

“HOW TO COMBINE SOCIAL
RESPONSIBILITY AND COMMERCIAL
INTERESTS FOR SUSTAINABLE HUMAN
DEVELOPMENT”

The activities of Citizens Energy in Angola from
1986 to 1996 and the creation of the Catholic
University in Luanda

by
Filippo Nardin

January 18, 2001

TABLE OF CONTENTS

Introduction.....	3
Background information.....	4
The oil industry	6
Citizens Energy Corporation.....	9
The Angola Educational Assistance Fund.....	12
The Catholic University of Angola.....	15
Conclusions.....	16
Bibliography.....	18

Introduction

When multinational corporations (sometimes referred to as transnational corporations, or TNCs) operating in developing countries are discussed in an international development forum, it is often with a negative connotation. Developing countries in desperate need for increased revenues and foreign exchange at times agree to contracts that would be unacceptable elsewhere. Reports of pollution, negative impact on the local population and their way of living, unfair portion of revenues sent abroad with minimal or no reinvestment in the local economy, and unacceptable working conditions for local employees have been, and continue to be, reported, leading some to conclude that the net socio-economic benefits of foreign investment (especially with regards to direct investment) are, for many developing countries, negligible.

There is however an increasing tendency among TNCs to take social responsibilities into account when planning, coordinating and operating a business enterprise in a developing country. Corporations interested in a long-term business relationship increasingly realize that it is beneficial, from a corporate point of view, to conduct foreign subsidiaries in a socially responsible manner.

In this context, I will look at the socially responsible business approach that Citizens Energy Corporation has pioneered in the sub-Saharan country of Angola, and how it has benefited both its commercial interests in the oil sector as well as its charitable activities there. In particular, I will examine the process that brought about the incorporation of the Angola Educational Assistance Fund, a 501(c)3 nonprofit organization created by Citizens Energy to support the establishment of the Catholic University of Angola with funding deriving from its financial returns in Angola from 1986-1996.

In this paper, I will make use of information that I have gathered during my personal involvement with Citizens Energy in Angola, as well as generic economic and historical information from a number of sources that are listed in the bibliography.

Background information

The Republic of Angola is blessed with abundant natural resources, including petroleum, diamonds, agriculture and fishing resources, and certainly has the potential to be one of Africa's brightest stars. With little over 11 million people, overpopulation is not a problem. Its territory of about 1.2 million square kilometers makes it about twice the size of France. Located on the Atlantic Coast of southern Africa, Angola is bordered by Namibia to the south, Zambia to the east and the Democratic Republic of Congo and Congo to the north. The over 1,600 km-long coastline and its four major ports make it a natural trans-shipment point for the entire region.

However, civil war has been the norm in Angola since independence from Portugal in 1975. The country has since then experienced political as well as economic instability. A 1994 peace accord between the government and the rebel movement National Union for the Total Independence of Angola (UNITA) provided for the integration of former UNITA insurgents into the government and armed forces. A national unity government was installed in April of 1997, but serious fighting resumed in late 1998, rendering hundreds of thousands of people homeless. Today, reports on military activities still provide an uncertain environment for domestic and foreign investors, and – most tragically – for the population of Angola. Up to 1.5 million lives may have been lost in fighting over the past quarter century.

As a consequence, the economy has stagnated for years and the government has concentrated on war efforts and related spending rather than economic policy planning¹. Little progress has been made in reforming public enterprises and financial institutions or improving public sector management. The economic legacies bequeathed by Portuguese

¹ At the same time as UNITA has used illegal diamond trade to finance its military operations, the Angolan government has diverted funds from oil production for the same purpose. Currently, the United Nations is trying to enforce a ban on the illegal diamond trade with Angola, while the International Monetary Fund is examining government accounts and has recommended full transparency of all oil related transactions in order to receive international loans.

colonial rule are still evident; especially in the critical shortage of skilled professionals. In addition, high levels of corruption have been an important impediment to implementing sound economic policies and have greatly discouraged foreign direct investment (FDI). It is clear that the recovery of the country will require immense human and capital input, and that great expectations have been placed on foreign companies operating in Angola (mostly oil companies) and on the relatively small group of charitable and non-governmental organizations trying to alleviate the plight of the local population.

When Citizens Energy Corporation started to expand its commercial activities to Angola in 1986, it recognized this situation and early on assumed a dual role of both commercial entrepreneur and charitable organization, i.e. it began to use part of the revenues it generated to finance charitable programs. Some of these programs were managed by nonprofit organizations working in Angola, while others were managed directly by Citizens Energy. Often, programs would be carried out in parallel. In 1994, Citizens Energy decided to concentrate all of its charitable efforts toward one strategic project: the Catholic University of Angola.

