

**ANGOLA'S CHOICE:  
REFORM OR REGRESS**

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## ANGOLA'S CHOICE: REFORM OR REGRESS

### EXECUTIVE SUMMARY AND RECOMMENDATIONS

One year after more than four decades of internationally fuelled civil conflict came to an end, Angola is faced with a stark choice. If the government undertakes and sustains meaningful political and economic reforms, peace and prosperity would be assured. If it delays and obfuscates on fundamental issues of transparency, diversification and pluralism, the country will likely be condemned to further decades of poor governance and localised violence.

ICG's first report on Angola dealt with the humanitarian and security challenges to peace building.<sup>1</sup> Economic and political issues are equally important. Good governance in the context of a war that left so many destructive legacies faces many obstacles. Regional and ethnic inequalities that intersect with an inadequate governmental response to the needs of the displaced and the former UNITA insurgents can sow the seeds for future instability and warlordism. Interests entrenched in the political and economic system undermine reform tendencies at every turn. Decades of atrocities make reconciliation much more difficult. A history of external intervention and exploitation leaves the government resistant to meeting some international preconditions for engagement and aid.

Nevertheless, there are elements within the government and, more broadly, throughout civil society, that want to increase international engagement, make economic policy more transparent, and liberalise the political system. Battles within the government – and between the government and opposition parties and civil society

– over basic policy directions are intensifying, and the outcomes are uncertain.

For a host of reasons, it is increasingly in the Angolan government's interest to move down the economic and political reform path. Upcoming elections require the ruling party, the Popular Movement for the Liberation of Angola (MPLA), to seek electoral support, and the most direct way is to improve the state's capacity to deliver goods and services. The government's desire to enhance its international image and project itself on continental and world stages also creates a reform logic, as does President dos Santos's wish to enhance his legacy.

Political and economic reform – combined with a commitment to begin to address some social ills and inequities – would ensure more broad-based economic growth, allow a genuine private sector to develop, free up hundreds of millions of dollars for social investment through a more transparent budget process, transform the political system into a more pluralistic one that promotes human rights and lay the groundwork for long-term stability.

However, there are numerous obstacles. The benefits derived from wholesale diversion of oil revenues to individual accounts will be the most difficult to overcome, particularly in an environment of rising oil prices and discoveries of new reserves. Genuine reform would threaten the concentration of power in the presidency, or *Futungo*, the unimpeded annual diversion of an estimated U.S.\$1 billion in oil revenues, and the patronage network and private accounts supported by that diversion. Leadership by progressive elements in the government and a fundamental decision by President dos Santos that reform is in the strategic interest of the country and the MPLA are needed.

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<sup>1</sup> ICG Africa Report N°58, *Dealing with Savimbi's Ghost: The Security and Humanitarian Challenges in Angola*, 26 February 2003.

## RECOMMENDATIONS

### To the Government of Angola:

1. Address the problem of state capacity transparently by focusing on improving existing national and provincial administration, and in particular:
  - (a) give priority to basic social services (health and education), agricultural development, and support for micro-enterprise;
  - (b) invest in basic infrastructure that will help move goods and people around the country; and
  - (c) extend state administration gradually in the areas of the judiciary, police and other elements of the rule of law.
2. Begin to create the architecture for the upcoming presidential election by:
  - (a) setting a date, accelerating the constitutional reform process, and clarifying electoral laws and other related actions; and
  - (b) giving civil society organisations and political parties the space to organise, operate and campaign freely, including throughout the provinces.
3. Diversify the economy beyond oil, including by taking such specific steps as working with the U.S. government to qualify for participation in the benefits of its African Growth and Opportunity Act (AGOA).
4. Restructure the investment and commercial codes.
5. Develop an equitable, consistent and transparent land use policy that balances agri-business and smallholders and avoids the stereotypical situation in which coastal residents own most of the land in the interior.
6. Formulate and prioritise a poverty reduction strategy that lays the groundwork for structural adjustments that will benefit more than just the wealthiest segment of the population and helps prepare for the promised donors conference.
7. Agree with the IMF on a reform program to make economic management more transparent, especially in the oil sector, and demonstrate commitment to this objective by giving the newly established "accountability court" real

enforcement power, particularly for large public companies.

### To Donor Governments, the United Nations, and the International Financial Institutions:

8. Fully fund an agricultural assistance program in advance of the September 2003 planting season.
9. Work closely with the Angolan government in advance of any donors conference to create a strategic partnership and quid pro quo on three or four fundamentally important areas such as demining, roads, health and education,
10. Advocate that the Angolan government set a date for the upcoming presidential elections and as the electoral process unfolds, urge constitutional and electoral law reform and guarantees for the exercise of basic freedoms.
11. Donor governments should provide increased assistance for political party development and civil society capacity building.
12. Get on the same page regarding the economic reforms expected of the government and in particular stay focused on the threshold steps to improve transparency and accountability set by the IMF.

### To International Investors in Angola's Oil Sector:

13. Make cooperative efforts with the government to achieve more transparency surrounding the business practices of the major oil companies investing in Angola.

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## ANGOLA'S CHOICE: REFORM OR REGRESS

### I. INTRODUCTION

Angola is mostly at peace for the first time in over four decades.<sup>2</sup> On 4 April 2002, six weeks after the death of National Front for the Liberation of Angola (UNITA) leader Jonas Savimbi, his insurgent group and the Angolan government signed a cease-fire.<sup>3</sup> With this, Angola entered a new era. The country is finally in a position to realise the tremendous potential that its natural wealth makes possible. However, three major challenges could perpetuate extreme underdevelopment and inequalities and sow the seeds of future instability if they are not addressed. All three can be met but only if the government pursues and sustains major political and economic reforms.

The first challenge is the considerable shortfall in the government's ability to fulfil its promises to internally displaced persons (IDPs), UNITA ex-combatants, other vulnerable populations and underserved regions.<sup>4</sup> The disparities involved reflect the gulf that has historically existed between the elites in the capital, Luanda, and the rest of the country, but that is particularly acute in former

UNITA-controlled areas inhabited by the Ovimbundu people in the central highlands (the *Planalto*). Angola's pronounced regional and ethnic disparities were made worse by the long war, and it also suffers from inequitable resource distribution, overly concentrated political power and a general lack of government transparency. The agricultural populations in the areas that most strongly supported UNITA are the most seriously affected by economic policies that favour urban areas and the most severely penalised by oil-induced distortions.<sup>5</sup> If these disparities are not dealt with, more organised and strident opposition may eventually coalesce, whether through UNITA or some other political group. Although a renewed war is unlikely, a chronic humanitarian emergency is deepening among displaced populations and demobilised ex-combatants that could create the context for future instability and disaffection.<sup>6</sup>

The second is the struggle to reform the state and the economy. Although numerous high level officials seek to enact fundamental changes, they operate within a deeply entrenched system of economic, political and military networks run by the Presidency, or *Futungo* (a shorthand reference to the presidential residential complex at Futungo de Belas). *Futungo* coordinates the broader patronage networks that comprise the foundation of the state and controls the resources and major government decisions. "The system is designed to make money for its members", charged a leading Angolan civil society activist. "*Futungo* talks about reform but they would lose power, so the system will stay as is".<sup>7</sup> A long-time regional analyst added: "The

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<sup>2</sup> Although the war with UNITA is over, the oil-producing province of Cabinda remains troubled by a continuing insurgency. Cabinda accounts for 60 per cent of Angola's oil production. It remains unstable because of the activities of the Front for the Liberation of the Cabinda Enclave (FLEC), a factional insurgency calling for a greater share of oil revenue and increased autonomy. The government's counter-insurgency tactics have often been counter-productive. Cabinda will be the subject of a future ICG report.

