Angola's Political Economy: Some Perspectives

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Angola-Runde deutscher Nichtregierungsorganisationen

Angola Round Table of German Non-Governmental Organizations

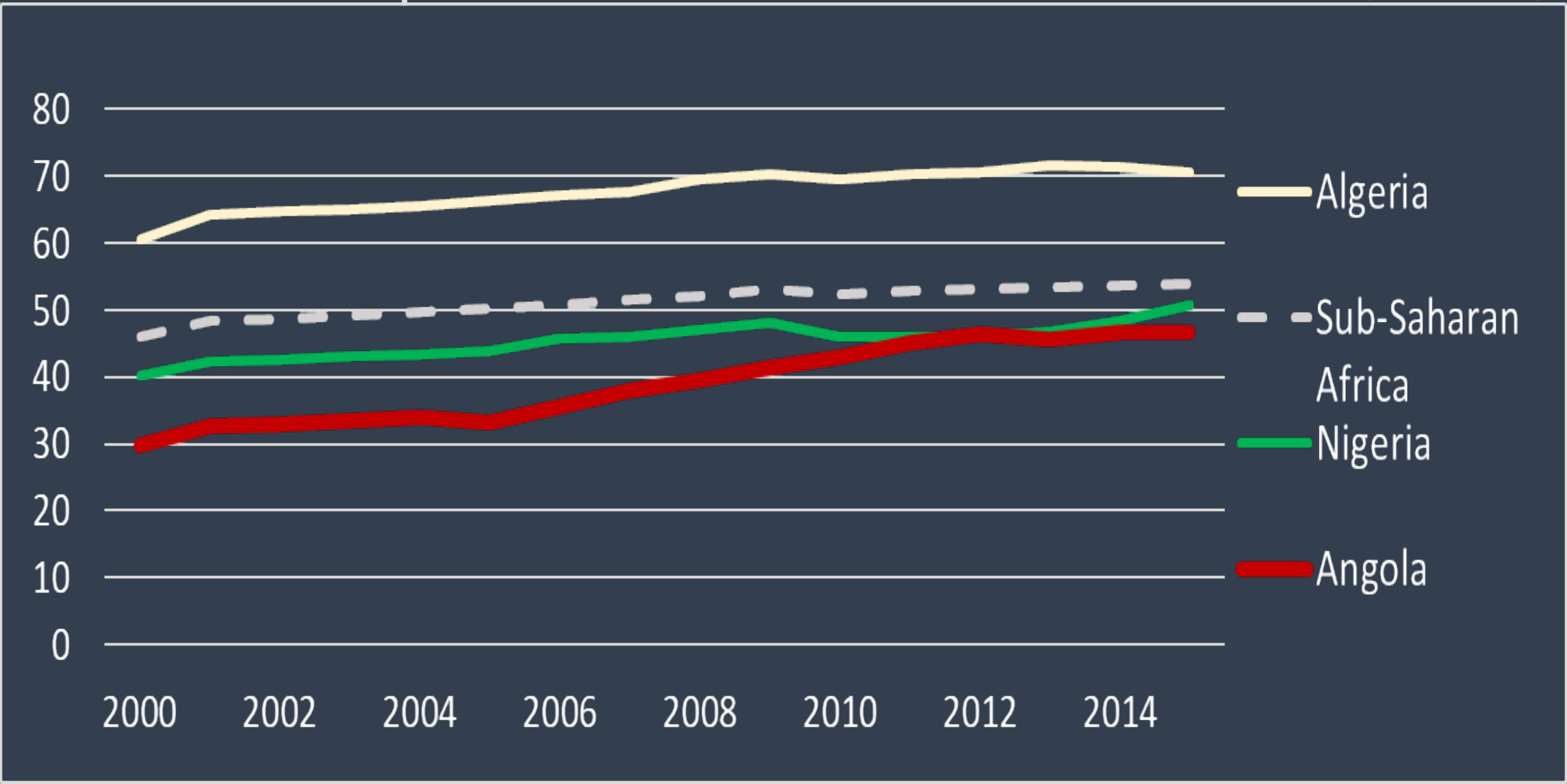
Berlin, 7./8. December 2017

Overview

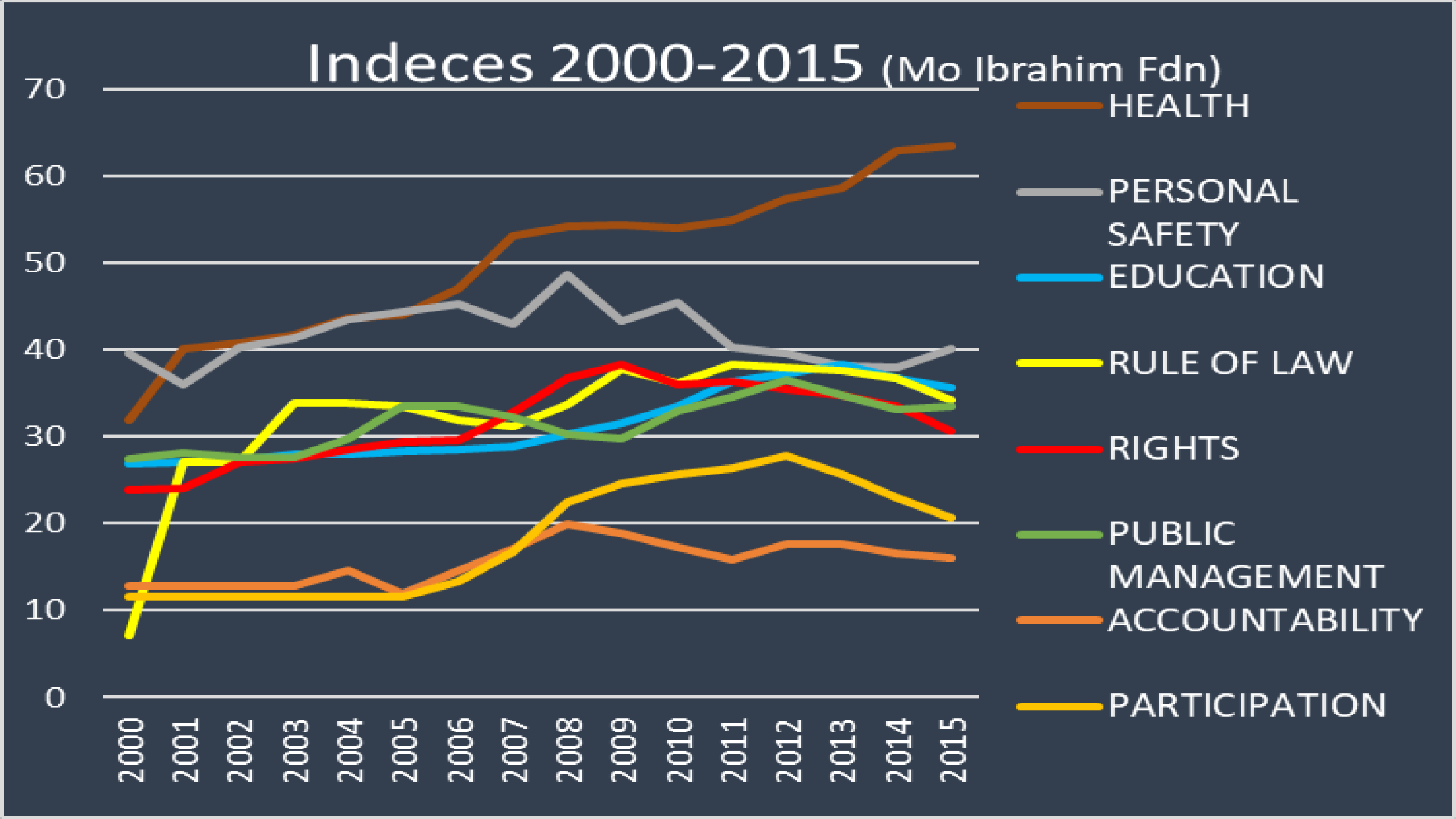
1. Today's political economy:
   - 'onshore'
   - 'offshore'
2. Scenarios
3. Conclusion

