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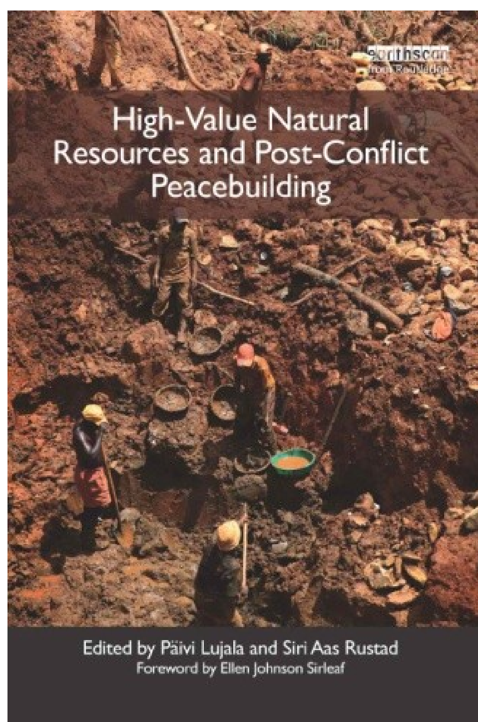

Assigned corporate social responsibility in a rentier state: The case of Angola

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Assigned corporate social responsibility in a rentier state: The case of Angola

Arne Wiig and Ivar Kolstad

What responsibilities do oil companies in Angola have to improve the situation of the Angolan population? Standard corporate social responsibility (CSR) projects have little effect where the rents from natural resources entrench the lack of democratic accountability. Since corporations help fuel the Angolan patronage system, this raises the question of whether companies also have a responsibility to address governance in the country. This chapter argues, on the basis of the assigned-responsibility model, that companies do have a responsibility to act to improve governance in Angola. The chapter also argues, however, that because oil companies gain from dysfunctional institutions, they do not adopt this kind of responsibility. Accordingly, incentives will be necessary to change corporate behavior.

Angola is the second-largest producer of oil in sub-Saharan Africa. But despite the country's substantial revenues from oil production, the majority of the Angolan population remains poor. Almost 70 percent of the population lives on less than US$2 a day, and inequality is rampant.[1] Most Angolans lack access to basic health care; primary-school enrollment is at 56 percent; the illiteracy rate is 50 percent in rural areas; and life expectancy at birth is forty-one years (World Bank 2006). In other words, if you were born in Angola, you would probably be poor, lack access to basic health care, have only a one-in-two chance of attending primary school, and expect to die young, despite the country's substantial natural resource revenues.

Angola clearly exhibits the characteristics of the so-called resource curse, in which resources hinder development instead of spurring it. Political economy

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[1] Angola has a Gini coefficient of 0.62. The Gini coefficient is a measure of the inequality of income distribution in a country. In theory, it ranges from 0 to 1, but in practice it ranges from 0.25 to 0.75. It would be 0 in a country in which everyone's income was precisely equal, and 1 where one person earned everything and everyone else nothing.

models suggest that two kinds of dysfunctional behavior underlie the resource curse: patronage and rent seeking.[2] Empirical results support these models and suggest that the resource curse depends on the condition of institutions: where democratic accountability and the rule of law are weak, resources will have a negative impact; where democratic accountability and the rule of law are strong, resources will have a positive impact (Damania and Bulte 2003; Mehlum, Moene, and Torvik 2006; Kolstad 2009a). Accordingly, lifting the resource curse requires an emphasis on governance—on improving the country's institutions.

Institutions in Angola are extremely weak, partly as the result of more than thirty years of civil war. Angola scores low on indicators of democratic accountability; on the Polity measure of democracy, for example, Angola scores only 2 on a scale of 0 to 10 (Center for Systemic Peace 2007).[3] Before the parliamentary elections held in 2008, the last parliamentary and presidential elections took place in 1992. Patronage is widespread (Hodges 2007), and Angola places 158th out of 180 countries on the 2008 Transparency International Corruption Perceptions Index (Transparency International 2008). Public budgets are nontransparent (Isaksen et al. 2007; International Budget Partnership 2008)—and, apart from political stability, there are few if any political or social indicators that show improvement in the aftermath of the war.

The importance of better institutions is underscored by the fact that access to resources fuelled the civil war and exempted the leadership of the fighting organizations from demands for public legitimacy and accountability (Le Billon 2001).[4] Democratic accountability is vital for a successful peace process, as it not only restricts capture of resource rents—or *greed*, to use the terminology of Paul Collier and Anke Hoeffler (2004)—but also reduces grievance, by affording more people a say in public policies. But the Angolan government does not appear inclined to improve the relevant institutions, and international initiatives

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[2] See, for example, Robinson, Torvik, and Verdier (2006); Mehlum, Moene, and Torvik (2006); and Kolstad and Wiig (2009b). *Patronage* means that government officials use resource revenues to secure their hold on power. *Rent seeking* occurs when groups or individuals attempt to obtain access to economic benefits without contributing to overall income production. For additional information on rent seeking, see Paul Collier and Anke Hoeffler, "High-Value Natural Resources, Development, and Conflict: Channels of Causation," in this volume.

