

Social Funds in Angola Channels, Amounts and Impact

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The report is based on interviews and data collection undertaken in 2007. Any factual errors, mistakes and possibly biased presentations are solely our responsibility. Please inform us about any serious inaccuracies.

Bergen, November 2008

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Charity amidst plenty

After decades of civil war and one-party rule, Angola has embarked on a double process of political and economic liberalisation. Since the watershed elections in 1992, multiparty politics and civil society organisations have been allowed, parliamentary elections were held in September 2008 and the main features of a market economy are in place.

Angola is very rich in oil, diamonds and other resources, and the country is currently experiencing two-digit economic growth (Isaksen et al. 2007:40). Angola's oil production is more than 2 million barrels per day and the country is the biggest oil producer in Africa. The government's revenue from the oil sector has increased fourfold between 2002 and 2006, from US\$ 7.5 bn to an estimated US\$ 29.9 bn annually (EIU 2007:20). Despite the volatile oil prices, the government income will remain high.

At the same time, the majority of the population is still living in poverty after many years of civil war. Although exact figures are disputed, there is a widespread consensus that the vast majority may be defined as poor.¹ One of the reasons for this is the illiberal character of the Angolan government: Angola has been classified as not free by *Freedom House*, highly corrupt by *Transparency International*, and badly governed by the *World Bank*.² Income distribution is among the worst in the world, with a tiny oil-rich government elite and a large majority of war-worn people who earn their livelihoods from the informal sector.³

In this situation, traditional development aid is being cut back. Official bilateral and multilateral development aid (ODA) to Angola was about US\$ 442 million in 2005,⁴ but this sum is decreasing in parallel to the government's increasing oil revenues. From emergency relief, resettlement schemes and de-mining programmes, the remaining donors are mainly concentrating on good governance programmes.

However, in contrast to most of Africa, where official development assistance remains high and dominant and with some private funding added only through international NGOs, private aid to Angola is increasing. This charity aid is of a very particular nature: it is primarily provided by the international petroleum companies operating in the country, outside of government channels and outside of government control, and provided not only for charitable purposes. In addition, there are some private Angolan charities, but these are also mainly based on donations from national and international private sector companies and Angolan parastatals. International NGOs and foreign private aid is very small compared to the huge CSR (corporate social responsibility) contributions of the petroleum companies.

¹ Although exact figures on poverty are disputed and the government claims a 12 percent drop in poverty rates over the past five years, there is a widespread consensus that the vast majority may be defined as poor. Analysts at the research centre *CEIC* at the Catholic University of Angola say two in three Angolans still live on \$2 or less a day, the same percentage as in 2002. In a December 2006 poll by a pro-democracy group and the *United States Agency for International Development*, 6 in 10 Angolans said their economic situation was no better now than five years ago. UNDP reports that about 70 % of the population lives in poverty and 30 % in "extreme poverty". Maternal mortality is particularly high and life expectancy is low at just over 40 years. UNDP also reports that Angola has the 17th worst *Human Development Index* ranking, which is far below its income rank (Isaksen et al. 2006; LaFraniere 2007; Transparency International 2006; UNDP 2006:286).

² *Freedom House* classifies Angola as not free (scoring 6 on political rights and 5 on civil liberties on its *Map of Freedom 2008*, on a scale from 1 to 6, see www.freedomhouse.org/template.cfm?page=22&year=2008&country=7340). *Transparency International* classifies Angola as highly corrupt (scoring 2.2 on *Transparency International's Corruption Perceptions Index* on a scale from 10 to 1 where 1 is the most corrupt, and ranking 147 of 179 countries; see www.transparency.org/policy_research/surveys_indices/cpi/2007). The *World Bank's* scores for Angola are very low on voice & accountability, government effectiveness, regulatory quality, rule of law, and control of corruption (*Worldwide Governance Indicators*, see <http://info.worldbank.org/governance/wgi2007/pdf/c4.pdf>).

³ Some data suggest that Angola is one of the most unequal countries in the world in terms of income distribution and that the differences are increasing (EIU 2007:13; Isaksen et al. 2006:6; UNDP 2005).

⁴ OECD (2007): *Aid Statistics, Recipient Aid Charts* (by country) at: www.oecd.org/countrylist/0,3349,en_2649_34447_25602317_1_1_1_1,00.html

The companies' social projects include projects that the companies are running directly, projects they are implementing through national and international NGOs and charity organisations, and programmes that are managed by the Angolan state oil company *Sonangol*. The financial contributions are made partly on a voluntary basis as a part of their CSR programmes and partly as an "expected" contractual obligation.

It is primarily the role of the government to supply public goods such as health, education and social services, and to deal with distribution issues. In some countries governments fail to do so, either because they lack capacity and institutions, or they do not prioritise the poor. Angola is a country where the government has largely failed to provide basic public goods for its citizens (Kolstad and Wiig 2007:10). In this vacuum, private companies are taking on some social responsibility, especially by spending on social projects in local communities.

This private provision of social services and public goods is largely made through channels outside of government agencies and outside of government control. Furthermore, this private provision of social services differs from government services in terms of its *rationale*.

Social charity spending can be seen as an additional tax (and to some extent it is compulsory or perceived to be required; the government "expects" some social contributions, in particular under production contracts).⁵ However, social charity spending is rather a mechanism for branding and positioning. This is indeed important for the companies in a competitive setting and their altruistic credentials can therefore be questioned.

Regarding private Angolan foundations and charities, most of these have strong political connections and overtones. Some are run as private foundations by state companies (such as the Sonangol and Endiama foundations), and some have been established by high-ranking political figures. Most are serving political purposes, and therefore their altruistic credentials can also be questioned.

This study explores the types, the channels and the methods of charitable aid in Angola, and it investigates the amounts spent. Information on amounts and assessments of how private companies are contributing to social development in Angola is scattered and very limited. As such, it breaks new ground, as no previous assessments have been made.⁶

The paper also looks at the rationale for giving charitable aid to Angola and raises the question whether this charity spending adds to the problems of deinstitutionalisation, clientelism and lack of coordination of development efforts in the country.

Private funds – the channels

A variety of private charity aid is given to Angola in the form of donations and spending on social projects. These differ in terms of purposes, goals and priorities and in terms of institutional and organisational features; and they vary in terms of operating principles, management style, eligibility and selection criteria, as well as target and user groups. Some companies, for instance, are emphasising civil society as a democratising social force in their programmes (and organisations are supported and allowed to develop through the means of user groups, local community participation and sustainable organisational development), whereas other companies limit themselves strictly to quick and efficient but top-down social service delivery.

There is a significant difference between programmes and projects financed by private companies and public development programmes. This distinction is important because influence and control tend to follow the money; the contributors will normally have a final say in the

⁵ A certain percentage or share of *signature bonuses* (money paid up front for concessions) is assigned by law for social and development projects. *Production Sharing Agreements* (PSA) also regulate how much the oil companies will spend on social projects, as part of their oil production. This varies across blocks.

⁶ We are aware of only one previous academic journal article on social funds in Angola, by Christine Messiant (1999), translated to English (2001). That article is, however, very limited in respect of facts and figures. At the same time, due to public and corporate policies of secrecy we have also had problems finding exact figures and other information on this topic; we therefore ask readers to consider our estimates with the utmost care.

distribution and management of the funds. Private companies will have the final decision-making power over their social contributions (within some limits set by government and implementing agencies, as noted later), whereas public funds will *per se* be subject to public control (which can be weak, though, as in the case of Angola where public information and control of government spending is very limited).

Another main difference is in the way the funds are managed and operated, as foreign organisations or as domestic organisations. Stakeholders are different in these cases. Foreign organisations will bring in considerations and opinions formulated abroad and in the international milieu, for instance stronger corporate social responsibility and pro-poor considerations, and tend to be more autonomous. Domestic organisations may be more subject to national political priorities and pressures. These two distinctions produce a typology of public or private funding on the one hand, and domestic or foreign organisation on the other.

The *public and domestic* type is financed from the state budget and managed by a public agency or office, and is usually named as a public investment programme, a social development programme, a credit or grant scheme, and the like. (This type of fund falls outside the scope of this study, which focuses on private funding).

The *public and foreign* type of fund is financed by (public) donor money.⁷ The most well-known form is the World Bank-financed and -initiated Social Funds. Although the focus of this study is on private, corporate contributions, we have included this particular example because it can serve as a benchmark. It is rather autonomous (because it is foreign funded) and scores well on most of the success criteria, in particular on participatory decision-making, accountability and transparency, and on public-private partnerships.

