“The Main Institution in the Country Is Corruption”: Creating Transparency in Angola

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“The Main Institution in the Country Is Corruption”:
Creating Transparency in Angola

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Abstract: The story of how the Angolan government was induced to begin creating checks and balances, from a starting point of massive corruption, is a case study in building institutions from scratch. A dysfunctional state has been driven by a combination of domestic and external pressure to take some initial steps toward accountability.

Corruption was extreme in Angola in the late 1990s and early 2000s. Each year, about US$1 billion of Angola’s oil revenues, reportedly, were disappearing.

Fraud occurred at the highest levels. The missing billions, it was widely alleged, went in kickbacks from oil contracts. The US State Department said wealth was “concentrated in the hands of a small elite, who often used government positions for massive personal enrichment.” Ten Angolans had fortunes exceeding US$100 million, reported Angolense, a Luanda newspaper, while another 49 had more than US$50 million. Topping the rich list was President José Eduardo Dos Santos, Angolense said, followed by a parliamentary deputy, two officials in the president’s office, an ambassador, a former army chief of staff, and the minister of public works. The seven richest Angolans were all in the government.

“Right now, the main institution in the country is corruption,” said Rafael Marques, an Angolan journalist who was arrested for reporting the abuses. “The system is rotten to the core and until you change the entire system nothing will change.” What, if anything, could be done to fix this “rotten” system?

Angola provides a case study in building institutions from scratch. Both Angolans—civil-society groups and journalists—and outsiders—nongovernmental organizations (NGOs),
international organizations, foreign governments, and a few of the multinational oil companies—
prodded the Angolan government to reform itself. A dysfunctional state has been driven by the
combination of domestic and external pressure to take some initial steps—grudging and gradual
but apparently genuine steps—toward accountability.

1. Governance and the Resource Curse

Much of recent thinking on underdevelopment can be summarized in a two-word
sentence. Institutions matter. Institutions include the political—the various checks and balances
that underpin democracy—and the economic—the laws of contract and property and the
regulatory mechanisms that underpin the market economy. In a country with weak institutions,
civil rights are curtailed and the standard of living is low. The absence of checks and balances
leaves corruption unrestrained, so corruption is a symptom of missing institutions. Corruption
impedes economic development both directly—the ill-gotten funds are not usually invested in
ways that promote growth—and indirectly—graft extends politicians’ control over the private
sector, generating inefficiencies by blocking entry and competition.

Countries like Angola, endowed with natural resources, often suffer from the “resource
curse.” Across countries, resource dependency is correlated with slow economic growth. Nigeria, Zambia, Venezuela, and so on have grown slowly or not at all despite abundant
resources. By contrast, fast growers like Taiwan, Singapore, and South Korea have few natural
resources. Note the paradox: resource wealth might be expected to bring economic success, but
usually it does not. Note also that the resource curse is merely a correlation; there are
exceptions. Resource-rich Chile and Malaysia have grown, while Botswana, earning 40 percent
of its national income from diamonds, was through the second half of the twentieth century one
of the world’s fastest growing economies.

Slow growth is not the only problem. Resource dependency is also correlated, across
countries, with being corrupt and undemocratic. Oil exporters like Chad, Libya, and
Kazakhstan, along with Angola, score poorly on both the Transparency International corruptions
perception index and the Freedom House democracy index. Again, Botswana is an exception,
being uncorrupt and democratic.
Dick Cheney, when head of the oil-services company Halliburton, observed, “The problem is that the good Lord didn’t see fit to always put oil and gas resources where there are democratic governments.” Cheney’s sarcasm misses the point. It is not by chance that resource-rich nations are undemocratic. Their troubles—authoritarianism, corruption, poverty—are interrelated. The resource wealth creates forces that block the development of political and economic institutions. The absence of institutional checks then gives rise to corruption, and the inadequacy of property rights brings an inefficient economy. Econometric evidence suggests this chain of causality: resource abundance leads to institutions being of low quality; in turn, the inadequacy of the institutions leads to economic growth being low.

It is possible to evade the resource curse. Left unexplained by the statistical analyses are those countries that lie far from the regression line. What induces a resource-endowed economy to grow? If, as the data suggest, natural resources affect economic growth by an indirect route, via institutions, then the question of how to generate sustained growth turns into how to counter the adverse effect of resources on institutions. Can Angola become more like Botswana, with checks and balances to constrain politicians and to curb corruption?