<sup>3</sup> The 4 April 2002 agreement signed in Luena, Angola was an addendum to the original peace agreement, the Lusaka Protocol, and was negotiated by government and UNITA military commanders. It established a cease-fire and laid out the pending tasks in the Lusaka peace process, which was formally declared concluded by the parties and the UN on 21 November 2002.

<sup>4</sup> See ICG Report, *Dealing with Savimbi's Ghost*, op. cit

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<sup>5</sup> Steven Kyle, "Oil and the Political Economy of Growth in Angola", paper presented to a U.S. State Department conference on African oil, 17 March 2003.

<sup>6</sup> See ICG Report, *Dealing with Savimbi's Ghost*, op. cit.

<sup>7</sup> ICG interview in Angola, December 2002.

system is based on patronage. Transparency would be counter-productive".<sup>8</sup>

Just below the top layer of the power structure are many officials who are embittered by their exclusion from this system. Resentment also stems from a perception that the leadership has distanced itself from the base of the ruling party (the Popular Movement for the Liberation of Angola, MPLA). Some peripheral actors within the military, the MPLA, and Parliament are trying to make the system more accountable or to provide an eventual alternative, but no common agenda has yet emerged.

The third challenge is rooted in the local and national schisms created by the war, which left a million dead and one-third of the population displaced.<sup>9</sup> "There are memories of terrible atrocities", pointed out one senior civil society leader, referring to the effects of war and the attendant human rights abuses. "You can't just divide the cake, eat it and hope everything is forgotten. Reconciliation goes far beyond just dividing power".<sup>10</sup>

Accountability is not a high priority in the political transition. The government and UNITA agreed to sweeping amnesties in their April 2002 agreement. Nevertheless, "blanket amnesties shouldn't be given", warned one leading civil society figure. "That would encourage impunity. There is a need for having things come out through a process, and then forgiveness can occur".<sup>11</sup> Africa is replete with examples of cycles of impunity that remain unbroken and encourage further rounds of abuses across generations. However, UNITA took an important first step to break this cycle early in 2003 when it formally apologised for abuses it was responsible for during the war. Furthermore, the manner in which the war came to end – the battlefield death of Jonas Savimbi – has facilitated reconciliation and allowed local community mechanisms to speed social healing and forgiveness.<sup>12</sup>

As Angola seeks to assert itself regionally and internationally, its position on many issues will be unpredictable. Tendencies exist within the

government that are sympathetic to state control of the economy and restrictions on political rights, while others are more closely aligned with the politics of free markets and multi-party democracy.<sup>13</sup> There is a keen resentment that Angola was misused by outsiders throughout its history, from slave market to colony, to Cold War battleground. Debt repayments, International Monetary Fund (IMF) requirements, human rights conditionality and other forms of international obligations appear to key leaders as a continuing effort by foreigners to limit Angolan sovereignty. Others, however, want to take advantage of international assistance regardless of its motivations and recognise that this requires playing by certain rules. These internal contradictions will probably not be consistently resolved for some time.

For both internal and external reasons, the government is more willing than previously to focus on fundamental crisis prevention issues of democracy building, social service provision, and basic rights and freedoms.

Internally, The MPLA fought for 46 years to gain or maintain power. This is its first year of peace. It never previously had to rely on popular support for legitimacy, given the war-induced state of emergency and the substantial independence that oil revenues provided.<sup>14</sup> Now, however, in the context of the transition to democracy and open political competition, it must reach out to the civilian population and expand its support base. Providing for basic human needs is firmly in its strategic self-interest. Providing resources for resettling UNITA ex-combatants and IDPs as part of the effort to reconstruct the state and reorder budgetary priorities will be perhaps the single most important initiative the government can take to consolidate the peace.

The government is increasingly sensitive about its international image as it seeks to become a major player in Africa and beyond. The higher profile that

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<sup>8</sup> ICG interview in Luanda, December 2002.

<sup>9</sup> These are the generally accepted figures for mortality and displacement during Angola's civil war.

<sup>10</sup> ICG interview in Angola, December 2002.

<sup>11</sup> ICG interview in Angola, December 2002.

<sup>12</sup> ICG correspondence with Dr. Gerald Bender of the University of Southern California, one of the pre-eminent scholars on Angola, February 2003.

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<sup>13</sup> Angola took a seat on the UN Security Council in January 2003 and will assume leadership roles within SADC and the African Union over the next two years. The term of the UN Mission in Angola (UNMA), under the able leadership of the Special Representative of the Secretary General, Ibrahim Gambari, ended in early February 2003, furthering the process of normalisation sought by the government.

<sup>14</sup> The one exception was the September 1992 elections brought about by the short-lived peace agreement signed the previous year at Bicesse in Portugal. UNITA renounced the results after Savimbi lost the presidential contest to dos Santos, and the war resumed in earnest.

comes with international leadership creates a dynamic for domestic reform, as does the desire to project a positive image in advance of elections expected any time between late 2004 and 2006.<sup>15</sup>

But reform is not a certainty. Like many oil-producing states, Angola could veer away from any genuinely democratic process, maintain unequal patterns of domestic investment, fail to diversify, stagnate economically, and continue to be ruled by a small political and military elite based in *Futungo*. The ruling party could presume that the international community would overlook human rights shortcomings as long as the country was stable and a reliable oil producer. This would, however, likely return some degree of instability to Angola within a decade, particularly if combined with a lack of action on some the major humanitarian issues: reintegration of ex-combatants, resettlement of displaced persons, removal of mines.<sup>16</sup>

Serious reform – combined with a commitment to address social ills and inequities – would ensure more broad-based economic growth, encourage development of a genuine private sector, free up large sums for social investment in the context of a more transparent budget process, and transform the political landscape. But it would also threaten the concentration of power in *Futungo*, the diversion of oil revenues, and the patronage networks and private accounts that diversion supports. The choice is up to the government, and particularly President dos Santos.

## II. WINNING THE PEACE

The immediate threat of resumed war is quite low. UNITA has lost the ability to organise military confrontation. Its lines of authority are diffused, and it is unable to coordinate across provinces. A completely hierarchical military organisation was rendered rudderless by Savimbi's death, and that hierarchy has continued to fray. On the political side, UNITA's organisational problems are mending with the unification of its two competing wings. A party congress in May-June 2003 is likely to elect Isaias Samakuva as its new leader.

Although these developments ensure short-term stability, in the longer term the situation is much more uncertain. Encouragingly, there have been no reported violations of the ceasefire, the human rights situation has slowly improved, police abuses are declining and press restrictions have lessened.

However, decades of war have left a serious legacy of latent divisions and inequities. "There is great danger in not doing anything to deal with Angola's real problems", warned a civil society leader. "At the very least, social convulsion and criminal activity are possible".<sup>17</sup> The following are the core political and economic tasks.

### A. EMBRYONIC STATE

Long-term stability will be determined by the degree to which the Angolan state, at all levels, can be rehabilitated. After Portuguese colonial rule, a Cold War-driven Marxist-Leninist ideology, and 30 years of post-colonial warfare, there has been virtually no investment in development of state administration at the national, provincial or municipal levels. Administrative capacity is minimal at best. One of the most immediate problems is that many government workers are not paid a living wage and frequently are not paid anything on a regular basis. This forces many to take second and third jobs as well as to seek cuts from normal government transactions.