‘onshore’ outcomes

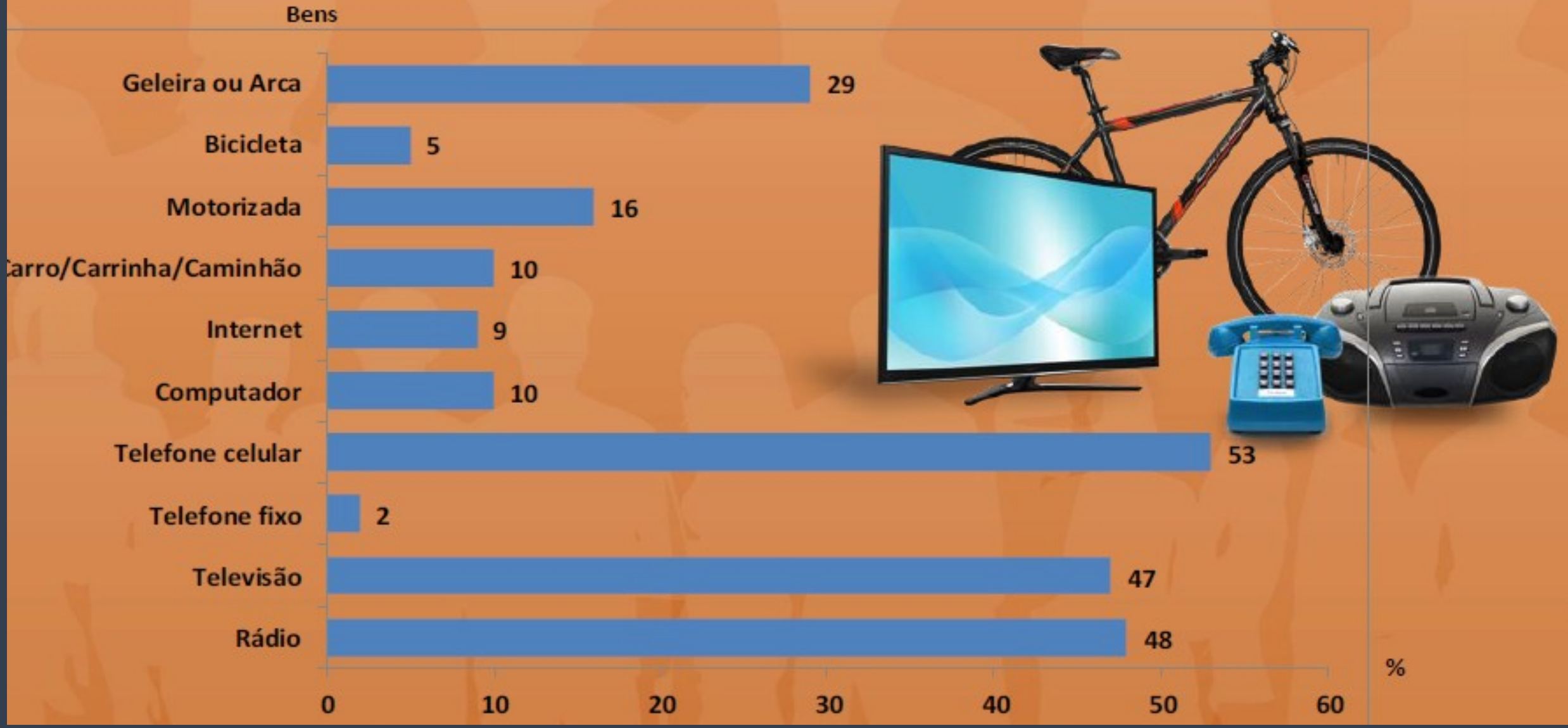
Human Development: Welfare Education & Health (Mo Ibrahim)






Indeces 2000-2015 (Mo Ibrahim Fdn)
70
60
50
40
30
20
10
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
HEALTH
PERSONAL SAFETY
EDUCATION
RULE OF LAW
RIGHTS
PUBLIC MANAGEMENT
ACCOUNTABILITY
PARTICIPATION

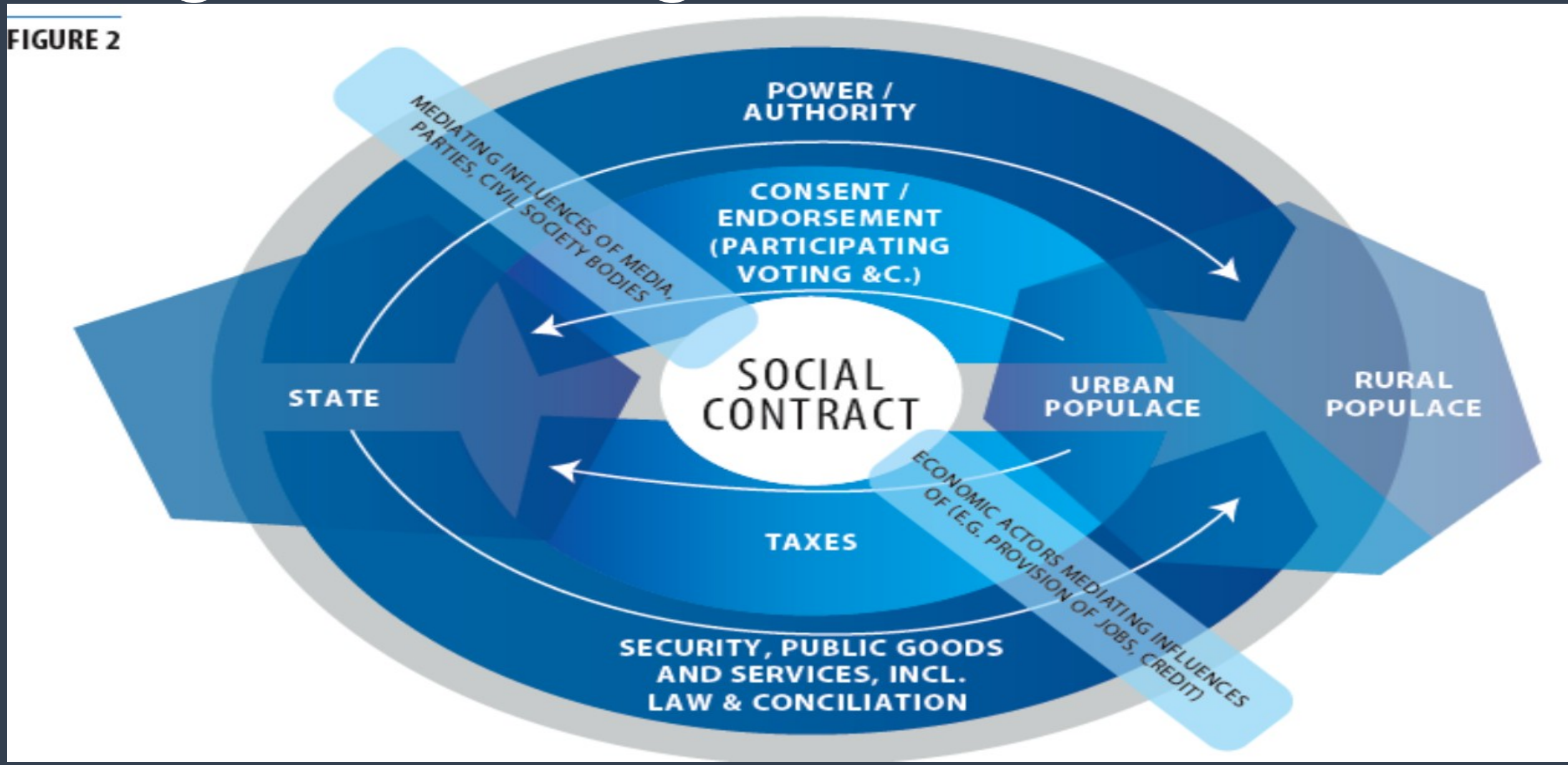
Proporção de agregados familiares com posse de Bens Duradouros



Causes ? Angola's anti-poverty strategy paper (2003) implicates:



Angola lacks a good ‘social contract’



‘offshore’ drivers

Social Classes

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

Source: *Angola: An Introductory Economic Review*, World Bank 1991, p. 186

Today's political economy

- *Outward orientation, 'extraverted'*

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

Most key goods & services imported

Weak incentives to build skills, enterprises

- *Polarized, 'bambazonke' growth*
- *Rent-seeking onshore and offshore*
- *Rents flow offshore, remain unproductive*

