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Oiling economic growth and development: Sonangol and the governance of oil revenues in Angola

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Contents

List of Acronyms

Angol	Sociedade de Lubrificantes e Combustivels Sarl
BAI Cabo Verde	Banco Africano de Investimentos Cabo Verde
BNA	Banco Nacional de Angola
CSO	civil society organisation
DfID	Department for International Development
DRC	Democratic Republic of Congo
Essa	Empresa de Serviços e Sondagens de Angola
Flec	Frente para a Libertação do Enclave de Cabinda
GDP	gross domestic product
HDI	Human Development Index
IMF	International Monetary Fund
INGO	international non-governmental organisation
MoU	memorandum of understanding
MPLA	Movimento Popular de Libertação de Angola
NGO	Non-governmental organisation
NNPC	Nigerian National Petroleum Corporation
NOC	national oil company
Opec	Organisation of the Petroleum Exporting Countries
Osisa	Open Society Initiative for Southern Africa
P&P	Pesquisa e Produção
Sacor	Sociedade Anónima Concession´ria de Refinacao em Portugal
SADC	Southern African Development Community
SGPS	Sociedade Gestora de Participações Sociais Limitada
Sigfe	Sistema Integrado de Gestão Financeira do Estado
Sonangol	Sociedade Nacional de Combustíveis de Angola
SSA	sub-Saharan Africa
UNDP	United Nations Development Programme
US$	American dollar
USA	United States of America

1. Introduction

"We export petroleum and import poverty."[1]

"The wealth of Angola is for the benefit of the people. Any other way is colonialism."[2]

After Nigeria, Angola is the second largest oil producer in sub-Saharan Africa (SSA).[3] It is also the second largest economy in the Southern African Development Community (SADC), accounting for about 11% of the region's gross domestic product (GDP) in purchasing power parity (World Bank, 2009). These statistics, however, mask the conspicuous levels of abject poverty in Angola. While a handful of the Angolan elite are able to treat themselves at upmarket restaurants along Luanda's Ilha de Luanda, the majority of their fellow citizens have to fend for themselves in the sprawling city slums.

Approximately a third of Angola's population resides in Luanda, the capital. Almost 60% of these urban dwellers live in extreme poverty without essential services, such as safe drinking water (DfID, 2009). Adding to their misery is the fact that Luanda is regarded as the world's most expensive city, ahead of Tokyo and Manhattan (Einhorn, 2009). *Business Week*, for example, estimated that while the cost of a quick lunch in Manhattan, the most expensive city in the United States of America (USA), averages US$18.61, the same lunch would cost around US$58 in Luanda (Einhorn, 2009).

Based on its Human Development Index (HDI), Angola is ranked the 22nd poorest country in the world, at 157 out of 179 countries. This is despite the country's relatively high GDP per capita (US$4 434) compared with that of other SSA countries, at 107 out of 179 (UNDP, 2008). The country's low HDI certainly suggests that the boom in "petro-dollars" that Angola has experienced has not benefited the majority of the country's population.

This study assumes that greater public awareness and scrutiny of Angola's leading oil-producing company will be the first steps towards better governance and investment of the country's oil revenues to the benefit of the Angolan people.

The study begins by tracing the history of Sonangol and the political and economic context from which it has emerged as Angola's most influential corporation. It then maps the structure of Sonangol in order to explain how the company operates. Four issues of governance are addressed, namely:

- Sonangol plays several (sometimes conflicting) roles in the Angolan economy, specifically in the petroleum sector, as both a regulator (or "concessionaire"[4]) and a player in the upstream[5] extractive oil industry.
- The company's corporate governance is weak.
- Its oil revenues are poorly managed.
- Its close relationship with the political elite may cloud its corporate objectivity.

1 Angolan street child in the documentary "Angola: Saudades de Quem te Ama".
2 Padre Bernado Bongo of Huila Mission in the documentary "Angola: Saudades de Quem te Ama".
3 In fact, due to armed protests in Nigeria that affected its oil production capacity, Angola's oil production actually exceeded that of Nigeria in 2008.
4 By concessionaire is meant the holder and administrator of the right to explore or produce petroleum.
5 An industry term denoting the exploration and extraction of petroleum.

These problems are regarded as being symptomatic of the company's entrenchment in the elite of the political regime of the ruling party, the Popular Movement for the Liberation of Angola (MPLA). Sonangol has also been implicated in allegations of corruption that have been levelled against the Angolan government.

The final section of the study considers factors for, and against, the reform of Sonangol. It concludes that reform is indeed taking place in the Angolan oil sector, albeit gradually. The reform process would, however, be more successful and credible if it were open to public scrutiny. Angolan policymakers are therefore urged to hasten the dissemination of quality and up-to-date data on the industry.

The findings of this study are based on a series of interviews the author conducted in June 2009, as well as desk research, and telephonic and email correspondence with a range of sources. These included two employees of Sonangol, senior managers of international oil companies operating in Angola, civil servants of the Ministry of Finance and the Ministry of Petroleum, representatives of Angola's development partners, auditors from KPMG, local and foreign civil society representatives, and several diplomats.

2. Historical background and context[6]

Early postcolonial Angola was characterised by rapid deindustrialisation and economic mismanagement, largely due to the combined effects of the relentless civil war and the adoption of Marxism-Leninism by the MPLA. As in most other newly independent African states at the time, the Marxist-Leninist philosophy and its insistence on the nationalisation of industry led to companies being run down and plundered by inefficient and unqualified political appointees. In 2002, the country emerged from the 27-year civil war that left it with a shattered economy, weak institutions and a fragmented legal system.

While socialist mantras reverberated through all sectors, the oil sector managed to escape the economic mismanagement that characterised the post-independence period. Unlike other sectors of the economy that experienced radical nationalisation, transition in the oil sector was markedly well managed and strategic. This included setting up a national commission for managing the transition in the petroleum sector. The commission comprised technical, though politically connected, personnel. Because the upstream oil industry in remote Cabinda was not labour intensive, it survived the exodus of skilled labour that had decimated other sectors of the Angolan economy when the Portuguese settlers left suddenly in 1974.

This calculated protection largely explains the success of Sonangol, Angola's national oil company (NOC). It was "spared from Marxist and postcolonial African economics alike and allowed to flourish according to 'modern', 'rational' and 'pragmatic' criteria" (De Oliveira, 2007).

6 This section and the next are largely based on information from De Oliveira (2007); Alexander & Gilbert (2008); Cilliers & Dietrich (2000) and the CIA World Factbook (2009).

Although born of the nationalisation of the Portuguese oil company, Angol, Sonangol was the result of a "negotiated and consensual" nationalisation process facilitated by the 1974 leftist revolution in Portugal, akin to a corrupted dialect of the "willing buyer, willing seller" model. In fact, a member of the national commission set up to manage the transition period in the petroleum sector was quoted as saying that the commission was "reluctant" to nationalise the company, but "Angol provided us with a ready-made, functioning structure and a building" (De Oliveira, 2007).

