

## ANGOLA'S POLITICAL ECONOMY OF WAR: THE ROLE OF OIL AND DIAMONDS, 1975–2000

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### ABSTRACT

This article examines the significance of the political economy and geography of two valuable resources—oil and diamonds—for the course of the Angolan conflict. Matching the regional boundaries and ethnic differentiation articulated by the two competing parties—the People's Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA)—the spatial distribution of these abundant resources guided and financed their military strategies. The exploitation of oil and diamonds not only financed and motivated military operations beyond their Cold War and South African context, but also affected the legitimacy of the government and the economy. This conjunction of politics, geography, and military strategies sustained—and was sustained by—financial flows linking fighters and war-profiteers to markets in industrialized countries. International corporations and foreign powers, for a long time sheltered from the direct impact of the conflict and the ethical dimension of their involvement, played an enabling role in the strategy of the belligerents. Detailing recent initiatives denouncing this role and attempts for reform, the article stresses the significance of resources in conflicts and calls for greater corporate and international responsibility in this regard during wartime and transition to peace.

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SINCE THE INTEGRATION OF ANGOLA into the Western economy five hundred years ago, the demands placed on its wealth have been associated with repression and suffering.<sup>1</sup> Portuguese slavers plundered Angola of its

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1. For an excellent analysis of Angola's political economy since independence, see T. Hodges, *Angola from Afro-Stalinism to Petro-Diamond Capitalism* (James Currey, Oxford, 2001); for a focus on the role of oil and diamonds, see J. Cilliers and C. Dietrich (eds), *Angola's War Economy: The role of oil and diamonds* (ISS, Pretoria, 2000). For a historical perspective, see G. J. Bender, *Angola under the Portuguese: The myth and the reality* (Heinemann, London, 1978); D. Birmingham, *Portugal and Africa* (Macmillan, Basingstoke, 1999); W. G. Clarence-Smith, *Slaves, Peasants and Capitalists in Southern Angola, 1840–1926* (Cambridge University Press, Cambridge, 1979); K. Somerville, *Angola: Economics and society* (Frances Pinter, London, 1986); M. de Andrade and M. Ollivier, *The War in Angola. A socio-economic study* (Tanzania Publishing House, Dar es Salaam, 1975).

people and shipped them to Brazil's plantations. Colonialists expropriated Angola's best land to provide an agricultural surplus for Portugal and an outlet for its impoverished population. The industrial economy of the twentieth century and the spread of luxury consumption provided a demand for Angola's oil and diamonds that partly fuelled four decades of war. Angola's wealth appears to be a curse for its people.

Wealth is not the curse in itself, however. Nor are greed and economic agendas the only driving forces in the long history of Angolan conflicts. Local populations consistently opposed the authoritarian colonialism of Portugal.<sup>2</sup> Geo-strategic and ideological agendas motivated the participation in the conflicts of, among others, South Africa, Zaïre, the US, Cuba, and the Soviet Union.<sup>3</sup> Competing Angolan parties repeatedly used identity politics to deploy or justify violence.<sup>4</sup> Finally, the personal ambitions of the contending leaders and their entourages, as well as their mutual distrust, have motivated and prolonged the successive violent conflicts.<sup>5</sup>

The specificity of the Angolan context does not preclude, however, the more general relation between abundant natural resources and armed conflicts. Rents generated by narrow and mostly foreign-dominated resource industries allow ruling groups to dispense with economic diversification and popular legitimacy, often resulting in rent-seeking, poor economic growth, and little social mobility outside politics and state patronage.<sup>6</sup> If institutionally mismanaged, such political economy risks degenerating into violent conflict, as both greed and grievances among marginalized politico-military actors and the population motivate initiatives for political and economic reforms which are resisted by the benefiting groups.<sup>7</sup> Indeed, quantitative analysis demonstrates that easily taxed or looted primary commodities increase the likelihood of war by providing the motivation, prize, and means of a violent contest for state or territorial control.<sup>8</sup>

2. L. H. Henderson, *Angola: Five centuries of conflict* (Cornell University Press, Ithaca, NY, 1979); R. Pélissier, *Les guerres grises: résistance et révolte en Angola, 1845-1941* (Pélissier, Orgeval, 1977).

3. W. M. James, *A Political History of the Civil War in Angola, 1974-1990* (Transaction Publishers, New Brunswick, NJ, 1992).

4. C. Messiant, 'Angola, les voies de l'ethnisation et de la décomposition. II. Transition à la démocratie ou marche à la guerre? L'épanouissement des deux "partis armés" (mai 1991-septembre 1992)', *Lusotopie* (1995), pp. 181-212.

5. I. Tveden, *Angola: Struggle for peace and reconstruction* (Westview Press, Boulder, CO, 1997).

6. See, for a review, M. L. Ross, 'The political economy of the resource curse', *World Politics*, 51, 2 (1999), pp. 297-322.

7. P. Le Billon, 'The political economy of resource wars', in Cilliers and Dietrich (eds), *Angola's War Economy*, pp. 21-42.

8. P. Collier, *Economic Causes of Civil Conflict and Their Implications for Policy* (World Bank, Washington, DC, 2000).

The historical context of Angola's duality of wealth and misery is presented in the following section, bringing into perspective the role of oil and diamonds in a violent political economy rewarding politico-military rulers and their accomplices while punishing the immense majority of the population. This role is analyzed in greater detail in the next two sections. Section five discusses the initiatives and responsibilities of outsiders, such as corporations and intergovernmental organizations. The conclusion emphasizes the role of resources in conflicts and the need for greater regulation of international trade in this regard.

*The Angolan duality of wealth and misery*

Much reporting of Angola contrasts the 'great economic potential' of this country 'blessed by the wealth of its natural resource endowment' with the misery of most Angolans.<sup>9</sup> Ranked the fifteenth most underdeveloped country with the second worst level of under-five child mortality, Angola is also the second largest sub-Saharan oil producer and the fourth world diamond producer by value.<sup>10</sup> While oil and diamond revenues have captured the attention of commentators as symbols of wealth starkly contrasting with the misery of Angolans, their combined revenues would not generate more than US\$500 in per capita annual income—no more than the sub-Saharan average. This opportunity, smaller than sometimes depicted, has nonetheless been squandered by the hegemonic and militaristic conduct of rulers and their supporters, leading to a high concentration of wealth amongst the elite, and the economic ruin of the country.

This duality of wealth and misery owes much to the prevalence of pervasive violence in economic and political relations throughout colonial rule and its aggravation from the beginning of a war of independence in 1961.<sup>11</sup> The Alvor Accords signed in 1975 between the post-Salazarist Portuguese government and the Angolan political parties—the People's Movement for the Liberation of Angola (MPLA), the National Union for the Total Independence of Angola (UNITA), and the National Liberation Front of Angola (FNLA)—to organize an independent coalition government rapidly collapsed, each faction pursuing a hegemonic agenda resulting in violent

9. S. McCormick, *The Angolan Economy: Prospects for growth in a postwar environment* (Center for Strategic International Studies, Washington, DC, 1994); P. Hare, *Angola's Last Best Chance for Peace. An insider's account of the peace process* (USIP, Washington, DC, 1998); B. Munslow, 'Angola: the politics of unsustainable development', *Third World Quarterly*, 20, 3 (1999), pp. 551–68.

10. C. Dietrich, Chapters on diamonds, in Cilliers and Dietrich (eds), *Angola's War Economy*; UNDP, *Human Development Report* (UNDP, New York, 1999); UNICEF, *Un futuro de Esperança paras as Crianças de Angola* (UNICEF, Luanda, 1999).

11. D. Barnett and R. Harvey, *The Revolution in Angola. MPLA, life histories and documents*. (Bobbs-Merrill, New York, 1972).

opposition and internecine conflicts.<sup>12</sup> Seizing power in Luanda on the scheduled day of independence, after defeating the Western-backed FNLA and stopping a South African offensive with the assistance of Cuban troops, the MPLA faced considerable problems in asserting its sovereignty and legitimacy. While the FNLA had largely withdrawn into exile, South African, Zaïrean, and Western military assistance to UNITA against the MPLA *de facto* government backed by the Soviet bloc turned this conflictual transition into a lasting political and military stalemate.<sup>13</sup> Internally, the division between partisans of a populist socialism and the *nomenklatura* led by Agostinho Neto resulted in a failed coup in 1977 by the former, purges in the party, and the rise of presidential rule.<sup>14</sup> The control of the coast and provincial towns by the government, and the progressive takeover of the hinterland by UNITA, reflected the duality of political power and claims for legitimacy. Beyond their international backing, the MPLA elite in Luanda or abroad prospered from the growing oil revenues, while UNITA sustained its bid for power from diamond revenue and control of populations in the hinterland.<sup>15</sup> Half-hearted disengagement by Cold War patrons and South Africa following the New York Accords in 1988 (re)initiated the 'Angolanization' of the conflict, giving further importance to local economic resources.