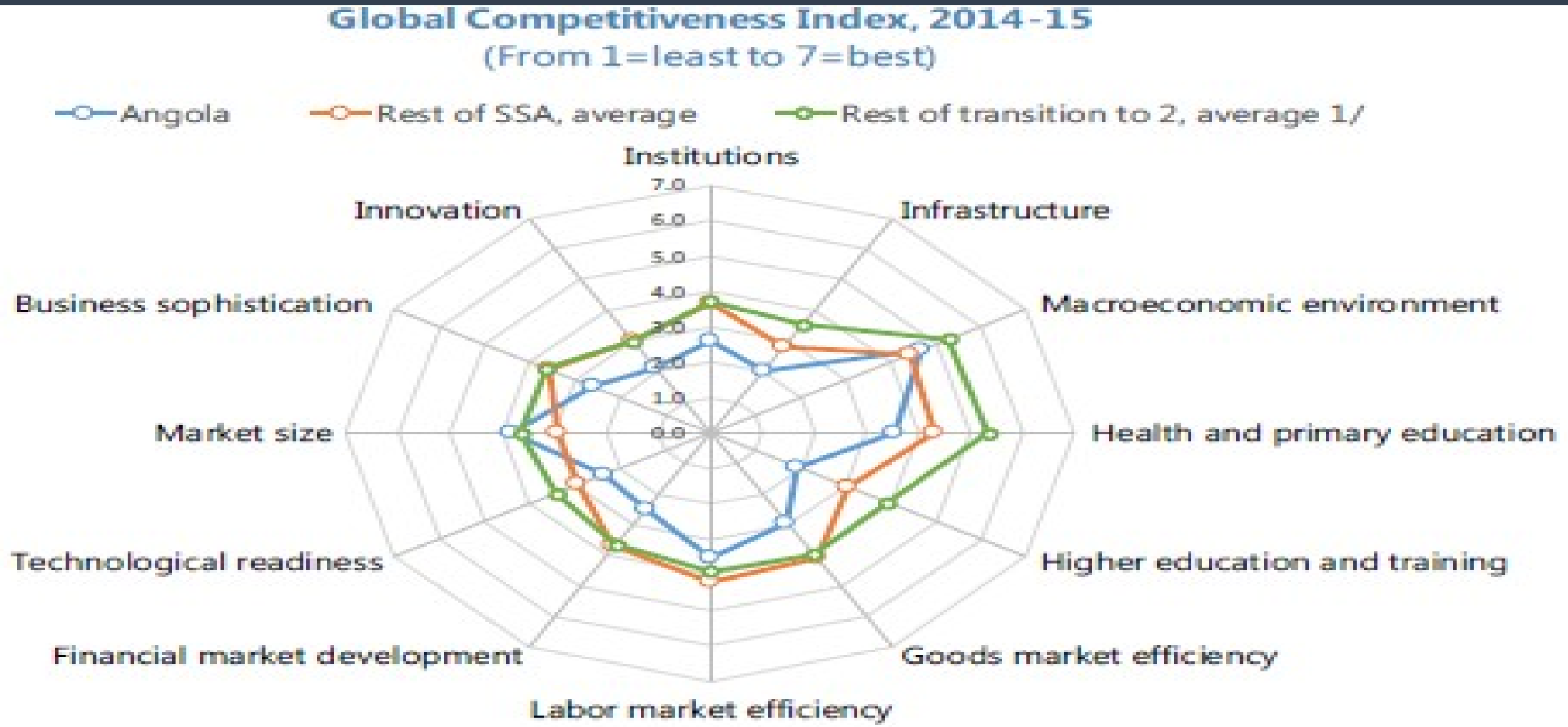
That is, ‘offshore’ and ‘onshore’ penetrate each other.

Especially on the offshore side, these relationships need ‘watching’.

Angola’s political economy is quite satisfactory

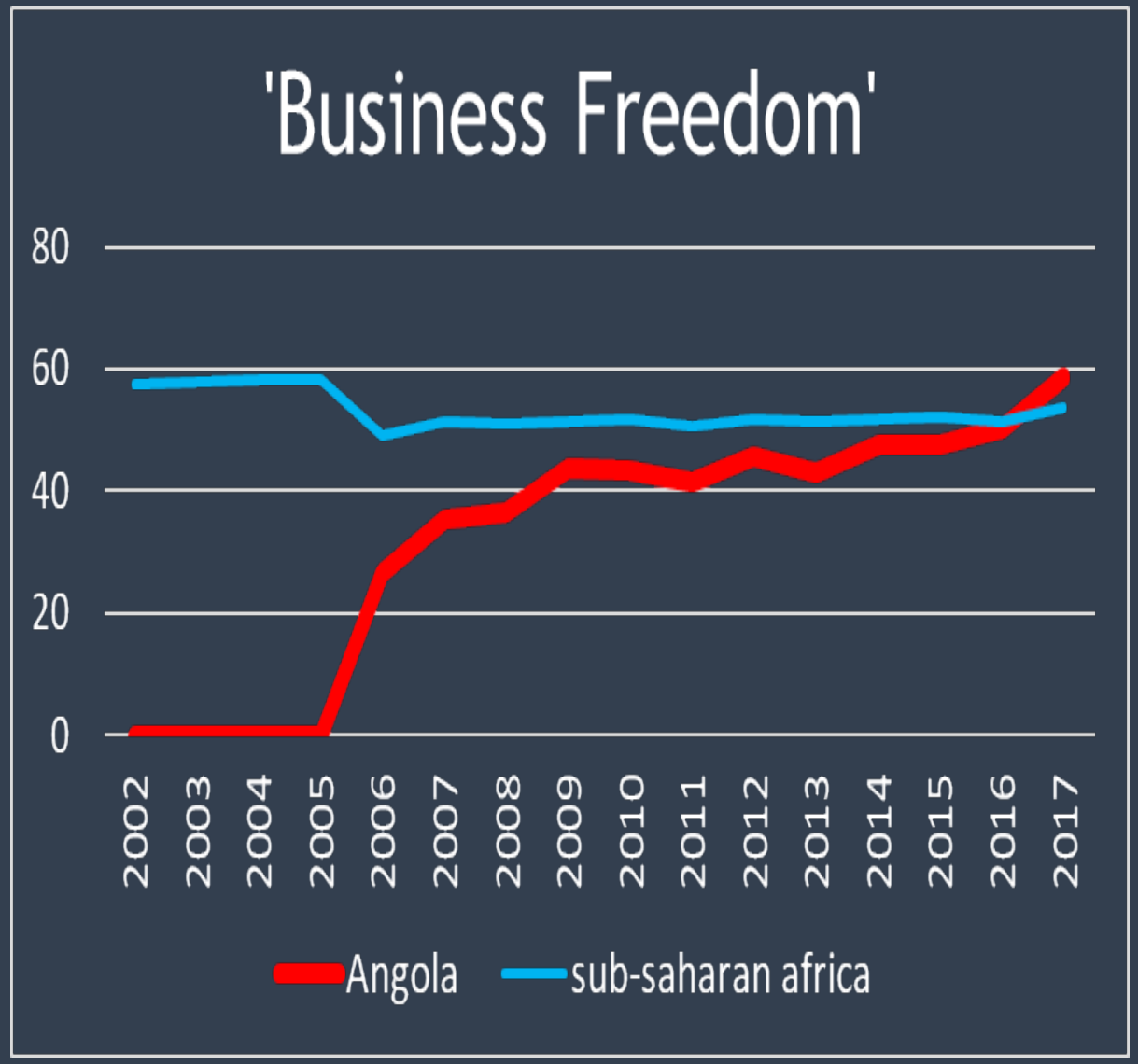
… at least for some people.