Angol, a subsidiary of Portugal's first oil company, Sacor, was established in 1953 initially to sell and distribute petroleum products. By the 1960s, however, Angol was active in hydrocarbon exploration. After the so-called Carnation Revolution of 1974, the new Portuguese government initiated a process to nationalise Angol's parent company, Sacor. Taking advantage of the situation, Angolan authorities sent a delegation to Lisbon to negotiate the formation of an NOC through the nationalisation of Angol.

A memorandum of understanding (MoU) was subsequently signed between the Angolan authorities and Lisbon. It contained a clause that the new Angolan NOC would retain the bulk of Angol's employees. Uniquely, the employees were also guaranteed that their years of service with the new NOC would count as service with the new Portuguese NOC, Petrogal (consisting of the nationalised Sacor, Cidla, Sonap and Petrosul), should they ever wish to return to Lisbon.

This very important aspect of the MoU enabled the resultant oil company, Sonangol, to salvage the technical and structural experience amassed since Angol's establishment in 1953. This ensured both an exceptionally smooth transition and continuity for all concerned.

Table 1: Sonangol timeline

Year	Event	Comment
1938	Sacor is established in Portugal	To ensure petroleum self-sufficiency in Portugal
1953	Angol is established in Angola	A Sacor subsidiary established to sell and distribute petroleum products in Angola
1960s	Angol diversifies to hydrocarbon exploration	
1976	Sonangol is established	An Angolan NOC established after the nationalisation of Angol
1983	Sonangol International, Sonangola Ltd is established in London	
1992	Sonangol Pesquisa e Produção (P&P) is established	A Sonangol subsidiary

3. Sonangol 1976–2002: Efficiency in a sea of inefficiency

Sonangol was officially established in 1976 with exclusive concession rights for liquid and gaseous hydrocarbons in Angola. In contrast to the prevailing economic philosophy, its modus operandi shunned central planning and state-led interference, and instead embraced international corporate ideology. Even more surprising at the time was Sonangol's partnership with American and other Western European firms and petroleum technical experts.

A combination of unquestioned party allegiance, prudent corporate and business policies, partnerships and heavy investment in technical capacity saw Sonangol grow into a major player in the Angolan, and later the global, economy (De Oliveira, 2007).

In 1983, Sonangol established Sonangola Limited in London in order to trade Angola's oil directly. It was to be the first of several Sonangol subsidiaries to be established globally. In 1991, the company took the first steps towards establishing itself as an operator through the creation of Sonangol Pesquisa e Produção (P&P). Prior to this, it had neither capacity nor experience in oil exploration and production (Sonangol, 2009b).

Sonangol has also been credited with diversifying the number of foreign investors in the petroleum industry in Angola. The company's efficiency did not go unnoticed and in 1989 the World Bank noted:

Generally government policies on oil development have been enlightened, and thus deservedly successful … So far Sonangol's high and medium-level management positions have been staffed with comparatively experienced and competent personnel … Sonangol has [also] effectively and advantageously used external consultants to supplement its capabilities in all aspects of its operations.

Box 1: Sonangol's partners

Sonangol partners with a diverse range of global oil companies, including, among others, Agip (Italy), Ajoco (Japan), Braspetro (Brazil), British Petroleum (BP), Chevron (USA), Daewoo (South Korea), ExxonMobil (USA), Hydro (Norway), Neste Oil (Finland), Petrogal (Portugal), Sinopec (China), ENI (Italy) and Total (France).

Bolstered by the discovery of oil in Angola's deep and ultra-deep waters in the 1990s, its accompanying investments and its political clout in Angola, Sonangol embarked on an aggressive horizontal and vertical integration exercise through joint ventures[7] and acquisitions. In 1991, the company underwent a restructuring exercise that saw the creation of a holding company, the Sonangol Group, with various subsidiaries worldwide. Thus Sonangol managed to establish and grow itself as a successful corporate throughout the war-torn years of economic decline from 1975 to 2002 (De Oliveira, 2007; World Bank, 2006; Petroleum Economist, 2000).

7 The government and the company share investment costs in proportion to their participation stakes.

4. Sonangol beyond 2002: Conquering the universe

The post-war period made the consolidation of Sonangol possible. By 2003, Angola's oil production had increased at least eightfold from its 1982 levels. A combination of rising oil prices, Sonangol's improving credibility, peace in the country and reform in oil legislation attracted unprecedented flows of direct foreign investment into Angola.

Meanwhile, Sonangol continued its corporate restructuring aimed at streamlining its activities. In 2004, Sonangol SGPS was established to manage the participation of the Sonangol Group in other subsidiaries and joint ventures outside of the oil sector. Its holding in the Sonangol Group subsidiaries is capped at 10%. (See Table 2.)

Table 2: Sonangol's subsidiaries and joint ventures

Year	Company	Industry and country of operation
Subsidiaries		
… 1997 1991 … … …	1. Empresa de Serviços e Sondagens de Angola (Essa) 2. MSTelcom 3. Sonangol P&P 4. Sonangol Gas 5. Sonangol Distribuidora 6. Sonangol Shipping	Specialised training: Angola Telecommunications: Angola Petroleum exploration Gas exploration Distribution (downstream) Petroleum transportation: Angola
Sonangol SGSP-managed joint ventures		
Upstream		
Year	**Company and holding**	**Sector**
1998	Sonamer (49%)	Drilling
1984	Petromar (30%)	Fabrication
1998	Sonamet (40%)	Fabrication
2000	Sonastolt (40%)	Drilling
1999	Sonasurf (49%)	Transportation
1999	Sonasing: Sonasing Kuito Ltd (30%) Sonasing Xihomba Ltd (50%) Sonasing Sanha Ltd (50%) Servicos de Produção de Petroleos Ltd (50%)	
1995	Sonatide (51%)	Vessel supply
1998	Sonawest (49%)	Seismic data
1999	Sonadiets (30%)	Professional training
2002	Sonaid (30%)	Fabrication
2000	Technip Angola (40%)	Fabrication
1995	Sonils (30%)	Service centre
2002	Angloflex (30%)	Fabrication
1982	Kwanda Lda (30%)	Service centre
Downstream[8]		
1990	Sopor (49%)	Distribution
1994	Sonangalp (51%)	Distribution

8 An industry term for the refining, marketing and distribution processes of petroleum products.

1998	Enco (40%)	Storage
1998	Sonangol Cargo SARL (60%)	Distribution
Non-core		
1997	WAPO Angola (35%)	General services
1991	Banco de Comércio e Indústria (1.04%)	Banking
1997	Banco Africano de Investimentos (8.5%)	Banking
1995	Sodispal (51%)	Food, retail and catering
2002	Manubito (33.33%)	Vessel scheduling
1994	Bricomil (15%)	Civil engineering
Sonangol foreign subsidiaries		
Year	**Company**	**Country**
2004	Sonasia	Singapore
	Sonangol USA	USA
1998	Sonangol Congo	DRC
1997	Sonangol Cape Verde	Cape Verde
2004	Sonangol China	China

Source: Sonangol Universo (2006) and own compilation.

