



**Strengthening Developing Country Governments'
Engagement with Corporate Social Responsibility:**

**Conclusions and Recommendations from
Technical Assistance in Angola**

WORKING REPORT

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1.0 Executive summary and recommendations

The World Bank Group's program *Strengthening developing country governments' engagement with Corporate Social Responsibility* was set up to explore the potential roles of the public sector within developing countries to encourage and strengthen corporate social responsibility¹, or CSR. It has been based on activities and dialogue on specific sectoral or thematic issues in four countries (Angola, El Salvador, The Philippines and Vietnam), plus commissioned research on cross-cutting themes. It began in April 2002 and concluded with an international conference in November 2003. Advice to developing country governments will continue to be available through the Foreign Investment Advisory Service, FIAS, a joint facility of the International Finance Corporation and the World Bank.

The concept of CSR is based on the recognition that businesses are part of society, and that they have the potential to make a positive contribution to societal goals and aspirations in ways that are both good for business and good for development. But why should a government engage with the CSR agenda? Four arguments have emerged, all of which have strong resonance in Angola:

- To enhance international competitiveness;
- To address current gaps in government capacity;
- To create synergies that use the complementary competencies of government, private and civil society actors to achieve common goals;
- To ensure that CSR practice is in line with national policy goals.

Examples of government support for the CSR agenda in the four countries are emerging, and starting to show the development gains that can be achieved. In El Salvador, the government is seeking to integrate CSR into a national plan for education, and sees its roles as, firstly, to establish clear policies in relation to CSR, and secondly, to facilitate partnerships between the private sector and educational institutions. In Vietnam, stakeholders have discussed the notion of a national framework for codes of conduct, which might form a basis to encourage coherence between different buyers' codes and national legislation, and may even facilitate joint audits of factories. In the Philippines, the government is considering the need for broad civil society engagement and a mechanism that builds mutual trust and informed choices between stakeholders, as well as expanding each stakeholder's awareness of the possibilities presented by the mining sector.

In Angola, the CSR technical assistance was built into the World Bank's Transitional Support Strategy (TSS), which, in 2003, marked the Bank's post-conflict reengagement with Angola following the end of the civil war in April 2002. The CSR work was structured to underpin two pillars of the TSS: (1) to increase transparency in public resource management, and (2) to lay the groundwork for broad-based service provision and pro-poor growth. Its aim was to build CSR awareness among key stakeholders and government officials, to engage and stimulate broader stakeholder dialogue on government roles in strengthening CSR. It focused on issues of local content – collaborative ventures to develop local skills and training as well as a local supply markets in areas relevant to the oil sector, transparency and social and community development in the oil sector. The supporting research identified the CSR activities of national and foreign-owned oil companies operating in Angola; identified corporate codes of conduct for these same companies; compared these corporate codes to national legislation regulating the oil sector; and analyzed barriers to CSR awareness and implementation on the part of the companies, the Government of Angola (GoA) and civil society.

¹ The World Bank defines corporate social responsibility (CSR) as the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development.

The implementation of CSR in Angola is a particular **challenge** for several reasons: Firstly, Angola just emerged from a devastating twenty-seven year civil war where about 15% of the country's population was killed or maimed and much of the infrastructure was destroyed. Secondly, Angola has been plagued by reports of corruption, opaque politics and a lack of fiscal accountability. Thirdly, an uneasy relationship exists between public and private sectors, especially in the oil sector where the rules of the game are not entirely clear with regards to mutual rights and obligations. This raises the problem of collective action where unilateral actions by companies tend to be sanctioned, therefore, nobody moves. Fourthly, Angola's civil society is extremely weak and lacks the capacity to serve an advocacy or implementation role for CSR. Fifthly, crippling poverty amongst the vast majority of the country's population proves a stark contrast to the tremendous riches that are starting to accrue within the oil sector. Finally, Angola's oil dominated economy has tended to crowd out resources and attention to other sectors.

The research has revealed, however, a number of **opportunities** for CSR in the Angolan oil sector, if the right conditions are in place. Firstly, most of the international oil companies operating in Angola are already involved in a number of CSR related activities dealing with a wide variety of issues. They face, however, a number of internal and external constraints in designing and implementing these activities, including difficulties in identifying good and relevant projects, lack of access to reliable information and the need for better coordination of development efforts. Secondly, the country's abundant natural resources and manpower make it a natural investment location for the oil sector. Finally, political will on the part of some in the GoA to turn around Angola's reputation and make it a socially responsible investment location will help support the process, if allowed to take hold.

Based on the research findings in Angola, and comparable work in other countries in the program, the World Bank Group makes the following **recommendations** to the Government of Angola (these are likely to be bolstered and added to as a result of the CSR Workshop scheduled to take place in Luanda in June 2004). It is important to note that complementary recommendations could be drawn up for the private sector and civil society operating in Angola; this, however, does not fall within the scope of this project. It is anticipated that this task will take place during CSR framework discussions initiated by the GoA.

Development of CSR framework / roadmap for the oil sector to coordinate activities:

1. Establish formal responsibility for promoting CSR: One of the ministries should be given formal responsibility for CSR to create a mechanism through which the GoA and the business community can engage.
2. Coordinate and promote CSR activities at provincial and local levels: The GoA should start with the formulation of public policy on CSR, then encourage the proliferation of CSR activities at local levels to address local development objectives. This should be a long-term objective of the GoA, while they focus on a small number of achievable CSR issues in the near-term.
3. Establish a CSR oil sector action plan that could lead to a CSR framework. The planning committee should include representatives from the international oil companies operating in Angola, government agencies, parastatals such as Sonangol (the national oil company) and civil society organizations, including development agencies. As with the above, this should be a long-term objective of the GoA, while they focus on a small number of achievable CSR issues in the near-term.

Implementation of CSR best practice within government and public recognition of the importance of CSR in meeting Angola's developmental goals:

4. Implement socially responsible business practices within government institutions: GoA agencies and parastatals can take a leadership role on CSR by showing accountability,

transparency and good governance at all levels and by implementing their own CSR programs focusing on e.g. ecoefficiency, labor standards and social inclusion in their employment policies.

5. Publicly endorse CSR, transparency, and social and community development partnerships.

Alignment of the CSR practices of oil companies with Angola's fundamental development challenges through partnership approach:

6. Work with companies and civil society to build CSR elements into the country's national development strategy contained in the Poverty Reduction Strategy Paper, known in Angola as the *Estratégia de Combate à Pobreza*, that allows for each sector to employ its comparative advantage in the implementation phase. Ad-hoc, project-based interventions would over time be substituted by sector-based or region-based sustainable development.
7. Provide a venue for GoA to consult with companies and civil society to determine priorities, discuss collaborative future actions and ensure peaceful and transparent working relations. Ideally, the proceedings from these stakeholder dialogues / consultations would be made publicly available on websites, or through broad dissemination.

Transparency and the rule of law:

8. Continue pursuing ongoing efforts to promote transparency with regard to legal requirements: clarity, predictability and enforcement are all necessary for CSR to function effectively.
9. Persist in efforts to reduce adverse perceptions of unethical behavior in relations between government and business, particularly related to payments made in return for access to natural resources. This must be enforced at all levels of government to augment existing efforts.
10. Publicize revenues from oil companies, including taxes, royalties, signature bonuses, and account for GoA expenditure of these payments, in keeping with ongoing reforms.
11. Simplify administrative procedures and bureaucracy pertaining to CSR implementation.

