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Contents

1. Introduction[1]

Multinational oil companies and oil service firms (hereafter referred to as oil companies) are increasingly active in Angola. In 2003, Angola received US$ 1.4 billion in foreign direct investment (FDI). After Morocco and Equatorial Guinea, Angola received the most FDI inflows in Africa.[2] The figures for the two previous years were even higher. Investments in the immediate future seem likely to remain within the range US$1-2 billion per year. Almost all of the investments are in oil and diamond activities. Oil production is currently at around 1.1 million barrels per day, but it is expected that production will double within five years. After Nigeria, Angola is the largest producer of oil in Sub-Saharan Africa. In recent years, extensive new reserves have been found in deep water. Business is thriving. At the same time, a war-torn Angola faces a prevailing humanitarian and political crisis after nearly 30 years of civil war.

Despite being a resource rich country with 3% annual growth per year (11% in 2004), the development impacts of the activities in the oil sectors have had a limited effect on the rest of the economy and poverty is widespread. Inflation is very high (31% in 2004, down from 76% in 2003), and the country has been able to develop hardly any local industry. Oil companies have therefore been criticised, particularly by NGOs, for not taking due account of the developmental impact of their extraction of resources.

Companies are obliged to comply with public laws and regulations (pay taxes and obey environmental regulations, for example). The World Bank provides a guideline towards *what* responsibility multinationals have towards its stakeholders by defining corporate social responsibility (CSR) as the commitment of businesses to contributing to sustainable economic development, working with employees and their representatives, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development (see, for instance, World Bank 2003a). On the face of it, CSR therefore refers to more than profit maximization under the constraints set by public regulations. The definition is based on a stakeholder perspective, where the firm has responsibility not only towards its shareholders, but also towards other stakeholders, such as employees and the local community. In addition to 'economic' and environmental dimensions, it explicitly refers to the social dimension of corporate social responsibility.

There are at least two problems with this guideline (as with similar guidelines as for instance the OECD guidelines for multinational enterprises and the Global Compact). Firstly, if other agents are not pursuing their responsibility, it does not give any guideline as to what the firm should do. Based on a utilitarian moral perspective, one of the strongest defenders of undertaking a strict moral division of duties between firms and the government, we argue that the oil companies should take more responsibility when the government takes less and that the responsibilities of the oil companies cannot be seen in isolation from how other agents take responsibility. Secondly, the guideline takes it for granted that all things go together in a positive way (that profit increases when firms are more

[1] We are grateful for comments from Ivar Kolstad, Gaute Torsvik and Roberto Gargarella; Tchissole Carvalho, A-IP and Natalia Silva, A-IP have provided research assistance. A special acknowledgement to the late Mario Adauta, who played an important role in generating the project. Financial support from NORAD and the Norwegian Research Council is acknowledged. We also appreciate comments from participants at the Nordic Conference in Development Economics, Helsinki 21-22 June 2005. A previous version of this paper was presented at a dialogue meeting in Luanda, 26 November 2004, and at a human rights seminar at the Chr. Michelsen Institute, 19 April 2005.

[2] http://www.unctad.org/en/docs/wir2004ch2_en.pdf (see page 4).

responsible). The guideline is therefore unsuitable when discussing dilemmas – it argues for Pareto improvements only. Dilemmas of the utmost importance face oil companies in countries like Angola. Some kinds of socially responsible act can, for instance, dwarf the benefits of the corporation, even in the long run. If this is the case, what should the company do? Based on Cappelen and Kolstad (2005), we argue that there are two general conditions for assigning responsibility to companies. If *other institutions/agents do not* take responsibility while *corporations are able* to (have the capability) take this responsibility, then the companies should take additional responsibility. There could therefore be situations where other institutions do not take responsibility, but where the corporation can, in which corporations should deviate from profit maximization and act in a socially responsible manner. Taking this responsibility should be temporary and *pave the way* for public institutions to take over these responsibilities.

The article is structured around two interlinked types of questions, one normative and one descriptive:

1. What is the responsibility of oil companies in Angola? Do oil companies have a special responsibility to use corporate resources to fight poverty and improve living standards in Angola?
2. Which responsibilities do oil companies take? What drives CSR behavior for corporations? How is the government mandating laws and regulations and giving incentives towards CSR investments by the firms? How does the government trade off various CSR dimensions?

Sections 2 and 3 focus on normative issues, while the following sections deal with positive analyses (focusing on what oil companies are doing). Section 2 analyses criteria for assigning responsibility, assessing the social responsibilities of oil companies in particular. We contribute to the literature on business ethics by explicitly including how responsibility can be shaped in resource rich countries that lack institutions to redistribute oil revenues, that invest revenues well, and that promote competition. We combine the literature on business ethics, the utilitarian perspective in particular, with the literature on the resource curse. The interface between these theories is that the resource curse impedes the development of proper institutions dealing with the distribution of oil revenue. In section 3 we analyse whether the criteria for assigning responsibility discussed in section 2 hold in the Angolan context. Section 4 analyses the responsibility that the oil companies take in Angola. Section 5 concludes.

2. The resource curse, business ethics and responsibility

In spite of being rich in terms of resources, Angola faces a humanitarian crisis of various dimensions, and human suffering is significant according to all relevant statistical measures, both in absolute and in relative terms. It is common knowledge that the resource curse means that a windfall income from oil or mineral resources may turn out to be a curse rather than a blessing (Auty 2001; 1993; Sachs and Warner 1995; 1999; 2001), particularly if resource rich countries *lack* proper institutions to deal with the curse (Mehlum, Moene and Torvik 2002; Eifert et.al., 2003). Cross-country economic growth varies inversely with the share of real capital in national wealth. The mechanisms for this inverse relationship can vary across countries. Frequently, observers point to the so-called Dutch disease: the resource rent from oil may increase the domestic price level, thus crowding out other exports and industries (van Wijnbergen 1984; Krugman 1987). Through the change in the composition of production, learning by doing effects are reduced, leading to a fall in productivity and economic growth. Gylfason (2001) shows that natural resource abundance leads countries to neglect the development of human resources. He argues that natural resource based industries are less high-skill intensive than other industries and thus confer relatively few external benefits on other industries. It is also well documented that the resource rent may lead to rent seeking behaviour among producers (Baland and Francois 2000; Torvik 2002).

Even more important from a responsibility point of view than the discussion above (where institutions are exogenous to the activity of the oil companies) are the mechanisms that have a negative impact on the prevailing institutions in a country, or inevitably make these countries unable to develop good institutions. Karl (1997; 1999) argues, for instance, that the rent moulds the social and political institutions of a country into a 'rentier' state, while Ross (2001a) shows that access to resources hurts democracies. Ross (2001a) found that oil does hurt democracy, both through a rentier effect (through lowering tax rates and raising spending rates), a repression effect (through the increase of security forces) and a modernization effect (populations do not move to industrial and service jobs), thereby postponing the development of proper democratic institutions.

Other authors have focused on specific issues, such as corruption and civil war, which are of particular importance in the Angolan context. With regard to corruption, the windfall gain from oil may, for instance, impede government policies and economic growth through corruption (Leite and Weidmann (1999). Oil rich developing countries (such as Azerbaijan, Chad, Angola, Ecuador, Nigeria, and Iran) generally have higher levels of corruption than other countries as measured by the Transparency International corruption perception index. Non-transparency of oil revenue is pointed to as a core variable facilitating corruption and corruption in turn is detrimental to the development of institutions in a country. Collier and Hoeffler (2000), for their part, found that resources fuel civil war (see also Le Billon, 2000).

