Ethical considerations for multinationals in Angola

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Angola's abundance of high quality oil and diamonds has drawn the world's most powerful foreign corporations to its shores. Yet, this war ravaged country ranks among the most destitute in the world. The presence and role of multinational corporations in Angola therefore presents analysts and responsible business with an ethical dilemma. Multinationals active in the country must, almost by definition, be partially assessed in terms of their contribution to social and economic development.

This chapter departs from the vantage point that the government of Angola is legitimate through the results of the 1992 elections. While Angola is not a true democracy, the president and the *Movimento Popular de Libertação de Angola* (MPLA) do represent a closer approximation to the will of the people than does *União Nacional para a Independência Total de Angola* (UNITA). Furthermore, it was UNITA that abandoned the Lusaka Peace Process. A US State Department report notes that, "… the government generally complied with its obligations under the protocol, although the conduct of the police and, to a lesser extent, military units in former UNITA areas drew widespread criticism." It goes on to detail that, "UNITA failed to comply with several fundamental aspects of the protocol."[1] This is an assessment shared by the UN Security Council which has stated that the primary cause of the crisis in Angola is the failure by the leadership of UNITA to comply with its obligations under the Lusaka Protocol.

Since the Angolan government is internationally recognised and not under any sanctions, firms may legally operate in Angola, but how?

The dilemma facing companies in Angola is common in developing countries facing insurgencies or war. To do business in a state-controlled area, such as in oil or diamond exploration, corporations need good relations with the government of the day. But much of the hard currency which multinationals help the government to obtain goes to arms procurement, the war effort, and can feed corruption. On the other hand, without the ability to buy weaponry and defend itself the government cannot end the war. Internationally UNITA is not regarded as a credible negotiator, lacks popular support, and has a grotesque human rights record. However, the government also exhibits major shortcomings: it is marginally democratic; continues to commit widespread and systematic human rights violations through the military and national police; large amounts of the state's wealth is squandered; and fraud and mismanagement are endemic. The international

community and major multinationals may have come to regard the MPLA as being in the 'right' but Angola's government has fallen short of properly governing the state and its citizens. In its 1998 Angola Country Report on Human Rights, the US Department of State observed that "citizens [of Angola] have no effective means to change their government," and that "corruption and mismanagement are pervasive in the public sector and widespread in the private sector."[2]

It is therefore important to look into the role that corporations play in Angola, how they help and where they may harm, and to what extent they can improve the situation. This will be done with regard to the oil, diamond, and banking sectors.

Corporate ethics

In order to construct an ethical framework, it is important to assess what it means to be a responsible business, within or outside Angola. This discussion will identify obligations that corporations should have above and beyond commerce, since multinationals are vital members of the societies in which they operate. The foreign corporate presence in Angola is especially significant since only a handful of major multinationals drive the economy and safeguard the government from military defeat.

Multinationals are influential drivers of globalisation, having become a source of employment, products, and technology in many countries. Through taxes and fees they add hard currency to local economies, broaden them by creating new industrial presences, and enhance the domestic labour's skill base by introducing new production techniques. They also bring with them a link to their home countries, offering a glimpse of corporate governance often quite different from that of their host and serving as a positive example. Undoubtedly multinationals in Angola provide the industrial means for large and ongoing extractive operations, such as the ability to exploit deepwater petroleum assets and kimberlite diamond reserves, otherwise far beyond the country's reach due to capital and technological constraints.

The field of corporate ethics has evolved to include the overall impact of business on society as a whole. Where companies create an exemplary work environment, free from discrimination, with fair wages, and promote environmental protection, they operate responsibly. But additional considerations may be necessary in determining the wider impact of a company's operations. True social responsibility requires a greater consciousness in providing holistic and beneficial corporate and social engagement.

Formerly, ethical considerations were confined to the conduct of employees, defining their behaviour in accordance with national law. Such issues included the use of company assets, conflicts of interest, fair labour standards, as well as other areas related to the work environment. With increased awareness and significant social pressure, as well as notable cases of corporate misconduct, discourse on business ethics has expanded to cover the overall role of corporations within the societies in which they operate. This heightened attention to the roles

and responsibilities of business continues to grow, driven by a much more powerful and active media that exposes specific corporate practices, a more intense sense of social responsibility amongst the consumer public, an active civil society that includes vocal environmental and human rights communities, and the wide dissemination of information. The result is a raised public awareness and focus on social issues, beyond narrow business considerations.