Beyond the dividing context of the Cold War, a deep distrust between MPLA and UNITA leaders undermined two peace processes based more on consensus and accommodation than international constraints. The hopes brought by the 1991 Bicesse peace agreement were dashed when Savimbi's UNITA resumed the war after refusing to acknowledge his electoral defeat in 1992 by President dos Santos' MPLA, and the latter retaliated by indiscriminate killings of UNITA supporters and Ovimbundus in

12. The nationalist movements were: the MPLA, a socialist movement headed by Agostinho Neto and since 1979 by Eduardo dos Santos, without a definite ethnic base but with a strong affiliation with populations in the Luanda region, defining a mixed Mbundo, urban, and *mestiço* identity; the UNITA, with an ethnic base of Ovimbundus—the largest group in Angola—from the central highlands (*planalto*) and politically the 'one-man show' of Jonas Savimbi; and the FNLA, headed by Roberto Holden, with an ethnic base of Bakongo located in the northwest and in Zaïre, initially attempting to recreate the former Kongo kingdom through secession before demanding national independence. A fourth party, the FLEC (Cabinda Enclave Liberation Front), headed by Ranque Franque, has a secessionist agenda for the enclave of Cabinda and was not party to the Alvor Accords. See James, *A Political History*; F. A. Guimaraes, *The Origins of the Angolan Civil War. Foreign intervention and domestic political conflict* (Macmillan, Basingstoke, 1998); A. D. Kwamba, D. M. Casmirio, N. J. Pedro and L. B. Ngonda, 'Angola', in A. Adedeji (ed.), *Comprehending and Mastering African Conflicts. The search for sustainable peace and good governance* (Zed Books, London, 1999); J. Marcum, *The Angolan Revolution, vols 1 and 2* (MIT Press, Cambridge, MA, 1969 and 1978).

13. W. Minter, *Apartheid's Contras. An enquiry into the roots of war in Angola and Mozambique* (Zed Books, London, 1994).

14. Hodges, *Angola*.

15. F. Bridgland, *Jonas Savimbi: A key to Africa* (Hodder and Stoughton, London, 1988).

Luanda.<sup>16</sup> The ensuing two years of warfare led to more devastation than had occurred throughout three decades of the independence struggle and Cold War conflict, as the bush war turned into battles for the control of the cities.<sup>17</sup> As President dos Santos decided in late 1998 to resume the war in order 'to save peace', following the reluctance of UNITA to abide by the Lusaka Protocol initiated in 1994, Angola became one of the worst conflict-resolution failures of the 1990s. About two-thirds of the half million war victims have died since resumption of the conflict in 1992, the majority due to the collapse of food security and health services, and an estimated 1.5 million people are internally displaced, while 330,000 have fled the country.<sup>18</sup> Despite military victories by government forces over key UNITA strongholds since mid-1999, the idea of complete victory has been rejected, even by the armed forces, as UNITA has intensified an effective guerrilla war. The government, while opposing (re)negotiations with Savimbi himself, thus maintains openness towards the rebel movement.

The misery of the Angolan population is linked as much to the state of war as to the economic situation of the country.<sup>19</sup> The dualistic nature of the colonial economy—enclaves of resource and labour exploitation in coffee, diamonds, and oil controlled from the coastal areas by the Portuguese, contrasting with a vast hinterland underdeveloped by slave trading and colonial neglect—was exacerbated by the mishandled decolonization process and the effects of chronic warfare. The departure *en masse* of the Portuguese dramatically increased the vulnerability of Angola's economy to war, owing to the low average level of income of the remaining population, the fall in skills and flexibility of the economy, and the dependence on oil to finance the import of essential commodities. Oil revenues and Soviet-bloc assistance nevertheless spared the economy from total collapse, even

16. M. J. Anstee, *Orphan of the Cold War: The inside story of the collapse of the Angolan peace process, 1992–93* (Macmillan, Basingstoke, 1996); K. Maier, *Angola: Promises and lies* (Serif, London, 1996). The electoral results for the National Assembly were 53.7 percent for MPLA and 34.1 percent for UNITA, and 49.7 percent for dos Santos and 40 percent for Savimbi for the Presidency (a second round for the necessary majority was cancelled due to the resumption of war). President dos Santos promised elections for 2001.

17. Human Rights Watch, *Arms Trade and Violations of the Laws of War since the 1992 Elections* (Human Rights Watch, New York, 1994); United Nations, *Updated Consolidated Inter-agency Appeal for Angola* (United Nations, New York, 1996).

18. J.-M. Balancie and A. de La Grange, *Mondes rebelles. Guerres civiles et violences politiques* (Michalon, Paris, 1999); OCHA, *2000 Mid-Term Review of the UN Consolidated Inter-Agency Appeal for Angola (Jan–June 2000)* (United Nations Office for Co-ordination of Humanitarian Affairs, New York, 2000).

19. For a general analysis of the economic consequences of war, see F. Stewart, H. P. Humphreys and N. Lea, 'Civil conflict in developing countries over the last quarter of a century: an empirical overview of economic and social consequences', *Oxford Development Studies*, 25, 1 (1997), pp. 11–41; on war economies, see F. Jean and J.-C. Rufin (eds), *Economie des guerres civiles* (Hachette, Paris, 1996); D. Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper 320 (Oxford University Press, Oxford, 1998); M. Berdal and D. Malone (eds), *Greed and Grievances: Economic agendas in civil wars* (Lynne Rienner, Boulder, CO, 2000).

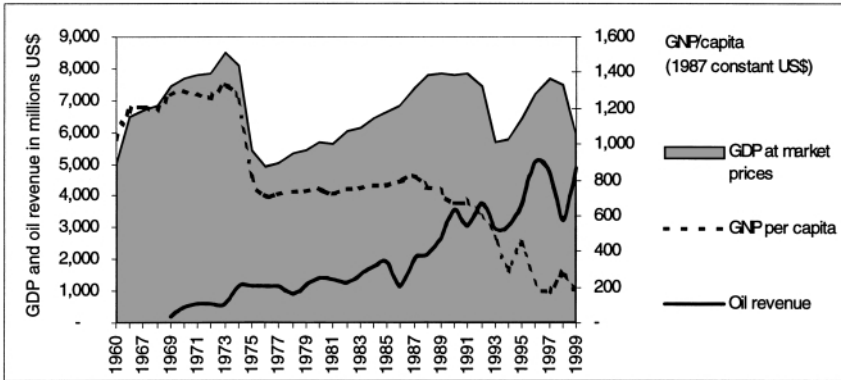


Figure 1. Evolution of GDP, oil revenue, and per capita GNP (1960–1999)

Source: World Bank Reports and *Africa Database*.

allowing for a sharp improvement in public services, but efforts to diversify the economy largely failed. In the agricultural sector, efforts to turn colonial estates into state farms rather than give support to smallholders, collapsed for lack of managerial skills, distrust of (Ovimbundu) labour, and inadequate inputs, thus leaving rural populations more vulnerable and distrustful of the government.<sup>20</sup> While this collapse facilitated the takeover of large estates by local communities, their privatization is now threatening this unintended positive outcome and leading to conflicts over land.<sup>21</sup> As oil prices collapsed in the mid-1980s and war intensified in the countryside, the situation deteriorated further. Urbanization, growing from 15 percent in 1970 to 50 percent in the 1990s, turned the main cities into overcrowded places—the capital Luanda having a quarter of the total population—with insufficient infrastructure and high dependence upon oil-financed imports. As a result of growing indebtedness, military expenditure, foreign profits and investment in the oil sector, and corruption, GNP per capita has dropped by half since the late 1980s while GDP regained its pre-independence level due to rising oil revenues (see Figure 1). Nine million out of thirteen million people in both urban and rural areas now live on less than a dollar a day.<sup>22</sup>

20. D. Sogge, 'Angola: surviving against rollback and petrodollars', in J. Macrae and A. Zwi (eds), *War and Hunger* (Zed Books, London, 1994), pp. 92–110.

21. Hodges, *Angola*.

22. IMF, *Angola—Recent Economic Developments*, IMF Staff Country Report No. 97/112, (International Monetary Fund, Washington, DC, 1997).