The effects of Citizens' approach can be measured through the successful revenue generation of its operations from 1986 through 1996, the list of charitable programs that the company carried out, and finally through the inauguration in 1999 of the Catholic University of Angola in its capital Luanda.

The oil industry

Oil is undoubtedly the engine of the Angolan economy and provides for more than 90% of the country's foreign exchange, more than 90% of government revenues and almost 50% of GDP. The oil industry was the only sector of the Angolan economy that has never been affected by the course of the war and has been thriving since Gulf Oil made major discoveries² in the 50s. This is due mainly to the offshore location of most of the producing oil wells. In an ironic twist of the Cold War years, while the armed struggle was raging and UNITA rebels were supported by the apartheid government of South Africa and financed by the CIA (i.e. the US government), Cuban troops protected the installation of Gulf Oil and ensure the continuance of the oil production and the associated revenues for the Angolan government and the US company³.

Angola is currently the second largest producer of oil in Africa, with an output of almost one million barrels a day. As the OPEC quotas do not bind the country⁴, the government continues to encourage increased production volumes in order to spur additional revenues. Almost all oil extracted in Angola is exported as the domestic electric generation is achieved by hydroelectric resources – also abundant – and internal consumption is still low⁵. US oil companies with a significant presence include Chevron and Exxon⁶.

² In 1984, Gulf Oil merged with Standard Oil of California to form Chevron in what was the largest corporate merger to date.

³ This happened throughout the Regan and Bush administrations. Dr. Savimbi, UNITA's leader, was even received by President Bush at the White House in an unequivocal sign of support by the US government. Cuban troops left the country in 1991.

⁴ Angola is not a member of OPEC and has relentlessly increased oil exploration and production in the past 20 years.

⁵ However, it is clear that the people of Angola have definitely not participated in the potential profits of the oil production. Apart from a restricted elite of mostly government officials, the majority of the population has seen their quality of life dramatically lowering over the past 20 years.

⁶ About 75% of Angolan oil is extracted by US companies, and over 10% of the gasoline consumed in the US is imported from Angola (1999).

The Angolan government has divided the areas for exploration and production into geographic sectors, mostly offshore (so-called blocks). There are currently over 40 blocks, and as technology to drill wells in deep waters becomes available, it is expected that new blocks will be designated farther off the coast.

In order to acquire a concession to explore and eventually produce in a given block, a foreign investor is obligated to enter a bidding process. Blocks are literally auctioned by the government. Oil companies form collaborative agreements - consortiums - to share the risks inherent with oil exploration, where the company with the highest interest percentage is called the “block operator”. The consortium will then offer a so-called “signature bonus”⁷: the highest bonus wins the block, basically a down payment to the government for the concession to explore the block for pre-determined period of time (typically four to six years)⁸. In addition to the signature bonus, the consortium – which will include the government with a 50% share – is committed to drill a minimum of four exploration wells during said period, each of which costs in excess of \$20 million.

Once the block is awarded, the association between the government and the consortium is usually in the form of a “production sharing agreement” (PSA): the foreign partners act as contractors for the government, finance all investment costs, recoup their investments with “cost-oil” and share “profit-oil” with the government on a sliding scale linked to internal rate of return rather than cumulative production. The latter serves to increase the incentive to invest in achieving higher production levels. A PSA is attractive both to the government and to foreign investors; the government avoids the risk costs, and the foreign companies are able to frontload the cost-oil, enabling them to amortize investment quickly. The tax rate in a PSA is 50 percent on retained profit oil. As mentioned earlier,

⁷ In the past – during Citizens Energy’s presence in Angola – signature bonuses were in the order of 10 to 20 million dollars. The latest signature bonuses for blocks awarded in 1999/2000 are in the order of 100 to 400 million dollars, a fact that reflects the increased competition in the Angolan oil sector.

⁸ Interesting to note here is that oil companies enter alliance ad-hoc, so that they are loyal partners in one block or fierce competitors in a different one.

the taxes collected from the oil industry constitute the vast majority of government revenues.

As part of the signature bonus mentioned earlier, there is a so-called “social bonus”, which can be up to 10% or 15% of the amount offered (i.e. a 20 million dollar signature bonus could include a 3 million dollar social bonus). This is required in the bidding process, and – at least in theory – is a way for the government to encourage social development. The consortium will define a “social project” that will be financed with the social bonus: a hospital, a school, a training center, etc. The type of project will be weighed in during the awarding process if the signature bonuses are not significantly different. The PSA will include a contractual part regarding the management of the social project.