The lack of proper institutions dealing with oil revenue brings questions of corporate social responsibility to the fore, but companies may lack guidelines for dealing with them, particularly if being socially responsible leads to a reduction in company profits. Our departure for such guidelines is based on the literature on business ethics. The academic discipline of business ethics has evolved substantially in recent decades. There is now a range of diverse theories and perspectives on the role and responsibilities of corporations (cf. Frederick, 1999 and Donaldson et al, 2002). Literature on international business ethics, focusing explicitly on multinational corporations, is limited and insufficiently informed on the relevant characteristics of developing countries. For instance, the literature that seeks to delimit the responsibility of the private sector versus that of the state assumes the context of a well-functioning state which can assume a set of duties. In many developing countries, this is simply not the case. As discussed above, a lack of proper institutions to deal with the use of oil revenue is one example of the resource curse. Moreover, the private sector may have an impact on the evolution of the state (and vice versa), an interaction which existing theory has not explored in any great detail, and which implies that a delineation of responsibilities is a more complex task than assumed in previous work.

The approach taken in this paper on delineating who has responsibility is based on a consequentialist or utilitarian business ethics perspective, as elaborated in Kolstad and Cappelen (2005). According to a utilitarian perspective, firms mainly have the responsibility of profit maximization, while the government has the main responsibility for providing public goods (to provide its citizens with, for instance, primary education and health care). The private sector (government) can normally provide private (public) goods with more efficiency and legitimacy than the public (private) sector. Utilitarianism is not particularly interested in distribution issues, but takes as its primary aim the attainment of the maximum possible utility of a society as a whole. Utilitarianism only shows an interest in redistribution in so far as it has an impact on overall utility – in the case, for instance, when the loss of utility for the rich is much smaller than the gain of utility for the poor. If the government does not take its share of responsibility, it follows from a utilitarian perspective that the responsibility of other agents may increase insofar as the consequences of their acts increase overall utility. The oil companies should only take such responsibility if others are not taking their assigned responsibility, and the oil companies have the capability to do so. It could also be the case that this also includes action that is costly to the firm.[3] We see responsibility as contingent on the capability of agents to perform their assigned duties. What a corporation can do, therefore, influences what it ought to do. On this basis, four general characteristics of the oil sector that influence which agent has responsibility, and the type of responsibility oil companies have, are discussed below. Our focus is on the aspect of non-renewable resources as the key determining the factor of responsibility.

i) Non-renewable resources - investments matter
From a utilitarian perspective, investments are necessary for future growth. Assets under ground (oil) have to be substituted for by other real assets, financial assets or human capital in order to maintain the capital stock and promote future growth in a country. It is primarily the government (say in Angola), which has the responsibility not to reduce the capital stock (or to undertake public investment) and thereby influence income distribution across generations. If the government does not invest or lacks distributional mechanisms across generations, and therefore is not fulfilling these precepts, who else can do it? From a utilitarian perspective, the oil companies' responsibility arises when their activities have a *causal* effect of depleting the resources and reducing the quality of the prevailing institutions in a country. The oil companies therefore in turn have the duty to counteract this effect, particularly if they have the capability to do so. T*he oil companies' responsibility therefore increases when the exploitation of oil leads to a reduction of a country's capital stock (including human capital).*

Other agents may also have responsibilities. The host governments of the oil companies (which regulate their activities and receive tax income and, in some cases, are also owners: the Norwegian and Italian governments, for instance) have a large responsibility. What should the oil companies do? If neither the host government nor the international community take responsibility for influencing distribution across generations by maintaining the capital stock, oil companies should support institutions that do. To sketch the type of activities the companies can undertake: they can provide public management support (oil funds and various initiatives towards transparency in financial management), support human capital development and support the use of local resources.

ii) Immobile resource – distribution matters
Oil is by nature's choice randomly localised across localities. There is no international tax regime distributing income from oil across nations, but in many countries there is a system of regional transfers of income to oil-producing regions (to Cabinda in Angola, for instance). From a utilitarian perspective (with decreasing utility of income), oil taxes should be higher in poor countries than in rich countries because the welfare increase of transferring a dollar to the poor is higher than it is to the rich (such as a multinational firm or rich people in a country). Following such a perspective, oil companies' responsibility increases when: i) oil taxes and fees are low (a low share to the Angolan government); ii) the host government lacks proper distribution mechanisms. Regarding the type of activities the oil companies can undertake, we have little to add, apart from the transparency and human capital issues discussed above.

[3] Corporate profit maximisation is not a fundamental principle (an imperative) in any meaningful ethical theory. Rather it is a principle derived from more fundamental principles (like the utilitarian maximisation of utilities across all individuals). As such, profit maximisation might function well (be efficient) in many and perhaps most cases, but in some cases it will be at odds with the fundamental principles. This implies that there are situations in which corporations should deviate from profit maximisation (we thus get rules of exception from the idea that profit maximisation is what corporations should do) for the fundamental principles to be met (see Kolstad and Cappelen 2005).

iii) Resource rent – rent seeking and lack of institutions

Oil is a scarce resource and may lead to rent seeking and corruption (see above) and thereby undermine the prevailing institutions in a country. Proper institutions are important to deal with resource management. Ross (2001b) suggests rent seizing as an additional reason why resource booms lead to policy failures. "When a state receives an economic windfall, public officials will attempt to gain the right to allocate it, in the form of economic rents, to others (p191)…Politicians will try to maximise the value of their allocation rights, by making them more direct and exclusive... (p192) and that rent-seizing efforts are leading to the weakening or dismantling of institutions that restrict resource exploitation." From the literature on the resource curse, it seems very clear that having resources but not proper institutions to deal with the resource revenue is systemically detrimental to the country. This implies that companies should realise that going into resource rich countries may include taking on responsibility for taking up the tasks of these missing institutions, and contributing to the development of better institutions over time. Also on this point, transparency is a key issue.

iv) Market context -deadweight loss

The oil industry is an oligopolistic industry characterised by a few major market players in the various segments of the market. There are no international competition regulations and no competition laws in Angola. Lack of regulation of competition (both international and local) may lead to an extra market rent (that is, clearly linked to the resource rent, but in addition to this) and a deadweight loss. From a utilitarian perspective, this represents a waste of resources. In addition, the size of the oil companies provides them with the capability to exert influence.

The question of how far the responsibility of oil companies should extend is a difficult one and there are no straightforward answers. Table 1, however, summarises the approach taken in this paper by explicitly linking the three specific characteristics of the oil industry to their respective ethical perspectives in a context where the country in question lacks the proper institutions to deal with a resource curse. The table illustrates the criteria for assigning responsibility to the government and the oil companies respectively.[4] The following section discusses in more detail whether these criteria are fulfilled in the Angolan context.

[4] As discussed above, the international community and the government in which the company is registered also have responsibilities, although Table 1 does not take account of this.

Table 1: What determines responsibility and how can it be performed?