### *The oil factor*

Providing over 90 percent of official exports and 80 percent of government revenue during the 1990s, the oil sector is the key resource of the Angolan economy and the government (see Table 1). However, the oil sector constitutes an enclave economy, and as such is inaccessible to most Angolans except via revenues directed to public expenditure. The sector simultaneously constitutes an economic sanctuary for the government, as it is sheltered from military threats and able to sustain political order through coercion and clientelism.

With a current production of about 780,000 barrels per day (bd.)—second only to Nigeria in sub-Saharan Africa—and huge new finds that should quadruple production by 2015, Angolan oil has gained international significance.<sup>23</sup> Yet, despite generating about US\$5 billion in gross revenue, this sector has remained an enclave economy with few linkages to Angolan society. Capital-intensive rather than labour-intensive, the Angolan oil industry, including the parastatal oil company SONANGOL, employs fewer than 10,000 nationals, and there are very few local contractors except in the thriving security business.

The allocation of the oil rent by the government through public expenditures is thus crucial to the overall economy and the welfare of the population. Yet, as Table 1 shows, social expenditures have declined throughout the 1990s in the context of non-transparent budgetary allocation. Furthermore, the oil rent has seldom been used to diversify the economy and provide large-scale employment outside the administration and the military. Contrary to Kuwait, the only economy which is more highly concentrated on exports, Angola has indeed much potential for diversification in agriculture, fisheries, hydropower, and other renewable and mineral resources.<sup>24</sup> Aggravated by the end of Soviet-bloc development assistance, the rise of corruption and the misallocation of public subsidies, the economic decline has resulted in a dismal level of governmental services to the population, which has not been compensated by foreign aid focusing on food security.<sup>25</sup> The bias of public spending is reflected in the uneven budgetary allocation between Luanda and the provinces, the latter receiving

23. Seven percent of US crude imports originate from Angola (*IRIN Bulletin*, 22 October 1999). For a review of the oil sector, see Economist Intelligence Unit and D. Clarke, 'Petroleum prospects and political power', in Cilliers and Dietrich (eds), *Angola's War Economy*, pp. 195–218; Global Witness, *A Crude Awakening: The role of oil and banking industries in Angola's civil war and plunder of state assets* (Global Witness, London, 1999).

24. T. Hodges, *Angola to 2000: Prospects for recovery* (Economist Intelligence Unit, London, 1993); McCormick, *The Angolan Economy*; UNCTAD, *Handbook of International Trade and Development Statistics, 1996–97* (United Nations, New York, 1998); World Bank, *Angola: An introductory review* (World Bank, Washington, DC, 1991).

25. R. Aguilar, 'The evolution of the new private sector: the case of Angola', in T. Addison (ed.), *Underdevelopment, Transition, and Reconstruction in Sub-Saharan Africa* (UNU/WIDER, Helsinki, 1999).

Table 1. Oil and diamond sectors in the economy and public finances, 1992-9

	1992	1993	1994	1995	1996	1997	1998	1999
Value of oil production (US\$m.)	3,759	2,964	3,074	3,735	5,071	4,741	3,220	4,852
Average oil price (US\$ per barrel)	19.0	16.0	15.3	16.6	20.4	18.6	12.0	17.4
Share of oil and LPG in GDP (%)	35.8	40.2	56.6	55.8	58.1	48.5	38.5	61.4
Government oil revenue (US\$m.)	1,578	1,780	1,518	1,324	2,625	2,475	1,215	2,377
Share of oil in government revenue (%)	75.2	81.9	88.9	87.2	89.2	83.1	69.7	88.0
Record diamond production ('000 carats)	1,395	147	304	671	917	1,417	2,716	3,471
Government diamond revenue (US\$m.)	n.a.	n.a.	6.1	3.8	3.9	6.8	10.0	21.0
UNITA diamond revenue (US\$m.)	500	400	500	600	700	700	200	250
<i>Government expenditure (% of total expenditures + net lending)</i>								
Social expenditures	22.5	20.9	8.8	14.0	9.3	13.4	11.8	9.4
Military expenditures	21.2	24.6	33.7	31.4	33.5	40.0	27.2	41.0
of which unrecorded expenditures	n.a.	21.1	19.5	48.8	26.3	18.2	13.8	0.0

Note: UNITA diamond revenues are highly speculative estimates.

Sources: Dietrich, 'Diamonds'; Global Witness, *A Rough Trade*; IMF, *Angola*; Hodges, *Angola*.

only 13.5 percent of the executed budget in 1996 for two-thirds of the population, showing particular neglect for Ovimbundu populations.<sup>26</sup> The oil rent has, in fact, been increasingly used for military objectives, debt servicing, and to subsidize the lifestyle of the *nomenklatura*—with an increasingly tenuous support for social services and basic goods imports and subsidies benefiting the population. Rather than mitigating the impact of the war and consolidating state governance, the oil revenue has thus reinforced economic distortions and undermined popular support for the government.<sup>27</sup> This has not, however, provided much political advantage for UNITA. As a popular slogan during the 1992 election campaign summed it up: 'MPLA steals, UNITA kills'.<sup>28</sup> The MPLA has therefore been sheltered, so far, from a democratic political reversal. Yet, the ruling elite is fearful of a popular uprising, especially in Luanda, and although the government has recently allowed peaceful protests by the opposition, it maintains a feared and predatory security apparatus and has jailed critics.

The failure of the government to move the country out of this enclave economy is largely determined by the availability and use of oil as an economic sanctuary by the government against military and political threats. This sanctuary effect comes from the almost exclusively off-shore location of the oil fields, putting the sector out of the reach of UNITA attacks, and the MPLA's military hold on, and 'ethnic' affiliation with, the seat of power, Luanda.<sup>29</sup>

The Mobutu and Kabila regimes in former Zaïre (now the Democratic Republic of Congo, DRC) have not benefited from such a geographical advantage. Most of the DRC's mineral resources are located inland in peripheral regions. In 1997, foreign companies rapidly supported the Rwandan-backed rebel movement as it gained control of eastern Zaïre (including key mining sites). Its leader, Laurent Kabila, reportedly earned an estimated US\$300 million by offering concession contracts and renegotiating those signed with Mobutu.<sup>30</sup> Now President, Kabila's power is undermined by alliances of new political contenders, corporations, and erstwhile

26. The provinces do not include Cabinda, where transfers were 26 times higher than the average for all provinces due to a share of oil earnings, Hodges, *Angola*.

27. J. Savoye, 'Le pétrole et la guerre d'Angola', *Revue Internationale de Stratégie*, 29 (1997).

28. Maier, *Angola*.

29. The importance of this factor was demonstrated by UNITA's destruction, in 1993, of the only vulnerable on-shore wells, located in Soyo, but accounting for less than 3 percent of oil production. While damage to infrastructure was considerable, UNITA's tactical victory did not represent a decisive turn in the conflict as only a small proportion of output was lost. The government recruited a 'private army' (Executive Outcomes) to recapture the area on the suggestion—and with the partnership—of Heritage Oil, a US-based company with a concession reportedly operated by Ranger Oil. W. Reno, 'African weak state and commercial alliances', *African Affairs*, 96 (1997), pp. 165–85; D. Shearer, *Private Armies and Military Intervention*, Adelphi Paper 316 (Oxford University Press, Oxford, 1998).

30. Balancie and de La Grange, *Mondes rebelles*.

regional allies (Rwanda, Uganda) controlling resources in the northeast. In turn, new alliances with the Angolan and Zimbabwean governments have had to be consolidated through the provision of oil and other mineral concessions.

In contrast, the secure and abundant oil revenue enclave helped the Angolan government to resist well-equipped South African and UNITA armies by building up a capital-intensive war machine which placed government forces at the centre of Angola's political economy. This relation was reinforced after the Cold War as the government imported arms in excess of US\$5 billion, mostly in 1993, 1994, and 1999.<sup>31</sup> This powerful army has allowed the government to conduct military interventions to root out support for UNITA in Congo Brazzaville and the DRC since 1997, as well as in Namibia in 1999.<sup>32</sup> Military expenditures—paid from public budget allocations, oil-collateral short-term commercial loans passed directly through SONANGOL, and signature bonuses from foreign companies for oil concessions—not only served security interests but provided considerable opportunities for corruption.<sup>33</sup> This military build-up proved unsustainable as oil prices fell in 1998. The financial crisis faced by the government, as it launched a new military campaign, led to debt renegotiations, openings towards the International Monetary Fund, and the allocation of oil block shares to small companies largely unknown to the industry and possibly linked to arms dealing.<sup>34</sup> The oil price recovery in 1999 and US\$900 million signature bonuses for new oil concessions have since eased the financial crisis, facilitating arms purchases in 1999.<sup>35</sup>

Politically, the oil and other state rents have allowed the Presidency to sustain a clientele beyond the military apparatus, building a degree of legitimacy among those rewarded and allowing support or resistance to reforms, according to short-term expediency. This clientelism requires a contractual stability with foreign oil corporations ensuring their long-term obedient participation in the system, a stability indeed acknowledged and prized in return by the corporations. The preservation of foreign corporate

31. Human Rights Watch, *Arms Trade*; Human Rights Watch, *Angola Unravels. The rise and fall of the Lusaka peace process* (Human Rights Watch, New York, 1999).