The *private and domestic* type is the *corporate social responsibility* kind of fund financed by private, domestic companies and by private *charity funds* (charity organisations).

The *private and foreign* type is mainly the *corporate social responsibility* kind of fund financed by foreign companies. This contribution comes mainly from foreign companies operating in the extractive sector, and is either managed directly by the companies or channelled through a variety of organisations (including host government institutions and companies). The extent to which these contributions are voluntary may vary from pure company-controlled CSR projects to contracted contributions similar to tax payments. In addition, private and foreign contributions also come from non-profit organisations, charitable organisations, churches, foundations and NGOs.

World Bank Social Funds – the model

The most firmly established “social funds” are the funds initiated and mainly funded by the *World Bank*. According to the World Bank, social funds are “*multi-sectoral programs that provide financing (usually grants) for small-scale public investments targeted at meeting the needs of the poor and vulnerable communities, and at contributing to social capital and development at the local level*” (World Bank 2007). A similar depiction has been applied by other researchers (Batkin 2001:430; Jørgensen and van Domelen 1999:6; World Bank 2002:xv).⁸

The “first generation” of World Bank-initiated Social Funds were launched in the mid-1980s to serve as short-term safety nets to soften the impact on the poor of structural adjustment programmes. This was mainly achieved by providing temporary employment. The “second generation” Social Funds have adopted explicit institutional strategies aimed at empowerment, capacity building and sustainability goals, and they have adopted a longer-term focus.

⁷ Please note that sometimes a private social fund may receive some public funding and a public social fund may receive some private funding. FAS and FESA, for instance, receive some public Angolan money in addition to their foreign donor and private funding, respectively.

⁸ Please note that the concept of “social funds” can be defined strictly as *Social Funds* of the World Bank type, of which there are now about 60 in the world, or less strictly as any non-governmental (private or foreign donor) arrangement or institution for the provision of social services and public goods. We apply the latter terminology, unless *Social Fund(s)* is/are written in capital letters.

World Bank-type Social Funds have now been established in more than 60 countries throughout the world, for purposes ranging from post-emergency reconstruction to empowerment of local communities. They are financed primarily by the World Bank itself (through loans) but often with other donors also involved (through grants). World Bank support to social fund projects grew significantly through the 1990s, and was in 2004 financing almost US\$ 4 billion in social fund-type projects. This financing was leveraged by an additional US\$ 5 billion from other multilateral, bilateral and domestic resources (Bhatia 2005:1).

The World Bank's Social Funds are usually established as distinct organisations, more or less independently organised within a central government agency, or within an NGO, a community-based organisation or local government. With a strong focus on local communities, Social Funds serve a role in funding community projects, empowering communities and building linkages between communities and their local governments; and they have recently developed closer links to decentralisation processes.

Social Funds and social fund-type projects share three basic characteristics: they finance *small-scale* schemes and projects (typically social and economic infrastructure); they are *proposed* by local government or local organisations (which are also responsible for organising their implementation and often also contribute to the financing and future operation and maintenance); and they are *specially created institutions*, outside the established government structure of public administration (Batkin 2001:429). An important reason for this has been a desire to bypass existing institutions that are variously seen as incompetent, corrupt or otherwise ineffective.

From the literature on Social Funds we can see that they are generally effective means for reaching poor people, but in some cases they are not (Tendler 2000; World Bank 2002). It has, for instance, been argued that in order for Social Funds to operate efficiently, they need to operate autonomously from politicians and government bureaucrats, because social funds subjected to political interference may lead to waste, abuse and patronage (Batkin 2001:436). From Latin America, it has been claimed that "*social funds can [...] become politicized and be subject to clientelistic practices*" (Penfold-Becerra 2006:3).⁹

The World Bank-initiated Social Funds are explicitly intended to differ from private charity by being demand-driven. The Social Funds model adds important elements of local ownership and community involvement in decision-making (World Bank 2000). The World Bank's Social Funds are sometimes also quite innovative and have demonstrated new methods in terms of decentralised participatory decision-making, management and accountability, which can be adopted for broader application by public sector as well as private development organisations.

The importance of transparency and information campaigns has also been underlined for social funds (Carvalho and White 2004:144). By providing transparent information about the eligibility criteria, it is more likely that resources will be distributed in a way that benefits the target groups. However, social funds can, by allocating money outside of government channels and control, also disrupt the allocation of public resources and undercut the functions of local and central government (Tendler 2000).

The definition of social funds is invariant to the type of institution that makes the investment, whether it is private or public. Although the Social Funds are financed almost exclusively by public money (World Bank and other government donor money), these funds are relatively similar to private/corporate charity aid, and they can serve as a model against which private charities can be evaluated.

Having the specific Angolan context in mind, and inspired by the approach of Carvalho and White (2004) and of Tendler (2000), a number of theoretical assumptions and success criteria for

⁹ Furthermore, Penfold-Becerra claims that in Latin America, social funds "*can and have been diverted by political interests. They helped either to 'buy votes' for reelection purposes, or to build political constituencies that strengthen support for different administrations throughout the region*", and that "*during the 1990s the use of these types of social funds encouraged the rise of neo-populist leaders in the region*" (Penfold-Becerra 2006:3).

social projects emerge.¹⁰ The main criteria are transparency, accountability, institutionalisation and sustainability. We will explain why these criteria are important, and give some indications of how they might be operationalised. Finally, we will provide information about the different social funds in Angola and an assessment of their likely impacts.¹¹

Transparency is one quality criterion for social funds. Managers of funds need to design and run efficient information campaigns on the new possibilities available to communities, so that people can take full advantage of them. Transparent management systems are also important to improve financial sustainability.

Information is a prerequisite for clarifying and prioritising across objectives. Objectives need to be clarified in order to target projects and areas (see for instance Batkin 2001:441). Lack of transparency regarding objectives makes it hard to select the right project in the right local area, and to evaluate the final outcome. A lack of information may prevent a user or client from holding the service provider accountable for (inadequate) service delivery, and may reinforce an asymmetric information and power structure.

More generally, transparency reduces corruption, improves coordination and improves social capital (Kolstad and Wiig 2008). Transparency is therefore vital for building community-level trust. Cooperation and trust make it easier to provide local public goods at the community level and improve the efficiency of social fund projects.

Accountability is the second success criterion for social funds and social projects. Accountability is more than transparency; it involves checks and balances as well as control mechanisms. Project spending outside the oversight of established, elected control mechanisms (democratic oversight and control) is prone to abuse, for instance by serving the pecuniary purposes of managers. Funds can be channelled in a way that benefits the managers, politically or financially. The higher the level of discretionary power, the higher is the propensity for abuse, for instance in terms of corruption and embezzlement.

Oversight, checks and controls can and should therefore be exercised by the finance providers. A lack of interest, a transfer of decision-making authority to the project managers, and weak accounting and auditing can leave too much leverage in the hands of project managers, and lead to leakages and abuse.

Oversight, checks and controls can and should also be exercised by the end users, the intended target groups. When the end users (beneficiaries) have the information necessary and have the proper channels of influence (influence on project selection, management and follow-up), the level of ownership and sustainability of the project increases.

Institutionalisation is the third success criterion for social funds and social projects. Institutionalisation is about institutional learning (for instance, public institutions learning from the experience of social funds, and institutions learning by doing), and in terms of institution building.

The practice of channelling money through social funds and projects outside of government structures may add to the problem of deinstitutionalisation. The funds can impede the establishment and consolidation of government institutions, which in turn may lead to lower public expenditure on the poor. Government institutions for redistribution and service delivery are weakened when substantial funds are allocated and spent outside of government channels and there are no feedback or learning impacts between the two types of governance structure.

The problem of deinstitutionalisation is at its most severe when social funds and government expenditures are perfect substitutes (that social funds are perfectly crowding out public funding). In this case, increasing the use of social funds will decrease the pressure on traditional channels of public finance. The net outcome for the poor might not change if what social funds add to poverty reduction leads to a similar reduction in government spending.

¹⁰ Carvalho and White (2004) reviewed a large number of social funds and focused on sustainability and institutional development impact. Tandler (2000) puts a lot of emphasis on transparency and autonomy to secure efficiency.

¹¹ This is thus a process-oriented evaluation. A rigorous programme evaluation is outside the scope of this article due to lack of data.

Besides, institutions for oversight and control, policy formulation, planning and coherence are weakened when kept at a distance from some of the more significant money flows in the country. Valuable planning and implementing skills might get lost for the line ministries and other government institutions.

