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Dissertation

Master of Arts in International Relations

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[THE IMPLICATIONS OF CHINA'S OIL SECURITY DIPLOMACY INSTRUMENTS ON ANGOLA'S FISCAL TRANSPARENCY & PUBLIC ACCOUNTABILITY]

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Abstract

The protracted civil war in Angola had detrimental implications for fiscal governance and public financial accountability in Angola. The exclusive access to natural resources by Angola's warring factions engendered distortions in the collection and management of revenues from the export of the country's raw materials. In the case of oil, the MPLA government emerged from the war with highly deficient and politicised systems of fiscal governance and public financial management and expenditure. These traditions emerged through intricate and irregular ties with foreign governments, high-level officials and international commercial banks. While relationships with such external forces persist, the dynamics of these interactions in the post-war period have taken a new direction. This research addresses the implications of China's oil security diplomacy instruments, as employed in engagement with the Angola, on the levels of fiscal transparency and public financial accountability of the Angolan state

Declaration

I None Louis Morake, of Student number 328742 hereby declare that all the work included in this dissertation submission contains original ideas which have been documented with the highest level of scholarly integrity. The work included in this submission has not been subject to any plagiarism or collusion. This thesis has not submitted in any manner for any other degree, examination or university.

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CHAPTER 1 - *INTRODUCTION & STUDY OVERVIEW*

Introduction

Research Question

How have China's oil acquisition diplomacy instruments influenced Angola's levels of fiscal transparency and public accountability?

Research Background

In 2002, the coastal central-west African country of Angola emerged from twenty seven years of intermittent civil war. While the struggle for independence and the unsettling manner in which the colonial administration left Luanda in 1975 was the main trigger of hostilities, the prolonged conflict was compounded by an array of interrelated factors including. Among the causal factors of the Angolan civil war included local identity politics and ethnic antagonism, and enduring ideological divergence among other aspects. While these factors are important in analysing the root causes of the war, the illicit exploitation of natural resource by the warring factions played a central role in stimulating intense periods of renewed conflict, and essentially prolonging the duration of the war. Moreover, the extensive wartime pillage of oil and diamonds has exhibited enduring, and largely adverse consequences for state governance and the overall political economy of Angola. The extraction of, and misappropriation of oil revenues by the MPLA forces during the conflict which was convoluted by clandestine dealings with an intricate web of multinational energy companies, and various foreign states officials and commercial banks, and engendered a cycle of fiscal mismanagement, the siphoning off of funds, and a general lack of public transparency.[1] The most pertinent case in this regard is the *Angolagate* scandal of the mid-1990's as exposed in an in-depth investigation by non-governmental human rights group *Global Witness* in 2002.[2]

[1] Le Billon, P. (2001) 'Angola's political economy of war: The role of oil and diamonds, 1975', *African Affairs,* Vol.100 (398), p. P.219.

[2] Global Witness (2002) *Global Witness Presents All the Presidents Men*, p.3.

Although there have since been various attempts at implementing improved fiscal transparency, austerity and public financial accountability mechanisms from within the state and from multilateral institutions in the current post-war era, the success of these endeavours has been varied. Bureaucratic inclinations in the Angolan state have continued to override meaningful endeavours to remedy age-old fiscal and public financial accountability measures which have generally benefited a few members of the elite to the detriment of the general population.[3] While this aspect of Angola's misappropriation of state funds has been a prominent topic of scholarly interrogation, particularly within the resource curse theoretical perspective, as well as oil trade, governance and transparency theories, China's engagement with Luanda through the application of concentrated *oil-for-aid* diplomacy is forming a new area of inquiry.

The attainment of the research objectives presented below is driven by the need to determine the overall scope, current implications and long-term direction of China's increasing oil-driven diplomatic activity in Angola. In retrospect, similar resource-driven relations that Angola has held with various foreign actors have been related to the expropriation and illegitimate sale of the country's oil and diamonds as mentioned above. The researcher's core task is to determine whether China's entry is proving to be deleterious to Luanda as previous external oil-related forces have been, or whether Beijing's 'win-win' policy is proffering a viable and beneficial option to the embattled African nation. To this extent, the hypothesised direction of current Sino-Angolan relations is in line with a retrospective feature of Luanda's governance, particularly where foreign state and private multinational actors have been involved. As the hypothetical relationship suggests, '*the diplomacy instruments employed by China in the acquisition of oil from Angola have undermined the Luanda's public financial accountability and fiscal transparency.*

[3] *Ibid.*

Research Objectives

The aim of the research is to address a range of key politico-economic issues relating to the foreign policy and resource acquisition strategies utilized by the People's Republic of China (PRC) government particularly in Angola. The core areas of investigation are founded on two central issues; firstly, China's ever-increasing demand and drive for oil as a vital energy source required to fuel its rapidly growing economy; and secondly, the political economy governing a vital energy resource which the PRC largely acquires from Africa, with Angola being a major source as the second to larger oil producer on the sub-continent. Moreover, the dynamics of the resource-based relationship between Beijing and Luanda forms a central area of the enquiry due to the heavy reliance and overall importance of oil by the Angolan economy, accounting for up to 83% of the state's annual revenue, 90% of export revenue and 80% of GDP, as of 2008 figures .[4]

Additionally, the inquiry focuses on the implications of the increase in importance of oil from the Gulf of Guinea to the PRC over the past decade as Beijing attempts to diversify global supply sources. To this extent, in efforts to overcome intermittent threats to supply caused by political volatility in the Middle East, Beijing has looked towards the Gulf of Guinea for the lighter, 'sweeter' oil from this region, as opposed to thicker crude from with higher carbon dioxide content.[5] In this regard, as one of the most stable states in the Gulf of Guinea region, Angola has taken precedence in the Beijing's energy trade requirements and diplomatic engagement at large, thereby surpassing Saudi Arabia and Iran as China's leading oil exporter.[6]

Accordingly, the key objectives of the research as they relate to China's energy resource acquisition strategies in Angola on one end, and the implications of this element of oil trade on Luanda's fiscal accountability mechanisms and transparency on the other, include:

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[4] Von Tilman, D. (2009) 'Sudan, Angola And China: Oil, Power And The Future Of Geopolitics, A Brief Case Study, *Dresden Centre For International Studies,* p.7.

[5] Hong, D. (2007) 'China-U.S. Oil Rivalry In Africa', *Asia Research Centre, Cbs, Copenhagen Discussion Papers* (24), p.20.

[6] Meidan. M. (2006) 'China's Africa Policy: Business Now, Politics Later' *Asian Perspective*, Vol. 30, No. 4, p.10.

a. the identification of the key strategic considerations in China's foreign energy resource interests in Angola, and the African continent at large;

b. investigating and illustrating the characteristic features of China's foreign oil diplomacy instruments, including concessional credit lines, the purchase of operating oil blocks, and *aid-for-oil* infrastructure deals, as the core policy components;

c. scrutinizing and describing the general fiscal transparency and public financial accountability mechanisms which have been put in place by the Angolan government and multilateral institutions in attempts to improve governance in these two areas, (especially in relation to the management of national oil revenue);

d. and determining the implications of the oil diplomacy employed by China's on the level of fiscal transparency and public financial accountability in Angola.

Rationale

The motivation for the research is founded on several key issues of current debate relating to Africa's social and politico-economic development landscape. While matters relating to under-development, endemic poverty, and violent conflict are long-standing areas of concern and academic enquiry, the growing influence of the PRC as an economic ally with far-reaching implications for Africa's development has recently become a critical subject of debate for politicians, international financial institutions (IFIs), non-governmental organisations (NGOs) and think-tanks, and government agencies and academics alike. Of particular interest to this array of stakeholders is whether the burgeoning relations between the PRC and several resource-rich Africa states is beneficial to the continents imperatives of improving socio-economic and political governance, or if Beijing's eccentric foreign policy has similarly deleterious effects as Western policies are alleged to have, mainly in relation to Overseas Development Assistance (ODA) and resource-backed aid.

Moreover, Beijing's oil-driven diplomatic endeavours across the African continent have gained widespread attention and criticism due to Beijing's unwavering engagement with governments that are considered 'rogue states', which have intermittent civil strife, poor governance characterised by corruption and a lack of transparency and accountability.

Essentially, whereas IFI's and commercial banks have overlooked a number of African states based on the 'Washington Consensus' loan and aid criteria, Beijing has adamantly proceeded to form extensive 'win-win'-based economic ties.[7] Therefore, while the activities of IFI's and other Western-based financial and development institutions in Africa have been widely researched and well documented, Beijing's engagement and recent policy re-orientation towards Africa beckons deserved academic enquiry. In this regard, the heightened interaction between the PRC and Africa has drawn attention to Beijing's diplomatic vigour on the continent, particularly due to the unconventional 'no-strings-attached', financially-inclined approach which is largely premised on the security and acquisition of natural resources. In addition, the growing analytical interest in Beijing's current modes of engagement with the African continent stems from the progressive and enterprising diplomatic trajectory, which is best understood by evaluating Sino-African relations in retrospect.

Since the decolonisation era, officially beginning at the Bandung Conference of 1955, the PRC has developed close political and economic ties with several African states.[8] These ties have developed from diplomatic assistance in the anti-colonial struggle, to more resource and aid-driven relations in the latter years of the 20th Century, and well into the current 21st Century era. Research reflects the marked shift in Beijing's policy change towards the continent since the post-colonial era, ranging from: a) assistance and mutual support for revolutionary and independence movements, to; b) non-alignment and consolidation of mutual interests and support amongst Third World states, the strengthening of political and economic ties encouraged by the need to counter imperialism from Washington and Moscow; c) aid and economic assistance in light of the weak unstable economies and a lack of economic development; d) investment and trade mainly generated from private, publicly subsidised

[7] The Washington Consensus is a term coined by leading American economist John Williamson in 1989 to describe the market-driven, neo-liberal approaches of the World Bank and the International Monetary Fund in their respective developmental endeavours. The term is representative of the keen prescriptions for a reduced state role, and greater emphasis on the role of free-market principles and based on stringent governance doctrines in bolstering development, particularly in less developed countries. This approach has since been adopted by several Western-oriented donor bodies and non-governmental organisations in the field of socio-economic development.

[8] Muekelia, D. J. (2004), "Africa and China's Strategic Partnership", *African Security Review* Vol.13 (1), p.9. In outlining the establishment of strategic Sino-African relations, the author cites the Bandung Conference as a watershed event with regards to China's diplomatic and future economic and political relations with Africa.

Chinese enterprise; e) as well as interest in mineral resource acquisition economic growth during each of the above-mentioned periods. However, towards the end of the 1990's the increased level of commitment in the PRC's policy has been notable in the economic sphere.

Although Beijing has not entirely abandoned the above-mentioned diplomatic and politico-economic policy objectives, a relatively recent and more profound economically-driven policy orientation has taken precedence. The PRC's foreign policy towards Africa has recently been dominated by economic interests, in which access to foreign markets, energy security and overall natural resource acquisition form central components. Investigating this recent policy re-orientation will be vital in understanding the economic role and significance of the PRC to Angola and the African continent at large. In addition, the study also aims to illuminate the rationale and key strategic considerations governing the Republic's strategic politico-economic interests, as well as the extent and manner in which the state will extend its influence in the continent in the name of long-term energy security.

In relation to Angola, the importance of this research project is premised on several factors associated with the capacity and feasibility of the state to follow a path of sound governance and far-reaching socio-economic development in its current post-conflict phase. As a resource-rich country which has been marred by years of intermittent civil war, Angola's political economy has been characterised by poor governance, corrupt practices, endemic poverty and underdevelopment, and an over-reliance on commodity exports juxtaposed with high state revenues from oil and diamonds, among other resources. To this extent, due to the heavy reliance on revenue foreign oil exports, the Angolan state has developed more significant outward linkages than between state and society, hence undermining the need to bolster sound governance, particularly in the areas of public financial accountability and fiscal transparency.[9] In this regard, Angola has developed the grounds for an oil-dependent enclave economy. In addition, despite the significant growth in Angola's GDP since the establishment of oil-governed relations with Beijing, further challenges to the local socio-economic sphere remain:

[9] Kibble. S. (2006), 'Angola: Can The Politics Of Disorder Become The Politics Of Democratisation & Development?', Review Of African Political Economy, Vol. 33, (109), P. 538.

> *"a fragmented national economy, a history of financial embezzlement and misappropriation of funds, a lack of international confidence and donor coordination, poor administrative capacity, a large child population at risk from disease, and a largely weak (or at least fragmented) opposition and civil society unable to affect social and political developments."*[10]

Furthermore, by supplanting IMF loans with generous concessional *oil-backed* agreements from Beijing that do not make recommendations for governance-related conditions, mainly accountability and transparency, the Angolan government is effectively predisposed to maintain debilitating practices which are fostered by external trade-related commodity export linkages, while continuing to undermine the social contract between state and citizens.[11] To this extent, Angola's political focus continues to be governed by the dynamics of creating suitable investment conditions for foreign states and private firms alike, while neglecting the imperatives of democratic governance, the equitable distribution of increasing oil revenues, the effective and accountable management and exploitation of public resources, and overall socio-economic development objectives.

Recently, the extent of the outward trade linkages which Angola maintains has been exemplified by the heightened resources-for-infrastructure relationship Luanda has established with Beijing. While Luanda retains numerous economic and trade relations with various states, multinational corporations, and financial institutions, the relationship with China holds preference for the Angolan state due to the favourable provisions, compared to the strict politico-economic preconditions imposed by leading IFI's and other donor and investing governments. There are two underlying incentives guiding Luanda's inclination towards Sino-Angolan ties; firstly, Beijing has presented a loan totalling US$6.3million to Angola, at a concessional interest rate of 1.7% (added to the London Interbank Offered Rate) over 17 years;[12] secondly, the loan is tied to the supply of 10,000 barrels of oil per day to China over

[12] Trade & Investment Newsletter: Economy, Commerce and Investments, 2007, *Royal Netherlands Embassy Luanda, Angola,* p.5*Royal Netherlands Embassy Luanda, Angola,* p.5.

the advanced period, which also permits Angola's widespread infrastructural rehabilitation projects to be carried out by construction firms from the PRC.[13] Moreover, the increased procurement of oil by China, with Angola representing 47% of African oil imports, and 13% of total imports, has stimulated marked increases is Angola's oil revenue.[14]

Essentially, the *win-win* reciprocity engendered by these oil-backed infrastructural loan agreements has given Luanda considerable leverage in its relations with IFI's and multinational corporations, whose assistance is largely premised on the imposition of stringent preconditions. Consequently, the increased importance of China to Angola's financial and infrastructural needs has induced a decreased reliance on previously sought assistance from the West. While the implications of this recent re-established Sino-Angolan engagement on Luanda's relationship with IFI's and other Western-oriented financial institutions has been in some measure, researched and documented, the potential causal relationship between Beijing's foreign policy and Luanda's public accountability and fiscal transparency has been largely overlooked.

Thus, the set of described characteristics of the Sino-Angolan relations provide an instructive research study which can closely examine and uncover the potentially far-reaching implications of Beijing's oil-diplomacy on Luanda's public financial accountability and fiscal governance. In addition, it will be important to determine what influence, if any, the distinctive diplomatic ties with Beijing have on Luanda's decision to much-needed loans from leading IFI's, particularly prior to the IMF's 'Stand-by Arrangement' loan of 2009 intended to prop-up reserves and foster structural reforms. To this extent, this study aims to fill gaps in existing research in this area of Sino-African relations, and to uncover key governance and fiscal policy-related implications of Beijing's oil-diplomacy. The literature review section included in the second chapter presents existing research which has addressed this general research area,

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[13] Alden C & A. C. Alves (2010), 'The Oil Factor in Sino–Angolan Relations at the Start of the 21st Century', *China Africa Project 55, South African Institute of International Affairs,* p.12.

[14] von Tilman, D. (2009), *op.cit,* p.8.

while elaborating the various limitations of past studies, and highlighting the intended contribution of the current enquiry.

Research Design & Methodology

As mentioned above, the aim of the research is to investigate the implications China's employment of *oil-backed loans* and *oil-for-aid* infrastructure deals on Luanda's fiscal transparency and public accountability. The importance of Angola's fiscal governance and public accountability derives from the long-standing challenges which Luanda has faced in these two central aspects of state administration throughout the wartime period. The most prevalent of these cases was exposed in the *Angolagate* scandal of 1992 as published by human rights NGO Global Witness in 1999 in a document titled *All the Presidents Men*, as well as *A Crude Awakening* in 2000[15] While Luanda's progress in relation to various prescribed governance-reforms as pre-requisites for development assistance from multilateral sources have been widely documented, the implications of the states' resolution to procure concessional *soft loans* from Beijing are yet to be investigated thoroughly.

Case Study Observation Approach

To the extent of uncovering this recent development in Angola's post-war politico-economic trajectory, the researcher employed a *qualitative* design, and utilized the *case study* research methodology. Briefly defined, a *case study* is an in-depth study of a specific bounded issue, such as an event, a group, an individual, a process, or a practice.[16] A *case study* involves the comprehensive investigation of a delimited object of study over a specified time frame with the use of a wide range of primary and secondary sources. By providing the means to engage in an in-depth investigation of the intervening phenomena briefly discussed above, the *case study* method enabled the testing of a chosen theory and related explanations, while providing insight

[15] Global Witness (2002) 'Global Witness Presents All the Presidents Men', *op.cit.*

[16] Welman, J.C., & Kruger, S.J.(2001) *Research Methodology for the Business and Administrative Sciences* 2nd edn. Cape Town: Oxford University Press, p.182.

into relational dynamics between China and Angolan.[17] This study involved the detailed examination of a particular series of events and group actions in a manner which allows for testing the hypothesis, as well as the application of, or the contribution to explicating the *resource curse* theory.[18] The specific area of study for this research, as mentioned above, was the said influence of China's oil diplomacy on Angola's fiscal accountability and public accountability. Due to the retrospective nature of the chosen study, the research entailed the collection of published *secondary* source material, and archival *primary* references including official documents, speeches and state-level communiqué derived from the research periods which will be detailed below.[19]

Moreover, the *case study* involved a holistic investigation with embedded sub-units: this approach allows for an investigation of the central unit of analysis, while examining the various integral components of the case (intervening variables informing the dynamics of the relationship between the independent and dependent variables, as will be elaborated below). Additionally, the *qualitative case study* was suitable for the current study as it allowed the research to uncover and address key issues regarding *'why'* and '*how'* questions: such as 'why has China adopted their particular oil acquisition and energy security strategy in Angola?', and 'how has the Beijing's chosen oil diplomacy policy impacted on Luanda's fiscal governance and public accountability?'[20] The capacity for the *case study* method to address these questions was attained through the application of the *process-tracing* method.

While several case study research approaches exist for the accurate investigation of this study area particularly relating to theory-testing research including controlled comparison, congruence procedures, the most appropriate tool for the chosen study is 'process-tracing'. A thorough 'process-tracing' method can be used to uncover the series of intervening events governing Sino-Angolan relations since the approval of Beijing's alternative oil diplomacy by

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[17] Van Evera. S. (1997) *Guide for Methods for Students of Political Science,* Ithaca: Cornell University Press, p. 56-57.

[18] Yin (2003), in Berg, B.L (2006) *Qualitative Research Methods for the Social Sciences* 6th edn. California: Pearson Education, p.283.

[19] Vaus, D. (2001) *Research Design in Social Research.* London: Sage Publications, p.80. The ranges of sources to be utilized in the study are mention in the *Data Collection and Evidence Requirement* section above.

[20] For reasons of limited scope and feasibility, the research will focus on investigating the central 'how' question relating the direction of the impact of Beijing strategy on Luanda's fiscal accountability.

Luanda. To this extent, in order to thoroughly address the research question, the researcher will employ the 'process-tracing' method as a means of collecting all relevant sequential evidence which was utilized in the analysis of the dynamics that will serve to explicate the hypothesised relationship.

Process-Tracing Methodology

'Process-tracing' is a *case-study* methodology and theory-testing format that provides an effective means of identifying and investigating the potential causal and interactional dynamics which inform the independent and dependent variables in research. This method was essential in determining the nature and extent of the influence of Beijing's oil diplomacy, as a hypothesised *stimulus (independent variable),* on the *level of fiscal transparency and public accountability* in Angola *(dependant variable)* by examining the 'sequence and structure of events' (expressed as sub-units) leading from the onset of the China's initial oil-related engagement with the Luanda from 2004 until 2008.[21] The objective of the *process-tracing* was to investigate the trajectory of fiscal transparency and public accountability reforms in Angola from 2001 to 2004 (in study intervals detailed below), as well as between 2005 and 2009, while permitting for a before-and-after comparison to be made between initial post-war period and the current era of Sino-African oil-for-aid relations.

To this extent, the researcher investigated the impact of China's oil diplomacy on governance in Luanda by searching for observable evidence which can potentially link Beijing's energy-driven actions to deficient fiscal transparency and public accountability levels in Angola. This evidence was studied in sequence from a series of study periods, including 2001-2004 (prior to Beijing's initial loan extension) and 2005-2008 (following the extension of the first loan agreement).[22] *Process-tracing* the researcher to examine the particular features of China's oil diplomacy, including;

i) the initial concessional *oil-backed* credit loan in 2004;
ii) the subsequent procurement of 10,000 barrels per day (bpd) of oil from Angola as a form of repayment;

[21] Van Evera, S. (1997) *op.cit,* p.65.

[22] Evidence includes official state documents, reports from NGO work in Angola, conference reports, interview transcripts with various Chinese and Angolan officials, as well as information from the endeavours of IFI's in Angola (stated as intervening variables).

iii) the establishment of joint oil exploration ventures between Sinopec and Sonangol;

The researcher traced the manner in which this series of policy decisions, may have, or have not influenced the central unit of study.[23]

To this extent *process-tracing* provided the most comprehensive and fitting tool for explaining the chosen research case and testing the hypothesis. While some scholars have argued that case study approaches generally do not account for the impact of intervening or omitted variables on the relationship between causal features of a study, process-tracing methodology overcomes this supposed limitation in several ways. Firstly, process-tracing allows for controls on variables that may have been missed out by applying numerous observations to a single case through tracing more than one possible process and causal mechanism connecting the independent variable (IV) and dependent variable (DV).[24] In the case of the influence of Beijing's oil diplomacy on Luanda's governance, *process-tracing* enabled the researcher to investigate the hypothesised mechanism informing this relationship from several perspectives, ultimately determining whether linkages between the variables are linear, intervening or converging.[25] This benefit of *process-tracing* was evident in the comparative nature of the case study, as well as the nature of the control study as detailed in the design below.

Secondly, the likelihood of variables that may have been excluded can be controlled by selecting cases which have extreme (*high or low*) values on the study variable (SV).'[26] The extremity of values on the SV limits the extent to which additional third factors may hold the propensity to influence the outcome predicted by the theory and expected from the hypothesis.[27] In this particular research, the case selected has potentially extreme *high* values

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[23] Goldstone. J.(1991) *Revolution and Rebellion in the Early Modern World*, Berkerly: University of California Press, p.50-56.

[24] S. Van Evera (1997), *op.cit.* P.52

[25] *Ibid.* This feature of process-tracing will be discussed below.

[26] *Ibid.*

[27] *Ibid,* p.52-53

on the SV, which in this case is China's 'oil diplomacy instruments' (IV), to the extent that Beijing's endeavours in Angola are multi-faceted and convoluted, involving several sectors of the latter's national revenue, domestic and foreign policy, oil trade and infrastructure, among several other areas. Moreover, the sizeable scope of Beijing's undertakings in Angola is likely to have enduring and far-reaching implications on Angola's political economy. Additionally, within the specified study period, *high* values on the SV are expected as China stands as the single most prominent foreign (state) petroleum entity to actively engage Luanda.

Thirdly, the strength of *process-tracing* as a research method, particularly in testing theories is that it provided the means to conduct multiple observations within a single-case, while prescribing a set casual or interactional sequence, and a level of independence among the various observations.[28] In addition, the singularity of the causal and interactional path offered by *process-tracing* implies the reduction of indeterminacy in the study by ruling out potentially conflicting deductions regarding the manner in which the IV and DV are linked to intervening variables.

Lastly, to this extent, the benefit of the *process-tracing* method in this study was in its malleability to various interactional paths and arrangements within the case study.[29] In addition to the opportunity to make numerous observations within a case, the *process-tracing* approach was well-suited to various configurations; these include DV outcomes resulting from the *convergence* of causally related and interactional variables, the *interaction* of causal variables, as well as the incidence of sequences which are *path-dependent processes* (essentially dependent on a particular chain of events, which may direct the outcome in varying directions).[30] Essentially, *process-tracing* allowed for the identification of distinct connecting sequences, whether the path is characterised by a single chain or the *convergence* of various related interactional patterns.

Notwithstanding the benefits of *process-tracing* as a valuable case-study research method, there are two key limitations of applying it as a tool for investigating potential causality and interactional dynamics. Firstly, the merits of *process-tracing* can be significantly undermined if the held intervening variables in the path influence the causal or interactional

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[28] Bennet. A. & George A.L. (2005) 'Case Studies and Theory Development in the Social Sciences', Cambridge: MIT Press, p.207.

[29] *Ibid.*

[30] *Ibid.*

sequence in a manner contrary to what was initially expected by the researcher. To this extent, while process-tracing may be useful as an inferential and explanatory tool for causal sequences, the efficacy of *process-tracing* is weakened if the predicted effect of an intervening variable appears divergent in the 'trace'. Secondly, in a similar manner, *process-tracing* may be undermined due to the reason that there may be more than one explanation of an examined case within a chosen case study. Although it is mentioned above that one of the strengths of *process-tracing* is that it allows for the generation of multiple observations of within a single case, an inherent operational challenge is exposed in the dilemma of deducing whether some explanations are consistent and complimentary, or whether the account produced is misleading.[31]

Research Design

The study employed a *holistic* research design with *embedded units*. The *holistic design* included a core unit of analysis which will be used to analyse the nature of the relationship between Beijing's oil diplomacy, with fiscal transparency levels in Angola across the defined research periods as the basic premise.[32] Thus, the central unit of analysis applied in each of the chosen case study periods (detailed below) was the *fiscal transparency and public accountability measures* as endorsed and/or implemented by the Angolan government. The sub-units, which comprised the *embedded* component of the study, enabled the researcher to examine various patterns of evidence relating to fiscal transparency reforms across the case study (cross-case analysis) in the different study intervals.[33] The sub-units, which also formed the intervening variables of the study, included (i) China's oil diplomacy instruments as employed in Angola; and (ii) Luanda's policy considerations governing the acceptance and administration of loan offers from Beijing. To this extent, the *holistic-embedded design* allowed for the study of the 'global' study phenomenon, namely the levels of fiscal transparency and public accountability across the trajectory of Angola's post-war progress,

[31] *Ibid,* p.222

[32] Yin, R.K. (1994) Case Study Research. Design and Methods Thousand Oaks: Sage, p.24

[33] *Ibid.*

while permitting the examination of the intervening units which are hypothesised as informing changes in the central unit.

The study used two central foreign oil export scenarios to examine the broader dimensions of China's involvement in Angola since the approval of the initial loan agreement. Fundamentally, the case study comprised a comparative *before and after* historical comparative investigation of fiscal transparency and public accountability in Angola prior to Beijing's first major energy security contract as signified by the first loan extension of 2004, and in the ensuing years as signified by successive *oil-for-aid* agreements.

As detailed above, this comparison aimed to trace the fiscal policy reforms before and after Beijing's initiation of loan extensions to Luanda. The research period for investigating the impact of China's oil diplomacy on Luanda's fiscal transparency and public accountability was 2005-2008. The comparison study prior to the initial 2004 loan from Beijing was from 2001-2004. Thus, the study involved a *process-trace* of the oil policy implications by making a comparison of the levels of fiscal transparency and public across the chosen periods.

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CHAPTER 2 –*THEORETICAL FRAMEWORK* & *LITERATURE REVIEW*

Theoretical Framework: Resource Curse Theory

The Resource Curse Theory & Sino-Angola Relations

The research rests on the concepts and propositions put forward by the *resource curse* theory as it most appropriately elucidates the range of dynamics which characterise the relationship between Beijing's oil diplomacy strategy and the fiscal transparency and public accountability regime in Angola. Proponents of the *resource curse* theory contend that a negative correlation exists between economic growth and the wealth in natural reserves. In this regard, Thomas Palley suggests that natural resource wealth generates stagnation and conflict rather than leading to economic growth and development.[34] An example of this condition is also explored by Anne D. Boschini, Jan Pettersson and Jesper Roine in their study of the concept.[35] These authors cite the high economic growth in resource-poor countries including Hong Kong, Singapore, Korea, and Taiwan, juxtaposing these case with states which have vast supplies of minerals including the Democratic Republic of Congo, Sierra Leone, and Angola which otherwise exhibit deficient economic growth. [36] Various prominent scholars have conceptualized this relationship, including Jeffrey Sachs, Andrew Warner, Terry Karl, Paul Collier, Richard Auty and Michael Ross. Essentially, the main explanations are of a political and economic nature; these range for the nature of the *political state*, the *quality of governance*

[34]Palley, T.I. (2003) 'Lifting the Natural Resource Curse', *Foreign Service Journal,* p.54.

[35] Boschini, A.D & Pettersson, J & Roine, J. (2007) "**Resource Curse or Not: A Question of Appropriability**," *Scandinavian Journal of Economics*, , Vol. 109 (3), p. 593-617.

[36] Boschini, A. D., Pettersson J. & Roine. J. (2005) 'Resource curse or not: A question of appropriability', *Wokring Paper,* p.596

and *national institutions*, the implementation of *poor economic policies*, as well as an *over-dependence* on the *export of natural reserves*.

Fundamentally, the *resource curse* is a conception premised on the inherent dichotomy of *resource-abundance* and *dependence* on hand, and *poor governance* on the other. To this end, this conception is based on *variables* that are conveyed in terms of their respective *levels*, which according to Haber and Menaldo is indicated by the premise that the levels of resource-dependence within countries are stated to generate lower governance and economic growth levels.[37] Therefore, the theory is more about the independent variable of *dependence* on natural resources, rather than apparent *wealth* in natural reserves.[38] The *resource curse* theory in particular provides a framework that covers a broad range of critical issues which explicate the interaction between state governance and the management of exploitative activity in resource-dependant economies which have an abundance of natural reserves. These issues include economic performance, the correlation between economic growth and resource-wealth, the incidence and duration of violent conflict, rent-seeking, public accountability and transparency, as well as resource management.[39] In this manner, various scholars in the have offered instructive propositions of the resource curse theory from four interrelated angles of enquiry, including;

i) the implications of resource-dependence for economic growth and development on one hand;
ii) the implications of poor governance and weak political institutions on the management of resource endowments;
iii) the interaction between resource dependence and conflict incidence and duration;

[37] Haber, S. & Menaldo, V. (2010) 'Do natural resources fuel authoritarianism? A reappraisal of the resource curse,' *Stanford Center for International Development* 351, p.14.

[38] Dunning, T. (2005).'Resource dependence, economic performance, and political stability,' *Journal of Conflict Resolution,* Vol. 49 (4), p.475

[39] In relation to the interaction between Angola and China, the research will draw references mainly from states which are dependent on oil resources.

iv) and the relationship between resource-dependence and the quality of governance, and the implications of this association on overall economic progress.[40]

In efforts to investigate and analyse the grounds on which the abundance of natural resources generally leads to poor economic growth and development, various scholars have emphasised the role played by the state and political institutions. Particularly, the nature and quality of state governance, as well as institutional robustness are cited as being instrumental in determining the management of resource-endowment in resource-dependent states. In this regard, the state is inherently obliged with the responsibility to administer and execute the exploitation of a country's resources for the greater socio-economic benefit of the nation. Hence, the state is bestowed with the right to develop an appropriate framework to foster efficient resource exploration, within a conducive and effective regulatory and legislative structure.[41] To this end, whether or not the trajectory of resource wealth management produces beneficial or widely unfavourable results for the economy and the population is highly dependent on the specific interaction between the capacity and quality of state institutions and resource exploitation dynamics.

Scholars who have interrogated this relationship proffer that a trend exists across a large proportion of resource-rich developing states, which indicates that the *resource curse* is a manifestation of poor 'legal-political' and 'institutional infrastructure'.[42] While it is argued by other researchers that the *resource curse* may not account for good economic performance in some resource-rich states, such as Botswana and South Africa, empirical evidence suggests that when the exogenous variables are controlled, resource endowment only yields positive socio-economic outcomes within the context of robust governance.[43] In this regard, Collier and Venables also provide an indicative assessment of the relationship between resource dependence and the quality of governance. In particular, the authors suggest that in states

[40] Due to the reason that the research dealt particularly with resource-dependence and foreign involvement in the oil industry, the focus was on evidence, by and large, from oil-exporting.

[41] Collier. P & Venables, A. J. (2009) 'Natural resources and state fragility,' *Oxcarre Research Paper,* (31), p.2.

[42] Robinson, J.s A. & Torvik, R. & Verdier, T (2006), 'Political Foundations of the Resource Curse,' *Journal of Development Economics* 79 (2) p. 452.

[43] Mehlum, Halvor, Moene, Karl, Torvik, Ragnar, (2006), 'Institutions and The Resource Curse,' *Economic Journal* 116 1 –20, quoted in Robinson, James A. & Torvik, R. & Verdier, T (2006).

where resources are plentiful, an inclination exists towards unfavourable actions by political leaders which gradually lead to the weakness of state institutions and undermined governance. Furthermore, Collier and Hoeffler, assert that the availability of abundant resource-rents increases the likelihood that unscrupulous politicians in resource-rich states will undermine the institutional 'checks and balances' in their own favour to the detriment of the nation.

A model developed by the two authors in a study entitled *'Beyond Greed and Grievance: Feasibility and Civil War'* suggests that the "ability to benefit financially from resource revenues depends upon the ability of (unscrupulous) politicians to embezzle them."[44] Although not all evidence from resource-rich states validates this hypothesis, the authors assert that substantial resource rents allow politicians to undermine institutional regulations which may be in put place to preclude such activity to progress. A similar argument is raised by Leite and Weidemann, who assert that the propensity of political leaders to be held accountable, and to eventually be apprehended for fraudulent actions in the case of misconduct lies in the capacity and readiness of legal authorities to impose appropriate penalties, in addition to a civil society which has the facility to hold politicians to account to in accordance with judicial requirements. [45] Therefore, it is proffered that the lack of robust public scrutiny and accountability, particularly in autocratic states, enables unscrupulous politicians to misappropriate resource revenues and utilize rents undermine, thereby institutional 'checks and balances' put in place to preclude this kind of activity.[46]

The evidence presented in the study by Collier and Hoeffler's study coincides with an additional assertion proffered by Michael Ross. Ross attests that resource-abundance has the propensity to induce autocratic governance by way of availing plentiful resource-rents which can be used by politicians to engage in acts which undermine the regulatory and legislative rigour which necessitates and guarantees the judicious management of commodity reserves.[47]

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[44] Collier, P., A. Hoeffler, and D. Rohner, (2009) 'Beyond Greed and Grievance: Feasibility and Civil War', *Oxford Economic Papers*, quoted in Collier, P & Venables, A.J. (2009), *op.cit,* p.10.

[45] Leite. C. & Weidemann, J. (1999) 'Does mother nature corrupt? Natural resources, corruption, and economic growth,' *IMF Working Paper* 99 (85), p.7.

[46] *Ibid,* p.10.

[47] Ross, M,(2001), 'Does Oil Hinder Democracy?' *World Politics*, quoted in Collier, P & Venables, A.J. (2009), *Ibid.*

Additionally, in states which have been marred by resource-related conflict, including Angola, Sierra Leone, and the Democratic Republic of Congo for example, the lack of political stability undermines the capacity of judicial institutions to act in the interests of justice, particularly when such agencies are dominated by political elites who benefit from patronage and clientelism.[48]

Fundamentally, it is argued that the principal influence of resource-abundance is that it increases the prospects and tendency towards the recurring pillage of resources by state elites. In a similar manner, in their study titled '*Political Foundations of the Resource Curse'*, Robinson, Torvik and Verdier highlight that resource-wealth, especially during global surges in global commodity prices, increases the value of being in state power in resource-dependent states.[49] In several cases, the ensuing plunder of resources by state officials and their patron-clients has led to a cycle of fraudulent political actions including misappropriation and corruption.[50] Hence, the elevated value of incumbency during commodity booms is asserted to increase the inclination of officials to avail more resources for misguided activities including *rent-seeking, patronage and clientelism;* an intricate array of exploits which they utilize to remain in power.[51]

A similar assertion is also put forward by Jensen and Wantchekon, who assert that due to the high value of state incumbency generated by resource-abundance and associated rents, conflicts tend to arise, mainly fuelled by political opponents who desire to occupy the lofty positions held by unscrupulous office-bearers.[52] Accordingly, cases which support these assessments abound across the African continent in resource-abundant states. The fundamental consequence of this governance-resource and resource management dynamic is that states

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[48] Leite. C & Weidemann, J. (1999), *op.cit.,* p.7

[49] *Ibid.* p.450,

[50] Paul Collier and Anthony J. Venables, (2009), *op.cit,* p.1

[51] *Ibid.*

[52]Jensen, N. & Wantchekon, L (2004). 'Resource wealth and political regimes in Africa,' *Comparative Political Studies* 37 (7) p.822

become authoritarian and begin a cycle of misappropriation of commodity export revenues to the enduring detriment of national socio-economic imperatives.[53] Although most authors of the theory agree on the relationship between resource abundance and a corresponding lack of development, there is a general lack of consensus on the causes of the 'curse'.

Implications of Resource Curse on the relationship between Beijing's Oil Security Diplomacy and Angola's Fiscal Transparency & Public Accountability Standards

The resource curse theory research propositions as discussed above provide an instructive framework for investigating the hypothesised direction of the interaction between China's oil security engagements with Angola, and the latter's fiscal accountability and public accountability challenges. The record of resource exploitation, resource revenue and expenditure management, as well as governance and socio-economic progress in Angola are reflected in the basic tenets of the resource curse theory. For instance, while increases in oil exploration and exports in the current post-conflict era have induced significant increases in national revenue and economic growth, the overall standard of Angola's fiscal and public financial management systems remains fraught inefficiencies, structural, and political obstacles engendered during the civil war years. Additionally, at a broader macroeconomic level, the implications of deficient fiscal transparency and sub-standard public financial management resound with unmet socio-economic imperatives as signified by indicators high unemployment, a poor healthcare system, deficient infrastructure and widespread poverty across Angola.

