Angola’s Political Economy: Some Perspectives

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Overview

1. Today’s political economy:
   - ‘onshore’
   - ‘offshore’

2. Scenarios

3. Conclusion
‘onshore’ outcomes
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Causes? Angola’s anti-poverty strategy paper (2003) implicates:

- Poverty & Exclusion
  - Poor supply of basic goods
  - ‘Human capital’ under-valued: no jobs, precarious jobs, illness &c.
  - Demographic pressures
  - Ineffective macro-economic policies
  - Bad social & economic infrastructure
  - Weak health, education & other public services
  - Poorly-skilled staff --> weak management
  - Violence & physical insecurity
Angola lacks a good ‘social contract’
‘offshore’ drivers
Social Classes

1. dominant class of non-resident owners/rentiers
2. resident senior administrators, military officers, business people
3. middle class, mainly small proprietors, petty officials and salaried employees
4. urban and rural proletariats
5. ‘lumpenproletariat’

Today’s political economy

- *Outward orientation, ‘extraverted’*

Extractives, esp. post-war, create revenue. But... operating in enclaves, their links to the ‘real economy’ are weak.

Most key goods & services imported
Weak incentives to build skills, enterprises

- *Polarized, ‘bambazonke’ growth*

- *Rent-seeking onshore and offshore*

- *Rents flow offshore, remain unproductive*
That is, ‘offshore’ and ‘onshore’ penetrate each other.

Especially on the offshore side, these relationships need ‘watching’.
Angola’s political economy is quite satisfactory
... at least for some people.
Angola as ‘Davos’ (WEF & IMF) see it

Global Competitiveness Index, 2014-15
(From 1=least to 7=best)

1/ Countries with similar stage of development (transition from stage 1 to stage 2) as that of Angola based on the World Economic Forum’s classification. These countries include: Algeria, Azerbaijan, Bhutan, Bolivia, Botswana, Gabon, Honduras, Iran, Kuwait, Libya, Moldova, Mongolia, Philippines, Saudi Arabia, and Venezuela.

Source: The Global Competitiveness Index Dataset, World Economic Forum.
Rankings by Washington think-tank (Heritage Foundation)
On average, in net terms, US$ 646 million has flowed out of Angola every year.
Angola's gross international reserves (in US$ b.)
Rent-seeking

By Angolans positioned to capture rents
- e.g. heads of banks, telecom and other businesses; 34 ministers, 50 deputy ministers, 18 governors, 54 deputy governors, heads of state-linked firms

By non-Angolans dealing in
- goods and services
- loans and other financial products
- secrecy and ‘reputation’
Rent-seekers: few are exposed

A typical onshore/offshore operator:
Jean-Claude Bastos de Morais, Quantum Global (Headquarters: Zug, Switzerland)

... and his offshore associates

Paradise Papers: Tycoon made $41m from 'people's fund'

By Anna Meisel & David Grossman
BBC News
Sources of rents

1. Global markets in lawful goods & services incl. finance and real estate
2. Global circuits in illicit goods & services
3. Foreign business bribery
4. Official Development Assistance
5. Development policy formulas (conditionalities):
   - taxation
   - hard currency reserves held abroad
   - privatization
   - relaxed regulations
external drivers affecting elites

1. Sources of rents
2. Opportunities to conceal and move illicit assets
3. Foreign investment
4. Global and regional security threats and responses
5. International legal measures and sanctions
6. Reputational pressures on political elites
7. External ideas and skills
Concealing & moving assets

• Secrecy jurisdictions / offshore financial centres
  • Encouragement of tax competition and ‘forum-shopping’
• ‘Enabler’ industries
  • International law firms
  • ‘Big Four’ accounting firms: Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Ernst & Young, KPMG
  • Private banking (e.g. Banco Espirito Santo - Portugal)
• Sovereign wealth funds
• Real estate brokers
Capital flight as share of GDP averages over decades (Angola 1989-2010)
Network of ownership flows between countries
... or from tax law gimmicks in Amsterdam?
If you know there’s no landing space to land your plane, you don’t take off in the first place. It’s the same with money: if there’s nowhere to land it once you’ve stolen it, you can’t steal it.

- Nigerian anti-corruption investigator
Looking ahead ...
Rising constraints

Supply of finance constrained:

- Oil *price* under downward pressure - but volatile
- Oil *output* set to fall (semi-paralysis 2017, failed ‘presalt’ bonanza, &c)
- Debt burden rising
- Non-collection, under-collection of tax revenues
- Angola’s 5 banks weak, fail to serve onshore “real” economy
- Strong incentives & opportunities to channel monies offshore

Demand for finance onshore

- Viable businesses needing finance
- Systems of patronage: jobs, houses &c.
- Repressive apparatus
- Subsidies/rents for state-linked firms/projects
- Public goods & services in context of fast-rising population
População extremamente Jovem

- 65% 0-24 anos
- 47,2% 0-14 anos
- 50,3% 15-64 anos
- 2,3% 65 anos e +
Angola’s external debts

Total debt re-payments as % of exports of goods, services & primary income)

Total debt stock
In US $ millions

Graph showing the trend of total debt re-payments and total debt stock from 2007 to 2016.
2. Scenarios

a) Status quo onshore and offshore

b) Restricted reform - modified status quo onshore, no change offshore

c) Quasi-developmental context - beyond status quo onshore and offshore
Scenario-making: an important assumption

“Our single most important message is that development outcomes in poor countries depend fundamentally on the political incentives facing political elites and leaders.”

- The political economy of development in Africa: A joint statement from five research programmes, April 2012
Scenario A: Status quo

- ‘Real economy’ under-funded, rents not used productively
- offshore financial sector absorbing most rents
- onshore redistribution (subsidies and business income streams allocated politically) confined mainly to upper social strata and security sector
- In a context of
  - Demographic ‘youth bulge’
  - Intensified *capitalismo selvagem* (per capita GDP growth negative since 2014) → Unfavourable prospects for mid- and lower strata
  - Strongly repressive, weakly ‘responsive’ governance
Scenario B: restricted reform

“Real economy” onshore gets more
- Funding for production
- Infrastructure
- Skill-building
- Public health

Some ‘space’ for Angolans to run enterprises independently of Angola’s ruling/owning political class

‘Competitive authoritarianism’ continues

In an offshore context generating
- Strong incentives among Angolans and non-Angolans to export rents
- Global competition to attract investment via tax breaks, land access
- Secrecy services worldwide
C. Quasi-developmental context

Onshore, state supervises and accelerates productive onshore economy
- Flight of capital curbed
- Rents channelled to non-oil sectors $\rightarrow$ diversification
- Internal markets in essential goods (food &c) a high priority
- Job- and livelihood-creation a high priority
- Basic services (education, health) made rights, not commodities

Offshore
- Better OECD country tax transparency
- Clampdown on secrecy jurisdictions
- More protection & support for ‘whistleblowers’ and investigative journalists
- ‘Social democratic’ policies gain standing in IMF &c
Concluding ...

→ Angola is extraverted: ‘transnational’ eclipses ‘national’

→ Responsibilities are partially with ‘Futungo’ but fundamentally with ‘Davos’, ‘Wall Street’, ‘Amsterdam’ &c.

→ *Incentives* matter for political classes

→ Rent-seeking onshore & offshore impedes ‘social contract’

→ Concern for *reputation* is one source of incentives
Obrigado.