Little is known about how institutions get built. Summarizing their cross-country econometric analysis of the sources of democratization, Adam Przeworski and coauthors conclude, “We find it difficult to explain why dictatorships die and democracies emerge.” The process of systemic change differs widely and idiosyncratically from country to country, so statistical studies are inherently limited. To get an understanding of institution building, we need to supplement the statistical analyses by examining the experiences of individual countries. Case studies have a bad name, with reason. Extrapolating general lessons from a sample of size one is treacherous. Large-sample studies, like those on the resource curse, are preferable. On the genesis of institutions, however, the case study may be the only game in town. What follows is a case study of the beginnings of institution building in Angola.

2. Angola’s Lost Potential

Angola presents a horrifying case of squandered possibilities. Rich in oil and diamonds, it is one of the world’s poorest countries. In 1973, per capita income had been US$1,300; by
2003 it was just US$740. The collapse in living standards resulted from a long-lasting civil war plus economic policies that the Angolan government itself called “precarious.”

Angola endured nearly continuous civil war after its independence from Portugal in 1975. Over half a million people were killed, it is estimated, and 2 to 4 million displaced (from a population of 11 million). The insurrection came from the National Union for the Total Independence of Angola (UNITA), led by the flamboyant Jonas Savimbi. To Ronald Reagan Savimbi was Angola’s Abraham Lincoln; to Reagan’s United Nations representative Jeane Kirkpatrick he was “one of the few authentic heroes of our time.” Others saw him as merely a murderer. In February 2002, government troops killed Savimbi. Six weeks later, the government and UNITA signed a ceasefire accord, ending the civil war.

The war had begun as a revolt against the Portuguese colonialists. Later it developed into a cold-war struggle between socialism and capitalism, the government backed by the Soviet Union and Cuba, the insurgents by the United States. By the 1990s, however, it was no longer ideology that was driving the fighting; it was Angola’s oil and diamonds. The combatants fought to control the government because the government controlled the resource revenues. In the end, Angola’s civil war was little more than a grab for personal riches.

A small but telling measure of Angola’s disarray is that its diamond mines were actually valued lower in peace than in war. Immediately the war ended, the diamond-mining multinationals operating in Angola (which included the diamond colossus De Beers and the world’s largest mining company, BHP Billiton) saw their stock-market values fall. The hazards of running a mine in the midst of war—employees get killed, diamonds get stolen—should drive down the concession’s value; peace should have been good news. But in Angola this was outweighed, evidently, by the investors’ perception that peace would bring increased corruption. The ending of the war removed one rent-seeker, the rebel movement, leaving the other one, the government, unrestrained. In peacetime, doing business would become even more uncertain.

With oil reserves estimated at more than 7 billion barrels, Angola is, after Nigeria, Africa’s second-largest oil producer. Angola also is the world’s fourth-largest diamond producer and has substantial reserves of gold, iron ore, copper, manganese, and other minerals. “The role of the state should be to take that wealth and apply it in ways that will benefit the people of Angola,” said Justino Pinto de Andrade, an economics professor at the Catholic University of Angola. “The oil revenues go straight to the state budget, but the people see very little benefit.”
Squalid shantytowns encircled the sumptuous presidential palace in the south of Luanda. As landmine-maimed children begged on the streets, politicians’ wives flew to New York on the government health budget for nick-and-tuck cosmetic surgery. Noting the “destruction of the country’s infrastructures, feeble health and education system, food insecurity, non-qualified human resources, disarticulated production, misdistribution of revenues,” the Angolan Planning Ministry reported that 58 percent of adults were illiterate, 75 percent lacked basic sanitation, and 65 percent had no health care.⁹

Oil exports were US$7 billion in 2002 and diamond exports were US$800 million, so the oil and the diamonds were bringing in about US$700 per citizen. Meanwhile, 70 percent of Angolans were living on half that amount, less than a dollar a day.

3. The Oil Revenues

How can billions go missing? “This is all lies,” Manuel Vicente, head of the Angolan state-owned oil group Sonangol, said of the allegations. “This is an amount that cannot disappear.” How is it possible to hide a billion dollars per year?