Notwithstanding the considerable growth in Angola's GDP mainly due to surges in oil revenue, decreased inflation and a surplus in the national current account, the economic benefits of Angola's oil wealth have not *trickled-down* to the impoverished masses. With increased revenue gains from heightened engagement from foreign private oil companies and state-driven investment from China, Angola's endemic record of financial misappropriation, mismanagement and corruption, as well poor governance have persisted somewhat unabated.[54]

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[53] *Ibid.*

[54] Kibble, S. (2006), *op.cit,* p. 530.

As will be discussed in the chapters that follow, it is apparent that the trend of high-level fraud and illegitimate financial transactions which emerged during the early 1990's continues to flourish in the current post-war era.[55] To this extent, the high level of resource dependence and the abundance of resource-rents have allowed the state elite to siphon funds towards strengthening government incumbency, while overlooking the basic needs of the impoverished population and further weakening the fiscal and public financial infrastructure.

In relation to implications of the surge in oil exports since the end of the civil war on governance, some scholars have indicated that alternative sources of oil revenue and aid from Beijing have further undermined governance principles.[56] For instance, Kibble has proffered that Luanda's reluctance to fully implement technical assistance programs and loan conditions from IFI's including the IMF may have been influenced by the proposition for concessional loans from China, with otherwise hold no political or fiscal conditionalities.[57] Whereas the aid and loan principles of Western states and International Financial Institutions (IFI's) follow stringent pre-conditions regarding the political governance and financial austerity of the receiving nation, China's *soft loans* and infrastructure deals are offered on less elaborate and relatively undemanding basis. In this regard, Kibble reveals that the influx of funds from China has equipped Angola's political elite and state officials with the leverage to flout the rules and regulations on transparency and accountability as dictated by Western financial powers.[58]

Moreover, the actions of the Angolan state bear out a further tenet of the resource curse theory, in which states actions, which operate within the context of an oil enclave economy, becomes more accountable to foreign corporations, foreign governments and financial institutions through trade and aid affiliations than to the local populace and stakeholders. This condition is engendered by the relative value of resource rents relative to local taxation. As mentioned by Smith, the trend towards poor fiscal transparency and misappropriation reflect a

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[55] These details will be elaborated below, with reference to the *Angolagate* scandal of the 1990s.

[56] It is important to note the oil-backed loans are not new to Angola's arms and infrastructural financing. As early as 1993 various European banks extended high interest loans to Angola, with oil exports used as payment. In the current post-war era, India is among the international players conferring oil-baked to Angola.

[57] *Ibid.*

[58] *Ibid,* p. 540.

core predicament which is illustrated by the *resource curse* theory, in which economies which are highly dependent on natural resource exploitation and export foster external financial associations with private companies and other states, at the expense of internal political and socio-economic links between the leaders and society.[59] These conditions, in the context of Sino-Angolan relations, form the crux of this research.

Fundamentally, research guided by the resource curse theory, as discussed above, addresses some pertinent issues relating to resource dependence and the management of resource wealth. Particularly, extensive studies have been conducted which investigate and analyse the interaction between resource dependence and variables including governance, economic growth and violent conflict. Although studies carried out by scholars such as Adam Smith and Steve Kibble allude to the implications of Beijing's oil diplomacy for a resource dependent Angolan economy and overall governance, there is a general lack of research focusing on the influence of foreign actors on the multifaceted interaction between resource management, endowment dependence on one hand, and fiscal transparency and public financial management on the other. In order to fill this gap, the current research adopt the resource curse paradigm to the frame the study of the implications of the diplomacy instruments employed by China in the acquisition of oil from Angola on the latter's level of fiscal transparency and public accountability.

In addition to contributing to the large and increasing body of research on Sino-African relations and Beijing's intensified resource-security endeavours on the African continent, the study's intention is to augment the more recent 'second generation' of resource curse theory. The 'second generation' refers to a new direction in current theoretical research which is centred on investigating the 'conditional' impact of resource wealth and dependence on divergent political and economic conditions.[60] This new dynamic framework suggests the

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[59] *Ibid.*

[60] Snyder, R, & Bhavnani. R (2005). Diamonds, Blood, and taxes: A Revenue-Centred Framework for Explaining Political Order. *Journal of Conflict Resolution,* Vol. 49 (4), 563-97 quoted in Dunning, T. (2005), *op.cit,* p.476. Snyder and Bhaynani point towards a new direction in resource curse research, which involves investigating the implications of resource endowment and dependence in a wider array of political and economic settings. The current research on Sino-Angolan relations provided an appropriate opportunity to explore and contribute to this new direction in resource curse theory.

introduction of more flexible non-aggregate variables which can be applied in explaining why resource endowment and dependence may lead to poor economic growth, instability and poor governance at different periods a long a countries historical trajectory.[61]

[61] Snyder, R, & Bhavnani. R (2005). 'Diamonds, blood, and taxes: A revenue-centered framework for explaining political order,' *Journal of Conflict Resolution* 49 (4), p.591.

Literature Review: Leading Schools of Thought in Sino-Angolan Research

The existing research on China's energy security strategy, as reflected in the oil diplomacy employed towards Angola is mainly centred on three schools of thought. Much of the research is informed by the *neo-realist* school of thought, while other scholars place their studies within neo-Marxian *accumulation by dispossession*, and *resource curse* perspectives.

- ***The theory of neo-realism***, which is also known as structural realism, provides a comprehensive explanation of the international system, the role and position of individual states within the system, state action as well as the key guiding principles behind such action. Neo-realists assert that states will act to increase their economic wealth, military and geo-political influence in attempts to increase their national power in an anarchic international system.[62]
- ***The resource curse theory*** is based on the apparent prevalence of low average incomes and high rates of poverty in countries which are rich in natural resources. Several studies have shown that states which are abundant in mineral reserves tend to exhibit lower levels of economic performance as compared to those which are resource-poor. According to the theory, there is a negative correlation between economic growth and wealth in natural reserves. In this regard, proponents of this school of thought suggest that natural resource wealth generates stagnation and conflict rather than leading to economic growth and development.[63]
- ***Accumulation by dispossession*** is a neo-Marxian theory originally propounded by David Harvey. This theory, which has its foundations in Marx's *primitive accumulation* concept, asserts that the neo-liberal structure of the global economy fosters conditions under which the strategic dispossession of resource endowments by state and business elites plays a fundamental role, in which the latter gains wealth power and at the expense of the labour and proletariat class.

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[62] Dume, T., Kurki, M. & Smith, S. (2007) *International Relations Theory: Discipline & Diversity.* Oxford: Oxford University Press.

[63] Palley, T.I. (2003) 'Lifting the Natural Resource Curse', *Foreign Service Journal,* p.54.

Neo-realism

The practical implications of the neo-realist theory in relation to the existing research represent China's diplomatic endeavours as acts of self-interest, in which the Republic seeks to increase its power within the global system as a means of state security and survival. This factor has been highlighted by the extent to which China's increased presence across the African continent has generated concern and apprehension among Western political circles, particularly with regards to the legitimacy of the PRC's penetrating actions in relation to international laws and norms. China's foreign policy endeavours in Africa can be analysed as strategic attempts to increase national power in the realms finance, military and geo-politics for state-centric reasons, rather than in the interests of the global state-system.

In this regard, the neo-realist thread in the existing research is revealed by China's self-seeking urge to diversify and increase oil supplies abroad. According to Hong in an article titled *'China-U.S. Oil Rivalry in Africa',* the PRCs energy security endeavours under the 'going out' strategy have been heightened, particularly following the post-9-11 era in which the US intensified its 'war on terror'.[64] In this context, the author contends that China's urge to expand energy supplies emerged from the insecurity and vulnerability generated by US military interventions which destabilized in the prime oil producing regions of the Middle East and Central Asia.[65] To this extent, the PRC's move to solidify relations with Africa's leading oil producers represents an act of strategic self-interest with the aim of increasing economic and geo-political power within an unstable and anarchic global environment.

Following a similar trend, in their article titled *'Untangling China's Quest for Oil, through State-backed Financial Deals'*, Evans and Downs situate the PRCs energy security foreign policy within the neo-realist perspective. The authors refer to the challenges posed by China's resource acquisition strategies in Africa: particularly, by purchasing upstream assets premised on binding energy investments to aid and infrastructure deals (known as *oil-for-aid* deals) and subsiding national oil companies, the PRC effectively distorts the market-based

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[64] Hong, Z. (2007) 'China-U.S. Oil Rivalry in Africa', *Asia Research Centre, CBS, Copenhagen Discussion Papers* (24), p.6

[65] *Ibid,* p.6-7.

competition in the global oil industry.[66] Moreover, self-interest on the part of China is reflected in the governments' commitment to state-to-state deals, which undermine global energy security, particularly in an industry which is led by private companies.[67] Although other key global players in the oil industry have expressed alarm at China's strategy, particularly on the basis of the inequitable competitive advantage the formers conduct engenders, in attempts to foster increased national economic growth and geo-political presence in Africa, the Asian powerhouse has persisted in its energy security endeavours unabated.

To exemplify the challenges posed by China's distinctive energy security to the international oil regime, Evans and Down link Luanda's rejection of the sale of offshore Block 18 by Royal Dutch/Shell to India's ONGC to the infrastructure deal provided by China's Export-Import bank in 2005, which was given to the latter's Sinopec instead.[68] In this regard, Evans and Down highlight that China's involvement in Angola's upstream oil market, which is essentially characterized by state interventions and the formers use of foreign aid as a form of incentivised compensation for oil deals, undermines energy security on a global level by distorting the rules and norms of the market.[69]

Similar arguments have been raised by Ian Taylor in the article titled *Unpacking China's Resource Diplomacy in Africa.* Consistent with the neo-realist school of thought, Taylor cites China's reliance on state-owned intervention for the protection of energy security in the oil industry as a means of outbidding privately owned competitors as an effect of national self-interest, albeit at the expense of the global market.[70] Moreover, the global oil community, in which privately-owned Western organisations play a leading role, perceive China's energy-related engagements in Africa as being discordant and anarchic, while the *special relationships* between the latter and the continent are viewed with suspicion.

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[66] Evans, P. C. & Downs, E. S. (2006), 'Untangling China's Quest for Oil, through State-backed Financial Deals' *The Brookings Institution Policy Brief,* (154), p.6.

[67] *Ibid,* p.7.

[68] *Ibid.*

[69] *Ibid,* p.8

[70] Taylor, I. (2007) 'Unpacking China's Resource Diplomacy in Africa', *Center on China's Transnational Relations Working Paper* (19), p.15.

Resource Curse

A number of scholars have alluded to the workings of the *resource curse* in existing research on China's energy security-driven activities in Angola. While China's oil-backed credit lines and *soft loan* deals have provided Angola with much needed assistance in rebuilding the war-torn infrastructure and a range of benefits to the national economy, the bilateral economic relationship has perpetuated a number of undesirable socio-economic factors at the domestic level. In this regard, although the global commodity boom engendered by China's avid oil acquisition in Angola has benefited the latter's economic growth, the ostensibly advantageous poses long-term obstacles for the national economy. To this extent, the increasing dependence on oil exports as a source of revenue may lead to increased real exchange appreciation, thwarting the prospects for diversifying into other more labour-intensive industries including agriculture and manufacturing.[71]

It is also important to note that the undesirable outcomes associated with increased oil exploration extend beyond the impediments to industrial diversification: notwithstanding the considerable growth in GDP since the official end to hostilities in 2002, decreased inflation and a surplus in the national current account: the economic benefits of Angola's oil wealth have not *trickled-down* to the impoverished masses. With increased monetary gains from heightened engagement from China, Angola's endemic record of financial misappropriation mismanagement and, corruption, as well poor governance have persisted somewhat unabated.[72] With the Chinese government and state-owned companies thrusting a significant amount of resources into the Angolan economy, contrary to expectation, the crippling tendencies of the political elite continue to undermine the broader socio-economic advantages of a rapidly growing economy. As such, the national budget continues to allocate a large portion of national funds to construction and infrastructure, with spending on social areas such as education, health, sanitation and falling short of required levels for poverty reduction.[73] As mentioned by

[71] Smith, P. (2004) 'Angola Boom Boom, China's coming', *Africa Confidential,* Vol. 45(25), p.5.

[72] Kibble, S. (2006), 'Angola: Can the Politics of Disorder Become the Politics of Democratisation & Development?', *Review of African Political Economy*, Vol. 33, (109), p. 530.

[73] Smith, P. (2004) *op.cit,* p. 6.

Smith, the trend towards poor fiscal management and misappropriation reflect a core predicament which is illustrated by the *resource curse* theory, in which economies which are highly dependent on natural resource exploitation and export foster external financial associations with private companies and other states, at the expense of internal political and socio-economic links between the leaders and society.[74]

In accordance with the *resource curse* theory, Kibble extends the significance of China's engagement in Angola to the school of thought by highlighting that impact of resource-abundance and an over-reliance on oil exports on the latter's governance and development record. The author reveals that the influx of funds from China has equipped Angola's political elite and state officials with the leverage to flout the rules and regulations of transparency and accountability as dictated by Western powers.[75] Whereas the aid and loan principles of Western states and International Financial Institutions (IFI's) follow stringent pre-conditions regarding the political governance and financial austerity of the receiving nation, China's *soft loans* and infrastructure deals are offered on less elaborate and relatively undemanding basis. To this extent, the abundance of oil reserves has given the Angola bargaining power to secure generous oil-backed loans at concessional rates, allowing the government to disregard the 'Washington Consensus' policies followed by Western states and IFI's. While the Angolan government has gradually welcomed the International Monetary Funds' urges for greater transparency, oil exports to China and the oil-backed loans have been cited in perpetual corruption at the state level.[76]

Coincidentally, although oil-backed loans may contribute significantly to Angola's economic growth, the deficient quality of governance and state institutions which persists under China's indifferent approach to domestic political issues undermines the level of socio-economic development which is accrued from national oil wealth. Alluding to the extent of poor governance, the *Transparency International's Country Corruption index* ranked Angola 133 out of 145 countries, making it one of the most corrupt nations worldwide.[77] In addition to

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[74] *Ibid.*

[75] Kibble, S. (2006), *op.cit,* p. 540.

[76] Smith, P. (2004) *op.cit,* p. 7.

[77] Kibble, S. (2006), *op.cit,* p. 547.

the rampant corruption which is fuelled by an increased inflow of oil revenue and oil-backed loans, particularly from China, poverty prevails as the characteristic feature of Angolan society; a majority of Angolan's continue to rely on food aid, while infant mortality rates average 480 daily.[78] This correlation between corruption and deficient economic development is reflective of the fundamental tenet of the resource curse, in which resource-dependant states are marred by endemic elite accumulation, a lack of accountability and transparency, and high levels of poverty albeit the considerable gains from the exploitation of abundance natural resources.

Accumulation by Dispossession

The immense expropriation of Angola's oil reserves by Sonangol and various foreign energy companies can be analysed within the *accumulation by dispossession* theory. Since the post-independence era in which the protracted civil war began, throughout to the official ending in 2002 Angola's resources have been exploited by the leading armed movements, namely the MPLA (oil) and UNITA (timber and diamonds) as a means of financing war efforts, largely at the expense of the masses.[79] In the current post-war era, the managed exploitation of Angola's oil reserves exists across an officialised network of local political elites and foreign actors which originates from the civil war period. Essentially, notwithstanding the immense oil revenues accrued by the Angolan state, the system of resource acquisition and trade is assumed within a climate of systematic disenfranchisement of poor.

A case in point is reflected in the manner of oil exploration in the Cabinda province: although a majority of Angola's oil exploration occurs off the Cabinda Bay, the province's socio-economic development and environmental safety are neglected at the expense of obtaining increasing revenues.[80] Although 60% of Angola's oil exploration is concentrated in Cabinda, a figure which represents almost 80% of the state's foreign exchange and more than

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[78] *Ibid,*

[79] Hammond, J.L. (2009), 'The Resource Curse and Oil Revenues in Angola and Venezuela', Global Studies Association: New York, p.9-11.

[80] J. Maxted (2006), *op.cit,* p.34.

$4 billion in taxes and royalties, the central governments administration of Cabinda reflects an incommensurate and injudicious approach: hazardous oil-spills are a common and unabated occurrence; and a majority of the regions inhabitants remain impoverished as distribution of oil revenues to the region remains minimal.[81] Moreover, in collaboration with major oil companies operating in the region, including Chevron-Texaco as the leading entity, the Angolan government has strategically installed armed troops of security forces across the region to guard foreign workers and the various exploration locations from Cabinda's discontented residents. This engagement reflects a commonality across oil and gas-rich states of the Western Sahara, as well as Nigeria, DRC and Ethiopia:

> *"Private security forces and African standing armies are being used to secure the interests of American, Asian and European companies as they seek to extend their control over natural resources in collaboration with state elites. Confronting the destruction of their environments and continued underinvestment, minority groups are actively seeking to attach socioeconomic rights more self-consciously to their demand for political rights."*[82]

As a result of the strategic deprivation which Cabinda's residents have faced for several decades, the Front for the Liberation of Cabinda (FLEC) was established by the enclaves inhabitants for the purpose of addressing state oppression with intention of attaining separation from the Angolan state. Since the FLEC's formation in 1963, the group's activities have been characterised by intermittent insurgency and low-level conflict to address the pervasive oppression by Angola's state elites, throughout to the current post-war period.[83] Although the FLEC has made limited progress in this regard, the interests of the Front precisely represent the dire need for dispossessed minorities to address the deliberate political and socio-economic deprivation committed by the Angolan state and foreign oil companies.

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[81] Pham, J. P. (2007) 'Cabinda: The "Forgotten Conflict" America Can't Afford to Forget' *World Defense Review,* p.4.

[82] J. Maxted (2006), *op.cit,* p.30.

[83] J. P. Pham, (2007), *op.cit,* p.5.

Limitations of existing research

The existing research, as detailed above, addresses several vital policy issues which are important to understanding the interests, considerations, and underlying principles directing Beijing's energy-security endeavours on the African continent, particularly in Angola. Various scholars also expose the extent to which the PRC is likely to broaden its influence in Angola in the interests of long-term energy security and access to African markets. Moreover, much of the research depicts a myriad of geo-strategic and economic concerns regarding the nature of diplomatic relations between Luanda and Beijing; the conditions, benefits and disadvantages, and various energy and development aid-related implications of the interactions between the two states. However, there is a lack of scholarly interrogation dedicated to the manner in which China's economic influence and drive for oil play a role in Angola's fiscal transparency and public accountability, particularly as these two aspects of governance stand as the core challenges in several post-conflict and resource-rich states in Africa.

In this regard, existing research does not devote much attention to the implications of Beijing's energy acquisition imperatives on Angola's propensity to resolve long-standing inadequacies in governance. Moreover, researchers have generally not drawn much attention to the likely implications of the external oil-based linkages on the possibility of current and future oil revenue flows to benefit the Angolan population through non-elitist and transparent measures. Additionally, in relation to governance, very few scholars have addressed the impact of the mandatory 70% quota assigned to Chinese construction companies in all infrastructure-related contracts as included in the Sino-Angolan loan agreements.[84] While it is believed that the obscured procedures involved in assigning these contracts to various Chinese firms, which are undertaken by third-party Beijing corporations and the Angolan government, may already have had a bearing on the level of accountability and transparency in Luanda, very few research projects have are yet to give this issue deserved scrutiny.[85]

Notwithstanding the lack of research focus on the implications of Beijing's oil diplomacy on areas of governance in Luanda, there are a few scholars who have given this study area deserved attention. In their article titled Angola and *China: A Pragmatic Partnership*, Campos

[84] Africa Practice (2007) 'The Impact of Chinese Presence in Africa,' *JETRO London,* p.7-8.

[85] Corkin, L. 'Angola flexes newfound muscle', *Business Day,* 23 March 2007, p.2

and Vines investigate the alleged struggle for the access to, and disbursement and coordination of Chinese loans within the Angolan state which became apparent to Beijing following the first loan. [86] In this regard, the authors cite the 'rent-seeking' claims and allegations of "mismanagement of Chinese funds" which surfaced during the trial of former Angolan security head General Fernando Garcia Miala in 2007.[87] Other scholars cite the propensity for Angola's political elite to disregard Western government and IFI calls for sound governance and accountability, citing the large concessional loans from China as a contributing factor. [88] Additionally, as mentioned by David Sogge, a prominent Angola-observer, Luanda's increased oil revenue inflows, which have largely been influenced by heightened dealings between China's Sinopec and Sonangol, have played a role in the supposed 'Bermuda Triangle' of resource interchanges between the Angolan state, Sonangol and the national reserve bank.[89] Nonetheless, the relative scope of and range of studies dealing with the implications of Beijing's *soft power* and *oil-for-aid* diplomacy on Luanda's level of governance, remains limited.

Based on the limitations revealed above, this study sought to build on existing research, and broaden the body of existing knowledge of Sino-African relations, particularly by examining key areas which have not been analysed sufficiently. Principally, this research aimed to address the dynamics of China's oil-diplomacy in Angola by taking into account the strategic considerations in the Beijing's energy resource interests; the various devices employed by Beijing (concessional credit lines, commodity-backed loans, and aid-for-oil infrastructure deals); scrutinizing and describing the general fiscal accountability and transparency mechanisms which have been put in place by the Angolan government, while uncovering unresolved questions regarding the implications of Beijing's policy on Luanda's accountability and fiscal transparency.

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[86] Campos. I. & Vines. A. (2008) 'Angola and China: a Pragmatic Partnership' Working Paper, CSIS Conference, Prospects for Improving U.S.-China-Africa Cooperation,' *Centre for Strategic International Studies,* 2007, p.6.

[87] *Ibid.* p,7.

[88] Kibble. S. (2006), *op.cit.,* p.530.

[89] Sogge. D. (2006), 'Angola: Global Good Governance Also Needed', Working Paper (23), *FRIDE*, p.8, in Kibble. S. (2006), *op.cit.,* p.531.

The lack of direct scholarly focus on the implications of Beijing's oil-diplomacy on African states in previous works provides appropriate study conditions for the researcher to deal with pertinent politico-economic issues in Africa and the manner in which these are influenced by foreign aid and trade ties, hence presenting new intellectual insights and deserved empirical treatment of this study area. To this extent, the existing studies, however limited in scope provide a valuable foundation from which the researcher can proceed to investigate and edify the actual and likely long-term implications of energy-driven Beijing's engagement with Luanda. Moreover, the existing research provides a valuable indication of the key areas of the elaborate Sino-African relationship which are lacking in examination, while proffering a constructive source of evidence requirements for the current study.

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CHAPTER 3 – *DEFINITION OF KEY TERMS & CONCEPTS*

Governance: The Foundation of Fiscal Transparency & Accountability

The explicit terminological parallel between 'government' and 'governance' signifies the interconnection between formal and institutional mechanisms and structures for popular rule, and the processes through which a nation-state is administered, with the objective of cooperative decision-making and delivering collective action for the benefit of the populace, respectively.[90] The concept of governance, which denotes the systems and processes of public administration, has been etymologically derived from the idea of government. While the characterisation of governance varies depending on the discipline within which it is used, the emergence of the concept of governance in the latter decades of the 20th century fundamentally signalled the need for new perspectives in the transforming the traditional processes of governing society from the state level.[91]

Explicitly, governance entails the mechanisms of coordination and processes of various interrelated institutions, in which each agency has its own functions which nonetheless cannot operate independently from the complex system.[92] At the state level, this definition indicates the existence of various institutions at the federal level, provincial and local levels, each with designated roles which function coherently with the government structure. Fundamentally, governance involves the modes employed by public officials and the attendant institutions

[90] Stoker,G. (1998). 'Governance as Theory: Five Propositions,' *International Social Science Institute,* Vol.50 (155), p.17.

[91] *Ibid,* p.18. The foundations of governance theory are derived from *International Relations, Public Administration, and Organisational Studies*, as well as *Political Science.*

[92] Jessop, B. (1998). 'The Rise of Governance and the Risk of Failure: The Case of Economic Development,' *International Social Science Institute,* Vol.50 (155), p.30.

(including the interconnection between institutions) in acquiring and exercising authority for influencing public policy with the purpose of providing public goods and services.[93] The emergence of governance as it relates to the study has its roots in theoretical shifts in International Relations and political science in the post-World War II order. With the pre-eminence of the intergovernmental institutions, including the United Nations and the Bretton Woods institutions in the years following the war, the primacy of governance in the International Relations discourse embraced a shift from an anarchic world system, to one in which security imperatives necessitated increased coordination between states.

Within this context, the need for international coordination was rationalised in the world systems and neo-realist theory to the extent of circumventing the descent into another war, through the adoption of international governance regimes which could collaborate with the nation-states.[94] In relation to political science, the emergence of governance involved systems of governing at the state level. Essentially, during post-World War II wave of decolonisation and democratic transitions, political science theory advanced the concept of governance beyond conventional public administration systems, highlighting the emerging role of interrelatedness between various levels of the state, including the amalgamation of states and their respective functions.[95] While international consensus on precise measures of governance is lacking, there are a number of common indicators in the governance paradigm, including: i) *Voice and Accountability*. ii) *Political Stability and Absence of Violence*, iii) *Government Effectiveness;* iv) *Regulatory Quality*, v) *Rule of Law*, and vi) *Control of Corruption*.[96] On the basis of these indicators, various governance measures have been developed by international

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[93] World Bank (2007). 'Strengthening World Bank Group Engagement on Governance and Anticorruption', *Second-Year Progress Report,* i.

[94] Rosenau, J.N & Czempiel, E.O. (1992). *Governance without Government: Order and Change in Wold Politics,* Cambridge: Cambridge University Press, in Jessop, B. (1998), *op.cit.,* p.89.

[95] Jessop, B. (1998), *op.cit.,* p.89.

[96] Kaufmann, D., Kraay, A., & Mastruzzi, M. (2010) 'The Worldwide Governance Indicators: Methodology and Analytical Issues,' *Global Development and Economy at Brookings Institute*; World Bank (2010) *World Governance Indicators,* and*;* Mo Ibrahim Foundation (2010) *Ibrahim Index of African Governance Summary,* and; Isaksen, J., Amundsen, I., Wiig, A., & Abreu, C. (2007) 'Budget, State and People Budget Process, Civil Society and Transparency in Angola' *CH Michelsen Report* (7*),* and*;* Burge, R.(2010) 'Learning from DFID's Governance and Transparency Fund (GTF): Tools, Methods and Approaches,' *UKAID* and, Péteri, G. (2008) (ed). *Finding the Money Public Accountability and Service Efficiency through Fiscal Transparency,* Budapest: Open Society Institute.

development and multilateral agencies, development non-governmental organisations, as well as leading IFI's. Among these measures, including:

i. OECD Standards (OECD Best Practice for Budget Transparency);

ii. Open Budget Initiative 2006. (International Budget Project);

iii. World Bank *Governance Matters* Indicators;

iv. IMF *Codes & Manuals for Transparency;*

v. IDASA *Budgetary Transparency & Accountability Framework* (Africa-specific);

vi. UNECA's *African Governance Report (AGR);*

vii. *Extractive Industries Transparency Initiative;*

viii. Mo Ibrahim Foundation *Governance Index.*

The Evolution of Governance & the Emergence of Fiscal Transparency & Accountability

As briefly detailed above, the concept of governance is relatively new to the International Relations and international development arena. Governance emerged as a prevalent concept in the international political lexicon during the 1970s and 1980s, largely fuelled by the primacy of state consolidation in the wake of the extensive wave of democratic transformations that occurred across the developing world. The significance of governance was particularly apparent in the discourse of leading IFIs including the World Bank and the IMF, which generally placed a premium on astute democratic governance as a precondition for development funding and technical assistance to emerging democracies and underdeveloped Third World states in Africa, Asia, and Latin America.[97] Resulting from this international development perspective, governance was conceived as a central role of government and its

[97] de Alecantra, C.D. (1998). 'Uses and Abuses of the Concept of Governance,' *International Social Science Institute,* Vol.50 (155), p.106.

various sub-agencies, which act interdependently to steer collective action in an efficient and accountable manner.[98]

To the extent that the issue of governance necessitates an appraisal of state political processes and public administration, it falls outside the scope of IFIs' traditional role. Notwithstanding, the need for economic restructuring vital to addressing socio-economic quandaries of in most Third World countries mandated the appeal of progressive governance reforms as put forward by the World Bank and the IMF.[99] Fundamentally, the promotion of governance by leading IFI's was directly tied to the provision of financial and technical assistance. Among other factors, a high standard of governance, in accordance with IFI and other multilateral funding prerequisites, is imperative in the extension of aid and assistance to the extent that it ensures the efficient and constructive use of the resources bestowed from development and structural reforms. This rationale is particularly relevant to the case of Third World countries which have been grappling with socio-economic development obstacles since the post-World War era.

Fiscal Transparency

Among the most prevalent offshoots in the governance paradigm professed by IFI's and various international development organisations is that of 'fiscal transparency and accountability'. While other elemental features of governance bear significance at a broader level, in the context of the Third World and particularly Africa in this case, the issues of fiscal management and public accountability are inextricably linked to the tendency for the misappropriation of funds, the misuse of state resources, state corruption and the eventual negligence in addressing the imperatives of socio-economic development.[100] Particularly, fiscal transparency and public accountability, as will be exhibited below, are vital to the roles of IFIs and development agencies in Africa to the extent that fiscal mismanagement and the lack of

[98] Stoker,G. (1998). *op.cit.,* p.18.

[99] *Ibid,* p. 106-107.

[100] This factor of fiscal transparency and public accountability is particularly relevant to the case of Angola, as this trend emerged during the civil war and continues to undermine good governance in the country.

accountability undermine the effective use of infrastructural development loans and technical assistance. Therefore, the willingness of development agencies and IFIs to provide aid and technical assistance is necessarily based on the adherence by recipient states to standards of fiscal transparency and public accountability.

Fiscal transparency relates to the precision, at an internal level, and conspicuousness in public financial administration, to the extent that local and international stakeholders have consistent access to state budget and expenditure publications, in additions to information on the attendant systems and procedures. Within the context of governance, fiscal transparency relates to the manner in which government allocates public resources, the level of 'operational efficiency,' as well as the systems through which the information on government fiscal endeavours is made available to the public.[101] As comprehensively defined by the United Nations Economic Commission for Africa, fiscal transparency designates:

> "*an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies' accountability, are provided to the public on an understandable, accessible, and timely basis*."[102]

In principle, the term delineates government openness and clarity regarding state structure and functions, as well as intelligibility, integrity and access to information on fiscal policy, public sector accounts and projections.[103] Essentially, fiscal transparency is an integral democratic rights' issue, which involves the dichotomous relationship between judicious state financial administration for the benefit of the public on one hand, and the access to information

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[101] Fölscher, A. (2007). *Local Fiscal Discipline: Fiscal Prudence, Transparency, and Accountability,* p.80-83, in Shah, A. (ed) (2007) *Local Budgeting*, Washington, D.C.: The World Bank.

[102] United Nations Economic Commission (2005) 'Assessing Public Financial Management and Accountability in the Context of Budget Transparency in Africa,' *Ad Hoc Expert Group Meeting on "Public Financial Management and Accountability Focusing on Best Practices in the Context of Budget Transparency,* p.2

[103] Organisation for Economic Co-operation and Development (2007) *Glossary of Statistical Terms,* p.297-298, and; IMF (2007) *IMF Manual of Fiscal Transparency,* p.8-9.

this information by the society and other relevant stakeholders on the other hand. Accordingly, the key prerequisites to fiscal transparency are presented in Figure 1 below.

Prerequisites for Fiscal Transparency[104]

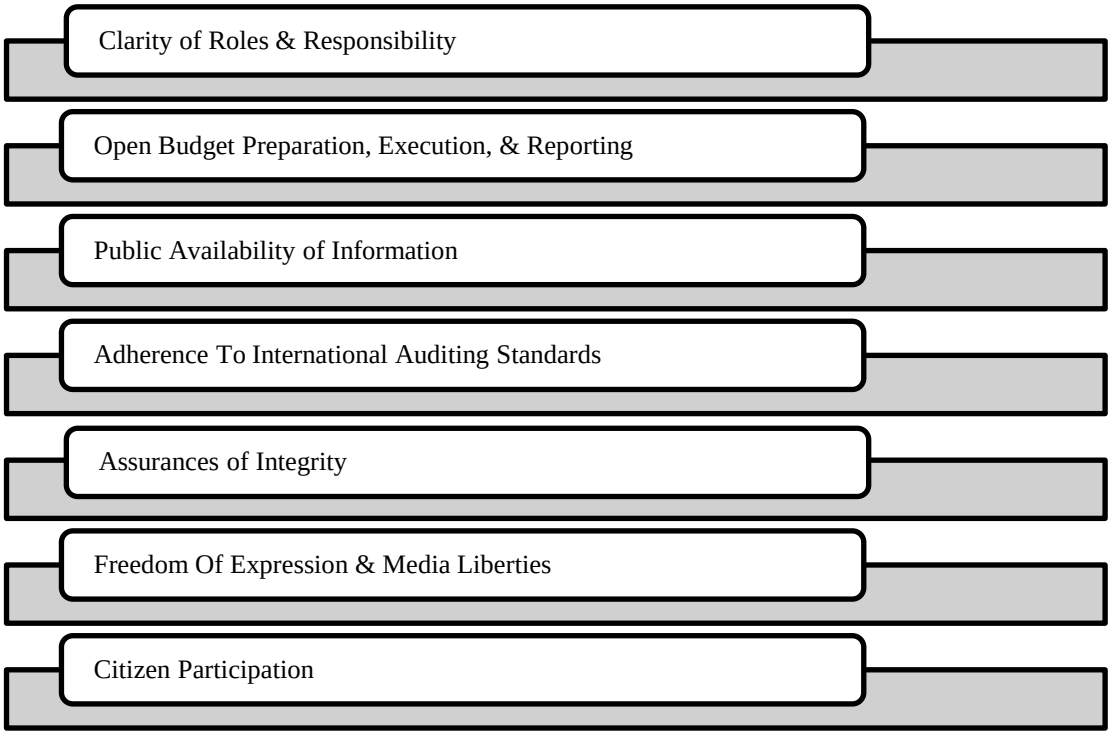


FIGURE 1. PREREQUISITES FOR FISCAL TRANSPARENCY

[104] Prerequisites for fiscal transparency adapted from: Organisation for Economic Co-operation and Development (2007) op.cit., p.297-298, and; IMF (2007), op.cit., p.8-9, and; United Nations Economic Commission (2005), and; Extractive Industries Transparency Initiative (2011) The EITI Principles and Criteria, at http://eiti.org/eiti/principles. Accessed 29 April 2011.

Public Accountability

While fiscal transparency and public accountability are inextricably linked, the latter term entails various distinctions which much be highlighted. Derived from management theory, accountability refers to the extent to which the leaders of a corporate entity can be held answerable for the range of contractual obligations and daily responsibilities, in accordance with the rules and regulations governing their organisation and respective roles.[105] At the broader level of state governance, accountability encompasses the mutual relationship between the government, the public administrator, and the governed (citizens), in a reciprocal relationship in which the citizens are able to hold the principal actor (government) to account.[106] Vitally, accountability necessitates a relationship between the public and the state.[107] This relationship is delineated by the following key elements:

i. *the duty of the government to be open to the public about its administration and actions;*
ii. *the liberty to openly query the legitimacy of government actions, administration and the sufficiency of information provided, and;*
iii. *the capacity for the public to call the government to account (with reference to decisions, provision of information or policy.*[108]

Essentially, public accountability exists on three main levels, namely *political*, *financial* and *administrative*. In relation to the current study, public *financial* accountability takes precedence insofar as project had the aim of investigating the processes by which the Angolan government can be held to account to adequately execute the mandate to manage state

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[105] Organisation for Economic Co-operation and Development (2007), *op.cit.,* p.9.

[106] Pollitt, C. (2003). *The Essential Public Manager*. London: Open University Press/McGraw-Hill, in Péteri, G. (2008) (ed). *Finding the Money Public Accountability and Service Efficiency through Fiscal Transparency,* Budapest: Open Society Institute, p.16.

[107] The relationship that delineates accountability exists on various levels, manifests in an array of directions (vertical & horizontal) and dimensions. It is however important to note that a discussion of these broader aspects of accountability is beyond the scope of this project.

[108] Bovens, M. (2006) 'Analyzing and Assessing Public Accountability: A Conceptual Framework,' *European Governance Papers* (C-06-01), p.11-13.

resources transparently for the benefit of the citizenry (public financial administration).[109] Public financial accountability entails the erudite management of national revenue and expenditure in a manner which is transparent to the citizens and relevant stakeholders at the local and international level. This type of accountability relates to the governments efficient management, administration of 'financial and non-financial reporting, control, budgeting and performance,' in a manner which is in conformance with accounting and auditing best practices; the availability of this information to the public is imperative to public financial accountability.[110]

At a practical level, the leading proponent of public financial management on an international level is the World Bank. To the extent that the World Bank has been at the forefront of promoting sound governance, the institution has since established two interrelated *public financial management systems,* namely *Public Expenditure Management* (PEM) and *Public Financial Management* (PFM) to provide a practical framework for recipients of financial and technical assistance.[111] Comprehensively labelled as the *Public Expenditure and Financial Accountability* (PEFA), the objective of the Bank's program is to assist recipient state and development agencies in:

i. *evaluating the conditions of public expenditure, procurement and financial accountability systems, and;*
ii. *establishing practical programs for PEM and PFM reform & capacity building initiatives*.[112]

As will be exhibited in 'Chapter 5: Data Collection: *Angola's Fiscal Accountability & Transparency Reforms*, a range of PEFA systems have been adopted by the Angolan government in attempts to address long-standing obstacles to sound public financial

[109] Yilmaz, S. & Beris, Y. (2003) *Good Governance and the Emergence of a New Accountability Agenda,* p.28, Péteri, G. (2008) (ed), *op.cit.*

[110] Sahgal, V. & Chakrapani, D (2000). 'Clean Government and Public Financial Accountability,' *World Bank OED Working Paper Series* (17), p.3

[111] Yilmaz, S. & Beris, Y. (2003), *op.cit.,* p.28.