Sonangol has also evolved into Angola's sovereign wealth fund, as well as the guarantor of national external debt. Euromoney's *Trade Finance* (2004) magazine described the company as "a well-established borrower in the trade finance market, regularly raising funds secured against future income from oil exports". The sections that follow examine the controversy created by the many roles Sonangol has assumed over the years.

5. Structure of the company

An Angolan interviewee described Sonangol as "a group of companies",[9] a reference to its numerous subsidiaries and joint ventures. Each subsidiary is an independent business unit with its own management. The holding company, however, has ultimate control over all the subsidiaries.

Although Sonangol's operations lie largely within the upstream and downstream petroleum sector, it also has investments and joint ventures outside the petroleum industry. The focus of this study is on the company's core business in oil. A distinction is made between Sonangol's two roles in the oil industry, namely as a concessionaire and as an oil company.

The information available suggests that Sonangol has a complicated governance structure. The company is wholly owned by the Angolan government under Decree 19/99, the law of public companies (Sonangol, 2009a). It does not have a conventional board of directors, but instead has an administration council appointed by a council of ministers for a three-year term.

The company's website describes the administration council as "the primary decision-making body in matters of overall strategy and the authorisation for investment expenditures for the Group. Furthermore, it is the Administration Council that determines corporate strategies regarding

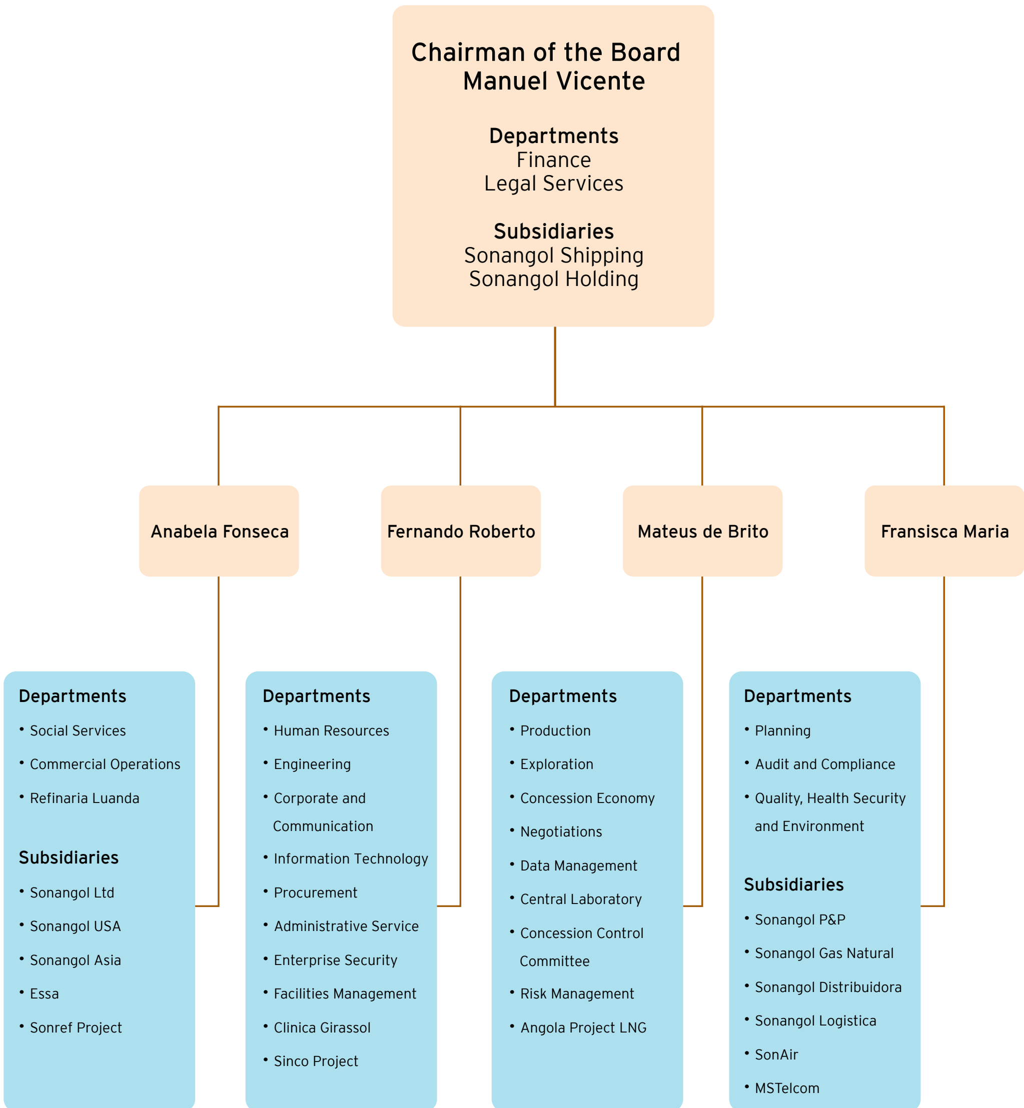
9 Personal interview in Luanda, Angola, 18 June 2009.

performance, rentability and international expansion of Group Sonangol".

Sonangol has confirmed that the board consists of a president and four vice-presidents, all of whom are qualified engineers by profession. (See Figure 1.) Africa Energy Intelligence (2008) reported that the government has also appointed two non-executive board members, who belong to a moderate wing of the Front for the Liberation of the Enclave of Cabinda (Flec). This information has been corroborated by a Sonangol employee.[10]

The five board members each have specified corporate departments and subsidiaries of Sonangol under their control. The managements of these subsidiary companies report to the relevant corporate departments of the holding company. The heads of the corporate departments in turn report to the relevant board member. This applies to all Sonangol subsidiaries without exception.

Figure 1: Distribution of board members' supervisory functions



10 Personal interview in Luanda, Angola, 18 June 2009.

Figure 1 illustrates the company's division of responsibilities. In all, there are 27 corporate departments and 13 Sonangol subsidiaries whose supervision is divided among the five board members. The board chairman has control over the most important corporate departments (finance and legal services), as well as their subsidiaries – Sonangol Shipping and Sonangol Holdings/SGPS. Sonangol Shipping forms an important part of Sonangol's operations and ensures that the company is able to meet its delivery obligations. Sonangol Holdings/SGPS is the "super subsidiary" that manages Sonangol's participation in 24 subsidiaries and joint ventures, and is therefore of strategic importance.