The need to rebuild effective state administration is imperative for several reasons:

- Expectations for the government to become more involved and more efficient in delivering

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<sup>15</sup> President dos Santos appears likely to stand for another term. There is speculation that he wants enough time before the election to improve his image and enhance his legacy through measures the government takes. This may argue for a relatively late date.

<sup>16</sup> See ICG Report, *Dealing with Savimbi's Ghost*, op. cit.

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<sup>17</sup> ICG interview in Angola, December 2002.

social services will grow. That Angola has one of the lowest rates of life expectancy (45 years) and literacy rates for adults (42 per cent), and ranks 161st of 173 countries in human development indicators,<sup>18</sup> underscores the urgency with which the government will have to address the delivery of services.

- The divide, and widespread perceptions of the divide, between government officials and political leaders in Luanda and both officials and ordinary citizens in the provinces, continues to hinder peace consolidation. This could lead to social dissatisfaction and protests in rural areas as well as – in the not-too-distant future – increased instability and potential conflict.
- One of the most challenging aspects of rebuilding the state is in the rural areas where ex-combatants return to live in villages among citizens against whom they only recently waged war. As one member of civil society put it, “It is easier to forget in the cities”.<sup>19</sup>
- If donors at a planned but as yet unscheduled conference are willing to provide significant reconstruction aid (assuming the preconditions are met, such as agreement with the IMF on a reform program), questions will be asked about whether the state can absorb the infusion of hundreds of millions of dollars.

Donor expectations are high in anticipation that major reductions in military spending will produce a peace dividend and because of increasing oil revenues. “Angola has the money”, concluded a well-positioned Western official. “If it can’t work in its efforts to address its basic problems, where in Africa can it work?”<sup>20</sup>

However, the government is doing very little to support the delivery of aid and services, particularly in UNITA’s former strongholds. The causes are mixed, and include a lack of organisation, inadequate logistical capacity, low priority, and corruption. The possible exception is announcement – but not yet implementation – of a U.S.\$20 million infrastructure investment program in each province.

When the government is motivated properly, it can get things done. For example, the preparations for President dos Santos’s visit to Huambo on the MPLA’s 46<sup>th</sup> anniversary evinced a high level of party organisation and strong implementation – in this case in the efficiently organised city cleanup and rapid improvement of infrastructure. The armed forces’ early support in establishing and provisioning demobilisation/quarterming areas in the aftermath of the April 2002 truce is another case in point. There are technical and capacity limitations but the overall issue is clearly one of political will.

Improving public security institutions is another major challenge. In many locations, police are feared for aggressive shakedowns rather than sought after for protection.<sup>21</sup> The military is slowly turning into a peacetime entity, with appropriate reductions-in-force. Intelligence organs – omnipresent during the civil war – will have to downsize as well. Security sector reform is an area which donors could help much more.

There are encouraging signals. In some provinces the government has begun to pay regular salaries for the Health Department, which demonstrates that the system can be made to work. Regular readjustment of salaries in response to inflation is also occurring. Another example is the strong cooperation Halo Trust says the government is providing to its demining efforts. Many observers and foreign agencies note that the armed forces (FAA) are a more willing, more efficient, and better resourced partner in development than other branches of government.<sup>22</sup> President dos Santos is taking key cabinet officials to all regions to meet with provincial officials and traditional authorities to get a better sense of needs and priorities outside Luanda. Personnel of international organisations and NGOs active in the country report other such small signs, but the overall picture of the government’s commitment to building social service infrastructure and demonstrating concern for the welfare of the Angolan people remains unpromising.

Whether this changes will depend on whether reform elements within the MPLA succeed in working with the international community, progressive members of

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<sup>18</sup> “Deepening Democracy in a Fragmented World”, Human Development Global Report for 2002, United Nations Development Program (UNDP).

<sup>19</sup> ICG interview in Angola, December 2002.

<sup>20</sup> ICG interview, March 2003.

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<sup>21</sup> A diplomat stated: “The police are more problematic than the military in terms of human rights abuses”. ICG interview in Angola, December 2002.

<sup>22</sup> ICG interviews and correspondence, January and February 2003.



civil society, and other pro-reform elements to support capacity building and successful elections. Any optimism would have to be rooted in the assessment that after 46 years as a movement organised to defeat an enemy (the Portuguese or UNITA), the MPLA finally faces few serious threats. In the context of transforming itself into a political party that seeks to win a contested election, the MPLA could be more focused in the next year on delivering goods and services to local populations. That would be in its strategic self-interest and also create new opportunities for many stakeholders and constituencies in the country to engage with it on the fundamental, shared priorities of good governance.

## B. ECONOMIC DISLOCATION

Despite the country's vast resources, decades of attacks on civilians and infrastructure coupled with inflated military spending have left the economy in shambles. The statistics paint a grim picture: the lowest 10 per cent of countries ranked in the UN human development index; unemployment estimated at over 50 per cent; life expectancy 45 years; more than half the population malnourished and without access to clean water or adequate health facilities;<sup>23</sup> per capita GDP down 48 per cent over 25 years, and annual military spending accounting for twenty per cent of GDP during the war.<sup>24</sup>

Sectors that affect the population at-large were hardest hit by the war. Production in the coffee industry – Angola's chief export earner before oil and employer of over 6 per cent of the population – has plummeted from 400,000 tons per year in the early 1970s to around 2,000 today.<sup>25</sup> Agricultural production as a whole fell from 29 per cent of GDP in 1991 to just under six per cent in 2000, and the country will need to import more than 725,000 tons of cereals in 2003.<sup>26</sup> Infrastructure is severely

decayed. Roads, many of which are impassable because of landmines, have not been repaired since the 1970s. Telephone lines reach only five out of 1,000 people in the country and only half that figure outside Luanda.<sup>27</sup>

The end of the war has not yet changed this dire situation. Despite decreases since the late 1990s, inflation is still well over 100 per cent and is forecast to swell again in 2003 to upwards of 140 per cent.<sup>28</sup> The growth of the budget deficit and foreign debt, and the increasingly onerous debt service payments that result, have troubling implications for the ability to increase spending on social services. High interest short-term loans, with future oil revenues as collateral, are being used to cover a 2002 budget deficit of 8.6 per cent of GDP.<sup>29</sup>

While the economy grew an estimated nine per cent in 2002 and will likely continue to expand in 2003, such figures are almost solely the result of surging world oil prices and increased offshore oil production.<sup>30</sup> Growth rates could increase even further if the Iraqi crisis creates additional upward pressure on oil prices. Indeed, oil output is estimated to rise to 1.8 billion barrels a day by 2008 from its current levels of around 900,000 barrels due to recent discoveries.<sup>31</sup> Other sectors of the economy, however, have remained largely unaffected, and their revitalisation remains questionable due to loose fiscal and monetary policies and high levels of corruption.<sup>32</sup> "In the context of such pervasive corruption", charged the head of a leading Angolan

<sup>23</sup> UNDP Human Development Report 2002, op. cit., CIA World Fact Book 2002.

<sup>24</sup> Military spending was 21.2 per cent of GDP in 2000 – an immense figure in comparison with other African states, particularly given Angola's oil-inflated GDP. Mozambique, for example, spent 2.5 per cent, Rwanda 3 per cent, Sudan 3 per cent, Zimbabwe 4.8 per cent, Sierra Leone 1.4 per cent and Burkina Faso 1.6 per cent. UNDP Human Development Report 2002, op. cit.