[112] World Bank (2005) *Public Financial Management Performance Measurement Framework,* p.2-3.

accountability. The range of World Bank-sponsored public financial accountability programs that have been adopted by Angola during the research periods include:

i. *Integrated Financial Management System (SIGFE) 2001/2;*
ii. *Public Finance Modernisation Program (PMFP) 2002;*
iii. *System for Public Investment Management and Programming (SIGIP) 2004;*
iv. *The Public Expenditure Management and Fiduciary Accountability Review (PEMFAR) 2005;*
v. *Public Financial Management Project – II 2009.*

Limitations of the Current Fiscal Transparency & Accountability Paradigm

There is a lack of consensus on the appropriate measurement of governance in academic political science and International Relations circles, in international development, as well as in the public policy development arena. A general ridge exists between scholars of governance who ground their work in theoretical and objective frameworks on one hand, and practitioners who develop their methodologies and governance rankings on the basis of subjective and perceptual foundations on the other hand. Various institutions which measure governance, including *Transparency International, Freedom House, World Bank Worldwide Governance Research Indicators,* the *Mo Ibrahim Foundation, Global Governance Initiative,* as well as the *OECD* among other private and multilateral bodies, have adopted elaborate governance indicators which are premised on highly mutually subjective standards, employing the use of surveys and popular public perceptions to develop governance assessment instruments.[113]

Despite the progress which these and other agencies have made in developing governance measures which can be instrumental to policy development and reorientation in developing and under-developed countries which continue to grapple with fundamental governance challenges, the fissures between institutional approaches and objective theoretical norms remain stark.[114] In addition to the lack of international consensus, the main challenge to the adoption of

[113] Besançon, M. (2003) *'*Good Governance Rankings: The Art of Measurement*,' World Peace Foundation Report,* p.5.

[114] *Ibid.*

established institutional governance measures at a policy and state level in the developing world is premised on the lack of objectivity and theoretical rigour in the development of institutional indicators.

The Politics of Fiscal Transparency and Public Accountability in Angola

Although the concepts of fiscal transparency and public accountability allude to administrative and technical processes as detailed above, in the case of Angola, the necessity for reforms in these systems and practices have been imbued with the interminable influence of high politics. In Angola, as in several other states which have been marred by years of civil conflict, the widely held perspective within the international development community was that efficient state functioning, and in turn economic development, was being hampered by 'politically-induced' deviations in best practice.[115] Essentially, the standards, and the overall respect for fiscal transparency and public accountability have been progressively undermined through operational deficiencies within the government structure, coupled with the weakening of state-society contract during the prolonged war years.

Specifically, due to the distinctive role played by extractive industries, namely oil and diamonds, during the years of the Angola civil war, the asymmetrical mechanisms of governance in these two commercial domains became the hallmark of state revenue and economic growth, at the expense of other sectors. To this extent, due to the MPLA's stronghold on the oil industry since the post-independence era, the state-owned (MPLA-run) oil company Sonangol became among the only key fully functional organisations in Angola which was operated with a high level of commercial and institutional efficiency.[116] Ultimately, upon the culmination of war efforts with the Luena Agreement of 2002, the operations of Sonangol continued to flourish, albeit independently from other public agencies.

Essentially, Sonangol has thrived as a company with an advanced, self-regulating revenue management and expenditure system that have primarily been non-mutually exclusive to the

[115] de Alecantra, C.D. (1998), *op.cit* p.106.

[116] Human Rights Watch (2004), *Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights,* Vol. 16, (1), p.16.

customary functioning of other public institutions. This inclination to an exclusive revenue management and expenditure system has undermined multilateral and locally-driven endeavours towards improved fiscal transparency and public accountability. This point has been reiterated by the *Economist Intelligence Unit,* in stating that the government has systematically 'ring-fenced' the oil economy at the expense of the efficient functioning of Angola's overall economy.[117] The 'non-conventional' fiscal system administered by Sonangol has traditionally led to the circumvention of Angolan law (Decree 30/95).[118] Under this law, revenue from the oil industry, which is overseen by Sonangol, is to be deposited into the National Bank of Angola (BNA) account; however, there has been historical and recent evidence of funds being redirected by the MPLA leadership for non-state purposes.[119] This obscured exclusivity in the fiscal management process engendered a bifurcation in oil revenue collection system, as well as budgetary and expenditure mechanisms in Angola; a dualistic system that includes a *conventional* fiscal component (supervised by Ministry of Finance, Ministry of Planning, National Bank of Angola, and administered by the National Treasury Directorate) on one hand, and a *non-conventional* 'quasi-fiscal' system operated by Sonangol.[120]

As a case in point, the *Oil Sector Diagnostic Study* of 2001 undertaken by KPMG reveals that Sonangol evaded a ruling to consign oil revenues to the BNA, leading to discrepancies and divergence of approximately US $2 billion of state income into *non-conventional* accounts, ultimately distorting official fiscal processes and state budgets under the MINFIN.[121] More

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[117] Economist Intelligence Unit (1999) *Angola Country Profile: 1998-1999,* in Global Witness (1999) *A Crude Awakening: The Role of Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets,* p.7

[118] KPMG (2004) 'Assessment of Angolan Petroleum Sector: Executive Summary,' *Ministry of Finance Final Report,* Vol.1 (B), p.11

[119] Human Rights Watch (2004), *op.cit.,*p.17.

[120] World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO,* p.15-16. The duality of Angola's fiscal processes is discussed in the *'Angola fiscal accountability and transparency'* presentation chapter.

[121] Human Rights Watch (2004), *Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights,* Vol. 16, (1), p.17. The *Oil Sector Diagnostic Study* is elaborated in 'Angola fiscal

specifically, in 2000, approximately US $770 million in financial discrepancies was reported: while the Ministry of Petroleum (MINPET) accounted US $3.8 billion in oil tax (38 billion Kwanza), the Ministry of Finance (MINFIN) only reported US $3.0 billion from the same oil revenue stream (30 billion Kwanza).[122] Despite more recent efforts from IFIs to rectify this fiscal predicament, discrepancies have continued somewhat unabated between MINPET and MINFIN. While it was reported in by the MINFIN in its *Annual Bulletin of Statistics of the General Budget of the State* 2008, that oil tax revenues amounted to 935billion Kwanza, discrepancies were apparent in the same revenue stream as reported by MINPET Sector Report, which only accounted for 883billion Kwanza in the same financial year.[123] Essentially, the fiscal dualism detailed above has resulted in the acute mismanagement of oil revenues by the Angolan government; a source of intense contestation and long-standing conflict between the state, local stakeholders, and the international development community.

An additional factor which has compounded the challenge of fiscal transparency and public accountability in the Angolan context in relation to oil revenues and expenditure is strategic the appropriation of oil income by leading MPLA members for non-state purposes. In a detailed exposé of the *Angolagate* scandal of the mid-to-late 1990s which surfaced in 2000, *Global Witness* has revealed that the supposed defence of the nation by the MPLA against rebellion from UNITA during the 1990s resulted in the opportunistic misappropriation of oil revenues by the ruling party.[124] Particularly, *Global Witness* has revealed, in an investigation of the procurement of arms between 1993-1994 that a serious of fraudulent 'mechanisms of

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accountability and transparency'. The provisions for oil revenue accounting coordination between Sonangol, the BNA and the MINFIN are explicit in the *Angolan law Decree 30/95*, which the government has systematically contravened.

[122] Global Witness (2002) *Global Witness Presents All the Presidents Men*, p.48. MINPET is aligned with Sonangol in relation to the payment of oil taxes paid by foreign oil companies.

[123] Global Witness (2011) *Oil Revenues in Angola: Much More Information But Not Enough Transparency,* p.39.

[124] *Ibid,* p.7-10.

wholesale state robbery' were employed by Angolan officials in collusion with high profile figures from France and Russia to embezzle state funds from the African country.[125]

While the specificities of the scandal are beyond the scope of this study, the report reveals activities undertaken by a complex cohort of individuals including, among others erstwhile French President Francois Mitterrand.[126] The report reveals a series of actions in which Mitterrand coalesced Pierre Falcone, the head of a global arms corporation *Benco International* to entice then French Interior Minister Charles Pasqua into providing arms solutions to Angola in an intricate plot; this involved the disbursement of oil-backed loans to Angola by French Bank *Banque Paribas*, coupled with the clandestine use of these funds to purchase arms from *Brenco International*.[127] By citing the complicity of various foreign oil companies operating in Angola, in addition to a network of European banking and arms agents, the *Global Witness* report further revealed the extensive underhanded dealings among key figures in the government in which a dualistic fiscal system (administered by Sonangol), exaggerated arms deals and high-interest loans were cooperatively used to siphon funds from oil revenues for the benefit of the MPLA.[128] The intricate weave of disbursements and misuse of public financial resources is revealed in the excerpt below:

> *"On one occasion, the government concerned paid their suppliers approximately 35% of contract face value, whereupon the latter delivered weapons worth around 25% of contract face value, generating an immediate 10 % profit on the deal...these additional funds, essentially worth 65% of contract face value, were then added to the 10% profit already generated from the up-front payments. The result – the country concerned obtained weapons worth a quarter of what they paid, generating enormous profits along the way for those involved in the deals."*[129]

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[125] Global Witness (2002), *op.cit,* p.3-6. French officials include former president Francois Mitterrand, his son John-Christophe Mitterand, and then interior Minister Charles Pasqua.

[126] *Ibid.*

[127] Global Witness (1999), *op.cit,* p.9-13.

[128] Global Witness (2002), *op.cit, p.7*, 34, 36-39.

[129] *Ibid.,* p.6-7.

Although the IMF and the World Bank have successively spearheaded various technical assistance efforts aimed at restructuring Angola's dualistic fiscal dilemma which was engendered by war-time incidents such as detailed above, the government has incessantly failed to adhere to the recommendations of leading IFIs and other multilateral development organisations.[130] As such, there is an indication that the MPLA has continued to exploit the abundance of oil revenues throughout the final decade of war as a means for maintaining its political autonomy through financially monopolistic measures. The dualistic budgetary system may continue to hold promise for the MPLA government's historically underhanded dealings well into the post-war era. Therefore, the challenge of governance reforms in Angola not only includes fundamental technical and procedural overhauls which IFI's and international development agencies have promoted, but is also implicit with long-standing political complexities which are integral to state functioning.

While the MPLA leadership may have benefited from the misappropriation of public finances during the war years, the continuation of such a trend during current post-war climate presents distinct dynamics which undermine the need for post-war rehabilitation. In effect, deficient fiscal transparency and public accountability systems compromise Angola's creditworthiness at an international level, hence augmenting the cost of foreign loans to the detriment of socio-economic development goals and macroeconomic stability.[131] It is within this context that the international donor community has made endeavours to address shortcomings if fiscal governance and accountability. Notwithstanding, the role of key foreign players including China in conferring 'no-strings attached' oil-backed loans which are devoid of governance checks, has continued to subject Angola's governance standards to widespread interrogation. Essentially, the need for such a manner of interrogation informs the objective of this study.

[130] Reform efforts commanded by IFIs and other multilateral development organisations are presented & discussed at length in the *'Angola fiscal accountability and transparency'* presentation chapter.

[131] Fölscher, A. (2007, *op.cit,* p.83.

Oil Acquisition Diplomacy & Instruments: The Case of China

The oil security strategies presented here are fundamentally financial diplomacy instruments, namely; oil-backed loans; generous lines of long-term credit granted to the Angolan government on concessional settlement terms, which are to be repaid with oil exports China over a specified period, usually between 12 to 15 years in this case, in addition to equity acquisitions in foreign oil production by Beijing state-owned firms.[132] The range of financial diplomacy tools employed by Beijing in the acquisition of oil supplies is exhibited graphically in Figure 2 below. The overall objective of adopting these financial instruments is to steer China's 'going out' strategy, a highly competitive growth policy which places state-owned enterprises (SOE's) at the forefront of foreign acquisition and development endeavours.[133] The objectives of the 'going-out' strategy include:

> *i) bolstering the acquisition of equity ownership in international oil operations using China's national oil companies (NOCs), while securing income streams from exploration and production, and;*
>
> *ii) encouraging increased competitiveness from NOC's in the international market.*[134]

The key organisations in the Angola context include Beijing's construction companies and national oil companies (NOCs').[135]

The main financial instruments presented in this section include: i) '*oil-backed loans,'* which in Angola's case have been concessional lines of credit traditionally attached to the

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[132] World Bank (2007). 'Angola: Public Expenditure Review,' *Report No. 39710 – AO,* Vol.2, p.14.

[133] Downs, E. (2006) 'Energy Security Series: China,' *The Brookings Foreign Policy Studie*s, p.39-40, and; Chen, J. H (2001) 'Oil Strategy and China's Energy Policy,' *Journal of Chinese Petroleum*, (2), p.15. Jin Hua Chen is a leading energy industry expert who has served on the executive boards of CNPC and CNOOC. As the Vice-Chairmen of the 9th National Committee of the Chinese People's Political Consultative Conference (CPPCC), Chen has been a key advocate of China's 'going out' strategy.

[134] *Ibid.*

[135] China's leading NOC's China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec).

procurement of infrastructure deals from China, as well as; ii) the *direct purchasing of oil Blocks by China's state-owned oil company, Petroleum & Chemical Corporation (Sinopec).* These instruments will be presented chronologically, with *oil-backed loans* taking precedence, followed by the *direct purchase of oil Blocks.*

Figure 2. China's Financial Diplomacy Tools [136]

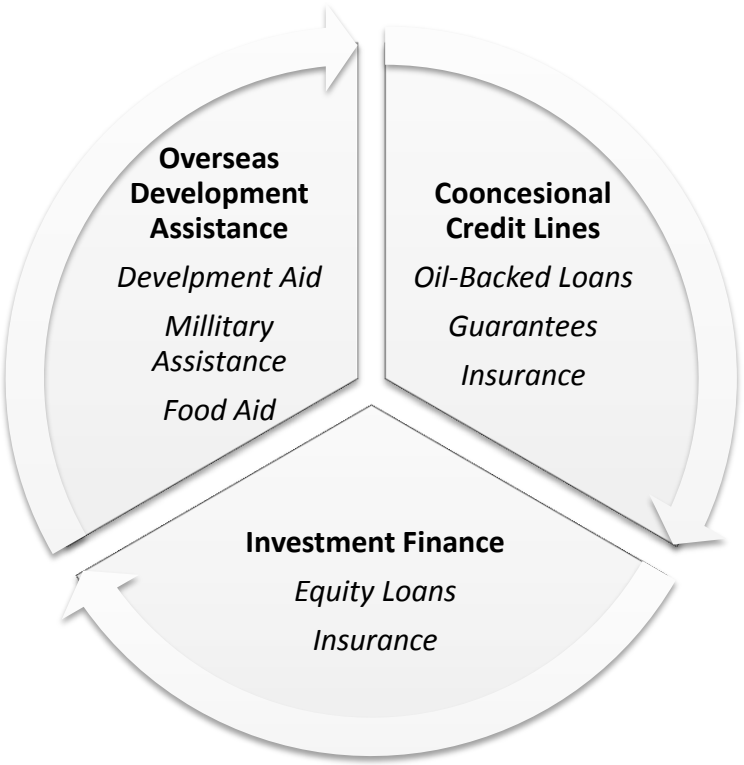


FIGURE 2. CHINA'S FINANCIAL DIPLOMACY TOOLS

[136] Evans, P.C. (2006) 'Untangling China's Quest for Oil through State-backed Financial Deals,' *Asia Strategy,* p.89

China's Oil-Backed Loans to Angola.[137]

In 2004, four years following the official announcement of China's formal Africa policy in October of 2000, the Beijing government initiated a series of diplomatic strategies for securing much-needed oil resources from Angola.[138] Typically, the concessional loans which are disbursed by China's Exim Bank, are provide at the London Inter-Bank Offered Rate (LIBOR) and an addition 1.5% interest, were specifically directed to a myriad of infrastructural and social development projects in Angola.[139] The expedient nature of these 'win-win' oil-backed credit loans has been reiterated by President dos Santos, in stating that "China needs natural resources and Angola wants development".[140] According to initial agreements, the repayment of the credit loans are to be in the form of oil exports to China, amounting to 10 000 barrels per day for the duration of the respective loan periods.[141] The payment of services rendered by Chinese companies through the Public Investment Program (PIP) contracts is to be reimbursed through the sale of oil to China, a process which is administered by a cooperative of Beijing and Angola state financial and planning departments.[142]

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[137] It is important to note that a separate credit line agreement exists, credited by the Hong Kong-based China International Fund (CIF), a private organisation operated by a private Chinese entity. However, the CIF agreements will not be included in this study as the scope of this project only aimed to address included state-to-state relations.

[138] China's official Africa Policy for the 21st Century was announced at the Forum for China Africa Cooperation (FOACAC) held in Beijing in 2000.

[139] Vines, A., Shaxson, N., Rimli, L., Heymans, C. (2006). 'Angola Drivers of Change: An Overview' *Chatham House,* p.13-16. The initial Phase of the Credit Agreement was based on a 12 year repayment period, while the third phase entailed the extension to a 17 year period.

[140] All Africa News (2010) Angola: President's Speech During China premier's Visit, 20 June 2006, at http://allafrica.com/stories/200606220649.html. Accessed 18 august 2010. Statement by Angolan President Eduardo dos Santos from his speech during the visit of the People's Republic of China's Prime Minister, Wen Jiabao, in June of 2006.

[141] Corkin, L. (2008). 'AERC Scoping Exercise on China-Africa Relations the Case of Angola,' *Centre for Chinese Studies*, p.8.

[142] The Public Investment Programs (PIP) of Angola entails the long-term public infrastructure and social developmental goals set out by Luanda in 2005 to activate and administer and rehabilitation and construction of infrastructure and public social services. The oil-backed loans provided by China have been integral in attaining the goals of the PIP.

Angola-China Credit Agreements: Administrative Processes

Since the primary credit agreement authorised in 2004 between Angola and China, a general administrative process for the identification and implementation of projects in accordance with the PIPs has been developed. Typically, the identification of priority projects in each of the sectors of social and infrastructural development, which will be detailed below, is undertaken in collaboration with Angola's MINFIN and Beijing's Ministry of Foreign and Commercial Affairs (MOFCOM).[143] Due to the need for coordination relating to the approval and implementation of projects, the MINFIN and the MOFCOM have established a collaborative working group, known as the *Grupo de Trabalho Conjunto* (*Joint Working Group).* Following from the engagement of the Joint Working Group, each identified project, which are allocated to the respective Angolan government department, is administered by the branch.[144]

The execution of projects is undertaken by way of a tender process which gives precedence to Chinese companies.[145] The loans which are credited by the China Exim Bank, are treated as an escrow account which is monitored by an agency established by the MINFIN, in collaboration with the BNA, DNT, Ministry of Planning (MINPLAN) and the Ministry of Foreign Affairs (MFA) known as the *Gabinete de apoio tecnico de gestão da linha de crédito da China* (GAT), which oversees the disbursement of finance and the technical coordination of project monitoring by the respective government ministries.[146] The operations of the GAT function in accordance with the budget allocations for each project under the PIP. The

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[143] Campos, I & Vines, A. (2007). 'Angola & China: A Pragmatic Partnership,' *Working Paper Presented at a CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation,* p.12.

[144] Corkin, L. (2008), *op.cit,* p.8, and; Campos, I & Vines, A. (2007), *Ibid.* GAT translates into *Support Office Management for the Technical Management of Credit Lines from China.*

[145] *Ibid.*

[146] AngoNoticas (2004) *Office Created to Support Management of Credit Line with Chinese Institution,* 13 Sept 2004, at http://www.angonoticias.com/full_headlines.php?id=2331. Accessed 18 February 2011.

recommendation of suitable Chinese companies for project tenders is made by the Beijing government, usually including up to four corporations.[147]

Following the identification of priority projects under the PIP, as governed by the attendant tender process, funds are made available to the various companies, authorized through the signature of contracts per assignment within the respective sector, as shown in the figures below. The administration of funds to the respective company, in addition to the monitoring of project implementation, is conducted by the Joint Working Group involving the allotment of funds in accordance with the budget allocation, on a project-by-project basis.[148] Among the leading Chinese companies in the execution of projects include: *Sinosteel; Huawei; China National Machinery & Equipment Import & Export Corporation; Sinhydro; China National Overseas Engineering Corporation; China State Shipbuilding Corporation,* and*; Jiangsu International;* as well as the *ZTE Corporation*.[149]

Angola-China Credit Agreements: Contracts, Sectors and Project Expenditure

The credit agreements, which began with the initial loan agreement of March 2004, were authorised by the *Angola-China Inter-Governmental Bilateral Commission.*[150] In accordance with the general loan agreement, these projects, which are vital to Angola's reconstruction endeavours, are to be completed by Chinese construction companies, with an allotment of 70% of the contract work allocated to firms from China, and the remaining 30% to local companies.[151] In addition, a further clause in the agreements required 50% of the material and technological expertise and implements required in the infrastructural products to be acquired

[147] Campos, I. & Vines, A. (2007), *op.cit.,* p.10.

[148] Alves, A.C. (2010) 'The Oil Factor in Sino– Angolan Relations at the Start of the 21st Century,' *South Arica Institute of International Affairs Occasional Paper,* (55), p.11-12.

[149] Christopher, C. & Corkin, L (2006). 'China's Interest and Activity in Africa's Construction and Infrastructure Sectors' *Centre for Chinese Studies*, p.17.

[150] The *Angola-China Inter-Governmental Bilateral Commission* was established in 1989. While the 1990s were generally a period of low activity between the two states, the 21st Century saw the escalation in cooperation between Angola and China.

[151] *Ibid.*

from China.[152] Since the commencement of loan provisions to the Angolan government in 2004, the Chinese government has initiated numerous infrastructural and social projects in sectors including public works, education, telecommunications, fisheries and agriculture, water and energy, public health as well as medical care.[153] These credit loans, which were signed by the two states as a part of Angola's PIP, were progressively authorized by the Exim Bank as follows:

i) **Phase I** - *Initial loan of US $2 billion on 2nd March 2004;*
ii) **Phase II** - *US $ 500million on 16th July 2007, and;*[154]
iii) **Phase III** - *US $2 million 28th September 2007*.[155]

China's Purchase of Blocks in Angola Oil Fields

In addition to the concessional oil-backed credit lines detailed above, Beijing also employed the direct acquisition of oil blocks in Angola as a strategic means to accessing oil resources. In a similar mode to the credit loans, the acquisition of oil was directly facilitated by the government, with leading state oil and chemical cooperation Sinopec operating as the primary corporate entity in the transactions. It is however important to note that China has not been the only player in Angola's upstream industry. The offshore oil exploration ridge off the coasts' of Angola and Cabinda have been strategically partitioned into 35 operating blocks: the rights to extraction in a majority of the blocks have been progressively awarded to various international

[152] China Export Import Bank (2009) *Chinese Government Concessional Loan and Preferential Export Buyer's Credit*, at http://english.eximbank.gov.cn/#. Accessed 05 April 2011.

[153] MINFIN (2011) *Works And Government Projects*, 30 June 2008, at http://www.minfin.gv.ao/docs/dspprojgov.htm. Accessed 10 January 2011.

[154] Phase II represented an additional disbursement for the completion of projects which were commenced with the use of the initial 2004 loan.

[155] *Ibid.* The payment of these funds is managed by the MINFIN in an escrow account held by the China Exim Bank.

oil companies in bidding processes, in which China is also a competitor.[156] Accordingly, China's oil block acquisition strategy as engaged in Angola can be aggregated as follows:

i) *Building infrastructural capacity in Angolan oil offshore fields secure exploration and production;*
ii) *Fostering diplomatic ties the Angolan state;*
iii) *Extending direct finance to state-owned oil companies for the acquisition of foreign oil blocks.*[157]

The engagement of this strategy began in 2004, following the signature of the initial oil-backed credit agreement detailed above. Between 2004 and 2006, the China Exim Bank financed Sinopec's acquisition of direct offshore oil blocks, with implications for equity ownership in Sonangol operations in the particular blocks. The signature of oil agreements for the acquisition of equity states and attendant operating rights in various blocks were secured during successive Angola Offshore Oil Licensing Rounds which are held annually and administered by Sonangol as the national concessionaire, and authorized by President dos Santos.[158]

While this strategy is palpably linked to the third point as listed in the strategy above, the purchase of oil blocks functioned as a conduit for the development of infrastructural capacity in terms of oil exploration, production and refining facilities.[159] The preliminary concessional Exim Bank loans for PIP projects in 2004 can be viewed as the initiation of diplomatic ties for the facilitation of oil block acquisitions. In addition to the acquisition of equity ownership in oil

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[156] 'United States Energy Administration (2010) 'Angola Energy Data, Statistics and Analysis - Oil, Gas, Electricity, Coal,' *Country Analysis Briefs,* p.3-8, at http://www.eia.doe.gov/emeu/cabs/Angola/pdf.pdf. Accessed 15 April 2011, and; Vines, A. Wong, L., Weimer, M. & Campos, I (2009) 'Thirst for African Oil Asian National Oil Companies in Nigeria and Angola,' *A Chatham House Report: Royal Institute of International Affairs,* p.33.

[157] Evans, P.C. (2006) *op.cit,* p.8. This list has been party adapted from Evans.

[158] Sonangol (2008) *Gabinete de Comunicação e Imagem da Sonangol EP,* 28 February 2008, at http://www.sonangol.co.uk/wps/wcm/connect/4b4a160048d0d3858d079f467ef0967d/dneg_bidProrrogacao_en.pdf?MOD=AJPERES&CACHEID=4b4a160048d0d3858d079f467ef0967d. Accessed 28 April 2011.

[159] Vines, A. Wong, L., Weimer, M. & Campos, I (2009), *op.cit,* p.42, and; Corkin, L. (2008).], *op.cit,* p.7-8.

blocks, and in line with the equity strategy listed above, Beijing has also endeavoured to develop oil refinery capacity in Angola's oil industry. In March of 2006, the joint venture established between Sinopec and Sonangol named Sinopec Sonangol International (SSI) embarked on the development of an oil refinery in Lobito municipality of the Benguela Province, a project which has been titled *Sonaref.* At the time of inception, the Sonaref refinery was projected to produce a capacity of 200 000 barrels of oil per day.[160]

According to an official account by Sonangol, the Lobito heavy crude refinery project which is already in the development stage is stated to adopt a phased approach. The first phase involves the construction of the *simple refinery* with a low output rate to be completed by 2015, and the second phase, the *complex refinery*, which will reach the maximum projected output of 200 000 barrels per day will be finalised in 2016.[161] Once the project phases have been completed, the objectives of the Lobito refinery include:

i) The cessation of fuel imports into Angola;[162]

ii) Generating added-value for Angola's heavy and acid crude oil, and;

iii) *Increasing the role of oil in the National Economy*.[163]

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[160] Royal Netherlands Embassy Angola *(*2007)'The China-Angola Oil Factor,' *Trade & Investment Newsletter* (6), p.5, and; M. Davies & S. (2006) 'Naidu China Fuels its Future with Africa's Riches,' *South African Journal of International Affairs,* Vol.13 (2), p.757.

[161] Sonangol (2011) *Sonaref Project,* 14 May 2011, p.1, at http://www.sonangol.co.ao/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDl5AQUzN_QwN3R39XA09HQ0NLNxcTI3cTQ_1wkA6zeAMLY2cfQ2MDF0cDfw9vU8NQcyMDCMAuH2KCX94lyBBVHgdwxKHfxNMQr_mGFqj24_AhpryFF1DUyNjbNdjI08XIxNUcu_kGCPP9PPJzU_ULsrODXIHQwlFREQD_gbZt/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfMURUVDU2TzEwR0FPRTBJQTExOUZENDIwMDA!/. Accessed 10 April 2011.

[162] Royal Netherlands Embassy Angola *(*2007) 'Sonangol Undertakes Construction of Lobito Refinery,' *Trade & Investment Newsletter* (6), p.6. 'It was estimated the Lobito refinery would ultimately save Angola approximately US $500 million in oil import expenditure.

[163] *Ibid.* It is however important to note that Sinopec, operating under SSI, has since withdrawn from the Lobito Refinery deal due to disagreements regarding the specifications of the product (refined heavy crude) details.

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CHAPTER 4- DATA COLLECTION: *ANGOLA'S FISCAL TRANSPARENCY & PUBLIC ACCOUNTABILITY REFORMS*

Data Presentation

Introduction: Angola's Politicised Fiscal Governance & Public Financial Management

Since the end of the protracted civil war which came to an end in 2002, the Angolan government, with the assistance of leading IFI's as well as regional and international development agencies, has embarked on a broad-based rehabilitation of the country. The core focus of these efforts relates to good governance, as it is widely accepted as the hallmark for attaining the various post-conflict objectives including poverty reduction, peace consolidation, rehabilitation and infrastructural development, as well as socio-economic development. Notwithstanding the necessity of these objectives, the efforts towards good governance have been marred by an age-old political culture which systematically undermines *fiscal transparency* and *public accountability.* The high-level misappropriation and embezzlement detailed in the investigative reports including *All The Presidents Men* and *A Crude Awakening* reveals a proclivity towards the obscure use of public finances, involving the convoluted manoeuvre of exaggerated arms deals, oil-backed loans and the exploitation of the dualistic fiscal system.[164] Although various governance reforms have been adopted since 2000, discrepancies in reporting on (oil) revenues and expenditure which emerged as a trend during the war years have persisted in the current post-conflict era.[165]

At the core of this fiscal transparency and public accountability crisis is the dualistic fiscal system. Fundamentally, the implementation of astute public financial management is intractable due to the existence of a 'conventional' and a 'non-conventional' public financial

[164] Global Witness (1999) *A Crude Awakening: The Role of Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets,* p.9-13.

[165] Global Witness (2011) *Oil Revenues in Angola: Much More Information But Not Enough Transparency,* p.39.

system. The conventional system is administered by the Ministry of Finance (MINFIN), and includes the reporting of revenues, expenditure management and budgeting processes from all public agencies, excluding the oil industry.[166] The non-conventional system is controlled by Sonangol, encompassing the administration of revenues and budgeting processes related to Angola's offshore and upstream oil industry.[167]

Historically, the establishment of the non-conventional system is the result of a highly advanced oil industry, which provided the main source of income for the MPLA government during the civil conflict; in lieu of the disruptions and irregularities in the economy imposed by the dynamics of war, Sonangol stood as the only fully functional state entity, providing much needed revenue for the MPLA to continue funding war efforts at the expense of socio-economic imperatives and public financial accountability. However, the existence of the dualistic system has been highly politicised as it traditionally served the interests of the MPLA leadership, as they have strategically misappropriated funds in intricate arms deals and oil-backed loan agreements.[168] As will be exhibited in the data presentation below, it is apparent that even after a decade since the cessation of conflict the Angolan government remains obstinate in maintaining obscure fiscal mechanisms which undermine transparency and accountability, despite the various efforts by multilateral agencies to ameliorate the quandary.

Objectives & Structure of Data Presentation

Accordingly, the aim of this chapter is to present a two-pronged trajectory of fiscal transparency and public accountability reforms according to the *process-tracing* approach. Firstly, the chapter will include a presentation of the range of multilateral and state-driven *fiscal transparency* and *public accountability reforms* (dependent variable) chronologically,

[166] Isaksen, J., Amundsen, I., Wiig, A., & Abreu, C. (2007) 'Budget, State and People Budget Process, Civil Society and Transparency in Angola' *CH Michelsen Report* (7), p.2-4.

[167] *Ibid.*

[168] Global Witness (2002) *Global Witness Presents All the Presidents Men*, p.48, and; Global Witness (1999) *A Crude Awakening: The Role of Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets,* p.7. The misappropriation of funds as revealed in the *Angolagate* is elaborated in Chapter 2 – Literature Review.

beginning in 2000 as the first year of the study, and ending in 2008 as the closing year.[169] The first section will present Multilateral Initiatives for Fiscal Transparency and Public Accountability Reforms, followed by a second segment on State-driven Initiatives for Fiscal Transparency and Public Accountability Reforms. The final section will include a brief discussion of the trends and deviations found in the presented data series.

Secondly, the chapter will draw attention to the extent to which the MPLA government has continually resisted fundamental changes to the dualistic fiscal and public financial management system. The importance of this defiance to abolish the dualistic system is addressed in lieu of the extensive approval of oil-backed loans from China; a means of securing public financial requirement which has historically been associated with the mismanagement and misappropriation of state funds. A commentary of the initiatives which have been faced with political challenges and obstruction from the MPLA government in the implementation stages will also be included below. Among such projects include the *Corporate Social Responsibility* (CSR) programme, *The Public Expenditure Management and Fiduciary Accountability Review* (PEMFAR) the *Public Financial Management Program* (PMFP), IMF's *Oil Revenue Management Study*, KPMG *Oil Sector Diagnostic Study*, as well as System for *Public Investment Management and Programming* (SIGFE), and the *Integrated Financial Management System* (SIGIP).

Multilateral Initiatives for Fiscal Transparency and Public Accountability Reforms

The Transitional Support Strategy 2002: A Comprehensive Strategy

In 2002, the World Bank's International Development Agency (IDA) proposed the Transitional Support Strategy (TSS) as a comprehensive approach for restoration of a functional post-war economy in Angola, in accordance with best practice and international standards. The TSS, which had an implementation period of 2002-2005, represented the principal post-war recovery

[169] It is important to note that the research period for the study is divided into two categories, 2000-2005, (before official engagement with China) and 2006-2010 (following China's oil security interventions).

strategy aimed at elaborate macroeconomic recovery and financial reforms in Angola.[170] The strategy was premised on the World Bank's institutional reputation for developing and implementing post-war revitalization measures, which include military demobilization and reintegration into government forces, the activation of the necessary financial and technical resources in the support of post-conflict recuperation; as well as the extension of 'analytical and advisory activities' (AAAs) expertise to contribute to the development of sustainable recovery, poverty reduction, economic growth and governance objectives.[171] Consequently, in close collaboration with the Angolan government, the IDA embarked on the TSS in the wake of the Luena Peace Agreements for the purpose of cultivating and implementing comprehensive post-conflict programs.

The technical and financial support provided through the TSS, which spanned a 15 month implementation period, was founded on three key objectives:

i) Bolstering the efficiency, credibility and transparency of Angola's public resource management;
ii) The expansion of service delivery to populations worst-affected by the consequences of the civil war, and;
iii) Establishing the foundations for 'pro-poor' social development and economic growth.[172]

In line with the first objective which related to *fiscal transparency and public accountability* imperatives, the TSS entailed reforms at four levels of public and private administration. These levels included the *public sector*, *civil society*, *private sector*, *the judiciary*, as well as the *international donor community*.[173]

At a practical execution level, the TSS, worth an estimated US$125, aimed to attain its three core objectives through the following post-conflict reform strategies. The first strategy comprised overhaul of transparency and governance systems through the implementation of an

[170] Upon the conclusion of the set 2005 cut-off date, the TSS was succeeded by the Intern Strategy Note (ISN) from February 2005 to June 2006, which was also initiated by the World Bank. The ISN is elaborated below.

[171] IDA (2003), *op.cit,* p.21. The application of AAAs was requested by the Angolan government, as the activities were deemed imperative in assisting the state to take vital knowledge, expertise and capacities to steer Angola's long-term development goals.

[172] IDA (2003), *op.cit,* p.2

[173] *Ibid.* p.26

oil sector study, country procurement review, as well as a public expenditure and financial management accountability review, as detailed above. Secondly, the TSS endeavored to initiate comprehensive private sector-led growth through the development of public-private partnerships in infrastructure, and particularly in the corporate social responsibility in the oil sector.[174]

On the basis of actualizing the strategy, the TSS embraced the use of lending and non-lending mechanisms for supporting overarching fiscal and economic reforms for Angola.[175] Primarily, this end involved the support the governments' *Estrategia de Combate a Probeza*, (ECP) as the practical foundation for implementing the TSS.[176] A succession of technical and financial assistance programs have been introduced as part of the strategy. Appropriately, the TSS comprised a multi-faceted strategy which took into account the broader social and economic developmental imperatives, by initiating the following supplementary programs, as displayed in Figure 3.[177]

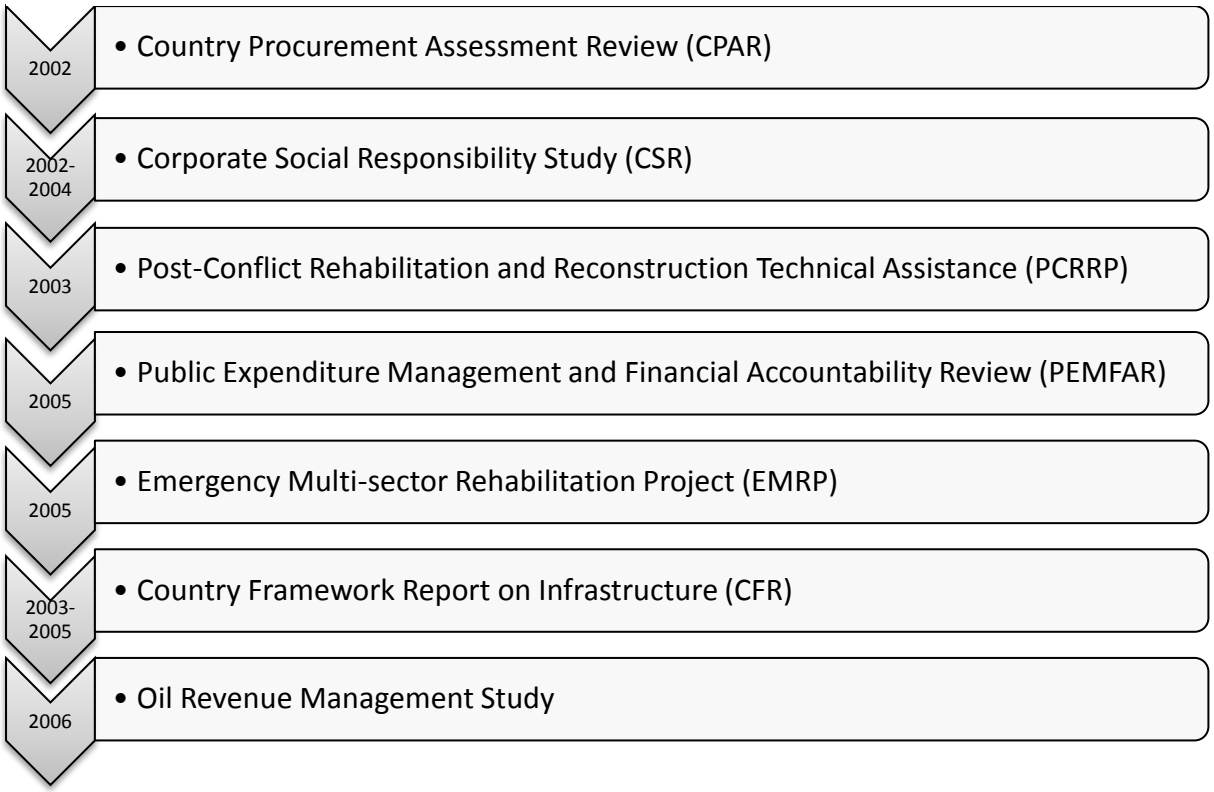
[174] AfDB (2004), *op.cit,* p.4

[175] *Ibid,* p.3.

[176] *Estrategia de Combate a Probeza* (ECP) is the Portuguese term for 'Poverty Strategy Reduction' underlined by the IMF's Poverty Strategy Reduction Paper (PRSP). The ECP will be elaborated in the 'State-driven Initiatives for Fiscal Transparency and Public Accountability Reforms' section below.

