Narrative Report on Angola

Rank: 35 of 133

How Secretive? 80

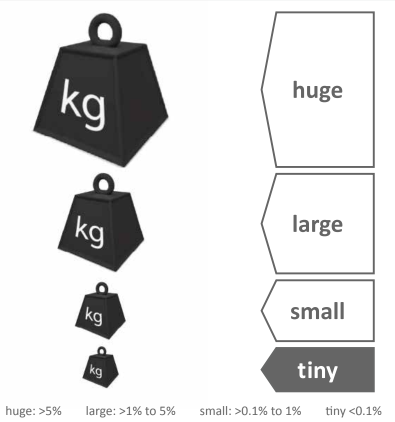
Moderately secretive — 0 to <25

25 to <50

50 to <75

Exceptionally secretive — 75 to 100

How big? <0.1%



Angola accounts for 0.03 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: http://www.financialsecrecyindex.com/database.

To find out more about the Financial Secrecy Index, please visit

http://www.financialsecrecyindex.com.

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PART 1: NARRATIVE REPORT

Angola is a mineral-rich country in sub-Saharan Africa with high rates of poverty. For many years, it has been a focus of anti-corruption and transparency campaigners inside and outside Angola. It has a long legacy of conflict and poor governance, and under longstanding president José Eduardo dos Santos it became a global poster child for corruption, kleptocracy and capital flight.

Angola has an exceptionally high secrecy score of 80 – the second-highest in our index. This does not mean that Angola is an important global tax haven: its financial centre is tiny by global standards, so its overall ranking in our index is low, 35th position. Unlike major tax havens and secrecy jurisdictions, Angola's high level of secrecy has not attracted financial flows from elsewhere, instead its suffered huge and destabilising outflows of hidden capital. This capital is often looted by a tightly knit kleptocratic elite and sent overseas. As such, it provides a useful contrast with many jurisdictions higher up the ranking of our Financial Secrecy Index.

Angola's history thus provides the other side of the coin: a victim of offshore practices, rather than an offshore centre in its own right.

History

Parts of Angola had been occupied by Portugal under an extractive colonial relationship that began in the 15th Century, and only ended at independence in 1975 after a revolution in Portugal toppled the right-wing dictatorship there. Amid the Cold War, Angola adopted Marxism-Leninism as its official economic policy, and Angola received political, economic and military help from the Soviet Union.[1]

Large coastal oil reserves had already been discovered by this time, and Angola became a proxy battleground between the Soviet Union and its allies, against western adversaries. Western powers, notably the United States, provided military and other support for Angolan rebel forces, most notably Jonas Savimbi's National Union for the Total Independence of Angola (UNITA,) which occupied large parts of the countryside. Apartheid South Africa also sent forces to support Savimbi, but were repulsed with the help of Cuba, a major Soviet ally, which sent thousands of troops. Government officials and sometimes their family members were sometimes able to access foreign exchange, for commercial or travel purposes, but these allocations were administratively decided via the central bank – so illicit financial flows were relatively infrequent.

Angola abolished Marxism-Leninism in 1990 and began to open its economy up to western advice and financial liberalisation, amid the ongoing civil war (which ended in 1992, then re-started in 1994.) Amid the military and political chaos, reports began to emerge of large-scale misappropriation of resources by a tightly knit elite of perhaps 1-200 families dominant in the Angolan economy and political system.[2] The first reports to gain widespread international attention – linking the oil and diamond industries with war and corruption – were two reports by Global Witness in 1999[3] and 2002.[4]

Angola

Angola's war ended almost immediately after government forces hunted down and killed Savimbi in eastern Angola in 2002. This was followed by a 12 year period of high economic growth, amid a fortuitous combination of post-war reconstruction, rising oil production, and high oil prices. This 'golden decade' (or so) was followed by a global oil price crash, which savagely curtailed government and private sector spending, and left a legacy of half-finished skyscrapers on the skyline of the capital Luanda. Oil production is now in a state of gradual decline, and even if new deep-water oil discoveries were to be made, they would take many years to bring into production.

Resource curse

As well as having emerged as a poster child for oil-fueled corruption, Angola has also been an emblem for the "Resource Curse" that strikes many mineral-rich countries. The Resource Curse has a 'weak' version – where countries rich in minerals like oil fail to harness their wealth effectively for national development – and a 'strong' version, where mineral wealth appears to have paradoxically made some countries even poorer, more conflicted, more unequal, more corrupt, more authoritarian and more economically and politically unstable than their resource-poor peers. The dominant sector also tends to crowd out other sectors such as manufacturing and agriculture, through "Dutch Disease" and other effects, and it also tends to create a 'brain drain' of the best educated and most talented people out of other economic sectors, out of government and out of civil society, harming them all.

During the long Angolan civil war, whose motivations and resources were substantially fueled by oil (and diamonds, its second-largest export sector), there can be no doubt that the country was suffering from a strong version of the curse. In the ensuing peace, however, it is less clear whether Angola was simply a victim of kleptocracy and the theft of state resources, or something even more damaging.

