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THE RESOURCE CURSE AND RENT-SEEKING IN ANGOLA

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Abstract

This paper analyses the resource curse and rent-seeking behaviour, aiming to advance the understanding of chronic poverty and underdevelopment in Angola. The paper presents a profile of Angola in terms of its politics, resources, economy and society. We find a paradox in the way that the country is currently being run. On one hand, it is adhering to sound macroeconomic policies, prescribed and drawn up by the IMF, partly intended to confront a "rentier state" characterised by widespread, high-level corrupt practices, such as nepotism. These are fuelled by the vast revenues that flow into Angola from its chief export, oil. At the same time, the majority of Angola's population live in various degrees of poverty. On the other hand, political power is concentrated in the possession of a neopatrimonialist regime that is unlikely to change the status quo of its own volition in favour of a greater transparency and efforts to achieve a more equitable distribution of wealth and social inclusion. Policy implications are derived.

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Several members of the **CeSA** are Professors of the Masters in Development and International Cooperation lectured at ISEG/"Economics". Most of them also have work experience in different fields, in Africa and in Latin America.

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INTRODUCTION

Angola, situated in West Africa, with Namibia to the south and the Democratic Republic of Congo to the north, is among the richest African countries in terms of natural resources. After gaining its independence from Portugal in 1975, followed by a long civil war lasting 27 years (1975–2002), the country has been rebuilding its economy, relying largely on its oil production. However, poverty is particularly high among the urban slum populations, allegations of corrupt practices are routinely made, incapacity to develop the non-tradable and industrial sectors observed, media control and persecution of journalists common, with much evidence of the fact that the country's wealth does not reach the general population. Based on this evidence, this paper aims to analyse the effects of resource revenues on Angola, arguing that negative examples in other African countries, in particular the D. R. Congo from Mobutu's years in power onwards (Matti, 2010), and the tradition of patrimonialism induced Angola's ruling MPLA party to take the same corrupt path.

The paper has several motivations. First, while there has been some research published on Angola (Ferreira and Barros, 1998, Barros and Dieke, 2008; Barros and Managi, 2009; Barros and Assaf, 2009; Barros, Dieke and Santos, 2010; Assaf and Barros, 2011; Barros and Sequeira Antunes, 2012; Barros, 2012; Barros, Damásio and Faria, 2012), the political economic theory of the resource curse has not been adopted so far to examine the Angolan economy. Second, there are frequent allegations of corruption relative to Angola. According to the IMF Country Report No. 11/346, December 2011, Angola's fiscal accounts have exhibited large residual financing items, cumulatively equivalent to about US$32 billion (25 percent of GDP) from 2007 to 2010. Angolan authorities have put forward a number of explanations for this unaccounted money. However, Human Rights Watch (2011) has identified a previous major gap in funds, in which more than $4 billion in oil revenues from 1997 to 2002 disappeared, pointing to mismanagement and suspected corruption. According to Transparency International's Corruption Index 2011 (The Guardian, 2011), Angola is among the most corrupt countries in the world, ranking 168th in a list of 182 countries. The examples quoted lend support to the "rentier state" theory, which holds that underdevelopment is perpetuated by the rent-seeking behaviour of the government. Finally, the paper aims to propose policies to break the resource curse and to offer a forecast for Angola's future if the status quo is maintained.

The paper is organised as follows: in the next section, we explain the theoretical framework on which our analysis of Angola's resource curse is based. The contextual setting is then presented by means of four sub-sections outlining respectively Angola's politics, resources, economy and society. Finally, we summarise the case of Angola and make policy recommendations that, if implemented, can help the country to overcome the resource curse and achieve a more equitable society.

THEORETICAL FRAMEWORK

The resource curse theory refers to the paradox that countries and regions with an abundance of natural resources, specifically point-source non-renewable resources like fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources (Auty, 1993). Several causes are advanced to explain this paradox. First, neopatrimonialism, which is a form of governance in which all power flows directly from the leader, while the distinction between the public and private sectors becomes vague. These regimes are autocratic or oligarchic and exclude the middle classes from power, the political leadership belonging to an oligarchy supported by the military. The leaders of these countries typically enjoy absolute personal power. Usually, the armed forces of these countries are loyal to the leader, not to the nation (Weber, 1947). Second, the Dutch Disease approach, which is an economic phenomenon in which the revenues from natural resource exports generate increased demand for all goods including non-tradables, while the resource exports generate a rising real exchange rate and wage increases that damage the non-tradable sector. The inflow of external funds from an oil boom can be translated into real domestic expenditure only if the flow of imports increases. However, since non-traded goods cannot be imported easily, or only at prohibitive costs, a relative contraction of the traded-goods sector is inevitable, otherwise the resources needed to enhance the growth of the non-traded sector would not be available. Thus, the Dutch Disease model predicts that de-industrialisation is the inevitable structural change that occurs as a result of natural resources booms (Corden, 1982; Corden and Neary, 1984).