Angola received large sums from the oil companies in the form of so-called “signature bonuses,” which are cash paid upfront upon signing a contract. For Angolan offshore drilling rights, the signature bonuses have typically been around US$100 million to US$400 million per block. In 1999, TotalFinaElf, ExxonMobil, and BP reportedly paid signature bonuses totaling US$870 million. Anywhere in the world, it is standard practice for oil companies to pay signature bonuses. In an auction of anything, there are good reasons for the seller to ask for an upfront payment in addition to royalties. The use of signature bonuses is not a sign of corruption; it is sound auction design. However, there are two snags: the size of the signature bonus relative to the royalty rate, and where the money ends up.

In seeking the best price for an oil block, the government has two instruments, the signature bonus and the royalty rate. To get the full force of bidding competition among the oil companies, the government must set the right mix of upfront and ongoing payments. According to the theory of auctions, royalties make the bidding more competitive, and the total price higher, by evening out differences in the bidders’ perceptions of the likely value of the tract, so generally the government should put much of the weight on royalties and less on the signature bonus.
higher royalty rate and a lower signature bonus, up to a point, bring a larger ultimate payout. However, the signature bonus is received immediately, whereas the royalties arrive years later. If the government, anticipating being ousted, has a short time horizon, it wants the cash right away, so it might negotiate a higher signature bonus and a lower royalty rate than would yield the maximum total revenue. High signature bonuses and low royalty rates thus work to the benefit of the government but to the cost of the nation as a whole. Does Angola in fact set signature bonuses too high and royalty rates too low? We do not know, because of a lack of contract data. “We don’t know how [the oil companies] got the oil concession, what commission they paid, or if they pay taxes,” said the Reverend Antonio Jaca of Radio Ecclesia, a Luanda radio station. “We really know nothing.”

The second problem with signature bonuses, apart from their size, is where they go. According to the IMF, the bonus payments were rarely listed in Angola’s fiscal accounts, and when they were listed they were understated. For example, the oil companies told the IMF that, following a September 2001 auction for a deep-water block, they paid about US$400 million. The government told the IMF it received US$285 million. From this single auction, more than US$100 million was left unaccounted for.

Angola’s oil earnings were controlled not by the Treasury and the central bank, as required by law, but by Sonangol and the president’s office. Much of the money was deposited in secret offshore bank accounts. Hundreds of millions of dollars were said to be held in Sonangol accounts in various countries. Manuel Vicente of Sonangol admitted to journalists that the company had “around ten” bank accounts in various countries. “Basic risk management,” was how he explained it. “You don’t want to have all your eggs in one basket.”

Investigative journalists traced some of the oil bonus payments to the bank Lloyds TSB in Jersey. (An island in the English Channel, Jersey is a favorite destination for illicit cash, often used by money launderers.) According to these journalists, on July 15, 2000, the US firm Marathon Oil paid US$13.7 million into a Sonangol account in Jersey. This was one third of a signature bonus Marathon had agreed to pay for the rights to an offshore oil tract. Over the next few months, reportedly, large sums were shifted out of that account to, among others, a former cabinet minister’s company and President Dos Santos’s charitable foundation.

The Swiss and French authorities, according to the NGO Global Witness, tracked down tens of millions of dollars in Dos Santos’s private accounts in Luxembourg and the Cayman
Islands. Aguinaldo Jaime, then head of Angola’s central bank, tried to transfer US$50 million in oil money from a London bank to a private bank account in San Diego, the *Los Angeles Times* reported citing officials in the US Embassy in Luanda, but he halted the transfer after US officials questioned the source of the money.\(^\text{12}\)

4. Bribery

Officials enriched themselves not only by diverting oil revenues but also, apparently, by taking bribes. In Switzerland in 2002, a judge froze bank accounts containing millions of dollars that a foreign businessman was allegedly using to bribe Angolans.

A rare inside view of the mechanisms of corruption came at the Paris trial of three former top executives of the oil company Elf charged with misusing company funds. According to trial testimony, through the 1980s and 1990s Elf (at the time owned by the French government but later privatized to become part of TotalFinaElf) spent about US$60 million per year in bribes worldwide. André Tarallo, who headed Elf’s African business and was nicknamed “Mr. Africa” for his close ties to African leaders, said Elf maintained a slush fund in Liechtenstein from which it paid into the Swiss bank accounts of African officials, Angolans among them. The secret accounts had colorful code names like Othello, Tomato, Mineral, and Bonifacio. The bribes were intended to win the bidding for oil concessions. “Elf is a French company up against the Anglo-Saxon world,” Loik Le Floch-Prigent, the former Elf CEO, argued in court. “We are David against Goliath.” Paying bribes was nothing less, evidently, than his patriotic duty.

