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**A LAND CURSED BY ITS WEALTH?
ANGOLA'S WAR ECONOMY 1975-99**

Philippe Le Billon

October 1999

UNU World Institute for
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(UNU/WIDER)

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A Land Cursed by Its Wealth?

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List of Acronyms

bd.	barrels per day
BWI	Bretton Woods Institutions
FLEC	Liberation Front of the Enclave of Cabinda
FLNA	National Liberation Front of Angola
GDP	Gross Domestic Product
GNP	Gross National Product
MPLA	People's Movement for the Liberation of Angola
UN	United Nations
UNITA	National Union for the Total Independence of Angola

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Abstract

In Angola, the availability of two abundant resources (oil and diamonds) has prolonged the conflict beyond its Cold War context. The geography and political economy of these resources were crucial to the course taken by the conflict. Matching the regional and ethnic differentiation articulated by party leaders for political ends as well as the military strategies of belligerents, these resources not only fuelled the Angolan conflict but aggravated its consequences by drastically reducing productive economic activities as well as government efficiency and popularity. The conjunction of politics, geography, and military strategies sustained - and was sustained by - financial flows redirected from peace and reconstruction towards war and self-interest. These dynamics have been facilitated by the corporate sector as industries and markets were to a large extent sheltered from the direct impact of the conflict and its ethical dimensions. The contrasting situation of Mozambique highlights in this regard the importance of political accountability of resource and capital flows. The paper stresses the significance of the geographical dimensions of conflicts and calls for greater corporate responsibility during wartime and transition to peace.

I Introduction

Angola's mineral wealth and its investment in the pursuit of war is no doubt a factor in discouraging donors to contribute to UN appeals... There is however, a shocking discrepancy between Angola's potential wealth and the state of the vast majority of its inhabitants. In the 1999 Human Development Report Angola fell four places from 1998 to number 160 out of 174 nations surveyed in the UN human development index. Potentially one of the richest countries in the Southern Hemisphere, it is now among the 15 poorest countries on earth.

Sergio Vieira de Mello, United Nation's Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator¹

With the issues of environment and conflict high on the international agenda, the environmental dimension of conflict is receiving growing attention and the view that resource scarcity increases the likelihood of conflict is now common (Homer-Dixon, 1994; WCED 1987). However, more recently an equally strong view has emerged arguing that an abundance of natural resources increases the likelihood of conflict (Collier and Hoeffler, 1999; Fairhead, 1999; Keen, 1998). Clearly a great deal of analysis is going to be required to identify the complex relationship between resources and conflict. Different disciplines - political science, economics, geography, and anthropology - offer different perspectives, and each has its strength and weaknesses as a way of understanding conflict and its complex relationship with natural resources. Despite geography's traditional focus on relations between societies and nature, geographers have been somewhat reluctant to involve themselves in contemporary debates over violent conflict and its causes.² But, as this paper will argue using the case of Angola, the spatial distribution of resources and population can be critical in understanding why conflict occurs and why peace can remain so elusive. Thus geography as a discipline is as essential to the understanding of conflict as political science and economics.

Angola has been an integral part of the global economy for five hundred years, and the demands placed on its wealth have evolved over time. Slavery plundered Angola of its people and shipped them to Brazil's plantations. Colonialism expropriated Angola's fertile lands to provide an agricultural surplus for Portugal and an outlet for its impoverished population. The industrial economy of the twentieth and the spread of luxury consumption provided a demand for Angola's oil and diamonds which fuelled four decades of war. Angola is a land cursed by its wealth.

Wealth is of course not the only driving force in the history of conflict in Angola. Colonialism was opposed, *in itself*, by the local population, in particular by the Bakongo population in the north (Pélissier, 1977). Moreover, during and after the independence struggle, Angolan political parties and their leaders pursued a hegemonic agenda resulting in violent opposition and internecine conflicts (Kwamba and al., 1999). Since independence, the MPLA Government faced considerable problems to assert its sovereignty and legitimacy. A deep distrust between the two contending parties, the MPLA and UNITA, has undermined two peace processes based on consensus and accommodation. On one side, the head of UNITA, Jonas Savimbi, is said to be unwilling to stop fighting until he is Head of State. On the other, the MPLA now appears determined to conduct a total and final war against UNITA, excluding all possibilities of negotiation.

¹ (IRIN, 24 August 1999).

² This was partly a consequence of the environmental and social determinism that permeated classical geopolitics and served as an ideological foundation for Hitler's regime (Agnew and Corbridge, 1995).

Yet, to understand Angola's repeated failure to move out from war, we must understand the geography and political economy of its abundant resources. Indeed, abundant resources often constitute the *prize* for controlling the state as resource rents provide political leaders with the classic means for staying in power by rewarding followers and punishing opponents (Bates, 1983; Bryant and Parnwell, 1996). Countries richly endowed tend to have factional governments serving sectional interests. Abundant resources allow an elite to dispense with popular legitimacy - if it so chooses - and to rule by using rents to reward a restricted circle of followers and to finance a repressive security apparatus (Wintrobe, 1998). Such rulers have less incentive to develop a diversified economy (which may give rise to alternative sources of economic and political power), and accordingly such economies remain untransformed. This leaves little scope for accumulating wealth and status through entrepreneurship, and political violence becomes the main route to wealth and power outside state patronage. The wealth generated by resource exploitation also allows the ruling elite to dissociate itself from popular legitimacy by: eliminating the need for broad-based taxation of a diversified formal economy; financing a repressive security apparatus; and rewarding a close circle of supporters. The gap between the government and the governed therefore increases, except in the case of a benevolent government. Even if not overtly predatory, benevolent governments 'must manage contests for resource rents ... and trade off a coherent economic policy that maximizes long-run welfare against the management of social tension' (Auty and Gelb, 1999). In many countries, this results in inefficient investment and low growth, fuelling in turn social tensions and heightening the likelihood of conflict.

We start by examining Angola's predicament and the nature of the war economy and its geographical dimensions, before analysing in detail the role of oil and diamond wealth in section three. Section four compares Angola and Mozambique - a former Portuguese colony with less natural wealth - and discusses the role of outsiders. This comparison highlights the political significance of aid inflows versus private capital inflows in driving countries towards peace or back to war. The paper concludes by re-emphasising the importance of geography to the understanding of conflict.

II Angola: wealth and despair

Most of the current literature on Angola starts with a paragraph on the 'great economic potential' of this country 'blessed by the wealth of its natural resource endowment' (McCormick, 1994, Hare, 1998). Many continue by pointing out the stark contrast that exists between this wealth and the despair of most Angolans (Munslow, 1999).

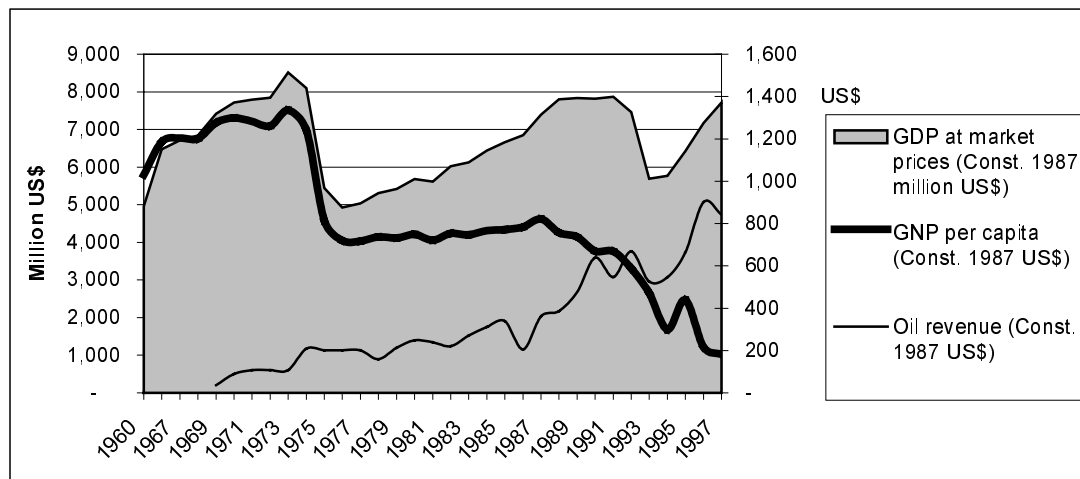
Indeed, since the beginning of a war of independence against the Portuguese regime in 1961, Angola has known little respite. At independence in 1975, the three competing nationalist parties fought each other with the support of foreign allies.³ A lasting political and military stalemate fuelled the war as western powers and South Africa backed UNITA in its attempts to topple the Soviet and Cuban backed MPLA Government. The end of the Cold War and South Africa's regional disengagement provided an opportunity for peace and led to the

³ The nationalist movements were: the FNLA, with an ethnic base of Bakongo located in the north and in Zaire and initially attempting to recreate the former Kongo kingdom through secession before demanding a national independence; the MPLA, a socialist movement without a definite ethnic base but a strong affiliation with urban populations defining an Mbundu and *mestiços* identity; and the UNITA, with an ethnic base of Ovimbundu and politically a 'one man show', that of Jonas Savimbi. Furthermore, an insurrectional movement in Cabinda, the FLEC, emerged in the early 1960s.

Bicesse peace agreement in 1991. But hopes were dashed when UNITA resumed the war after refusing to acknowledge its electoral defeat in 1992 (Anstee, 1996). The ensuing two years of warfare led to more devastation than three decades of the independence struggle and Cold War conflict; the bush war – *guerra do mato* – turned into a war for control of the cities – *guerra das cidades* (Human Rights Watch, 1994; United Nations, 1996). As the country fell back to war for a second time at the end of 1998 following the failure of a new peace process initiated by the Lusaka Protocol in 1994, Angola found its place among the most stunning failures of conflict prevention in the 1990s.

Some 130,000 people died as a direct result of the war over the period 1975-1994, with many more casualties resulting from the collapse of food security and health services (UNICEF, 1999). The general situation for the population had improved during the 1980s as great efforts were placed on providing education and health for all. Since the early 1990s, the situation has deteriorated, and Angola now ranks 160 out of 174 on the human development index (UNDP, 1999). Poverty is widespread, with 60.8% of households living below the poverty line (US\$40 per month) and 11.6% living in extreme poverty (US\$14 per month).⁴ In its latest consolidated appeal, the United Nations estimated the number of war-affected persons at 3.7 million, a third of the population (OCHA, 1999). Of these, 1.5 million have been internally displaced and 330,000 have fled the country. The collapse of basic services has hit hard the general population: life expectancy at birth is 42 years; under-five child mortality is 29.2% (the third highest in the world); maternal mortality rate is 15%; access to safe water is 32% and to health care 24%; and adult literacy rate is 42% (UNICEF, 1999). While the GDP of Angola has recovered from its sharp collapse at independence, the economy has become overwhelmingly dominated by the oil sector and the GNP per capita has dropped (see Figure 1).

