

## **Masteroppgave**

*Ethical perspective on problems faced by companies in natural resource industries operating in countries with inadequate institutions*

Av

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Masteroppgaven er gjennomført som et ledd i utdanningen ved Universitetet i Agder og er godkjent som sådan. Denne godkjenningen innebærer ikke at universitetet inntår for de metoder som er anvendt og de konklusjoner som er trukket.

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## **Abstract**

This thesis looks at the ethical problems and difficulties that arise when large multinational corporations do business in countries suffering from corruption, poverty, and hunger. The countries in question are rich in natural resources, yet most of their people receive no benefits from the extraction of the resources. The thesis emphasizes the importance of institutions in relation to the ethical problems. A case study of Angola is undertaken to illustrate the ethical problems. The thesis discusses the problems with different ethical perspectives drawn from the three main schools of moral philosophy. The result is a conclusion about the moral rightness of actions found in the case study, about what responsibilities companies face, and about what steps a company should take when faced with the ethical problems.

## **Acknowledgements**

I would like to thank my advisor Andreas Falkenberg for suggesting this topic for a master's thesis. Had he not put me on this track I am positive my final semester at the University of Agder would have been duller. His guidance has also allowed me to narrow down my focus to what really matters and helped keep me from getting lost.

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## Table of contents

Abstract.....	I
Acknowledgements .....	II
Table of contents .....	0
1. Introduction .....	1
2. Theory .....	4
2.1. Definition of institutions .....	4
2.2. Human flourishing .....	6
2.3. Virtue ethics .....	8
2.4. Consequentialism.....	14
2.5. Deontology .....	20
3. Research Methodology .....	25
4. Angola.....	27
4.1. Introducing Angola .....	27
4.2. Corruption .....	28
4.3. Institutions in Angola.....	29
4.4. Government in Angola.....	30
4.5. Sonangol.....	31
4.6. State looting.....	32
4.7. International oil companies and problems they face .....	33
4.8. Guidelines for Multinational corporations .....	34
4.9. A selection of oil companies in Angola.....	36
4.9.1. StatoilHydro.....	37
4.9.2. BP .....	38
4.9.3. Total .....	39
4.9.4. Chevron .....	41
4.10. Only one of the issues on the agenda.....	42
5. Discussion .....	43
5.1. Inadequate institutions .....	43
5.2. Virtue ethics perspective .....	44
5.3. Consequentialist perspective .....	48
5.3.1. Maintain status quo .....	48
5.3.2. Cease operations .....	50
5.3.3. Evolution over revolution.....	51
5.3.4. Comparison.....	52
5.4. Deontological perspective .....	56
6. The resource curse – a worldwide problem .....	61
7. Summary and conclusion.....	67
8. References.....	70
9. Appendix.....	76
9.1. GDP per capita (PPP).....	76
9.2. Gini coefficient.....	77
9.3. Corruption perceptions index .....	78
9.4. Global Integrity Index.....	79
9.5. Corruption, failed states, and the world’s biggest oil companies.....	82

## 1. Introduction

Across the world, countries that are rich in natural resources struggle with poverty, hunger, disease, and lack of education. These countries should have every qualification necessary to become well developed nations, yet poor quality of life is the norm rather than the exception. Corrupt governments, poor legal systems, oppression, and nonexistent or poor health care are the facts of life for people in these countries. Their natural resources are in high demand by the world market, and large multinational corporations (MNCs) operate in the struggling countries in order to bring the resources to market. The MNCs bring large influxes of cash to the countries, yet this money often fails to benefit the people.

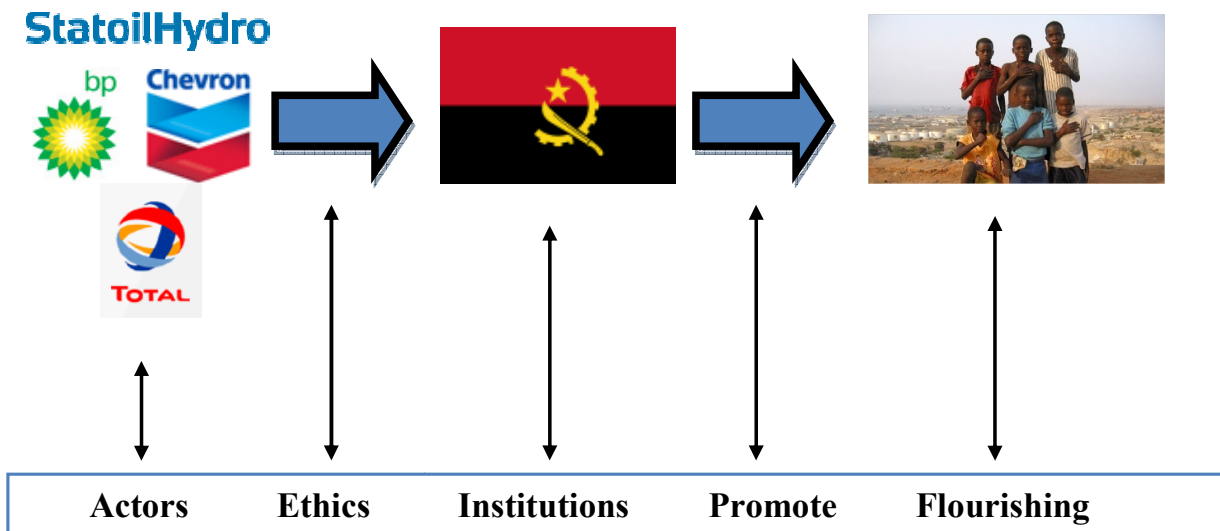
The focus within a struggling resource rich country will be put upon its institutions, as the institutions are found to be behind much of the difficulties experienced by the people. The term inadequate institution is used. MNCs operating in countries with inadequate institutions will face ethical problems with no clear solution. This thesis will research problems MNCs face with different ethical perspectives drawn from the three major branches of moral philosophy.

This thesis will use a case study of Angola as the basis for the research, a country that represents the problems of inadequate institutions very well. This country has a plethora of humanitarian problems while being rich in oil and gas. A sample of MNCs present in Angola will be researched. Their operations and actions that relate to the ethical problems brought about by their involvement in Angola will be outlined. The responsibilities they face will be an important result of the research. A comparison of how the responsibilities are handled and how they should be handled according to this thesis will find the MNCs' efforts lacking.

The reason for choosing this subject for the thesis is the author's belief that the issue needs more attention. The oil industry is used as an example in this thesis, and it is telling of the challenges faced by the entire world. As oil reserves in the first world dwindle and an increasing number of new discoveries are made in the third world the importance of the oil industry in countries with inadequate institutions will only rise. The industry is fascinating because of the desirability and uneven distribution of oil. Companies that come from countries with well developed institutions, providing numerous checks and balances, have to conduct their business in host countries with a weak or nonfunctioning institutional

environment. In addition to the interesting aspects of the subject, the author believes there is room for improvement in how MNCs manage the problems they encounter and is curious about what changes can be possible.

Much of the thoughts and reasoning in this thesis can be seen in the light of a simple model, borrowed and adapted from thesis advisor Andreas Falkenberg:



The purpose of ethics is, in this thesis, stated to be promotion of human flourishing. In this model the actors (four MNCs) operate in Angola where they have to work in an environment of institutions. First among the institutions are the Angolan Government and the laws and regulations issued by them. The actors perform acts that can be evaluated with the help of ethics. The end result must be promotion of human flourishing, so if the institutions do not promote human flourishing, acts that follow the institutions are not ethical or morally right. A company that devotedly follows laws and regulations in a host country is not in the right if the laws and regulations are not right. With an ethical perspective one must consider the effect on those who matter the most; the people.

This thesis will first explore what institutions really are, and then what inadequate institutions are. Three different schools of moral philosophy will be presented that will be used later in a discussion of the problems the MNCs face in Angola. After the presentation of ethical theory a case study of Angola follows. The study of Angola will uncover problems that can arise

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because of inadequate institutions. The thesis will then look at how these problems relate to the oil companies selected for the research. After that a discussion of the problems will be undertaken that draws on the three ethical theories, with examples of what should be done if the theories were to be followed fully. Following that a section is dedicated to the resource curse, an affliction that many countries with abundant natural resources suffer from. The research and presentation of the resource curse is meant to show that the problems found in this thesis are not limited to just Angola. Finally, a summary will present what has been learned about Angola, about the actions of the MNCs in Angola, and about the problems they face, that require careful consideration. Recommendations for MNCs will be the final section of this thesis.

## 2. Theory

In this section a selection of relevant theories is presented that will be used for a later discussion of the ethical or moral problems discovered during the research. The term institution is defined, and the good that all things seek is suggested to be human flourishing, resulting in a definition of what an inadequate institution is. Further on, the three major branches within ethics and moral philosophy are presented; virtue ethics, consequentialism and deontology, both in their original form and some newer adaptations. In the research of ethical theory several different works were studied, yet the theory presented here draws heavily on three different writers for the Stanford Encyclopedia of Philosophy; Hursthouse, Sinnott-Armstrong and Johnson respectively. This is due to their articles' excellent summary of different perspectives within each school of thought.

### 2.1. Definition of institutions

For the purpose of this thesis, it would be appropriate to start with a definition of institutions, and furthermore; explain what is meant by inadequate institutions. There is no single, generally accepted definition of *institution* (Hodgson, 2006). It could be useful to look at different sources before deciding on how to define the term in this thesis.

Oxford English Dictionary (OED) has the following definitions, among others:

*“2. a. The giving of form or order to a thing; orderly arrangement; regulation. b. The established order by which anything is regulated; system; constitution.”*

*“6. a. An established law, custom, usage, practice, organization, or other element in the political or social life of a people; a regulative principle or convention subservient to the needs of an organized community or the general ends of civilization.”*  
(Simpson & Weiner, 1989).