Capacity enhancement of stakeholders and potential development partners:

12. Strengthen local government institutions: Part of the country's planned decentralization depends on building the capacity of local, regional governments.
13. Encourage the development of domestic civil society organizations: Businesses need strong local partners to work with, and learn the local needs from. The GoA should seek to build capacity in civil society organizations by supporting the creation of local and regional networks of civil society organizations; by providing access to training programs and funding, where possible.
14. Improve the investment climate for local business: Like civil society organizations, local business needs access to capital / financing, information, and training programs.
15. Enhance the capacity of vocational and educational training for the Angolan oil sector, ensuring that training opportunities are aligned with the needs of employers in the sector.
16. Assist in building the capacity of Angolans to take part in the downstream operations associated with the oil sector, instead of just upstream capabilities. This may include providing incentives to educational institutions, training centers and businesses, including local banks, to encourage the development of local supply markets.

2.0 Summary of the global findings from the World Bank Group CSR program

<p>This section summarizes findings from the World Bank Group's program <i>Strengthening developing country governments' engagement with Corporate Social Responsibility</i>. Through activities and dialogue on specific sectoral or thematic issues in four countries (listed below), and a series of commissioned research projects on cross-cutting themes, the program explored the potential roles of the public sector within developing countries in relation to CSR.</p>		
Country	Sector	Issues
Vietnam	Footwear	Labor
El Salvador	General	Business and education
The Philippines	Mining	Socio-economic and environmental impacts
Angola	Oil	Local content, transparency and social development

The concept of corporate social responsibility (CSR) is based on the recognition that businesses are part of society, and that they have the potential to make a positive contribution to societal goals and aspirations. The CSR agenda places significant emphasis on relationships between enterprises and their stakeholders, both internal (e.g. workers, shareholders and investors) and external (e.g. customers, suppliers, civil society and community groups). Yet one set of key actors is often omitted from this conversation – the government. This is despite the overarching role of the government in setting the framework within which businesses operate, and the potential for aligning the outcomes of business activity to public policy goals.

To some extent, the absence of attention to the role of the government is a reflection of the immaturity of the CSR agenda, and that the term “CSR” has not yet taken hold within many government agencies. Yet there already is a wealth of examples of government actions that can and do promote corporate social responsibility, many of which have not been undertaken explicitly as CSR initiatives. These include traditional activities of labor and environmental regulators and inspectorates, and elements of the work of investment and export promotion agencies. Government agencies that do not use the term CSR are not necessarily doing any less than those that do. Indeed, they may prefer to deal with the challenges brought by the CSR agenda through more established terminology and approaches, in order to focus on the necessary responses and to communicate these to other actors.

Just as the significance of the government is often underplayed within the CSR agenda, so the link between public governance and CSR is seldom given due attention. But governance is an overriding factor in defining the type and trajectory of CSR that will emerge, and the respective roles of different stakeholders. Where the state provides a transparent and predictable business environment, with clear signals for business and enforcement of the law, not only are minimum standards more likely to be upheld, but also the efforts of private sector and civil society actors to promote better social and environmental practices through voluntary measures will be supported. In Angola, companies investing in the oil sector are realizing that if they are to respond to civil society demands that the revenues they generate are harnessed in support of public good such as poverty reduction, they need government support in ensuring transparency. The extent to which the government can underpin CSR through good governance has a strong bearing on the necessary roles of other actors.

But why should the government engage with the CSR agenda at all?

The first reason is the desire to maintain and enhance international competitiveness. In El Salvador, the Government sees CSR as a route to long-term national competitiveness, by capitalizing on the willingness of employers to invest in education and their desire for an educated workforce.

There are indications that CSR issues are increasingly influencing the investment and purchasing decisions of some multinational enterprises. This survey of 107 MNEs in the extractive, agriculture and manufacturing sectors found that over 80% of respondents consider the CSR performance of potential partners and locations before they enter into a new venture, with just under half choosing one host or source country over another on the basis of CSR issues. Indeed, the most striking link between CSR and competitiveness is made through codes of conduct, developed by buyers to manage social and environmental issues within their supply chains. These have become among the most widespread tools of the existing CSR agenda, alongside the compliance or monitoring schemes that are used to ensure that suppliers implement the codes. In Vietnam, the direct benefit of helping the domestic footwear sector to understand and adhere to labor codes of conduct is securing international contracts that would otherwise be awarded elsewhere. There may also be indirect benefits for individual enterprises in terms of productivity and quality improvements, and for the sector as a whole in attracting other buyers and investors. Cambodia accepts that its textile industry cannot compete with China simply on the basis of low input costs, and instead is seeking to position itself as a location for 'responsible' purchasing by building the capacity of suppliers to implement labor codes of conduct.

If codes of conduct can lead to the exclusion of enterprises (particularly SMEs) from international supply chains, there is a clear rationale for government support to help enterprises respond to them; we discuss possible interventions below. Having said this, it is important not to overstate the significance of codes of conduct. It is clear that they are being applied within the supply chains of a core of multinational enterprises in certain industrial sectors, notably garments and footwear, and to some extent agribusiness. For enterprises aiming to supply these sectors, there is increasing pressure to implement codes of conduct. But this is often not the case for enterprises in other sectors or for those supplying domestic markets.

The second reason for government engagement with CSR is to address current gaps in government capacity. This is a pragmatic response to situations where government agencies lack capacity to secure enforcement of legislation (for example in countries where codes of conduct are seen as a good tool to enforce implementation of the law) or resources for government expenditure (for example in El Salvador, where the fiscal gap undermines government investment in education). The idea of CSR filling temporary gaps also extends to the global regulatory context – CSR may prove to be a symptom of the current lack of a mature global governance framework, and developments in global governance may eventually reduce the need for codes of conduct and other CSR tools.

Thirdly, the government can apply CSR to facilitate partnerships and create synergies that use the complementary skills of government, private and civil society actors to achieve public policy goals. Even where there are fully functioning and well-resourced regulatory structures, it still makes sense to make the most of what different stakeholders can offer. For example, in El Salvador, the business community is able to provide financial expertise and mentoring for school managers, while in the Philippines, the Department of

² J. E. Berman and T. Webb 2003 *Race to the Top: Attracting and Enabling Global Sustainable Business: Business Survey Report*, Washington, D.C., World Bank.

³ Jørgensen et al. (2003) note that there is currently little understanding of the indirect business benefits of adhering to codes of conduct, such as improved productivity and lower staff turnover.

⁴ For detailed information and analysis of codes of conduct applied to five sectors (apparel; footwear and light manufacturing; agribusiness; tourism; mining; oil and gas), see G. Smith and D. Feldman 2003 *Company Codes of Conduct and International Standards: An Analytical Comparison* (Parts I and II), Washington D.C., World Bank.

⁵ Michael Klein, Vice President Private Sector Development: The World Bank, and Chief Economist, International Finance Corporation, addressing the International Conference on Public Policy and CSR, Washington, D.C. 8-9 November 2003.

Environment and Natural Resources sees communities as “active partners, not beneficiaries” in the context of the mining sector.

A fourth rationale for government engagement with the CSR agenda is to ensure that it is in line with the interests of local stakeholders and with national policy goals. The current CSR agenda, and its emphasis on top-down codes of conduct, reflects its primary association with large multinational companies and their stakeholders, particularly consumers, investors and international civil society organizations. As discussed above, government interventions may be necessary to ensure that domestic companies (particularly SMEs) are able to meet the supply chain requirements imposed by foreign buyers. But there is also a need to support the positive practices of domestic companies, including those operating outside international supply chains. Local visions of what it means to be socially responsible may well be quite different to those of international buyers. In Vietnam, some invitees to a conference on CSR assumed that the topics to be discussed would be assistance for flood victims and other needy people, rather than labor codes of conduct. In the Philippines, there is a need for mechanisms that involve and engage local stakeholders in planning a sustainable future for the mining sector.