Figure 1 - Evolution of GDP, GNP per capita, and oil revenue (1960 - 1997)



Source: EIU, World Bank (1999a)

2.1 The colonial political economy of resources

From the 15th century onwards, the Portuguese created a patchwork of coastal towns, state controlled corridors and private militarised concessions to exploit the resources of the hinterland (Sidaway and Simon, 1993). The first ‘endowment’ to be exploited was Angola’s large human population - sustained by the country’s favourable agricultural situation - and its

⁴ These figures are based on a survey of 5,783 households in urban areas. A survey of rural areas, in Kwanza Sul, estimated the percentages at 82% for poverty and 33% for extreme poverty (IMF, 1997).

relative geographical proximity to Portugal's main colony, Brazil. The Portuguese and Creole class 'exported' between four and seven million Angolans until the official end of slavery in 1878. This trade had different impact in the interior, between raiding communities and raided ones, but it established a predatory and alien relation between the populations of the coastal towns and that of the hinterland (Clarence-Smith, 1979). Slavery was replaced by the use of forced labour by Portuguese settlers to develop the country's considerable agricultural potential, with Angola becoming the world's fourth largest producer of coffee by the 1960s (de Andrade and Ollivier, 1975). With commercial discoveries of diamonds in 1912 and oil in 1955, the contest concentrated on Angola's mineral wealth (Bender, 1978).

By the early 1970s, Angola had a diversified settler economy based on a regime that privileged Portuguese migrants (around 350,000 in 1973) as well as *mestiços*, and *assimilados* - most of them Mbundu or migrants from other African Portuguese colonies (de Andrade and Ollivier, 1975; Somerville, 1997). Centred on coffee production and diamond exploitation (respectively 35% and 14% of exports in 1960), this economy included a small protected manufacturing sector serving the needs of settlers. While Angola provided an agricultural surplus to the Portuguese Empire, and successfully absorbed mostly poor Portuguese migrants, the country's economic potential was never fully realised since much of the population was left outside the modern sectors. The regime also neglected to develop infrastructure, redistribute wealth and provide public services to the broader population (Bender, 1978; Pereira da Silva and Solimano, 1999). In turn, the educational and income gap between ethnic groups together with political repression helped to shape the nationalist movements and provided legitimacy for their claims to power, and their resort to the armed struggle (Guimaraes, 1998). As noted by Campbell (1996: 4), "the long experience of the disarticulation of the economy and the regional differentiation provide firm grounds for politicians" who seek to rally supporters. UNITA, in particular, exploited this justification by claiming a following among the disadvantaged Ovimbundu group of the central hinterland - the single largest ethnic group (de Sousa et al. 1999).

The transition to independence that followed the Portuguese revolution of 1974 was abrupt and extremely costly for the Angolan economy (Macqueen, 1997). Not only was infrastructure damaged by the colonial war, but the vast majority of Portuguese settlers precipitously left the country, taking a large amount of assets (Figs, 1996). This departure drained the economy and administration of its skilled labour force and GDP collapsed by 43% between 1973 and 1977 (a 55% decline for non-oil GDP). All sectors were affected, with the exception of the oil sector. Much of the remaining activities were concentrated in the capital, Luanda, as commercial agricultural production slumped.

2.2 Angola's dual war economy

The dualistic nature of the colonial economy was exacerbated by the decolonisation process and turned into a caricature of itself by the war: the enclave of Luanda sustained by oil financed imports, versus a hinterland underdeveloped by warfare and economic isolation. The departure of Portuguese had sharply increased the vulnerability of Angola's economy to war due to the low average level of income of the remaining population, the fall in flexibility of the economy, the dependence on imports for essential commodities and on oil for financing them.⁵ However, conjuncturally, the economy benefited from the oil price boom. Structurally, the main positive characteristic was the high level of subsistence production among the population. Yet, as war intensified in the countryside a growing proportion of the

⁵ For a general analysis of the economic consequences of conflict, see (Stewart and FitzGerald, 1998).

population left subsistence production in unsafe rural areas to become dependent on (state-controlled and informal) urban markets.

2.2.1 *The MPLA's war economy*

Victorious over its two opponents - FLNA and UNITA - the MPLA became at independence the *de-facto* Government for Angola and embarked on a process of development through state socialism that proved disastrous.⁶ Two main factors have led this failure. First, like most peripheral socialist countries (e.g. Afghanistan, Ethiopia, Mozambique, Nicaragua, Vietnam), the MPLA Government was unable to achieve political stability by resolving power and social conflicts at both a domestic and international level (Pereira da Silva and Solimano, 1999). Domestically, aside from opposing UNITA, the MPLA severely repressed a coup attempt in 1977 by reformers and independent civil organisations and remained internally divided (Chabal, 1998; Munslow, 1999). This resulted in a state of continuous oppression and warfare, with extensive foreign interference, sustained domestic politico-military opposition, and internecine party politics (Minter, 1994). Second, while the abrupt end of the colonial regime politically accelerated the transition politically, the new regime was deeply affected by the dramatic collapse of most sectors, including public administration. In contrast to other sectors, the MPLA decided *not* to nationalise the oil industry – controlled by non-Portuguese TNCs - and provided military protection to foreign companies, including US ones.

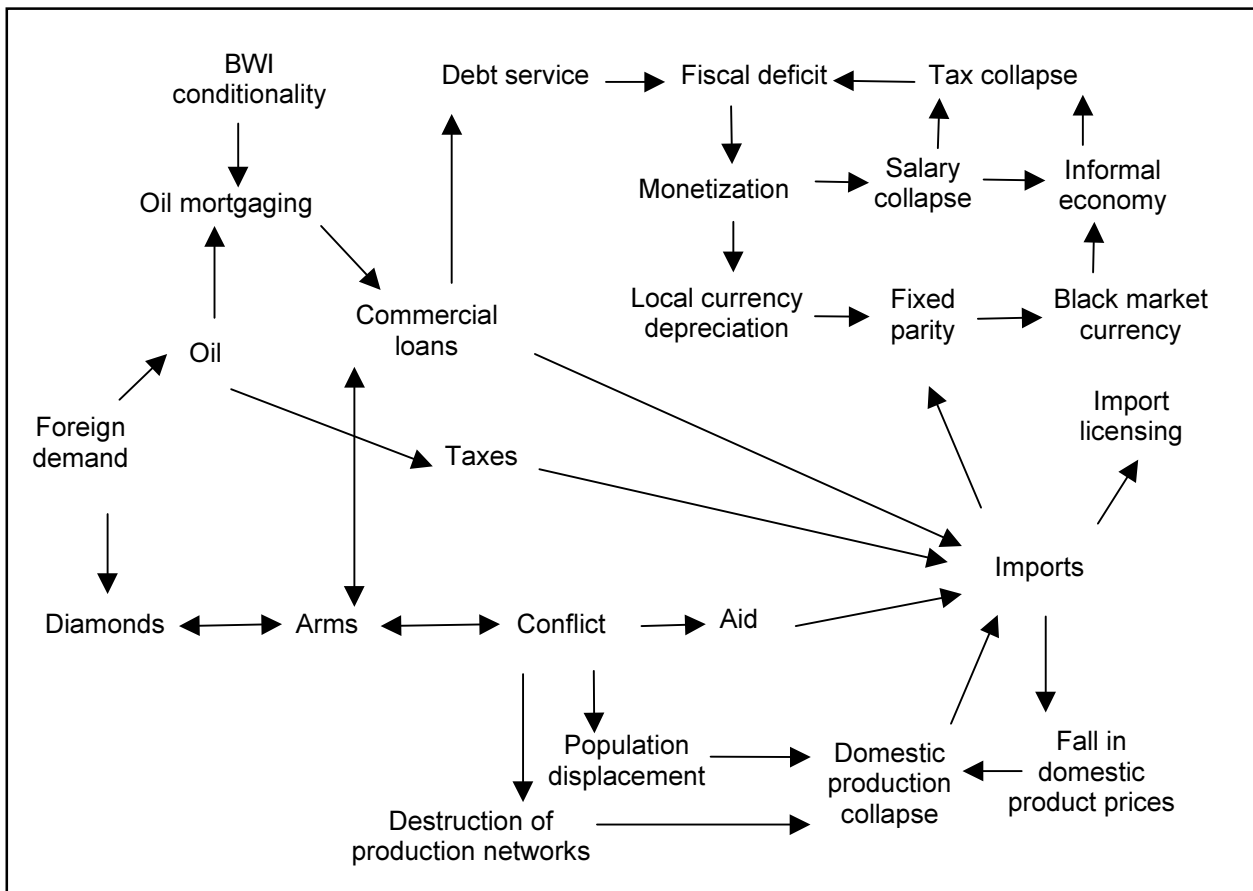
Attempts to break out of oil dependency have focused on recreating a manufacturing sector and transforming colonial agricultural estates into state farms, rather than supporting smallholder agriculture. This agricultural policy largely failed due to a lack of managerial skills, distrust of (Ovimbundu) labour, and inadequate technological inputs. Its main political consequence was to lessen Governmental legitimacy among the rural population to the (relative) benefit of UNITA (Sogge, 1994). This policy increased the vulnerability of the rural population and promoted further urbanisation – which grew from 18% in 1975 to half of the total population in 1990 (Minter, 1994). Aside from this push effect and the impact of war, the urbanisation process was accelerated by the pull effect arising out of the creation of non productive public employment and urban subsidies - in part to lower social tensions (Gelb and al., 1991).

The diversification of the mineral sectors was also relatively unsuccessful. The MPLA's control of the diamond sector was erratic, marred by internal corruption and smuggling as well as by UNITA attacks (Bhagavan, 1986; Misser and Vallée, 1997). With negative oil price shocks in the second half of the 1980s and the end of Soviet block assistance, the MPLA built a large debt (See Table 1).⁷ The overall macro-economic situation was characterised by fiscal deficits; balance of payment crisis; monetary overhang; repressed inflation; proliferation of parallel markets; and an extremely distorted structure of relative prices and wages (Pereira da Silva and Solimano, 1999). A simplified diagram of economic distortions is presented in Figure 2.

⁶ For a detailed analysis of Angolan society under MPLA governance until the mid-1980s, see (Sommerville, 1986).

⁷ The debt towards the Soviet Union amounted to US\$1.6 billion for non military and US\$4 billion for military (IMF, 1997).