Characteristics	Ethical perspective	Government. (G)	Oil companies: - If not G - If capability - If temporary
Non- Renewable Resource	*Sustainable development* Causal effect on production possibilities	Non-reduction of capital stocks	- Local industry - Human capital - Transparency - Oil Funds
Immobile resource	*Distribution matters*	Local distribution	- Transparency - Oil funds - Human capital - Regional activities
Resource rent	*Rent seeking* Causal effect on institutions	Reduce corruption Accountable institutions	- Transparency - Non bribery
Market power	*Extra profit* Capability	'Level playing field'	-Local industry facilitates competition - Human capital - Transparency

3. Criteria for assigning responsibility

This section discusses whether the criteria developed in section 2 (others are not taking responsibility while oil companies are in a position to do so) are fulfilled in the Angolan context. The key issue here is whether the Angolan government takes responsibility for redistribution. We are particularly concerned about how the government, through its financial management, tax companies and distributes funds. Section 3.1 provides an overview of the current tax regime for the oil companies, while section 3.2 provides an overview of the distribution of social expenditure. Section 3.3 discusses whether other agents or institutions take responsibility for the resource curse while section 3.4 discusses whether the oil companies are in a position to do so (their capabilities).

3.1 Tax regime for oil companies

Sunley et al. (2003:177) provide a general overview of the evolution of petroleum tax systems for selected countries. This section assesses how the current oil tax regime in Angola differs from tax regimes in other sectors of the economy and how it compares with tax regimes for oil in other countries. It is shown that in Angola, as in most oil producing countries, the oil sector has always had a special and more demanding tax regime than in other sectors. Requirements and regulations are more detailed and rigorous, while tax rates are higher than in other sectors. Oil taxes are not generally more restrictive than in other countries indicating that oil companies are in a position to behave in a social responsible way.

Recently a new law has been approved that compiles regulations and decrees that were previously scattered, aiming to unify as much as possible of the two main regimes in place: (i) the regime based on the use of royalties and income tax applicable to joint venture agreements (the most important being the Cabinda offshore concession); (ii) the regime applicable to the production sharing agreements commonly used in new deepwater fields (where the contractor meets the exploration and development costs in return for a share of any production that may result).

A fundamental element of the oil sector tax regime of joint ventures is the Petroleum Production Tax, or royalty, a percentage charged on the quantity of oil (or equivalent substances) produced. It is a tax usually charged on the exploitation of non-renewable resources, and in Angola it is also used in diamond exploitation, as well as in the exploitation of other non-renewable resources. The tax rate applicable to the oil sector is 20%, compared to 5% in other sectors.

The Petroleum Income Tax has the typical characteristics of a tax on profits of production activities and it is applicable to both types of contract referred to above. The tax rates applicable to taxable income are different, 50% for the production sharing agreements and 65.75% for other types of contract. As a comparison, the Industrial Tax, the general tax on the profits of all commercial and industrial activities in Angola, has a rate of 35%. It seems, therefore, that there is an expressed will to tax the oil sector more heavily than other activities. To complete a rough overview of the taxation of the oil business, it is necessary to mention other taxes and fees, although they are less significant in terms of financial costs. The training tax, a mandatory contribution for the training of Angolan staff, determined on the basis of the production of oil, can be included in this group. Other relevant variables are the regime of amortization, incentives and customs.

Comparisons of the specific oil tax regime in Angola with similar tax regimes in other countries are, however, difficult to undertake. This arises firstly because the system is usually determined by the type of contract adopted (e.g. production sharing or royalty/income tax) and secondly because of the complexity and multiplicity of elements that are part of the tax system (i.e., regimes of amortization and incentives). As an example, if we consider exclusively the 50% tax rate applicable in Angola to the production sharing agreements, it is higher than the tax rate applied in a number of other countries. But if we look at the limit of cost oil authorised to be used for the recovery of costs, it is high (increasing tax deductions). In Angola, it is 50%, as a general rule, and 60% for deepwater contracts, but in some countries it is limited to 40% (Sunley et al., 2003).

Another approach to comparing tax regimes is to use the ratio of tax to exports of oil (or value of production). The available data, by production area and referring to effective values in 2003 and January to September 2004, show an average of 45% for both periods (down from 56% in 2000), although the range across blocks goes from 64% to 19%. The reduction in 2002 and 2003 has been explained by the more common deepwater contracts that have very high amortization costs. As a comparison, the corresponding share in Norway was 46% in 2002 (Norway's exports were 197 billion NOK, while taxes on oil companies were 91 billion NOK; Norway's production was 253 billion). With the mentioned limitations, we may conclude that the tax regime is neither the most demanding nor the weakest in the world.

3.2 Public expenditure on social activities

Revenue from oil sector taxation has represented between 75 and 80 % of the total fiscal revenues over the past few years. This means that it is, by far, the most important source of revenue. By analysing the distribution of public expenditure, we can evaluate how the oil income is being used. The existence of effective distribution mechanisms is a condition for the revenue being used in a more effective way. It is a known and easily identifiable fact that the distribution mechanisms in Angola are, for the time being, incipient. There are several reasons for this: war over a long period, with its implications in the definition of priorities, weakness of institutions due to the lack of qualified staff, and so on. The insufficiency of the distribution mechanisms can be evaluated by the high levels of poverty and inequality. It is estimated that between 60% of urban and 70% of rural families live under the poverty line, while the Gini coefficient was 0.62 in 2001.

Infant mortality is 154 per 1000; one out of five children will not live to the age of five; life expectancy at birth is 47 years; the net enrollment rate in primary education is less than 50%; and access to an improved water resource is 38%. More than two out of three persons are below the World Bank poverty line of one dollar per day. GDP per capita is about 500$. Apart from the GDP figures, Angola scores lower on all these indicators than the average for low-income countries. At the same time, Angola is a resource rich country.

Total public expenditure constituted 42 % of GDP in 2004 (EIU, December 2004:18). The expenditure level (in percent of GDP) is significantly higher in Angola than in a number of other African countries, including Cameroon, Nigeria and South Africa (IMF (2003:34). In spite of a high level of total public spending, public expenditure on education is low. In 1999, it constituted 2.3 % of GDP compared to 3.4% for Sub-Saharan Africa (WDI, 2004). A similar record can be found for public health expenditure, which, up to 2001, was lower in Angola than in Sub-Saharan Africa. In 2000 it constituted 1.9% of GDP (2.5% in Sub-Saharan Africa). Expenditure on social sectors will rise from the 'shockingly low standard' of 8.4% in 2004 to 9.9% in 2005 (Economist 2004:18 Angola Country report).

If we look more closely at the composition of public spending, the share spent on social sectors is low. The social sector's share of public expenditure represents a rough indicator of the extent that oil funds are used to promote human capital. The following table shows various social expenditures as a percentage of total public expenditure. The values for 2004 are 2005 are estimates and budgeted figures respectively.