The trend in corporate responsibility has often appeared to follow a step pattern. Corporations tend to maintain the status quo until an event prompts change. This may even be big enough to induce change in an entire industry. Royal Dutch Shell faced public outrage in 1995 when the Nigerian government executed Ken Saro Wiwa, an Ogoni activist, and the events shook the massive oil industry. The scandal surrounding working conditions in Nike's Asian suppliers led to changes in the garment industry. In both instances NGO's and pressure groups played an important role by either identifying injustices and pushing corporations toward greater accountability, or seeking to publish and increase the public knowledge and sense of outrage. Each event served to jump-start change either in reaction to consumer protest, the anticipation thereof, or pressure from other quarters such as governments or activist groups. Generally, once multinationals are directly and negatively affected by an incident, their reaction is quite vigorous.

But change is not only induced by external pressure. Companies have often progressed from simply 'conducting business within the law' to doing business that reflects the values underlying their business success or social context. Legal requirements are also becoming more stringent and cover a much wider scope, forcing multinationals to operate in increasingly uniform methods throughout the world, based upon regulations and norms of their home countries. Laws also change and today's practices may not be permissible in the future. This is the kind of predicament facing many US companies, which find themselves being forced to clean up environmental contaminants discharged or dumped legally in the past. The result is protracted and damaging legal disputes initiated by the government and affected communities.

The corporation is responsible first and foremost to the law. Some would argue that this is as far as a corporation must go. Milton Friedman argued in the 1960s that within the law "there is one and only one social responsibility of business – to increase its profits."[3] Today this is more a benchmark reflecting subsequent progress than a commonly shared view. No international business leader would publicly profess these views today. In reality the law serves as a minimum code of conduct. A responsible corporation like a responsible individual seeks to follow both the letter and the spirit of the law, but beyond this, the notion of responsibility is difficult to define. Ultimately the corporation's responsibility is a subjective notion that management must articulate based on the company's own set of values and upon those considerations that would best serve its image and profitability in the marketplace.

Notions of corporate responsibility are open to wide interpretation, but are essentially about doing 'more' than what is technically or legally required. In a

country such as Angola the law may be unjust, incomplete, or simply outdated, making compliance easy. Multinationals often argue that the laws of their country of origin or stock market listing bind them, and that the obligation is on those governments and institutions to regulate, restrict or limit their activity. A company may therefore argue that until it is told to stop it has done nothing wrong. However, from an ethical perspective if the laws do not provide justice, then a responsible corporation is obliged to do more. Companies are usually not the villains that detractors may wish to portray. Many corporations recognise the extent of their impact and push to make this positive. The result is a new type of 'social contract'[4] that includes society's expectations and rights regarding corporate operations and the obligations of the corporation toward society.

In many situations it is hard to discern what is clearly right and certainly wrong, although rules and procedures, as well as a properly defined mission, should provide a suitable framework for such decisions. When the effects of an action are uncertain the choice is more difficult. In such a situation an individual or organisation is at risk of doing something wrong inadvertently. A grey area is one in which a corporation may calculate the cost of change or of a specific course of action, and then decide that without clear evidence of wrongdoing, it will continue to operate as it had in the past. Ethical decisions are based on judgement, and it is an individual's as well as a corporation's responsibility to judge the correct course of action and then take it. Such assessments must be the guiding principle of corporate citizenship and corporate responsibility.

The desires and needs of stakeholders are widely accepted as substantial components of corporate ethics. Such recognition demonstrates a move away from the notion that shareholders and stakeholders are one and the same, to a broader concept of a corporation's place in society and a distinction between direct and indirect stakeholders. Direct stakeholders are those with primary business links to the company – investors, employees, trade unions, customers, suppliers, distributors, and partners. Indirect stakeholders are all others who are affected by the company's activities, including governments (local, national, and supranational), local communities, social and environmental groups, and the general public. The delineation between direct and indirect stakeholders assists in framing and quantifying the effects of involvement but is complicated by the internationalisation of trade. According to the World Bank, "[A]s a result of globalisation, stakeholders are becoming more and more geographically dispersed. Many American and British multinational corporations now face the situation where 90% of their shareholders are in the US or UK, but most of their turnover, employees, fixed assets, operations are in other countries."[5] The geographic dispersal of stakeholders, who have diverse needs and expectations, necessarily contributes to the complexity of corporate responsibility. Shareholders seek a high return on financial investment while non-investor stakeholders have more qualitative needs. Such diverse needs force corporations to continually assess their impact on all stakeholders, and devise quantitative measures of performance in serving these groups.