<sup>25</sup> Special Angola Report, www.washingtonpost.com; *Angola Peace Monitor*, Vol. VI, N°9, 14 May 2000.

<sup>26</sup> The food needs data is according to UN Food and Agriculture Organisation officials. "Angola Country

Report", *Economist Intelligence Unit*, November 2002; World Bank data, 14 September 2002, www.worldbank.org.

<sup>27</sup> UN National Information and Communication Infrastructure Background Report on Angola, www.un.org; *The Sunday Times* (Johannesburg), 12 January 2003.

<sup>28</sup> Year-to-date inflation was 114 per cent in September 2002, the last month with reliable data, and is expected to come to 125 per cent for the whole of 2002. "Angola Country Report", *Economist Intelligence Unit*, January 2002.

<sup>29</sup> *Africa Confidential*, Vol. 44, N°4, 21 February 2003.

<sup>30</sup> *Ibid.*

<sup>31</sup> The estimate for production by 2008 is from government officials, while the estimate of current production comes from economic consultants Wood Mackenzie. Also see *Africa Confidential*, op. cit; BBC News, 5 December 2002; *Angola Peace Monitor*, Vol. IX, N°4, 8 January 2003; The new oil discoveries were offshore, in Block 15, most importantly, in Block 17 and, to a lesser extent, Blocks 14 and 18. ICG correspondence with Ambassador Paul Hare, President of the U.S.-Angola Chamber of Commerce, February 2003.

<sup>32</sup> "Angola Country Report", *Economist Intelligence Unit*, January 2002.

organisation, "the government cannot address the fundamental social problems of the country".<sup>33</sup>

A further fundamental challenge to economic recovery is the destruction of infrastructure. As one top government official explained, "It is difficult to imagine economic development without basic infrastructure, such as roads and bridges. We can't transport our agricultural products to markets. The result is that we are highly import-dependent. We need the preconditions of infrastructure to create competitive domestic industries. That is the responsibility of the state".<sup>34</sup>

### C. POLITICAL PARTIES AND CIVIL SOCIETY

Angola's politics were transformed by the death of UNITA's leader, Jonas Savimbi. During the remainder of 2002, one of the more stabilising factors in the country's life was the close working relationship between the government and the former insurgents. However, since the beginning of 2003 many UNITA officials have increasingly expressed displeasure with the direction this cooperation is taking. For example, when the government submitted to Parliament its U.S.\$6 billion budget for the year, all UNITA members abstained, complaining that they had not been consulted. In mid-February, a UNITA official charged that dialogue between the government and UNITA had slowed since the work of the Joint Commission – which provided a mechanism for cooperation – ended in November of 2002. UNITA is also worried about the degree of freedom its officials have to establish offices and lay the groundwork for political campaigning in the provinces.<sup>35</sup>

Since both suffer from what one analyst described as "conflict fatigue", the truce between the government and UNITA is likely to continue.<sup>36</sup> UNITA is unlikely to challenge the government's electoral supremacy seriously in the next election but it does have a longer-term opportunity to achieve regime change through the ballot if it focuses on party development and elaboration of issues. In the only test of electoral strength, in 1992, it won nearly a third of the popular vote for legislative seats, and Savimbi captured 40 per cent of the vote for

president. UNITA's stronghold was – and continues to be – the central highlands.

Should UNITA fail to evolve into a political force, Angola's government could suffer from lack of accountability. "The biggest risk is UNITA getting bought off", said the same analyst.<sup>37</sup> A high-ranking Western diplomat cautioned against a different risk:

The two parties see a common interest in maintaining their bilateral condominium which would exclude everyone else. The government wants the appearance of pluralism and a compliant partner. UNITA gets all the perquisites, is part of the power equation, and will be given a chance to compete electorally in the future. The rivalry between UNITA and the MPLA is now institutionalised in a bipolar political system which has stymied the advent of pluralism in Angola.<sup>38</sup>

The leadership of the armed faction of UNITA has largely been integrated with the organisation's political faction. The interim leader, Paulo Lukambo 'Gato', has proved relatively adept at steering UNITA toward a post-Savimbi identity predicated on peaceful and democratic competition with the government and other political parties. As can be expected from any organisation that was dominated by a charismatic leader for over three decades, UNITA has not solidified its new hierarchy. It says it is working to minimise tensions between the senior figures – Gato, Isaiás Samakuva (the long-time representative in Europe and head of the UNITA delegation to the Joint Commission), and Abel Chivukuvuku (former foreign affairs spokesperson) – as well as between those factions that fought in the bush, those that participated in the Government of National Unity in Luanda, and those that served the organisation internationally.<sup>39</sup> The deeper division is over the degree to which UNITA should cooperate with or challenge the government on major policy issues, such as the devolution of power in the constitution that is under development.

UNITA will hold a party congress in mid-2003 at which it will attempt to sort out many of these policy

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<sup>33</sup> ICG interview in Luanda, December 2002.

<sup>34</sup> ICG interview in Luanda, December 2002.

<sup>35</sup> IRIN, 6 and 19 February 2003.

<sup>36</sup> ICG interview in Luanda, December 2002.

<sup>37</sup> Ibid.

<sup>38</sup> ICG interview in Luanda, December 2002.

<sup>39</sup> For example, one UNITA official complained that "those that came from the bush have been bowing too much to the government". ICG interview in Luanda, December 2002.

and personality issues.<sup>40</sup> Its political committee met in February 2003 to seek advance agreement on the leadership issue. Gato conceded that he will not be either the presidential candidate or party leader. Samakuva appears to have been anointed as the next leader and probable presidential candidate as well, though formally this will not happen until the Congress, which now looks to be less divisive than originally thought. However, some sceptics remain. A top official confided, "At the Congress, the party may split, based on personalities, past damages, and divisions between those inside and outside Luanda".<sup>41</sup> This process has been helped by the marginalisation of UNITA-Renovada, which the government created in 1998 to compete with Savimbi's faction.

When pressed on its political agenda, UNITA leaders always underscore that there will be no return to war.<sup>42</sup> At the same time, the organisation has not yet articulated a message for the post-war era. Some leaders, along with members of civil society, call for a national dialogue on a broad range of issues to better clarify the differences between themselves and the government. Over the short term, UNITA is likely to maintain a close working relationship with the government. In fact, senior members of both said that no significant decision is taken without consultation. "One of UNITA's highest priorities is to ensure that this relationship is correct", said a top UNITA official.<sup>43</sup>

While there is some risk that UNITA's followers could perceive that their leadership has been co-opted, the arrangement gives the organisation political space to reconstruct itself for competition in the new peace-time environment. Over time, UNITA will have to focus on developing its own agenda as a means to bring greater accountability into the political system. "The MPLA and the state are one and the same in the provinces", noted a Western observer. "UNITA will have to emerge as a check on this power".<sup>44</sup> UNITA has already begun restructuring and has organised in fifteen of the eighteen provinces.<sup>45</sup>

Some UNITA leaders are also beginning to articulate an agenda. "We need to depoliticise the public

administration, including police and army", urged one. "The institutions are politically charged. It is difficult to discuss reconciliation in this context".

UNITA is not the only opposition party. There are dozens, mostly Luanda-based, with unknown potential for constituency building. Decisions about the electoral process, UNITA-MPLA relations and basic freedoms of speech and assembly will have a major effect on them.

