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OIL AND CAPITAL FLIGHT: THE CASE OF ANGOLA

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Tax Justice Network, Berlin

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Oil and Capital Flight: The Case of Angola

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Preface to the Working Paper Series on African Capital Flight

Capital flight constitutes a major constraint to Africa's efforts to fill the large and growing financing gaps that hold back its progress towards achieving sustainable development goals. The mounting evidence on the unrecorded outflows of capital from Africa has spurred calls for strategies to curb the financial hemorrhage that is afflicting the continent.

The existing evidence is still inadequate, however, on four fronts. First, the quantitative evidence is predominantly aggregate and does not furnish adequate country-specific information on the mechanisms of capital flight, its institutional contexts, and the role of domestic and foreign players in facilitating it. Second, the literature has not paid adequate attention to the destinations of wealth accumulated through capital flight and the roles of the banking sector and public institutions in destination jurisdictions. Third, much of the literature conflates the capital flight with the broader concept of illicit financial flows. While all capital flight is illicit owing to its unrecorded transfer – and often, as well, by virtue of the illegal origins of the wealth, and the failure to declare the assets and pay tax on the associated income – not all illicit financial flows are capital flight; for example, payments for smuggled imports are an illicit flow but distinct from capital flight. Fourth, the existing literature has not sufficiently explored the two-way relationship between capital flight and governance in national and international institutions.

To help fill these gaps in the literature, the African Development Policy Program at the Political Economy Research Institute has initiated detailed analyses in a project generously supported by the Open Society Foundations and the Friedrich Ebert Foundation. This Working Paper series presents the project's outputs. Our goal in issuing these reports is to engender informed public participation in decision making on financial regulation. Key findings will be distilled and published in the coming year in an edited volume that is forthcoming from Oxford University Press.

Léonce Ndikumana
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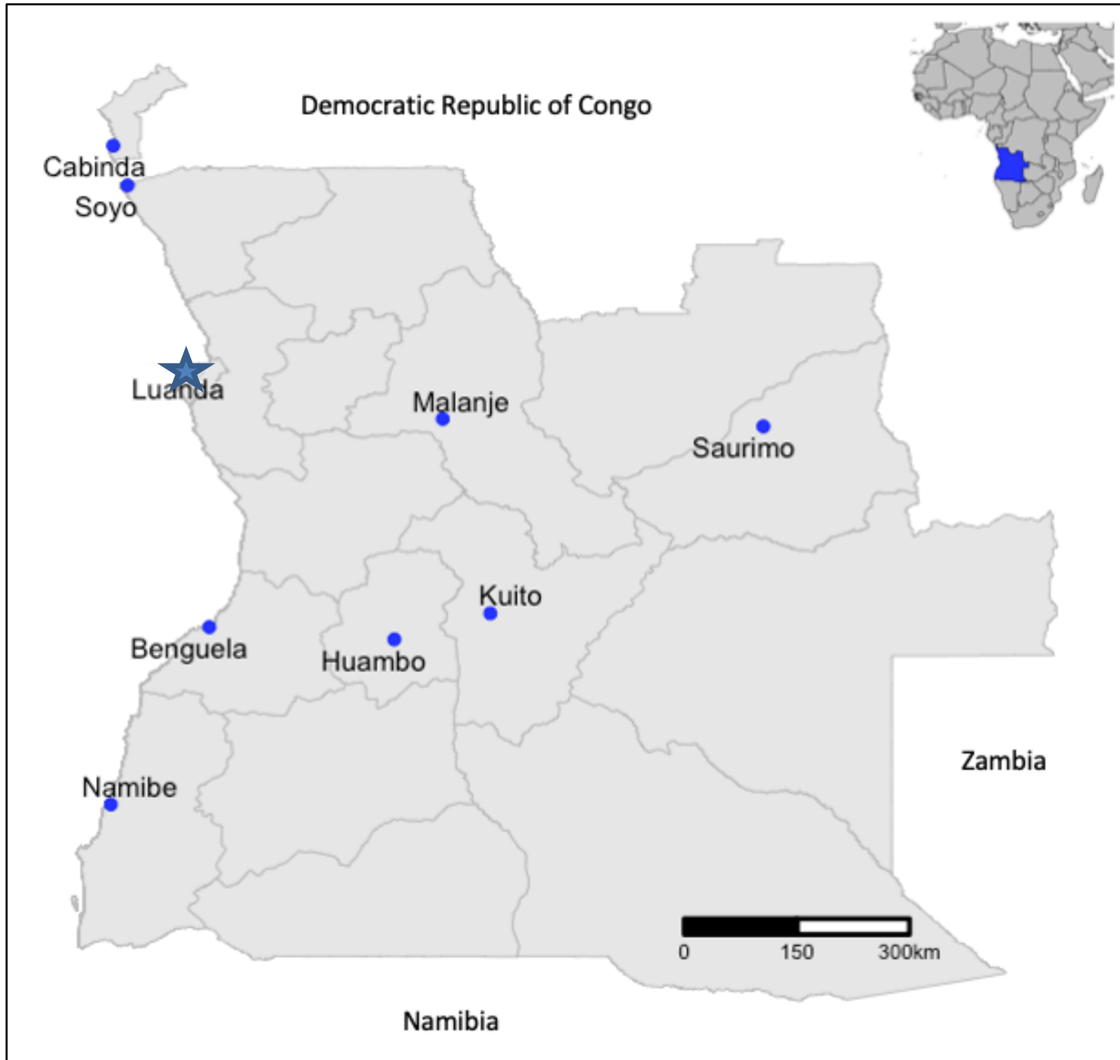
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List of Acronyms

Acrep	ACR Exploracão Petrolífera
BAI	Banco Africano de Investimentos
BdP	Banco de Portugal
BES	Banco Espírito Santo
BESA	Banco Espírito Santo Angola
BFA	Banco de Fomento Anngola
BIS	Bank for International Settlements
BNA	Banco Nacional de Angola
BofA	Bank of America
BoP	Balance of Payment
BPC	Banco de Poupanca e Credito
CAH	Cochan Angola Holdings LLC
CDIS	Coordinated Direct Investment Survey
CIF	China International Fund
CNC	Conselho Nacional de Carregadores
CPIS	Coordinated Portfolio Investment Survey
CRS	Common Reporting Standard
CSIH	China Sonangol International Holdings Limited
DMCC	Dubai Multi-Commodities Center
DoTS	IMF's Direction of Trade Statistics
DRC	Democratic Republic of Congo
ECB	European Central Bank
ESFG	Espírito Santo Financial Group
FCPA	U.S. Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
FNLA	Frente National de Libertacão de Angola
FPSO	Floating Production, Storage and Offloading
FT	Financial Times
GAL	Golfrate Africa Ltd
GEFL	Sociedade de Gestão e Participacões Financeiras
GHAL	Golfrate Holdings Limitada
GRN	Gabinete de Reconstrucão Nacional
HDI	Human Development Index
ICIJ	International Consortium of Investigative Journalists
IFF	Illicit Financial Flows
IMF	International Monetary Fund
INE	Instituto Nacional de Estatística
IOCs	International Oil Companies

KPMG	Klynveld Peat Marwick Goerdeler
LNG	Liquefied Natural Gas
MOF	Russian Ministry of Finance
MPLA	Movimento para a Libertacai Popular de Angola
MSA	Mehenou Satou Amouzou
OPEC	Organization of the Petroleum Exporting Countries
PEIL	PE Investments LTD.
PEP	Politically Exposed Person
PIT/IRP	Petroleum Income Taxes/ Imposto sobre o rendimento do petróleo
PSA	Production Sharing Agreement
PwC	Price Waterhouse Coopers
QFO	Quasi Fiscal Operations
RBS	Royal bank of Scotland
SBS	Société de banque suisse
SEC	U.S. Securities and Exchange Commission
SHA	Sociedade de Hidrocarbonetos de Angola
SIGFE	integrated state financial payments system
SLN	Sociedade Lusa de Negócios
SPV	Special Purpose Vehicle
SSI	Sonangol Sinopec International
SWF/FSDEA	Fundo Soberano de Angola
TAIS	Trans Africa Investment Services
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNITA	União Nacional para a Indenpendência Total de Angola

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1. Introduction

During its “golden decade,” the roughly 12-year period between the end of its civil war in 2002 and the oil price crash of 2014-2015, Angola exported more than half a trillion dollars’ worth of oil. This could have transformed Angola’s economy for the benefit of its 30 million people. Instead, an old patronage system became more deeply entrenched and ossified, and most Angolans saw few benefits beyond the fact that the bloodshed had ended. Now oil prices are down, and the oil is slowly starting to run out, and there is relatively little to show for it beyond some showy infrastructure and construction projects, mostly located in and around wealthier parts of the country’s capital, Luanda.

This raises a big question: where did all the money go?

A large chunk of Angola’s mineral wealth ended up overseas, in the hands of a relatively small number of individuals, enabled by an infrastructure of mostly western intermediaries. This paper uses “investigative economics” to uncover how these outflows happened - the *who, what, why, where* and *how* of this giant money drain.

I conducted fieldwork in Lisbon in June 2018 and Angola in October 2018. The latter visit to Luanda came less than two weeks after the inauguration of the new president, João Lourenço, replacing president dos Santos, who had been in power since 1979. Will the new president set about harnessing the remaining oil wealth to transform the country? Early signs are that he would like to do so. But without foreign help to tackle the international networks that have assisted in the looting of Angola, this will be hard or impossible.

Much has been written over the years on the billions of dollars that have gone missing from Angolan state

ANGOLA: BASIC STATISTICS
(2018)

Population (2016)	30.8 million
GDP per capita *(2011 PPP US dollars)*	$5,725
UN Human Development Index rank	147 *(out of 188 countries)*
Income per capita rank minus HDI rank	-16

Source: United Nations Development Programme, *Human Development Report 2019.* New York: UNDP, 2019.

budgets. This study looks at a different but related phenomenon: the flow of money across Angola's borders known as capital flight. The foundational documents for this study are not the budgets, but the balance of payments (BoP), which records flows of money in and out of the country.

Capital flight refers to *illicitly transferred financial assets*: outflows of capital from Angola that are not reported to government authorities. It is usually measured as the missing element in the balance of payments, after corrections have been made for underreported external borrowing and trade misinvoicing (Ndikumana and Boyce 2019). The mechanisms include the smuggling out of diamonds or bank notes, clandestine wire transfers, and falsification of trade invoices either by under-reporting exports to national authorities (to obtain the proceeds of the unrecorded exports overseas in foreign exchange, in secret) or over-reporting imports (to get foreign exchange sent overseas in excess of the true cost of imports, and to then pocket the difference without the authorities knowing.).

Capital flight is a subset of a broader phenomenon, illicit financial flows (IFFs), which also include assets that may be transferred overseas legally but which were obtained illicitly in the first place, (such as transfer mispricing operations for the purpose of tax evasion, or dollars stolen in an armed robbery, deposited in a local bank, then transferred overseas through normal legal channels.) However, while IFFs may come in or out of a country (for example, smuggled into Angola in a suitcase, to escape forced conversion into kwanzas, the local currency) capital flight only flows outwards, indicating capital lost to the country. Each measure has its own uses – and capital flight, being a subset of illicit financial flows, is easier to measure.

Capital flight is usually measured as a residual – the difference between recorded inflows and recorded outflows of foreign exchange – based on the country's Balance of Payments (BoP) and external debt data. In principle, inflows ought to match outflows (with additions to and drawings from the country's official foreign exchange reserves being treated as outflows and inflows, respectively,) and in theory the central bank, more than the finance ministry, is the body that ought to have the best handle on these. If, as is often the case, more foreign exchange is recorded having flowed in than has flowed out – to use the simplest possible example, if hundred-dollar bills are smuggled out in suitcases – it is assumed that the recorded difference exited the country as capital flight.

This study breaks new ground by joining the latest measures of Angolan capital flight with an exploration of the blood and guts of how it has actually happened.

I was the *Reuters* and *Financial Times (FT)* correspondent resident in Angola from 1993 to 1995, during the country's civil war. I continued to report on the country until 2007 for various publications including the *FT*, the *Economist Intelligence Unit*, *Africa Confidential*, and *African Energy,* among others, and visited Angola frequently during those years.

Returning to Angola in October 2017 for the first time in a decade, I observed the first days of the new administration of President João Lourenço — and I was struck forcefully by a sense of *déjà vu*. On one level, much had changed. Luanda had been massively transformed by imposing, shiny glass-fronted buildings, the remodeling of once squalid parts of town, the reclaiming of big areas of land from the sea, impressive new expressways, enormous new shopping centres filled with products that would not look out of place in Lisbon or London -- and a multitude of new bank branches, whose clean, glass-fronted offices seem to have penetrated into every quarter of town.

Yet it soon became apparent that the Angolan political-economic system was essentially a bigger, more elaborate and more financially sophisticated version of the same oil-fueled creature I had left a decade earlier, including many of the same names[1]. It was a giant patronage system, ultimately controlled by president dos Santos, that had proved remarkably immune to both internal and external pressures for reform. Reformist trends elsewhere were generally kept at arm's length – the only reforms that were tolerated were ones that suited the continuation of the political order. As a 2018 study of the Angolan banking system concluded: "Angola's key reforms were macroeconomic rather than regulatory or judicial: the system was opened, but in a way that kept President dos Santos' discretionary power as the ultimate arbiter" (Ferreira and de Oliveira 2019, p. 25).

[1] To illustrate the longevity of top officials, on January 20, 2020, close to publication, I received via email an unverified French-language copy of a list of wealthy Angolan individuals who had purportedly been given an official amnesty to return sums of money to Angola. Of the 72 names on the list, I recognized 51 of them from my time working regularly on Angola from 1993-2007. Part of the list was reproduced in José Eduardo dos Santos, Isabel dos Santos Dokolo; Angolan government releases a list of millionaires who have been granted amnesty to return stolen money, howafrica.com, January 15th, 2020.

During my 2017 fieldwork in Lisbon and Luanda, Angola was in the throes of dealing with an oil price crash: from an average of nearly $100 a barrel in 2014, to around $40 in 2016, recovering to around $55 when I visited in 2017. Angolan oil production had also started falling, and a steady decline is now expected.

The oil price has been of primordial importance for Angola since independence. Table 1 shows the share of oil in the country's total exports when I lived in Luanda in the 1990s, according to IMF data. Oil accounted for about 95% of the country's recorded exports; adding diamonds, the share of minerals exceeded 99%.

This export concentration may not have been so surprising, given that Angola had then been embroiled in a civil war for nearly the whole time since 1975, and was still emerging from 'Afro-Stalinism' – a legacy of the cold war when Angola's ruling Movimento para a Libertaçao Popular de Angola (MPLA) had endorsed Marxism-Leninism as official economic policy and was supported and influenced heavily by the Soviet Union and its Cuban allies (Hodges 2001). Nearly all of Angola's oil production was offshore — and the western-backed rebel leader, Jonas Savimbi, had decided that it would be geopolitically foolish to attack western oil installations — so the oil pumped almost uninterrupted while the rest of the economy suffered the disruptions of war.

Table 1: Angola's exports, 1992-1996

Product	**Value** (billion U.S.$, f.o.b.)
Crude oil	17.13
Refined oil products gas	0.46
Diamonds	0.84
All others	0.12
Total	18.55
Oil and diamonds: share of exports	**99.4%**

Source: IMF (1997), Tables 18 and 21.

Table 2: Angola's exports, 2010-2014

Product	**Value** (billion U.S.$, f.o.b.)
Crude oil	304.00
Refined oil products + gas	5.19
Diamonds	5.84
All others	1.39
Total	316.42
Oil and diamonds: share of exports	**99.6%**

Source: IMF (2016), Table 4.

Table 2 is an updated version of Table 1 for the years 2010-2014, following Angola's "golden decade" of post-war reconstruction and high oil revenues, during which the country exported some $530 billion worth of oil and undertook a large (debt-fueled) public investment program, much implemented and facilitated by Chinese actors.[2]

Astonishingly, oil and diamonds *still* accounted for more than 99% of the country's export earnings.

It bears repeating that this failure to diversify was apparent many years after Angola had ended its war, enjoyed an oil-led investment boom, "reformed" its economy partly along western-inspired lines, improved governance (from the exceptionally low base of the war years), and opened itself to foreign capital from east and west. What is more, the post-war reconstruction phase was accompanied by numerous declarations by politicians and pundits that Angola needed to diversify its economy away from oil, and away from Luanda and the coastal enclaves — almost word-for-word copies of the desperate declarations I used to hear on my radio while I lived in Angola in the 1990s.[3]

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[2] The $530 billion in total oil exports comes from adding up "Exportações f.o.b." for 2002-2014, from the BNA's Balança de Pagamentos: 1990/2016, Banco Nacional de Angola, 2017.

[3] For example, the IMF said in February 2017: "The main economic challenge for Angola remains the need to diversify its economy and export base." See IMF (2017, p.15). A decade earlier, in June 2007, the IMF said the Angolan authorities must "vigorously pursue appropriate structural reforms to support the development of the non-oil/non-extractive sectors." See IMF (2007).

As a share of the economy, oil has a somewhat less powerful grip than the export data may suggest: it officially made up 44% of gross domestic Product (GDP) in 2002, falling to 38% in 2016, while sectors officially categorized as "services" rose from 38% to 55% (Centro de Estudos e Invetigação Científica (CEIC), 2016, p. 19). Yet the difference is less significant than it may appear because important "non-oil" sectors, such as construction, telecoms, and banking, in fact are closely tied to the fortunes of the oil sector, as Figure 1 illustrates. As Francisco Paulo, an economist with the Centro de Estudos e Investigação Científica da Universidade Católica de Angola, puts it:

> *The term "non-oil" is not accurate! For example, the construction sector depends on oil. Look at all these buildings, where construction has stopped. All the Angolan economy depends on oil revenues*.[4]

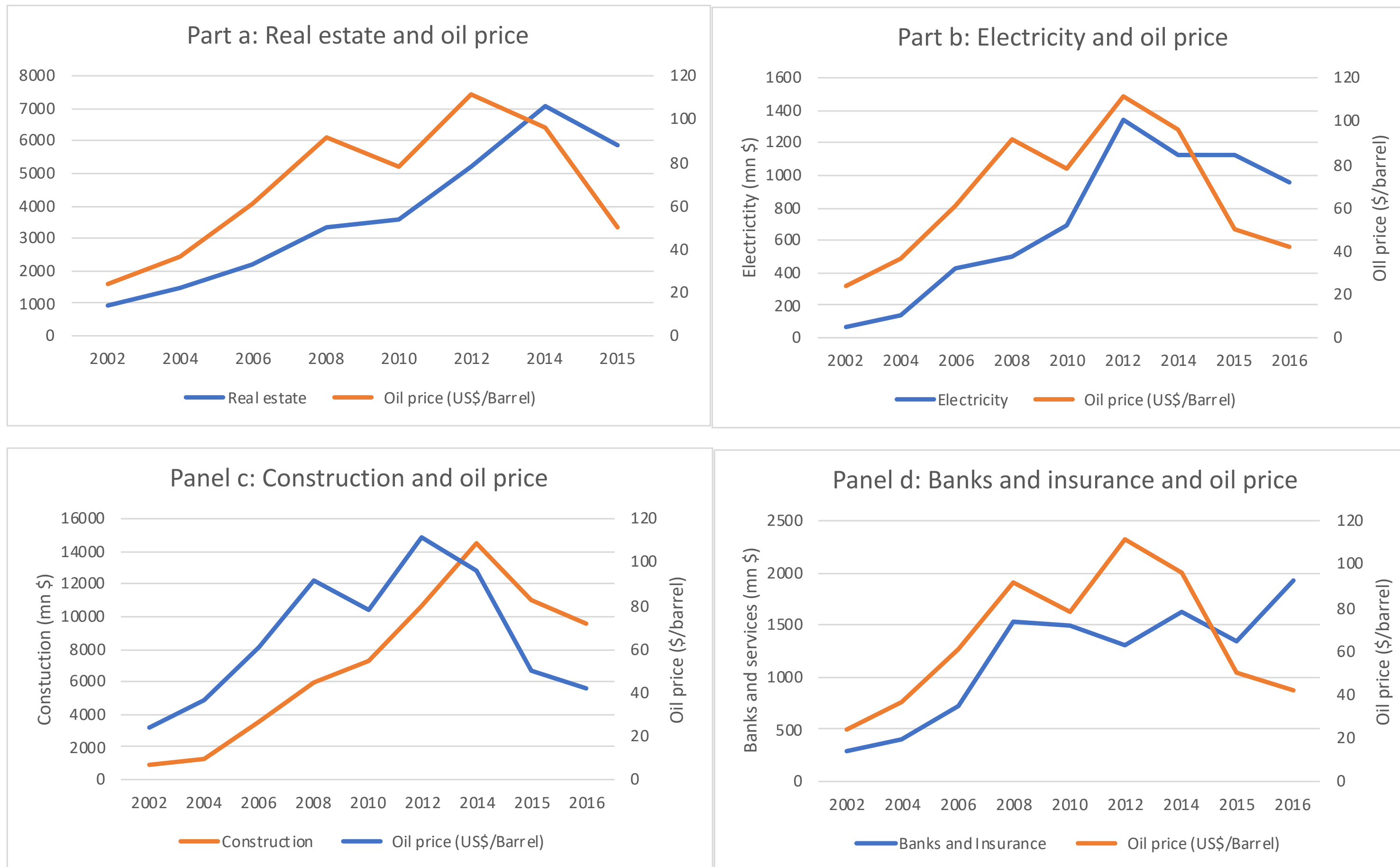
By 2017 the euphoria of the "golden decade" among Angolan élites and the urban middle classes had given way to foreboding. Evidence of a "sudden stop" began to litter the urban landscape in empty or half-constructed buildings, many sprouting long grass and birds' nests in what should have been grand atriums and reinforced glass panels. As José de Oliveira, an experienced oil official in Luanda, sourly put it: "The golden years have been wasted."[5]

Has Angola suffered a "resource curse?" This phenomenon has two versions: a "weak" version where a country demonstrably fails to harness its mineral riches effectively for development, and a "strong" version where a country appears to have been *even poorer* (and worse off on other dimensions of development) than it would have been without these mineral riches. There is not the remotest doubt that Angola suffers a 'weak' version, and there are good grounds for arguing that a strong version has afflicted Angola too. While it can easily be argued that Angola's poor performance was attributable to the war and its aftermath, there is also no doubt that its mineral wealth (above all, oil and diamonds) contributed strongly to the conflict's severity and duration and to the motivations behind it. In other words, the war itself can be understood as a part of the "resource curse".

[4] Interview in Luanda, October 6, 2017.

[5] José de Oliveira is former editor of the Revista Energia magazine, which was Angola's leading energy newsletter for many years. He is now connected to CEIC. Interviewed in Luanda, October 11, 2017.

Figure 1: Oil price ($/barrel) and output in Angola's service sectors (million $)



Source: Relatório Económico de Angola 2016, Centro de Estudos e Investigação Científica / Universidade Católica de Angola (CEIC/UCAN) 2017.

All this, of course, raises big questions.

Why has Angola not been able to harness that wealth to benefit its citizens? Why has Angola been unable to diversify its economy, so long after the end of conflict? And, most pertinently for this particular study, *where did all the oil money go*?

A big part of the answer comes down to two words: "capital flight."

Angola's mineral-rich economy seems especially prone to the problem. An experienced businessman in Luanda explained:

> *Externalizing the money out was always very easy to do because the whole economy was based on trade. There wasn't local industry, with local value added. The real motors were on export of oil and diamonds and on the other side was imports – consumables, building materials: everything.*
>
> *So, you have two parts of economy, both of which involved the international community. So, there's money moving in and money moving out, and it's fairly easy to take your share. Your starting point is that money is already flowing internationally*.[6]

In what follows, I first discuss the 'resource curse,' which has capital flight as a major component. I then trace Angola's history, starting with the era of Portuguese colonialism that ended in 1975, moving through that episode of war that ended officially in 1990, then through the bouts of shaky peace and renewed war that finally ended in 2002 — some of which I observed as a journalist reporting from Luanda from 1993-1995. Next, I turn to the "golden decade" that began in 2002. The story extends to September 2017, when I last visited Luanda, and when President José Eduardo dos Santos stepped down after 38 years in power, handing over the presidency to João Lourenço.[7] This, then, is mainly a study of the dos Santos years.

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[6] Confidential source A: European businessman (see Annex F).

[7] In an October 2020 state of the nation address, President Lourenço estimated that the scale of looting under his predecessor amounted to at least $24 billion, and stated that "it is likely that much bigger numbers will be announced later" (Cotterill 2020).

Several key conclusions will emerge:

- *Capital flight is significantly under-reported.* This report contains numerous examples of capital flight losses which are not or cannot be picked up in capital flight measurements.

- *Capital flight is part of a larger phenomenon of "lost capital."* Relatively few people – a few hundred families, in the case of the big money flows – have found ways to appropriate much of Angola's mineral wealth and to send much of it overseas, often without necessarily breaking Angolan laws. Plenty leaves through channels that are recorded as normal capital or trade flows, so would not be classified, or measured, as capital flight. Some flows originate offshore and stay offshore, through external channels that never touch or enter the Angolan payments system. In addition, missing data makes traditional measurement methodologies inadequate. So existing measures of capital flight and IFFs from Angola thus may only capture a portion of the country's lost capital.

- *A global infrastructure of private intermediaries has played a central role in capital flight from Angola.* These include banks, family wealth management offices, corporate services providers, management consulting firms, and accounting firms. While there is ample evidence of small, often fly-by-night operations handling Angolan capital flight, many players are global giants, including major accounting firms, big banks, and well-known consulting firms. Many of these same large players have also played roles in designing tax haven legislation for countries at the receiving end of capital flight. While these giants are often thought of as neutral, technocratic bodies helping Angolans deal with the modern global economy, their role has frequently been only in the service of Angolan elites, often against their majority compatriots. They are also often not passive handlers of capital flight but have actively courted and sourced and facilitated these flows. Any "solutions" must tackle these players directly.

- *Opportunistic transnational networks of plunder link powerful Angolan actors to external actors, linking public and private players.* This web of interdependence and mutual benefit includes the above-mentioned private enablers but also other Angolan and foreign business and political elites, who use legal and illegal methods to secure power, influence and wealth at the interstices of the

international financial system. Loyalty to the network often trumps loyalty to the nation state. These loose, fluid and predatory networks target every country in the world, rich and poor, wherever cashflows exist[8]. Using the "transnational network of plunder" as a unit of analysis helps frame the problems and their solutions not as a "poor countries" issue but one that harms majority populations in rich countries too.

- *Capital flight from Angola results in 'blowback' that damages the countries receiving the inflows, too.* Angola's capital outflows are not only immensely damaging to the well-being of most Angolans. They also damage many of the countries receiving them in important ways. This paper outlines a number of examples of blowback into European countries and the U.S., including damage to public institutions from offshore 'dark money' infiltrating politics, the Dutch Disease pushing up local price levels harming exports, a 'brain drain' out of other sectors into finance, higher inequality. The "wall of money" flowing into western countries like Britain from poorer countries like Angola has also contributed to 'financialization' in western countries, involving financial extraction mechanisms. These phenomena amount to a "finance curse" impacting mostly wealthy western nations with large financial centers.[9]

- *Choke points and monopoly power play a key role in the appropriation of wealth*. The report finds repeated examples of a narrow élite managing politically networked choke points in the political and economic system, for example as wielded by Sonangol for the benefit of itself and private players. This creates private monopolistic powers, backed by state power.

- *Tax havens have, of course, played a central role in capital flight from Angola. However, the list of 'recipient' countries of 'looted' money is far broader.* For example, an investigation by the International Consortium of Investigative Journalists (ICIJ), involving a series of newspaper stories published about Isabel dos Santos' finances in January 2020 under the banner "Luanda Leaks," identified more than 400 companies in her business empire, including 94 in recognized tax havens. Most were in supposedly 'onshore' countries like Portugal.

[8] Examples are plenty. For example, see Shaxson (2018), especially Chapters 9 and 10, *Private Equity,* and *March of the Takers.*
[9] For a short elaboration, see Shaxson (2019a). See also: Shaxson (2019b); Christensen *et al.* (2016); Shaxson (2018); and Harford and Klein (2005).

- *African countries are not necessarily the most corrupt.* Conventional studies of corruption often identify African and other poor countries as the most corrupt.[10] The analysis presented here supports the growing recognition that western players handling and facilitating capital flight and sheltering lost capital, such as actors in Britain, Portugal, and the United States, must be brought into the equation, allowing interpretations that could identify these western nations as "most corrupt."

- *Higher oil prices do not necessarily benefit most Angolans.* Instead Angola may suffer the so-called "paradox of plenty" arising from the resource curse (see below) that plagues many mineral-rich nations.

- *Western institutions historically have shown little or no ability to improve governance in Angola directly.*[11] Rather than attempting to reform the country, a more fruitful strategy would be to reform the international financial system, especially the public and private infrastructure of tax havens that underpins translational networks of plunder.

2. Oil and the Resource Curse

Oil was first produced in Angola in 1956 and by independence in 1975 production was over 100,000 barrels per day (bpd) rising steadily to over 500,000 bpd by the early 1990s. A slew of new deep-water oilfield discoveries then propelled production steadily higher, reaching a peak of around 2 million bpd in 2010, then a gentle decline to around 1.3 million by 2020.

To understand oil's impact in Angola, it is necessary to delve into the "resource curse."

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[10] See, for example, the annual "Corruption Perceptions Index" published by Transparency International (available at https://www.transparency.org/en/cpi#).

[11] In 2004 I was the lead researcher and writer for a project of the UK's Department for International Development (DfID), entitled "Drivers of Change," whose principal purpose was to identify 'entry points' for western actors such as DfID to engage to promote human development in Angola. The Drivers of Change programme covered 17 countries: it was concluded that it was unusually and exceptionally hard for external actors to influence events in Angola, partly since its mineral wealth insulated the leaders from external pressures, but also because of a long history of disastrous western interference in Angolan affairs since colonialism.

In the opening of his book *The Scramble for Africa's Oil,* the journalist John Ghazvinian describes attending a dinner at the 18th World Petroleum Congress in 2005.

> *[T]he evening would not have been the same without the desserts. The organizers had decided to give us each a little chocolate mousse and sponge cake carefully moulded into the shape of Africa. It was hard not to admire the artistry involved, but as I looked round the Dome, I wondered: was I the only one to pick up on the symbolism of 3,500 drunken oil executives devouring the Dark Continent, bite after dribbling, chocolaty bite?*[12]

This, in some minds, is the essence of the resource curse: western corporations devouring Africa's treasure, depriving the continent of the chance for development. It's a view of African underdevelopment encapsulated in the famous phrase of King Leopold of Belgium, uttered on the occasion of a lavish conference in Brussels that was to launch a new Scramble for Africa by western nations: "I do not want to miss a good chance of getting us a slice of this magnificent African cake" (Pakhenam 2001, p. 22). This frame is apt for Angola's colonial history and some of its post-colonial history. But it muddies a more complex story.

The resource curse: Strong and weak versions

The behavior of oil companies is not the only, or even central, reason why mineral wealth has failed to promote widespread genuine human development. In purely revenue terms, Angola hasn't done too badly out of its oil. The country's independence came at a time of rising resource nationalism and the flexing of OPEC's muscles, and Angola historically has obtained a respectable share of each barrel of oil as state revenue by regional standards: at times up to 60 percent of the value of each barrel produced, with much of the rest going to pay for the genuinely high costs of deep and "ultra-deep" water oil platforms and equipment.

Neither can the resource curse be reduced to the simple story that élites are stealing the wealth, preventing its use for national development – though of course this paper will demonstrate plenty of that. This "missed opportunities" story amounts to a "weak" version of the resource curse. A stronger version of

[12] See Ghazvinian (2007, p. 5), cited in Ovadia (2016, p. 6).

the curse goes further: some resource-rich economies like Angola may have grown *more* slowly than their resource-poor peers, and more slowly than they might have without the resources.[13] They may suffer a range of other harms: violent conflict, worse authoritarianism, more frequent economic crises, more corruption, steeper inequality, a loss of entrepreneurialism, and a 'crowding-out' or destruction of alternative economic sectors. Mineral abundance not only can fail to be a blessing – it truly can be a curse.

The literature on the resource curse is quite contested.[14] Few would dispute that a weak version of the curse strikes most mineral-rich nations, especially nations with poor governance. And there are likely exceptions even to the weak version. Norway, for instance, seem to have harnessed their resource wealth fairly effectively for national development.

Casual visitors often find it hard to appreciate the damage, because the winners tend to be based in highly visible urban centers, which do well out of oil, while the losers tend to be out in distant peri-urban or rural areas, out of view. Poor outcomes are also often blamed on other phenomena such as, in Angola's case, the long civil war – even though the war was significantly a result of mineral abundance in terms of both its motivations and resources to pay for weaponry. Measurement of the phenomenon also depends heavily on the time period covered: times of high or rising world commodity prices tend to show better outcomes than measurements at times of low or falling prices.[15]

When I lived in war-ravaged Angola in the 1990s, however, I was in no doubt at all, and many if not most observers would have instinctively agreed, that the country had been cursed by its minerals. In the first UN Human Development Report, in 1990, Angola's under-five mortality rate, a key measure of

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[13] See for example Sachs and Warner (1999) and Collier and Goderis (2012).

[14] See, for instance, Havranek *et al.* (2016). It finds across 33 studies covering two decades that "approximately 40% of empirical papers [find] a negative effect, 40% [find] no effect, and 20% [find] a positive effect." Effects depend on institutional quality, investment levels and on the nature of the resource being exploited. "Well-functioning institutions eliminate the potentially negative effect of natural resources," they conclude, which implies that poorly governed countries – that includes Angola -- are cursed by their minerals. The authors added that petroleum was less likely than other commodities to inflict a resource curse, while minerals like diamonds were more likely: Angola produced both, and while diamonds were a small fraction of oil revenues, they played a much larger role in the conflict since they were for long periods UNITA's main source of revenues.

[15] Even so, in sub-Saharan Africa, an IMF report in 2015, neatly covering the period of high oil prices till 2014, noted that "in SSA [Sub-Saharan African] countries, the size of welfare improvement [from a resource revenue windfall] is small and it is smaller and almost zero after one year in fragile Sub-Saharan African (SSA) countries . . . we couldn't find any significant long-run effect of resource windfall in SSA countries." See: Lee *et al.* (2015).

human development, was reported to be 292 per 1,000, the third worst in the world after war-torn Afghanistan and Mozambique, supporting the "strong" version of the resource curse.[16]

Fast-forward to 2017, and Angola's under-five mortality rate, at 82.5, was seventh worst in the world (the worst and second worst were Nigeria and Equatorial Guinea, both oil producers), while life expectancy at birth, at 61.8 years, was 15th worst (again, the worst was Nigeria) (United Nations 2018). A 2018 IMF report summarizes:

> *Angola's Human Development Index (HDI) is lower than sub-Saharan Africa (SSA) peers', despite its relatively high GNI* [gross national income] *per capita. The cross-country relation between income (GNI per capita) and non-income (life expectancy and schooling) components of the HDI shows a 30 percent gap for Angola, the third widest in SSA* (IMF 2018a).

The IMF assessment suggests that Angola suffers from both a weak and a strong version of the "curse," even today.

The paradox of poverty amid plenty

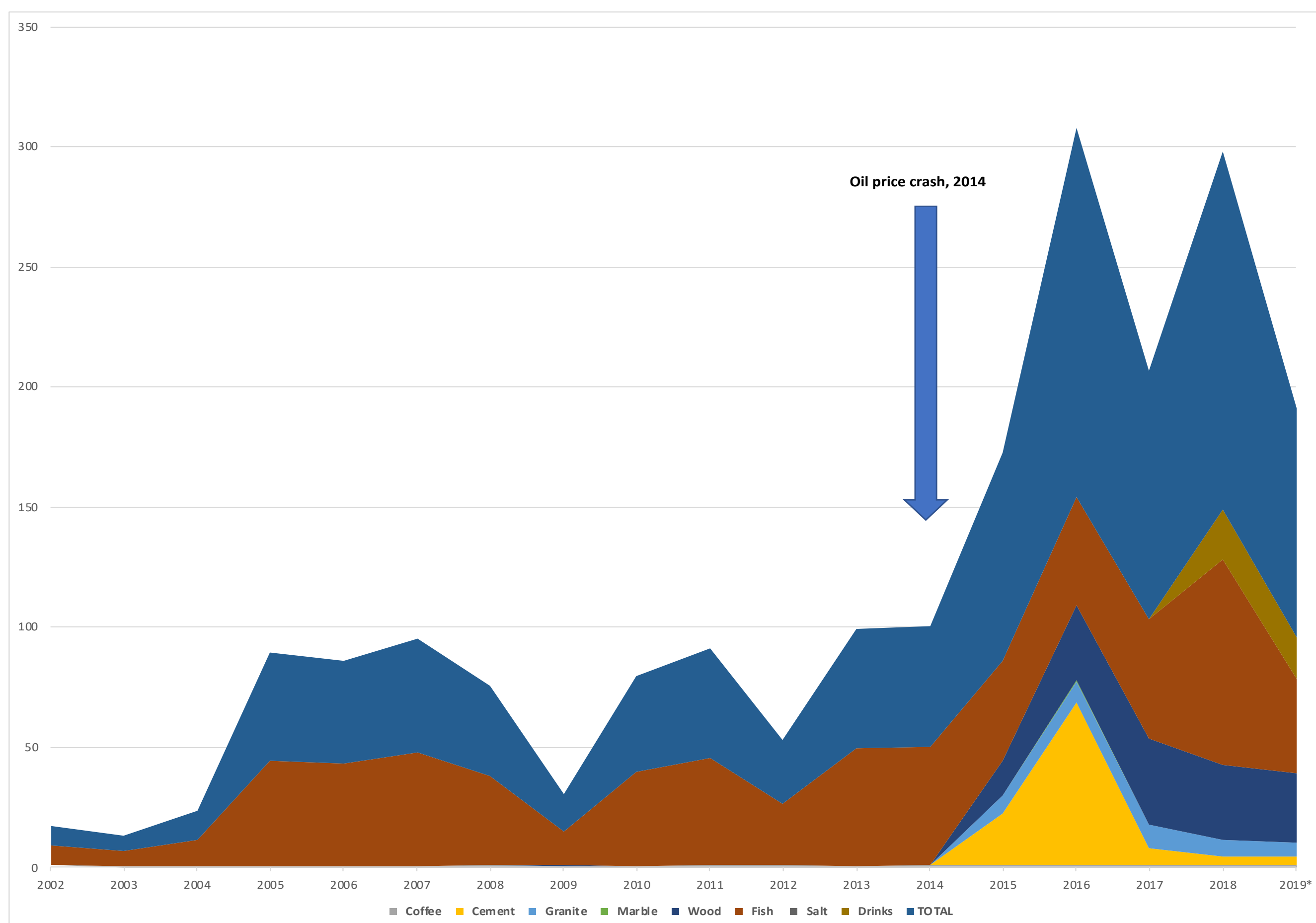
What explains the resource curse, sometimes called "the paradox of poverty amid plenty?" The literature on the resource curse identifies three main reasons.

The first element is economic volatility. With world oil prices swinging from around $10 a barrel in 1998 to $150 in 2008, then as low as $30 in 2016, Angola's extreme dependence on this one commodity plays holy havoc with the economy. Government budgeting and forecasting become exercises in fantasy accounting, planning goes out the window, neither the government nor the private sector can effectively absorb surging inflows of money during the booms, or the sudden collapse of revenues in busts. Borrowing tends to worsen this picture, as bankers — famously, the people who will happily lend you an umbrella when the sun is shining but will want it back when it is raining — tend to lend when oil prices are high, exacerbating oil booms, and then play hardball in crashes, often worsening the subsequent crashes.

[16] Past versions of United Nations Human Development Reports available at hdr.undp.org/en/reports/global/hdr1990.

The second is the so-called “Dutch disease.” Large inflows of foreign exchange lead to appreciation of the nation’s currency and price environment, making imports cheaper and making its exports more expensive to overseas customers. Sectors producing tradable goods or services, like agricultural or industrial products, find it harder to compete against imported goods and services, and harder to sell abroad (Razmi *et al.* 2012). Those sectors tend to wither, crowded out by oil. This is exacerbated by a related ‘brain drain’, as high salaries in the oil sector tend to attract the country’s best and brightest people, depriving other sectors of talented and educated people. Conversely, Angola experienced a sudden resurgence in several non-oil sectors following the world oil price crash of 2014 (see Figure 2).

Figure 2: Angola's non-oil exports, 2002-2019 (million, U.S.$)



Source: BNA database.

The third principal element of the resource curse involves governance, and it is by far the most complex, involving political, economic and even cultural elements. This is the aspect most relevant for our study of capital flight.

The resource curse and Angolan governance

A starting point for understanding the governance problems in nations like Angola is to consider the contrast with a more 'normal' economy like, say, that of Germany or the United States. Putting it crudely, much of the wealth in a more normal economy tends to be generated by the citizenry interacting with each other in productive activities, with corporations and other institutions horizontally linked and conducting exchanges across the economy and society. Government taxes the income generated, and citizens demand public goods and services in return. These public goods and services, such as roads or education or the rule of law, and these underpin private wealth generation.

In an economy that is dominated by a resource like oil, by contrast, mineral revenue enters the economy from a point source at the top of the political system and flows downwards from there, in a 'patronage' system (see Figure 3). Patrons in positions of power allocate wealth, or access to it, in exchange for political support and loyalty. The government has less need to depend upon the people for tax revenue or political support. Meanwhile, the economic damage oil inflicts on other economic sectors reinforces this 'rentier-state' structure.[17]

Picture the oil-dominated Angolan economic system as a mighty, fast-flowing river emerging from a single source high in a mountain. The river descends, splits, splits again, and again and eventually spreads out into a broad, sandy delta system as it approaches the sea. Toll-keepers operate at each branch, taking a cut before letting the remainder flow downstream, and often sending their takings offshore. Near the source, the biggest players divert the biggest flows. Further downstream a sizeable section of the country's population — including car-owning urbanites and others — operate close to the beach, where the multiple flow channels are smaller and the individual pickings thinner. Meanwhile another, much

[17] For a critical review of the social science literature on rentier states, noting that these effects are not necessarily inherent in oil and mineral resource abundance but rather outcomes of country-specific histories, see Di John (2007).

Figure 3: Incentives for citizen oversight in resource-rich and resource-poor countries.

Source: Natural Resources Governance Institute, "The Resource Curse The Political and Economic Challenges of Natural Resource Wealth," March 2015, p. 2. Available at https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf (accessed August 17, 2019.

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larger fraction of Angola's population, predominantly in the country's agricultural and subsistence hinterlands, operate largely outside this river system.

The economic linkages are vertical, top-down relationships. Policy makers turn their attention away from difficult challenges of nation-building and economic development, towards designing schemes to get access to the flows of wealth. If the citizens don't like it, mineral wealth can buy off those who pose a threat or pay for paramilitary forces to suppress malcontents.

I found this top-down 'patronage' system in every oil-rich country I investigated up and down West Africa's oil-soaked coastline. "Here, if people think the boss doesn't have money to redistribute, he isn't respected," said Omar Bongo of oil-rich Gabon, one of Africa's longest-serving leaders. "I don't know whether this system is good. But it is the only possible way!" (Bongo 2001, pp. 285-291).

Patronage politics is not an aberration of the Angolan economic and political system: it is foundation of political power, and it happens at all levels of the system.

But before hasty "corruption" judgement is passed on the petty bureaucrats wheedling money from hapless visiting business folk, or on other less well-remunerated participants in the patronage system, consider this:

> *In March 1995, when salaries were almost at their lowest point, with a director earning $11 a month and the minimum monthly wage at less than $1, the National Statistics Institute calculated that the minimum basket of goods and services for the survival of an urban household of eight persons was $187. During the 1990s, therefore, households have had to diversify their sources of income* (Hodges 2004, p. 79).