A broader definition of stakeholders relates back to the idea of a social contract, a relationship between each set of stakeholders and the corporation. According to the World Bank:

> "A social contract incorporates a firm's contractual legal obligations but extends beyond them to include additional expectations or responsibilities that are not (currently) mandatory. The contents of a corporation's social contract can evolve more rapidly than its legal charter, reflecting a society's changing social and cultural mores. When governed parties, such as corporations, are slow to comply with new societal values, those norms may be formulated into legally binding mandates."[6]

As the definition implies, a social contract requires an understanding of the community within which a company operates, and an orientation to the future. Companies operating in Angola, for example, need to assess non-financial future developments and the expectations of its people, to then serve as a positive influence within the country. "[F]or many civil society groups, corporate social responsibility signifies conduct that rises above the minimum required by law but still constitutes a corporate duty to act rather than a more optional norm or charitable 'good deed.'"[7]

Corporate social responsibility is not charity, an activity separate from the company's business. In the past corporations measured their good deeds in terms of philanthropy, but contemporary measures involve conducting business in an ethical manner, with charity as an added extra. Instead, social responsibility entails a dual bottom line, profit and positive impact. A firm that strives for such a double return tries to achieve business success and also social good. Social responsibility does not have to be entirely altruistic, for there are opportunities in doing good that positively affect the first bottom line, such as increased employee pride, better relations with local communities, and a more stable, prosperous future. A results-based framework to measure the non-financial bottom line would look for contributions in areas such as social practices, economic, human and community development, as well as environmental sustainability. Human development indicators and tangible improvements in quality of life could be measured to demonstrate results. For example, a firm could possibly point to increased literacy or rising incomes in the areas where it operates as signs of positive impact.

The following sections look successively at corporate social responsibility of oil, banking and diamond sectors.

The oil sector

An overview

Oil is by far the most important industrial sector in Angola, and the only one to expand since the country's independence, accounting for approximately 90% of the country's exports, about 80% of government revenues, and over 40% of

Gross Domestic Product (GDP).[8] The country produces nearly 770 000 barrels of oil per day, and is expected to reach one million barrels per day in the near future and perhaps one-day rival Nigeria's two million barrels per day. Angola's known recoverable reserves are currently estimated at total about four billion barrels, but are expected to rise with new exploration in the deep waters off Angola's coast.[9] Although not a member of the Organisation of Petroleum Exporting Countries (OPEC), Angola is the sixth largest supplier of crude oil to the United States, accounting for seven percent of crude imports. This level is expected to increase to 10% within the next eight years.[10] Within this industry, about 15 foreign companies, including Chevron, TotalFinaElf, Texaco, BPAmoco, ExxonMobil, Occidental, Royal Dutch Shell, have invested about US $8 billion in Angola.

The recent increase in the price of oil is a very positive development for the government. It should allow the state to capture much higher rents for its petroleum reserves. World oil prices have risen sharply in the past year, recovering from a steep recession in the oil markets over the past several years. Prices have gone from around US $12 per barrel in 1998 to the upper US $20s at the beginning of 2000 and held at more than US $30 soon thereafter. Whether or not these prices will hold is questionable, but even a substantial decline would probably still imply prices at around US $20 or higher given the robust world economy. The most important contributor to continued price strength and stability is the new resolve among OPEC members to maintain their production quotas. The higher price environment has also benefited non-OPEC producers and has enabled Angola to see a much greater revenue stream from its oil sector. Increased revenue should in turn continue to provide high levels of income, as prices remain stable, and contribute to companies financing more exploration in Angola.

Multinational oil companies have scrambled to secure a stake in the potentially vast frontier areas in Angola, as discussed elsewhere in this book.[11] Oil related investments are planned to rise at a rate previously unparalleled in Angola due to the discovery of large offshore fields. The tremendous local impact of foreign petroleum corporations requires an analysis of the perceived and pragmatic relationship between oil majors and the Angolan state and citizenry.

Oil majors have been accused of complicity in the wasteful spending and embezzlement of Angola's oil wealth largely because of a lack of perceived action to correct the situation. The British NGO, Global Witness, in its recent report, entitled 'A Crude Awakening'[12], criticises the Angolan government for its handling of oil revenues, and accuses the oil companies in Angola of a lack of transparency. The group contends that the companies and foreign banks contribute to the suffering in Angola by allowing a corrupt system to function. The main contention is that the country's oil revenues are being squandered even before they are realised, through mortgaged deals. Oil is certainly used to buy arms, often as the currency itself, and the government is blamed for giving away the oil through bad deals on arms trades, and of mortgaging future oil for high interest loans.