Figure 2 – Diagram of economic distortions

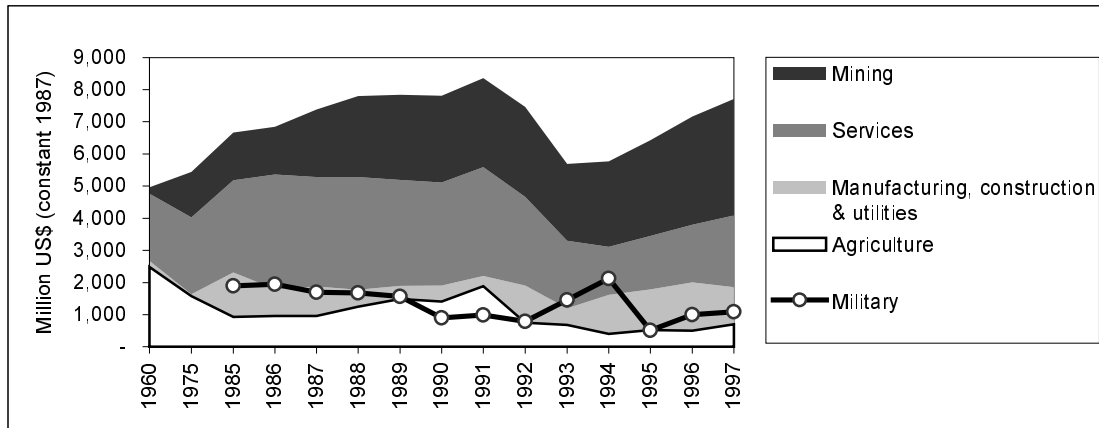


Economic reforms initiated from 1987 onwards remained tepid and resisted by powerful vested interests within the ruling elite (Hodges, 2000).⁸ The partial liberalisation of the economy reduced formal state control, but resulted in an economic redeployment of the *nomenklatura* and a rising level of corruption and a straddling of the public and private spheres (Ferreira, 1995). In this regard, Angola has demonstrated interesting parallels with Russia and the role played by natural resource abundance in the political and economic transition (Markandya and Averchenkova, 1999).

The economy has largely failed to diversify - outside of informal trading and private security services - and the oil has taken an overwhelming role in MPLA's war economy (see, Figures 3 and 7). Most notably it financed the military offensive against UNITA in late 1998 after the failure of the second peace process initiated in 1994 (Human Rights Watch, 1999). This economic trajectory has been matched by failing political reforms towards pluralist democracy. Despite a constitutional shift from single to multi-party rule in 1991 and a significant political opening for civil society, effective power has remained concentrated in the hands of the presidency (Munslow, 1999).

⁸ For a detailed analysis of reform processes, see Aguilar and al. (various).

Figure 3 - Sectoral evolution of GDP and military expenditures (1960-1997)



N.B: a large part of the services concerns the oil sector and is exogenous to the Angolan local economy.
 Source: IMF (1999), SIPRI, and World Bank (1999a).

2.2.2 UNITA's war economy

Created by Jonas Savimbi – a dissident from the FNLA - in 1966, the movement was largely clandestine and militarily inactive during the war of independence, receiving only limited foreign support (James, 1992). Failing to take control of Luanda in 1975 - despite the military intervention of South Africa - UNITA concentrated its activities in the central highlands (Minter, 1994). Aside from foreign support from western powers and South Africa, UNITA also generated its own funding by exporting diamonds, gold, timber, and ivory with the help of South African troops and foreign businessmen through mostly Namibia and Zambia, (Bridgland, 1988; James, 1992; Reeve and Ellis, 1995).⁹

A 'liberated territory' was established under South African protection in the south-east, with its headquarter (Jamba) functioning - despite its location within Angola's borders - as a quasi military and humanitarian sanctuary (Bridgland, 1988).¹⁰ UNITA troops and 'supporters' were consolidated mainly through forced recruitment among local populations, including children (Minter, 1994). The local population was enrolled in agricultural production in parts of this 'liberated' territory. Outside these areas, UNITA troops extorted taxes and destroyed infrastructure to deny assets to the Government. The destruction of infrastructure and economic activities in Government areas also extended towards the north as the independence of Namibia in 1990 ended most land-based support from South Africa. With the relative peace provided by the Bicesse accords, commercial activities further increased, as did humanitarian and development assistance received by UNITA in its 'liberated zones' inside the country. This strong presence in the northern part of the country greatly facilitated its military near take over in 1992-1993 and to shift its battlefields from bush to urban warfare.

UNITA's military offensive in 1992 put close to 70% of the country, including key diamond mines, important provincial cities and on-shore oil fields in Soyo. UNITA did not receive official foreign military assistance - other than that of Zaire - but it had rearmed during the peace process. During the course of the conflict, Unita was also able to divert international

⁹ Despite the Lusaka accord of 1984, UNITA continued to receive financial and military assistance by the RSA (James, 1992). UNITA was also directly assisted financially and military by the US administration after the repeal of the Clark Amendment by Congress in mid-1985, with assistance reportedly increasing from US\$15 million to US\$40-60 million between 1989-1991 (James, 1992; Minter, 1994).

¹⁰ For an analysis of military and humanitarian sanctuaries, see (Rufin, 1996).

aid and capture a large part of the diamond production (Maier, 1996). The UN arms and petroleum embargo declared in September 1993 had little effect, but the military situation was reversed by a intensive military effort by the MPLA and mercenaries (Human Rights watch, 1994). While diamond revenue started to dwindle, Human Rights Watch (1999) suggests that overseas financial assets built in the past might be able to sustain the movement. The quartering of soldiers demanded by the Lusaka Protocol 1994 provided a means of subsistence for some UNITA troops remaining under military command (Brittain, 1998).

With few, if any, foreign allies, diminishing control over diamond resources, and a tightening of sanctions – which extended to the freezing of financial assets, diamond trade, international travel and representation – UNITA found itself increasingly isolated. The resumption of large-scale conflict in late 1998 – at the initiative of the Government – offered a way forward for UNITA by enabling it to re-mobilise its troops and conduct a counter-offensive. Yet, UNITA is now loosing ground. A radicalisation of the movement - due to the dissidence or defection of many moderates as well as its loss of resources - could result in an even more brutal control of the population (thus following the route pursued by RENAMO in Mozambique).

2.2.3 The geography of the war economy

A glance at Map 1 in annex - representing Government controlled areas, population density, and location of resources - provides a clear view of how the dual economy has developed since the mid-1970s. Cut off from the main urban centres and export markets on the coast by the departure of Portuguese traders, the destruction of transport infrastructure, and pervading insecurity, the agricultural sector in the hinterland has turned into a wasteland. In turn, the main cities are overcrowded and mostly sustained by imports.

The relative duality of population distribution, between Luanda and the central Highlands, has been reinforced by the war. In remote provinces, the population has been concentrated and circumscribed in mostly government-controlled cities interlinked by costly air transport, resulting in a further fragmentation of the economic fabric of the country. At a political level, the two groups competing for power reflected this duality. Beyond the dividing context of the Cold War, the MPLA elite in Luanda or abroad prospered from the rent of the oil enclave and the support of private lenders, while in the hinterland UNITA sustained its bid for power from diamonds and predation on the population.

III The role of oil and diamonds

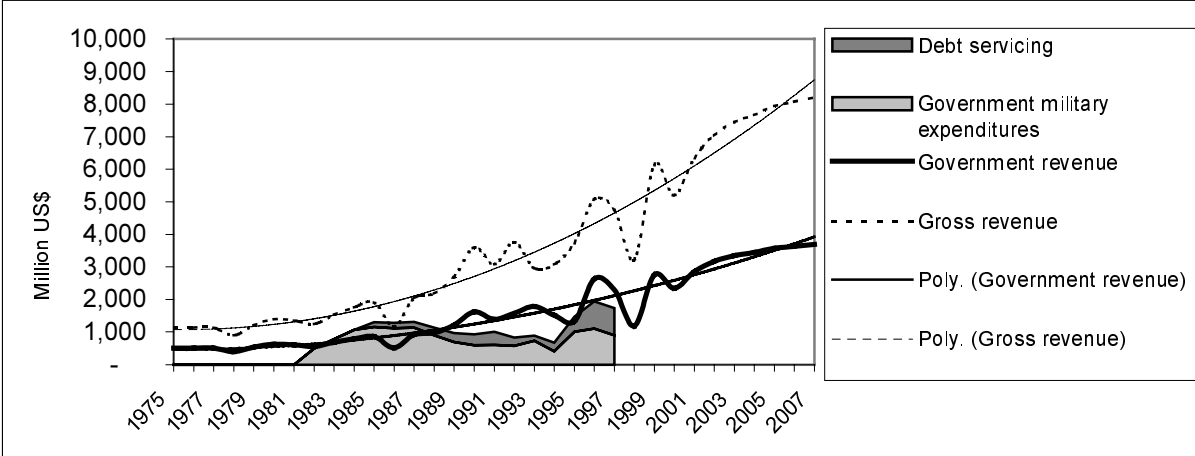
Oil and diamonds have been the key resources of Angola's war economy since the mid-1970s. The role of each of them in the course of the conflict is examined in turn.

3.1 The oil sector

Providing over 90% of official exports and 80% of Government revenue in the 1990s, the oil sector is the key resource of the Angolan economy and the Government (IMF, 1999). This dominance is not unusual for oil economies. Yet, the country had much potential for achieving a diversified economy (Hodges, 1993; McCormick, 1994; World Bank 1991). In the context of a continuous state of war, the MPLA had to rely on an enclave 'offshore economy' based on the oil rent and financing arms and food imports for a growing urban population of refugees. The quadrupling of oil prices in late 1973 further favoured this

option, which became structurally embedded as the oil windfall was sustained until 1986 and the continuation of the conflict and ineffective policies prevented a broad-based ‘on-shore’ economy. With a level of production of about 800,000 barrels per day (bd.) - only second to Nigeria in Sub-Saharan Africa - and huge new finds that should allow Angola to produce 2.5 million bd. by 2015, Angolan oil is also an important resource for many international oil companies and importing countries.¹¹ Despite generating more than US\$4.5 billion in gross revenue, this sector has remained an enclave - both geographically and financially - with few direct ties to the Angolan society.

Figure 4 – Evolution of the oil gross and government revenues (1975-2007)



NB: oil price fixed at US\$15/barrel for 2000-2007 estimates. Source: IMF (1999), Hodges (2000), and industry sources.

Geographically, the oil sector is located almost exclusively offshore and thus is out of the reach of UNITA attacks.¹² The importance of this factor was demonstrated by UNITA's destruction, in 1993, of the only vulnerable on-shore wells, located in Soyo. While damage to infrastructure was considerable UNITA's tactical victory did not represent a decisive turn in the conflict as only a small proportion of output was lost.¹³ The oil sector represents not only an enclave economy but also an ‘economic sanctuary’ for the Government. The Mobutu regime in former Zaire (now the Democratic Republic of Congo, DRC) has not benefited from such geographical advantage. Most of the DRC's mineral resources are located inland and at great distance from the capital (i.e. southern central and eastern regions). Foreign companies rapidly backed the rebel movement when it had gained control of eastern Zaire (including key exploitation sites) and its leader, Laurent Kabila offered future concession contracts and demanded that companies review their contracts with Mobutu.¹⁴

Financially, the oil sector has few *direct* linkages, other than fiscal, with the rest of the Angolan economy.¹⁵ The allocation of the oil rent by the Government is thus crucial to the

¹¹ The US imports more than 7% of its oil from Angola and this should double by 2000 (cited in IRIN bulletin, 22 October 1999).