[177] The *PCRRP* was not detailed in this study as it had a stringent focus on social rehabilitation efforts including empowerment, conflict prevention, and post-conflict reconstruction which are all beyond the research scope; The *EMRP* was not detailed in the study as it involves reconstruction and economic rehabilitation, with specific reference to rural development and social service delivery, as well as infrastructural development. It does not embrace governance and transparency imperatives; The *CFR* was not detailed in this study as it does not include governance and accountability reforms. The project has a strict focus on infrastructural development, which is beyond the scope of the project.

FIGURE 3. IMF TRANSITIONAL SUPPORT STRATEGY PROGRAMS



Corporate Social Responsibility (CSR) 2002: A TSS Component

In accordance with the TSS initiative discussed above, the Angolan government embarked on a Corporate Social Responsibility (CSR) project in 2002 (ending in 2004). The CSR project, which was cultivated by the World Bank, was intended to foster the development of a transparent, widely beneficial and mutually reinforcing partnership between the oil companies, the Angolan society as well as the state. Broadly stated, the goal of the CSR is to guarantee that the proceeds from Angola's oil resources are exploited for the benefit the country's citizens, through expanding synergies between the government, oil sector and denizens, and including fiscal transparency and public accountability imperatives within this goal. The CSR initiative, which was preceded by a lengthy investigation of existing corporate social agendas in Angolan society, was founded on determining the following aspects of the field: i) *establishing the extent to which the Angolan government and leading oil companies are prepared to cooperate with each other in a socially responsible manner;* ii) *determining the mutually strategic objectives of the oil sector and the government to the extent that they relate to CSR priorities*; iii) *and to ascertain what both the government have accomplished to date regarding CSR*

priorities; and based on the findings of the above aspects, preparing a comprehensive CSR proposal for both the Angolan government and the oil sector.[178]

Within the first year of research, the World Bank team had identified three core areas of CSR which were lacking in the Angolan paradigm, with specific reference to the above list of objectives. These deficiencies also comprised the foundational areas which the project would focus on in the development of a comprehensive CSR proposal for Angola. Firstly, there was a shortage, and a corresponding need for collaboration in the development of a skills-set for the local population, in addition to fostering the growth of a local supply market for the oil industry; secondly, there was a dire need for reforms in the areas of fiscal transparency and public accountability; thirdly, in relation to the first point, there was a need to develop the supply mechanisms for affordable energy to Angola's poorest citizens; and lastly, there was a need for broad-based social and community development.[179]

In relation to the fiscal transparency and public accountability imperatives, the need to comprehend Angola's historical record of public financial mismanagement and inadequate transparency processes formed a central component of the CSR. Essentially, in lieu of recurrent cases of budgetary inconsistency and discrepancies in revenue reporting and overall fiscal mismanagement, through the CSR, the World Bank in collaboration with other IFIs and NGOs have been intent on facilitating broad reforms in the areas of fiscal transparency and best-practice governance systems and standards in Angola. To the degree that the oil industry accounts for major proportion of Angola's annual revenue, the governance and transparency-related objectives of the CSR are of paramount importance to the state's fiduciary mandate to the citizens.

How important is the CSR in Government's overall Fiscal Transparency & Public Accountability Imperatives?

While the CSR project does concede that it does not have authoritative control over Angola's fiscal management, the issues of fiscal transparency and public accountability were placed high

[178] World Bank (2003) 'CSR in the Oil Sector in Angola: World Bank Technical Assistance Study' 22 May 2003, p.3

[179] *Ibid,* p.3-4

on the projects agenda due to the reason that initiative aims to guarantee that oil profits are utilized for the full benefit of Angolan society.[180] Fittingly, the CSR embraced the perspective that there should be full disclosure and publication of all oil transactions in consistence with best practice and international standards of transparency and accountability. Accordingly, the imperative of transparency is perceived as an elemental component for ensuring that oil wealth is used for these publicly beneficial ends.

Therefore, in efforts to resolve the long-standing fiscal governance issues which were widely reported during the civil war years the World Bank, through the CSR has guaranteed an agreement with the primary imperative of improving transparency in collaboration with the Angolan government and the oil sector.[181] Moreover, in line with this pledge, the World Bank has articulated the objectives of fiscal transparency and public accountability into its EMTAP, CPAR, as well as the PEMFAR initiatives.[182] Additionally, upon the completion of the CSR in 2004, the report made the following recommendations for continually improving transparency and accountability in Angola's oil sector and government:

> *"If Angola wants to enhance its reputation in the international community, the government must make a credible commitment to transparent political and business practices by pursuing on-going reforms. The best way to address issues raised by international campaigns, such as the 'PublishWhatYouPay' and the EITI, calling for more transparency within the oil sector, will be to continue making serious efforts to reform war-time accounting and transparency practices."*[183]

[180] World Bank (2004). 'Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility: Conclusions and Recommendations from Technical Assistance in Angola,' *Working Report,* p.5

[181] World Bank (2003), *op.cit.,*p.8

[182] *Ibid.*

[183] World Bank (2004), *op,cit.,* p.4. Despite these recommendations, it is important to note that to date, the Angolan government has neither adopted the EITI nor the *Publish What You Pay* initiative. Nonetheless, the government has made some progress in making oil bonuses and signatures public.

The Public Expenditure Management and Fiduciary Accountability Review (PEMFAR) 2005: A TSS Component

In 2005, in response to several years of budgetary discrepancies and mismanagement in the area of public financial management, various corrective measures were taken, particularly steered at the international financial level.[184] Accordingly, the World Bank coordinated The Public Expenditure Management and Fiduciary Accountability Review (PEMFAR) of 2005. The central aim of the PEMFAR, which was undertaken in cooperation with key Angolan financial planning and implementation bodies, involved the "strategic prioritization and operational efficiency" of Angola's public financial management systems and budgetary systems. [185] Among the main state agencies which executed the PEMFAR include the (MINPLAN), Ministry of Finance (MINFIN), The National Bank of Angola (BNA), as well as Sonangol. In addition, the review project was undertaken with the collaboration of the Angolan panel at the IMF's Fiscal Affairs Department (FAD).[186]

Particularly, PEMFAR's core objectives related to resolving Luanda's dualistic budgetary mechanisms; the government public finance and accountability system was based on a *conventional* framework which was technically managed by the National Treasury Directorate (DNT) and the MINFIN on one hand, and a *non-conventional* component which was premised on the revenue management and budgetary system of state oil company, Sonangol.[187] On the premise of the high costs, inconsistencies and fiscal inefficiencies in maintaining this dualistic public financial administration, the reform strategy propositions of PEMFAR included: i) *the bolstering of existing public financial management tools and systems* and*; ii) the gradually discontinuation of the secondary 'non-conventional' element*.[188]

Due to the PEMFARs heightened focus on public financial management and budgetary systems, in retrospect, the review remains one of the most robust strategic ventures to address

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[184] African Development Bank (2007), *op.cit,* p.24.

[185] World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO,* p.1

[186] *Ibid,* x The PEMFAR is a predecessor of PAGEF, and a successor of the government-led PMFP which are both discussed in this section.

[187] *Ibid,* x this dualistic system is elaborated in the SIFGE section of this data presentation.

[188] *Ibid.* xi

fiscal transparency and accountability in Angola. Accordingly, among Angola's core budgetary deficiencies and public management limitations, the central concerns which were identified by the PEMFAR, include i) *persistent institutional weakness and inadequate fiscal discipline and transparency*, as well as; *ii) inadequacies in Angola's public financial management, to the detriment of sound macroeconomic management*.[189] In relation to the first element, the following fiscal management shortcomings were identified:

i) unexplained financial discrepancies (commonly involving oil bonuses, contracts and royalties) accounting for 3% of GDP in 2003[190];
ii) extra-budgetary expenditure which were not included in the central budget up until 2003 (amounting to $US 1 Billion);
iii) non-transparent external debt transactions.[191]

On the level of public financial management, the PEMFAR identified that the defectiveness prevalent in the area of fiscal accountability and expenditure mechanisms was due to deficient debt and cash management mechanisms.[192] The lack of transparent and dependable practices not only affected public financial management and accountability, but has also hampered efforts towards macroeconomic stabilization, having an overly negative impact on Angola's economy. To this extent, the PEMFAR proposed to address these structural issues by transforming the anomalous duality of Angola's public financial management and budgetary systems.[193] The proposed transformation, as outlined in the *Angola 'PEMFAR Report 29036-AO'* of 2005 is represented schematically below in Figure 4.

Ultimately, while the PEMFAR aims to enhance the capacity of Luanda's financial departments, namely MINFIN, MINPLAN, BNA, as well as the Ministry of Industry and

[189] African Development Bank (2007), p.3

[190] While these discrepancies were eventually purged from published accounts in 2004, extensive quasi-fiscal operations undertaken by Sonangol & the BNA continue, although not unabated.

[191] World Bank (2005), *op.cit,* ii.

[192] *Ibid,* p.18

[193] IMF (2007). 'Angola:2007 Article IV Consultation - Staff Report; Staff Supplement and Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Angola,' *IMF Country Report No. 07/354,* p.22.

Petroleum (MINPET), the culmination of the proposed transition is linked to enhancing the effectiveness of the Integrated Financial Management Information System of Angola (SIGFE).[194] In direct reference to fiscal transparency and public accountability, the importance of the SIGFE rests in that it provides an automated mechanism for controlling all public transactions, including revenues and expenditures from various sectors, resulting in a comprehensive accounting report.[195] Essentially, in lieu of the dualistic budgetary system, SIGFE will allow for the coordinated budgetary and public financial execution, including accounting processes from Sonangol which have been typically excluded from Angola's state accounts, as discussed above.[196] This accounting report forms an important component of best practice, budgetary processes and financial management mechanisms which are imperative for fiscal austerity and accountability in Angola.

Schematic representation of the PEMFAR Transition.

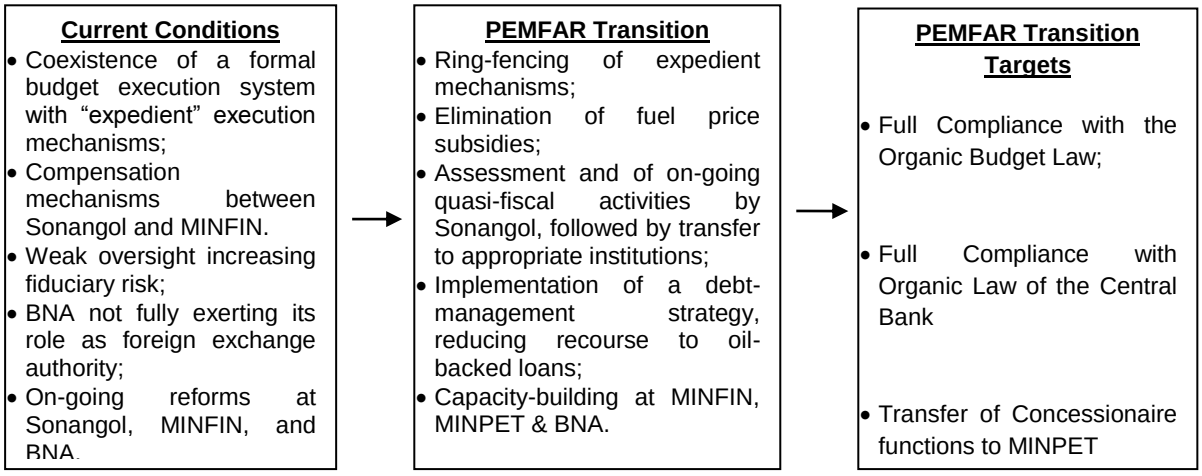


FIGURE 4. PEMFAR TRANSITION.[197]

[194] Gallagher, M. (2007) 'Building Fiscal Infrastructure in post-conflict Society,' *USAID,* p.13. SIGFE is a Portuguese-Brazilian financial management system which was implemented in Angola in 2002 to assist with the automated monitor and report on the state's finances.

[195] *Ibid.*

[196] World Bank (2005), *op.cit,* p.18.

[197] World Bank (2005), *op.cit,* vii

PEMFAR: Signs of Government's Commitment to Budgetary Discretion or Facade?

Despite the government's failure to make substantial progress in several areas of fiscal transparency and public accountability, the strides made during the PEMFAR initiative underscore a level of commitment in addressing key structural issues. Particularly, the amendment of the Organic Budgetary Law (LQOGE) pointed towards a degree of progress in rectifying the obscure accounting processes engendered by the dualistic fiscal system.[198] The endeavours initiated by PEMFAR have successively allowed the Angolan government to root out "technical, bureaucratic and political" shortcomings which have traditionally undermined the budget preparation process.[199] The main progress areas include *budget preparation*, *budget execution,* as well as *accounting and reporting.*[200] As early as 2003 the World Bank commended the Angolan government of the strides made with respect to overhauling budgetary processes:

> *"The Revised 2003 OGE is a landmark and represents the first major attempt by the Angolan Government to regularise its extra-budgetary and quasi-fiscal spending, and make them an integral part of the budget."* [201]

It is however important to note that while there have been positive strides in addressing budgetary inadequacy over the years, the core structural challenge of quasi-fiscal expenditures under the non-conventional financial management system held under tutelage of Sonangol still exist. The PEMFAR initiative failed at addressing Sonangol's quasi-fiscal system. Essentially, the rectification of budgetary flaws is significantly undermined if the revenue collection and expenditure reporting of oil revenues continues to be distorted under the non-conventional system.[202] In this regard, the government's commitment to addressing the foundation of public

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[198] Isaksen, J., Amundsen, I., & Wiig, A (2007) 'Budget, State and People Budget Process, Civil Society and Transparency in Angola,' *CHR Michelsen Institute Report* (7), p.31. Organic Budget Law (*Lei Quadro do Orçamento,* LQOGE Law no 9/97) sets out the basic principles for the budget, saying that it is the legal instrument which serves the administration of the state to manage the public resources.

[199] *Ibid.*

[200] World Bank (2007) 'Angola: Public Expenditure Review,' *Report No. 39710 – AO,* Vol.1, p.11,

[201] World Bank (2005): *Angola: Public Expenditure Management and Financial Accountability*, *PREM1,* p.25, in Isaksen, J., Amundsen, I., & Wiig, A (2007), *op.cit.*, p.19.

[202] World Bank (2007), *op.cit,* p.5.

financial mismanagement, inherent in the quasi-fiscal system under Sonangol, must be analyzed within the context of coinciding increases oil revenues during the implementation period of the PEMFAR initiative (with China among the leading buyer). The role of Sonangol as a government concessionaire, which played a key role in brokering extensive oil-block purchases by Beijing's Sinopec oil company during the 2004-2006 period, brings to question the intentions of the government in neglecting the former's obscure financial management practices.

Oil Revenue Management Study 2006: A TSS Component

In 2006, as a long-term component of the TSS, the World Bank launched the Oil Revenue Management Study in Angola. The Study, which was introduced at the request of the MINFIN, was intended to bestow technical assistance in the conceptual and practical elements of transparency and public financial accountability in the administration of petroleum revenues.[203] The *Oil Revenue Management Study*, which formed an elemental project in the MINFIN's request for the IMF to elaborate a Report on the Observance of Standards and Codes (ROSC) in the Fiscal Transparency field, involved a collaborative effort between the IMF and private consulting bodies (which were commissioned) to embark on a comprehensive review of the revenue management in Angola's oil industry.[204] The Study was primarily conducted by the IMF and the attendant consultants between March and May 2006, and culminated in a series of collaborative workshops presented to the Angolan government and key civil society stakeholders.

The Oil Revenue Management Study, which was the title given to the workshop series, was comprised of four key pillars particularly aimed at improving governance and accountability systems in Angola's oil industry. These pillars included *revenue collection*, *revenue management*, *revenue expenditure*, as well as *fiduciary relationships.* In each of these

[203] World Bank (2006) 'Angola: Petroleum Sector Non-lending Technical Assistance,' p.1, at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ANGOLAEXTN/0,,contentMDK:21269180~menuPK:3615251~pagePK:141137~piPK:141127~theSitePK:322490,00.html. Accessed 05 April 2011.

[204] World Bank (2006) 'Angola: Petroleum Revenue Management Workshops,' at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/EXTAFRSUMAFTPS/0,,contentMDK:21276535~menuPK:2050006~pagePK:51246584~piPK:51252336~theSitePK:2049987,00.html. Accessed 05 April 2011.

respective areas, the Oil Revenue Management Study entailed the engagement of key government officials in a range of relevant presentations conduction by IMF consultants.

Government Progress in Oil Revenue Management

Since the *Oil Revenue Management* propositions were made in 2002, the Angolan government has made strides in addressing age-old defects to a functional efficiency in the oil industry. Particularly, the government has made progress in addressing key aspects of the *Revenue Collection* and *Revenue Management* recommendations as listed in Table 1 below. With reference to *Revenue Collection*, the government, in collaboration with state oil company and concessionaire Sonangol, have successfully reviewed the Oil Tax Administration, to the extent of drafting a more operative legal framework for foreign oil company taxation in line with international standards in the oil tax regime.[205] In addition, in relation to addressing the *Revenue Management* areas listed in Table 1, the government has since commissioned international advisory company *Ernst & Young* to administer, particularly in relation to oil revenue projections, and adopting appropriate fiscal responses to expected revenue flows.[206] This progress in the efficient collection and management of revenues from the oil industry attests to a level of government commitment in strengthening institutional capacity in line with public financial management imperatives.

[205] Macnab, P. (2006). 'Overview of Sector Flow of Funds: Survey of some Key Issues at a Conceptual and Practical level,' *AUPEC Petroleum Revenue Management Workshop,* p.5-7, and; Ernst & Young (2010). *Global Oil and Tax Guide,* p.3-5.

[206] *Ibid.*

TABLE 1. OIL REVENUE MANAGEMENT STUDY PROPOSITIONS

Presentation Pillar	Key Fiscal & Public Financial Management Propositions
Revenue Collection	- *Petroleum fiscal regime implications for financial flows within, & in international comparative perspective;* - *Overview of Angola's Tax Administration system & issues arising (capacity, resources, inter-agency coordination;* - *Revenue monitoring & reporting.*[207]
Revenue Management	- *Past & projected oil revenue, & its relationship to macroeconomic performance, fiscal rules, petroleum savings & stabilization funds;* - *Appropriate fiscal responses to Angola's expected petroleum revenue flows;* - *Review of past & projected revenue flows from the petroleum sector;* - *Political economy of oil revenue management: the relevance & challenges of the political economy context to petroleum revenue management.*[208]
Revenue Expenditure	- *Budget design & implementation & the monitoring of public expenditure;* - *Macro & fiscal frameworks appropriate to budget design & execution in petroleum dependent economies;* - *Pros & cons of fiscal rules, petroleum funds for savings &/or stabilization. (Special reference to Nigeria's experience);*[209]
Fiduciary Expenditure	- *Tracking petroleum revenue flows from the oil-head to budget;* - *Recent practice, complications arising, & on-going reforms;* - *International practice with respect to the role of government ministries/agencies & National Oil Company in overseeing sector operations. (Special reference to Brazil's experience).*[210]

[207] World Bank (2006). 'Angola: Petroleum Sector Non-lending Technical Assistance,' *op.cit,* p.1. These lists have been adapted from the brief titled 'Petroleum Revenue Management Workshops'. Each of these will be tabulated in the section that follows in accordance with the conceptual & practical governance & accountability.

[208] *IBID.*

[209] *Ibid.*

[210] *Ibid.*

Poverty Reduction Strategy Paper (PRSP) 2000/2

While the government has devotedly developed internally-driven initiatives to address each of the above challenges, the state has also received much-needed assistance at the multilateral level. Through extensive collaboration with the World Bank, the IMF, the United Nations Development Program (UNDP), the Angolan government has launched the Medium Term Development Plan as well as the PRSP.[211] Briefly, the PRSP is a socio-economic development policy implementation vehicle spearheaded by the IMF and the World Bank; within the programme, developing countries have been advised to adopt a range of strategies in the accelerated reduction of poverty, improved governance and increased economic growth as well as service delivery.[212]

Initial deliberations for the PRSP began in April 2000 when the overtures for the strategy were presented by the international donor community.[213] As early as 2002, the Angolan government had already displayed commitment for improved fiscal governance; among the five focus areas of the initial Interim-PRSP draft, the government's foremost concern involved "strengthening systems and instruments of support for the formulation of economic policies," with the two core sub-objectives including budget reform, as well as the advancement of planning and programming systems.[214] This public financial management imperative is listed under *Pillar 1* of the initial Interim-PRSP draft of 2002. The PRSP was consequently approved

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[211] Mugabe, J.O. & Washington, T.M. (2010) 'UNDP's Support to Strengthening Governance in Angola: An outcome evaluation Independent Evaluation,' *Report Submitted to the United Nations Development Programme (Luanda)*, p.2. The PRSP has been framed as a strategy paper which forms an essential conditionality component of development assistance (loans) from the IMF.

[212] Harrison, M., Klugman, J. & Swanson, E. (2003) 'Are Poverty Reduction Strategies Undercutting the Millennium Development Goals? An Empirical Review,' *World Bank,* p.2. Initial PRSP deliberations began in 2000.

[213] International Fund for Agricultural Development (2006) 'Enabling the rural poor to overcome poverty in Angola,' p. 2, at www.ifad.org/operations/projects/regions/pf/factsheets/angola.pdf. Accessed 05 April 2011.

[214] World Bank (2002) 'Angola: Economic Management & Technical Assistance Programme,' *Report No. PID11349,* p.3.

by the Council of Ministers of the Angolan government, and sent for review by the international donor bodies, with a projected implementation period of 2004-2006.[215] Although various institutional capacity-related impediments remain in the full implementation of the strategy (in relation to fiscal transparency and public accountability), the PRSP included a range of vital strategic propositions. These strategies are shown in Figure 5 below.

FIGURE 5. STRATEGIC PROPOSITIONS OF PRSP [216]

Strategy 1

- Adequate implementation of the *Public Finance Modernization Program* (PMFP) which was established as a component of the Interim-PRSP in 2002

Strategy 2

- Advancements in the execution of financial management; improvements internal budget planning and a reduction of extra-budget expenditure. Extra-budget expenditure was eradicated in 2003

Strategy 3

- Attainment of a unified annual state budget, which accounts for quasi-fiscal revenue and expenditure for Sonangol and other state agencies

Strategy 4

- Publications of the *Diagnostic Study of the Oil Sector,* in addition to the establishment of the oil reserve account by the Central Bank of Angola (BNA)

Strategy 5

- The successful audit of BNA and Sonangol by privately commissioned auditing company *Ernst & Young*.

[215] Strategy for Africa Participation (2004) *Angola: Country Status Report Prepared for January 2005 Meeting,* 23 December 2004, p.3.

[216] *Ibid,*p.4. This list has been adapted from the Strategy for Africa Participation 'Progress in Implementation of the PRSP.'

Economic Management and Technical Assistance Project (EMTAP) 2003

In a series of dedicated multilateral efforts to assist Angola in rebuilding institutional capacity in the post-war era, the World Bank (through the International Development Agency) instituted the Economic Management and Technical Assistance Project (EMTAP). The EMTAP, which was introduced to the Angolan government in 2002 shortly after the initiation of the Interim-PRSP, involved a programmatic support mechanism for the attainment of Pillar 1 of the Interim-PRSP draft of 2002 as mentioned above.[217] Within the scope and objectives of EMTAP in line with enhancing Angola's institutional capacity towards the development and implementation of the PRSP, as well as the Medium-Term Development Plan which was to follow soon, in relation to the governance imperatives, the Project had the following goals:

i) the establishment of a monitory and evaluation budgetary system (M&E);
ii) the development and supervision of a Public Investment Program (PIP);[218]
iii) and the advancement of budget transparency and a well-organized public finance framework.[219]

The EMTAP, which was proposed to have a four year implementation schedule, 2003-2007, will form a component of the development of the eventual PRSP. Moreover, the overriding aim of the Project was to function coherently with Angola's other state-driven institutional building endeavours. At the operational level, the significance of the EMTAP with respect to governance lies in the fact that the International Development Agency (IDA), collaborated with the key planning and implementation sectors of the Angolan economy for the execution of the Project.[220] These state institutions include the Bank of Angola (BNC), the Ministry of Finance (MINFIN) and the Ministry of Planning (MINPLAN).

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[217] World Bank (2002), *op.cit,* p.4.

[218] Angola's PIP has largely been financed by China's Exim Bank. The details of this agreement will presented below.

[219] *Ibid,* p.4.

[220] *Ibid.*

General Data Dissemination System (GDDS) 2004

A further initiative introduced in efforts to bolster transparency and public financial accountability systems, was launched by the IMF in the form of the General Data Dissemination System (GDDS), originally publicized in 1997. The GDDS, which the Angolan government became party to in 2004, involved the improvement in the production and publication of public statistics necessary for the development of economic and financial policies.[221] The production and dissemination of accurate and comprehensive statistical data is viewed as an important component in the development and analysis of policy, as well as in bolstering fiscal transparency Particularly in less developed countries, the availability of elaborate statistics, produced in accordance with international best practice, facilitates the role of IFI's and other international donors in analyzing existing socio-economic conditions at the domestic level.[222] Moreover, the availability of thorough statistical data permits the accurate analysis of each countries capabilities, deficiencies and developmental imperatives, consequently allowing for the formulation of effective technical initiatives, monitoring systems and vital foundational data provision for policy makers, global markets, as well as the local public at large. Consequently, the accessibility of high quality statistics simultaneously provides a sound basis for the formulation of technical and financial development initiatives for the respective countries.[223]

While this initiative was formulated as a global imperative for all IMF member states to assume into public administration, the importance of this program for Angola was linked to the importance of reforming and bolstering statistical capacity and integrity in the post-war context. Moreover, the significance of the GDDS in relation to Angola was premised on its bearing on accountability and transparency on public financial management, economic policy, as well as market efficiency at a global level.[224] Essentially, the enhanced transparency of statistical data, coupled with the accountability of the producing and publishing bodies, has

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[221] Alexander, W.E., Cady, J., & Gonzalez-Garcia, J. (eds) (2008). 'The IMF's Data Dissemination Initiative After 10 Years,' *International Monetary Fund,* p.1.

[222] Kester, A.Y (2006). 'IMF Data Standards Initiatives: A Consultative Approach to Enhancing Global Data Transparency,' *IMF Working Paper Statistics Department,* p.11

[223] *Ibid.*

[224] *Ibid.*

widespread advantages for policy-making, particularly at the macro-economic level, in addition to improved functionality of country's financial markets.[225] These transparency and accountability benefits associated with statistical integrity are also beneficial in the efficient operation of public-private organizations, as well as the functioning of the central bank in the formulation of financial and economic policies.[226] These points were reiterated by the Director General of Angola's National Statistical Institute (INE) Dr. Joaquim Flavio de Soussa Couto following Angola's engagement with the GDDS in stating that:

> *"Angola's decision to adhere to the General Data Dissemination System (GDDS) of the International Monetary Fund (IMF) is further evidence of the commitment of the Government and, by the same token, of the agencies that produce official statistics, to enhance their activity, using as reference the international good practices for producing and disseminating official statistics..."* [227]

Interim Strategy Note for Angola 2005

Soon after the implementation period for the TSS elapsed, the World Bank initiated the Interim Strategy Note (ISN) for the Angolan government.[228] As a successor to the TSS, the ISN, with an implementation period from February 2005 to June 2006, presented a short to medium-term strategy steered by the World Bank, complementing previous efforts to consolidate enhancements in public expenditure and public financial management.[229] In a similar manner,

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[225] Eele, G., & Chinganya, O. (2005). 'Using the GDDS to build statistical capacity in Africa,' *African Development Bank,* p.25.

[226] Alexander, W.E., Cady, J., & Gonzalez-Garcia, J. (eds) (2008), *op.cit,* p.3.

[227] IMF (2004). 'Angola Formally Begins Participation in the IMF's General Data Dissemination System,' 12 February 2004, *Press Release No. 04/25,* p.1, at http://www.imf.org/external/np/sec/pr/2004/pr0425.htm. Accessed 10 April 2011.

[228] Among the central objectives of the ISN was to conduct a comprehensive assessment of the former TSS. In a similar manner, the ISN embraced a range of lending & non-lending (technical) assistance mechanisms which were largely conditional upon rigorous execution of the ECP objectives.

[229] World Bank (2005), op.cit, p.1.

the ISN was premised on the remodelling and enhancement of the systematic deficiencies in Angola's fiscal and public financial structure, as well as in the areas of transparency and governance.[230] Although there had been incremental progress since the TSS and the ECP (to a lesser extent), the relatively poor public financial management systems in Angola remained the key impediment to prudent oil revenue management, and therefore the socio-economic development objectives.

Therefore, in harmony with the particular post-war governance and socio-economic context, the ISN was geared towards the advancement of 'transparency, credibility and efficiency of public resource management,' and extending the provision of social poor and exposed citizens who had been worst-affected by the war.[231] Broadly stated, in line with the core objectives of the TSS, the ISN was premised on three central pillars, including:

i) Enhancing Transparent Governance and Intensifying Capacity Development;

ii) 'Rehabilitating Infrastructure and Providing Basic Services, and;

iii) 'Preparing the Ground for Broad-based Equitable Growth.'[232]

[230] *Ibid.*

[231] World Bank (2011) *Angola Overview: Country Assistance Strategy,* p.1, at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ANGOLAEXTN/0,,menuPK:322503~pagePK:141132~piPK:141105~theSitePK:322490,00.html. Accessed 15 April 2011.

[232] World Bank (2005), *op.cit,* p.27. In relation to the first pillar, which relates to governance, the ISN has extended assistance to various sectors of public management, as presented in Table 2 below.

Table 2. Interim Strategy Note Reforms

Organisational Sector	Governance Reforms
Public Sector	i) supporting the advancements in de-concentration and decentralization process which the Angolan government had already begun; ii) the bolstering of ongoing reforms under the TSS: PEMFAR, CPAR & Extractive Industries Review; iii) ascertaining *short* and *medium-term* capacity requirements and necessary involvement on the Banks' part, and; iv) reinforcing the Angolan government oil revenue management capacity.[233]
Civil society	i) the advancement of Angola's socio-economic empowerment agenda which are comprised in the Banks Civil Society Assessment Tools (CSAT); ii) supporting local media capacities and freedoms, while encouraging increased state and civil society with the academic community.[234]
Private Sector	i) assistance in building a more rigorous public-private partnership agenda; ii) the execution of the implementations presented by (CFR) as well as the Corporate Social Responsibility Report (CSR).[235]
Fiduciary Expenditure	i) augmenting Angola's legal and judicial capacity through advisory and technical assistance through the activation of Institutional Development Fund (IDF).[236]
International Donor Community	ii) reinforcing the degree of coordination between donors at the macro and sector rank levels, and; iii) developing increased synchronization between donor efforts.[237]

[233] *Ibid.*

[234] AfDB (2004). 'Angola Country Financing Parameters' *Country Financing Parameters Note,* 14 October 2004, p.4 at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/30732374-EN-CFPANGOLANOTE.PDF. Accessed 05 April 2011. The ECP/PRSP will be elaborated later in this section.

[235] World Bank (2005), *op.cit,* p.25

[236] *Ibid*

[237] *Ibid.*

Financial Management Support Program (PAGEF) 2008

Following the IDA's EMTAP, the Angolan government continued to seek assistance for institutional capacity development from other multilateral institutions. In 2007 in the final stages of the EMTAP, the African Development Bank (AfDB) introduced the Financial Management Support Program (PAGEF).[238] In line with previous endeavours to bolster Angola's public finance management systems, the PAGEF which was requested by the Angolan government, was initiated with the intention of advancing efficiency in public finance management through enhancing institutional capacity building.[239] The PAGEF initiative, which had an implementation period of 36 months set to commence in January 2008 with a projected period of 2008-2011, represented a significant step in Angola's exertions towards increased budgetary capacity and accountability.[240] The importance of this project, and various other state-endorsed projects which are included in this section, lies in the need to coordinate increased state revenue (from oil exports) accordingly, while augmenting the capacity of the Angolan state to manage and allocate the funds with the highest level of austerity and accountability.

Therefore, with a specific focus on developing the structures and mechanisms which will enable the Angolan government to manage public resources in an efficient and transparent manner, and for the benefit of the broader Angolan population, the PAGEF was a vital component to government's poverty reduction and socio-economic development agenda. Accordingly, consistent with the other national and multilateral endeavours discussed in this section, the PAGEF is diametrically aligned to the Angolan government's post-war capacity-building undertakings. In direct reference to the governance imperatives, the PAGEFs key goals include:

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[238] The PAGEF was undertaken by the AfDBs *African Development Fund* department.

[239] African Development Bank (2007) 'Financial Management Support Project (PAGEF): Republic of Angola,' *Appraisal Report,* xi. The PAGEF is the main component of the African Development Bank's *Results-Based Country Strategy Paper for Angola* (RBCSP) of 2005-2007.

[240] The PAGEF was set to be conduct in coherence with the IDAs EMTAP, due to corresponding objectives and concerted coordination from Angola's government departments.

i) the strengthening of Angola's public finance reforms relating to the state's public financial management and internal audit structures, and;
ii) the establishment of institutional capacity for the state's external audit function.[241]

Country Strategy Paper and Indicative Programme (CSP) 2008

In 2008, the European Commission (EC) extended the second Country Strategy Paper and Indicative Programme (CSP) to assist the Angolan government in the areas of institutional capacity building, consolidation of the 2002 peace process and post-conflict transformation, alleviating poverty and the promotion of good governance.[242] The EC's CSP of 2008-2013 is a successor of the initial CSP 2002-2007.[243] The CSPs are typically categorised into two comprehensive elements of collaboration, with the first section placing emphasis on: the advancement of strategic relations between the EC and Angola; an on-going country diagnosis; as well as an elaboration of the cooperation strategy between the regional European body and Luanda.[244] The secondary section, labelled 'National Indicative Program,' places emphasis on the various financial instruments to be employed in the EC's assistance, as well as the focal themes during the specified implementation time frame.[245]

While the 2002 CSP had a stringent focus on enhancing the consolidation of the Luena Peace Agreement and addressing post-conflict humanitarian relief, poverty reduction, food security, health as well as education, the 2008-2012 Paper adopted a broader focus, including

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[241] *Ibid.*

[242] European Commission (2008). 'Angola – European Community Country Strategy Paper and Indicative Programme for the period 2008 – 2013,' 20 November 2008, p.24. The EU-Angola partnership is based on the ACP-EU Partnership Agreement signed in Cotonou, 23 June 2000, and revised in Luxembourg, 25 June 2005.

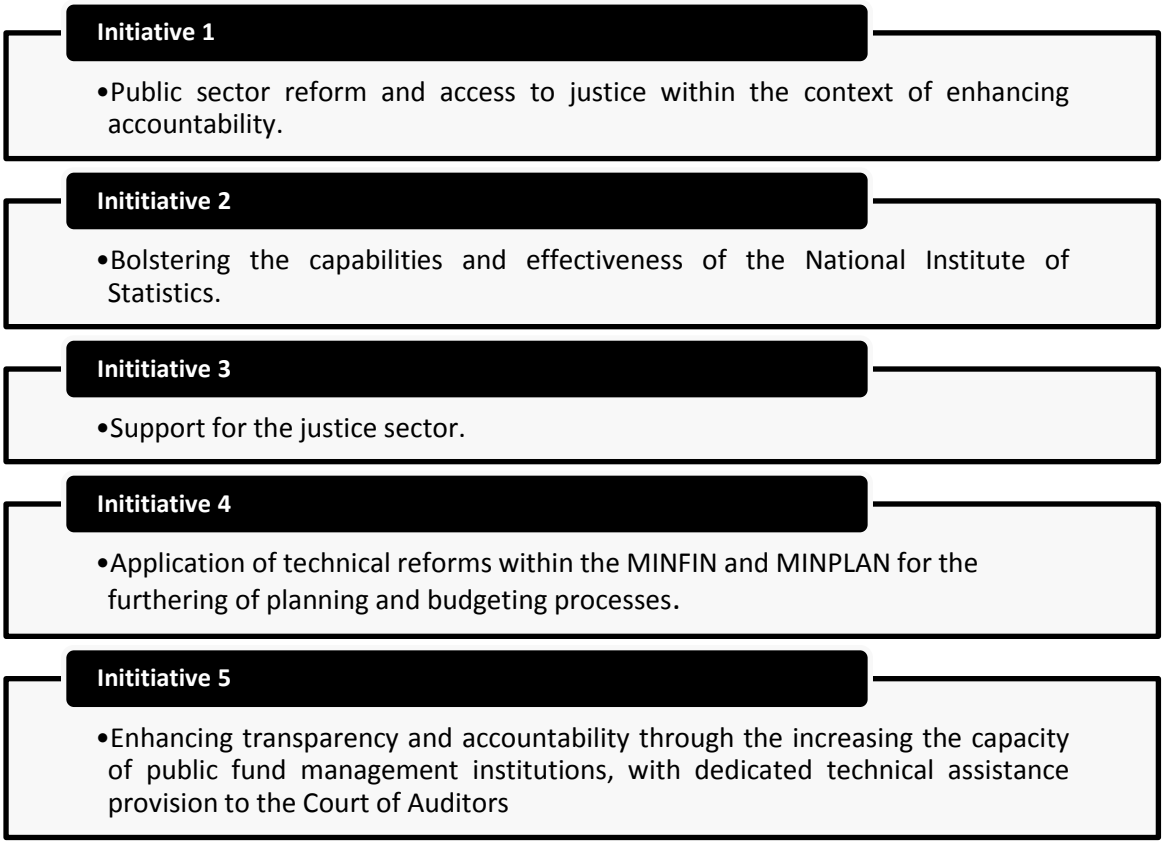
[243] The primary CSP OF 2002-2007 had a stringent focus on consolidating the peace process of 2002 as initiated by the Luena Peace Agreement (2002). In support of consolidation, the aim of the CSP 2002-2007 was to: promote peace and conflict resolution; actively contribute to the alleviation of war-induced poverty; and advance the rule of law as a component of broad-based economic and social revival.

[244] European Commission (2008), *op.cit.*

[245] de Sousa, S.L. (2010). 'The International Community's influence on state-society relations in Angola', Fundación para las Relaciones Internacionales y el Diálogo Exterior: EU Initiative for Peace, p.13.

