783**	**-53.478**	**+418.085**

Table 6: Comparison between Profit Oil Paid to Ministry of Finance versus Profit Oil Received in 2000 (US$ Millions)

Entity	Profit Oil Payable	Profit oil paid	outstanding balance by 12/31/2000
Sonangol Fiscal Report	1,720.109	1,209.612	510.497
Ministry of Finance Tax Directorate (1)	1,183.770	1,074.794	81.407
DISCREPANCY (1)	**-536.339**	**-134.818**	**-429.090**
Sonangol Fiscal Report	1,720.109	1,209.612	510.497
Ministry of Finance Tax Directorate (2)	1,183.770	886.773	269.429
DISCREPANCY (2)	**-536.339**	**-322.839**	**-241.068**

Table 7: Signature Bonus Payments by Block, Year, and Amount

Block	Companies	Year Paid	Amount (U.S.$ millions)
1 (Safueiro)	TotalFinaElf (25%), Petrogal (10%), INA-Naftaplin (7.5%), Naftagas (7.5%)	1982	3.5
2 (Area 80-85)	ChevronTexaco (20%), Petrobras (27.5%), TotalFinaElf (27.5%), Sonangol (25%)	1980	1.0

3 (Area 85-91)	TotalFinaElf (53.34%), Agip (16%), Mitsubishi (13.33%), Sonangol (6.67%), INA-Naftaplin (5.33%), Naftagas (5.33%)	1980	1.0
14	ChevronTexaco (31%), Sonangol (20%), Agip (20%), TotalFinaElf (20%), Petrogal (9%)	1995	12.0
15	ExxonMobil (40%), BP (26.67%), Agip (20%), Statoil (13.33%)	1994	35.0
16	Ranger Oil (50%), Odebrecht (30%), Sonangol (20%)	2002	30.0
17	TotalFinaElf (40%), ExxonMobil (20%), BP (16.67%), Statoil (13.33%), Norsk Hydro (10%)	1993	10.0
18	BP (50%), Shell (50%)	1996	9.0
19	TotalFinaElf (30%), Canadian Natural Resources (25%), Sonangol (20%), Ocean Energy (20%), Naphta-Israel	1998	10.0*

	(5%)		
21	BHP (30%), Sonangol (20%), BP (20%), ExxonMobil (20%), Shell (10%)	1998	41.0
24	ExxonMobil (50%), Sonangol (20%), Ocean Energy (15%), Petronas (15%)	1999	69.0
25	Agip (40%), ExxonMobil (35%), Sonangol (25%)	1999	69.0
31	BP (26.67%), ExxonMobil (25%), Sonangol (20%), Statoil (13.33%), Marathon Oil (10%), TotalFinaElf (5%)	1999	335.0
32	TotalFinaElf (30%), Sonangol (20%), Prodev (sold to Marathon Oil, 20%), ExxonMobil (15%), Marathon Oil (15%, now 35% with Prodev acquisition), Petrogal (5%)	1999	231.0
33	ExxonMobil (45%), Sonangol (20%), TotalFinaElf (15%), Falcon Oil (10%),	1999	300.0

	Naphta-Israel (5%), Petrogal (5%)		
34	Sonangol (20%), Norsk Hydro (30%), ConocoPhillips (20%), Petrobras (15%), Shell (15%)	2001	400.0 (278.6)
TOTAL 1980-2002	-	-	**1487.5 (1366.1)**

Table 8: Angolan Government's Unexplained Expenditure Discrepancies 1997-2002

Year	1997	1998	1999	2000	2001	2002	TOTAL
Total Government Expenditures (U.S.$ Millions)	4,966	2,771	5,016	5,387	4,383	5,370	**27,893**
Discrepancy (U.S.$ millions)	1,775	34	1,119	407	540	347	**4,222**
Discrepancy (% Government Expenditures)	35.7	1.23	22.3	7.56	12.3	6.46	

Discrepancy (% GDP)	23.1	0.6	18.4	4.6	5.7	3.1	
Average Discrepancy 1997-2002 (U.S.$ millions)	**703.6**						
Average Discrepancy 1997-2002 (% Government Expenditures)	**15.14**						
Average Discrepancy 1997-2002 (% GDP)	**9.25**						

Table 9: Ex Post Extrabudgetary Expenditures for Goods and Services 1997-2001 (U.S.$ millions)

1997	**1998**	**1999**	**2000**	**2001**	**TOTAL**
980	566	1,290	1,062	205	4,103

Table 10: Comparison between Military and Security Expenditures and Unexplained Discrepancies 1997-2002

Year	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Military Expenditures (u.S.$ millions)	640	934	1,572	793	680	808

Discrepancy (U.S.$ millions)	1,775	34	1,119	407	540	347
Military Expenditures (% GDP)	8.3	14.5	25.8	9.0	7.2	7.2
Discrepancy (%GDP)	23.1	0.6	18.4	4.6	5.7	3.1
Difference ($U.S. millions)	-1,135	+900	+453	+385	+140	+461
Total Military Expenditures 1997-2002 (U.S.$ millions)	**5,427**					
Total Discrepancy 1997-2002 (U.S.$ millions)	**4,222**					
Total Difference: Military Expenditures-Discrepancy 1997-2001 (U.S.$ millions)	**1,205**					

(Sources of all these tables are KPMG- A Projected conducted by the IMF, *Inception Report*)

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