Carvalho and White (2004:150-151) point to five factors that might reduce the problem of deinstitutionalisation: an explicit institutional development component, a demonstration effect of approaches, procedures or methods (to various government agencies), learning-by-doing effects, competition effects and demand effects (stimulating more demand for services from the communities).

We would also add the criteria of *additivity* and *sustainability*. Social funds should be provided in *addition* to government-provided funds, and there should be an initial agreement with central government ministries to provide adequate recurrent financing for social fund investments, because the government (central or local) will usually have to cover the cost of daily operations and maintenance after the initial investment is made.

Private charities – the problem

Private charities, and in particular the corporate donations by multinational petroleum companies and other extractive industries, have a problem because of the profit-maximisation motive and rationale of private businesses. For the oil companies, involvement in social projects might improve their reputation and thereby make it easier to win contracts.¹²

Oil companies are less efficient than traditional NGOs because their motivation for providing social funds is to obtain corporate objectives rather than altruism (Frynas 2005) and because it is more difficult to monitor their activities (Besley and Ghatak 2007). The corporate objectives are therefore not necessarily in accordance with the interests of society. There can be instances, however, in which oil companies are more efficient service providers than traditional charitable organisations, for instance when oil companies are dealing with problems created by oil extraction and when large-scale or specialised physical infrastructure inputs are needed.

At the same time, the private, corporate provision of social funds is also a response to the lack of transparency and accountability of the Angolan government. Private petroleum and diamond companies operating in the country are implementing social projects outside of government channels because of the low levels of public accountability.¹³ When public service delivery is of very low quality, the oil companies may feel they have the capacity and competence that the government is lacking. In the current situation, it makes sense for private companies to channel some of their tax money and voluntary contributions outside of the discredited state so as to maintain direct control of the use of the funds.

¹² However, as shown in Wiig and Ramalho, other aspects of oil companies' corporate social strategies play a more important role in winning contracts than their social activities, for instance the issues of local content and domestic labour ("Angolanisation") (Wiig and Ramalho 2005:17).

¹³ Note also that government donor agencies (which are currently pulling out of Angola due to the country's strong growth rate) have never given any direct budget support to the Angolan government. Fiscal and budgetary processes have been too weak for that.

Social funds in Angola

The various charities described above are all operating in Angola. There is one *public and foreign* fund, namely the World Bank-financed and -initiated *Social Action Fund* (FAS). Then, there are a number of *private and domestic* funds, financed by private Angolan companies and donations (sometimes also by public money). The most important ones are the social funds of the state oil company *Sonangol*, and the fund of the state diamond company *Endiama*, a fund called *Brilhante*. These two operate with (public) financing from the two state companies, but they are also financed by foreign partners and operators. Secondly, there are two domestic and private Angolan social funds, namely the two charities of the President and the First Lady, *FESA* (*Fundação Eduardo dos Santos*) and *Lwini* (*Fundo de Solidariedade Social - Lwini*).

The *private and foreign* funds in Angola are mainly financed by foreign companies in the extractive sectors (petroleum, diamonds). There are three streams of foreign private contributions from petroleum companies in Angola; these are moneys paid according to the *signature bonus system* or *production sharing agreements* (PSA), and projects financed by the companies as voluntary, *post-tax contributions*. In other words, the petroleum companies finance social projects in two different ways: the first and most important in terms of amounts is the payments made through the Angolan government-controlled petroleum company *Sonangol* (signature bonuses and some of the PSA money); and the second is money for social projects run directly by the companies either through their own charity organisations, such as the *Shell Foundation* and the *Chevron CDPA*, or through various charity organisations, churches, foundations and NGOs.

In Angola private and foreign charities also operate (private development organisations and international NGOs), such as *Development Workshop* (DW, Canada), *Development Aid from People to People* (DAPP, Denmark), *Kirkens Nødhjelp* (NCA, Norway), *Norsk Folkehjelp* (NPA, Norway), *Care International*, *Open Society* (USA), *Oxfam* (UK), *Médecins sans Frontières* (France) and *ACORD*. Some of these are to a small but increasing extent managing funds from private companies operating in Angola.

Table 1: Typology of Social Funds in Angola

FUNDING	ORIGIN	General	Angola
PUBLIC	DOMESTIC	(Govt programmes)	
	FOREIGN	WB social funds	<i>FAS</i>
PRIVATE	DOMESTIC	CSR funds Charity funds	<i>SONANGOL funds</i> <i>Brilhante</i> <i>FESA</i> <i>Lwini</i>
	FOREIGN	CSR funds Charity funds NGOs	<i>ExxonMobile Foundation</i> <i>Chevron CDPA</i> <i>DW, DAPP, NDA ...</i>

The Social Action Fund (FAS)

In Angola, the World Bank-initiated *Social Action Fund (Fundo de Apoio Social, FAS)* was established in 1994 as an “organisation of public utility” and located within the *Ministry of Planning*. FAS I (programme period 1994-2000) was financed primarily by a World Bank credit, with an increase in donations from other donors through FAS II (2000-2003) and FAS III (2004-2007). FAS III is financed by the World Bank (a loan of US\$ 55 million) and the European Union (a grant of US\$ 50 million), plus US\$ 8 million from the Government and US\$ 7 million from other (bilateral) donors (DFID, Norad and others). The government of Angola is a minority contributor, but its contributions to FAS are increasing. Annually, the FAS programme is approximately US\$ 30 million. FAS will be extended beyond 2007.¹⁴

Sonangol and Endiama

Of the (mainly) domestically financed social funds in Angola, we find first and foremost the two funds financed by the Angolan state and the parastatal companies *Sonangol* and *Endiama*.¹⁵ These companies contribute a relatively substantial sum of money for social projects through their own corporate social responsibility strategies, just like the foreign petroleum companies.

Sonangol is a public company, fully state-owned and with public regulatory functions, and at the same time a parallel, unconventional public finance system (Isaksen et al. 2007:viii, 18; Soares de Oliveira 2007:2). Sonangol said they were to concentrate their social funds in one corporate fund organisation, but was in 2007 still operating its social contributions on a production block basis. Sonangol also manages large parts of the social contributions of the other, private oil companies in Angola in its legal role as *concessionaire* of all oil blocks. Its mixed role as commercial enterprise, regulator, social contributor and implementer of social projects is problematic.

A main and increasing part of Sonangol’s social responsibility projects is infrastructure construction and training of staff. Besides, under the umbrella of CSR Sonangol funds are spent on projects in education, the arts, sports, science and the environment.¹⁶ Senior Sonangol staff indicated in interviews an aggregate sum of US\$ 20 million per year, but it is unclear whether this included all production blocks and how much of this spending was directly on social projects.

The state diamond company *Endiama* has established a social fund to alleviate the social and environmental problems in its areas of operation – the fund *Brilhante*. As a quite new fund, established in 2004, its strategies, operations and impact are still unclear, but it seems that *Brilhante*’s main focus is on target groups within their own geographical areas (people affected by the mining industry).¹⁷

Brilhante runs projects directly, and it also “supervises” the projects run by other operators. Besides, *Brilhante* is also the “social and cultural face” of the diamond corporation,¹⁸ which means that its social component (or local community support) is smaller than the total spending of the

¹⁴ Information given by FAS, Luanda, interview April 2007.

¹⁵ *Sociedade Nacional de Combustíveis de Angola (Sonangol E.P.)* and *Empresa Nacional de Diamantes de Angola (ENDIAMA E.P.)*.

¹⁶ Sonangol expresses its social responsibility on its website in these terms: “*Our commitment to sustainable development and the stability of Angola is the central premise of our philosophy. This commitment is visible in the annual budget set aside for investment in community projects. Sonangol Group works towards providing better conditions for the development of Angola by supporting projects in education, the arts, sports, science and the environment*”

¹⁷ Some of the problems caused by the exploitation of the diamond resources in the two Lunda provinces include that people are restricted from access to their cropland; that they are prohibited from using local rivers; and that damage is caused to soil and water systems. “The imposition of restricted and reserve zones subjects residents of the Lundas to arbitrary search and seizure by police and private security firms. Their homes and fields can be moved at the order of a diamond mining project” (Partnership Africa Canada 2007:19).