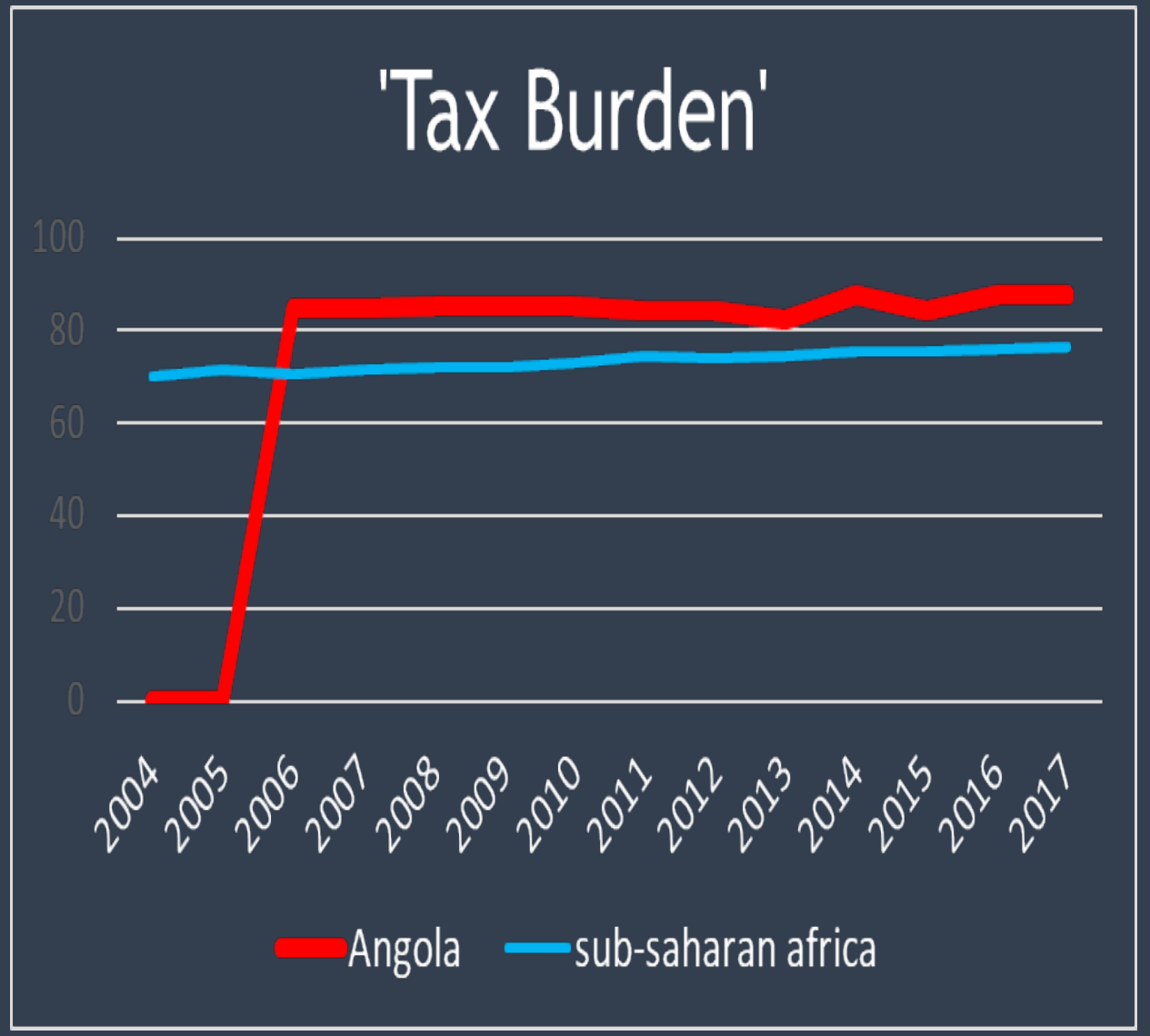
Angola as ‘Davos’ (WEF & IMF) see it



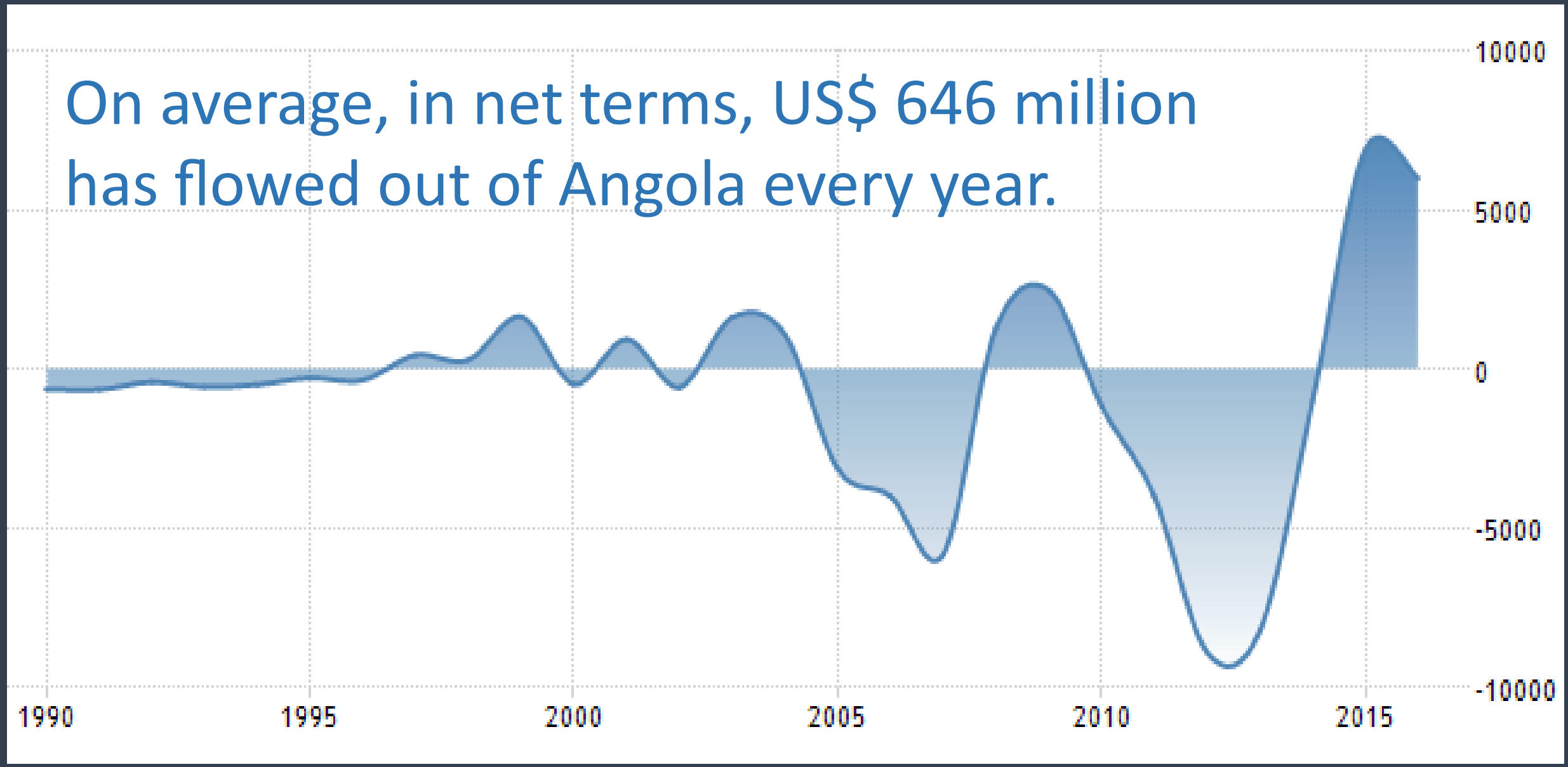
1/ Countries with similar stage of development (transition from stage 1 to stage 2) as that of Angola based on the World Economic Forum's classification. These countries include: Algeria, Azerbaijan, Bhutan, Bolivia, Botswana, Gabon, Honduras, Iran, Kuwait, Libya, Moldova, Mongolia, Philippines, Saudi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