The patronage system is a many-splendored thing. At its crudest, it might involve members of a ruling family accessing oil revenues before they even reach the national treasury and diverting them into their personal offshore accounts. This paper outlines many slightly less crude examples: the allocation of a controlling stake in the Unitel telephone license to Isabel dos Santos, the daughter of President dos Santos; or control over sovereign wealth funds, with possibilities for the exercise of discretion over the allocation of funds; or participation in a joint venture with the state oil company; or control over subsections of the budgetary process mediated by government ministries. Other loci for extracting wealth include the Central Bank, the private banks, the large import companies, or the separate ministries: the number and variety of such tollbooths is remarkable. While this study will provide examples of all these, it is not remotely possible to be comprehensive.

The patronage system has had several predictable effects in Angola. One is authoritarianism based on the simple formula of allocating oil wealth downwards in exchange for political support. Another is the fragmentation of political structures beneath the presidency: President dos Santos exercised power through multiple competing networks, where all players are kept in a permanent state of anxiety and seek to stay in the president's favor for fear of losing positions and privileges. A good example, relevant for the study of capital flight, is the fluctuating influence of the Ministry of Finance vis-à-vis other ministries,

such as the Ministry of Planning. Ricardo Soares de Oliveira, a leading scholar of Angolan affairs, put it as follows:

> *A key strategy of presidential control is the underdevelopment of the state administration. JES* [José Eduardo dos Santos] *'likes to create an aura of indispensability' — so that without a direct connection to him, nothing works or is allowed to work,' a prominent Angolan journalist notes... The clearest example of this is the travails of the Finance Ministry over the last decades: it as gone from super-ministry to irrelevancy more often and faster than anyone can keep track of... The erstwhile influential minister can be sacked for no reason. The result is a muddle.* (de Oliveira 2015, p. 44)[18]

The main power blocs in this dos Santos-dependent network have been the ruling MPLA party, with a large footprint across the policy-making apparatus; the state oil company, Sonangol; the Central Bank (*Banco Nacional de Angola,* BNA); power centers at the presidency (notably the *casa civil,* dealing with civil affairs, and the *casa militar,* dealing with the armed forces); an overlapping coterie of "generals" in the armed forces, many with private interests; separate and often competing intelligence services; and the president's own family, notably his daughter Isabel dos Santos, who amassed large or controlling stakes in multiple sectors of the Angolan economy and further afield. Smaller power centers include parastatal firms, the state diamond company Endiama, private banks (whose profits depend heavily on state contracts), and individual ministries.

This divide-and-rule strategy militates directly against joined-up thinking and hampers policymaking. It also favours secrecy, not just because transparency and openness allow better co-ordination between different sectors and departments, but also because each node in the power structure constitutes an opportunity for well-connected people to profit personally, away from public view. Dos Santos allowed personal enrichment but only in a controlled way: he was not in favor of destabilizing, chaotic corruption. When, for instance, predation at Luanda port got out of hand, he appointed Crown Agents, a UK-based company, to oversee a shake-up, which allowed the government to reassert control over large revenue flows.

[18] He does not name the journalist.

Another aspect of dependence on oil or other minerals is a loss of entrepreneurialism, as the best and brightest turn their attention away from building productive businesses, and as policymakers turn their attention away from the difficult challenges of nation-building, towards competing for a slice of the 'cake'. As the Polish writer Ryszard Kapuscinski (1994, pp. 197-198) has put it:

> *Oil kindles extraordinary emotions and hopes, since oil is above all a great temptation. It is the temptation of ease, wealth, strength, fortune, power. It is a filthy, foul-smelling liquid that squirts obligingly up into the air and falls back to earth as a rustling shower of money… Oil is a resource that anaesthetizes thought, blurs vision, corrupts. . . The concept of oil expresses perfectly the eternal human dream of wealth achieved through lucky accident, through a kiss of fortune and not by sweat, anguish, hard work.*

This dimension of the resource curse has been amplified by 'financialization,' when businesspeople tend to be motivated more by short-term financial returns than by patiently building long-term businesses. Arnaldo Lago de Carvalho, a prominent Angolan businessman and economist, said:

> *Everyone who goes outside to study comes back to the country with the idea that they have to get rich quickly. What you [in the West] teach in university – you really organize the heads of our young people. They come here and promote a stock exchange. This does not work. People finishing MBAs, they want to be consultants or be in financial institutions. Nobody wants to go and manage an agricultural industry or anything like that.*
>
> *When you have a very underdeveloped country, people with this mentality do not help.*[19]

This context about the resource curse provides a background to understand Angola's post-colonial history.

[19] Interview with de Carvalho, Luanda, October 12, 2017.

3. Independence and Its Aftermath

De Oliveira (2015, p. 6) argues that understanding Angola's history has to acknowledge "the significance of Angola's violent inclusion into the world economy from the late fifteenth century onwards. . . [it] has been tightly linked to the outside world from the very beginnings of European imperial expansion."

A tortured colonial history

Before the 1900s Portuguese colonialists controlled only a small part of the country: the coastal enclaves of Luanda and Benguela, and a thin corridor along the Kwanza river: Yet their economic pull "eventually extended across great areas of Central Africa and may have sucked into captivity, in alliance with inland kingdoms, a larger percentage of the African population than in any other catchment area on the continent…. these continuously occupied beachheads of Portuguese power were the embryo of the later domination of the hinterland" (*ibid*.) These geographical zones remain the epicenter of Angola's oil-dominated economy, with Luanda the dominant player by far.

António Salazar, the Portuguese dictator, encouraged poor Portuguese to settle in Angola, and by the eve of independence Angola's white population had reached about 330,000 people – roughly five percent of the population. The settlers helped develop an extensive agricultural sector and even the beginnings of an industrial sector: in the 1960s and early 1970s Angola was self-sufficient in all main food crops except wheat, and it was exporting up to 240,000 tons of coffee annually, vying with Côte d'Ivoire for the role of Africa's top exporter.[20] Oil had been discovered in 1955 and production was slowly rising.

A legacy of Portugal's involvement is that a significant percentage of the Angolan population, particularly in the coastal urban centers, is mixed-race or white (indeed, in some parts of the country you can still find white Angolan peasant farmers tilling the soil). Many Angolans — perhaps a quarter — speak only Portuguese, and no African languages.[21]

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[20] The coffee statistics come from Inter African Coffee Organization (IACO) A brief account of coffee production in Angola: a quick assessment report, Bayetta Bellachew, June 1, 2015.

[21] The statistic about a quarter of the population comes from Hodges (2001, p. 25). Some members of the upper élite speak English, too.

Angola's élites have always been relatively outward-looking — more so than those of most African countries — and this has reinforced the effect of oil in shaping a cultural, political and economic orientation towards global markets. This has been accompanied by a dramatic turning-away from larger indigenous rural populations, again more so than in most other African countries.

Independence movements had sprung up from the 1950s and were brutally suppressed. But when a left-wing coup in Portugal in 1974 led to chaotic decolonization, the lid of the Angolan pressure-cooker came off. Full-scale war erupted within weeks, pitting the Frente National de Libertação de Angola (FNLA), strongest among Bakongo-speaking people in north-western Angola, against Jonas Savimbi's União Nacional para a Independência Total de Angola (UNITA), which had backing among Ovimbundu peoples of the central highlands and southern Angola, and the Movimento Popular de Libertaçao de Angola (MPLA), strongest in the coastal enclaves and especially in Luanda, which had strong backing from Kimbundu speakers covering much of northern Angola and, crucially, the influential mestiço and white sections of the population. The MPLA would be the eventual victors in the long wars ahead.

Financial records from the time of Angola's independence are scant, but the Banco de Poupança e Credito (BPC), the country's largest state-owned bank, describes a "flight of capital out of the country" as banks and other key industries were nationalized.[22] Yet as the economy collapsed there was one sector — oil — that took a different trajectory.

The MPLA had declared before independence that "all those [oil] companies which… operate offshore or inland will be chased from our national territory and all their equipment and assets seized."[23] But when they came to power they dramatically changed tack, accommodating the western oil companies at the same time as they set about constructing a national oil company, Sonangol, to become a fortress of technical competence carved out from the economic chaos and mismanagement all around it, a process described below.[24]

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[22] From the BPC's website: History of the BPC, available at http://www.bpc.ao/bpc/en/about_the_bpc.1/history_of_the_bpc.6.html, accessed August 10, 2020.

[23] MPLA statement issued 12 February 1974. Reprinted in *The Complex of United States-Portuguese Relations: Before and After the Coup. Hearings Before the Subcommittee on Africa, Committee on Foreign Affairs, House of Representatives, Ninety-third Congress, Second Session.* Washington, DC: U.S. Government Printing Office, 1974, p. 433.

[24] See also the definitive (and fascinating) historical investigation of Sonangol by Soares de Oliveira (2007).

The rise of Sonangol, the Angolan exception

Prior to independence, most of the oil production came from the U.S. firm Gulf Oil's operations off the northern enclave of Cabinda. The company briefly fled at independence – but the Angolans, desperately needing revenue, reassured the Americans that they still would be allowed to make profits and drew on solidarity with President Olusegun Obasanjo's Nigeria, which threatened retaliation against Gulf's Nigerian interests if it did not resume production in Angola. Gulf returned and began pumping again: Petrofina and Texaco were persuaded to return, too. Angola also reached an agreement with Portugal that persuaded Portuguese employees of the state oil company Angol, founded in the colonial era, to remain working in the newly created national oil company, Sonangol, formed in 1976.

"Through colonialism, foreign invasion, Marxism-Leninism and capitalism," a Sonangol executive told Angola expert Ricardo Soares, "I have not left the same building." Angola also secured the advice and experience of the Algerian state oil company Sonatrach, and the upstart Italian oil company ENI, seeking to break into western majors' jealously guarded turf, provided further training and assistance. The Angolans also accepted the return of the 'imperialist' U.S. auditors and consultants Arthur D. Little. By 1983, Angolan oil production surpassed late colonial levels, and in that year Sonangol opened its first international office, in London, to trade Angolan crude oil and better understand world markets, with Lloyds Bank as their main bankers.[25] Soares describes the strategy as follows:

> *Sonangol would not embrace the central planning and state-led economic policies that shaped Angola until the end of the Cold War: its 'compass was the international oil economy, not domestic policy fads'. In particular, it was to be insulated from the political race for a 'share of the spoils', the anti-corporate mentality, and the disregard for the rule of law that would soon become prevalent in all other sectors of the economy. . . There was a general perception that the oil sector was a matter of life-or-death, ensuring the viability of the MPLA state* (Soares de Oliveira 2007).

Oil executives I interviewed in Angola in the 2000s praised (and in some cases evidently feared) the confident Sonangol, which was regarded by the oil companies as a competent partner (in contrast to the

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[25] In an ICIJ report, CEO Manuel Vicente was quoted as saying that Sonangol set up an account with Lloyds TSB on the Channel Island of Jersey in 1983. Van Niekerk and Peterson (2002).

oil ministry, where competence was generally harder to come by). Soares found the same pattern. "Having interviewed dozens of oil company officials," he wrote, "I have rarely found anyone expressing a negative view of their interaction with Sonangol" (Soares de Oliveira 2015, pp. 35-36). A top western oil executive described Sonangol as "the Angolan miracle" (*ibid*.)

Sonangol remained under the firm control of the presidency, however, serving as President dos Santos' most powerful and effective economic and political tool:

> *Sonangol's undeniable competence and sophistication are not, and have never been, put at the service of Angolan development, however defined. Instead, the company is the pivotal tool for the interests of the presidential clique* (Soares de Oliveira 2007, p. 606).

Sonangol also provided a trusted anchor for securing international loans – so much so that it was often used as a vehicle for implementing all manner of special projects outside the oil sector, including large-scale arms purchases, financed by borrowing via Sonangol. In some cases, Sonangol was directed to execute construction and other projects in non-oil sectors, simply because it was more efficient as a service provider than other state institutions. Sonangol was also a key player when it came to capital flight, as described below.

By the 1990s, Sonangol was flowering into a bewildering array of domestic and international joint ventures and subsidiaries, as Annex A shows. It was only in the later years of dos Santos' rule that the vested interests started to infiltrate Sonangol proper and began to hamper its overall effective operation: comments during my September 2017 trip to Angola were far more negative than I had ever heard before.[26] This was consistent with an end-of-regime president seeking to maximize family wealth ahead of retirement.

[26] My perceptions of degradation of Sonangol under Isabel dos Santos were echoed by multiple interviewees in Luanda. See also Eisenhammer *et al.* (2017).

War, Marxism-Leninism, and oil money

The fighting that followed Angola's independence from Portugal in 1975 was about many things. It had ethnic elements. The ruling MPLA held Luanda and some urban centers and coastal areas, while UNITA reigned in large parts of the countryside: this was also significantly a war of rural Angolans against elite, oil-rich urbanites (led by the MPLA, but fought on the ground by poor people on their behalf). UNITA's bloodthirsty leader Savimbi never tired of telling his supporters that the downtrodden, coffee-picking 'real Africans' were fighting against an effete, corrupt gang of globalized, wealthy élites clustering in coastal export enclaves and in league with foreign wealth extractors. The substantial mixed-race populations in the MPLA areas, who often disdained African languages, added further racial fuel to the sense of rage, separation and unfairness. These divisions were partially accepted as a fact of life in MPLA areas too: a popular slogan during the war summarized them as: "The MPLA steals, UNITA kills."[27]

Each side exploited Cold War rivalries to gain advantage in constantly shifting, topsy-turvy, multi-layered struggles for supremacy. The Soviet Union backed the oil-rich MPLA and Fidel Castro sent thousands of Cuban troops in support, helping to secure a famous victory over apartheid South Africa's army and its UNITA allies at Cuito Cuanavale in southern Angola in 1987-88. The Cold War delivered the irony of Cuban troops protecting American oil installations in Cabinda on behalf of a Soviet-backed regime fighting U.S.-backed rebels. Later on, Angolan military officials and UNITA forces sometimes mined almost side-by-side in the country's diamond zones in the 1990s, under local non-aggression pacts that allowed uninterrupted mining and trading across the frontlines.[28]

Nearly all the oil was produced offshore, and military operations hardly dented production. Savimbi, a master manipulator, won widespread support in the West by portraying himself as an anti-communist freedom fighter, whereas in reality he ran a tightly controlled military-political machine run on fear. A 1983 account in the *New York Review of Books* gives a good sense of the man's opportunism:

> *Over the past fifteen years he has been able to switch to whatever rhetoric he feels will best suit the moment. At first, Mao seemed the master. As late as 1976, when South Africa was already his*

[27] See, for example, Maier (1997).

[28] In the besieged town of Kuito in the early 1990s, embattled residents at one point told me of a football match between UNITA and MPLA soldiers under a brief local truce, after which they set about killing one another again.

> *chief supplier, he still used some Maoist jargon. Last year, Savimbi was presented to a Conservative group in the British Parliament as "the black Mrs. Thatcher"* (Smiley 1983).

If one had to identify a single reason for the Angolan war's exceptionally long duration, it was Savimbi's sociopathic, charismatic, bloodthirsty political genius and his ceaseless and burning desire to gain power at any and all costs. But the war also was fed, in terms of both materials *and* motivations, by minerals: oil supporting the MPLA and, especially from the 1990s, diamonds supporting UNITA. The conflict was, in part, an outcome of resource dependence and a feature of the resource curse.

After the fall of the Berlin Wall, the U.S., Portugal and Russia came together to help craft the Bicesse peace agreement of 1991. This led to elections in 1992, that dos Santos and the MPLA won. Savimbi rejected the result and plunged Angola into its bloodiest conflict yet. The resumption of war lasted until the signing of the Lusaka protocol in 1994. This, too, collapsed in 1998, leading to a new phase of war that ended only after Savimbi was tracked down and killed in eastern Angola in 2002.

4. Capital Flight Amid War

Even under a Marxism-Leninism inspired state, an extensive oil-financed patronage system was already operating in Angola, officially justified as a way of spreading the oil wealth downwards towards hard-pressed Angolan consumers. In practice, the mechanisms employed generally ended up serving élites.

A few examples, some more licit than others, illustrate how state wealth was appropriated by small numbers of people in wartime, without necessarily breaking any laws. Plenty of this wealth ended up being transferred overseas through normal mechanisms, and from an economic and political perspective it constitutes "lost capital" in the hands of a wealthy minority – even thought it would not fall inside definitions of (and would not be measured as) either capital flight or illicit financial flows.

The first and perhaps biggest legal mechanism involved multiple exchange rates.

The exchange-rate merry-go-round

In the early 1990s the journalist David Ottaway observed how "money for free" could be obtained in Angola's official patronage system. Ottaway's friend needed gasoline for his car, but the banks were closed and he was short of cash. So, he went to an official shop called a *Loja Franca,* where goods were sold at controlled prices to those with government-issued documentation that gave them access, and bought six dozen eggs. He then took the eggs to an informal market, where he sold them for more than ten times as much, generating enough cash to fill his car with gas — having created the money apparently out of thin air (Tvedten 1997, p. 80).

The secret to this conjuring trick lay in Angola's multiple exchange rates. At the official rate, kwanzas are worth a lot more than they are worth on the black market. However, only privileged people — including Ottaway's friend, in this case — were able to access goods at that privileged rate. The ostensible idea behind the *Lojas Francas* was to provide cheap goods to the population, and especially to placate the capital's urban population who relied heavily on imported goods. Over time the system was ruthlessly abused: for most Angolans, goods remained expensive, while a small but politically crucial urban middle class lived comfortably, buying flights to Lisbon for the black-market price of a couple of cases of beer, and the few who were able to operate the system on a large enough scale could make out like oil bandits. Of course, those privileges could always be withdrawn from anyone: this was not just officially sanctioned corruption, as some might describe it, but a useful tool of political control.

The exchange rate game also was tied up intimately with the imports sector, with large implications for the transfer overseas of Angola's oil wealth.

In the 1990s (and still to a degree today) Angola's consumer imports were dominated by a few low-profile giants, the best-known at the time including Angoalissar, Arosfram and Golfrate. (Many smaller-scale importers existed alongside them, including individuals, but they mostly had weaker political connections and lower opportunities to prosper).[29] The large firms typically were operated by little-

[29] Angola's Conselho Nacional de Carregadores (CNC) provides a quarterly list of the main importers since 2008 by tonnage: top importers in this time period typically include Angoalissar, Mazzarati, China International Fund, Chinangol, Casa Militar, Gabinete de Reconstrução Nacional (GRN), Zara General Trading, Atlas Group, Golfrate, Comalco, along with cement and oil companies. For example see *Boletím 2008,* Conselho Nacional de Carregadores, Ministério dos

known members of Lebanese or Indian diasporas, who sourced consumer goods from wide and effective international procurement networks. They would have - like anything else of significance in Angola's non-oil economy - 'silent partners' with the ear of to the Angolan presidency, who would provide the necessary political cover and connections, putting up little capital themselves, yet taking a large cut of the profits.

They sometimes went in and out of presidential favor: President dos Santos in November 2004 identified "three or four large commercial groups, controlled by foreigners," who "dominate wholesale trade and manipulate prices," and who, he warned, should "co-operate more with the government" (Vines *et al.* 2005, p. 10).

Given the devastation that war had wreaked on local production of basic goods, imports could be immensely profitable. A mid-level Lebanese businessman attached to an import firm told me, confidentially in 2004, how he had first arrived in Angola in 1992, and imported goods for sale in Luanda's giant *Roque Santeiro* open-air market:

> *Nobody else wanted to come here; the market was very thirsty.* [From 1992-1996] *it was like the old Wild West. If you brought in 100 containers, you would lose 20. But when you got your containers out, you were rich.*[30]

Stolen goods, he added, were "the secret of Roque" during the chaos of the war years: the most profitable. Things had calmed down a bit by 2004, but the market was still feisty: "If you have a big container with good prices, it's like a war outside. You need guards to keep order. People in the market will buy anything."

Dollars were scarce, and expensive on the black market. The importers were generating large volumes of kwanzas from their sales of imported goods but could not easily convert these into hard currency because the kwanza was not freely convertible. So, the importers obtained foreign currency in two main ways.

Transportes de Angola, available at cnc-angola.com.
[30] Interview with a mid-ranking Lebanese importer, Luanda, 2004.

First, they organized black-market currency traders called *kinguilas,* usually women, who sat on street corners with fat wads of kwanza notes that they would exchange for dollars with passers-by at rates far above the official rates. The *kinguilas* I knew had an excellent reputation for honesty. They almost never got robbed, and their rates moved mysteriously in sync, all across town, often within minutes. It was a mystery to most Angolans as to who controlled the *kinguilas* and kept the police and the robbers off their backs, but it was assumed they were closely networked with the presidentially-sanctioned import firms, which directly or indirectly supplied them with the kwanzas. The Lebanese businessman continued:

> *You'd receive kwanzas from the market, and change them with the kinguilas, and take the dollars to the airport . . . Or you would exchange diamonds for the dollars. You give the guy here diamonds. He arranges for dollars to be transferred overseas to your account.*

The latter, he said, often involved deals between Shiite Muslim Lebanese merchants and Israeli operators in the diamond sector. "Here you forget about religion, politics. Here it is deals" (*ibid*.)

These mechanisms — suitcases of dollars (or diamonds) smuggled through airports, often relying on political connections to get through customs unscathed — are classic, if unsophisticated, mechanisms for unrecorded capital flight and illicit financial flows.

A second important channel for the importers to obtain dollars – in this case, at the official exchange rate – was through the central bank. The exchange rates opened the possibility for large additional profits. Anyone who had access to the subsidized official rate could take their Kwanzas to the central bank to get hold of dollars (and therefore imported goods), very cheaply.

For example, let's say the official exchange rate was 100 kwanzas to the dollar, while the parallel or black-market rate was 300. (For some years, the discrepancy was larger: in the early 1990s, the differential reached 1,000 percent).[31] A well-connected import firm would sell a container of widgets in the *Roque* market and receive, let's say, 300 million kwanzas in cash. It could take these kwanzas, along

[31] IMF (1997). On p. 9 the report states "the differential exceeded 1,000 percent during 1992 and 1993" before shrinking to 100 percent in 1994, then less than 50 percent by 1996.

with an import licence from the Ministry of Commerce, to the Banco Nacional de Angola (BNA) and say it wanted to import more widgets. If approved, the BNA would take the kwanzas and supply the importer with $3 million in a foreign account, based on the Kz 100:$1 official rate. The importer then buys $3 million of widgets overseas, imports them, and again sells them in *Roque* at the prevailing parallel market exchange rate, receiving 900 million kwanzas in cash. The firm has tripled its money, less transport costs, taxes and so on. It can then take *this* money to the BNA and do it all again.

In theory, the profits from this merry-go-round were limitless. In practice, of course, there were limits to the government's largesse. For one thing, the BNA only had limited foreign exchange to allocate to this purpose, so there was intense political competition for access to the official exchange rate. As one account put it:

> *The foreign currency sold at this artificial rate had to be rationed. However, there was no rational, transparent way of doing this. In practice, the political authorities simply informed the banks which individuals should receive the foreign exchange on offer* (Hodges 2001, pp. 115-116).

Many importers could not access these charmed rates, so much of the import business took place at the parallel exchange rates without access to the subsidy. Another limit was that since the declared aim of the multiple exchange-rate system was to provide cheap imports to hard-pressed consumers, so the importers and their patrons were sometimes politically constrained to sell below full market prices. As the same Lebanese trader told me: "I can put an imported Coca Cola on this table cheaper than you can produce it here." Similarly, an IMF benchmarking exercise in 2003 found that Angolan retail prices for fuel, much of it imported, were one-fifth to one-third of the world market price (IMF 2003, pp. 61-62). Even so, the prices for many imported goods were frequently a lot higher than world market prices, especially for higher-end goods: Luanda has consistently been ranked one of the world's most expensive cities (The Economist 2011). When the IMF nudged Angola towards liberalizing the economy in the 1990s, letting the official exchange rate move close to the parallel rate, it provoked inflation of "tornado-like proportions," in the words of the economic historian Tony Hodges (2004, p. 118).[32] To calm the resulting social tensions, the Nova Vida ("New Life") program in 1996 re-established administrative controls.

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[32] A longer description of the causes of macroeconomic instability is on pp. 109-122.

While some urban consumers did benefit from the exchange-rate system, much of the subsidy – perhaps most of it – was captured by the large importers and especially by their Angolan political protectors. In 1995, the IMF said it was "especially concerned by evidence that the exchange rate policy which has actually been implemented benefits in practice well-connected persons and/or businessmen at the cost of substantial financial losses for the central bank."[33]

The favored importers could win once again: not just on the exchange-rate subsidy, but also by operating under poor competitive conditions and control of choke points that enabled huge mark-ups, particularly for higher-end goods and services. In addition, extremely favored clients were even able to borrow kwanzas at negative real interest rates, to convert into foreign exchange at the generous official rate.[34] In general, there was nothing illegal about these outrageous windfalls!

Capital flight and the import nexus

The author is not aware of any studies that have tried to assess how much money the *kinguilas* were soaking up in the 1990s, but their ubiquity on the streets of Luanda suggests the amounts could have been large. Similarly, it would be a big research exercise far beyond the scope of this study to try to estimate how much of the import subsidy was captured by middle-class Angolan consumers and how much by the "import nexus" — that is, the import companies, their Angolan silent partners, their foreign trading partners, bankers, Angolan recipients of bribes for permissions, and so on.

If a large share of the exchange-rate subsidies were indeed captured by players in the import nexus and ultimately stashed offshore, how would this turn up in the usual measurements of unrecorded capital outflows? In the case where the BNA supplies dollars overseas to buy imports (an outflow of dollars in the balance of payments), the goods are sold locally and the proceeds smuggled out as diamonds (or dollars) in suitcases, this would involve an illegal overseas transfer and it would theoretically show up as a discrepancy in the BoP, triggering a measure of capital flight. Other methods, such as trade

[33] IMF report quoted in Hodges (2003, p. 132).

[34] For instance, a 1996 World Bank report stated: "The credit allocations mirror those of foreign exchange through the official market and are often tied to foreign exchange trading operations. While in theory the sale of foreign exchange would involve the payments of counterpart funds in Kwanza, some clients obtain bank credit (at negative real interest rates) to pay for the already subsidised foreign exchange." Quoted in Hodges (2001, p. 118).

mispricing, discussed below, are also common ways to get money out – also, at least in theory, illegal and also, in theory, measurable as capital flight.

It also helps to consider two theoretical possibilities — first, where all the exchange-rate subsidies are captured by consumers, and second, where the entire subsidy is captured by the import nexus.

In the first scenario, government controls ensure that consumers were the sole beneficiaries of subsidized imports. It would check that an importer who received, say, U.S. $10 million from the BNA for a dedicated range of consumer imports actually did import $10 million worth of the goods (adjusted for reasonable transport and associated costs), and that those goods were sold in Angolan kwanzas at world market prices based on the official exchange rate at which the importer obtained the dollars. In this scenario, Angolan urban consumers would obtain all the benefits of the exchange-rate subsidy, via cheap imported goods. One could question the policy, but there would be no "looting", no lost capital, and no measurable capital flight or illicit flows (although any reasonable profits might later be transferred secretly abroad as capital flight or transferred legally via the BNA for to pay for more imports.)

In the second scenario, which may be closer to the reality for much of the time, the import nexus captures all the exchange-rate subsidies. Let's again say the official rate is Kz 100:U.S.$1, so the importer paid 1 billion kwanzas for $10 million, while the parallel rate was Kz 300:$1. In this example, they could buy $3.3 million of goods and stash the excess $6.7 million overseas. To cover their tracks, they would illicitly over-invoice the imports, recording that the $3.3 million of imported goods were actually worth U.S.$10 million, using political connections and pay-offs to ensure this ruse was not officially challenged. They would sell that $3.3 million worth of goods at retail in Luanda for Kz 1 billion, recouping their original kwanza investment.[35] Assuming the partner countries provide accurate bilateral data for $3.3 million of exports to Angola, and Angola (inaccurately) records $10 million worth of imports, this would show up as a discrepancy, and could be measured as $6.7 million in capital flight. However, for this time period, the Angolan import data published by the IMF was derived from Angola's trade partners, so they showed zero discrepancy. As a result, this potentially large component of Angolan capital flight remains unmeasurable.

[35] They could then take the Kz 1 billion to the BNA and do the import operation again, stashing another US $6.7 million offshore.

By the late 1990s, the spread between the official and parallel exchange rates narrowed dramatically. After falling to 65 percent in 1998 (IMF 2003, p. 96), the spread virtually disappeared for most of the "golden decade" that began in 2002, when it was easy to walk into any Angolan bank with Kwanzas and obtain dollars, or vice versa. (The differential would open up again, dramatically, after the oil price crash of 2014, as discussed below.)

The "parallel state" at war: The Bermuda Triangle and oil-backed loans

During the era of shaky peace and renewed war from 1998 onwards, the Angolan budgetary process suffered gaping holes, stemming from the interactions between oil, civil war, external finance, and the way President dos Santos exercised power. The problem was sometimes dubbed the 'Bermuda Triangle' — a place where money disappeared without a trace, located somewhere between Sonangol, the Finance Ministry and the BNA (though really it was more like a tetrahedron, with those three institutions at the base and the presidency at the top). The Bermuda Triangle did not just make budgetary revenues disappear: from a BoP perspective, it was also a major source of capital flight.

The Bermuda Triangle was rooted in a system of oil-backed loans that was seeded in the late 1980s, initially as a way for the state to finance Sonangol's share in oil developments off the Cabinda enclave. Sonangol did not always have the money readily available to pay for its share of developments, and international bankers were unwilling to lend on reasonable terms to a Marxist-Leninist government in the throes of a civil war.

To solve this problem, an arrangement was set up, the Cabinda Trust, whereby (initially) the proceeds from the first four of every sixteen oil cargoes shipped quarterly from the Cabinda oilfields were earmarked to an offshore trust managed by Lloyds Bank in London. In turn, Lloyds would supply loans to finance oilfield developments. These flows bypassed Finance Ministry and BNA accounts, and that was part of the appeal from a lender's point of view: Sonangol was viewed as a far more competent and trustworthy partner than the leaky and chaotic finance ministry.[36]

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[36] On the oil cargoes and the Cabinda Trust, see Global Trade Review (2007), describing the first Angolan oil project finance since the 1990s. It is not clear if these extra-budgetary operations were legal at the time. When Angola promulgated Decree 30/95 in 1995 mandating that all oil revenues should be deposited in BNA accounts, these extra budgetary practices continued.

These arrangements worked efficiently (on their own terms), and Angola developed a good track record of repayments over time at relatively high effective interest rates. New loan offers came rolling in, and another trust was also established, the Soyo-Palanca Trust, to handle oil cargoes flowing from outside Cabinda.

Soon the government began to use these to finance projects beyond the oil industry: to general government spending priorities. The trust structures eventually were discontinued, but the basic oil-backed loan arrangements continued, with Sonangol as the anchor partner. After the resumption of war in 1992, the government quickly found that it could deploy these 'pre-financing' arrangements as effective tools for weapons purchases and other state priorities, a market-based replacement for the loss of its former Soviet military backers following the Soviet Union's demise. Each oil-backed loan, typically for several hundred million dollars, was provided by a syndicate of international banks from different countries — often mainstream British, American, French and Dutch financial institutions.[37]

The very feature that made these arrangements efficient for bankers and for President dos Santos — the fact that they were routed outside the treacherous Angolan financial system and instead co-managed by the 'efficient' Sonangol — created the budgetary hole. The overseas, Sonangol-overseen routing gave the Finance Ministry, central bank and other ministries no direct access to these flows — and little idea how the money was coming or going. The logic of the country's patronage networks also encouraged this system: it helped President dos Santos ensure that power was fragmented, so that he could play divide-and-rule with different power centers.

The IMF refers more euphemistically to the Bermuda Triangle as 'quasi-fiscal operations' (QFOs) (IMF 2014, p. 8). while Soares de Oliveira (2007, p. 607), taking a more political-economy view, refers to Angola's "parallel state". A 1995 IMF report described the system's astonishing scale:

> *About 40 percent of estimated expenditure up till September was carried out bypassing the Treasury, largely financed by petroleum revenues that were also outside the Treasury's*

[37] Though various banks lend in these syndicates, some were repeatedly involved: Warburg Dillon Read, the investment banking arm of UBS; BNP Paribas, and Société Générale. See Economist Intelligence Unit (1999, p. 29); Economist Intelligence Unit (2002, pp. 32-33); and Economist Intelligence Unit (2003, p. 30).

purview…. The mission estimates that the total expenditure outside the normal procedures for Treasury operations amounts to about 64 percent of total expenditure up to September (quoted by Global Witness 1999, p. 16).

At the same time, the BNA was also making payments without orders approved by the Finance Ministry in accordance with the procedures of the supposedly integrated state financial payments system (SIGFE). In theory, all oil revenues ought to have been deposited in the Treasury's single account at the BNA, but the IMF found a $31.4 billion shortfall over the years 2007-2010, plus more in other years.[38]

It was, in short, a mess. Many observers assumed this money was all stolen, but that is not quite accurate. The opacity, complexity and fragmentation undoubtedly meant plenty ended in personal accounts. But plenty also went to pay for the Angolan state's (presidency-directed) spending priorities, including wartime arms purchases, such as in the "Angolagate" affair described below. The oil-backed loans also included bilateral deals involving Brazil and Portugal in which, for example, payments were routed through the Brazilian financial system for the Brazilian firm Odebrecht to provide services in Angola, including the rehabilitation of the Capanda dam, the country's largest hydroelectric complex.[39] Later on, China introduced its own oil-backed lending, as discussed later.

Even though the system worked well on its own terms, the 'missing billions' were a major public relations disaster for the Angolan government.

By the early 2000s, as oil prices fell towards their 1990 level, almost all of Sonangol's shares in oil cargoes was earmarked for payments into oil-backed pre-financing arrangements. The government increasingly had to find new loans to stay afloat, like a weakened addict focused obsessively on the next fix.

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[38] "Most of the difference between the oil revenue accrued to the government and the amount effectively deposited in the Treasury single account is explained by the amount retained by Sonangol to finance quasi-fiscal operations (QFOs) and the amount deposited in escrow accounts for servicing external credit lines," the IMF observed. The S31.4 billion represented what the IMF called "a discrepancy between the revenue, expenditure, and external financing recorded by the Ministry of Finance and domestic financing to the government, based on central bank data." See IMF (2014, p. 10). On earlier years, see Hodges (2001, p. 113).

[39] Angola ran up some $5 billion in debts with Brazil over 2005-2017, according to a Brazilian government communiqué, with export credit from the Brazilian government, backed by Angolan oil cargoes. It paid off the last $529 million of debt in 2019. See Agência Brasil (2019). Odebrecht later became embroiled in massive corruption scandals in Brazil, some of which had Angolan connections. See, for example, Leahy (2016).

Under great pressure, the government (which was again at war) reached an agreement in 2000 with the IMF with a laundry list of reform promises, including a diagnostic study of the oil sector. This was a political compromise – it was not a full audit of all the squirrelly flows that were taking place, but a simple comparison between how much oil revenue was generated, and how much ended being deposited in the BNA.[40] KPMG won the $1.6 million contract and completed its first diagnostic report in 2002, followed by a series of quarterly reports afterwards, some of which were published.

Impressionistically, the reports are poorly written, poorly structured, and hard to untangle - but they did at least suggest the depth of the inconsistencies in government accounts. Just for example, the study found five different sums for incoming oil revenues, and a $2 billion to $2.6 billion discrepancy between what the Finance Ministry said it received and what the BNA said it received in 2000 alone, all of which was due to Sonangol not paying into the account at the Banco Nacional de Angola (BNA) it was supposed to pay into (Human Rights Watch 2004). Accounting in kwanzas, muddied by exchange rate differentials and high inflation, sowed further confusion. By January 2001 Sonangol had stopped payments into the BNA accounts, saying that the BNA wasn't releasing the requisite sums in kwanzas in a timely fashion, and that by the time it received the money, inflation had eaten into it so Sonangol couldn't pay its tax bills. Fuel subsidies and other cross-subsidies to Sonangol further complicated matters. Moreover, while the BNA recorded cash payments on arrival, while the Finance Ministry recorded inflows even before they had been received, creating paper transactions that could not be reconciled. There were some discrepancies in the figures for physical oil flows, too. In short, government finances were in a mess.

The IMF subsequently conducted its own analysis, and in sharply critical staff reports in 2002 and 2003 it estimated that Angola could not account for a total $4.2 billion from 1997 to 2002 - equivalent to nearly 10 percent of GDP at the time. A Human Rights Watch analysis of this episode noted acidly that this unaccounted money was roughly the same size as Angola's total social spending for the same period - and that if as big a proportion of U.S. GDP had disappeared in 2002, "the loss would total approximately

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[40] The full title of what became known as the "Oil Diagnostic" study – which was in fact a series of reports – was "*Financial Diagnostic and Monitoring of the State Oil Revenues*," carried out by KPMG for the Ministry of Finance. The terms of reference for the diagnostic study stated: "The consultants [KPMG] shall *not* be expected or required to consider or investigate or conduct any form of enquiry into the conduct, practices, honesty, integrity or standards of, or nature or quality of work performed by, any person who has or may have had, any involvement in or connection with, directly or indirectly, the facts, matters, circumstances or events which shall be diagnosed, monitored, studied, assessed or considered by the consultants during the performance of these services." For a discussion of the "Oil Diagnostic," see Human Rights Watch (2004).

U.S.$966 billion" (worth some $1.4 trillion today) (Human Rights Watch 2004, p. 33). Subsequent reconciliation exercises spurred by the IMF reduced these discrepancies over time.

By being routed substantially through Sonangol channels outside the Angolan budgetary system and away from BNA accounts, oil-backed loans to Angola clearly would have also bypassed a lot of BoP data. From a capital flight perspective this would have several effects:

- To the extent that original disbursements —inflows — were not reported in the external debt statistics compiled by the Bretton Woods institutions, this would mean that standard measures of capital flight would understate the true magnitude of the problem: that is, more money entered Angola (and is missing) than is measured.
- In contrast, unrecorded genuine *repayments and interest payments* to service those same unrecorded loans would tend to reduce the 'missing' amount from unrecorded loans, as more would have flowed out of Angola than was recorded. However, these repayments – in the form of actual oil cargoes – would be more likely to be recorded in the trade data, than the original disbursements, making understatement of capital flight less likely. Together, then, the loans plus repayments/interest may lead to a situation where recorded capital flight is understated.

Given the chaos in Angolan state finances, however, it is difficult, if not impossible, to draw firm conclusions about the extent of any of this, except to say that these loans could generate substantial capital flight.

The Angolagate scandal

In the late 1990s, a massive financial scandal engulfed France after Eva Joly, an investigating magistrate in Paris, began probing the French state oil company Elf Aquitaine and unearthed what turned into the 'Elf Affair', Europe's biggest corruption case since the end of the Second World War. Elf's extensive operations in Africa, especially Gabon, were used as a giant offshore slush fund outside the French budgetary system to channel covert political financing to the main political parties in France, from left to right, and for off-the-books activities of the French intelligence services, and for channelling bribes around the world, from Taiwan to Venezuela to Germany, on behalf of major French corporations. Things

got so out of hand that a former head of Elf called France's foreign intelligence services "a great brothel, where nobody knows any more who is doing what" (Lecasble and Routier 1998, p. 252).[41] The system, an open secret among French political élites, corrupted the French state and ultimately inflicted deep, lasting damage on French democracy.[42]

One tentacle of the Elf Affair was the "Angolagate" scandal (Elf was producing oil in Angola too). When Savimbi took Angola back to war in 1992 the MPLA government, under an international arms embargo, found little appetite in the international community to help. So, in some desperation, the dos Santos government turned to the French networks for help securing weapons 'off the books'. Pierre Falcone, a French businessman involved in the arms trade, and Arkady Gaydamak, a Soviet-born financier, helped put together two arms deals – one for $47 million in 1993 and a second for $563 million in 1994 – through a Slovak armaments company. Eventually, from 1993 to 1998, a total of $790 million in arms was supplied, with oil-backed loans arranged by the French bank Paribas (now BNP Paribas) and secured by future oil shipments by Sonangol.[43]

Kickbacks were paid to key Angolan, French and other players.[44] In October 2009, a Paris court found 36 people guilty in the affair, including Falcone, convicted of influence peddling, arms trafficking and misuse of corporate assets; and Gaydamak, convicted *in absentia* of arms trafficking, influence peddling and money laundering. Both were sentenced to six years in jail.[45] A French appeals court subsequently reduced the accusations and the jail terms for Gaydamak and Falcone, arguing that the arms sales did not constitute arms trafficking since they were conducted under an Angolan government mandate.[46]

French authorities had in fact already issued an international warrant for Gaydamak's arrest on 6th December 2000 (Global Witness 2002, p. 26). Yet legal trouble does not seem to interfere with the willingness of some countries to welcome high-profile criminals and their money. Two days later, on 8th December, *Le Monde* published an interview conducted with Gaydamak in the Dorchester Hotel in

[41] The original quote is, "La DGSE est un grand bordel ou personne ne sait plus qui fait quoi."
[42] For a detailed account in English of the Elf affair, see Shaxson (2008).
[43] Global Witness (2002, p. 6). This Global Witness report outlines the Angolagate scandal in greater detail.
[44] See *Keeping Foreign Corruption out of the United States: Four Case Histories,* US Senate Permanent Subcommittee on investigations, February 4, 2010, especially the section after p. 247.
[45] See, for instance, Robert-Diard (2009), AFP (2009), Shirbon (2009) and France 24 (2009).
[46] Associated Press/Haaretz (2011) and BBC (2011).

Mayfair in London (Herve 2000).[47] I interviewed him in Moscow in 2005, and asked whether he had been to Britain, France or the U.S. after his international arrest warrant. "Have you watched the movies?", he replied. "Don't you think I am able to go where I want to?"[48] In the same interview, Gaydamak told me he was the victim of falsified documents, that Angolagate was "a pure product of internal French politics." He added, with some justification, that by helping facilitate arms sales to Angola these dealings had shortened the war and ultimately saved many lives. His statements contain some truths, but a report by the non-governmental organization Global Witness may summarize the episode more accurately:

> *[W]hat started as a legitimate exercise in self-defence by an internationally-recognized Government threatened by rebel insurgents in the early 1990s, ended up with full-scale appropriation and laundering of state assets through parallel budgets, over-priced arms deals and deliberate indebtedness through mortgaging of future oil production* (Global Witness 2002, p. 3).

In November 2015 Gaydamak, who had hitherto been a fugitive from the remaining three-year jail term, handed himself over to French authorities in Paris (*Le Monde* 2015).

The Angolagate affair is just another example of rather corrupt international procurement deals: more examples follow, below, where the mechanics of capital flight are teased out. What is interesting is that this episode of offshore corruption, with financial flows snaking through all sorts of shell companies and tax havens, inflicted severe political "blowback" to the western country – France – that received financial and investment inflows related to the Angolagate deals and to many others. The damage to the French political system – and, later the damage to French citizens' faith in their political system, once the lurid rolling scandal was unearthed – is incalculable.

Various other "Elf Affair-like" systems can be discerned in other countries, inflicting similarly corrupting blowback, as a result of inflows typically routed via secret shell companies, tax havens and so on. For example:

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[47] Herve (2000). Global Witness (2001, p. 26) also covered this aspect in All the Presidents' Men: the devastating story of oil and banking in Angola's privatised war.
[48] From my interview with Gaydamak, Moscow, September 16, 2005.