It is not easy to discern which one of the five board members has the most important functions under them. In fact, available data from Sonangol suggests that their responsibilities have been divided fairly equally, without any one board member assuming disproportional control over important corporate departments and/or subsidiaries.

Interestingly, there is no clear divide between Sonangol's concessionaire and operator roles in terms of its corporate department and subsidiary company responsibilities. For example, one board member controls the Production and Exploration corporate departments (which fall within the operator role of Sonangol), as well as the Concession Economy, Negotiations, and Concession Control Committee corporate departments.

That said, most of the interviewees felt that Sonangol has managed to balance its competing roles of concessionaire and operator professionally. For example, Eric Holtar of the Norwegian oil company, Statoil, is of the opinion that Sonangol has acted very professionally in distinguishing between and separating its two roles. While conceding that Sonangol's dual roles do hold advantages, for example greater flexibility when it comes to matters such as the extension of block licences, he was quick to point out that there have been many instances where the interests of the operator, Sonangol P&P, have conflicted with those of the concessionaire Sonangol E&P. Chairman of KPMG Angola, Paul de Sousa, believed that Sonangol's vision of becoming a global player, especially in ultra-deep operations, has been largely responsible for its professionalism.

While Sonangol's corporate success is undeniable, the organisation embodies a comfortable coexistence between such success and petty political patronage. As a result, there have been allegations of high-level corruption. Sonangol is closely controlled by the presidency and the fact that the entity preceded the establishment of the Ministry of Petroleum partly reflects the company's political supremacy.

6. Sonangol: Political patron extraordinaire

Misgivings about Sonangol's close relationship with the presidency centre on allegations that the latter is surrounded by a political clique of powerful unelected officials, known as the *futango de belas*. For example, the international non-governmental organisation (INGO) Global Witness (2002a) identified these individuals – which it calls the "Oiligarchy" – as being central to the expropriation of national oil revenues to their offshore accounts. Between 1997 and 2001, approximately US$1.7 billion disappeared from the Angolan government's coffers – allegedly into offshore accounts of *futango* members.

Sonangol was allegedly central to this expropriation of funds. Shaxson (2007) noted that "if *Futango* … was the brain of the system, then Sonangol was its heart". Over the years, Angolan oil revenues have been plagued with gaping discrepancies between the amount of oil produced and the revenues earned. The International Monetary Fund (IMF), for instance, insisted that between 1997 and 2002, US$4.2 billion in oil revenues "disappeared" (IMF, 2002; *New York Times*, 2002).

The Angolan government has not disputed the discrepancies, but attribute them to poor accounting practices, lack of capacity, and volatility in the exchange rate.[11] However, several studies – by the IMF, World Bank, PricewaterhouseCoopers and NGOs – have pointed to Sonangol being the primary source of discrepancies in oil revenues.

An influential civil society activist interviewed in Luanda argued emphatically that Sonangol is at the heart of public fund looting in Angola. He described Sonangol as "a closed society … a monster everybody sees but doesn't know about".[12] Given the sophistication with which the Angolan political and military elite is able to siphon off public funds, it is nearly impossible to produce concrete proof of Sonangol's centrality in facilitating the looting of public funds.

It is not possible within the scope of this study to confirm allegations of corruption linked to Sonangol. It is, however, clear that there are both advantages and disadvantages to the company's close relations with the Angolan political elite. One of the disadvantages is that Sonangol is at times "nudged" into activities that would otherwise not pass its due diligence considerations. An interviewee cited the example of the establishment of Banco Africano de Investimentos Cabo Verde (BAI Cabo Verde) in Cape Verde in 2008.[13]

BAI Cabo Verde is a financial institution set up with Angolan and Cape Verdean investment in which Sonangol has a 19% stake. The interviewee alleged that, after promising the Cape Verdean authorities that Angola would assist in setting up a bank in the country, Angolan officials delegated the task to Sonangol, which duly complied. Given Sonangol's stated intention to move out of non-core operations, the question is whether it would otherwise have embarked on this investment.

An interviewee from a civil society organisation (CSO) said that "people wonder to whom it [Sonangol] reports".[14] The fact that Sonangol reports to no one but the President is a growing

11 The Angolan government's response to the IMF: personal interviews with officials from the Ministry of Petroleum, Sonangol and the Ministry of Finance in Luanda, Angola, 15–19 June 2009.
12 Personal interview in Luanda Angola, 17 June 2009.
13 Interview with a private sector official in Luanda, Angola, 16 June 2009.
14 Personal interview in Luanda, Angola, 18 June 2009.

cause of discomfort, even within the ruling MPLA, as several interviewees suggested. They mentioned the mounting "noise" made by MPLA parliamentarians and government officials calling for Sonangol's power and influence to be curtailed.[15]

7. Sonangol and the governance of oil in Angola

"What makes Angola rich? Angola has diamonds, petrol, coffee, steel, gold – but we never see anything of this wealth. All this wealth is for them."[16]

At face value, Sonangol's corporate and economic governance structure seems at odds with global norms of good governance. This is in stark contrast with its corporate success. Therefore, although the company successfully generates profits, the extent to which these are put to the benefit of the nation is eroded by its weak corporate and economic governance.

When assessing Sonangol, however, it is prudent to evaluate expectations about Angola in the light of the country's war-torn history, as one diplomat duly warned. It should be borne in mind that Angola is only in its sixth year of peace after more than three decades of a vicious, devastating civil war. Accusations that Angolan authorities deliberately established weak corporate governance structures at Sonangol in order to facilitate their corrupt intentions therefore also need to take this into consideration.

Sonangol's shortcomings in terms of governance have been criticised on four counts:

- Its conflicting roles, both as regulator and as player in the oil industry
- Its weak corporate governance, including poor accounting practices
- Its flawed oil revenue management
- Its close links to the presidency

These problems are addressed in the sections that follow.

7.1 Multiple and conflicting roles

Sonangol assumes a variety of significant, yet conflicting roles in Angola. In the petroleum sector it is both a concessionaire and a player. This gives rise to serious conflicts of interest, one of which being that the company both receives *and* pays petroleum taxes. This state of affairs is further complicated by the existing tax collection relationship between the government and Sonangol (HRW, 2004; KPMG, 2002). It has been claimed that Sonangol, when paying taxes to the government, usually offsets what it determines as being owed to it by the government, instead of it being the other way around (KPMG, 2002).

15 This information came up during various interviews and informal conversations with Angolan citizens in Luanda, Angola, 15–19 June 2009.
16 Angolan street child in the documentary "Angola: Saudades de Quem te Ama".

Sonangol's quasi-fiscal activities include the distribution of subsidised petroleum products, the servicing of oil-backed loans and the provision of fuel to public entities on a non-remunerated basis. The IMF (2007) reported that "these activities are offset against Sonangol's oil revenue due to the government on a monthly basis according to a noncash and cumbersome procedure that gives rise to frequent disputes and large swings in arrears vis-à-vis the treasury".