It is uncertain whether social scientists contributed to this entry in the OED, however, the dictionary is considered somewhat of an authority on the English language.

Nobel laureate Douglass North uses another definition in his work:

*“Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic”*  
(North, 1990, p. 3).



Yet another definition can be drawn from Geoffrey Hodgson:

*“...we may define institutions as systems of established and prevalent social rules that structure social interactions. Language, money, law, systems of weights and measures, table manners, and firms (and other organizations) are thus all institutions.”*  
(Hodgson, 2006, p. 2).

John R. Commons, an early contributor to the theory of institutional economics, gave the following definition, after discussing the difficulties of defining the term:

*“If we endeavor to find a universal circumstance, common to all behavior known as institutional, we may define an institution as collective action in control, liberation and expansion of individual action.”*  
(Commons, 1931, p. 649).

Although different, a common theme can be found in these definitions, the idea of structure, regulation, and control. These related terms give a sense of the purpose of institutions. By constraining human behavior and interaction, institutions serve to promote some ends in a society. The word *constraints* may have negative connotations, but in this case the function of the constraints is not necessarily to restrain the society. “Institutions both constrain and enable behavior. The existence of rules implies constraints. However, such a constraint can open up possibilities: it may enable choices and actions that otherwise would not exist” (Hodgson, 2006, p. 2). Examples used by Hodgson include the rule of law, that can increase personal safety, and the rules of language, that allow people to communicate. Williamson emphasizes the importance of institutions in determining transaction costs (Williamson, 1987), a view supported by North (1991). The security of property and contractual rights is brought up by Keefer and Knack when researching the differences in economic growth between poor and wealthy countries with an institutional perspective (Keefer & Knack, 1997).

These characteristics of institutions can improve market efficiency, which in turn can facilitate growth. But this is not always the case. “Institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to create new rules” (North, 1997, p. 20). Institutions that do not promote efficiency are relevant for this thesis, as the meaning of *inadequate* institutions is explored. It seems prudent to assume that efficiency, for a society as

a whole, is desirable. If we consider the needs of a society as the basis for evaluating institutions, then institutions that serve the interests of a small group within the society, at the expense of the whole society, should be considered inadequate. Keefer and Knack (1997) employ various indicators of institutional quality in their research, including “measures of the prevalence of the rule of law, the pervasiveness of corruption, and the risk of expropriation and contract repudiation”. A low score on the rule of law, and a high score on corruption, risk of expropriation and contract repudiation would point to a country having inadequate institutions.

If a single definition of institutions is needed, Douglass North’s seems like the best, so this thesis will use his definition, and elaborate on the term *humanly devised constraints* as needed. It is worth noting that North makes no mention of any good that institutions are created for, only their neutral function. More information is needed to determine what good this could be.

## **2.2. Human flourishing**

To take the search for a definition of inadequate institutions one step further, this thesis will borrow from virtue ethics the concept of *eudaimonia*, which can be translated as either *happiness* or *flourishing* (Hursthouse, 2008). The problem with *happiness* as a translation is that the state of being happy is subjectively determined. Using *flourishing* could also be problematic, because it can apply to animals and plants, but *eudaimonia* is only possible for rational beings (Hursthouse, 2008). To rectify that drawback the concept can be qualified as *human flourishing*.

The concept comes from Aristotle, who said that “every art and every investigation, and likewise every practical pursuit or undertaking, seems to aim at some good” (Aristotle, 1999, p. 3). Aristotle goes on to explain that some ends are more desirable than others since some ends are only pursued for the sake of other ends. An example of this could be security of property rights. While security of property rights is an end, it is not pursued for the sake of itself, but for lower transaction costs, which in turn leads to increased investments and economic activity. In the same way, increased economic activity is an end pursued for the sake of another end, that of increased wealth or welfare. So the argument continues. Aristotle searched for the highest good or the ultimate end, which was desirable for itself, not desirable

for the sake of some other good, and all other goods were desirable for its sake (Kraut, 2008). In the (translated) words of Aristotle himself:

*“If therefore among the ends at which our actions aim there be one which we wish for its own sake, while we wish the others only for the sake of this, and if we do not choose everything for the sake of something else (which would obviously result in a process ad infinitum, so that all desire would be futile and vain), it is clear that this one ultimate End must be the Good, and indeed the Supreme Good.”*

*(Aristotle, 1999, p. 5).*

The ultimate end was determined to be *eudaimonia*, or human flourishing. Aristotle said that most people agreed with this definition of the highest good, but they disagreed about what human flourishing really was (Aristotle, 1992). He dismissed the idea that pleasure, honor or wealth were the main components of human flourishing. He asks what the function of a human being is, and goes on to argue that it consists in activity of the rational part of the soul in accordance with virtue (Kraut, 2008). Human flourishing, then, is not a state or condition, but a life of activities; doing something that expresses virtue. Although human flourishing is an end to pursue for itself, Aristotle recognizes that without an adequate supply of other goods the virtuous activities can be impeded (*eudaimon* translated to *happiness* in this quote):

*“... Hence the happy person needs to have goods of the body and external goods added to good activities, and needs fortune also, so that he will not be impeded in these ways. Some maintain, on the contrary, that we are happy when we are broken on the wheel, or fall into terrible misfortunes, provided that we are good. Willingly or unwillingly, these people are talking nonsense”*

*(Aristotle, 1992, p. 334).*

Friends, family, health, wealth and power are examples of other goods that one must possess in order to flourish through virtuous activities. Lack or traumatic loss of these goods will be a deterrent to living well, or flourishing. Aristotle says this is why some people identify flourishing with good fortune (Aristotle, 1992).

Human flourishing as a description of “the highest good” or a good life can be applied to all moral theories, not just those originating from Aristotle’s work. This thesis will use human flourishing as the stated purpose of institutions, and as an ultimate end to the different views on moral philosophy presented. With human flourishing as the basis of institutions it is possible to define inadequate institutions as institutions that do not pursue or further human flourishing. It is important to note that it is all of humanity that is meant to flourish, not just a

select group of people. An example is given by Aristotle: “constitutions which aim at the common advantage are correct and just without qualification, whereas those which aim only at the advantage of the rulers are deviant and unjust, because they involve despotic rule which is inappropriate for a community of free persons” (Miller, 2008).

### 2.3. Virtue ethics

Virtue ethics is one of three major perspectives within the domain of normative ethics. It originated from Greek moral philosophy, with the famous philosophers Plato and Aristotle being the founding fathers (Hursthouse, 2008). Virtue ethics centers on the actor performing an action, not the action itself. The character of the actor is seen as the basis for ethical thinking. An actor can possess virtues that allows for morally “right” actions. Virtue ethicists are skeptical to draw conclusions about what is morally right based on a single specific action.

Honesty could be an example of a virtue, but it is more than just a tendency to do what is honest. A virtue is a disposition that is well entrenched in its possessor; and a disposition that is related to many actions beyond just the tendency to do what is honest. Emotions, emotional reactions, choices, values, desires, attitudes, interests, expectations, and sensibilities are part of the virtue (Hursthouse, 2008). Hursthouse writes that “to possess a virtue is to be a certain sort of person with a certain complex mindset” (2008, p. 2). An important aspect of this mindset is the recognition that a range of considerations can be the reason for a certain action. For example, a person that never lies or cheats out of fear of being caught and the following repercussions cannot be said to be an honest person. An honest person chooses to never lie or cheat because he or she recognizes that it is wrong and values honesty. The virtue plays a part in many aspects of the honest person’s life. Hursthouse has another example:

*“Valuing honesty as she does, she chooses, where possible to work with honest people, to have honest friends, to bring up her children to be honest. She disapproves of, dislikes, deplores dishonesty, is not amused by certain tales of chicanery, despises or pities those who succeed by dishonest means rather than thinking they have been clever, is unsurprised, or pleased (as appropriate) when honesty triumphs, is shocked or distressed when those near and dear to her do what is dishonest and so on”*  
(Hursthouse, 2008, p. 2).

For a person to fully possess such a disposition is rare. Most people would have some minor or major shortcomings that will detract from the ideal disposition. A person who acts honestly

in most dealings with other people could be prone to arrogance towards some subgroup of a community, thus falling short of the perfect virtue. Possessing a virtue, then, is a matter of degree. Virtue ethicists draw a distinction between perfect virtue and “continence” or self-restraint. The perfectly virtuous act virtuously without an internal struggle against contrary desires, while the continent must control a desire or temptation to do something other than what is virtuous (Hursthouse, 2008). In most people’s minds, somebody who do the right thing when it is very hard for them to do so are worthy of admiration. An example could be someone who returns a lost wallet, full of money, when they themselves are destitute. In the example the circumstances make it hard for the actor to act morally, and the virtuous act is admirable. However, if the moral struggle was caused by a flaw in the character of the actor, like an inclination to steal from others, then the act is not worthy of admiration. Here virtue ethics differs from other moral theories, in particular consequentialism, in the way that the moral “quality” of an act is judged on the basis of the actor’s mental disposition. In consequentialist theory the motivations of the actor would not be central, rather the act itself and its’ ramifications.

If the actor was an MNC its disposition would be the aggregate of all the dispositions of all the members of the organization, which can be referred to as the organizational culture. Imagine a company, operating in a developing country, who is offered a valuable input factor in their production at a greatly reduced price. The goods are offered by a local militia, and the reason for the low price is likely to be that they are stolen. If the company is of a virtuous nature, every member of the organization would immediately and forcefully reject such an offer. If on the other hand, the offer by the local militia was carefully considered and debated and the only reason why the company did not act on the opportunity was the company’s fear of a media scandal, then a rejection of the offer is not considered morally right.