An offshore economy

The vast majority of Angola's oil operations are offshore and out of the reach of conflict. They do not require the level of security that would be required to protect facilities and personnel on land. Elsewhere, the security arrangements of multinationals in developing countries have drawn strong criticism when government forces violate human rights on behalf of or because of an industry presence, as has been the case in Nigeria with Shell Oil, in Colombia with British Petroleum (now BPAmoco), and in Burma with Unocal. The onshore activity in the Niger Delta has created increasingly complex security issues for Shell and Chevron. Workers have been kidnapped, facilities taken over, and civilians killed by government security forces or by pipeline explosions when seeking to illegally divert oil. In one incident alone close to 1 000 people were burned to death in 1998 as they scooped fuel from a large spill near the town of Jesse.[13] In Angola, the companies' exposure is usually about 10 miles offshore in the deepwater fields, which lie beyond the range of UNITA or *Frente para a Libertação da Enclave de Cabinda* (FLEC). Onshore production accounts for just 15 000 to 25 000 of Angola's 770 000 daily barrels of oil output. Even so, the Cabinda Enclave, where most of the country's oil is produced, is protected by several thousand soldiers and a number of private security companies.

Assessing corporate responsibility in Angola

The world's major oil companies profess to promote exemplary human rights and environmental practices. Certainly the oil majors abide by the law, usually pay higher wages, promote better working conditions, and generally have better environmental standards than local companies. The larger oil companies also appear to apply uniform employment standards, although wages may differ from one country to another, as they face increased scrutiny, and sometimes accusations of exploitative practices.

The large oil multinationals have all made some effort to promote the positive contribution of their business activities to social development, especially in the developing world. BPAmoco for example has taken a leading position on human rights and the environment. The company's chief executive, Sir John Browne, delivered a number of speeches on the subject and the company is committed to cutting back its greenhouse gas emissions of CO^2 ahead of time and further than any amount being considered under the UN Convention on Climate Change's Kyoto Protocol. Shell has taken similar steps in the area of the environment, agreeing to cut CO^2 emissions well below any level possibly mandated. Both BPAmoco and Shell are seeking to demonstrate a high level of corporate commitment to ethical business practices, evident from their corporate publications in print and posted on their websites. BPAmoco states that:

> "Everywhere we work we try to contribute to the development of civil society, establishing clear ethical standards for ourselves and our contractors,

> ensuring that the whole of the local communities benefit from our presence, and bringing some positive energy to the development of the community."[14]

A recent speech by a BPAmoco director cites a new global corporate paradigm in which "it's no longer possible, if it ever was, to operate or to behave differently in one place from another" forcing the company to work toward the "highest standards . . . whatever the market".[15] BPAmoco thus accepted responsibility for creating a positive influence through honesty and transparency. Such progressive ideals have been augmented by charity with BPAmoco recently reaching an agreement with USAID to donate US $7 million in assistance to Angola to be administered through the International Committee for the Red Cross.

Chevron also envisions its positive role in Angola. The company maintains the largest operations in Angola's oil fields, and, through its joint venture partners, is responsible for nearly half of the oil exported from the country. Chevron could thus be a prime target for detractors exposing corporate misconduct in Angolan petroleum sector. The company has promoted a beneficial image of itself through the Chevron website citing involvement in Angola through the company's subsidiary, Cabinda Gulf Oil Company Limited (Cabgoc), as having "a strong bond with that country, one that has grown out of respect for land and trust in its people. 'Partners in the Community' is an often used phrase to describe this time honoured relationship with Angola."[16] Chevron has worked to implement sustainable development and social projects, and proclaims to have otherwise brought about change by serving as an example in its business practices in the diverse fields of ethics, working conditions and environmental consideration.[17] The company's charitable donations in Angola in 1998 amounted to roughly US $1,1 million, expended on schools, hospitals, medical clinics, environmental programmes, youth sports programmes, and community events.[18] Chevron further argues that "… a key element of our developing relationships in Angola is our commitment to local business development … with Angolan companies, creating jobs for Angolans."[19] However, given the size of the industry, oil is not a large employer of local labour. Nigeria's more extensive oil industry employs about 100 000 people, while in Angola the number is only about 10 000.[20]

While Chevron is listed on the US stock exchange and files publicly available financial statements to comply with the US Government's Security and Exchange Commission, gaining information on their foreign affiliates is difficult. For instance Chevron's Angola subsidiary, Cabinda Gulf Oil Company Ltd, is registered in Bermuda. The Security and Exchange Commission filings therefore groups the operations of all overseas production of the parent company, thereby obscuring the particulars of Chevron's Angolan operations.

Chevron takes a position of political neutrality when dealing with foreign governments representing a long-term view in which governments change but corporations remain.[21] BPAmoco advocates a more involved position in which the company cannot remain indifferent to the needs of communities in its areas of operations.[22] BPAmoco sees itself as an "honest broker between a government

and the international community."[23] Exactly what these statements lead to is difficult to discern. Companies such as BPAmoco and Chevron, as well as others in Angola's oil sector, must be obliged to take an active role when necessary, replacing the 'neutral' code of conduct. The role of 'broker' between the Angolan government and international community will yield few results unless multinationals are willing to bring up difficult issues such as human rights, the environment, and corruption.