A second mechanism by which manufacturing can become less competitive in this Dutch Disease model is the increase in manufacturing wage rates that result from increases in aggregate demand for labour that the oil booms can generate. In the short run, when productivity levels are fixed, unit labour costs in manufacturing rise, which can, in the absence of compensating policies, lead to a loss in manufacturing competitiveness.

A third explanation for the paradox is the “rentier state” in resource-rich countries, because it is often easier to maintain authority by allocating resources to favoured constituents than through growth-oriented economic policies and a level, well-regulated playing field. Vast revenues from natural resources will be directed into this political corruption. The government feels less need to build up the institutional infrastructure to regulate and tax a productive economy outside the resource sector, therefore the economy as a whole may remain undeveloped (Matti, 2010). The corrupt behaviour endogenises the policy-making and institutional formation of the Dutch disease, explaining how natural resource-rich economies create and maintain growth-restricting policies.

Finally, there is the economic approach that explains the resource curse through the instability of the economic cycle of the international commodity market. Such instability makes planning for long-term economic growth difficult, particularly in countries with lower levels of export diversity.

It is possible, with a strong political will to change, to implement sound economic policies that will counteract the negative effects of the resource curse.

ANGOLA - POLITICS

Angola, a former Portuguese colony, achieved its independence in 1975. A civil war immediately ensued between the two main ethnically-rooted political parties: the Popular Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA). Angola transformed from a one-party Marxist-Leninist system ruled by the MPLA, in place since independence, into a multi-party democracy based on a new constitution adopted in 1992. In 1992, the first parliamentary and presidential elections were held. In the former, the MPLA won an absolute majority. In the latter, the MPLA's presidential candidate, José Eduardo dos Santos, won the first round of the election with more than 49% of the vote to the UNITA candidate Jonas Savimbi's 40%, so that a run-off would have been necessary. However, it never took place. The civil war resumed immediately after the elections, which were considered fraudulent by UNITA.

Meanwhile the new democratic institutions functioned, notably the National Assembly, with the active participation of the MPLA, UNITA (despite the renewed war) and the National Front for the Liberation of Angola (FNLA), while José Eduardo dos Santos continued to exercise his presidential functions without democratic legitimacy. On the other hand, the armed forces of the MPLA (now the official armed forces of the Angolan state) and UNITA continued to fight until the leader of UNITA, Jonas Savimbi, was killed in action in 2002.

Since the adoption of the most recent constitution, early in 2010, the politics of Angola have been conducted within the framework of a presidential republic, in which the President is both Head of State and Head of Government, with a multi-party parliament. Executive power is exercised by the government. Legislative power is vested in the President, the government and parliament. Angola's politics function under a neopatrimonialist system, in which the President of the Republic is the leader, as is common throughout Africa (Brinkerhoff, 2000).

From 2002 to 2010, the system defined by the constitution of 1992 functioned in a relatively untroubled way. The executive branch of the government was composed of the President and the Council of Ministers. The latter, composed of all of the ministers and vice-ministers, meet regularly to discuss policy issues. Governors of the 18 provinces are appointed by the President and serve at his pleasure. Therefore, the semi-dictatorial or semi-democratic neopatrimonialist regime exists with the support of the MPLA members who dominate the State. Oil revenues provide the State with a sufficient fiscal base and thus reduce the State's need to tax citizens. This in turn reduces political bargaining between the State and interest groups, rendering governance more arbitrary, paternalistic and even predatory. The absence of incentives to tax internally weakens the administrative reach of the state, which results in lower levels of state authority, capacity and legitimacy to intervene in the economy.

ANGOLA - RESOURCES

Angola has long been known to possess a vast wealth of natural resources that include oil, diamonds, iron, phosphates, copper, gold, bauxite, uranium and wood. There are large reserves of petroleum and natural gas, concentrated in the maritime zones of the Cabinda enclave to the north and the Congo River estuary. Production is largely concentrated off the coast of Cabinda, Soyo and Luanda (Barros and Managi, 2009; Barros and Assaf, 2009). Table 1 presents information on Angola's oil blocks in 2010.