Aristotle argued that virtues were related to feelings such as appetite, anger, fear, confidence, joy, love, hate and so on (Aristotle, 1992). For humans it is possible to have feelings in excess or deficiency, and both states were seen as wrong. “Now virtue is concerned with feelings and actions, in which excess and deficiency are in error and incur blame, while the intermediate condition is correct and wins praise, which are both proper features of virtue. Virtue, then, is a mean, in so far as it aims at what is intermediate” (Aristotle, 1992, p. 255). An example could be courage; where deficiency in courage could be called cowardice and excess of courage could be called foolhardiness. Another example here is modesty, which lies between

bashfulness (a deficiency) and vanity (an excess). The virtue state will be found somewhere between the two extremes, but not necessarily at the exact midpoint. Achieving this state is difficult, because there is only one correct way, and many wrong.

To be fully virtuous one needs practical wisdom (Greek: *phronesis*) in addition to the inclination to do what is right. Practical wisdom is the knowledge or understanding that enables its possessor to do the right thing in any given situation. This is what sets adults apart from children and adolescents. Children may have the inclination to do good, but they may be ignorant of what they need to know in order to do what they intend (Hursthouse, 2008). Practical wisdom can only come from life experience. Knowing what is important in every situation, what is relevant and worthwhile, is part of practical wisdom. A person with this knowledge knows how to live well, and in Aristotelian tradition is claimed to have a true grasp of *eudaimonia*, or human flourishing (Hursthouse, 2008). For MNCs then, it is important that they fully understand the conditions of a country they enter, and the relationships between different parties, regulated by institutions, and how these affect human flourishing in that country.

Living a life in accordance with virtue is necessary for human flourishing. Aristotle suggests a number of virtues to pursue. In an effort to make his ethical theory applicable to all people, across culture lines, he identified spheres of experience within a human life that were common to all and their corresponding virtues. The spheres and virtues have been summarized by Nussbaum in the following presentation:

Sphere	Virtue
1. Fear of important damages, esp. death	Courage
2. Bodily appetites and their pleasures	Moderation
3. Distribution of limited resources	Justice
4. Management of one's personal property, where others are concerned	Generosity
5. Management of personal property, where hospitality is concerned	Expansive hospitality
6. Attitudes and actions with respect to one's own worth	Greatness of soul
7. Attitudes to slights and damages	Mildness of temper
8. Association and living together and the fellowship of words and actions	
a. Truthfulness in speech	Truthfulness

b. Social association of a playful kind	Easy grace (contrasted with coarseness, rudeness, insensitivity)
c. Social association more generally	Nameless, but a kind of friendliness (contrasted with irritability and grumpiness)
9. Attitude to the good and ill fortune of others	Proper judgment (contrasted with enviousness, spitefulness, etc.)
10. Intellectual life	The various intellectual virtues, such as perceptiveness, knowledge, etc.
11. The planning of one's life and conduct	Practical wisdom

(Nussbaum, 1993, p. 246).

A common criticism of virtue ethics is that different cultures have different perceptions of what is virtuous (Hursthouse, 2008). This relates to the debate between relativism and universalism. One statement from moral relativism is “The truth or falsity of moral judgments, or their justification, is not absolute or universal, but is relative to the traditions, convictions, or practices of a group of persons” (Gowans, 2008). If the virtues differ, it can be claimed that virtue ethics fail to produce a model of ethics that could be adopted by the whole of mankind.

A response to this is that “everyone makes some choices and acts somehow or other in these spheres: if not properly, then improperly” (Nussbaum, 1993, p. 247). Nussbaum further explains that everyone will have *some* attitude and corresponding behavior towards the different spheres of experience. Having attitudes to our own death, our bodily appetites, our property and its use, distribution of social goods, kindness to others, and so on is part of every human life. Given that this is true, one's behavior will fall within the spheres of experience presented by Aristotle (Nussbaum, 1993). The behavior can be either appropriate or inappropriate, but it will be within the spheres. What acts are appropriate will be a matter of disagreement, unsurprisingly, but people will be arguing about the same thing; they will argue about different specifications of the same virtue (Nussbaum, 1993). The virtue term will be grounded in the sphere of experience with an approximate definition of “whatever being disposed to choose and respond well consists in, in that sphere” (Nussbaum, 1993, p. 247).

The task of ethical theorists will be to search for the best specifications that follow the approximate definition to produce a full definition. In this way, virtue ethics allows for some cultural sensitivity. The virtues are not relative to culture, but local understanding changes the interpretation of them. Some of the virtues will be more open for interpretation, for example *greatness of soul*, which is a Greek way of looking at one's own worth. This will be distinctly different from a modern Christian view on self worth. The conflict is, however, confined if we regard them as two rival specifications of the same underlying question; the proper attitude towards the question of one's own worth (Nussbaum, 1993). Later in the thesis several problems that are common to many countries with natural resource abundance will be shown. The similarity in the ethical challenges between countries with different cultures, coupled with the common spheres of experience, indicate that universal ethics do serve a purpose.

Another criticism is directed at the spheres of experience in the Aristotelian approach. Critics argue that there is no uninterpreted, "given" experience (Nussbaum, 1993). Any experience will be interpreted by a person, and that action will be influenced by his or hers culture; beliefs, teachings, language and norms. For example the fear of death has been found to vary between groups of people at different times and different places. How bodily appetites are viewed has also changed from ancient times to the present day (Nussbaum, 1993). Because there is no shared experience as a foundation, the whole ethical approach is moot.

In response to this, Nussbaum first agrees that "with respect to any complex matter of deep human importance there is no 'innocent eye', no way of seeing the world that is entirely neutral and free of cultural shaping" (Nussbaum, 1993, p. 260). She also concedes that the grounding spheres of experience will not provide a single, language-neutral foundation on which an account of virtue can be based without problems. The critics, labeled relativists, are said to understate the amount of commonness across cultures, especially within the areas of the spheres of experience. Even though there are apparent differences in how people interpret these, we can recognize the experiences of people from other cultures as similar to our own (Nussbaum, 1993). The original list of aspects of a human life, the spheres of experience presented by Aristotle, may be too specific to be universally applied. Nussbaum suggests another list of features of our common humanity, to base further debates on:



Common feature	
1. Mortality	All humans face death and are aware that they are facing it. This shapes every aspect of human life.
2. The body	All humans have bodies with the same basic biological needs.
3. Pleasure and pain	All cultures have a conception of pain which largely overlap with one another. Humans are normally able to experience this, likely before any cultural influence.
4. Cognitive capability	The claim “All human beings by nature reach out for understanding” by Aristotle seems to hold. This is a likely common aspect of humanity, however much it is later shaped by one’s culture.
5. Practical reason	All human beings, whatever their culture, try to plan and manage their lives, asking and answering questions about how one should live and act. A being who altogether lacked this capability would not be likely to be acknowledged as a human being in any culture.
6. Early infant development	All humans begin as hungry babies, perceiving their own helplessness, their alternating closeness to and distance from those on whom they depend, and so forth. Experiences of desire, pleasure, loss, one’s own finitude, perhaps also of envy, grief and gratitude.
7. Affiliation	Human beings feel a sense of fellowship with other human beings. Friendship and love may have varied conceptions across cultures, but they are all overlapping expressions of the same family of shared human needs and desires.
8. Humor	Nothing is more culturally varied than humor, yet some humor and play seems to be a need of any human life.

(Nussbaum, 1993, pp. 263-264)

This list is meant as starting point for further discussion about what the human good is. It could be further developed by adding or subtracting items. With universal areas of human experience as our focus we can easier reflect on cross-cultural ethical questions. Shared experiences lead to shared challenges and problems; even though the way problems are handled differs greatly, the issues can be found in any culture. Because of this there is no reason for an MNC to ignore ethical problems in a foreign country, citing cultural differences as the reason.

## 2.4. Consequentialism

Consequentialism in moral philosophy holds that “whether an act is morally right depends only on the consequences of that act or of something related to that act, such as the motive behind the act or a general rule requiring acts of the same kind.”(Sinnott-Armstrong, 2008, p. 1). The typical example of consequentialism is utilitarianism, advocated by Jeremy Bentham, John Stuart Mill and Henry Sidgwick. Classic utilitarianism could also be defined as hedonistic act consequentialism, where “act consequentialism is the claim that an act is morally right if and only if that act maximizes the good, that is, if and only if the total amount of good for all minus the total amount of bad for all is greater than this net amount for any incompatible act available to the agent on that occasion.” (Sinnott-Armstrong, 2008, p. 1). Hedonism claims that pleasure is the only intrinsic good and pain the only intrinsic bad. Together, these philosophical views imply that an act is morally right if and only if that act causes the “greatest happiness for the greatest number” (Sinnott-Armstrong, 2008). Exemplified; breaking a promise is morally wrong if the act will make other people unhappy, rather than the act being wrong itself.

Classic utilitarianism is a combination of many distinct claims about the moral rightness of acts, some of which are presented here:

Designation	Claim
Consequentialism	Whether an act is morally right depends only on <i>consequences</i> (as opposed to the circumstances or the intrinsic nature of the act or anything that happens before the act).
Actual consequentialism	Whether an act is morally right depends only on the <i>actual</i> consequences (as opposed to foreseen, foreseeable, intended, or likely consequences).
Direct consequentialism	Whether an act is morally right depends only on the consequences of <i>that act itself</i> (as opposed to the consequences of the agent’s motive, of a rule or practice that covers other acts of the same kind, and so on).
Evaluative consequentialism	Moral rightness depends only on the <i>value</i> of the consequences (as opposed to other features of the consequences).
Hedonism	The value of the consequences depends only on the <i>pleasures</i> and <i>pains</i> in the consequences (as opposed to other goods, such as freedom, knowledge, life, and so on).