Less apparent than the roles described above is the part Sonangol plays "behind the scenes" in Angolan political and economic affairs. *Une gigantesque escroquerie* [a gigantic fraud], was how Jean Bernard Curial described the company's structuring of oil-backed loans during the so-called Angola-gate trial in 2003. The trial brought to light how Angolan leaders and French authorities had siphoned off the country's future oil revenues, with Sonangol being at the centre of this storm, as in many similar cases. The corporation has served as the "private kitty" of the MPLA and, more especially, of the President (HRW, 2004; Global Witness, 2002a, 2002b, 2002c).

The allegation has also been made that Sonangol has jealously guarded these roles and is unwilling to cede any of them.[17] Interviewees did, however, generally feel that the company has managed to carry out its two conflicting roles professionally. For example, another diplomat was of the opinion that Sonangol's dual roles constituted "a principle problem and not an operational one". He added: "Besides, I doubt that there is any other institution with the technical expertise to carry out the concessionaire role; certainly not the Ministry of Petroleum."[18]

Some interviewees felt that no other institution in Angola can carry out the role of concessionaire as professionally as Sonangol does. One interviewee referred to the Ministry of Petroleum's lack of technical capacity and financial muscle to take on such a responsibility: "Although petroleum is vital for the country, the Ministry of Petroleum is one of the poorest ministries in terms of budget allocations."[19] A private sector official disagreed: "The capability is there and the money is there for them to poach the required expertise within a short turnaround period."[20] He and others attributed the prevailing situation to a lack of political will.

Whether any other institution besides Sonangol can efficiently assume the role of concessionaire is a moot point. It is clear, however, that the current situation is unsustainable. The first to admit this were Ministry of Finance officials who disclosed that "there are future plans to move the concessionaire role".[21] The same sentiments were echoed by officials of the Ministry of Petroleum, as well as other private sector players.[22]

Several other interviewees disagreed with the assertion that Sonangol refuses to let go as concessionaire. Another private sector interviewee pointed out that Sonangol currently has two

17 By at least two civil society members interviewed in Luanda, Angola, 15–19 June 2009, as well as the HRW (2004) and Global Witness (2002a, 2002b, 2002c).
18 Personal interview in Luanda, Angola, 15 June 2009.
19 Personal interview in Luanda, Angola, 17 June 2009.
20 Personal interview in Luanda, Angola, 16 June 2009.
21 Personal interview with Ministry of Finance officials in Luanda, Angola, 16 June 2009.
22 Personal interviews with Ministry of Petroleum officials in Luanda, Angola, 15 and 17 June 2009.

long-term strategies, one with and one without the concessionaire role, which shows that the company is more than ready to cede the latter role to another institution. Another interviewee felt that Sonangol's vision to become a global player in deep and ultra-deep operations meant that it was more than ready to step down as concessionaire and concentrate on its role as operator.

7.2 Weak corporate governance

Irregular accounting, coupled with a lack of capacity, has further complicated the situation. For example, an oil diagnostics study by KPMG in 2002 found that the Ministry of Finance had reported receiving between US$114 million and US$418 million more than Sonangol's fiscal report stated as having paid to the government. Sonangol has also been known to spend on its employees (for healthcare, scholarships, etc.) and then deduct the amounts from tax owed to the government.

It has been alleged – mostly by international NGOs – that Sonangol's books are not audited by an independent auditing firm. However, over the years, Sonangol has been contracting independent auditors. Other CSO interviewees mentioned that KPMG has even published abridged versions of Sonangol audits in Angolan newspapers. However, they pointed out that these audits make very little sense to the majority of the public, who are either illiterate or have only a basic education that does not allow them to understand such technical reports.

This represents an opportunity for CSOs to take up the role of popularising and explaining such reports. However, their ability to assume such a task has been watered down by the lack of properly skilled personnel and also the high financial costs of operating in Luanda.

One official from the Open Society Initiative for Southern Africa (Osisa) explained that "CSOs in Angola arose from a humanitarian crisis, not a political crisis. This changes the capacity and discourse of the organisations". The destruction of the country's human resources by the long war has made it difficult for CSOs to source properly skilled people for such functions. "You will be lucky to find a CSO with more than one person with tertiary level education. Additionally, the end of the war saw the drying up of funding for CSOs. There was more CSO funding during the war than now," the official added.[23]

Without funding, CSOs find it difficult to survive the high costs of operating in Luanda and easily collapse. This was confirmed by other interviewees who cited high rental costs as an example of the challenges confronting CSOs in Angola. "A five-roomed house such as the one housing Osisa costs on average about US$15 000 per month," they explained.[24]

23 Interview with an Osisa official in Luanda, Angola, 17 June 2009.
24 Interview with a CSO official in Luanda, Angola, 18 June 2009.

7.3 Flawed oil revenue management

Sonangol's management of the country's oil revenues can indeed best be described as controversial. According to Human Rights Watch (2004), under Decree 30/95, oil revenues are to be paid into a special petroleum account administered by the National Bank of Angola (BNA). KPMG (2002) found that private companies were generally complying with this legislation, whereas until 2001 Sonangol had been only partially compliant.

In 2001, Sonangol announced that it would stop paying into the special petroleum account. Since then its management of national oil revenues has been characterised by recurrent tax underpayments and arrears to government (HRW, 2004; KPMG, 2002). However, interviewees from the Ministry of Finance in Luanda claimed that the special petroleum account had been disbanded.

Moreover, international NGOs such as Global Witness (2004) and other analysts (Shaxson, 2007; Hodges, 2004; IMF, 2002) have accused Sonangol of facilitating the plundering of national oil revenues via a complex manipulation of its good credit reputation, offshore bank accounts and high political connections. The main vehicles for this practice have been identified as oil-backed loans and signature bonuses.

Sonangol has used its good credit reputation to source oil-backed loans on the international financial market, which are then supposed to be for the use of Angola. However, two reported events and several other research and investigation findings have revealed the corrupt nature of these loans that has enabled Angolan authorities to siphon off billions of dollars into their personal offshore accounts. The Elf Scandal, for instance, revealed how the oil company Elf Aquitaine systematically paid massive bribes to leaders of Angola (among other countries), essentially mortgaging future oil production.

The problem with signature bonuses in Angola has been the lack of transparency as regards their extent and eventual whereabouts. Over the years the country has been tight-lipped about the size of signature bonuses paid by international oil companies. The IMF (2002) noted that when such bonuses are listed in fiscal accounts, they are understated. McMillan (2005) cited this example: "Following a September 2001 auction for a deep-water tract, oil companies told the IMF that they had paid about US$400 million. The government told the IMF it received US$285 million, leaving more than US$100 million unaccounted for in a single auction."

