

Angola

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|---|----------------|--------------------------------------|-------------|
| Status Index (Democracy: 3.38 / Market economy: 3.43) 3.41 | | Management Index 3.57 | |
| HDI | 0.445 | Population | 15 mn |
| GDP per capita (\$, PPP) | 2344 | Population growth¹ | 2.8 % |
| Unemployment rate | >50 % (estim.) | Women in Parliament | 15 % |
| UN Education Index | 0.54 | Poverty² | - |
| | | Gini Index | 51,0 (2000) |
| Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003) | | | |

A. Executive summary

Despite being richly endowed with natural resources such as oil and diamonds, Angola still belongs to the group of least developed countries. Ravaged by 27 years of civil war and, according to the IMF, with at least 65% of its urban population living below the poverty line, resources seem to be more a curse than a blessing for this country.

Today, Angola finds itself at a critical juncture in its democratization process. With a return to the Lusaka peace agreements between Movimento Popular pela Libertação de Angola (MPLA) and União pela Independência Total de Angola (UNITA) in April 2002, the first precondition for a successful democratization process was created – peace. However, it remains to be seen whether Angola will continue on the road of most oil-producing countries - negative development and authoritarian rule - or whether it will succumb to popular demands for transparency, accountability and service delivery.

Up to now, oil revenues have decreased the reliance on non-oil taxes, thus severing the link between the Angolan people and their government, elections have been postponed for several times, and civil society and opposition parties remain weak in their ability to check the government.

Angola has managed to cope successfully with its macroeconomic challenges. The government was able to bring down the inflation rate to below 50% and the depreciation of the national currency, the kwanza, was correspondingly slowed. GDP growth rates are sound and, despite widespread corruption, Angola remains one of the favorite destinations for foreign direct investment flows on the continent. Under pressure by multilateral institutions, the Angolan government even moved slightly toward more transparency regarding oil revenues, external debt and Sonangol transactions. However, monitoring and control of public expenditure remains weak and hardly allows for any evaluation of fiscal information. For the same reason, sound economic growth beyond the export

profits made by the oil sector requires a conducive business environment with transparent regulations and legal institutions for the enforcement of property and contractual rights. Particularly the latter remains underdeveloped and under governmental influence. The biggest challenge for Angola, however, will be to hold the elite accountable and to have the right mechanisms in place to stop the looting of state coffers by “clientele-istic” networks.

B. History and characteristics of transformation

With war having ravaged the country since the early 1960s, (first against the Portuguese colonial regime and from independence onwards mainly between MPLA and UNITA) a peaceful conflict resolution has become an essential precondition for the democratization of Angola. Angola’s transition became a twofold and interdependent process where the introduction of democratic reforms also constituted a condition for peace negotiations. As the Angolan conflict had been deeply embedded in the Cold War, external factors played a crucial role in domestic events. However, as events later on showed, the role and behavior of national actors was ultimately decisive.

Changes in the international environment as well as a military stalemate (the battle at Cuito Cuanavale in 1988) facilitated the New York accords about the independence of Namibia that was linked to the withdrawal of Cuban troops from Angola. The latter, in particular, created pressure on the MPLA to begin negotiations with Jonas Savimbi’s UNITA. Militarily weakened by the loss of Cuban troops and the end of Soviet military aid, the MPLA government additionally had to face an economic crisis through decreasing oil prices. However, assistance for Angola from the IMF and World Bank was still vetoed by the United States at that time.

It was within the context of this mainly externally shaped peace that negotiations in Bicesse – which would last from April 1990 until May 1991 – began under the moderation of Portugal and with the participation of both superpowers. Military actions during the negotiations, which were aimed at improving the position of the negotiating parties, demonstrated early on that neither MPLA nor UNITA were interested in peace but rather were attempting to secure their grasp of power by any means possible. Besides, the in political liberalization initiated parallel to –the peace negotiations and conducted just as hesitantly – highlighted the MPLA’s aversion to reform. Indeed, the MPLA could guarantee the privileges of the nomenclature and access the full resources of the state only if exclusive power was vested in it. Still in June 1990, Angolan President Eduardo dos Santos stated, “[...] que no caso de Angola a instituição de um regime pluripartidário, nas actuais condições poderia revelar-se muito perigoso.” “that in the case of Angola

the implementation of a multiparty system under the current circumstances could turn out to be very dangerous,” (África, Lisbon, 06.06.1990. Translation by the author).

However, during the peace process the MPLA had to agree to UNITA’s demands to introduce a multiparty-system. At the third MPLA party congress on April 12, 1990, the Angolan constitution was amended accordingly. At the same time the official Marxist-Leninist party doctrine was abandoned and a democratic socialism introduced. Furthermore, the Bicesse accord not only prescribed a ceasefire and the demobilization of both armies but also the composition of a new army with recruits from both sides and the re-establishment of state structures in formerly UNITA-controlled areas. Elections were scheduled for November 1992 and the United Nations mission UNAVEM received a mandate to monitor the peace process (UNAVEM II). However, a weak support for this mission (\$132 million), an over-ambitious timetable, the “winner-takes-all” option for the formation of a new government after elections as well as an incomplete demobilization process before elections became a burden for the peace and democratization process.

When MPLA (54%) won the parliamentary elections against UNITA (34%) and Savimbi only managed to get 40.1% of electoral support in the presidential elections, he decided to pull out of the process with allegations of electoral fraud even before a second round in the presidential elections could have been conducted. Both parties immediately reverted to a military solution with heavy fighting underway even in the capital city, Luanda.

C. Assessment

1. Democracy

1.1. Stateness

Although the MPLA government had no monopoly of power over the Angolan territory during the years of civil war, it nevertheless demonstrated a surprising resilience to survive. At that time, Angola could be classified, on a national level, as a failed state in the classical Weberian sense. However, if one focused on the Angolan state as the limited territory under control of the Angolan government and then assessed the government’s performance, one at least could speak of a weak, under-structured state. The determining factor for a weak or strong state, according to Barry Buzan (1991: 97) is the degree of socio-political cohesion, and not its military strength. In addition to a lack of territorial control, the Angolan state demonstrates three interrelated and interdependent features, which are decisive with regard to socio-political cohesion. These features are:

- A de-linkage of the Angolan political elite (itself fragmented) from Angolan society;
- An erosion of the Angolan state's performance in delivering services to the people, especially at sub-provincial level (municipalities and communes); and in consequence
- A loss of political legitimacy for the government.
- In the Angolan context, municipalities are territorial administrations without any devolved or decentralized resources, entirely dependent on their transfer from the national government. The 18 provincial governments are well endowed and powerful, almost fiefdoms of provincial governors loyal to the president and the MPLA.