- Britain's long-running "Al-Yamamah" arms deals with Saudi Arabia since the 1980s, which have involved major arms deliveries to Saudi Arabia, repaid with oil cargoes. Investigations by various groups including the Campaign against the Arms Trade (CAAT) and Britain's Private Eye newspaper have revealed a large network of kickbacks and shadowy financial flows, which it is believed only constitute a part of a wider pattern.
- More generally, Britain's tax haven network has thoroughly suffused the entire British establishment and political system. Describing the extensive scale of this 'offshore nexus' that has gripped British politics is far outside the scope of this paper: one telling pointer comes from David Marchant, the head of the renowned Miami-based investigations outfit Offshore Alert, who told me that when he sees British establishment titles like 'Lord' or 'Sir' in an offshore structure, he treats them as red flags.[49] Again, the direct damage to British democracy and to national security from the offshore inflows to the UK is incalculable.[50]
- The roles of Isabel dos Santos and Sonangol in Portugal, discussed below, have not only delivered significant financial inflows (some of it as capital flight) to the European country. They also have entailed serious political blowback and damage to Portuguese democracy and political system, as Soares de Oliveira and others have noted (Villalobos 2008). As Manuel Vicente said in 2008 upon taking control of Portugal's Galp, owner of the country's main oil refinery, "We are the bosses now. We dictate the rules of the game. Period" (Ferreira 2008). However, Angolan influence in Portugal was at its strongest during the era of high oil prices and economic and political weakness in Portugal during the Eurozone crisis: it has since ebbed as Portugal's economy has recovered, Angolan oil revenues have fallen, and a new and softer Angolan administration has taken over.
- Donald Trump's curious Russia connections. This is beyond the scope of the current report, but it is widely known that Trump's business interests in Russia and other parts of the former Soviet Union have created innumerable pressure points making the U.S. president potentially vulnerable to foreign influence operations (Henry 2016).[51]

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[49] Telephone conversation with Marchant, October 21, 2013. He subsequently repeated the assertion in a subsequent telephone interview on July 22, 2016, adding "the British system is set up to support the crooks . . it often seems that everything is pro-crook . . . [titles like 'Lord or 'Sir'] are a red flag, without a doubt. It is almost always rent-a-title, the Sir or Lord just exists to inspire confidence. . . the whole honours system is corrupt." The most extensive and dogged media documentation of the intimate relation of Britain's elites and the (mostly British) tax haven system, and the ensuing damage to British politics, probably comes from the bi-weeky satirical investigative magazine Private Eye, which usually contains several examples of such practices in every edition.

[50] On offshore and national security, see, Sikka (2020), and associated links. The Conclusion chapter in Shaxson (2018) discuss the links between financial inflows and national security threat in detail.

[51] See, for instance, Henry (2016). There has been significant discussion in Washington, D.C. about the damage to the US

The astonishing Angola-Russia debt deal

One of the most colorful episodes of capital flight during the war that has come to light involved a deal to restructure $5 billion in Angolan debts to Russia, in which Angolan and foreign private individuals, in league with western trading commodity firms, banks, and of course tax havens, siphoned off a large share of the payments flows. This was a classic example of a transnational plunder network. In my 2005 interview with Gaydamak I obtained a partial explanation of some of the flows, but the most detailed analysis of the deal was a 159-page report, based on leaked documents, published in 2013 by two non-governmental organizations, UK-based Corruption Watch and the Angolan-based Associação Mãos Livres.[52]

By the end of the Cold War, Angola had amassed more than $5 billion in debts to the former Soviet Union, which had accrued to Russia after the Soviet Union fell apart. Angolan President dos Santos turned to Gaydamak and Falcone, whom he already knew from the Angolagate deals, to reach a rescheduling agreement. A deal was struck in November 1996 where Russia officially cut Angola's debts to $1.5 billion, and Angola would then repay this amount in instalments, after a five-year grace period, between 2001 and 2016. Angola would also pay $1.39 billion in interest accrued over the full 20 years, for a total $2.89bn from 1996-2016; however, it seems that if Angola paid off all the debts before the end of the grace period in June 2001, the interest would be forgiven.[53] Given Angola's parlous economic state, this may have been a perfectly reasonable rescheduling, as far as it went.

However, to pay off the debts more quickly than the 1996-2016 schedule allowed, the parties agreed to a mechanism that was familiar to some Russian businesses: promissory notes, where the holder of the note is entitled to receive a certain amount of money at a particular date. So, the BNA in January 1997 issued 31 promissory notes, each with a face value of $48.4 million, for $1.5 billion in total. Russia would hold these notes, and every time Angola made an (oil-backed) debt repayment, Russia would redeem the appropriate number of notes to Angola alongside a certificate of repayment.

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caused by US shell companies. See, for instance, Shah and Hershman (2019).

[52] Associação Mãos Livres and Corruption Watch UK (2013). The details in this section are drawn principally from this report unless otherwise indicated.

[53] Gaydamak told me in 2005: "Everything was [to be] paid to the Russian federation before the end of the grace period. It was very important. If not, we should pay interest."

Just days after the November 1996 deal, Gaydamak and Falcone formed Abalone Investments, a shell company with no assets, in the Isle of Man, a British tax haven. Abalone inserted itself into the middle of the Angola-Russia repayment streams, and the firm would reap large profits for its owners and a range of other players, Angolan and foreign, with official Angolan and Russian government support.

In May 1997 Russia granted Abalone an option to buy all the Angolan promissory notes and repayment certificates at half their face value, for $750 million. This deal, in theory, also gave Abalone rights to receive interest payments. In the same month, Sonangol reached a separate deal with Abalone, obliging Sonangol to buy all the notes and certificates by 2006 at their full $1.5 billion face value — implying a $750 million windfall profit for this Isle of Man shell company, and more if interest is taken into account.[54] Why Russia offered these favorable terms to Abalone, and not directly to the Angolans, was never properly explained[55]. Gaydamak told me in 2005 that "I organized this affair for both sides from the beginning" and said his total profit for the operation had been around U.S.$100 million over five years, though the detailed analysis here suggests it may have been higher.

The arrangement was handled through Abalone's escrow account at Société de Banque Suisse (SBS, now the Swiss bank UBS) under an agreement involving Russia, Angola, and the UK affiliate of the commodities trading company, Glencore, which received Angolan oil cargoes and arranged for Sonangol to borrow the funds needed to transfer to Abalone.[56] A UBS internal memo in September 1999, subsequently published by Global Witness, voiced internal concerns that if news got out, judges may start to investigate:

> *[A]ny possible mention of one of the representatives of one or other of the parties such as Abalone, SBERINVEST or the MOF [Russian Ministry of Finance] in a newspaper article, even if a posteriori this is judged to be unfounded or indeed libellous, would not prevent, in the first*

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[54] Associação Mãos Livres/Corruption Watch UK (2013) said that although Abalone had the right to levy this interest, Angola was in the end not forced to pay it.

[55] However, Gaydamak justified it to me, saying that the debts of war-ravaged Angola were then worth just 5-15 cents on the dollar, and that the $750m payment to Russia "in money equivalent" was a tremendously good deal for Russia. "It's considered probably the world's best rescheduling. . . everything was in accordance with the rules."

[56] "From all appearances, Glencore seems closer to being an organiser for the Debt Deal than a mere retail financial services provider," concluded Associação Mãos Livres/Corruption Watch UK (2013, p. 11 and 28).

instance, a Swiss or particularly Genevan judge taking an interest in the people mentioned (Global Witness 2004, pp. 43-44).

Between October 1997 and July 2000, Sonangol transferred some $774 million to Abalone's account at UBS in Switzerland, covering the purchase of 16 of the 31 promissory notes, or about half the $1.5 billion debt. Then there was an interruption when investigating magistrates in Switzerland, spurred by the Angolagate revelations, indeed did take an interest in the Angola-Russia deal. French and Swiss authorities, Corruption Watch and the Angolan-based Associação Mãos Livres reported that Abalone had transferred large amounts it received to an array of shell companies belonging to Gaydamak ($138m), Falcone ($125m), or senior Angolan officials: President dos Santos ($36 million), Angolan ambassador Elísio de Figueiredo ($18 million), former Sonangol CEO Joaquim David ($13 million), the then Director-General of Sonangol UK, José Paiva ($4 million), along with José Leitão ($3 million), a top official at the presidency, in the latter case into an account in his own name.[57] Several other accounts that received money were not known.

All this time, Angola's state finances were in chaos, UNITA rebels were rampant in the countryside, and Angolan government soldiers and civilans were dying in their thousands. The provisional state budget of March 1999 stated that Angola's access to external financing was "almost at the limit" and that "commercial credit lines are over-saturated" (Africa Confidential 1999). Two months later, the BNA governor Aguinaldo Jaime reported that "reserves are on the verge of exhaustion and the state has neither money nor foreign exchange."[58]

Abalone then went further still. According to the AML/CW report, the agreements were modified in August 1999 so that Abalone could now pay Russia not in cash, but in high-interest Russian debt instruments (which Gaydamak told me had a "very high coupon" and which he had been buying since 1997; at that time of this agreement they were trading at 10-30 percent of face value in the wild-west Russian secondary debt markets). Russia, however, accepted them at full face value: this was quite common practice in Russia at the time. This would generate another round of big profits, this time at the Russian government's expense (again, the "blowback"). Gaydamak told me it benefited Russia by

[57] Associação Mãos Livres/Corruption Watch UK (2013, p. 18). See also Cabeche and Forrest (2013).
[58] These quotes are from Hodges (2001, p.112).

reducing its debt; he also said that the reason so many mysterious companies were used in the operation was to allow him to trade in these instruments secretly without unsettling the market.[59]

In December 2000, as the Angolagate investigations in Paris progressed, Falcone was arrested by French police, and in January 2001 Gaydamak became a fugitive from an international arrest warrant issued by France.[60] The above-cited Corruption Watch/Mãos Livres report concludes: "Had the French investigation not stirred up the waters, no one might ever have known about the Angola/Russia dealings at UBS" (Associação Mãos Livres/Corruption Watch UK 2013, p. 38). In February 2001 Swiss authorities froze the promissory notes (Associação Mãos Livres/Corruption Watch UK 2013, p. 13).

Gaydamak continued, however. He opened a new account at the Russian Commercial Bank in the offshore haven of Cyprus, which received a further $618 million from Sonangol between March and August 2001, enough, in theory, to extinguish the remaining debts. However, the name on this account, Sberinvest, was almost identical to "Sberinvest Moscow," Russia's official banking agent for the deal — apparently fooling other parties into thinking that his private account was the official one.[61] Payments

Timeline for the Angola-Russia debt deal

November 1996
Russia agrees to cut debt from $5bn to $1.5bn, in 31 x $48.3 million promissory notes, plus interest.

March 1997
Russia agrees to sell all notes to Abalone for half price ($750 million).

May 1997
Sonangol agrees to pay full $1.5bn face value to Abalone.

October 1997 – June 2000
Sonangol transfers $774 million to Abalone at UBS, paying off 16 notes. Multiple transfers from Abalone to private accounts.

August 1999
Russia agrees Abalone may pay rest not in cash but in discounted Russian debt, accepted at face value.

February 2001
Geneva prosecutors close Abalone accounts.

2001
Abalone opens spoof "Russian government" account in Cyprus.

2001
Sonangol transfers $618 million to Cyprus spoof account, believes it has paid in full. But Gaydamak transfers only some of remaining 15 notes to Angola, leaving 8 outstanding.

2003
Judge in Geneva unfreezes Abalone assets.

2005
Russians tell Angola debt is unpaid. Angola agrees to pay $387 million to settle it. Gaydamak possibly pays Russia $206 million.

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[59] Gadyamak told me this part of the deal was a "positive point for Russia of this operation . . . I could collect many hundreds of millions of dollars of Russian obligations, and reduce the Russian debt on the market." As regards 'common practice,' see Pinto and Ulatov (2010, pp. 8-9): profitable firms "'gamed' the system, running up tax arrears which could then be settled at a discount in kind."

[60] See Associação Mãos Livres/Corruption Watch UK (2013, p. 49); Global Witness (2004, p. 40); and Human Rights Watch (2001).

[61] Associação Mãos Livres/Corruption Watch UK (2013, p. 13) cites "later evidence" suggesting that this name was chosen to fool the Angolans into paying the money straight into Gaydamak's private account. Gaydamak reportedly undertook this

then went out from that account to several vehicles, including some beneficially owned by Gaydamak (Associação Mãos Livres/Corruption Watch UK 2013, pp. 50-56). The Angolans appear to have lost out, too. On receipt of the $618 million, the Corruption Watch/Mãos Livres report said, the Cyprus account paid Russia for only seven of the remaining fifteen notes, leaving eight notes, with a total face value of $387 million, unpaid – though Gaydamak wrote to the Angolans in 2004 to tell them that the Russian debt had been paid in full. In reality, Angola still appears to have owed Russia $641 million including capitalized interest, of which $136 million was in arrears.[62]

In the end, after a new meeting in Moscow in 2005 Angola agreed to pay Russia an additional $387 million to retire those eight unredeemed notes. Gaydamak was supposed to pay back $206 million (why he wasn't asked to pay the $387 million is unclear), but it is also unclear if he paid back anything. As a strange postscript, Gaydamak then seems to have lost control of the money, because, as the 2013 Corruption Watch/Mãos Livres report put it, his financial administrators "did such a good job in hiding Gaydamak's links to the funds that he cannot now prove he is their 'actual' (beneficial) owner."[63]

Overall, Abalone paid out to a range of people, mostly in tax havens, only some of whom are known.[64] Table 3 shows the payments that were routed via Abalone, and the ultimate beneficiaries.

In summary, Sonangol paid a total $1.39 billion to Abalone and $378 million subsequently to Russia, for a total $1.78 billion, while Angola's original $1.5 billion debts Russia was ultimately expunged. On the face of it, then, it might appear that Angola's losses were only about $280 million. Yet it seems – though it isn't fully clear – that Angola also had $1.39 billion in interest forgiven, based on paying off the notes on time. However, whatever happened to the interest, the private parties involved made much larger

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without the knowledge of Falcone, who later unsuccessfully sued in Israeli courts for cutting him out of the deal (*ibid.,* pp. 14, 50; see also Roth 2008 and Roth 2011).

[62] The $641 million comes from minutes of a meeting between Angolan and Russian officials with Gaydamak in Moscow on September 30, 2005 (Associação Mãos Livres/Corruption Watch UK 2013, p. 53).

[63] Eventually, the report continued, a judge ordered Gaydamak to pay back the profits he made on this part of the deal, though it is unclear it this happened. According to Luxembourg press reports cited in the same Corruption Watch/Mãos Livres report, some of his funds were frozen in Luxembourg, but Gaydamak got them released by a judge, allegedly after claiming that they belonged to a charitable trust called the Dorset Foundation. (See Associação Mãos Livres/Corruption Watch UK 2013, pp. 14 and 62.) Charitable trusts are common tools for escaping creditors or tax authorities in rich and poor countries alike. See, for example, Harrington (2020). Harrington trained as a wealth manager in order to conduct her research.

[64] Annex E provides a list of banks, tax havens and companies involved in the deal, mostly in Switzerland, Cyprus, Luxembourg, Israel, Panama and Moscow.

Table 3: Russia-Angola debt: estimated totals paid by Angola (Sonangol)

	$m	%
Russia	**423**	**30.3**
Abalone principals	**312**	**22.4**
Arcadi Gaydamak	*138*	*10.0*
Pierre Falcone	*125*	*9.0*
Vitaly Malkin	*49*	*3.5*
Angolan officials	**75**	**5.4**
José Eduardo dos Santos	*36*	*2.6*
Elísio de Figueiredo	*18*	*1.3*
Joaquim David	*13*	*0.9*
José Paiva	*5*	*0.4*
José Leitão	*3*	*0.2*
Glencore / Loke Trade / Fees	**24**	**1.7**
Unknown beneficiaries	**559**	**40.1**
TOTAL*	**1392**	**100**

* Sums may not add up due to rounding.

Source: Associação Mãos Livres and Corruption Watch UK (2013, p. 18).

profits. The explanation for the difference lies in the fact that the deal involved further (under-the-table) measures of loan forgiveness by Russia that were made available to the private players. The Corruption Watch/Mãos Livres report estimated that had Angola had paid the funds directly to Russia, it would have saved between $823 million and $1.03 billion (equivalent to 10-13 percent of Angolan GDP in 1996) and Russia could have earned an extra $750 million (Associação Mãos Livres/Corruption Watch UK 2013, p. 14).

It would be hard to find a better example of an opportunistic transnational plunder network. This network extracted wealth *both* from Angola *and* the creditor nation, Russia, and it has parallels with the Queensway financial network that inserted itself into the middle of Angola's oil-for-infrastructure deals, discussed below.

In terms of capital flight, the Angola-Russia debt deal had several noteworthy elements:

1. The initial 70 percent write-off of Angola's $5 billion debts *was* an official agreement, captured in Angola's debt statistics.[65] No capital flight was immediately involved.
2. The Russian agreement to let Abalone buy the promissory notes at half their face value, providing an immediate $750 million windfall, was also not capital flight or illicit, because it was (it seems) a straightforward official agreement. This did, however, constitute 'lost capital' – for either Russia or Angola, depending on one's perspective about which sovereign party 'should' have earned the windfall instead of the private parties.
3. Abalone's payments to offshore accounts of various private parties was part of the above capital flight from Russia.
4. Russia's official agreement to accept payment in discounted Russian debt instruments at full face value was not capital flight but was "lost capital" for Russia.
5. The portion of Sonangol's $618 million payments to the spoof Cyprus account which did not pay off Angolan debts to Russia was capital flight from Angola. Whether this was captured by capital flight measured may depend on whether it happened inside the 'Bermuda triangle' or was reconciled with BNA data.
6. It was formally agreed by both Angola and Russia in 2005 that Gaydamak should pay $206 million, instead of the $387 million he had received from Sonangol. The difference – $181 million[66] – was not capital flight (since it was officially agreed by both countries) but it certainly was lost capital from Angola.

Even if all flows could be accounted for – impossible since Angolan government accounts were a mess in this period, with oil-backed borrowing by Sonangol not being properly accounted for either in state budgets or by the central bank and the BoP – the extent to which capital flight, IFFs or lost capital have occurred would be partly a matter of counterfactuals and semantics – considering whether or to what extent Angola would have paid its debts to Russia, or enjoyed another debt reduction deal, had it dealt bilaterally without the private intermediaries.

[65] Medium- and long-term debt to "Eastern bloc creditors" fell from $5.3 billion in 1995 to $2.0 billion in 1996, according to the IMF, eliminating all Russian debt. IMF (2000, p. 45, Table 22).
[66] That is, if Gaydamak complied and paid the $206 million.

The Aguinaldo Jaime affair

An investigation conducted by the U.S. Senate Permanent Subcommittee on Investigations, the findings of which were published in 2010, found that in 2002 BNA governor Aguinaldo Jaime ordered a transfer of U.S.$ 50 million from a BNA account at Citigroup in London to a Bank of America account in California that had been opened in the name of a U.S. corporation called MSA, Inc., a company officially set up to provide consulting and investment management services (U.S. Senate Permanent Subcommittee on Investigations 2010, p. 269). Jaime and a Togolese citizen, Mehenou Satou Amouzou, were co-signatories on the account. Bank of America initially accepted the transfer, but then became suspicious and returned the funds to Citibank.

Two months later, Jaime instructed Citibank London to wire $50 million to HSBC Equator Bank in London, and then opened a new BNA account with himself as sole signatory at HSBC USA in New York. He then told HSBC to use the funds to buy $50 million in U.S. Treasury Bills, and to transfer these to a personal securities account at Wells Fargo. The latter bank also became suspicious and returned the funds. He tried again to transfer the securities to another personal account in another U.S. bank. This attempt failed, too. In the end, Jaime was replaced as BNA governor and the new governor ordered the funds returned to the BNA.

The U.S. Senate report revealed an international network of intermediaries involved:

> *The participants in the 2002 $50 million transfer include BNA Governor Jaime; Mehenou Satou Amouzou, a Togo citizen living in the United States and owner of MSA, Inc., a Florida company that played a role in the first attempted transfer; Charles Shelton, a London-based broker with alleged access to a secretive Swiss trading group; Stanley Wayland, a purported principal in that Swiss trading group; and Jan Morton Heger, a California attorney and owner of Euro-American Investments, LLC, a Nevada company that played a role in the second attempted transfer (ibid.,* p. 269).

It also revealed that some banks seemed less vigilant than others:

Bank of America and Wells Fargo personnel reacted quickly to possible signs of a suspicious transaction and reversed the $50 million transfer; Citibank reacted less quickly but eventually responded by ending its banking relationship, not only with the BNA, but with all government entities, including Sonangol.

In contrast, HSBC personnel facilitated multiple wire transfers of the $50 million and the related Treasury bills in response to the instructions of a single BNA official, despite concerns about sending government assets to a private individual's account, until a compliance officer warned about a possible scam. HSBC has not only continued to provide banking services to the BNA in Angola and London but may also be providing the Angolan Central Bank with offshore accounts in the Bahamas (ibid., p. 299).[67]

This story fits a longstanding pattern of London and British banks tolerating greater levels of suspect activity than in their U.S. counterparts: the result of an unwritten policy of turning a blind eye to foreign malfeasance in order to attract financial activity to the City of London.[68] Indeed, if taken together with its satellite tax havens in its Overseas Territories and Crown Dependencies, Britain and its City of London financial center could be called the world's most important center for offshore finance.[69]

In this instance, even the weak international standards and due diligence practices of that era were able to prevent state looting, showing that efforts to counter it can prove effective.

If Jaime had succeeded, he would have managed to couch this transfer as an officially sanctioned outflow in the BoP, perhaps as an official payment for 'consulting and investment management' services, or some

[67] In 2003, Citibank also closed its office in Angola: *ibid.,* p. 4.
[68] See Shaxson (2018), chapter 7. See also Corruption Watch (2019). It states that "The US regularly imposes criminal as well as regulatory fines on large banks for laundering significant quantities of money. In contrast, the UK has never yet imposed criminal fines on a bank for large scale money laundering and has imposed only modest regulatory fines." See also Thompson (2019).
[69] This can be measured in many ways. The Tax Justice Network's Financial Secrecy Index, a ranking of global "secrecy jurisdictions" (meaning, tax havens that provide financial secrecy laws for offshore money), states that "If the UK and its network of Overseas Territories and Crown Dependencies were treated as a single entity, this UK spider's web would rank first on the index." Available at https://fsi.taxjustice.net/en/#:~:text=Introduction-,Introduction,financial%20flows%20or%20capital%20flight. (accessed August 5, 2020).

other classification. As such, it would have constituted capital flight and an IFF and 'lost capital,' but would not have showed up in any standard measures of capital flight or IFFs.

5. The "Golden Decade"

As these financial flows swirled internationally, the Angolan army managed to isolate the UNITA rebel leadership in eastern Angola. It tracked Jonas Savimbi in Moxico province, heading for the relative safety of the Zambian border. In February 2002 an Angolan army unit caught up with him in a grassland firefight, killing him along with 21 loyal followers. The Angolan civil war was finally over.

At the time, a series of large deep-water oilfields was starting up. Angolan oil production more than doubled from around 900,000 bpd in 2002 up to 1.9 million bpd in 2008. Meanwhile inflation-adjusted oil prices trebled, and both production and prices remained at a relatively high plateau from then until about 2014. This 12-year period, dubbed Angola's "golden decade," was an era of oil-fuelled post-war reconstruction, during which the country exported around U.S.$ 520 billion worth of oil, receiving around half of that amount as state revenue. This, it seems, was Angola's big chance. And Angola's leaders blew it.

Angola's top-down national development model

Before exploring capital flight in this period, it is useful to examine briefly the national development model that prevailed at the time. Under President dos Santos, this model — which was quite widely accepted by the Angolan élites and even quite widely in the Angolan media — might be described as one of authoritarian, state-driven, oil-financed modernity. It was symbolized by the gigantic, spotless shopping mall, by the pretty urban development on Luanda's seafront, by the clearing of large, messy informal markets to make way for upper-class condominiums, and in the countryside by the promotion of large agro-industry alongside relative neglect of the peasant farmer. In short, it was:

> *One that advocates top-down, accelerated high-technology economic development, with heavy emphasis on investment, big projects and borrowing to build infrastructure. . . a vision of master*

> *planning resting on a premise that the state can solve the nation's ills. Higher education and technology transfer, along with strengthening the state's efficiency and boosting the role of the formal sector, are central. In this vision, development is equated, to a very large degree, with modernity...*
>
> *In this vision state planning solves most problems and there is little room for the poor, who are often seen as an obstacle to, rather than the primary focus of, development* (Vines *et al.* 2005, p. 6).

Oil fueled this vision. Rather than facing the difficult challenges of developing the 'backward' agricultural hinterlands, Angola's leaders remained focused on the urban centers, especially Luanda, while rhetorically continuing to promote regional and economic diversification and agricultural growth. It also involved a resolute turning outwards, towards London, Paris, Lisbon, Miami and New York, and towards globalized finance with its sophisticated mechanisms of private equity, hedge funds, special purpose vehicles, tax havens, wealth management and so forth - all classic vehicles for capital flight.[70] Many large projects in Angola were driven less by the need to provide public goods, than by the possibilities of enrichment and the chance to stash the winnings offshore.

Though outward-looking, this vision was emphatically not a fraternal 'Africanist' one. Other African countries were seen either as rivals (especially South Africa, and perhaps Nigeria) or as states to be looked down upon (again Nigeria, and pretty much all other African countries, especially those with significantly lower GDP per capita).

This shiny development vision served as a legitimizing ideology for some of the large-scale capital flight Angola has suffered over the years. Out of Angola's total population, now numbering roughly 30 million, the primary domestic constituency of the Angolan regime has been an élite of a few hundred families: as a senior BNA figure remarked in 2009, "about 85 percent of Angolan credit goes to two hundred or so clients" (quoted by Ferreira and Soares de Oliveira 2019, p. 62). The secondary constituency is an urbanized middle class of perhaps a million people. In distant third place, hardly visible to top decision-makers, lie the urban poor, and even behind them, the large agricultural population.

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[70] For some history of this, see Shaxson (2012, ch. 6).

This modernist vision gained prominence for several reasons.

First, the last time the Angolan state had been able to think in developmental terms was in the 1970s, before the war, when infrastructure-led development was in vogue around the world. Many of the same players who had positions of authority at independence remained in power.

Second, a disastrous history of Western meddling in Angola's military, political, and economic affairs, described above, further cemented this push away from more inclusive and transparent models of development. Western countries had actively supported UNITA rebels (alongside apartheid-era South Africa), and the pressure that the U.S. government in particular had brought to bear for the Angolans to enter into two abortive peace agreements - the Bicesse accords of 1991 and the Lusaka agreement of 1994 - was especially resented since the government believed it had had the opportunity to finish UNITA off militarily, but had been persuaded to opt for a conciliatory democratic solution and Western-style electoral politics. When two of these arrangements collapsed in bloody warfare, Angolans understandably became wary of and even hostile to western advice.

Compounding this, IMF economic advice to privatize state assets and adopt other standard reforms in keeping with the 'Washington Consensus' was regarded as having exacerbated Angola's economic problems. The steady drumbeat of critical reports highlighting high-level corruption by Global Witness, Human Rights Watch, and others, and relentless articles in the Western media added to the suspicion.[71]

Third, the Angolan war had destroyed so much infrastructure that it was always easy domestically to sell a vision based on physical rebuilding and large capital projects. These large oil-fueled capital projects also have provided tremendous opportunities for Angolan vested interests to profit, and they have been enthusiastic cheerleaders for the model. In a landmark speech in October 2013, dos Santos put a legitimizing nationalist spin on this, stating that large "American, British and French" business concerns in the oil sector and large Portuguese banks "take tens of billions of dollars from Angola every year," and don't want competitors:

[71] See, for example, Global Witness (1998); and Global Witness (1999).

Why can they have such big private companies, and Angolans can't?... We need strong and efficient companies, business people and national economic group in the public and private sector, and ***capable elites*** [emphasis added] *in all areas, so that we can progressively emerge from underdevelopment. This has nothing to do with corruption, or the diversion of public goods for personal ends.*[72]

While unpalatable to many Western observers, and unlikely to deliver 'pro-poor' policies, the vision has a certain internal logic.

A fourth factor is that Angola's post-war reconstruction phase coincided with the Chinese government's pivot towards Africa, particularly mineral-rich countries like Angola. An 'Angola model' of Chinese-led reconstruction emerged, based on a fairly straightforward resources-for-infrastructure swap (Corkin 2011). Angola would pledge oil cargoes, and in return China would provide credit lines for reconstruction in Angola, with 70 percent of the contracts going to Chinese corporations. Chinese state media reported in 2017 that China had cumulatively invested close to $50 billion in Angola (Xinhuanet 2017). Suspicion of westerners boosted the China relationship, but President dos Santos treated all outsiders as he treated his own patronage networks: never letting one partner grow too powerful relative to the others. Chinese companies were allowed to access very attractive opportunities – but only up to a point.

Another feature of Angola's development model was a high degree of secrecy. This is true of the public finances in many countries, not just oil-dependent ones, but it may be particularly acute in Angola, despite some improvements over the years. Secrecy is a natural tendency among those who occupy positions of power within the patronage system, and who want to ensure that diversions of wealth go undiscovered. In Angola's case, however, there are additional historical factors. During the war, secrecy was easily justified as a way to prevent information falling into enemy hands, and transparency was one of those western notions to be treated with great suspicion.

As the decade progressed, the vision did appear to be acquiring softer edges, with more rhetorical commitment at least to western ideas such as good governance, women's rights, or HIV/AIDS awareness. As an Angolan official commented, the MPLA:

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[72] *Mensagem do president José Eduardo dos Santos sobre o Estado da Nação*, October 16, 2013.

> *Likes to occupy the [rhetorical] terrain: if the MPLA doesn't talk development, there may be some guy, some organisation – the Catholic Church, the opposition – picking it up. So any [progressive] agenda that comes up, the MPLA picks it up, swears allegiance to it, and does nothing – but it manages to crowd out others saying the same thing* (Soares de Oliveira 2015, p. 80).

Many public goods certainly were provided, but the development vision often restricted the beneficiaries to a relatively small section of the population. Capital flight did not only sap resources available for development; but the *potential* for capital flight and IFFs continuously shaped and reinforced the elitist development vision and its implementation, in negative ways.

As the chaotic emergency conditions of war gave way to oil-fueled peace after 2002, there were steady improvements in Angolan state finances, as educated Angolans returned home to occupy positions in the Finance Ministry, central bank, and other state bodies, and as technical assistance from the IMF and others strengthened record-keeping.

The IMF reported a "large unexplained residual" in the 2007-2010 fiscal accounts, totaling $31.4 billion, which it described as "in essence, a discrepancy between the revenue, expenditure, and [domestic and external financing], equivalent to an astonishing 25 percent of Angolan GDP."[73] By 2014, however, the IMF reported that a reconciliation exercise had accounted for more than 95 percent of the discrepancy, which was mainly attributed to QFOs (quasi-fiscal operations), oil revenues "transferred to external escrow accounts to service external credit lines," refinery subsidies, timing differences, and various capital and current spending projects (IMF 2014b, p. 10). The IMF then reported in 2015 that the discrepancies had been ironed out:

> *[T]he annual budget includes the quasi-fiscal operations (QFOs) of [Sonangol] since 2013. The annual budget also reflects the authorities' commitment to include all investment projects underway and [Sonangol's] expenses* (IMF 2015, p. 14).

[73] IMF (2011, p. 9, Box 2), and IMF (2014b, p. 9).

These improvements in themselves could be expected to tend to reduce measured capital flight. Balanced against this, however, were dramatically higher oil revenues, offering many other avenues for leakage.

To see where the opportunities of capital flight in their many varieties lie, it helps to return to the image of the oil-based Angolan economic system as a large, fast-flowing river carrying treasure, with toll-keepers controlling key choke points. This study starts looking for capital flight outflows as far upstream as possible, in the oil sector itself, then moves downstream. As a businessman put it, "the big money is in getting it *before* it hits Angola."[74]

Oil smuggling? Stolen oil?

Smuggled oil could potentially result in enormous quantities of capital flight – greater than anything that can be achieved through smuggling, say, diamonds or cash across borders. The large-scale (semi-) secret smuggling of physical oil in Nigeria's Niger Delta has undoubtedly cost that country tens or even hundreds of billions in lost capital flight. However, Angola is different. Almost all Angola's oil exports historically have been from offshore platforms operated by a consortium of mostly large foreign oil majors: this is completely different from the situation in Nigeria, where politically networked criminal groups have been able to tap into the physical oil flows often without detection or interdiction (Ayogu 2019).

Could oil cargoes, likewise, be 'diverted' before sale? Arnaldo Lago de Carvalho, an Angolan economist and businessman in the oil sector, described why it ought to be difficult to achieve:

> *People keep talking about this [possibility]. But to be frank, with the controls in place I don't think this is possible. Physically, you cannot take a tanker and sell to someone who pays to a special account. I think that is impossible – you would have to have the co-operation of the company that produces the oil — the Chevrons, the BPs and so on. You would have to have to have Sonangol involved. And the independent inspectors [who monitor the oil loadings], from the*

[74] Confidential source A.

> *buyer, and also from Angola. Customs from Angola would have to be involved too. All those people would have to be in a conspiracy together.* [75]

If there had been high-level Angolan efforts to force any such a conspiracy into existence, this would almost certainly have produced severe resistance from the international oil companies, perhaps bringing their unhappiness into the courts or the public domain, and it would certainly have come to dos Santos' attention, very quickly. For most of his reign he had a long track record of tolerating 'controlled enrichment' in his patronage networks (i.e. under his consent and/or control), and a policy of protecting Sonangol's hard-earned reputation as a center of excellence, while opposing "chaotic enrichment" where funds were appropriated without his consent, or where personal enrichment unduly damages the oil sector. It would be odd if he pursued or tolerated smuggled oil as a source of personal enrichment.

A related possibility is physical 'mismeasurement' – that is, oil companies taking away a quantity of oil that exceeds the volumes recorded for official purposes, realizing the gains as surplus private profits. This would require a smaller conspiracy, and would be easier to pull off, but I have not seen indications that this is the case in Angola. President dos Santos would have likely taken a dim view.

Once the volumes of oil production are known, the purchase price could be pinpointed with a good degree of accuracy, based on international oil prices, dates, and known discounts for Angolan blends.

In the event that extensive oil smuggling or mismeasurement had taken place, this would bypass all Angolan payments and budgetary systems, so it would constitute undetected capital flight.

Missing oil money: Budget gaps and capital flight

While we can be fairly sure that the presidency (and the international oil companies) could know exactly how much oil physically flowed from every Angolan oilfield, the same cannot be said for the finance ministry, the BNA, and other state bodies. Here we enter a world that doesn't involve smuggling, but nevertheless involves oil cargoes going missing: not physically but from a financial perspective.

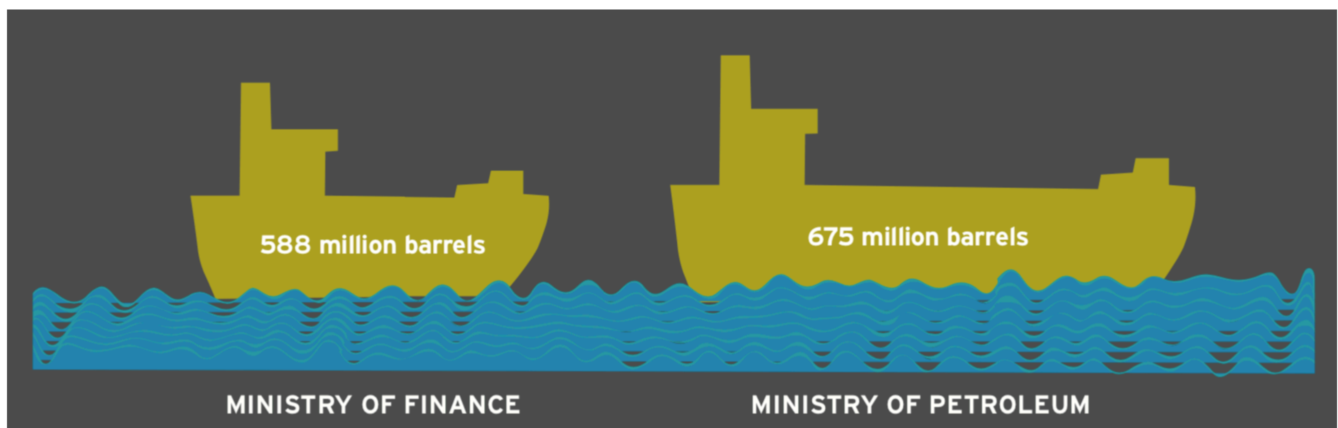
[75] Interview with de Carvalho, Luanda, October 12, 2017.

For instance, a report in 2011 by Open Society and Global Witness contrasted two estimates for Angolan oil production in 2008 – one from the Petroleum Ministry and the other from the Finance Ministry, with the former reporting far higher production than the latter (see Figure 4). The size of the discrepancy — 87 million barrels, worth some $665 million, well over 10 percent of total production by either estimate — rules out timing issues as the explanation. International sources are not much help either, as shown in Figure 5.

If we took this $665 million of 'missing' oil *exports* (which isn't quite the same as production, since around 30,000 bpd of production was refined locally) this could be explained by the 'Bermuda Triangle' discussed above. Annex G points to another more recent discrepancy, where Finance Ministry records of detailed oil production do not appear to match those published by BP.

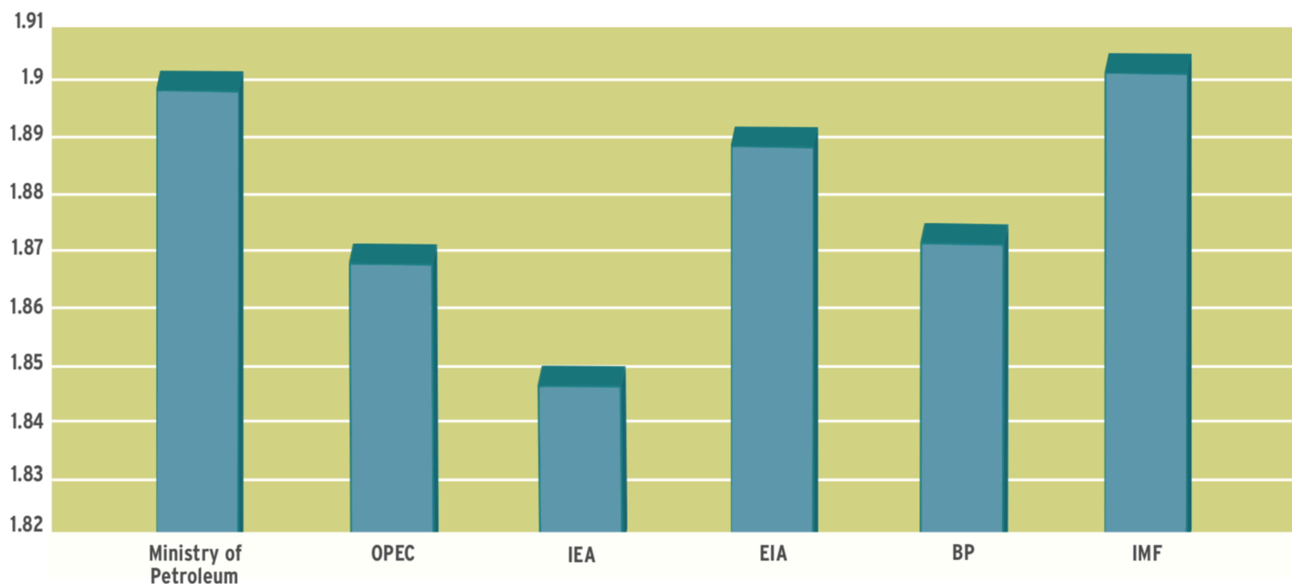
In the case of Angola, unlike most African countries, the lack of adequate data rules out being able to make trade misinvoicing adjustments (derived by comparing the country's recorded exports to the imports recorded by trading partners) in capital flight measurement (Ndikumana and Boyce 2019, p. 40). But if some of the revenue from sales of oil is unrecorded on the books of the BNA as well as the Finance Ministry, then that may constitute unrecorded capital flight at the disposal of the "presidency faction" that, in principle, should be added to estimates of the country's total capital flight.

Figure 4: Angola crude oil exports, 2008



Source: Open Society Foundation/Global Witness (2011, p. 17).

Figure 5: Angolan crude oil production as reported by different sources, 2008
(millions of barrels per day)



Source: Open Society Foundation/Global Witness (2011, p. 16).

Signature bonuses and social bonuses

A signature bonus is an upfront financial payment by a consortium of oil companies to Angola, on signature of a license to explore an oil Block. These payments flow to Angola long before oil is produced and are a way for Angola to bring future revenue forward: this was especially important during the war, when immediate financing needs were often dire.[76] Signature bonuses have been paid before but grew quite large during Angola's golden decade of oil-fueled peace, as Table 4 shows.

A Global Witness report in 2010 sought to match known payments from the oil companies to government budget revenue data but found these to be poorly reported - for instance, of the more than $3 billion in signature bonus payments in 2006, the government budget reported only $1 billion[77], at least in Kwanza terms.

[76] There are other bonuses too: exploration bonuses, commercial discovery bonuses, first oil bonuses, contract renewal bonuses, and more.
[77] Global Witness (2010). The $1 billion figure was derived from a Kwanza sum at the published exchange rate pp. 38-9.

Table 4: Examples of signature bonus payments to Angola

Year	Block	**$ million** (nominal)
1982	1	3.5
1996	18	9.0
1998	21	41
1999	31	300
1999	32	300
1999	33	300
2001	34	232
2006	1	10
2006	5	21
2006	6	50
2006	17 (renewal)	1,100
2006	15 (new/relinquished[78])	902
2006	18 (renewal)	1,100
2006	26	1,100

Sources: IMF (2003); Global Witness (2010).

Signature bonus payments were especially opaque in the early years. For instance, BP disclosed that it paid a signature bonus of $111.09 million for Block 31 in 1999.[79] Given its 26.67% share in the block, and Sonangol's 20 percent share (it would not have paid a signature bonus), a pro rata calculation suggests a total payment of $333 million for Block 31, instead of the $300 million recorded.

The International Consortium of Investigative Journalists (ICIJ) reported an example of "getting the money before it hits Angola": in July 2000, a $13.7 million signature bonus payment was made from a Marathon oil account into a Sonangol account in the Channel Island of Jersey, which is ranked by the Tax Justice Network as one of the ten most significant tax havens in the world;[80] on the same day, an identical sum was transferred out of Jersey to another Sonangol account in an unknown location (see Box 1) (Global Witness 2004, p. 49). When asked why Sonangol would route funds through a Jersey account,

[78] This was acreage released by Exxon from its original Block 15. (Under production sharing contracts, companies have a fixed time to explore for oil and carve out development zones for discoveries; after that they must relinquish the rest of the acreage which is then re-tendered).
[79] BP Exploration (Angola) Limited, "Annual Report and Accounts 1999," October 16, 2000, p. 11. Cited in Human Rights Watch (2001).
[80] Tax Justice Network, "Corporate Tax Haven Index 2019," available at https://corporatetaxhavenindex.org/en/ (accessed July 30, 2020).

rather than accounts in London or Paris, a lawyer specializing in international fraud told the ICIJ: "The incentive for keeping money in a place like Jersey can only be secrecy, but a parastatal company should be anything but secret. When companies ask me about red flags signifying when a payment is suspicious, I say, 'when they want a large amount of money sent to an offshore account'" (*ibid*.)

BOX 1: Marathon, Sonangol's offshore flows, and the BNA's offshore flows

A 2002 report by the International Consortium of Investigative Journalists (ICIJ) tracked a $13.7 million 'signature bonus' payment from Marathon, a US oil company, for the rights to explore and develop oil in Angola (van Niekerk and Peterson 2002). The payment landed in a Sonangol account in the British tax haven of Jersey. On the same day Sonangol transferred an identical sum out of Jersey "to another Sonangol account in an unknown location," according to the report. Over a three-month period in 2000, the investigators found "an interconnected web" of 14 different Lloyds accounts for Sonangol, with $78 million passing through the Jersey accounts to other Sonangol branches and accounts. These transactions were in violation of a 1995 law requiring all foreign currency receipts and government revenue to pass through the central bank's accounts. The ICIJ report said:

> *Less than 1 percent of the total paid out went to companies directly involved with the oil industry, such as oil service providers or consultants. The rest went to address government economic priorities, such as servicing debt from oil-backed loans.*
>
> *The largest block of cash went to construction companies, including Brazil's Odebrecht and Egypt's Dar-al-Handasah, both construction firms. Money also flowed from the Jersey account to, among others, Teleservices, a well-conected private security firm ($2.4 million), a charitable foundation run by the Angolan president (FESA, $33,000), and the Banco Africano de Investimentos (BAI, $2.2 million)….*
>
> *We're trying to work out where all this money is going," an accountant investigating Angola's financial flows for the "diagnostic study" of Angolan financial flows told ICIJ. "Most or all of the money goes to offshore bank accounts and disappears somewhere. (Sonangol) is bypassing the central bank, dollars are going outside the purview of the Bank, and the Bank is not aware of what's going on.*

Sonangol's boss Manuel Vicente, a relative of president dos Santos, said Sonangol had accounts in Switzerland, Portugal and London, and elsewhere, including one set up at Lloyds TSB in Jersey. This dispersion was a basic risk management strategy, he said, so as not to have "all your eggs in one basket" (*ibid*.)