Since the MPLA is not transparent, the oil companies operating in Angola must demonstrate complete transparency – both in the interests of the Angolan people and for reasons of good corporate business practice. All payments that are made to the government of Angola, including signature bonuses, royalties, taxes, and any other payments to either Sonangol or any government affiliate should be reported. Collective transparency would demonstrate a common commitment to a host of environmental, human rights and social responsibility issues.

There may be legitimate reasons why companies may choose to register themselves or affiliates in tax havens such as Bermuda. However, until such time as foreign corporations provide full details of their operations in a country such as Angola, transparency of the parent company and local affiliates cannot be attained. Another complicating factor is that Angolan citizens do not have ready access to the data available to citizens in developed countries.

Oil companies must consistently recognise that the resources of Angola do not belong to the government, but to the people, something directly stated in the country's constitution. Corporations must be mindful of the conditions in Angola, in part enabled by their presence. These could include war, a lack of transparency, corruption, a dependence on foreign investment, and a narrow economic base. Responsible companies must strive to enable positive conditions and mitigate the harmful results of their presence.

Despite possible shortcomings of corporate citizenship by the oil majors, withdrawing from Angola does not appear a realistic or a beneficial strategy. Without some corporate presence, the country's already slow pace of social development could come to a halt. Given how vital large multinational oil companies are to the economy, and how important the Angolan oil industry is for the various companies, as well as to the world markets, engagement seems the only option. However, successful 'engagement' depends upon the oil majors first engaging in bringing clearer transparency to their own paper trails, partially fulfilled by divulging details concerning corporate structure, local affiliates and payments to the host government. This process would help increase pressure on the multinationals to take a more proactive stance *vis-à-vis* their hosts and prompt them to implement their stated humanitarian ideals in a competitive corporate environment.

Given the right of companies to do business in Angola, the debate is really over what oil companies can do to push for change in transparency, corruption, and even with regard to human rights. The oil majors do praiseworthy things in Angola in the area of charity and maintaining high standards for labour. Undoubtedly they also help enable a corrupt system to exist. Their best way to combat this is to be

as transparent as possible, and to force the same on suppliers and contractors, and press the government where possible for change. Such an approach necessitates cooperation among the oil majors, and something similar to a code of conduct for the industry when doing business under these circumstances. The international community has less pressure to exert on the Angolan government when oil prices rise, making corporate engagement even more important.

The involvement of the oil majors also allows for the financing of arms deals, usually through oil backed loans. The MPLA government is the largest arms purchaser in Southern Africa, spending an estimated US $3,5 billion on weapons imports during 1993 and 1994 alone from countries such as Russia, Brazil, North Korea, Spain, Portugal, Bulgaria, the Czech Republic, Ukraine and Uzbekistan.[24] Such large arms procurement strategies are hindered by poor credit, with Angola's US $12 billion external debt, and a low level of perceived stability.[25] As the MPLA has refused to demonstrate transparency, it has been unable to attain low interest loans from the International Monetary Fund (IMF). Instead, oil revenue gained through taxes, signature bonuses, royalties, and payments to the national oil company, Sonangol, is not open to outside scrutiny and can be diverted to buy arms or lubricate corrupt procurement mechanisms. The government obviously is engaged in a protracted civil war and does need weapons, but the amount of spending and the terms of the deals seem suspect.

Recently, the three deepwater blocks awarded to BPAmoco, Elf, and ExxonMobil, commanded signature bonuses of around US $300 million each,[26] but the payments were used to service interest on loans as well as purchase weapons. The MPLA has also been forced to borrow money at above market rates, and seeks to maintain relationships with companies and individuals with capabilities in many diverse fields, including arms procurement, some of which have purportedly entered the petroleum sector as junior partners. It is difficult to discern the extent of mismanagement and the fraudulent siphoning of precious state revenue but with so much money at stake and such secretive procedures, there is sure to be substantial misallocation.

The banking sector

The banking sector plays a critical role in helping the government remain solvent, carry out its war effort and even to resist pressure from the World Bank and IMF. Banks provide the government with the ability to finance its share of the joint venture and production-sharing agreements in the oil operating blocks, and also provide short-term loans, necessary to finance the war effort. They also serve as a means for wealthy Angolans to park their money securely offshore. Banks active in Angola include Union Bank of Switzerland, Banque Paribas, Nissho Iwai of Japan, ING Barings, Citicorp, and HSBC Equator, as well as others.