In addition, there is clearly still a need to establish a better taxation mechanism between Sonangol and the Angolan government. According to interviewees, the company has been supplying subsidised oil to Angolans for a long time.[25] The government was expected to pay for these subsidies but was unable to do so due to the war.

25 Personal interview with officials from the Ministry of Finance, the Ministry of Petroleum and the private sector, as well as diplomats in Luanda, Angola, 15–19 June 2009.

It is therefore contended that the government is in arrears for the subsidised fuel Sonangol has supplied over the years. This has also been cited as the reason why the company has resorted to retaining taxes as part payment.[26] One of the interviewees claimed that, while the matter has not yet been settled, negotiations between Sonangol and the government over this and other issues have been going on for the past three years – although "no one knows what these negotiations have yielded to date".

Ministry of Finance officials, however, denied that the government was in arrears with its fuel subsidy payments to Sonangol. According to the ministry, besides still supplying subsidised fuel, Sonangol also provides "free" fuel to key national institutions, such as the national electricity supply authority, security establishments, and hospitals. The company then retains taxes from these operations as payment for its services. The ministry claimed that plans were under way to liberalise downstream operations gradually and so reduce the fuel subsidy. This complicated setup is clearly not sustainable, if only for the fact that it is an opaque and intricate arrangement.

Sonangol has also embarked on a number of quasi-fiscal activities involving sovereign wealth funds and oil-backed loans (Global Witness, 2009). Although the activities as such are not a problem, fiscal activities are necessarily on-budget actions, which means they have to be properly accounted for via various oversight frameworks, including reports to the legislative assembly. Sonangol's quasi-fiscal activities continue to be off-budget, however. This, and the fact that the company seems to report only to the President, raises several pertinent questions as to how Angolan petroleum revenues are being used.

Francisco de Lamos Jose Maria, Sonangol's Director of Finance, attributed the company's many activities to the legacy of the 27-year war: "During the years of war, Sonangol was called upon to carry out all kinds of activities that were not connected with the oil and gas business. There was no one else government could turn to at that time, so we found ourselves with investments in telecoms, tourism and transport, amongst other activities. We even ran a food store!" (*Sonangol Universo*, 2006).

This perspective, especially as regards oil-backed loans, was corroborated by the interviews conducted for this study. At least three interviewees explained that Angola has no sovereign rating.[27] Even after the war, the country was still behind in its debt and arrears payments to the Paris Club. This meant that even if Angola had tried to get a sovereign rating, it would be worth nothing as long as the country had debt arrears. Sonangol, on the other hand, has an excellent credit reputation globally. It is therefore unsurprising that the government uses the company both as its debt guarantor and as its sovereign wealth fund. As Manuel Vicente, President of Sonangol, was quoted as saying: "Sonangol is making these investments as part of a state policy" (Almeida, 2008).

At the time of writing, Angola had one more payment to make to the Paris Club in order to clear its debt, due in early 2010. Private sector interviewees felt that after this payment, Angola would

26 Personal interview with Ministry of Finance officials in Luanda, Angola, 17 June 2009.
27 Personal interviews with a private sector official, a Ministry of Finance official and a Sonangol official in Luanda, Angola on 16, 17 and 18 June 2009 respectively.

try to obtain "some form of sovereign rating". They were of the opinion that Sonangol's loan of US$3 billion from a consortium of local banks was proof that the company had started to withdraw quietly from oil-backed loans.

Ministry of Finance officials were, however, non-committal and were only willing to state that there is an intention to move away from oil-backed loans. As regards the issue of obtaining a sovereign rating they would adopt a "wait-and-see approach".[28]

7.4 Sonangol's close links with the presidency

There was general consensus among almost all the interviewees that Sonangol reports to no one but the President. As another CSO member pointed out, this was because "oil in Angola is a presidential issue. The Ministry of Petroleum has some influence but no decision making power".[29] Not even the national assembly has the authority to call Sonangol to account. Another Osisa member noted that this dilemma was not unique to the oil sector. The problem is rather that the Angolan parliament is not empowered to ensure that natural resources are used fully to the benefit of all Angolans. "It is a disgrace that a country so rich in natural resources does not have even one natural resources oversight committee in parliament," the interviewee commented[30]

Yet another CSO member alleged that Sonangol has been used as an "escape route for the elites", serving as a partner in the creation of private capital ventures for the political and military elite. The allegation was made that "public companies, especially Sonangol, are used to finance private ventures via sophisticated operations".[31] Other interviewees cited Sonangol's non-core operations in São Tomé and Principe as well as the Cape Verde islands as evidence of the company's being at the President's beck and call.

8. Sonangol: Reformist or not?

> *"It is the reformer who is anxious for the reform, and not society, from which he should expect nothing better than opposition, abhorrence and mortal persecution."* (Mahatma Gandhi)

This study wishes to avoid the wider debate on reform and instead has adopted a broad definition of reform as "change that enables Angolans to benefit more from their country's petroleum resources". Such change is largely in pursuit of three principles in petroleum resource governance, namely:

- A rules-based dispensation that eliminates uncertainty and ensures predictability and fairness
- Greater transparency that will facilitate public scrutiny of how petroleum resources are managed
- Greater accountability in order to enhance public confidence.

Reform is not a straightforward, prearranged process. Depending on what is being reformed,

28 Interview with Ministry of Finance officials in Luanda, Angola, 17 June 2009.
29 Personal interview in Luanda, Angola, 18 June 2009.
30 Personal interview in Luanda, Angola, 17 June 2009.
31 Personal interview in Luanda, Angola, 18 June 2009.

it has its winners and losers, and as the quotation above suggests, it will have its opponents. It is no different in Angola. The main argument is that the political and military elite, arguably the greatest beneficiaries of the status quo, are alleged to be against any changes to the system, especially as they relate to Sonangol.

Proponents of Western-driven "reform" are, however, of the view that implementing certain specific reforms would improve Sonangol's ability to better manage Angola's oil revenue for the benefit of the people. Based on this line of reasoning, several commentators have lamented Sonangol's inability to reform.

All the Angolan authorities interviewed repeated that they did not question the need for reform as such, but rather the way in which specific reforms were being advocated as though they were certain to be successful. A Ministry of Finance official also mentioned that the "unrealistic" time periods over which Bretton Woods institutions expected reform to take place were seen as "problematic".[32]

The UK Department for International Development (DfID, 2008) has noted this divergence of opinion between the Angolan government and its development partners. It has expressed the views of development partners using the analogy of a ship: "[We have] a ship which is loaded with good things [for Angola], but the ship's captain does not know how to get to port and unload them." The complaint is therefore that while development partners have a package of reforms ready to implement for the benefit of Angolans, the country has made it difficult for them to deliver these reforms by selectively choosing which ones to accept. They feel Angolan authorities hold a different view, namely that "the point is not about navigating a path to the port, but about the ship's cargo. Is it useful? Would it be harmful? If so, we should not unload it" (DfID, 2008).