Table 2: Public expenditure on social sectors, %

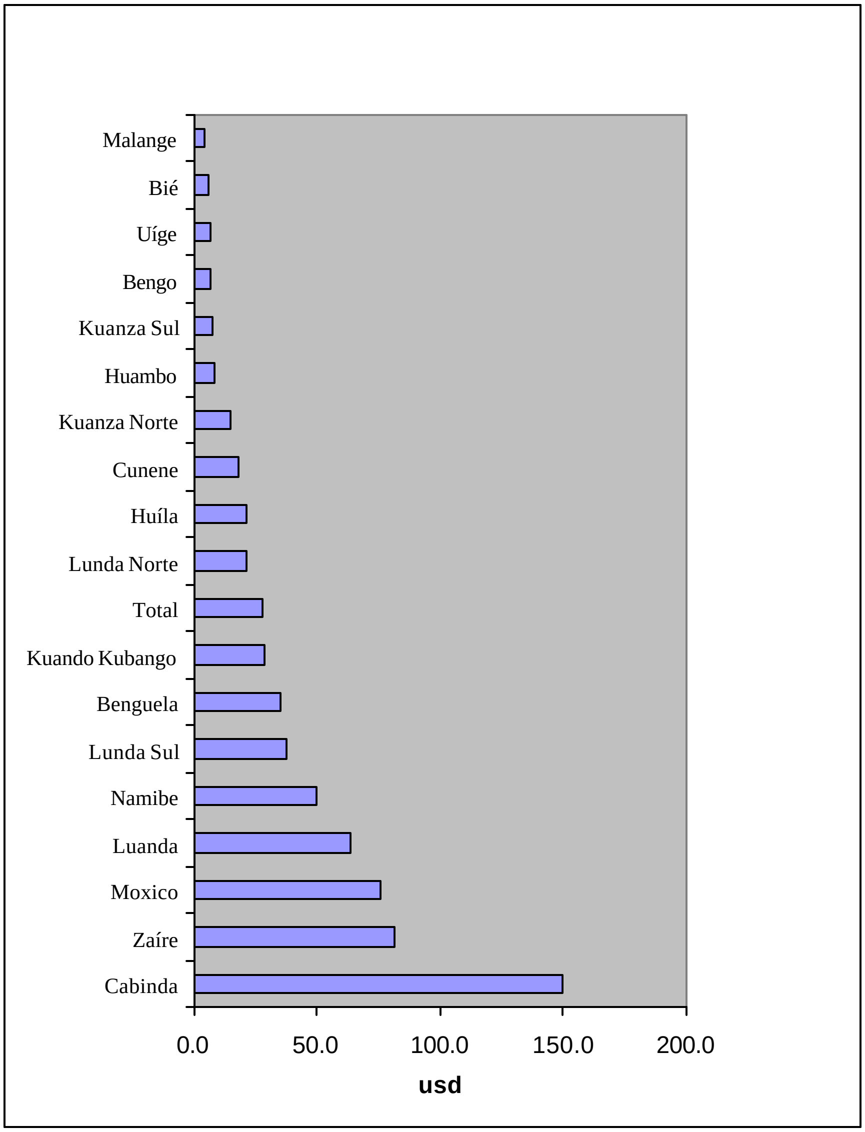
	2000	2001	2002	2003	2004	2005
Health	3.5	5.4	3.3			
Education	4.3	6.4	4.7			
Others*	3.3	6.7	8			
Social sectors	11.1	18.5	16	12.7	20.1	23

* - Includes social security and social care, housing, community services and culture

The figures from 2001 are low, but it is a trend that a larger share of public resources is spent on social sectors. An evaluation of these values can be made through a comparison of similar values by other countries in the region. In 2001, SADC countries spent on average 16.7% and 7.2% of their public expenditure on education and health respectively. This means that even within the region other countries pay greater attention to the social sectors than Angola does. If we compare it with Nigeria, that country spent on average 13% of its recurrent expenditure on education and health during the period 2001-2003.

The distribution of public expenditure on social sectors is even more biased when it comes to intra-regional differences. The average expenditure per capita on health in the period 1997 to 2001 varied between 1.3 USD in the Uige Province to 18.2 USD in Cabinda (Vinyals 2002). For education, the corresponding figures were 2.2 for the Kwanza Sul Province and 24.5 for Cabinda. The regional disparities are equally prevalent if we analyse the distribution of total public expenditure.

Figure 1: Total expenditure per capita. Regional disparities, 2000



Responding to claims from local entities, the Joint Dispatches 29/96, of March 8, and 38/96, of March 29, assign to the provinces of Zaire and Cabinda, respectively, an amount equivalent to 10% of the tax income from the oil activity in each of the provinces. This revenue is allocated to public investment expenditure, with a view to enabling these provinces to benefit more directly from the non-renewable resources. However, these kinds of policies have increased inequality among the regions (Figure 1 does not include expenditure from oil revenue).

These figures, although incomplete, show Angola's serious problems of income distribution and the urgent need to take dramatic measures to improve the situation. The establishment of effective distribution mechanisms needs to be a priority if its government wishes to assume its social responsibility.

3.3 Lack of institutions

The government lacks accountability towards its citizens. Two indicators of this are a lack of free elections and non-transparency in the case of public income. The last election took place in 1992, and the same government has ruled throughout the whole period. The government says that a new legislative election will take place in 2006 and a Presidential election in 2007, but successive postponements in the past may indicate that the process might take even longer. Hodges (2001) and Le Billon (2000; 2001) have analysed in detail how the exploration of oil and minerals in Angola has fuelled the war and led to what Hodges calls a predatory state. As a result, institutions have been weakened in line with our general conclusions on the resource curse, as discussed in section 2. In this section, we will focus on institutions dealing with the revenue of oil.

Angola has been criticised by various NGOs (Global Witness 1999; 2002 and 2004; Human Rights Watch 1999, 2004) and by the donor communities, IMF in particular, for the fact that public revenue from oil is non-transparent. It is well documented in EIU (2002) that oil revenues have been under-reported in fiscal accounts. As income from oil constitutes nearly 80% of public revenue and corruption is prevalent, transparency may reduce the leverage of corruption. Transparency makes it easier to control potential corruption among public officials, since governmental transactions and their policy are under public scrutiny. Angola is ranked as number 133 out of 145 on Transparency International's corruption perception index in 2004. As opposed to Nigeria, Angola has taken few initiatives towards combating corruption, although some oil revenue figures are now published on the Ministry of Finance's homepage. According to the non-public IMF 2002 Article IV consultation, on average US$ 1.7 billion has disappeared from the Angolan treasury each year from 1997 to 2001 (quoted from Global Witness 2004:37).

A large share of income and expenditure is executed outside the ordinary budgetary framework, and financial transactions between the oil companies and the state (such as the publication of bonuses and their distribution across, for instance, social activities and tax regulation, including taxes paid) have not been made public so far. A system of parallel state finance has taken place, making it very difficult to track monetary transactions between the various institutions representing the state (the treasury, the central bank or BNA, the state owned oil company Sonangol and the state owned Banco de Poupanca e Credito).

Adding to this picture, Sonangol plays many roles at the same time. One may say that it controls its own activities – a factor that disguises decisions and confuses its various roles. Sonangol acts as the concessionaire, as a licence partner (while being directly funded by part of the oil profits) and as a regulator of the oil industry. Furthermore, Sonangol is probably the most important player in CSR policy in Angola through its management of social funds linked to the signature bonuses and production sharing agreement, although information about the scale and distribution of these activities is hard to obtain – not to speak of impact assessments of their use. Signature bonuses have been placed in foreign bank accounts and money transactions have been hard to monitor. A lack of transparency, either in terms of financial flows or in terms of how decisions are taken (disguised institutions or informal network structures, for example), reduces the accountability of the state and undermines the social contract between the state and its citizens.

For whatever reason, the issue of creating an oil fund is not high on the agenda.[5] From elsewhere, we know that oil funds are important tools in avoiding a resource curse.