¹² The Institute for Strategic Studies reported UNITA's purchase of Mig-23 and missiles with a capacity to reach offshore platforms, but has not been confirmed.

¹³ The Government recruited a ‘private army’ (Executive Outcomes) to recapture the area on the suggestion – and partnership – of Heritage Oil, a US based company, reportedly by an concession managed by Ranger Oil (Reno, 1997; Shearer, 1998).

¹⁴ Earnings are estimated at US\$300 million (Balencie and de la Grange, 1999).

¹⁵ The oil sector is capital intensive with very limited employment linkages. Less than 10,000 Angolans work in this sector; half of these being employed by the state company Sonangol. The provision of services is also highly

overall economy and the welfare of the population. As the oil rent has been mostly used to sustain the war effort and to subsidise the lifestyle of the ‘oil *nomenklatura*’ – with an increasingly tenuous support for social services and basic goods imports for the population (see Table 1). Rather than mitigating the impact of the war and consolidating state governance, the oil revenue has reinforced economic distortions and undermined popular support for the Government (Savoye, 1997).

The main beneficiary of the oil rent has been the military apparatus. Sustained combat against well-equipped South African and UNITA armies has led to the construction of a capital intensive war machine and placed the army (FAPLA) at the centre of Angola’s political economy (Campbell, 1996). This war machine was built with assistance from the Soviet block, including 50,000 Cuban troops.¹⁶ This relation has been protracted beyond the Cold War. Since the failure of the peace process in late 1992, the MPLA has imported close to US\$5 billion in arms, mostly in 1993 and 1994 (Human Rights Watch, 1994 and 1999). The security of the regime has even crossed national boundaries, through military interventions in Congo Brazzaville and DRC since 1997 (Gordon and French, 1997). Military expenditures, have been paid through public budget allocation; oil-collaterised short term commercial loans passed directly through Sonangol; and signature bonuses from oil concessions (see Table 2). These procurement contracts provide considerable corruption opportunities (McGreal, 1999). With the fall of oil prices in 1998 the Government faced a financial crisis at the time it was launching a new military campaign. The oil price recovery in 1999, signature bonuses amounting to US\$870 million for oil concessions, and the re-arrangement of a half billion US\$ loan by a Swiss bank have since eased the financial crisis and most of this windfall was absorbed by military spending (Human Rights Watch, 1999).

Table 1 - Oil sector in the economy and public finances

	1992	1993	1994	1995	1996	1997	1998
Value of oil production (million US\$)	3,759	2,964	3,074	3,735	5,071	4,741	3,220
Average oil price (US\$ per barrel)	19	16	15.3	16.6	20.4	18.6	12
Share of oil and LPG in GDP (%)	35.8	40.2	56.6	55.8	58.1	48.5	38.5
Government oil revenue (million US\$)	1,578	1,780	1,518	1,324	2,625	2,293	1,183
Share of oil in Government revenue (%)	75.2	81.9	88.9	87.2	89.2	82	68.5
<i>Government expenditure (% exp. + net lending)</i>							
General public services	11	18.4	21.4	19.2	13.9	17.7	n.a.
Social expenditures	22.5	20.9	8.8	13.9	9.7	13.3	n.a.
Military expenditures	21.2	24.6	33.7	31.4	35	36.3	n.a.
Unrecorded expenditures ¹⁷	n.a.	21.1	19.5	18.2	27.6	38.9	n.a.

Source: IMF (1999), Hodges (2000).

The oil rent is also distributed to the ‘oil *nomenklatura*’, a number of state and private companies and privileged sections of the population, through different mechanisms. In continuation with the practices of the former socialist state, civil servants - in particular high-ranking officials - receive personal privileges from the state or parastatal companies (Ferreira,

limited by the lack of competent Angolan firms recognised by international companies and by the fact that few companies have settled large expatriate communities.

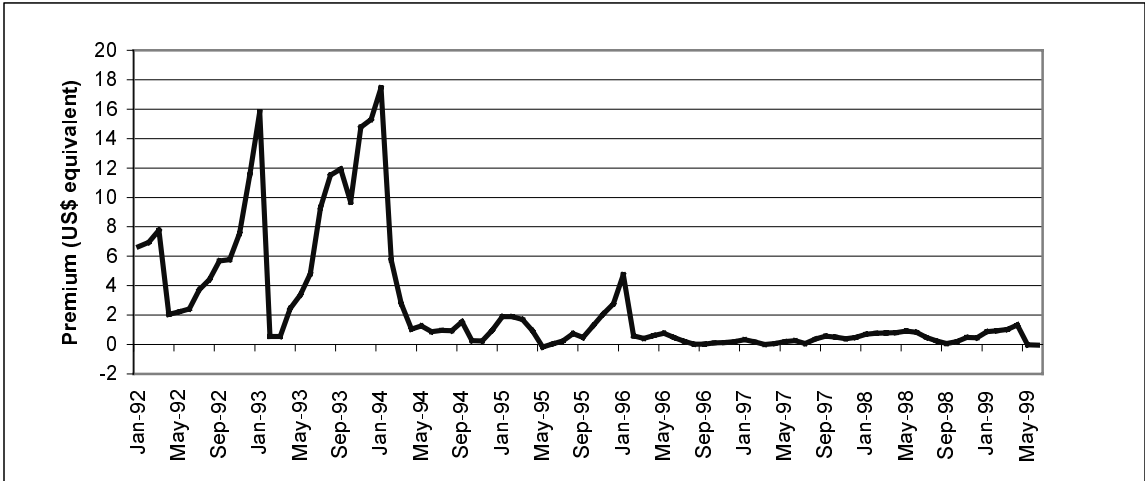
¹⁶ Ironically, a large number of Cuban soldiers were deployed to protect US oil installations while the US Government sponsored UNITA and the dollar revenues from American companies reimbursed Cuban troops and paid for Soviet weaponry (Brittain, 1998). In a similar paradox, MPLA troops protected the South African diamond company De Beers in its activities with the state company Diamang, while De Beers’ corporate taxes in South Africa helped to finance South African support to UNITA (Bridgland, 1988). As such the political economy of Angolan oil and diamonds was fully integrated into the Cold War, with its revenue benefiting both superpowers and their allies.

¹⁷ A large part of unrecorded expenditures is integrated into the estimated ‘military expenditures’.

1995; Somerville, 1986). In 1995, 36% of the education budget was allocated to overseas scholarships and US\$400 million were allocated to subsidies on petrol, electricity, municipal water, transport and housing accessible only to a privileged minority within the population (Kyle, 1998; UNICEF 1999). The bureaucracy within Sonangol (about 5,000 people) has benefited from a range of advantages, including special schools and overseas medical care, that were then deducted from the taxes paid back to the Treasury. The offices of Sonangol in London, Boston, and Liberia are reported to organise such assistance. A 1997 audit calculated that such ‘taxation leakage’ amounted to US\$180 million for the previous 15 months.¹⁸

Other mechanisms include a dual currency exchange scheme, which was terminated in May 1999. As shown in Figure 5, over the period 1992-1998, individuals and companies accessing foreign currencies at the official rate - mostly through import licences - could secure a premium of 2.9 (Glebard and Nagayasu, 1999). This overvaluation in turn contributed to import dependence, generating a ‘virtuous’ circle for its beneficiaries. Privatisation of state assets and access to subsidised loans provided by BNA ‘affiliate’ banks also provided a means for rewarding clientele (Hodges, 2000). Finally, foreign oil companies directly provide goods and services to prominent figures, which are then deducted from the companies’ tax bills in Angola. Lastly, the highest levels of Government allegedly embezzle part of the oil rent. World Bank staff estimate that in 1993 about US\$1 billion was ‘floating’ between the national accounts figures and the Government’s budget figures’ and had been allocated to a parallel military budget and to ‘transaction commissions’ (Pereira da Silva and Solimano, 1999). Since 1996, the share received by the Presidency from signature bonuses is officially set at 55%. Signature bonuses for three blocks awarded in 1999 to Exxon, Total-Fina-Elf, and BP-Amoco would thus represent about US\$480 million awarded to the Presidency, the remaining share having been supposedly attributed to Sonangol and oil producing provinces. Most of the bonuses would have in fact been allocated to military expenditures (Human Rights Watch, 1999).

Figure 5 - Evolution of the premium on dual currency exchange (1992-1999)



Source: IMF (pers. com.)

For Angola’s population, the main benefit of oil should have been better social services and more support for their livelihoods. Yet, official Government revenue from oil has been erratic (35-60% of gross revenue) and budgetary allocation non-transparent - with unrecorded expenditures reaching 30% (IMF, 1999). Social expenditures have been declining

¹⁸ Interview with Sonangol official, Luanda, July 1998.

since the early 1990s (see Table 1). This decline has been aggravated by the end of Soviet block development assistance and the rise of corruption and misallocation; resulting in a dismal level of Governmental services to the population (UNICEF, 1999). Furthermore, the supply of foreign currency at a (low) official rate to selected importers is supposed to subsidise imports of food and essential goods, in particular for the fast-growing urban population. However, in practice, food is mostly imported with foreign currency at the parallel market rate; while luxury consumption goods are imported at the subsidised rate (Aguilar, 1999). Finally, the dualism of the economy was reflected in the uneven budgetary allocation between Luanda and the provinces, the latter receiving for example only 13.5% of the executed budget in 1996 for two-third of the population (Hodges, 2000).¹⁹

While the war had a dramatic impact on many people, it is worth noting that the vast majority of the population is sheltered from the direct consequences of the war. Most of their suffering arises out from economic mismanagement and a lack of employment opportunities. Aside from subsistence agriculture, many survive from repressed informal trading; repression that is relaxed when the oil price drops in order to broaden economic opportunities and ease social tensions. In this context, rising social inequalities - resulting from rent-seeking and the 'partial and uneven movement to a market economy' - have undermined the legitimacy of Governmental rule and lowered the opportunity cost of joining UNITA (IMF, 1997: 14). This has not provided, however, a political advantage for UNITA. As a popular slogan during the 1992 elections campaign said 'MPLA steals, UNITA kills' (Maier, 1996). The MPLA has been therefore, so far, sheltered from a democratic political reversal. Yet, the ruling elite is fearful of popular uprising, especially in the capital Luanda where a third of the population is concentrated. In addition to military force, the Government has therefore established a feared – and predatory - security apparatus and has jailed some of its critics.