'governance and support for economic and institutional reforms,' 'human and social development,' as well as 'rural development.'[246] In relation to the governance imperative, the 2008 CSP's focus is broadly-based on the following principles: *Institutional development in the context of modernisation of the public administration; support for the decentralisation process and decentralisation; support for the justice sector; strengthening public finance management, enhancing accountability, transparency and institutional control.*[247] Within this set of intervention priorities, the EU CSP Indicative Programme of 2008-2013 set out to bolster Angola's public institutional capacity in the following areas, as displayed diagrammatically in Figure 6 below.[248]

FIGURE 6. REFORM INITIATIVES OF EU CSP INDICATIVE PROGRAMME OF 2008-2013



[246] European Commission (2008), *op.cit,* p.48

[247] *Ibid.*

[248] *Ibid,* p.49

State-driven Initiatives for Fiscal Transparency and Public Accountability Reforms [249]

KPMG *Oil Sector Diagnostic Study* 2001

In November of 2000, the MINFIN commissioned leading global tax consultancy and accounting advisory company KMPG to conduct a thorough study of the oil sector in efforts to develop more sound revenue collection and monitoring mechanisms. The government enlisted KMPG for the purpose of determining and tracking with professional accuracy, the 'earnings and expenditure' of the state from the oil industry.[250] The overriding imperatives of the Oil Sector Diagnostic Study formed a critical element of the Angolan governments' broad fiscal management and accountability reform objectives, particularly as they relate to the problematic non-conventional system under which oil revenues are administered by Sonangol As stated by KPMG, the Study was devised to assist the Angolan government in bolstering the levels of transparency associated with proceeds derived from the upstream oil industry, while establishing an effective revenue management system which will equip the applicable state agencies to forecast future proceeds.[251]

The project, which was titled the Oil Sector Diagnostic Study, endeavoured to establish a financial model through which the Angolan government, particularly the MINFIN, could manage oil funds in close cooperation with Sonangol. The proposed financial model embraced a range of practical objectives, as shown in Figure 7 below.[252]

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[249] It is important to note that the Angolan has adopted several state-driven initiatives in aimed at reforms, socio-economic development and post-conflict rehabilitation. However, a significant proportion of these were not included in the study as they did not embrace any core reform objectives in the areas of governance, *fiscal transparency* and *public accountability.* These programs can be viewed at 'AfDB (2011) 'Angola 2011-2015 Country Strategy Paper & 2010 *Country Portfolio Performance Review,* p.20.'

[250] World Bank (2004), *op.cit,* p.14.

[251] KPMG (2006) 'Ministry of Finance: Evaluation of Angolan Petroleum Sector,' *Executive Summary Initial Report,* p.3.

[252] Structure of the Financial Model developed by KPMG adapted from 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO, op.cit,* p.83.

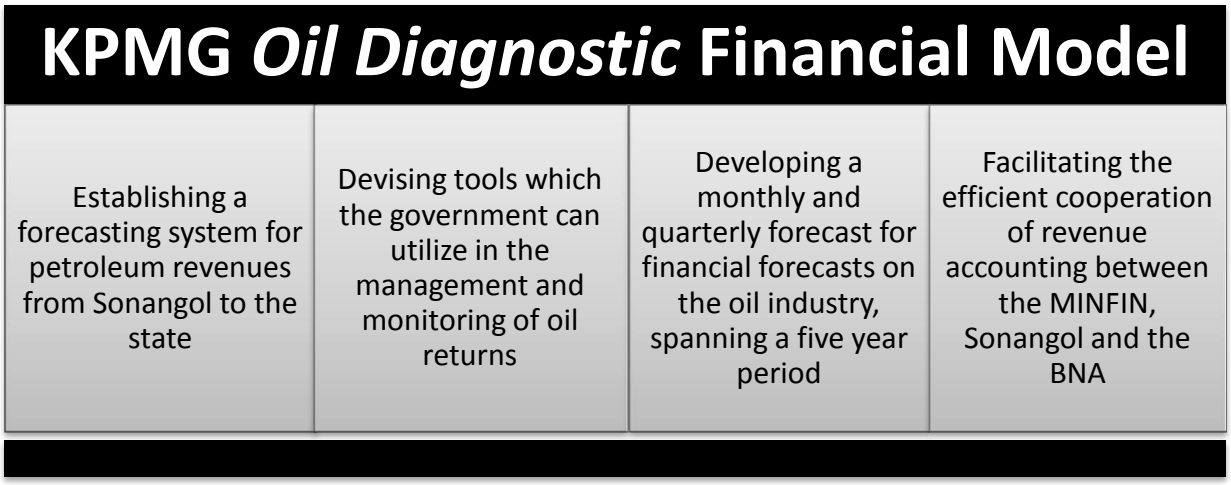


FIGURE 7. KMPG OIL DIAGNOSTIC STUDY: FINANCIAL MODEL.

In relation to the key study unit of fiscal transparency and public accountability, the Oil Sector Diagnostic Study entailed the evaluation and review recommendations of the two following aspects of oil revenue management. Firstly, KPMG addressed 'the complexity of Angola's fiscal regimen' as a key deterrent in the prudent administration of oil revenue flows.[253] Particularly, KPMG highlighted that the divergence in the administration of Production Sharing Agreements (PSAs) on one hand, and Association Contracts in Concession areas on the other created difficulties in efficient governance of resource flows. The key accounting and administrative areas which were identified for review in this regard include production royalties, tax on oil revenues, oil transaction tax, premiums on investment and production, as well as the participation of Sonangol in the respective oil production agreement.[254]

Secondly, the Study evaluated the 'distribution and detailing of incoming flows of oil revenues' as a further detriment to developing a transparent revenue management system.[255] In this regard, the Study highlighted that there were 'discrepancies, irregularities and inconsistencies' in the outflow of expenses derived from oil revenues, with the same series of problems being identified in the monitoring and reporting of these flows.[256] In light of this trend of mismanagement as identified, KMPG has since embarked on a lengthened program to develop a reformed financial model for the Angolan oil government.

[253] KPMG (2006), *op.cit.,* p.16

[254] *Ibid.*

[255] *Ibid.*

[256] *Ibid,* p.26. Discrepancies and deficiencies in accounting were identified in the processes of the BNA. These will be included in the graphical presentation of data below.

Reaction of the Government to the KMPG Diagnosis: A Bleak Prognosis

Notwithstanding the extensive efforts of the KMPG to diagnose the structural impediments to erudite fiscal transparency and public accountability with respect to Angola's oil industry, the response of the government has fallen short of the recommendations. Evidence shows that the government has continued to circumvent Angolan law, which clearly states that oil revenues and export sales conducted by Sonangol are to be deposited directly into the BNA account.[257] Particularly, even following the Diagnostic Study, KPMG revealed in 2004 that the government has continued to override Angolan Law (Decree 30/95) which delineates the administration of oil revenues, in addition to pointing out obscurities in the invoices sent to the state by Sonangol under the 10% operating costs-concessionaire arrangement as stipulated under Decree 15/89.[258] Despite the advisory role played by KPMG in this regard, it is apparent that the government has strategically limited the company's role to structural fiscal issues which can be easily countervailed, while concealing the ambiguous actions of government personnel in obscuring accounting processes. This factor is evident in the agreement between the government and KPMG:

> *"the consultants [KPMG] shall not be expected or required to consider or investigate or conduct any form of enquiry into the conduct, practices, honesty, integrity or standards of, or nature or quality of work performed by, any person who has or may have had, any involvement in or connection with, directly or indirectly, the facts, matters, circumstances or events which shall be diagnosed, monitored, studied, assessed or considered by the consultants during the performance of these services."*[259]

Moreover, the reluctance of the government to address the deficiencies of the dualistic budget has been revealed in perpetual discrepancies in accounting of oil revenues. In 2001, KPMG revealed that Sonangol had evaded a ruling to consign oil revenues to the BNA, leading to discrepancies in budgets, and the divergence of approximately US $2 billion of state income

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[257] KPMG (2004) 'Assessment of Angolan Petroleum Sector: Executive Summary,' *Ministry of Finance Final Report,* Vol.1 (B), p.11.

[258] *Ibid.*

[259] *Contract for the Oil Diagnostic between the World Bank, the Government of Angola, and KPMG.* 'Description of the Services,' p. 23, in Human Rights Watch (2004), *Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights,* Vol. 16, (1), p.13.

into *non-conventional* accounts, ultimately distorting official fiscal processes and state budgets under the MINFIN structure.[260] In the same year, discrepancies of approximately US $2.4billion were reported in expenditure reporting by the IMF.[261]

Furthermore, there are fiscal discrepancies which have been reported by the MINFIN, even following the initial Diagnostic Report. In a statement from the Ministry in which the weaknesses of the fiscal and public sector financial management systems were acknowledged; discrepancies exceeding US $631.1 million in 2000, an excess of US $411.8 million in 2001, and up to US $12.9 million in 2002.[262] More recently, while it was reported by the MINFIN in its *Annual Bulletin of Statistics of the General Budget of the State* 2008, that oil tax revenues amounted to 935billion Kwanza, discrepancies were apparent in the same revenue stream as reported by the MINPET Sector Report, which only accounted for 883billion Kwanza in the same financial year.[263] Effectively, it is apparent that in the early years of the study period, the Angolan government continued to override substantive attempts to address the problematic dualistic fiscal and public financial management systems, equally breaching key state laws.

[260] *Ibid,* p.17.

[261] Vines, A., Shaxson, N., Rimli, L., Heymans, C. (2006). 'Angola Drivers of Change: An Overview' *Chatham House,* p.17.

[262] Republic of Angola Ministry of Finance (2004) 'Statement from Office of the Minister', *Luanda,* 14 January 2004, p.1-2.

[263] Global Witness (2011) *Oil Revenues in Angola: Much More Information But Not Enough Transparency,* p.39.

Estrategia de Combate a Probeza (ECP) 2002 [264]

The first of a series of state programmes was the *Estrategia de Combate a Probeza* (ECP). The ECP, which was envisaged in 2002 for implementation in 2004, forms the centrepiece of the government of Angola's development strategy. Moreover, this ECP fits within the United Nations Development Programs' (UNDP) Millennium Development Goals (MDGs). Moreover, the strategic development of the ECP was established in a manner suitable for fostering the implementation of the Medium-Term Development Plan (2009-2013), as well as the Long-Term Plan (2025), which discussed in the 'Multilateral Initiatives for Governance and Accountability Reforms'.[265]

Among the fundamentals of poverty reduction and socio-economic development identified by the Angolan government, including education, health, food security and rural development, and infrastructural development among others, governance has also taken precedence in the strategic priorities. [266] Within the governance context, the ECP document elaborates *'transparency in state fiscal structures, well-organized and efficacious public management and judiciary systems'.* Moreover, within the broader objective of public accountability, it is imperative to note that the development and implementation of the ECP was advanced with the collaboration of government departments at the central, provincial and municipal level, including participation from rural community groups as well as civil society.[267] From the broader perspective of developing a formidable socio-economic development and poverty reduction strategy, the ECP is regarded as key the domestic framework for the Poverty Reduction Strategy Paper (PRSP).

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[264] The Portuguese acronym *ECP* translates to 'Strategy to Combat Poverty.'

[265] UNDP (2006). 'Post-conflict Peace-building in Africa: The Role of UNDP and UNFPA in Angola and The Democratic Republic of Congo: The Angola Case Study Background note HIV/AIDS and Recovery and Reconstruction / Economic empowerment,' *First regular session of the UNDP/UNFPA Executive Board 20 to 27 January 2006,* p.3. These programs, *Medium Term Plan* and *Long-Term Plan* were not included as they were beyond the timeframe of the research period.

[266] Government of Angola (2003). 'Strategy to Combat Poverty: *Social Reinsertion, Rehabilitation and Reconstruction and Economics Stabilisation,'* 23 September 2003, at http://www.sarpn.org.za/documents/d0001037/index.php. Accessed 05 April 2011.

[267] *Ibid.*

Although the government has not fully implemented the ECP in line with the PRSP framework, there have been various plans which have followed from this strategy within the objectives of poverty reduction and sustainable human development.[268] Following the conception of the ECP, the government has since developed the annual *Government National Plans*, the *National Biannual Plans*, as well as *Angola Visão 2025*, which are aligned to poverty reduction and accelerated socio-economic goals. As a case in point, the goals of the most recent 2009 and 2010/11 *National Plan*, and *Angola Visão 2025* respectively, have embraced the acceleration of national employment and basic income; increased economic development through diversification, the rehabilitation of infrastructure, improvement of living standards for Angola's poorest populations, as well as state reforms in line with 'public expense sustainability' and 'public expense rationalisation.'[269] While the these strategies may not contain specific governance objectives, particularly in the area of fiscal management and public financial accountability, a recurrent sub-theme of these annual strategies has been state reform in the public finance domain.

[268] AfDB (2010). 'Institutional Capacity Building for Poverty Reduction,' *Project Appraisal Report, op.cit,* p.1-2. It is important to note that Angola does not yet have a fully-fledged PRSP. Therefore, the core poverty reduction goals of the government are central components of the Medium-Term Plan, the Angola Vis*ã*o 2025, and the successive Government National Plans.

[269] SADC (2010) *Angola: Recent Economic Developments*, 15 September 2010, p.2. at www.sadcbankers.org/SADC/SADC.nsf/LADV/.../$File/Angola.pdf.

Public Finance Modernisation Program (PMFP) 2002[270]

In 2002, the MINFIN launched the Modernisation of Public Financial Management (PMFP) as a response to age-old deficiencies in Angola's public financial management systems. The PMFP, which represented a continuation of concerted efforts to advance structural reforms in Angola (particularly financial management systems) complemented previous endeavours including the broad-ranging TSS as detailed above.[271] The PMFP, which had a budget of US $6.22 million (of which US$5.1 million was funded by the World Bank), was divided into *public financial management*, *information technology*, as well as *training and capacity building* components respectively.[272]

The *public financial management component*, which was the most comprehensive and relevant in relation to transparency and accountability, entailed the bolstering the public financial management systems, with particular focus on 'budgetary, financial, non-financial assets, accounting, internal control systems, public pricing as well as the insurance markets.[273] As it has been elaborated in a dichotomous approach, the *public financial management* component involves i) *Strengthening the Formal Expenditure Execution System*, and; ii) *Ring-Fencing and Phasing-Out the Non-conventional Execution System.* [274] The *information technology* component included the enhancement of the use of information technology and computerized systems in the administration of public finance, while the *training and capacity*

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[270] World Bank (2005), *op.cit.,* p.48 While the PMFP was premised on the government Angola's reform program framed *'Strengthening the Formal Expenditure Execution System,'* it has been apparent that the main challenges of the project stem from the issue of '*Ring-Fencing and Phasing-Out the Non-conventional Execution System,'* in which the key institutional agents of the program were generally external to the parameters within which it was devised.

[271] Republic of Angola Ministry of Finance (2004) 'Statement from Office of the Minister', *Luanda,* 14 January 2004, p.1.

[272] Angola: Modernization of Public Finance Worth USD 6 Million , 20 February2004, *Angola Press Agency,* at http://allafrica.com/stories/200402200241.html. Accessed 17 April 2011.

[273] Public Financial Management reforms listed adapted from World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO, op.cit,* p.1.

[274] *Ibid*, p.89.

development comprised the advancement of human resources' personnel and systems tasked with public financial management.[275]

Desultory PMFP Implementation: Political Dynamics Continue to Undermine Substantive Reforms

Years following the initial implementation of the PMFP, the government's progress continues to follow the asymmetrical trend, similar to that discussed in other projects in this chapter. Particularly, the government has attained noteworthy progress in the areas of capacity building and information technology, although the complete computerisation of the fiscal system is still outstanding to date. However, advancement in the area of *public financial management* persists with irregularities in terms of substantive reforms. While some progress was initially made in the area of advancing budgetary processes in accordance with the Organic Budget Law, more fundamental areas of *public financial management* have lagged behind. In the same vein as other fiscal transparency and accountability reforms; it appears that the political will to phase out the non-conventional system, and articulating the Sonangol accounting processes into a unified system is lacking.[276] The required institutional hierarchy, which must place the financial operations of Sonangol under the tutelage of the MINFIN, continued to be challenged by the foremost political dynamics of the government. This political obstruction to aligning Sonangol's system into the official system has been reiterated by the World Bank:

> *"The main challenge for the PMFP lies precisely on - "Ring-Fencing and Phasing-Out the Non-conventional Execution System" Not only some of the key institutional actors currently fall outside the scope of the PMFP, but also the implementation of the needed reforms may face stiff political resistance from influential figures...the process of dismantling the "non-conventional" processes over a period of time will involve dealing with powerful vested interests and traditional sources of rent-seeking."* [277]

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[275] Extractive Industries Transparency Initiative (2003) 'Statement by Graça, Vice-Minister of Finance of Angola,' *London Conference,* 17 June 2003, p.1, at http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/News/News/files/eiti_draft_report_angola.htm. Accessed 17 April 2011.

[276] World Bank (2005), *op.cit.,* p.90

[277] *Ibid,* p.89-92.

Integrated Financial Management System (*SIGFE)* – Initiated in 2001/2, formalised in 2005 [278]

In 2005, following years of consultation, the Angolan government initiated the Integrated Financial Management System (SIGFE) as a means of enhancing the fiscal management and accounting procedures vital for the sound financial administration of public revenues.[279] SIGFE represents the most comprehensive fiscal governance reforms embraced by the Angolan government during the research period of this project. The central aim of SIGFE was to resolve the structural and procedural faults in Angola's revenue and budgetary management systems which have been in place since the civil war period. This reform measure engaged a range of government agencies, and included the overhaul of a comprehensive array of fiscal areas including budget, treasury, accounting and non-financial systems. Figure 8 below schematically exhibits the SIGFE government agencies, areas of execution, as well as respective outcomes.

Historically, due to the special administrative status accrued to Sonangol in the organisation and administration of the oil industry, the company has traditionally engaged in accounting and financial management procedures which technically ought to be handled by the MINFIN, BNA, and the MINPET.[280] Eventually, this system which was implemented under emergency public financial conditions during the civil war induced the creation of a dualistic budgetary and expenditure system which has been detrimental to reliable means of accountability and transparency.[281] Fundamentally, this dualistic system has played a critical

[278] SIGFE presents the most elaborate of the Angolan governments reforms directed towards governance in the areas of fiscal transparency, and public accountability and overall financial management of public revenues.

[279] SIGFE is the Portuguese acronym for, Sistema *Integrado de Gestão Financeira do Estado*, which translates to 'Integrated Financial Management System.'

[280] World Bank (2005), *op.cit,* p.18.

[281] World Bank (2006) 'Quasi-Fiscal Expenditures and Compensation Mechanisms,' *Oil Revenue Management Workshop,* 16 May 2006, p.4.

role in fostering 'insufficient budgetary funding,' a lack of fiscal discipline, extra-budgetary expenditures, as well as quasi-fiscal deficits and discrepancies.'[282]

In response to the above deficiencies, the Angolan government, under the MINFIN, with the administrative supervision and assistance of the World Bank, developed the SIGFE as a computerised system which would implemented across the said state departments throughout the country. The computerized system entailed the overhaul of the government public financial reporting mechanisms, including regular fiscal reports, above-the-line accounting, below-the-line fiscal information particularly relating to consistent recording revenue inflows and expenditures.[283] Notwithstanding the efforts to remedy the existence of the *conventional* and *non-conventional* revenue and expenditure systems, SIGFE continued to experience technical impediments in eliminating the latter model. This dualistic system, which has persisted to a large extent, is exhibited diagrammatically below in Figure 9.

Ten Years of SIGFE: The Government Continues to Stall on Implementation

In addition to the technical difficulties and infrastructural impediments that remain in extending the program to all provinces remain the full implementation of SIGFE has continued to face obstruction from the Angolan government. Although some progress has been made in above-the-line reporting, a measure of success in double-entry and divergent accounting, and incremental improvements in internal and external debt controls, fundamental challenges to SIGFE persist. Particularly, despite years of financial and technical assistance, the SIGFE system has not yet been fully computerised, with accounting processes in some government agencies continuing to be paper-based, hence undermining the objective and efficiency of the system.[284] To this extent, the expenditure information in some several government agencies continues to fall outside the central SIGFE mechanism, leading to inaccuracies in reporting,

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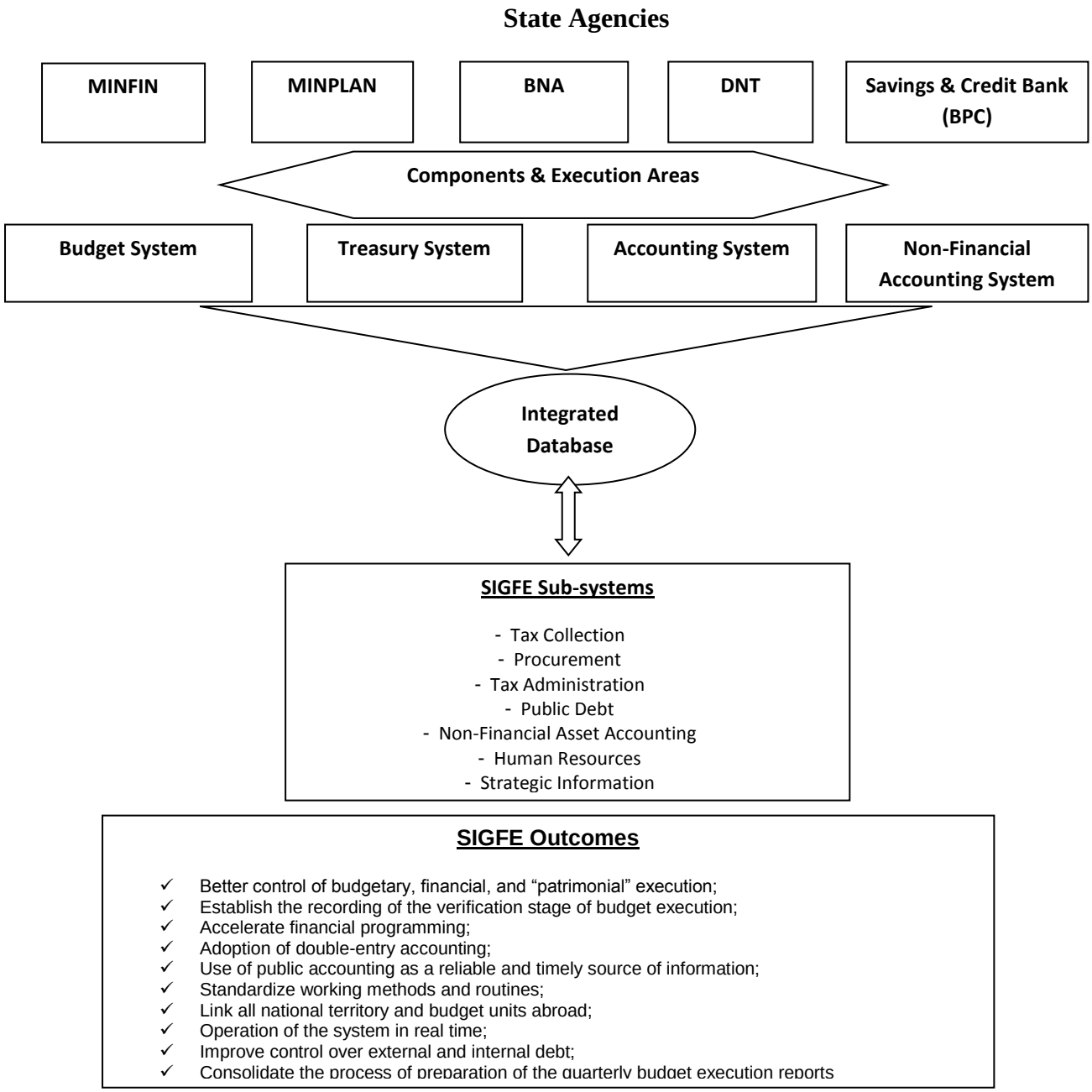
[282] *Ibid,* p.5. This dualistic system was divided into a *conventional* and a *non-conventional* model of revenue and expenditure administration.

[283] United States Agency of International Development (2009) 'Report on the Impact of the Angola Fiscal Reform Project on the Capacity of the Fiscal Programming Unit of the Ministry of Finance,' p.2-5.

[284] USAID (2009) *Report on the Impact of the Angola Fiscal Reform Project on the Capacity of the Fiscal Programming Unit of the Ministry of Finance,* p.2

misinformation and slow consolidation processes.[285] As expected, such persistent shortcomings undermine the fiscal and public financial management administration imperatives of the MINFIN and the BNA.

FIGURE 8. SIGFE EXECUTION & OUTCOMES[286]



[285] *Ibid*

[286] SIGFE Execution and Outcomes adapted from World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO,* p.51

Angola's Conventional & Non-Conventional Revenue & Expenditure Systems[287]

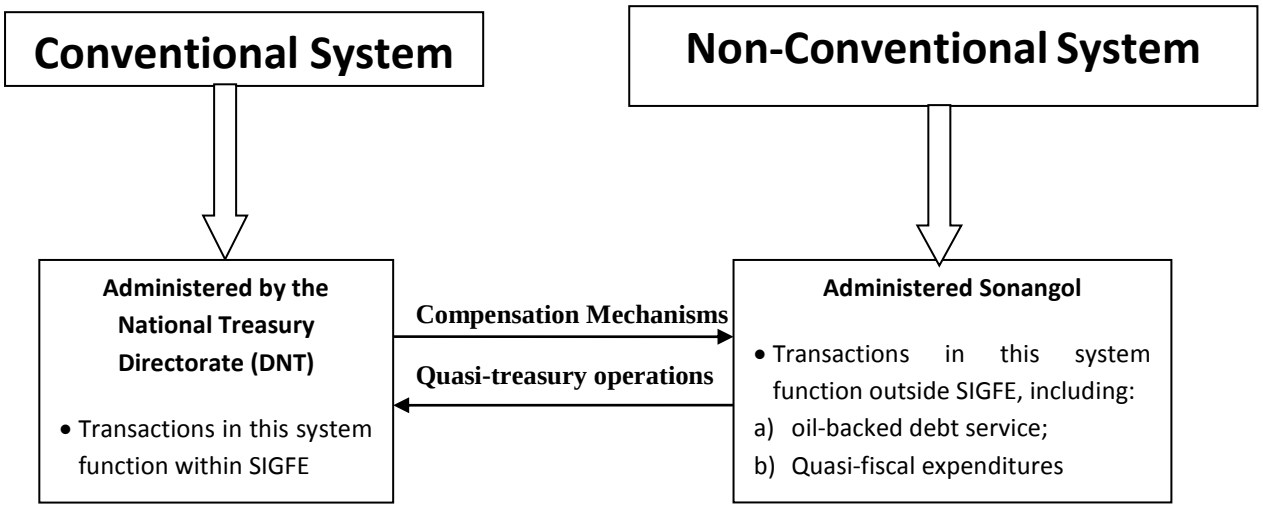


FIGURE 9. CONVENTIONAL & NON-CONVENTIONAL SYSTEM

While the World Bank had initially set a full implementation date of 2008 for SIGFE, the challenges presented above demonstrate that the Angolan government's commitment to the system has fallen short of expectations. This inadequate progress in a system which was proposed over a decade ago attests to Angola's traditional proclivity towards deficient fiscal transparency and public financial management, an inadequacy which has historically been exploited for illegitimate ends by the MPLA leadership. The lack of progress in vital public financial management endeavours such as SIFGE has however been challenged by government in more recent times. Since 2009, President dos Santos has made several public statements denouncing government corruption, calling for a 'zero tolerance' stance against fraudulent government activity, in addition to proposing a 'Law on Administrative Probity' to "discourage those that want to use public goods as a source of illicit enrichment".[288]

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[287] The diagrammatic representation of 'Angola's Conventional & Non-Conventional Revenue & Expenditure Systems' was adapted from World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO.*

[288] Platts Commodity News *(*2009) *Angolan President Calls for 'Zero Tolerance' of Corruption,* 22 November 2009, and; Agence France-Presse (2009) *Angola to Probe 'Illegal' Transfers from Central Bank*, 25 November 2009 in Human Rights Watch (2010), *Transparency and Accountability in Angola: An Update,* p.9-11.

Albeit the compelling proclamations made by President dos Santos against misappropriation and corruption within the state, it appears that to date, these are cosmetic appeals which conceal fundamental challenges in public financial management under a cloak of fiscal austerity (targeted at individuals in government). Nonetheless, it is important to underscore the degree of political commitment that was exhibited in the investigation into illegal transfers made from the BNA and the MINFIN into foreign bank accounts; a state-driven endeavour which led to the arrest of 21 government personnel who purportedly defrauded US $137million from the two institutions in 2009.[289]

In lieu of the challenges faced in the implementation of SIGFE, and the resistance to eradicating the problematic dualism in fiscal and public financial management, the role played by individuals in fraudulent activities ought to hold lesser importance, relative to broader structural challenges as the administrative level. A further issue of importance in this dilemma relates to the overall lack of public access to the SIFGE process, in addition to the attendant reporting from agencies which are accountable to the SIGFE system and the BNA. Audits are not published; an act which is in contravention of the IMF Stand-by Agreement, and in defiance to the recommendations made by KMPG in successive *Oil Diagnostic Study* reports (as discussed above). In line with the report by the United States Agency for International Development (USAID), the effective functioning of the SIGFE system remains out of reach in Angola's fiscal transparency and public financial accountability trajectory.[290]

Fiscal Reform in Support of Trade & Liberalisation 2002-2009

One of the most comprehensive fiscal reform projects spearheaded by the Angolan government in the post-war period was the Fiscal Reform in Support of Trade and Liberalisation (Fiscal Reform Project). In 2002 following the Luena Agreement, the MINFIN requested multilateral assistance in reforming Angola's fiscal governance structures and systems which were in tatters due to the long drawn-out civil conflict. Accordingly, the MINFIN sought the technical assistance of the United States Agency for International Development (USAID) as the

[289] Human Rights Watch (2010), *op.cit,* p.8.

[290] USAID (2009) *Report on the Impact of the Angola Fiscal Reform Project on the Capacity of the Fiscal Programming Unit of the Ministry of Finance,* p.2-5.

organisation had been on the course of providing assistance in building fiscal infrastructure in various post-conflict societies.[291] The Fiscal Reform Project, which extended from 2002-2009, embraced a range of mechanisms for addressing Angola's public financial management deficiencies. USAIDs Fiscal Reform project embraced a range of integrated technical assistance objectives, as shown in Figure 10 below. [292]

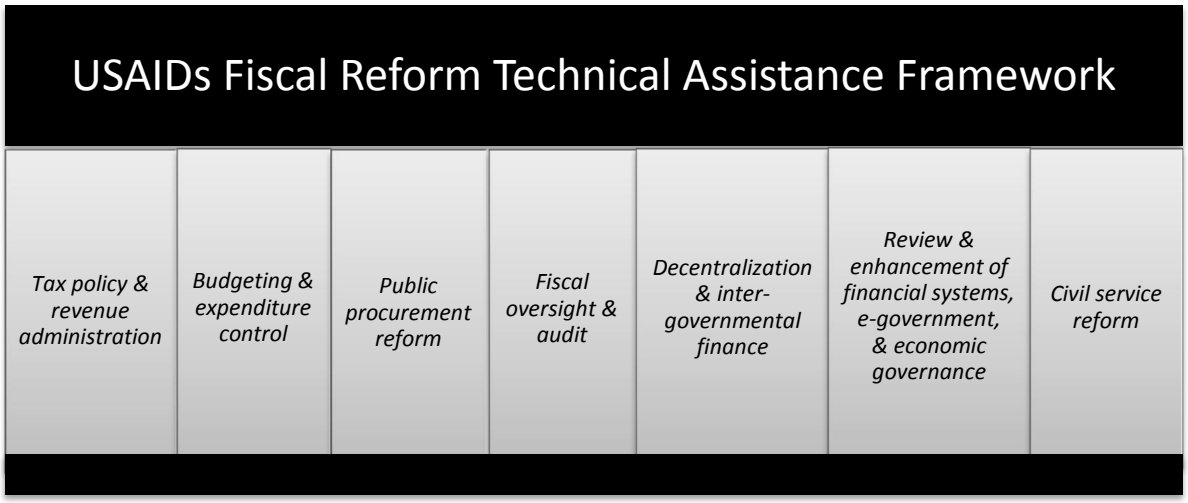


FIGURE 10. USAIDS FISCAL REFORM TECHNICAL ASSISTANCE FRAMEWORK

Steered by a consultancy consortium headed by the Development Alternative Incorporated (DAI), the USAID commission Fiscal Reform Project to Angola particularly involved the establishment of a Financial Programming Unit (FPU) within the MINFIN.[293] The role of the FPU included the bolstering of the MINFINs capacity for setting long-term fiscal goals, monitoring and managing fiscal operations through the departments' Office of International Economic Studies (OIESR), while actualizing enhanced fiscal discipline at a broad level.[294]

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[291] Gallagher, M. (2007) 'Building Fiscal Infrastructure in Post-Conflict Societies,' *United States Agency of International Development*, p.1-2. This program was also extended to developing and transitional countries in general.

[292] List of technical assistance priorities adapted from USAID (2008) *Fiscal Reform & Economic Governance,* at http://www.fiscalreform.net/. Accessed 07 April 2011.

[293] Gallagher, M. (2009) 'Contractor Final Closeout Report for the Angola Fiscal Reform Project: August 2006 to February 2009,' *United States Agency of International Development,* p.2. The FPU was developed by USAID personnel over a period of 2 years, from 2002-2006.

[294] United States Agency of International Development (2009) *Contractor Final Closeout Report for the Angola Fiscal Reform Project,* p.14.

Specifically, the goals of the FPU within the imperatives of fiscal governance reform included two elaborate functions, namely:

i) recording, administering and analysing the monthly fiscal data from the public sector with the use of best practice procedures supported by the USAID, and;
ii) orchestrating and assisting the in the path of medium-term fiscal programming, in addition to progressively developing macro-economic programming capacity for long-term benefit of mapping out poverty-reduction programs in line with post-conflict recovery.[295]

Building on the shortcomings of the Integrated Financial Management System (SIGFE) and System for Public Investment Management and Programming (SIGIP) programs, which will be discussed below, the FPU was also tasked with incorporating Sonangol's quasi-fiscal accounting processes into MINFIN systems in order to minimize the undesirable effects of fiscal deficit distortions induced by the oil company's non-conventional financial management methods.[296]

System for Public Investment Management and Programming *(SIGIP)* 2004 [297]

In response to the limitations of SIGFE in addressing the quasi-fiscal and oil-backed debt elements of the *non-conventional system*, the Angolan implemented the System for Public Investment Management and Programming (SIGIP). Intended as a complementary program to SIGFE, the SIGIP initiative was intended to improve public sector and public investment management.[298] Broadly stated, the objectives of SIGIP included:

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[295] *Ibid.* A supplementary Angolan Fiscal Reform Program was initiated in 2006 to solidify and actualize the special role of the FPU within the MINFIN.

[296] United States Agency of International Development (2006) 'USAID-Fiscal Reform in Support of Trade Liberalization,' *Close out Report,* p.14

[297] SIGIP is the Portuguese acronym *Sistema Integrado de Gestão do Investimento Público.*

[298] European Commission (2007) 'Country Level Evaluation Angola,' *Evaluation of the EC Support to Angola –Final Report,* p.161.

i) The development of a public investment management and programming system;
ii) The establishment and harmonization of public investment systems at the provincial levels;
iii) Tracking the execution of the Public Investment Program (PIP) with the Angolan governments program in coordination with the annual state budget;[299]
iv) The enhancement in the capacity of the central and provincial institutions in the implementation of public investment undertakings.[300]

Notwithstanding the well-intentioned objectives of the SIGIP, it is important to note that since implementation, there have been various impediments to the successful execution. Primarily, the SIGIP did not have the proposed computerised integration with SIGFE. This impediment ultimately made the coordination and public revenue management and public investment management a convoluted task, in addition to making monitoring and publication of regular reports difficult.[301] Moreover, while the MINFIN and the MINPLAN were the key ministries intended to steer both projects forward, with the latter playing a relatively greater role in SIGIP, coordination in financial planning and monitoring of revenue and expenditure flows between the two departments has generally been deficient.[302] It is however important to highlight that the general status of public financial management has benefited from the commissioning of international advisory firm *Ernst & Young* for the execution of regular Sonangol audits, which is an indirect corollary of efforts to bolster SIGFE.[303]

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[299] The PIP is a state-driven mechanism for the implementation of public investment projects. The projects are streamlined and through various state Budget Units in line with the annual budget allocation for various public investment initiatives.

[300] World Bank (2005), *op.cit.,* p.31

[301] Isaksen, J., Amundsen, I., & Wiig, A (2007), *op.cit.,* p.31.

[302] *Ibid.*

[303] European Commission (2007), *op.cit.,* p.161, and; Sonangol Steps up Transparency (2010) *Petroleum Africa,* 18 May 2010, at http://www.petroleumafrica.com/en/newsarticle.php?NewsID=9609. Accessed 18 April 2011.

The Angolan Government Continues to Vacillate Despite the SIGIP & SIFGE Combination:

In a similar manner to the SIGFE initiative discussed above, the implementation of the supplementary SIGIP initiative by the Angolan government has been lacklustre. In the same vein, the key shortcomings in the administration of SIGIP relate to the deferred computerisation of the system. The paper-based system has continued to cause delays in the processing and reporting of key budgetary information which is to be delivered to the MINPLAN and the MINFIN for financial monitoring the investment programming objectives.[304] This impediment undermines the establishment of the integration of information between the various provincial budgetary agencies. Additionally, despite the subsidiary initiation of auditing of Sonangol by *Ernst & Young*, it appears that the government has employed this practice as a cosmetic measure, which does not adequately address structural fiscal and public accountability challenges. This is due to the extent that the audits of Sonangol, in addition to the inadequate systems of the SIGFE-SIGIP coordination, continue to be out of reach of the public, essentially augmenting public financial accountability, albeit undermining fiscal transparency.[305] This flaw has been exacerbated by the persistent lack of coordination between the MINPLAN and the MINFIN.[306]

[304] Isaksen, J., Amundsen, I., Wiig, A., & Abreu, C. (2007), *op.cit,* p.21-22.

[305] World Bank (2007), *op.cit.,,* p.6

[306] Isaksen, J., Amundsen, I., Wiig, A., & Abreu, C. (2007), *op.cit.* p.21.

Discussion: Trends & Deviations in the Data

It is apparent from the key findings presented above that there have been numerous endeavours towards improved fiscal governance in Angola. Beginning in 2000, the initial year of the chosen research period, the Angolan government had already embarked on two fundamental governance reform programs. Typically, the reforms involved a series of technical endeavours geared at overhauling and enhancing the structural and procedural defects within Angola's fiscal governance systems and mechanisms. In most cases, technical assistance was accompanied by financial assistance to facilitate the execution of the range of initiatives. The main deviation to this trend is particularly exhibited by the World Bank's CSR reform project of 2001-2004; unlike the majority of governance initiatives launched during the research period, the CSR did not involve technical assistance, or large financial disbursements. Alternatively, the CSR project was limited to capacity-building and bolstering relations between the Angolan government agencies, the oil industry and national stakeholders in the budgeting and expenditure of oil revenues.