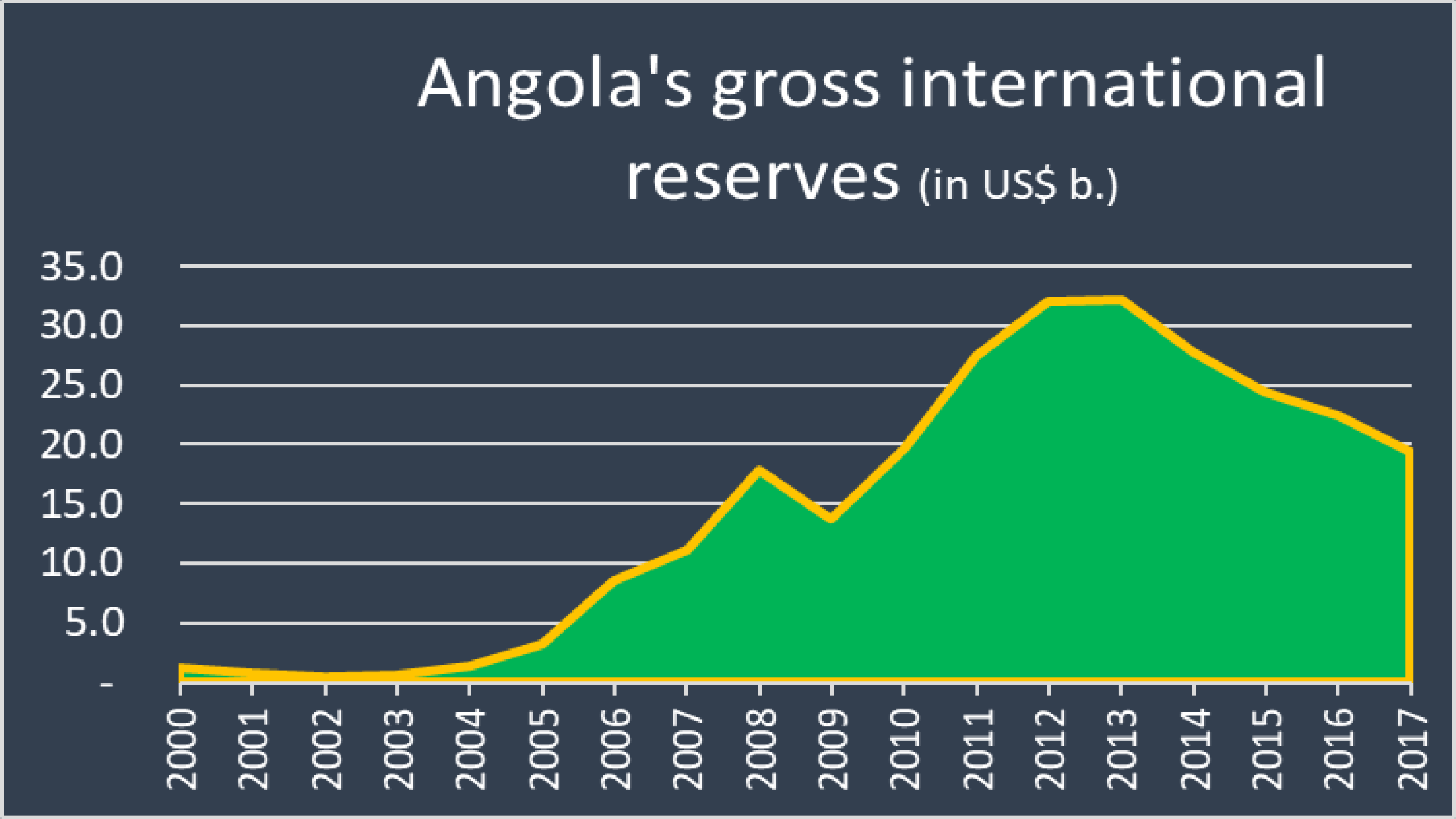
Rankings by Washington think-tank (Heritage Foundation)





Recorded capital flows 1990-2016 (US$ millions)




Angola's gross international reserves (in US$ b.)
35.0
30.0
25.0
20.0
15.0
10.0
5.0
-
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017

Rent-seeking

By Angolans positioned to capture rents

- e.g. heads of banks, telecom and other businesses; 34 ministers, 50 deputy ministers, 18 governors, 54 deputy governors, heads of state-linked firms

By non-Angolans dealing in

- goods and services
- loans and other financial products
- secrecy and ‘reputation’

Rent-seekers : few are exposed

A typical onshore/offshore operator :

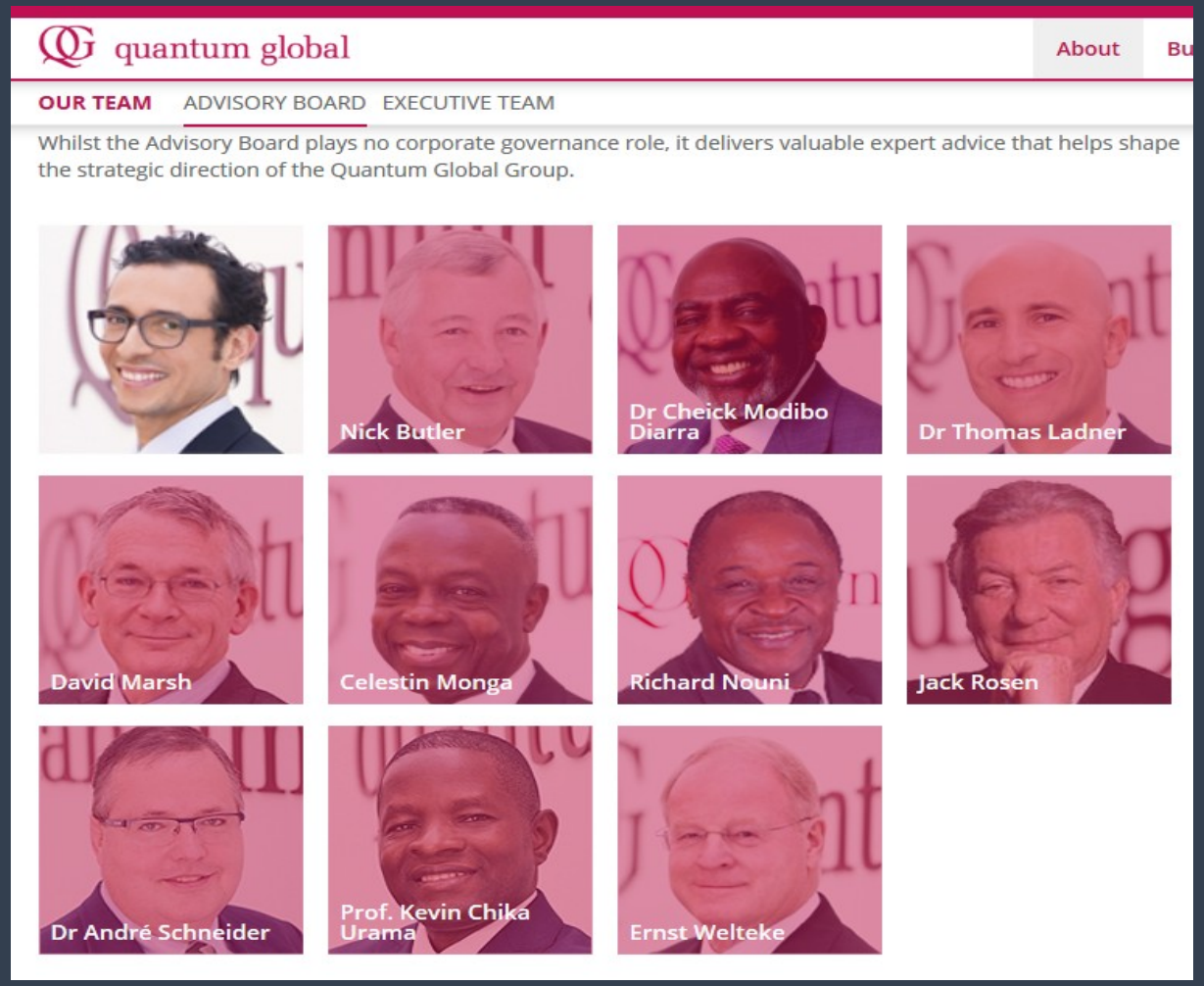
Jean-Claude Bastos de Morais, Quantum Global (Headquarters: Zug, Switzerland)



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

By Anna Meisel & David Grossman
BBC News

… and his offshore associates



Sources of rents

1. *Global markets in lawful goods & services incl. finance and real estate*
2. *Global circuits in illicit goods & services*
3. *Foreign business bribery*
4. *Official Development Assistance*
5. *Development policy formulas (conditionalities):*