[3] The Polity Project codes all countries according their state-authority characteristics along two axes: democracy (0–10) and autocracy (0–10); often, the two are combined by subtracting the autocracy score from the democracy score, creating the so-called Polity Score, which has a scale from −10 to 10.

[4] The União Nacional para a Independência Total de Angola (UNITA) and the Movimento Popular para a Libertação de Angola (MPLA) were the two armed groups that controlled diamonds and oil, respectively. Governments that have an alternative revenue source, and therefore do not need to tax the population, do not need to be accountable to it. For additional information on this phenomenon, see Paul Collier and Anke Hoeffler, "High-Value Natural Resources, Development, and Conflict: Channels of Causation," in this volume.

in resource-rich countries have failed to address the key governance issues.[5] The absence of government or other commitment in this area raises the question of whether multinational oil companies have a responsibility to address governance problems. The sections that follow present an ethical argument that multinational corporations have such a responsibility.

THE ASSIGNED-RESPONSIBILITY MODEL

The assigned-responsibility framework proposed by Goodin (1985, 1988) provides a model for delineating the ethical responsibilities of multinational companies in

[5] For further elaboration of this point, see Kolstad and Wiig (2009a) and Kolstad, Wiig, and Williams (2009).

addressing institutional and governance failures in countries where they operate.[6] Goodin takes utilitarianism as his point of departure, which states that an action is ethically justified if it maximizes the sum of happiness or utility for all individuals, but the general approach is also amenable to other ethical perspectives (Kolstad 2009b).

The main point is that everyone has general obligations toward everyone else. The best possible state of affairs in terms of total happiness or utility is unlikely to occur, however, if everyone went about thinking about the happiness of everyone else. Some form of specialization is required, where each agent is given a limited set of tasks for which that agent is responsible or a limited number of people to take into account when acting. Our general responsibilities toward everyone else are thus more effectively pursued if we are assigned more limited special responsibilities for certain tasks or people. In other words, ethical theories of this kind imply a division of moral labor.

This raises the question of which responsibilities to allocate to which agents. To have a division of moral labor—that is, an assignment of special responsibilities—that produces the best possible state of affairs, each task should be allocated to the agent who is in the best position to carry out that task. One argument holds that an appropriate division of labor in a society is for public institutions to have responsibility for redistribution and for creating and enforcing the basic rules under which a society operates, and for companies to have responsibility for generating wealth (Kolstad 2006). The state thus has the primary responsibility for alleviating poverty, reducing inequality, providing schooling and health services, and so on. In societies in which this division of moral labor works well, where each party fulfills its assigned responsibilities, there is no reason for companies to pursue redistributive or social tasks.

However, as the case of Angola illustrates, the state does not always shoulder the responsibilities assigned to it under the ideal division of moral labor. In this case, as Robert Goodin argues, these tasks become the "residual responsibility of all," and other agents will then have secondary responsibilities for the task in question (Goodin 1988, 684). This is necessary for the general responsibilities to be met, since if no one stepped in when others defaulted on their obligations, the welfare interests of some individuals would not be adequately protected. In short, if no one addresses the issue of poverty, the poor are in effect not counted in our moral decisions.

When the Angolan state defaults on its responsibilities, it is not immediately apparent that the secondary responsibilities fall on oil companies. More likely candidates are the international community (that is, other states) or civil society. But where these other agents also fail to address these responsibilities, they will eventually fall on corporations. In Angola, the influence of the international donor community is weak and civil society fledgling, which implies that secondary

[6] It is beyond the scope of this chapter to give a full exposition of this perspective. For details, see Goodin (1985, 1988).

responsibilities for improving the socioeconomic situation will fall on the multinational oil companies operating in the country. An unwillingness to take on this kind of responsibility means, in effect, that companies attribute no moral weight to poor Angolans.

THE ROLE OF THE OIL COMPANIES

The government's lack of commitment to improving governance has not been met by an increasing eagerness on the part of the oil companies to do so. Oil companies operating in Angola do provide support to education and health initiatives but do not support initiatives related to governance. This is problematic, because in order to have a significant and substantial effect on the socioeconomic situation in Angola, companies would have to address the cause of the problems, which are the dysfunctional institutions. Such an effort would require the oil companies to address the country's governance problems and intervene in its politics.