One striking comparison illustrates how the period of post-war reconstruction has failed to move the needle significantly on Angola's export sector.

Angola: composition of exports[5]

Exports $bn (nominal)	1992-1996	2010-2014
Crude oil and refined products	17.5	309
Diamonds	0.8	6
Oil and diamonds as % of total exports	99.4	99.6
Total exports	18.5	1

In other words, despite the new era of peace and an estimated $530 billion in (nominal) export revenues during the 2002-2014 'golden age', bringing in an estimated $300 billion in state revenues,[6] the country does not appear to have been very successful in 'sowing' its oil for national development.

This failure has many causes, as discussed above, but the most interesting from our perspective involves capital flight and illicit financial flows.

Capital Flight from Angola, and the offshore system

The bountiful years from 2002-2014 were also an episode of rising hidden outflows of money. According to latest estimates, Angola suffered a cumulative $60 billion dollars in measured capital flight over the 1986-2018 period, in constant 2015 dollars.[7] Of this, trade misinvoicing accounted for around $53 billion.

These methodologies have limitations, in that various financial flows outside the country could be constituted as representing 'looted capital' being taken outside the country and stashed in secrecy overseas, but not necessarily measured or fully measured in standard measures of capital flight.

For example, the national oil company Sonangol was for many years a 'state within a state' controlled from the presidency, an island of relative efficiency carved out from the chaos of the rest of the Angolan economy. Sonangol was allowed to oversee large financial flows which bypassed the Angolan payments system and central bank entirely. These 'missing billions', as they have been described,[8] were lost from public view but not necessarily always looted: in many cases, Sonangol was used as a service delivery mechanism, since it was far more efficient than the line ministries in delivering and executing priority government projects (these projects went far beyond the oil sector and led to Sonangol becoming involved in a wide array of economic activities).[9] These lines of spending (and borrowing), sometimes involving bank accounts held directly by Sonangol instead of by the central bank, and debts not reflected in fiscal or balance-of-payments accounts, would be substantially outside the scope of standard capital flight measures, which tend to take central bank data and balance of payments data as a starting point.

Another illustrative example of Angola's insertion into the global economy involves a highly complex deal in 1996 to restructure $5 billion in Angolan debts to the former Soviet Union, involving a complex array of banks, law firms, shell companies, commodity trading firms and middlemen, which derived large profits from the operation, at the expense of both the Angolan and the Russian treasuries. The deal involved Angola's $5 billion Soviet-era debts being renegotiated down to an agreed $1.5 billion, then the repayments and interest on that $1.5 billion being paid by Sonangol to Abalone, a shell company in the Isle of Man with bank accounts in Geneva. This then became the conduit for money to a dizzying array of shell companies in tax havens all around the world, including several owned by President dos Santos himself or by members of his tight political circle. The most significant and common secrecy jurisdictions in this case were Cyprus, Panama, the Isle of Man, Switzerland, Israel, the Netherlands and Luxembourg. As a landmark report on the episode put it:

> "These and other similar locations are crucial to the operation of international criminality on a grand scale." [10]

More recently, the "Luanda Leaks" revelations provided another example of Angola's deep insertion into the world of global secrecy jurisdictions. This set of reports, co-ordinated by the International Consortium of Investigative Journalists (ICIJ) and reported by newspapers around the world from January 2020, investigated the complex finances of Isabel dos Santos, the oldest daughter of President dos Santos, who is reckoned to have been Africa's richest woman after acquiring powerful stakes in a large number of lucrative companies operating across Angola's economy, from construction to retail to telecommunications to hospitality. The ICIJ identified more than 400 companies controlled by Ms. Dos Santos or her husband, Sindika Dokolo. While more than half of those were either in Angola or Portugal (where Isabel spent much of her time), a large number were also in recognised secrecy jurisdictions or tax havens, including the 32 in the Netherlands, 14 in Malta, 13 in Madeira, 10 in the United Arab Emirates (principally Dubai,) eight in each of the British Virgin Islands and Mauritius, along with Switzerland, Luxembourg and Hong Kong, which hosted 5, 4 and 4 companies respectively.[11]

Conclusions can be drawn from these (and other) Angolan case studies about the international ecosystem of secrecy jurisdictions or tax havens.

As a forthcoming study will suggest, many episodes of capital flight or illicit financial flows from Angola involve what might be called "Transnational Networks of Plunder" – closely networked groups of Angolan and (mostly western) foreign individuals and institutions dedicated to handling and profiting from a particular part of Angolan official and private revenue flows, generally to the detriment of state budgets.

Western advisory firms, notably Big Four accounting firms like PwC, or consulting firms like McKinsey & Co., should not be regarded as impartial providers of technocratic expertise in the service of national development, but instead, in the words of leading Portuguese academic Ricardo Soares de Oliveira, as "all-purpose providers of whatever these elites are trying to do […] They have no moral status — they are what you make of them."[12] These firms, especially the Big Four accounting firms, are also heavily involved in designing and constructing the legislation of offshore tax havens. While banks are generally subjected to quite heavy regulation, these advisory and consultancy firms are generally far less well regulated.