Elf’s payoffs were, Tarallo said, “part of a long tradition which gave entire satisfaction to the beneficiaries as far as secrecy was concerned.” Le Floch-Prigent said, “In most petrol-producing countries it is the head of state or king who is the real beneficiary.” During Angola’s civil war, Elf made payments both to sides, the government and the insurgents. In 1991 it opened a US$2 million Swiss bank account, code-named Salad, for rebel leader Jonas Savimbi.

The prosecutors accused the Elf executives of skimming US$435 million from Elf’s African slush funds for their own use, spending millions on luxury houses and jewelry. The third defendant, Alfred Sirven, admitted “confusing some of the accounts with my own.” Each of the executives was sentenced to five years in jail. Their crime, under French law, was not that they paid bribes; their crime was that they misdirected their company’s bribery fund.
As the Elf story shows, bribery implicates not only the oil countries but also the oil companies. Other West African examples from time to time come to light. For example, in 2003 the US oil-services company Halliburton admitted bribing a tax official in Nigeria for favorable tax treatment over an oil and gas facility a Halliburton subsidiary was building. In a filing to the US Securities Exchange Commission, Halliburton said that during 2001 and 2002 it had “made improper payments of approximately US$2.4 million.” (Halliburton also worked in Angola, doing hundreds of millions of dollars of business, sometimes in partnership with Sonangol.) Later, both the US Justice Department and a French judge separately initiated inquiries into allegedly illicit payments of US$180 million to Nigerian officials in the late 1990s by a consortium that included a Halliburton subsidiary. In Equatorial Guinea, a 2004 US Senate investigation found, the multinational oil companies paid government officials or their relatives for office leases, security services, etc., ran joint ventures with companies owned by the president and his family, and spent at least $4 million on the education abroad of officials’ children. The Senate report concluded, “Oil companies operating in Equatorial Guinea may have contributed to corrupt practices in that country.”

5. External Pressure

A range of international actors urged that oil revenues worldwide be made transparent, either by the multinational oil companies revealing their payments or by the oil-producing countries revealing their receipts. The NGOs led the charge, the IMF and the World Bank pushed hard, and the British government and a couple of the oil companies added their weight.

5.1 Nongovernmental Organizations

Global Witness, Human Rights Watch, and other NGOs had for some years been calling on multinational companies to “publish what you pay” for natural resources, to make it harder for developing-country governments to misappropriate the revenues. In 2002, the financier and philanthropist George Soros helped launch a coalition of thirty NGOs to campaign for new global rules on transparency. “Money that could be used to reduce poverty and jump-start economic growth,” Soros noted, “is stolen instead.”
In their accounting, the oil companies aggregated the payments they made in different countries, so it was impossible to deduce from their accounts how much they paid Angola or any other country. The NGOs proposed that regulators like the US Securities and Exchange Commission or the stock exchanges on which the companies were listed change their rules to require payments to be detailed country by country.

Not the least of the NGOs’ contributions were well-research exposés by Global Witness and Human Rights Watch tracking the oil revenues. “Angola is the worst-case study where it’s totally out of control,” said Gavin Hayman of Global Witness. “It’s the poster child for the issue of transparency.”

5.2 International Organizations

The World Bank put the “cancer of corruption,” as president James D. Wolfensohn called it, at the head of its agenda in the late 1990s. Peter Woicke, vice president of the International Finance Corporation (IFC), the Bank’s private-sector arm, said the oil companies should disclose their payments, as this “would push governments to invest more wisely.” Wolfensohn called on developing countries to disclose their natural-resource earnings, saying, “We believe increased transparency to be absolutely essential to improving poverty impact.”

The IMF pressed Angola to open its books so as to make the government’s operations accountable. Angrily accusing the IMF of interfering in Angola’s sovereignty, President Dos Santos refused. A standoff ensued and in 2001 the IMF ceased making loans to the country. The IMF detailed the steps Angola needed to take: publishing its oil receipts, eliminating unbudgeted expenditures, transferring all revenues to the Treasury, channeling all foreign currency through the central bank, eliminating Sonangol’s subsidies, and auditing Sonangol and the central bank.