¹⁸ According to the company website: www.endiama.co.ao/eng/emp.php?cat=fb

fund. Brillhante has an office in Luanda with a few employees and a technical assistance team of 6-7 people. Its annual turnover is no more than US\$ 5 million.¹⁹

FESA and Lwini

In addition to the state company funds, there are, as well as a few less important ones, two private Angolan funds of some size that act like charitable organisations: the President's social fund FESA (*Fundação Eduardo dos Santos*) and the First Lady's social fund (*Fundo de Solidariedade Social - Lwini*).²⁰ Although these draw primarily upon private, local businesses for their funding, they also have some funding from private foreign sources (foreign companies operating in Angola) and some public Angolan funds (Messiant 1999:92).

The *Fundação Eduardo dos Santos* (FESA) is the President's social foundation, a private charity initiated by President dos Santos back in 1966. According to its website, FESA aims to "contribute to ameliorate the suffering of disfavoured people", in particular through providing "access to education and work".²¹

Among the projects we find the construction of schools, dispensaries, houses, and infrastructural work, food aid and an annual "FESA week" (that coincides with the President's birthday in August) with open seminars and lectures of a "technical-scientific" nature. Through its *Community Development Programme* FESA seeks to assist poor people through "housing, health, education, alphabetisation, agriculture, cooperatives and community advisors". For the purpose of "national reconciliation", FESA also supports a football team ("*O Santos Futebol Clube*").

The contributions to FESA mainly come from the private sector in Angola. The larger foreign companies used to contribute to FESA, but now most contributions stem from minor foreign companies and Angolan companies. Despite some oil companies claiming that they no longer support FESA, and some even maintaining that this would be against their own corporate ethical guidelines and policies, a large number of foreign oil companies and multinationals are still listed as members of FESA's *General Assembly*, which is an honorary body of FESA contributors and partners.

An estimation of the amounts channelled through FESA is difficult, but based on an estimate of an alleged US\$ 100,000 contribution annually by each of the companies listed in the FESA General Assembly and some additional funds, we are probably talking about not more than US\$ 15 million (unless the grand patron, "specially invited" businesses and "generous" public agencies are contributing in largesse).

The *Fundo de Solidariedade Social - Lwini* is a fund that was initiated by the First Lady Ana Paula dos Santos in 1998, after the visit by Princess Diana to Angola the year before. It is focused on supporting the victims of landmines in Angola, especially women and children. This is achieved through social projects (such as the distribution of wheelchairs and micro-credit for self-help projects) and projects in health and education (such as orthopaedic rehabilitation, a library and adjustments to school buildings).

¹⁹ The figure is our guess only, as there is a complete lack of publicly available information on Brillhante and its projects. We were told at Brillhante headquarters about a sports stadium that was built at a cost of US\$ 3 million, and US\$ 1 million in support for the *Dundo museum* in Lunda Norte, and about ten four-room schools that were built in different villages, but not much more. According to the Canadian organisation "Partnership Africa Canada", Brillhante has *perhaps* donated US\$ 2 million for the refurbishing of Saurimo hospital in Lunda Norte, but "unfortunately that document – the annual report of a charitable foundation – is off limits to the public" (Partnership Africa Canada 2007:18). Besides, Brillhante "has taken a lead role in the refurbishment of the *Iron Palace*, an iron-frame heritage building in Luanda, designed by Gustave Eiffel. The Foundation's plan calls for the refurbished palace, located across the street from Endiama's headquarters, to be turned into a club for the use of diamond-sector executives" (Partnership Africa Canada 2007:19).

²⁰ There are some quite small (defunct?) funds or foundations, on which we have no information, such as the *Fundação Sagrada Esperança* and the *Fundação Quissama*, which are both church-based funds.

²¹ FESA website at www.fesa.og.ao (our translation).

Lwini is organically linked to FESA, and among its honorary members are listed Cabinda Gulf Oil Company, Sonangol, De Beers, Endiama and Elf.²² The main contributors are, in other words, mainly Angolan corporations and private institutions. Links have also been forged with the *Wheelchair Foundation* in California, and projects are run in cooperation with, for instance, the national diamond company Endiama and the multinational oil company *Chevron*. Lwini is (like most social charities, including FESA) listed as a non-profit and “public utility organisation”, which gives it some privileges, such as import tax exemption and access to government credits and coverage of some of its running costs. One of the main activities of Lwini is fundraising, especially through the annual gala event. The annual budget is moderate, however, at between US\$ 1 and 2 million.

CSR funds

There are three streams of money from private petroleum companies that finance social projects in Angola within their *corporate social responsibility* (CSR) activities. These are moneys paid according to the *signature bonus system*, according to *production sharing agreements* (PSA), and projects financed by the companies as voluntary *post-tax contributions*.

Social bonuses

The first stream is the money paid by the commercial companies in the petroleum sector according to the signature bonus system. Signature bonuses are payments made when signing an exploration contract for a block, payments that usually (increasingly) include a “social bonus” component. The particular use of the funds is not specified by the bids; only a percentage or round sum is given for “social projects”. However, some operators have specified (or recommended) some areas of use, such as education and health. The signature bonuses now figure in the state budget, but the social bonuses do not. The social signature bonuses are managed by Sonangol.

The amounts both for signature bonuses and the component of social bonuses have increased considerably over the last few years, and the money arrives in tsunami-like waves following the bidding rounds. A peak was reached on the block 15, 16 and 17 agreements of late 2006, when the consortium that won the bid offered around US\$ 1 billion in signature bonuses and an additional US\$ 200 million in social bonuses for each of the blocks (Isaksen et al. 2007:45).²³ A new bidding round was carried out at the end of 2007 (of which we have no information yet on bonus levels). The social bonuses are in most cases paid upfront, while in some cases the sums are distributed over a number of years. If we distribute the funds over some years (5-10 years) and add the 2007 bonuses, a fair estimate is that the social bonuses on oil contracts are worth at least US\$ 100 million per year, a sum which is increasing.

PSA social spending

The second funding stream is social projects funded by the oil companies as a part of the production cost. Both private companies and Sonangol spend some amounts on social projects, depending on their production. This spending is partly specified in the PSAs, which make it a legal obligation. In addition to the PSA-specified contributions there is an additional “voluntary” contribution (sometimes requested by Sonangol, especially if oil production is good and prices high). This is over and above the PSA contribution, not specified in the PSAs but based on a “gentleman’s agreement”.

²² According to Lwini’s website at www.lwini.og.ao, which seems to be irregularly updated.

²³ The Italian company *ENI* and partners won the sealed bidding competition with a signature bonus of US\$ 900 million, with an addition of US\$ 50 million for social funds. The consortia that won the contracts for blocks 17 and 18 each paid signature bonuses of about US\$ 1.1 billion and social funds of about US\$ 200 million (Isaksen et al. 2007:45).

About half of what is paid through the PSAs and their “voluntary” contributions is managed by Sonangol; the other half is managed by the companies themselves and run together with their voluntary post-tax contributions (see below). This funding stream is tax deductible.

Each block has a *block fund* for social projects that is financed by the operator and partners of the block (offshore or onshore), and about half the project funds are managed by the concession holder, which is by Angolan law always the state oil company *Sonangol*. There is one Sonangol block fund for each of the operating blocks (at least for the newer production blocks). This form of social fund is not unique to Angola, but the importance given to them by the oil companies and the total amount of funds given through the operator is significant for Angola.

The PSA-specified contributions to social projects have been put at close to US\$ 100 million per year for all oil blocks in Angola together (plus some additional “voluntary” contributions). Of this, around US\$ 20 million is provided by Sonangol alone.²⁴

Voluntary contributions

The third funding stream comprises post-tax voluntary contributions, which come in addition to the negotiated and contracted payments described above. The voluntary contributions comprise spending on various social projects by companies from their after-tax profits. The oil companies manage these on their own as a form of charity according to each company’s corporate social responsibility policy, and are mainly for visibility purposes and to build and/or protect their reputation.

The companies themselves implement both the (half) of the PSA contributions and the voluntary, post-tax contributions. These projects are run directly by some company managers (usually CSR officials) – with all the time-consuming detailed management that this requires – or through NGOs or church organisations selected as project implementers.

One of the NGOs implementing oil company CSR projects is the Danish organisation *Development Aid from People to People* (DAPP). DAPP is particularly interesting because of its links to the government. The organisation has its background in the Scandinavian left-wing solidarity movement of the 1970s, and has been operating various solidarity projects in Angola since the 1980s, although the number of “solidarity workers” has been declining and its professionalism increasing. Now it mainly manages a teachers’ college on behalf of the oil companies.