The Angolan state shows the typical features that Terry Lynn Karl elaborated for states highly dependent on revenues from commodities. States that are dependent on taxation and domestic revenue collection need to develop the organizational capacity to collect taxes and fees. They need to develop a functioning public service that reaches out to its citizens. However, in order to motivate the citizen to pay taxes, the state in turn has to provide and deliver its services.

Dependence on foreign aid or revenues drawn from the sell out of natural resources proves in most cases detrimental to the establishment of a citizen-state relationship. In the case of Angola where the government's main source of income was derived from the petroleum sector, this fact prolonged the civil war and hindered the government from performing its functions, but also the state failed to deliver social services due to a growing de-linkage of the state from the Angolan society.

Despite the fact that the Constitution (Chapter VII) addresses the issue of local government, and respectively autonomous self-government, it does not affect substantially the centralist orientation and administrative division of the public administration. The Angolan government is acutely aware that decentralization of resources, service delivery and of political participation is a condition sine qua non for stability and poverty reduction. Hence, it embarked on a decentralization project with the strong support and pressure by international partners such as the World Bank, UNDP and the European Union in 2002-2003.

At the time of this writing, the state's monopoly on the use of force is challenged by liberation fighters in the enclave of Cabinda whose aim is to establish an autonomous territorial entity. Although the liberation movement, Frente Nacional de Libertação de Enclave de Cabinda (FNLEC), seems to have lost some of its military strength, the level of resistance against everything Angolan remains high in Cabindan society. The aversion against domination by a central power became

obvious when the new bishop for Cabinda was named. The candidate chosen by the Episcopal Conference of Angola and São Tomé was publicly rejected and humiliated for being an Angolan at his ordination.

Although ethnic cleavages are more virulent in Angola than for example in Mozambique, civil rights are not denied based on ethnicity. The need to consciously create a spirit of an Angolan nation has been recognized by the government that tries to promote a sense of “Angolanity” and pride to be Angolan through a campaign of *exaltação e afirmação de patriotismo nacional* (national patriotism). The Angolan state is defined as a secular state and religious dogmas do not interfere with the secular order.

1.2. Political participation

So far, the Angolan government has failed to hold elections since 1992 thus keeping people from holding their government accountable. After 1992, elections were mainly denied because the civil war was still ravaging the country and that a peace process had to be in place. However, since 2002 the Angolan government has shown a weak political will to proceed with elections. In November 2004, President Dos Santos indicated that presidential elections might only take place one year after parliamentary elections (currently scheduled for 2006). Certainly one may assume a reason for the delay is the ruling party’s protection of their the exclusive access to resources. In addition, the government has not made many improvements in ordinary people’s lives, a fact provoking fears among the ruling elite that they could lose out in the elections.

To ensure the credibility of Angola’s elections it is important that the process shows sufficient transparency and it can be steered by an independent and professional electoral commission. Even as Angola prepares for voter registration, it still lacks this electoral commission and the process remains under the control of an inter-ministerial council led by the Minister for Territorial Administration.

Popular participation in the decision-making process in Angola is also limited by the country’s high illiteracy rate: 59.9% of the population is illiterate. Only 38% own a radio and 14% own a television. The phone-in programs first introduced by Radio Ecclesia, later copied by the Rádio Nacional de Angola (RNA), and other commercial stations enjoy huge popularity and they have opened up space for public debate. However, the climate of denunciation and intimidation resulting from over three decades of civil war and Marxist-Leninism remains prevalent.

Although the Angolan government recently regulated the activities of NGOs by presidential degree (Number 84/02, December 31, 2002), the registration process still follows the cumbersome procedure of submitting first a request for registration, along with the organization’s statutes, to the ministry of justice who

then publishes the statutes in the *Diário da República* (Official Gazette). Finally, the attorney general has to register the organization. However, requests for registration are often denied despite the compliance with all official requirements.

Despite these bureaucratic constraints, the Angolan NGO sector witnessed civil society organizations mushroom in the beginning of the 1990s. However, most of these NGOs remained one-man shows predominantly based in Luanda. Only a few appear to be strong and have necessary capacity. As most NGOs were operating in the field of humanitarian assistance during the war, they now have to engage in a thorough and often cumbersome restructuring process, developing new strategies and identifying new short- and medium term objectives. Currently 360 NGOs are registered with *Forum das Organizações Não Governamentais de Angola* (FONGA). However, according to its president, Antonio Kiala, most of them exist only on paper and a real assessment of those still surviving and implementing projects needs to be done.

According to the Angolan Constitution (Number 23/92, September 16, 1992) the right to freedom of expression, assembly, demonstration and association in all forms of expression are guaranteed (Article 32 [1]).

However, the gap between constitutional theory and democratic reality remains substantial. Although the end of the civil war encouraged Angolans to exercise their rights anew, the Angolan government and agents of the ruling party continue to disenfranchise citizens of their rights. Conditions have mainly changed in the capital and along the coastal region but the situation remains precarious in the interior of the country. The national legislation itself imposes serious limitations of fundamental rights guaranteed by the constitution.

Particularly the individual's right of honor is guaranteed through criminal sanctions for defamation, the wrongful accusation that someone has committed a crime and the attribution of a negative characteristic to a person. These laws easily enable influential members of the elite to silence criticism. Additionally, statements of facts or opinion that might be disagreeable to the president of Angola constitute a criminal offence punishable by prison. So-called *desacato* laws further impose sanctions on disobedience to authority and thereby undermine the democratic principle of oversight of governmental authority by public scrutiny. Since elaborated, freedom of the press is heavily constrained by these regulations. Throughout the last two years, journalists' arrests occurred mainly due to reporting on corruption, violence of state agents against street vendors and on the self-enrichment prevalent among the national elite. Journalists censor their work in advance in order to avoid problems with the state. Working conditions for journalists are particularly bad in the provinces because authorities there are not as exposed to public scrutiny as in the capital, and therefore often react swiftly.