The main trends in the reform projects of the 8 year study period are apparent in the first initiatives, the PRSP and the *Oil Diagnostic Study,* launched in 2000 and 2001 respectively. Although each of these projects embraced various divergent objectives, both initiatives heralded a decade of concerted technical and financial action towards improving fiscal governance in Angola. In this regard, both the *PRSP* and the *Oil Sector Diagnostic Study* reflected a trend in the series of measures which would be employed by the Angolan government and leading intergovernmental institutions in remedying the deficiencies in public fiscal governance throughout the designated decade of this project. Based on the fiscal transparency and accountability measures embraced by the initial *PRSP* and *Oil Sector Diagnostic Study,* a palpable trend exists, which permeates the majority of initiatives during the decade-long study period. These trends are presented by order of prevalence and hierarchically, with reference to the governance reform initiatives reviewed in the data presentation section above. The reform measure trends discussed here are displayed diagrammatically in Figure 11.[307]

[307] Figure 8 below displays the key trends in Angola's fiscal governance reforms during the 2000-2010 study period. The pyramid shows the most recurrent theme at the top and the least at the bottom accordingly.

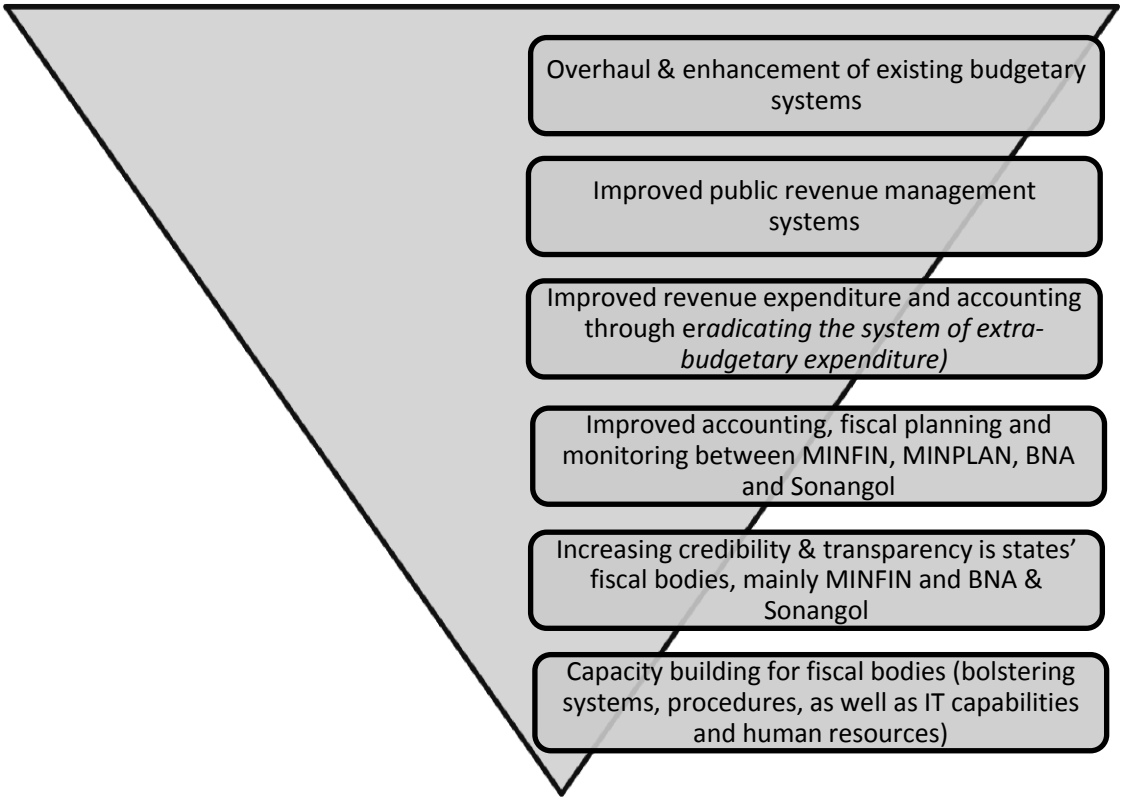
A further palpable trend in the data presented above relates to the key proponents of each of the governance reforms. While the governance initiatives typically involve the MINFIN as the central body of fiscal governance in Angola, it is important to distinguish the range of proponents and their respective efforts in impelling substantive reforms during the specified research periods. The range of sponsors for Angola's fiscal governance endeavours include The World Bank (executed through the International Development Agency), the IMF, the USAID, the European Commission, as well as the African Development Bank (executed through the African Development Fund (AfDB). Accordingly, during the first research period, 2001-2004, the governance reform efforts were mainly coordinated by the World Bank and the MINFIN. To a lesser extent, the IMF only administered two governance initiatives, namely the PRSP and GDDS. Notwithstanding, the GDDS was pivotal to the overall efforts towards fiscal transparency during this period.[308] During the period 2005-2008, the World Bank remains the key proponent of governance measures, with the IMF and the AfDB reasonably executing and equal number of projects. These trends are exhibited in the appendix, in the series of tabulations from Table 1 through to Table 5.

A further trend which was apparent in the series of governance reforms initiated during the study period is the budgets allocated to each project. Beginning in 2001 and extending throughout to 2005 in the first study period, there was an evident increase in the expenditure of governance reform projects, with a low of US $800 000, to a gradual increase of US $1.3 billion in 2003 and 2004, followed by a precipitous decline in 2005 to a low of US $3 million. In the initial years between 2000 and 2004, the larger proportion of expenditure was from the ECP of 2002/4, with a lesser share of the disbursement coming from the *Oil Sector Diagnostic Study*, which only had an outflow of $1.6million. This trend is displayed in the scatter graph presented in Figure 12 below.[309]

[308] The GDDS was essential in bolstering the production and widespread publication of statistics in accordance with international standards which have been evaluated by the IMF. The publication of statistics is vital in making budgetary management more transparent to the public and other non-state stakeholders.

[309] The graphed figures include expenditure data for the decade from 2000 to 2010 to reflect a comprehensive perspective of governance expenditure.

Figure 11. Trends in Angola's Fiscal Governance Reforms



During the second research period, 2005-2008, the reform expenditure opened at a low of US $3 million, with a majority of the disbursement stemming from the EMTAP, which began in 2003 and extended to 2007. A significant increase followed in 2008, with a high of US $40 million, largely accruing to the European Commission's Country Strategy Paper which extended throughout to 2013. These trends, ranging from 2005 to 2010 are exhibited graphically in Figure 13 below.[310]

[310] The graphed figures include expenditure data for the decade from 2000 to 2010 to reflect a comprehensive perspective of governance expenditure.

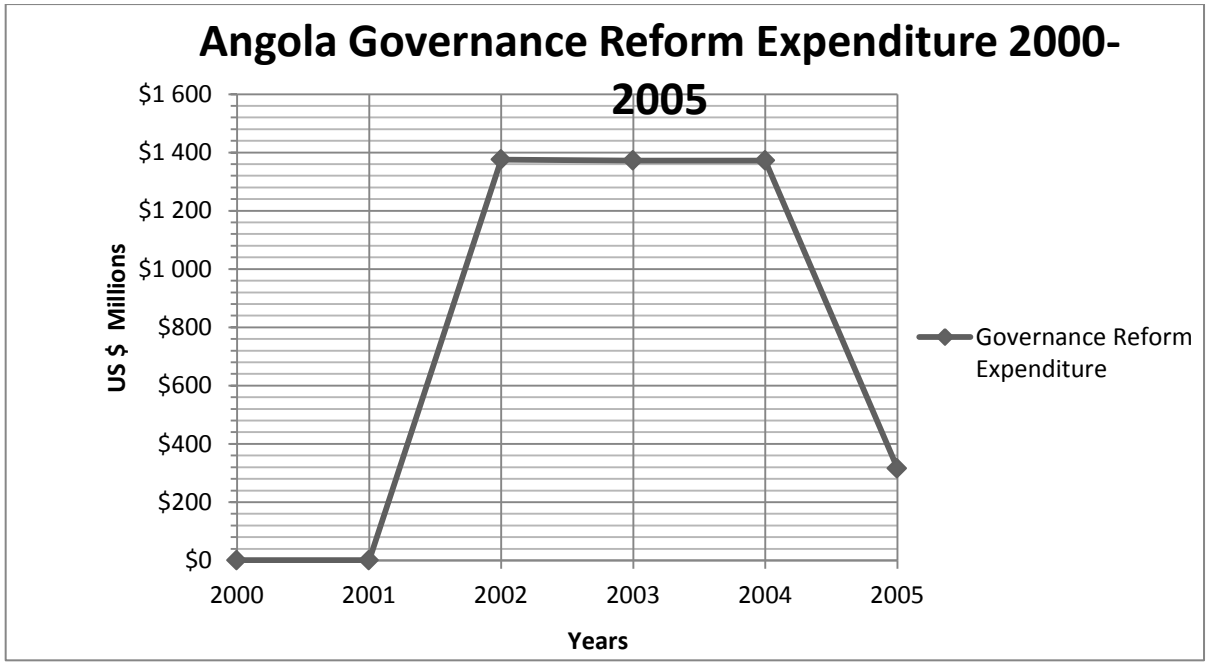


Figure 12. Angola Governance Reform Expenditure

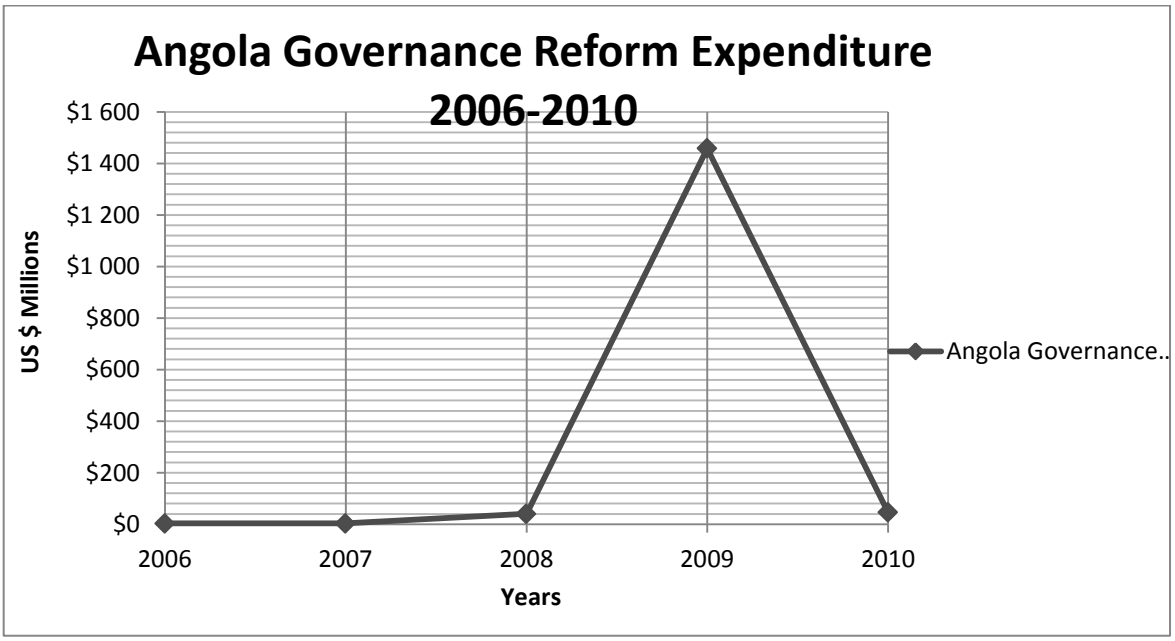


Figure 13. Angola Governance Reform Expenditure 2006-2010

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World Bank (2006) 'Angola: Petroleum Sector Non-lending Technical Assistance,' p.1, at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ANGOLAEXTN/0,,contentMDK:21269180~menuPK:3615251~pagePK:141137~piPK:141127~theSitePK:322490,00.html. Accessed 05 April 2011.

World Bank (2006) 'Quasi-Fiscal Expenditures and Compensation Mechanisms,' *Oil Revenue Management Workshop,* 16 May 2006, p.1-23.

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CHAPTER 5 - DATA COLLECTION: *CHINA'S OIL ACQUISITION DIPLOMACY INSTRUMENTS*

Key Findings: China's 'Oil Acquisition Diplomacy Instruments

This section will present the range of *diplomacy instruments* employed by the Beijing government in securing access to oil resources. Unlike the previous section on *fiscal transparency and accountability reforms*, the research period for China's diplomacy instruments will only comprise a six year period, between 2004 and 2010. The oil security strategies presented here are fundamentally financial diplomacy instruments, namely; oil-backed loans; generous lines of long-term credit given to the Angolan government on concessional settlement terms.[311] The loans were to be repaid with oil exports China over a specified period, usually between 12 to 15 years in this case, in addition to equity acquisitions in foreign oil production.[312]

China's Oil-Backed Loans to Angola.[313]

In 2004, four years following the official announcement of China's formal Africa policy in October of 2000, the Beijing government initiated a series of diplomatic strategies for securing much-needed oil resources from Angola. Typically, the concessional loans which are disbursed by China's Export-Important Bank (commonly termed the *Exim Bank*), are provided at the London Inter-Bank Offered Rate (LIBOR) and an addition 1.5% interest, were specifically directed to a myriad of infrastructural and social development projects in Angola.[314] The payment of services rendered by Chinese companies through the PIP contracts is to be

311 World Bank (2007). 'Angola: Public Expenditure Review,' *Report No. 39710 – AO,* Vol.2, p.14.

312 *Ibid.*

313 It is important to note that a separate credit line agreement exists, credited by the Hong Kong-based China International Fund (CIF), a private organisation operated by a private Chinese entity. However, the CIF agreements will not be included in this study as the scope of this project only aimed to address included state-to-state relations.

314 Vines, A., Shaxson, N., Rimli, L., Heymans, C. (2006). 'Angola Drivers of Change: An Overview' *Chatham House,* p.13-16. The initial Phase of the Credit Agreement was based on a 12 year repayment period, while the third phase entailed the extension to a 17 year period.

contractually reimbursed through the sale of oil to China, a process which is administered by the cooperative of Beijing and Angola state financial and planning departments. These credit loans, which were signed by the two states as part of Angola's PIP, were progressively authorized by the Exim Bank as follows:

iv) **Phase I** - *Initial loan of US $2 billion on 2nd March 2004;*
v) **Phase II** - *US $ 500million on 16th July 2007, and;*[315]
vi) **Phase III** - *US $2 million 28th September 2007*.[316]

Each of these progressive credit disbursements was categorized into phases of the PIP, with each phase comprising various projects within the various infrastructural and social development sectors listed above. During *Phase I,* the funds provided as part of the Credit Agreement led to the signature of 31 contracts, which were allocated to a total of 50 projects, of which 44 were completed as of the publication date of the MINFIN 'Works & Government Projects' in 2008.[317] These contracted projects ranged from sectors including transport, agriculture, water, energy, as well as health and education.[318] The number of contracts authorised within each sector, as well as the total expenditure for completed projects *for Phase I* are exhibited graphically in Figure 14 and 15 below.

Phase II of the Credit Agreement for PIP's funded by Beijing commenced in 2007, as an extension of *Phase I* in terms of newly allocated projects, and the completion of pending tasks, including increased expenditure. To this extent, *Phase II* involved the execution of a total of 57 projects, underwritten by the signature of 7 contracts.[319] As shown in Figure 16 and 17 below, a total of 17 project contracts were allocated, of which 14 were already completed at the time

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[315] Phase II represented an additional disbursement for the completion of projects which were commenced with the use of the initial 2004 loan.

[316] *Ibid.* The payment of these funds is managed by the MINFIN in an escrow account held by the China Exim Bank.

[317] Campos, I & Vines, A. (2007). 'Angola & China: A Pragmatic Partnership,' *Working Paper Presented at a CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation*, p.8.

[318] *Ibid.* The total loan disbursement for Phase I was US $1billion. An additional contingency of US $500 million provision was extended for projects which had exceeded the budgetary and technical requirements as identified during the Project Planning stage.

[319] Campos, I & Vines, A. (2007), *op.cit,* p.9.

of publication.[320] The final stage of funding, *Phase II*, entailed a further disbursement of US $2billion, which was assigned to a total of 12 projects. The project allocation and respective expenditure for each sector, by contract, is exhibited graphically in Figure 18 and 19 below.[321]

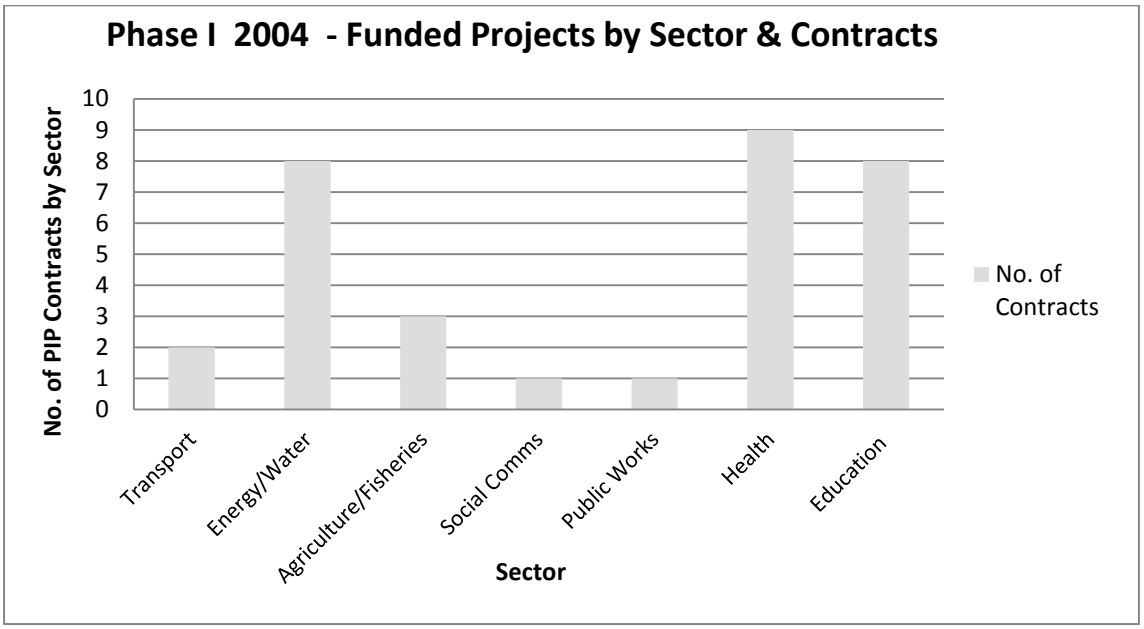


FIGURE 14. PHASE I 2004 - FUNDED PROJECTS BY SECTOR & CONTRACTS

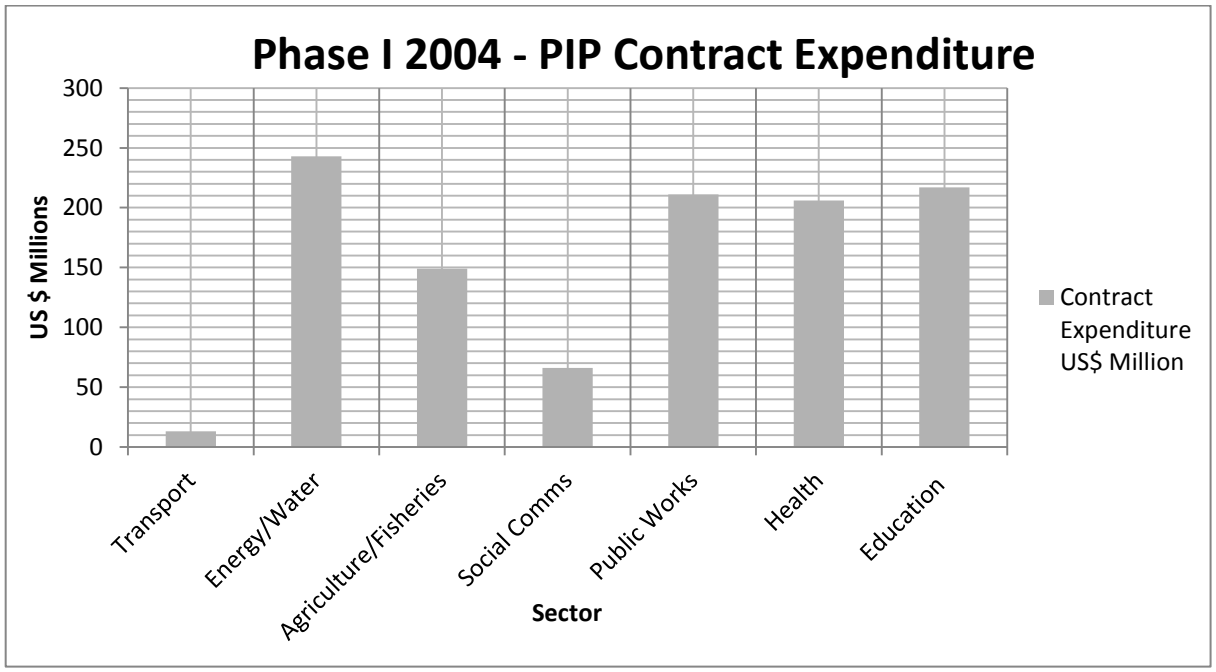


FIGURE 15. PHASE I 2004 - PIP CONTRACT EXPENDITURE

[320] *Ibid.*

[321] At press time, no disbursement had been made under Phase III of Angola-China Credit Agreement.

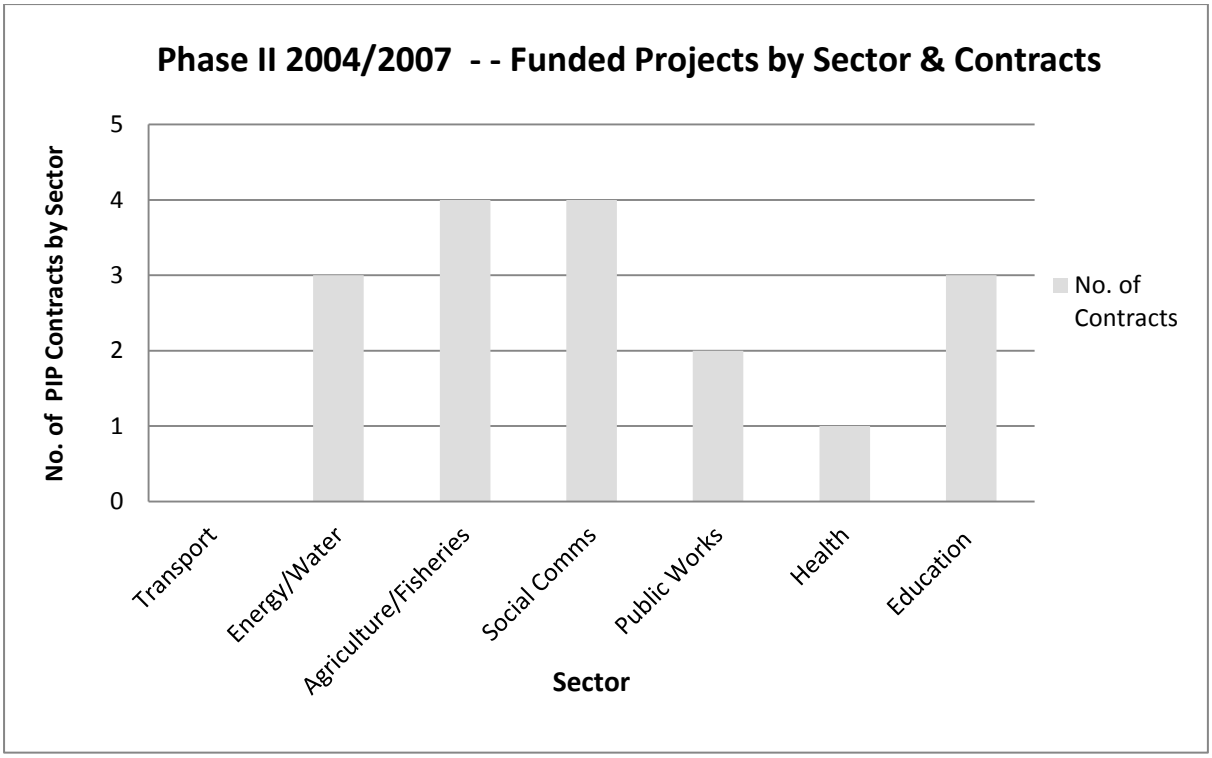


FIGURE 16. PHASE II 2004/2007 - FUNDED PROJECTS BY SECTOR & CONTRACTS

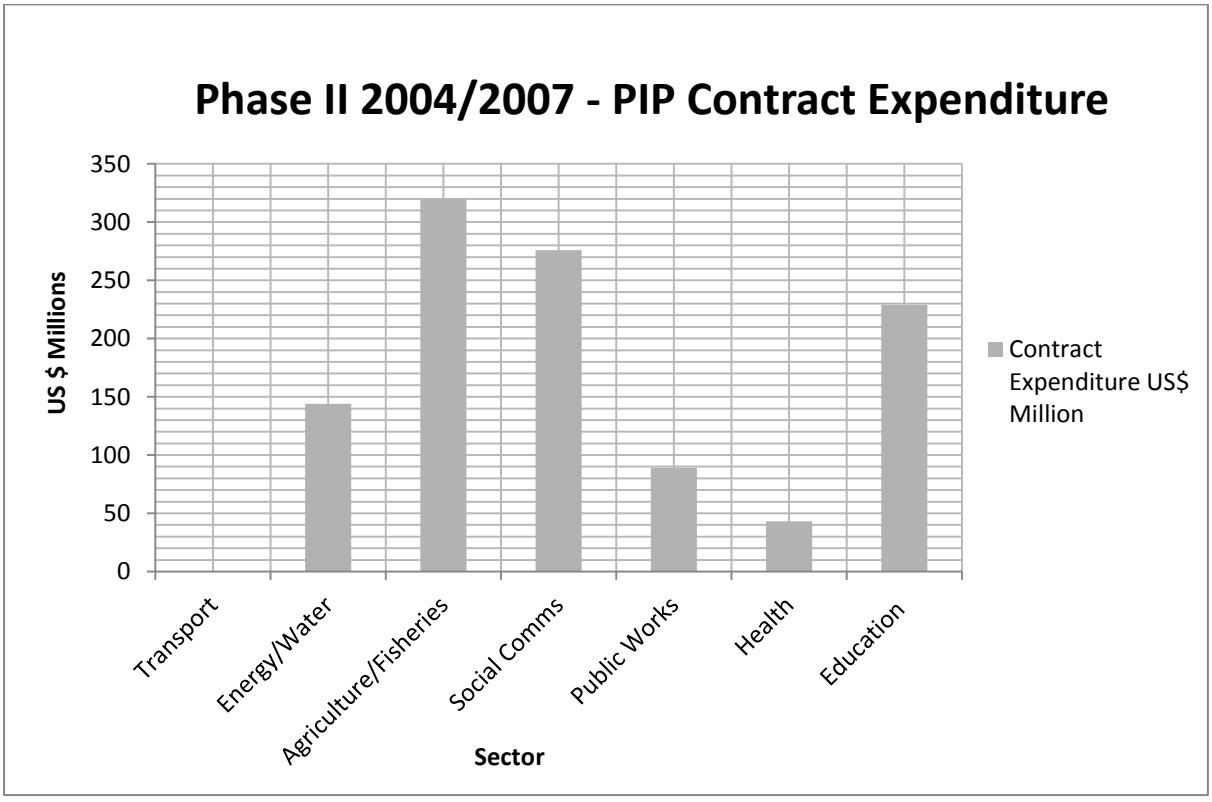


FIGURE 17. PHASE II 2004/2007 - PIP CONTRACT EXPENDITURE

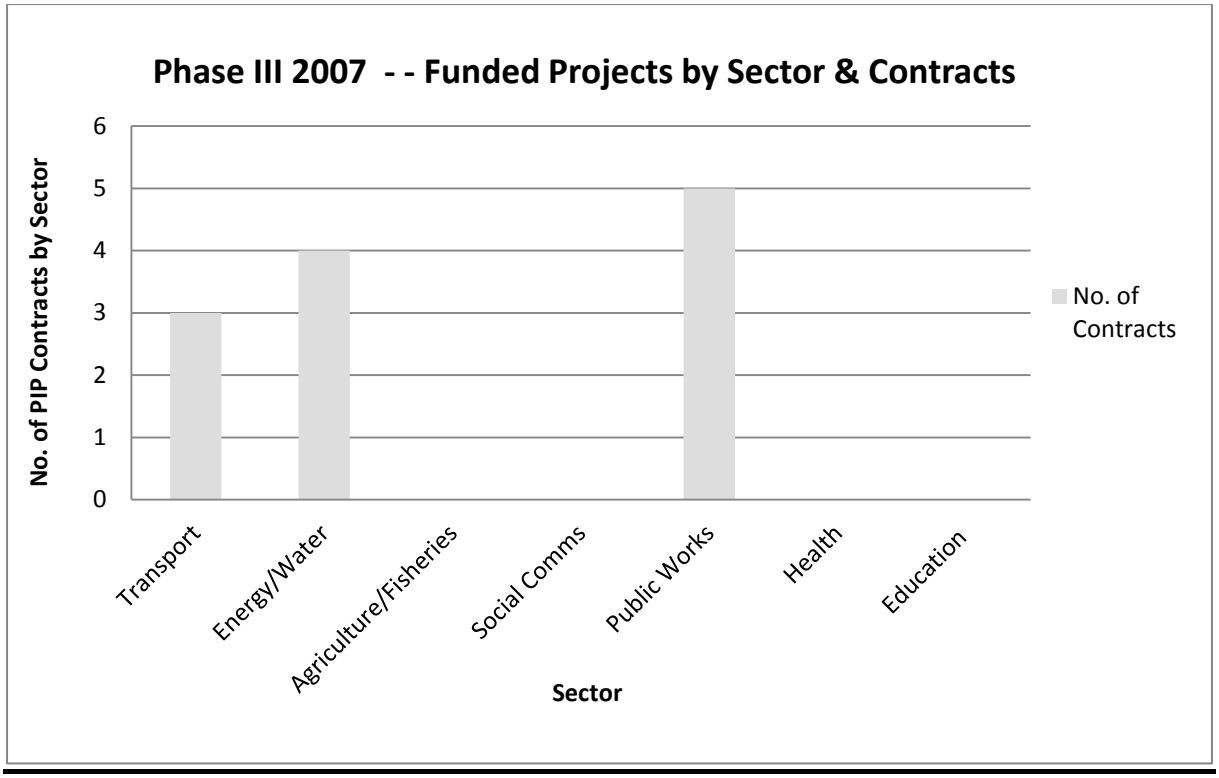


FIGURE 18. PHASE III 2007 - FUNDED PROJECTS BY SECTOR & CONTRACTS

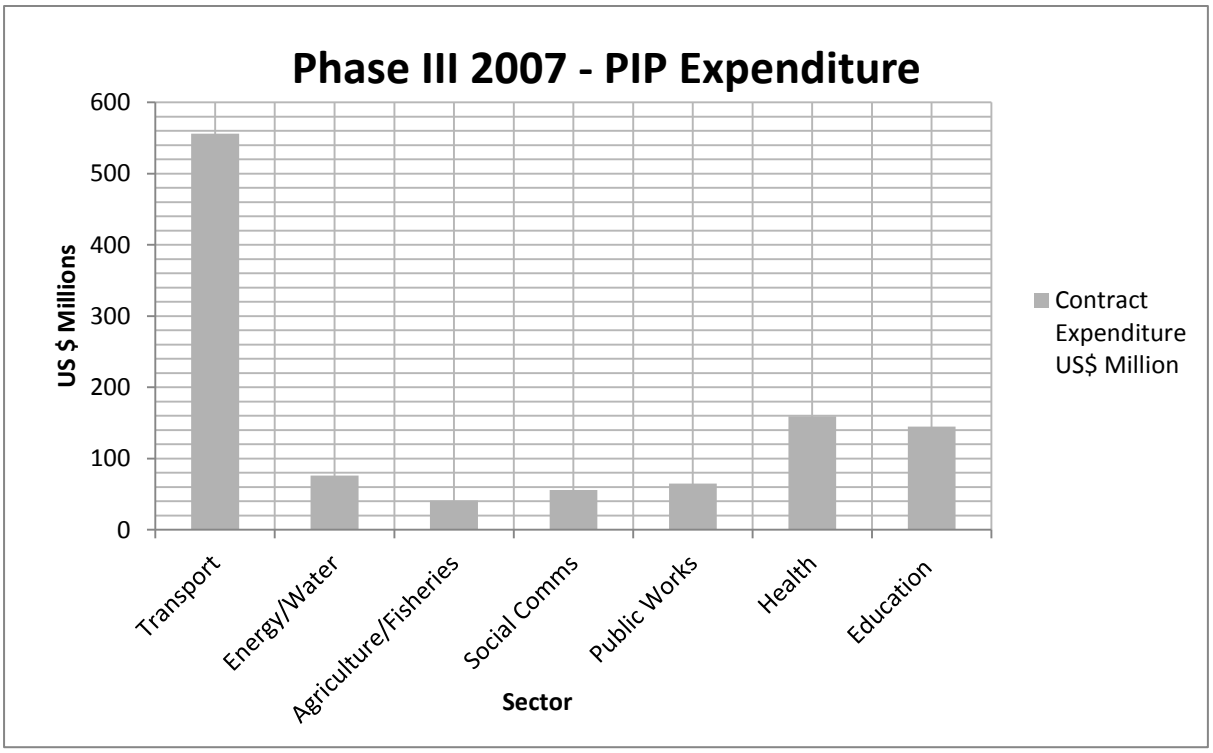


FIGURE 19. PHASE III 2007 - PIP CONTRACT EXPENDITURE

China's Purchase of Production Blocks in Angola Oil Fields

In addition to the concessional oil-backed credit lines detailed above, Beijing also employed the direct acquisition of oil blocks in Angola as a strategic means to accessing oil resources. In a similar mode to the credit loans, the acquisition of oil was directly facilitated by the government, with leading state owned company, the China Petroleum and Chemical Corporation (commonly termed *Sinopec*) operating as the primary corporate entity in the transactions. Accordingly, China's oil block acquisition strategy as engaged in Angola can be aggregated as follows:

iv) *building infrastructural capacity in Angolan oil offshore fields to secure exploration and production;*
v) *fostering diplomatic ties the Angolan state;*
vi) *extending direct finance to state-owned oil companies for the acquisition of foreign oil blocks.*[322]

The signature of oil agreements for the acquisition of equity stakes and the attendant operating rights in various blocks were secured during successive Angola Offshore Oil Licensing Rounds which are held annually and administered by Sonangol as the national concessionaire, and authorized by President dos Santos.[323] Figure 20 below, exhibits the chronological series of strategic Beijing-funded acquirement of oil production facilities in Angola. The progressive acquisition of oil blocks by China since 2004 through joint venture partnerships involving China Sonangol International Holding (CSIH) and Sinopec Sonangol International (SSI) induced a gradual increase in the annual quantity of oil exported by Angola to China. In 2009, the total output of oil exports to China amounted to almost 90% of Angola's total oil production, computing to 1.7 million barrels of oil per day in the first half of 2007.[324]

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[322] This list has been party adapted from 'Evans , P. C. & Downs, E. S. (2006), 'Untangling China's Quest for Oil, through State-backed Financial Deals' *The Brookings Institution Policy Brief,* (154), p.8.'

[323] Sonangol (2008) *Gabinete de Comunicação e Imagem da Sonangol EP,* 28 February 2008, at http://www.sonangol.co.uk/wps/wcm/connect/4b4a160048d0d3858d079f467ef0967d/dneg_bidProrrogacao_en.pdf?MOD=AJPERES&CACHEID=4b4a160048d0d3858d079f467ef0967d. Accessed 28 April 2011.

[324] United States Energy Administration (2010) 'Angola Energy Data, Statistics and Analysis - Oil, Gas, Electricity, Coal,' *Country Analysis Briefs,* p.3-8, at http://www.eia.doe.gov/emeu/cabs/Angola/pdf.pdf. Accessed 15 April 2011.

The increase in Angolan oil exports to China is displayed graphically in Figure 21 below. Additionally, Figure 22 shows the gradual increase of China's imports of Angolan oil, logged in terms of millions of tons per year.[325]

In March of 2006, the joint venture established between Sinopec and Sonangol named Sinopec Sonangol International (SSI) embarked on the development of an oil refinery in Lobito municipality of the Benguela Province, a project which has been titled *Sonaref*. At the time of inception, the Sonaref refinery was projected to produce a capacity of 200 000 barrels of oil per day.[326] According to an official account by Sonangol, the Lobito heavy crude refinery project which is already in the development stage was stated to adopt a phased approach. The first phase involved the construction of the *simple refinery* with a low output rate to be completed by 2015, and the second phase, the *complex refinery*, which will reach the maximum projected output of 200 000 barrels per day will be finalised in 2016.[327] Once the project phases have been completed, the objectives of the Lobito refinery include:

iv) The cessation of fuel imports into Angola;[328]
v) Generating added-value for Angola's heavy and acid crude oil, and;
vi) Increasing the role of oil in the National Economy.[329]

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p.2, and; China Oil Web (2008) *China Crude Imports Data,* at http://data.chinaoilweb.com/crude-oil-import-data/index.html. Accessed 25 April 2011.

325 *Ibid,* and; China's General Administration of Customs (2010) http://english.customs.gov.cn/publish/portal191/, Accessed 25 April 2011. The data presented was based on annual figures for January imports for each year. Data was only available for 2005-2010.

326 Royal Netherlands Embassy Angola *(*2007)'The China-Angola Oil Factor,' *Trade & Investment Newsletter* (6), p.5, and; Davies, M & Naidu, S. (2006) 'Naidu China Fuels its Future with Africa's Riches,' *South African Journal of International Affairs,* Vol.13 (2), p.77.

327 Sonangol (2011) *Sonaref Project,* 14 May 2011, p.1, at http://www.sonangol.co.ao/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDl5AQUzN_QwN3R39XA09HQ0NLNxcTI3cTQ_1wkA6zeAMLY2cfQ2MDF0cDfw9vU8NQcyMDCMAuH2KCX94lyBBVHgdwxKHfxNMQr_mGFqj24_AhpryFF1DUyNjbNdjI08XIxNUcu_kGCPP9PPJzU_ULsrODXIHQwlFREQD_gbZt/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfMURUVDU2TzEwR0FPRTBJQTExOUZENDIwMDA!/. Accessed 10 April 2011.