It seems that the companies treasure the government’s and ruling party’s ideological approval of the organisation (ideological history and belief in “African Socialism”) and the fact that DAPP is accepted and allowed to operate (and even appreciated) by the Angolan government.²⁵ Furthermore, DAPP’s background gives the organisation access to various government agencies and government funds (including FESA), which is also an advantage in terms of service delivery and efficiency.

In some cases, post-tax voluntary contributions are also run through company-controlled foundations such as the *ExxonMobile Foundation* (and its *Africa Health Initiative*, AIH) and the Chevron-initiated and -financed *Centre for Development and Partnerships* (*Centro para o Desenvolvimento e Parceiras*, CDPA).²⁶

²⁴ This rough estimate must be treated with care. The PSAs are never made public, the real figures are not published, and companies are very careful in providing estimates. Our estimations are based on figures suggested by Sonangol and private company representatives in interviews, but not verified by accounts.

²⁵ The relationship between the Angolan government and civil society organisations, and in particular foreign NGOs, has been very strenuous (Amundsen and Abreu 2006).

²⁶ CDPA is a consortium constituted from civil society organisations, NGOs, two state institutes and around 20 individuals. The NGOs are SNV, DW, ADRA, MOSAIKO, Ibis, CEIC/UCAN, World Learning, Care International and FONGA; the state institutions are the institutes IDA (Institute for Agrarian Development) and INAP (National Institute of Public Administration). CDPA works primarily with capacity building and training of trainers at the provincial level, and aims to develop and deliver programmes and services to individuals, groups, organisations and institutions. The main services will be information management, studies and research, service and space for training and capacity building, and

The post-tax voluntary contributions are modest in size as compared to the two other streams, but they are much more visible and are energetically promoted by the companies. For the operator *Esso*, the contribution is around US\$ 5 million a year through the *ExxonMobile Foundation*. *ChevronTexaco* donates around US\$ 10 million and *StatoilHydro* donates less than US\$ 2 million annually for various projects and initiatives, BP donates around US\$ 1 million per year and the smaller companies even less.

With more oil companies and a few larger diamond companies also contributing to social projects on a voluntary basis, we can make a very rough estimate of the social spending by the petroleum and diamond companies operating in Angola at around US\$ 50 million per year.

Total spending

Are the social funds in Angola a substantial and important phenomenon, economically and politically, or are we talking about a peripheral and insignificant institutional arrangement? What is the size of the funds channelled through the social funds in Angola, as compared to the figures for other countries, as compared to the overall economy and to the social expenses of the Angolan state?

The numbers (estimates and “guesstimates”) from the above analysis give a sum of almost US\$ 300 million annually for total spending on social projects by private companies in Angola through the three “streams” identified above. As a comparison, official bilateral and multilateral aid to Angola (ODA) was about US\$ 442 million in 2005,²⁷ of which the annual budget of FAS constitutes about US\$ 30 million. This means that the flow of public money from external sources is about two times as high as the estimated annual contribution from the private extractive industries sector, but the share of public aid is decreasing.²⁸

Table 2: Average private company contributions for social projects

	US\$ per year (million)
Sonangol and Endiama	25
FESA and Lwini	15
Social bonuses	100
PSA social spending	100
Voluntary contributions	50

the establishment of partnerships. Its potential clients and users are staff of civil society organisations, development professionals, multi- and bilateral donors, public institutions, universities, and small and medium private enterprises.

²⁷ OECD (2007): *Aid Statistics, Recipient Aid Charts* (by country) at: www.oecd.org/countrylist/0,3349,en_2649_34447_25602317_1_1_1_1,00.html

²⁸ The Angolan state budget for education amounted to about US\$ 1,000 million in 2005, with an actual spend of US\$ 765 million. In 2007 the budget increased to US\$ 1,755 million, according to the *Ministry of Finance* website at www.minfin.gv.ae

Social funds – an assessment

Based on the typology and success criteria identified above, we will now make an assessment of the various fund types. First, we will present the Social Action Fund (FAS) as a model, because FAS scores relatively high on most of these success criteria. Then, the CSR funds (the contributions to social projects by the petroleum companies) are assessed in the same way. Finally we will take a look at the Angolan institutions: the state oil and diamond companies and the charitable organisations.

The Social Action Fund

As mentioned, the *Social Action Fund (Fundo de Apoio Social, FAS)* was established in 1994 as an implementing agency for the World Bank's softer loans. FAS in Angola has evolved in a similar way to other social funds in the world, with more donors involved, a stronger organisation with more explicit and long-term strategies and a stronger focus on local community development, empowerment, and capacity building. FAS now covers all the country with social projects in all provinces and provincial teams in 12 of the 18 provinces.

Transparency

The Angola Social Action Fund scores very high on transparency. The fund has developed good practices in an information campaign targeted at user groups, with leaflets and information material also in local languages and a stream of local-level information meetings. A significant component of the organisation's staff time is devoted to information for users on support possibilities and procedures. FAS seems to reach out very well to its user groups.

The strong emphasis on transparency can also be seen in the fact that FAS makes public its projects and programmes through newspaper and radio advertising, and larger construction contracts are allocated through an open and fair bidding process. Besides, local authorities are also duly informed and consulted about project plans. FAS runs a newsletter, and access to information, including information on finance and priorities from FAS head office, is no problem.

Accountability

Another criterion for success, namely accountability in decision-making, has been relatively well taken care of by FAS. In terms of user group influence on project selection, management and maintenance and running cost considerations, FAS ensures the engagement of local communities through a process of selection (sometimes election) of local steering committees ("*núcleos comunitários*" with about 5 members, with at least 2 women) and provincial steering committees (with 50-50 civil society organisation representatives and local government representatives).

FAS has the requirement that local groups also share the investments and running costs of the projects. Communities have to bear a share of the investment costs (10 – 20 %), if possible, and at least make public promises that some of the maintenance and running costs will be met by the beneficiaries, for instance through voluntary work. Besides, central and regional state institutions (education, health, social affairs, public works, etc., depending on the nature of the project) must submit a written guarantee that project maintenance and running costs will be covered in their annual budgets (basically the salaries for staff, teachers, health professionals, social assistants, and so on).

Local communities are thus efficiently brought into to the decision-making process as real partners. This secures the projects' legitimacy and accountability and enhances their relevance and

efficiency. Local ownership seems to be secured; it is highly prioritised even when sometimes it is a long and strenuous process.

Furthermore, to the extent that social investments, for instance in school projects, necessitate financial contributions from local government (in particular the Provincial Administration where FAS operates), this is ensured through consultation in the planning process and written agreements prior to project implementation.

For the purpose of national planning, policy coherence and efficiency, FAS has aligned with the Ministry of Planning and various line ministries (in particular the Ministries of Health, Education and Public Works). In most cases, FAS is able to commit line ministries and regional authorities to taking responsibility for the maintenance and running costs of projects after their completion. This cooperation seems to be working well, at least insofar as there are few bottlenecks or overlaps in their efforts. FAS is also physically and organisationally situated within the Ministry of Planning, and the entire FAS programme seems to fit in with (or rather feed into) the national planning process. With about half the budget coming as a (soft) loan from the World Bank, the government has been duly committed to the programme.

Reporting, evaluations and financial accounting seem to be well taken care of. One question might be raised, however: to what extent do local communities and Angolan government institutions really influence the hard decisions? Despite having the World Bank and other major donors as financial contributors, with their agenda (in particular the social fund model of the World Bank), the institutional set-up of FAS nevertheless seems to be a well-functioning arrangement for securing a fair level of accountability.

Institutionalisation and sustainability

FAS consciously builds local competence and local institutions into its project implementation process. The projects' local "núcleos comunitários" and provincial steering committees are core elements for local representation and competence enhancement, even when the committees are not always elected on a competitive basis (civil society organisations and central/provincial state institutions, for instance, nominate their representatives).

The connection between FAS project steering committees and the decentralisation process is more unclear. Although there is an element of organisational learning and capacity building in the local committees, and FAS projects are supportive of the emergence of local NGOs, neighbourhood committees and local interest organisations, there seems to be no deliberate strategy for linking this organisational capacity building into the ongoing (or rather coming) decentralisation process.²⁹ The FAS projects and the local organisational activity and learning around these projects seem to have few links to the future establishment of elected local councils (communes).

In terms of organisational learning and institutional development at the central level, FAS is indeed contributing to skills and competence at the Ministry of Planning. At the same time, it has also been argued that FAS is a drain on the ministry's capacity. However, given the relatively weak capacity of the Ministry, and its financial and political limitations, the establishment of a semi-autonomous institution like FAS within the Ministry is nevertheless a good practical arrangement.