32. C. Gordon and H. French, 'Angola aids Congo to corral Unita', *Globe and Mail*, 17 October 1997.

33. C. McGreal, 'Profiteers' war that goes on forever', *Mail and Guardian*, 2 July 1999.

34. Reportedly, these companies included Falcon Oil & Gas (10 percent equity partner in Exxon's block 33), involving Franco-Brazilian arms broker Pierre Falcone; Naphta (5 percent, also in block 33) associated with former Israeli General Ze'ev Zahrine, provider of security services to Angolan and Congolese governments; and ProDev (20 percent in Elf's block 32), a Swiss company with Syrian investors: see Global Witness, *A Crude Awakening*.

35. Human Rights Watch, *Angola Unravels*; Human Rights Watch, *The International Monetary Fund's Staff Monitoring Program for Angola: The human rights implications* (Human Rights Watch, London, 2000).

interests has long been rewarding for the government. By avoiding the nationalization of the US Gulf Oil company (since taken over by Chevron) at independence, and even protecting it with Cuban troops during the 1980s, the government sustained oil rents, benefited from commercially driven diplomacy resisting Reagan's campaign against the (communist) regime, and attracted additional oil companies for capital-intensive exploration and development.<sup>36</sup>

The clientelist redistribution of oil and state rents has targeted the presidential entourage, the state *nomenklatura*, and privileged sections of the population through mechanisms sustaining a relatively stable internal political order.<sup>37</sup> In continuation of the practice of the former socialist state, civil servants receive personal privileges from the state or parastatal companies. For example, SONANGOL's staff of about 5,000 people have benefited from a range of advantages, including special schools and overseas medical care, which were then deducted from the taxes paid back to the Treasury. A 1997 audit calculated that such 'taxation leakage' amounted to US\$180 million for the previous 15 months.<sup>38</sup> High-ranking civil servants, army officers, and politicians have accessed profitable privatization schemes and received personalized 'annual bonuses' that dwarf their official earnings.<sup>39</sup> Some foreign oil companies also directly provide goods and services, deducted from the companies' tax bills, to prominent figures or their philanthropic associations, such as the Eduardo dos Santos Foundation (FESA), which plays, at state expense, a growing role in extending presidential patronage and promoting a personal public image.<sup>40</sup> In 1995, 36 percent of the education budget was allocated to overseas scholarships and US\$400 million to subsidies on electricity, municipal water, air transport

36. Ironically, a large number of Cuban soldiers were deployed to protect US oil installations, while the US government sponsored UNITA and the dollar revenues from American companies reimbursed Cuban troops and paid for Soviet weaponry: see V. Brittain, *Death of Dignity. Angola's civil war* (Pluto Press, London, 1998). In a similar paradox, MPLA troops protected the South African diamond company De Beers in its activities with the state company Diamang, while De Beers' corporate taxes in South Africa helped to finance South African support to UNITA: see Bridgland, *Jonas Savimbi*. As such, the political economy of Angolan oil and diamonds was fully integrated into the Cold War, with its revenue 'cross-subsidizing' both superpowers and their allies.

37. There is no precise estimate of the value of this redistribution. Oil industry sources suggest \$500–800m per year; World Bank staff estimate that in 1993 about US\$1 billion was "floating" between the national accounts figures and the government's budget figures' and had been allocated to a parallel military budget and to 'transaction commissions': see L. A. Pereira da Silva and A. Solimano, 'The transition and the political economy of African socialist countries at war (Angola and Mozambique)', in J. A. Paulson (ed.), *African Economies in Transition* (Macmillan, Basingstoke, 1999) vol. 2, pp. 9–67.

38. Interview with SONANGOL official, Luanda, July 1998.

39. M. E. Ferreira, 'La reconversion économique de la nomenklatura pétrolière', *Politique Africaine*, 57 (1995), pp. 11–26; Somerville, *Angola*; Hodges, *Angola*.

40. C. Messiant, 'La Fondation Eduardo dos Santos: à propos de l'investissement de la société civile par le pouvoir politique', *Politique Africaine*, 73 (1999), pp. 82–101.

and housing accessible only to a privileged minority within the population.<sup>41</sup> The recent cancellation of subsidies on gas at the demand of the IMF and World Bank has, on the other hand, widely affected the economy and prices.

Other clientelist mechanisms have included the privatization of state assets, access to cheap loans, business licences, and resource concessions.<sup>42</sup> Until May 1999, privileged individuals and companies could access foreign currencies at the official rate, securing an average 300 percent premium on the parallel market.<sup>43</sup> In conjunction with cheap loans and import licences, this monetary scam generated a 'virtuous' circle for its beneficiaries, while maintaining high prices on markets. Lastly, the highest levels of government officials allegedly embezzle part of the oil rent.<sup>44</sup> Since 1996, the share received by the Presidency from signature bonuses has been legalized and set at 55 percent, with SONANGOL and oil-producing provinces supposedly receiving the remaining share. Most of the bonuses would in fact have been allocated to military expenditure.<sup>45</sup>

Aside from the conflict between the government and UNITA, political movements from the enclave of Cabinda—located between Congo Brazzaville and Congo Kinshasa—have sought independence or autonomous status since at least the early 1960s. More than half of Angola's oil comes from Cabinda, but this wealth has scarcely improved the welfare of Cabinda's people, thereby sustaining support for separatism and the Liberation Front of the Cabinda Enclave (FLEC), an armed movement long riddled with internal divisions and recently weakened by the withdrawal of support from neighbouring countries.

To sum up, while the oil rent helped to prevent a military takeover by apartheid South Africa and UNITA through a military build-up, the ensuing conflict was devastating and economic management disastrous. As the chronic military stalemate demonstrates, the sovereignty and legitimacy of the government remain a political, not a military, affair, but politics itself has been tainted by this same rent. As the following section will illustrate, the geography of Angola and the economic opportunity represented by alluvial diamonds will continue to make armed opposition a long-term threat. In other words, the government needs to build power through political legitimacy, starting with improved economic management.

41. S. Kyle, *Angola: Current situation and future prospects for the macroeconomy*, CAER Paper No. 25 (HIID, Cambridge, MA, 1998); UNICEF, *Un Futuro de Esperanca*.

42. Hodges, *Angola*.

43. E. Glebard and J. Nagayasu, *Determinants of Angola's Parallel Market Real Exchange Rate*, IMF Working Paper No. 99/90 (International Monetary Fund, Washington, DC, 1999).

44. Global Witness, *A Crude Awakening*.

45. Signature bonuses for three blocks awarded in 1999 to Exxon, Total-Fina-Elf, and BP-Amoco would have awarded US\$480 million to the Presidency: see Human Rights Watch, *Angola Unravels*.

### *The diamonds factor*

Just as oil is key to the government, diamonds have 'a uniquely important role within UNITA's political and military economy'.<sup>46</sup> Beyond the Cold War and South African financial and military support, the availability of alluvial diamonds spread over a vast territory and the vulnerability of isolated mines constituted for UNITA a conspicuous economic opportunity to purchase, deploy, and resupply expensive weapon systems through an extensive network of private corporations and foreign state authorities rewarded by lucrative deals and personalized diamond gifts. Furthermore, diamonds constituted in themselves a very convenient storage of wealth, insulating UNITA from the problems of bulky and traceable cash, and from the vulnerability of bank accounts when it became targeted by financial sanctions in the late 1990s.