328 Royal Netherlands Embassy Angola *(*2007) 'Sonangol Undertakes Construction of Lobito Refinery,' *Trade & Investment Newsletter* (6), p.6. 'It was estimated the Lobito refinery would ultimately save Angola approximately US $500 million in oil import expenditure.

Figure 20. Sinopec Equity & Acquisition of Angolan Oil Blocks [330]

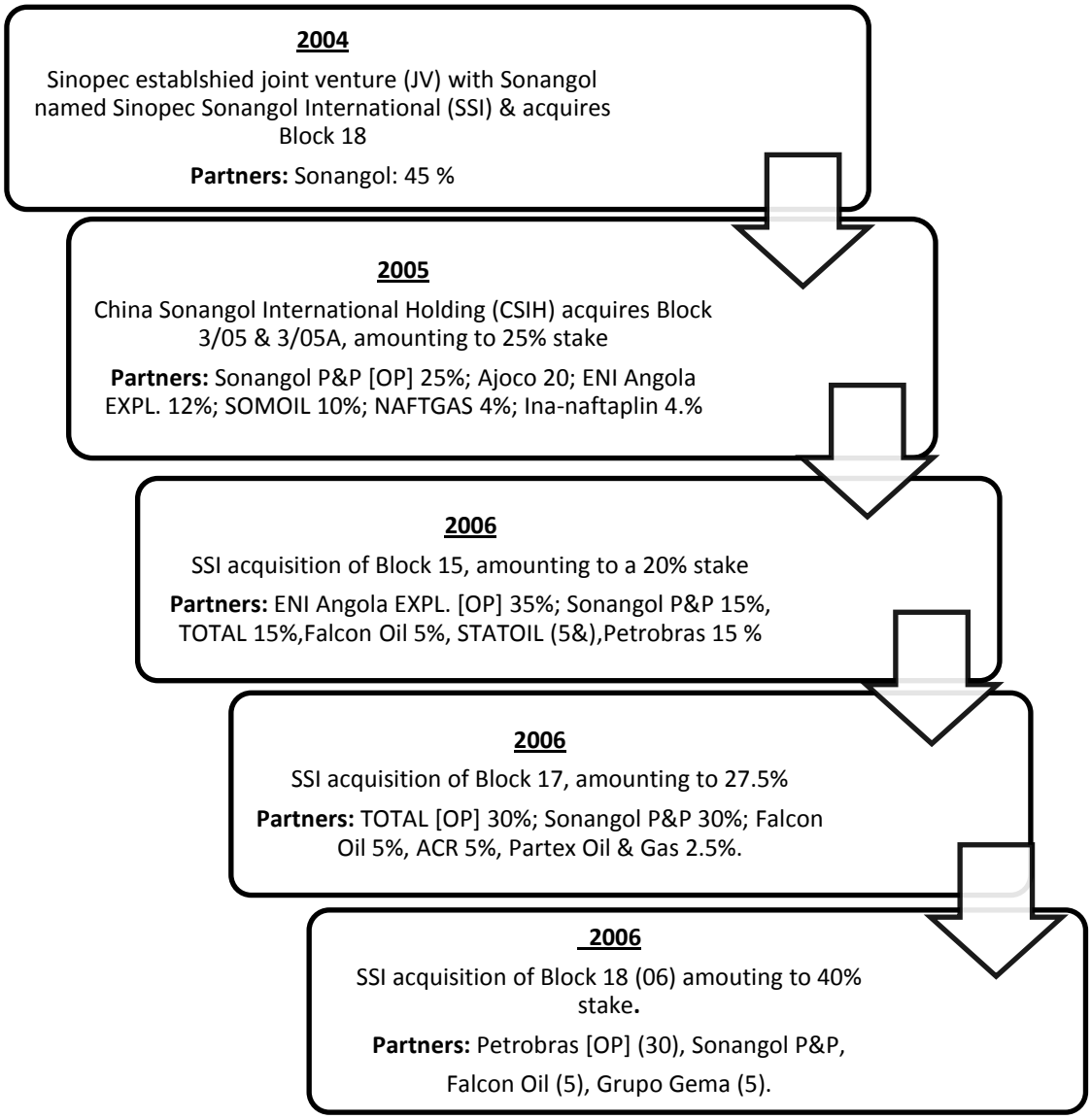


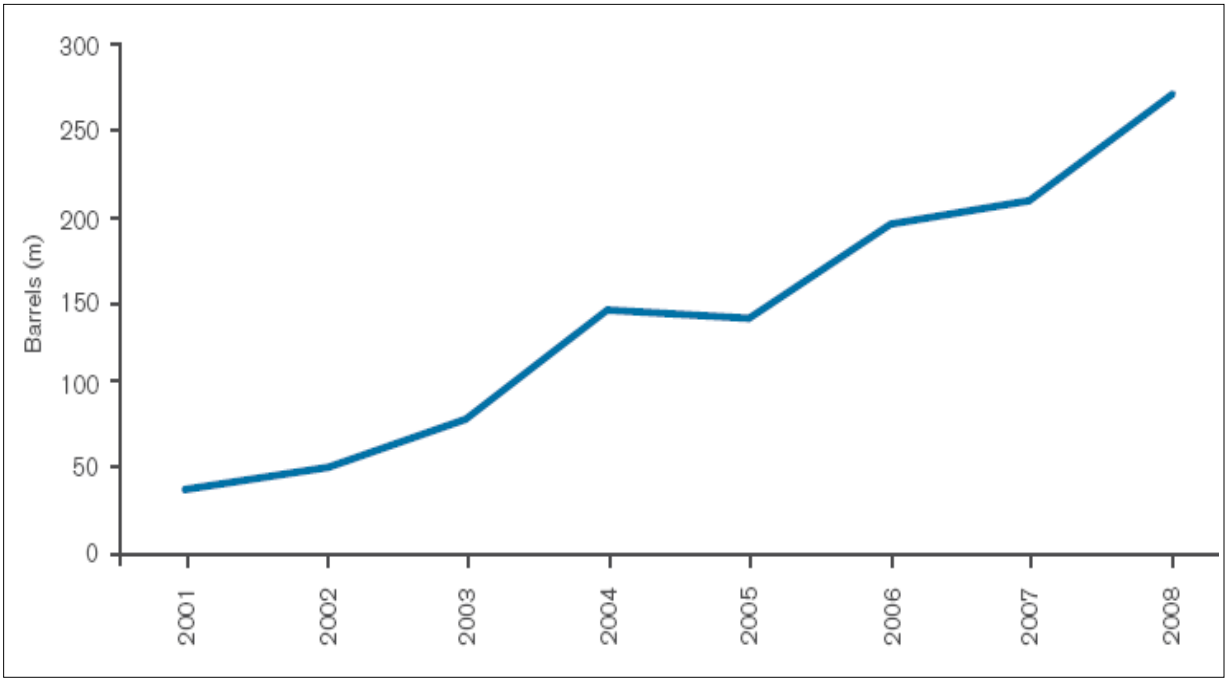
Figure.20 Sinopec Equity & Acquisition of Angolan Oil Blocks

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[329] *Ibid.* It is however important to note that Sinopec, operating under SSI, has since withdrawn from the Lobito Refinery deal due to disagreements regarding the specifications of the product (refined heavy crude) details.

[330] Chronological representation of Sonangol undertakings adapted from Sonangol (2011) *Angola Concessions Map,* p.1, at http://www.sonangol.co.ao/wps/wcm/connect/1fabe00048cf7ee586d697467ef0967d/GAD-MC-1007004-I.pdf?MOD=AJPERES&CACHEID=1fabe00048cf7ee586d697467ef0967d. Accessed 16 April 2011; and Campos, I & Vines, A. (2007), *op.cit,* p.16.

Figure 21. Angola's Crude Exports to China 2001-2009 [331]



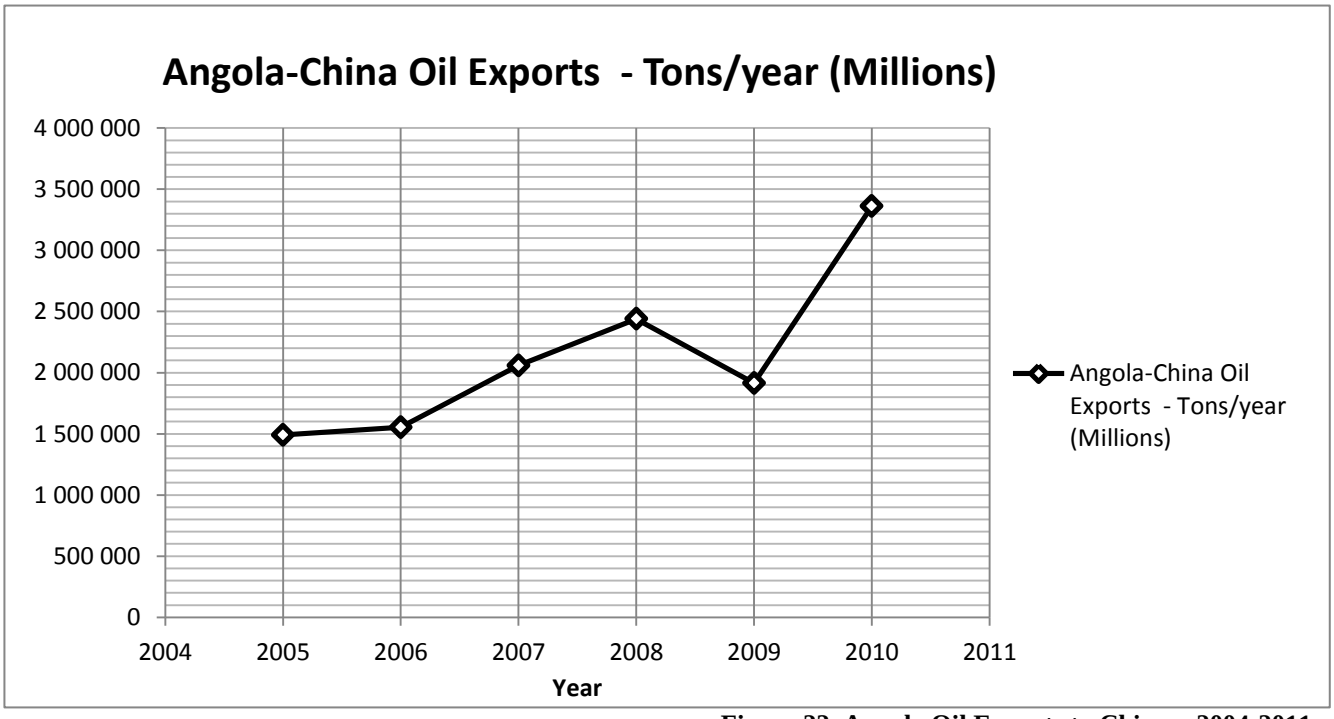


Figure 22. Angola Oil Exports to China – 2004-2011.

[331] Vines, A. Wong, L., Weimer, M. & Campos, I (2009), *op.cit.* p.42. The data for this graph was obtained from *China's General Administration of Customs* and the United States Energy Administration.

Discussion: Trends & Deviations in the Data

The main trend which can be noted from China's employment of financially incentivised diplomatic tools in Angola is the lack of interference in the latter's long-standing political and fiscal quandaries. Notwithstanding the efforts made by international and regional governmental organisations in remedying Angola's fiscal mismanagement, particularly distinguished by the persistence of a dualistic budgetary system which obscures revenue and expenditure, Beijing's financial assistance has generally overlooked these fiscal obstructions in favour of impartial interaction.[332] This non-interference stance has been reiterated by China's Prime Minster Hu Jintao, in describing the interactions between China and African states as pragmatic, without 'political preconditions,' while emphasising that Beijing does "not interfere in other countries' internal affairs, nor does it try to impose its own will on others."[333] This policy approach signifies by the expedience in diplomatic and financial interactions between Beijing and Angola.

In relation to the application of the various financial diplomatic tools, there are three apparent trends in the allocation of loan credit (expenditure) and the number of projects (contracts within each sector) in the various phases:

i) Firstly, there has been a steady increase in the commitment to *Energy and Water*, *Public Works* and *Education*;
ii) Secondly, there is a fluctuation in contracts on *Transport*, *Fisheries* and *Social Communications*;

[332] The efforts of regional and international institutions in address Angola's fiscal management quandaries are discussed in the previous chapter.

[333] Excerpts taken from Forum for China Africa Cooperation (2006) *Address by President Hu Jintao at the Opening Ceremony of the Beijing Summit of the Forum on China-Africa Cooperation (FOCAC),* 4 November 2006 p.1, at www.focacsummit.org. Accessed 25 March 2011, and; Yan Liang (2009) *Hu Jintao's speech at the Opening Ceremony of The Boao Forum for Asia Annual Conference* 2008, 04 April 2008, at http://news.xinhuanet.com/english/2008-04/12/content_7966431.htm. Accessed 25 March 2011.

iii) Thirdly, the least overall commitment in relative terms is apparent in the *Health* and *Social Communications* sector.

In the subsequent section on the use of equity acquisitions, two key trends, and an anomaly were present. Firstly, as a result of the initiation of official oil-backed bilateral ties between China and Angola in 2004, there has been a steady increase in the purchase of oil equity in Angola's upstream resources. While the year on year percentage increase has not been consistent, the absolute quantity of equity ownership has increased over the two year period, 2004-2006 as presented in the data. Secondly, the increase in oil production ownership has stimulated a corresponding increase in the annual oil exports from Angola to China. As exhibited in Figure 20, there was an elevated increase in the barrels of oil exported to China in 2004, with a steady escalation throughout to 2008. It is however to point to the anomaly apparent in 2009 as shown in Figure 21; there was a sharp decline in the amount of oil exported to China from 2008-2009, followed by a sharp increase between 2009-2010.

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Sonangol (2011) *Sonaref Project,* 14 May 2011, p.1, at http://www.sonangol.co.ao/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hDl5AQUzN_QwN3R39XA09HQ0NLNxcTI3cTQ_1wkA6zeAMLY2cfQ2MDF0cDfw9vU8NQcyMDCMAuH2KCX94lyBBVHgdwxKHfxNMQr_mGFqj24_AhpryFF1DUyNjbNdjI08XIxNUcu_kGCPP9PPJzU_ULsrODXIHQwlFREQD_gbZt/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfMURUVDU2TzEwR0FPRTBJQTExOUZENDIwMDA!/. Accessed 10 April 2011.

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CHAPTER 6 – *ANALYSIS OF FINDINGS & INTERPRETATION*

This chapter will analyse the findings of the research as presented in Chapter 4 and 5 of this study. This analysis will follow the *process tracing analysis* method as discussed in Chapter 1. The chapter will begin by presenting an analysis of Angola's fiscal governance and transparency during the first period of the research study, 2001-2004, prior to Beijing's deployment of extensive oil security diplomacy instruments. The second section of the chapter will include an analysis of Luanda's fiscal transparency and public accountability during the second period of the study, 2005-2008. Following from this will be the third section, which will include a summative *comparative historical analysis* of fiscal governance and accountability levels across the two research period, pointing out key similarities as well as divergence between the two temporal contexts. The final segment will be the conclusion, which will draw on insights from the *resource curse* theory as elaborated in Chapter 2 of the study and generate *descriptive inferences* which go beyond the case study material to draw light on factors which were not directly investigated in this research, nonetheless corollaries.

Fiscal Transparency & Public Accountability in Angola - 2001-2004

In the years leading up to the official end of the civil conflict in 2002, the Angolan government had already began taking measures to address age-old deficiencies in the state's deficient fiscal transparency and public accountability apparatus. As early as 2000, the government, with the assistance from leading IFIs, had already adopted various measures for tackling the inadequacies within fiscal and public financial governance sphere. Notwithstanding the efforts from within the state, as well as the international community, the main impediment to attaining sustainable progress in bolstering Angola's fiscal and public financial management standards has been the overbearing political influence of the MPLA's war-time leadership dynamics over the management of public revenues and expenditure.

As conveyed in the discussion of the state of fiscal transparency and public accountability in Angola, dating from the war-time era in Chapter 3 as well as in the presentation of results in Chapter 4, obscured acts of financial mismanagement and misappropriation by the MPLA during the 1990s engendered a cycle of corruption and rampant unaccountability. At a structural level, the political influence of the MPLA has manifested in the special position

accrued to Sonangol in the mechanisms of public revenue collection, management and expenditure; a system which apparently benefits the illegitimate financial decisions of the political headship.[334] In summation, the early years of the study were characterized by two mutually reinforcing factors, namely:

1. political resistance from the MPLA leadership and;
2. structural impediments to sound fiscal governance & public financial management.

Political Resistance from the MPLA leadership & Structural Obstacles to Fiscal Transparency & Public Accountability Reform

2001- *KPMG Oil Sector Diagnostic Study*

The earliest measure taken to address the fiscal transparency and public accountability dilemma during the research period was the *Oil Sector Diagnostic Study* of 2001. This study involved a thorough investigation of the oil sector in efforts to develop more sound revenue collection and monitoring mechanisms, undertaken by KPMG through government commission. The Study was devised to assist the Angolan government to bolster the levels of transparency associated with proceeds derived from the upstream oil industry, while establishing an effective revenue management system which will equip the applicable state agencies to forecast future proceeds.[335] Moreover, the Study was perceived as a starting point for uncovering the flaws in transparency and accountability mechanisms.[336]

Among several recommendations which were prescribed by the final KMPG report, those relating to transparency and accountability included: *establishing a forecasting system for oil*

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[334] World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO,* p.18.

[335] KPMG (2006) 'Ministry of Finance: Evaluation of Angolan Petroleum Sector,' *Executive Summary Initial Report,* p.3.

[336] Human Rights Watch (2004), *Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights,* Vol. 16, (1), p.11. It is important to note that the Oil Sector Diagnostic Study was ardently supported by the IMF and World Bank.

revenues from Sonangol to the state; developing tools for the management and monitoring of oil revenue; developing periodic oil industry forecasts; and fostering cooperation between MINFIN, Sonangol and the BNA.[337] During the four years since the first Report was published (until 2008), progress in these recommendations has mainly been limited to developing tools for structuring production-sharing agreements between Sonangol and foreign oil companies. While some authors, including Kibble, cite the improvements in revenue management transparency, to the extent of eventually publishing oil signature bonuses as a result of the *Oil Diagnostic*, there is a lack of substantive evidence which highlights the *Oil Diagnostic* as a success in transparency and accountability terms.[338] At the least, the Study proved vital in uncovering Angola's deficient accounting and fiscal governance systems, and highlighting the need for fundamental adjustments to revenue and expenditure management.[339]

Ultimately, throughout the four years since the initial recommendations were made, it is apparent that the government had largely evaded the substantive recommendations, in favour of cosmetic changes by way of acknowledging deficient accounting and the need for additional improvements. However, the he core structural impediments to sound fiscal transparency and public financial accountability were not adequately addressed by the government. The implicit acknowledgement of state corruption, albeit lacking meaningful corrective measures in adopting the recommendations, moved the focus of the Diagnostic away from addressing illegitimate financial actions within the government, to rather bolstering revenue collection systems from the oil industry as evidenced by progress with production sharing agreements. This factor is further exemplified in the government's strict limitations in the scope of the

[337] *Ibid,* p.6-18. Chapter 4 points to continued discrepancies in revenue accounting even following the Diagnostic Study.

[338] Kibble, S. (2006), 'Angola: Can the Politics of Disorder Become the Politics of Democratisation & Development?,' *Review of African Political Economy*, Vol. 33, (109), p. 528. Kibble does however cite the prosecution of high-ranking government individuals who were found guilty of corruption between 2003 and 2004.

[339] Human Rights Watch (2004), *op.cit,* p.10-13.

study.[340] Essentially, meaningful commitment to the Diagnostic study was hampered by political resistance from within the MPLA leadership, which historically bears a culture of mismanagement and misappropriation of state funds.

2002 - *Corporate Social Responsibility (CSR)*

The Corporate Social Responsibility (CSR) of 2002, which was a component of the Transitional Support Strategy of the World Bank, is very important in reflecting the interplay between MPLA political resistance and the structural obstacles to attaining meaningful fiscal transparency and public financial management reforms. While the CSR was mainly geared towards fostering mutually beneficial relations between the oil industry, public and private sector, as well as Angolan society, the programme include instructive propositions for bolstering fiscal transparency and public accountability.[341] The rationale utilized by the World Bank in this regard highlighted that by taking full advantage of the administrative synergies between the public (including oil sector), private and social sector, the Angolan government would be able to maximise the use of oil revenues for the full benefit of all stakeholders.[342] Accordingly, this end was to be attained through the full disclosure and publication of oil all transactions, in line with international standards in accountability and transparency practices. In line with this principle, the World Bank consequently made the following statement:

> *The best way to address issues raised by international campaigns, such as the 'Publish What You Pay' and the EITI, calling for more transparency within the oil sector, will be to continue making serious efforts to reform war-time accounting and transparency practices.''*[343]

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[340] According to the agreement between the government and KPMG, the consultants were not to investigate any direct breach of law or integrity by any individuals resulting from the uncovering of financial mismanagement and corruption in Angola.

[341] World Bank (2004). 'Strengthening Developing Country Governments' Engagement with Corporate Social Responsibility: Conclusions and Recommendations from Technical Assistance in Angola,' *Working Report,* p.5.

[342] *Ibid.*

[343] *Ibid.*

Despite the instructive recommendations made by the World Bank in relation to strengthening transparency and accountability standards, the political dynamics at play effectively undermine the realisation of this counsel. Particularly, pushes for transparency have been deliberately blocked by the MPLA government, due to the likely implications for undermining the formers obscure access to state oil revenues through illegitimate means. Although the government made some incremental progress in publishing oil bonuses as discussed in this section, the elaborate adoption of international best practice may also undermine the exploitation by the political leadership of the non-conventional accounting system, which is an anomaly in the international oil industry.

To demonstrate the opposition from the Angolan state to international best practice on fiscal transparency and public accountability, during the 2002-2004 period of intensified thrusts for adherence, a proposed move by BP-Amoco to be more transparent in its Angolan operations provoked threats from the government to terminate oil company's production contracts.[344] Ultimately, the Angolan government did not yield to international pressure to adhere to international best-practice, nor did they accept to become Extractive Industries Transparency Initiative (EITI) complaint, adopting a similar response to the 'Publish What You Pay' initiative.[345] It is however important to underscore that despite Angola's resistance to the EITI initiative, the government is reported to have covered more ground in the publication of information on oil revenues beyond what other EITI complaint countries has accomplished.[346] Although this may appear oxymoronic, this move is reflective of Angola's policy stance and

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[344] Taylor, S. (2002). 'Corporate Secrecy Oils the Wheels of Poverty,' *Global Witness,* p.2.

[345] Extractive Industries Transparency Initiative (2011), at http://eiti.org/about. Accessed 15 January 2011. The EITI is a global initiative aimed at increasing the transparency in procurement, revenue inflows and transaction disclosure in mining, oil and gas industries in countries which have existing operations in these industries. Membership to the EITI is on a voluntary basis, upon which assessments are carried out by the organisation to assist in bolstering transparency standards for each member country.

[346] Vines, A. Wong, L., Weimer, M. & Campos, I (2009) 'Thirst for African Oil Asian National Oil Companies in Nigeria and Angola,' *A Chatham House Report: Royal Institute of International Affairs,* p.57, and; Human Rights Watch (2010) *Some Transparency, No Accountability: An Update,* p.22.

capacity level. As cited in a *Country Evaluation Report*, Angola merely observes the EITI without official endorsement because:

i) the objective of transparency in the oil sector (extractive industries) is not a political priority for the government

ii) full membership to the EITI requires a set of implementation measures that exceed the country's current capacity.[347]

This point has been reiterated in an Angolan World Bank staff interview undertaken by the Human Rights Watch, in which the respondents underscore that the EITI did not hold any added value for the Angolan government.[348]

2002 – 2004 *Public Financial Management Program*

A similar trend in political resistance was evident a year later in 2002, particularly in the unsystematic implementation of the Public Financial Management Program (PMFP). The PMFP was steered by the Angolan government, with assistance from the World Bank (under the Transitional Support Strategy. Among several objectives, the PMFP aimed to address *public financial management* imperatives, in relation to: i) *bolstering the Formal Expenditure Execution System,* and; ii) *Ring-Fencing* and *Phasing-Out the Non-conventional Execution System.* [349] While some progress was initially made in the area of advancing budgetary processes in accordance with the Organic Budget Law, which relates to the *formal expenditure* system, the second component of gradually eradicating the non-conventional, Sonangol-administered revenue management and expenditure system continued to stall.

Throughout the implementation period of the PMFP, 2002-2004, political resistance from the MPLA leadership hampered the prospects of attaining a higher level of public revenue and expenditure management through the proposed phasing out the non-conventional system. As

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[347] European Commission (2009) Country Evaluation Report: Angola, *Final Report,* Vol.1, p.13.

[348] Human Rights Watch (2009) *Interview with World Bank Staff, Luanda*, 30 March 2009, in Human Rights Watch (2010), *op.cit,* p.22.

[349] World Bank (2005), *op.cit,* p.89.

elaborated in Chapter 3, the non-conventional system has historically benefited the MPLA leadership, who have traditionally engendered an illegitimate relationship with this non-conventional accounting mechanism for their own unauthorized benefit. Through an obscure revenue and expenditure management system handled by the institutional hallmark of the war-time government, Sonangol, it has been reported from investigation and trials that the MPLA leadership has manipulated exaggerated arms deals and oil-backed loans from a network of European banks and public officials to siphon off state funds for illegitimate non-public use.[350] While programs such as the PMFP aimed to address these frailties in the public financial system (in addition to others endorsed by the IFI and international development), it has been reported by the World Bank that the fundamental challenge in remedying the dubious accounting systems (led by Sonangol) lies with political defiance, namely "*powerful vested interests and traditional sources of rent-seeking"* from the MPLA.[351]

2002-2004 - *Integrated Financial Management System (SIGFE) & System for Public Investment Management and Programming (SIGIP)*

In comparison to the other governance reforms discussed in this study, the impediments to SIGFE an SIGIP collectively represent the most glaring case of the political dynamics which have undermined progress is fiscal transparency and public accountability reforms. Briefly, both SIGFE and SIGIP aim to address public revenue and expenditure management deficiencies, with the former dealing with the 'dualistic budgetary and expenditure system,' and the latter relating to harmonising the public investment management and programming systems at the provincial level through capacity building.[352] Fundamentally, this dualistic system has played a critical role in fostering 'insufficient budgetary funding,' a lack of fiscal discipline, extra-budgetary expenditures, as well as quasi-fiscal deficits and discrepancies,'

[350] Global Witness (2002) *Global Witness Presents All the Presidents Men*, p.30-36. The siphoning of state funds was revealed in the expose of the *Angolagate* scandal as investigated by Global Witness.

[351] World Bank (2005), *op.cit,* p.90. This excerpt is taken from the World Bank progress report on PEMFAR and related technical initiatives in Angola.

[352] World Bank (2006) 'Quasi-Fiscal Expenditures and Compensation Mechanisms,' *Oil Revenue Management Workshop,* 16 May 2006, p.4, and; World Bank (2005), *op.cit,* p.31.

while the lacking institutional capacity, particularly at the provincial level, has significantly undermined fiscal transparency.[353]

Notwithstanding the elaborate efforts made by leading IFI's in structuring and implementing SIGFE and SIGIP in the aim of addressing the discussed fiscal governance quandaries, the political dynamics of the war-era have undermined the comprehensive execution of these two projects. Parallel to the other programs analysed in this section, both the SIFGE and SIGIP systems were executed piecemeal, with the most fundamental components being overshadowed by political resistance. In the case of SIGFE, the proposed system has not yet been fully computerised, with accounting processes in some government agencies continuing to be paper-based, hence undermining the objectives and efficiency of the system. [354] To this extent, the expenditure information in several government agencies continues to fall outside the central SIGFE mechanism, leading to persistent inaccuracies in reporting, misinformation and hampered consolidation processes.[355] With regards to SIGIP, the shortcomings in the implementation of this program relate to the deferred computerisation of the system, a hindrance which has since caused delays in the processing and reporting of key budgetary information which is to be delivered to the MINPLAN and the MINFIN for financial monitoring the investment programming objectives. [356] This impediment undermines the establishment of the integration of information between the various provincial budgetary agencies.

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[353] World Bank (2006), *Ibid,* p.5. This dualistic system was divided into a *conventional* and a *non-conventional* model of revenue and expenditure administration.

[354] USAID (2009). *Report on the Impact of the Angola Fiscal Reform Project on the Capacity of the Fiscal Programming Unit of the Ministry of Finance,* p.2.

[355] *Ibid*

[356] Isaksen, J., Amundsen, I., & Wiig, A (2007) 'Budget, State and People Budget Process, Civil Society and Transparency in Angola,' *CHR Michelsen Institute Report* (7), p.21-22.

Although there has been a measure of success in the implementation of SIGFE and SIGIP, the overall success of these two programs during the period of inquiry, 2002-2004, was somewhat superficial.[357] In relation to SIGFE, the decentralization of budgetary systems was extended to all provinces during the specified period (with implementation continuing through to 2006 in Benguela & Uige provinces).[358] With respect to SIGIP, the execution of the program witnessed the most noteworthy with respect to the commissioning of consulting firm *Ernst & Young* to facilitate the execution of Sonangol audits in addition to bolstering coordination between the respective public financial management departments. However, the fundamental obstacles of a non-conventional system and the quasi-fiscal operations under Sonangol were not addressed.[359] These limitations in execution were expounded by the World Bank, it highlighting that:

> "*...the Government's 2002 Report on Budgetary and Financial Execution of the OGE2' indicates that approximately 28.4% of total expenditures (or 14.8% of GDP) were executed outside of the formal budgetary framework, the SIGFE."* [360]

Moreover, funds continue to go missing as evidenced by recurrent discrepancies in revenue collection and expenditure reporting between Sonangol, MINFIN, MINPET and the BNA.[361]

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[357] It is important to note that one of the limitations of this historical approach is that the sequential progress of SIGFE and SIGIP cannot adequately address.

[358] OECD (2008) *African Economic Outlook: Angola,* p.112. During the subsequent research period, the implementation of SIGFE and SIGP continued, with new propositions for successful roll-out being adopted.

[359] *Ibid.* By the beginning of 2005, SIGFE still had not addressed the quasi-fiscal activities of Sonangol, in addition to lacking tracking mechanisms for expenditures financed by foreign credit lines.

[360] World Bank (2005), *op.cit,* p.18. The OGE budgetary law will be elaborated below.

[361] Human Rights Watch (2004), *op.cit,* (1), p.17, and; Global Witness (2002), *op.cit.,* p.48, and; Global Witness (2011) *Oil Revenues in Angola: Much More Information But Not Enough Transparency,* p.39.

Ultimately, commissioning professional consulting and advisory companies such as KPMG and Ernst & Young does not solve the core problem: this approach only deals with the symptoms of the public accountability quandary. Between 2002 and 2004, the MPLA continued to evade the root causes of the corruption and misappropriation dilemma in Angola through cosmetic means including the retention of professional advisory and consulting services. Fundamentally, the core problem is the non-conventional system which has been manipulated for fraudulent activity, coupled with the superior role accorded to Sonangol in public revenue and expenditure management. To this extent, the issue of state-level corruption is endangered by the inherent obscurity in this system: the mismanagement of funds and misappropriation of revenues is a symptom of an age-old structural disease which the political elite shown a keen reluctance to address.

Fiscal Transparency & Public Accountability in Angola & China's Oil Diplomacy: 2005-2008.

The second period of the research study, 2005-2008, reflected a shift in the general characteristics of the fiscal transparency and public accountability reforms in Angola. Although the categorical trends of political resistance and structural impediments remained throughout this second period, a set of more prominent features distinguished this phase from the first. Fundamentally, the period between 2005 and 2008 was typified by two key factors: firstly, there was an increased application of legal recourse, and secondly, there was increased focus on institutional capacity development as a mechanism for attaining higher standards of fiscal transparency and public accountability.

The application of Legal Alternatives to Fiscal Transparency & Public Accountability Reforms

2005 - *The Public Expenditure Management and Fiduciary Accountability Review (PEMFAR)*

The aim of the PEMFAR, was the "strategic prioritization and operational efficiency" of Angola's public financial management systems and budgetary systems. [362] At the implementation level, PEMFAR included two broad aims, specifically i) *the bolstering of existing public financial management tools and systems* and*; ii) the gradual discontinuation of*

[362] World Bank (2005), *op.cit,* p.1.

the secondary 'non-conventional' element.[363] Following the trend of the reform initiatives analysed in this section, PEMFAR fell short of expectation in implementation, particularly with respect to addressing the fiscal irregularities which are inherent to the non-conventional system. Nonetheless, the programme made meaningful progress in addressing challenges to the budgetary system. Predominantly, the success of PEMFAR in this regard can be attributed to the commitment to amending the Organic Budgetary Law (LQOGE).[364] The main progress areas outlined in the amended law relate to *budget preparation*, *budget execution*, as well as *accounting and reporting.*[365]

The importance of amending the Organic Budgetary Law in addressing long-standing budgetary impediments lies in the predominance of legal due process in administering public financial resources.[366] This point was reiterated in a feedback statement made by the World Bank:

> *"The Revised 2003 OGE is a landmark and represents the first major attempt by the Angolan Government to regularise its extra-budgetary and quasi-fiscal spending, and make them an integral part of the budget."* [367]

As a law which designates the regulatory framework for the budgetary process, the importance of amending it in accordance with robust legal regulations international best practice implied a significant improvement in Angola's overall public financial management standards, by and large. In line with international standards, the amendments made to the Organic Budgetary Law

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[363] *Ibid.* xi

[364] The acronym LQOGE, *Lei Quadro do Orçamento,* which translates into Organic Budgetary Law, is the legal framework for Angola's budgetary process. It is Law Law no 9/97 of 17th October; *Diário da República* n.º48 de 17/10.

[365] World Bank (2007) 'Angola: Public Expenditure Review,' *Report No. 39710 – AO,* Vol.1, p.11.

[366] Isaksen, J., Amundsen, I., & Wiig, A (2007) 'Budget, State and People Budget Process, Civil Society and Transparency in Angola,' *CHR Michelsen Institute Report* (7), p.16.

[367] World Bank (2005): *Angola: Public Expenditure Management and Financial Accountability*, *PREM1,* p.25, in Isaksen, J., Amundsen, I., & Wiig, A (2007), *op.cit.*, p.19.

through the PEMFAR were established in accordance with the IMF *Code of Good Practices on Fiscal Transparency*, which also outlines assurances for fiscal transparency.[368] The specific guidelines of the IMF *Code* include the *Clarity of Roles and Responsibilities; Open Budget Processes; Public Availability of Information;* and *Assurances of Integrity*.[369] While the PEMFAR execution was lacking in other areas of transparency and accountability, during the research period, 2005-2008, the program represented a harbinger for addressing more challenges in fiscal transparency and public accountability by attending to fundamental legal obstacles.

2006 - *Oil Revenue Management Study*

In 2006, the *Oil Revenue Management Study* conducted by the World Bank under the TSS yielded significant progress in legal measures taken by the government in tackling public financial management and transparency. In collaboration with the World Bank, the government and the state oil company and concessionaire Sonangol, successfully reviewed the Oil Tax Administration, to the extent of reviewing the documentation to a more operative and unified legal framework for oil taxation of offshore and upstream operations in line with international standards in the oil tax regime.[370] This legislative endeavour, which was an offshoot of the *Oil Revenue Management Study* involved the elaboration of the Oil Activity Taxation Act of 2004, into a Consolidated Oil Activity Taxation Act that outlined the streamlining of fiscal management process relating to the various oil tax sources (included below), in to bolstering oil tax valuation and monitoring mechanism within and external to relevant state agencies.[371]

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[368] *Ibid.*

[369] International Monetary Fund, (2007), *Code of Good Practices on Fiscal Transparency*, p.1-4. Available at http://www.imf.org/external/np/fad/trans/code.htm, "The Code identifies a set of principles and practices to help governments provide a clear picture of the structure and management of public resources. It underpins the voluntary program of fiscal transparency assessments called fiscal transparency modules of Reports on the Observance of Standards and Codes."

[370] Macnab, P. (2006). 'Overview of Sector Flow of Funds: Survey of some Key Issues at a Conceptual and Practical level,' *AUPEC Petroleum Revenue Management Workshop,* p.5-7, and; Ernst & Young (2010). *Global Oil and Tax Guide,* p.3-5.

[371] AUPEC (2006) Strengthening Oil Tax Administration in Angola, p.9-13, and; Banco Quantum Capital (2009) Angola Legislative & Fiscal Agreements: The New Oil Tax Law of 2004, at

The range of oil taxes accrued to the state annually, include bonuses, royalties, petroleum transactions tax (PTT), profit oil (in line with Production Sharing Agreements), payments to the provincial government as well as petroleum income tax (PIT).[372] Revenues from all these sources reach a high average of are of US $ 4.7billion annually.[373] Moreover, oil tax administration traditionally forms an important component of the dualistic revenue and expenditure management system, particularly with respect to Sonangol's non-conventional accounting mechanisms.

While the review of the Oil Activity Taxation Law of 2004 has been progressive, with continuing inconsistencies between the tax collection authority DNT, as well as oil tax revenue administrator Sonangol, as well as the BNA and the MINFIN, the demonstrative acceptance of the Oil Revenue Management Study represents a positive shift in the Angolan governments responsibility to addressing fiscal management issues. The commitment to an advanced oil tax regime reflects one of the most fundamental steps to address public financial management and revenue transparency within the oil industry, accounting particularly due to the relatively substantial value of oil tax income to aggregate oil revenue flows.

2008 and Beyond: *Law on Administrative Probity & the Crackdown on State Corruption*

While the previous study period was mainly characterised by the asymmetrical implementation of reform projects, which saw minimal progress in overhauling the structural deficiencies in fiscal governance and public financial management, the Angolan government took a more active approach to remedying these challenges in subsequent years. In lieu of the persistent cases of public financial mismanagement, mainly evident in cases of revenue accounting and reporting discrepancies, Angolan president do Santos proposed the *Law on Administrative*

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http://www.bancoquantum.com/en/angola/petroleum-sector/legislative-a-fiscal-agreements. Accessed 22 April 2011.

[372] World Bank (2005), *op.cit,* p.67-68.