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[5] The government created a reserve fund in the treasury in September 2004. This fund was created to recognise an increase in the price of oil in the international market since the beginning of the year. The gains that the Angolan Government achieved as a result of movement in the price of oil in the international market will be converted to the reserve fund. The Central Bank will be in charge of this fund, and it can capitalise the money, depositing it in

Although the IMF has said that Angola's track record on transparency has improved, they acknowledge at the same time that much more needs to be done. An agreement with the Fund and a donor conference securing funds for Angola's development seem to be some way off (IMF press release 15 Feb. 2005). According to finance minister Jose Pedro de Morais, it would be impossible for Angola to supply all the data the IMF requests. "We will never be able to provide all the economic and financial information the Fund needs, according to their codes of fiscal transparency or of monetary operations. We are a developing country, our institutional infrastructure is not well developed and, on top of that, we recently had severe disruptions in our institutions. So the process of providing economic information is a gradual process."

In conclusion: the issue of transparency is still not resolved, but the government is likely to improve matters gradually. Donors are still not taking on their responsibility by providing significant aid. Instead, Angola continuously needs to borrow in the international capital market, and China is increasingly becoming a more significant contributor in terms of financing infrastructure projects. The multilateral agencies are pressing for transparency, but so far they have not succeeded.

3.4 Capability of oil companies

Do companies have the capability to support the creation of institutions dealing with the resource curse? We focus on oil companies as there are few other large industries in Angola and oil companies and oil service firms' may have a direct impact on the resource curse. The simple fact that the oil companies already make social and environmental investments in Angola indicates that in certain areas they are in a position to influence events. In our view, the oil companies have the capability to influence Government policy through their indispensable human capital assets and their financial capacity. In addition, we would add that firms may have both individual and group capability in this (co-ordination facilitates such capability).

As a starting point, we focus on the capability that follows from their human assets (they possess a knowledge that other agents do not have). We would like to highlight the important role oil companies could play regarding local content (increasing real assets: see section 2) and training (increasing human assets).

From an efficiency point of view, oil companies may, under certain conditions, stimulate the production of a competitive local industry. So far, the oil sector in Angola (as in many other developing countries) is 'footloose', and the oil companies, in contrast to other relevant agents, have the appropriate competence for supporting the creation of such an industry, although the use of worldwide frame agreements may reduce such options. Both the creation of a local supply industry and the training and competence building of local staff are important factors where the oil industry can, and to some extent already does, play a role as is required by law. However, with regard to the local supply industry, the oil companies' track record is extremely low. After an oil company presence in Angola of more than 50 years, a (competitive) local supply industry is far from being developed.

In addition to their knowledge-based capability, oil companies have market power. Angola represents a technologically advanced market segment (see Wiig, 2005). Oil production is increasingly taking place in deep water and field development costs are extremely high, as are the risk factors. These

local banks or abroad to bear interest. This fund will not be used in the Government General Budget, but in eventual crises not previewed in the Government Programme, with the authorisation of the Council of Ministers. (Minister of Finance web page www.minfin.gv.ao).IMF and the donor community have, however, criticised the authorities for failing to answer IMF questions on the whereabouts of the windfall gain from rising oil prices. As deepwater contracts are based on an internal rate of scale basis, the government achieved the largest part of the windfall gain (in 2004 it was estimated to be around 600 million USD).

are all factors underlying the importance of financial strength, which in turn segments the market. Small agents cannot play a role without linking up with large multinationals. As a result, the multinationals are less replaceable, and as such increase their leverage and ability to influence government policies. One such area is the issue of transparency. Oil companies are reluctant when it comes to the issue of transparency. The reason for this is that they see transparency as a threat to their licence to operate. BP, for instance, faced severe problems when they made their signature bonus public. The companies are trapped in a prisoner's dilemma, where transparency would probably benefit the industry as such, but would hurt any individual firm that made their transactions public. From a moral perspective, it would be right for the individual firm to be transparent, although one may question whether this would influence the behaviour of the government. In order to make a difference, co-operation among the oil firms is necessary. Co-operation would make it difficult for the Angolan government to expel firms that were transparent, but these co-operative transparency efforts are rarely found. It is striking, however, that co-operation is prevalent on issues such as the flaring of gas (where Chevron/Texaco, BP, Exxon and Total are all involved in a large LNG project in Soho). It should be mentioned that the government is changing its practice by making the current bonus paid by Chevron/Texaco public.

In fact, there are already institutions in place that could have facilitated these efforts on transparency, but there is a lack of will from the oil companies to follow them up. Such co-operative efforts could, for instance, take place under the umbrella of Extractive Industry Transparency Initiative (EITI). If each company published its transactions with the government, it might be possible to track funds from both the sending and receiving side of a transaction.

Firms may hardly influence distribution directly, apart from the creation of an oil fund. Both the oil companies and their respective host countries could probably have played a much more decisive role in the creation of such funds. They could, for instance, have initiated such funds themselves and transferred yearly amounts.

In sum: there is evidence that the Government of Angola lacks the will to distribute funds to social sectors and lacks institutions to deal with the resource curse. The oil companies have the capacity to influence this, particularly if they co-operate. Based on a utilitarian perspective, oil companies have a large social responsibility in Angola. Do they take on this responsibility?

4. What are the oil companies doing?

To find out what the oil companies are doing, we have undertaken a survey of firms in the oil sector. In section 4.1 we will present the general methodological framework. It is very difficult to assess what the firms are doing without specifying what the government lets the oil company do. The legislation provides us with some guidelines as to the type of CSR policies with which the companies are obliged to comply. As shown in section 4.2, the government seems to be particularly concerned about three particular CSR issues: Angolanization, training and the use of local resources. But how important are these and other various dimensions of CSR, and how are they traded off against each other? This trade-off of various CSR dimensions feeds back to the oil companies' CSR behavior. Most previous analyses, including the World Bank (2003) study, approach the question of importance from the firm's perspective by focusing on what oil companies say they are doing (their own perceptions) or a more thorough analysis of their current CSR activities. Our approach, elaborated more explicitly in section 4.3, analyses whether a good social record represents an advantage or a disadvantage with regard to the license to operate or in acquiring contracts. The question of how social responsibility influences contracts and licences to operate has not received much attention so far. The case of British Petroleum (BP) demonstrates, however, that a significant link may exist. The Angolan authorities had previously decided that signature bonuses were not to be published (Tvedten, 2002), and BP's licence to operate in Angola was threatened when they made public their financial transactions with the government. As a result, BP refrained from publishing these figures.

4.1 Methodology

To assess the impact of social responsibility on operating conditions, indicators of corporate conduct are needed. Various institutions use different indicators of conduct (see, for instance, http://www.globalreporting.org, http://www.bsr.org). Hopkins (1999) provides an overview of different approaches. A number of organizations produce different kinds of index rating corporate social responsibility: examples are KLD and EIRIS. Some institutions take a simpler approach, by separating the more socially responsible corporations from the less socially responsible, an approach taken in compiling the FTSE4Good and Dow Jones Sustainability Indices (DJSI), stock market indices listing corporations deemed responsible by different sets of criteria. FTSE4Good includes companies that meet a set of requirements, whereas the DJSI includes the 10% of companies in each industry that have the highest performance in terms of sustainability. In other words, the FTSE4Good employs an absolute benchmark for the selection of constituents, whereas the DJSI uses a relative benchmark. In the FTSE4Good, the selected companies meet certain minimum requirements in terms of the environment, relationships to stakeholders, and human rights. Industries are categorised as having a high, medium or low environmental impact, and companies with a higher environmental impact must meet the environmental requirements to a greater degree. In terms of stakeholder relationships, companies are required to meet two out of seven criteria, either globally or in their home operating country. The criteria are presented in terms of policy (does the company have an equal opportunities policy? does it have a code of ethics?), management systems (pertaining to equal opportunities, health and safety, training, employee relations), and practice/performance (which is essentially measured by charitable contributions). The human rights criteria apply to companies in the global resource sector (oil and gas, mining, including upstream operations), and to companies with a significant involvement in countries where human rights are a concern. The latter group of companies meets certain policy requirements (a commitment to global standards, the assigning of human rights responsibility to a board member, and state support for the Universal Declaration, or a human rights policy), and certain management system requirements (a monitoring of and training in human rights policy, stakeholder consultation, assessment of human rights impact).