Table 1: Oil Blocks of Angola in 2010.

Block	Production (million barrels)	Cost(million of US$)	investment premium(millions US$)	Taxes(%)	Cost per barrel($/barrel)	Cost/value production(percent)	Government share in blocks in total oil receipts
CabindaA	100	980	0	45.1	9.8	42.3	48.4
CabindaB	49	357	0	53	7.3	30	48.4
CabindaC	10	135	0	36.3	13.8	135	48.4
FS-FST	5	41	39	46	8.8	8.8	1.4
Block2	18	172	71.5	47.7	9.3	39.3	5.6
Block3& Canuko	51	313	86.9	61.8	6.2	27.1	14.9
Block14	24	332	29.2	27.2	13.7	55.9	7.7
Block15	2.7	30.6	0	18.99	8.82	52.11	0.63
Block17	71	1017	24.9	24.2	14.4	59.7	22

Source: Barros and Managi (2009)

The country is currently the world's fourth-largest producer of diamonds and the second-largest producer of oil in Sub-Saharan Africa, after Nigeria. Oil output in 2010 reached 119.14 billion barrels, providing 91.94% of Angola's total export revenues. In view of the immense importance of oil, exploitation of the other minerals are relatively neglected as minor sources of income.

Among the main economic players are the public oil company Sonangol and the business woman Isabel dos Santos, the daughter of Angola's ruler, President Eduardo dos Santos. She is one of the continent's wealthiest women (Forbes in 2011 estimated her net worth at $170 million), with various areas of investment activity. Table 2 displays some details of Angola's FDI in Portugal. The account holders of this FDI are politicians and cronies of the rulers of Angola, which suggests that Angola's political elite capture a large share of the wealth generated in the country. The investments are concentrated in banking, oil and information technologies, with many companies quoted on the Portuguese Stock Exchange.

Table 2: Angolan Shares in % in Portuguese Companies in 2011.

Company	Isabel dos Santos	Sonangol	Other
Galp a)	7.50	7.50	
BPI	9.99		
BES Angola	10.00		
Amorim Energia b)	22.50	22.50	
BCP		9.60	
PT	10.05		
REN	via EDP	via EDP	
EDP	via PT	via BCP	
ZON	via Ongoing, BPI, PT, BES		
BIC	25.00		35.00
BPN	via BIC and Amorim Energia	via Amorim Energia	via BIC
Banco BIC		5	11.15

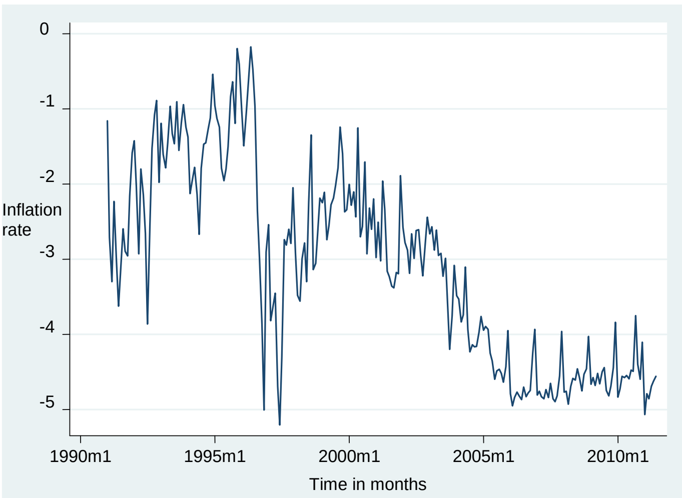
a) via Amorim Energia
b) via Ezperanza Holding
Source: financial reports of companies above.

China is investing heavily in Angola in infrastructural construction aid, with no human rights or political strings attached (Campos and Vines, 2008). In fact, Angola is China's largest African trading partner, exporting daily to China 3.19 million barrels of oil and receiving investment in roads and public building construction. In contrast, the USA is Angola's biggest partner in economic and military aid. China's involvement in Angola began in the early-1960s with political and military support to the nascent liberation movement. The economic cooperation between China and Angola started in 2004 with the Exim Bank offering a loan of US$10.5 billion in oil-backed credit lines to Angola, at the rate of 1.5% below the London bank-offered rate (LIBOR) which is the benchmark interest rate for international finance. The loan was repayable over 17 years, including a grace period of 5 years. 70% of public tenders for construction and civil engineering are awarded to Chinese companies and only 30% to local companies. Although this partnership seems beneficial to each partner, allegations of poor Chinese construction quality are common and the use of Chinese personnel in the construction projects raise tensions with the local population, who cannot find employment at these work sites. Furthermore, neopatrimonialist political connections with China are cited in the allegations of corruption.