The media sector - both print and broadcast media - continues to be controlled and heavily subsidized by the government (making up 89.9% of all operational subsidies for state-owned business). In addition, government initiatives to co-opt or buy off the private media sector, or to support the creation of new government friendly organizations, have been noticed recently. The only nationwide operating radio station is the voice of the state, RNA. Radio Ecclesia is one of the few private radio stations that are confined to operate in Luanda only. They have not yet succeeded in their applications for permission to transmit beyond the capital. Instead, this radio station run by the Catholic Church faces regular waves of intimidation.

Despite the appearance of several new private weeklies over the last two years, the print media sector remains dominated by the state-owned daily journal, *Jornal de Angola*. Seven private weeklies are regularly constrained by technical and financial weaknesses, weaknesses that are partly due to political obstacles. Private journals' outreach is limited mainly to Luanda because there is no necessary dissemination infrastructure in place. In addition, the price of these journals limits their outreach to the majority of Angolans who cannot afford them.

Although decree Number 16A795 (December 15, 1995) guarantees the right to access publicly held information, access remains limited by the laws on national defense and state security. Journalists are regularly denied attendance to events in which the president will be present. Access to government documents is limited, thus enhancing the possibility of the government to manipulate information. Requests by national and international NGOs for specific information are usually denied or indeterminately delayed.

According to the law, demonstrations have to be announced at least three days before taking place. Although the regulation is not contravening international law or customs as such, it is problematic mainly because it is abused by Angolan authorities to prevent any form of legal protest. Inter alia the law allows for police to intervene and terminate a previously authorized protest if acts or statements taint the honor of the Angolan government or public officials.

1.3. Rule of law

Above all the justice system remains highly dependent and suffers from political pressure. De facto a separation of powers does not exist. The Angolan ruling elite is able to loot the coffers of the state without any fear of reprimanded. Nevertheless, there is still a prevalence of fear among the elite that in case of democratic change, justice might eventually be served concerning past crimes. Consequently this enforces the elite's to cling to power for as long as possible and by any means.

A lack of lawyers practicing in the provinces impedes many Angolans' access to justice. A scarcity of criminal defense lawyers and prosecutors contributes to a delay in detainees being brought to trial. This is also perpetuated by a lack of judges. Salaries are low and deter law students from entering the judicial service. In addition, inadequate remuneration fosters corruption. With only 23 of 168 municipal courts, operational most cases end up in the provincial courts where they contribute to a tremendous backlog of cases. So far, the government has also failed to set up a constitutional court as the Angolan constitution stipulates (International Bar Association, 2003). Considering the disastrous situation of the justice system in the provinces and municipalities, even a senior government official had to admit that "to the extent justice existed, it was only in Luanda".

1.4. Stability of democratic institutions

Parliament has not yet fulfilled its role as an arm of control on government. In the past it neither showed itself to be proactive nor did it demand greater transparency, particularly when it came to budget issues. According to rumors circulating in parliamentary circles, the budget discussion in 2003 became quite lucrative for members of parliament. According to an interview the author conducted with a donor representative (April 2004), allegedly between \$17,000 and \$18,000 were paid for the discussion per capita. Extra-budgetary titles in the past enabled even the president to corrupt those that could constitute a challenge to his rule.

Because UNITA has been a part of the Governo de Unidade e Reconciliação Nacional (GURN) since April 1997, parliamentary opposition is weak and UNITA struggles to find a balance between being the major opposition party while at the same time holding ministerial positions.

In the past, the institutional weakness of political bodies such as the parliament and ministries vis-à-vis the presidency, as well as an impotent and often co-opted civil opposition, has failed to counteract a further alienation between those in power in Luanda and Angolan society. In addition, a problematic public sector must be seen as part of this institutional weakness. Its growing inefficiency contributed to the steady decay of the state's capacity to fulfill core functions. The paralyzed public service suffers from its lack of connection with society, leading to a low socioeconomic level. A steady erosion of salaries marks the country's public administration.

In the post-independence era state bureaucracy remained ineffective (with the exception of the petroleum sector). Public administration turned into a support network for MPLA cadres who were provided with cheap access to a number of perks including: transport, accommodation, electricity, water, telephone and etcetera. However, the growing economic paralysis in the middle 1990s not only

led to a steady erosion of the value of public salaries but also to a gradual decrease in welfare provision, thus reinforcing the social distance between the core circle of the ruling elite and its administrative substructure. As public servants' pay packets (quite often not more than an equivalent of \$10) lost their purchasing power, those affected had to seek other sources of income. In consequence, and in order to survive, public sector employees spend much more time on rent-seeking activities than at their official jobs.

Therefore, evaporating wages have to be seen as one of the main reasons for the implosion of social services, which is already on the lowest level. Furthermore, it fostered the growth of corruption among officials in all sectors at all levels.

Although the Angolan military does not have veto powers as such, it still needs to be considered a powerful actor. Leading generals of the defense forces were the main beneficiaries of the civil war (arms deals, civil engineering and construction as well as diamond trade) and they continue to pursue their economic interests. For example, many joint ventures from foreign business initiatives in Angola have a military general on their Board of Directors. For President Dos Santos it is a convenient way to provide the military leadership with its own access to resources and to satisfy their appetite for power economically. With the integration of UNITA cadres into the ranks and files of *Forças Armadas Angolanas* (FAA) the defense forces seem to have undergone a transformation process towards a professional non-partisan army. The crucial question for Angola's democratization process remains, despite the integration of UNITA cadres into the FAA, as to whether one day the military leadership might not draw a desire to grasp more political influence from their economic power.