Inspired by the FTSE4Good index, we constructed 24 different CSR indicators and tried to organise the indicators in a way that took account of the peculiarities in Angola. As far as the environment is concerned, oil spillage, flaring and the provision of liquefied gas are high on the agenda in Angola, and we therefore explicitly questioned these environmental issues. In addition to the environmental dimension, the questionnaire included relevant questions on economic and social (labour, human rights and charity) matters. We held structured interviews (with minor adaptation to the particular group of respondents) with oil producing firms, service providers and high profile governmental officials from the Ministry of Petroleum, Sonangol, Ministry of Finance and Ministry of Energy.[6] Respondents were asked, for instance, to indicate the importance of each of the 24 CSR indicators when applying for licences to operate or when being awarded contracts. Table 3 provides an overview of the indicators that have been applied as well as a ranking of their importance. We were able to cover 12 key firms in Angola and five senior public officials. This may seem a low figure, but in contrast to similar studies, we were able to arrange interviews with Sonangol. The public officials were high profile, and the questionnaire was filled out in co-operation with other public participants

[6] Most interviews took place in March and November 2004.

attending the meetings, so that each interview covered the opinions of more than one person. There are few large suppliers and companies perceive CSR issues as being extremely sensitive politically, so a low number of respondents was to be expected. What may be a more serious concern is the fact that the sample could be biased. It includes the oil producing firms BP, Statoil and Hydro, which are registered on both indices discussed above, but not ExxonMobile, Schlumberger, Halliburton, Cameron and Technip, which are not found on the above indices. After several approaches, these firms refused interviews. As a result, there is a selection bias, although our sample also includes firms that score low on the CSR indices referred to above. The low number of respondents makes it difficult to apply robust statistical methods, but we will rather use simple cross tabulations and univariate statistics to indicate our main findings. Apart from the sampling problem, there is also a Hawthorne problem: respondents may have been influenced by our survey, scaling up the importance of each CSR factor, for example. As long as this up-scaling is equal along all dimensions, the relative importance of each factor is, however, stable. An additional weakness with the approach is that it is based on perceptions of what mattered on recently awarded contracts, without using the social responsibility indices such as those compiled by KLD.

4.2 Mandating public laws

In Angola, as in many other countries, there is no specific legislation relating to corporate social responsibility (CSR). CSR is a new concept, still in construction, and Angola lacks both specific legislation on the subject and institutions charged with its development. Consequently, there is no institutional system in place, or a functional system monitoring the social engagement of the companies. Although some legislation has been approved, especially in recent years, which tries to expand that social responsibility (namely in terms of staff Angolanization, professional training, social support for employees, and environment protection) there is no way to measure either its implementation or its impact.

According to the Angolan Constitution, the State has a responsibility towards its citizens, consecrating the fundamental rights: equality, citizenship, respect, life, free movement, and so on. In Appendix 1, we provide an overview of the *general laws* of relevance to CSR issues across all sectors in Angola. Below we will provide an overview of the specific laws related to the oil sector. During recent years, it can be said that a trend favorable to the employment and training of national staff and a higher concern about the 'local content' issue have been registered by the government. The first time the government refers to the specific treatment of Angolans in the oil sector is in Decree 20/82, (of April 17, 1982). The decree requires (i) that preference be given to the employment of Angolan workers at all levels; (ii) equality of rights for Angolan and expatriate employees in the areas of social and professional benefits; (iii) preparation of recruitment and training of national workers plans, at the beginning of each contract and annually; and (iv) the gradual replacement of expatriates by national employees, subject to the sanction of contract cancellation and/or fines. This decree further obliges oil companies to contribute annually an amount in foreign currency for the training of the national workforce.[7] The regulation of that decree[8] defined the rules for the payment of the above contribution. From those contributions a percentage was allocated to Universidade Agostinho Neto and the Universidade Católica and for state professional training (one cent in the dollar per barrel produced). There are additional concession decrees pertaining to the various blocks emphasizing (i) requirements

[7] 15 cents per barrel for the companies that are exploiting oil; 6 million Kz for the companies that are at the prospecting and research phase; and 0.5% of annual gross revenue for the other companies.
[8] Joint Executive Decree 124/82 of December 31 from the Ministry of Oil and the Ministry of Finance.

for the integration and training of Angolan employees, (ii) contracts with local companies and (iii) the acquisition of goods in the local market.

Resolution 13/96 of October 4, 1996 approves the first regulation of *signature* bonuses on oil exploitation contracts. The bonus must be used for investment in the oil sector (30%), economic development projects (55%) and incentives for the social promotion of populations (15%)[9]. Dispatch 127/03 of September 25, 2003 (from the Ministry of Oil) distinguishes three different competition areas. The first comprise areas restricted to Angolan companies where they already have local competence (catering and the production of some local components, for example). The second is areas for partnership between Angolan companies and foreign companies (where the creation and development of local companies is foreseen as possible, some IT or other services, for example). The final areas, which require large amounts of capital investment and specific know-how, are subject to an international competition regime.

Decree 39/00, dated October 10, defines special obligations for the companies operating in the oil sector relating to environmental protection: namely, the obligation of ensuring (i) environmental impact assessments, (ii) the adoption of prevention measures and (iii) emergency immediate response measures.

Dispatches 29/96 and 38/96 regulate the distribution of revenue from oil activities in Zaire and Cabinda. 10% of public tax income stemming from oil production in these regions must be transferred directly to the respective region.

The most important law is, however, the new Law of Oil Activities (Law 10/04 of November 12). This law includes a set of articles that gives form to objective/concrete social obligations for the firms operating in the sector. We note that (i) with regard to safety and hygiene at work, it is mandatory to comply, not only with national legislation, but also with the standard practices generally accepted internationally in the oil business (article 23); (ii) that obligations in matters of environment protection are better identified (article 24); (iii) that it is a clearly stated incentive of Angolan entrepreneurship and development promotion (article 26); and (iv) that the use of national goods and services is mandatory when under similar conditions the price does not exceed 10% above the international price (article 27). Another significant rule included in this law (article 84) states that the bonus paid by companies related to awarding contracts must revert totally to the State as fiscal revenue. The revenue is mandatorily allocated to regional and local development and the promotion of private business projects.

The government has recently become more concerned with promoting the social and economic development of the population by changing the regulations on foreign exchange and customs procedures. As regards the foreign exchange regime of the oil companies (where oil companies can keep their funds in international banks outside Angola), it was an incentive agreed exceptionally at a time when the financial system was extremely weak. The government states that the system promotes the enclave character of the oil sector through a stimulation of imports and the use of non-Angolan staff. It also hinders the development of a proper financial sector in the country. The major companies are strongly opposing all attempts to change the regime, partly because they are unwilling to deposit billions in local banks in whom they have no faith.