Given the complexity of these drivers for government engagement, it may be useful to take a systematic approach to deciding on the most appropriate responses. The range of roles that government agencies might play can be situated within an overarching framework under four broad categories: mandating, facilitating, partnering and endorsing.⁷ The aim should be to map the overlaps between the CSR agenda and existing government activities, and to identify interventions that align business activities with public policy goals.⁸ For example, the Government of El Salvador is seeking to integrate CSR into a national plan for education, and sees its roles as, firstly, to establish clear policies in relation to CSR, and secondly, to facilitate partnerships between the private sector and educational institutions. The Government of Angola has passed legislation to set targets for hiring of local labor by foreign oil companies, in order to develop local skills and training.

There is clearly a range of activities that the government could play with respect to codes of conduct and other supply chain requirements. Ensuring consistent and transparent enforcement of the law is fundamental to supporting responsible business activity. A logical next step is providing information, training and other capacity building for local enterprises, both in terms of what standards are required and how they relate to national legislation. This could involve key stakeholders such as trade unions, industry associations and civil society groups. By coordinating the different actors, the government may be able to encourage collaborative capacity building that pools resources and expertise. But a more dynamic response would be to attempt to shape the codes of conduct and their implementation processes, both in the interests of domestic enterprises and the economy as a whole, and to maximize the benefits in terms of higher standards. For example, stakeholders in Vietnam have discussed the notion of a national framework for codes of conduct, which might form a

⁶ Edwin G. Domingo, Assistant Director, Mines and Geosciences Bureau, Department of Environment and Natural Resources, addressing the International Conference on Public Policy and CSR, Washington, D.C. 8-9 November 2003.

⁷ See Fox, Ward and Howard (2002) for a discussion of this framework and examples of public sector action under each of the categories.

⁸ See the Diagnostic and Appraisal Tool developed by Michael Warner for the CSR Practice, which takes users through a series of steps, helping them form recommendations on appropriate public sector interventions and instruments.

⁹ H. E. Rolando Ernesto Marin Coto, Minister of Education, El Salvador, addressing the International Conference on Public Policy and CSR, Washington, D.C. 8-9 November 2003.

basis to encourage coherence between different buyers' codes and national legislation, and may even facilitate joint audits of factories.

But there remains a need to explore how auditors inspecting against private codes of conduct, and the information gathered by them on standards within individual enterprises, could usefully complement and build the capacity of government inspectorates. By doing so, there may be scope to raise standards not only in export sectors, but also in enterprises producing for the domestic sector and in industries beyond those touched directly by codes of conduct. And questions remain about the limits to the implementation of codes of conduct in sectors characterized by short-term contracts and complex supply chains.

While the case of Angola demonstrates how the CSR agenda relies on transparency with regard to the activities of the government, government also has a role to play in ensuring the provision of transparent and reliable information on the activities and impacts of enterprises. It is in the interests of individual companies to differentiate themselves within a market in which discerning buyers (and increasingly, investors) favor high standards. There may be a role for the government in establishing a comparative framework to allow this, possibly linking higher standards to incentives such as tax concessions or export licenses.¹² In addition to these enterprise-level effects, data collected could be aggregated and used at a national level in positioning the country as a location for responsible sourcing or investment.

To make the most of the leverage that transparency can bring to bear on corporate performance, it may also be necessary for the public sector to support the capacity of civil society to demand and make use of this information, thus creating additional local pressure for better practice. Providing balanced information on the positive and negative impacts of business activity also has the potential to bring stakeholders into constructive debates. For example, in the Philippines, there is a clear need for broad civil society engagement and a mechanism that builds mutual trust and informed choices between stakeholders, as well as expanding each stakeholder's awareness of the possibilities presented by the mining sector.¹³

In exploring and performing its potential roles, the government can play an important function in shaping a national CSR agenda not only responds to external pressures such as codes of conduct, but is also in line with local needs. In assessing the opportunities that CSR provides, the challenge is for governments to identify priorities and incentives that are meaningful in the national context, building on the strengths of local enterprises as well as those of foreign multinationals. By doing so, there is a significant opportunity for the government to harness current enthusiasm for CSR to deliver against public policy goals and priorities.

¹⁰ Jørgensen et al. (2003) note that one of the main barriers to implementation of codes of conduct by suppliers is the fact that different buyers interpret even identical provisions in codes of conduct in different ways. This appears to be a greater barrier than the absolute number of different codes.

¹¹ For example, ten leading banks recently adopted the Equator Principles, a voluntary set of guidelines for managing the social and environmental issues related to the financing of development projects.

¹² For example, the Government of Cambodia has linked the granting of export licenses to garment manufacturers to their engagement in an ILO standards scheme.

¹³ C. L. Hubo (2003) *Corporate Social Responsibility (CSR) and Public Policy in the Philippine Mining Sector*, paper presented to the International Conference on Public Policy and CSR, Washington, D.C. 8-9 November 2003.

3.0 The CSR program in Angola

This section summarizes the backdrop against which the World Bank Group's CSR program in Angola is set – looking at social, political and economic circumstances in the country, followed by a look at the oil sector. The section then covers the objectives and activities of the CSR program in Angola.

3.1 Angola background

April 4, 2004 marked the second anniversary of the signing of the peace accord between the ruling MPLA and UNITA, which brought an end to one of Africa's longest and bloodiest civil wars. Angola's people and much of the country's infrastructure and social fabric have been devastated by the conflict which arose immediately following Angola's independence from Portugal in 1975. The 27-year civil war claimed 1.5 million lives out of a total population of 14 million and displaced an estimated 4.5 million people.

The challenges Angola is facing in its post-war reconstruction are enormous. These include the resettlement of an estimated 3.5 million returning refugees and internally displaced citizens as well as the social reintegration of more than 80,000 ex-combatants and their families; poverty alleviation; and the reconstruction of the country's economic and social infrastructure (the majority of Angola's provinces have no functioning health care due to the destruction of health posts and clinics during the war).

The conflict forced migration of inhabitants from the interior of the country to the coast, and from rural areas into urban areas. Currently 50 percent of the Angolan population lives in urban areas and its peripheries, yet the public sector and the economic and social systems are not poised to deal with this sudden urbanization.

Poverty is one of the greatest challenges facing Angola: the average life expectancy is 40.2 years; adult literacy rate (% age 15 and above) is 42 per cent¹⁴; infant mortality rate is 150 per 1000; 65 percent of the population is without access to clean water; 75 percent of the population is without basic sanitation facilities; 65 percent of the population has no access to primary health service and 70 percent of the population is living on less than US\$1 a day.¹⁵ According to United Nations estimates, almost half of Angola's 7.4 million children suffer from malnutrition.¹⁶

The Angolan government has developed an Interim-Poverty Reduction Strategy aimed at addressing poverty and promoting the economic development of the country. Table 1 shows some of the core developmental targets set by the GoA.

Education	<ul style="list-style-type: none">• Guarantee access to primary schooling to all children by 2015.• Eradicate adult illiteracy by 2015
Water	<ul style="list-style-type: none">• Increase access to portable water for 76% of the urban population and 48 % for rural areas by 2006.
Sanitation	<ul style="list-style-type: none">• Increase provision of sanitation for 79% in urban areas and 32% in rural areas by 2006
Primary health	<ul style="list-style-type: none">• Reduce infant mortality rate from 75% by 2015• Disseminate and create awareness on HIV/AIDS in the whole country

¹⁴ The UNDP Human Development Index 2003 (www.undp.org/hdr2003/indicator/cty_f_AGO)

¹⁵ Poverty Reduction Strategy Paper, *Government of Angola 2003*

¹⁶ Human Rights Watch press release, January 13, 2004 (www.hrw.org/reports/2004/angola0104)

¹⁷ Poverty Reduction Strategy Paper, *Government of Angola 2003*.