On the signing of an exploration or production contract, Angola also receives one-off "social contributions," alongside the signature bonuses. These are paid to Sonangol EP, which is supposed to earmark the payments towards worthy projects. The implementation of the projects is under the control of Sonangol, not the oil companies, and they have long been controversial. For example, in February 2016 Reuters reported that the Norwegian police's white-collar crimes unit had quizzed executives of Statoil, Norway's state-owned oil company, to explain NOK 420 million ($48.9 million) paid over a four-year period for the establishment of a Research and Technology center in Angola.[81] It appears that if there was any wrongdoing, it is likely to have happened after the (officially sanctioned) payments were made to Angola: no charges were filed.[82]

Signature bonus and social bonus payments ought to show up in balance of payments data, but if they do not, they could be a source of unrecorded capital flight. They cannot be individually tracked for capital flight measurement purposes because the Angolan balance of payments (BoP) data are not granular enough.

The main oil revenue flows

Much more important than the upfront signature bonuses are the main flows of oil revenue from producing oilfields, as well as the flows of inward investment and outwards repatriation of profits and cost recovery. Data on oil-sector flows has steadily been improving since the immediate post-war period of financial chaos. Yet even if internal data has improved, this does not necessarily mean that *published* data will accurately reflect what is going on. Various discrepancies are still evident.

Before continuing, it is necessary to understand a little about Angolan oil contracts. Annex B describes these contracts in detail (at least for the main producing blocks outside Cabinda). In brief, each oil license

[81] Sonangol's 2016 annual report refers to 56.58 billion kwanzas (equivalent to about $350 million) in contributions to a "Centro de Investigação Tecnológico," with BP, Statoil and Cobalt as "international partners" (Sonangol 2017, p. 172). This would make for a large and expensive technology centre. It has not been possible to find this sum in the finance ministry accounts.

[82] Reuters quoted a Statoil letter to Norway's oil ministry that said: "The payments ... do not violate relevant anti-corruption legislation. This is not altered by the fact that there is little available information regarding the progress in setting up the research and technology centre" (Reuters 2016). International oil companies are able to "outsource" questionable financial payments to host governments, on the understanding that the government will do whatever it likes with the revenues once it has received them. Statoil presumably paid what it had agreed to pay under the signature bonus contract.

or ‘Block’ (which may contain several oilfields, clustered into development areas) is operated by a ‘Contractor Group’ nearly always involving international oil companies like BP, Exxon, Chevron or Total, sometimes with Sonangol as an equity partner in the group. Sometimes lesser-known Angolan or international companies are minority partners. Examples of consortia are shown in Table 5.

When the oil is sold, payments flow in four main ways:

i) “Cost oil” to the contractor group, also paid in oil cargoes, goes to pay back exploration, development and running costs for the oilfield, plus an ‘uplift’ factor. If Sonangol is an equity partner in the block, Sonangol P&P receives its equity share.

ii) A share of “Profit oil” goes to the contractor group, in physical oil cargoes. When Sonangol is an equity partner in the consortium, its share is paid to Sonangol P&P, its production arm.

iii) The remainder of the “Profit oil,” calculated on a sliding scale, goes to Sonangol acting as the concessionaire for the Angolan state (again also paid in oil cargoes.)[83] This is paid to Sonangol E.P (Empresa Pública), which is the arm of Sonangol as the Angolan government’s concessionaire.

iv) Taxes. These are paid in dollars or kwanzas to the finance ministry’s Single Treasury Account at the BNA.

Each of these could be a source of capital flight.

[83] Profit oil is divided between the contractor group and the Angolan state is on a sliding scale and depends on many factors such as oil prices. An example of an Angolan oil contract with sliding scale terms is provided by the U.S. Securities & Exchange Commission (undated).

Table 5: Examples of consortia in Angola's oil sector

Block 31		**Block 15**	
BP (operator)	26.67 %	Exxon (operator)	40.00 %
Sonangol P&P	45.00 %	BP	26.67 %
SSI	15.00 %	ENI	20.00 %
Statoil	13.33 %	Statoil	13.33%

Note: SSI: Sonangol Sinopec International, a joint venture in which Sinopec has a 55% stake.
Source: Sonangol.

In theory, bribes could be paid into foreign accounts, or other sources of influence applied, to shift the share of profit oil calculations in the favor of foreign partners, contrary to the actual contractual terms. This has happened in some African countries, notably amid the 'Elf Affair,'[84] but I have found no evidence that the oil majors, which dominate production, have engaged in such activities in a systematic way in Angola, and given the strength of dos Santos' control over the sector, his preference for 'controlled corruption' over 'chaotic corruption,' his mistrust of foreign oil firms, and his concern for Sonangol's international reputation, this may have been unlikely, at least on a large scale, for most of his presidency. A bribe to skew a contract term in favor of a foreign operator at the expense of Angolan revenues would ultimately reduce the money available in his overall patronage networks, which provided ample other opportunities for personal enrichment.

If any bribes to skew the actual contractual terms happened, they would likely have originated offshore and flowed outside all Angolan payment channels, in which case they would not be picked up by standard capital flight measures. In any case they would be small compared to the main oil flows affected (which is generally the point of such bribes: a modest down payment in exchange for larger rewards). If the bribes did influence contract terms in favor of foreign players, the (potentially *very* large) difference between the financial flows and what they would have been in the absence of bribery could be considered as illicit financial flows — that is, money that should have flowed to Angola but did not due to illicit practices — but would not be counted in the usual measures of capital flight. But either way, this

[84] See, for instance, the "Andre Milongo" chapter in Shaxson (2008).

phenomenon would be entirely hidden and unmeasurable, without a whistleblower to say "bribes were taken to change contract terms from x to y."[85]

The flows of physical oil due to Sonangol P&P (as equity partner in oil joint ventures) and to Sonangol E.P. (as concessionaire) are better candidates as sources of capital flight through misrecording.

As an experienced businessman familiar with Angolan financial flows described the general set of possibilities:

> *Sonangol will have contracts selling in the international market. You will have middlemen who take a cut. If you are favored enough to be able to sell oil for Sonangol, you'll be paid by Sonangol and you will probably be paid by other side. There will be Angolan trading companies that are nominally foreign-based but owned by Angolans: they will be trading. That's already offshore money. You take a cut before it arrives in Angola.*[86]

In addition, Sonangol has four international trading offices in London, Houston, Singapore and China, to market its share of crude oil, both from Sonangol E.P. and Sonangol P&P. And as the ICIJ report notes, Sonangol has run secret bank accounts out of tax havens like Jersey (see box). It has not been possible to establish if or how many of these accounts are reflected in BNA data. But it does raise the clear possibility of export misinvoicing.

Furthermore, all oil trading offices are in constant touch with other oil traders and financial institutions offering swaps and oil-related financial derivatives, which open up possibilities for off-the-books flows which would be easy for a skilled operator to keep out of BNA or Finance Ministry data, and entirely outside the scope of capital flight measurements. An obvious example might be 'price hedging' operations where, in the event of financial losses from the hedging operations, Sonangol pays the bill (this might show up in both the current and capital accounts, for example in "financial services/debits"

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[85] Bribery could also have taken place to influence not contractual terms but the *awards* of oil licences. Anecdotally, I once heard first-hand gossip from a senior oil industry insider that an official from a western oil company had bribed a senior Sonangol official during a licence awards process, which may or may not have resulted in that oil company receiving a stake in an oil licence that it may otherwise not have received -- but that was seen as an outlier at the time.

[86] Confidential source A.

in the BoP) whereas any hedging gains from price moves could be reaped by private Angolan players via offshore flows from the hedging counterparty, so losses would officially be attributed to oil price swings while hedging incomes would not be revealed and may stay entirely out of Angolan public accounts or BoP data, since they would originate and end offshore.

Later, under IMF and western pressure, the government steadily brought Sonangol's accounts into the national payments system held at the BNA's *Conta Única* at the BNA, though an accountant familiar with the operation said that setting it up had been a nightmare.[87] He continued:

> *Only the central bank should have accounts abroad. Other than a few small-scale embassy bank accounts, no part of government should have accounts overseas other than the central bank.*

Whether or not these flows identified by the ICIJ constitute capital flight is partly a matter of semantics: Sonangol was allowed by all-powerful President dos Santos to keep many flows – both receipts and expenditures – off the books and out of the BNA's and Finance Ministry's orbit so they were all technically illicit financial flows, which on a net basis may well have involved capital flight outflows (though later reconciliation exercises would have reduced the scale of it). Whatever was not spent on state priorities, however, was undoubtedly 'lost capital.' Even then, there may be room for interpretation in what constituted a genuine state priority, or not.

Investment flows in the oil sector

It has long been known that capital flight has been partly fueled by inflows of capital in the form of external borrowing.[88] However, research has also shown that a rise in *foreign investment* inflows into African countries has been accompanied by a rise in capital flight, particularly where institutional quality is poor. This is particularly pertinent for Angola because, as a 2016 study put it, "natural resources appear to directly drive capital flight and resource-rich countries exhibit a stronger FDI stock-capital flight link, especially in the case of oil" (Ndikumana and Sarr 2019).

[87] Confidential source B: Accountant in Luanda.
[88] See Ndikumana *et al.* (2015); Ndikumana and Boyce (2003); Ndikumana and Boyce (2011).

Angola's inward investment is massively dominated by its oil sector (with most of the rest associated with diamonds), nearly all of that inward oil investment has been by handled by large (mostly western) oil majors. Official net FDI flows totaled a negative $36 billion from 2000 to 2014 (roughly corresponding to the "golden decade")– that is, outflows exceeded inflows – a figure that is equivalent to twice the cumulative net inflows of FDI from 1986 to 2009. That is not in itself evidence of capital flight: it appears to be largely the result of massive deep-water oil investments by oil majors from the early 1990s, leading to first production (from Elf's giant Girassol field in 2002) and large and rising subsequent repatriation of profits by foreign firms to their home countries.

In terms of capital flight originating from FDI, as well as from external borrowing, the main potential channel is indirect: resources provided to the Angolan government or private actors are then transferred abroad illicitly through the variety of mechanisms described in this paper.

In terms of the incoming FDI, there are some possible direct capital flight flows: for example, a bribe paid by the foreign investor to an Angolan official to secure an oil contract, as discussed above. This would never touch the Angolan payments system, so it would be unmeasured by capital flight studies (it would also likely be very small relative to the actual FDI.) Another possibility is what happened in the "Elf Affair" which touched Angola, where Elf's African oil operations, including in Angola, served as secret offshore turntables for French political and commercial slush funds. These flows in the inward FDI, except where they involved Angolan officials receiving kickbacks, would have involved French, not Angolan capital flight. However, as with the Angolagate affair, these flows were largely on the expenditure and procurement side, not on the inward FDI side.

Another possibility is 'round tripping' where Angolans take capital overseas, dress it up in offshore secrecy and pretend to be foreign investors, then bring it back into Angola disguised as "Foreign" Direct Investment (FDI) because the host country gives foreign capital preferential treatment over domestic capital. This could then generate profits and dividends in Angola that could then be transferred overseas through official channels, classified as the simple repatriation of income earned by foreigners, whereas in reality it would be Angolan capital flight. This is potentially a significant channel, and it would be unmeasurable by capital flight studies since it would flow through official recorded channels, and this

would not generate any discrepancies. In Angola's case, this channel may be smaller than expected, since the vast majority of Angolan inward FDI is in the oil sector, and most of that is in the hands of large listed western oil companies, where Angolans' ownership of those companies' shares would likely be tiny, diluted in huge pools of global shareholders. The main exception to this is in the Sonangol joint ventures servicing the oil industry, discussed below, and also with a few small companies with opaque shareholdings that have won isolated minor stakes is certain licenses, which may have had Angolan 'silent partners'.

In terms of measurement of FDI, Angolan data does not seem to be particularly useful. The 2017 edition of BNA's BoP data contained an entry for annual inward investment into the Angolan oil sector (that is, oil companies' medium and long-term disbursements of capital) from 2006 through 2016.[89] The numbers were suspiciously round: all exact billions or half-billions. It is not known how this figure is calculated. Neither BNA nor Finance Ministry officials responded to queries. If the reported numbers were less than actual inflows this would lead to understatement in measures of capital flight.

The black box of 'cost oil'

The main Angolan oil contracts (outside of Cabinda) share out Angola's oil two main ways: 'cost oil' to pay for development and operational costs, and 'profit oil' to share out between the Angolan state and the foreign oil companies, as physical payments in oil cargoes, not as financial payments (Annex B has the details). The cost oil component has involved tens of billions of dollars in recent years and is extremely opaque – and from the oil sector's perspective, this is the most fruitful source of possible capital flight.

While the oil majors mostly play a complex co-ordination and financial role, they outsource many of the nuts and bolts of building and developing oilfields to a range of mostly western independent actors which provide oil drilling rigs, offshore production and storage facilities, piping, catering, air transport, sea transport, security, insurance, and others. While oil majors generally try to keep costs down (so as to maximize the profit oil remainder) there are many possibilities for 'diversion.' Mostly, in Angola's case,

[89] Accessed at https://www.bna.ao/Conteudos/Artigos/lista_artigos_medias.aspx?idc=15419&idsc=15421&idl=1.

these concern the “Sonangol joint ventures” (see below and Annex A) which involve partnerships between Sonangol and global oil services companies.

Case studies: Weatherford and Halliburton

In November 2013 the U.S. Securities and Exchange Commission (SEC) charged Weatherford International, a Swiss-incorporated company run substantially out of Houston, with violating the U.S. Foreign Corrupt Practices Act (FCPA) by authorizing bribes and other improper services for foreign officials, including in Angola (U.S. Securities and Exchange Commission 2013). The SEC alleged that a Weatherford subsidiary retained a Swiss freight-forwarding and logistics services company to pay bribes to a Sonangol drilling manager to secure the renewal of a Weatherford contract to provide services to oil operations off Cabinda. Among other things, the complaint said Weatherford Services Ltd. (WSL), a Bermuda-registered subsidiary of Weatherford:

> *Produced sham work orders for consulting services that the Swiss Agent never performed, and the Swiss Agent, in turn, generated sham invoices for those same non-existent services. . . WSL mischaracterized the payments to the Swiss Agent as legitimate consulting expenses on its books and records.*[90]

Documents were backdated, payments were made in cash or bank transfer, and the Sonangol drilling manager’s travel expenses were paid for trips to Europe. The same SEC complaint adds:

> *WSL also engaged in a second bribery scheme in Angola. In June 2004, Sonangol officials informed Weatherford that it could obtain one hundred percent of the Angolan well screens market if it created a joint venture with companies they selected and established a wells screens manufacturing operation in Angola. In 2005, a Weatherford subsidiary entered into a joint venture in Angola with two local entities selected by the Sonangol officials, one of which was controlled by the Sonangol officials ("Angolan Company A") and one of which was controlled by the relative of an Angolan Minister ("Angolan Company B").*

[90] *Complaint: U.S. Securities and Exchange Commission, plaintiff v. Weatherford International LTD., Defendant, United States District Court for the Southern District of Texas, Houston Division,* November 26, 2013, p. 6. Available at https://www.sec.gov/litigation/complaints/2013/comp-pr2013-252.pdf.

This was a joint venture involving Weatherford (45%,) Company A, with a 45% share, which was a subsidiary of Sonangol whose named principals included "the wife of one of the Sonangol officials and relatives of other Angolan officials" and Company B, with a 10% share, whose named principals "included the relative of an Angolan Minister, the relative's spouse, and another Angolan official." The Sonangol officials then travelled to Houston and signed a letter of intent providing that "Sonangol would negotiate exclusively with the joint venture for well screens" (*ibid.,* p. 7).

The joint venture was signed in September 2005 and, the plea agreement states, "Neither Angolan Company A nor Angolan Company B provided any personnel or expertise to the joint venture. Nor did they make any capital contribution" (United States of America V. Weatherford Services, 2013). A March 2008 dividend payment saw Company A and B receive $690,000 and $137,000 respectively, with their withholding taxes paid by the joint venture (U.S. Securities and Exchange Commission, 2013). Weatherford subsequently agreed to pay an $87.2 million criminal penalty as part of a deferred prosecution agreement with the U.S. Department of Justice (U.S. Department of Justice 2013).

Separately, the U.S. oil services giant Halliburton agreed in 2017 to pay $29 million to settle an action alleging violations of the Foreign Corrupt Practices Act (FCPA), where Halliburton had been under pressure to meet local content requirements by Sonangol, and outsourced work to "a local Angolan company owned by a former Halliburton employee who was a friend and neighbor of the government official who would ultimately approve the award of the contracts." [91] Halliburton outsourced over $13 million of work to the Angolan firm but "did not receive any meaningful services under this agreement"[92] and Sonangol approved the award of seven lucrative subcontracts to Halliburton, from which it profited by $14 million. The Angolan firm in the end only received $3.7 million as monthly payments were interrupted in April 2011 after allegations of impropriety began to surface.

In both the Weatherford and the Halliburton cases, the alleged bribes would (if undetected) have constituted unmeasured capital flight, since they would simply appear as part of normal consulting or

[91] See US Securities and Exchange Commission, "Halliburton Paying $29.2 Million to Settle FCPA Violations", sec.gov, July 27, 2017. https://www.sec.gov/news/press-release/2017-133

[92] United States of America Before the Securities and Exchange Commission. 'In the Matter of Halliburton Company and Jeannot Lorenz'. July 27, 2017. Available at https://www.sec.gov/litigation/admin/2017/34-81222.pdf

other services payments. The precise routing of the payments themselves is not known, though a separate SEC filing shows at least three Angola-related subsidiaries for Weatherford:[93]

Weatherford Angola, Limitada	Angola
Weatherford Angola Services (BVI) Ltd.	BVI
Weatherford Angola Wellscreeen Applications Ltd.	BVI

Such bribes may therefore have been paid from an offshore account to a private account overseas, without touching the Angolan payments system, making the flows undetectable.

However, the bribes themselves would only be a minor part of this story. Much larger flows of 'lost capital' would stem from instances where bribes improperly influenced contract-awarding officials to obtain greater pricing power, artificially inflating the oil industry's cost base. This is precisely what happened, the complaint states.[94]

Periodic disputes do emerge between Angola and the international oil companies as to what can or can't be allocated to 'cost oil:' both Sonangol and the Finance Ministry do audit these flows. But except in exceptionally brazen cases, monitoring by the IMF, the BNA or the Ministry of Finance would be unlikely to penetrate such schemes, which would happen with the blessing of Sonangol.

How widespread these practices are cannot be established definitively, but they are likely to be extensive. Many of these schemes would not necessarily involve bribery, but instead involve foreign firms pushing the boundaries of what is possible. As a banker described it:

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[93] US Securities and Exchange Commission, "Weatherford International, Ltd. List of Subsidiaries and Affiliates", available at https://www.sec.gov/Archives/edgar/data/1453090/000119312512117415/d296757dex211.htm (accessed online 3 July 2020). The listing identified around 500 Weatherford subsidiaries around the world, including 44 in the British Virgin Islands, 19 in Bermuda, one in the Bahamas, three in the United Arab Emirates: all highly secretive tax havens. These three were the only subsidiaries with "Angola" in the name. There may be others.

[94] For example, a June 2004 email from a Weatherford executive said: "In recent meetings with Sonangol, they made it very clear that whichever of the major suppliers establishes a local operation will dominate the Angolan market [for well screens] and Sonangol will block entry of additional competition." See United States of America V. Weatherford Services, International, Criminal No. 13 CR 734, 26 November, 2013, available at http://fcpa.stanford.edu/fcpac/documents/3000/002144.pdf.

> *Let's say an oil sector expert comes here for two days, and [the company] charges $100,000 for this. He might say he's the only expert in the world on this kind of seismic analysis. This is very hard to verify.*[95]

This cost inflation would certainly involve 'lost capital' to Angola, in the sense of less revenue for the Angolan state, but it would not constitute capital flight, as the inflated payments would (unlike the bribes) transit as legitimate payments through normal channels for profit repatriation and cost recovery, with the same effect as if the oil contracts had stipulated slightly more generous terms on profit repatriation outflows.

What is more, by boosting the size of (measured) outflows, it will tend to diminish *estimates* of capital flight (measured as recorded inflows minus recorded outflows.) So, these shenanigans could *increase* 'lost capital' but *decrease* measured capital flight!

6. Sonangol and its Foreign Partners

Sonangol universe of transnational partnerships, which were instrumental to many of these schemes, now merit a closer look.

Sonangol Joint Ventures

The first Sonangol Joint Ventures with foreign oil services firms emerged in the 1980s but properly got going after the giant deep-water discoveries of the 1990s and a rise in scale and complexity of oil operations. There were three main justifications for the joint ventures: first, to profit from equity participations in oil services, second, to increase 'local content' and Angolan expertise and training in the oil sector, and third, perhaps most importantly, to keep tabs on what foreign firms were up to. Like many other oil-producing countries, Angola has from the beginning been (rightly) suspicious that the international oil companies (IOCs) and international oil service companies have been deceiving it about

[95] Confidential source C: Foreign banker in Luanda.

overall financial revenues: profiting from inflated contracts in the cost base, transfer mispricing, and other financial games which artificially inflate costs, leaving less revenue for the Angolan state.
To the extent that Sonangol provided capital and expertise to a joint venture, these operations could be regarded as normal risk-taking business operations. However, original good intentions can easily be subverted.

Ricardo Soares de Oliveira has summarized how "the laudable desire to build a domestic business class led to the creation of essentially parasitical positions":

> *Sonangol's undeniable competence and sophistication are not, and have never been, put at the service of Angolan development, however defined. Instead, the company is the pivotal tool for the interests of the presidential clique . . . a nebulous group of unelected officials and businessmen around President Eduardo dos Santos, which became the key structure of power in the 1980s, in tandem with the relative side-lining of MPLA party organs and formal state structures. Sonangol essentially exists to harness and further their agenda* (Soares de Oliveira 2007, pp. 606-608).

As an example of the patronage politics that emerged, the Weatherford complaint (see above) added that neither of the Angolan companies involved "provided any personnel, expertise or capital to the joint venture." To the extent that private individuals, with Sonangol's assistance, invested no capital, in exchange for a slice of the profits, points to pure rent-seeking - even leaving aside the question of market power enabling predatory pricing.

As the joint ventures proliferated, the potential for hidden flows and capital flight grew. One of the reports in the oil "diagnostic" study mentioned above stated: *"The growth and expansion of Sonangol's activities and interests are occurring without a proportionate increase in accountability of the group's ever more complex transactions"* (KPMG undated, p. 24).

On my visit to Luanda in September 2017 Arnaldo Lago de Carvalho, an outspoken Angolan official involved in the oil services industry, explained this more bluntly:

They invested in tankers, rigs: everything you can imagine. That allowed them to appoint employees of Sonangol as directors of most of these JVs. Then, you have [them] partnering with members of the top echelons of this country, not just Sonangol. A lot of companies: I don't know what compliance rules they have in place, but these were vehicles to give money to these people.

You ask how this was built: it took a little time. I don't know exactly, but from 1995 this already was in place. It has grown to scandalous proportions.[96]

Although Sonangol's presence in non-core parts of the economy was often seen as part of a development strategy, to inject financial capital and technical expertise into underdeveloped sectors, this also had 'crowding-out' and other effects. Lago de Carvalho continued:

By entering these oil services JVs, Sonangol destroyed the possibility of other private entities really competing in the market. They would give preference to their own companies. They pushed the price up, as they wanted.

This 'crowding-out' happened more broadly, outside the oil industry, as Soares de Oliveira summarizes:

The company's tendency to invest directly, or allow insiders to invest, in all branches of Angolan economy however unrelated to its core business leads it to 'squeeze out competitors which cannot match it in terms of access to capital, skilled personnel or political connections ' (Vines et al. 2005 : 10). A look at many characters benefiting from this sort of uncompetitive behaviour is a veritable who's who of the Futungo [the presidency] *and the upper ranks of the bureaucracy, the military, the party, and their families. Unsurprisingly, it also includes most current or past senior technocrats of Sonangol itself* (Soares de Oliveira 2007, p. 608).

It has been impossible to penetrate very far into this truly byzantine maze of cross-cutting shareholdings, though it is worth at least glancing at Annex A, providing a list of known Sonangol JVs, past and present, to get a sense of the sheer scale, baroque complexity and international flowering of the complex Sonangol universe.

[96] Arnaldo de Carvalho, interviewed in Luanda, October 11. 2017

While Sonangol's main operating subsidiaries — notably Sonangol E.P in its role as official state petroleum concessionaire, and Sonangol P&P in its role as operating arm — publish quite detailed figures as to their U.S. dollar revenues, the same cannot be said of the joint ventures, each of which raises many questions. Some JVs provide snippets of information on bare-bones websites filled with empty sections and one-paragraph statements about corporate responsibility. It has been impossible to find out basic information such as shareholdings, or at times even the identity of the foreign partner. Will-o-the-wisp subsidiaries located in renowned tax havens appear on public or leaked databases, each raising clouds of new questions. Other questions include: where are all their bank accounts - and which of these accounts are connected to, or known by, the BNA payments system?

While Annex A highlights the astonishing *number* of Sonangol joint ventures, a few case studies highlight the astonishing complexity of each of them, and the many-layered paper trails which would make monitoring any potential 'diversions' of money in the hands of influential Angolans all but impossible except by the closest insiders.

Puma Energy, Trafigura, and General Dino

Sonangol's (2016) accounts listed a 27.9 percent shareholding in Puma Energy, valued at around U.S.$600 million,[97] in partnership with the Singapore-incorporated global commodities trading firm Trafigura, and other figures described below. That shareholding implies that Puma was worth some $2 billion. Puma says it has midstream (mostly refining and transport) and downstream (mostly gas stations) hydrocarbons operations with over 8,000 employees in 48 countries, from Myanmar to Mozambique to Milford Haven in the UK, focusing on "optimising supply across products, geographies and sources" (Puma Energy 2015).[98] Angola has been a particularly important 'anchor' market for both Trafigura and Puma: the latter has a duopoly with Sonangol for petrol stations in Angola. The *Financial Times* reported in 2016 that Trafigura had enjoyed a "near-monopoly" over the supply of diesel, gasoline and liquefied petroleum gas into Angola (but that rival Vitol had recently broken into the trade, not long after Isabel dos Santos took over as head of Sonangol) (Hume and Sheppard 2016).

[97] Sonangol (2016, p. 157) valued the stake at Kz 101.4 billion (here converted at an exchange rate of Kz 166.72:$1).
[98] *Fuelling Success*: Corporate Brochure 2015, Puma Energy, p. 12. Available at https://pumaenergy.com/media/488705/corporate-brochure-2015.pdf (accessed December 2, 2020).

The ultimate holding company from 2013 has been Puma Energy Holdings Pte Ltd. in Singapore. For 2014 it listed 92 'significant' subsidiaries, nearly all either in Africa, other developing regions, or tax havens.

In some contrast to Isabel dos Santos' network, described below, Puma's network seems to have chosen more secretive tax havens. Puma's preferred tax havens mostly had secrecy scores well above the Financial Secrecy Index (FSI) average of 60 on a scale from 1 (totally transparent) to 100 (totally opaque): they included the Bahamas (secrecy score of 79), Marshall Islands (79), Panama (72), and Singapore (69).[99]

Puma's ownership structure, as outlined in a 2017 prospectus, is shown in Table 6.

Table 6: Ownership of Puma Energy Holdings Pte. Ltd (Singapore)

Company	**Location**	**% shareholding Jun 2017**
Trafigura Beheer BV	Netherlands	49.58
of which: Puma Energy Holdings Malta Ltd.	*Malta*	*49.49*
PE SPV Ltd		*0.07*
Sonangol Holdings LDA	Angola	27.92
Cochan Holdings LLC	Marshall Islands	15.45
PE Investments Ltd. ("PEIL")	Malta	5.85
Global PE Investors PlC	Malta	0.22
PE SPV Ltd.	Malta	0.56
PE ESP LLC	Malta	0.51[a]

[a] Note: See "Offering Memorandum, Puma International Financing S.A., $600,000. 5.125% senior notes due 2024," obtained from the Luxembourg Stock exchange, at https://www.bourse.lu/issuer-notices/PumaInternFinan/70873. This table is constructed from data provided on pp 12, 55 and 148-9.

[99] Puma Energy (2017, pp. F262-4) lists ten subsidiaries for the Bahamas, six for Singapore, and five for Panama. The FSI scores can be obtained here https://fsi.taxjustice.net/Archive2015/Notes%20and%20Reports/FSI-Rankings-2015.pdf.

The prospectus described PEIL (one of the shareholders listed in the table) as a Maltese company "ultimately owned by a consortium of private investors who largely comprise current and former senior managers from Trafigura," while Global PE Investors and PE SPV Limited are Maltese companies which are "investment vehicles for a consortium of private investors," without giving further details. It added that Puma's board of governors contains four officials in the Trafigura constellation[100] and three officials linked to Angola:

- Sarju Raikundalia, a young Indian PwC official who had been put in charge of Sonangol's financial affairs by Isabel dos Santos. Oil officials in Luanda told me he was among a group who had helped generate strong tensions in Sonangol between new financial actors brought in from outside, and more experienced and technically competent Sonangol officials. *Maka Angola* added in October 2016: "much of the bad blood inside [Sonangol] originates in the nomination and behaviour of Sarju Raikundalia, a financial magician seen as a protégé of Isabel dos Santos" (Verde 2016). He was dismissed in November 2017 when Isabel dos Santos was ousted as head of Sonangol.
- João dos Santos, on Sonangol's board of governors, a former managing director of Deltagest, and Progest SA, gas and civil engineering firms.
- Leopoldino Fragoso do Nascimento — known to Angolans as "General Dino." He was one of the most influential people in president dos Santos' inner circle, serving as chief adviser to General Helder Vieira Días "Kopelipa," head of the feared *Casa Militar* at the presidency. *Maka Angola* described them as part of a "Presidential triumvirate" involving Dino, Kopelipa, and Manuel Vicente, the former head of Sonangol (de Marais 2018).

Puma's other main shareholder, alongside Sonangol and Trafigura, is Cochan LLC, which the prospectus says is owned by General Dino.

[100] Those officials were: Graham Sharp, a former Senior Vice-President of TNK-BP; Pierre Eladari, formerly in Elf and Boston Consulting Group; Pierre Lorinet, formerly at Merrill Lynch in London and Banque Indosuez in the Middle East; and Robert Gillon, formerly of Tullett Prebon and Arrow. See Puma Energy (2017, p. 139).

Cochan and DT Group

Cochan's website describes the firm as "one of the main business groups in Angola," managing a diversified investment portfolio, that was "established in 2009 by businessman Leopoldino Fragoso do Nascimento."[101] In addition to its investment in Puma Energy, Cochan also said it had a 50:50 joint venture shareholding with Trafigura in the Angola-focused investment firm DT Group,[102] which General Dino also founded. The Trafigura annual report for 2016 said its 50% stake in DT was through a Singapore company called DTS Holdings Pte. Ltd., the main holding company of the DT Group: the other partner in DTS was Cochan Singapore Pte. Ltd. There was also a joint venture listed called Sonaci DT Pte Ltd., between Sonangol's international trading arm Sonaci and DT Group, to trade Liquefied Natural Gas (LNG) globally.

Tax havens feature heavily in these structures. A 2011 annual financial statement for Cochan Singapore Pte. Ltd, which linked to the above structure, said it was a "wholly owned subsidiary of Cochan Ltd., incorporated in the Bahamas."[103] It said the company equity was divided into 1,000 shares, all owned at the end of that year by Leopoldino Fragoso Do Nascimento (aka General Dino) (*ibid.,* pp. 1, 26). It reported that in 2010 the Singapore entity had a 100 percent stake in the investment holding company Cochan Holdings LLC in the Marshall Islands, which in turn "holds the group's investment in Puma Energy Holdings (Marshall islands) 2 LLC" (*ibid.,* p. 23). The 2011 statement also listed stakes in other companies, some of which are enumerated in Table 7.

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[101] See https://www.cochan.com/en/about-cochan, accessed September 26, 2020. The above-mentioned prospectus said General Dino was also a founding partner and president of the board of directors for Kinaxixe Real Estate, Zahara Logistica, Kero Supermarkets and Biocom—Bio Fuels, and President of Unitel Telecom.

[102] Trafigura (2016, p. 69) says: "The Company has control over DTS Holdings Pte. Ltd. with a 50% equity interest (2016: 50%). DTS Holdings Pte. Ltd. is a business venture between Trafigura and Cochan Singapore Pte. Ltd. and is the main holding company of the DT Group." DT's website listed its subsidiaries as Angofret (cargo and logistics,) DT Agro (agribusiness in Angola), DTS Commercial and DTS refining (for trading crude oil and refined oil products internationally,) DT Shipping (four ship-bunkering and two bitumen vessels for Angola), DTS Serviços (support services), DTS Imobiliária (real estate in Angola) and the DT Foundation, for "philanthropic and social engagement projects." There is also the well-flagged DT Foundation, whose website sports a heart-warming video of well-dressed Angolan children at a well-appointed school. It says it supports kindergartens, schools and healthcare projects. Financial details for these entities were absent, however. See https://www.dtsholding.com and, more specifically, https://www.dtsholding.com/en/about-us/our-structure/. Accessed January 22, 2020.

[103] Ernst & Young (2011, p. 12). This prospectus is reproduced in Weiss (2014), which contains further details.

Table 7: Cochan Singapore Ltd.'s shares in various entities

Entity	**Cochan share, 2011** (%)
(Not the full list)	
DTS Holdings Singapore Pte. Ltd. (Holding co, Singapore)	50
DTS Refining Pte. Ltd. (petroleum trading, Singapore)	25
DTH Investment Ltd. (holding co, Bahamas)	100
Sonagas DT Pte. Ltd. (trading co, Singapore)	100
DTS Commercial Pte. Ltd. (trading, Singapore)	100
DT Trading Ltd (trading. Bahamas)	100

Source: Cochan Singapore Pte. Ltd. And its Subsidiary. Annual Financial Statement, 31 December 2011. https://www.scribd.com/document/206840701/120531-Cochan-Singapore-Pte-Ltd-Annual-Report-2011, accessed March 20, 2020.

The Offshore Leaks database also lists a Cochan Holdings (BVI) Ltd. as a shareholder of another company called Cochan (BVI) Limited; it also contains a listing for Cochan Angola Holdings LLC ("CAH"). The database says CAH is a shareholder in various Puma-related companies based in the BVI, as well as DTH Investments Ltd., which in turn the database says has shareholdings in 19 further companies, mostly in the BVI, and mostly with names apparently linked to DT group. One can follow more trails from these companies, in turn. Each trail ultimately hits a brick wall in the BVI: no financial information is publicly available.

This constellation was reportedly able to leverage its influence in getting hold of foreign exchange from the BNA, a politically difficult pursuit. After the fall in the oil price Angola began rationing foreign exchange again, providing it at subsidized rates to preferred players. In July 2016 President dos Santos outlined the gravity of the situation:

> *The government has not received revenues from Sonangol since the start of the year, because of the significant fall in oil prices, since the revenues which are collected hardly cover the debts contracted by the state and by Sonangol itself.*[104]

[104] President dos Santos was quoted as saying this in Expresso (2016).

He said that a law requiring international oil companies to exchange dollars into Kwanzas to cover their domestic operations was only producing U.S.$300 million per month. The investigative website *Maka Angola* added in August 2016:

> *Since the end of June the BNA has been* [under Isabel dos Santos' orders] *transferring U.S. $100 million each month to pay down an existing billion-dollar debt to one particular creditor, the DT Group* (Maka Angola 2016).

The payments, it said, were to cover a billion-dollar debt related to fuel imports. In more normal times, Sonangol could have simply converted the kwanzas it received from filling stations and other retail outlets into dollars, and paid the loans back. But at a time of dollar rationing this had become impossible, so prioritisation of debt service payments to a specific creditor was effectively a highly valuable subsidy.

These subsidies in the hands of wealthy Angolans overseas would not constitute capital flight, since the outward flows would have passed through official BNA channels. It is not clear they would even constitute IFFs, since the allocation of foreign exchange to one set of players instead of others does not appear to be illegal. Yet it would seem to be a clear case of 'lost capital.'

AAA Seguros

Another Sonangol joint venture is AAA Seguros, an Angolan insurance and reinsurance firm which was in itself a small constellation of companies from 2001 until it was disbanded in 2016. The Sonangol annual reports for 2015 and 2016 make no explicit mention of it except for an apparently related entity, "AAA Pensões S.A." which looked after the Sonangol pension plan, which was transferred to another subsidiary called Sonangol Vida. Oil and gas operators in Angola for a long time had to be insured by AAA, via an Angolan company called AAA Seguros SARL that had a monopoly in the sector (African Development Bank (2012, p. 44).[105]

AAA is another example of Sonangol exercising monopolistic power in the oil industry. Whether these benefited the Angolan state or private interests is impossible for this research to unravel, given the

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[105] See also Browning and Zhdannikov (2020).

international complexity of the operation and the role of tax and secrecy havens. The AAA group contained a series of companies, of which a comprehensive account is not possible, but they included two listed on a Bermuda public database and one on a UK company database which contain Carlos Manuel de São Vicente (the former head of Sonangol) as a company director. These are AAA International Limited (Bermuda), AAA Reinsurance Limited (Bermuda) and AAA Insurance & Reinsurance Brokers Ltd. (UK) as a director, alongside other officials. AAA Reinsurance reported total shareholders' equity of $258.6 million in December 2016: "cash and cash equivalent balances of $258,423,024 are held with three banks, in Bermuda, Singapore and Switzerland." [106]

AAA lost its monopoly on insuring oil and gas activities in Angola in 2016 to ENSA, another Angolan insurance company,[107] two months before Isabel dos Santos was appointed as head of Sonangol.

It has not been possible to demonstrate private accumulation in the published accounts, but the Offshore Leaks database shows further whiskery connections to a range of other entities, many in Bermuda. One could follow the trails of these entities onwards through the databases and registries, a process that can be mesmerizing - but ultimately it is relatively unproductive, as Bermuda, like most tax havens, deliberately allows these entities to conceal their ownership. The Offshore Leaks database is only accessible to certain accredited journalists, of which I was not one for the purposes of this paper.

Annex A provides a broader overview of Sonangol's sprawling international structure, with many interlocking shareholdings and offshore flows, often between entities held offshore, outside the official Angolan payments system.

As mentioned, the Sonangol Joint Ventures and partnership are part of a process of 'Angolanization' of its oil sector. Another related part of the process involves indigenous oil companies, not only in servicing

[106] AAA International Limited and AAA Reinsurance Limited are both registered at the Bermuda government registry at https://www.gov.bm/33803/aaa-international-limited-nicholas-lindsay-millar-33803. Accounts and ownership details are available for the UK entity by a search at beta.companieshouse.gov.uk

[107] The 2016 financial statements of AAA Insurance & Reinsurance Brokers Ltd. highlights Presidential Decree 39/16 of March 30, 2016 which a company account stated "has created a new monopoly in favour of another Angolan insurance company, Ensa, for the insurance of all oil and gas activities in Angola. The company has no relationship with Ensa and has no realistic opportunity to build a relationship with Ensa who have strong links to another London broker." See AAA Insurance & Reinsurance Brokers Ltd, Report & Financial statements, 31 December 2016, p1, accessed from https://beta.companieshouse.gov.uk on Jan 22, 2020. As an aside, the statements also record a current tax charge of UK£ 95,000 for 2015 and minus £95,000 for 2016.

oil operations, or in downstream operations such as Cochan (above), but also as direct stakeholders in upstream oil licenses themselves.

Indigenous oil companies and their foreign partners

Financing, deploying and managing oil rigs and other offshore oil exploration and production infrastructure generally requires a far higher level of technical competence and capital strength and governance than what is required for, saying, supplying catering or transport services to oil operators. These demands rule out most Angolan players in the "upstream" sector beyond Sonangol P&P.

Before late 1990s president dos Santos had been somewhat reluctant to damage the oil sector by bringing in politically connected companies, aware of impact this could have on Sonangol's reputation for competence (and thus its access to large-scale external borrowing). However, a few Angolans have acquired significant technical and management expertise, and there are Angolan companies such as Somoil, which is regarded in oil industry circles as a relatively serious and competent player by Angolan standards — even though its shareholders, according to media reports, include well-connected Angolan politicians and former Sonangol officials (Africa Energy Intelligence 2018). However, the patronage system also appears to have increasingly raised its profile as the dos Santos era progressed, and a number of new players now populate the oil licenses as minority partners, with few obvious advantages other than their political connections.

A first main wave of awards to Angolan companies happened in the late 1990s in three major awards in Angolan ultra-deep waters: Block 31, 32 and 33: a 20% stake awarded to a company called Prodev in Block 32, operated by Elf; and the award of a 10% and 5% stake to companies called Falcon Oil (Panama) and Naphtha respectively, in Block 33 operated by Exxon. These stakes were forced onto the oil companies - though BP successfully avoided taking a 'mystery partner' in its Block 31 (oil sector sources told me at the time that BP had had to fight hard using powerful local connections to successfully resist having one of these partners forced on it). Falcon was widely reported as having been linked to the arms dealer Pierre Falcone and to António 'Mosquito' Mbakassy, a local Angolan businessman; Naptha was described as being part of a 'complex' web of ownership involving Israeli military interests, and Prodev

also reportedly had military connections.[108] These valuable awards were linked to Angola's dire military situation at the time, not long after the return to war and amid very low oil prices, though it seems likely that members of the presidential circle made money, too.

Since then, a growing number of other companies have appeared in the Angolan oil exploration and production licenses, some of which are not well known internationally for their oil sector expertise, including:

- Odebrecht E&P GmbH
- Acrep S.A.
- Acrep 17 S.A.
- Partex
- Geminas
- Alper Oil, Limitada
- Poliedro Oil
- Prodoil. *The website Maka Angola in 2014 listed several Angolans with close family connections to president dos Santos.*
- Nazaki Oil & Gáz

Some have since sold up. Odebrecht has plenty of international and technical experience, but its close historical connections with Angola, intertwined in giant Brazilian corruption scandals, makes it worth mentioning. A couple of the above companies are worth examining a little further.

ACR Exploração Petrolífera (Acrep) is interesting. The book *Os Donos Angolanos de Portugal* said Acrep had among its shareholders the Sociedade Lusa de Negócios (SLN), a well-connected Portuguese conglomerate which the book said had been "a gigantic black hole in [Portuguese] state coffers" before

[108] These were widely reported at the time. See, for instance, Global Witness (1999, p. 13). A filing at Companies House UK for Falcon Oil Holding Angola S.A., available at https://beta.companieshouse.gov.uk/company/FC031019/filing-history (company registered October 11, 2012, file accessed Jan 22, 2020) lists the company secretary as Mrs. Eduarda Mosquito-Mbakassy, under the authority of Mr. Antonio Mosquito, and it listed three directors: Mosquito, Francisco Setende (registered in Luanda) and Mohamed Iqbal Meer (registered in London.) Companies House registered Meer as a director of other companies but also a Director of the Nelson Mandela Children's Fund (UK.)

it fell apart in 2010 (Costa *et al.* 2014, p. 66). Other shareholders in Acrep, it said, were the Angolan state bank BPC, the Angolan private investment and pensions firm Fénix, and Somoil.