1.5. Political and social integration

An analysis of the disconnection of Angola's political elite from its social basis has to be distinguished at two levels. First, on a socio-political level, historical cleavages within Angola's elite gave birth to three separate liberation movements. In addition, its ethnic dimension and overlapping congruency with an urban-rural bias also enhanced and fostered the alienation between the people and ruling elites. Secondly, the socioeconomic dimension this of disconnection is characterized by the existence of an informal and parallel economy, the absolute lack of transparency of the Angolan state's budget and the characteristics of what can be called an off-shore economy.

With the power shift toward the "Futungo" (the shortened name for the president's private residence, Futungo de Belas; as implied by its name, it refers to President dos Santos and his entourage of political, military, and business elites) and the presidential circle, the MPLA lost any influence and capacity to determine Angolan politics. In addition, the rule by presidential decree

undermines and weakens party structures. In consequence, most of the MPLA's cadres - the intellectual backbone of the party - shifted their attention to private life and private businesses. As a result, the party's capability to remain a decisive political factor and a connecting link to society were further weakened. Nevertheless, the symbiosis of state and party remains strongly prevalent, particularly on the lowest level of state administration.

Civil opposition parties and Angolan NGOs are not able to fill this gap and to be a bridge to society. There is a limited interaction between the state and civil society due to their past relationship determined by prohibition and control.

Ahead of the 1992 elections, the Angolan government created a law that subsidized the establishment of political parties in order to disrupt the developing political opposition. This resulted in a situation where approximately 126 political parties were registered in Angola but only a few of them are more than MPLA offspring or personal megalomaniacs of their party leaders. With the abandonment of the national legislation supporting the creation of political parties, state subsidies dried out. However, for parties with seats in the national assembly state funds are still available. Those few that managed to establish themselves, such as the Partido de Apoio Democrático e Progresso de Angola (PADEPA) or the Partido de Renovação Social (PRS, mainly active in the northeast), regularly face harassments. In particular, public protests organized against the frequent postponement of elections have mostly been disrupted by repressive actions.

Particularly outside of Luanda, the situation for opposition parties remains difficult. UNITA regularly faces difficulties in establishing political structures in the provinces and at the municipal level. Incidents have been reported where armed groups attacked and plundered UNITA offices. The level of political tolerance is substantially low and party members on the ground revert to either/or tactics with violent consequences. Traditional leaders, or sobas, have been targets of assault due to their refusal to join the MPLA.

A 2003 survey conducted by U.S. foundation, the National Democratic Institute (NDI) has shown that Angolans want to live in a democratic environment, associate with the freedom of expression and a government chosen by the people. They remain rather skeptical about the current state of democracy. The lack of participation of the majority of the population and the absence of freedom of the press are considered its main deficiencies. The main reason for not participating in political activities, particularly alongside the opposition, is the lack of political tolerance. Further critiques include the limited level of trust in political parties, and the large number of parties and their unwillingness to form coalitions. At the time of the survey, many Angolans still felt uncomfortable about elections in an environment where the disarmament of civilians, paramilitaries and civil defense

troops had not yet been accomplished comprehensively. For the majority of Angolans, however, elections remain the core of any democratic development in the country.

2. Market economy

2.1. Level of socioeconomic development

Angolans still suffer from a government that over decades did not really care for its people. Public revenues were mainly oriented towards the party nomenclature, providing access not only to goods but also to school and health facilities abroad. The government, which to a certain extent only cared about them in terms of military conscription rates, neglected large parts of the rural population.

When peasants received less for their products than they had at the end of the colonial period, they ceased to sell their products in official markets. Agricultural products wandered to the parallel market where rural producers achieved 10 to 50 times more in cash or bartered items.

Sixty percent of Angola's population today falls under the international definition of a "very low" poverty line. Some of its worst poverty derives from wartime dislocation and is concentrated in rural areas, particularly among the rural non-farming population. In addition, urban centers (predominantly Luanda) and the provincial capitals have very high indices of absolute poverty.

The situation concerning socioeconomic rights seemed to have deteriorated after the war. Despite the peace dividend and an increase in oil revenues, Angola's human development situation has worsened since 2001. Ranked 146 of 162 countries in 2001, it only ranked 166 of 177 countries in 2004.

In rural areas most families have receded to an almost entirely subsistence economy. Specific measures will be taken up by the government in order to stimulate a long-term agricultural growth, but poverty will remain on a high level. In the urban areas, poverty is associated with widening social inequality. Between 1995 and 2000 the richest 10% of the population increased their share of total urban household income from 31.5% to 42.2%. In the same period, the Gini coefficient rose from 0.45 to 0.51. An effective poverty reduction strategy would have to go beyond the current approach. In order to reduce the absolute number of the poor, an annual growth rate of the economy of greater than 7.3% at least would be needed, according to the United Nations (UN). Under pressure from the Bretton Woods institutions, the government approved a Poverty Reduction Strategy Paper (PRSP) (*Estratégica nacional de combate à pobreza*, or ECP) in

2004, which attempts to visualize successful poverty reduction because of social reintegration of the (rural) population, massive investment in social and technical infrastructure as well as structural reforms, including decentralization.

2.2. Organization of the market and competition

Although informal trade is a common phenomenon in war economies and post-conflict environments, the parallel economy in Angola comprehensively dwarfs the official market. With international scrutiny on the oil sector, the diamond sector is becoming increasingly important as an instrument for hidden payments to members of the elite. Despite the government's attempts to crack down on illegal diamond mining, the discrepancy between official diamond production (\$439.5 million in 2001) and total diamond production that goes through the Angolan Selling Cooperation (Ascorp, \$730 million in 2001) are immense.

Reforms initiated in 2000 sought to alter the formal and informal diamond sectors drastically, however with limited results. The six licensed rough buying houses had their licenses revoked with Sociedade de comercialização de diamantes (SODIAM), the governmental monopoly holder. SODIAM in turn contracted Ascorp to market Angola's entire production, thus forcing mining companies to sell through the new system. Despite the relative high production value, interestingly, taxes from the diamond sector are reported as low (approximately 1% of the expected budgetary revenue in 2004). Revenues from the government's stakes in joint diamond ventures through the state company Empresa Nacional de Diamantes de Angola (Endiama) are even listed as zero in the budget.