Angola's economy has undergone two distinct phases since independence, defined first as the war economy and then the oil period. The macroeconomics of the war debt generated rampant inflation, which is depicted in Figure 1 below. After 1996, a restrictive monetary policy brought the inflation rate down. The global economic crisis in 2008 and 2009 curbed oil demand and generated a terms-of-trade shock that caused growth in Angola to decline sharply. The resulting fiscal crisis forced the country to sign a stand-by arrangement of US$ 1.4 billion with the IMF, with the aim of alleviating liquidity restrictions and maintaining a sustainable macroeconomic position. The subsequent resurgence in global oil demand has been reflected in the recovery of Angola's oil production and exports, which, combined with the IMF program and the tightening of monetary and fiscal policies, has resulted in a more solid macroeconomic foundation.

The inflation graph below clearly depicts the two economic phases over a 15-year period.

Figure1: Inflation in Angola.



The inflation trend is dominated by multi-month swings. The inflation rate is highly serially correlated and each previous month's inflation rate contains much information about the current month's rate. However, there are still surprise movements. An initial visual inspection indicates a potential break in the data around mid-1996. The evolution observed in the graph above signifies that the economy has been managed in recent years with adequate macroeconomic policies, following the advice of the IMF.

ANGOLA - SOCIETY

Angolan society comprises various ethnic groups, 95% of the population belonging to groups associated with the Bantu family of languages. The three largest groups are the Ovimbundu (35% of the population), the Kongo (25%) and the Mbundu (10%). Each of these three ethnic groups has its own political representation, in addition to access to the political, military and economic elites, which, to a certain extent, can be described as a distinct cultural group in its own right. Nevertheless, whilst the elites display common social and cultural characteristics, they are also strongly divided politically.

The political parties have religious and regional origins, as well as ethnic roots. The MPLA, the dominant political force, which is the party of the Mbundu people, was created by Methodists and Catholics in the central highlands. The party has a significant number of white and mestiço (2% of the population) members. UNITA represents the Ovimbundu of southern Angola. An elite within the Congregationalist Church was instrumental in forming UNITA and remains prominent in the party hierarchy. The FNLA is supported by the Kongo people. Other, minor ethnic groups have no political party and therefore, no parliamentary representation.

Angola has a total population of 19.08 million (in 2010), of which 7.9 million are rural dwellers. This means that roughly 60% live in towns and cities, whereas when the civil war ended in 2002, the estimated urban population accounted for 35%. The decades of conflict, fought largely in the central highlands and south and plains by troops recruited from those rural regions, had caused an exodus from the countryside, as well as the destruction of much infrastructure from which Angola has yet to recover.

Despite Angola's wealth, 54.3% of its population exist on less than US$1.25 a day. If we raise this amount to the international poverty line figure of US$2 a day, we find that the percentage of Angolans thus defined reaches 70%. The extensive slums – vertical as well as horizontal – in and around the capital city, Luanda, attest to the fact that many urban dwellers are excluded from the oil wealth, the fruits of which are visible to them, but in the hands of the privileged elite. Only 9% of Luanda's population have water supplied to their homes.

In 2010, 60% of Angolans were under the age of 18. In addition, there is a strong gender imbalance, as females far outnumber males, due to the numbers of men killed in the civil war and to migrations. However, women are generally subordinate to men, with far lower literacy rates, for example. A factor that has contributed to the demographic explosion is the practice of polygamy. Despite being officially illegal, it is tolerated due to the shortage of men. Family ties remain strong and those who have migrated to the urban centres endeavour to provide what support they can to their rural relations.

In the rural areas, women usually carry out all the tasks involved in agricultural production, in addition to having to meet their domestic and child-rearing demands. Agriculture rarely amounts to more than basic subsistence farming in poor soil that produces poor yields. Thus Angola suffers from an insufficiency of food production and remains dependent on international aid to ensure only minimum levels of food intake for all the population. Table 2 below presents some social and economic indicators in the 18 Angolan provinces in the year 2010.