FAS has a strong focus on community-driven development, which means community groups of various sorts taking responsibility for prioritising and choosing the project/projects to be implemented, and also responsibility for providing labour and other inputs into every project. This safeguards the community ownership and long-term financial sustainability of the projects.

Furthermore, FAS has managed to move beyond exclusive financial dependency on the World Bank and through its strategy and competence has acquired funds from a wider range of donors in the form of grants. This increases FAS's autonomy and demonstrates relatively good

²⁹ Local elections have never been held in independent Angola, and future local elections are only at the planning stage, after parliamentary (2008) and presidential elections (2009). All local administrations are nominated by the *Ministry of Territorial Administration* and by *Provincial Governors*.

financial diversity and sustainability. FAS's strong local focus and its relatively autonomous organisational structure help safeguard it from political pressure.

The longer-term question, however, is whether or when the FAS office, with its priorities, skills and competence, can or should be fully incorporated into the Ministry.

The oil companies

Assessing how oil companies score on the four "success" criteria (described above) is a difficult task because a lot of information on their behaviour is kept secret. Part of the reason for this secrecy is the confidentiality requirements imposed by the government under PSA regulations, and the oil companies' lack of will to violate them. Furthermore, some of the companies will not divulge their activities in any detail, not even their social programmes, because of the competitive market situation. Lack of information is indeed a key concern, which we will discuss further.

Transparency

The level of transparency varies among the stakeholders. The different block managers at Sonangol need to approve all expenditures in a block, including tax deductible social expenditure (part of the cost oil). Sonangol is therefore informed about what the petroleum companies are doing, but other stakeholders are not. There is no public information about what types of social activity the oil companies are financing under the different PSA arrangements.

Therefore, a number of questions can be raised. First, what are the objectives and targets of the social activities? Is the objective to reach the poor in the short run through financial support to education, health and safety nets or through long-term investments in capacity building and infrastructure? How far do the social projects extend? While social projects were used initially for financing traditional short-term charity purposes, we have seen an increasing trend towards putting more emphasis on long-term investment in training, capacity building and infrastructure. To the extent that the objective is to reach the poor, what groups of poor are targeted? Is it the poor in urban areas, in rural areas, in particular geographical areas such as Cabinda, or particularly vulnerable groups such as HIV/AIDS-infected persons? Secondly, what selection and evaluation criteria are applied? Although the oil companies have different objectives in their social activities, the public lacks a clear and transparent presentation of their objectives and their methodology for achieving these.

Both the oil companies and Sonangol take initiatives to create social projects, but there is a total lack of information about the *criteria* for this decision-making. Sonangol provides a list to the operator of potential projects and NGOs to support, and the operator presents its proposals. After a consultation with (and sometimes preferences expressed by) the licence partners, the block manager decides which projects to support. Then formal approval is given by Sonangol's *Board of Directors*. We have no indicators that this selection process reflects any conscious development strategy.

Our conclusion is that the lack of clear and prioritised objectives and selection criteria leads to inefficient and incoherent projects. Internal *ex post* evaluations of projects by Sonangol might mitigate this, but any evaluation reports are not publicly available. We know that transparency normally improves efficiency, but why is this information opaque?

We have already pointed to the fact that the PSA agreements are confidential. However, it is easier to get information about what the oil companies are doing on other CSR-related issues, such as local content and training, than on their social activities. Part of the reason is probably related to the motivations and incentives for the companies' CSR policies.

Efficiency concerns might not be so important for activities that do not pay off. In a study of oil companies' CSR policies from 2005, oil companies and petroleum service companies operating in Angola said they had a CSR policy, and that the main ingredients were training of local staff ("Angolanisation") and the use of local resources (Wiig and Ramalho 2005). Companies

generally pointed to their code of conduct and the requirement from the government as the main incentives for being socially responsible.

As regards the code of conduct, most companies did not feel any more responsibility in Angola as compared to other countries. For the government, the issues of local content and Angolanisation were the most important issues and what companies did on these issues might have an impact on the licence to operate: being responsible in this arena could pay off. It was noticeable that oil companies accordingly spent more of their CSR funds on economic issues, like local content and Angolanisation, than on social issues, which were not paying off (Wiig and Ramalho 2005:17-18).

Information about how the oil companies are dealing with local content, labour issues and environmental issues are accordingly easier to acquire than about their social activities. If the target of social activities is to increase and improve the private provision of public goods, a more transparent clarification of objectives and transparent selection of projects are needed. More generally, the motivations and driving forces of oil companies' (and Sonangol's) corporate social responsibility are therefore of vital importance for more efficient service delivery. Some civil society institutions are, for instance, so sceptical about the oil companies' social agenda that they refuse to solicit their funding support.

Voluntary contributions are visible. Most established oil companies in Angola provide around US\$ 1 million or more per year to various social purposes. Although information is more transparent, apart from some of the largest oil companies in Angola most companies lack strategic criteria for their support. Few if any of the companies coordinate their activities.

Out of the three largest oil producers in Angola, only the American oil companies *Chevron* (ChevronTexaco) and *Esso* (ExxonMobile) have a pamphlet presenting their social missions and activities in Angola. Esso provides a corporate citizenship report on Angola and claims to spend more than US\$ 14 million on CSR activities (including social activities under the PSA). Esso prioritises support to the education sector. Esso has during recent years built up a CSR department comprising a team of three persons and claims to have a quality-based system for selecting and implementing projects.

The French company *Total* (previously TotalFinaElf) has a worldwide CSR report that includes information from Angola, but it is difficult from this report to reveal what types of activity are financed by its after-tax contribution and what part is financed under the PSA agreements. Total focuses on health issues in its CSR policy and is contributing US\$ 1.16 million to a health vaccination programme.³⁰

In addition to the majors described above, the oil company *Saipem* (of the Italian ENI S.p.A. group) has published a CSR report on its activities in Angola, StatoilHydro has a "Government Relations and CSR" pamphlet on Angola, and some of the other smaller companies similar reports, but information on strategies and amounts is not clear.

Chevron has also created a CSR department at its offices in Luanda, which represents an interesting case by linking its activities to civil society organisations and donor agencies. Chevron is very clear about applying a strategic framework for prioritising across sectors and involving stakeholder groups. This strategy partly reflects the fact that Chevron has been involved in Angola for a long period (it might be time for payback) and that it is part of consortia that produce around one third of the oil production in Angola. Being a large producer, Chevron might feel that it needs to take on a larger responsibility.

Chevron has also faced the costs of being punished by the government after its oil leakage some years ago (where they received a large fine). The civil unrest in Cabinda poses a threat to its stake in Cabinda to the extent that a new *Niger Delta Syndrome* might arise.

Nevertheless, Chevron, the *US Agency for International Development* (USAID) and the *UN Development Programme* (UNDP), in cooperation with the Government of Angola, in November 2002 signed a Memorandum of Understanding (MoU) for the formation of two public-private

³⁰ www.total.com/static/en/medias/topic1606/Total_2006_CSR_en.pdf

partnerships. The *Angolan Partnership Initiative* (API) expands Chevron's traditional community support by working on broader development assistance outside Cabinda and is establishing strong project partnerships with NGOs. The partnership, in its second phase in 2006, has each partner contributing an additional US\$ 5 million (or US\$ 1 million per year) to projects aimed at building the capacity of municipal governments and promoting the development of commodity value chains. Nearly half the money is channelled to the *Centre for Development and Partnerships* (*Centro para o Desenvolvimento e Parcerias de Angola*). The MoU has also established the *Angola Enterprise Program* with the UNDP, to which Chevron committed US\$ 3 million and the UNDP US\$ 1 million. This programme promotes small- and medium-sized enterprise development in Angola.

The support of civil society organisations and the private sector is an important way of reducing potential resource curse problems, but at the same time one might claim that the poor are not being reached – at least not in the short run.

Accountability

Similar to transparency, the accountability of the oil companies varies across the different stakeholders involved. Oil companies are accountable to Sonangol in respect of their activities covered under the PSA agreement. Their activities under PSA are approved by Sonangol and audited, but the audited reports are not available to the public. More generally, oil companies are probably more accountable to the government than to civil society. While the government has a clear influence through its right not to approve social projects or to refuse the companies a licence to operate, the poor lack voicing mechanisms. Even investors lack voicing channels as information is sparse.