The political, religious, media, public interest and human rights organisations that constitute civil society are relatively weak but growing in influence.<sup>46</sup> They still suffer from a human capital deficit, a lack of financial resources, and the competition of better paying alternatives in the oil sector and abroad. They were unified around the need for peace but have suffered some fragmentation since the war ended. Nevertheless, their impact is likely to increase somewhat over the next 24 months, as the country prepares for elections, and there is a chance a new political coalition could emerge to pose a credible political challenge to the government and UNITA.

Key civil society leaders in Luanda echo UNITA's call for a national debate. Among the issues they wish to discuss publicly are national reconciliation strategies, education and health policy, transparency and accountability in management of oil revenues, and conflict resolution in Cabinda.<sup>47</sup> While there has been encouraging improvement over the last three years in areas such as freedom of movement, organisation and expression, civil society and political party leaders worry about state security laws that prevent debate about oil revenues and the fact that the largest media organisations continue to be controlled by government. In mid February, for example, the Catholic radio station Radio Ecclesia came under government attack, marking the latest chapter in a troubled relationship. Minister of Information Hendrik Vaal Neto said the station was practicing "antenna terrorism" against the government.<sup>48</sup> Civil society institutions remain vulnerable to state control throughout Angola.

It is likely that attempts will be made during the coming campaign by disaffected MPLA and UNITA elements to form new alignments, by civil society

<sup>40</sup> ICG interviews in Luanda, December 2002.

<sup>41</sup> ICG interview in Angola, December 2002.

<sup>42</sup> ICG interviews in Luanda, December 2002.

<sup>43</sup> ICG interview, January 2003.

<sup>44</sup> ICG interview in Angola, December 2002.

<sup>45</sup> ICG interview, January 2003.

<sup>46</sup> "Angola Country Report December 2002," *The Economist Intelligence Unit*, p. 4.

<sup>47</sup> ICG interviews in Angola, December 2002.

<sup>48</sup> IRIN, 17 February 2003.

actors to join the political fray, and by some smaller parties to merge in order to challenge the MPLA's dominance. If the government allows space for this, political process, rather than extra-legal protest, will be available to address legitimate issues and grievances, thus increasing internal stability.

#### D. DEMOCRATIC INTENTIONS

Against the background of the long war and with the memory of the 1992 election still fresh, full political liberalisation will be a difficult road to follow.<sup>49</sup> However, the government has committed itself and is moving forward with UNITA as its informal partner. The transition to democracy will involve a number of stages, including codification of key freedoms (information, assembly and movement), a credible electoral process, and a representative constitution.

Although many Angolans argue that elections need to be held by early 2005, others believe that they will not occur until 2006 in order to give President dos Santos enough time to establish his legacy fully and then retire.<sup>50</sup> According to various official and non-official Angolans, as well as representatives of the diplomatic and donor communities, these elections, whatever their date, can be successful if, as one civil society leader put it, "we do our job properly".<sup>51</sup> According to an authoritative pre-election assessment report issued in March 2002 by a joint delegation of the International Foundation for Electoral Systems, the International Republican Institute, and the National Democratic Institute, that means:<sup>52</sup>

- Restoration of basic freedoms. While the assessment mission found that Angola had "made significant progress since 1992 with respect to the rights of citizens, including the freedom of association, expression and movement," it said the process is still not complete. Relocation of the IDPs, as well as freedom of movement, speech, and activity

outside Luanda, will be major determinants of a successful electoral process. Equal access to media for all parties will be important for levelling the playing field.

- Concluding the constitutional debate. The Constitutional Commission, established in 1998 to debate constitutional reforms, needs to complete its work. Among the significant outstanding issues is how power will be distributed among the executive, legislative, and judicial branches at the national and provincial levels. At high-level talks in December 2002, the MPLA and UNITA agreed that the president should remain head of state and government, as well as party leader and should appoint provincial governors, based on the recommendation of the majority party in each province. They further agreed on a unicameral legislature and a consultative body (National Council) in which "traditional rulers" could participate. Smaller parties objected that this bilateral deal sidestepped the Commission.<sup>53</sup>
- Revising the electoral law to match up with constitutional reforms.
- Establishing a date certain for elections. Any date will have to allow sufficient time for voter education, a new census, registration of parties to register, resolution of the voter registration issue, and establishment of procedures for election observation and monitoring.

While statements by President dos Santos over the last eighteen months aroused considerable speculation that he would not run again, the present expectation is that he will. According to a diplomatic observer:

The President's hand has been strengthened in the past year. He believes he has defeated the U.S. and [apartheid] South Africa, has seen off the Russians and the Cubans, and overseen the development of the oil sector. Now he wants to be elected, to be validated.<sup>54</sup>

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<sup>49</sup> "The last election experience was very difficult for the people", said one Angolan church official. "People will be very careful to show their loyalties this time around". ICG interview in Angola, December 2002. On the 1992 election, see footnote 14 above.

<sup>50</sup> ICG correspondence, February 2003.

<sup>51</sup> ICG interview, Luanda, December 2002.

<sup>52</sup> International Foundation for Election Systems, International Republican Institute, National Democratic Institute, "Angola: Pre-Election Assessment Report", March 2002, p. ii, www.ndi.org, www.iri.org, www.ifes.org.

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<sup>53</sup> UN Security Council, "Report of the Secretary General on the United Nations Mission in Angola", 7 February 2003.

<sup>54</sup> ICG interview in Luanda, December 2002.

### III. CONSOLIDATING THE PEACE

After decades of war, many areas must be prioritised if peace is to be consolidated. The government cannot do everything, but it must do much more than it currently is. Civil society must continue to organise and network, but also seek ways to contribute concretely to national reconstruction and reconciliation. UNITA and other political parties need to diversify their bases, move into the provinces, and make their contribution to a more substantive national dialogue. International organisations and other governments should point out shortcomings, but – equally importantly – support positive trends when they appear, diplomatically and financially.

#### A. AN INTERNATIONAL PARTNERSHIP

The government should commit itself to a few fundamental tasks in ways that donors can measure. A planned donors conference, which may occur as early as the first half of 2003, gives the international community significant leverage. In the latter half of 2002, the government pressed hard for a date-certain but more recently has not talked about a specific timeline, largely because it knows not much will result absent a green light from the IMF. The Iraq war has further delayed matters. There has been some discussion about a possible two-stage process: a preparatory conference focusing perhaps on immediate humanitarian and peace process issues, then the conference itself on reconstruction.

Whenever the donors conference is held, it should aim for a strategic partnership built around three or four fundamentally important areas, arguably demining,<sup>55</sup> roads, health and education. The first two, if implemented, would help unleash the agricultural potential of the country, as people could move further into the countryside, and trade would be facilitated. The latter two areas would form the core services a revitalised state structure would be expected to deliver.

Most importantly, the inputs and efforts of the government, civil society and the international community should be part of a larger development strategy. The government's recent announcement

that it was making U.S.\$20 million available per province lost much of its potential impact because in the absence of such an overall strategy, provincial officials were uncertain of priorities.<sup>56</sup> According to some in civil society, the government should focus on a few basic interventions, and the aid community should then supplement and build around that foundation.

#### B. STATE CAPACITY BUILDING

“A fundamental problem in Angola is the inability of municipal administrations to do anything”, said one top aid official. “Therefore, there is a need to capacitate the civil administration”.<sup>57</sup> As it seeks to build up state capacities, the government will need to concentrate on the existing national and provincial administrations. Priority should be given to basic social services (health and education), agricultural development, and micro-enterprise. The government should also invest in infrastructure that would help move goods and people around the country. Over time, it will be essential to extend state administration in the areas of the judiciary, police and other elements of the rule of law as well. Further, development of responsive governance at the provincial and municipal level is a key antidote against the return of instability. Unless the government and its international partners meet the challenge of reintegrating the UNITA ex-combatants, increased crime and the rise of warlordism are likely.