Table 2: Characteristics of the Angolan Population by Province, 2010

Unit	Provinces	Capital	Population	GDP (kuanzas)	% Poverty	Area(Km2)
1	Bengo	Kaxito	300000	130000	13.88	31371
2	Benguela	Benguela	1400000	138000	13.95	31788
3	Bié	Kuito	790000	126000	14.01	70314
4	Cabinda	Cabinda	290000	153000	13.65	7270
5	Cuando Cubango	Menongue	240000	121000	14.23	199049
6	Kwanza-Norte	Lucapa	675000	130000	13.83	24190
7	Kwanza-Sul	Sumbe	580000	128000	14.02	55660
8	Cunene	Ondjiva	390000	127000	14.25	89342
9	Huambo	Huambo	2445000	135000	13.65	34274
10	Huíla	Lubango	1450000	137000	13.78	75002
11	Luanda	Luanda	6000000	160000	12.99	2418
12	Lunda-Norte	Ndalatando	455000	138000	13.88	102783
13	Lunda-Sul	Saurimo	580000	136000	13.68	45649
14	Malanje	Malanje	1430000	130000	14.05	97602
15	Moxico	Luena	570000	120000	14	223023
16	Namibe	Namíbe	220000	128000	13.88	57091
17	Uíge	uíge	1298000	130000	14.05	56698
18	Zaire	Mbanza Kongo	47000	126000	13.88	40130
		Mean	1064444	132944	13.87	69091
		Median	580000	130000	13.88	56179
		Std. deviation	1374009	10119	0.278	58988

Source: Angola Statistical Agency

In Table 2, it is verified that on average 13.88% of the population is poor, which is in line with most western industrialised countries, although the benchmark of poverty may vary and some heterogeneity is observed among the different provinces. However, this data would appear to contradict the widespread existence of slums in Luanda, which has Angola's largest demographic concentration, approximately 6 million inhabitants.

DISCUSSION AND CONCLUSION

On the basis of the evidence presented above, we can conclude that a neopatrimonialist semi-dictatorial or semi-democratic regime exists in Angola, and that power is in the possession of the MPLA, the political movement that emerged victorious from the civil war. Furthermore, the country's vast oil deposits account for roughly 90% of exports. The rural society is ethnically-oriented, while the urban society maintains strong ties with its rural family members. Holding sway over the entire scenario are the elites residing for the most part in Luanda, from where they rule the country due to their control of the resource wealth. This profile lends support to the view that Angola is subject to a resource curse, the cause of which is not explained by the Dutch disease approach, but rather by the ethnic- and military-supported neopatrimonialist "rentier state". The sound IMF macroeconomic policies do not fit easily with such a political regime, since these are policies that are incompatible with corruption and non-democratic practices. Angola's abundance of oil appears to have induced extraordinary levels of corruption, rent-seeking and centralised interventionism; growth-restricting practices that are supported by the contextual evidence. The distribution of rents and privileges, above all to elites, is central to the maintenance of political stability (North et *al*., 2007). The neopatrimonialist system was adopted probably to emulate the example of other African countries' political behaviour, in particular the Democratic Republic of Congo under Mobutu (Matti, 2010).

If it were to transpire, through any means, that the pre-requisite political will and strength to change Angola's course radically were to take hold, what measures would the State need to take in order to promote growth and equity? In other words, how could the resource curse be broken? Among the policies needed, a disciplined approach to the introduction of greater transparency in the payments made by multinationals in the extractive industries to the Angolan government is paramount (Center for Global Development, 2004, p. 56-7). Alternatively or additionally, a shift in emphasis away from the dependency on extractive industries altogether and concentrating efforts in order to diversify mineral-dominant economies towards agriculture and manufacturing (Ross, 2001) could be a major step forward in the battle to curb rents. Simultaneously, corrupt practices must be attacked (Mauro, 1995; Wei, 1997, 2000; Habib and Zurawicki, 2002; Larrain and Tavares, 2004; Al Sadig, 2009; Cole, Elliot and Zhang, 2009). This calls for an adequate, effective police force and judiciary armed with the legal means to pursue and punish those guilty, regardless of social status. Furthermore, all ethnic groups should have representation in the Angolan parliament. Finally, a fair legislative and presidential electoral process should be adopted, together with clearly defined and obeyed roles, powers and duties.

However, given the likelihood that the current political status quo will be maintained, a social uprising, with popular revolts and possibly armed insurgency, is more likely to come about at some future point. There are indications that the educated urban class is becoming increasingly dissatisfied and hungry for social equity and fair opportunities based on merit. The spate of Arab uprisings of 2011 against dictators may constitute an example for sub-Saharan Africa to follow. In such an event, as in the case of the Arab spring, the outcome would be far from certain.

How does the present research compare with alternative investigations on the resource curse? The paper validates Matti (2010), extending the results obtained for Congo to Angola. More research is needed to confirm these findings.

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