The statement of the UN's Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator presented in the introduction indicates the scale of 'donor fatigue' after the resumption of war in late 1998. Foreign aid was limited in the 1980s due to Angola's alignment to the Soviet bloc and the perception that it was comparatively wealthy country by African standards (see Table 2).

Table 2 - Evolution of foreign capital flows (million US\$)

Financial flows	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Grants	70	86	99	140	153	228	246	280	241	372	401	460	380
Foreign Direct Investment (net inflow)	278	234	119	131	200	-335	665	288	302	170	250	300	350
Debt variation (debt in 1985: 2,993)	n.a.	669	1,789	839	1,001	1,303	408	1,059	514	721	219	-974	-381
Short-term debt outstanding	667	262	428	388	613	989	1,298	1,929	1,881	2,170	1,962	1,176	1,275

Source: World Bank (1999b)

Aid steadily increased with the end of the Cold War and after the Lusaka protocol – receiving in 1996 US\$41 per head in grants compared to an average of US\$20 for Sub-Saharan Africa (World Bank, 1999a). However, much of this assistance was directed towards relief operations, mostly food aid, with very little directed to development aid. This focus on relief operations was not only the result of the conflict. It also reflected the low level of donor confidence in development projects following aborted peace processes, corruption and

¹⁹ The provinces do not include Cabinda, where transfers were 26 times higher than the average for all provinces due to a share on oil earnings.

economic mismanagement, failing of political and economic reforms, resources wastage in the war and ill-conceived projects, and low budgetary allocation to social services (UNICEF, 1999).

Aside from the conflict between the Government to UNITA, political movements from the enclave of Cabinda, located between Congo Brazzaville and Congo Kinshasa, have sought independence or autonomous status since at least the early 1960s. More than half of Angola's oil comes from Cabinda but this wealth has scarcely improved the welfare of Cabinda's people, thereby increasing support for separatism. An armed movement has emerged - the Liberation Front of the Cabinda Enclave (FLEC) - but internal divisions and the recent withdrawal of support from neighbouring countries have weakened the movement.

To sum up, the oil windfall has had few concrete dividends for the Angolan population. Yet, on one hand, and given the significance of the political control of the oil rent, the absence of oil may not have secured UNITA's commitment to the peace process in 1991 and respect for the electoral results. Nor would the absence of oil have guaranteed a rapid military victory by UNITA in 1992-1993 (and even less that this would have made life better for Angolans). On the other hand, the existence of oil might now help the Government to win a definite military victory over UNITA (Hodges, 2000). This perspective remains, however, tenuous and is not in itself a guarantee for improved Government management.

3.2 The diamond sector

Along with oil, the diamond sector is key to the war economy of Angola. Diamonds are found in alluvial deposits (riverbeds), necessitating relatively little input for exploitation; and Kimberlite deposits (volcano pipes), requiring a high level of investment. The world's fourth largest producer of diamonds by value, Angola with its alluvial reserves estimated at 30-140 million carats and Kimberlite reserves proved at 180 million carats is a major stake for the global diamond industry and political interests in the region (McCormick, 1994). But unlike the oil sector, diamonds have proved difficult to integrate into a formal economy controlled by the state.

While production peaked at 2.4 million carats in 1974, it dropped by 85% after independence in 1975 with the departure of the Portuguese and has since fluctuated between 46 and 1,485 thousand carats (Bhagavan, 1986; Hodges, 1993; EIU various issues). The recovery was impeded by managerial difficulties, large-scale smuggling – including by Governmental forces – and the difficulty of setting up mining operations in remote and insecure regions (Dixon, 1986). The war has also prevented the development of Kimberlite deposits, to the exception of the Catoca mine, and exploitation thus concentrates on alluvial deposits spread over a region of at least 300,000 km² in the northeastern part of the country. This geographical situation is crucial with regard to the access of UNITA to diamonds. Despite a quasi-militarisation of mining areas, the Lundas – two provinces in the Northeast where more than half of diamond production is concentrated – have earned the reputation of a 'Wild West'. The Lundas' lawlessness is related to widespread illegal digging and smuggling, and to the success of UNITA in controlling these vast and empty areas and putting pressure on Government held mines (see Map 1). Mining sites are located in areas covered by forests, bushes or savannah that protect the movements of rebels and smugglers. Large mines remain isolated, requiring expensive and vulnerable logistics (air supply or heavily armed road convoys) as well as self-defense forces (up to several hundred troops). These mines are prone to raiding, ambushes, and rackets by armed groups. Furthermore, diamond digging and smuggling can be set up by small groups and even individuals.

The geographical spread of alluvial diamonds and the prevailing state of lawlessness have led to the phenomena of fragmentation and peripheral development. Groups of diggers have operated without licensing and in defiance of MPLA and UNITA rule. Many are coming from neighbouring Zaire and Zambia, as well as South Africa. In 1994, as many as 30,000 Zairian diggers operated in the Lundas (de Boek, 1998). The Government estimated the number of illegal miners at 300,000 for 1999 (O Pensador, 1999). Diamond trade has thus evaded the country through smuggling, providing a source of wealth for local border populations, sometimes far away from political considerations. As a Zambian businessman along the border commented,

Everyone here is trading with the people across the border. As far as we are concerned it is just trade, not international politics. We have soap and vegetables to sell and they want to buy them ... The people across the border are our cousins: Angolan children cross over to come to school in Zambia, people marry, and we are from the same tribe. No one here has very much, so you cannot blame them for wanting to trade. (Duval Smith, 1998)

International trade and large profits are, however, not the preserve of 'lucky little people', but that of powerful people and corporations. Diamonds cannot be separated from politics and the conflict.

Thanks to a favourable geography and the complicity of international corporations, diamonds and diamond markets have been a source of revenue for UNITA since 1975-1979. Large scale integration of diamonds by UNITA in its war economy dates back to the mid-1980s, when UNITA reached the Lundas, in part thanks to US assistance which allowed it to set up operations from military sanctuaries in Zaire.²⁰ UNITA first concentrated its attacks on existing mines, raiding and racketing companies as well as *garimpeiros* which had been involved in illegal diamond digging and smuggling since the late 1970s. From 1983 onwards, UNITA professionalised its diamond operations, generating between US\$50,000 and US\$4 million per month in profits by 1986-87 (Bridgland, 1988). Its operations against Government mines resulted in a sharp fall in revenues for the MPLA – from US\$221 million in 1981 to US\$33 million in 1986 (McCormick, 1994). From the second half of the 1980s, commercial activities were extended to a quasi-industrial scale and commercial networks were reinforced. By the late 1980s, UNITA had greater control in northern regions direct exploited mines as well as recruited, controlled and taxed most *garimpeiros*. UNITA could thus rely on this resource after the withdrawal of US and South African supports in the early 1990s and oriented its military strategy in this sense. As acknowledged by UNITA's former chief of staff Gen. Arlindo Pena 'Ben Ben' in 1998,

Diamonds are UNITA's lifeblood. Without them UNITA wouldn't be able to maintain its options. We needed to have choices, ... [seeing] what the Government is doing now [attacking UNITA, ndr], UNITA needed to maintain military reserves so that the Government doesn't destroy us. This is the reality. (Human Rights Watch, 1999)

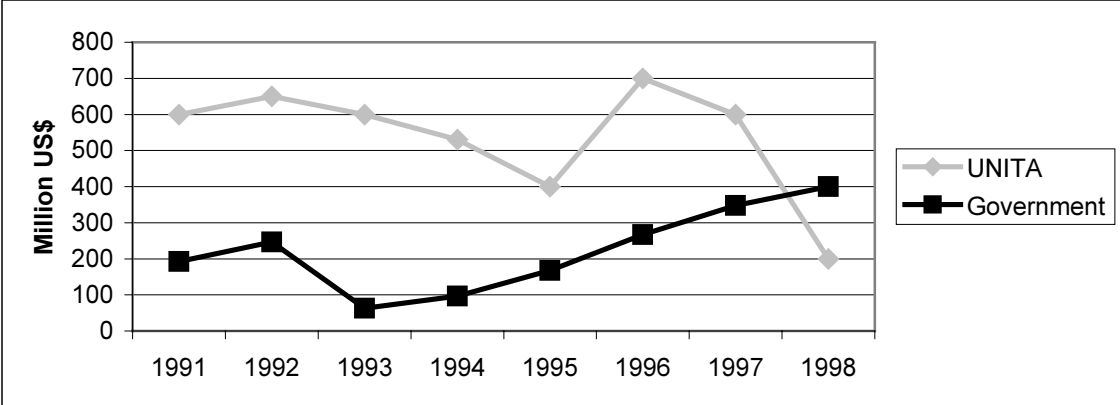
With the Bicesse accord, production rapidly increased, mostly due to the illegal mining. While the overall production fell due to the resumption of the conflict in late 1992, the share of UNITA considerably increased as the movement extended its control over vast areas and captured the main mining sites (Misser and Vallée, 1997). Even if fighting may have decreased diamond production, as resources were redirected to combat, UNITA secured a quasi-monopoly on the control of diamond exploitation until mid-1994, which attracted

²⁰ The two main diamond provinces – Lunda Norte and Lunda Sul – were part of the former Lunda Kingdom that straddled Angola and Zaire.

mining companies and traders to expand exploitation. Even accommodation with MPLA generals and officials - also involved in diamond mining - facilitated this exploitation and trade. However, with the fall of its allies in Kinshasa and Brazzaville in 1997, UNITA's diamond trade and land-based logistics were partly reoriented through Zambia. UNITA revenue from the diamond sector for the period 1992 to 1999 is estimated (probably over-estimated by at least a third) at US\$3.4 billion. As shown in Figure 6, its earnings recently fell from a peak of about US\$760 million in 1996 to less than US\$200 million in 1998 due to increased control by Governmental forces and the depletion of existing mines in the absence of new investments (Human Rights Watch, 1999).

The importance of diamonds in the conflict resulted in several initiatives attempting to formalise a sharing agreement between UNITA and the Government (Copson, 1997). While these deals failed, informal accommodation took place between local commanders. Up until January 1998, UNITA and FAA generals were reported to have stroke a 'gentlemen's agreement' on the Cuango Valley, through which each side exploited a bank of the river (Africa Confidential, 1998). Indeed, diamonds have resulted in a fragmentation and criminalisation of the conflict as military units shifted their activities from politico-military objectives to economic ones. The Government and UNITA have conducted crackdowns, including on their own military units.

Figure 6 - Value of diamonds exported through Government and UNITA control (1991-1998)



N.B.: UNITA figures might be overestimated and include all diamonds smuggled out of Angola. UNITA's earnings are estimated at 25-50%. Government figures include all diamonds officially exported, revenue is estimated at 7%. Source: Global Witness 1998, Human Rights Watch, 1999, IMF 1997, and industry sources.