[373] *Ibid.*

Probity. The law was specifically intended to encourage enhancements in the standards of public financial management. Essentially, the legislative proposition was premised on discouraging "those that want to use public goods as a source of illicit enrichment." [374]

The law consists of various measures for 'punishment, action and prohibition,' comprised within 45 articles, which has thus far been well-received by all members of the Angola parliament.[375] Fundamentally, the legislative move coincides with President dos Santos' recent 'zero tolerance' defiance message regarding poor financial management and the lack of transparency.[376] Although the law was only officially approved in March of 2010, well beyond the period of study, the edict showed a greater sense of commitment by the government to address the structural flaws which have historically engendered public financial mismanagement and corruption.

In addition to the legislative initiative analysed above, in 2008, amidst pressure from the IFI community for increased commitment for transparency and accountability, the Angolan presidency urged the investigation of alleged fraud claims within the government, which were mainly suspected to stem from the MINFIN and the BNA. The uncompromising stance of the state in exploiting legal due course to bring unaccountable civil servants to justice was reflected in a statement made Joao Mario de Sousa, the Attorney General of Angola and chief magistrate of the State Prosecuting Council, who expressed that "all people considered guilty of practising any crime to do with fraudulent transfers or theft will be held responsible."[377] This

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[374] Platts Commodity News *(*2009) *Angolan President Calls for 'Zero Tolerance' of Corruption,* 22 November 2009, and; Agence France-Presse (2009) *Angola to Probe 'Illegal' Transfers from Central Bank*, 25 November 2009 in Human Rights Watch (2010), *Transparency and Accountability in Angola: An Update,* p.9-11.

[375] Angola Press Agency (2010) *Angola: MPs Hail Administrative Probity Law,* 5 May 2010, at http://www.portalangop.co.ao/motix/en_us/noticias/economia/2010/2/9/MPs-hail-Administrative-Probity-Law,b0e18b6b-9560-411a-80fe-ac4b80e4b39d.html. Accessed 19 April 2011.

[376] All Africa (2010) *Angola: Citizens Praise Administrative Probity Law* 2 March 2010, at http://allafrica.com/stories/201003030834.html. Accessed 19 April 2011.

[377] SABRIC (2010) *Angola scam uncovered* 19 February 2010, at https://www.sabric.co.za/phpscrips/upload/doc/news_2416.pdf. Accessed 22 April 2011.

investigative endeavour led to the arrest of 21 government personnel who had purportedly defrauded US $137million from the two institutions in 2009 and 2010.[378] Although the eventual indictment of the culpable members of government only manifested in 2010, beyond the study cut-off of 2008, this endeavour further highlights the recourse to legal devices in tackling state corruption and public financial misappropriation.

Institutional Capacity Building as a means of bolstering Fiscal Transparency & Public Accountability

2005-2008 - *The Importance of Institutional Capacity despite Continuing Dualism*

A further trend which emerged during the second period of inquiry, 2005-2008, was the focus on strengthening institutional capacity as a means for bolstering fiscal transparency and public accountability. In this regard, the efforts of government represented the shift from a minimalist approach pervaded by the asymmetrical implementation of governance reforms through focusing on non-structural impediments, to a reinforcement of the capability of state institutions to manage Angola's fiscal governance and public accountability imperatives. Essentially, the increased attention accrued to capacity development coincided with the increase in oil revenues during the boom period of 2005-2008, following a global upswing in global oil demand, in addition to China's dedicated involved in Angola's oil industry.

During this period, the range of initiatives which accorded priority to institutional capacity building include the Financial Management Support Program (PAGEF) of 2008, the Country Strategy Paper and Indicative Programme (CSP) of 2008, as well as the Interim Strategy Note for Angola 2005. The main trends within each of these programs include, technical reforms in key government financial and planning departments, bolstering the capacity of internal auditing mechanisms and overhauling structures, as well as the augmentation of Angola's legal and judicial capacity in advisory and technical assistance through the activation of Institutional

[378] Human Rights Watch (2010), *op.cit,* p.8.

Development Fund (IDF) established under the Interim Strategy Note.[379] An additional corollary of this objective was to provide suitable institutional conditions for enhancing the delivery of social goods to impoverished citizens who had been worst affected by the war.[380] Strengthening the faculty of public institutions related to public agencies including the BNA, MINFIN, MINPLAN, MINPET, as well as the attendant state departments at the provincial level. The enhancement the efficiency of public financial management was a vital shift in the overall improvement of transparency and public financial standards, particularly considering the incessant obstacles in tackling the core structural problem of fiscal dualism.

What has China's Influence been on Fiscal Transparency & Public Accountability levels in Angola?

China's engagement with the Angolan government in the 21st century officially began in 2000 with the agreement to advance oil-backed loans in the form of concessional lines of credit beginning in 2004. The agreement between the two states led to the extension of a multiplicity of contracts which outlined the development of national infrastructure in Angola, mainly led by state-funded Chinese companies, and corresponding oil exports to China facilitated through joint venture agreements between the respective oil companies. This section of the study will present an analysis of China's influence on Angola's fiscal transparency and public accountability. The analysis will be categorised into Beijing's two main oil diplomacy strategies, namely *oil-backed loans and concessional credit for infrastructural development*, and *the purchase of production blocks in Angola's oil fields*¸ as presented in Chapter 5. The range of inquiry for Beijing's influence was 2004 to 2008.

[379] World Bank (2005), *op.cit,* p.27, and; African Development Bank (2007) 'Financial Management Support Project (PAGEF): Republic of Angola,' *Appraisal Report,* xi, and; European Commission (2008). 'Angola – European Community Country Strategy Paper and Indicative Programme for the period 2008 – 2013,' 20 November 2008, p.24.

[380] World Bank (2011) *Angola Overview: Country Assistance Strategy,* p.1, at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/ANGOLAEXTN/0,,menuPK:322503~pagePK:141132~piPK:141105~theSitePK:322490,00.html. Accessed 15 April 2011.

Oil-backed Loans & Concessional Credit for Infrastructural Development

The extension of loan agreements to Angola came at a time when the latter government was grappling with widespread post-conflict socio-economic objectives, as well as infrastructural rehabilitation and developmental goals. The loans disbursements were divided into three interim period, particularly Phase I (US $2billion March 2004), Phase II (US $500million July 2007), and Phase III (US $2 million September 2007). The allocation of funds for the range of infrastructural and social development projects under Angola's Public Investment Program (PIP) was disbursed by the Chinese Exim Bank for the use of a variety of state-funded Chinese companies (SOEs) to carry out the construction process.[381]

Each group of projects within relevant industries was underwritten by a series of contracts between Exim Bank, the various Chinese and Angolan companies, as well as the respective ministries of the Angolan government. From an administrative standpoint, the MINFIN established, the *Gabinete de apoio tecnico de gestão da linha de crédito da China* (GAT) in collaboration with the BNA, DNT, MINPLAN and the Ministry of Foreign Affairs (MFA) for the purpose of overseeing the disbursement of finance and the technical coordination of project monitoring by the respective government ministries.[382] The operations of the GAT operate in accordance with the budget allocations for each project under the PIP. The recommendation of suitable Chinese SOEs for project tenders is made by the Beijing government, usually including up to four corporations.[383]

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[381] The agreement allocated a 70% contract quota to Chinese companies for construction and development, and the remaining 30% to local Angolan companies.

[382] AngoNoticas (2004) *Office Created to Support Management of Credit Line with Chinese Institution,* 13 Sept 2004, at http://www.angonoticias.com/full_headlines.php?id=2331. Accessed 18 February 2011. GAT translates into *Technical Support Office for the Management of Credit Lines from China.*

[383] Campos, I & Vines, A. (2007). 'Angola & China: A Pragmatic Partnership,' *Working Paper Presented at a CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation,* p.10.

Oil-Backed Loans, Credit Lines & Public Financial Management

Among the most important factors to consider in the analysis of the influence of China's oil-backed loans and concessional credit lines on levels of fiscal transparency and public accountability in Angola, are the mechanisms by which these credit loans are administered. Particularly, the management of credit lines from China is circumscribed to two key mechanisms; firstly, through the opening of an *escrow account* by China's Exim Bank, and secondly, through the GAT. An *escrow account* is a specialist account founded by a bank in which funds are held for a third-party account holder, with regular disbursements made on the basis of contractual specifications. Through this arrangement, the account holders were the various SOEs. Accordingly funds allocated to the construction of the PIPs were deposited directly into the accounts of the various SOE's which were engaged in Angola. Additionally similar escrow account system was employed in the oil-backed transactions, in which China established preferential agreements to receive oil cargo from Sonangol as repayment for the PIP services.[384]

To this extent, the access to funds by any Angolan ministry or individual was strategically restricted. As such, the funds which have been disbursed as part of the Chine credit lines have been confined from the deficient public financial management standards of the Angolan government. This point has been reiterated by *Global Witness* in a commentary on the use of oil-backed loans extended to Angola:

> *"This type of repayment system is relatively safe for the lender, because the money never finds its way into the perilous Angolan financial system, and it makes it extremely hard for Sonangol to renege on its commitments."*[385]

A similar commentary is offered by the Economist Intelligence Unit:

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[384] This oil-backed arrangement is elaborated in the section below on *The Purchase of Production Blocks in Angola Oil Fields.*

[385] Global Witness (1999) *A Crude Awakening: The Role of Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets,* p.17.

> *"China's defenders reply that its detrimental impact on governance is limited. African leaders find it surprisingly hard to embezzle development funds. Usually money is put into escrow accounts in Beijing; then a list of infrastructure projects is drawn up, Chinese companies are given contracts to build them and funds are transferred to company accounts. Africa, for better and worse, gets roads and ports but no cash. At least that is the theory."*[386]

In a similar manner, the structure of the GAT obscures the potential mismanagement of funds away from the Angola government and its various officials. Although the GAT is comprised on key financial and planning institutions in Angola, the mechanism underlined by the use of *escrow* accounts as detailed above, strictly directs cash transactions from the Exim Bank to respective SOEs. Accordingly, the role of the GAT is restricted to an administrative function, which rather oversees disbursements, contract execution and project management, rather than the actual handling of credit loans from China.

Oil-Backed Loans, Credit Lines & Fiscal Transparency

Notwithstanding the tradition of inadequate standards of fiscal tradition of fiscal governance in Angola, as well as the incessant public financial management challenges analysed above and elaborated in Chapter 5, the oil-backed credit engagement between China and Luanda has exhibited a commendable feat in transparency. In relation to fiscal transparency, the extension of credit lines from China, the Angolan government revealed a factor in the function of openness regarding public financial management. Particularly, since the initiation of credit loans in 2004, the MINFIN has overhauled its official website to include a comprehensive section including a full publication of the myriad of PIP projects financed by China, in addition to specifying the attendant contracts and, most importantly the exact financial allocation to each project.[387] The range of information on oil-backed credit lines includes complete financial

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[386] The Economist (2011). 'The Chinese in Africa: Trying to pull together Africans are asking whether China is making their lunch or eating it' Apr 20th 2011. http://www.economist.com/node/18586448. Print Edition.

[387] MINFIN (2008) 'Introduction to Projects Funded by the China Exim Bank,' *Works & Government Projects,* at http://www.minfin.gv.ao/docs/dspProjGov.htm. Accessed 15 March 2011.

reports for each project, process-tracking reports on a project-by-project basis, lists and reports of projects included, as well as the range of contracts on which the execution of the projects is based.[388]

The degree of openness displayed by the Angolan government represents a significant shift from the traditional system in which public transactions, particularly those relating to oil revenue and expenditure management, as well as foreign third-party operations are obscured not disclosed to the public and other stakeholders. Notwithstanding, it is important to note that a majority of the information on public works has not been updated since 2010, despite on-going infrastructural and social development projects which have since undertaken in accordance with the Sino-Angolan loan agreement.

China's Purchase of Production Blocks in Angola Oil Fields

Obscure Public Financial Management & Lacking Transparency on Oil Transactions

The administration of finances and transactions in China's purchase of production blocks in Angola's oil fields presents a different condition to that exhibited and analysed in the section on oil-backed credit lines above. In terms of the public financial management, neither the MINFIN nor Sonangol provided any direct access to the administration processes and transactions which led to; i) the establishment of the joint venture, China Sonangol International Holding (CSIH), ii) the establishment of joint venture, Sinopec Sonangol International (SSI), and the eventual acquisition of the respective oil blocks as detailed in Chapter 5. In this regard, although the Sonangol website publishes comprehensive information on the requirements and administrative processes governing the acquisition of oil blocks (Oil Licensing Rounds), no distinct information is provided on the management procedures outlining China's direct involvement in Angola's oil industry.[389] In this regard, the only

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[388] *Ibid.*

[389] Sonangol (2009) *Oil Licensing Rounds 2007/2007,* at http://www.sonangol.co.ao/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gDC2NnH0NjAxdHA38Pb1NDlyBDAwjQDwfpAKrAARwN9P088nNT9Quy88oBiDi2Qg!!/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfMEczTzBGTFUxRDBPSDhRMzlCMzEwMDAwMDA!/. Accessed 19 April 2011.

apparent information, which is nonetheless insufficient, is a topographic representation of the range of oil blocks and the respective companies operating in each location, including the occupation of CSIH.[390] This lack of direct access to procedural and procurement process information puts to question the uprightness in public financial management regarding Angola's oil resources. The limitations in the transparency on oil transactions registered under Sonangol somewhat correspond with the non-conventional system administered by the state oil company, which appears to have been strategically excluded from the SIGFE system.[391]

It is however important to note that a degree of openness is apparent in the information provided by the official MINPET website. Particularly, the information provided here is in relation to the successive purchase of oil blocks by China through the SSI and CSIH joint ventures.[392] Moreover, a significant amount of statistical data on revenues from CSIH is provided on the MINPET website.[393] While the information provided is relatively less elaborate in comparison with information on oil-backed credit lines as detailed above, the extent of openness underscores a level of fiscal transparency on China's direct oil block acquisition strategy. Notwithstanding the extent of openness, a high degree of obscurity remains regarding the management of revenues from the joint ventures and the transactions of SSI and CSIH, and the manner in which these operations were established.

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390 Sonangol (2009) *Angola Concessions,* at http://www.sonangol.co.ao/wps/wcm/connect/1fabe00048cf7ee586d697467ef0967d/GAD-MC-1007004-I.pdf?MOD=AJPERES&CACHEID=1fabe00048cf7ee586d697467ef0967d. Accessed 19 April 2011.

391 Gallagher, M. (2007) 'Building Fiscal Infrastructure in post-conflict Society,' *USAID,* p.13.

392 MINPET (2010). Relatório de Actividades do Sector Petrolífero, 2009, at http://www.minpet.gov.ao/abrirDownload.aspx?tipo=2&bdCampo1=PBFILE&cod=610. Accessed 28 April 2011.

393 *Ibid.*

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CHAPTER 7 – *CONCLUSION*

What was the Aim of this Study?

The aim of the research was to address a range of key politico-economic issues relating to the foreign policy and resource acquisition strategies utilized by the People's Republic of China (PRC) government particularly in Angola. The purpose of researching Beijing's resource-access diplomacy strategies was to investigate the implications of this approach to securing oil exports on Angola's level of fiscal transparency and public financial accountability. The core areas of investigation included; China's ever-increasing demand and drive for oil as a vital energy source required to fuel it's rapidly growing economy; and, the political economy governing a vital energy resource which the PRC largely acquires from Africa, with Angola being a major source as the leading sub-Saharan producer on the continent. Moreover, the dynamics of the resource-based relationship between Beijing and Luanda form a central area of the enquiry due to the heavy reliance and overall importance of oil to the Angolan economy, accounting for up to 83% of the state's annual revenue, as of 2008 figures, 90% of export revenue and 80% of GDP.[394] Additionally, the study focused on the implications of the increase in importance of oil from the Angola to the PRC over the past decade as Beijing attempts to diversify global supply sources.

Accordingly, the key objectives of the research as they relate to China's energy resource acquisition strategies in Angola on one end, and the implications of this element of oil trade on Luanda's fiscal accountability mechanisms and transparency on the other, included:

e. the identification of the key strategic considerations in China's foreign energy resource interests in Angola, and the African continent at large;

f. investigating and illustrating the characteristic features of China's foreign oil diplomacy, including concessional credit lines, commodity-backed loans, and aid-for-oil infrastructure deals, as the core policy components;

[394] Von Tilman, D. (2009) 'Sudan, Angola And China: Oil, Power And The Future Of Geopolitics, A Brief Case Study, *Dresden Centre For International Studies,* p.7

g. scrutinizing and describing the general fiscal accountability and transparency mechanisms which have been put in place by the Angolan government and other third-party financial institutions in attempts to improve this area of governance, , particularly in relation to the management of national oil revenue;

h. and determining the implications of the oil diplomacy employed by China's on the level of fiscal accountability and transparency in Angola.

Through the application of a case study observation approach, the researcher collected a range of date from a diverse array of primary and secondary sources. The data collection was organised around the two study variables, namely, *Angola's fiscal transparency* and *public accountability reforms* (dependent variable) and *China's oil acquisitions diplomacy strategies* (independent variable). Once the data was collected, as presented in Chapter 4 and Chapter 5 respectively, the researcher employed a *process-tracing* methodology, which was executed for the purpose of examining the 'sequence and structure of events' detailing China's oil acquisition diplomacy instruments, leading from the onset of the Beijing's initial oil-related engagement with the Luanda from 2005 until 2008.[395] Additionally, the range of fiscal transparency and public accountability reforms were investigated using the same methodology. With respect to China's strategy, the process-tracing methodology was vital in allowing the research to examining the particular features of Beijing's strategies, including;

iv) the initial concessional *oil-for-aid* loan in 2004;
v) the subsequent procurement of 10,000 barrels per day (bpd) of oil from Angola as a form of repayment;
vi) the establishment of joint oil exploration ventures between Sinopec and Sonangol;

The research was formulated on the premise of the concepts put forward by the *resource curse* theory of as it most appropriately elucidates the range of dynamics which characterise the relationship between Beijing's oil diplomacy strategy and the fiscal transparency and public accountability regime in Angola. Fundamentally, the *resource curse* is a conception premised on the inherent dichotomy of *resource-abundance* and *dependence* on hand, and *poor governance* on the other. To this end, this conception is based on *variables* that are conveyed in

[395] Van Evera. S. (1997) *Guide for Methods for Students of Political Science,* Ithaca: Cornell University Press, p. 56-57.

terms of their respective *levels*, which according to Haber and Menaldo is indicated by the premise that the levels of resource-dependence within countries are stated to generate lower governance and economic growth levels. [396] Therefore, the theory is more about the independent variable of *dependence* on natural resources, rather than apparent *wealth* in natural reserves.[397]

The *resource curse* theory in particular provides a framework that covers a broad range of critical issues which explicate the interaction between state governance and the management of exploitative activity in resource-dependant economies which have an abundance of natural reserves. These issues include economic performance, the correlation between economic growth and resource-wealth, the incidence and duration of violent conflict, rent-seeking, public accountability and transparency, as well as resource management.[398] To this extent, various scholars have offered instructive propositions of the resource curse theory from four interrelated angles of enquiry, including;

v) the implications of resource-dependence for economic growth and development on one hand;

vi) the implications of poor governance and weak political institutions on the management of resource endowments;

vii) the interaction between resource dependence and conflict incidence and duration;

viii) and the relationship between resource-dependence and the quality of governance, and the implications of this association on overall economic progress.[399]

[396] Haber, S. & Menaldo, V. (2010) 'Do natural resources fuel authoritarianism? A reappraisal of the resource curse,' *Stanford Center for International Development* 351, p.14.

[397] Dunning, T. (2005). 'Resource dependence, economic performance, and political stability,' *Journal of Conflict Resolution,* Vol. 49 (4), p.475.

[398] In relation to the interaction between Angola and China, the research will draw references mainly from states which are dependent on oil resources.

[399] Due to the reason that the research dealt particularly with resource-dependence and foreign involvement in the oil industry, the focus was on evidence, by and large, from oil-exporting.

What Conclusions can be drawn from this Study?

Angola's strides towards improved fiscal transparency & public accountability standards

Among the central conclusions that can be drawn from the study, is that the Angolan government has, since 2000, embarked on an extended path towards improving the levels of fiscal transparency and public accountability. Through the dedicated assistance of IFIs, including the World Bank and the IMF, the international development community, mainly the USAID, and the European Commission, as well as continental agencies in the form of the African Development Bank, the Angolan government has since engaged in a range of fiscal governance and public financial management reforms. While the progress on the various initiatives was not linear throughout the two study periods, the efforts presented in Chapter 4, and analysed in Chapter 6, reflect a significant departure from the highly defective fiscal governance and public financial management mechanisms and standards of war-time Angola.

The most significant progress in relation to public financial management was made in the areas of budgetary process, as well as in oil taxation. As a result of collaboration with the World Bank, the PEMFAR program contributed to the amendment of the Organic Budgetary Law in line with international best practice in budgetary processes (LQOGE).[400] In relation to oil taxation, the World Bank-sponsored *Oil Revenue Management Study* of 2004 lead to instructive reviews of the then recent Oil Activity Taxation Act, of 2004, advising on the adoption of a more comprehensive approach to oil tax through a Comprehensive Oil Activity Taxation Act.[401] To the extent of bolstering transparency, the developments in these legal frameworks produced the indirect corollary of the increased publication of budget statistics, as well as revenue reporting by the MINFIIN, MINPET, MINPLAN, as well the BNA.[402]

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[400] The acronym LQOGE, *Lei Quadro do Orçamento,* which translates into Organic Budgetary Law, is the legal framework for Angola's budgetary process. It is Law Law no 9/97 of 17th October; *Diário da República* n.º48 de 17/10.

[401] AUPEC (2006) Strengthening Oil Tax Administration in Angola, p.9-13, and; Banco Quantum Capital (2009) Angola Legislative & Fiscal Agreements: The New Oil Tax Law of 2004, at http://www.bancoquantum.com/en/angola/petroleum-sector/legislative-a-fiscal-agreements. Accessed 22 April 2011.

[402] Access to publications of budgets, statistics, and revenue reporting was accessed through the respective official websites.

Furthermore, the latter years of the research period saw the proposal of additional laws aimed towards the improvement of public financial accountability, as well as direct legal action in curbing corrupt activities from within the state. Amid incessant discrepancies in revenue accounting, as well as on-going speculation regarding fraudulent activities within the state, President dos Santos proposed the *Law on Administrative Probity*, with the intention of deterring "those that want to use public goods as a source of illicit enrichment." [403] Although the law was ultimately approved after the 2005-2008 study period, among the most prominent offshoots of the law was the large-scale prosecution of 21 employees of the MINFN and BNA purportedly defrauded US $137million from the two institutions in 2009 and 2010.[404]

Structural Impediments to improving & Fiscal Governance Public Financial Management

Notwithstanding, the progress made by the Angolan government in some areas of fiscal governance and public financial management, the state continued to lag behind in fundamental areas throughout both research periods. Essentially, the existence of a dualistic public revenue and expenditure management system remained as the most prominent deficiency in Angola's entire fiscal and public financial structure. At the root of the problem was the non-conventional system which was engendered by the fiscal frailties of the war-time, which saw the state oil company Sonangol becoming paramount in the collection and management of oil revenues and expenditure. As shown in the presentation of data and in the analysis, Sonangol's problematic role was the focus of a majority of the governance reforms throughout both research periods. However, the SIGFE system has continued to make strides in addressing the exclusivity of Sonangol's financial administration, albeit partial progress in ring-fencing by the end of the second research period.

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[403] Platts Commodity News *(*2009) *Angolan President Calls for 'Zero Tolerance' of Corruption,* 22 November 2009, and; Agence France-Presse (2009) *Angola to Probe 'Illegal' Transfers from Central Bank*, 25 November 2009 in Human Rights Watch (2010), *Transparency and Accountability in Angola: An Update,* p.9-11.

[404] Human Rights Watch (2010), *Transparency and Accountability in Angola: An Update,* p.8.

The persistence of this non-conventional system can be viewed from the perspective of the historically illegitimate relationship which was engendered between the MPLA leadership and oil revenues. As revealed in the detailed investigative report *Angolagate* scandal and the exposé *All the Presidents Men*, during the war-time, the MPLA had developed a system of systematic mismanagement of oil-backed loans and exaggerated arms deals for illegitimate gains.[405] While there was no direct case linking the MPLA leadership to exploitation of the non-conventional system for fraudulent gains during the research periods, the incessant discrepancies in revenue accounting during this phase indicate the possibility of on-going manipulations.[406] Therefore, until the non-conventional system has been ring-fenced and comprehensively included within the functioning of the SIGFE system, the dualism in Angola's fiscal governance will continue to be a stumbling block in Angola's overall attempts towards improved public financial management and fiscal transparency.

The inextricable link between China's Oil Diplomacy Instruments & Angola's Fiscal Transparency & Public Accountability

China's foray into Angola's fiscal governance and public financial management dynamics introduced an array of distinct challenges and opportunities for the Angolan government. Particularly, it is imperative to highlight that China's role in Angola was strictly financial; it was premised on a 'win-win' principle, which proffered much-needed infrastructural development to Beijing, in return for oil supplies and preferential access to the oil industry.[407] Unlike the role played by most Western-led private and state entities, Beijing maintained an 'a-political' stance; the foreign policy generally circumscribed the national political and financial administrative challenges of states which it engaged with as the role of the particular state,

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[405] Taylor, S. (2002). 'Corporate Secrecy Oils the Wheels of Poverty,' *Global Witness,* p.2, and; Global Witness (2002) *Global Witness Presents All the Presidents Men*, p.30-36. The siphoning of state funds was revealed in the expose of the *Angolagate* scandal as investigated by Global Witness.

[406] World Bank (2006) 'Quasi-Fiscal Expenditures and Compensation Mechanisms,' *Oil Revenue Management Workshop,* 16 May 2006, p.4, and; World Bank (2005). 'Angola Public Expenditure Management and Financial Accountability,' *World Bank Africa Region Report 29036-AO,* p.1-142. Chapter 4 points to continued discrepancies in revenue accounting even following KPMG's *Oil Sector Diagnostic Study.*

[407] All Africa News (2010) Angola: President's Speech During China premier's Visit, 20 June 2006, at http://allafrica.com/stories/200606220649.html. Accessed 18 august 2010.

restricting its role only to financial and collateralized transactions. Essentially, Beijing restricts its involvement in Africa to a soft-aid relationship, which involves mineral and infrastructural transactions, with no interest in interfering in the governance issues of states. The pragmatic nature of this relationship was concisely reiterated by dos Santos, in stated that *"China needs natural resources and Angola wants development*."[408]

Accordingly, based on the results of the study as presented in Chapters 4 and 5 and the attendant *process trace* analysis presented in Chapter 6, it is clear that China's oil diplomacy instruments has not had any direct and identifiable causal influence on Angola's fiscal transparency and public accountability standards. However, it is important to highlight the close link between improvements in public financial management during the latter years of the first research period, and through the second segment. Particularly, the advancement of the LQOGE and the Oil Activity Taxation Act, of 2004, seemed to coincide with the official engagement of China's oil acquisition diplomacy instruments. Not only did these two legal implements improve public financial management for the Angolan state, but the developments pointed to the accessibility of improved fiscal machinery to handle the administrative influx of oil-backed credit from China, and the administration of Sino-Angolan oil production deals.

Moreover, such improvements in fiscal governance increased the opportunities for Angola to use the engagement with China in full alignment with social development and infrastructural goals, and removed from the traditional of financial mismanagement. Accordingly, during the 2004-2008 periods, it was imperative for the Angolan government to bolster levels of fiscal transparency and public financial management, for several public imperatives, and also be able to handle the plethora of administrative commitments accrued to the association of GAT agencies including MINFIN, BNA, and the DNT. The necessity of this breadth of administrative capacity is evident on the official MINFIN website, particularly in the extensive publication of agreements, PIP scheduling, the disbursement of funds and the project management of assignment carried out by Chinese state companies in Angola.[409]

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[408] *Ibid,* Statement by Angolan President Eduardo dos Santos from his speech during the visit of the People's Republic of China's Prime Minister, Wen Jiabao, in June of 2006.

[409] MINFIN (2008) 'Introduction to Projects Funded by the China Exim Bank,' *Works & Government Projects,* at http://www.minfin.gv.ao/docs/dspProjGov.htm. Accessed 15 March 2011.

However, it is important to highlight that the general improvement in fiscal transparency and public accountability standards in Angola between 2004 and 2009 during the heightened engagement with China may not have necessarily been an outcome of this state of diplomatic affairs. Particularly, the increased attention by the state to legal initiatives, evidenced by President dos Santos commitment to a 'zero-tolerance' approach manifested in the *Law on Administrative Probity*, and the prosecution of fraudulent individuals in 2010, coincided with the Angolan election campaign period. Accordingly, the apparent advancements may have been more in line with the need for the MPLA to garner popular support amid public knowledge of fiscal governance and public administrative deficiencies, than to suit the influx of managerial needs of Sino-Angolan agreements. Moreover, the publication of social development infrastructural development which resulted from agreements between China and Angola may have been vital in the MPLA's election campaigning. To this extent, the provision of much-need social developmental and infrastructural needs to Angola's poor populations was paramount in the MPLA's election canvassing.

Governance Reforms, Foreign Oil-Backed Loans & the Curse of Oil

The findings and conclusions drawn from the research attest, in part, to the theoretical concepts put forwards within the *resource curse* paradigm. Fundamentally, the relationship between *resource-abundance* and *dependence*, particularly oil in the case of this study, and poor governance is apparent from the conclusions presented above. Additionally, from a historical standpoint, the relationship between the abundance in oil and diamond resources and the onset, and essentially the protraction of civil conflict is well documented. Although the relationship between resource-abundance was beyond the scope of this study, the protrusion of civil conflict in the 1990s was tied to the illegitimate use of oil-backed loans and exaggerated arms deals financed through the sale of oil (by the MPLA), as revealed in the extensive investigations by Global Witness as discussed in the study. To this extent, the tradition of rent-seeking behaviour which was engendered during the period of preferential and illegitimate access to oil resources by the MPLA leadership during the civil war became closely tied to undermined levels of

transparency and deficient public financial management well into the post-war era (as evidenced in this research).[410]

With specific reference to the chosen research periods, the results also reflect the relationship between the nature and quality of state governance, as well as institutional robustness in determining the management of resource-endowment in resource-dependent states. The age-old tradition of patronage and kleptocracy stimulated by ungoverned access and the use of state oil revenues by the MPLA leadership resulting from privileged access to oil wealth and the attendant accounting systems, significantly undermined the standards of fiscal governance and public financial management. The corollary of this tendency, progressively led to the imperatives of socio-economic development being comprised for the benefit of the MPLA political elite.[411] To this extent, it is apparent that resource-abundance requires the development and maintenance of a conducive and effective regulatory and legislative structure to support the prudent management of resources for the public good. [412]

In this regard, across both research periods, from 2001-2008, the Angolan government has since exhibited a level of commitment of fostering improved fiscal governance and public financial management standards, albeit asymmetrically. In relation to the resource curse, one of the most prominent factors in this progression is the increased attention to the provision of much needed public goods to the Angolan populace, which continues to grapple with the undesirable socio-economic implications of a protracted resource-driven civil war. Accordingly, the conditions revealed in the research underscore Angola's marked shift in from the vagaries of the resource curse related to public financial mismanagement and deficient development. The obligation to a series of fiscal governance reforms, as presented in Chapter 4, reflects a deviation from the conditions which typically engender a 'resource curse'. Additionally, the exploitation of the specialised Sino-Angolan agreements for the purpose of delivering socio-economic development and infrastructural enhancements indicates that

[410] Collier. P & Venables, A. J. (2009) 'Natural resources and state fragility,' *Oxcarre Research Paper,* (31), p.2.

[411] Le Billon, P. (2007) *Drilling in deep water: oil, business and war in Angola,* p.112-115, in Kaldor, M. Karl, T.L., & Said, Y. Eds (2007) *Oil Wars,* London: Pluto Press.

[412] *Ibid.*

Angola is moving away from compromising the social contract for the benefit of a select few within the MPLA. Moreover, the newly-endorsed 'zero-tolerance' stance, which saw the approval of the *Law on Administrative Probity* and the prosecution of fraudulent public officials, attests to the progressive divergence from the conditions which may prolong, or skirt the undesirable effects of the 'resource curse' in Angola.

In conclusion, it is vital to point out that China's oil security-driven involvement in Angola beginning in 2004 with the oil-backed loans does not exhibit direct causality with fiscal transparency and public accountability reforms in Angola. However, it is of great importance, as shown in the analysis, to highlight that during the period of engagement between China and Angola, there has been a distinct commitment to bolstering fiscal governance and public financial management standards and practices from Luanda. Moreover, the improvement in fiscal transparency and public financial standards as exemplified in the comprehensive publication of PIP project management, implementation and financial disbursements from China (as detailed by the MINFIN), can be attributed to the increase in need public administrative and fiscal governance efficiencies from the influx in contracts and projects from Beijing. Ultimately, the relationship between China and Angola has witnessed Luanda making positive strides towards improved fiscal and public financial governance, to the extent of steering Angola further away from the 'resource curse' tendencies of the 20th century war-time era.

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Von Tilman, D. (2009) 'Sudan, Angola And China: Oil, Power And The Future Of Geopolitics, A Brief Case Study, *Dresden Centre For International Studies,* p.1-16.

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APPENDIX

TABLE 2. ANGOLA GOVERNANCE REFORM INITIATIVES, 2000-2006 – SEPARATE IN TERMS OF THE PROPONENT, TABULATE IN CHRONOLOGICAL ORDER.

REFORM PROJECT	PROPONENT/S	YEAR	TRANSPARENCY/ACCOUNTABILITY MEASURES
Poverty Reduction Strategy Paper (PRSP)	IMF/World Bank/UNDP/MINFIN	2000/2	- overhaul of budgetary systems (amalgamation of state budget); - reduction of extra-budgetary expenditure; - Implementation of PMFP (2002); - publication of *Diagnostic Study of the Oil Sector* by KMPG (2001): - Establishment of oil reserve account for BNA.
Oil Sector Diagnostic Study	MINFIN/KPMG	2000/1	- forecasting system form petroleum revenues from Sonangol - & quarterly forecast for financial forecasts on the oil industry - tools for management & monitoring of oil returns for government; - facilitating efficient revenue accounting cooperation of between the MINFIN, Sonangol & BNA;
Integrated Financial Management System (*SIGFE)*	World Bank/MINFIN	2001-2005	- remedy structural & procedural deficiencies in revenue & budgetary systems; - incorporate SONANGOL accounting procedures into conventional system; - computerized system to overhaul public financial reporting mechanisms, *including regular fiscal reports, above-the-line accounting, below-the-line fiscal information*
Estrategia de Combate a Probeza (ECP)	MINFIN/MINPLAN	2002/4	- transparency in state fiscal structures; - public expense rationalisation; - implementation at collaborative public & private level efforts to enhance accountability
The Transitional Support Strategy (TSS)	World Bank	2002-2005	- Bolstering the efficiency, credibility and transparency of Angola's public resource management, through the implementation of:

			i) CPAR of 2002; ii) CSR of 2002-2004; iii) PEMFAR of 2005; iv) Oil Revenue Management Study of 2006.
Public Finance Modernisation Program (PMFP)	MINFIN	2002	- training & capacity building in public financial management; - IT infrastructure for public financial administration; - enhancing budgetary & financial administration, non-financial asset accounting, accounting & internal control systems;
Country Procurement Assessment (CPAR)	World Bank	2002	- analysis of public sector procurement structure; - assessment of the institutional, organizational risks related to the existing procurement process - establishing dialogue between Angola & the IDA regarding the means of streamlining & improving efficiency & transparency of public sector procurement systems
Corporate Social Responsibility Study (CSR)	World Bank	2002-2004	- Initiating agreements between oil sector & government with the primary imperative of improving transparency in collaboration with the Angolan government & the oil sector
Economic Management & Technical Assistance Project (EMTAP)	World Bank	2003-2007	- monitory & evaluation budgetary system; - development & supervision of a Public Investment Program (PIP); - advancement of budget transparency & a well-organized public finance framework
General Data Dissemination System (GDDS)	IMF	2004	- bolstering public statistical capacity & integrity in line with international best practice
System for Public Investment Management & Programming *(SIGIP)*	World Bank/MINFIN	2004	- development of a public investment management & programming system; - establishment & harmonization of public investment systems at the provincial level; - tracking execution of the PIP with the

			governments' program in coordination with the annual state budget; - enhancement in the capacity of the central & provincial institutions in the implementation of public investment undertakings
Public Expenditure & Financial Accountability Review (PEMFAR)	World Bank/MINPLAN/MINFIN/BNA	2005	- bolstering of existing public financial management tools & systems; - discontinuation of the secondary 'non-conventional' budgetary model.
INTERIM STRATEGY NOTE (ISN)	World Bank	2005-2006	- technical assistance in public financial management at the public sector, civil society, private sector, & judicial levels; - bolstering of on-going the public financial management reforms under the TSS; - reinforcing the degree of coordination between donors at the macro & sector rank levels, while developing increased synchronization between donor efforts.

TABLE 3. ANGOLA GOVERNANCE REFORM INITIATIVES, 2006-2010

REFORM PROJECT	PROPONENT/S	YEAR	TRANSPARENCY/ACCOUNTABILITY MEASURES
Oil Revenue Management Study	World Bank/IMF/MINFIN	2006	- Technical assistance in improving capacity of governance & accountability systems oil industry in: i. *revenue collection;* ii. *revenue management;* iii. *revenue expenditure, &;* iv. *fiduciary relationships.*
Financial Management Support Program (PAGEF)	AfDB	2008-2011	- the strengthening of Angola's public finance reforms relating to the state's property management & internal audit structures, &; - the establishment of institutional capacity for the state's external audit function
Country Strategy Paper & Indicative Programme (CSP)	EC	2008-2013	- public sector reform & access to justice within the context of enhancing accountability; - underlining the capabilities & effectiveness of the National Institute of Statistics; - increasing capacity of public fund management institutions though technical assistance provision to the Court of Auditors; - application of technical reforms within the MINFIN & MINPLAN for the furthering of planning & budgeting processes.
The Medium-Term Development Plan	World Bank	2009-2013	- promoting efficiency in governance; reducing the corruption index, & fostering the respect for human rights & access to justice; - establishment of dependable national statistics systems.
Public Financial Management Project 2	World Bank	2009	- advancing the compilation & production of statistics at the governmental level; - developing means by which public investment projects can be examined, assessed & implemented.

Stand-by Agreement (SBA)	IMF	2009	- bolstering public financial management & strengthening fiscal transparency (with special focus on oil sector); - promoting agency for the safeguard of the financial sector.
Capacity Building for Poverty Reduction Project	AfDB/MINPLAN	2010-2011	- institutional capacity development; - performance management strengthening in the areas of *i. auditing;* *ii. accounting;* *iii. public financial management, &;* *iv. fiscal effectiveness, as well as procurement*.

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