5.3 The Oil Companies

John Browne, BP’s chief executive, in a speech at the Stanford Business School’s Center for Global Business and the Economy, said, “business is about the long term” and so “we have a direct interest in the health and stability of the places in which we work.” Corruption is not inevitable. Transparency means “declaring what you are paying to governments and thereby enabling others to debate how that money should be spent.”
While Shell agreed with BP’s stance that the oil companies should be open about their payments, most of the other companies disagreed. David O’Reilly of ChevronTexaco rejected publish what you pay as this would mean breaking the terms of contracts. Thomas Saunders of TotalFinaElf invoked business confidentiality. “Whether it’s the oil industry or any other industry, obviously you wouldn’t want your competitors to know what you pay.” Andrew Norman of Texaco said, “We recognize that we have a responsibility to the people of Angola, but when it comes to government policy we feel very strongly that it’s not our role to suggest or influence national economic policy.” Geir Westgaard of the Norwegian company Statoil agreed: “Our industry has to be sensitive to accusations of being too political, of meddling with governments; there can be a whiff of neocolonialism.” ExxonMobil chairman Lee Raymond argued that corporations should not try to influence how governments spend their money. ExxonMobil had scrupulously observed its confidentiality agreement with the Angolan government, showing, in Raymond’s estimation, the company’s “sensitivity to local needs.”

The oil majors dwarfed Angola, whose gross domestic product (GDP) in 2000 was US$10 billion. ExxonMobil, the world’s second-largest corporation, in 2000 had a value added of US$53 billion. Royal Dutch-Shell’s value added was US$38 billion, BP’s was US$37 billion, and TotalFinaElf’s was US$27 billion. (In comparing firms with countries, it is not revenue but value added—the sum of salaries and profit—that is the proper yardstick of firm size. Just as GDP is a net measure of the economy, value added is a net measure of the firm. By contrast, revenue is a gross measure: it includes purchased inputs, which are really other firms’ activities.) Thus Angola was about a third the size of TotalFinaElf, a quarter the size of Royal Dutch-Shell and BP, and a fifth the size of ExxonMobil.

If bargaining power reflects sheer size, any one of the oil companies should have been in a strong position vis-à-vis Angola. Working against this, however, was Angola’s ability to play the companies off against each other. Acting alone, a company would have little sway over the government, because it could be ejected from the country. If the companies were to influence the government, they would have to act in concert. Most of them chose not to act.

In 2001, BP announced that it would henceforth reveal its payments to oil-country governments worldwide. It implemented its new policy in a US regulatory filing: for the rights to operate an offshore well, BP said, it had paid Angola a signature bonus of $111 million. BP’s initiative was widely reported in the international press. Angolan officials reacted harshly. “It
was with great surprise, and some disbelief, that we found out through the press that your company has been disclosing information about oil-related activities in Angola, some of which have a strictly confidential character,” Sonangol’s Manuel Vicente said to BP in a letter copied to the other oil companies. “Given the seriousness of the situation,” he warned, “if the provision of information by your company is confirmed and we observe moral or material damage thereof, we reserve the right to take appropriate action.” He threatened BP with “contract termination.” The other oil companies chose not to follow BP’s lead. Business carried on as usual.16

5.4 Foreign Governments

The British government lent strong support to the publish-what-you-pay campaign. “When there is corruption it is almost always the poor who suffer most,” Prime Minister Tony Blair said. “We need therefore to use transparency in revenue and financial management to allow people to hold government to account and build public trust.” At a June 2003 conference in London attended by representatives of oil-country governments, multinational companies, and NGOs, Blair called on oil, gas, and mining companies to reveal what they paid to developing countries. The British proposal stopped short of compelling transparency, however, relying instead on the companies’ voluntary compliance.

The United States viewed the issue of transparency in global oil deals warily. It was trying to increase its African sources of supply so as to reduce its dependence on oil from the Middle East, seeing diversification as crucial for national security. West Africa supplied 16 percent of America’s oil in 2000 (with Angola supplying roughly as much as Kuwait), and a CIA report predicted that by 2015 West Africa’s share would rise to 25 percent. Belatedly, in September 2003, the Bush administration declared its support for transparency. The US backing came, however, only after the transparency proposal had been watered down by deleting all obligations on the oil companies. Working closely with ExxonMobil, the administration shifted the onus for disclosure from the oil companies to the oil-producing countries.17 It was up to the corrupt governments, in the US view, to publicize their own corruption.