Two hitherto unknown oil companies, Nazaki Oil & Gáz and Alper Oil, partnered with Houston-based Cobalt Energy, sparking a long-running corruption investigation in the United States. The *Financial Times* in 2012 received confirmation from Manuel Vicente, a former CEO of Sonangol, and Helder Vieira Días "Kopelipa", head of the *casa militar* at the presidency of dos Santos, that they had each held shares in Nazaki, along with General Dino (Burgis 2013). [109] In 2013 Nazaki transferred to Sonangol half of its 30 percent stake, which analysts valued at $1.3bn, and transferred the remaining 15 percent in 2014 to Sonangol soon after U.S. authorities said they planned to bring charges against Cobalt for corruption (Burgis 2014). The official gazette also said in 2014 that Alper was transferring its stakes to Sonangol P&P (Diário da República 2014). The U.S. Securities and Exchange Commission and the Department of Justice investigated potential violations of the Foreign Corrupt Practices Act by Cobalt, but did not bring enforcement actions (Jaeger 2018).[110]

Sonangol's Alice-in-Wonderland connections with China

Since 2004 China used Angola as a pioneer in its global 'oil-for-infrastructure' model that has involved Chinese companies building or rebuilding infrastructure, in exchange for access to crude oil (or other minerals.) The way this has happened bears some similarities with the 'Bermuda Triangle' model of extra budgetary spending of the past — in the sense that the financial flows involved have significantly happened offshore, bypassing the inefficiencies of the treacherous Angolan budgetary system as a deliberate way to ensure better delivery - but at the same time this 'bypass' operation (nominally these days mostly *recorded* in Angolan budgets, but still significantly happening outside the Angolan payments system) has created great opacity - and thus the potential for capital flight. Another comparison can also be drawn with the case of Abalone in the Angola-Russia relationship (described above), in the sense that private intermediaries have inserted themselves into powerful (and lucrative) choke points between the two nations.

[109] See also Burgis and O'Murchu (2010) and Burgis and O'Murchu (2012).
[110] Cobalt filed for bankruptcy in December 2017.

The modern China-Angola relationship properly began in March 2004 with a $2 billion oil-backed loan from China's Exim bank, on soft terms, to finance a first set of Chinese-built infrastructural reconstruction projects. By 2007, China had overtaken the United States as the largest destination for Angolan oil. The loans themselves appeared to have generous terms: interest rates of 1.5 percent over Libor and repayment over 12 years after a five-year grace period, in contrast to the 2.5 percent over Libor and four to five year repayments typically offered for the commercial lending. The credit line operated like a revolving credit facility, with Exim bank disbursing funds directly to Chinese contractors as they carried out reconstruction projects, via an escrow account. While the lending terms may have seemed generous, it is a different question whether Angola received value for money on the spending side by Chinese firms,[111] and the financial flows involved have been hard to track. Western oil-backed loans continued alongside the Chinese loans.[112]

The key intermediary between China and Angola has been the Queensway Group, a network of companies linked by complex and opaque cross-shareholdings, registered at 88 Queensway in Hong Kong, with interests in a number of African countries (Burgis and Sevastopulo 2014). This is not an official Chinese state body, but it has many links to, and is believed to be substantially a tool of, the Chinese government. It has also been substantially under the control of the influential Chinese moneyman and intermediary in Angola, Sam Pa. The *Financial Times* reported in an in-depth series:

> *To resource industry insiders who have encountered it, Pa's multinational operation is both a 'ghost' and 'a heck of an empire'. . . . Pa and his associates have connections to powerful interests in Beijing, including Chinese intelligence and state-owned companies. The Queensway network has played a pivotal role in advancing China's African quest* (*ibid.*).

Sam Pa began building a complex network of companies and connections from his operations base in Hong Kong. Even highly simplified versions of the Queensway Group's corporate structures can make one's head spin.

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[111] For a summary of these terms, see China-Africa Research Initiative, *China and Oil-Backed Loans*, Johns Hopkins University, October 17, 2011.

[112] Within months of the Chinese loan Standard Chartered arranged a new $2.35 billion commercial loan for Angola, with Barclays, Calyon, Commerzbank, Deutsche Bank, KBC, Natexis, RBS and Banco Espírito Santo participating in the loan consortium. It was, according to John Goodridge of Standard Chartered, "the largest oil backed transaction in the entire history of the structured trade finance market" (Pallister 2005).

Although he had long experience of operating in war-torn African environments, including in Angola, his first major entry to the country came with the help of Helder Bataglia, a colorful and controversial Portuguese-Angolan businessman with interests in Angolan banking and diamonds, and others stretching from Venezuela to Iraq to Germany. Queensway introduced Bataglia to top Chinese officials, and Bataglia introduced Queensway to Angolan officials, especially Sonangol's boss, Manuel Vicente, who travelled to China and Hong Kong many times in 2003 and 2004, and developed a close and opaque relationship with Queensway (*ibid.*).[113] The Queensway company Beiya International Development (BID) in April 2004 set up a joint venture called China Beiya Escom, which in turn signed a deal with Sonangol in June 2004 to create a new joint venture, Sonangol Asia. Then, in September 2004, BID elbowed Escom aside and formed a 70:30 percent joint venture with Sonangol called China Sonangol International Holdings (Annex A.) China Sonangol, focusing both on acquiring upstream oil interests and on securing oil-backed loans, became one of Queensway's two main operating arms in Angola. The other was the China International Fund (CIF), set up in 2003 to focus on infrastructural reconstruction in Angola (and in many other projects internationally, such as the construction of a new metro line in Moscow). CIF soon became a high-profile visible actor on the streets of Luanda. China Sonangol and CIF went on to set up over a dozen affiliates in Hong Kong, and several more in Singapore, and the lines between them appear quite blurred. According to a 2009 Chatham House report. "CIF seems to have successfully positioned itself between the Chinese and the Angolan governments (and between Sonangol and Sinopec) and controls access to Angolan resources." Beneath these top-level actors, the Chatham House researchers uncovered a complex maze of business operations.[114]

China Sonangol went on to own stakes in a number of Angolan oil licences (and mineral stakes in several other African countries.) The first was a 30 percent equity stake in BP's prolific deep water Block 18, which Sinopec had won in 2004, reportedly after Sam Pa's intervention to persuade Sonangol not to grant the stake to an Indian company, as originally planned, but instead to Sonangol Sinopec International (SSI), a Cayman Islands-based joint venture between Sinopec (55%), Dayuan International Development (31.5%, this was formerly Queensway's Beiya interests, renamed after a fraud scandal at Beiya (Mailey

[113] The *Financial Times* quotes Bataglia as summarising statements by Pa and Chinese officials when they were first introduced in 2003: "Let's co-operate because we lack experience in this field" (Burgis and Sevastopulo 2014). Bataglia also reportedly held a 40 percent stake in another Queensway company, China Beyia Escom.

[114] Vines *et al.* (2009, p. 51). The report outlines a welter of further complexities. Annex D, p. 64, "The Global China Sonangol Business Web" provides a striking visual snapshot of at least part of the complex, shifting international structure.

2015, p. 24)) and China Sonangol International Holdings (13.5%, see Annex A). This stake was financed with the help of a $3bn Chinese loan in 2005 sold to international banks in Hong Kong, which involved China's Sinopec receiving Angolan oil (initially at 40,000 barrels per day), then earmarked directly to the Queensway companies.

The CIF worked with an Angolan body called the Gabinete de Reconstrução Nacional (GRN), a body exclusively accountable to president dos Santos, again bypassing Finance Ministry controls. The Chatham House report points to an extensive web of influence stretching across Angola and China, and elsewhere:

> *The web includes some illustrious personalities who are no strangers to doing business in Angola at the highest level. For instance, Lev Leviev, Helder Bataglia, Arcady Gaydamak (aka Ari Barlev) and Pierre Falcone are just some of the names coming up in the connections of the companies surrounding CIF and CSIH. The web reaches into the highest echelons of the Angolan presidency. . . Through their connections the contracts kept coming, and CIF's position as the bridge to Angola became virtually unassailable* (Vines *et al.* 2009, p. 51).

Leviev not only had a long association with Angola's diamond industry, but also reportedly has had several connections to, among others, Jared Kushner and the Trump Organisation (Schreckinger 2016). A spokesperson for Leviev has stated that, "All such transactions with China-Sonangol were conducted based on pure business considerations and were carried out in accordance with the applicable laws," and added that "[a]ll publications hinting that there is any kind of relationship between Mr. Leviev and Donald Trump are incorrect."[115]

By 2009, China had reportedly facilitated between $13.4 billion and $19.7 billion in loans to Angola, and an estimated 50,000 Chinese nationals were working in Angola, mostly as laborers on these projects, working in closed enclaves with little contact with Angolan society.

[115] See Green (2017) and Leviev's responses to the Dutch television documentary "The dubious friends of Donald Trump part two: King of Diamonds," published at https://www.bnnvara.nl/zembla/artikelen/the-dubious-friends-of-donald-trump-part-two-king-of-diamonds, accessed November 25, 2020.

Chinese firms have over this time been successful in keeping rival Asian players - notably Japan and India - out, and extremely successful in obtaining Angolan oil cargoes – but while they have been able to obtain some upstream oil production assets, they have not significantly displaced western oil firms. This fits with president dos Santos' long-standing strategy of not allowing any one player to become too dominant. A comparative study by Chatham House of Chinese oil-for-infrastructure deals in Nigeria and Angola also found that Angola was significantly better at securing delivery of infrastructure than Nigeria, again reminding us of the strength of dos Santos' system in delivering the goods: "Politically, it wanted to demonstrate to the Angolan people that it could – in peacetime – deliver development, particularly ahead of the 2008 parliamentary elections" (Vines *et al*. 2009, p. 3). Value for money, of course, was another matter.

Relations also began to sour fairly early, with accusations from Angola that Chinese firms were excluding Angolans, and complaints of financial irregularities in contracts, non-performance, and other problems. (Chinese players may have encountered many 'irregularities' on the Angolan side too.) A French journalist visiting a Chinese construction site that had been dismantled amid contractual disputes was told by a former watchman in 2007:

> *The Chinese spent months getting the camp together and bringing in brand-new bulldozers. Then instead of beginning to repair the line, they dismantled it all, ate their dogs and left* (Michel 2009).

Relations became significantly lower-key since the oil-price fall in 2014, with non-payments and project delays adding to the difficulties.

This network has, while delivering some tangible benefits to Angola, also derived great private profits via a nest of opaque intermediary structures, most of which have taken place offshore to Angola and offshore to China too. As such, the potential for hidden self-enrichment by Angolan and Chinese private players is likely to have been immense. Many dimensions of capital flight, illicit financial flows and 'lost capital' would be possible, via export and import misinvoicing, hidden or misrecorded flows of debt and debt interest, misrecorded oil flows, diversion of payments, and so on. Due to the hidden nature of all

these aspects and the questions over what has been accounted for in the Angolan payments system, standard measures of capital flight would struggle to pick up these outflows from Angola.

Presumably, the Chinese state suffered capital flight losses at the hands of these intermediaries too. The Queensway group became influential enough in each country to make it indispensable to the other. It leveraged this indispensability to obtain remarkable privileges as an intermediary. As such, it appears to be another classic example of the opportunistic transnational plunder network that facilitated large-scale capital flight in both Angola and China and is not only clearly reminiscent of the Abalone story but appears to have had at least a tangential connection to it.

Sonangol's cash calls, debt

Part of the 'Bermuda triangle' issue has involved Sonangol's debts, and on my visit in September 2017, these were still a live issue. One aspect of Sonangol debt is the so-called "cash calls." These happen when Sonangol needed to finance its equity share of costs in an oil exploration or production operation. Sometimes, it was able to pay for these cash calls out of cash flow, or it has borrowed in international markets to finance its share. In harder times, it has simply not paid, opening up debts to the oil companies, which (if they want the oil operations to progress) have to 'carry' Sonangol's share until it gets around to paying. These debts had mounted considerably. A former BNA employee said:

> *Sonangol's cash calls would not appear in the BNA accounts. Even in Sonangol reports, it's not very clear or transparent. Sincerely, we don't know how much the country's debt is. The treasury debt, I think we know. But with Sonangol, you don't know. It must be a big chunk.*[116]

An Angolan oil sector executive said in October 2017 that outstanding cash calls to the IOCs currently stood at "more than a billion" [dollars] and added that the oil companies had been asking to meet president Lourenço to discuss the problem. He confirmed that: "Sonangol cash calls do not appear in the BNA data - you can be sure of that."[117] He also said there were large debts to outside suppliers that weren't IOCs. He cited as an example two new $800 million drilling vessels constructed in South Korea

[116] Confidential source D: Angolan banker #1.
[117] The oil official was Arnaldo lago de Carvalho, interviewed in Luanda, October 11, 2017.

under a Sonangol joint venture, sitting unused in South Korea because Sonangol had not paid its share under a joint venture arrangement. Now, following the oil price crash, there was no work for these vessels. He added: “This does not go through the BNA either” (*ibid.*).

If Sonangol’s debts are understated, then this means that total real inflows to Angola that *ought* to be recorded are larger than the statistics say. So standard capital flight measurements, which is recorded inflows minus recorded outflows, will understate the stock of unrecorded outstanding debts.

7. Beyond Oil

Beyond the oil sector, élite enrichment has taken place in many different ways, including:

- The granting of large loans or credits to well-connected individuals by the banking system, often backstopped by the state, often for the execution of real projects, but without the proper risk or governance controls, and with little or no capital input from the individuals. The oil price crash turned many of these loans bad.
- Public contracts, involving the potential for large-scale diversion of funds.
- When multiple exchange rates have existed, obtaining preferential access to foreign exchange.
- The granting of undervalued stakes in valuable businesses to well-connected individuals in Angola, Portugal and overseas.
- Trade misinvoicing.
- Smuggling.

Trade flows are a classic vehicle for capital flight. Petroleum, which accounts for over 96 percent of Angola’s recorded exports, is covered elsewhere in this paper. This section covers non-oil exports, which is a relatively small but colorful part of the capital flight picture, and imports, which is large (and even more colorful.)

Smuggling of goods

One common source of unmeasured capital flight via exports involves smuggling. It's a crude, straightforward mechanism: the player physically transports goods out across borders in secret, sells the proceeds, and stashes the money offshore, undetected.

As discussed above, it would be hard to smuggle oil out, given the controls in place. This is not the case with other exports.

Carlos Rosado, a prominent Angolan economist, and others in interviews pointed to significant timber smuggling, especially into Namibia, to Angola's south, and to Zambia, to Angola's east.[118] Chinese and Angolan actors are believed to be involved, but details were scant. A businessman who exported locally grown agricultural produce — some of it, he admitted, smuggled out in order to obtain scarce foreign exchange because of the difficulties accessing it from the BNA— told me he was aware of Chinese firms, and others, smuggling timber out of northern Angola too, alongside other agricultural products, beyond the control of Angolan Customs & Excise.[119]

In late 2017 Angolan media highlighted that the authorities in neighboring Democratic Republic of Congo (DRC) had recently prohibited imports of cement, soft drinks, beer and iron goods from Angola, to try and stop a flood of food, weapons and other merchandise coming in, crowding out local production. A newspaper report looking at the Luvo market, straddling Angola's northern border with Congo, estimated that the market was receiving fifty 36-tonne truckloads of Angolan cement *per day* for sale into DRC (Filipe and Bernardo 2018). Given that Luanda has ranked on several occasions as the world's most expensive city, it was rather anomalous, a banker noted acidly, that the Angolan exporters could undercut Congolese markets on price.[120]

The Congolese anomaly, the same banker continued, was also a function of the subsidized exchange rate - and the related fact that it was so hard to obtain dollars from the central bank. Angolan importers can use exchange-rate subsidies to obtain cheap imports, then deliver them across the border at below-market

[118] Interviewed October 9, 2017, in Luanda.
[119] Confidential source E: Angolan businessman.
[120] Confidential source C. On Luanda being the world's most expensive city, see, for instance, Vanham (2015).

costs to Congo - where the U.S. dollar circulates freely. They sell these goods for dollars, then either stash the dollars offshore or, potentially more lucratively, round-trip the cash back into Angola, convert them into Kwanzas on the street at the *parallel* rate, then (if they are well-connected enough), use the Kwanza bonanza to obtain many more dollars again from the BNA at the subsidized *official* rate. As the same banker put it:

> *It is very cheap for these people to import. The reason is that these companies manage to buy at a subsidized exchange rate. They buy whatever they can: the ones who get the foreign exchange and have a strong lobby at the central bank. These guys don't sell in Angola, they smuggle it into Congo, and there they are paid in dollars. They get hard currency. They make tons of money.*[121]

This phenomenon provides an interesting insight into a type of capital flight that does not show up in standard measures. Taking the newspaper report at face value, at a conservative $100/tonne for cement, fifty 36-tonne trucks coming in daily would constitute a flow of over $50 million a year, just for Luvo market, and just for cement. This anecdotal evidence suggests that overall totals for smuggled exports, outside the scope of capital flight measurements, could be fairly substantial.

The dollar proceeds from importing subsidized goods to Angola then re-exporting them to DRC would not show up in capital flight studies (unless there was import misinvoicing on the way into Angola), since trade data would treat the goods as if they were simply consumed in Angola. Some low-value goods, such as cement and some drinks, may be manufactured locally in Angola, rather than imported: capital flight studies could not pick up the dollar proceeds of this either, if they were smuggled across the DRC border.

The dollars received in DRC would either then be sent in suitcases of cash (or converted to diamonds) and shipped overseas, to foreign accounts, unmeasured. If smuggled in suitcases back into Angola this would be an unmeasured illicit financial flow, but not (outwards) capital flight.

[121] Confidential source C.

Cash smuggling

Another mechanism of capital flight involves cash dollars leaving Angola in suitcases. Two different bankers (A and C) said that before the oil price crash - though neither was very clear on timing — that around U.S.$6 billion in cash was being provided to customers via the commercial banks. According to an Angolan banker, who had worked at the BNA:

> *Commercial banks were bringing in $6 billion. It would be sold to customers by banks, and also by exchange bureaux. Then it wasn't really an issue, until the oil crash [because Kwanza convertibility was easy then.] Basically, 100 percent was sold to customers. How much went out through the official and through the unofficial, hard to calculate. I am sure that there was money carried out in suitcases. The cases you see in the press, you have to do with PEPs, they don't go through the same channels in the airport that I do. They can easily take a briefcase with them.*
>
> *The time I spent there (at the BNA), the trend was always upwards, from 2010 to 2015, which was amazing. But now if you want to measure it, it's very difficult. It's very informal. It works like the Mob, they are very hidden, across the street from here. These transactions happen, people tell you they do - but you don't have any idea of the size of this.*[122]

The movements of suitcases of cash flowing out of Angola constitutes a form of capital flight that is, in principle, measurable as a mismatch between inflows and outflows, since the dollars would flow in measurably through the formal banking system, and flow out, unmeasurably, in suitcases.

Non-oil export misinvoicing

Another export channel for capital flight involves export misinvoicing. For example, a business exports $10 million worth of Angolan coffee, receiving $10 million from a buyer in France, but remits only $7 million to the BNA, along with paperwork suggesting the sale was worth $7 million.[123] The other $3 million goes into a private bank account, undetected by the Angolan authorities. (This may also reduce recorded profits from the export operation, cutting the tax bill.)

[122] Confidential source D.
[123] This could be arranged either with a corrupt buyer in France, or by routing the payment through a tax haven, where a crooked offshore trading company controlled by the exporter arranges the paperwork.

A far bigger non-oil export channel for capital flight involves diamonds. Officially, Angola's diamond exports were running at between $500 million and $1 billion per year in the 1990s and early 2000s, according to IMF and official government reports, with additional production of unknown size being smuggled out from government-owned diamond mines. Large quantities of diamonds also flowed from UNITA rebel-held areas until the late 1990s, until the reserves in their areas became increasingly exhausted, and as government forces steadily pushed them out of the diamond zones. The numbers in Table 8 do much to help explain the course of the war: as UNITA's last major sources of revenue ran dry, the government was able to obtain a growing military advantage from around 1998-99 onwards.

Angola's diamond sales did not always flow neatly along military lines during the war, however. While diamonds produced in large official kimberlite mines were fully under state control, most were dug by small-scale, subsistence (also known as "artisanal') miners, often in shifting military zones, usually with no particular loyalty to either side. Their diamonds were soaked up by buying offices in the region, inside Angola and across its northern and eastern borders with the two Congos and Zambia. The official buying companies inside Angola included RDR, a company part-owned by Isabel dos Santos which was one of the main buyers. RDR was predecessor to the state-controlled diamond marketing monopoly Ascorp, which started operations in 2000 with Isabel as a 25 percent shareholder through a Gibraltar-based firm, Trans Africa Investment Services (TAIS,) which she controlled with her mother Tatiana. This was all getting underway just as Global Witness launched its seminal 1998 report *A Rough Trade,* on the links between Angola's diamond industry and the civil war and which kick-started the global blood diamonds campaign (Global Witness 1998). It is not clear exactly how Isabel obtained these stakes, nor how much of her own capital she contributed to the ventures [124] The other major players in the sector included Sodiam, the state diamond marketing company which controlled Ascorp, Endiama, the state diamond mining company (and diamond concessionaire), Arkady Gaydamak and Pierre Falcone (as mentioned above) alongside more mainstream international diamond players including Lev Leviev, De Beers, Benny Steinmetz, Brazil's Odebrecht and Russia's Alrosa.

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[124] Ana Gomes, a Portuguese MEP (Member of the European Parliament) in 2016 created a document outlining dos Santos' history. It is available at https://www.anagomes.eu/PublicDocs/cec6bdfd-72b3-487a-8bb0-41462a0bc8b9.pdf. See also Freedberg *et al.* (2020).

Table 8: Diamonds exports from government and UNITA sources ($ million)

Year	Government (official)	UNITA (estimated}
1994	n/a	600
1995	168	400
1996	267	700
1997	348	700
1998	432	260
1999	629	150
2000	739	100

Sources: The official data in the table are drawn from IMF reports, especially Angola: Selected Issues and Statistical Appendix, IMF Country Report 03/292, IMF, September 2003, p. 97, and Angola: Recent Economic Developments, IMF Staff Country Report 00/111, Aug 2000; and also from my own interviews with diamond officials inside and outside Angola at the time. The figures for UNITA diamond sales are drawn from my research for articles I wrote for the *Financial Times*.

Table 9: Angola's diamond exports, 2004-2018 (million U.S. dollars)

Year	Diamond exports
2004	788
2005	1089
2006	1132
2007	1130
2008	995
2009	791
2010	824
2011	1149
2012	1145
2013	2232
2014	1319
2015	1297
2016	1034
2017	1151
2018	1,176

Source: Kimberley Process, "Angola: Annual Rough Diamond Summaries," available at https://www.kimberleyprocess.com/en/angola (accessed August 6, 2020).

Annual diamond exports since the end of the war are shown in Table 9. Illustrating how unreliable these data must be, however, South African court documents describe a request for evidence from Belgian authorities in 2008 in a criminal investigation into a Belgian company called Omega diamonds, which had been active in Angola (Isabel was not a shareholder). At the time the Kimberley Process had been set up by the United Nations as a certification program to stem the trade in "blood diamonds." Diamonds from war-ravaged Angola therefore traded at a significant discount; Omega allegedly operated a scheme to 'launder' them. The documents state:

> *The investigation stems from Omega's practice of importing diamonds sourced from the Republic of Angola (Angola) and the Democratic Republic of the Congo [DRC] through Dubai . . . and into Antwerp. During the transfer, documents were allegedly manipulated which allowed Omega to conceal the origin of the diamonds. Allegedly, by concealing the origin, which had the effect of increasing the value of the diamonds, Omega was able to hide its additional profit from Belgian tax authorities.*[125]

Dubai seems to have been especially problematic in this investigation, as reported by Khadija Sharife and John Grobler:

> *The Dubai Multi-Commodities Center (DMCC) leadership appears to have actively blocked investigation by other governments... [U.S. embassy cables cited in WikiLeaks] quoted an investigator stating, "It's like our fax line was directly connected to their shredder* [in Dubai] (Sharife and Grobler 2013).

Omega allegedly bought diamonds at low cost in Angola and delivered them to Ascorp in Luanda where they would obtain Kimberley certificates as originating from official mines, along with lowball valuations. In Dubai the lowballed parcels of Angolan diamonds were mixed with parcels of Congolese diamonds and obtained new Kimberley certificates as being "of mixed origin," and new invoices to Omega marking up the diamonds' value by 20-31 percent, up to the full market price. David Renous, a former diamond buyer for Omega in DRC, said that many diamonds from both countries were not just

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[125] Tulip Diamonds FZE v Minister for Justice and Constitutional Development and Others, South African Constitutional Court, June 13, 2013, available at http://www.saflii.org/za/cases/ZACC/2013/ or https://collections.concourt.org.za/bitstream/handle/20.500.12144/3692/Full%20judgment%20Official%20version%20(254%20Kb)-20932.pdf?sequence=14&isAllowed=y

undervalued but also systematically undeclared in Angola and DRC, with the full co-operation of the Angolan leadership (*ibid.*).

Around $100 million worth of Angolan diamonds reportedly flowed this way each month, and payments flowed out through "a daisy chain of briefcase companies registered in tax havens" also including Luxembourg, the BVI and Cyprus (*ibid*.).

Belgian customs and excise reportedly had sought an astonishing 4.6 *billion* Euros from Omega and related parties, suggesting extremely large mark-ups over many years, but the judicial process ended in 2013 when Omega reached a deal with Antwerp prosecutors and agreed to pay a 160 million Euro settlement, without admitting liability (Flanders Today 2013).

Some estimates as to the scale of Angolan diamond smuggling can be made. The UN Comtrade database covers Angolan diamond exports since 2007, permitting trading partner data comparisons. As Table 10 shows, these indicate substantial discrepancies, with the imports recorded by Angola's trading partners exceeding the exports recorded by Angola to the tune of $5 billion (in 2018 dollars) over a 12-year period. This suggests that estimates of Angolan capital flight that do not include adjustments for trade misinvoicing are likely to understate its total magnitude.

The Omega case shows how hard it is for international statistics to pick up capital flight from Angola via diamonds. Misinvoicing of diamond exports via tax havens is likely to have artificially depressed Angola's official diamond export figures. Unrecorded, smuggled diamond exports would increase the amount of diamond capital flight further.

To the extent that diamond-importing countries recorded the imports from areas under UNITA control as Angolan in their official data, it is possible that these figures would show up in the overall capital flight calculations that incorporated adjustments for trade misinvoicing. However, large quantities of these diamonds were smuggled across Angola's land borders to the Democratic Republic of Congo and Congo Republic (and to a lesser extent Zambia and Namibia). Although expert and experienced dealers in diamond-cutting countries like Belgium or Israel might have been able to recognize packages of diamonds as being Angolan in origin, the 'blood diamond' taint would have given them a strong incentive

to record them as originating elsewhere. Neither Angola nor the receiving countries would record them, adding to unmeasured capital flight.[126]

How large was this smuggling? A banker who was familiar with the diamond sector said:

> *This doesn't work like the oil sector, which is very organized, with the Exxons, Chevrons, Totals. This is the diamond sector, blood diamonds, very disorganized. I think diamond [production] is much more than $1.5 billion: more like $2 or $3 billion.*[127]

This seems highly speculative, though it is consistent with the above estimates of $100 million a month flowing through hidden channels via Dubai. If so, this could add another $1-2 billion to the annual capital flight from Angola.

Table 10: Diamond exports, 2007-2018: Trading partner data comparisons (2018 $ million)

Trading partner	**Angola's reported exports**	**Partner's reported imports**
Belgium	430.8	4,647.5
China	305.0	557.3
China, Hong Kong	554.7	741.9
India	na	1,252.6
Israel	1,995.1	na
South Africa	0.4	170.1
Switzerland	1,192.2	0.2
United Arab Emirates	7,470.4	9,498.4
USA	28.5	1,253.1
Others	***1,136.8***	***0.02***
World (all partners)	**13,116.1**	**18,199.0**

Source: Computed using data from the UN database Comtrade.

[126] For a full outline of the routes and mechanisms of diamond flows from UNITA areas, see United Nations (2000).
[127] Confidential source D.

Imports and capital flight

An even larger channel for capital flight involves the import economy.

Angola imported around U.S.$ 205 billion worth of goods and services during the golden decade of 2002-2014, according to BNA data, plus a further $83 billion from 2015-2020, so this is potentially a large arena for possible capital flight (of that 2002-2014 total, $125 billion was classified as consumption goods, $27 billion intermediate goods, and $53 billion capital goods).[128]

One of the biggest avenues for capital flight in the import sector concerns public procurement. As an experienced businessman explained:

> *Road financing is the classic African story about how you make money. Infrastructure, broadly: it's the easiest financing to get, and they are bigger numbers. All contracts need to have a local partner, who could be 30 percent or whatever of the contracts, and who would be expected to do very little for that contract. It will be an obvious leakage to politically connected companies that are able to be partner in that operation. That leakage will pay for all the bribes needed to pay to the ministers and so on to get that contract paid… Foreign banks and institutions will know these are Angolan, they will know that there is an element of corruption.*[129]

That 30 percent figure was not plucked out of thin air - it is, interviewees said, not unusual. Given the many billions that the government has spent on reconstruction, payments to Angolan silent partners could be an extremely fruitful source of 'lost capital'. The same businessman then described a recent contract awarded to a very well-connected Angolan, worth hundreds of millions of dollars.

> *The first money [this person] will make from this contract is that the government of Angola has to make a down payment to the international company, in order to activate the financing. That's standard among OECD bilateral financing arrangements. Typically, you need a 15 percent down*

[128] The BNA websitse has this information on a webpage entitled Importações por Classificação Económica 1990-2020 (in its "Estatísticas" section under "Estatísticas Externas",) available at https://www.bna.ao/Conteudos/Artigos/lista_artigos_medias.aspx?idc=15419&idsc=15424&idl=1 accessed October 8, 2020.BNA, Importações: 2012/2016, Mercadorias - Classificação Económica.
[129] Confidential source A.

payment. So, the first money is paid by the Angolan government to a foreign contractor. Part of that down payment is, in theory, payable to the local partner. But the local partner is appearing as a foreign company. What [the person] asked for immediately in this case was for that money to be paid to an offshore account.

Over-invoicing of imports is a standard mechanism for hidden, illicit, large-scale capital flight, around the world. Every knowledgeable interviewee in Angola whom I asked about these practices knew exactly what the question meant and agreed that this was a standard way to export dollars secretly.

Let's say a company with a government contract imports $7 million worth of machinery to the port at Luanda. They submit paperwork to the BNA saying the machinery cost $10 million. The BNA remits $10 million to a crooked tax haven company, which remits $7 million to the machinery manufacturer and sends the remaining $3 million secretly to a private offshore account of the Angolan 'silent partner'. The BNA or customs don't have the capacity to know, or key officials are influenced not to know, that the machinery was worth only $7 million.

The question of what can be measured is significant. Misinvoicing is calculated by comparing what the customs and other authorities of African countries say was imported, minus what other countries — bilateral trade partners — say was exported to them, making allowances for transport costs and other factors. There are two datasets for trade partner data: the IMF's Direction of Trade Statistics (DoTS) database and UNCTAD's Comtrade database. In the case of Angola, comparison of such mirror data at the aggregate level yields minimal discrepancies because, due to inadequate reporting by Angola, its import data were derived directly from the partners' data.

It is possible, however, to assess discrepancies for major trading partners for some years by comparing BNA data to that of the IMF and Comtrade (Table 11). Many of Angola's main 'conventional' trading partners, including China, Brazil, France, Portugal, South Africa, and the USA, show significant negative numbers over this period, indicating a predominance of import underinvoicing, presumably in order to evade import tariffs. Cumulative underinvoicing for this group of six trade partners over the period amounted to $37.7 billion.

Table 11: Import misinvoicing by trading partner, 2003-2018 (billion, constant 2018 $)

	Angola's imports (CIF)	**Partner's exports** (FOB) Data from:		**Import misinvoicing*** Using:		**Period covered**
	BNA	DOTS	Comtrade	DOTS	Comtrade	
Belgium	16.4	6.4	6.5	9.4	9.3	2003-2018
Brazil	13.8	16.5	16.5	-4.3	-4.3	2003-2018
China	26.5	40.6	40.5	-18.2	-18.1	2003-2018
France	2.9	10.7	10.7	-2.5	-2.5	2003-07; 2010; 2014; 2018
Japan	1.1	3.1	3.1	0.0	-0.1	2004-07
Netherlands	10.4	6.2	6.0	6.8	6.8	2003-04; 2008-12
Portugal	42.1	43.3	43.4	-5.4	-5.6	2003-2018
Singapore	15.5	3.9	3.9	13.2	13.2	2012-16; 2018
South Africa	12.3	13.0	13.0	-2.0	-2.1	2003-2018
UAE	6.9	8.0	6.8	0.0	1.1	2006-09; 2011-14; 2017
United Kingdom	9.5	9.5	9.6	-0.7	-0.8	2004-2018
United States	19.6	22.6	22.6	-5.3	-5.3	2003-2018
Other countries	77.8	1.4	0.0	76.3	0.0	2003-2018
World	296.6	274.3	269.5	-5.1	0.1	2003-2018

* Note: A year where either Angola's or the partner's data are missing is excluded from the estimation of import misinvoicing.

Source: Angola's imports are from BNA. Partners' exports are, alternatively, from DOTS and Comtrade. A cif/fob factor of 10% is used to compare Angola's imports to partners' exports. Nominal values are deflated into constant values (base 2018=100) using the U.S. GDP deflator.

Meanwhile, however, three other countries — Belgium, the Netherlands, and Singapore — showed positive numbers, totaling around $29 billion for the group, suggesting import over invoicing for these countries — a way of getting dollars out of Angola. Singapore is one of the major tax havens (the other being Dubai) that several interviewees said were heavily used by Angolans, often with a strong focus on secrecy and hiding assets. The Netherlands is a major corporate tax haven and trading hub, though not especially secretive. Belgium is not especially haven-like, but it is a major importer of Angolan diamonds.

So, for instance, an exporter from Thailand sells $20 million of electronic goods to Angola but routes the transaction through Singapore. Angola would record this as an import from Singapore, while Singapore would not record this as an import or an export, since it is a transshipment. What is more, tax havens are notorious for deliberately turning a blind eye to and facilitating misinvoicing, making these kinds of places natural hubs for those wishing to get dollars out of Angola by artificially inflating the invoice.

In more extreme cases, money has in fact left Angola through official channels in order to purchase imports that never happen. Interviewees told extraordinary stories in which hundreds of millions have been paid to foreign firms, where the supposed foreign supplier had no record of receiving any orders for equipment, or where some 'investment' equipment was imported and then left to rot because the point of the transaction was not to obtain equipment but to get dollars out.

The BoP showed a total of $52.4 billion in outflows for 2002-2016 under the heading 'Construction', for example. Given the scope for overbilling for construction imports, this is potentially a large source of leakage.

In addition, bribes paid by foreign goods suppliers to Angolans (for example, to influence contract terms or awards) would likely not be measurable: if they originate with a foreign supplier and end in the private offshore account of a powerful Angolan figure, the Angolan balance of payments is not touched. However, the *effects* of such a bribe, insofar as it inflates the price paid by the Angolan state –might be picked up by comparisons with the world prices of the same items at fair market value.

The above examples involve traded goods. Services, however, are often even easier to manipulate than goods, because whereas the world prices of many goods are fairly well known, the value of services can be harder to pinpoint. A government official explained:

> *It's been a classic method in Angola. You pay for fictitious consultancy services to a company registered abroad to get the money out of the country*.[130]

[130] Confidential source F: Angolan government official.

Another banking source outlined a more sophisticated method:

> *Let's say I bring someone here, under a management contract to run this office. I pay $2 million a year, and I seek approval from Ministry of Commerce, and explain the kind of contract. If it's approved, I can get money out. But how do you measure the value of this contract? They are wary of that, they don't like them. But there are many Angolan or Portuguese companies owned by Angolans who do business in Angola – that's a way they get money out: the smartest of the top guys.*[131]

This is a way to get ahead of the queue for dollars from the Central Bank in times of scarcity. The actual revenue received by the consultancy firm overseas would be lower, possibly much lower, with the difference tucked into a private bank account.

Inflated import bills for services, such as consultancy fees, could be routed through offshore companies, acting as intermediaries that would capture a mark-up. In theory, mispricing of services could be detected by trading partner data comparisons, as long as different (and truer) values for services exports to Angola were reported in the country from which the services were exported. In practice, however, services are not reported in the IMF's *Direction of Trade Statistics.* Hence the illicit component of these high-value business operations could be identified only through value-for-money analysis at the level of individual transactions, which is well beyond the scope of most capital flight studies, not least because such private data generally are not made public.

There is another, well-known data problem in estimating the extent of over invoicing of imports: there are also incentives for underinvoicing imports. For example, if tariffs on imported goods are 10 percent (which is the typical effective Angolan rate), then an importer bringing in $10 million worth of goods is supposed to pay $1 million to the government. But if they submit an invoice stating that the goods were only worth $5 million, they will only pay half that amount (and if they smuggle them in without declaring the imports at all, they pay zero).

These two factors – incentives to over invoice imports for purposes of capital flight, and different incentives to under invoice imports for purposes of tariff evasion – pull in opposite directions. Standard

[131] Confidential source C.

measurement techniques only reveal their net impact, thereby tending to underestimate the scale of both capital flight and smuggling of imports.

The exchange rate merry-go-round re-emerges

In the earlier years of the golden decade, dollars were in relatively plentiful supply and the exchange rate differentials tended to narrow — sometimes reaching parity and free convertibility. When this happened, this particular avenue of private enrichment closed off (though with plentiful oil dollars, fabulous sources of enrichment were available elsewhere). When oil prices fell in 2014, the exchange rate differentials widened again as the government rationed dollars, and at the time of my visit in 2017 the official dollar rate mark-up over the parallel rate was around 300 percent.

The official exchange-rate subsidies are generally believed to have ended up not in the hands of consumers through cheaper prices, but in the hands of the wealthy businesspeople who dominate the import trade (and use import misinvoicing and other tricks to channel their profits into capital flight). The economist Carlos Rosado expressed frustration with the system for a different reason: the domination of the system by foreign intermediaries:

> *It is logical that there is an administrative rate for imports, for defined priorities. But we know this money doesn't get to who needs it….. If someone does business with a Lebanese person, they don't want to know where they get the stuff. They don't want to learn. The only thing we know how to do is "commission." The question is: 'who received the commission?". There are many Portuguese who have trading firms, and this is a way to inflate the price. As an Angolan, I don't buy things from a factory in Portugal: I buy from a trading company. This contributes to inflation*.[132]

Some private Angolan citizens do source goods directly from foreign suppliers. After I left Angola and went to live in Germany in the early 2000s, I was contacted a couple of times by Angolan friends asking me to procure passenger vehicles and other goods for them (I politely declined). But over time, smaller retail outlets (and Luanda's giant informal *Roque Santeiro* market itself) had to start making room for

[132] Interview with Rosado in Luanda, October 9, 2017.

larger outlets, such as South Africa's Shoprite and (more recently) the Candando hypermarket chain owned by Isabel dos Santos.[133] Consumer prices in Luanda have rarely been noticeably cheaper than in other countries, when calculated at the parallel market rate, and in some surveys Luanda has been ranked as the world's most expensive city for expatriates.[134] Arnaldo Lago de Carvalho, a veteran Angolan CEO who is active in the import sector (though mostly in the oil industry) added:

> *The prices in supermarkets, they are completely irrational, compared to markets in South Africa. Three, four times more. All this needs to be studied. Imports: this was always the way for money to fly out. The prices for some medicines are ten times the price in a pharmacy in Lisbon. Beef, milk, juice, eggs, half the eggs are imported, everything.*

De Carvalho also named senior Angolans who ran large companies and supermarket chains that import consumer goods as being the principal beneficiaries of the exchange-rate discrepancies:

> *They have created companies outside Angola, which don't buy here directly from the supplier: there are always two or three intermediaries in the middle. They prefer to import than buy local. Because they can accumulate. They don't pay duties, transport is cheap, and they can get foreign currency at the official price. In my view they are the ones creating this inflation: they keep pushing prices up all the time, even when they buy in foreign currency at the official rate.*

Angolan import networks and Hezbollah

One of the largest companies importing into Angola in the 1990s was Golfrate, part of an international constellation of companies that also operated in the UK and elsewhere. Its operations illustrate not only some of the international corporate complexities that can be traced, but also the possibility of 'blowback' effects on western and other countries.

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[133] My informal efforts on the last day of my trip in October 2017 to collect price data on standard goods at retail outlets at Candando, to compare against international prices, was thwarted by a Candando store manager, who chased me out, saying I was not authorized to collect this information.
[134] See, for instance, Vanham (2015). The main issue is real estate rental prices, rather than consumer prices.

Court cases in the Isle of Man, London and Gibraltar show that Golfrate's Angola operations were held by Golfrate Holdings (Angola) Limitada (GHAL), which was owned by Golfrate Africa Ltd (GAL,) a company incorporated in the Isle of Man tax haven in 2002.[135] This, in turn, was owned until 2005 by Strand (London) Limited, which in turn was controlled by another Isle of Man entity, the Aziz Continuation Trust, set up in 1995 (*ibid.*).

This trust was controlled by a Malawi-born tycoon, Asif Aziz, a former Morgan Grenfell banker who had founded Criterion Capital, a large London real estate firm which has owned London's landmark Trocadero leisure complex, the Sherlock Holmes Hotel at Baker Street, Picadilly Hotel at Picadilly Circus, and a number of London pubs. His Wikipedia entry says he first went to Angola in 1993 – close to when the Angola import scene was at its most chaotic (and potentially most profitable).[136] The Offshore Leaks database also records a company called Golfrate Properties Limited, set up in the Bahamas in 1993 and struck off in 2001. It would be impossible to investigate public documents to discover the profits derived from Angola by this complex network, but an assessment by the UK Sunday Times newspaper in 2008 quoted the Golfrate Group as saying it owned assets worth £1.5 billion, while the newspaper estimated that "due to falling property prices" its net worth was just £79 million, placing them in 1,001st position on the Sunday Times UK Rich List.[137] Aziz's estranged-wife, in a court case in 2017, estimated his fortune at £1.1 billion (Murphy-Bates 2017).

This company had a second incarnation after a company called Ovlas Trading Limited in 2005 bought out GAL and GHAL from Strand (London). Ovlas was already competing with Golfrate in Angola.[138]

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[135] The fact that all the "issued share capital" was held by GAL does not rule out additional silent partners, Angolan or otherwise. UK company registry documents at the time show a range of connected firms, including Golfrate Properties Ltd., Golfrate Property Management Ltd., Golfrate Trading Ltd., Golfrate Group Ltd, the Aziz Group, Firstfollow Limited, and others. See High Court of Justice of the Isle of Man Chancery Division Golfrate Africa and Andco Corporate Services, 22 August 2008, available at https://www.trusts.it/admincp/UploadedPDF/201103091226170.jManGolfrate%20%5b2008%5d%20J%20594.pdf.

[136] The entry is available at https://en.wikipedia.org/wiki/Asif_Aziz. Accessed October 16, 2020.

[137] "Asif Aziz and family," *Sunday Times*, April 23, 2008.

[138] Angolan media reported at the time that Golfrate had been bought by the import company Arosfram (also known as Arosfran), which was also active in private security, construction and manufacturing in Angola, so it is presumed that Arosfran was part of Ovlas. From *Arosfram compra Golfrate*, Semanário Angolense, July 31 - August 6, 2005. The article stated: "formally, Arosfram is a company between "Kito" Dias dos Santos and his brother Artur de Almeida, with the Lebanese-Belgian Kassim Tajidin, while GG [Golfrate Group] was held by the Indo-British Affif [sic]". See also "Apoiante do Hezbollah, que operou em Angola, condenado nos EUA," Voice of America (VOA,) August 10, 2019, which quotes "Kito" as saying that Arosfran had belonged to him.

In 2010 the U.S. Treasury Department issued a statement designating the new owners of Golfrate and its successor Arosfran (also known as Arosfram) as "fundraisers" for the Hezbollah military organisation, describing them as "brothers and business partners" of Kassim Tajideen, whom it termed a "Specially Designated Global Terrorist" and "the primary decision maker" for Arosfran (U.S. Department of the Treasury (2010). The statement targeted "a network of businesses that are owned or controlled by the Tajideen brothers operating in The Gambia, Lebanon, Sierra Leone, the Democratic Republic of Congo, Angola, and the British Virgin Islands."

The Offshore Leaks open access database provided by the International Consortium of Investigative Journalists (ICIJ)[139] lists a company called Ovlas Trading S.A., incorporated in the BVI from 2003-2011, whose shareholders include Nejmer Jaber-Tajiden, Nadine Tajiddin, Ahmad Hassan Tajedinne (these names were spelt in various ways) all registered in Lebanon, plus someone called "The Bearer," presumably a reference to bearer shares, a completely impenetrable form of shareholding. Whether this was an Angolan silent partner can only be speculated. The Angolan newspaper *Semanário Angolense* (2007) cited "rumors" naming three very senior Angolan officials as being linked to Angoalissar, Golfrate and Arosfram. Angolan media in 2009 quoted U.S. ambassador Dan Mozena as saying that the Angolan partners in these companies were not going to be targeted by the U.S..