Typically, the consortium will sub-contract a nonprofit organization to carry out the social project. However, in many cases control of the project would not be relinquished by either the government or the oil companies, resulting in conflict of interests within the PSA partners, dubious allocation of the funds, little or no coordination with other projects from other PSAs, the absence of an acceptable sustainability plan, etc. Basically, the funds would unsurprisingly be lost to waste, corruption, and just plain bad planning⁹.

Thanks to its visionary Chairman, the late Michael Kennedy, Citizens Energy’s participation in the oil industry in Angola resulted in a new approach to social responsibility and an interpretation of the social bonus that would ensure both local accountability and long-term sustainability of its purposes.

⁹ It is not unheard of in Angola for two adjacent clinics to be built where there still isn’t a school, or of impressive inauguration ceremonies with lots of media attention when the project opens, with operations of the same ceasing shortly thereafter.

Citizens Energy Corporation

Citizens Energy Corporation is a Boston-based nonprofit organization, which operates and invests in fully commercial, taxable business in various fields, both domestically and abroad¹⁰. The company was founded in 1979 on the belief that business and social goals are not mutually exclusive. Its mission is “to use business for social good by developing new forms of commercial arrangements to improve the quality of life for disadvantaged people and to create new commercial and social relationships, especially between developed and developing nations, that allow these nations to maximize human, economic and natural resources.” In line with this mission, it has been company policy to fund social programs to benefit host countries by using a portion of the profit earned on commercial activities.

Citizens began its involvement in the exploration and marketing of Angolan oil in 1986, participating as a minority partner in the exploration of two blocks, and lifting Angolan crude oil from 1987 through 1996. Citizens sold its interests in the two exploration blocks and the oil trading business in 1996. During this time, Citizens reinvested more than two million dollars in social programs in the country. It currently has no commercial presence in Angola. However, due to its business-related success and its engagement in the social sector, it still is well respected and enjoys a very positive reputation.

The first reinvestment program began in 1987 in conjunction with Citizens’ first exploration and production contract, when Citizens sponsored a project focused on improving fish production with a solar fish drying facility in the coastal village of Ota-Ganga, Cacuaco. In December 1992, at the height of renewed fighting in the ongoing Angolan civil war, Citizens coordinated three emergency airlifts, including one of the first airlifts of medical supplies (in collaboration with Africare¹¹). In 1988 and 1989, Citizens

¹⁰ Please see <http://www.citizensenergy.com/> for more information.

¹¹ Please see <http://www.africare.org/> for more information.

sponsored and organized two fact-finding missions to Angola with U.S. congressmen and business leaders. From 1990 to 1996, Citizens worked with ADPP¹² to build two schools for orphaned children in Huambo and Kuito, Central Angola. Citizens Energy co-founded the U.S. Angola Chamber of Commerce¹³ in Washington D.C. in 1990, and continues to advocate diplomatic and commercial relationships between the U.S. and Angola.

In 1992, the foundation for a new, more ambitious project was laid when Citizens Energy's late Chairman, Michael Kennedy, spent several weeks in Angola to serve as an observer on behalf of the Department of State for the first democratic elections ever held in the country. During this time, he befriended Dom Alexandre Cardinal do Nascimento, Archbishop of the Catholic Church in Angola, who had had hopes for a new university for many years. In his vision, a Catholic University would constitute a pillar in the reconstruction of the country. As the Angolan Catholic Church did not alone have the means to launch the project, the Cardinal and Mr. Kennedy began to discuss how Citizens Energy could be of assistance.

As mentioned earlier, all foreign oil companies involved in Angola are obligated to provide funding for a social project as part of their signature bonus when acquiring a concession. It was along this line that Mr. Kennedy felt there was a possibility to help Cardinal do Nascimento's plan. In 1994, concession negotiations for the exploration of block 1 were occurring between Mobil (US), Energy Africa (South Africa), Saga (Norway), and Citizens Energy and the Angolan state. Mr. Kennedy convinced both the partners and the Angolan government that the plan to create a Catholic University provided the opportunity for a sustainable and highly beneficial project for Angolan society. The proposed social bonus was eventually designated to support the Catholic University, and when the consortium was finally awarded the block in 1996, 1.2 million dollars were

¹² Please see <http://www.humanapeopletopeople.org/> for more information.

¹³ Please see <http://www.us-angola.org/> for more information.

transferred to an endowment created ad-hoc: the Angola Educational Assistance Fund (AEAF). Construction of the Catholic University began shortly thereafter.