6. Angolan Responses
Angola’s government was in a powerful position domestically once the insurgency ended—it had immense resources from the oil money at its disposal, it commanded the military and the police, and it controlled most of the news media—but its dominance began to be challenged. Civil-society organizations had become increasing prominent within Angola in the late 1990s, pushing for a peace accord to end the civil war. After the war, they worked on a range of issues from poverty alleviation to revision of the country’s constitution. In 2004, opposition political parties and civil-society groups launched a Campaign for a Democratic Angola to press the government to take concrete steps toward democracy.

The civil-society organizations also advocated transparency in oil payments. As early as 1999, three years before the civil war ended, and before the international NGOs’ publish-what-you-pay campaign developed momentum, they had appealed to the multinational companies to act, saying, “Collectively, these corporations are well placed to use their influence” with the government and its business partners to persuade them to deliver social services, to observe human rights, and “to be transparent in their finances.”

Journalists, courageously writing about abuses of power, kept Angolans informed in spite of the government’s penchant for secrecy. Most newspapers and the sole television station were state-owned and put out government propaganda. A few independent newspapers and radio stations, however, were willing to investigate the government, despite harassment. Some journalists were beaten up by the police. Some were bribed, reportedly, to write pro-government stories. Some were arrested on charges of crimes against the state and of defamation, against which truth was not a defense. For example, a harsh response followed Angolense’s detailed report, cited earlier, on the politicians’ immense riches. A spokesman for the president called it “disinformation,” which was “dangerous, as it aims not only to destroy the mentioned personalities, but the State institutions themselves.” The newspaper’s editor, Felisberto de Graça Campos, was convicted on defamation charges and sentenced to a fine and imprisonment. Nevertheless, the independent press continued to publish accounts of government misdeeds.

In July 2002, the government passed a Law on State Secrecy giving itself broad authority to jail anyone who released information it regarded as damaging and to censor international news stories that exposed corruption. The legislation also took aim at the publish-what-you-pay campaign, providing for the prosecution of the multinational oil companies if they released data on their transactions in Angola. The passage of this law seemed at the time to indicate that the
government was becoming even more repressive. In fact it marked a turning point, for over the
next two years the government started to make itself more open.¹⁸

A split developed in the cabinet, according to reports that filtered out in 2004, between
the old guard and a faction led by the finance minister José Pedro de Morais wanting to make
Angola more acceptable to the international community. The reformists, reportedly, were
gaining the upper hand.

In May 2004, the government said it would disclose some of its oil receipts. A few days
later, in the first implementation of the new transparency policy, de Morais announced that
ChevronTexaco had paid US$300 million for an oil tract. The details of the new policy were left
unstated, with no indication of exactly what data would be made public or whether the accounts
would be audited. Nevertheless, revealing oil payments was a major change. Also, the
government commissioned a report tracking its oil receipts from the international accounting
firm KPMG, and in May 2004 posted a summary of the KPMG report on its web site. As a
move toward transparency, the report was limited, for it was vague about sums of money.
However, KPMG documented the opacity of Angola’s record-keeping and strongly
recommended greater transparency in the accounting of oil earnings, so the government’s
willingness to publicize the report was a sign of new openness.

Moves toward democracy in a broader sense also began tentatively to appear. In July
2004, Angola joined the African Peer Review Mechanism. This was seen as signaling a
commitment to reform, as it meant an outside panel of experts would subject Angola’s political
and economic governance to periodic scrutiny. (The peer reviews were introduced by the
African Union so that those African countries that actually tackled problems like corruption
would be recognized and thus attract increased foreign aid and investment.) Also, the
government set up a commission to revamp Angola’s constitution and to chart the way toward
elections. In September 2004, it set a timetable for the first multiparty elections since 1992: new
electoral laws would be enacted by May 2005 and a national electoral council would be set up by
October 2005, with parliamentary and presidential elections to be held in September 2006
(though the presidential election was later put back to 2007).

That progress was occurring was acknowledged in November 2004 by the international
organizations. IMF Deputy Director Takatoshi Kato, after meeting with President Dos Santos in
Luanda, said that, although much remained to be done, the public finances were improving and
some economic reforms were being implemented, while the World Bank’s director for the
country, Michael Baxter, said that the government had made a decision in the previous year or
two to become more transparent and was “taking slow steps to do it.”