9. Reforming Sonangol

Given the point of view noted above, the government has arguably pursued a generally gradualist, "learning by doing" reform agenda. Sonangol, like any government agency in Angola, has not been different. The problem with this approach, the IMF (2007) has argued, is that the company comes from a very low transparency and accountability base. Gradual reform means that it will take a very long time to normalise the situation. Other interviewees, however, were of the opinion that "everything is going in the right direction. That's the best indicator. Slow in the right direction is better than fast in the wrong direction".[33]

Both opinions have convincing supportive evidence. If nothing else, the existence of the debate proves that reform is indeed taking place in Sonangol and has not gone unnoticed by some analysts.

While there is still room for improvement, some progress has been identified in improving governance and transparency in the Angolan oil sector (Carneiro, 2006). For example, Sonangol

32 Personal interview in Luanda, Angola, 17 June 2009.
33 Talking Africa, 15 June 2009.

is in the process of ring-fencing its concessionaire activities. Further progress in this regard is dependent on credible institutional capacity being built to enable the Ministry of Petroleum to assume the role of concessionaire. Additionally, Sonangol has ring-fenced and audited its quasi-fiscal activities, and these have complied with budget procedures with a three-month time lag. Importantly, experienced international auditors carry out annual audits of the Angolan oil industry and the website of the Ministry of Finance contains detailed publications of company payments.

The DfID (2008) recently noted that oil-bidding procedures are more transparent and that Sonangol's quasi-fiscal expenditures are recorded in the integrated financial management system, Sigfe. The intention is to transform Sonangol into a "normal oil company focused on core functions and able to raise capital on international capital markets". This would no doubt entail further reforms (Vines et al., 2005). USAID (2009) has noted that estimates of Sonangol's quasi-fiscal expenditures, while incomplete, are now incorporated into the government's main fiscal-reporting worksheet.

This study, while agreeing that the need for significant reforms still remains, is of the opinion that ongoing and gradual reform in Sonangol is taking place, as is reflected by the following:

- Over the past years, Sonangol has been contracting independent auditors, and abridged audit results for the company are occasionally published in Angolan newspapers.
- Sonangol has contracted independent strategy consultants and advisers to carry out a balanced scorecard analysis of the company, its operations and structure. This at least confirms the intent to transform Sonangol into a "normal oil company", as noted in the DfID (2008) report.
- As noted in the preceding section and confirmed by Ministry of Finance officials in Luanda,[34] Sonangol has, by turning to the local financial market, indicated its intention to move away from oil-backed loans.
- There certainly is evidence, as is reflected by Sonangol's two long-term strategies – one with the role of concessionaire and the other without – of the company's intention to cede its concessionaire role to an appropriately competent authority.
- Ongoing negotiations between the government and Sonangol regarding drawing up a mechanism for doing away with Sonangol's tax retention regime are worth noting.
- There are plans to liberalise downstream operations and reduce fuel subsidies.
- Even staunch government critics from CSOs admitted that "there is now at least a little hope that things will change. We are seeing it even within the MPLA".[35] Yet another CSO interviewee, after being critical of the government, hinted at its ability to embrace reform suggestions

34 Personal interview with Ministry of Finance officials in Luanda, Angola, 17 June 2009.
35 Personal interview with CSO members in Luanda, Angola, 18 June 2009.

cautiously. He warned against pushing the government into action: "Don't be aggressive. Produce facts and show them. They will not only accept [it] but will [also] respect you."[36]

It should be noted that these interviewees' definition of the government included Sonangol, which in Angola is viewed as a central part of government.

10. Conclusion

This study concludes by mentioning four drivers that are either promoting or hindering Sonangol's reform, as well as making recommendations for the future management of the company.

10.1 Drivers of Sonangol's reform

Four factors, in particular, are driving the reform of Sonangol. Firstly, the end of the war has meant that secrecy can no longer be justified and the government has had to embrace a new political and economic dispensation.

Secondly, the political imperative and call for reform in Sonangol – emanating largely from within the ruling MPLA – has also been an important driver of reform. There is a growing concern within the MPLA that the party is playing second fiddle to the presidency-Sonangol coalition on substantive issues dealing with the economy. This was also cited as a part of the reason for the growing calls for reforming Sonangol and curtailing its powers.

Others, however, are suspicious of the calls made by ruling party politicians. An interviewee suggested that any curtailment of Sonangol's power by politicians would open up the closed, yet technically efficient, organisation to wanton political interference. The DfID (2008) quoted an oil industry insider who expressed similar sentiments: "If this happened, Sonangol would become like some of the other NOCs in other countries … At the moment the senior Sonangol guys are confident to know that they can say no to the Angolan politicians, because they have the protection from the top."

Thirdly, there are strong indications that a significant amount of reform has come from within Sonangol. A private sector interviewee attributed this to the company's long-term vision of becoming a reputable player in the global deep and ultra-deep oil exploration and production industry. Sonangol is seen to have a choice between two routes. The first option is to become an effective global player like the Brazilian oil company, Petrobras. The second option is the far less attractive alternative of ending up like the Nigerian National Petroleum Corporation (NNPC).

Citing examples such as Sonangol's prequalification by the Iraqi oil ministry in 2008 and Sonangol-China's intention to explore for oil in Argentina, the interviewee was of the opinion that the company had opted to pursue the Petrobras alternative. Implicit in this decision is that Sonangol

36 Personal interview with an Osisa member in Luanda, Angola, 17 June 2009.

will have to be more transparent. Its borrowing on the local market can, therefore, be seen as a first step in this direction, as "one would imagine that in order to raise these funds Sonangol had to submit its books for scrutiny by these local banks".[37]

Sonangol's long-term vision to list its holding company on either the New York or the Johannesburg Stock Exchange was cited by other interviewees as a reason for the internal reform. This is because the company would necessarily have to open up to more public and investor scrutiny in order to meet the prerequisites for listing.

Fourthly, the knock-on effects of the global recession on the Angolan government in general, coupled with the country's obligations to meet quotas set by the Organisation of the Petroleum Exporting Countries (Opec), have provided an opportunity for facilitating reform. The Angolan government has generally established a reputation that it does not need donors, or at least their money. An interviewee from the diplomatic community described the situation as challenging: "They make their own agenda and drive it, as they don't need donors much since they have their own money."[38] This is partly the reason why Angola has been able to defy calls to hasten reforms.

However, things look set to change as the economy is slowly showing signs of succumbing to the drop in global oil prices. Reuters has estimated that Angolan foreign reserves have already shrunk by about a third (Almeida, 2008). The Angolan government cut its growth forecasts for 2009 from an estimated 11.8% to around 3%, while the World Bank (2009) expected the Angolan economy to shrink by 3% in 2009 if the country adhered to its Opec quota.