- taxation
- hard currency reserves held abroad
- privatization
- relaxed regulations

external drivers affecting elites

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



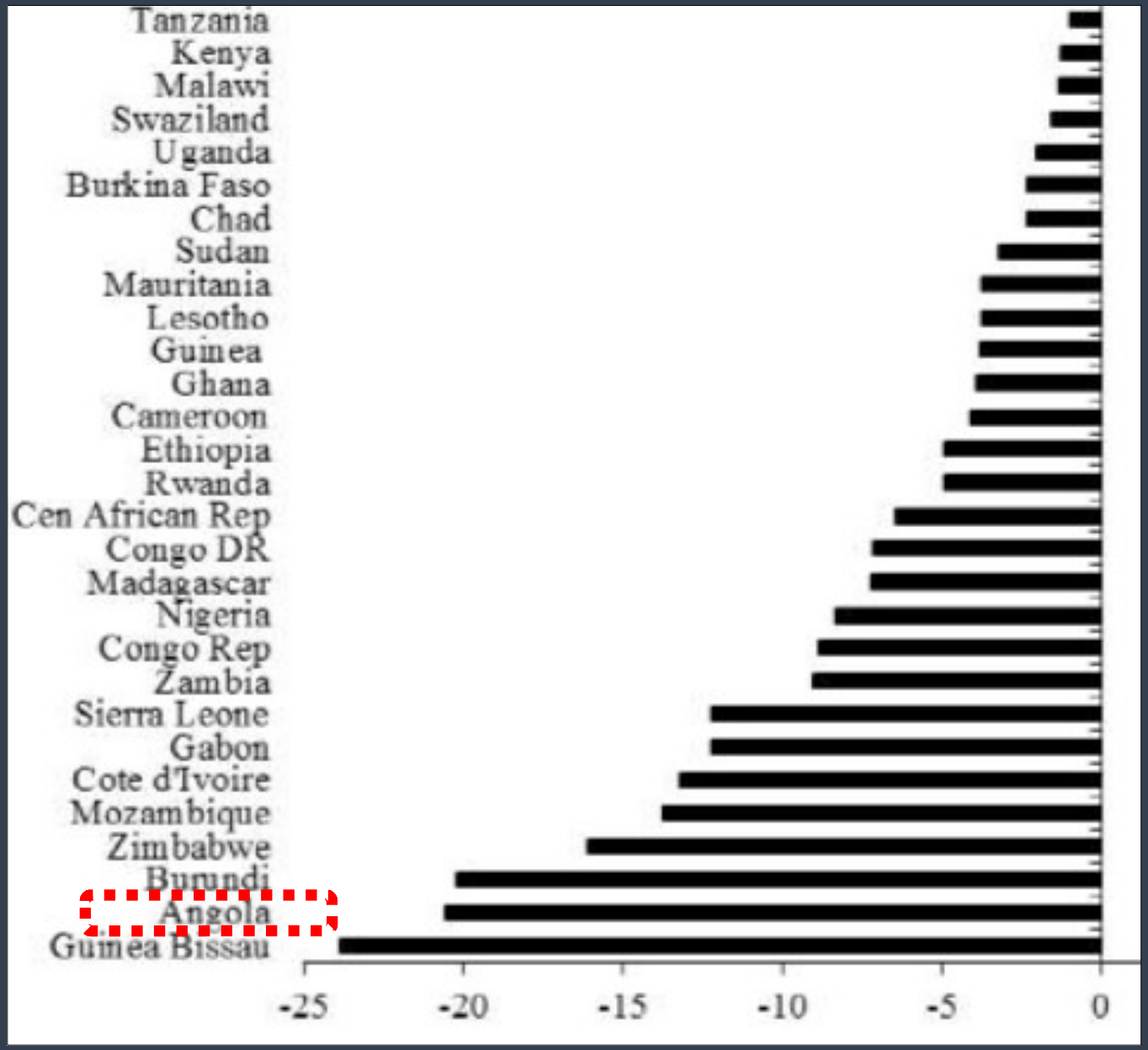
Concealing & moving assets

- Secrecy jurisdictions / offshore financial centres
  - Encouragement of tax competition and ‘forum-shopping’
- ‘Enabler’ industries
  - International law firms
  - ‘Big Four’ accounting firms : Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Ernst & Young, KPMG
  - Private banking (e.g. Banco Espirito Santo – Portugal)
  - Sovereign wealth funds
  - Real estate brokers

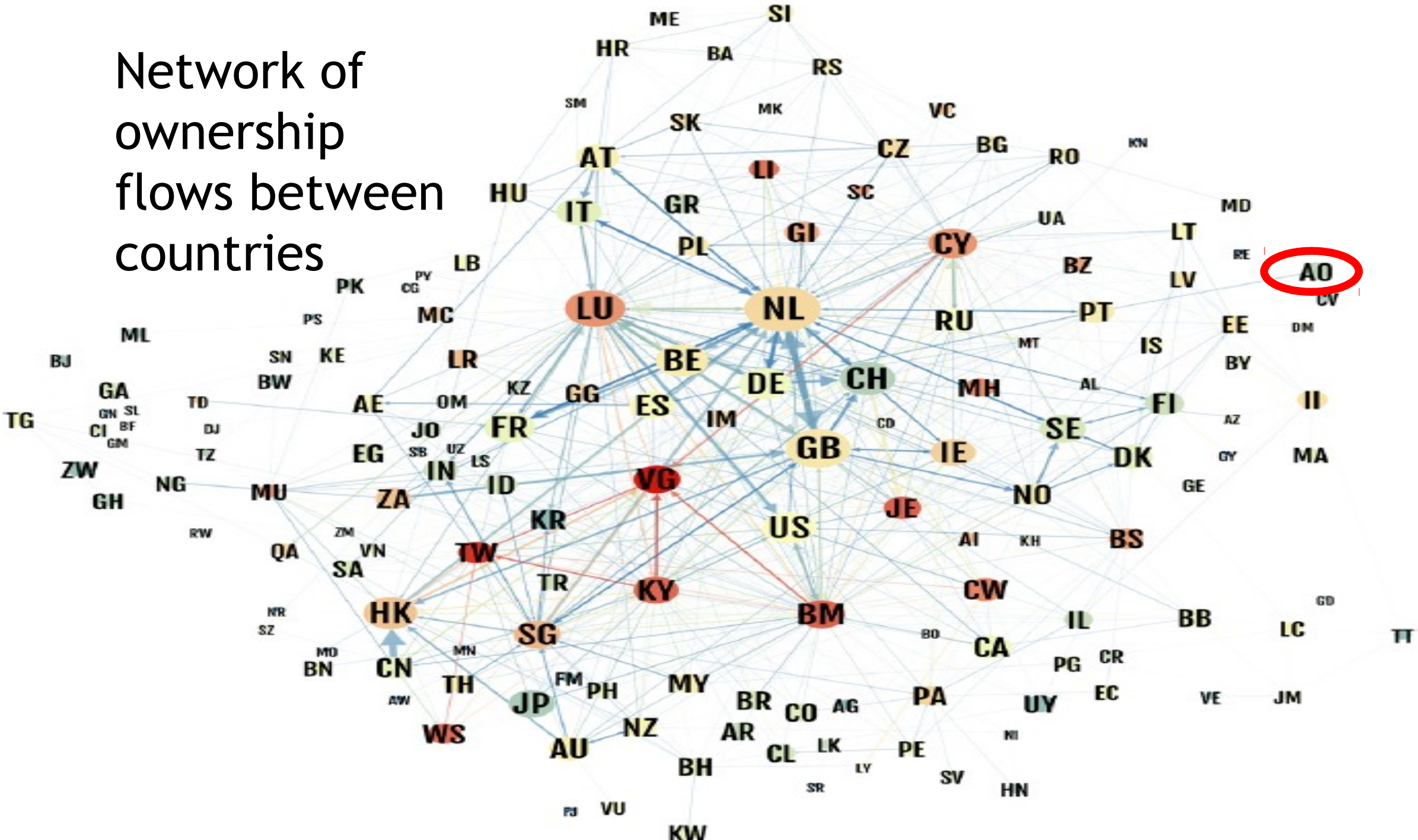
Capital flight as share of GDP

averages over decades

(Angola 1989-2010)



Network of ownership flows between countries



… or from tax law gimmicks in Amsterdam ?





If you know there's no landing space to land your plane, you don't take off in the first place.

It's the same with money: if there's nowhere to land it once you've stolen it, you can't steal it.