In order to gather some momentum and make its actions more transparent and inclusive, the government could consider establishing an independent development corporation tasked to deliver services and administer areas at the provincial and municipal levels. Such a corporation could organize pilot projects in service delivery and skills development for provincial and municipal government officials, support the placement of qualified technical personnel in municipal offices, help determine competitive salary structures, and focus on attracting the Angolan diaspora back to increase its professional cadre.

The corporation could be funded from oil revenues and managed by a government-appointed executive, with a diverse board including individuals from

<sup>55</sup> Demining should begin with a comprehensive mine mapping strategy. See ICG Report, *Dealing with Savimbi's Ghost*, op. cit.

<sup>56</sup> ICG interviews in Angola, December 2002.

<sup>57</sup> ICG interview in Luanda, December 2002.

government agencies,<sup>58</sup> civil society, and political parties. The UNDP and the World Bank could provide advice. It would be imperative both to build fiscal transparency into the service delivery process and to assure vested bureaucratic interests that the new institution was not a competitor to be fought but a complementary catalyst for increasing investment in provincial and municipal governance.

### C. SUPPORT FOR PLURALISM

Consistent and sustained support for the transition to democracy will be critical. As the electoral process proceeds, the international community should consistently advocate the setting of a date certain for the vote, constitutional and electoral law reform, removal of the unilateral U.S. sanctions on UNITA,<sup>59</sup> and support for basic freedoms. A priority among all these items, however, should be advancing democracy in the provinces, which for the most part have never experienced any of the fundamental freedoms on a consistent basis. Getting it right in Luanda is not enough; there must also be free and fair political activity in outlying areas during the campaign and through election day. South African officials are eager to help in this process if asked and could bring a useful African supplement to the work of the usual international specialists.<sup>60</sup>

One of the most significant challenges civil society faces is lack of resources and nation-wide capacity. This could improve incrementally if media outlets such as Radio Ecclesia receive licenses and infrastructure to broadcast throughout the country, and if the Inter-Ecclesiastical Committee for Peace (COEIPA), the multi-denominational civic organisation, continues to speak with a unified voice on behalf of the churches. Not only would such developments help stimulate national debate on how post-war Angola should be structured, but they could also encourage civic education. More generally, support to civil society organisations would buttress their capacity to hold government accountable on

basic public welfare, economic reform, human rights and democracy issues. Such assistance for civic education is an example of the basic, long-term work that must be done to build a viable polity with the checks and balances needed to make government more responsive and responsible.

Former UN Special Representative Ibrahim Gambari met frequently with representatives of civil society to explore the role they might play in reinforcing peace and national reconciliation.<sup>61</sup> This was constructive, both for the peace process and for the international effort to help Angolan civil society develop, and a follow-on UN presence should continue the practice.

Political parties – including but not limited to UNITA – also need support. International assistance is not always directed as consistently to their efforts at capacity building as it is to civil society, but this is a mistake that should not be repeated in Angola.<sup>62</sup>

### D. ECONOMIC DIVERSIFICATION AND POVERTY REDUCTION

Diversification of an economy in which oil accounts for 90 per cent of exports and 80 per cent of tax revenues is a prerequisite for development and fundamental to creating the kind of economic growth that has wider economic benefits for the people of Angola. The government needs to formulate and prioritise a poverty reduction strategy – a key IMF requirement for any country undertaking structural adjustment. Coordinated planning to lay the groundwork for development that will benefit more than just the wealthiest segment of the population is essential in a country where poverty is endemic and should be part of the larger effort at preparing for the promised donors conference.<sup>63</sup>

The U.S. and others are keen to support efforts to cultivate private property ownership, private capital markets, and a liberalised banking sector. The Angolan government should consider, for example, the list of political and economic reforms that the U.S. said on 7 January 2003 it needed to carry out if it is to qualify by 2004 for privileges under

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<sup>58</sup> In addition to the relevant ministries, personnel could also be seconded from the National Institute of Statistics, the state auditor, and the inspector general.

<sup>59</sup> The U.S. government is in the process of modifying its domestic regulations in order to lift the sanctions against UNITA. The paperwork has already been approved by the Departments of Treasury and State, and is awaiting White House action since an Executive Order is required.

<sup>60</sup> ICG interviews in Pretoria and Johannesburg, December 2002.

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<sup>61</sup> “Joint Commission Starts Consultations with Civil Society”, Angola Press Agency, 3 November 2002.

<sup>62</sup> Testimony of David Kramer, International Republican Institute, to the U.S. Senate Foreign Relations Committee, 16 October 2002.

<sup>63</sup> *Africa Confidential*, Vol. 44, N°4, 21 February 2003.

Washington's African Growth and Opportunity Act (AGOA), a program designed to stimulate investment and diversification of ownership in the light manufacturing sector.<sup>64</sup> Investment and trade would be further reinforced if the government restructured its investment and commercial codes. The Council of Ministers did approve a new investment code in February 2003, but it still awaits passage by the National Assembly.

Another initiative designed to stimulate economic development and diversify the economy has been forged by the U.S. Agency for International Development and ChevronTexaco, who have created an alliance to provide support and training for enterprise development in Angola. Each party has committed up to U.S.\$10 million over five years to develop private sector agricultural initiatives and deliver savings and credit products as well as offer professional training and educational programs to small and medium sized agricultural enterprises, among other activities.<sup>65</sup> The programs, some of which will also be in partnership with the UN Development Program (UNDP), are targeted at resettlement of persons in rural areas.

Giving the agricultural sector a higher priority is a prerequisite not only for immediate recovery but also for obtaining the longer-term benefits of diversification. "Agriculture is the key to development", said one top UNITA official.<sup>66</sup>

There are numerous questions about who is receiving the major land concessions and for what purpose (ranching, large-scale commercial agriculture, and the like). The process lacks transparency, despite its centrality in any larger economic development strategy. For example, there are disputed reports that the Government has tried to persuade white farmers who lost their land in Zimbabwe to resettle in Angola in order to revitalise the commercial farming sector.<sup>67</sup> The government must develop an equitable, consistent land use policy balanced between agri-business and smallholders. Coastal people should not end up stereotypically owning

most of the land in the interior, as one sceptical high ranking diplomat predicted: "On the Planalto, the mestiço coastal people will own the land of the black Ovimbundo people. Herein lie the seeds of the next conflict in Angola".<sup>68</sup>

Current legislation, if passed and enacted as is, could contribute to precisely this outcome. The Land Forum, a coalition of Angolan NGOs, persuaded the government in 2002 to put aside a controversial draft land bill and engage in lengthy consultations. But in his 2003 New Year's message, President dos Santos ordered a halt to this process, saying the existing draft must go before parliament without further amendment.<sup>69</sup> Private ownership should be codified but not at the expense of small farmers, as the Forum alleges, and should allow for community ownership in rural areas where that is the reality. Further consultation could result in an agreed way forward involving all of the principal agricultural stakeholders in Angola. A subsequent ICG report will address the wider issues of land reform in Southern Africa in detail.