Diamonds are found in Angola in two forms, as alluvial deposits (riverbeds), necessitating relatively little input for exploitation, and as kimberlite deposits (volcano pipes), requiring a high level of investment. The world's fourth largest producer of diamonds by value, Angola is a major stake for the global diamond industry and regional interests.<sup>47</sup> However, unlike the oil sector, diamonds have proved difficult to integrate into a formal economy controlled by the state, owing to the spatial distribution of alluvial diamonds over vast and lawless areas, mostly in the northeast, with the best mines clustered in Lunda Norte and the Cuango valley. Local civilians, military units, migrant diggers, well-connected businessmen, and international corporations have all participated in the development of a diversified diamond sector.

Diamonds have been a source of revenue for UNITA since the late 1970s. UNITA first concentrated its attacks on existing mines, raiding and racketing companies as well as *garimpeiros* (freelance diggers). From 1983 onwards, UNITA professionalized its diamond operations, training its staff in diamond sorting and investing in mining equipment. It not only stood to benefit financially from such raids, but also undermined government diamond revenues, which dropped from US\$221 million in 1981 to US\$33 million in 1986.<sup>48</sup> From the second half of the 1980s, commercial activities were extended to a quasi-industrial scale and commercial networks were reinforced as the guerrilla war reached the Lunda provinces, in part thanks to

46. United Nations, *Report of the Panel of Experts on Violations of Security Council Sanctions Against UNITA—S/2000/203* (United Nations, New York, 2000). Aside from diamonds, UNITA funding mostly came from the US administration (between 1985 and 1991) and South Africa, as well as trading in ivory, gold and timber. Like government troops, UNITA soldiers also taxed or looted local populations. See Bridgland, *Jonas Savimbi*; James, *A Political History*; R. Reeve and S. Ellis, 'An insider's account of the South African security forces' role in the ivory trade', *Journal of Contemporary African Studies*, 13 (1995), pp. 213–33.

47. McCormick, *The Angolan Economy*.

48. Dietrich, 'Diamonds'; McCormick, *The Angolan Economy*.

US assistance allowing UNITA to set up operations from military sanctuaries in Zaïre. By the late 1980s, it had greater control in the northern regions and directly exploited mines as well as recruiting, controlling and taxing many *garimpeiros*, generating between US\$50,000 and US\$4 million per month.<sup>49</sup> Following the withdrawal of US and South African support in the early 1990s, UNITA's reliance on diamond revenues dramatically increased and further influenced its military strategy. As acknowledged by its former chief of staff, General Arlindo Pena 'Ben Ben' in 1998:

Diamonds are UNITA's lifeblood. Without them UNITA wouldn't be able to maintain its options. We needed to have choices, . . . [seeing] what the government is doing now [attacking UNITA], UNITA needed to maintain military reserves so that the government doesn't destroy us. This is the reality.<sup>50</sup>

With the Bicesse Accords in 1991 and the relative halt of hostilities, production sharply increased following a massive influx of *garimpeiros*, military entrepreneurship and foreign companies. The sharp military advantage enjoyed by UNITA following resumption of the conflict in late 1992 allowed it to gain control over vast mining areas and capture key mines.<sup>51</sup> UNITA's quasi-monopoly of the control of diamond exploitation until mid-1994, which was undermined by mercenary-led government forces recapturing some mining areas, and the Lusaka Protocol brought about a new period of relative peace which attracted mining companies and traders to expand exploitation.<sup>52</sup> UNITA's control over much of the diamond sector led to a lengthy process of negotiation with the MPLA over its legalization.<sup>53</sup> Accommodation between UNITA and MPLA military officers and officials also facilitated diamond extraction and trade.<sup>54</sup> Finally, many in the international community saw UNITA's control of diamonds as a legitimate counterbalance to the MPLA's control over oil revenue, a position that the coalition government institutionalized by giving the post of Minister of Geology and Mines to a UNITA member.<sup>55</sup>

49. Bridgland, *Jonas Savimbi*.

50. Human Rights Watch, *Angola Unravels*.

51. F. Misser and O. Vallée, *Les Gemmocraties. L'économie politique du diamant africain* (Desclée de Brouwer, Paris, 1997).

52. Shearer, *Private Armies*.

53. In November 1996, a memorandum of understanding was signed by the government and UNITA giving UNITA's legally recognized holding company 'the right to control or to participate in the exploitation of certain diamond areas', Hare, *Angola*; R. W. Copson, *Angola: Background and current situation* (Penny Hill Press, Bethesda, PA, 1997).

54. Up until January 1998, UNITA and FAA generals were reported to have struck a 'gentlemen's agreement' on the Cuango Valley, whereby each side exploited a bank of the river: see *Africa Confidential*, 39, 29 (1998), p. 3. A provincial governor and sub-commissioner of police were suspected of delivering fuel to UNITA in exchange for diamonds: see Human Rights Watch, *Angola Unravels*.

55. Dietrich, 'Diamonds'.

With the fall of its allies in Kinshasa and Brazzaville in 1997, UNITA partly reoriented its land-based logistics through Zambia, with Burkina Faso, Côte d'Ivoire, Togo, and Rwanda also providing safe transit and trading places.<sup>56</sup> Furthermore, government offensives put additional pressure on UNITA to abandon its main diamond area—Luzamba in the southern Cuango valley—in early 1998, although it reportedly did so only after the most lucrative diamonds had been mined out.<sup>57</sup> Following the resumption of war in late 1998 and the capture of many important UNITA mining sites, Savimbi's movement increased its attacks on foreign mining companies as well as its taxation and control of *garimpeiros*, and developed new mines in the central and southeast provinces as well as in southern DRC.<sup>58</sup>

The value of diamonds produced under UNITA's control for the period 1992 to 2000 is estimated at US\$3–4 billion, but the level of profits is unknown.<sup>59</sup> In contrast to the situation in the oil sector, peace would make a major difference to the development of the diamond sector, for example by enabling capital-intensive development of kimberlite deposits. As such, diamonds do not constitute an economic sanctuary for UNITA as oil does for the government. Constant military deployment and clandestine activities are necessary. Indeed, unlike oil, UNITA-controlled diamond production fell from a peak of US\$600–760 million in 1996 to US\$120–300 million in 1999, due to successful government offensives, the depletion of existing mines in the absence of new investments, and, to a much lesser degree, UN sanctions imposed in 1998 against the UNITA diamonds trade.

Although the government and UNITA have both conducted crackdowns on corruption, including in their own military units, and attempts to formalize extraction and trading through licences, the diamond sector remains highly fragmented and criminalized, as armed units shift their activities from politico-military objectives to economic ones. Local UNITA commanders, in particular, are increasingly isolated and self-reliant, leading to a weaker chain of command.<sup>60</sup> Warfare and crime have thus required both private corporations and the government to combine large-scale security deployment and mineral development. This has provided a competitive advantage to firms with activities or close links to the security or defence sector, such as South African or Israeli corporations.<sup>61</sup> Diamond Works, a

56. United Nations, *Report of the Panel of Experts*.

57. Dietrich, 'Diamonds'; Alex Vines, pers. comm. 2000.

58. ACTSA, *Waiting on Empty Promises: The human cost of international inaction on Angolan sanctions* (ACTSA, London, 2000); Dietrich, 'Diamonds'.

59. Global Witness, *A Rough Trade. The role of companies and governments in the Angolan conflict* (Global Witness, London, 1998).

60. Dietrich, 'Diamonds'.

61. H. M. Howe, 'Private security forces and African stability: the case of Executive Outcomes', *Journal of Modern African Studies*, 36, 2 (1998), pp. 307–31; Reno, 'African weak state'; Shearer, *Private Armies*.

Canadian mining company also active in Sierra Leone, has benefited from its ties with the South African security company Executive Outcomes and the British-based Plaza Group.<sup>62</sup>

The diamond sector benefited not only UNITA and foreign companies, but also army generals and members of the MPLA elite who have acquired concessions for minimal fees before transferring most of the operating costs and risks to their foreign partners.<sup>63</sup> In this regard, the association of domestic or foreign private security/military units and diamond corporations not only extended the sovereignty of the government over rebel-controlled resources, but also allowed the incorporation of diamonds into presidential patronage politics. In this way, the leadership attempted to extend its control over resources otherwise captured by potential rivals—unlicensed army generals, government officials and entrepreneurs—benefiting from the anarchy and unaccountability resulting from the state of lawlessness.