Maximizing consequentialism	Moral rightness depends only on which consequences are <i>best</i> (as supposed to satisfactory or an improvement over the status quo).
Aggregative consequentialism	Which consequences are best is some function of the values of <i>parts</i> of those consequences (as opposed to rankings of whole worlds or sets of consequences).
Total consequentialism	Moral rightness depends only on the <i>total</i> net good in the consequences (as opposed to the average net good per person).
Universal consequentialism	Moral rightness depends on the consequences for <i>all</i> people or sentient beings (as opposed to only the individual agent, present people, or any other limited group).
Equal consideration	In determining moral rightness, benefits to one person matter <i>just as much</i> as similar benefits to any other person (all who count count equally).
Agent-neutrality	Whether some consequences are better than others does not depend on whether the consequences are evaluated from the perspective of the agent (as opposed to an observer).

(Sinnott-Armstrong, 2008, p. 2)

These claims are logically independent of each other, so one could accept some of them and not others. Classic utilitarians accepted all of them. Developments in the field have led to a number of moral theories, descending from classic utilitarianism, that have dropped one or more of the original claims (Sinnott-Armstrong, 2008). To separate the descendant theories from classic utilitarianism, they are often called consequentialism, a term coined by Anscombe (1958).

If one is to choose the action that maximizes the utility of all beings considered, one needs a definition of what is really good; what “utility” consists of. Classic utilitarians followed hedonism, equating utility with pleasure. The use of pleasure as the only thing worth pursuing has drawn much criticism. Bentham said that simple gambling games were as good as poetry if they created as much pleasure (Sinnott-Armstrong, 2008). Objectors claimed this lowered the value of human life. In defense, Mill argued that “higher” pursuits would produce more intense and durable pleasures, thus being superior (Brink, 2008). Critics also remarked that not all pleasures are valuable, for example the pleasure of the sadist inflicting pain upon others. Another angle is the claim that not only pleasures are intrinsically valuable, things like

knowledge or freedom have value independently of whether they lead to pleasure or avoid pain (Sinnott-Armstrong, 2008).

An alternative to hedonism is pluralism, a theory of value which takes into account more than pleasure and pain. Examples can be the intrinsic value of beauty, truth, friendship, love, freedom, ability, or life (Sinnott-Armstrong, 2008). Pluralism allows the utilitarian to respond to problems such as “lying is not wrong if it causes no pain or loss of pleasure” with the claim that lying or untruthfulness is instrumentally bad. With an assortment of values it will be necessary to weigh or rank each value against the others, in order to determine the action with the best consequences. This is often difficult and some consequentialists hold that certain values are impossible to compare with each other (Sinnott-Armstrong, 2008). If we use a pluralistic approach it is possible to include human flourishing as an aspect of utility, of what the good is.

In classic utilitarianism, the moral rightness of an act is dependent on its actual consequences for all people for all time. The mental task of considering all consequences for all time before every act is impossible, but most utilitarians and consequentialists do not intend their principles to be used as a decision procedure (Sinnott-Armstrong, 2008). Rather, the total utility or value of consequences is considered as the standard of what is morally right. The theory can supply the conditions for an act to be morally right, independent of what an actor can mentally calculate in advance. It is regularly argued that most people in most situations should not try to calculate utilities, because they are likely to make mistakes that will lead them to carry out acts that reduce utility (Sinnott-Armstrong, 2008). However, it is possible to believe certain acts reduce utility with a high likelihood, and to avoid those acts, even if we have not calculated or predicted every consequence of them. An example could be to kill a child. Maybe the child would have grown up to be a serial killer, but it is much more likely that he or she would lead a normal life; contributive to society. The act, then, will very likely reduce utility and can be classified as morally wrong, in accordance with classic utilitarianism. An example from business could be a company that exploits the advantages of child labour in their production facilities. The increased utility from the marginally lower prices is unlikely to exceed the negative utility of the children’s toil and their missed opportunities in terms of education. This practice would then be considered immoral. In many cases the negative or positive utility of an act will not be so obvious, demonstrating the limitations of our moral knowledge.

So far only consequentialism that focuses on the *actual* consequences has been presented. Other approaches to consequentialism maintain that moral rightness depends on foreseen, foreseeable, intended, or likely consequences (Sinnott-Armstrong, 2008). Imagine a character, John, who lends his car to his daughter, an inexperienced driver. Imagine further that driving conditions are very poor that night, with supercooled rain making roads extremely slippery. John is not aware of this and a short while after she leaves his daughter gets into a serious accident. If *foreseen* consequences are what matter, then John's act is not morally wrong, because he did not know about the conditions and did not foresee the problems his daughter would have. However, if *foreseeable* consequences are what matter, John's act is morally wrong, because he could easily have learned of the conditions by checking a weather report or taking a brief walk outside, and predicted an accident or mishap of some sort, knowing about his daughter's inexperience. We can also imagine that John knows about the road conditions, but believes that his daughter will handle the situation well and drive safely according to the conditions. If *intended* consequences are what matter, then John's act is not morally wrong, for he did not intend for his daughter to get in an accident (it will however be morally wrong if foreseen or foreseeable consequences matter). If *likely* consequences are what matter, then John's action is arguably morally wrong, depending on the objective probability of an accident occurring.

Once again an example from business can also be used to illustrate the theory. Imagine a company that wants to build a plant of some sort in a foreign country. This company hires a local contractor to do the work. The local contractor utilizes the cheap labor available to them and pays no mind to workplace safety. Imagine a serious accident occurs at the build site with multiple fatalities. This accident could have been prevented if basic safety measures had been implemented. The question is whether the company's act to hire the local contractor for the job is morally wrong, or in other words, if the company is morally responsible for the accident. The company did probably not foresee such an outcome, but it is likely that the events were foreseeable. Either the working conditions in the country would be well known or they could be easily uncovered through spot checks of building sites. Given consequentialism with foreseeable consequences the accident would then be the company's responsibility. According to thesis advisor Professor Falkenberg another way of looking at the term responsibility is to use the term response-ability or the *ability to respond*. In this example the company could have put forth HSE (Health, Safety and Environment) requirements to the

contractor and followed up with surprise inspections, all at limited cost. Because the company did not do so there is a degree of culpability assigned to them. With this perspective an actor's responsibility increases with his or hers ability to respond. Consider a developing country where people are starving. A destitute farmer in another developing country has little ability to respond to the situation, and as a result has minuscule responsibility. A citizen of a wealthy industrialized nation has a greater degree of responsibility. His or hers comparatively large discretionary income can be used for supporting different organizations that help the starving population. Following this line of thinking, a multinational corporation operating in the country where people starve will have an even greater degree of responsibility because of their extensive resources, direct contact, and involvement with the country.

Classic utilitarianism has a problem in that it seems to overlook justice and rights (Sinnott-Armstrong, 2008). The well known utilitarian Jeremy Bentham said the following: "natural rights is simple nonsense: natural and imprescriptible rights, rhetorical nonsense, nonsense upon stilts" (Harrison, 1995, p. 87). In some cases the moral theory can justify hurting innocents if it results in a situation with overall higher utility. A common case used to illustrate the problem is an organ donor dilemma. Imagine five patients in a hospital who will die if they do not receive an organ transplant, respectively a heart, a lung, a liver, and so on. A sixth person is in the hospital for a routine check-up, and it is found that his tissue matches the five dying patients. A specialist is on hand to perform the transplants. There is no other way to save the lives of the five patients. The doctor also knows that he or she can perform the act and keep it secret, avoiding punishment with a high degree of probability. The five dying patients will become healthy after the transplant, and the involuntary organ donor will die. With a classic utilitarian perspective, the act of killing one to save five seems to be morally right, because the utility of five lives exceeds that of one life.

Different modifications of utilitarianism can be used to respond to this problem. One such modification is agent-relative consequentialism (Sinnott-Armstrong, 2008). Applying consequentialism, a usual process would be to compare the world with the transplant to the world without the transplant, and determine which state yields the highest utility. If an observer considers the world with the transplant to be better, and the theory requires agent-neutral evaluation, then the doctor performing the transplant must necessarily make the same judgment. If, however, agent-relative consequentialism was put to use, then it could be possible for the doctor to come to a different conclusion than the observer. In this case the

doctor could find the world with the transplant worse, because he or she would personally have to take someone's life. From the perspective of the doctor, performing the transplant would then be morally wrong.

We can introduce another twist to the story to complicate the dilemma. Imagine that the doctor was responsible for causing the injuries that are killing the five patients. Agent-relative consequentialism would have the doctor weigh five lives against one, all whose death are directly linked to the doctor. Not performing the transplant would now be considered morally wrong. This result may go against most people's moral intuition. If we want consequentialism to produce the "desired" result, another branch of consequentialism will be required. One that fits the bill is *indirect* consequentialism. Classic *direct* consequentialism holds that whether an act is morally right depends only on the consequences of *that act itself* (from the table above). Indirect consequentialism holds that "the moral qualities of something depends on the consequences of something else" (Sinnott-Armstrong, 2008, p. 12). "The most common indirect consequentialism is *rule consequentialism*, which makes the rightness of an act depend on the consequences of a rule." (Sinnott-Armstrong, 2008, p. 13). With this approach, when evaluating the utility of an act that violates some rule, one must consider what would happen if everybody were allowed to violate the same rule. In the transplant case; what would happen if every doctor were allowed to transplant organs against the donor's will? Most likely it would reduce trust in doctors, making people fearful of seeing a doctor. People who need medical attention may not seek it. In addition, a number of transplants that do not maximize utility would occur, as doctors are prone to miscalculating utility like anyone else. If then, "do not transplant someone's organs against their will" was a rule, it would be morally wrong for the doctor to violate it according to rule consequentialism, because it would lead to overall less utility if every doctor did the same. Exceptions to the rule are not acceptable unless they can be granted to everyone, and rule consequentialists claim it is arrogant to think one is less prone to mistakes than other people (Sinnott-Armstrong, 2008).