Decisions must be made now, however, to fund an agricultural assistance program fully in advance of the September planting season. Getting seeds in place is a major challenge given their scarcity in the region and the food security crisis throughout Southern Africa.<sup>70</sup>

## E. TRANSPARENCY AND ECONOMIC REFORM

Improved accountability holds the key to economic recovery. The government failed to meet the targets it agreed to in its IMF Staff-Monitored Program (SMP) in June 2001, largely, but not exclusively, as a result of its unwillingness to disclose expenditures.<sup>71</sup> The central problem in Angola's management of the economy is that portion of oil wealth that goes unaccounted for.<sup>72</sup> Transparency International ranked

<sup>64</sup> Reuters, "US warning Swaziland, Eritrea on trade privileges," 7 January 2003. A senior U.S. official cautioned, however, that Angola is at an early stage of economic restructuring: "80 per cent of loans are in default. We need to start with the basics in Angola". ICG interview, February 2003.

<sup>65</sup> Press Release, U.S. Agency for International Development, 25 November 2002.

<sup>66</sup> ICG interview in Angola, December 2002.

<sup>67</sup> ICG interview, Huambo, December, 2002

<sup>68</sup> ICG interview in Luanda, December 2002.

<sup>69</sup> ICG correspondence, February 2002.

<sup>70</sup> IRIN, 5 March 2003.

<sup>71</sup> Other problems included loose fiscal and monetary policies and lack of commitment to fighting poverty. "Angola Country Report", *Economist Intelligence Unit*, January 2002.

<sup>72</sup> Government officials of course point out that it takes two to make a transaction corrupt. "What the Angolans took from these deals was peanuts compared with what the Europeans took", said one top Angolan official. ICG interview in Luanda, December 2002.

Angola tied for third from the bottom in its 2002 "Corruption Perceptions Index".<sup>73</sup> The IMF recently accused the government of siphoning off around U.S.\$1 billion in oil revenues in 2002 and over U.S.\$4 billion in the last five years. It singled out the state oil company, Sonangol, as the largest source of diverted funds, after it assumed control of foreign currency receipts from the entire sector. It also noted that little progress has resulted from extensive IMF engagement with and technical assistance to the government.<sup>74</sup>

One former government official described this largest arena of corruption:

The oil money doesn't go to the Finance Ministry or the Central Bank. It goes to private banks, mostly offshore. The government only gets duties and taxes. The effort is called the Operation for the Security of the State. In order to address this problem, the cord to those accounts must be cut, and the revenues must go to the Ministry of Finance. The state secrecy laws are designed to stifle any debate about this.<sup>75</sup>

The diversion of oil revenues exacts a heavy toll. Angola's foreign reserves were between U.S.\$100 million and \$200 million in February 2003, down from over U.S.\$1 billion in July 2002. To compensate, the government is negotiating a U.S.\$1 billion loan backed by its oil revenues with a consortium of European banks, led by the French group BNP Paribas. Middlemen will reportedly receive large arrangement fees. Interest rates for these kinds of loans are much higher than for those from the IMF and World Bank, highlighting another reason for renewed seriousness by the government in engaging with these institutions. Since most of the new loan will be used to repay old loans, little will be left to invest in a badly needed peace dividend. Foreign debt is nearly U.S.\$5 billion, with Spain and Portugal the major creditors.<sup>76</sup>

Luanda is under mounting pressure by the donor community to increase transparency. While the EU and some others provide a certain amount of assistance, many bilateral and multilateral donors are unwilling to pledge significant funds for reconstruction until a new SMP is agreed or Angola otherwise gets a green light from the IMF, which will not occur until the government comes up with a concrete plan to disclose revenues and itemise spending in the 2003 budget.<sup>77</sup> New Finance Minister Jose Pedro de Morais faces uphill battles to overturn entrenched policies.

The NGO Global Witness has spearheaded an international campaign to press the government on transparency.<sup>78</sup> Although the campaign has heightened the government's sensitivity to its poor image in this respect, "it doesn't address the spending patterns so that revenues are used in a socially responsible way", said one top diplomat. "The campaign is also trying to make oil companies the engine for social development, which they are not. The goal should be to invest in people, and transparency is a mechanism to do that".<sup>79</sup>

There has been some progress in laying the foundation for transparency. A "diagnostic" of the oil sector that the Government is undertaking in association with the World Bank, the IMF and the international consulting firm, KPMG is considered a step forward.<sup>80</sup> The IMF and independent analysts also consider that there has been significant improvements in transparency and accountability in the Ministry of Finance and the Reserve Bank.<sup>81</sup> The recent appointments of de Morais as finance minister and former Reserve Bank Governor Aguinaldo Jaime

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<sup>73</sup> Transparency International, "Corruption Perceptions Index", 2002; *The New York Times*, 30 November 2002. Angola was ranked together with Madagascar and Paraguay in a tie for 98<sup>th</sup> position, ahead of Nigeria and Bangladesh.

<sup>74</sup> Justin Pearce, "IMF: Angola's 'Missing Millions'", BBC, 18 October 2002.

<sup>75</sup> ICG interview in Angola, December 2002.

<sup>76</sup> *Africa Confidential*, Vol. 44, N°4, 21 February 2003.

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<sup>77</sup> The *Economist Intelligence Unit* reports that while the government has itemised its spending in percentages in the 2003 budget (with significant reductions in military spending and at least theoretical increases in spending on socio-economic improvement), it has not yet detailed its specific planned expenditures. Such a lack of transparency could easily lead to more corruption. "Angola Country Report", *Economist Intelligence Unit*, January 2002.

<sup>78</sup> Another international initiative is "Publish What You Pay", which demands more transparency specifically from oil companies.

<sup>79</sup> ICG interview in Luanda, December 2002.

<sup>80</sup> The oil diagnostic is designed to track flows of revenues in that sector. The study is progressing slowly. The process of opening up the books is difficult, and key pieces of information are still missing. Testimony of Assistant Secretary of State Walter Kansteiner to the U.S. Senate Foreign Relations Committee, 16 October 2002.

<sup>81</sup> ICG interviews in Angola, December 2002.



as deputy prime minister are likely to strengthen those within the government who not only want to establish a successful relationship with the IMF but also to enhance transparency in all areas of economic management.<sup>82</sup>

Diamonds are another problem sector. A senior government official confided, "There are a few powerful economic factions here in Angola dealing in the diamond sector. President dos Santos has difficulty stopping these people. They can make or break any deal in that sector".<sup>83</sup> Some progress has, however, been made on greater transparency through government cooperation with the Kimberly Process.