Unlike for oil, peace would make a major difference to the development of the sector by bringing the capital intensive development of Kimberlite pipes. While diamonds generate between US\$500-800 million per year, the sector could generate twice as much through peacetime investments and developments. UNITA has acknowledged this opportunity by considering deals providing it a stake of the formal sector, through concessions and legalised companies.²¹ The failure of this formalisation approach has been particularly favourable to private corporations associating security provision and mineral development. This association has been articulated by a South African security firm (Executive Outcomes, EO) and a British multinational holding company (Plaza Group) in the petroleum sector through Heritage Oil, and the mining sector through Diamond Works - which is also active in Sierra Leone.²² In both cases, business ties between the Government and corporations were

²¹ In November 1996, a memorandum of understanding was signed by the Government and UNITA recognising UNITA's legally recognised holding company, 'the right to control or to participate in the exploitation of certain diamond areas' (Hare, 1998: 125).
²² Interview with Michael Grunberg, Plaza Group director, September 1999.

consolidated by the successful military assistance of EO against UNITA in 1992/96 (Howes, 1998; Shearer, 1998). Governmental offensives in general have been decisive to pressure UNITA into negotiating and relinquishing its hold on a main diamond area – the Cuango valley. Since the war started again, UNITA increased its attacks on foreign mining companies in the region to limit the gains to the Government (The Economist, 24 April 1999).

The association of private security and TNCs not only extended the sovereignty of the Government over rebel controlled resources, but was also used to extend the control of the leadership over resources that would otherwise be captured by potential rivals - local *garimpeiros* generals, Government officials and petty smugglers - benefiting from the anarchy and unaccountability resulting from the state of lawlessness (Reno, 1997). The diamond sector has indeed not only benefited UNITA and foreign companies, but also army generals and members of the MPLA elite who have acquired concessions for minimal fees before transferring the operating costs and risks to their foreign partners (Hodges, 2000).²³ As the oil sector, the diamond sector has little links with the general population. This has further undermined already weak fiscal returns from the sector; representing only US\$63 million over the period 1992-1996 - less than 2% of gross revenue of the sector and 1% of total Government revenue (IMF, 1997 and 1999).

As for oil in Cabinda, diamonds have reinforced a locally based political movement in the producing areas. The success of a regionally based party – the Partido da Renovacao Social (PRS) – in the 1992 elections has demonstrated the support of the population of the Lundas for greater autonomy and share of local resources (Somerville, 1997). The emergence of this movement gathering people from the local Lunda and Chokwe ethnic groups has not yet been associated to an armed struggle, but it clearly indicates the existence of regionalist aspirations.

To sum up, the diamond windfall has had a dramatic impact on the Angolan population. It allowed UNITA to pursue its bid for power through violent means despite electoral results and in the absence of major foreign support - with the exception of Zaire and international diamond corporations such as De Beers. The geographical conditions of access to a highly valuable resource have been a key to the course of the conflict. Indeed, if diamonds had been only available from Kimberlites or from seabed deposits (e.g. as in Botswana and Namibia respectively), the conflict in Angola may have taken a different turn when the Cold War and South African apartheid's regime ended. However, it should not be assumed that without diamond UNITA would have abided by the peace process in 1991, or lost its war against the Government. Indeed, if UNITA is now in a much weaker political and economic position than the Government, its military capacity remains significant and - even deprived of access to large diamond revenue - it could pursue its campaign.

IV The role of outsiders

With the end of direct intervention in the early 1990s, outsiders have taken a much subtler role in influencing the course of the conflict. Previously motivated by mostly geostrategic objectives, foreign powers are now focusing on commercial and humanitarian/development agendas. Oil and diamonds are now even further at the core of relations tying outsiders and insiders in the Angolan conflict. To explore further these relations a comparison of Angola

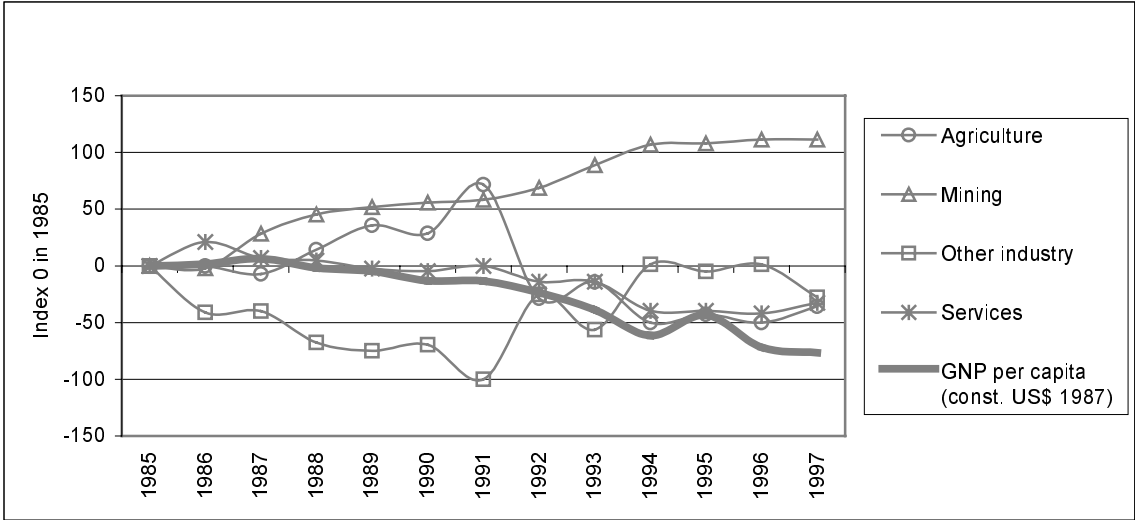
²³ Beneficiaries allegedly include, for example, the Chief of Staff Gen. de Matos through shares in Diamond Works' concession, army generals through the Lumanhe company with concessions in Calonda and Chitolo, the president's daughter Isabel dos Santos and the former director of ENDIAMA, Noé Baltazar, through interests in the Camutué Kimberlite concession (Hodges, 2000; Howes, 1998).

and Mozambique is presented, before discussing the relative role of foreign corporations, aid and accountability processes.

4.1 A comparison of Angola and Mozambique

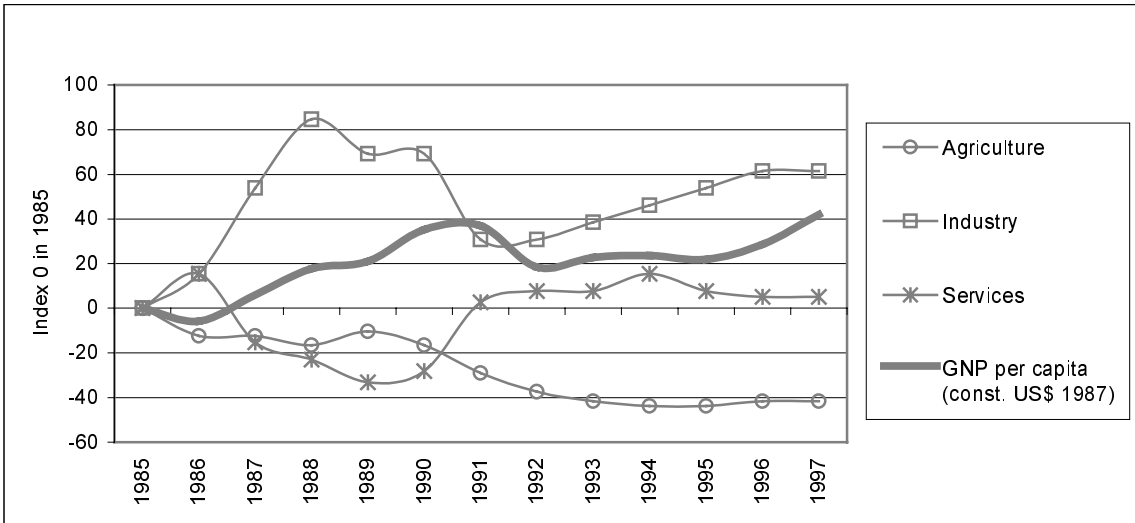
Angola and Mozambique offer an interesting perspective on the role of resources in armed conflicts. Both are former Portuguese colonies, close to South Africa, and low-income countries. Both have been affected by large-scale violent conflict throughout much of the 1970s and 1980s. However, Mozambique is now at peace and its (still weak) economy is improving, while Angola remains at war and its economic situation has mostly deteriorated. The countries have of course many cultural and political differences and attention here will focus only on differences in their resource endowments.²⁴

Figure 7 – Angola: evolution of GDP structure and GNP per capita (1985-1997)



Source: World Bank (1999a)

Figure 8 – Mozambique: evolution of GDP structure and GNP per capita (1985-1997)



Source: World Bank (1999a)

²⁴ For a comparison of mostly political factors see (Chabal, 1998; Minter, 1994).

Unlike Angola, Mozambique has seen the development of very few of its natural resources, and remains a predominantly agricultural economy with some services (in particular port services). Both countries mostly exported primary products, but while Mozambique exported between 1985 and 1997 less than US\$2 billion, or 7% of its GDP, Angola exported more than US\$44 billion or 48% of its GDP (World Bank, 1999a). In terms of foreign assistance, Mozambique received US\$9.3 billion in grants, or 31% of its GDP, while Angola received US\$3.1 billion, or 3% of its GDP. Debt wise, Mozambique owed US\$5.8 billion, or 186% of its GDP, and Angola owed US\$10.2 billion, or 132% of its GDP. Mozambique is endowed with external resources (aid), while Angola is endowed with domestic resources (oil and diamond). Aid can be viewed as similar to a natural resource windfall as it also results in distortions, including rent-seeking behaviour on the part of the ruling elite or educated class. Yet, the dispersion of aid to geographically and socially diverse groups, and the allocation of aid to human capital development and productive investments lowers the risk of 'windfall curse' as shown in figures 7 and 8 by Angola's failure in economic diversification since 1985.

Unsurprisingly, the contrast in the wealth and autonomy of the endowment distribution between Angola and Mozambique is reflected in their level of military expenditures. Between 1980 and 1997, the Angolan Government spent on average 6 times more on military expenditures than its Mozambican counterpart (or nearly 10 times more in per capita terms, and twice as much in terms of GDP share, see SIPRI, 1989-1999).²⁵ Angola's high military spending can be explained by several factors. First, the Angolan Government could easily mobilise a large share of the GDP in the form of foreign currency or loans, thanks to the importance of the oil sector. Second, the direct involvement of South Africa in the Angolan war led to a rise in the capital intensity of both armies. Third, despite the disengagement of South Africa after 1991, the Government maintained a capital-intensive army to confront UNITA, as the rebel movement was itself able to mobilise important resources through diamond smuggling.