Physical Infrastructure	<ul style="list-style-type: none"> • Reconstruct and rehabilitate basic infrastructure
Employment	<ul style="list-style-type: none"> • No targets published
Rural economy	<ul style="list-style-type: none"> • Increase agricultural production to ensure food security

Prior to 1975 Angola was self sufficient in food production and was a major exporter of agricultural produce, particularly coffee and sisal. Today only 3 percent of its arable land is under cultivation. Previously important sectors, such as the agriculture and fishing, have given way to an economy heavily dependent on the oil sector and other extractive industries. The country earns the bulk of its income from the export of oil, diamonds and refined petroleum. The oil sector alone accounts for more than 40 percent of GDP, over 90 percent of total exports, and more than 90 percent of government revenues even though the sector only employs about 10,000 Angolans.

The task of creating employment and economic development in Angola is hampered by the dual economy resulting from the oil-based economy. Ironically, this oil-rich country is one of the most expensive in Africa, but salaries are extremely low, and failing to keep pace with the rising cost of living. The average inflation rate in 2003 was an estimated 77 percent. Over the next year, real GDP growth is expected to surge to double digits on the back of rising oil production, and inflation will rise to an average of 90 percent. The anticipated growth will be capital-intensive and import-dependent, with few linkages to other sectors of the economy or much impact on employment, according to the *Economist Intelligence Unit*. Economic performance will remain well below potential, owing to a weak physical infrastructure, poor economic policy and corruption.

3.2 Oil and gas sector in Angola and current challenges

Angola has a substantial proven reserve base in oil and gas (estimated at 12 billion barrels of oil and natural gas reserves of around 7-8 trillion cubic feet).¹⁸ In 2000, crude oil production was 775,000 barrels per day, with 50% of this output deriving from 16 Cabinda offshore oil fields. Recent discoveries of oil and gas, are expected to dramatically increase production, development, and exploration. Oil is the key growth driver for Angola, accounting for over 90% of total exports during the 1980s and 1990s.¹⁹

Studies have shown that the greater the dependence on oil and mineral resources, the worse the growth potential of the economy in question. Non-oil productive activities, like manufacturing and agriculture, are adversely affected by the oil sector in a phenomenon called 'the Dutch Disease'. This occurs when oil windfalls push up the real exchange rate of a country's currency, rendering most other exports non-competitive. Meanwhile, the oil sector cannot make up the shortfall. Because oil is an enclave and highly capital-intensive activity, it provides little employment and relatively few linkages with the rest of the economy.²⁰

3.2.1 Government management of the oil sector

The government monitors the oil sector through the Ministry of Petroleum and Sonangol, the national oil company. The National Bank of Angola and the Ministry of Finance at the same

¹⁸ www.angola.org/business/sector/agindex

¹⁹ Traders, *African Business Journal*, Issue 14, May 2003 – August 2003.

²⁰ "Angola: Poor still waiting for benefits of peace", UN Integrated Regional Information Networks, April 5, 2004.

²¹ Cilliers; 2000: p. 212.

²² Ibid: p. 196.

²³ Gary, 2003: p. 22-24.

time monitor taxes and royalty payments from the sector. Through its legal framework the state owns all hydrocarbon resources and Sonangol is the sole concessionaire for oil exploration and production in the country.

Sonangol's role in the oil industry:

- Oversee the petroleum operations of foreign companies.
- Recommend areas that should be opened for exploration.
- Conduct the bidding process and handle negotiations.
- Manage the development of services to support petroleum operations, commercialization of and distribution of refined petroleum products, and the export of crude oil.
- Serve as joint venture partner on each concession awarded to foreign oil companies.

Ministry of Petroleum's role in the oil industry:

- Designate and opening blocks for bids.
- Approve field development programs.
- Authorize the commercialization of production.
- Regulate field production levels.
- Review Sonangol's investment programs.

Box 1: The main flows of incoming petroleum revenues from the oil sector to the GoA

- Oil taxes (tax on oil transactions, tax on oil income, exploration rights) paid by international oil companies and by Sonangol (estimated at USD 1.7 billion in 2000).
- Payments of profit oil made by international oil companies and by Sonangol to the concessionaire (estimated at USD 1.08 billion in 2000).
- Oil taxes paid by Sonangol to the GoA (estimated at USD 1.36 billion in 2000).
- Signature bonus and other types of taxes paid by international oil companies to the GoA.
- Provincial payments (to the provinces of Cabinda and Zaire), paid by international oil companies to the provincial governments (estimated at USD 149 million in 2000).
- Loans received.

The total estimated incoming flows for 2000, including all taxes, profit oil, signature bonuses and participation on the net profit of Sonangol after payments of taxes, but excluding the loans received in 2000, were USD 4.3 billion.

It has been estimated that since its establishment, Sonangol has accumulated some USD 1 billion in signature bonuses alone, with social bonuses collected since 1997 totaling some USD 65 million.

Source: Executive Summary, Initial Report, Evaluation of Angolan Petroleum Sector, KPMG.

3.2.2 Oil company CSR initiatives²⁵

The Angolan oil sector is highly competitive. Among the largest players in the sector are Sonangol, ChevronTexaco, TotalFinaElf, BPAmoco, and Exxon Mobil. Other players include Eni (formerly Agip), Galp Energia, Marathon, Norsk Hydro, Occidental, Odebrecht, Petrogal, Prodev, Shell, and Statoil.

CSR activities undertaken by oil companies operating in Angola cover a wide variety of issues. **Social projects** addressing issues from general medicine and public health, HIV/Aids prevention, micro-credit, community development, to staff training, are the most common types of CSR activities. 'Angolanization' (the hiring of local staff in order to fulfill specific

²⁴ Ibid: p. 198.

²⁵ This section is primarily based on a study carried out by the Angola Educational Assistance Fund for the Corporate Social Responsibility Practice of the World Bank, Ettenborough, 2003.

quotas set by the GoA) and other **Economic CSR activities** include technology transfer initiatives, technical support to government (especially the Ministry of Petroleum) and local sourcing for procurement and service delivery.²⁶ **Environmental CSR activities**, cover environmental impact assessments (EIAs); attainment of or progress toward ISO 14000 certification²⁷; and activities to mitigate and/or compensate for the effects of mining and hydroelectric production. **Corporate Governance** are the least common CSR activities mentioned by oil companies active in Angola. This is likely a byproduct of the uneasy relationship that exists between companies and the GoA. It is, however, an area where the government could usefully work with companies to encourage and support greater disclosure and openness.

Though many of the 'hard' environmental challenges faced by oil and gas corporations are successfully managed through abatement technology, resource efficiency and habitat protection, the management of 'softer' social issues is a more difficult area, and an area that most often goes outside the traditional spheres of competency in the sector. Social issues that pose particular challenges to the sector include: promotion and protection of human rights; poverty alleviation and community development; maintaining the companies 'social license to operate' during periods of operational uncertainty and possible civil unrest; operating in a climate of violent conflict (managing security issues without taking sides); creating local (long-term) employment opportunities and contributing to the local economy in a sustainable way without creating dependencies; complying with requirements of regulators and investors for effective social impact mitigation (resettlement, income restoration, land rights settlements, contingency plans, environmental pollution compensation, etc.); managing inward migration; bribery and corruption; access to oil revenues by local/indigenous people; and recently the issue of transparency with regard to the flow of revenues to the host government.

The impact of social issues can create significant economic problems for companies resulting from economic compensation schemes, consumer boycott, or degradation of brand value. With regard to the brand value, it is clear that oil companies face stronger pressures in this regard than e.g. the mining companies due to the more direct down-stream association with consumers. Other future drivers / pressures will likely evolve from the recently launched Equator Principles²⁸ and similar initiatives.

In order to mitigate risks arising from these complex social issues, ensure compliance with local legislation as well as international initiatives, and thus build a social and political license to operate in Angola, the major oil companies are increasingly engaging in CSR. Many also see a direct business interest in certain projects, especially considering Angola's weak institutional framework for healthcare, education, utilities, etc.