Since loans are backed by oil, they are relatively secure for the foreign banks although most are short-term and charged at relatively high interest rates. A

shipment of oil will be sold to either a refiner or a broker, and the payment will be placed directly into an offshore escrow account that is subject to strict international banking laws. Repayments for loans received by the government or Sonangol are paid out of the account, thus guaranteeing that Angola does not default. The government then continues to make deliveries to maintain the required level in escrow.[27] To further ensure repayment, banks back their lending against two offshore oil trusts, Cabinda and Soyo-Palanca, which receive priority shipments, and are again subject to strict oversight. As oil prices rise, fewer deliveries need to be made to service the loans, but as prices fall, more are necessary. As a result, money does not funnel through the proper budgetary channels within the Angolan financial system, allowing the government to resist calls for increased transparency.

Loans can also be directly linked to financing capital expenditure, such as those provided by the US Export Import Bank. The structure of many oil deals, such as the one with Chevron's block in Cabinda, are joint ventures, in which each party shares in the expenses of exploration. Sonangol insists that foreign parties provide financing to cover the parastatal's costs. Since these loans are more secure, the repayment period may be six or more years. Loans that are not tied to a specific project are paid through Sonangol to the government directly. These are more risky and have repayment periods of only a few years. Interest rates reflect added risk and come in at about two percentage points above the London interbank offered rate.[28] The loans are underwritten by syndicates and include a number of banks in order to share risk.

Global Witness points out that since repayment periods are only a few years, future production is likewise mortgaged for the same period. This implies that the near-term debt should not burden the country far into the future, and perhaps with increased oil production and of course the prospect of peace, Angola can hope for future prosperity. An imperative for Angola should be a full agreement with the IMF in order to obtain low interest loans, and to possibly reschedule its debt. This can only be accomplished through an oil diagnostic survey to bring full transparency to Sonangol's financial accounts, addressing the relationship between the Central Bank, the Ministry of Finance and Sonangol, and clarifying the government's budget which does not account for 40% of its expenditures.[29] Of all multinational practices in Angola, increasing transparency in the banking sector is the most pressing since money bypasses the Central Bank or Ministry of Finance, going directly to areas outside of the formal budget.

By just abiding by the laws, foreign banks, especially US financial institutions could find themselves on the wrong side of the law. Measures are being considered by the US Congress to broaden the scope within which money in US banks would be regarded as being 'dirty'. Currently money derived or involved in drug trafficking, kidnapping and bank fraud, are among a short list of activities that face an outright ban from being deposited. Corruption may also be included in the future. The banking sector would not be directly affected in its lending, but could be affected in the deposits it receives. For example, precautionary steps

must be taken to avoid involvement in money laundering such as that of the Bank of New York's unwitting involvement in laundering about US $7 billion from Russia, some of which was from illegal sources and included loans from the IMF. With heightened awareness, bank lending to corrupt governments could also come under heavy scrutiny. With the perception of wrong doing almost as damaging as actual wrongdoing, banks may take a more cautious stance in doing business with Angola.

On a positive note, the Angolan government and the IMF recently reached agreement on an IMF Staff Monitored Programme, which could lead to a full Structural Adjustment Programme within several months. After such a period, Angola would qualify for Emergency Structural Adjustment Funding, making concessionary loans available. Also, with full IMF support, comes the possibility of bilateral and commercial debt rescheduling at the Paris Club.

Certain austerity measures have paved the way for this agreement, including the government's decision to raise oil prices by more than 1 500% on 3 February 2000, thus reducing an enormous fuel subsidy. However, this move has also caused pain to the general public as the cost of living rises. The government has also decided to let the exchange rate float, thereby doing away with a parallel market that allowed for currency speculation. Both measures show the government's intent to work with the Fund, which will assist the international lending organisation to achieve greater international involvement, including foreign aid.

The country was to have received US $1 billion in assistance through the World Bank, but the funds were held back when the peace process disintegrated in 1998 and the government did not demonstrate a clear economic reform package.[30]

The World Bank has 10 active projects in Angola totalling US $278 million administered through the International Development Association. This branch of the bank lends to countries that are eligible on the basis of three factors: the per capita income must not be greater than US $895, the countries must have a lack of readily available credit, and be relatively impoverished. To receive resources they must also meet certain performance criteria.[31] Angola, with a per capita income of only US $340, easily fits the basic criteria, but further Bank activities were suspended after the departure of the Bank's permanent representative in Angola in May 1999, due to the prevailing political and economic conditions. The World Bank has all but said that its operations will not resume until an agreement can be reached between Angola and the IMF, as has recently started in terms of the Staff Monitored Programme. The current funds are devoted primarily to infrastructure projects, with the rest supporting programmes in health, education, community development and economic management.