[9] This resolution was later regulated by Dispatch 16/97, dated May 16, from the Ministry of Oil, creating a management committee responsible for the supervision of the execution of all projects funded through this fund.

4.3 How does the government get information about CSR and how are they monitoring CSR requirements?

There are difficulties in the implementation of adequate control mechanisms. We have already mentioned Sonangol's many roles (control institutions, concessionaire and partner). Weak public administration is another factor. Our survey results show that the government does not use information from independent researchers/consultancy firms about CSR practices. Annual reports from the companies themselves and filing material in Angola (e.g., inspection reports and previous records) are the most important sources of information about the CSR practices of firms applying for contracts. None of the respondents in the government survey used information from independent researchers/ consultants or firms making CSR indices as sources of information. Complaints from competitors or from international NGOs were explicitly referred to as non-relevant. These results are very interesting, since they indicate that international pressure from NGOs and international ratings on CSR do not play a role in the licence to operate. Pressure from other stakeholders, such as complaints from trade unions, local communities and local NGOs, could, however, play a role.

We also questioned how CSR practices were monitored. This question was addressed in both samples and the results were similar across samples and in accordance with the results above. Yearly reports and inspections formed the most important way of monitoring CSR practices. Complaints from civil society were taken into account, while third party ratings or pressure from international NGOs did not play any role. One striking fact was, however, that Sonangol claimed the Ministry of Petroleum was responsible for monitoring CSR, while respondents in the Ministry claimed the opposite. Thus, there is confusion as to who is responsible for monitoring CSR.

4.4 Facilitation of CSR through the license to operate

The representatives of the government were initially asked if a company's track record on CSR issues was a factor taken into consideration when contracts were awarded. Apart from the fact that part of the signature bonus is dedicated to social purposes (and as such constitutes part of the price), the general answer was that CSR had little or no impact at all on the decision to award licences. Two out of three companies claimed, however, that they had experienced situations in which CSR had played a role. Only one out of three said that they had actually won any contracts because of CSR arguments. The reason for the discrepancy between how the government and the oil companies assessed the importance of CSR is that the public officials explicitly referred to the role CSR plays in getting licences – not other types of contract. For other types of contract, the government confirmed that CSR played a more important role. By decomposing figures from the companies, we found that CSR was seen as being more important for service providers than for oil companies. Part of the reason for this is that the government perceives the employment of local staff and the use of local resources as being social responsible, and these factors are more important at contract stage than when licenses are awarded. Three companies claimed that only CSR-responsible firms were selected, but no one from the government did. Most respondents in the two surveys claimed that CSR was traded off against other factors or only played a role when everything else was equal.

But how is CSR traded off against other factors? To assess the degree of importance that price, technology and the CSR factor may play, we applied a Likert scale from 1 to 7 where 1 signifies not important at all while 7 signifies highly important.

Table 3: Importance of various factors when contracts or licenses are awarded

.

	Government Average	SE	Oil Companies Average	SE
Technology	7.0	0.0	6.4	0.8
Financial strength	6.3	0.6	5.1	2.0
Price	5.3	1.5	6.4	1.0
Previous experience in the region	5.0	1.0	4.7	1.1
CSR	4.0	3.0	4.7	2.2
The forming of joint venture with Angolan companies	3.3	2.1	5.2	1.6
The use of local resources/local content	2.7	2.1	5.9	1.0
Size and international partnership	2.3	2.3	4.6	1.7

Technology, financial strength and price are more important than CSR when contracts are awarded. As discussed above, it is, however, remarkable that the representatives of the Government say that the use of local resources plays such a minor role.[10]

Which dimensions of CSR play a role?

To assess the degree of importance that each CSR factor may play when getting a licence to operate/contract, we applied the same Likert scale as above.

[10] The categories applied are not mutually exclusive, as local content also constitutes part of CSR. By separating the two, one is, however, able to disclose that there are other dimensions of CSR that are more important from the Government CSR policy point of view than the issue of local content.

Table 4: CSR dimensions and their importance for licenses to operate

		Government (5)		Oil Comp (12)	
		Average	SE	Average	SE
Environment	The company has a good international environmental reputation	7.0	0.0	5.5	1.8
Economic	The company has a strategy of Angolanization (e.g using local staff)	7.0	0.0	6.8	0.4
Economic	The company is committed to providing training and education of workers	6.7	0.6	7.0	0.0
Economic	The company has a track record of using local resources (high local content and/or joint ventures with local companies)	6.7	0.6	5.9	1.9
Environment	The company is committed to investing in Angola to reduce oil spillage	6.3	0.6	6.6	0.5
Environment	The company is committed to investing in Angola to reduce flaring	6.3	0.6	6.7	0.5
Economic	The company is committed to providing health and safety systems (e.g annual reviews of accident rates, health and safety training, HIVS programme)	6.0	0.0	6.7	0.5
Economic	The company is committed to providing affordable energy solutions for the poor	4.0	0.0	4.3	2.5
Environment	The company is committed to providing liquefied petroleum gas	4.0	0.0	4.8	2.3
Environment	The company is committed to reporting its environmental behaviour through impact analysis or annual reports	4.0	3.0	5.3	2.3
Corporate governance	The company has not been involved in any serious tax disputes with Angolan authorities.	4.0	0.0	5.0	2.1
Corporate governance	The company has implemented a transparent information system about financial transfers to the government	3.3	0.6	3.9	2.7
Economic	The company has a history of using energy resources cost efficiently	3.0	0.0	4.3	2.4
Corporate governance	The company has not been involved in any serious disputes with its licence partners or contract partners	3.0	1.0	3.6	2.6
Corporate governance	The company has implemented a transparent information system about financial transfers to its subcontractors	3.0	0.0	4.1	2.5
Labour and human right	The company has not been involved in any serious labour controversies	2.7	2.9	3.3	2.2
Labour and human right	The company has not been in any serious disputes with local communities	2.7	1.2	5.6	1.4
Corporate governance	The company has not been involved in any serious disputes with its subcontractors	2.3	0.6	4.0	2.5
Labour and human right	The company is committed to providing equal opportunities for women and men	2.0	1.7	4.2	2.4
Labour and human right	The company is committed to providing good employee relations (freedom of association and negotiation)	2.0	1.7	4.3	2.1
Corporate governance	The company pays high dividends to its shareholders	2.0	0.0	2.2	0.8
Charity	The company has a track record of making significant charitable donations to other social funds/NGOs	1.7	1.2	3.0	2.0
Corporate governance	The company has a track record of demanding high CSR standards from its suppliers	1.7	1.2	3.3	2.3
Charity	The company has a track record of making significant charitable donations to FESA	1.3	0.6	1.6	0.8

From Table 4, it can be seen that the economic dimensions of CSR (Angolanization, training, local content, health and safety standards, and environmental efforts to reduce oil spillage and flaring) play the most important role. These are all aspects that are regulated by various laws and therefore constitute policies that the oil companies should comply with in the first place. Secondly, corporate governance issues such as non-involvement in tax disputes and transparency in financial transactions with the license partners are also highlighted. One needs to bear in mind the fact that transparency in information between contract partners (where Sonangol is one) is something different from transparency toward other stakeholders, which the example of BP has shown. The social dimensions played a negligible role, charity in particular.