The most distinctive feature of Angola's parallel economy is its incorporation into the "cliente-istic" network of the ruling elite. It is once again the party nomenclature, which benefits from an only rudimentary visible informal economy. Until the exchange rates were liberalized in May 1999, a common way for self-enrichment was the purchase of U.S. dollars from the Central Bank at a low official Kwanza rate. The dollars were then sold on the parallel market for a realistic dollar equivalent. As the governing elite profited largely from these transfers and the absence of any scrutiny over public accounts, it resisted structural macroeconomic reforms demanded by international financial institutions for a long time. Still, there is hardly any transparency over revenue flows and budgets. In the case of oil revenues, the NGO Global Witness even speaks of a "Bermuda triangle", comprising Sonangol (responsible for management of oil and gas reserves), the Futungo and the finance ministry.

Global Witness estimates the amount of unaccounted money at approximately \$1.7 billion per year for the period from 1997 to 2001. By disclosing an arms scandal ("Angolagate"), members of the presidential elite benefited from the political and economic chaos that the war against UNITA brought with it. In

complicity with high ranking political and economic actors in France, the United States, Israel and Russia, the presidential circle engaged in a full scale appropriation and laundering of state assets through parallel budgets, over-priced arms deals and deliberate indebtedness through mortgaging of future oil production. Borrowed from various banks, the Angolan government generated loans of over \$3.55 billion in the period from September 2000 to October 2001.

2.3. Currency and price stability

At the end of 2003, ten commercial banks were registered of which two are of public and eight of private capital. According to Law Number 6/97 (July 11, 1997), supervision of the banking sector rests with the central bank, Banco Nacional de Angola (BNA). Since the liberalization of its monetary and exchange policy in 1999 and specifically in the last two years, the Angolan government tried to stabilize the exchange rate of the Angolan Kwanza and inflation with a restrictive monetary policy (reduction of fiscal burden, rationalization of public expenses, and control of liquidity). In order to guarantee the balance between aggregated finances and fiscal activities, BNA coordinated closely with the national treasurer.

To enhance transparency particularly in debt management a new computer system was installed with the assistance of the World Bank and IMF. In the first part of 2004, inflation was brought down to 21.86% (compared to 58.14% in the same period in 2003). Although the government had slightly missed its target (below 20%), it at least showed a significant improvement from the previous year. In addition, in terms of currency devaluation the Angolan government was able to make serious improvements in recent years. The Angolan Kwanza lost about 7.91% in 2004 against the U.S. dollar compared with 44.36% in 2003.

2.4. Private property

With millions of internally displaced persons returning home, land has become a controversial issue as returnees find others already farming their previously owned land. In urban areas such as Luanda, many Angolans that had bought land on the informal market from people without title rights have to face evictions by the government and the demolition squad. According to Amnesty International, more than 5,000 people were forcefully removed from their homes between 2001 and 2003.

Under the present constitution, the land belongs to the state but people have occupation rights. Even without any occupation title, people previously had protection under the civil code. A new land bill passed parliament in August 2004 makes the land tenure of most urban dwellers illegal.

In order to protect pastoral communities, the land law sanctifies areas inhabited or used by the population for cultivation and their livelihood is not to be used by third parties, yet Angola continues to suffer from land grabs by elites. Senior government members have become landowners of former coffee plantations or have engaged in large-scale cattle farming particularly in southern Angola. Angolan habits (to not apply the law and the absence of legal recourse for victims) also apply in the case of land. This is problematic for communities because most sobas (traditional leaders) are not in a position to serve the interests of their community; they are either co-opted by the MPLA or totally marginalized.

Since the beginning of the liberalization of the economy the government of Angola has successively been withdrawing from direct participation in private sector companies and describes its role mainly as a facilitator. Between 1995 and 2000, 272 state-owned companies and small businesses were sold. However, not much progress was made in the privatization of public banks and non-financial enterprises. In order to attract foreign direct investment flows, the government of Angola established guarantees and special privileges for foreign investors, such as the right to repatriate dividends and profits. Also tax advantages, such as acquisition of real estate through investment projects, and financial incentives, such as annual grants to create permanent employment in the initial phase of a project, have been introduced to try to make Angola more attractive to private investors.

Considering the foreign direct investment flow in recent years, the strategy of the government proves its success.

Table 1: FDI for Angola and South Africa, 2000-2003

| U.S. dollars (in millions) | 2000 | 2001 | 2002 | 2003 |
|----------------------------|------|-------|-------|-------|
| Angola | 879 | 2,146 | 1,643 | 1,415 |
| South Africa | 888 | 6,789 | 757 | 762 |

Source: UNCTAD, World Investment Report; <<<http://www.unctad.org/fdistatistics>>>

2.5. Welfare regime

If one would like to be cynical, one could say that Angola's welfare regime is restricted to the presidential clique and its patronage networks. The average life expectancy in Angola is 40.1 years, which reflects the failure of government to provide basic healthcare facilities. In particular, infant mortality remains one of the highest in the world (154 of 1000 in the year 2004; World Bank, 2004). Overall, Angola's social spending is far below its regional neighbors and even after the end of the civil war remains low at 3.45% of its annual budget.

Table 2: Expenditures on Defense and Health in comparison

| % of total expenditures | 2001 | 2002 | 2003 | 2004 | 2005 (budget provision) |
|-------------------------|------|-------|------|------|-------------------------|
| Defense | 15.5 | 15.05 | 13.8 | 12.5 | 17.9 |
| Education & Health | 12.4 | 9.9 | 12.7 | 20.1 | 23 |

Source: World Bank, 2005; IMFb, 2003; Noticias Lusofonas, 14.12.2004.

What are striking in this context are the investigations by Human Rights Watch on the discrepancies in Angola's budget. Unexplained expenditures from 1997 to 2002 amounted to \$4.222 billion. At the same time, the Angolan government spent \$3.632 billion on health, education, social security, welfare and housing. The UN Interagency Appeal tried to generate an additional \$1.094 billion (receiving \$645.5 million). In effect, this means that roughly the amount of social spending went missing in some clandestine channels (Human Rights Watch 2004: 65ff).