Unlike the oil industry the diamond sector employs a large labour force that includes many migrant workers.<sup>64</sup> But while this linkage is strong, the sector has until recently provided only weak fiscal returns, representing less than two percent of the gross revenue of the sector and one percent of total government revenue during the mid-1990s.<sup>65</sup> Diamonds have recently yielded greater tax returns, partly thanks to the exclusive marketing licence given to the Angola Selling Corporation (ASCORP). This is a joint venture sidelining De Beers and presented as an anti- 'conflict diamonds' scheme, but its control by close relatives and associates of the President is criticized by major companies and senior military officers with concession interests.<sup>66</sup>

As with oil in Cabinda, diamonds have reinforced a locally based political movement in the producing areas. The success of a regionally based party—the Party of Social Renovation (PRS)—in the 1992 elections demonstrated

62. Interview with Michael Grunberg, Plaza Group director, September 1999.

63. Beneficiaries allegedly include, for example, the Chief of Staff, Gen. de Matos, through shares in Diamond Works' concession, army generals through the Lumanhe company with concessions in Calonda and Chitolo, the President's daughter Isabel dos Santos, and the former director of the State Diamond company ENDIAMA, Noé Baltazar, through interests in the Camutué Kimberlite concession. See Hodges, *Angola*; Howe, 'Private security'.

64. Groups of diggers have operated without licensing and in defiance of MPLA and UNITA control. Many come from neighbouring Zaïre and Zambia as well as South Africa. In 1994, as many as 30,000 Zaïrian diggers were operating in the Lundas, while the government estimated the number of illegal miners at 300,000 for 1999, see F. De Boeck, 'Domesticating diamonds and dollars: identity, expenditure and sharing in Southwestern Zaïre (1984–1997)', *Development and Change*, 29, 4 (1998), pp. 777–810; *O Pensador*, 1999.

65. IMF, *Angola*, 1997; IMF, *Angola—Recent Economic Developments*, IMF Staff Country Report No. 00/111 (International Monetary Fund, Washington, DC, 2000).

66. ASCORP is reportedly a joint venture between Omega (24.5 percent), a Belgian registered company, Lev Leviev (12.2 percent), an Israeli businessman, Arkadi Gaydamak (12.2 percent), an Israeli-Ukrainian arms dealer and economic adviser to the Angolan government, and Sodiam, an Angolan company (51 percent without capital input), associating Isabel dos Santos (also in charge of FESA), Noé Baltazar and Joao Baratsi. ACTSA, *Waiting on Empty Promises*; Fatima Roque, pers. comm. 2000.

the support of the local Lunda-Chokwe population of the northeast for greater autonomy and a share of local resources.<sup>67</sup> Unlike FLEC, however, diamonds have provided the PRS with its own resource base, making it a more active—and thus harassed—opposition party than those financially dependent on the government. While, also in contrast to FLEC, it is not an armed movement, such harassment and the continued capture of diamond rents by the Luanda-based *nomenklatura* might result in greater legitimacy for violence.

To sum up, diamond revenues have had a direct impact upon the Angolan population, as they sustained the ability of UNITA to deploy a conventional capacity, such as the use and resupply of heavy artillery around Kuito and other provincial cities in 1992–94, resulting in the deaths of tens of thousands of civilians. Even if it cannot be assumed that, without diamonds, UNITA would have abided by the peace process in 1991 or lost its war against the government, the ability to continue financing armed struggle has also protracted other factors in the conflict. By heightening Savimbi's perception of personal security and preserving his sense of a national destiny, as well as maintaining UNITA's precarious internal stability, diamonds permitted Savimbi to sustain his return to a military campaign following the contested results of the 1992 elections. Both the geographical conditions of access to such a valuable resource and the complacency, if not complicity, of the international diamond industry have been key in this regard. As with oil, geography matters. If diamonds had been available only from kimberlites or seabed deposits (as in Botswana and Namibia respectively), UNITA would undoubtedly have found their control and exploitation more difficult, if not impossible, due to access and investment problems.

The same can be said about a responsive international community and a responsible diamond industry not allowing the trade in 'conflict diamonds'. Restricted in its access to large diamond revenues and the logistical and political networks these supported, UNITA is now in a much weaker political and economic position than the government. However, its military capacity as a guerrilla force remains significant and its impact on local populations may actually increase through political radicalization and economic predation on populations and aid relief. More probably, though, UNITA's military capacity will continue to erode with an increase in defections, difficulties of resupply, and loosening of the chain of command. Beyond the UNITA issue, the current capture of diamond rents by the *nomenklatura* and foreign corporations, as well as their incorporation into presidential patronage politics and the local resistance such political

67. K. Somerville, 'Angola: groping towards peace or slipping back towards war?', in W. Gutteridge and J. E. Spence (eds), *Violence in Southern Africa* (Frank Cass, London, 1997), pp. 11–39.

economy generates, cast doubts on the ability of Angola to follow Botswana's diamond windfall path to development.

*The role of outsiders and the process of reform*

With the end of direct intervention in the early 1990s, outsiders have taken a much subtler role in influencing the course of the conflict. Previously motivated by mostly geo-strategic objectives, foreign powers are now focusing on commercial and humanitarian/development agendas. Aside from relief assistance and peace-keeping, the international community has been active in pressuring the Angolan government to improve the transparency of public finance and to undermine UNITA's military capability. Foreign 'assistance' to Angola has a poor record. One-sided and largely militaristic, the support of members of the international community failed at the crucial moment of the transition in 1991, implementing the Bicesse Accords through an under-mandated, under-funded, and ultimately failed UN mission.<sup>68</sup> Recognizing this failure, the new UN mission following the Lusaka Protocol was stronger and foreign aid increased; Angola received in 1996 US\$41 per head in grants, compared with an average of US\$20 for sub-Saharan Africa as a whole.<sup>69</sup> However, much of this assistance was directed towards maintaining a tenuous cease-fire and providing food aid, with very little directed to peace-building and development. This focus on peace-keeping and relief reflected the low level of domestic political initiatives and the poor confidence of donors in development projects following the aborted peace processes, continued corruption and economic mismanagement, the failure of political and economic reforms, the resource wastage in the war, the ill-conceived projects, and the low budgetary allocations to social services.<sup>70</sup>

Demands for greater transparency in the management of the oil and diamond revenues and public expenditures have been at the core of tense relations between the Bretton Woods institutions and the government. The IMF has made repeated calls for an audit of the oil and diamond sectors and for economic and fiscal reforms. In 1995, a first Staff Monitored Programme (SMP) was terminated within months as 'contrary decisions [were] taken at the highest levels of the government'.<sup>71</sup> In other words, President dos Santos had more pressing priorities than transparency and reform, such as the defence of clientelism. When failure to implement reforms resulted in further economic disarray and public discontent a year later, dos Santos blamed the war and UNITA, expelled 'speculating' foreign traders, and

68. Anstee, *Orphan of the Cold War*.

69. World Bank, *Africa Database CD-ROM* (World Bank, Washington, DC, 1999).

70. UNICEF, *Um Futuro de Esperança*.

71. IMF, 'Aide-mémoire da equipa do corpo técnico do FMI, Luanda, 5 Dezembro de 1995' (International Monetary Fund, Washington, DC, 1995) (unpublished mimeo).

sacked his prime minister and the economic team in order to preserve his popularity.<sup>72</sup>

A related reason behind the failed reforms has been the availability for the regime of cash and credit-lines directly secured by the government from the oil industry and private banks. In 1995, SONANGOL was authorized by law to use the state oil share directly to obtain short-term oil-collateralized loans. This resource cost the government between US\$50 and 100 million per year; but keeping international auditors and conditionality at bay was apparently worth that premium.<sup>73</sup> Since early 1999, as the financial crisis reached a critical level in the context of renewed conflict and military defeats, a new financial team initiated reforms, such as the flotation of the currency, and opened discussions with the IMF and the World Bank. In April 2000, they reached an agreement with the government on a new SMP of financial, fiscal, and structural reforms.<sup>74</sup> Of specific interest are the two-year diagnostic study of the oil sector and the independent audits of the diamond sector and the National Bank of Angola, as well as the identification of all off-budget transactions and the rise of health and education spending from 7.6 percent in 1999 to 21.8 percent in 2000. However promising, this agreement, motivated in part by the possibility of an election and a financial crisis, could be undermined by high oil prices relieving financial pressure on the government. Furthermore, the agreement itself has major flaws, such as the lack of transparency and accountability, two of the reform's supposedly key objectives, as neither the SMP nor its findings are to be made public or to lead to investigation of fraud.<sup>75</sup> Finally, the SMP does not allow investigations into suspicious budgetary discrepancies, nor does it request the implementation of anti-corruption institutions awaiting operationalization since 1996, the *Alta Autoridade contra a Corrupção* and the *Tribunal de Contas*.