Esso and Chevron, for instance, claim that their activities are in concert with and coordinated with line ministries. But oil companies are accountable neither to the potential end user nor to the owners or investors. User and target groups cannot complain to oil companies that they did not receive the needed and promised support, while investors might find it difficult to expose what social activities the oil companies have been pursuing and therefore be unable to impose sanctions if these activities are not in line with the preferences of the owners.

Lack of information also reduces accountability to the media and civil society. The media, both nationally and internationally has an important role to play,³¹ but access to information is pivotal. The role of civil society is also enhanced when access to information is good (Amundsen and Abreu 2006).

We are not aware of any information campaign undertaken by the oil companies in order to create discussion groups among or communication channels with end users. Oil companies claim that the needs are so huge that needs assessments are unnecessary. Accordingly, we have seen few examples of needs assessments.

Institutionalisation and sustainability

Lack of information also reduces trust and social capital in the local communities, which in turn impedes institutional development at all levels of a society from the local to the central level and across all types of institution (private or public).

Social projects undertaken by the oil companies need to bridge to other local social projects undertaken by the private or public sectors. Without explicitly including learning and training elements, existing institutions might not learn from the social projects financed by the oil companies. Lack of external evaluation of CSR projects impedes institutional learning.

Institution building requires managerial skill and competence; it is costly and takes time. There are few observable measures of success in the short run. For a service-providing NGO

³¹ See, for instance, the role of the international NGO *Global Witness* and the international media in kick-starting the EITI process, in Shaxson (2007:chapter 11).

working on projects funded by oil companies, institution building will increase its overhead costs. There is therefore a trade-off between institution building and efficient service delivery in the short run.

Most of the oil companies interviewed were biased in this trade-off. They preferred supporting service providers with low overhead costs, indicating that institution building is not a prioritised area.

Lack of coordination also impedes learning. Oil companies cooperate on environmental issues (such as the flaring of gas) but not on improving the efficiency of social projects. There is no coordination and information sharing across blocks on social projects, indicating that the companies are not concerned about institutional learning.

Oil companies are profit-motivated institutions – not development institutions. Company personnel have technological knowledge but lack development competence. They should therefore be humble in dealing with social projects and be open to learning from institutions that have this experience. Instead, each company follows its own perception of what is a good social project. We noted, for instance, that one of the major oil companies claimed that it did not bother about others' social activities, highlighting the problem of coordination and a lack of benchmarking experiences.

In some smaller companies there is no local CSR department, and personnel dealing with these issues are constantly changing. Their CSR strategies and social spending priorities are therefore very dependent on the person(s) bearing the responsibility at a given moment. Besides, the companies' CSR policies provide few operating guiding principles for their social activities apart from general objectives. The internal incentive structure does not facilitate efficient social projects. Salaries are, for instance, not related to CSR performance.

Angolan parastatals and charities

The Angolan parastatals' social funds and the Angolan charity funds share many of the characteristics of the foreign petroleum companies on the success criteria (which will not be repeated), but they also display certain important specifics. Being part of the government structure (which must be a fair characterisation of these fully state-owned Angolan businesses), Sonangol and Endiama are no more transparent or accountable than the Government of Angola.³² The Angolan charity funds that are initiated (and directed?) by top-level political figures run an even greater risk of being used for pecuniary, political and patronage purposes.

Sonangol and Endiama/Brilhante

The two Angolan state companies in the extractive sector, Sonangol and Endiama, are also important contributors to social projects, although not on the same scale as the foreign oil companies. Sonangol operates its social programmes basically on a block-by-block basis, with each block director as manager and projects approved by the Sonangol board of directors and the block operator on behalf of partners. Endiama has institutionalised its social projects in a foundation, the *Fundação Brilhante* fund, in which “all companies of the diamond sector can take part”.³³

According to Soares de Oliveira, Sonangol is on the one hand “*at the service of the presidency and its rentier ambitions*” and “*a basic tool for elite empowerment*”, and on the other hand “*from the very start protected from the dominant (both predatory and centrally planned) logic of Angola's political economy*” and therefore “*an island of competence thriving in tandem with the implosion of most other Angolan state institutions*” (Soares de Oliveira 2007:1).

³² According to the World Bank's *Worldwide Governance Indicators* for the year 2007, Angola scores very low on the “*voice and accountability*” percentile with 12 (on a scale from 0, world's worst country to 100, the best), and the rating has been falling since 2003. “*Regulatory quality*” is at the same low level but slowly increasing (<http://info.worldbank.org/governance/wgi2007/>).

³³ According to the Endiama website at www.endiama.co.ao/eng/emp.php?cat=fb

This sounds like a contradiction, but it is not. The Sonangol Group, with other national oil companies, controls an increasing share of the world's oil resources, and is a sophisticated company employing thousands of people and active in four continents. Sonangol is an institution of real efficiency amid the chaos of Angola's economy and the shakiness of other state institutions (Shaxson 2007:177). At the same time, *"its tools and professional expertise [...] are put at the service not of broad-based prosperity but the enrichment of the few"* (Soares de Oliveira 2007:21).

Despite its professionalism, or rather because of its political purpose, the level of transparency of Sonangol's social programmes is quite low. Even though most Western banks and oil companies speak very well of Sonangol and report hassle-free interactions with the company (Soares de Oliveira 2007:11), information on Sonangol's social projects is less accessible.

Information on the Sonangol-managed social bonuses is not available from any open sources, the Sonangol-managed PSA funds for social projects are made inaccessible by the same confidentiality clause that restricts the private companies from divulging information, and no aggregate information on Sonangol's voluntary (post-tax) projects is available (only information on specific projects through the website and Sonangol's brochures and reviews).

The international campaigns EITI and PWYP have been pushing for openness also in the Angolan case, but with very little success. Angola has not signed the EITI principles (Isaksen et al. 2007:45) and the PWYP campaign has accomplished next to nothing in Angola.³⁴ When BP promised to publish its payments to Angola in 2001, *"the Angolans reacted with fury. Their riposte came from the state oil company Sonangol, which threatened – in a letter copied to the other oil companies in case they missed the point – to terminate BP's contract in Angola"* (Shaxson 2007:216).

The information available on the *Brilhante* foundation and its social activities is even scarcer, mainly due to the remoteness of the diamond extraction areas and the political sensitivity of the operations (some concessions based on agreements between the MPLA government and former UNITA guerrilla "generals", international concern about "blood diamonds", etc.). It nevertheless seems to be the case that *Brilhante* has taken on some concern for the populations in the diamond-affected areas, at least according to its CRS policies.

One of the main problems with the Sonangol social projects, in addition to the fact that some of what are labelled "social projects" can hardly be understood as such, is that they are managed on a block-by-block basis (separately) by the block directors. The final approval of the projects lies with the Sonangol *Board of Directors* and in negotiations between Sonangol (as the concessionaire) and the operators (acting on behalf of the block partners). This institutional arrangement leads to a number of problems.

For one thing, there is a coordination problem. Block directors (and their staff) and operators differ in their focus of social projects: some are more concerned than others about deeper development problems, poverty issues, concerns for directly affected populations, and national content such as staff training, competence building and local inputs. Besides, although the operators are not strong in their influence on Sonangol and its project selection and management, the different operators also (at least sometimes) push their preferences on social projects.³⁵ Any overall development strategy is lost to these differing priorities and differing operational and efficiency concerns.

Secondly, the vagueness of criteria for project selection (without prior needs assessments, for instance), the opaqueness of the decision-making process and the high levels of discretionary powers raises concerns about misuse and politicisation. Although we have no information about actual misuse of funds (corruption, embezzlement) or abuse of power (projects serving the clientelist, favouritist and pecuniary interests of managers), the low levels of transparency and the high levels of discretionary power in the hands of block directors may lead to such problems.

³⁴ For a good account of these two initiatives, see Shaxson (2007:chapter 11), and for background and updates see the websites of EITI (<http://eititransparency.org>) and PWYP (www.publishwhatyoupay.org).

³⁵ Some are, for instance, more interested in education projects or projects in particular geographical areas.

Finance audits and the occasional on-the-spot evaluation of projects by operators cannot guarantee that pecuniary, political or patronage interests have not influenced the selection of projects, project sites, beneficiary groups or entrepreneurs.

Thirdly, the block-by-block management of social projects leads to a very weak institutionalisation of social concerns in the Sonangol system. Knowledge of development issues, project management, coordination and competence building is split between several offices of the organisation. The capacity of Sonangol is also thinly stretched and the final decision-makers (the block managers) have a technical background. In many cases it takes more than a year for oil companies to get final approval from Sonangol to undertake a social project.