Angola's Conselho Nacional de Carregadores (CNC, the shipping loaders) reported Golfrate Holding Angola Limitada importing 127,000 tonnes of goods to Angola in 2010 and 16,000 tons in 2011. Angolan and international media reported that Kassim Tajeddine had been expelled from Angola in 2011, suggesting that the company was simply bought out and is now under new ownership (Voice of America 2019). However, a U.S. criminal indictment of Kassim Tajideen in March 2017 described a business empire encompassing Lebanon, Angola and the United Arab Emirates [Dubai] and at least 13 cargo shipments from the U.S. to Angola from May 2013 until June 2015, worth over $10 million, by a Kassim-controlled company called Sicam LDA, with financial transfers to U.S. exporters from bank accounts in Dubai.[140]

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[139] See https://offshoreleaks.icij.org/.

[140] Grand Jury Indictment, March 7, 2017, Kassim Tajideen Case: 1 :1 7-cr-O0O46, available at https://www.justice.gov/opa/press-release/file/952071/download. The indictment shows financial transfers with Dubai's Emirates NBD Bank, Sharjah Islamic Bank and Mashreq bank, Noor Islamic Bank, though it was not clear which if any of these were related to Angola. The CNC's last available statistical bulletin describes a 5,000-tonne shipment to Angola in the name of Sicam, LDA the first quarter of 2016: the previous bulletin describes Sicam delivering 82,000 tonnes in 2015 and

The mechanics of these import operations, and the potential for obtaining large Angolan state subsidies, are described above.[141]

An outward investment puzzle

When I started this research, I noticed that the BNA's Balance of Payments document contained a very large entry for 'Forward Direct Investment Outputs' (outflows). The cumulative amount from 2002-2016 totaled $198 billion (in constant 2016 dollars).

At face value, this would suggest that Angolan resident private sector actors had invested this enormous amount in gross outwards foreign direct investment flows between 2002 and 2016. However, data from Portugal, which is presumed to be Angola's most important target for foreign investment, shows a very different picture: a cumulative *stock* of Angolan inward investment into Portugal at around $1.5-2.2 billion from 2015-2019, a tiny fraction of the cumulative inflows over this period.[142] An apparent resolution of this apparent discrepancy was reported by Angola's *Expansão* newspaper in December 2018 (de Carvalho 2018). Parsing the latest data from the BNA, the article noted that the numbers had suddenly been revised with a footnote:

> *In sequence of the X IMF Technical Assistance Mission held in July 2018, the positions of the Direct Investment (assets and liabilities), Portfolio Investment (assets) and Other Investment "Money and Deposits" (assets) were revised in harmony with data from Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS), both belong to the IMF, and the Bank for International Settlements (BIS), respectively, from 2012* (de Carvalho 2018).

Revised BNA data showed that the total stock of external Angolan direct investment abroad of just $6 billion. The article reported that BNA sources said that their previous data "lacked the necessary quality."

99,000 tonnes in 2014.

[141] See Annex D for an example of a breakdown of a week's allocation of foreign exchange by the BNA.

[142] See AICEP Portugal Global (2017, pp. 10-11). It shows a stock of $118 billion in total inward investment into Portugal in 2017, of which Angola accounted for just 1.5 percent. AICEP is a Portuguese state entity dedicated to investment promotion.

The updated BNA spreadsheets contain different classifications and a shorter time period for available data, so cannot be directly compared to those that produced the $198 billion figure.

The relatively small Portuguese number should also be questioned, however. For one thing, Isabel dos Santos' ownership stakes in quoted Portuguese companies alone are believed to have been larger than this. Many other Angolans own corporate assets in Portugal too. What is more, much of the Angolan money that has flowed to Portugal is held in non-corporate forms (such as bank accounts) that would not be classified as FDI. Furthermore, larger investments are likely to be structured through foreign vehicles, disguising the Angolan ownership. A comprehensive investigation of the many Angolan shareholdings and ownership stakes outside Angola is beyond the scope of this paper. But the case of Portugal, the former colonizer, illustrates some of the forces at play.

8. Blowback in Portugal

Lisbon has long been the most important foreign playground for Angolan élites — just as wealthy Nigerians or Kenyans look to London (or New York), or wealthy Ivoriéns or Gabonese have looked to Paris. In the later stages of Angola's 2002-2014 golden decade, when oil prices were high and the Portuguese economy was stagnating, there was considerable anxiety in Portugal about the scale of Angolan influence, described by some as a form of "reverse colonialism." Books such as Costa *et al.* (2014, p. 66) and articles such as Ames (2015) highlighted the undoubtedly extensive Angolan holdings, not least Isabel dos Santos' interests in Portuguese banking, energy and media companies, alongside large real estate holdings, wineries, and sports teams. Her efforts to use her media holdings to curb criticism of the Angolan government in Portugal, and her and other wealthy Angolans' use of money and commercial relationships to influence Portuguese politics, were substantial. A 2013 OECD report on Portugal was scathing, saying that the OECD Working Group was "seriously concerned that Portugal's enforcement of the foreign bribery offence has been extremely low," with only 15 foreign bribery allegations made since 2001, and not a single prosecution (OECD 2013, p. 5).

While Angolan influence in Portugal has been significant, it should not be overplayed, particularly now that oil prices have fallen, the Portuguese economy has strengthened, and Isabel dos Santos' influence in

Portugal has all but evaporated (see below). While Angola was the second-largest country destination for Portuguese exports after the United States, it still only made up 4.2% of Portuguese exports in 2015.[143] Angolan investment made up just 1.5% of FDI stocks in Portugal that year. "Portugal has more influence in Angola than Angola does in Portugal," said Portuguese economist Manuel Ennes Ferreira.[144]

After the oil price crash, and spurred by media reports expressing alarm at Angolan interventions in Portugal, in addition to the "Luanda Leaks" revelations about Isabel dos Santos, described below, Portuguese judges have begun prosecuting corruption cases against senior Angolans. In February 2017, for instance, Portuguese prosecutors charged Angolan vice president Manuel Vicente with bribing a magistrate when he was CEO of Sonangol, to suspend a 2012 inquiry into the origin of funds for Vicente's purchase of an apartment in Portugal before he became vice president.[145] More dramatically, in March 2020 a Portuguese judge ordered the seizure of all Isabel dos Santos' assets in Portugal, following an Angolan request for help recovering an alleged $1.1 billion extracted from the Angolan state.[146]

The Banco Espírito Santo affair

In mid-2014, European stock markets began falling amid rumors that the 140-year-old Banco Espírito Santo (BES), one of Portugal's biggest banks, was in trouble. The bank's Angolan subsidiary was at the epicenter of the financial carnage. By August 3rd of that year, Portugal's central bank had stepped in with a large bailout.

Built by the aristocratic Espírito Santo family, the bank was controlled by a holding company structure located in Luxembourg, Espírito Santo Financial Group (ESFG), with a convoluted financial structure of shareholdings and cross-shareholdings, many held in offshore jurisdictions. The group had long held diamond mining and commercial interests in Angola via its Escom group (founded, run and part-owned

[143] Interview with Manuel Ennes Ferreira, Lisbon, June 27, 2017.
[144] Interview and subsequent email communications with Ennes Ferreira in September 2017.
[145] Reuters (2017). A Portuguese court subsequently ruled that Vicente should be tried in Angola. In September 2020 Angolan prosecutors seized some of his assets and put him in "preventative custody." See Angop (Agência Angola Press), "Businessman Carlos Sao Vincente in Preventive Detention," September 22, 2020, available at http://www.angop.ao/angola/en_us/noticias/politica/2020/8/39/Businessman-Carlos-Sao-Vicente-preventive-detention,d607055b-b04a-44ec-83a6-1137df76cdd5.html. See also Reuters (2018). For "bribing a magistrate" see Cabral (2017). For the court of appeal decision, see Batalha (2018).
[146] Widely reported. For example, see Dalby (2020) and Demony and Waldersee (2020).

by Helder Bataglia, the colorful businessman mentioned in the China-Sonangol section above). In 2001 BES became first foreign bank to incorporate an Angolan subsidiary, Banco Espírito Santo Angola (BESA).

Two years later, BESA sold a 19% stake to a company called GENI Novas Tecnologías S.A., controlled by Isabel dos Santos. Then, in 2009 it sold a further 24% stake to Portmill Investimentos e Telecomunicações, a company controlled by the "presidential triumvirate" of General "Kopelipa", General Dino, and Manuel Vicente.[147] Subsequent audits of the bank found that between 2009 and 2013 BESA doled out billions of dollars in unsecured loans to people connected to BES and BESA, believed to members of the MPLA elite: its credit portfolio in Angola grew at an average 54 percent annually, a breakneck pace by any standards, and by 2013 it had granted credit worth well over twice the value of customer deposits.[148]

KPMG, the bank's auditor, did not raise any red flags until the problems became public (and it was subsequently fined by the Bank of Portugal).[149] Worries about this risky patronage soon began to emerge. A January 2013 internal report by BPI, a rival Portuguese Bank, estimated that the Espírito Santo Group had been effectively insolvent since 2011.[150] There can be little doubt that the Banco de Portugal (BdP, the central bank) would have been aware of this, but nothing was done.

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[147] Shareholdings and various other details drawn from BES' 2013 annual reports. Amilcar Pires, a former administrator of BES, identified Kopelipa and Dino as shareholders of Portmill, in declarations to a Portuguese commission of enquiry, December 11, 2014: "Comissão de Inquérito Parlamentar à Gestão do BES e do Grupo Espírito Santo, ao Processo que Conduziu à Aplicação da Medida de Resolução e às suas Consequências, nomeadamente quanto aos Desenvolvimentos e Opções relativos ao GES, ao BES e ao Novo Banco," December 11, 2014, pp. 8, 10, 11. Available at http://app.parlamento.pt/webutils/docs/doc.pdf?path=6148523063446f764c324679626d56304c334e706447567a4c31684a5355786c5a7939445430307651314 24a516b56544c304679635856706 46d39446232317063334e68627939425933526863793942645752707736664 46f32386c4d6a426b5a5355794d45467477363173593246794a5449775457397959576c7a4a54497755476c795a584d734a5449775a586774595752746157357063335279595752766 36955794d4756345a574e3164476c32627955794d4752764a544977516b56544c6e426b5a673d3d&fich=Audi%C3%A7%C3%A3o+de+Am%C3%ADlcar+Morais+Pires%252C+ex-administrador+executivo+do+BES.pdf&Inline=true (assessed July 31, 2020). At the time of writing the Angolan government was just starting to seize their assets: see, e.g., Mendes (2020). The term "presidential triumvirate" may have been coined by Rafael Marques, who used the term in his blogs.

[148] See Comissão Parlamentar de Inquérito à Gestão do Bes e do Ges, Assembleia da República (Portugal's Parliament), Relatório Final, April 28, 2015, Tabela 3.8 p. 83 and p. 86. See also "Entities linked to BES managers got loans from Angola branch -audit," *Reuters*, March 17, 2015. Confidential source G in Lisbon stated that "there is a list of all the people who received all the loans, but this list never appeared," adding that he believed the funds went to members of the "Angolan regime."

[149] *Ibid*. See also "BES: Statement by Carlos Costa on KPMG's appeal to BdP fines was postponed," *Jornal Económico*, September 22, 2020.

[150] See the Portuguese parliamentary Commission's report, pp. 81-92, especially p. 90, and Asalto ao Castelo, Episodio 1, Sic Noticias, March 1, 2017, at about 24.30.

In December 2012, BES CEO Ricardo Salgado met president dos Santos and announced a $500 million capital increase of Angolan money to fund an expansion of bank branches across Angola, raising the number of branches from 40 to 71 by end-2013 (plus one "private and affluent banking" and five "corporate banking" offices). This expansion was aimed partly at beefing up its deposit base, to reduce fragility. At the same time, Salgado said that the Angolan state had astonishingly agreed to guarantee 70 percent of BESA's loan portfolio. There was, as an interviewee in Lisbon described it, a "channel of liquidity" between the BES parent and its Angolan subsidiary.[151]

As investor worries grew about the Portuguese and Luxembourg parent companies, the Angolan subsidiary began to take center stage. The Portuguese newspaper *Expresso* reported in June 2014 that BESA "did not know" the identities of the recipients of some $5.7 billion in loans, or about four-fifths of its entire debt portfolio.[152] In August that year, prompted by concerns of the European Central Bank (ECB), and conscious that a dramatic fall in the oil price would not only turn many of BESA's politically-networked credits sour, but also would make it harder for dos Santos to stand by the Angolan guarantee for those loans, the BdP, Portuguese central bank, stepped in to take over the BES parent company.

This was already a tale of capital flight, with politically networked Angolan interests obtaining credits they never intended to repay and potentially stashing the proceeds in hard currency offshore. Subsequent investigations revealed further complications, and a still more interesting tale began to emerge involving the see-no-evil tax haven of Dubai.

According to an in-depth investigation by Portugal's *SIC Notícias* television station, the Espírito Santo Group in 2007 incorporated a subsidiary, ES Bankers (Dubai) in Dubai.[153] Leaked correspondence between the BdP and the Dubai Financial Services Authority revealed two main things that were happening. First, this entity was serving as a secretive offshore staging point for Angolan private and public money. Second, these and other funds, including money from small depositors in Portugal, were being used to recapitalise other entities in the badly damaged Espírito Santo group.[154]

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[151] Confidential source G: Private sector investigator.
[152] Expresso (2014) and Observador (2014).
[153] The SIC Notîcias investigation is available at https://sicnoticias.pt/programas/assalto-ao-castelo.
[154] See the three-part *SIC Notícias* investigation, "Assalto ao Castelo," by reporter Pedro Coelho, March 2017. It quotes a Bank of Portugal document as saying: "It seems clear that ES Bankers Dubai was used as a conduit entity for Angolan funds to finance the Espírito Santo group, linked to the activities of Banco Espírito Santo in Angola."

So, for instance, SIC Notícias reported that $563 million flowed from the BNA to ES Bankers (Dubai) in 2010, which was then forwarded to an Espírito Santo entity in London, partly to buy the ES Group's debt instruments. Another $750 million of Angolan money was found in the Dubai entity in 2011, of which 61 percent was in the hands of just four Angolan 'politically exposed persons,' including around $284 million reportedly held by Kopelipa. This was then routed overseas, part into buying shares of the Espírito Santo International parent company, and part into 'fiduciary deposits' at ES Group in Panama.[155] As the *SIC Notícias* investigation summarized:

> *Between Luanda and Dubai an air bridge was created where millions of euros of money of doubtful origin circulated. SIC investigations found strong signs of money laundering, as if the BES affiliate in Dubai had transformed itself into a giant mega-laundry for the Angolan regime.*[156]

A second subterfuge in the effort to shore up the group's capital, according to SIC Notícias, involved the bank creating exotic financial instruments that it marketed as high-interest 'saving' products, to hoover up deposits from unsuspecting members of the Portuguese diaspora. In reality, these investors were buying shares in special purpose vehicles (SPVs) — in Jersey ('Top Renda', 'Poupança Plus', and 'Euro Aforro', all managed by Credit Suisse), as well as in the BVI and Cayman Islands, which were then used to capitalize other entities in the Espírito Santo Group. Large numbers of Portuguese investors, including the well-known Portuguese football manager Carlos Queiroz, lost their savings in the debacle.[157]

The Espírito Santo Group was a solid 'establishment' bank in Portugal, but it turned out to have formed the core of an extended transnational financial network that amassed large riches for a few people while harming the state finances of both Angola and Portugal. When BES collapsed and was bailed out in 2014, it turned out that the hole in the Portuguese bank's last financial accounts — 5.3 billion Euros — was roughly the same size as the $5.7 billion guarantee provided by president dos Santos to the group in 2013.

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[155] *Ibid*., and interview with anonymous source in Lisbon. See also *Bank Scandals hit MPLA Hard, Africa Confidential,* March 31st 2017.
[156] See Pedro Coelho, *"*Asalto ao Castelo – Episódio 1," first of three-part investigative series for Portugal's *SIC Notícias* television, aired on March 2017.
[157] From the SIC Notícias report. See also Comissão Parlamentar de Inquérito à Gestão do Bes e Do Ges, Assembleia da República (Portugal's Parliament), Relatório Final, April 28, 2015, p. 73

This again highlights the fact that illicit financial flows out of Africa do not only harm Africans: once again, it inflicts damaging "blowback" into the (mostly western) countries that host these financial institutions. In this case the main losses were to Portuguese (and to a lesser extent Angolan) depositors and taxpayers, to the benefit of well-connected Angolans.

The private gains to Angolans were mainly in the form of loans with inadequate collateral that were not repaid. If some of these loans were made in hard currency in Portugal or offshore, without touching the Angolan payments system, the BNA would not have known about them or recorded them on the balance of payments. Alternatively, the proceeds of loans made through the Angolan payments system could have been transferred abroad through normal channels during periods of free Kwanza convertibility, recorded as normal trade or investment payments. In either case, the lost capital would not be captured in the usual measures of capital flight.

Isabel dos Santos and the Luanda Leaks

A central player in the Angola-Portugal nexus is Isabel dos Santos, the daughter of president José Eduardo dos Santos and reportedly Africa's richest woman.[158] She has portrayed herself as a successful, dynamic and smart dealmaker and entrepreneur, who started out selling eggs at the age of six (Guardian 2020).[159] Her Instagram and Facebook accounts give the impression of a young, dynamic, carefree, glamorous entrepreneur: a woman blazing a trail in a man's world, from Luanda to Lisbon and beyond. Others with less charitable views have seen her as having used her unassailable political position (before her farther relinquished power in September 2017) to obtain strangleholds on parts of the Angolan economy and chokepoints in Angola's position in the global economy and to exploit them for profit.

Isabel began to enter the Angolan public consciousness in 1997 when, at the age of 24, she became a partner in Miami Beach, one of Luanda's best known beachfront restaurants, reportedly with a minimal

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[158] Costa *et al.* (2014, p. 38), estimated that of Isabel's roughly $3 billion fortune at the time of their writing, roughly half was in the form of shares of Portuguese companies. Forbes estimated her wealth at US$ 1.8 billion in June 2020 (down from $3.7 billion in 2014, before the oil price crash and Covid-19) based on assets they could track, but they admitted it could be higher. This would make her Africa's 13th richest individual, and its richest woman. Given that she received an estimated $1.25 billion in dividends alone from her stake in Unitel while a shareholder, however, it may be that her net worth is significantly higher. See also Dolan (2013).
[159] See Guardian Staff, "Isabel dos Santos responds to Luanda Leaks investigation," *The Guardian*, January 23, 2020. https://www.theguardian.com/world/2020/jan/19/isabel-dos-santos-issues-response-luanda-leaks-investigation

investment, helping its then owner who was having difficulties with the health inspectors and tax authorities (Dolan 2013). I first became properly aware of her vaulting aspirations during the war in 1999, when I reported on her diamond interests for the insider newsletter *Africa Confidential* (Shaxson 1999). Subsequent media articles record that she had already set up her first offshore company in the British tax haven of Gibraltar, in 1997 in partnership with her Russian mother Tatiana, an early vehicle for her stakes in Angolan diamonds.[160] She later became a large minority shareholder in Ascorp, the official Angolan state diamond-buying monopoly, and steadily acquired stakes in other parts of the economy: in banking, trucking, telecommunications, energy, retail, construction, media, and more.

A number of investigations over the years, especially by Rafael Marques de Morais, a prominent Angolan journalist and anticorruption campaigner who has been sued and jailed for speaking out against private enrichment of senior figures,[161] and most recently in the Luanda Leaks revelations led by the International Consortium of Investigative Journalists (ICIJ) in January 2020, reveal a rabbit's warren of over 400 companies amassed by Isabel and her husband, Sindika Dokolo.[162]

Her most high-profile asset in Angola was her stake in the highly profitable Angolan telecommunications company Unitel. This firm was set up in 2001 by Isabel dos Santos and partners to compete with the state mobile telecoms firm Movicel. I remember interviewing a manager at a new Unitel office in Huambo province in the early 2000s — at a time when poverty in the city was quite shocking: market traders were selling single bundles of five or ten matches wrapped in thread because people could not afford a whole matchbox — and being astonished at the thousands of dollars he told me were flooding into this office every day. Isabel's access to this license and her political connection, combined with massive pent-up demand, helped Unitel make large profits from the outset, and rapidly acquire a rather dominant position.

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[160] The fact of her involvement in Angolan diamonds is widely reported. On TAIS, see Marques (2012). See also ICIJ (2020). The ICIJ also provides a spreadsheet of Isabel's companies, which says TAIS was founded on March 27, 1997. The spreadsheet was available on February 20, 2020, at
https://docs.google.com/spreadsheets/d/1qZ3vBDZpXhb9ssmGQ72EV03eSruQvp3XWgZc9xEllo0/edit#gid=0

[161] Marques was the dos Santos regime's most prominent domestic critic when I lived in Luanda in the 1990s, and remarkably he kept up the pressure for decades, most recently through his website makaangola.org which has carried a steady stream of detailed investigations into figures close to the dos Santos regime (and indeed to some associated with the subsequent Lourenço regime.

[162] See also Villalobos (2015) and Maximilian Zierer, Steffen Kühne, Pia Dangelmayer and Wolfgang Kerler, "Das System Madeira," *Bayerische Rundfunk* (Bavarian television), February 15, 2017, available at http://web.br.de/madeira/artikel/ (accessed January 3, 2020.)

It became so profitable that the International Consortium of Investigative Journalists reported that Isabel dos Santos:

> *[O]wned 25% of Unitel, the mobile phone company that had turned into a cash machine. From 2006 to 2015, it would pay out more than $5 billion in dividends to shareholders, ICIJ calculated* (Freedberg *et al.* 2020, p. 7).

For much of this period, Unitel had four equal shareholders with 25 percent each: MSTelecom, a subsidiary of Sonangol; PT Ventures, owned by Brazil's Oi, Geni (owned by General Leopoldino do Nascimento "Dino"; and Vidatel, controlled by Isabel dos Santos.[163] If the ICIJ calculation is correct, this suggests that $2.5 billion was paid out to companies controlled by two of the most important figures in the dos Santos constellation: Isabel dos Santos, and General Dino.

Another example of Isabel's ventures involved her role as head of Sonangol in the dying months of the dos Santos presidency. Supposedly her appointment was to bring political clout and a fresh, western business-school perspective into the by then rather sclerotic firm. However, an official at an international oil company was scathing about her role in a September 2017 interview:

> *Isabel was going around in June saying "we want cash, which means accelerate production." The IOCs (international oil companies) were pushing back, saying "you will trash the oilfields." Production is already heading downwards.*[164]

This would be quite consistent with a *fin de régime* attempt by the dos Santos family network to maximize available revenues ahead of President dos Santos' imminent departure, at potentially large cost to future state revenues. If effected, her move to accelerate oilfield output, while not obviously illegal, would have

[163] This shareholding has been widely reported. For example, see Sonangol holds 50% of Unitel's capital, Angola Press (Angop,) January 20, 2020, reporting Sonangol's acquisition of the 25% stake in Unitel held by Brazil's Oi. It was reported in December 2017 that Unitel had stopped paying dividends to shareholders, ostensibly because of the Angolan currency crisis that prevented kwanzas (received for phone services from an estimated 11 million Angolan phone users) being exchanged for dollars, but also, perhaps more importantly, because of the change of government which had meant that the BNA was no longer prioritising Unitel in the 'queue' to be able to exchange Kwanzas for hard currency. See, for instance, ECO News (2017).

[164] Confidential source H: Western oil industry official.

certainly increased the possibilities for abuse. An experienced Angolan oil sector veteran in Luanda added this in September 2017, just before she lost her crown at Sonangol:

> *Isabel doesn't know anything about oil, and she doesn't know anything about management. She is an investor - an investor with easy money.*
>
> *If you want to reform Sonangol, you need both a strategy, and you need good guys inside. Instead she has gone out to Boston Consulting Group and created a very bad atmosphere against the consultants. They parachuted in young Portuguese juniors, marginalising more experienced Angolans, good guys*.[165]

This reinforces one of the most important findings of the Luanda Leaks investigations, about the role of accounting and consultancy firms in the service of elite Angolan strategies. As the *New York Times* has reported, when Boston Consulting and McKinsey and PwC and others signed on to help restructure Sonangol, they agreed to be paid not directly by the government but through a Maltese company, Wise Intelligence Solutions, which was the project manager for the restructuring – and which was owned by Isabel and her husband.[166] In May 2017 Wise was then replaced by a company in Dubai, owned by a friend of Isabel's – and the project fees soared. Just hours after she was fired from Sonangol by the new administration, $38 million reportedly flowed to the Dubai shell company.[167]

If she is indeed a smart and dynamic businesswoman, it may be that her main skills in this respect have been in terms of "managing the consultancies," often from their offices in Lisbon, more than in creating and managing genuine businesses effectively. This idea was reinforced by John Leitão, a Boston Consulting Group (BCG) employee out of Lisbon who was appointed chief executive of Swiss jewelry company De Grisogno, which Isabel's husband Sindika Dokolo owned in a 50:50 partnership with Angolan state diamond company Sodiam (via a loan from Banco BIC, 42.5 percent-owned by Isabel, charging an eye-watering 9 percent interest rate). His and other BCG employees' roles, Leitão said, were

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[165] The official was José de Oliveira, interviewed October 11, 2017, in Luanda.
[166] Forsythe *et al*. (2020).
[167] *Ibid*. Also see Reuters (2018). The *New York Times* story referred to Carlos Saturnino, a senior longstanding Sonangol official, as saying that dos Santos approved $135 million in consulting fees, with most going to the Dubai shell company. She was quoted as saying that these were legitimate fees for a cost-cutting project, charged at "the standard rate" for BCG, McKinsey, PwC and other western firms.

to constitute a "shadow management" at the jeweler, which was a "total mess" when they arrived. The company eventually collapsed (Forsythe *et al*. 2020).

The role of the management consulting and accounting firms – including the Boston Consulting Group, McKinsey, and all of the Big Four accounting firms mentioned in the Luanda Leaks: PwC, KPMG, Deloitte and EY – has several dimensions.

First, consulting and accounting firms, which are generally far less regulated than banks, appear to have played an outsized role in Isabel's business affairs. As the *New York Times* reported:

> *"[Global banks] hear about Isabel and they run like the Devil from the cross," Eduardo Sequeira, head of corporate finance for Fidequity, a Portuguese firm that manages many of Ms. dos Santos's companies, wrote in a 2014 email after the Spanish bank Santander turned down work with her. Consulting companies, far less regulated than banks, readily embraced her business.*[168]

Second, while these western firms are often viewed as technocratic advisors to inexperienced Angolan companies and governments for the benefit of national development, it is more accurate to describe them instead as technocratic advisors to élites, often against the public interest. In the words of Ricardo Soares de Oliveira: "They are there as all-purpose providers of whatever these elites are trying to do . . . they have no moral status – they are what you make of them."[169] Separately, he added: "The Angolan government has tapped into external expertise to advance reconstruction, but on its own terms."[170]

Since the demise of Marxism-Leninism, those terms frequently have involved eschewing advice from some western partners for participatory and inclusive development, in favor of a top-down, elitist development vision typically involving large, expensive construction projects, targeting a small section of the population and providing ample opportunities for personal enrichment, with little attention paid to the fortunes of the rest of the population.[171]

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[168] *Ibid*. Also see Hallman *et al.*(2020).
[169] See Forsythe *et al*. (2020). Also see Hallman *et al*. (2020).
[170] From de Oliveira (2015, p. 74). That book, which pre-dates Luanda Leaks, contains a useful long section (pp. 73-79) on the role of foreign consultants and the 'rampant culture of consultancy,' and a lack of knowledge transfer.
[171] For a discussion of the origins and nature of dominant Angolan national development visions in Angola, see Vines *et al.* (2005), especially Section 3.2 entitled "National Development Visions." My visit to Luanda in 2017 showed me that this

A third aspect of the international consultants is that their provision of technocratic expertise in service of Angolan élites may have sapped, rather than increased, Angola's indigenous technical capacity. As Soares de Oliveira explains:

> *The government's incapacity to achieve its ambitions single-handedly and a desire for overnight results lead it to splurge on all the consultants and subcontractors that oil money can buy. The resulting rampant "culture of consultancy" means that even where there is the illusion of an Angolan role, the actual tasks are being performed by KPMG, Ernst & Young, McKinsey, Deloitte and lesser international providers of myriad services handsomely paid by the Angolans…. Worryingly, the Angolan side of these arrangements seldom seems interested in "concrete, technical learning" or transfer of knowledge. . . For their part, foreigners are in no hurry to making themselves redundant* (Soares de Oliveira 2015, p. 76).

An executive added that this culture "means 'big business and endless business' for him and his competitors" (*ibid.*, p. 76).

Fourth, this appears to have been about more than just servicing an elite-driven and elitist vision of national development. The large accounting firms also provide consulting services, and auditing services, generating major conflicts of interest with their auditing function. Again, Soares de Oliveira is one of very few people to have raised this structural power:

> *[T]he day-in, day-out role of the consultants in the Golden Decade is essential to understand about Angolan governance: they occupy many roles across the spectrum, from public to private, from auditing to domestic policy, to the interface with international players. That last part is crucial: they are a turntable to the outside world.*[172]

This returns us to the concept of market power and an ability to sit astride choke points in the economy, leveraging their extensive knowledge and political connections across the economy, so that knowledge in one sector can be used to generate profits in another.

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basic top-down, elitist vision was still firmly in place, albeit financed with far greater sums than it was in 2005.

[172] Telephone interview with Soares de Oliveira, January 24, 2020.

Isabel dos Santos clearly exemplifies the large grey areas that exist when trying to measure 'illegal capital flight,' or IFFs. It seems likely that "lost capital" through sharp practices and the discreet and not necessarily illegal leveraging of political power is likely to be far greater than measurable capital flight. Banks may have concluded that hers was perfectly 'clean' money to handle. A European businessman said that despite tightening bank regulations and compliance procedures which make it increasingly hard to make payments to politically exposed persons, it might have been easier for Isabel dos Santos. Speaking in 2017, he said:

> *It is easier for her because she has legitimate longstanding businesses alongside her. She's able to push it through: using her political connection to win business alongside a foreign company — and her company will have a longstanding track record. "Did you win the contract because of your political influence, or because of your business?" She'll be able to say it's part of her normal business*.[173]

As an example, it is not immediately clear that there was any impropriety in her acquisition of, say, her stake in Unitel — yet it has been a major route for her to obtain enormous assets overseas. The above-mentioned $2.5 billion in probable Unitel dividends paid to Isabel and General Dino would not have been captured in traditional capital flight methodologies, as they would be recorded in both Angolan and Portuguese data as normal flows of dividends, and in any case, given the circuitous offshore routes through which she was regularly paid, it may be that these would never have touched the Angolan (and perhaps Portuguese) payments systems either. Whether or not there was an illicit element to these payments, many would regard this as 'lost capital' to Angola.

The fact that payments from Sonangol to the consultancy and accounting firms were routed through shell companies in Dubai and Malta were not *necessarily* in themselves illegal either: and in the BoP they would (likely) have been recorded as normal business expenses for Sonangol, and thus would not generate discrepancies in the balance of payments data. So, it is unlikely that this would be measured as capital flight – or even *constitute* capital flight. And yet it would not be hard – especially given the grave questions about whether the consultancy advice was in the service of cleaning up Sonangol or extracting wealth from it – to conclude that all of these fees constitute "lost capital."

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[173] Confidential source A.

9. The Bankers

Private equity firms and asset managers as vehicles for capital flight

In general terms, private equity firms, hedge funds and other asset managers are — or at least should be — notorious for serving as vehicles for capital flight. The core of their business models is to attract what is known in the industry as 'OPM' – Other People's Money – so as to be able to extract large fees for investing and managing that money. The more OPM they can obtain, the more in fees they make. Hence countries such as Angola, which contains many very wealthy people, are targeted by private equity firms, hedge funds and other asset managers as sources of OPM. One important way to attract OPM is by credibly promising attractive investment opportunities and high returns for the outside investors, alongside strong financial secrecy via tax havens or otherwise.

Typically, investor funds flow out of countries like Angola into these investment vehicles in countries like the United States or Britain, via 'blocker' corporations in tax havens (such as the Cayman Islands or Jersey) whose role is to strip out identifying features from the capital passing through, allowing it to enter western economies as confidential capital and enabling the outside investors to hide the sources of their funds.

This has rarely been commented on, but it is known to exist.[174] Interviewees said Angolans were often rather 'unsophisticated' in this respect, and not necessarily motivated by high returns. As a European businessman put it:

> *Angolans are incredibly conservative when it comes to their money overseas. I hear the money that goes into Swiss bank accounts sits in low-interest bearing accounts, the lowest form of return. Once their money is in Switzerland they don't want to lose it. They are making money in their own countries,*

[174] See, for instance Shaxson (2002). This contains a section near the end identifying a number of Latin American wealthy individuals as providers of OPM into early funds launched by Mitt Romney's Bain Capital at inception in 1984. James Henry's book *Blood Bankers* provides numerous examples of this form of capital flight. A notable exception to this relative lack of literature is Henry (2003). On p. xxiv he notes: "The conventional portrait of the global development crisis is an economist's fairy tale. It leaves out all the blood and guts of what really happened – all the payoffs, corrupt privatizations, fraudulent loans, intentionally wasteful projects, black market 'round-trip' transfers, arms deals, insider information, and the behind-the-scenes operation of the global haven banking network that facilitated this behavior."

not looking for this money that they are bringing overseas to necessarily make money. This is rainy day money: stuff that when the chips are down they can go out and they've got it….

I don't hear much of that, of people coming in saying 'I've got a fantastic opportunity for a property fund in Paris.' I don't think that's a big thing.[175]

This isn't just an Angolan or an African phenomenon. A Citibank official in Mexico City told the same thing to financial flows expert James Henry: "The money my clients put offshore is for safe keeping… When they want 200 percent returns, they keep the money here."[176]

Even if 'sophisticated' funds find it hard to get Angolan private individuals interested in handing over their OPM to be invested, they appear to have targeted Angola in another way. One interviewee, a well-connected and well-heeled Angolan with no obvious employment or source of income, told me his ambition was to persuade the authorities to invest state funds overseas as part of a "national development strategy."[177] He showed me a business card from an American investment management firm that specializes in emerging markets and likes to "invest globally across asset classes."

It would not be especially hard for such a firm to create financial incentives, secret or otherwise, for Angolan intermediaries — like my well-connected interviewee — to procure Angolan state funds to invest through them. This particular scheme, at the time of the interview, had not borne fruit, since it hinged, my interviewee said, on getting the approval of new president João Lourenço: something that had not been forthcoming. However, overseas asset managers seem to have had more luck with Angola's 'Fundo Soberano' or Sovereign Wealth Fund, ostensibly a vehicle for investing in global assets as a savings and income-smoothing vehicle for the Angolan people.

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[175] Confidential source A.

[176] James Henry's interview with "Mexican Citibanker" in July 1988, quoted in Tax Justice Network (2012, p. 30).

[177] This character was a friend of an old friend, who took me under his wing a little when visiting Luanda, driving me to various places. He spoke a lot about his recent visits to Dubai, where he had apparently spent several thousand dollars driving racing cars on a racetrack. While he seemed genuinely motivated by a willingness to help Angola, at the same time he appeared to be hoping to profit from being involved in the intervention of a wealthy outside investor. He did not appear, during my discussions with him, to have a good feel for the potential pitfalls (and fees charged to Angola) that may be involved in dealing with sophisticated U.S. investment firm. He did not wish to be quoted.

Angola's sovereign wealth fund

The Sovereign Wealth Fund (SWF) was set up in 2011 with an initial $5 billion grant from the government, and chaired by José Filomeno dos Santos, the son of President dos Santos. During the dos Santos era and for a short period of the Lourenço era, its website said[178] it invested in real estate, treasury bills, equities, derivatives and other financial instruments, mostly via seven private equity funds investing in Angola, Zambia, Kenya, Mauritania, and South Africa.

The SWF had as its main asset manager Quantum Global, an outfit set up in 2007 and run by Jean-Claude Bastos de Morais, a personal friend of José Filomeno dos Santos, and whom Quatum's website described as "a Swiss-African citizen fascinated by the dream of unleashing and developing economic power in Africa."[179] It received funds from private individuals and from the Angolan state. A banker in Luanda said: "Quantum was put there to channel funds out from Angola into Switzerland, from high-end Angolans."[180]

Quantum's website, which was still active as of April 2020, said it focuses on African investments, via two main subsidiaries: Quantum Global Investment Management Ltd. (QGIM,) a portfolio investment management and advisory firm based in Zug, Switzerland, and QG Investments Africa Management Ltd. (QGIAM), a private equity firm based in Mauritius (another tax haven popular with investors in Africa.)[181] It also described a joint venture with the global property firm Jones Long Lasalle and listed real estate investments in expensive parts of London (23 Savile Row in Mayfair), New York (521 Fifth Avenue), Paris (Tour Blanche, La Défense) and Munich (the Atrium.) Quantum and the SWF told the ICIJ that Quantum Global was selected as investment manager for the SWF because of its "exemplary performance" on previous mandates with Angolan authorities, and due to its "expertise investing in the

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[178] Accessed in November 2018. Subsequently, following a re-vamping of the SWF under President Lourenço, the website has been completely changed.

[179] See "DIFF welcomes Quantum Global to sponsor the prestigious Muhr awards competition," http://quantumglobalgroup.com/article/diff-welcomes-quantum-global-sponsor-prestigious-muhr-awards-competition/, December 4, 2017, accessed February 21, 2020.

[180] Confidential source C.

[181] From quatumglobalgroup.com, various pages, accessed February 20, 2020. The website describes several other Quantum subsidiaries: Quantum Global Real Estate in Zug, Quantum Global Private Wealth Ltd. In Lugano, Switzerland; Quantum Global Capital Advisers Ltd. In Baar, Switzerland; Quantum Global Alternative Investments, Ltd., QG Investments Africa Management Ltd. in Mauritius, Quantum Global Hotel Fund.

[African] continent" and in outperforming other fund managers; adding that the friendship between Bastos and José Filomeno had nothing to do with Quantum's selection (Fitzgibbon 2017).

It seems clear that Quantum has been able to extract hefty fees from the underlying OPM, as the ICIJ found:

> *The financial statements of QG Investments Africa Management Ltd., Bastos' Mauritius company, show it received $63.2 million in management fees throughout 2015….*
>
> *The fees seem extraordinarily high," said Andrew Bauer, an economic analyst and sovereign wealth fund expert who reviewed the fee payments* (Fitzgibbon 2017).

The twists and turns of this story snake off in many directions. The BBC reports that Bastos de Morais had been convicted in Switzerland for "qualified cases of misappropriation" (Meisel and Grossman 2017).[182] As the African Network of Centers for Investigative Reporting (ANCIR) described the SWF's *modus operandi:* "Often, complex organizational structures are created where shares are held behind nominees – or false fronts – of other shell companies that are administered by a host of fiduciaries. The more layers the better" (ANCIR 2016).

The ICIJ in November 2017 described how Bastos tried to route some investments through the offices of Appleby, an offshore law firm, first in Jersey, then tried again in the Isle of Man, but was unable to do so because of compliance concerns. Reportedly, the Appleby offices in Mauritius finally accepted his investments (Fitzgibbon 2017).[183]

A full exploration of Quantum-related financial flows is beyond the scope of the present study, but several points can be made. First, the large management fees due to Bastos, reportedly at 2-2.5% of the value of the funds each year, worth tens of millions of dollars annually, are not too far above private equity or hedge fund standards; this may be an indictment of those sectors but not an indication of illegality.[184]

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[182] See also Brönnimann (2017).
[183] See also Sharife (2016).
[184] https://interaktiv.tagesanzeiger.ch/2017/paradise-papers/angola-bastos/?openincontroller

Second, the SWF is likely to have shifted money, public and private, out of Angola through formal channels sanctioned by the BNA, in which the outflows are likely to be recorded in the BoP and therefore not captured in the standard residual measures of capital flight. The shenanigans described by the ICIJ – often probably impenetrable to the Angolan government, given the layers of shell companies and tax havens – appear to have happened after the money had already been 'formally externalized'. Transfers to private Angolan actors from this external pot of Angolan money would not flow across Angolan borders, and would not be picked up in the BoP. While these outflows to private players may entail losses to the SWF, these could easily be attributed to poor investment performance.

The Angolan banking system

Alongside the myriad routes and vehicles for capital to leave Angola in the hands of wealthy figures, there is another arena that has played a central role in the enrichment process — and in getting the money out: the private banking system.

The Angolan banking system has been of central importance in Angola's elite-driven model of national development since the end of the war. Until the early 1990s Angolan banking was essentially state-owned. Portuguese banks then slowly began to establish a presence, with Banco do Fomento from 1993, followed by the rise of Angolan private banks, which began in 1997 with the creation of the Banco Africano de Investimentos (BAI, still Angola's biggest private bank, with Sonangol as its largest shareholder.) All Angola's private banks were part-owned by powerful Angolan figures closely connected to the MPLA and to President dos Santos at the presidency, notably Isabel dos Santos, and to a lesser extent her brother José Filomeno dos Santos, who also heads Angola's Sovereign Wealth Fund.[185] Isabel dos Santos has held stakes in Angola's four biggest private banks.[186]

Alongside these 'connected' shareholdings, the ruling MPLA's own commercial conglomarate GEFI (Sociedade de Gestão e Participações Financeiras) also has a stake in some banks, such as Banco Sol. Today, some 30 Angolan private banks compete with three state-owned commercial banks, notably the

[185] For instance, ion May 2017 Danilo, the youngest son of Ana Paula dos Santos and President dos Santos, got a banking licence for his 25th birthday.

[186] These are Banco Económico (via Sonangol and Geni); Banco Espírito Santo, Banco do Fomento Angola; Banco BIC; Banco Africano de Investimentos (BAI, via Sonangol).
https://docs.google.com/spreadsheets/d/1qZ3vBDZpXhb9ssmGQ72EV03eSruQvp3XWgZc9xEllo0/edit#gid=0.

Banco de Poupança e Crédito (BPC), and with five foreign majority-owned but Angolan-chartered banks, and others with minority foreign stakes, especially by Portuguese banks. Ennes Ferreira and Soares de Oliveira summarized:

> *The resulting banking sector is a hybrid that is neither public nor private, and is best conceived of as "state-, party- and elite-owned in which public efforts create the conditions for elite private accumulation….*
>
> *Everyone of consequence has a stake but the former president's children are particularly well represented* (Ferreira and Soares de Oliveira 2019, pp. 9-10).

The banking sector enjoyed spectacular growth during the golden decade: rising from under $3 billion in assets in 2003 to $79 billion ten years later (*ibid*.). Profitability, especially at the start of the decade, was often stunning, producing *average* annual returns on equity of 43 percent in 2009, falling to a still-high 25 percent in 2015.[187]

Yet despite this performance, the banking sector has provided relatively little credit to the productive sectors of the economy, and what been provided has been very geographically skewed: about 90 percent of all credit and deposits in Angola were directed to Luanda.[188] The IMF stated in 2015: "[B]anks do not seem to be able to provide the necessary funding to the non-oil sectors to flourish" (IMF 2015, p. 32).

The World Bank's "Ease of Doing Business" Survey in 2017 ranked Angola in the 181st position out of 190 countries in terms of "getting credit." An Angolan banker put the banks' perspective on why this is: that it is risky to lend to the non-oil sector:

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[187] The Return on Equity figure is the author's calculation for the top 10 Angolan banks by deposits (making up 95% of all deposits) from Deloitte (2016, Figure 20, p. 76). BPC was excluded since it is a state-owned bank. Separate calculations by Ferreira and de Oliveira (2019, p. 14) produced an estimated 42.5 percent Returns on Average Equity in 2005 (with Banco Espírito Santo earning a hefty 88.7 percent ROAE that year) falling to a still-hefty 15.0 percent in 2015.

[188] For details, see Ferreira and de Oliveira (2019). They note that the oil-fuelled growth of the Angolan banking sector was elite-controlled, with benefits channelled systematically to insiders, state and party tools placed at the service of major shareholders. They also found few interconnections to other African countries: pan-African banks generally are not represented in Angola, an exception being South Africa's Standard Bank which has struggled to gain market share.