With the failure of the peace process in 1992, the international community needed to take initiatives. Politically, however, the UN was supposedly 'obliged to behave impartially between the two sides in helping them to implement the [Lusaka] Protocol . . . [even if] there were doubts about the sincerity of Savimbi's commitment to do so'.<sup>76</sup> The UN Security Council finally acknowledged UNITA's responsibility and declared an arms and fuel embargo against it in late 1993, travel restrictions in 1997, and sanctions on diamonds and financial assets in 1998 (UNSC Resolutions 864, 1127 and 1173).

72. Hodges, *Angola*.

73. Estimation based on 3–6 percent spread compared with London Club or World Bank loans over an annual average of US\$1.6 billion in short-term loans over the period 1991–7. World Bank, *Global Development Finance CD-ROM* (World Bank, Washington, DC, 1999).

74. IMF, *Angola*, 2000.

75. Human Rights Watch, *The International Monetary Fund*.

76. Sir Marrack Goulding, former UK Ambassador to Angola and former head of the UN Department for Peace Keeping Operations, pers. comm., October 1999.

Given the importance of diamonds in funding the war, it may appear surprising that sanctions against UNITA's diamond trading were imposed only in June 1998. In fact, previous attempts had come to nothing. In 1993, Belgian MPs proposed a ban on imports of UNITA diamonds, but the resolution failed.<sup>77</sup> Several reasons have been advanced. Technically, the diamond trade is difficult to control because of the secrecy of trade networks and the difficulty of ascertaining the origin of diamonds semi-polished or mixed with diamonds of other provenance. Financially, the industry and major importing countries (such as Belgium and Israel) have not favoured constraining controls because of the mobility of the trade and importers (thus the fear of losing out on a lucrative sector for the host country), and the risk of increasing underground trading (thus undermining the De Beers-Central Selling Organization (CSO) cartel and the stability of high prices).

In order to tighten sanctions on UNITA, the UN Sanctions Committee set up an independent Panel of Experts in mid-1999 (UNSC Resolution 1237). While resolution 1295, based on the recommendations of the Committee and the investigation of the Panel, took no concrete measures against sanctions-busters, the lobbying of the Committee and the publication of its report raised the issue, and publicly named and condemned some of UNITA's accomplices.<sup>78</sup> Aside from private sanctions-busters, the report detailed cases of sanctions-busting by authorities in Congo-Brazzaville, Côte d'Ivoire, Rwanda, and Zaïre/DRC. It specifically singled out the heads of state of Togo and Burkina Faso for facilitating, against payment by UNITA, arms purchases (by providing end-user importation certificates and logistics), diamond and financial dealings, as well as travel facilities and protection for UNITA members and their families.<sup>79</sup> The report also criticized Belgium for failing 'to establish an effective import identification regime with respect to diamonds. Nor has any effective effort been made to monitor the activities of suspect brokers, dealers and traders.'<sup>80</sup> Even the Angolan government waited until September 1999 to improve a fraudulent diamond certification system used by officials and dealers to launder UNITA diamonds, thus demonstrating the opportunistic self-interest prevalent in this industry.<sup>81</sup> While, by late 2000, the Angolan government claimed to have routed UNITA from diamond areas, the UN reported that UNITA 'continues to mine diamonds and move them to the market'.<sup>82</sup>

77. About 80 percent of the world's rough diamonds pass through Antwerp. See Misser and Vallée, *Les Gemmocraties*.

78. For a critique, including the lack of investigation in two key countries, DRC and Israel, see Human Rights Watch, *The U.N. Sanctions Committee on Angola: Lessons learned?* (Human Rights Watch, London, 2000); ACTSA, *Waiting on Empty Promises*.

79. United Nations, *Report of the Panel of Experts*.

80. United Nations, *Report of the Panel of Experts*.

81. *O Pensador*, 1999.

82. IRIN, Angola: IRIN Focus on interim sanctions report (31 October 2000).

A number of NGOs, such as Human Rights Watch and Global Witness, have pressured the Angolan government, UNITA and corporations to put an end to the war economy and to corruption. Angolan pressure groups have also pursued a similar agenda (e.g. Group for Reflection on Peace). As an example of qualified success, the Fatal Transactions campaign (associating Global Witness, NiZA, Medico International, and NOVIB) against 'conflict diamonds' from Angola, the DRC, and Sierra Leone, triggered an international process of reform.<sup>83</sup>

Aside from directly financing the conflict, continuing oil and diamond revenues act as strong disincentives for rival groups to reach any sustainable agreement on political and economic reforms, even if more could be gained from peace than war. International corporations are crucial in generating these revenues and sustaining the reluctance of the Angolan ruling elite to abandon violent bids to seize or preserve state power and to implement reforms.<sup>84</sup> In similar situations elsewhere, corporations 'stress the practical limitations to their influence imposed by heightened global competition . . . [and] say that they have no mandate to become involved in "political" issues. Their prime obligation is to maximize shareholder value, provided that they operate within the law.'<sup>85</sup> Similar arguments are used by international corporations operating in Angola; but while the diamond industry is now confronting its responsibility for Angola's misery, the oil corporations, fascinated by the prospects of developing huge new fields in the context of high oil prices, have so far remained largely impervious to the ambiguity of their role.

The diamond industry and importing countries have long been willing accomplices in the Angolan bloodshed. The controversial role of De Beers, which controls about 70 percent of the international trade in rough diamonds through its subsidiary the CSO, has been the most publicized. The CSO acts as a cartel associating its own mines and other producers through marketing agreements, and until recently acted as a 'buyer of last resort' on the open market, with a view to regulating the offer of rough diamonds and thus maintaining high prices. As De Beers' executive director, Gary Ralfe, admitted in 1997:

Unita . . . has over the recent few years been responsible for most of the production in Angola. One of the essential jobs that we De Beers [sic] carry out worldwide is to

83. Global Witness, *Campaign Launched to Stop Billion Dollar Diamond Trade from Funding Conflict in Africa* (Global Witness, London, 1999). On Sierra Leone, see A. Alio, 'Diamonds are forever . . . but also are controversies: diamonds and the actors in Sierra Leone's civil war', *Civil Wars*, 2, 3 (1999), pp. 43–64.

84. The case of arms companies is not discussed here. For an analysis see Human Rights Watch, *Angola Unravels*; United Nations, *Report of the Panel of Experts*.

85. J. Bray, *No Hiding Place: Business and the politics of pressure* (Control Risk Group, London, 1997), p. 3.

ensure that diamonds coming onto the markets do not threaten the overall price structure and therefore although we know [sic] direct relationship with Unita, *there is no doubt that we buy many of those diamonds that emanate from the Unita-held areas in Angola*, second-hand on the markets of Antwerp and Tel Aviv.<sup>86</sup>

De Beers was also directly buying in Angola (through at least five buying offices) and neighbouring countries.<sup>87</sup> Since 1998, De Beers has denied any purchase of UNITA diamonds, although company officials continue to note that it would be difficult to avoid doing so.<sup>88</sup> Yet, ironically, De Beers also hinted at its satisfaction at the resumption of the conflict in Angola, the sanctions against illegal exports by UNITA, and the conflict in the DRC restricting non-CSO diamond sources and therefore allowing 'the quotas applied to mines supplying the CSO to be relaxed [to full] capacity'.<sup>89</sup> In other words, reduced extraction due to warfare made De Beers-CSO activities more profitable. Along with rising sales for 'millennium' diamond gifts, this profitability brought a 250 percent increase in the share value of De Beers during 1999.

Since the campaign against 'conflict diamonds' led by civil society organizations gained pace and further relevance with the deteriorating situation in Sierra Leone and the DRC, the diamond industry and major importing countries engaged in a reform of the sector to curtail 'conflict diamond' sales and to protect their public image and economic interests. The industry set up a World Diamond Council specifically to address the issue, and declared its willingness to adopt an international certification system and monitoring of industry-wide compliance with ethical codes of conduct. Yet, there has so far been too little global change within the sector, and no 'naming and shaming' of sanction-busters by the industry. In fact, the most drastic steps have been taken by individual companies or countries eager to advertize the 'cleanliness' of their diamonds. De Beers declared a company embargo on Angolan diamonds immediately following the launch of the 'Fatal Transaction' campaign, and has since taken broad measures to place itself strategically as the supplier of choice for 'clean diamonds', rather than the buyer of last resort for the open market. The British government also 'named and shamed' Belgian *diamantaires* for dealing with UNITA, and intervened to stop the listing in London of Oryx Diamonds, a South African-based company with activities in the DRC and ties with the Zimbabwean military. Partly motivated by the public promotion of an

86. De Beers (1997) 'Press Conference with Alrosa Company and De Beers Corporation, October 21, 1997', Federal Information Systems Corporation Official Kremlin International News Broadcast, 21 October 1997, cited in, Human Rights Watch, *Angola Unravels*.