There are, however, a number of internal and external constraints faced by Angolan oil companies in designing and implementing their CSR activities.²⁹ The **internal constraints** include such things as the impossibility of ever meeting the demand for CSR services from the local communities set against a backdrop of rising expectations (often referred to as the "Santa Claus syndrome"), difficulties in identifying good projects and the overall lack of transparency in the country.

²⁶ Ettenborough; 2003: p. 12.

²⁷ International recognized standard on environmental management systems.

²⁸ The Equator Principles are a voluntary set of guidelines developed by banks for managing social and environmental issues related to the financing of development projects. The banks agree to adopt the IFC's social and environmental rules for sustainable development, which include guidelines on issues ranging from environmental assessment and natural habitats to indigenous peoples and child and forced labor. The move to adopt the principles comes as financial institutions around the world grow increasingly sensitive to the reputational risk from participating in controversial transactions.

²⁹ Findings are based on the study carried out by the Angola Educational Assistance Fund for the Corporate Social Responsibility Practice of the World Bank, Ettenborough, 2003.

External constraints include the need for better coordination amongst the international development agencies and NGOs (and presumably also amongst the oil companies). Interestingly, most survey respondents declined to comment on constraints relating to the GoA.³⁰ The oil companies are clearly wary of their relationships with the GoA, which may in fact be one of the biggest external constraints for effective CSR coordination in the country.

The oil sector is likely to play a bigger role in CSR if given more concrete incentives, drivers and possible CSR guidelines / frameworks to develop a more systematic and focused approach to CSR design and implementation. The study suggests that an enabling environment for CSR is necessary and that the GoA has an important role to play to ensure that development benefits coincide with public policy.

3.3 The World Bank Group and technical assistance on CSR in the oil sector

3.3.1 World Bank Group projects in Angola

The World Bank's assistance to Angola is aligned with the GoA's Interim-Poverty Reduction Strategy Paper (PRSP). The Bank's involvement is outlined in the Transitional Support Strategy (TSS), which, in 2003, marked the Bank's post-conflict reengagement with Angola following the end of the civil war in April 2002. The Angola TSS has a strong focus on Economic and Sector Work (ESW), particularly with respect to transparency and governance issues. The CSR work was structured to underpin two pillars of the TSS: (1) to increase transparency in public resource management, and (2) to lay the groundwork for broad-based service provision and pro-poor growth.

The World Bank has also been engaging in a number of related projects with authorities with the same objective of enhancing public resource management, deepening transparency and strengthening accountability since Angola joined the Bank in 1989. In 1991, the Bank lent Angola \$20.6 million through the International Development Association (IDA) in the *Financial Institutions Modernization Project (FINSEC)*. After ten years, the project was considered successful in meeting its objectives of assisting in institution building and reform in Angola's financial system, helping stimulate resource mobilization, underpinning private investment, and promoting economic diversification. In 2002, the *Economic Management Technical Assistance (EMTA)* project was approved with the objectives of following up on FINSEC's success by helping complete the work on the establishment of Angola's payment system at the national Bank of Angola, another key area for greater transparency and efficiency in the conduct of monetary policy, and of broad public sector capacity enhancement.

The Bank initiated a *Country Procurement Assessment Report (CPAR)* designed to promote dialogue with the government on how to strengthen their public procurement systems. A further objective was to assess, in practice, the efficiency, transparency, and integrity of Angola's entire procurement system and the risk it may pose to the use of Bank funds. In 2002, the Bank, IMF and the Ministry of Finance in Angola commissioned KPMG to undertake an *oil sector diagnostic* analysis to determine the government's earnings and expenditures related to the oil sector. This can now be seen on the Ministry of Finance's website. In 2003, implementation began on the *Low Income Countries Under Stress (LICUS)* initiative, designed to review the rules of donor engagement in countries with particularly weak policies and institutions. In Angola, a three-pronged strategy is in place to target public, private and civil society actors to increase the transparency of natural resource revenue management. Most recently, the World Bank, with the support of the GoA, is undertaking a *Civil Society Assessment Tool (CSAT)* study which involves a complete inventory of the state,

³⁰ Ibid: p. 14.

structure and relationships of civil society in Angola. This is intended to assist the authorities in deepening their engagement with civil society in terms of a stronger CSR framework.

3.3.2 CSR technical assistance

Strengthening CSR is considered by most stakeholders from the private sector and civil society to be a necessary component in rebuilding Angola's war-torn infrastructure, reducing poverty, achieving development objectives, and repairing the perception of Angola's bad reputation in the international community. The majority of the foreign oil companies surveyed are very enthusiastic about working more closely with each other and the GoA on broadening the reach and impact of their CSR programs for the benefit of Angola's people.

The government's commitment to promoting CSR as a tool for Angola's development remains to be seen, but would be a logical consequence of the GoA's commitment to the various other public sector reform efforts mentioned above. A CSR workshop planned to be held in Luanda in December 2003, to be co-hosted by the World Bank Group, the Ministry of Planning and the Ministry of Petroleum, was postponed by the GoA, but has been tentatively rescheduled for June 2004.

The goal of the technical assistance to the GoA was to survey and benchmark the current state of play of CSR in the Angolan oil sector, compare that to national legislation, provide an analysis of the gaps, challenges, strengths and opportunities for CSR. Beyond this the goal was to identify potential government roles in strengthening CSR and broadening its reach in the context of Angola's development priorities. The outcome was to have been an implementation plan to serve as a roadmap for future action by the government.

Given the caution with which the World Bank Group's technical assistance was met by the public sector, the Angola CSR program has been limited in its reach. The first part of the goal has been achieved as evidenced in this report and its appendices, however, no such roadmap exists since it could only be credible if developed with the full support and collaboration of the GoA. It is expected that the issues, challenges and recommendations contained in this report will be seriously considered and discussed during the CSR workshop later this year and in other fora deemed appropriate by the GoA.

The World Bank Group CSR program in Angola focused on the following CSR issues:

1. Local content through (i) "Angolanization" and (ii) development of the local supply market.
2. Transparency and good governance.³¹
3. Social and community development.

The CSR program looked at some important questions – most notably: (1) Can CSR be scaled-up beyond the level of individual companies in order to make a real difference in meeting the country's developmental targets?; (2) What is the relationship between CSR and public policies in addressing poverty and social inequality?; and (3) Where should the line be drawn with regard to companies taking over the role of the public sector in delivering development and social services?

3.3.3 Local content

Since 1982, the GoA has consistently passed legislation to set ever higher targets for the international oil companies for their hiring of local staff.³² This process is known as

³¹ Initially there was a fourth CSR issue focusing on ensuring affordable energy solutions for the poor. However, this focus area was dropped, since it was found to be unrealistic to include energy provision as part of the CSR Angola pilot due mainly to lack of interest within the oil companies, and limited or absent coordination within the GoA.

'Angolanization'. Global experience shows that the risk with such targets in countries with poorly performing education systems is that they are not resulting in skilled staff being hired to fill quota needs, and this is creating inefficiencies for firms, instead of the win-win that was the objective of the targets. In Angola, while many companies have already achieved compliance with the unskilled worker targets, they are having difficulty in complying with the targets for higher-level staff because of a shortage of skilled labor. Several oil companies have programs to train mid- and higher-level staff at universities in their home countries. However, this leads to the problem that a number of the students choose to stay abroad after completion of their studies and thus are not contributing to the broadening of the skills base in Angola.³²

Recommendation: The GoA needs to ensure greater collaboration and shared strategizing over future skill needs and training provision with the oil companies. The GoA could usefully work with companies to undertake a systematic evaluation of existing private sector training initiatives to determine their cost effectiveness and success rates. Then the government should focus on an assessment of the labor skill needs of the oil companies and other potential investors; to what extent the existing system of vocational education and training (VET) and CSR initiatives falls short of providing these services; how the country's VET framework could be further strengthened through a more effective involvement of the private sector; and a strategy for improved alignment between CSR initiatives and the GoA's workplan. The assessment should also take into account existing education/training initiatives by entities outside the public sector, and evaluate the extent to which market failures resulting from the existing institutional framework potentially result in a sub-optimal provision of education and labor training. Based on this analysis as well as applicable experience from other countries, the GoA could assess different scenarios to improve or possibly restructure the existing system. It is critical that the skills identified are potentially transferable to other industry sectors, if this is to be in the long-term development interests of Angola.