> *Banks are taking already too much risk, when you put this into context of the legal system . . . the capacity to go to court to enforce a guarantee, this is really a problem here. . . Debt guarantees are mostly very fragile, with collateral, there are still problems to register land, and to own property.*[189]

However, Rosado provided a different perspective: "The banks are a 'vergonha' [an embarrassment]. They don't lend money to anyone. And yet the banks' profits are increasing 40, 50 percent a year."[190]

This banking sector has, predictably, been in the service of elites via two main avenues for enrichment: first, by making Angolan banks and their shareholders rich, and second, when the banking system helps and enables other Angolan élites to get rich (such as through providing international banking and 'wealth management' services to transfer and keep their riches overseas).

How Angolan bankers get rich

A foray around any of Luanda's poorer suburbs, and indeed in the Angolan provinces, shows a proliferation of private Angolan bank branches, providing dramatic contrasts of modernity and cleanliness amid often brutal chaos, dust and poverty. The IMF estimated in 2015 that Angola had nearly twice as many bank branches per person as in comparable African countries (IMF 2015, p. 37). On the surface, this would seem to contradict the finding of the section above, which describes a banking system that is overwhelmingly at the service of Angola's élites, with few linkages to the rest of the economy.

In fact, however, there is no contradiction here. The exceptionally high profitability of the Angolan banking system, and thus the proliferation of bank branches, has generally come not from lending to the oil industry nor from conventional banking activities like lending to small or medium enterprises or agriculture or industry. It has instead come largely from hoovering up deposits and paying relatively low rates of interest on them, then investing money with the state, on highly favorable terms.[191]

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[189] Confidential source I: Angolan banker #2.
[190] My interview with Rosado, Luanda, October 9, 2017.
[191] A simple average of the top eight private banks' holdings of securities was 18 percent higher than their portfolio of credits to the economy, which is usually the largest portion of a bank's portfolio. For the two state banks BCI and BPC, the value of their securities portfolios were worth 28 percent and 8 percent of their credits, respectively. Author's calculations, Deloitte (2016, p. 82, "Banks balance sheets 2015").

On this evidence, BAI and BFA, for instance, made eight and ten times more income from financial instruments and foreign exchange dealing respectively than they did providing credit to the economy. Even state-controlled BPC bank, which is more explicitly in the service of the wider economy, made five times as much income from financial instruments as from financing real economic activity. In the words of Francisco Paulo, an economist at the Catholic University's well-regarded Centro de Estudos e Investigação Científica (CEIC):

> *"Where do bank profits come from? Their business is to buy government bonds. They are not giving credit to the economy. Enterprises are suffering. Why? Just see who are the shareholders of the banks. They are Politically Exposed Persons – the PEPs."*[192]

What is more, most of those financial services and lending that did go to the real economy are provided primarily to large corporates, often with some degree of linkage to the oil sector.[193] In 2015 agriculture, the mainstay of most Angolans' livelihoods outside the urban centres, accounted for only five percent of overall bank credit to the economy — and *nearly all* of that was granted to large agro-industrial concerns.[194]

Another surprising fact is that profitability *increased* for many banks amid falling oil prices: from 2014 to 2015, while oil prices nearly halved from $96/barrel to around $50/barrel, Banco BIC reported a 35% increase in profits; Banco Sol reported a 58% increase, while the smaller Banco Keve reported 170%, on deposits growth of 12 percent.[195] The spread between bank loan rates and deposit rates averaged about 16 percent from 2014-2017.[196] The businessman Arnaldo Lago de Carvalho added: "How can you explain that the banks make more money in 2016, with less volume, in a crisis? They increased their profits, and all of us, industrial companies, service companies: we are losing money."[197]

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[192] Interview with Paulo, Luanda, October 6, 2017.
[193] A foreign exchange law passed in 2012, mandating Sonangol and foreign oil firms must process all payments out of Angolan bank accounts, sharply boosted bank profits too.
[194] The five percent figure is from Deloitte (2016, p. 63), while the estimate of most credit going to agro-industrial concerns comes from banking sources in Angola.
[195] The Banco BIC statistic is from an interview with BIC's Fernando Teles, Deloitte (2016, p. 12), interview with Banco Sol's Coutinho Nobre Miguel (p. 40), and the interview with Banco Keve's Arlindo das Chagas Rangel (p. 30).
[196] The 17 percent is from IMF (2018, p. 37).
[197] My interview with Carvalho, Luanda, October 11, 2017.

This paradoxical *increase* of rent-seeking amid falling oil prices is not uncommon in Angolan history, and it testifies to the political power of élites in protecting and even enhancing their powers even while things fall apart around them.[198]

The more powerful you are, it seems, the more profits you can make.

So, to summarize, the most profitable game - *from the perspective of the owners of banks* — has been arbitrage, in two steps. First, by hoovering up domestic deposits — hence the proliferation of bank branches — nearly 80 percent of Angolan bank funding came from domestic deposits, (instead of interbank or foreign funding, far higher than in comparable countries (IMF 2015, p. 39). Next, investing those funds not in the real economy but in government Kwanza-denominated and inflation-protection securities paying high interest rates, often well above 10 percent in real terms.[199] Profitability declined somewhat during the golden decade due to increasing competition, lower government interest rates and higher costs due to opening so many branches - but it remained high, through the dos Santos years. Oil provided the regime a "remarkable degree of Angolan autonomy in shaping the banking sector," (IMF 2015, p. 3), allowing the government to ignore pressure from the IMF and others for Washington Consensus-type reforms.

How bankers make non-bankers rich

From the perspective of wider Angolan élites, the banking sector has played a complementary role: most importantly, to provide loans to powerful people at advantageous rates without appropriate risk models or governance criteria being applied, which are often guaranteed by the oil-rich government, and which may never be repaid. The Banco Espirito Santo story, described above, is one clear example.

Sometimes, this was a case of big bets going bad. Many big loans for private projects — notably commercial real estate projects during the 12-year "golden decade" — depended on oil prices staying

[198] For *Game of Thrones* fans, this is reminiscent of Littlefinger's response to Lord Varys' worries about the "gaping pit" that chaos can bring to human affairs: "Chaos isn't a pit. Chaos is a ladder."

[199] The IMF (2015) estimated that nearly half of Angolan banks' total domestic assets were government securities and deposits at the BNA — many dollar-indexed securities which they purchased in expectation of dollar appreciation against the Kwanza (p. 36) See IMF (2015, p. 34). The same report estimated on p. 38 that the overall average 'spread' between deposit rates and lending rates hit 13 percent in 2013, with the result that returns on equity ranged between 15 and 42 percent from 2009 to 2014 (though declining over that period).

high. When prices crashed in 2014, these projects became unviable and construction simply stopped, or hotels fell empty, and the loans — especially those dollar-denominated ones —were never repaid.[200] A banker in Luanda added this perspective in September 2017, highlighting the ideological self-justifications:

> *These people who got the money from BPC to finance their project do not even in their wildest dreams think about returning the money. They are doing a service for the country, they are industrialising the country, they are providing jobs, industry, diversification, sacrificing themselves by building these projects. Obviously, with government money.*[201]

However, some may have borrowed money with no intention of ever building anything, let alone repaying. In July 2017 a list began circulating in Angolan internet circles called "BPC Leaks," concerning the state-owned bank Banco de Poupança e Crédito (BPC). This was a list — which in some versions was headed "BPC - Banco de Pilhagem e Canalhices" (Bank of pillage and robbery) — containing the names of a number of companies, some more reputable than others, which had received credits from the BPC, often in hundreds of millions of dollars.[202] The list was widely discussed during my visit — the opposition party CASA CE posted part of it up on its Facebook page — and some bankers and other knowledgeable sources believed it was authentic (but thought there was probably some double-counting involved). BPC did not at the time denounce the list as false, either but instead opened an inquiry to find out who leaked it.

In any case, non-performing loans in the Angolan banking system rose from 2.4% of loans in 2011 to 18 percent by 2014, the last date for which data was available, and were likely to have since risen substantially since, depending on the extent to which banks have been able to avoid bringing the damage associated with the oil price fall onto their formal balance sheets.[203]

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[200] In 2015 the IMF estimated that 30 percent of Angolan domestic banks' loans were dollar-denominated IMF (2015, p. 35).
[201] Confidential source C.
[202] At the time of writing, in March 2020, the list was available at https://www.facebook.com/fofocasdabanda.net/posts/2489283517992852.
[203] IMF (2015, p. 42). The rate rose most sharply in 2014-15, largely, the IMF said, due to the restructuring of the BESA loan portfolio.

As a reminder, this remarkable largesse to the elites has been accompanied by a comparable neglect of smaller businesses outside the oil sector. In the words of Ennes Ferreira and Soares de Oliveira:

> *The vast majority of individuals and small and medium enterprises are unable to access formal credit. Long term lending (in fact most lending, even short term) is given out to the elite. As a senior BNA figure remarked in 2009, 'about 85 percent of Angolan credit goes to two hundred or so clients'* (Ferreira and Soares de Oliveira 2019, pp. 11-14).

The super-profits of Angolan banks are not, per se, directly an issue of capital flight or IFFs, not least because most of the practices described above have not involved illegal activity. However, given that many of these banks have foreign shareholders, and especially during times when it has been easier for Angolan (and foreign) shareholders to transfer dividends abroad into foreign accounts, this clearly constitutes a case where the Angolan people have been deprived of wealth (via effective government subsidies to the Angolan banking system, which might otherwise have been spent on health clinics, for example) and significant sums of this 'fortunate' money has been transferred overseas, often through normal channels.

Transfers of bank shareholder dividends overseas would be carried out through normal banking channels and at least would be fully recorded as a normal transfer, so this kind of 'leakage' would not show up in traditional capital flight studies, unless sent overseas secretly through classic capital flight mechanisms such as trade invoicing.

However, take the example of an Angolan bank lending to a favored client, ostensibly to build a chain of hotels in Angola. These loans may involve multiple large payments to foreign suppliers for equipment and services and so on, which may open the possibility of significant trade misinvoicing.

International wealth management – and a changing environment

Alongside outflows of capital directly related to business operations, other channels exist for private individuals to amass private wealth overseas.

During the early years of the golden decade, it was not hard for Angolan actors to find foreign counterparts who would hide their winnings overseas. This has become somewhat more difficult as a result of a general tightening-up of compliance at western banks following the global financial crisis, and amid high-profile western campaigns to tackle money laundering and capital flight, not only from lower-income countries like Angola but also to help rich countries tax the assets of their own wealthy individuals.

Angola was especially hard hit by these changes in the international banking system, with its rock-bottom international reputation for corruption and money-laundering, which caused most international banking institutions active in Angola to terminate correspondent banking relationships with the country from late 2015. The last bank providing U.S. dollar clearing services for Angola was Deutsche Bank, which left in November 2016. International banking relationships have largely been restricted afterwards to Portuguese and South African banks, handling transactions in Euros, and then mostly only for the largest clients like Sonangol.

In terms of transparency and international best practice, Angola's banking system has steadily moved towards international best practices (from an exceptionally low base,) but for particular reasons: most importantly, to try and secure Angola's (and the Angolan élites') ability to access the international payments system, which had been significantly blocked by the loss of most dollar clearing and correspondent banking relationships. However, much of the improvement involved what has been called "mock compliance," where international standards are introduced onto the books but not implemented or enforced seriously (Engebretsen and Soares de Oliveira 2020).

This apparent improvement, however, does not seem to have significantly changed the underlying patterns of accumulation which have allowed a small number of Angolans to become very rich. Demand for services to get hard currency transferred overseas remained as strong as ever.

One key vehicle for this concerns 'wealth management' services provided by global banks, family offices, law and accounting firms, wealth management offices, and so on. This industry provides two main services: a) getting the money out of Angola, and b) getting the money into foreign bank accounts or assets: what in some cases would be money laundering.

It is necessary here to stress again that capital flight is not just a question of corrupt officials in poor countries sending looted money offshore to tax havens, which passively receive it: it involves an industry of bankers and other 'enablers', often descending on countries, rich and poor, to actively and sometimes aggressively recruit wealthy clients. Given the increasing tightening up of international banking regulation and compliance, a European businessman in Angola explained in 2017, the patterns are changing. It is worth quoting him at some length:

> *I think it would be very unusual if they are doing this with big money-centre bank with household names. Historically HSBC, Citibank, Standard Chartered, Barclays were there, Deutsche Bank, all the Spanish banks, and Commerzbank. But those banks, I think, are so process-driven now and so compliance-driven that I'd be very surprised if they are assisting in this. I think they've pretty much shut anyone down who has anything to do with Angola. So, you are automatically dealing with smaller banks.*
>
> *I think there's been a subtle change in Angola. It used to be that there were Swiss bankers, wealth bankers, private bankers: a lot travelling in and out of Angola and marketing for business. Ten years ago, Angola was awash with them. I would say there are a lot less now than then. My understanding is that a lot of banks have said 'we won't have anything to do with Angola. You, as the Angolan client, have to go to them.*[204]

He described one Swiss banker he knew whose task was "to map the world from a regulatory compliance perspective, to say what is legal and illegal in the local country's laws" (*ibid*.)

> *In the past, the Swiss said 'these are my laws, I'm travelling to Angola and I'm trying to recruit business into Switzerland. In the old days they'd say as long as they were not breaking a law in Switzerland, they could do what they wanted. A few years ago, compliance became stricter. Some banks have said that it is not really legal to be visiting Angola and marketing. Others say it's still OK.*

[204] Confidential source A.

[A particular Swiss banker he described as an example] will not bank anybody who is a PEP [Politically Exposed Person]. But PEP is not a singular definition: each bank has its own definition and decides what level of PEP you are. If you're a small PEP with big business interests you might be able to argue to be a client. If you are a big PEP and you've just opened a company when you're Minister of Finance, the chances are you're not going to be able to open an account (*ibid.)*

Yet whereas Switzerland has been significantly more open and transparent in its dealings with *western* countries, particularly since the U.S. began cracking on Swiss private banking and the European Union started piling on some pressure since the global financial crisis, the tightening has been less impressive vis-à-vis less powerful countries:

Those old-school Swiss ways of banking still work for Africa. Tax avoidance, secrecy etc. - whereas for western countries this doesn't really work, they totally work for Africa still….

You'd get wealthy or connected people in the country to become referral agents and they would refer you to their friends. The classic idea of the cocktail banker. So, there could be an existing client – the question would be, how to network among the wealthy? There's a definitely a financial incentive: money is paid to make introductions. They all work like that….
It's extremely low profile. You're not going to know this is happening. There's maybe one guy and his boss, they fly in, have meetings, it's deliberate and has to be very opaque. It has to be. This is not a showy business, it's the exact opposite (*ibid.*)

He described another Swiss banker he knew: "He still comes – he is literally trying to find individuals and companies to open accounts with him in Switzerland. How they get the money there is their problem. He is creating an environment to receive money" (*ibid*.)

Alongside the question of Angolans getting their *individual* wealth out of Angola and into a tax haven account, sits the closely related question of how *corporate* wealth ultimately belonging to a PEP is externalized. The same businessman continued:

In the 2000s it was standard for offshore payments to be made [to Angolan sleeping partners]. Ten years ago, nobody would have raised eyebrows. Everyone was making a lot of money on that basis.

That is getting increasingly hard to do. Now multinational companies are finding it much harder to pay down payments to accounts in the Caribbean etc. - for two reasons. First, international companies themselves, if they are from developed countries, are much stricter on compliance. Sending money to a local partner in a foreign jurisdiction is not seen as acceptable. It doesn't mean they don't find a way of doing it - but it's much harder. You have to go through a few more hoops to make it appear legal. The other side is that the banks that process these transactions are also asking questions.

[Yet] it's still pretty easy to get it set up.

If you're an Angolan businesswoman, say, you need to set up a company somewhere offshore, with zero tax. It could be the BVI, Seychelles, the Guernseys etc. There are lots of them. It is super easy, incredibly easy – you saw that with the Panama Papers and the Paradise Papers. There's a whole industry that helps you set up a company, which doesn't cost much. You just need to know the beneficial owner, and I imagine in a lot of cases people lie.

Setting up a bank account is less easy, but still it is on the scale of pretty easy. So far, you've done nothing wrong, you have a vaguely plausible reason about why you need it. Often the person who's helped you set up company will introduce you to banks. You need to nurture a relationship with a bank, you need to work on that. It will take you a while to set that up. You will have to go through a process and be serious about it and be consistent in the truths and the lies that you tell. Whoever fronts it for [a PEP] as the beneficial owner needs to appear to the bank. So, you need to have huge trust between her and the "official" beneficial owners.

So, Forbes can calculate that Isabel is worth X billion. But what they can't calculate is all the stuff that she isn't officially the beneficial owner of.

Once the bank account is open, it's going to be easier. . . you've passed through that big hurdle (*ibid*.)

The businessman's comments highlight, once again, the willing complicity of the international banking system in facilitating capital flight. It also highlights another feature of the international banking system, which is somewhat similar to Angola's. The more powerful and wealthier the player, the easier it can be to tick the compliance boxes at international banks, not just because it is possible to hide questionable funds inside legitimate business funds, but also because of networks of relationships and introductions offshore which in some cases can make compliance requirements fall away.

Angolans' favorite tax havens

It has not been possible to do a deep examination of Angolans' 'favorite' tax havens. However, a few places' names cropped up repeatedly in research.

On the basis of this research, the most significant is Dubai -- which on the basis of many repeated stories and anecdotes as a tax haven researcher far beyond Angola, I would describe as arguably the world's most unregulated and crime-friendly large tax haven[205]. As a Swiss-based tax adviser told me in 2016:

> *All the tax havens and the advisers are busy trying to find ways around the CRS [the Common Reporting Standard, a global transparency scheme led by the OECD.] In Dubai it is more like 'What is this CRS thing? How do you spell it?*[206]

The same European businessman added that while Switzerland was extremely significant for Angolans as a tax haven:

> *The other place is Dubai. I think a lot is going into Dubai. My sense is it's become a real centre for Angolans trying to move money. I hear it a lot. All those banks from Dubai are coming in and out. You see them and hear about them. Banks you've never heard of are suddenly active and doing business. I think a lot of Angolans have opened accounts in Dubai, are still able to open accounts there.*[207]

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[205] Evidence of this is widespread. For a colorful treatment of the problem, Glenny (2008) is as good a place to start, describing Dubai's role as an operational base or platform for several global mafia organizations, with almost no questions asked.
[206] A South African financial adviser based in Zurich, whom I have known for many years.
[207] Confidential source A.

Other commonly mentioned tax havens as Angolan favorites are Panama (especially for shell companies and trusts), Mauritius (more often for corporate vehicles), Malta (whose main marketing angle is its membership of the European Union since 2004, allowing it to combine low taxes with the ability to move capital freely within the Eurozone;) Singapore (for trade in Asia in particular); the British Virgin Islands (for shell companies, not bank accounts), and Madeira (a minor tax haven, which has the advantage of being Portuguese-speaking.) Jersey and the Isle of Man were occasionally mentioned. [208]

One Angolan businessman said that Singapore, another long-time favorite with Angolan élites, was being displaced by China itself as a destination for laundered funds.

What is more, while Portugal is not a widely recognized tax haven, it is in the game of selling passports to wealthy people, enabling them to escape international reporting requirements, and as the Banco Espírito Santo section shows, the Portuguese regulators have at times been exceptionally lax in policing their own laws. Parts of its banking system are so deeply connected with Angola that Portuguese banks have been especially willing to handle Angolan money: as a European businessman put it, "you'll have a whole lot of people who will be willing to help you without you having to go through [an] English speaking bank."

There was also this comment:

> *A lot of Angolans have Portuguese passports, so a lot of their bank accounts in Portugal won't come up as Angolan. They will be registered in the bank as being Portuguese, non-resident. They won't pay taxes in Portugal, and for all intents and purposes are Angolans. They won't even show up on the statistics.*[209]

Beyond the reassuring and familiar Portuguese-speaking world, which includes Brazil, there were other places welcoming to Angolan money:

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[208] Most of the interviewees highlighted Dubai as a prime location for Angolan-owned assets; the one who consented to be named in this respect was Ana Gomes, a vocal Member of the European Parliament who regularly criticized the dos Santos era leadership. She (and others) also identified Malta as a key Angolan-favored tax haven for holding assets. All highlighted Portugal, however, as the most important place for the ultimate location of many Angolan assets. From author's interview with Gomes, June 26, 2017. This pattern was subsequently confirmed in more detail by the Luanda Leaks scandal.
[209] Confidential source A.

> *Then look at the top set – the billionaires. They will definitely have real estate in London. Isabel is the centre of that: she has big investments in London property. It's a safe easy place to park your money. You've done the placements in a Swiss bank account, you have your second home in Portugal. Now you're looking at an investment, you've got a lot of money, where do I go next? London would be one of those places.*[210]

The Luanda Leaks revelations of January 2020 discussed above, provide an interesting snapshot of the use of tax havens, with Isabel dos Santos and her husband Sindika Dokolo shown to own more than 400 companies. Fewer than a quarter were Angolan: the biggest number, nearly a third of them all, were in Portugal, and 297 of them, over two thirds, were in Lusophone states including Angola and Portugal. A total of 108 companies, around a quarter of the total, were registered in recognized tax havens, indicated in bold in Table 12.[211]

On the scale of secrecy, these tax havens mostly lie at the less secretive end of the spectrum.[212] However, it should be stressed that these are Isabel dos Santos' choices: other powerful Angolans, as discussed in the Puma section above, seem to have preferred far more secretive jurisdictions.

It should also be noted that while tax havens have clearly helped many powerful people effectively loot Angola, legally or not, and stash their winnings in private accounts and investments offshore, there have been more legitimate reasons if not for using tax havens, at least for sending money overseas. Often, this has been for reasonable fears of the safety of Angolan banks, fears of devaluation, or fears of not being able to get the money out in future. A businessman involved in an Angolan oil service firm noted provided another related justification:

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[210] *Ibid*. For an investigation into the willingness of London real-estate players to receive dirty money, see the documentary "From Russia with Cash,*" Channel 4,* July 8, 2015. Available at https://www.dailymotion.com/video/x3ho0n1 (accessed August 5, 2020).

[211] "Tax Haven" is a flexible term: I have highlighted jurisdictions that have high secrecy scores in the Financial Secrecy Index, or which feature highly on the Corporate Tax Haven Index, and which are also (more subjectively) known as tax havens. Both indices are produced by the Tax Justice Network.

[212] According to a Brookings study, "Jurisdictions that score high on FATF effectiveness were *more*, not less, likely to host companies linked to dos Santos." (it did not examine Puma, so comparisons are far from exact.) See Collin (2020).

Table 12: Use of tax havens by Isabel dos Santos and her husband, Sindika Dokolo

Jurisdiction	Number of companies
Portugal	137
Angola	99
Netherlands	**32**
Spain	18
Malta	**14**
Mozambique	14
Madeira	**13**
British Virgin Islands	**8**
United Arab Emirates (mostly Dubai, also Ras al Khaimah, Abu Dhabi)	**10**
Cape Verde	8
Mauritius	**8**
Brazil	7
Switzerland	**5**
Luxembourg	**4**
Hong Kong	**4**
Azores	4
Guinea-Bissau	4

Note: Bold fonts indicate tax havens. Other jurisdictions with three or fewer companies are: **Belize, Cyprus,** Italy, São Tomé, Namibia, Thailand, **United Kingdom, United States, Gibraltar, Isle of Man,** France, Japan, Algeria, South Africa, Czech Republic, Romania, Austria, Chile, Argentina, India, Morocco, Singapore, **Liechtenstein, Ireland**, and Gambia.

Source: The ICIJ published a full list, available at https://docs.google.com/spreadsheets/d/1qZ3vBDZpXhb9ssmGQ72EV03eSruQvp3XWgZc9xEllo0/edit#gid=0 (accessed February 19, 2020).

> *We are forced to do that if you want to survive. If you have a local company, you have to create your own offshore company, otherwise you cannot survive, you have no access to dollars. So, I split my contract in two: I make a consortium arrangement, then put in two invoices, one for local and one for foreign. They will pay one share to my partner outside, then they will pay my local costs*.[213]

[213] My interview with Arnaldo Lago de Carvalho, October 11, 2017.

A foreign exchange law from 2012 requires oil companies to route payments related to their Angolan oil operations through local banks, including payments to foreign suppliers.[214] This boosted Angolan bank profits, but companies have found workarounds to avoid the most onerous aspects.[215]

Real estate swaps

A foreign businessman active in the Angolan real estate sector described another mechanism to get money out of the country, illegally, involving what he called a 'swap'. This became popular following the 2014 oil price crash and consequent difficulties in getting foreign exchange out of the country, he said. In this case, an Angolan would transfer ownership in an apartment in Luanda to a foreign third party in an exchange for a payment in foreign exchange into a foreign bank account (or the purchase of a foreign apartment). This, he said, helped explain why the Kwanza prices of high-end real estate in Luanda had not fallen as far as might be expected after the oil price crash: people had been buying up properties with Kwanzas, to obtain them for these swaps. The businessman was reluctant to offer further details, but added that the practice was also going on with respect to cars and other smaller-scale items. Economist Carlos Rosado added that the thirst for foreign exchange in overseas accounts was so acute that for many players "the price is secondary."[216]

Dollar payments (or transfers of title deeds to apartments) in these swap arrangements would originate offshore and end offshore, while the counterpart Kwanza payments would originate in Angola and end in Angola. Neither inflows nor outflows of foreign exchange would show up in the nation's balance of payments accounts, so once again the attendant capital flight would not be captured in conventional measures.

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[214] Previously they only had to route payments to Angolan-resident companies through the Angolan banking system: they were allowed to make payments to non-resident companies, such as oil services firms, offshore.

[215] As one analysis of the foreign exchange law puts it, ""Consortium contracts" between international and Angolan-based service providers and "tripartite agreements" through commercial banks are mechanisms that can provide oil operators with some flexibility in foreign exchange payment but require the National Concessionaire, Angolan Petroleum, Gas and Biofuels Agency (ANPG) and Central Bank approvals." See *Angola – Oil and Gas*, overview summary of the Angolan oil industry, US International Trade Administration (export.gov,) August 22, 2019.

[216] Interview with Rosado, October 9, 2017.

10. Conclusions: Where Angola's Money Went

From the end of the civil war in 2002 until the oil price crash of 2014, Angola exported some $530 billion dollars' worth of oil. It also took on roughly $48 billion of additional external debt, for a total inflow of nearly $580 billion, equivalent to around U.S.$ 27,000 per inhabitant. Yet for the large majority of Angola's population, mostly rural dwellers and some urban dwellers effectively excluded from the oil economy, the benefits during this 12-year long "golden decade" have been less obvious. Now, as the oil starts to run out, Angola faces a major transition. The biggest benefit to most Angolans since 2002 has arguably been the end of the civil war, allowing greater mobility (helped by some infrastructural reconstruction) combined with some global technological changes (such as mobile telephony and solar power) –though even then, control by powerful players such as Isabel dos Santos has undoubtedly raised prices for all.

A big reason for Angola's effective failure to grasp the opportunity for development during the golden decade is that a big chunk of the oil money has disappeared into private hands overseas. Very little seems to be coming back.[217] Various efforts have been made to measure this phenomenon, for a range of countries and for regions like sub-Saharan Africa. These are usually measured in terms of 'capital flight,' or a broader phenomenon called 'illicit financial flows (IFFs)'. This paper's examination of these complex, constantly shifting phenomena leads to a number of important conclusions.

Conclusion 1: Capital flight and IFFs are part of a bigger phenomenon of 'lost capital'

This study has shown that traditional measures of capital flight do not, and in many cases cannot, measure many instances of capital flight. Even then, capital flight is a subset of a bigger phenomenon: "lost capital." Many of the outflows of Angolan wealth explored in this study happened through methods that any reasonable observer would describe as lying on a spectrum between 'unfairly obtained' and 'criminally looted,' yet in many cases not demonstrably *illegal* or *illicit* – though there is some

[217] Anecdotally, workers' remittances are small. As Banker C in Luanda said: "Through the banks .. . . you don't see much coming from overseas. Because it also has to do with the way Angolans migrate: first, the father goes, then he works for six months, then the family goes to meet him. And since 2005/6, lots came back to Angola because of the economic boom. . . there is lots more in the other direction: Portuguese workers and so on, sending money home."

uncertainty as to how to define these phenomena.[218] In addition to this, many activities probably *do* constitute illicit behavior, yet traditional methods for measuring capital flight or IFFs cannot capture them.

Capital flight can occur for other reasons, too, including tax evasion, a desire to obtain hard currency for payments without getting tangled up in exchange controls, and for fear of future Kwanza devaluation.

But the *economic* (and *political*) phenomenon of looting by élites and stashing wealth offshore may well be far deeper and larger than the published data would suggest. It also raises methodological and philosophical questions about how we should define or even think about capital flight or illicit financial flows. The gaps in the data are for three main reasons.

First, a significant portion of capital flight is traditionally captured by looking for misinvoicing: mismatches between (in this case Angolan) bilateral trade data, and the bilateral data of its trade partners. So, if, for instance, the Netherlands reports $200 million of goods exports to Angola in one year, but Angola reports $250 million worth of imports from the Netherlands that year, then (leaving out other factors like transport costs) it suggests that a $50 million excess was paid to foreign suppliers over and above the genuine cost of imports from the Netherlands. That $50 million in 'import over-invoicing' may well end up in personal bank accounts as Angolan capital flight.

In Angola's case, these channels of capital often cannot be measured for Angola because Angola's bilateral import data has not been generated locally through monitoring imports, but instead derived (by the IMF, which collects the statistics) from the data of Angola's trade partners. So, the data sets are the same, meaning that any comparison will automatically yield zero discrepancy, even though the reality is potentially large capital flight as can be glimpsed through comparisons with the more fragmentary BNA data.

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[218] There is also disagreement about traditional definitions. For instance, this paper defines capital flight as being always illicit, while UN Economic Commission for Africa (2013. P. 15) says "capital flight, which is sometimes driven by macroeconomic and governance factors, could be entirely licit." On p. 23 it then says "We defined IFFs as "money illegally earned, transferred or used" in line with others' definitions, but added: "We also felt that the term "illicit" is a fair description of activities that, while not strictly illegal in all cases, go against established rules and norms, including avoiding legal obligations to pay tax."

Second, capital flight consists of unrecorded outflows. IFFs refer to 'illicit' activities more generally. But, as just mentioned, these categories omit some questionable financial flows. As this paper repeatedly shows, Angolan 'capital losses' also include flows out of Angola that are duly authorized by the Presidency or Central Bank or Finance Ministry, and which have been obtained through means that may be unfair or abusive, but not (necessarily) illegal. What is 'legal' is not necessarily legitimate. For example, when the president's daughter uses political connections to obtain a lucrative telecoms license and then restricts market competition, raises prices and artificially boosts the firm's profits, in ways which do not generally contravene any Angolan laws, she can then funnel these profits out of Angola through open and legal channels, for example, to invest in a Portuguese media company. Many would conclude that much of this capital has been 'looted' and stashed overseas, even though illegal activity is hard to identify. This paper identifies numerous more aggressive and abusive examples.

This 'looted, stashed capital' is unquantifiable: the lines are blurred between the illegal and illegal, and even between what is abusive or not (in many cases it may be a matter for debate, or even taste.) The oil-fueled presidency under president dos Santos operated in important respects above the Angolan state and above Angolan law — personifying Louis XIV's dictum *l'état, c'est moi.* So where do the boundaries lie between capital flight, illicit financial flows, and state-sponsored private enrichment — and even between what constitutes the public and the private sector? As with studies of 'tax avoidance' and 'tax evasion', the dividing line between the legal and the illegal becomes harder to pin down, the closer you look (Shaxson 2019). A banker interviewed in Luanda summarized it with more than a touch of sarcasm: "There is not an issue of legality here. This is a conflict-of-interest-free country."[219]

So, it may be helpful to use a term 'lost capital', which includes capital flows across borders which constitute an unfair loss to Angola and its people. The fact that it is impossible to measure or even define accurately does not make it any less real.

An experienced businessman illustrated a third reason, overlapping the others, why standard estimates of these 'capital losses' may be too low. One way for private individuals to get money out is to "externalize Kwanzas", said one source.[220] That involves converting locally obtained Kwanzas into

[219] Confidential source C.
[220] Confidential source A.

foreign currency, and getting it out, either through official channels or otherwise (these latter movements may be captured in capital flight studies). "But the big money is in getting it before it hits Angola", he continued. "Never letting it arrive is a much better way."

Such transactions originate offshore — perhaps with a bribe paid in Dubai that starts offshore and ends offshore: in cases documented here, the financial flows don't touch the Central Bank or Treasury accounts and won't affect Balance of Payments statistics at all and may not be measurable by traditional methodologies.

Conclusion 2: Banks and non-bank enablers

Much attention has (rightly) been paid to the role of global, mostly western banks in encouraging and facilitating capital flight.[221] However, banks play a central role in any economy, and given the systemic risks an unstable banking system imposes, they have historically been subject to strong(er) regulation than in most other economic sectors. This remains the case, even after decades of financial deregulation: and in fact, since the last global financial crisis a decade or so ago, there has been substantial tightening of global and national standards for due diligence requirements and efforts to prevent money-laundering.

However, there is another range of mostly western actors who are subject to far less regulation, and who have been arguably as important as the banks in encouraging and facilitating capital flight and illegal activities, with very little prospect of being sanctioned, and this paper provides evidence that such firms have engaged in activities that more strongly regulated banks refused to touch. These firms include especially the global consulting firms and accounting firms, along with "Magic Circle" (and "Offshore Magic Circle") law firms, and investment firms seeking investors to co-finance their investments around the world. The large consulting and audit firms in particular have settled into a remarkable range of niches across different parts of the Angolan economy, giving them great influence and the possibility of arbitrage profits leveraging knowledge in one sector to profit from another. These actors are often regarded as providers of badly needed technocratic expertise to 'emerging' nations in support of national development, whereas they should more appropriately be viewed as providers of technocratic expertise to the elites in countries like Angola, often against the interests of broader populations.

[221] For a good investigation of the role of banks in capital flight from poorer countries, see Henry (2003).

Since these actors have generally not been perceived as posing the same scale of systemic risks to western economies, they have thus been subjected to far less regulation than banks. Imposing bank-like legal obligations on a broader range of firms that provide financial, tax and legal advice would be an important step forward.

Conclusion 3: Choke points, and market and monopoly power

Much personal enrichment in Angola happens through the leveraging of market power and influence. A few hundred powerful families appropriate the lion's share of the gains by sitting at key choke points in the Angolan economy, from where they extract wealth as it passes through -- and also seek ways to leverage their influence to maximize profitable throughput flowing through the choke points. The issue of monopolistic power, whether exercised through state or private actors, and whether exercised legally or not, looms large in this game. Analyses of these economies can usefully incorporate the insights from a fast-growing antitrust movement, currently led by actors in the United States[222].

Conclusion 4: The 'transnational networks of plunder' as a unit of analysis

A related key finding of this paper is that many of these abnormal transfers of Angolan capital into private overseas accounts or financial structures are being carried out by what might be described as opportunistic, transnational networks of plunder.

These comprise Angolan élites, in partnership with (mostly Western) bankers, accountants, law firms, intermediaries, and at times oil companies and other private firms — and of course the global infrastructure of offshore tax havens. These, often loose, transnational networks are not just passive handlers or facilitators of capital flight that would have happened anyway: they are effectively soliciting, encouraging and amplifying the scale of capital flight and IFFs, often illegally. Each network, even though ill-defined and not a formally constituted body, is, like a multinational corporation or partnership, more than the sum of its parts. In any quest for legal and other solutions to capital flight, the transnational network of plunder could be considered as a unit of analysis. Perhaps the most interesting and unique

[222] The most influential of these actors is undoubtedly the Open Markets Institute, which has put together a coherent and potent new analysis of the dangers and nature of the monopolistic nature of the U.S. economy, with a wide range of solutions. Some would be appropriate for Angola.

player in Angola's case has been the state oil company Sonangol, which was nurtured since independence as an island of extreme competence and capability, carved out from the surrounding political, economic and military chaos. It thus became an extraordinarily useful tool in the service of Angolan élite strategies, and a fascinating transnational network in its own right, even though plunder was not Sonangol's primary purpose.[223] This paper contains several more nefarious examples.

These transnational networks are similar to and typically involve many of the same tools, techniques and players as the transnational networks that are 'looting' rich country economies through legal and illegal practices of tax evasion and avoidance, and the broader phenomenon of 'financialization', where wealth is extracted unfairly (and sometimes illegally) from poorer sections of those societies, and passing it into the hands of a small, globalized, offshore-diving elite.[224] Living in this 'offshore' world, Angolan and western elites often have more in common with each other than they will have with their own poorer compatriots. An analysis of U.S. foreign policy in 2019 stated:

> *The Westphalian system that inspired the founding architects of U.S. foreign policy – a world of sovereign nation-states communicating through their respective executives – has broken down, displaced by a new set of transnational networks often dominated by non-state actors: Facebooks and Googles, Blackrocks and Deutsche Banks. In this new global context, the boundaries between foreign and domestic have blurred.* (Adler and Judah 2019)

Perhaps international legal instruments could be considered, along the lines of legal principles in Anglo-Saxon legal systems of identifying conspiracies, or the German "kriminelle Vereinigung", the French " association de malfaiteurs" or the Italian "associazione di tipo mafioso," to deal with the most egregious cases. More transparency in global finance would certainly help too.

Given the large overlap (in terms of actors, techniques and outcomes) between the transnational networks of plunder affecting Angola, and those affecting western nations, this is closely connected to the "blowback" conclusion outlined now.

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[223] Appendix A explores this in more detail.
[224] On financialization in sub-Saharan Africa see, for instance Mohamed (2019).

Conclusion 5: Blowback: These flows from Angola damage the recipient countries, too

Capital flight from Angola flows into OECD countries in ways that are damaging not just to Angola, but also frequently to the 'inflow' countries receiving them. A fast-growing body of research now shows that "too much finance" harms the hosting economies in numerous ways.[225] Countries receiving large inflows, including western countries, can suffer a 'finance curse' whose impacts are similar in some respects to the resource curse that afflicts Angola. Potential damages include "Dutch Disease" effects of their own (whereby the financial inflows make other tradable economic sectors, such as manufacturing or agriculture or the creative industries, less competitive with imports); economic volatility in countries that depend heavily on fickle capital inflows; a loss of policy attention away from other economic sectors; and a "brain drain" out of government into the dominant high-paid financial sector handling the inflows. One of the most important aspects of the finance curse, that is only now starting to get explored, concerns the criminalization of western élites and political systems and institutions through inflows of 'dirty money' from overseas. The Elf Affair, the extensive inflows of foreign money into the real estate empire of Donald Trump,[226] the Al-Yamamah UK-Saudi arms relationship, and the powerful role played by Angolan politicians in major Portuguese business sectors are examples of this still understudied phenomenon.

The mechanics of the finance curse affecting 'inflow countries' suggests an agenda shared between majorities of citizens in countries like Angola and those in countries in Europe, North America and elsewhere. This frame of analysis is essential from a solutions perspective. If this blowback is widely understood, it potentially creates the political will in western countries to tackle these large cross-border financial flows. That is because while policy makers and voters in powerful receiving nations may feel distaste for the capital flight that countries like Angola suffer, they also currently simultaneously perceive a benefit for their own nations receiving the inflows: this ambiguity is a recipe for inaction. It is hard to mobilize voters or policy makers in wealthy capital-receiving countries on the basis of a formula that says, 'this hurts 'them', but it helps 'us'.' The finance curse analysis transforms these calculations, to

[225] See, for example, Shaxson (2019). See also Baker *et* al. (2018) and Cecchetti and Kharroubi (2015).. The academic literature is sometimes known collectively as "Too Much Finance" and a list of such studies is available at https://financecurse.net/research/academic-papers-too-much-finance/ (author's own website.)
[226] See, for instance, Henry (2016).

"this hurts them, and it hurts us too." If this becomes more widely understood, it has the potential to transform the political calculations for those seeking fundamental reforms.

Conclusion 6: Who is corrupt?

An old debate in western development circles pits one side, arguing that it's all the Africans' fault and African leaders 'must be less corrupt', against others seeking to blame rapacious western oil companies and bankers. This research underlines the obvious fact that this isn't an either/or proposition: it's clearly both together. And the rapacious westerners aren't so much the oil companies — villains though they may be from a climate perspective, and more occasionally from a capital flight perspective – but better understood in terms of these opportunistic, shape-shifting transnational plunder networks.

Some western countries must also be seen as villains, in certain respects. Much of the best information on the blood and guts of Angolan capital flows has come from the United States, where the Senate Permanent Subcommittee on Investigations, armed with subpoena powers, has been able to prise open a significant number of corruption cases that otherwise would have remained hidden.[227] Other countries like Britain, Switzerland or Luxembourg, by contrast, have resolutely failed to pursue or prosecute these activities, under a 'see no evil' offshore model designed to attract financial flows for their own financial centers (Shaxson 2012).

Western actors are clearly in a better position to do something about the 'western' side of these transnational networks than about influencing Angola's leaders to be less corrupt. And this makes it an interesting issue for international development: unlike with foreign aid, where there is a clear power hierarchy in terms of who gives and who receives aid, this is an issue where poorer majorities in countries like Angola are united in a common cause with poorer majorities in western countries against these transnational plunder networks. This opens the way to constructing powerful 'transnational anti-looter alliances' where the focus expands beyond fostering 'international development' in countries like Angola — important though that would be — towards re-engineering the global economy in the interests of the majority of the world's people, in rich and poor countries alike. In the age of Trump, Brexit, and Covid-

[227] See, for instance, U.S. Senate (2010).

19 we are already in unstable times – so it is not far-fetched to imagine leveraging this instability toward the possibility of dramatic positive changes.

Conclusion 7: Whose oil price crisis?

For large sections of the Angolan population, which are not especially connected to the urban import economy and which are more reliant on subsistence or smallholder agriculture, this period of lower oil prices may not constitute a crisis at all. Between 2002 and 2015, according to the Centro de Estudos e Investigação Científica at the Catholic University, imports constituted 50-80 percent of domestic consumption.[228] So, the oil revenue decline may, by curbing food imports, help stimulate local agricultural production to meet the needs of currently oil-fed urban populations.

Conclusion 8: Westerners won't get very far trying to improve governance in Angola directly

Western governments and other actors have historically had very little influence in Angola, in terms of governance and the games identified in this study.[229] This is for three main reasons. First, oil wealth has usually insulated the Angolan leadership from pressures for reform, and its oil industry has on several occasions given it levers of influence over western governments, via putting pressure on their oil sector players. Second, a long history of disastrous western meddling in Angola's economy, militarily and economically, has generated widespread mistrust of western institutions, not just among the Angolan leadership. Third, the logic of the oil-fueled patronage system has a tremendous momentum of its own (also meaning that even with the best will in the world, the João Lourenço government since 2017 will find it arduous to enact deep, meaningful and lasting reforms.)

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[228] From Centro de Estudos e Investigação Científica (CEIC) (2016, p. 143). It showed imports at around 80 percent of domestic consumption in 2002, falling to about 50 percent by 2014. CEIC's Francisco Paulo told me in an interview in Luanda in 2017 that cement and beverages had been the most dynamic domestic productive sectors.

[229] This is a conclusion I reached after serving as the lead researcher and author of a study for the UK's Department for International Development. A key goal of the research was to identify possible 'entry points' for westerners to improve governance: the overall conclusion was that while such entry points did exist, they were sparse, and usually weak and transient, when compared to other countries in the sub-region. See Vines *et al.* (2005).

This leaves one other main avenue for improving governance in Angola: reform of the international financial system, especially the public and private infrastructure of offshore tax havens which host and facilitate the transnational plunder networks.

Possible solutions

This is a descriptive, rather than a prescriptive, study, based on the dos Santos years. Finding solutions to these issues of capital flight and illicit financial flows requires at least book-length treatment, and this is not the place for it.

Given how entrenched the system is, governance reform, even with a more enlightened government now in place, will struggle to achieve the golden goal for Angola: to get those still large but dwindling oil riches harnessed for the benefit of the population.