Classic utilitarianism can be demanding on moral actors. If we look at our everyday activities, precious few of them will come close to maximizing utility. Any money we spend above a bare minimum required to live could probably be used by people in far greater need than us, achieving a higher overall utility. Similarly, any leisurely activity could be claimed wasted time or morally wrong when faced with the alternative of helping others, perhaps by working

for a charity organization. Watching TV or treating ourselves to something nice does not seem morally wrong, yet utilitarianism in its most basic form would suggest so.

A version of consequentialism that addresses the problematic requirement of always maximizing utility is called *satisficing consequentialism* (Slote & Pettit, 1984). This approach holds that “an act might qualify as morally right through having good enough consequences, even though better consequences could have been produced in the circumstances” (Slote & Pettit, 1984, p. 140). With this view, it is not morally wrong to not contribute to a charity if one already contributes enough to other charities and if the time and money is spent in another way that does create enough good (Sinnott-Armstrong, 2008). Another applicable approach is *progressive consequentialism*, which “requires us to produce a progressively better world rather than the best world” (Jamieson, 2007, p. 17). Acts that improve some matter or condition to some degree can therefore be considered morally right, even though we are not doing the best we can. This makes moral action less demanding (Elliot, 1997). “Both satisficing and progressive consequentialism allow us to devote some of our time and money to personal projects that do not maximize overall good” (Sinnott-Armstrong, 2008, p. 15).

## 2.5. Deontology

Deontological theories stand in contrast to consequentialism, as the morality of choices is judged by different criteria than the states of affairs those choices bring about (Alexander & Moore, 2008). Some choices are morally forbidden to make, no matter how good the consequences will be. A choice or an act is morally right if it conforms to a moral norm. Within deontology, Immanuel Kant’s writings are central, and his views will be presented here.

Kant believed that the only thing good without qualification was a *good will*. The meaning of good will is related to the idea of a good person, one who only makes decisions held to be morally worthy, based on considerations of moral law (Johnson, 2008). Possession of this character trait is valuable to all, and in Kant’s opinion something we value without limitation or qualification. Without limitation could mean that there is no imaginable situation where we would abandon our good will in order to gain something else we desired. Without qualification means that a good will is not valuable because it leads to other ends, like pleasure or happiness; it is valuable in and of itself (Johnson, 2008).



A person of good will makes decisions that are determined by moral demands, also called the moral law. These moral demands can be constraints on human desires, so a good will must moderate these desires. The motivation is the idea of *duty* (Johnson, 2008). Other motivations, for example happiness, can drive a person to dutiful action, but the action does not express a good will and consequently the action has no actual moral worth. Being driven by another motivation, the conformity with duty is only happenstance.

Kant argued that our moral duties are based on a standard of rationality he called the “categorical imperative”. Immoral actions violate the categorical imperative, and by that they are irrational (Johnson, 2008). Imperative means a command, and categorical refers to the fact that the imperative applies to us because we possess a rational will. A rational will is described as operating on the basis of subjective decision principles called “maxims” (Johnson, 2008). A maxim can be exemplified by “I will *act* in a specific way in certain *circumstances* in order to realize some *end*”. Being related to an agent, this principle is subjective.

Kant has several different formulations of the categorical imperative. The first formulation is:

*“Act only in according to that maxim whereby you can at the same time will that it should become a universal law”*

*(Kant, 1992, p. 1013).*

With this formulation of the categorical imperative a decision procedure for moral reasoning can be made. First you formulate a maxim that incorporates your reason for acting in a certain way. Second, you imagine this maxim to be a universal law of nature, governing all rational agents, meaning all must act as you propose in the same circumstances. Third, you consider whether the maxim is even conceivable in a world governed by this law of nature. If the maxim passes this test, then, fourth, you ask yourself whether you could rationally *will* to act on your maxim in such a world (Johnson, 2008). Only if a maxim passes all four steps is acting on it morally permissible.

An example of a maxim could be “I will make deceptive promises any time it will get me what I want”. We can imagine a world where everybody by law of nature tries to deceive others to get what they want. However, in such a world no practice of truthful promises will

exist. Deceptive promises will not work when there is no tradition of accepting promises to take advantage of. This maxim will fail the third step of the decision process, because of the contradictions that arise when the maxim is made into a universal law. Another example could be a world where a maxim of refusing to develop our talents is a law of nature. We can imagine that it is possible to follow the maxim in such a world; the world will be simpler than our own, but there are no contradictions and the maxim will pass the third step. However, Kant argues that it is not possible to rationally will this maxim to be followed in such a world because a rational being will want his talents developed (Kant, 1992, p. 1014). It is possible and perhaps necessary to expand this argument. First, Kant claimed that the only end willed by all was by natural necessity *happiness* (Kant, 1992). The meaning of happiness is not explained, but we can probably draw a parallel to human flourishing as earlier presented. As we all by nature will (or desire) happiness, a maxim that reduces happiness is impossible for us to rationally will to act on. If we come to the conclusion that it is necessary to develop some talent for ourselves and others as a means to achieve happiness then the maxim of refusing to develop talent will be immoral to act on.

As a business example, imagine a company that has found a loophole in the tax code that allows them to get away with negligible tax payments on billions of dollars in profit. The company might find this a stroke of genius, but if every company in the world were imagined to do the same problems become evident. Governments around the world would have drastically reduced income, making them unable to provide for people in the way they are used to. The loophole would probably be closed for the next fiscal year, but for the current year public services would suffer because public sectors like education or health received large budget cuts. This world would work; there are no inherent contradictions in a world ruled by a maxim of tax evasion. However, a company could not rationally will this to happen, as it goes against the happiness of a large number of people reliant on public services. Another example could be a company that finds a way to significantly improve the efficiency of their production, at the expense of double the pollution or emissions compared to the previous production method. With a consequentialist perspective the act of switching production methods might be found to increase overall utility in the case of the single company, but in deontology the ramifications of doubled pollution by all industrial firms will need to be considered. The world is struggling enough with current environmental challenges, so a world with double the pollution cannot be rationally willed by any actor.

A second formulation of the categorical imperative is called the Humanity formula (Johnson, 2008) and is stated as follows:

*“Act in such a way that you treat humanity, whether in your own person or in the person of another, always at the same time as an end and never simply as a means”*  
(Kant, 1992, p. 1018).

The Humanity formula introduces the idea of respect for others that intuitively seems a necessary part of moral philosophy. The formula does not rule out using people as a means to an end, we use the work of other people daily, but it rules out using Humanity as a mere means to our ends (Johnson, 2008). The term *humanity* does not mean human beings by themselves; it refers to the collection of features that make us distinctively human, of which our rationality is a prominent characteristic. Consequently, it is permissible to use people as a means to our ends if they have made a rational decision to consent to the act, typically exemplified when somebody performs a service in return for some form of payment. The meaning of humanity as an *end* is not something that we must realize or produce; it is more the sense of something we do not act against as we pursue other ends, limiting our behavior (Johnson, 2008).

Kant inspired much of the deontological theories that were later developed. Deontological theories as a whole hold that some choices cannot be justified by their effects, as earlier mentioned.

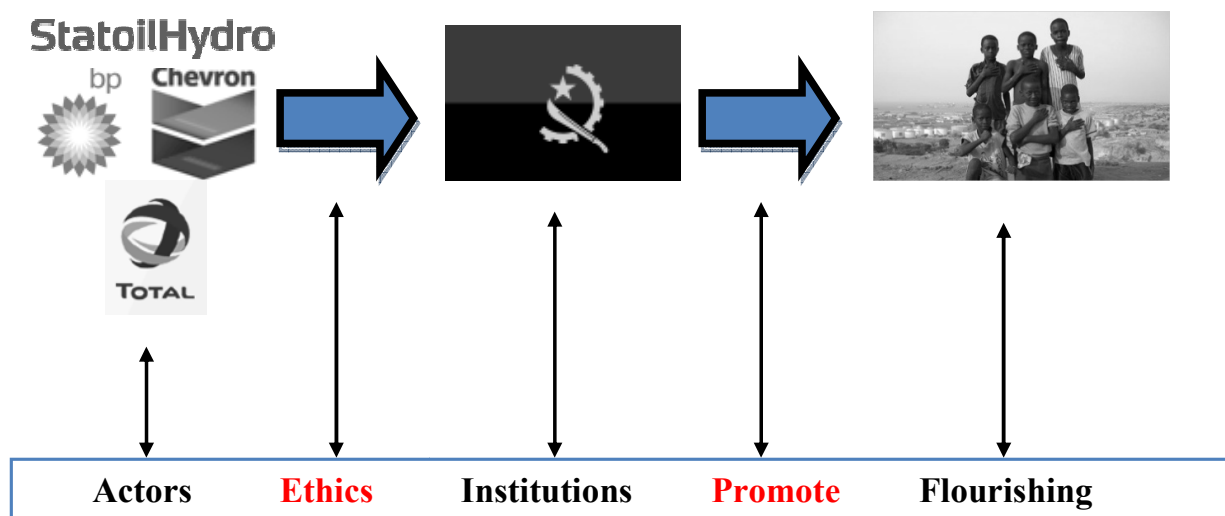
*“For deontologists, what makes a choice right is its conformity with a moral norm. Such norms are to be simply obeyed by each moral agent; such norm-keepings are not to be maximized by each agent. In this sense, for deontologists, the Right has priority over the Good. If an act is not in accord with the Right, it may not be undertaken, no matter the Good that it might produce”*

(Alexander & Moore, 2008, p. 4).