Another key issue identified by both public and private sectors concerns **local sourcing**. It is common for the oil companies to import everything they need from technical equipment to food for their workforce. They simply cannot find high quality, cost competitive goods and services to procure locally, if they exist at all.

Several factors contribute to the underdevelopment of local business: 80% of Angolans are employed in the informal sector; small businesses have no access to capital; the majority of entrepreneurs have few skills, low educational levels and no previous business experience; there is no justice system in place to deal with commercial interests, land rights, etc.

Recommendation: The GoA needs to assist in building the capacity of Angolans to take part in the downstream operations associated with the oil sector, instead of just upstream capabilities. For example, local supply markets need to get into the business of maintaining and servicing oil blocks. This will be a longer-term endeavor than directing all capacity towards the construction of oil blocks, which will have a finite duration. The GoA could provide incentives to educational institutions, training centers and businesses, including local banks, to encourage the development of local supply markets. Ensuring that issues of accountability and transparency are built into this dialogue must underpin these efforts.

³² The staffing targets are based on worker grades: (1) 100% Angolanization for unskilled workers; (2) 80% Angolanization for mid-level workers; (3) 70% Angolanization for higher level staff, e.g. managers, geologists, engineers etc.

³³ Blakeley, 2003: p. 6.

3.3.4 Transparency and good governance

Transparency is a central pillar of CSR. The perception of openness and accountability will improve the general business environment, helping to attract foreign direct investment.³⁴ Increasing transparency with regards to financial disclosure enables stakeholders to hold governments accountable and ensure that revenues are managed for the benefit of society at large.

In the Angolan context, transparency and accountability are key elements in fighting poor governance and thus in mitigating the consequences of the 'resource curse'. It has been widely believed that resource abundant economies grow less than other economies. In an influential paper, Sachs and Warner (1997), point out that there is a negative relationship between resource abundance and growth. In the context of transparency as it relates to the disclosure of oil revenues paid to the GoA, this issue is clearly politically sensitive. The foreign oil and gas companies operating in Angola are very reluctant to participate in any debate on the issue (even when promised full anonymity³⁵) for fear of offending the GoA. At present foreign oil companies are bound by the non-disclosure agreements signed with the GoA not to reveal the amount of oil-related wealth changing hands. These agreements are often at odds with the companies corporate (headquarters-based) disclosure / ethics policies. Most international oil companies publish comprehensive sustainability reports that account for the companies' social, environmental and economic impact on society.³⁶ The oil companies have thus to a great extent already shown a willingness to be open, transparent and accountable with regard to their activities.

The Angolan government and oil industry has for some time been the target of an international campaign to increase transparency in the extractive industries. The *Extractive Industries Transparency Initiative* (EITI) was announced by UK Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. Its aim is to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host country governments.

In June 2003, DFID hosted the London Conference on EITI. Angola's Vice Minister of Finance acknowledged that transparency and good governance are instrumental to macroeconomic stability and growth, highlighted the recent civil war as an explanation for the lack of good governance in the country, and showcased the measures already underway in Angola to improve transparency and good governance. These measures include budgetary reform; common rules and procedures for budgeting and financial execution; a diagnostic study of the oil sector to provide the government with a medium term oil revenues forecasting model; and launch of the Ministry of Finance website, where fiscal data and regulations are published on a regular bases.³⁷ The GoA has, in principle, endorsed the EITI and is actively considering full participation based on an assessment of the legal implications.

Recommendation: The GoA should continue its efforts to promote transparency with regard to legal requirements: clarity, predictability and enforcement are all necessary for CSR to function effectively. As in any market-based system, CSR depends on accurate information flows in order for firms to receive a market reward for their CSR investments. If Angola wants to enhance its reputation in the international community, the government must make a credible commitment to transparent political and business practices by pursuing ongoing

³⁴ Research by the Copenhagen Centre and AccountAbility has highlighted the importance of corporate responsibility and related issues in the competitiveness of regions and nations, see Swift (2002) and Zadek (2003).

³⁵ As was the case in the study 'Corporate Social Responsibility, Public Policy and the Oil Industry in Angola' (Ettenborough, 2003).

³⁶ For this reason the reports are also known as 'triple bottom line reports'.

³⁷ Statement by Graca, Vice-Minister of Finance of Angola, www.dfid.gov.uk/News/files/eiti_draft_report_angola.htm

reforms. The best way³⁸ to address issues raised by international campaigns, such as the ‘PublishWhatYouPay’ and the EITI, calling for more transparency within the oil sector, will be to continue making serious efforts to reform war-time accounting and transparency practices.

3.3.5 *Social and community development*

The CSR spend of oil companies is heavily concentrated in the area of social and community development. The bulk of oil companies’ CSR activity in Angola has been focused on humanitarian responses from a quasi-philanthropic perspective. Recognizing the unique opportunity to impact on the shared objective of peace and development in Angola, companies appear ready to ratchet up that CSR involvement to a more strategic level, provided that they see a real commitment from the GoA to seek a more efficient and transparent partnership with the oil companies.

The World Bank worked with the Fundo de Apoio Social (FAS) to explore opportunities for oil companies to collaborate more closely and join forces to address social and community development issues common to all. FAS is a governmental agency created on October 28, 1994 by Decree 44/94 to implement part of the credit (2802 – A/ANG) negotiated between the Government of Angola and the World Bank. The objective of the FAS project is to contribute to the sustainable utilization of basic social and economic services through restoring Angola’s social and economic infrastructure, capacity building of community-based organizations and local administration, and designing a monitoring and evaluation scheme. Several oil companies are considering membership in FAS III.

Box 2: The Angola Partnership Initiative

ChevronTexaco (the largest foreign oil producer in Angola) has entered into a US\$ 50 million five-year public-private partnership in Angola – ‘The Angola Partnership Initiative’ (API). The partnership aims to provide support for countrywide education, training and small business development activities. The API, which seemingly is one of the first of its kind in Angola, is a significant departure from the usual development approach by oil companies to focus solely on development projects located in the vicinity of their operations and to the uncoordinated go-it-alone strategy. The partnership involves ChevronTexaco, USAID and UNDP, and has included conversations with many of the key development players in Angola.

Recommendation: The GoA should seize the opportunity to partner with oil companies and civil society to jointly address social and community development issues. This should take the form of developing the capacity of domestic civil society organizations as well as local government authorities, both of which could play a more active role in social development. Partnerships involving the GoA, oil companies and relevant civil society counterparts could be an effective way to create synergies between the complementary skills of the three sectors to achieve public policy goals related to sustainable development.

³⁸ The ‘PublishWhatYouPay’ campaign aims to help citizens of resource-rich developing countries hold their governments accountable for how revenues from oil, gas and mining industries are managed and distributed. For more information see www.publishwhatyoutpay.org

4.0 Recommendations for public sector roles

This section summarizes the key findings from commissioned research and offers World Bank Group recommendations on possible public sector roles to help address identified challenges.

The roles that the GoA can play in promoting and enhancing CSR in Angola³⁹ can be broken down into four focus areas: Mandating, facilitating, partnering and endorsing.