2.6. Economic performance

Due to a booming oil sector, Angola's economy showed two-digit growth rates in previous years (15% in 2002, 15.3% in 2003). The growth of the non-oil sector (7.6% in 2002), however, has lagged behind, particularly outside of Luanda. Angola remains dependent on imports and food aid for 50% of its cereal requirements. The agricultural sectors' capacity and ability to provide the population with a livelihood is still hampered by mine infestation, a lack of seeds and fertilizer, and a devastated transport infrastructure that hampers market access.

Due to the extractive nature of the oil industry and its enclave character in the broader economic picture of Angola, the fact that Angolan industry provides 75% of its GDP output does not translate into sufficient employment opportunities for Angolans. Formal employment opportunities are mainly found in the public sector, characterized by vast networks of patronage and rent seeking. Most subsistence income is generated in the informal sector by trading imported goods. Considering the structure of Angola's economy, it is of concern that the manufacturing industries produce only 3.8% of the GDP output (2003).

Inflation remains high. The entrenched high inflation rates result from large fiscal and quasi-fiscal imbalances partly due to operational deficits in the central bank.

Despite its large revenues from the oil sector, Angola's government remains highly indebted. Arrears of external debt service continue and at end of 2002, arrears mounted up to 50% of the country's external debt.

2.7. Sustainability

Crucial for the socioeconomic dimension of the Angolan state's disconnection with society is the creation of an offshore economy by the Angolan government. Soon after independence, the MPLA formed strategic alliances with multinational oil corporations. With its oil revenues, the Angolan government no longer needed an economically productive population, and it was able to finance its military and economic projects almost entirely through oil revenues (Sogge, 1994: 97).

The failure of agricultural policies - focusing in a socialist manner on state farms - and dramatically deteriorating industrial outputs were barely compensated by an increased oil output. As Inge Tvedten summarizes, "the general trend in Angolan foreign trade has been a steady increase in the export of oil and concomitantly large decrease in the export of traditional non-oil exports such as coffee, cotton, and diamonds. The proportion of oil exports to total exports has increased from 30% in 1973 to 94% in 1994. The proportion of coffee and diamonds to total exports has dropped, respectively, from 26.6 and 10.4% in 1973 to 0.1 and 3.2% in 1994" (Tvedten, I. 1997, *Angola. Struggle for Peace and Reconstruction*, Boulder, p. 94). In the period from 1994 to 1999, oil exports accounted for from 85% to 92% of total exports. As of this writing, still 90% of Angola's exports are generated by the oil sector.

The public sector still needs to undergo thorough reforms. High costs, low production levels, a redundant staff structure, insufficient liquidity and the burden of accumulated state credits hamper its performance. In order to make the public sector the pillar of macroeconomic stability again, the Angolan government has committed itself to the transfer of non-profitable and under-performing initiatives to the private sector.

To guarantee the sustainability of development in environmental terms, Article 24 of the Angolan Constitution makes the state responsible for environmental protection. The mandate lies with the Ministry of Fisheries and Environment, which drafted a plan for sustainable development. Major concerns in Angola include deforestation, soil impoverishment and erosion in the coastal regions of the southwest, desertification, and pollution by the oil industry as well as the depletion of fish stocks.

Under colonialism, little was done in education and health care sectors for the majority of the population. The main aim of the public sector was to ensure profits flowing back to Portugal. Irrespective of discrepancies in survey data (lack of

access to certain areas during war time) one can say that gender disparities in access to education remain. Low enrollment rates for primary education and equally high dropout rates (24% of pupils in the first four years) describe the foundations that later on are supposed to provide equal job opportunities. Tertiary education is in bad shape and suffers from lack of resources and personnel.

3. Management

3.1. Level of difficulty

Although Angola has made some progress in the improvement of its socio-political and socioeconomic situation since the end of the war, it still faces many challenges for its democratization process. It is believed that more than 452,000 refugees have returned from neighboring countries and need to be reintegrated in Angolan society as well as into its economy. In addition, the large number of internally displaced persons (total number of displaced persons is approximately 4 million) might also create organizational problems in the run-up to elections.

Several years of high inflation rates have negatively affected the country's economic conditions. Real wages have eroded, real money balances have declined and the "dollarization" of the economy has reached very high levels.

Profile of the Political System

| | | | |
|---|---|-------------------------------------|----------------|
| Regime type: | <i>Autocracy</i> | Constraints to executive authority: | 1 |
| | | Latest parliamentary election: | 29./30.09.1992 |
| | | Effective number of parties: | 2.1 |
| 1. Head of State: | <i>José Eduardo dos Santos</i> <i>F. da Piedade Dias dos</i> | Cabinet duration: | 12/02- present |
| Head of Government: | <i>Santos</i> | Parties in government: | 1 |
| Type of government: | <i>single party majority</i> | | |
| | | Number of ministries: | 29 |
| | | Number of ministers: | 30 |
| <p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p> | | | |

Ravaged by 27 years of civil war and the plundering of state coffers by the political elite, Angola faces severe structural constraints in terms of socioeconomic development and the rebuilding of the country's infrastructure. In a society as highly stratified as Angola's, with a weak tradition of political participation and low levels of awareness among the mass of the population, elite groups are in a favorable position to defend their specific interests. High rates of

illiteracy, the day-to-day fight for survival and a lack of access to information exclude and marginalize the poor.

3.2. Steering capability

Analyzing Angola's public expenditures it becomes obvious that even three years after the end of its civil war the government's priorities still reflect the important concerns of security and public order. Little seems to be dedicated toward development. Only in 2004, and this for the first time, social spending increased from 12.7% (2003) to 20.1% of total public expenditures while defense expenses were reduced from 13.8% to 12.5% for the same period. Despite this shift Angola's social expenditures are with 2% of the GDP for health and less than 5% of the GDP for education, which is among the lowest in Africa (average is around 6% for health and 10% for education). For a sound development of the country, increased expenditures in social sectors would be necessary; however, the government's policy choices do not seem to consistently follow this goal.