Angola was still a very long way from democracy. It was classified as “not free” in
Freedom House’s 2004 rankings (www.freedomhouse.org), along with a quarter of the world’s
countries. The Freedom House index assessed Angola a score of six on political rights and five
on civil liberties (on a scale of one to seven, from free to repressive), which meant Angola was as
authoritarian as Algeria, the Democratic Republic of Congo, Pakistan, and Russia, and just a
little better than Burma, Haiti, North Korea, and Zimbabwe. Piece by piece, however, Angola’s
government had started to respond to the demands from domestic civil society and the pressure
from overseas by introducing some accountability.

7. Kleptocracy and Transparency

The main reason for Africa’s poverty, according to the Economist magazine, is
“incompetent tyranny.” Africa is a “continent in need of leadership,” it asserted, so “it is up to
Africans to solve their own problems, starting with the ejection of some of their current rulers.
The Big Men will not go quietly; but they are not immortal, either.” The Economist’s
prescription is simplistic. Plenty of so-called Big Men are ready and waiting to take the place of
any who are deposed. Tyranny is not done away with merely by looking for a good leader, but
by setting up institutions to constrain whomever holds power.

In oil-rich, institution-poor countries like Angola, government is where the money is.
Some enter politics in order to loot the nation’s resources. Even those who enter politics with the
best of intentions may find the temptations irresistible. The massive flows of oil money lure
dishonest people into politics and turn honest politicians into embezzlers. Power corrupts; but
also power attracts the corrupt.

A well-functioning governance system contains political, economic, and legal
constraints designed to limit malfieasance by those in power. Norway is resource-
dependent—oil and gas are nearly a half of its exports—but it is free of the resource curse
because it has effective checks and balances. In Angola, most people are desperately
poor because the country’s institutions are dysfunctional. Corruption is just a symptom of the deeper malady of missing institutions.

A kleptocratic government like Angola’s is unlikely to reform itself voluntarily, for a cunningly managed kleptocracy can be quite stable. It must be prodded. Ground-level opposition movements provide pressure to overturn a corrupt government, and sometimes they succeed. But the struggle is stacked against the people, especially when the government, like Angola’s, commands massive resources that it can use to arm the police and the military and to buy off opposition groups. And even when the government is toppled it may not be replaced by a better one, unless at the same time sound governance institutions are put in place.

Angola shows that, if the circumstances are right, external actors can help begin the process of reform. Exercising pressure from overseas may mean, as President Dos Santos and some of the oil companies pointed out, interfering with national sovereignty. However, overruling sovereignty can be justified in the name of nation building. “Many African communities hold too dear the idea of national sovereignty,” noted South African finance minister Trevor Manuel, speaking at Stanford University in 2004. “Unfortunately, this has tended to slow the development of African institutions.” Angola illustrates the potential for building institutions by means of a limited form of curtailment of sovereignty: pressure from overseas that falls short of direct intervention in national governance.

NGOs, international organizations, some of the multinational firms, and some foreign governments all played a role in pressing the Angolan government to make itself more open. These disparate actors all pushed in more or less the same direction because their objective—transparency in oil revenues—was rather narrow and well-defined. The external pressure probably strengthened the hand of the domestic opposition groups. In initiating the process of building checks and balances, pressure from overseas complemented civil society.

What difference does transparency make? Rafael Marques, the dissident Angolan journalist, predicted in 2003 that “in two years, civil society here will be strong enough to force the government to change.” He explained: “There comes a point where corruption no longer works. The dossiers on the government’s misdeeds are building up and as they grow a social movement is gathering strength.” Transparency is necessary for accountability.

The ultimate constraint on any government, democratic or authoritarian, is the citizenry. People power—unarmed citizens taking to the streets in mass protest against a corrupt regime—
has advanced democracy in, for example, the Philippines, Mali, Madagascar, Indonesia, and Peru. For the government to be overturned by the citizens, the protests must involve enough of them. Mounting a large protest requires coordination of the citizens, which in turn requires that the government’s abuses be widely known. Transparency informs everyone about the abuses. It does not automatically solve corruption, but it goes a long way toward a solution. By building up “dossiers on the government’s misdeeds,” in Marques’s words, it can fuel the opposition.

Natural-resource wealth was the root of Angola’s corruption and authoritarianism. It turned out also to be the key to the fight against corruption and authoritarianism, for it gave leverage to those pushing for reform.

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14 Global Witness, op. cit.; Human Rights Watch op. cit. Quotes from Financial Times, 6/12/02, 10/2/03.


17 Quotes from BBC News, 6/17/03; Sydney Morning Herald, 7/12/03; New York Times, 1/14/01 and 9/19/03.