In comparison, the Mozambican Government could not mobilise a large share of its weaker economy in foreign currency, the South African army did not intervene massively, and the peace process was successful as both sides genuinely engaged in it. In turn, this genuine engagement was partly related to the exhaustion of foreign military support and a reliance on conditional foreign aid (Weissman, 1996). Similarly, the Mozambican Government was committed to economic reforms (Addison and de Sousa, 1999). In contrast, the resource endowment allowed Angola's parties to pursue a double track policy with regard to the peace processes - negotiating politically while rearming militarily and mentally - and to economic reforms (Aguilar, 1999; Messiant, 1995). Angola's high level of military expenditure was based on the oil windfall. The collapse of oil prices in 1986, going down from US\$26 to US\$12 per barrel, in the context of renewed fighting against UNITA/South Africa triggered a debt crisis from which Angola has not yet recovered; since 1987, Angola's balance on current account has been negative (Kyle, 1998). This situation pushed the Government to initiate reforms but, unlike in Mozambique, these were strongly resisted (Hodges, 2000).

The vulnerability and relative unsustainability of Angola's macroeconomic position with regard to the population is demonstrated by the difference in per capita wealth between the two countries. Up until 1987 the natural resource endowment of both countries was reflected in GNP with a ratio of seven between Angolans and Mozambicans. Since 1987, this difference progressively eroded (see Table 3). This is particularly the case when comparing

²⁵ Yet, the Angolan war did not result in greater casualties, but in about half the number of casualties than the Mozambican war (i.e., half million against a million). These figures are, however, very approximate and the per capita figure is about equivalent for both countries.

GNP per capita figures, with Angolans being seven times ‘wealthier’ than Mozambicans in 1987 but being on a par with them in 1997, and probably even below in 1998 due to the sharp fall in oil prices (World Bank, 1999a).

Table 3 - Ratio of GDP and GNP per capita between Angola and Mozambique (1985-1997)

Angola/Mozambique	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
GDP market price	6.8	7.2	6.8	5.9	5.5	5.5	4.7	5.2	3.9	3.9	3.8	4.2	4.3
GNP market price	6.7	7.4	7.0	5.3	5.1	4.2	3.8	4.2	3.4	2.2	2.9	1.4	1.1
GNP ppp	5.1	5.7	5.6	4.1	3.9	3.4	2.8	3.1	2.1	2.3	2.1	2.1	n.a.

Source: World Bank (1999a)

The war economy in Mozambique concentrated on the control of populations, essential to the food predation of Renamo, and accountable foreign support. This economy had limits and both parties entered a genuine peace process. Contrary to Mozambique, there was no exhaustion of the war economy in Angola and military activities were further concentrated on the control of resources as foreign patronage ended. The economy itself - which had shown signs of diversification during the brief period of peace in 1991-92 - increasingly narrowed to rent-seeking activities linked to the mineral sectors, thereby undermining livelihoods.

4.2 International businesses: the lack of corporate responsibility

Aside from directly financing the conflict, the oil and diamonds revenues act as strong disincentives for rival groups to reach any durable agreement on political and economic reforms - even if more could be gained from peace than war. International corporations are crucial in generating these revenues. No political accountability on revenue allocation being required, businesses sustain the reluctance of the Angolan elite to engage in a process of reform or to abandon violent bids to get or preserve state power, with tragic consequences. A general study of businesses shows that they ‘stress the practical limitations to their influence imposed by heightened global competition ... [and] say that they have no mandate to become involved in ‘political’ issues. Their prime obligation is to maximise shareholder value, provided that they operate within the law’ (Bray, 1997: 3). Similar arguments are used by international corporations - oil companies, private lenders, and diamond companies - operating in Angola.²⁶

4.2.1 Oil companies: tax-payers and facilitators

The controversial role of the oil industry in Angola dates back to 1968 when the US company Gulf Oil began commercial exploitation in Cabinda through an agreement with the Portuguese colonial regime. By 1970, the payments from Gulf Oil represented already about 30% of Angola’s military budget of US\$54 million. The company was denounced *by the MPLA* and targeted by a campaign against the support of US companies to colonial and white minority rule in southern Africa (Barnett and Harvey, 1972; CIC, 1972). Since, the relation between oil companies and the Government established in Luanda has not changed - only the Government did - and oil companies continue to stress that ‘we don’t have a political role here, we make business with who ever is in power’.²⁷

²⁶ A last type is of course arms companies, but they largely remain instrumental or associated to the economic activities of the former.

²⁷ Ibid.

This attitude has been made possible by the minimal disturbances caused by the conflict on most oil companies:

We, as well as [other companies], have proven that we can produce anyhow. The conflict does not matter so much for our activities, except if the whole country was in blood and flames, including Luanda. Even then ... The price of petrol annoys us much more than the political situation.²⁸

Oil companies know about corruption and acknowledge its political and developmental impact. As a manager noted,

Here it is really a total drainage, direction Europe, this is really catastrophic. This is not only the case for Angola, but for Africa in general. In Asia, at least a good part of the corruption is recycled in the country. Not here.²⁹

Yet, beyond paying their taxes and providing token direct humanitarian assistance, for example through orphanages and donations to the social fund of the President, oil companies have stayed at a safe distance from the Angolan tragedy:

As our boss keeps telling us: we are not Jesus Christ. ... We came to this country to find oil and make money. That's our job.³⁰

Justifying their lack of initiative in a situation that is clearly dramatic for the Angolan population, most managers argue that they are working in a 'competitive environment' and that they cannot afford the political risk of supporting reform. Yet, oil companies are not in competition when it comes to prevent political risks or reforms that might threaten their direct interests. For example, French companies associate themselves to American ones precisely to reduce such risks.³¹ There is thus a double standard in matters of 'competition' and 'risks': one concerning corporate interests, and one concerning Angolan interests.

Furthermore, beyond their 'core business' activities, some foreign companies are also directly involved in Angolan political and financial matters and participate actively in helping financing arms purchases, including through extra-budgetary channels. Most prominently, Elf has reportedly acted as a facilitator in oil for arms deals and supported both sides in the conflict (La lettre du continent, 1999). While morally grounded in the need to defend the state and the population against UNITA attacks, these 'oil for arms' deals are often tarnished by corruption, high cost, and inefficiency.³²

4.2.2 International finance: high rates and access to arms

The role of international financial corporations is key to the workings of Angola's war economy. The Government has accumulated high levels of debt since independence and oil mortgaging has been widely used since the end of Soviet support to secure credit lines from foreign private banks.³³ These loans peaked at US\$2.2 billion in 1994, when the Government was consolidating its military success over UNITA (World Bank, 1999b). With a maturity of about four years, they now have to be repaid and in the first quarter of 1999, more than 95%

²⁸ Interview with oil company manager, Luanda, July 1998.

²⁹ Ibid.

³⁰ Ibid.

³¹ Ibid.

³² Interview with Human Rights Watch, London, June 1998.

³³ Although Russia wrote off a US\$4 billion loan - which was not serviced anyway - a large proportion of the oil is directly diverted to debt servicing, leaving little room for manoeuvre by the Government (Hodges, 2000).

of the Government's oil share (i.e. US\$260 million) was used to service them (Hodges, 2000). With renewed fighting, new oil-collateralised loans have been disbursed in 1998 and 1999.

The debt is linked to import dependence, arms purchases, economic mismanagement, and corruption. Import dependence is (discriminatorily) profitable, arms purchases are justified by the conflict, and corruption and mismanagement are not punished.³⁴ The debt is thus both symptomatic of the conflict and a factor in its prolongation. Yet, most financial and oil trading institutions participating in oil-collateralised loans have no moral dilemma, considering that they simply assist the Government to access cash.³⁵ To their credit, it is indeed highly unlikely that the IMF and the World Bank would have provided loans susceptible of being used for military purposes. But was a return to war clearly in the interests of the Angolan population?

4.2.3 *International diamond trade: De Beers as a willing accomplice*

The role of De Beers in diamond trade has been highly controversial. Through its subsidiary, the Central Selling Organisation, De Beers controls about 70-80% of the international trade in rough diamonds. The CSO acts as a cartel associating its own mines and other producers through marketing agreements, with a view to regulate the offer of rough diamonds and thus maintain high prices. To achieve this end, De Beers was very active as a buyer on the open market to absorb, in part, illegal diamonds such as those of UNITA. De Beers was thus an accomplice in UNITA's war economy machine, a role its Executive Director, Gary Ralphe, admitted in 1997,

Unita ... has over the recent few years been responsible for most of the production in Angola. One of the essential jobs that we De Beers [sic] carry out worldwide is to ensure that diamonds coming onto the markets do not threaten the overall price structure and therefore although we know [sic] direct relationship with Unita, *there is no doubt that we buy many of those diamonds that emanate from the Unita-held areas in Angola*, second-hand on the markets of Antwerp and Tel Aviv. (De Beers, 1997; emphasis added)

De Beers was also directly buying in Angola (through at least five buying offices) and neighbouring countries.³⁶ Since 1998, De Beers has denied any purchase of UNITA diamonds (Global Witness, 1998), although officials continue to note that it would be difficult to avoid doing so.³⁷

In 1999, De Beers expressed its satisfaction as the resumption of the conflict in Angola and the sanctions against illegal exports by UNITA restricted non CSO-diamond sources. Similar satisfaction to the consequence of the conflict in DR Congo was expressed as "improved conditions in the diamond market have allowed the quotas applied to mines supplying the CSO to be relaxed from 75% at the beginning of the first half, to the full 100% of capacity" (Mining Journal, 1999). In other words, reduced extraction due to warfare made De Beers-CSO activities more profitable. Along with expected rising sales for 'Millenium' gifts, this profitability was rewarded by a 250% increase in the share value of De Beers during the first eight months of 1999.

³⁴ Interview with National Council for Social Communication official, Luanda, July 1998.

³⁵ Interview with Glencore official, October 1999.

³⁶ Interview with De Beers employee, Johannesburg, July 1998.

³⁷ Interview with De Beers official, London, June 1999.

4.3 Peace-building, aid, conditionality and sanctions

Aside from relief assistance and peace-keeping, the international community has been mostly active in pressuring the Government to improve the transparency of public finance and to undermine UNITA's war economy and military capability.

4.3.1 *IMF and World Bank demands for transparency*

Demands for greater transparency in the management of the oil and diamond revenues and public expenditures have been at the core of tense relations between BWIs and the Government. The IMF has made repeated calls for an audit of the oil and diamond sectors and for economic and fiscal reforms (IMF, 1997). However, in the absence of direct means of pressure, these calls have not been successful - even in the presence of supporting high-ranking officials and official policies as 'contrary decisions [were] taken at the highest levels of the Government' (IMF, 1995). A related reason behind this failure has been the constant availability for the regime of cash and credit-lines directly secured by the Government from the oil industry and its financial partners. In 1995, Sonangol was authorised by law to directly use the state oil share to obtain short-term oil-collateralised loans. This recourse has been costly for the Government, representing between US\$50-100 million per year; but keeping international auditors and conditionality at bay was apparently worth that premium.³⁸ However, initiatives by the new financial team in the Government since February 1999 - such as the floatation of the currency - have indicated that reforms can take place.