Ministry of Finance officials who were interviewed estimated that the current drop in oil prices had left a shortfall of US$11 billion in the Angolan national budget, and that expenditure in public investment programmes would be cut by US$4 billion. According to a diplomat in Angola, this negative situation has presented an opportunity for some positive spin-offs in the form of engagement between Angola and its development partners.

Relations have indeed been thawing and the government is eager to engage further with development partners. There have been recent media reports and statements by Angolan authorities of an impending assistance deal with both the IMF and the World Bank after years of a mutually acrimonious relationship. Constructive engagement provides the opportunity for development partners to negotiate for further reforms to Angola's complex oil books, as well as those of Sonangol.

10.2 Drivers against reform

As already mentioned, reform tends to attract much opposition, especially from those benefiting from the status quo. A number of analyses have tried to identify the drivers against change and at least anecdotal evidence exists that some of the resistance is emanating from the political and military elite.

37 Personal interview with a member of the private sector in Luanda, Angola, 16 June 2009.
38 Personal interview with a member of the UNDP in Luanda, Angola, 16 June 2009.

Due to various factors, the least of which was time, this study was not able to test most of the anecdotal evidence individually. It was, however, able to identify the lack of a government communication strategy (with Angolans, as well as the outside world) as a major stumbling block to reform. Clearly, many reform initiatives are taking place in Angola but, in the absence of information, none of these are well known and neither is there an opportunity for Angolans, who are the primary stakeholders, to engage constructively with the reform process. For example, Shaxson (2008) has noted that although there have been considerable improvements in Angola's financial management since the end of the war, "external perceptions have lagged behind the improvements to a degree". This is arguably largely due to a lack of information.

A CSO interviewee downplayed notions that the government (including Sonangol) does not have any reform and/or development blueprints. Rather, the contention is that the government "is not sharing its vision and development plans for Angola although they exist". People are, therefore, unsure of the policy behind the government's plans and there is, at least in the public mind, a "mismatch between plans and policy". The interviewee felt that this is all done in order for the military and political elite to continue benefiting from the current state of affairs. The "oxygen" of malicious governments is to deny people information, and whenever information is being withheld, people just know there is malicious intent.[39]

Three other interviewees expressed similar sentiments. One noted that many ordinary Angolans do not know what Sonangol does. "They know it is a government company in charge of the oil but what happens in there nobody knows. They also question Sonangol's investments outside the oil industry simply because they do not know the rationale behind it. They also do not know whom it reports to."[40] Another interviewee added that this situation is aggravated by the fact that people only get to know more about Sonangol via NGOs such as Publish What You Pay and Global Witness, which have slammed the Angolan authorities, especially as regards Sonangol's management of the country's oil revenues.

Similar sentiments were expressed by an interviewee in the diplomatic community who lamented the "very closed" nature of policy formulation in Angola, which makes it near impossible for development partners to align with government agendas. This, in turn, allows suspicions to develop between the government and its development partners. It is felt that if the government would simply open up lines of communication on its intentions and plans, it would go a long way towards improving perceptions about Angola.

Another major aspect that is hampering reform is the lack of vibrant, well-resourced CSOs. As alluded to in preceding sections, Angolan CSOs have been unable to operate effectively and play an informative role to the public, largely due to a lack of expertise and funding in a costly operating environment. Their role has therefore mostly been restricted to humanitarian work.

39 Personal interview with a CSO member in Luanda, Angola, 18 June 2009.
40 Personal interview with a CSO member in Luanda, Angola, 18 June 2009.

10.3 Recommendations

Sonangol's management of Angola's oil wealth, like any work in progress, has been characterised by strengths and weaknesses. As a corporate entity, the company's business model has largely been successful and devoid of the management malaise that has characterised other SSA NOCs, such as the NNPC.

However, the status quo still has weaknesses that need to be corrected if Angolans are to benefit fully from the country's oil revenues. This generally entails that the government and Sonangol should properly sensitise Angolans about their role in managing the country's natural resources. This point was made eloquently by a homeless Angolan living in the streets of Luanda in the documentary "Angola: Saudades de Quem te Ama": "Angolans must start seeing the state as an administrator of the public thing, not the owner of the public thing; but an administrator of public wealth that belongs to all Angolans."

The study puts forward four recommendations to this end – they are not exhaustive, nor do they attempt to render invalid previous recommendations that have been made by various internal and external stakeholders.

Recommendation 1

The study is of the opinion that the current hostility and "near hostility" characterising the relationship between the Angolan government and/or Sonangol on the one hand and its development partners (mainly the two Bretton Woods institutions) and international NGOs on the other hand means that Angola has failed to benefit fully from its attempt to modernise its oil industry. Development partners and international NGOs have important technical expertise at their disposal that Angola desperately needs. It would, therefore, be in the interests of the nation for a constructive relationship between these stakeholders to be formed.

It is important for the Angolan government and Sonangol to let bygones be bygones and to engage constructively with these organisations. This would also provide an opportunity for the world to understand Sonangol better. Development partners should desist from advocating certain specific reforms as though these were certain to be successful without fully comprehending Angola's development needs. Lastly, international NGOs need to adopt a less confrontational approach to engaging with the government.

Recommendation 2

The study's findings have indicated that Sonangol and the Angolan government are determined to modernise the Angolan oil sector. It has also found that Sonangol is constantly engaging with the government in order to deal with outstanding oil management issues, such as the company's quasi-fiscal activities and its dual and conflicting roles of concessionaire and player. Clearly, Sonangol and the government want to do this on their own terms and gradually too.

The lack of information dissemination by both the government and Sonangol has only worsened the public's internal and external understanding of the company and heightened its suspicions of the government's intentions. These misgivings and misconceptions would be greatly neutralised by disseminating the government and Sonangol's plans and other relevant information in a timely manner. This would include, but not be limited to, making available to the public information about the envisaged future role of Sonangol, whether it will continue its concessionaire role, and the government's plans for liberalising the downstream sector.

Recommendation 3

While Sonangol's close relationship with the government has insulated it from petty political intervention, it has also led to instances in which the company has made business investments that are not entirely based on their business viability but rather on their political "viability". The setup is, therefore, only as noble as the intentions of the presidency. Should the intentions of the presidency change, then Sonangol would also be at risk of reckless political interventions.

In order to avoid this, it may be worthwhile for the government to explore ways in which the company can be insulated from political intervention through the law. This would include measures such as the appointment of independent and non-executive board members, and the protection of the terms of service of these board members as well as Sonangol's management. In addition, it is important that the parliament becomes more involved in the management of Angola's natural resources. The establishment of a parliamentary committee on natural resource management or something similar would be a prudent starting point.

Recommendation 4

Vibrant and well-resourced CSOs are necessary in order to facilitate the participation of Angolan citizens in the management of the national natural resources. A role, therefore, exists for development partners to assist in the development of a vibrant non-state sector in Angola.

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