For single actors or firms this means that there are certain rules that cannot be broken. If a company starts a project in a developing country that somehow takes away the livelihood of a group of indigenous people against their will, that act will be immoral, no matter what benefits the project might produce for other people. Deontology does not allow for a reduction in happiness or human flourishing for some people to gain an even higher increase in human flourishing elsewhere. The idea is not to maximize human flourishing, but to avoid acts that go against human flourishing. With this perspective there is little excuse to be found for a firm

that in one way or another engages in exploitative behavior. The ends do not justify the means.

To summarize the theory section it can be said that a number of tools and criteria have been put forth to help determine the moral character of actors and the moral rightness of acts. The importance of human flourishing has been made clear and its relation to institutions and the different ethical theories. There are differences between the theories that will be even more evident later when they produce different results in the analysis. Actor-centric ethics will also be shown to be useful for other types of problems than act-centric theories.



Using the theory it is possible to test the relationship between actors or acts and institutions, and the relationship between institutions and human flourishing. Only if both relationships are in accordance with ethical theory can an act performed by one of the actors be considered morally right. In the case study of this paper the institutions will be found lacking in their promotion of flourishing, and a question will be “now what?”.

### 3. Research Methodology

The main research question in this thesis is “What problems are MNCs in the resource industry faced with when operating in countries with inadequate institutions?”. Supporting the main research questions are two secondary questions; “How are these problems currently being handled?” and “How should these problems be handled?”.

This thesis will employ an exploratory research design based on secondary data. The information collected will be from two main categories; country and companies. The country will be Angola, and the focus will be upon the institutions or lack thereof, the living conditions for the Angolan people and the practices of the government. The intention of the research is to uncover what can happen in a resource-rich country with inadequate institutions, or in this case what *has* happened. The companies researched will be a selection of MNCs in the oil industry that operate in Angola; StatoilHydro, BP, Total and Chevron. Their current business activities in Angola, their impact on the country, the connection between oil companies and conditions in Angola, their view on ethics and responsibility and CSR projects undertaken will be researched. By gathering this information, an idea of the problems faced by oil companies operating in Angola can be formed. The knowledge of the country, the companies, the connection between the two and the problems faced by all will be the basis for a discussion, drawing upon ethics theory, about what responsibilities can be assigned the oil companies and how they should act with regard to the problems. To support the discussion, some ethical guidelines developed by international non-governmental organizations (NGOs) will also be presented. These are guidelines that are made with the intent to cover either international business as a whole or the narrower segment of natural resource extraction.

Exploratory research design is discovery-oriented and is not intended to test specific research hypotheses (Hair, 2003). It is particularly useful when the researcher has very little information. Exploratory research is often used to develop a better understanding of a problem in order to formulate a research problem to build further research on (Hair, 2003). In this thesis’s area of research the relevant issues and the connection between them may not be very clear, and the issues or variables are difficult or impossible to quantify. As such, an exploratory design seems best.

Secondary data are “data that have been collected for some other research purpose” yet “may still address the research question at hand” (Hair, 2003, p. 72). Secondary data is both easier to acquire and cheaper than primary data. A disadvantage with secondary data is that it might not fit the research question or hypotheses precisely, for example by having slightly different measures of variables than the research at hand. This would be a serious problem if one were doing descriptive or causal research based on secondary data, yet with exploratory research the problem is lessened, as there is little focus on measuring variables. Another disadvantage more relevant for exploratory research is the difficulty of assessing the quality of the information gathered. A researcher must rely on the integrity of the original source for assurance that the data are accurate (Hair, 2003, p. 73).

For this thesis, information has largely been collected from reports and statistics developed by large NGOs and MNCs. Large organizations like the United Nations, World Bank, World Health Organization and International Monetary Fund are in this thesis believed to operate with a high integrity in their reporting. Smaller NGOs like Global Integrity, Transparency International and Global Witness are also believed to be of high integrity, yet a more careful look at their methods was warranted. None of them were found lacking unless specifically mentioned. A problem with information about Angola is the taciturn nature of the government and the lack of an official census. There has not been an official census since 1970 (USDP, 2009), making all the statistics about the Angolan population estimates. Without the aid of the government some of the information figured out by the NGOs might be inaccurate.

Another possible criticism of the data is that the NGOs have an agenda that could conceivably lead them to overreport their findings. This thesis is not predisposed to believe that, but an argument can be made as a defense. The exploratory research in this thesis need not rely on exact measurements, as no quantitative analysis will be done, the actual real world conditions are what matters. An example: in Angola there is widespread poverty. The reported number is 70% of the people living in poverty. If we imagine that this number was overreported and the real number was between 50-60% we can also imagine that it would not really matter. The important fact is that there is still widespread poverty, not the precise number. A degree of uncertainty in the statistics can therefore be allowed, as it is very unlikely that consensus estimates are so far off-mark that the underlying statement (e.g.: “in Angola there is widespread poverty”) is false.

## 4. Angola

Angola is a country in south-central Africa that is found especially relevant for this thesis due to its poor institutional environment and mismanagement of oil-generated funds. This section will present the research findings, giving an outline of the conditions in Angola with focus on the institutions and corruption. The problems faced by the MNCs in Angola's oil industry will be looked at and four different companies will be presented. The companies' attitudes towards the problems and their activities in Angola will be part of that presentation.

### 4.1. Introducing Angola

Angola was a long standing colony of Portugal that gained its independence in 1975. Following the release from Portuguese rule a civil war broke out between two factions; Popular Movement for the Liberation of Angola (MPLA) and National Union for the Total Independence of Angola (UNITA). The two factions were each in control of a natural resource; MPLA had the oil industry and UNITA had the diamond industry (GW, 2002). Each faction had the support of several Western countries. This support, coupled with the position of power they had in Angola, gave MPLA and UNITA an advantage that is called the *international resource privilege*, defined as "the legal power to confer globally valid ownership rights in the country's resources" (Pogge, 2008, p. 119). Income from natural resources allowed the warring factions to purchase arms. Wars are started for a multitude of reasons and it is hard to find a single cause, yet it is conceivable that part of the motivation was desire of the opposing party's resource privilege. The civil war lasted for 27 years, ending in 2002 after the death of Jonas Savimbi, leader of UNITA (CIA, 2009). As many as 1.5 million people may have lost their lives in the war, and 4 million were displaced from their homes.

As of 2008, Angola's population was estimated to be 16.8 million (IMF, 2009). With a total GDP of \$108.293 billion in 2008 (PPP-adjusted), the GDP per capita was around \$6 400 (IMF, 2009); ranking Angola as a middle-income country compared to the rest of the world. However, in 2003 an estimated 70% of the population lived in poverty (CIA, 2003). This implies a large degree of income inequality. Poverty is generally measured by the number of people living on less than \$1 or \$2 a day, although it is not clear which measure has been used by the CIA in their estimate (most likely \$2). For 2008 the national budget was estimated to reach \$28.784 billion in public expenditure (CEIC, 2008, p. 24). In other words, government

spending comes out to around \$1 700 per capita. The juxtaposition of this number and the fact that 70% of the population live on less than \$365-\$730 a year is telling of the disparities in income and, more importantly; income distribution. The most used measure for income equality is the Gini coefficient, which measures countries on a scale from 0 to 1 where 0 is perfect equality and 1 is perfect inequality. Angola receives a score of 0.64 or 64% which is among the highest scores worldwide (OECD, 2008).

Angola is ranked very low on United Nations Human Development Index; with a score of 0.484, giving a rank of 157<sup>th</sup> of a total of 179 countries (UNDP, 2008a). Angola scores especially low in the area of life expectancy; with an average life expectancy of 42.1 years for a child born in 2006 (only Zambia and Swaziland have a lower life expectancy). This is likely to be closely related to the infant mortality rate, of which Angola has the highest in the world. For every 1 000 children born, an average of 180.21 children die before the age of 1 (CIA, 2009). Access to health care is unavailable for 60-70% of the population and up to 40-50% suffers from chronic malnutrition (WHO, 2005).

#### **4.2. Corruption**

Angola suffers from widespread corruption in its government. The international NGO Transparency International publishes an index each year of perceived corruption in countries around the world. In 2008 Angola received a score of 1.9 (on a scale of 1-10), ranking the country in a shared 158<sup>th</sup> place out of 180 total in terms of perceived corruption (TI, 2008a). A low score means a high degree of perceived corruption, resulting in a low country rank (worst is Somalia with a 1.0 score and rank 180<sup>th</sup> of 180 total). The Corruption Perceptions Index is an aggregate of other third-party studies and as such has drawn criticism for being inaccurate. The problem is different methodologies and different conceptions of the term *corruption* between countries, and as contributors to the index are dropped and added, the score can change from year to year when little has changed in the country being researched. This thesis will not use the corruption score as a means of directly comparing Angola to other countries, merely to point out that there is a problem with corruption in Angola.