The government has put in place a financial system and liberalised exchange and interest rates. An official who is leading the new economic team promised, "Our next step is to recognise that the oil sector is not using the Angolan financial sector. We will seek to have all oil-related financial flows that are currently done offshore occur in Angolan banks".<sup>84</sup> In mid-February 2003, the government also reopened the foreign exchange bureaus and rules aimed at increasing the transparency of its financial transactions. Further, the government decided to establish an agency for private investment in the president's office that would review investor applications and promote private investment.<sup>85</sup>

The government has established an "accountability court" in response to legislation passed to reduce corruption. It could demonstrate its seriousness about transparency if it were to give this court real enforcement power, particularly for the large public companies. As one top Angolan government official acknowledged, "The big public companies need professional management. The problem is accountability for that management".<sup>86</sup>

Transparency, of course, is a two-way street, requiring as well greater accountability on the part of the major investors, especially in the oil sector. Indeed, even donor governments are not always as consistent as they should be in pushing for

transparency and related economic reforms. "There is no coherent position from various donor and creditor governments because of commercial expediency" one long-term analyst of Angolan affairs asserted.<sup>87</sup> Political parties and civil society must also be vigilant, regarding both their own activities and those of the government and the big companies. "Transparency in the provinces will be as important as it is in Luanda", said one observer in Benguela Province. "Paying civil servants, and paying them on time, is a crucial first step".<sup>88</sup> An aid official in Bie Province elaborated, "Reform is slowly coming, and it is coming from the bottom up from local administration".<sup>89</sup>

Nevertheless, the first and primary responsibility for reform lies with the Angolan government itself, and a number of questions have to be resolved before there can be much confidence that it has made fundamental decisions to change its approach to economic management. The challenges are clearly laid out on the Finance Ministry web page, which posts two of the smaller reports prepared by the IMF on recent missions to Angola. One mission, which reviewed the unsuccessful SMP, took place in July 2001. The second mission was the annual Article IV consultations completed in February 2002. The documents make the following points:<sup>90</sup>

- ❑ the large fiscal deficits, approximately 7 per cent of GDP [in 2001], and insufficient controls on public spending will prevent the government from achieving its inflation target of 75 per cent and "will ... compromise the stabilisation effort";
- ❑ the government's high level of indebtedness and its significant payment arrears on that debt, as well as its external borrowing decisions, have contributed to fiscal instability and discouraged investment and savings;
- ❑ there is an urgent need to reallocate expenditures in favour of the social sectors, including humanitarian assistance, given that there has been no improvement in poverty indicators; and

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<sup>82</sup> According to one diplomat, however, the appointments are an attempt to make a gesture toward reform, while "leaving the Bermuda Triangle in place", referring to the system that diverts oil revenues. ICG interview in Luanda, December 2002.

<sup>83</sup> ICG interview in Luanda, December 2002.

<sup>84</sup> ICG interview in Luanda, December 2002.

<sup>85</sup> IRIN, 11 February 2003.

<sup>86</sup> ICG interview in Luanda, December 2002.

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<sup>87</sup> ICG interview in Luanda, December 2002.

<sup>88</sup> ICG interview in Lobito, December 2002.

<sup>89</sup> ICG interview in Kuito, December 2002.

<sup>90</sup> "Angola: Preliminary Conclusions of the IMF Mission", International Monetary Fund, 14 August 2001. "Angola – 2002 Article IV Consultation", International Monetary Fund, 19 February 2002. Both retrieved from [www.minfin.gv.ao](http://www.minfin.gv.ao).

- the government needs to identify and eliminate, or include in the treasury account, all extra-budgetary and quasi-fiscal expenditures; record and transfer to the treasury all revenues, including the total amount of signature oil bonuses; ensure that all foreign currency receipts and government revenues, including Sonangol receipts, are channelled through the Central Bank as mandated by Angolan law; and publish data on oil and other government revenues and expenditures.

Reformers argue that the peace dividend can be better financed with lower-rate IMF loans than with the high cost oil-backed private loans but to qualify the government will have to become more transparent. They also argue for building a private sector as the appropriate engine for economic development. This requires laws governing private property and asset ownership and management.

The government is still internally divided, however, about the degree to which it should pursue an SMP. One top official in the reform camp explained:

Even if we disagree with the IMF, we must recognise that the constructive dialogue and the SMP brought positive results, thanks to the IMF. It brought us discipline, it helped us focus on certain goals, it kept expenditures under control, and it increased accountability for state resources. The IMF provided useful technical assistance, which was especially important in our efforts to build an accounting system ... The new economic team we have in place will have a more coherent approach. Some of the others believe in having no transparency. In their view, sovereignty supersedes transparency. If that is the case, then we shouldn't ask for any international help.<sup>91</sup>

The World Bank is positioning itself to move forward with a U.S.\$125 million rehabilitation program to provide needed lending for immediate post-war stability and reconciliation. More than half is for the reintegration of UNITA ex-combatants, part is for the ongoing Social Action Fund (FAS), and the rest is technical assistance. The full disbursement is predicated on performance criteria that the government will have to meet during the implementation process. Some analysts view this as an alternative set of economic conditions at variance

with those of the IMF. They believe that this kind of discontinuity between major donors gives mixed signals to the Angolans and undermines reform. Others argue that World Bank officials have made clear to the government that there will be no follow-on programs in the absence of an agreement with the IMF and that if there are no results in the current program they will pull out. Furthermore, the World Bank will not provide large-scale assistance, for example to infrastructure projects, unless there has been compliance with IMF terms.<sup>92</sup>

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<sup>91</sup> ICG interview in Luanda, December 2002.

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<sup>92</sup> ICG correspondence, February 2003.

#### IV. CONCLUSION

Reform will not come quickly to Angola, and the processes leading to progress will be hard-fought. This reality calls for a long-term strategy of international engagement. Civil society should be liberally supported to increase accountability; government should be engaged and pressed to deliver the fundamental economic and political reforms progressive officials say they want to make; and more open electoral processes and more responsive governing structures should be encouraged. Ambassador Paul Hare, former U.S. Special Envoy to Angola, concluded, "The important point should always be 'what is the trend line?' Is Angola moving forward, however slowly, erratically, and incrementally, or is it mired in the status quo?"<sup>93</sup>

Those with influence in Angola – whether donors or oil companies – can play a positive role in influencing the commitment to reform. Quiet engagement and partnership is most effective, particularly when there is focused effort on specific issues. But when bottlenecks have arisen, the government has clearly reacted – albeit bitterly – to external public pressure, particularly if focused and coordinated.<sup>94</sup> The government's strong desire for a donors conference in 2003 offers significant early leverage.

Angola's government is rather unique in Africa in that it cares so little about whether individual aid agencies stay or leave and has yet to internalise the strategic importance of building support through the provision of basic human services. The practice of reciprocity between rulers and ruled is nascent, in part due to the legacy of the colonial and Cold War experience. This needs to change or the seeds of future conflict could be planted in areas where the inhabitants most acutely perceive themselves to be marginalised, particularly in the old UNITA stronghold of the Planalto.

There are promising new factors, however, that suggest the government may indeed be reviewing its priorities. It is increasingly sensitive about its international image for a number of reasons. It sees

itself as finally free to assume its rightful place on the African and world stages. "There is a sense of Angolan exceptionalism", noted one long-time analyst. "They see themselves as regional kingmakers, having involved themselves in both Congos, Equatorial Guinea, Sao Tome, and Cote d'Ivoire".<sup>95</sup> The government's new regional and international responsibilities in the UN Security Council, the Southern African Development Community (SADC) and the African Union will shape its strategy of engagement. At the same time, President dos Santos by many accounts is increasingly interested in protecting and expanding his legacy, which will require more robust domestic liberalisation.<sup>96</sup> The upcoming elections will increasingly focus attention on the political environment.

Reform, therefore, is for the first time a strategic imperative for the government, with potential benefits ranging from enhancing its international stature, through expanding its domestic electoral support, to addressing the reasons for past – and potentially future – conflict and instability. Reform – and thus a viable and inclusive peace – is not guaranteed, but the factors making it possible are stronger than they ever have been.

**Luanda/Brussels, 7 April 2002**

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<sup>93</sup> ICG correspondence, 11 February 2003.

<sup>94</sup> For example, when the government announced that it was going to close the quartering areas for UNITA ex-combatants in October 2002, the external criticism was critical in reversing the decision.

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<sup>95</sup> ICG interview in Luanda, December 2002.

<sup>96</sup> ICG interviews in Angola, December 2002.

APPENDIX A  
 MAP OF ANGOLA