A 2005 study by John McMillan found that companies have traditionally played a reactive role in making contracts and payments transparent in Angola. And a 2010 study showed that governance is not a priority in oil company CSR policies (Wiig and Kolstad 2010). Instead, companies use CSR strategically to obtain licenses from the Angolan government: that is, CSR is designed to improve the bottom line or to reduce company risk, rather than to improve conditions in the host countries. By using CSR strategically to get licenses and contracts, multinational corporations risk facilitating patronage in resource-rich countries, exacerbating the resource curse (Wiig and Kolstad 2010).

Clearly, the application of the assigned-responsibility argument assumes that multinational oil companies have the capacity to influence governance in a country like Angola. Corporations commonly object that they do not have this type of influence, but this objection is questionable. Large multinational corporations are clearly powerful players in the Angolan economy: they have the technology and expertise on which the extraction of oil depends, and their negotiating skills are often superior to those of their counterparts in the national oil bureaucracy. Moreover, in a number of resource-rich developing countries, large multinationals have been able to bargain for highly favorable terms, and some have also wrought substantial harm on the host country's institutional environment. Thus, corporations should also have the capacity to influence institutions in a more benign way. More importantly, multinational oil companies have considerable collective influence; acting in concert, oil companies could effectively address governance issues. Oil companies already cooperate in other areas—for example, to reduce gas flaring and as license partners.[7] There is hence little doubt that multinational oil companies could have a positive impact on governance in Angola.

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[7] When oil is produced, gas is often a byproduct. Burning the gas (as waste) causes environmental problems.

As noted earlier, CSR policies are largely dictated by profitability. But what companies profit from is not always in the best interest of society. In Angola, the CSR activities that companies pursue to acquire contracts and licenses are at best irrelevant and at worst counterproductive to inducing the kind of institutional change that would permit Angola to escape the resource curse.

CORPORATIONS, INSTITUTIONS, AND INCENTIVES

The case of Angola calls into question the standard assumption that good institutions are in the interest of corporations—an assumption that ignores the distributive consequences of institutional reform, which are highlighted by a resource-rich context. Institutional reform that shifts resource rents from oil companies to host-country populations may not be in the interest of corporations, individually or collectively. A study by Massimo Guidolin and Eliana La Ferrara (2007) found that as the war in Angola ended, diamond companies active in Angola suffered a decline in their relative stock performance. One possible reason is that ongoing war weakens transparency standards, permitting profitable unofficial dealings. Thus, one might wonder whether corporate inaction on governance reflects the difficulty of engaging in collective action or merely the collective complacency of multinational oil companies.[8]

A durable peace that benefits the Angolan population requires more of a focus on the basic institutional problems of the country—in particular, the lack of democratic accountability. Where the Angolan government and other agents fail to address institutional deficiencies, there is an ethical argument that multinational oil companies are responsible for addressing governance. However, as it is not in the interest of corporations to pursue these kinds of questions, incentives will be needed to persuade the companies to act differently, and to align their interests more closely with those of the population of the countries in which they operate. Current voluntary efforts—such as the Extractive Industries Transparency Initiative, which tracks and publicizes revenue flows between companies and states—are unlikely to change the behavior of companies or governments because they do not raise the costs of maintaining current institutional deficiencies. Hard incentives—of the sort that affect the bottom line of corporations and the take of corrupt government officials—are needed. One option is to implement licensing or procurement requirements in industrialized countries that would put irresponsible companies at a disadvantage; another is to adjust the rules of international oil markets so that dubiously extracted oil is costlier to shift.

The argument that companies are complacent (i.e., that it is in their interest to keep things as they are) casts doubt on companies' claims that they are reluctant to address governance problems because of the risk that they will simply be replaced by less scrupulous companies (from China, for example). If institutional

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[8] See Wiig and Kolstad (2010) for an elaboration of this point.

Kolstad, I., and A. Wiig. 2009a. Is transparency the key to reducing corruption in resource-rich countries? *World Development* 37 (3): 521–532.

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improvement is not in the interest of corporations generally, this "competition" argument is nothing more than an attempt to put a respectable front on murkier corporate objectives. At any rate, the presence of less scrupulous corporations would not undermine the case for corporate action in addressing governance; it would simply mean that incentives would have to be extended to these agents.

Like the Kimberley Process Certification Scheme, which is designed to reduce the trade in conflict diamonds, a change in the rules of the international oil market—so that trading would be more costly for companies that exploit weak institutions in developing countries—would affect all companies. Leif Wenar (2008) refers to the oil extracted in undemocratic countries as "stolen goods," since the government pockets profits that rightly belong to the populace. Accordingly, he recommends the imposition of tariffs on countries whose companies exploit weak institutions in oil-rich countries; such an approach would give the home countries of multinational corporations an incentive to monitor and improve the activities of their companies. Future research in the area of corporate social responsibility should focus on finding additional effective means of making multinational corporations behave more responsibly in oil-rich countries like Angola.

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