### 4.3. Institutions in Angola

The institutional framework in Angola affects corruption in a major way. The degree to which government officials can be held accountable for their actions and the degree to which people are treated equally by the justice system are but some examples of institutions affecting corruption. Another international NGO concerned with corruption is called Global Integrity. Global Integrity focuses on formal institutions, governance structures and anti-corruption measures in their research. Unlike Transparency International they do not utilize third-party studies, their results come from in-depth studies and assessments by local researchers and journalists (GI, 2009). Global Integrity's intent is not to measure corruption, as that is notoriously difficult on account of the hidden nature of most corruption. They focus instead on anti-corruption and good governance institutions, mechanisms and practices. Their results, then, are not an indicator of actual corruption, but more a measure of to what degree the institutional environment either impedes or facilitates corruptive behavior. Their findings for Angola in 2008 are presented in the following table:

#### Angola: Integrity Indicators Scorecard (Overall Score: 41 (+/- 0.31) – Very Weak)

<b>Category I</b>	<b>Civil Society, Public Information and Media</b>	<b>53</b>	<b>Very Weak</b>
I-1	Civil Society Organizations	61	Weak
I-2	Media	61	Weak
I-3	Public access to information	38	Very Weak
<b>Category II</b>	<b>Elections</b>	<b>49</b>	<b>Very Weak</b>
II-2	Voting & Citizen Participation	80	Moderate
II-3	Election Integrity	34	Very Weak
II-3	Political Financing	34	Very Weak
<b>Category III</b>	<b>Government Accountability</b>	<b>10</b>	<b>Very Weak</b>
III-1	Executive Accountability	4	Very Weak
III-2	Legislative Accountability	8	Very Weak
III-3	Judicial Accountability	13	Very Weak
III-4	Budget Processes	15	Very Weak
<b>Category IV</b>	<b>Administration and Civil Service</b>	<b>25</b>	<b>Very Weak</b>
IV-1	Civil Service Regulations	17	Very Weak
IV-2	Whistle-blowing Measures	0	Very Weak
IV-3	Procurement	18	Very Weak
IV-4	Privatization	66	Weak

Category V	Oversight and Regulation	53	Very Weak
V-1	National Ombudsman	46	Very Weak
V-2	Supreme Audit Institution	60	Weak
V-3	Taxes and Customs	67	Weak
V-4	State-Owned Enterprises	35	Very Weak
V-5	Business Licensing and Regulation	57	Very Weak
Category VI	Anti-Corruption and Rule of Law	57	Very Weak
VI-1	Anti-Corruption Law	78	Moderate
VI-2	Anti-Corruption Agency	37	Very Weak
VI-3	Rule of Law	59	Very Weak
VI-4	Law Enforcement	52	Very Weak

(GI, 2008d)

Global Integrity awards Angola with an overall score of 41 out of a possible 100, which is explained as being “very weak”. Of the 90-odd countries Global Integrity has assessed only Somalia achieves a lower score. The full study results can be found in the appendix. More than 300 indicators make up the scores in the different categories and sub-categories of the scorecard. These indicators combine the study of whether specific parts of an institutional framework are present or not with an assessment of how well those institutions function. Separating out the scores related to the legal framework would give Angola a score of 56 of 100, noticeably better than the overall score of 41, while still not being good. However, if we look only at scores related to the implementation of the legal framework the total score will be 26 of 100 (GI, 2008c). While the legal framework is not adequate in terms of regulations and laws the more serious matter is how badly the framework itself is applied. We must remember that this report does not measure corruption, only the institutional framework or environment. The conclusions we can draw from the report is that Angola’s institutions do not adequately protect Angolan citizens from corruption. In particular the almost total lack of accountability of government officials and leaders is worrying. Instead of acting as a deterrent to corruption, the institutional environment acts more as a breeding ground of corruption.

#### 4.4. Government in Angola

The current government of Angola is led by President Jose Eduardo dos Santos and the MPLA. In 1992 a general election was held, where MPLA received 49.57% of the votes and UNITA received 40.07% (EISA, 2007). By Angolan law, a winner needs 50% of the votes, so a second round of elections needed to be held. Before this was possible, UNITA withdrew from the proceedings, refusing to recognize the results of the elections. The civil war resumed

shortly thereafter (GW, 2002). After half a year of fighting the war was not going well for President dos Santos and MPLA. MPLA sought help from France, but no official support was possible due to high-placed supporters of UNITA in the French Government. However, a few government officials were able to, in secret; facilitate an arms deal for MPLA. The political scandal this eventually resulted in was dubbed “Angolagate” and is fully detailed in a 2002 report by independent NGO Global Witness (GW, 2002). By the end of 1994 at least \$633 million had been spent by MPLA on arms through the contact provided by French officials. Although the trial in French courts is still ongoing, insiders have admitted that the main motivation for supporting MPLA was to gain advantages for French businesses operating in the oil industry in Angola (GW, 2002).

The armaments purchased by MPLA allowed them to gain an advantage over their opponents UNITA. MPLA did not have the cash to pay for the arms at that time, so loans were arranged with security in future oil revenues (GW, 2002). Investigations by Global Witness suggest that the prices of the arms were heavily inflated, and that the difference between the true value and the contract price was used to pay hefty commissions to the deal makers and to officials within the Angolan Government (GW, 2002). The loans provided for these arms deals were part of a history of oil-backed loans to Angola since the 1980s (GW, 1999). In recent years Angola has substantially increased their lending. From 2000 to 2001, a total of \$3.5 billion was borrowed (GW, 2002) and from 2003 to 2008 a total of \$13.9 billion was borrowed (GW, 2009). Part of this borrowing is likely for refinancing existing loans, but how large a part is unknown because Angola does not disclose that information.

#### **4.5. Sonangol**

The loans provided to Angola are not given to the Angolan Government, but to the state owned oil company Sonangol. Sonangol plays different and perhaps conflicting roles in Angola. On one hand it functions like a normal company; doing business and paying taxes. On the other hand Sonangol is responsible for managing the oil resources of Angola, with the power to grant international oil companies the rights to extract oil in Angola. In that function, Sonangol acts as a fiscal agent for the government, collecting revenues and making expenditures on the state’s behalf (GW, 2009). These activities are kept largely separate from the official state budget. Sonangol does not disclose its financial information, and while there has been an audit performed, no reports of the audit has been made public (GW, 2009). What

is worrying is that the public does not know what the billions of dollars borrowed by Sonangol are used for. When Sonangol grants concessions to oil companies it is required of the company that wins a contract for a particular land area to pay a *signature bonus* when the contract is signed. Sonangol introduced this requirement in 1992 (GW, 2002) and these one-off payments by international oil companies have dramatically increased throughout the 1990s. Estimated bonus payments went from \$6 to \$35 million dollars in the early 1990s to a high of \$400 million in 1999, totaling \$1 289 million for the 1990s (GW, 2002). Investigators from Global Witness claim that \$400-500 million of these signature bonuses disappeared directly into the Presidency to be used mostly for arms purchases (GW, 1999).

#### **4.6. State looting**

Sonangol functions as an unconventional finance system for the government in addition to the official budget, with little oversight. The official budget is made public through the Ministry of Finance's website with itemized allocation available, which is good. Unfortunately, the process of developing the budget is closed and controlled by the executive (GI, 2008d). The only oversight of how the funds are actually being spent is managed by a committee called the Finance Committee, which is supposed to have limited oversight into public expenditures. This committee is non-functioning due to stonewalling from the government; no reports are turned over to the committee (GI, 2008d). Lacking oversight, a large amount of public funds has been allowed to disappear. Based on IMF reports from Angola, Global Witness has calculated that from 1997 to 2001 an average of \$1.7 billion went unaccounted for annually from the Angolan Treasury (GW, 2009). During this period the national budget was much lower than in 2008, with the highest being \$4.386 billion in 2001 (WB, 2007). This means the scale of the funds missing in proportion to the budget is very large. Where all of this money has gone is not possible to say for sure, but large parts are believed to be inappropriately used for perks for government officials or just plain stolen. In their investigations into the "Angolagate" arms trade scandal, Global Witness identified an account holding \$1.1 billion in a British Virgin Islands bank, with two influential Angolans as signatories (GW, 2002). A number of comparatively smaller accounts belonging to government officials have also been uncovered, several of which were President dos Santos' private accounts holding tens of millions of dollars (McMillan, 2005).

While irrefutable proof of specific acts of corruption is very hard to acquire, due to the closed nature of Sonangol's and the government's dealings, an aggregation of facts and circumstantial evidence allow us to come to a conclusion. The high income from oil, the widespread poverty, the lack of institutions, the missing funds, the perceived corruption by the Angolan people, the overpriced arms deals, the offshore multi-million private accounts, and the general aversion to public oversight are all facts that lead us to conclude that Angola is ruled by a *kleptocracy*. A kleptocracy can be defined as a government that seeks to enrich itself at the expense of those governed, and this is exactly what is happening in Angola. The very richest in Angola hold positions in the government (McMillan, 2005). The main source of income for Angola is the oil industry, making it also the main source of income for the ruling elite or kleptocrats. Without the oil revenue and loans backed by future oil production the current government would not have been able to purchase the weapons that helped keep them in power during the 1990s. By Angolan law, the oil and gas resources belong to the Angolan people (GW, 2002). The Angolan people have little information available about how *their* resources are being managed and no real influence in the matter.

#### **4.7. International oil companies and problems they face**

Multinational corporations (MNCs) within the oil industry are responsible for much of the exploration and extraction of oil in Angola. The Angolan territories that are believed to contain oil are divided up into geographical "blocks". The right to extract oil from each block is bid upon by the oil companies and concessions are granted by the Angolan Government through Sonangol. It is normal for several companies to form partnerships in developing a block, with one company acting as the operator, performing the actual extraction, and several other companies holding equity stakes that help pay for development costs (GW, 2002). Sonangol is the operator of some blocks, and an equity partner in most (GW, 2002). There are three main sources of income for Angola; the signature bonuses paid when a new block is auctioned off, the taxes paid on oil revenue by the MNCs and Sonangol's share of oil revenues as a partner in block developments.

A major issue for the international companies is the fact that billions of their dollars are being paid to a kleptocracy that is using said money to stay in power. This money rightfully belongs to the Angolan people. Normally a government can be counted as a rightful proxy for the people governed and their interests, but in Angola that is not the case. These conditions are no

secret either, the deep-seated corruption has been reported on for a long time by a variety of NGOs and journalists. No company operating in Angola can claim unawareness of this problem. Through their business of extracting oil, a government that commits human rights violations (HRW, 2004) is supported. The degree of responsibility faced by the oil companies through this relationship is grounds for much debate and will be expanded upon later in this thesis.