A resumption of International Development Association credits would be very helpful to Angola since they are specifically designed as part of the World Bank's poverty reduction efforts. The terms of the loans are advantageous, being interest free, except for a 0,75% service charge, and having a maturity period of 35 to 40 years with a 10-year grace period.[32] A resumption of new loans would help a

cash-strapped Angolan government finance social and economic upliftment, and simultaneously defer payment far into the future. This is actually more important than it sounds, as most corporate loans are tied to investment related activities, with very little government spending going to social programmes. Discounting those future repayments back to the present makes these loans virtually free money.

The diamond sector

Overview

Diamonds account for Angola's second largest industrial component. Official and unofficial production ranks the country as the fourth largest diamond producer by value after Botswana, Russia and South Africa. In 1998, both the government-licensed formal and informal markets, loosely distinguished between mining and purchasing operations, accounted for nearly US $425 million while this increased to US $577 million in 1999, according to government figures cited elsewhere in book. However, for the two years combined, the government netted under US $30 million in taxes, according to these same figures. Nevertheless, Angola's long-term prospects appear favourable owing to the country's massive known diamond reserves. The ongoing civil war has severely limited access to the country's diamonds, and caused billions of dollars in loss to UNITA, which mines and sells diamonds to fund rearmament and war. With lasting peace, this industrial sector could again contribute significantly to the country's development, providing currency as well as employment. Through a new programme, the government hopes to increase production from this sector, aiming at about two million carats annually[33], and to boost government revenue as a proportion of diamond output.

Ethical challenges

Rough purchasing licenses were suspended by the Angolan government in January 2000. Six licensed rough buying houses worked in Angola in 1999 but Dian, Codiam, Lazare Kaplan International, RDR, Matos and Jean, and Triotex, were prohibited from operating independently[34], with sales channelled instead through the new Angola Selling Corporation (Ascorp). However, prior to the recent restructuring, these companies had managed buying operations throughout the country with the possibility that some bought rough originating from UNITA. New purchasing regulations have yet to be formalised but it is likely that realities in the Lundas will change little. If the new buying operations are based upon the nuances utilised over the past few years, Ascorp's Angolan and foreign partners could be involved in an ethical breach of possibly circumventing international law against UNITA diamonds. Such ethical challenges could be averted if the government continues to license informal mining activities by the

garimpeiros, but it is unlikely that such measures could be implemented in full due to the uncertain nature of business in the diamond fields.

Diamond mining operations face ethical challenges similar to those of on-shore oil operations although the nature of diamond mining is less capital intensive and demands larger amounts of semi-skilled labour. The primary challenges for mining companies pertain to fair labour practices, environmental protection, and security operations. As most mining companies operate far from fiscal authority and are necessarily adverse to divulging profits, or even annual diamond production, it is not surprising that they are also adverse to disclosing statistics on labour conditions and environmental protection.

Individual diamond mining firms have a smaller influence on the Angolan economy and government than the oil majors, but corporate citizenship is not only a concern of giant multinationals. Creating an ethical precedent rests evenly on companies of all sizes. Smaller private mining consortiums, however, face less consumer or stakeholder pressure to alter their business practices. Diamond mining companies do not sell their gems retail, but may soon. Consumers, therefore, cannot express dissatisfaction through boycotts. Unlike the direct targeting of petroleum products, consumers of gem diamonds would have to target the entire industry to push individual producers towards greater ethical practices. However, increasing vertical integration in the diamond industry between producers and retailers should enhance the ability of consumers to dictate corporate reforms. Unfortunately, mining juniors listed on alternative stock exchanges are rarely targeted by concerned consumers and usually only have their activities or listings suspended after egregious behaviour. Ironically, while oil majors promote ethical standards on their websites, some diamond mining juniors have profited from real or perceived associations with mercenary security forces that bolster investor confidence in the companies' ability to protect investments in volatile commercial terrain.

A public relations comparison: De Beers and Antwerp's HRD

De Beers and Antwerp's *Hoge Raad vir Diamante* (HRD) were both targeted by the 1998 Global Witness report 'A Rough Trade'. However, De Beers was capable of rectifying its image, while Antwerp's HRD did too little, too late. The conclusions of the United Nations 'Fowler' Report concerning these two diamond channels are:

> "...the measures taken by De Beers to ensure that it does not purchase UNITA diamonds directly or from third parties, and De Beers' subsequent withdrawal from the diamond market in Angola have made it more difficult for UNITA to sell its diamonds"[35].

> "...the Panel found that the extremely lax controls and regulations governing the Antwerp market facilitate and perhaps even encourage illegal trading activity"[36].

Here is how the two reacted to the accusations and growing popularity of the 'blood diamonds' campaign.