- Nigerian anti-corruption investigator

Looking ahead …

Rising constraints

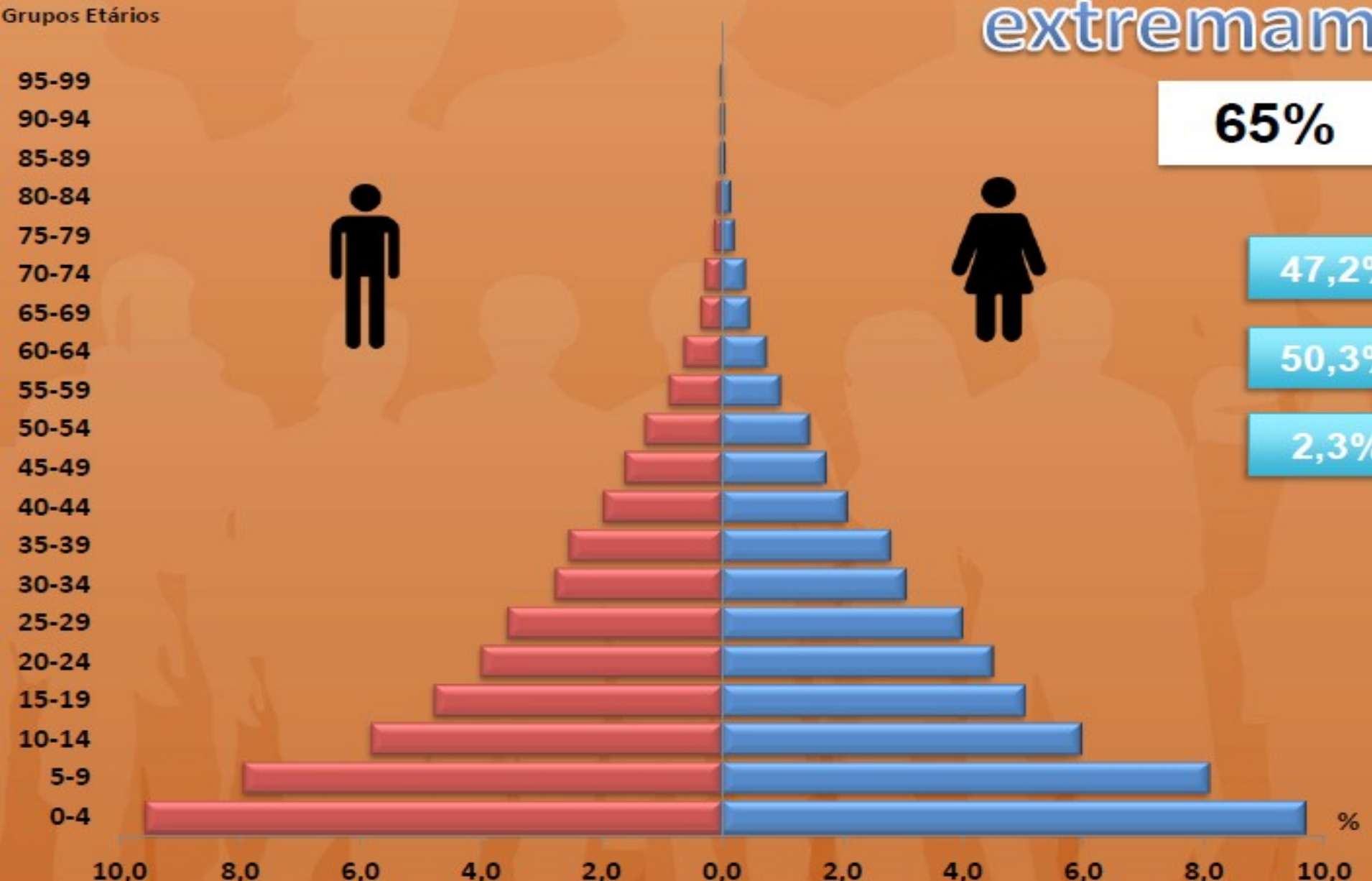
Supply of finance constrained:

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

Demand for finance onshore

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

População extremamente Jovem

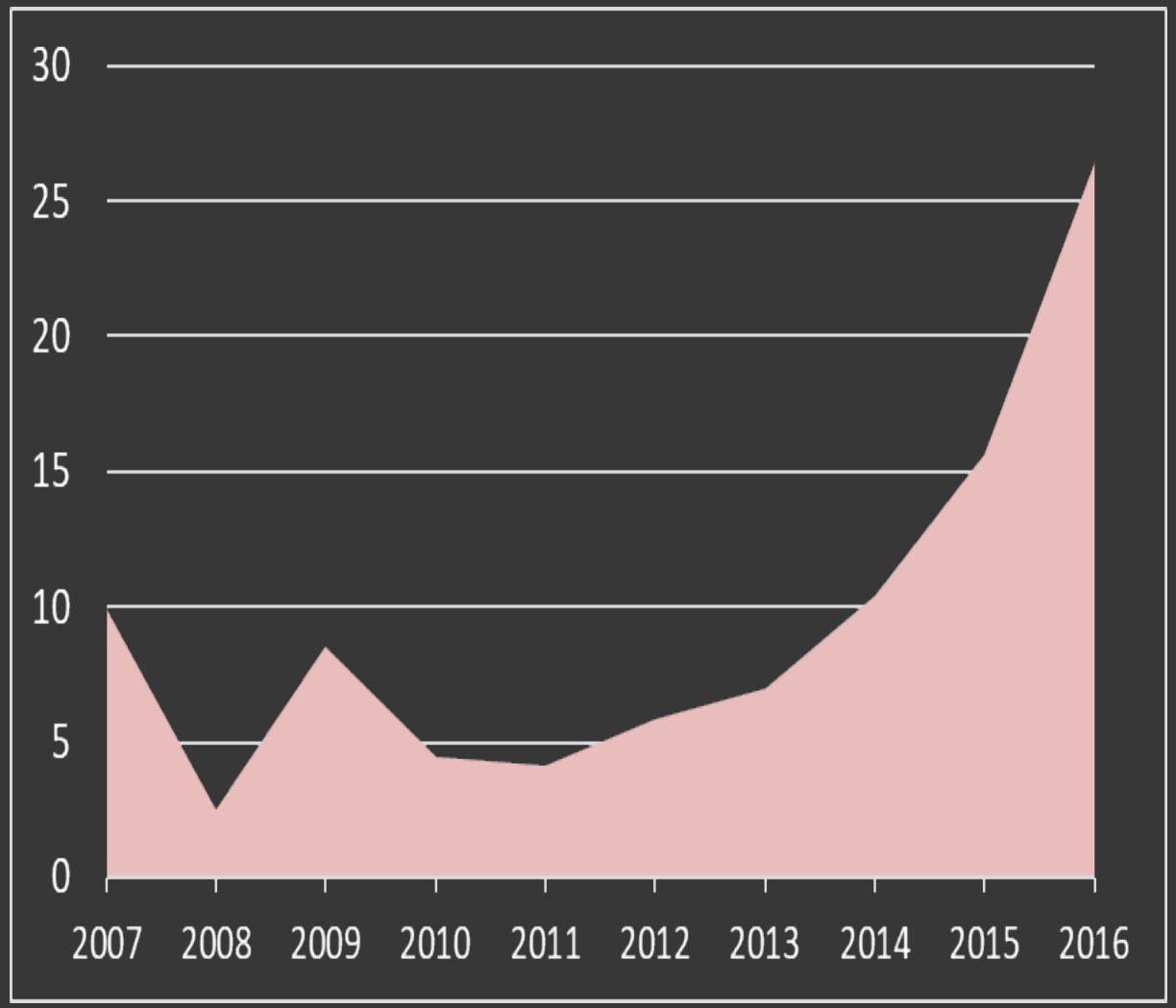


65%	0-24 anos

47,2%	0-14 anos
50,3%	15-64 anos
2,3%	65 anos e +

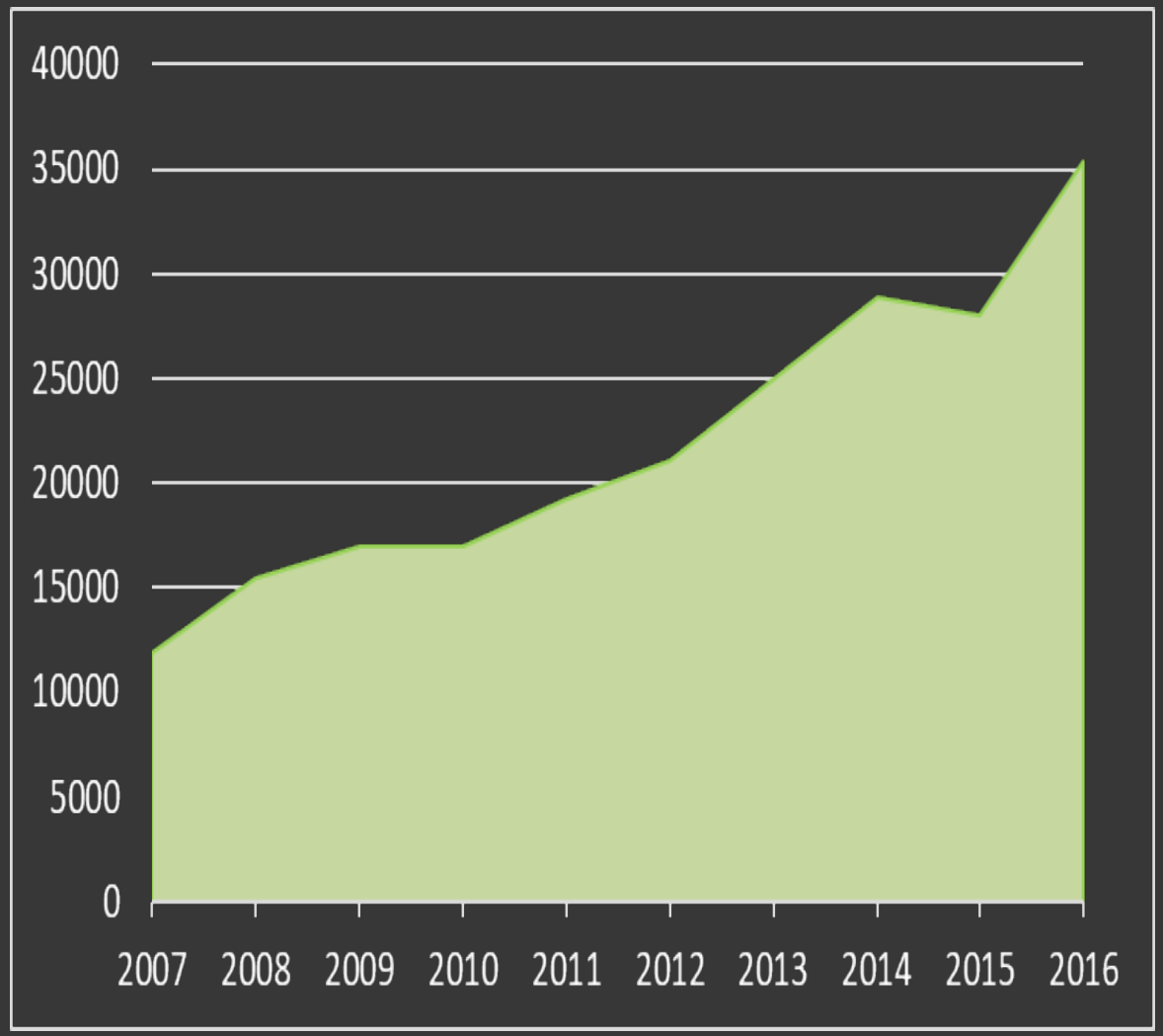
Angola’s external debts

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



Total debt stock

In US $ millions



2. Scenarios

a) Status quo onshore and offshore

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

c) Quasi-developmental context - beyond status quo onshore and offshore

Scenario-making: an important assumption

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

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

Scenario A: Status quo

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

Scenario B: restricted reform

"Real economy" onshore gets more

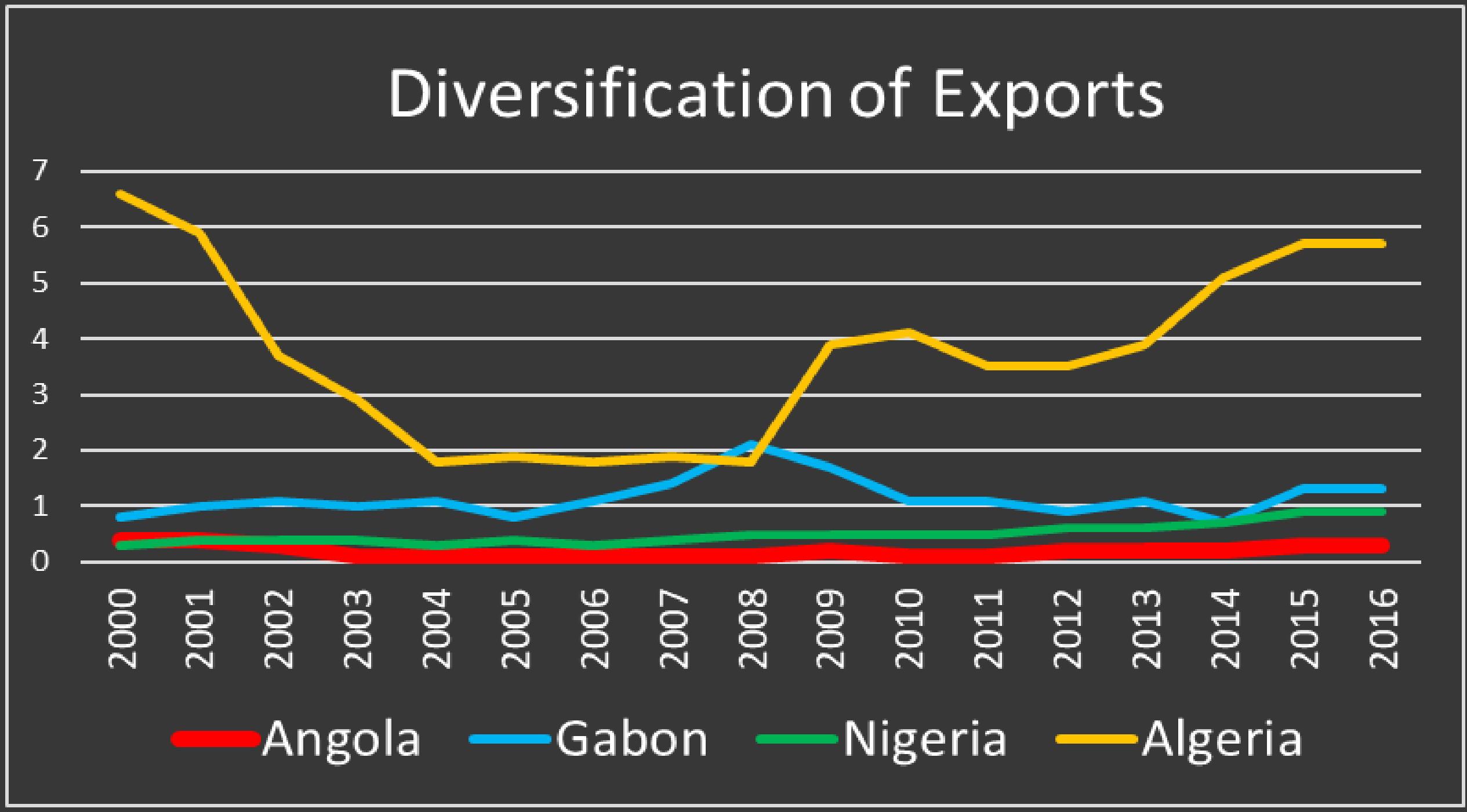
- Funding for production
- Infrastructure
- Skill-building
- Public health

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

'Competitive authoritarianism' continues

In an offshore context generating

- Strong incentives among Angolans and non-Angolans to export rents
- Global competition to attract investment via tax breaks, land access
- Secrecy services worldwide


Diversification of Exports
7
6
5
4
3
2
1
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Angola
Gabon
Nigeria
Algeria

C. Quasi-developmental context

Onshore, state supervises and accelerates productive onshore economy

- Flight of capital curbed
- Rents channelled to non-oil sectors → diversification
- internal markets in essential goods (food &c) a high priority
- job- and livelihood-creation a high priority
- basic services (education, health) made rights, not commodities

Offshore

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

Concluding …

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



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

→***Incentives*** matter for political classes

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

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

Obrigado.