The creation of the Angola Educational Assistance Fund was an important event. Oil companies had previously failed to collaborate where social activities were concerned, leading to much confusion, and projects impeding, rather than complementing each other. With the creation of the AEAF, a larger sustainable fund was created. Companies would have the choice of either contribute to AEAF or set up a similar approach for another social project. Either way, Citizens' task of helping Angola would be rewarded.

The Angola Educational Assistance Fund

The Angola Educational Assistance Fund¹⁴ (AEAF) operates as a charitable and tax-exempt foundation and qualifies for tax-exempt status under Section 501(c)(3) of the United States Internal Revenue Code. AEAF's mission includes financial support for the Catholic University of Angola (UCAN), carrying out fund-raising and representing the interests of UCAN within the international business community in Angola. In addition, the AEAF helps coordinate visiting fellowships from universities and colleges in the U.S. and other countries, and offers professional and educational training at UCAN with revenues channeled to other programs.

In addition, the role of the organization has included the promotion of the collaboration between UCAN and other higher education institutions in Angola and abroad. The AEAF was established to improve the education of Angolans by Angolans in Angola, and all activities in conjunction with foreign institutions are undertaken according to this aspect of the mission.

The AEAF also intends to function as a link in encouraging the involvement of the private sector in the reconstruction of the Angolan society. Although the primary focus of the AEAF is to collaborate with and support UCAN, the potential for the AEAF to serve as a coordinator and communication link between foreign investors, the government, the Catholic Church, and various nonprofit organizations working in the country is also present.

There has been a tendency for nonprofit organizations, the World Bank and others to invest in and sponsor projects according to plans designed elsewhere by non-local people without much regard for the needs for and the effects of the projects and their sustainability. As a result, large sources of funding have not been utilized to their full

¹⁴ Please see <http://www.aeaf.org/> for more information.

potential. In order to maximize the benefits of investments into social projects, appropriate assessment studies must be carried out and the local population consulted to a larger degree. Although foreign advice and suggestions are feasible, it is crucial that local people themselves assess what they are in need for, and that they have the final word as to what projects they will be able to launch and administrate. It is along this line that the AEF operates.

In 1997, concerned with providing a long term financing mechanism for the Catholic University, the AEF started to look at an alternative approach to traditional fundraising¹⁵. As per decree no. 20/82 approved by the Angolan government in 1982, petroleum companies operating in Angola are required to invest into educational and training programs the amount of \$0.15 (15¢ of U.S. dollar) per barrel of oil produced¹⁶. The idea was basically to boost professional education for Angolans in Angola and create a skilled local work force. Although the original reason for enacting the decree was commendable, in fact very few Angolans and Angolan learning institutions have profited from it. First of all, the money was not accounted for, serving either government or oil companies' interests¹⁷. Secondly, even if used for training purposes, oil companies have trained their own expatriate professionals¹⁸. Alternatively, they have sent the children of government officials to study in the US or Europe at a considerably higher cost. It is possible to train 20 or more students locally at the cost of one student abroad, and sending students abroad also has the detrimental effect of de-investment in local capacity building.

The AEF moved ahead suggesting that a part of these funds, a mere 1¢ out of the 15¢ per barrel of oil produced, should be channeled directly to the Catholic University. It was

¹⁵ Traditional fundraising activities are still considered by AEF and could be carried out in the future.

¹⁶ The companies get a full tax-deduction on these funds, so they basically only have to "advance" the expenditure; the final cost falls on the government. These funds are commonly known as "Training Levy Funds", and their amount, being linked to the net oil production and not to the cost of the barrel of oil, does not fluctuate, but it rises as the oil production increases.

¹⁷ It is rumored that in 1998-1999 the government used these funds to illegally purchase arms circumventing a UN embargo.

¹⁸ Training a company's own professionals should be part of business investment, not government sponsored activity.

a radical idea, one that would basically make part of the oil profit transparent and diverted to a highly visible and successful project in Angola¹⁹. Through the persuasive work of Michael Kennedy, this initiative received wide support. Finally, on July 11, 1997, the Council of Ministers of the Republic of Angola approved the decree no. 51/97, in an effort to provide a funding mechanism for higher education institutions in the country. The decree states that a portion of the Training Levy Funds, in the amount of 1¢ per oil barrel, will be used to finance the Catholic University. Just diverting 1¢ per barrel of oil, at the current oil production levels, the mechanism will provide around three million dollars per year: without question a very solid financial base to count on.

Michael Kennedy died on December 31, 1997, not before knowing that Cardinal do Nascimento's and his dream was becoming a reality. In an effort to recognize his relentless support, the Catholic University has dedicated its library to his memory.