4.3.2 *Sanctions against UNITA*

Given the importance of diamonds in funding the war, it can appear surprising that sanctions against UNITA diamonds trading were only imposed in June 1998 (UNSC Resolution 1173). In fact, previous attempts had failed. In 1993, Belgium MPs proposed to ban the importation of UNITA diamonds, but their resolution was not voted (Misser and Vallée, 1997). Several reasons have been put forward. Technically, the diamond trade is difficult to control because of the secrecy of trade networks and the difficulty of asserting the origin of diamonds once mixed with other diamonds from other provenance. Financially, controls have not been favoured by the industry because of the mobility of the trade and importers - thus the fear of losing out a lucrative sector for the host country (e.g. Belgium) - and the risk of increasing underground trading - thus undermining the De Beers/CSO cartel and the stability of (high) prices. Even the Angolan Government has waited until September 1999 to improve its system for certifying diamonds, therefore maintaining loopholes for officials and dealers to launder UNITA diamonds (Global Witness, 1998; O Pensador, 1999). Politically, the United Nations was 'obliged to behave impartially between the two sides in helping them to implement the [Lusaka] Protocol ... [even if] there were doubts about the sincerity of Savimbi's commitment to do so'.³⁹ The UN became reluctant to conclude that the peace process was failing because of UNITA's reluctance to abide by the protocol and that it had to take sides. The death of the UN representative in Angola, Blondin Beye, in a plane crash in July 1998 allowed the Government to harden its position against UNITA and the conflict resumed officially in December 1998.

³⁸ Estimation based on 3-6% spread compared to London Club or BWI loans over an annual average of US\$1.6 billion in short-term loans over the period 1991-1997 (World Bank, 1999b).

³⁹ Sir Marrack Goulding, former UK Ambassador to Angola and head of the UN Department for Peace Keeping Operations, personal communication, October 1999.

In order to tighten sanctions on UNITA the UN sanctions committee, established in 1993 to supervise the oil and arm embargo, set-up two panels of experts in mid-1999 (UNSC Resolution 1237). The chairman of the committee, Ambassador Robert Fowler, visited Angolan and foreign authorities, as well as private corporations, and issued a number of recommendations to improve the implementations of sanctions (UNSC/1999/644 and 829). But the concrete results of this initiative have yet to be demonstrated.

In parallel to the initiative of Governmental and Intergovernmental institutions, a number of NGOs have pressured the Angolan Government, UNITA and the diamond and oil industries to put an end to funding the war and corruption (Global Witness, 1999; Human Rights Watch, 1999). Angolan pressure groups have also pursued a similar agenda (e.g. Group for Reflection on Peace). As an example of qualified success, the campaign of Global Witness, a British NGO, pushed De Beers to officially stop any purchase of Angolan diamonds.

V Conclusion

Recent econometric research on the effect of natural resource endowments on the probability of civil wars has pointed at a non-monotonic relation between resource exploitation and the likelihood of conflict. While initially the risk of war increases with the level of natural resource exploitation as the taxable base of the economy attracts rebels, the risk of war decreases again with a high level of endowment as the financial capacity of the Government allows it to defend itself (Collier and Hoeffler, 1999).⁴⁰ With primary exports representing over 50% of GDP, Angola clearly falls into the second category. Yet, the conflict was prolonged. Domestic political factors have played an overwhelmingly important role in this continuation, but this paradox is also clearly explained by a geographical analysis of the conflict. The location and concentration of oil and diamonds provided means for each contender to sustain their bid for power. Oil provided the Government with an economic sanctuary: a rent sheltered from the conflict. Diamonds provided UNITA with an economic opportunity: a rent proportional to its guerrilla activity and territorial control in the northeast. If the oil and diamonds wealth is not in itself responsible for the Angolan conflict - *individuals are* - the geography of resources has been a crucial factor in the course of the conflict.

In turn, the geography of populations helps to explain the political divisions that have been the cause and the instrument of the conflict. The bi-polarism of population distribution, reinforced through the uneven development of the colonial period and caricatured by the war, was articulated for political reasons, in particular by UNITA. The readjustment of this bi-polarism throughout the conflict in favour of the strongest party, the MPLA, has resulted in draining populations from productive to unproductive areas. Exacerbated by the economic mismanagement and corruption of the Government, this transfer also explains much of the plight of a population that has become import and aid dependent. So far, the *de facto* division of the country has been maintained militarily – and not politically - by the equilibrium existing between populations, diamonds and the oil ‘prize’. The MPLA cannot relinquish its sovereign claim on the control of the majority of the population (which would legitimate separatism in Cabinda). UNITA must seek outside its fiefdom (agriculture being its only economy potential) the means to sustain its violent bid for the oil ‘prize’ and its promises of long-term political power.

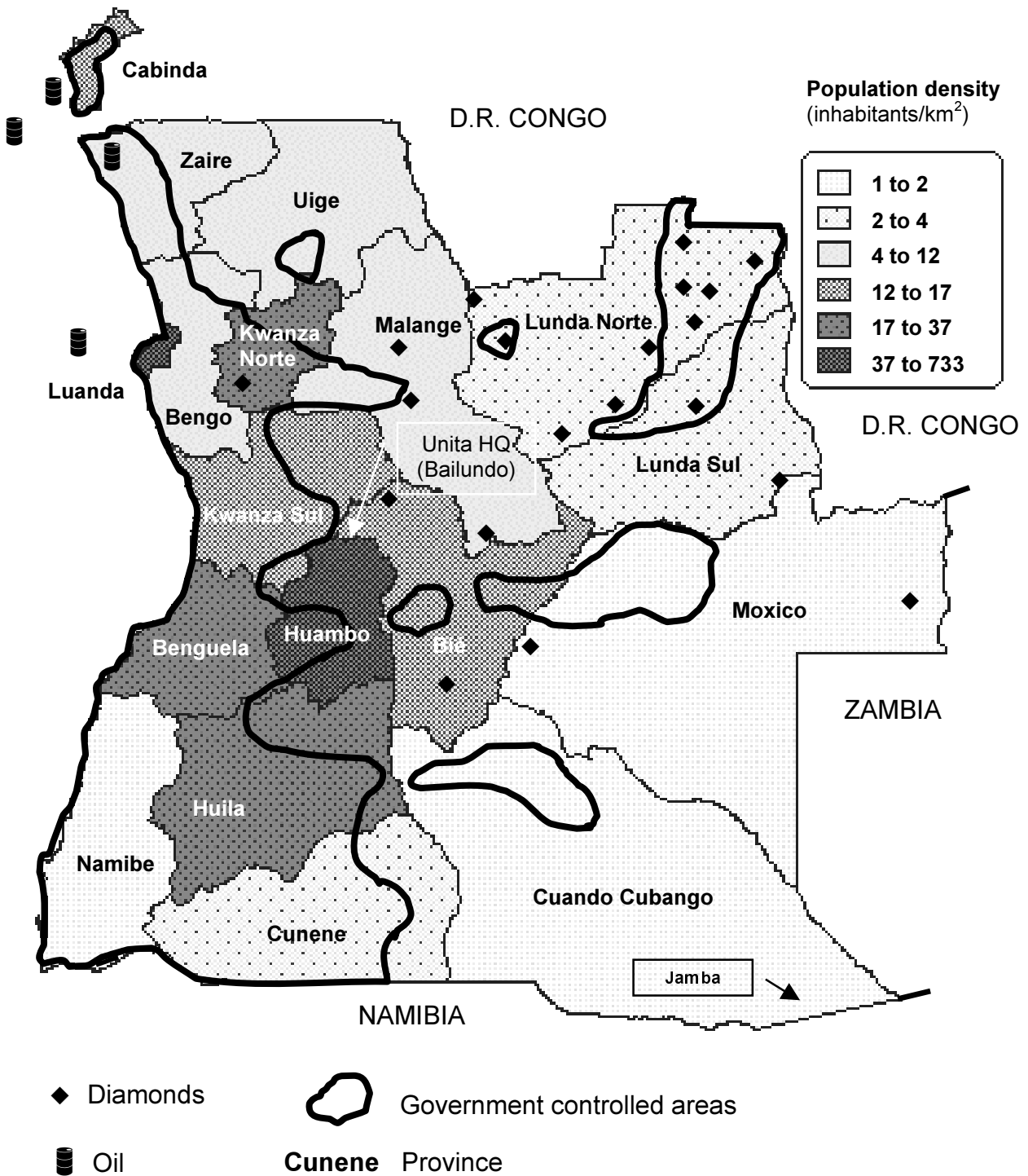
⁴⁰ Empirically, the highest risk is reached when primary exports represent 28% of GDP, and is 4.2 times greater than for a country with no primary exports.

To conclude, the policy implications are that greater attention should be given to the geographical dimensions of countries in crisis. The geography of resources and populations and the ways in which they can be integrated into conflicts need to be carefully considered. The case of DR Congo is one such example. The bipolarism of its population distribution and the remoteness of abundant resources from the centre of control have led to a *de facto* separation of the country and fighting among about ten intervening countries over these peripheral resources.

There is also a need to tie resource exploitation and fiscal reforms to political commitment for peace. In the Angolan case this means that the peace agreements should have required parties to have diamond and oil revenues channelled through two internationally supervised accounts. These accounts would have prohibited further military purchases and be used to cover current expenditures for the administrative structures of the parties, public services on a per capita basis, and to finance a long term 'development fund' - possibly matched by international grants increasing the value of the peace dividend. Commercial operations carried out outside these accounts would be considered illegal and sanctions would be taken against individuals and organisations (public or private; domestic or international) involved. Nothing of the sort was included in the Bicesse Accord or the Lusaka Protocol (Hare, 1998).

In the absence of such control and Governmental (and UNITA) accountability over the use of resource revenues, corporations need to extend their responsibilities to fostering peace-building initiatives and public finance transparency. The issue is not simply to cut the links between oil, diamonds, and arms. It is also about ensuring that the population receives such a large proportion of the oil and diamond rents that the control of the state for personal enrichment becomes obsolete. Unless these issues are seriously dealt with by the oil and diamond industries through a comprehensive framework of engagement, Angola's mineral wealth - as in similar countries - will remain the chief resource and objective for rival elite groups to bid in a violent and self-interested manner for control of the state.

Map 1 – Areas of control and location of main oil and diamond resources (1995)



Source: population density from FAO (1999)

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