87. Interview with De Beers employee, Johannesburg, July 1998.

88. Interview with De Beers representative, London, June 1999.

89. *Mining Journal*, 13 August 1999, 333, p. 8544.

'ethical policy', this *ad hoc* strategy nearly backfired, demonstrating the need for an international regulatory framework.

The controversial role of the oil industry in Angola dates back to 1968 when the US company Gulf Oil (now within Chevron) began commercial exploitation in Cabinda through an agreement with the Portuguese colonial regime. Already by 1970, the payments from Gulf Oil represented about 30 percent of Portugal's US\$54 million Angolan military budget. An international campaign and the MPLA denounced Gulf Oil for US corporate support to colonial and white minority rule in southern Africa.<sup>90</sup> Since then, relations between the oil corporations and the government established in Luanda have not changed, only the ruling elite has, and corporate managers continue to stress that 'we don't have a political role here, we do business with whoever is in power'.<sup>91</sup>

The minimal disturbances caused by the Angolan conflict for most oil companies have made such an attitude possible. As one oil company manager remarked:

We, as well as [other companies], have proven that we can produce anyhow. The conflict does not matter so much for our activities, except if the whole country was in blood and flames, including Luanda. Even then . . . The price of petrol bothers us much more than the political situation.

Oil companies know about corruption and acknowledge its political and developmental impact. As this manager noted:

Here it is really a total drainage: direction Europe. This is really catastrophic. It is not only the case for Angola, but for Africa in general. In Asia, at least a good part of the corruption is recycled in the country. Not here.<sup>92</sup>

Yet, beyond paying taxes and philanthropic assistance, through international NGOs or the Dos Santos Foundation, oil companies have stayed at a safe distance from the Angolan tragedy: 'As our boss keeps telling us: we are not Jesus Christ. . . . We came to this country to find oil and make money. That's our job.'

Most oil corporations justify their lack of initiative by arguing that they are working in a 'competitive environment' where they cannot afford the political risk of supporting reforms, which task they leave to the World Bank and the IMF. Even *asking* the government for greater transparency is considered too risky.<sup>93</sup> Yet, oil companies are not in competition when it comes

90. Barnett and Harvey, *The Revolution in Angola*; CIC, *Gulf Oil—Portuguese ally in Angola* (Corporate Information Center of the National Council of Churches, New York, 1972).

91. Interview with oil corporation official, Luanda, July 1998.

92. Interview with oil corporation official, Luanda, July 1998.

93. Interview with oil contractor, London, October 2000.

to preventing political risks or reforms that might threaten their direct interests. For example, French corporations intentionally associate themselves with US ones precisely to reduce political risks.<sup>94</sup> There is thus a double standard in matters of 'competition' and 'risks', one concerning corporate interests and the other concerning Angolan interests.

Furthermore, beyond their 'core business' activities, some foreign companies are also directly involved in Angolan political and financial matters and participate actively in helping to finance arms purchases, including through extra-budgetary channels. Most prominently, Elf reportedly has acted as a facilitator in oil-for-arms deals and has supported both sides in the Angola conflict.<sup>95</sup> At best, corporations and foreign governments justify participation in arms deals by the need to defend the state and the population against UNITA attacks. Yet, the corruption and social impact of most of these deals demonstrate that corporations are less interested in seeking the protection and welfare of the population than in a favourable political order.<sup>96</sup>

The role of international financial corporations is key to the workings of Angola's war economy. The government has accumulated high levels of debt since independence and oil mortgaging has been widely used since the end of Soviet support to secure credit lines from foreign private banks.<sup>97</sup> These loans peaked at US\$2.2 billion in 1994, when the government was consolidating its military success over UNITA.<sup>98</sup> With a maturity of about four years, they had to be repaid, and in the first quarter of 1999 more than 95 percent of the government's oil share was used to service them.<sup>99</sup> With renewed fighting, new oil-collateral loans have been disbursed since 1998 and although some of them might be repaid earlier due to high oil prices in 2000, the move towards cheaper IMF and World Bank loans will depend upon the success of the SMP.

The current Angolan government debt is linked to the profitability (for some) of import dependence, the justification of arms purchases, and the impunity of economic mismanagement and corruption.<sup>100</sup> It is thus both symptomatic of the conflict and a factor in its prolongation. Yet, most financial and oil trading institutions participating in oil-collateral loans have no moral dilemma, considering that they simply assist the government to access cash.<sup>101</sup> To their credit, it is indeed highly unlikely that the IMF and

94. Interview with oil corporation official, Luanda, July 1998.

95. *La lettre du continent*, 2 September 1999.

96. Interview with Human Rights Watch, London, June 1998.

97. Although Russia wrote off a US\$4 billion loan—which was not serviced anyway—a large proportion of the oil is directly diverted to debt servicing, leaving little room for manoeuvre by the government, see Hodges, *Angola*.

98. World Bank, *Global Development Finance*.

99. Hodges, *Angola*.

100. Interview with National Council for Social Communication official, Luanda, July 1998.

101. Interview with Glencore official, October 1999.

the World Bank would have provided loans likely to be used for military purposes. War, however, appears so far not to be the best strategy for ensuring peace.

Finally, just as Angola's war economy required the participation of international business, UNITA's illegal economic and military activities required the complicity of regional powers. Friendships between UNITA and regional rulers were built as much on pragmatic power politics as on private financial interests. As noted earlier, such complicity occasionally motivated military interventions by the Angolan government in Congo-Brazzaville, the DRC, and Namibia, as well as sustained pressure on Zambia.

### *Conclusion*

Oil and diamonds are neither the cause nor the only motivation for the Angolan conflict, but the availability, spatial distribution, and political economy of these resources have been crucial in the course of the conflict. The availability of resources sustained large-scale military capacities and the political order of both UNITA and MPLA. The location and concentration of oil and diamonds provided means for each contender to sustain a hegemonic and militaristic attitude. Oil provided the government with an economic sanctuary and a rent sheltered from warfare that sustained a political order despite economic collapse. Diamonds provided UNITA with an economic opportunity and a rent captured by military activity that sustained Savimbi's bid for power despite political defeat. Throughout the 1990s, this duality and complementarity of resources consolidated MPLA's and UNITA's respective political and military terrain. Finally, the political economy of both resources largely exempted both leaderships from public legitimacy and accountability while facilitating their autocratic rule.

The economic, military, and diplomatic upper-hand gained recently by the Angolan government in the context of high oil prices and the discovery of huge reserves gives it a definite advantage over UNITA. Yet, political corruption and economic mismanagement have long undermined the legitimacy of the government, and to some extent its capacity and motivation to bring the war to a conclusion. Exempted from the need for the broad-based taxation characterizing diversified economies, foreign corporations, close supporters, and armed forces have become the main constituency of a presidential regime accumulating unaccountable power and ruling through patronage and coercion, rather than legitimacy and efficiency. Reinforced by Savimbi's autocratic rule within UNITA and the lack of political spectrum-broadening by the successive peace agreements, this political

102. The IMF integrates unrecorded expenditures into 'military expenditures'.

economy has entrenched a narrow political process largely excluding civil society and the churches. Dos Santos does not hesitate, however, to distance himself from the MPLA or his own government, and to mobilize private and public resources, such as through FESA, to promote his popularity. As a result, much needed reforms have repeatedly stalled or failed as policy shifts responded to political crises and the interests of a tiny elite. More than the elusive advent of peace, democratic pressure and corporate responsibility can ensure that the last round of reform is successful and sustained.

The role of resources in the Angolan conflict demonstrates the need to tie resource exploitation and fiscal reforms to political commitments during peace processes, a major lacuna of the peace accords. Both domestic and international political institutions, as well as private corporations, have a role to play in this regard. This goes beyond cutting the links between oil, diamonds, and arms; constitutional reforms and new corporate practices must ensure that the population's share of revenues renders obsolete the control of state rents for personal enrichment and violent political survival. Unless these issues are dealt with seriously by Angolans and the extractive industries through a comprehensive framework of mutual engagement, the mineral wealth of Angola and that of similar countries will remain a key resource and motivation for rival elite groups to sustain or bid for state control in a violent and self-interested manner.