¹⁹ Although this is definitely a small portion of the oil revenues, the impact of the decree has been the first step in the review of the government oil accounts: after years of negotiations, in 2000 the government has finally reached an agreement with the IMF on full transparency of all oil revenues.

The Catholic University of Angola

As mentioned before, due to the absence of a functioning higher learning system within the country, for several years the government of Angola and foreign oil companies have sponsored education for privileged Angolan students abroad. These efforts have proven extremely costly and relatively meaningless, as most of the students sent abroad never return to contribute to the restructuring of the Angolan society.

Citizens Energy's approach has changed this situation. Through the Angola Educational Assistance Fund and working with the Catholic Church, Citizens has made possible the founding of the Catholic University of Angola (UCAN), which was inaugurated on October 19, 1999.

In this initial stage, the Catholic University of Angola is focusing on courses and programs considered most relevant in the present social and economic conditions of the country: reorganization of the educational, administrative and economic systems, as well as providing job skills for the new economy for young Angolans. There are currently three departments: Law, Economics and Management, and Computer Engineering.

The Catholic University is the first non-governmental university in Angola. Its mission is to provide human, academic and professional education to the Angolan people. As an open university, it is ruled by principles of absolute liberty of access, regardless of race, gender, religion and social and economic conditions, with the only limits being those deriving from available space and academic selection criteria.

UCAN and AEAFF have collaborated on a variety of projects. Among the most significant was the establishment of an Internet and computer center at UCAN in 1998. In 2000, the AEAFF developed a curriculum for a Computer Engineering Department. The approval of the Angolan Ministry of Education is expected soon, and classes are scheduled to begin in March 2001.

Conclusions

In the turbulent atmosphere of a country like Angola, confronted with its relatively recent colonial domination, widespread diseases like malaria and AIDS, political and military instability, landmines, and other threats to human development, it is crucial that foreign corporations conduct their business in a socially responsible manner. The potential is certainly there for the country to benefit socially and economically from the presence of foreign oil companies, but this requires correct management and genuine interest both from the corporate and the Angolan government's side.

Foreign investment, debt rescheduling, privatization, tax reforms and long term economic development planning are important factors in Angola's road towards a stable, sustainable economy. The development of a skilled work force is crucial if these reforms are to be planned and implemented, and the country to assume a more self-sufficient role. Foreign companies' contribution in improving the country's skills base is therefore of tremendous value. This is what Citizens Energy decided to do for Angola, and the establishment of the Catholic University project testifies to the success of this idea.

Although one cannot expect that transnational corporations around the world will become as involved in the host country's social affairs as has Citizens Energy Corporation in Angola and elsewhere, I hope that I have proved that this case is a lesson both for the governments of developing nations and for transnational corporations. Governments of developing countries can learn that they do have the ability to implement decrees of the sort passed by the government of the Republic of Angola in order to maximize the social benefit of foreign investment. Transnational corporations should note that although there is commercial competition between foreign investors, it is possible to cooperate on social projects to the benefit of the host country and the corporations themselves. Increased consumer awareness and global means of communication have contributed to making it commercially profitable to engage in social projects extending beyond what has traditionally been considered to lead to profit maximization. Furthermore, the

investments required today to engage in commercial activities in developing countries are often quite large and compel an organization to plan a long-term presence²⁰. Both in terms of local acceptance and potential local customer base, it is essential to a corporation's interests to engage in activities in the way pioneered by Citizens Energy in Angola.

²⁰ Chevron has been doing business in Angola for over 50 years.

Bibliography

- Angola to 2000 – Prospects for Recovery, The Economist Intelligence Unit, by Tony Hodges.
- Angola: Promises and Lies by Karl Maier.
- Angola: Struggle for Peace and Reconstruction by Inge Tvedten.
- Angola: The Role of the Private Sector in Accelerating a National Reconstruction in Africa by Paul J. Hare.
- Angolan-American Economic Partnership Guide to Trade and Investment Opportunities, The Embassy of the Republic of Angola
- Angolan-American Economic Partnership Trade and Investment Reference Guide, Embassy of Angola.
- Angola's Last Best Chance for Peace: An Insider's Account of the Peace Process by Paul J. Hare.
- Building the Future in Angola: A Vision for Sustainable Development by Fatima Roque.
- Destruction of a Nation: United States Policy Towards Angola Since 1945 by George Wright.
- The Death of Dignity: Angola's Civil War by Victoria Brittain.
- UNDP, Human Development Report Angola 1997, UNDP, New York, NY, 1997.