In accordance with the significant increase in oil production in Angola, the working pressure on Sonangol's staff is rising, including growing funds for social projects. At the same time they have tried to play a more active role in selecting social projects. According to the oil companies, Sonangol has even demanded additional social funding from the oil companies. All in all, Sonangol is faced with an increasing capacity problem in dealing with social projects.

There are now plans for uniting the social projects in one larger unit (foundation?) of the Sonangol Corporation, but until this process has come to a conclusion, the project administration will remain scattered.³⁶

Fourthly, the sustainability question looms large in the Sonangol-managed projects. Sonangol has been characterised as a 'state within the state', for instance because of its parallel finance system (Isaksen et al. 2007:viii, 24), and despite claims that the lists of projects are coordinated with line ministries Sonangol is also taking over social functions from the ministries.

Besides, the Sonangol focus on needs assessments, user group information and community-driven development is very weak. The need to display the Sonangol logo on "positive" projects and activities,³⁷ plus its customary top-down management style, makes its projects weak on local ownership.

FESA and Lwini

The President's social fund FESA (*Fundação Eduardo dos Santos*) has been said to be "contributing to a personality cult" and characterised as an element of a "system of clientelist domination" and an element of the "privatization of the Angolan state" by the political elite (Messiant 2001:288, 296). The objective of the foundation is quite clear: it is to make charitable donations "to celebrate the birthday of its patron".³⁸

During the "FESA Week" each August there is a great deal of publicity, birthday greetings and "happenings", but the general level of project information and transparency in FESA's operations is very weak. Some contributors and partners of the foundation are said to have access to project and financial information, but this is not accessible to the broader public. With this lack of transparency in mind, and given the stated objectives of the foundation, the structural factors are in place to generate suspicion that the foundation mainly serves a political purpose.³⁹ The political purpose of Lwini (the First Lady's *Fundo de Solidariedade Social - Lwini*) is less obvious and perhaps negligible.

³⁶ Whether the plans for a "Sonangol Social Foundation" are good will basically depend on whether it will incorporate strong and structured regulations for transparency into its operations and accountability to its users as well as its contributors (the other oil companies).

³⁷ "The company certainly makes strenuous efforts at peddling its 'modern' image, as can be gauged from its many glossy publications, carefully manicured road-shows, lavish expenditure on lobbyists in western capitals, and soundbite references to corporate social responsibility and other business-speak" (Soares de Oliveira 2007:12-13).

³⁸ Objective made explicit by FESA itself, cited in Messiant (2001:297).

³⁹ We have learned that the specific links between the foundation and the President of the Republic have led to one petroleum company refusing to contribute to FESA, as it would entail a breach of its "code of conduct". Furthermore, the issue of the Norwegian oil company Hydro's annual contribution of US\$ 100,000 to FESA has been debated publicly in Norway (see for instance *Morgenbladet*, 17 Oct 2008).

Concluding notes

We have seen that social funds are extensive in Angola. In contrast to many other poor countries with social funds, these funds are financed basically by the private, extractive sector. While donor funding is decreasing, this private funding of public goods is increasing in Angola. Along with the rising oil production, oil companies in particular will increase their social spending. In the near future, private funding will probably be higher than foreign (public) aid.

In light of the important role that social funds play in Angola, we have asked if it is likely that these funds can succeed. Are the social funds a way of addressing the needs of the poor, and are they a pertinent institutional arrangement for delivering social services and public goods?

Our overall conclusion is that the private, corporate social funds score quite low on the success criteria, and therefore we regard the funds as *not* a smart or efficient way of providing social services and public goods.

The main exception is FAS, which scores, as we have seen, quite high on transparency, accountability and sustainability. With its emphasis on community-driven development, FAS enables local communities to take responsibility and thus FAS ensures the relevance and sustainability of the projects.

The main weakness of the social spending of the two Angolan state companies Sonangol and Endiama is that they are no more transparent and accountable than the Government of Angola. They are sub-institutions of a state apparatus which is at the service of the presidency and the ruling elite, for elite empowerment and predation. The social projects of the two institutions are most probably serving a political purpose and subject to clientelistic practices.

For the petroleum companies, this is a major problem for their CSR credibility, as they are funding projects managed by these structures. Furthermore, the main weakness of the oil companies' social activities in Angola is the lack of transparency in terms of what their motivations, objectives, contributions and concrete activities are. Information about oil companies' social activities is quite opaque, and it is therefore difficult to monitor what the oil companies are doing (for the government, the user groups, the public in general and for international observers). Also in terms of accountability, institution building and sustainability, there are alternative ways of providing public goods that are more efficient.

Petroleum companies have, however, some strategic advantages. They are large and sometimes powerful negotiators, with a technological and political capability that may alleviate some of the political and administrative bottlenecks of the public sector, and may deliver services fast and efficiently. They may reduce the impact of weak governance, a lack of political will, clientelism and the "resource curse", including the "crowding out" of the small/medium-sized Angolan enterprise sector which is a part of this curse.

However, the oil companies are reluctant to undertake these activities. The motives for their CSR engagement are limiting their development impact and they are failing to integrate CSR into a larger development plan.

We have seen from this analysis a number of implications of the privatisation of aid to Angola through the various social funds and other financing mechanisms of social projects described above, implications that are rather similar to other resourced-cursed countries.

First of all, there is a lack of transparency and openness in the petroleum sector. The efficiency and accountability of social projects (and consequently also the legitimacy of the oil companies and their CSR) depend on transparency in operations and in financial transactions. Globally, the companies can do much more in terms of adhering to the EITI principles, and a good way to start is by being open and informative about the goals, strategies, funds and projects in the CSR arena, and in particular the social projects. The openness (and visibility) concerns taken up by the companies in respect of their voluntary post-tax spending could and should be replicated first

with the PSA “voluntary” spending and then with the PSA compulsory spending, without meeting much difficulty or resistance.

Secondly, stakeholders and user groups of social projects are not sufficiently included in the selection, decision-making and management processes. In this respect, the oil companies could learn a great deal from the FAS model, and from some professional development agencies and Angolan NGOs. Observers (from the media, civil society organisations, churches, line ministries and provincial administrations) could also be invited to ensure transparency, accountability and responsibility.

Furthermore, needs assessments, local participation and learning processes are not taken sufficiently seriously to ensure a sustainable institution building and learning process. Projects on the ground could empower people through learning and institution building if people were systematically included in decision-making and implementation of social projects. Local steering committees and projects that link up to the coming decentralisation process would be empowering.

Thirdly, there is an almost complete lack of coordination of projects and programmes.⁴⁰ The petroleum companies barely cooperate on priorities, benchmarks and bottom lines, either between themselves or with the NGO sector or government ministries and local authorities. A synchronisation of the social projects in an independent coordinating unit could, for instance, be a promising avenue for improving coordination of the use of social funds. Such a unit should be autonomous, professional and efficient, and could also deal efficiently with the issues of maintenance and recurrent costs, both of which are important for the sustainability of any social project.

Fourthly, some weaknesses are caused by the continuing emphasis on projects rather than programmes. The major public donors changed from project to programme support years ago, partly because a programme-oriented funding structure makes it easier to deal with institutional learning and to improve the sustainability of the projects. Besides, large programmes may facilitate institution building better than small projects.

Finally, most of the social funds, and in particular the petroleum companies, have a weak overall development strategy and unclear objectives. The company CRS strategies are vague on development priorities, the social projects are mainly managed by technicians, and concerns other than the development of Angola are blurring their vision. Thus, the total sums up to charity, alms and positioning, without any link to the “resource curse” caused by the resource extraction in the first place and the ensuing political economy needs of the country.

⁴⁰ This research was partly triggered by a story we heard about the *three* schools that had been constructed very close to each other in Cabinda province, by three different sources of funding, whereas neighbouring communities had none. Using the same construction company probably added to efficient building construction (and the schools figures look good in the glossy company annual CSR reports and on company websites), but without proper community involvement and provision for running cost, only one of these was actually functioning.

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SUMMARY

Private companies are spending significant resources on social projects in Angola, for the benefit of poor, for general development purposes and for positioning purposes. This study gives a background to and overview of the various “social funds” in Angola and explores the rationale for this spending, the channels and methods used and the amounts spent. It also raises the question whether this social spending adds to the problems of deinstitutionalisation, clientelism and lack of coordination of development efforts in Angola.

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