In order to comply with the prerequisites for engagement with multilateral donors such as the IMF and World Bank, the Angolan government initiated an interim poverty reduction strategy paper (I-PRSP) in 2003 that demonstrated the problems of policy formulation in Angola. Despite a long list of spending initiatives, structural reforms to tackle poverty in a sustainable way (curbing oil dependence, creating an environment for labor intensive growth, increasing social service delivery) are lacking. Instead of acknowledging the importance of the informal sector for the survival of the poor, it even lists it as a main obstacle.

Reform approaches appear to be erratic, mainly motivated by particular political interests and characterized by slow implementation. As any reform toward greater transparency and efficiency has to deal with powerful vested interests and needs to confront extended rent-seeking activities, it faces severe political resistance from influential circles within the Angolan elite. For reforms to succeed they need strong political support from the highest governmental levels.

3.3. Resource efficiency

Compared with international standards the size of the public sector in Angola is large but has very little impact on the development of the country (partly also a result of the civil war). Public expenditure is about 50% of the GDP while the regional average is 25.6% (World Bank, 2005).

In particular, the identified deficiencies of Angola's public financial management impair sound macroeconomic management. In Angola, there is a parallel spending process with one conventional system coordinated by the national treasury and a

non-conventional one centered on the national oil company, Sonangol. This distinctive feature of Angola's management system is its greatest weakness.

Key problems that have been identified by the IMF include an overriding lack of internal controls and an incomplete or inadequate accounting of the central bank's foreign assets and liabilities. Complex offshore structures are used to move money around and to pay overseas business partners. Despite the fact that national laws require oil revenues to be entered into the accounts of the central bank, most of Sonangol's income flows into accounts ranging from Lloyds in London to accounts held by subsidiaries at exotic places such as the Cayman Islands (Human Rights Watch, 2002).

The size of unaccounted funds is most disturbing, totaling approximately \$703 million annually (from 1997 to 2002) according to Human Rights Watch. As IMF reports conclude, the discrepancies noted were largely due to corruption facilitated by inadequate bookkeeping. Interestingly, discrepancies disclosed by the IMF have been sometimes larger than the military expenditure (about 19% of total government expenditure) from 1997 to 2002.

Apart from the problems parallel systems generate, the conventional public expenditure system is flawed, and the government's weak coordination and forecasting skills compound the difficulties. The projections of the general state budget are unrealistic and therefore difficult to comply with. In consequence, budget approvals are ignored and commitments go beyond their initial ceilings. Public accounting in Angola is still cash based and single entry.

Planning becomes impractical for budget units on the bases of their month-to-month cash management. Shortage of cash results in arrears, a selective payment of invoices and hampers transparency. Although legal provisions are in place for audit and control systems of public financial management, they operate only partially in practice and have difficulties imposing transparency in an environment severely infected by corruption. A case in point is the Tribunal de Contas (Supreme Auditing Office), which has only recently shown some teeth by beginning to audit the accounts of some ministries and provincial governments.

3.4. Consensus-building

In the run-up to the elections and after the end of the civil war, the government of Angola tried to consult with relevant stakeholders. In the elaboration of a new land law, consultative processes with civil society were initiated, but questions remain whether those voices from society and the opposition have been heard and have really been considered in the final decision-making. In the case of the land law, the request by a large number of NGOs to amend the constitution first and to deal with land rights later was heard and the law finally passed and ratified by

parliament in 2004. During constitutional reform, the opposition was consulted and included in the working group, but when those forces did not subscribe to the draft of the MPLA and no consensus could be reached, the parliamentary reform commission was dissolved.

In conclusion, the ruling party's willingness to consult and to seek consensus exists in order to hold up the image of a liberal regime but their political will seems to be limited. At the time of this writing, no serious attempts have been made to deal with past human rights violations.

3.5. International cooperation

Sonangol's reaction to British Petrol's commitment to transparency, which implies the disclosure of revenues paid to the Angolan state as well as the diplomatic immunity granted to French arms dealer Pierre Falcone by President dos Santos, shows the limited political will of the Angolan elite to contribute to democratic accountability. According to the law (Number 13/78, August 26, 1978), all deposits of liquid and gaseous hydrocarbons existing underground or on the continental shelf within the national territory, up to the limits of the jurisdictional waters of the Angola, or within any territory domain over which Angola exercises sovereignty as established by international conventions, belong to the Angolan people in the form of state property.

Only at a time when the ruling elite evidently reached a cash crisis, did the government invite the IMF to assist in poverty reduction - for the first time in Angolan history. In dire need for re-financing the government even allowed the IMF to publish the Klynveld, Peat, Marwick and Goerdeler (KPMG)-conducted oil diagnostic report as well as the results of the IMF's Article IV consultation exercise of 2003. Although this might have to be seen as a first step toward transparency, other reports that speak of the government's fiscal impropriety and "deliberate obscurantism" cannot be ignored.

In addition, the Angolan government has conceded to IMF preconditions recently, the crucial issue remains the political will of the Angolan government to provide transparency and to be held accountable. So far, the government refused to implement the Extractive Industries Transparency Initiative despite the fact that Sonangol itself had volunteered to publish the respective data. The Extractive Industries Transparency Initiative is a voluntary plan launched by British Prime Minister Tony Blair. It aims to increase the transparency of natural resource revenues by developing standardized reporting requirements for both companies and governments. Sonangol's recent decision not to renew the license of Total Oil for one of the most important blocks (block 3), a decision that might be linked to

the judicial prosecution of arms dealer and Angolan UNESCO envoy Pierre Falcone in France, does not underscore the Angolan government's dedication to accountability.

Much to the lament of the Angolan government the international community has shown surprising resilience to the calls for an international donor conference and has stuck to the preconditions of good governance that they would like to see in place before opening their purse. Although it has missed donor money, the Angolan government in the meantime has established close links with the People's Republic of China, which has become the country's main single buyer of Angolan oil. In 2004, the Chinese government granted Angola a credit of \$2 billion, guaranteed by Angola's oil supply.