To understand what needs to be done, it helps to start from the "triangle of power" that exists in all oil-dominated economy. At one vertex sits the Angolan state and the presidency: the ruling classes. At another sit the Angolan people. At the third vertex sit the international oil industry. Before the 1970s, for countries like Angola the oil companies sat at the apex of this system, with the people at the bottom, and the government somewhere between. With the arrival of OPEC, governments and states began to assert their power, and in Angola's case managed to turn the triangle so that they – at least their rulers – were at the top, with the oil companies somewhere beneath them – yet with the Angolan people still firmly at the bottom.

Could this triangle be turned once again, to make the people rise up to the top?

It is the opinion of this author that there are two ways to do this. First, reform the international financial system, along the lines of the conclusions above. This will help, though it will not necessarily put power directly into the hands of the wide population.

A second powerful way would be to distribute all or a large portion of oil revenues directly, on an equal basis, to Angola's population.[230] While it would be devastating for current power structures and for Angolan budgets, it would transform the power dynamics, bringing many benefits. Governments would have to negotiate with their citizens to raise tax revenues, likely generating accountability, better public services, and almost certainly greater prosperity among the Angolan majority. With this, the power dynamics would be transformed.

[230] See, for instance, Shaxson (2007). Also see Shaxson (2008), followed by Shaxson and Sandbu (2009).

Annex A: Sonangol Joint Ventures

The Sonangol universe contains many levels and many often-impenetrable trails. The list of Sonangol joint ventures and affiliates below is a historical (rather than a current) list compiled mostly on the basis of Sonangol websites and media reports, and my own research in and since the 2000s. It does not claim to be comprehensive: the essential purpose of this annex is to show the remarkable complexity and opacity of the Sonangol universe. Each node represents a potential patronage opportunity — and, given Sonangol's international character, also *potentially* an opportunity for "lost capital" and capital flight.

Sonangol's top-level body is Sonangol Empresa Pública (Public Company, or E.P.)

Sonangol Divisions, December 2017:

Sonangol operates in several dimensions.

First, it is the concessionaire representing the Angolan state in oil and gas operations.

Second, as an integrated oil and gas company, participating in oil operations as equity partner and participant in exploration and production, refining, transport, logistics, storage and retail sales. This contains various top-line entities.

Upstream

- **Sonangol P&P** (Sonangol's operation arm in the oil and gas sector, focused on exploration and production.)
- **Sonangol Hidrocarbonetos** Internacional (international hydrocarbons exploration and production)
- **Sonangol Gás Natural** — natural gas (natural gas products)
- **ESSA** — Empresa de Serviços e Sondagens de Angola - drilling, and training

Midstream

- **Sonangol Shipping Holdings Limited**
- **Sonangol Refinação** *(Sonaref, building a new refinery)*
- **Refinação** *(existing refining)*

Downstream

- **Sonangol Logística** *(logistics, pipelines, ships, trains)*
- **Sonangol Distribuidora** *(distribution, transport, jet fuel, shipping fuel, etc., with units in the Democratic Republic of Congo, Portugal, Cape Verde and São Tomé e Principe)*
- **Sonangol Comercialização Internacional** (***Sonaci****, oil and gas trading and international marketing. This began with the opening of a London office (Sonangol Ltd.) in 1983, then a Houston office in 1997, a Singapore office in 2004, and a Beijing office, announced in 2013.)*

Interwoven with this structure is Sonangol corporate & finance, including Sonangol Finance Limited, which oversees financial flows and the crosscutting corporate functions.

In addition to these fairly core functions, Sonangol has (as explained above) reached out into many different aspects of the oil industry, to create joint ventures with international companies providing services to the Angolan oil sector – services which the oil Majors like BP tend to outsource to specialists. These services range from the provision of giant Floating Production, Storage and Offloading (FPSO) platforms gathering oil, to very specific functions such as well filters. A historical list of these technical joint ventures, which is surely not comprehensive shows the breadth of its ambition.

- **SONILS** Logistical base for the support of petroleum companies and service companies belonging to the service sector (Luanda). Shareholders: Sonangol (30%); INTELS (70%).
- **SBM SHIPYARD.** that provides floating production solutions to the offshore energy industry. Shareholders: Sonangol 33.3% stake, with (Dutch-based) SBM Offshore NV

- **PETROMAR** Construction and maintenance of petroleum equipment for the production, storage and distribution of fluids and products derived from the petroleum industry. Establishment Date: 1984. Shareholders: Sonangol (30%); Saipem (70%).
- **SONAMET/SONASTOL** Manufacturing of infrastructures for the oil industry (platforms and systems for the transportation of hydrocarbons). Supply and maintenance of ROVs and assistance for drilling activities. Establishment Date: 1998. Shareholders: Sonangol (40%); Stolt Offshore (55%); WAPO International (5%).
- **SONAID** Supply, storage and management of tubular equipment for exploration and production of oil and gas. Activities related to environmental rehabilitation. Establishment Date: 2002 Shareholders: Sonangol (30%); FORAID (55%) ; KITONA (15%).
- **SONAWEST** Processing, storage and stock of seismic data in 2D, 3D and 4D for companies interested in processing data in Angola. Trading of Seismic data. Establishment Date: 1998 Shareholders: Sonangol (49%) ; WesternGeco/Schlumberger (51%).
- **SONATIDE** Delivery and supply of support boats for the petroleum industry. Establishment Date: 1997. Shareholders: Sonangol (51%); Tidewater (49%). From 2011-13 Tidewater and Sonangol were in a standoff over negotiations for a new joint venture agreement: Tidewater said pulling out of Angola may be preferable to entering "a new joint venture agreement that would contain terms that would not be in the best interests of Tidewater." (A deal was reached in 2013.)
- **SONAMER** Drilling of oil and gas wells in deep and ultra-deep waters on the Continental Maritime Platform. Establishment Date: 1998 Shareholders: Sonangol (49%); Pride Foramer (51%). Sonamer has owned at least three vessels: the " Pride Africa", "Pride Angola", and one Jack-up , the "Pride Cabinda". Sonamer is not listed above: it may have been disbanded.
- **SONASING** Treatment and storage of crude for export (FPSO, FSO). Establishment Date: 1999 Shareholders: Sonangol (50%); SBM Production (50%). Owns the FPSO Kuito in Chevron's Block 14. (The list describes a series of Sonasings, with different shareholdings.)
- **SONANGALP** Distribution and marketing of fuels and refined products. Establishment Date: 1994 Shareholders: Sonangol (51%); Petrogal (49%)
- **TECHNIP ANGOLA** Provision of engineering services to oil companies. Establishment Date: 1999 Shareholders: Sonangol (40%); Technip Group (60%).
- **SONADIETS** Technical assistance, maintenance and professional training. Establishment Date: 1999 Shareholders: Sonangol (30%); Dietsmann(70%).

- **SONASURF** Supply of ships for the oil industry. Establishment Date: 1999 Shareholders: Sonangol (49%); Surf SA (51%).
- **KWANDA, Ltd.** Logistical base for support operations to oil companies and companies participating in oil industry related activities. The Kwanda base is located in Soyo, Zaire. Establishment Date: 1982 Shareholders: Sonangol (30%); DHL (49%) ; ESAP (11%) e Sangemetal, Lda (10%).
- **ANGOFLEX** Manufacturing of umbilical and pipelines for underwater production systems in the oil and gas industry. Establishment Date: 2002 Shareholders: Sonangol (30%); Technip Angola (70%)[231]

For years, president dos Santos had kept non-Sonangol "private Angolan partners" out of these operations, to avoid causing technical and other disruptions. This began to break down seriously in the later stages of the dos Santos regime, as patronage pressures became more powerful.

Fourth, and overlapping with the above, Sonangol has operated all across the Angolan economy, outside of oil and gas. This sector has included:

- Sonair - *running the Houston Express airline, helicopters, and other air transport operations*
- MSTelcom - Mercury Serviços de Telecomunicações, S.A., *telecoms for the oil sector, and residential and corporate clients.*
- Sonangol Holdings LDA - *owns a range of interests.*
- Sonangol Investimentos Industriais (SIIND) - *industrial investments*
- SONIP (Sonangol Imobiliária e Propriedades) - *real estate*
- AAA Seguros, *an insurance company, now disbanded (see above)*.
- Girassol clinic.

This is a historical list of affiliates that exist or have existed since the 2000s: not all still exist. Other partnerships include Sonangol's declared 8.5% stake in BAI (Banco Africano de Investimentos, Angola's largest private bank,) its 25 percent stake in Unitel, the telecommunications firm controlled by Isabel dos

[231] From author's archives, based on information provided on the Sonangol website in November 2008.

Santos, and Banco Económico, the Angolan private bank that replaced Banco Espírito Santo Angola (BESA, see above)[232]

These are still not all. A recent Sonangol annual report (Sonangol 2016, pp. 158-159) lists these companies in which it has a partial or full stake:

[232] Sonangol obtained a 35% stake in Banco Económico, alongside China's Lektron Capital and Angola's Geni (part-owned by Isabel dos Santos).

6.2 DETAILS BY ENTITY – FINANCIAL INVESTMENTS – COST LESS IMPAIRMENT LOSSES

As at 31 December 2016 the detail of the financial investments measured at cost less impairment loss is as follows:

Item	% held	Gross value 2016	Accumulated impairment losses 2016	Net value 2016	Net value 2015
ACS	100.0%	796,688,890	-	796,688,890	650,614,310
AGOLE	80.0%	2,295,769	(2,295,769)	-	-
ALM	50.0%	129,893	-	129,893	105,944
AMA	33.0%	15,427,500	(15,427,500)	-	-
Angoflex	30.0%	1,084,724,391	(1,084,724,391)	-	-
Angola Cables	9.0%	2,248,548,662	-	2,248,548,662	1,626,929,317
Angola LNG Supply Ltd	22.8%	428,686,304,175	(158,391,600,000)	270,294,704,175	284,527,128,081
Angola LNG Supply Services	72.8%	28,518,658	(10,003,680)	18,514,978	3,660,156,964
BAI	8.5%	1,275,840,744	-	1,275,840,744	1,275,840,744
Banco Caixa Geral Angola	25.0%	5,657,563,888	-	5,657,563,888	5,657,563,888
Banco Economico, S.A.	39.4%	28,368,000,000	(10,294,953,816)	18,073,046,184	28,368,000,000
Banco Millennium Angola	14.3%	5,333,568,082	-	5,333,568,082	5,333,568,082
Bauxite	20.0%	491,250,000	(491,250,000)	-	-
Bayview	16.0%	136,000	(136,000)	-	-
BCI - Banco de Comércio e Indústria, SARL	1.1%	79,147,425	(79,147,425)	-	-
Biocom	20.0%	1,051,800,000	-	1,051,800,000	1,051,800,000
BPA Europa	20.0%	359,299,116	(359,299,116)	-	-
Bricomil	15.0%	39,343,274	(39,343,274)	-	-
Cardlane Limited	100.0%	16,000,300	-	16,000,300	16,000,300
China Sonangol International	30.0%	73,992,592,422	(73,992,592,422)	-	73,992,592,422
Cobalt Angola - Adiantamento	100.0%	-	-	-	34,000,000,000
Cogesform - Comércio Gestão e Formação	100.0%	6,259,750	-	6,259,750	6,259,750
Diranis	100.0%	145,621,667	(145,621,667)	-	-
E.I.H. - Energia Inovação Holding, SA	30.0%	2,701,890	(2,701,890)	-	-
Embal	30.0%	305,363,246	(305,363,246)	-	-
Enco, SARL	77.6%	2,579,284,614	(598,833,757)	1,980,450,857	1,980,451,613
Esperaza Holding B.V.	60.0%	12,397,138,198	-	12,397,138,198	1,622,417
ESSA	100.0%	18,668,650	-	18,668,650	18,668,651

Genius, Lda	10.0%	701,250,000	(701,250,000)	-	-
Gesporto	70.0%	1,400,000	(1,400,000)	-	-
Jasmin (Joint Venture)	30.0%	3,470,032,251	-	3,470,032,251	2,830,258,575
Kicombo	60.0%	60,000,000	-	60,000,000	60,000,000
Kwanda Lda	30.0%	13,141,040	-	13,141,040	13,141,040
Lobinave	75.0%	525,647,462	(525,647,462)	-	-
Luanda Waterfront	26.1%	6,099,427,614	-	6,099,427,614	6,099,427,614
Luxervisa	80.0%	2,000,736,000	(2,000,736,000)	-	-
Mota Engil	20.0%	6,494,048,204	(1,873,689,264)	4,620,358,940	6,494,048,204
Net One	51.0%	2,219,316,408	(2,219,316,408)	-	-
OPCO	22.8%	3,801,398	-	3,801,398	3,100,536
Orleans Invest Holding (OI OSC)	100.0%	-	-	-	27,769,500,000
Paenal - Porto Amboim Navais	10.0%	7,500,000	-	7,500,000	7,500,000
Petromar	30.0%	9,198,728	-	9,198,728	9,198,728
Puaça	100.0%	4,230,868,867	(4,292,745,816)	(61,876,949)	4,230,868,867
Puma Energy	27.9%	101,387,608,141	-	101,387,608,141	101,387,608,141
S. Tomé e Principe Offshore	51.0%	765,000	(765,000)	-	-
Sodimo	30.0%	-	-	-	-
Somg	0.0%	3,801,398	-	3,801,398	3,100,536
Sonacergy	40.0%	304,168,263	-	304,168,263	-
Sonadiets	60.0%	6,439,470	-	6,439,470	6,439,470
Sonaid	30.0%	11,705,107	-	11,705,107	-
Sonair USA	50.0%	1,875,000	-	1,875,000	1,875,000
Sonamet	40.0%	356,351,721	-	356,351,721	-
Sonangalp	51.0%	501,880,661	-	501,880,661	501,880,661
Sonangol Asia	100.0%	-	-	-	40,184,150
Sonangol Cabo-Verde	99.0%	2,162,710,815	-	2,162,710,815	2,162,710,815
Sonangol Hidrocarbonetos USA, Ltd.	100.0%	21,287,491,915	(21,287,491,915)	-	-
Sonangol Holdings USA	100.0%	399,528,106	(399,528,106)	-	-
Sonangol Limited	100.0%	-	-	-	244,319,315
Sonangol SA (Solo Properties,Ltd)	100.0%	-	-	-	8,791,902,366
Sonangol São Tomé e Príncipe	92.0%	1,091,487,601	(511,717,279)	579,770,322	579,708,843
Sonangol Starfish Oil & Gas, S.A.	100.0%	28,399,740,260	(28,399,740,260)	-	-
Sonangol USA Company	100.0%	-	-	-	970,886,917
Sonasing Kuito	30.0%	233,922,597	(233,922,597)	-	-
Sonasing Mondo	10.0%	107,545	-	107,545	107,545
Sonasing OPS	50.0%	537,726	-	537,726	537,726
Sonasing Sanha	30.0%	270,000	-	270,000	270,000
Sonasing Saxi - Batuque	10.0%	107,545	(107,545)	-	-
Sonasing Xicomba	30.0%	270,000	-	270,000	-
Sonasurf International	49.0%	401,360,038	-	401,360,038	-
Sonatide Mar - SMS	51.0%	52,460	-	52,460	-
Sonatide SML	51.0%	43,786	-	43,786	43,786
Sonils	30.0%	-	-	-	6,439,161
Spal	50.0%	48,932,001	-	48,932,001	48,932,000
Technip	40.0%	1,042,720	-	1,042,720	1,042,719
Sonasurf Angola	50.0%	187,500	-	187,500	-
Miramar Empreendimentos	40.0%	75,600,000	-	75,600,000	-
Sonimechi, Lda.	30.0%	25,009,200	-	25,009,200	-
Sonils Limited	100.0%	560,206	-	560,206	-
Unitel	25.0%	3,646,196,557	-	3,646,199,199	2,973,948,202
		751,168,338,515	**(308,261,351,605)**	**442,906,989,553**	**607,406,283,398**

This reading would give a total net value of some $2.6 billion for these subsidiaries in 2016, versus $4.5 billion in 2015, though the auditors PwC gave a qualified opinion on the accounts, saying, among other things, that it did not have sufficient information to be able to assess assets properly. Also mentioned in other reports are stakes, such as Portugal's largest private bank, Millennium BCP, which lists Sonangol as holding a 15 percent ownership stake (alongside China's Fosun Group.)

What is more, the above list appears to contain simply the top level of often byzantine global corporate structures. For instance, SBM Offshore's annual report for 2016 lists several Bermuda-registered joint venture companies (with Sonangol's declared shareholdings in brackets) — Sonasing Xikomba Ltd. (30%), Sonasing Sanha Ltd. (30%), Sonasing Kuito Ltd. (30%), Sonasing Saxi Batuque Ltd. (10%), Sonasing Mondo Ltd. (10%) — each related to an FPSO operating off Angola. However, for each of these, SBM Offshore says it is in a 50% partnership with Sonangol E.P. - leaving a gap in the shareholdings in each case.[233] The brief exploration of Puma Energy or AAA Seguros, above, show even greater corporate complexity, often routed through impenetrable tax havens.

In April 2020 the Angolan Minister of Mineral Resources and Petroleum, Diamantino Azevedo, described Sonangol as an "octopus" and promised to sell off via public tender full or partial stakes in 81 companies as part of a reform process (Reuters 2020).

Sonangol's China connections

Sonangol's interlocking Chinese partnerships take the complexity to another level.

As mentioned in the main report, Angola's oil relationships with China have significantly been mediated through the "Queensway Group" — the private network centered on businessman Sam Pa. The entities in this mini-universe include:

- China Sonangol
- China Sonangol International Holding Limited (CSIH), with Sonangol holding 30 percent
- Sonangol Sinopec International (SSI)[234]

[233] SBM annual report, 2016, section 5.3.31, Interest in Joint Ventures and Associated, p. 205.
[234] Set up in 2004, SSI was awarded a stake in the BP-operated Block 18 which had been relinquished by Shell, and which in 2016 produced some 140,000 bpd, nearly 10 percent of Angola's production. Sonangol's stake in SSI was reportedly not

- China Sonangol Asia
- China Sonangol Engineering and Construction
- China Sonangol Exploration and Production
- China Sonangol Natural Resources,
- China Sonangol Finance
- China Sonangol Gas
- China Sonangol International (S) Pte. Ltd., Singapore (CSIS)
- China Sonangol International Investment
- China Sonangol International (Singapore)
- China Sonangol Land

An investigation by *The Economist* (2011) stated:

> *Oversight of the Queensway syndicate's businesses is almost non-existent… The syndicate's corporate structure is fiendishly complex... There is no holding company, though the same people keep cropping up as directors in the records of affiliated companies, which are often owned by shell companies registered in lightly regulated tax shelters. Final beneficial ownership is impossible for an outsider to establish*.

In theory, all Sonangol's financial flows should be accounted for in state finances, but there is no guarantee of this. Each node in this baroque Sonangol nexus offers the potential for "hidden capital flight".

Moreover, even if all this were properly recorded in national accounts, Sonangol's key role in these ventures is to provide the political muscle and often the capital to supercharge their profitability. The ensuing private rewards for well-connected players may not be captured under traditional measures of capital flight, as they would likely be classified as normal flows of dividends and other payments.

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held directly but by CSIH. All of Sinopec's subsequent awards in the Angolan offshore were through this joint venture. The *Financial Times* reported that in 2012 the Queensway network's stakes in CSIH and CIF were transferred to a BVI company called Magic Wonder Holdings. See Burgis *et al*. (2014).

Other possible avenues for capital flight can be suggested:

- The oil repayment streams: CSIH reportedly became the conduit for these repayment arrangements for Chinese financing deals, receiving monies from Angola and paying them out to more mainstream Chinese players.
- CSIH's international and Angolan projects in the oil sector. The Economist reported in August 2011: "several informed observers say that the syndicate gets the oil from the Angolan state at a low price that was fixed in 2005 and sells it on to China at today's market prices." If that were true it would have amounted to a very large exodus of Angolan wealth in subsequent years — "tens of billions of dollars," as The Economist (2011) put it, given the subsequent rise in the oil price.[235] A proper accounting of the value of projects and the volumes of oil delivered would be a worthy academic exercise, but far beyond the scope of this study. Again, if this were true, it would be reminiscent of Abalone.
- CIF's loans to Angola. Already in 2007 Fernando Miala, the head of Angola's foreign intelligence services who had become a fierce critic of the regime, alleged in his trial that $2 billion of Chinese money intended for infrastructure projects had disappeared, and transferred to private accounts in Hong Kong. (Miala was imprisoned, accused of insurrection.)
- CIF's infrastructure projects themselves. Each reconstruction and import operation is likely to involve an influential Angolan silent partner or partners.

An official from Global Witness, Gavin Hayman, summarized: "buccaneers are cutting themselves a large slice of Africa's resource cake" (*The Economist* 2011).

[235] The Economist (2011). https://www.economist.com/briefing/2011/08/13/the-queensway-syndicate-and-the-africa-trade

Annex B: How Angolan oil contracts work

Angolan oil production is now falling, and reservoirs are depleting at about 15 percent a year (though additional investment and recovery efforts can shore that up a bit). Oil officials believe that without major discoveries production will have fallen to about 1 million barrels per day (bpd) by 2022 or so. There are some prospective exploration targets in 'ultra-ultra-deep' waters at the limits of exploration technology, but even if they were licenced and then found to contain enough oil to be worth developing they would take at least 10 years to bring into production, As oil production declines, more effort is required to squeeze oil out of depleting fields, and the oil contracts allocate a higher share of each barrel to costs, so operating costs loom larger as a share of each barrel produced, leaving less for Angola. José de Oliveira, an Angolan oil expert, stated: "In some years, 60 percent of each barrel was coming to Angola. Today it is around 40 . . . If the oil price stays below $80 per barrel, this will go to 30".[236]

Angola's oil sector has had two main types of contract: the older concession contracts, mostly operated by Chevron in the northern Cabinda enclave, and the newer Production Sharing Agreements (PSAs,) mostly in deep and 'ultra-deep' waters off northern Angola. This annex discusses the PSAs, which account for most Angolan oil production.

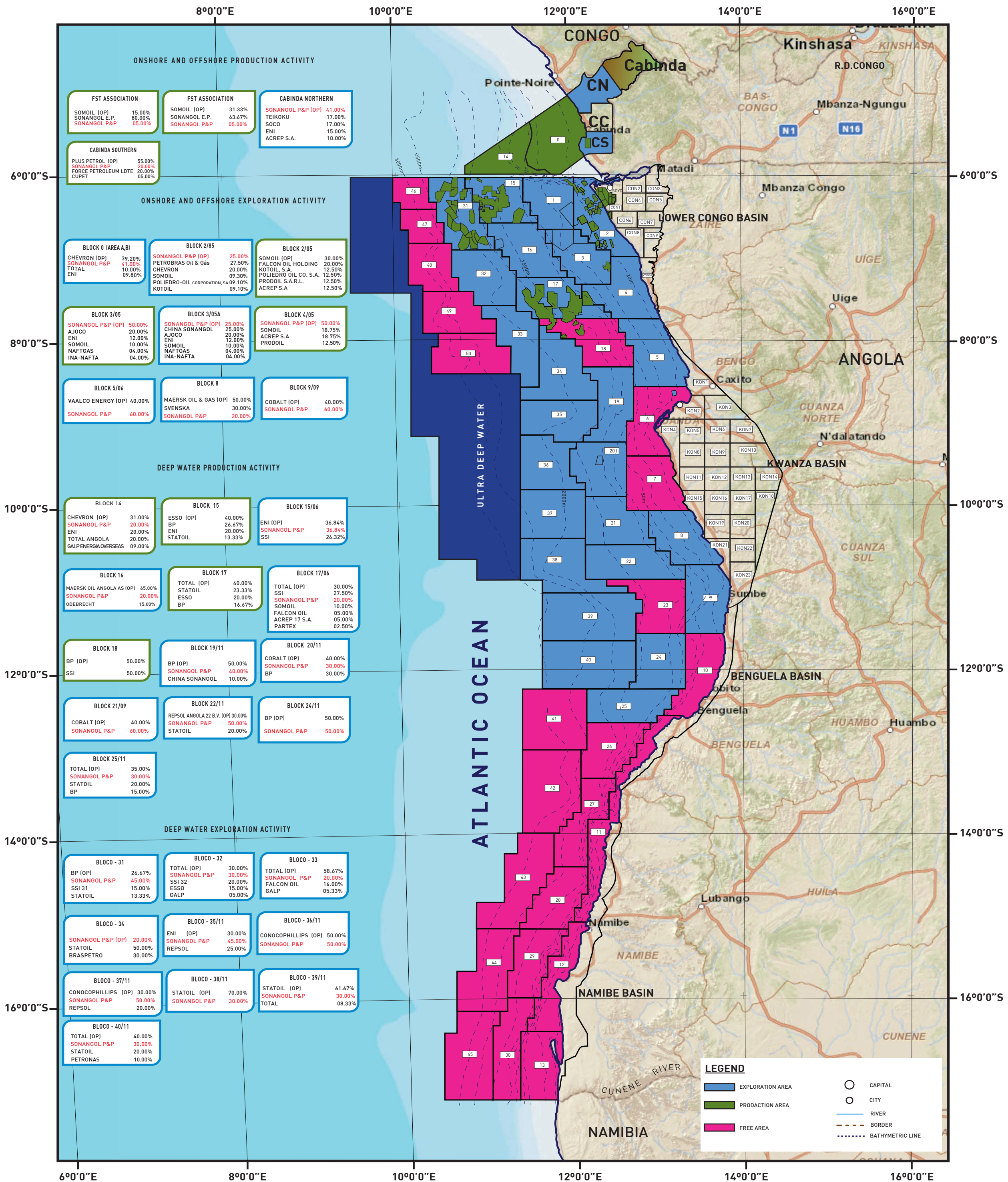
The main producing areas are divided into "Blocks" for exploration and production purposes (see map). Each block has an oil major as a lead "operator" in charge of the complex developments but also a consortium or "contractor group" of several companies, usually well-known international oil majors, sometimes including Sonangol, and sometimes involving less well-known Angolan or international private oil companies, which contribute capital and share the risks and the profits.

The prolific oil producing areas are in Block 14 (off Cabinda, operated by Chevron), Block 31 (operated by BP) and Block 15 (operated by Exxon), both to the south of Block 14 but separated from it by a thin strip of Congolese territorial waters, and Blocks 17 (operated by Total) and 18 (operated by BP.) Examples of consortia are shown in Table 4 of the main text.

[236] Interview with de Oliveira, Luanda, October 11, 2017.

Sonangol

ANGOLA-CONCESSIONS



GAD201702-DMC0001-I

Source: Sonangol: https://www.sonangol.co.ao/English/AreasOfActivity/Concessionary/Documents/GAD201702-DMC0001-I.pdf, accessed November 7, 2020.

Each month the operator issues a call for cash to the contractor group, to pay its share of expenses (exploration, development and production/running costs). So, if there are $100 million of expenses to cover in Block 31, for instance, Statoil would have to pay $13.33 million to BP to cover the investments. (Sonangol is a member of some contractor groups but not of others.)

Each field has a complex, uneven geology and many wells stuck into it in different places, whose production pipes are then typically brought together in clusters at giant floating production, storage and offloading (FPSO) platforms for export. A Block can thus contain several 'development areas,' with an FPSO at its heart, each under the same contractor group for the whole Block. Sometimes, parts of blocks are carved out to new groups at different stages of development and production. It takes typically 5-10 years between a first discovery and first commercial flows of oil from one of these deep-water fields. These corporate and physical aspects all affect the financial flows.

A Production Sharing Agreement (PSA) divides the flows from a development area of oil into two streams: **cost oil** and **profit oil**.

Cost oil is the physical oil allocated to the contractor group to repay its operating or running costs, development costs, and exploration costs in a development area. In the early years of production, the cost oil component can be quite high, as large development and exploration costs need to be paid off.[237] Sonangol can potentially be "carried" for its share of the costs of oil developments: that adds complexities that won't be covered here.

What isn't allocated to cost oil goes to the other category, **profit oil**, which is a share of the resulting pre-tax profits after costs, paid in oil. This profit share is then divided two ways:

A) A share goes to Sonangol *as concessionaire* for the Block representing the Angolan state. (This is due to "Sonangol E.P.) Sonangol is supposed to sell the oil then pay 93 percent of the receipts into the Conta Única (Single Treasury Account) held at the BNA (it keeps the remaining 7 percent to cover its costs: another potential avenue for capital flight).

[237] The PSA contains a 'cap' saying that the cost oil component cannot exceed typically 50-55 percent of the oil produced, if it hits the cap they say cost oil is 'saturated'.

B) The other share of oil goes to the contractor group (which may or may not include Sonangol *as equity partner,* represented by the company's exploration and production arm, Sonangol P&P (*Pesquisa e Produção.*)

In Block 31 for instance, Sonangol would get three bites of the profit oil: i) Sonangol E.P.'s concessionaire share of the profit oil; ii) Sonangol P&P's share of profit oil from the 45.00% share in the contractor group, and iii) it's part of the 15.00% share under its joint venture between Sonangol EP and China's Sinopec, called Sonangol Sinopec International (SSI.) In Block 15, by contrast, Sonangol doesn't have an equity share in the contractor group, so it would only get one bite: its share of profit oil due to Sonangol E.P. as concessionaire.

The share between A (Sonangol) and B (the contractor group) is calculated on a sliding scale which changes over time and according to the oil price and other factors. An oil official explained:

> *If the oil price is high, we need less oil to cover our costs. If it's low, we need more. So if oil price is low, we might not have enough oil to cover our costs, so cost oil is saturated. But let's say cost oil is not saturated, we might only use 45 percent, the rest goes to profit oil.*[238]

At the start of deep-water operations Sonangol EP might typically contractually take 20 percent of production as concessionaire oil, with 80 percent going to the contractor group (which will earmark most of that to repaying exploration and development and running costs.) But as the costs get paid off the share changes: as the same oil official said, "by the end of the concession it's the opposite way: the contractor group might get about 20 percent and Sonangol 80 percent."

After this sharing out of physical oil streams, there is then the question of tax, currently levied at 50 percent of the value of the contractor group's share of profit oil. The Petroleum Income Tax (PIT) is a financial payment from the contractor group to the BNA. "This is paid in *divisas* (foreign exchange) and the money is wired to an account outside Angola," an oil official said. However, tax is a minority part of total revenues: "Where the most revenue to the state comes from: it's not the PIT, but the

[238] Confidential source F.

concessionaire oil – by far." This is important for those campaigning on tax justice issues: a lot of international campaigning focuses on corporate income taxes, which are in many resource-rich countries only a minor portion of the overall revenue picture from natural resources.

The contracts also tend to smooth the effects of oil price swings for the oil companies and magnify the destabilising effects for the host country. As the oil official said: "if the oil price drops from 100 to 50, state revenues will drop by more than half" because of the structure of the contracts.

Annex C: Note on data

There are two main sources of Angolan financial data for the analysis of capital flight: first, the *Contas Nacionais* (national accounts) published by the INE (Instituto Nacional de Estatística, or national statistics institute, and second, data produced by the different government ministries and state budgets. But the data are of poor quality and often inconsistent. For instance, the Finance Ministry's estimates of Angolan GDP growth have exceeded the INE's estimates by an average of 2.1 percentage points per year between 2003 and 2015.[239]

It is significant that the IMF and other international bodies will (often for political reasons) tend to use official government data, whereas interviewees said that the INE's data was generally considered more reliable, which use detailed on-the-ground surveys of economic activity to establish the data. A banker familiar with Angolan national accounts said that for this reason "I consider the IMF's figures not to be reliable on external debt."[240] The banker estimated, based on commercial studies that had been made, that many state-owned companies had debts (domestic and external) that were some 20 percent higher than reported to the authorities.

Exchange rates also have the potential to play havoc with accounts - Angola not only has had dual or multiple exchange rates for most of the time since independence in 1979, but high inflation has meant that the different rates have gyrated wildly, creating huge discrepancies within years. The Global Witness study cited above shows the pitfalls.

Angolan financial management — including flows from the oil sector — has seen a slow but steady improvement since the years of financial chaos during the civil war. I remember in the mid-1990s reading badly typed four-page government state budgets, which everyone knew bore little resemblance to what was actually going on. There have been vast improvements here — from an exceptionally low base —

[239] CEIC, "Discrêpancias entre governo e as contas nacionais", 2016 p. 71. The table appears to have some errors in calculating the difference: my 2.1 percent figure is the difference between the sum of each row divided by 13 (years). Francisco Paulo of CEIC said in 2017 there had been a 'tense relationship' between the INE and the Ministry of finance, the latter wanting to see higher growth figures, and the former being regarded as more accurate.
[240] Confidential Source D.

though the problems remain stark. Any historical study of capital flight therefore needs to take both the present and a very different, constantly evolving, past into account.

Annex D: BNA monthly foreign exchange operations

This bulletin from the BNA illustrates the central bank's role in administrative decisions as to who gets access to foreign exchange at the favorable official rate.

Bulletin: Monetary and exchange operations

Between December 1 and December 29, 2017, the BNA sold foreign exchange to the market worth EUR 617.3 million ($689.7 million) for the following operations (figures in Euros):

1. 187.4 million for food goods including the liquidation of credit cards backed by the BNA
2. 114.1 million for industry
3. 85.8 million for transport
4. 71.3 million for the operations of ministries and state bodies
5. 44.3 million for private projects: journeys, family assistance, health, education, expat salaries
6. 29.7 million to cover the operations of 'various sectors'
7. 27.0 million for "exchange repositioning" (Reposição Cambial)
8. 20.0 million for agriculture
9. 15.7 million for water and energy
10. 12.3 million for fishing
11. 5.0 million for construction
12. 4.8 million for health

The exchange rate used was USD=Kz 166.7 [the parallel rate at the time was around Kz 400:$1]. This sum was far less than the $2.6 billion provided to the market in July 2014, reflecting the oil price crash.

Annex E: Participants in the Angola-Russia debt deal

As explained in the main body of this paper, private players inserted themselves into the middle of a debt rescheduling between Angola and Russia, deriving large private profits, often via a shell company called Abalone Investments.

Published and unpublished documents outline an array of recipients of funds from the Abalone deal.[241] Credits flowed (in exact multiples of $48.39 million, which is $1.5 billion divided by 31) into Abalone's UBS account in Geneva from a Sonangol account at SBS in Geneva, plus smaller credits of $772,000 from an account of Glencore International London at Credit Suisse in Zurich. On the debit side, the Abalone account paid out to shell companies or people with the accounts in the following banks:

- SBS, Geneva
- UBS Geneva (3 accounts: "Arcadi Gaydamak", "Vitaly Malkin", "Pierre Joseph Falcone"
- UBS, Fribourg ("Loke Trading", believed to be Glencore)
- HSBC Guyerzeller Bank, Geneva ("José Leitão da Costa e Silva")
- Bank Leumi Le-Israel, Geneva (4 accounts: "Pierre Joseph Falcone", "Penworth Ltd.", "Karos"
- Bank Leumi Le-Israel, Geneva ("Penworth Ltd.")
- Banque Ferrier Lulliin & Cie, Geneva (2 accounts: "Brenco Trading Ltd.", "Pierre Joseph Falcone."
- Discount Bank & Trust Co., Geneva (2 accounts: "Real Trade Ltd.", "Brenco Group."
- Luzerner Kantonalbank, Luzern ("AB Petroleum")
- United European Bank (Geneva)
- Banque Indosuez Luxembourg ("Pekey")
- Banque Internationale a Luxembourg
- Banque Privée Edmond de Rothschild, Luxembourg
- Crédit Agricole Indosuez, Luxembourg
- Artesia Bank, Luxembourg
- Alcor Bank, Luxembourg
- Investment Bank, Luxembourg (then Sella Bank)

[241] The first major investigation of this deal was in Global Witness (2002). The most comprehensive public investigation of the deal is Associação Mãos Livres/Corruption Watch UK (2013).

- Banque de Gestion Edmond de Rothschild (“Dramal,” “Camparal”, “Tutoral,” all Panama cos.)
- Alcor Bank SA, via Kredietbank SA Luxembourg (“Dynatron Ltd.”, and “Candelbrum Ltd.”)
- ABN Amro Bank, Amsterdam (2 accounts: “Bastwick Trading”, and “Malagas Financial ltd.”)
- Bank of Cyprus Limited, Nicosia (2 accounts: “Antalia Ltd.” And “Nordson Financial Ltd.”
- Sberinvest (Cyprus)
- Russian Commercial Bank, Cyprus
- Bank Discount, Israel
- Hapoalim Bank, Israel
- Unicom Bank Moscow (Russian Finance Ministry, later replaced by Sberinvest Moscow)
- Moscow Bank, Moscow (“Technopromexport”)
- Rosbank
- Mizuho Bank

In addition, a large number of shell companies and funds existed, many in London or Paris, and also in the United States, which received payments flowing from the deal.

Annex F: Confidential Sources

Source A. European businessman.

Source B: Accountant in Luanda.

Source C. Foreign banker in Luanda.

Source D. Angolan banker #1.

Source E. Angolan businessman.

Source F. Angolan oil official.

Source G. Private sector investigator based in Lisbon.

Source H. Western oil industry official.

Source I. Angolan banker #2.

Annex G: Oil discrepancies

In 2017 the Finance Ministry published data on oil sector flows which, theoretically, could be matched against data published by the oil companies themselves under international transparency drives. However, a comparison reveals unexplained discrepancies. For instance, BP has publicly broken down its payment flows to Angola in 2016:[242]

$ million

GOVERNMENTS	Production Entitlements	Taxes	Royalties	Fees	Bonuses	Infrastructure Improvements	Total
Adminstracao Geral Tributaria		5.4					5.4
Benguela Province						1.3	1.3
Finance Ministry		494.3					494.3
Kwanza Norte Province						0.2	0.2
Luanda Province						1.0	1.0
Ministry of Petroleum		9.0					9.0
Sonangol EP (Concessionaire)	(a)783.5				56.9		840.3
Sonangol P&P	(b)978.0						978.0
Total	**1,761.4**	**508.7**			**56.9**	**2.5**	**2,329.5**

PROJECTS	Production Entitlements	Taxes	Royalties	Fees	Bonuses	Infrastructure Improvements	Total
Block 15		111.9					111.9
Block 17		171.4					171.4
Block 18	(c)592.0	107.0				2.5	701.6
Block 19		0.7			4.0		4.7
Block 20					42.9		42.9
Block 24		0.5			10.0		10.5
Block 31	(d)1,169.4	117.1					1,286.5
Total	**1,761.4**	**508.7**			**56.9**	**2.5**	**2,329.5**

Notes: (a) Payments in kind for 19.1 million barrels of crude oil valued per the production sharing arrangement; (b) 24.9 million barrels; (c) 14.2 million barrels; (d) 29.9 million barrels.

The "infrastructure improvements" column refers to Social Projects, contractual payments for water wells and other projects that are implemented by NGOs, universities and other partners; these are quite heavily monitored and audited. The rows (e.g.,

[242] See "BP Report on payments to governments, 2016," BP p.l.c. Year ended 31 December 2016, p. 8. Available at https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/group-reports/bp-report-on-payments-to-governments-2016.pdf, accessed November 24, 2020.

“Benguela province”) refer to the locations of these projects. The “Ministry of Petroleum” payment refers to the training tax (Decree 17/09 requires operating oil companies to pay U.S.$0.15 per barrel to the Ministry of Petroleum’s training fund);.this is made in Kwanzas to a local account.

BP’s data did not tally well with the equivalent data published on the Finance Ministry’s website:[243]
Angolan Finance Ministry Data.

RECEITAS ORDINÁRIAS 2016							
Anual	**Exportação (Bbls)**	**Preço Médio (USD/Bbl)**	**IRP**	**IPP**	**ITP**	**Receita da Concessionária**	**Total**
Bloco 0 A	54 793 008	41,57		74 159 910 783			74 159 910 783
Bloco 0 B	31 803 743	41,79	11 421 086 804	43 754 986 968			55 176 073 772
Bloco 2/05	150 000	38,54	3 988 648			368 395 758	372 384 406
Bloco 03/05A	814 081	43,58	987 924 243			433 522 086	1 421 446 330
Bloco 3/05	14 938 364	42,78	8 883 095 651			30 986 677 613	39 869 773 264
Bloco 4/05	2 657 509	38,44	561 690 346			1 088 867 716	1 650 558 062
Bloco 14	34 968 752	41,40	17 016 195 374			54 046 291 692	71 062 487 065
Bloco 14 K/A-IMI	4 613 209	41,26	92 195 782			1 685 494 477	1 777 690 259
Bloco 15	114 018 801	40,80	57 207 042 941			264 580 096 064	321 787 139 005
Bloco 15/06	27 988 107	40,86	15 540 460 387			12 525 684 485	28 066 144 872
Bloco 17	231 875 003	39,92	150 662 706 507			360 372 841 570	511 035 548 077
Bloco 18	51 817 323	41,08	30 911 979 094			88 373 697 400	119 285 676 494
Bloco 31	59 764 926	37,88	53 772 055 965			27 568 847 122	81 340 903 087
Bloco FS/FST	870 872	44,96	3 485 236	783 821 152			787 306 388
Zona Sul Terrestre Cabinda	578 400	42,74	213 264 825			248 740 319	462 005 144
TOTAL	**631 652 098**	**40,43**	**347 277 171 803**	**118 698 718 903**		**842 279 156 302**	**1 308 255 047 008**

Fonte: Declarações Fiscais submetidas à AGT pelas Companhias Petrolíferas, incluíndo a Concessionária Nacional
A receita da Concessionária é baseada no valor declarado pela mesma após a dedução dos 7%
O pagamento dos impostos è efectuado um mês após a realização dos carregamentos petrolíferos
O preço médio está indexado ao preço do mercado e não ao preço de referência fiscal determinado conjuntamente pelo Minpet e o Minfin

The Finance Ministry data for 2016, for instance, showed Petroleum Income Taxes (PIT, known in Portuguese as Imposto sobre o rendimento do petróleo, or IRP) of Kz 53.77 billion for Block 31 — which would be worth $329.9 million if the average official exchange rate of around Kz 163:$1 were used. Yet if one were to take BP’s $117.1 million tax payments from Block 31 in 2016, and pro-rata it up from BP’s 26.67% share, this would yield $439.1 million.

There are possible explanations for this discrepancy. This (Kz 163:$1) may be the wrong exchange rate, for instance.[244] There may have been timing issues with oil cargoes or payment, and the pro rata

[243] Accessed at minfin.gv.ao on December 18, 2017. The link subsequently disappeared. Only totals for some months in 2016 were subsequently available: for example, at http://www.ucm.minfin.gov.ao/cs/groups/public/documents/document/zmlu/mdmy/~edisp/minfin032869.pdf, accessed October 24, 2010.
[244] I used the commercial website xe.com for historical rates.

calculation may not have been appropriate (oil industry sources said they should be appropriate for the tax payments, though not for the production entitlements.) It is also possible that the Finance Ministry has simply published bad data. This would be consistent with another obvious discrepancy between these two tables: finance ministry data showed that "receita da Concessionária" (production entitlements) for Block 18 are more than three times as high as for Block 31 (BP is the lead "operator" for both), while in the 2016 BP data mentioned above, it is the other way around: Block 31's production entitlement is roughly twice as large as that for Block 18.

The discrepancy of about $109 million between the Finance Ministry's estimate of $329.9 million in PIT and BP's $439.1 million is in the right 'direction' for a capital flight story — Sonangol (according to BP) receiving more dollars from its foreign trading operations than the Finance Ministry declares. If this were a genuine gap, the question of whether capital flight studies pick up these discrepancies would depend on whether all the financial tax payments were made to the correct Finance Ministry account at the BNA, and recorded correctly as inflows. However, as mentioned, there are other possible explanations for this discrepancy.

In Sonangol's 2016 annual report the auditors, PricewaterhouseCoopers, gave a qualified opinion, for several reasons, including Note 6, relating to Sonangol's transactions with the State of Angola:[245] "We have been unable to determine if these balances reflect adequately all underlying transactions, rights and obligations."

In short, while there have been significant improvements in the provision of data since the war's end, Angola's oil accounting remains opaque and hard for outsiders, and many insiders, to understand.

[245] Sonangol's annual report, 2016, Section 9.2 "Report of the Independent Auditor on the Consolidated Accounts," pp. 91-92.

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