De Beers had in the past bought Angolan diamonds supplied by UNITA. The cartel did this to control prices, effectively regulating the supply side of the market. The company contends that it purchased the stones on the open market without any dealings with UNITA. It also contends that all buying stopped when the embargo was imposed in 1998.[37] Regardless of whether there was direct contact, De Beers is well versed on the situation in Angola, and could have taken an ethical stance prior to the legal mandate. It was only after a threat of damaging publicity and a subsequent change in global strategy, moving to a supplier of preferred choice as opposed to the only supplier that the conglomerate changed, yet did so effectively.

The De Beers announcement on 5 October 1999, that it would stop buying all Angolan diamonds, except those it was contractually obliged to purchase from the SDM joint-venture, reflects a pre-emptive and definitive move against dirty diamonds. De Beers also recently announced that it would issue written guarantees that its diamonds did not originate from African rebels, that its stones are 'rebel free.' This move came after significant criticism from private voluntary organisations such as Global Witness and a growing public awareness about the role diamonds play in funding civil conflicts in Africa.

Antwerp's response to criticism lodged by Global Witness was much later than that of De Beers. The Belgian government, the HRD and the Belgian media never really took a position on the Global Witness report, considering the issue closed. Only the Belgian Foreign Minister Derycke, at the end of his mandate, asked his EU colleagues attending the Landmine Convention in Vienna in April 1999 to pay more attention to the role of arms and diamonds in African conflicts. The HRD took no specific action and denied that UNITA diamonds passed through Antwerp in any sizeable quantities. The basic message was that any connection between war and diamonds was a matter for the African countries at stake and not Antwerp. Antwerp interpreted the De Beers ban on all Angolan diamonds as a move by the diamond monopoly to outmanoeuvre competitors.

However, by the end of 1999 when officials from the Fowler Commission began visiting Antwerp, the HRD reluctantly changed its attitude, realising that the 'dirty diamonds' issue was serious. Belgium's new coalition government, though, had not mentioned the issue of diamonds in any of its policy programmes. It was only in early 2000 when a visit by the Fowler Commission coincided with the publication of the Partnership Africa Canada report 'The Heart of the Matter' that the Belgian government and HRD realised the extent of Antwerp's international isolation. The report highlighted Antwerp's role in buying smuggled diamonds from Sierra Leone. But even then genuine action by the HRD and Belgian officials was slow in coming. It was only on 3 March 2000 that the government issued an official statement on conflict diamonds and new regulations that would be applied. A new interdepartmental task force was created, as well as a joint Angolan-Belgian information exchange programme. A previous

task force on Angola, established in late 1999, apparently hardly convened.

Antwerp's efforts to create a "transparent and watertight infrastructure", designed to confirm the origin of diamonds,[38] came too late to ward off criticism by the UN. The HRD did not act quickly enough in proclaiming its aversion to dirty diamonds and was thus criticised as being part of the problem, unlike De Beers. Eighty percent of the world's rough diamonds pass through Antwerp's Diamond Centre, where origin is hard to verify. The new measures may increase transparency in Belgium's diamond sector.[39] It has yet to be seen whether other diamond trading centres such as Israel and India will follow suit in any concrete manner.

Conclusion

Foreign corporations have an important role in Angola. However, they need to conduct their business responsibly, setting an example of good corporate practice, offering exemplary work environments and general business conduct beyond the requirement by law. In response to the issue of corruption, and the squandering of state's assets, they should use their influence to persuade the government where possible to improve its human rights record and to push for greater transparency. This is, of course, easier said than done.

Those areas within a multinational company's control are certainly their direct responsibility, but pushing a government to change is a difficult task. Yet the Angolan government's deficiencies directly impact upon the companies themselves and implicate them in corruption and the mismanagement of the country's resources. If companies object to something that involves them, they have an obligation to raise the issue with the government, and to find ways to incorporate a solution into their operations.

Corporations find themselves at an interesting inflection point in Angola. With oil prices rising, a deal with the IMF being brokered, scrutiny being brought to bear on diamond smuggling, and the government making substantial gains against UNITA, the prospects may soon turn positive. Even democracy may be given a boost with President dos Santos announcing that presidential and parliamentary elections may take place in 2001. As these developments play out, Angola will need foreign investment more than ever. With these positive developments the government will be less capable of blaming mismanagement on the war. More international attention will also bring increased pressure to bear.

Multinationals, for their part, have a significant role to play in ushering in the changes that have been long overdue. For them good corporate citizenship is not a luxury or an option, but an obligation. The multinationals in Angola need to be committed partners and have a long-term view of a stable, prosperous and just Angola. Should they fail to deliver as corporate citizens, and foreign governments fail to broker peace and prosperity, it will be up to the consumers and the broader civil society to raise awareness and enforce accountability.

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