Mandating	Laws, regulations, penalties, and associated public sector institutions that relate to the control of some aspect of business investment or operations.
Facilitating	Setting clear overall policy frameworks and positions to guide business investment in CSR, development of nonbonding guidance and labels or codes for application in the marketplace, laws and regulations that facilitate and provide incentives for business investment in CSR by mandating transparency or disclosure on various issues, tax incentives, investment in awareness raising and research, and facilitating processes of stakeholder dialogue (though not necessarily in the lead).
Partnering	Combining public resources with those of business and other actors to leverage complementary skills and resources to tackle issues within the CSR agenda, whether as participants, convenors, or catalysts.
Endorsing	Showing public political support for particular kinds of CSR practice in the marketplace or for individual companies; endorsing specific awards schemes or nongovernmental metrics, indicators, guidelines, and standards; and leading by example, such as through public procurement practices.

The GoA faces a unique opportunity to address Angola's fundamental development challenges, mitigate against risks associated with an over-reliance on the oil sector within the overall economy, and respond to calls for transparency in the application of oil revenues by making a serious commitment to the CSR agenda. By aligning the CSR practices of oil companies with the country's pressing development needs and tackling the obstacles to further progress in the CSR agenda in an open and collaborative manner, the GoA can achieve valuable results.

It is anticipated that the impending CSR workshop in Luanda will serve as a venue for a discussion of the government's priorities related to CSR and its role in Angola's development. This should include the elaboration of the World Bank's recommendations and the most feasible sequencing of initiatives. It is not expected that all suggestions could, or even should, take place simultaneously. It is with the recognition of these opportunities as well as challenges, that the following recommendations are made to the GoA.

Development of CSR framework / roadmap for the oil sector to coordinate activities (facilitating):

1. Establish formal responsibility for promoting CSR: One of the ministries should be given formal responsibility for CSR to create a mechanism through which the GoA and the business community can engage. The unit should also provide a CSR capacity-building and training function aimed at civil society (non-profit organizations, faith-based

³⁹ These four focus areas of public sector roles in strengthening CSR were first introduced in Fox; 2003.

⁴⁰ "Public Sector Roles in Strengthening CSR: Taking Stock", Halina Ward for The World Bank, February 2004, p.5.

organizations, community-based organizations, etc.), public servants, and the business community. Serve as primary source of information on CSR activities, programs and contacts with other organizations engaged in CSR around the world and within Angola.

2. Coordinate and promote CSR activities at provincial and local levels: The GoA should start with the formulation of public policy on CSR, then encourage the proliferation of CSR activities at local levels to address local development objectives. This should be a long-term objective of the GoA, while they focus on a small number of achievable CSR issues in the near-term.
3. Establish a CSR oil sector action plan that could lead to a CSR framework. The planning committee should include representatives from the international oil companies operating in Angola, government agencies, parastatals such as Sonangol, and civil society organizations, including development agencies. The CSR oil sector action plan should include: a) milestones for a CSR framework; b) identification of development priorities; c) development of the partnership approach to implement and coordinate projects; d) identification of funding sources; e) monitoring and evaluation mechanisms; f) coordination framework with appropriate government departments involved; g) memorandum of understanding and declarations, where necessary, between relevant actors; and h) training and capacity building programs. As with the above, this should be a long-term objective of the GoA, while they focus on a small number of achievable CSR issues in the near-term.

An example of this type of approach / framework comes from the Chad-Cameroon Oil and Pipeline Project which provides a new model of transparent revenue management. This model is not being heralded as the solution for Angola, since Angola is making progress with more orthodox financial management reforms. There are, however, some interesting good-practice examples of collaboration and partnership at play in countries facing similar challenges.

Box 3: Chad-Cameroon Oil and Pipeline Project
<p>The Chad-Cameroon Oil and Pipeline Project is one of the largest private sector investments in Sub-Saharan Africa. The project will carry oil from oilfields in southern Chad through a 1,000-km underground pipeline, with a capacity of 250,000 bpd, to the Cameroon coast. A 12-km offshore pipeline connects to a floating marine terminal where tankers are loaded for the world market.⁴¹ It is a large-scale 'tri-sector' partnership involving the World Bank, the governments of Chad and Cameroon, and the oil companies Exxon Mobil, ChevronTexaco and Petronas.</p> <p>Both Chad and Cameroon are extremely poor countries with weak institutions, high levels of corruption and poor records of human rights abuses and lack of democratic traditions. Chad furthermore has a long history of conflict both internally and with the neighboring country of the Central African Republic.</p> <p>Because of the political risks involved in the project, the multinational oil companies actively sought World Bank involvement from the outset. The World Bank participation provided much needed 'political cover' for the multinational oil companies, as well as financing for the governments of Chad and Cameroon to participate in the oil consortium developing the project.⁴² The World Bank has focused discussions on the poverty alleviation potential of the project and has insisted on a set of social and environmental safeguards not found in other oil projects.</p> <p>So what makes this project a possible model for future oil projects in poor oil-exporting countries?</p> <p>World Bank safeguards include:</p> <ul style="list-style-type: none">• An External Compliance Monitoring Group monitors oil companies compliance with the environmental management plan.

⁴¹ Gary, 2003: p. 60.

⁴² Ibid: p. 64.

- An International Advisory Group (IAG), independent of the Bank and composed of 'eminent persons' from academia, civil society and government in Europe, the U.S. and Africa, oversees the progress of the project and the adherence to environmental and social safeguards. The IAG makes regular field visits and reports directly to the World Bank president and the public at large.
- An elaborate individual and community compensation plan is being implemented to benefit those affected by pipeline and oil field construction.
- The oil consortium agreed to devote significant resources towards complying with social and environmental safeguards.
- The pipeline was re-routed from its initial path to avoid some of the most environmentally sensitive areas and to protect indigenous communities. Two environmental 'set asides' are being established in the form of new national parks in Cameroon to compensate for environmental damage from the pipeline construction.
- A revenue management plan was developed for Chad which stipulates a division of revenues: 10% will be deposited in an offshore account and invested in long-term external investments whose proceeds will be used for poverty reduction programs in a post-oil future; the remaining 90% will pass through Treasury 'Special Petroleum Revenue Accounts' and will be divided as follows: 80% devoted to expenditures in five priority sectors (education, health and social services, rural development, infrastructure, and environmental and water resources), 5% allocated as a supplement to the oil-producing region to be programmed by local authorities, and 15% to finance recurrent government expenditures.⁴³

The fundamental institution and key innovation in the Chad revenue management plan is the joint government-civil society Petroleum Revenue Oversight and Control Committee (the Revenue Oversight Committee). The nine-member committee has five government members and four civil society members, consisting of local development NGOs, trade unions, human rights groups, and religious groups (Muslim, Catholic and Protestant on a rotating basis). The committee's main mission is to verify the government's compliance with the revenue management law and account for and authorize the disbursement of funds from special accounts. The best laid plans are not beyond reproach, and recently the Oversight Committee has been accused of operating with a murky mandate and unclear operational policies. The government's response and the ultimate efficacy of the plan remain to be seen, but this is an interesting model to watch.

Source: Bottom of the Barrel – Africa's Oil Boom and the Poor, Gary, I., et al., Catholic Relief Services, 2003.

Implementation of CSR best-practice within government and public recognition of the importance of CSR in meeting Angola's developmental goals (Endorsing):

4. Implement socially responsible business practices within government institutions: GoA agencies and parastatals can take a leadership role on CSR by showing accountability, transparency and good governance at all levels and by implementing their own CSR programs focusing on e.g. ecoefficiency, labor standards and social inclusion in their employment policies.
5. Publicly endorse CSR, transparency, and social and community development partnerships. This may include endorsing such global initiatives as the EITI, continuing to cooperate with internal development agencies like the World Bank and engage regional and international CSR networks and forums.