Companies rank the importance of different categories in line with the government and the coefficient of correlation is 0.9. In addition, there is a discrepancy here with regard to the importance of local content, as already discussed above. For the most important CSR indicators, standard errors are low, indicating that the reliability of the data could be higher than what one would expect by simply looking at the number of respondents (which definitely is low).

4.5 Business drivers

Most firms interviewed have a code of conduct. An overview of the profile of the main oil companies is provided in World Bank (2004) and World Bank (2003a; 2003b). BP, Shell and Statoil are acknowledged for their open and public endorsement of the EITI initiative. Firms say they have a CSR policy for Angola, and training and the use of local resources are the core elements. Companies generally agree that operators have larger responsibility than license partners. It is remarkable that as many as two out of three firms have the same perceptions of their social responsibility in Angola as elsewhere, as the poverty situation is severe, while institutions to deal with the resource curse are lacking.

Companies generally point to their conduct and the requirement from the government as the main drivers of being social responsible.

Table 5 Motivations for being socially responsible. Frequencies

Part of our code of conduct	8
Angolan authorities require it	7
Pressure from share holders	5
Pressure from the home country	4
To persuade decision makers	4
Pressure from NGOs	3
Pressure from local communities	3
Fear of losing contract because someone else is responsible	2
CSR does not play any role	1

Molly and Shyne (2003) undertook a similar study where they analysed business drivers for CSR investments in Angola. Respondents were asked to rank four CSR dimensions in descending order.

Table 6: Most important CSR dimensions

-	- Mean ranking
- Social	- 1.4
- Economic	- 2.2
- Environmental	- 2.8
- Corporate governance	- 3.2

The social dimension ranks highest, while governance issues rank lowest, which is not surprising. But in terms of spending, most CSR funds were spent on economic and environmental issues or the dimensions the government requires. CSR policies seem, therefore, mainly to be driven by economic incentives (good for business). Only 5 out of 9 companies listed any activity as regards corporate governance. One of the conclusions in their report was that a full accounting of financial and other CSR commitments would not be possible until larger issues of transparency in the Angolan oil sector are resolved.

5. Conclusion

It is increasingly acknowledged that firms have obligations to society apart from profit maximization. We argue that these obligations increase when a country in which a firm operates lacks proper institutions to deal with the externalities of their activities, while companies have capabilities to influence this. Oil companies' responsibilities are not seen in isolation from other agents' responsibilities. We argue, for instance, that if the government does not take on its assigned responsibility, oil companies should, under certain conditions, take on this responsibility.

Oil companies have a particular responsibility as their activities may go along with a resource curse – an impact that is well documented in the literature, particularly if institutions are lacking or impeded due to the extraction of resources. Three peculiarities of the oil sector are analysed that support the general idea of an increased responsibility: i) oil is a non-renewable resource where investments are important in order to sustain the capital stock of a country; ii) oil is an immobile resource and distribution matters for efficiency; iii) companies have market power to reduce deadweight loss and they have the ability to influence public policies. After a normative discussion on designing criteria for what responsibilities oil companies should have, we analyse whether these are fulfilled in the Angolan case. We show that the Government is not taking on its responsibility to build up human capital, to distribute income or to create accountable institutions to deal with the revenue from oil, whereas the companies to some extent have the capacity to do so. We analyse the responsibilities oil companies take in Angola and how CSR influences the licence to operate. Our main finding is that oil companies mainly undertake CSR activities that increase their profits. The policy consequences of this are that some sort of regulations or external pressure from NGOs are necessary to induce more responsible behaviour, particularly if CSR activities impede profits (as they can if companies are revealing their financial transactions with the government).

As our analysis of responsibility is based on a utilitarian approach, more research is needed on alternative ethical approaches and their consequences for determining responsibility. How robust are our normative results? More research is also needed in determining operational rules for multinational oil companies' CSR behavior. We have only discussed broad categories of behavior (transparency, support of human capital, and so on). Finally, more empirical research is needed on how the activities of the oil companies have shaped particular institutions in a resource rich country like Angola.

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Appendix 1 General Public Laws regulating aspects of CSR

In the areas of **labor**[11] **and employment**[12] the main principles pertain to:

- The right to work and the conditions for hiring ([13]);
- The employees' rights, including, namely, the right to training and improvement of technical skills, the right to paid holidays, and to daily and weekly rest, the right to salary and good conditions of hygiene and safety;
- The right to insurance against industrial accidents and occupational diseases;
- Working conditions, including medical care in the working place and medical exams;
- Maternity protection; and prohibition and protection of minors' work.

Regarding the **employment of Angolan staff,** the law requires that a company must have at least 70% of its work force made up of nationals and residents[14], and only 30% of the work force can be made up of expatriates. The law also requires the employer to have insurance protection for industrial accidents and occupational diseases. This insurance has been relatively effective, and is expected to improve with the entry of new insurance companies.

A unified system of **social security**[15] is in place, requiring all workers who are not self-employed to be enrolled. The system has proven to be slow and ineffective, obliging some companies to pay salaries and subsidies that, in accordance with the law, should have been paid by the Instituto Nacional de Segurança Social (INSS). The creation of new funds and social security systems – independent of mandatory payments to the social system – indicates a failure of the system and a serious lack of protection for the employees, especially the poorer ones.

Related to the "national content" or strengthening of the Angolan private sector, a new law[16] aiming for the creation and operation of national companies establishes incentives (administrative facilities and tax exemptions or reductions) for Angolan private enterprises.[17] Also in the area of **incentives to private investment,** the concern of the State in trying to create incentives for companies that develop certain regions and sectors is pretty obvious. The Industrial Tax rate and customs duties are reduced according to the location in Provinces classified according to its development level. There are tax incentives for job creation and the training of national workers: (i) it is possible to give more incentives to companies that hire a considerable number of workers; (ii) the attribution of considerable tax incentives to investments in the education sector is contemplated.

General legislation on **environmental protection** exists (based on international norms), and now the National Agency for Private Investment (ANIP) requires environmental impact assessments for all

[11] Lei Geral do Trabalho – Labor Law (Lei nº __/__, de __ de ______).
[12] Lei do Emprego – Employment Law (Lei nº __/__, de __ de ______)
[13] It should be stressed that the labour law gives preference to contracts for unlimited time, instead of short term contracts, and makes firing employees difficult.
[14] Decree nº 5/95, April 7, does not define any differences between the hiring of Angolan nationals or foreign residents, meaning that they have the same rights and obligations.
[15] Law nº 18/90, of 27 October and Decree nº 7/99, of 28 May, defining as contributions to the system 8% of the payroll for employers and 3% of wages for workers.
[16] Law nº 14/03, of July 18
[17] "Angolan companies" are legally defined, for the first time, as companies where at least 51% of the capital stock is the property of Angolan citizens or companies.

projects over US$ 5 million and/or investments made in sectors that are included in the concession regime.

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SUMMARY

What are the responsibility of oil companies in resource rich countries? Do they take these responsibilities? Based on a utilitarian perspective and theories of the resource curse, we discuss the oil companies' corporate social responsibility (CSR) when a resource rich country such as Angola lacks accountable public institutions. We also analyse the type of responsibility oil companies take and factors driving corporate social responsibility. From undertaking a survey among oil service firms operating in Angola, we have found that, in practice, policy on the corporate social responsibility of oil companies is mainly driven by economic incentives (it is good for business), rather than by ethical considerations.

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