Relations with multilateral institutions remain tense but it seems that while the IMF keeps its demand for more budget transparency before any negotiations can place, the World bank is preparing itself to hand out a large credit, much to the criticism of NGOs fighting corruption, such as Global Witness. International support for democratization is not publicly opposed but in reality it is not welcome.

4. Trend of development

4.1. Democratic development

The end of Angola's civil war in 2002 presented a unique chance for democratic transition. Although a window of opportunity opened up, the process remains largely in the hands of the ruling elite surrounding President dos Santos. The end of the civil war did not come about in a negotiated peace agreement but rather through a military victory of the government against UNITA. Although Angola's government adheres to the implementation of the Lusaka Protocol, beyond that it lacks the political will to address fundamental issues of good governance. However, the stability of Angola's political situation relieves the government of the responsibility for justifying repressive policies and poor governance records due to impediments to national security.

For the first time since 1992, national elections have irrevocably been put on the political agenda. Although it might in the end become problematic to hold elections as scheduled in September 2006 due to the logistical challenges a country emerging from war faces, yet at the same time it seems unlikely another indefinite postponement will take place.

Although still weak, civil society has nevertheless taken the chance to capitalize on gradual political opportunities. Public debates on the draft land and the media laws also suggest the willingness of the government to – albeit reluctantly – at

least consult with civil society or at least not to pass laws that generate vociferous opposition.

4.2. Market economy development

Although significant progress was made during the period of review toward macroeconomic stability, external debt levels have continued to rise. The reliance on expensive oil-backed loans from commercial banks burdens the economy. With heavy debt service obligations (in 2005 the present value of debt is \$9.8 billion), Angola's position will remain fragile in future. The government relies mainly on oil revenues to finance expenditures.

After the KPMG oil diagnostic became public and Human Rights Watch as well as Global Witness published their investigative reports on the deviation of state funds, the Angolan government started to provide greater transparency on oil revenues, external debt and Sonangol's involvement in certain transactions. However, information on the government's overall fiscal position remains insufficient and the monitoring and control of public expenditures remains weak (IMF, 2004).

Table 3: Development of macroeconomic fundamentals (2000-2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|------|--------|------|------|-------|
| Growth of GDP in % | 3.04 | 3.17 | 15.3 | 4.5 | 12.2 |
| Export growth in % | 54 | -18 | 28 | 5.6 | |
| Import growth in % | -2 | 5 | 17 | 7 | |
| Inflation in % (CPI) | 268 | 116 | 106 | 98.3 | 31.01 |
| Investment in % of GDP | 35.4 | 34 | 33.5 | 30.7 | |
| Tax Revenue in % of GDP | 51.7 | 42.5 | 39.0 | 37.5 | |
| Budget deficit in % of GDP (excl. grants) | -9.0 | -7.51 | -9.3 | -7.2 | |
| Current account balance in million \$ | 796 | -1,431 | -644 | -792 | |

Source: World Bank Group, Angola at a Glance 10/15/04; IMF, Angola: selected issues and statistical appendix, Sept. 2003.

In order to address Angola's developmental challenges significant, sustained economic growth rates will be necessary. Due to the vulnerability and volatility of oil revenues and their dependence on global market developments, the Angolan government will have to follow a conservative expenditure policy reducing spending in the public sector (elimination of ghost workers) and consumer subsidies (adjust water and energy prices to real costs). In order to develop the

non-oil and manufacturing sector it will be essential to provide a conducive investment climate with a clear legal framework, property rights, bureaucratic transparency and sanction mechanisms to combat corruption.

Angola's strategy for financing the country's developmental and reform projects apparently hinges on three strategic considerations:

- Improving the country's rating of creditworthiness with the Bretton Woods institutions, for example through sound macroeconomic policies, and sound debt repayment schemes (with Russia and Portugal). This is expected to result in better access to international private bank loans, which are extremely high (3% above the London inter-bank offered rate).
- Oil for credit deals. These are in place with China (\$2 billion) and other countries (for instance, Brazil). About 20% of oil production is affected. Imports of goods and services from these countries are financed through these deals, often bypassing international markets and quality standards.
- Improve the export performance and the foreign exchange market generating capacity in non-oil sectors, through private foreign investment.

Despite its widespread and notorious corruption, Angola is one of the top foreign direct investment recipients in Africa. Although the inflows decreased from \$2.1 billion in 2001 to \$1.3 billion in 2002, oil exploration and extraction still attract huge shares of foreign direct investment.

D. Strategic perspective

As in other African countries, achieving political power in Angola opens up access to wealth. Angola's commodity wealth facilitates the incentive to seize and hold on to power. The resulting dynamics jeopardize Angola's democratization process. As of yet, the Angolan government has shown only limited commitment to implementing the fundamental characteristics of democracy: elections, free competition of political forces and the guarantee of human, civil and political rights. As became clear in President Dos Santos' speech celebrating 29 years of Angolan independence, democracy is not considered a political priority, but rather its garnish:

“A democracia e os direitos humanos, embora sendo essenciais, não enchem a barriga de ninguém. São um alimento espiritual, moral e político que apenas pode criar novas condições de trabalho.” (Notícias Lusofonas, 11.11.2004)

“Democracy and human rights, although they are essential, do not fill empty stomachs. They nurture spiritually, morally and politically and at least can provide new working conditions.” (Translation by the author)

So far, repeated attempts to hold the Angolan government accountable have not succeeded. It appears that a “clientele-istic” network of the elite continues to loot Angola’s revenue through tax evasion and illegal trade in oil and precious minerals. Information about the government’s financial dealings remains undisclosed and oversight of the use of public funds continues to be absent. Most progress has been made with the IMF staff reports and its report, “Oil Diagnostic”, which documented the negative impact, which mismanagement of resources, had on Angolan development and the country’s process of democratization.

While Angola’s democratization process currently leaves much to be desired, the hope remains that current blockages turn out to be of a temporary nature, and that the process will continue– albeit slowly – and not ultimately fail.

However, due to the fragile state of civil society and political opposition in Angola, it will be necessary for the international community to increase political pressure and material support for a participatory reform process. The eventuality that the ruling elite strengthens its grip on power through electoral legitimization and continue its governance style of tight control and poor service delivery and citizen participation must be avoided.