Alignment of the CSR practices of oil companies with Angola's fundamental development challenges through partnership approach (partnering):

Tri-sector partnerships usually involve the transfer of knowledge and technology from the private sector to both local authorities and local civil society / local business. Partnerships

⁴³ Ibid: p. 68.

provide a new model for converting the wealth generated by the private sector into sustainable local development; can create broad consensus on a more efficient distribution of responsibilities, incentives, regulations, costs, risks and benefits between business, government and civil society; can build long-term relationships between multiple, non-traditional parties; and can deliver a higher-level of development impact and business benefit than could be achieved by bi-sector partnerships where business works with either government or civil society.

6. Work with companies and civil society to build CSR elements into the country's national development strategy contained in the Poverty Reduction Strategy Paper, known in Angola as the *Estratégia de Combate à Pobreza*, that allows for each sector to employ its comparative advantage in the implementation phase. A natural role for government is to serve as a catalyst for development. It is not feasible or desirable for the GoA to engage in development unilaterally, but on the other side of the spectrum it is not prudent to allow companies to overtake this role. Ad-hoc, project-based interventions would over time be substituted by sector-based or region-based sustainable development.
7. Provide a venue for GoA to consult with companies and civil society to determine priorities, discuss collaborative future actions and ensure peaceful and transparent working relations. Ideally, the proceedings from these stakeholder dialogues / consultations would be made publicly available on websites, or through broad dissemination.

Transparency and the rule of law (mandating):

8. Continue pursuing ongoing efforts to promote transparency with regard to the legal requirements: Clarity, predictability and enforcement are all necessary for CSR to function effectively.

The GoA should ensure predictable and equal enforcement of policy and law pertaining to CSR. An international business survey conducted in 2003⁴⁵ has shown that companies in general prefer strong laws on CSR and strong enforcement of these laws. A study⁴⁶ has shown that Multi-national Enterprises (MNEs) do not see a 'race to the bottom' of CSR laws and CSR enforcement to be conducive to an attractive investment environment. Sixty-one per cent of respondents indicated that it is strong laws on CSR issues that they seek and find most desirable. The government action they most welcome is enforcement of laws related to CSR issues.⁴⁸ Importantly, respondents indicated that unevenly applied laws encourage corruption, which imposes both costs and risks on MNEs. Uneven enforcement leads to selective enforcement against MNEs as a soft form of protectionism, or even as an expression of tension between the home and host governments.

The GoA's enforcement efforts could be complemented by the development of local dispute resolution mechanisms, implementation guidelines, etc. Host governments should ensure that applicable laws are consistent with internationally accepted principles and should provide guidance on the application of laws in order⁴⁹ to ensure consistent compliance by companies and consistent regulation by authorities.

⁴⁴ Secretariat for the Business Partners for Development's Natural Resources Cluster.

⁴⁵ "Race to the Top: Attracting and Enabling Global Sustainable Business - Business Survey Report", The World Bank, October 2003.

⁴⁶ Berman, 2003; p. 30.

⁴⁷ Research by the Copenhagen Centre and AccountAbility has also highlighted the importance of corporate responsibility and related issues in the competitiveness of regions and nations (see Swift (2002) and Zadek (2003)).

⁴⁸ See also Jørgensen, 2003: p. 10.

⁴⁹ Ibid: p. 72.

The World Bank Group commissioned a legal analysis⁵⁰ comparing the codes of conduct of the oil and gas industry operating in Angola to provisions embodied in the Angolan legal system as well as to international standards or benchmarks such as the Universal Declaration of Human Rights 1948, the International Labor Organization Conventions and Recommendations, etc. The comprehensiveness of the codes of conduct of the oil companies is evidence of a sector that is fairly sophisticated in terms of dealing with CSR. The challenge for foreign oil companies is in squaring their corporate codes and policies with the shifting laws governing the oil sector in Angola. The legal analysis emphasizes the need for the GoA to enact binding and enforceable laws that are not going to be overridden by a backdoor deal or change of administration.

9. Persist in efforts to reduce adverse perceptions of unethical behavior in relations between government and business, particularly related to payments made in return for access to natural resources. This must be enforced at all levels of government and not tolerated as a cost of doing business.
10. Publicize revenues from oil companies, including taxes, royalties, signature bonuses, and account for GoA expenditure of these payments, in keeping with ongoing reforms. These revenues should be an important engine for economic growth and social development. Increased transparency and accountability will enable Angolan citizens and institutions to take part in the monitoring and enforcement process, thus, freeing up considerable government resources. Moreover, this will improve public perception of Angola's business climate, helping the country attract foreign direct investment.
11. Simplify administrative procedures and bureaucracy pertaining to CSR implementation.

Capacity enhancement of stakeholders, potential development partners and the Angolan people (facilitating):

12. Strengthen local government institutions: Part of the country's planned decentralization depends on building the capacity of local, regional governments.
13. Encourage the development of domestic civil society organizations: Businesses need strong local partners to work with, and learn the local needs from. The GoA should seek to build capacity in civil society organizations by supporting the creation of local and regional networks of civil society organizations; by providing access to training programs and funding, where possible. Currently, civil society organizations in Angola face both economic and political constraints as well as lack of capacity that must be overcome before they can play any serious role in strengthening CSR in Angola.
14. Improve the investment climate for local business: Like civil society organizations, local business needs access to capital / financing, information, and training programs.
15. Enhance the capacity of vocational and educational training for the Angolan oil sector, ensuring that training opportunities are aligned with the needs of employers in the sector. The GoA could usefully undertake a systematic evaluation of existing private sector training initiatives to determine their cost effectiveness and success rates. Then the government should focus on an assessment of the labor skill needs of the oil companies and other potential investors; to what extent the existing system of vocational education and training (VET) and CSR initiatives falls short of providing these services; how the country's VET framework could be further strengthened through a more effective involvement of the private sector; and a strategy for improved alignment between CSR initiatives and the GoA's workplan.

⁵⁰ Oil and Gas Industry Codes of Conduct and Angolan National Legislation, December 2003.

16. Assist in building the capacity of Angolans to take part in the downstream operations associated with the oil sector, instead of just upstream capabilities. For example, local supply markets need to get into the business of maintaining and servicing oil blocks. This will be a longer-term endeavor than directing all capacity towards the construction of oil blocks, which will have a finite duration. The GoA could provide incentives to educational institutions, training centers and businesses, including local banks, to encourage the development of local supply markets.

Appendix A: List of Key Terms and Acronyms

AICC	African Institute of Corporate Citizenship
Angolan Provincial Governments	18 provinces: Bengo, Benguela, Bie, Cabinda, Cuando Cubango, Cuanza Norte, Cuanza Sul, Cunene, Huambo, Huila, Luanda, Lunda Norte, Lunda Sul, Malanje, Moxico, Namibe, Uige, Zaire.
Angolanization	The procedure by which the training of Angolan workers and the gradual placement of Angolans into management and other positions of responsibility is encouraged.
Corporate Governance	The system by which business corporations are directed and controlled.
CSAT	Civil Society Assessment Tool
CSR	Corporate Social Responsibility
DFID	Department for International Development (UK)
EIA	Environmental Impact Assessment
EITI	Extractive Industry Transparency Initiative
EMTA	Economic Management Technical Assistance
FINSEC	Financial Institutions Modernization Project
GoA	Government of Angola
IDA	International Development Association
IFC	International Finance Corporation
LICUS	Low Income Countries Under Stress
MNE	Multi-national Enterprise
NGO	Non-Governmental Organization
PRSP	Poverty Reduction Strategy Paper
Sonangol	Sociedade Nacional de Combustiveis de Angola
Transparency	A measure for just, sound and sustainable government and/or business activities.
TSS	Transitional Support Strategy
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WBG	World Bank Group

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