Endnotes

1 Perhaps the best account of this era is found in "*Magnificent and Beggar Land: Angola Since the Civil War*," Ricardo Soares de Oliveira (Hurst and Oxford University Press US, 2015).

2 A senior Angolan central bank official told a researcher in 2009 that "about 85 % of Angolan credit goes to two hundred or so clients." From an early draft of 'Para Ingles ver, 'The Political Economy of Banking Regulation in Angola,' Rebecca Engebretsen and Ricardo Soares de Oliveira, University of Oxford, in "The Political Economy of Bank Regulation in Developing Countries: Risk and Reputation," ed. Emily Jones, Oxford University Press, forthcoming. This number would have been smaller in the 1990s: a TJN staffer who lived in Angola from 1993-1995 recalls talk of the "hundred families" that dominate the Angolan economy.

3 https://www.globalwitness.org/en/archive/crude-awakening/; 19.02.2020.

4 https://www.globalwitness.org/en/archive/all-presidents-men/; 19.02.2020.

5 From an early draft of *Angola: Oil and Capital Flight,* Nicholas Shaxson, chapter in *Capital Flight from Africa: The Cases of Angola, Côte d'Ivoire and South Africa*, edited by James K. Boyce and Léonce Ndikumana, forthcoming.

6 Ibid. These export and revenue estimates were compiled from successive IMF reports.

7 Magnitude and Mechanisms of Capital Flight from Angola, Côte d'Ivoire and South Africa, Leonce Ndikumana, James K. Boyce, Political Economy Research Institute (PERI,) Dec 20, 2018. (Note that capital flight is a subset of another widely used term, 'illicit financial flows.' All capital flight is illicit, though not all illicit financial flows are capital flight. For example, some illicitly acquired funds may be shifted abroad through officially recorded transfer mechanisms, in which case they would not count as capital flight according to conventional definitions.)

8 See, for instance, "Angola's Missing Billions," CBS News, Jan 13, 2004.

9 For a detailed description of this, see "Business success, Angola-style : postcolonial politics and the rise and rise of Sonangol, Ricardo Soares de Oliveira, Journal of Modern African Studies, 45, 4 (2007), pp. 595–619.

10 Widely reported. The most comprehensive account is provided in *Deception in High Place: the corrupt Angola-Russia Debt Deal*, Corruption Watch UK / Associação Mãos Livres, 2013.

11 Calculations in an early draft of *Angola: Oil and Capital Flight,* Nicholas Shaxson, Political Economy Research Institute, University of Massachusetts Amherst, forthcoming.

12 See "How U.S. Firms Helped Africa's Richest Woman Exploit Her Country's Wealth," Michael Forsythe, Kyra Gurney, Scilla Alecci and Ben Hallman, New York Times, Jan. 19, 2020.

ANGOLA

PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

60	1. Banking Secrecy
25	2. Trust and Foundations Register
100	3. Recorded Company Ownership
50	4. Other Wealth Ownership
100	5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

100	6. Public Company Ownership
100	7. Public Company Accounts
100	8. Country-by-Country Reporting
100	9. Corporate Tax Disclosure
100	10. Legal Entity Identifier

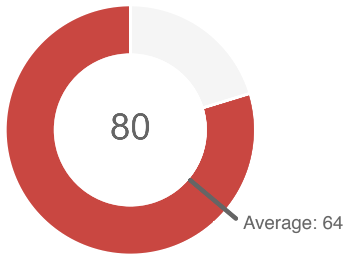
INTEGRITY OF TAX AND FINANCIAL REGULATION

75	11. Tax Administration Capacity
38	12. Consistent Personal Income Tax
100	13. Avoids Promoting Tax Evasion
100	14. Tax Court Secrecy
50	15. Harmful Structures
70	16. Public Statistics

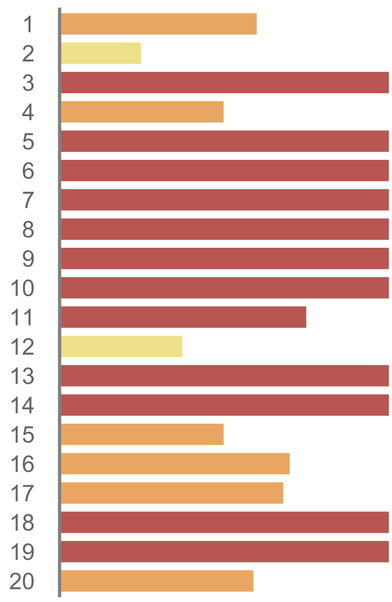
INTERNATIONAL STANDARDS AND COOPERATION

68	17. Anti-Money Laundering
100	18. Automatic Information Exchange
100	19. Bilateral Treaties
59	20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click here to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: http://www.financialsecrecyindex.com/database.

To find out more about the Financial Secrecy Index, please visit http://www.financialsecrecyindex.com.