The first ethically problematic issue is that money is being paid to a kleptocracy. The second major issue is that the *size* of these payments is shrouded in secrecy. This issue has drawn even more attention from organizations critical of MNCs in Angola than the first issue, perhaps because the critics know how to pick their battles. The Angolan Government has on several occasions shown that openness is not in their interest. When the international oil companies sign their contracts for a particular block with Sonangol there is always a confidentiality agreement included that obliges the oil companies to keep secret the specifics of their partnership with Sonangol (GW, 2002). Oil companies are required to deliver financial reports in their home country, but most of the major companies publish aggregated worldwide payments so that determining exactly how much went to Angola is impossible. One might ask why not disclosing payments is such a problem. The crux of the answer is government accountability; when the revenues of the state are kept secret from the people it becomes very hard to hold the government accountable for their spending (GW, 2002). Most of Angola's income comes from the oil industry, and accurate information about oil revenues will make it much easier to track the money going into the Treasury, hopefully preventing it from "disappearing". By not disclosing payments, MNCs in the oil industry are, by involved NGOs like Global Witness, held complicit in perpetuating the unaccountability of the Angolan Government.

#### **4.8. Guidelines for Multinational corporations**

Large international organizations concerned with such issues as human rights and the fight against poverty to mention some have established guidelines for international companies to follow. One of them is the United Nations Global Compact, an initiative to promote social responsibility and responsible business practices across the world (UNGC, 2008). The Global Compact is a voluntary initiative where companies declare their intention to follow the guidelines and publish in their annual reports what efforts have been undertaken to do so. The

guidelines are presented in the form of ten principles separated into different areas. “The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the area of human rights, labour standards, the environment, and anti-corruption (UNGC, 2008, p. 6). These principles are:

HUMAN RIGHTS	
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	make sure they are not complicit in human rights abuses.
LABOR	
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	the elimination of all forms of forced and compulsory labour;
Principle 5	the effective abolition of child labour; and
Principle 6	the elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	
Principle 7	Businesses are asked to support a precautionary approach to environmental challenges;
Principle 8	undertake initiatives to promote greater environmental responsibility; and
Principle 9	encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION	
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

(UNGC, 2008, p. 6).

Of these principles, the Principle 2 and Principle 10 are perhaps the most pertinent to MNCs in Angola’s oil industry. If any of the major oil companies in Angola adopted the Global Compact their practices could be found to violate these principles. By agreeing not to disclose their payments to a corrupt government oil companies are clearly violating the tenth principle. Seeing how businesses are supposed to work against corruption in all its forms, complying with a corrupt government’s demands is an overly passive course of action. As for the second principle, it is not the suggestion of this thesis that oil companies are directly involved in human rights abuses, only that their operations are funding a government guilty of such

abuses. The degree of complicity of the oil companies and the strength of the causal relationship between oil money and human rights abuses is open for debate. Yet, with such a serious issue as human rights abuse, one could ask the question whether *any* degree of complicity is acceptable. The Global Compact would suggest it is not. If so, the fact that money from the oil companies helped keep the government in power would be cause for a violation of the second principle.

Another initiative to provide guidelines for MNCs is the Publish What You Pay campaign started by Global Witness, now joined by a large number of other organizations worldwide (PWYP, 2009b). Their main focus is the accountability of governments for the management of natural resources. This campaign was conceived of by Global Witness during its investigations in Angola. The PWYP campaign calls on “Multi-national, private and state-owned extractive companies to disclose a net figure for all types of payments (royalties, taxes, bonuses etc) made to governments for every country of operation in their annual financial accounts, and to disclose to which level of government payments are made” (PWYP, 2009a). The reason for this is as earlier mentioned to be able to oversee governmental operations and hold them accountable for their spending. This does require some transparency in governments also; just knowing the revenues is not enough, so the campaign addresses governments as well, asking them to publish what they earn and establish open, participatory and transparent budget processes to effectively manage the revenues from natural resources. Most of the MNCs in Angola’s oil industry do not fulfill the requirements set by the PWYP campaign, as we will find out later. An additional requirement posed by Global Witness in their 2002 report from Angola was that the published information about payments should also be easily accessible in the host country (GW, 2002).

#### **4.9. A selection of oil companies in Angola**

In this section four different MNCs that operate in Angola’s oil industry will be presented. We will take a look at their own ethical operating principles or guidelines and consider their actions in response to the problems they face by operating in Angola. The transparency of their operations, which relates to the issue of Angola hiding their exact oil revenues, will be evaluated. The Corporate Social Responsibility (CSR) activities or social projects of each company will be outlined, as that can be considered a response to the issue of operating in a country with widespread poverty and terrible health care.



#### 4.9.1. StatoilHydro

StatoilHydro is a multinational oil and gas company based in Norway. The company is the result of a merger between Statoil and Norsk Hydro, two Norwegian companies that both had been present in Angola for a long time. In Angola StatoilHydro is a partner in nine producing oil fields, with a total production of 200 000 barrels per day (StatoilHydro, 2009a).

StatoilHydro provides technical assistance in several of the partnerships, but is not an operator in any of them. StatoilHydro's ethics code of conduct statement proclaims the following commitment: "In its business activities, StatoilHydro will comply with applicable laws and regulations and act in an ethical, sustainable and socially responsible manner" (StatoilHydro, 2009b, p. 7). This statement is a very standard phrasing that is present in most code of conducts. As such, it is not worthy of much praise unless backed up by actions. Further on the code of conduct states "StatoilHydro is against all forms of corruption and will make active efforts to ensure that it does not occur in the Group's business activities" (StatoilHydro, 2009b, p. 13). An interesting contradiction arises in the ethical commitment statement when applied to Angola. The confidentiality agreements with Sonangol (applicable laws and regulations) compel the company to keep payments secret, while the company's commitment to act in an ethical and socially responsible manner compels the company to do the opposite; disclosing as much information as possible in order to fight corruption.

This contradiction is not really an issue for StatoilHydro though, as Norwegian accounting regulations require information about payments to be disclosed in companies' annual reporting. Each of the partnerships StatoilHydro is involved with in Angola is set up as a subsidiary company, so each subsidiary has to report on its signature bonuses and tax payments (GW, 2002). Noncompliance with accounting regulations in one's home country is not an option, and StatoilHydro does publish its payments to Sonangol and the Angolan Government. In its 2002 report, Global Witness commends StatoilHydro (only Statoil at the time) for operating to a "far higher level of transparency than the majority" (GW, 2002, p. 43), although it is remarked that making information available in Norway is not the same as making it available to Angolans in Angola. In a later study performed by Transparency International, StatoilHydro is presented as one of a few leading oil companies in terms of revenue transparency, only beat by the Canadian Talisman Energy (not present in Angola)

(TI, 2008b). On their website, StatoilHydro claims to have a commitment to transparency and anti-corruption that is anchored in the UN Global Compact (StatoilHydro, 2009c).

StatoilHydro's CSR activities in Angola include a knowledge transfer program, well drilling projects, financial support for mine clearing, HIV/AIDS programs, educational infrastructure, and teacher training programs (StatoilHydro, 2008b). Chr. Michelsen Institute in Norway studied StatoilHydro in Angola, and in their 2008 report they found that half of the investments went to water well drilling projects, an area of expertise for the company. StatoilHydro expected to spend NOK 15 million on CSR activities or social projects in Angola in 2008 (about \$2.25 million) (CMI, 2008). For reference, in 2007 StatoilHydro had revenues of NOK 15 626 million in Angola and paid NOK 4 412 million in income taxes (StatoilHydro, 2008a).

#### **4.9.2. BP**

BP is the world's third largest multinational energy company, headquartered in London. In Angola BP is partner in four producing fields, yielding them 202 000 barrels per day in 2008 (BP, 2008). Of the four fields, BP acts as operator in two of them. BP has an extensive code of conduct published at their website. One of the more interesting and relevant quotes are:

*“Our aim is that countries and communities in which we operate should properly benefit from our presence – through the wealth and jobs created, the skills developed within the local population and the investment of our time and money in people. We will work towards improvements that are measurable and contributable to the real, independent growth of communities where we operate. We will not engage in bribery or corruption in any form. Corruption is the enemy of development and human progress, and we are committed to transparency in all our dealings”*

*(BP, 2009, p. 46).*

Besides pledging to keep their operations transparent, this shows that BP intends their presence in a foreign country to be a net benefit to the local communities and population. When Global Witness contacted BP in 2001 to ask them about their stance on revenue transparency BP responded that they would publish relevant information about their payments to Sonangol and the Angolan Government, and that information about a recent deal was already a matter of public record (GW, 2002). BP's response gained a lot of media attention, and Sonangol replied with a letter that threatened with termination of contracts if BP continued with their course of action. This letter was also sent to the other major oil

companies as a thinly veiled threat to all who were considering publishing what they were paying (GW, 2002). It is unclear how relations have fared between BP and Sonangol since then, but the high standard in terms of revenue transparency set in 2001 may have slipped some. In their 2008 assessment, Transparency International gives BP a below country average score for oil companies operating in Angola (TI, 2008b, p. 21). Perhaps this unsatisfactory score is because BP published aggregated payments to Sonangol and Angola, as they announced their intention to do in 2001 (GW, 2002), instead of breaking payments down to a per oil field basis.

BP's CSR activities in Angola include a Masters of Law program, a supplier training initiative meant to develop local SMEs, a micro-credit program, different initiatives to support local schools, a solar energy project in rural communities, an HIV/AIDS awareness initiative and support of a home for street boys (BP, 2006). Costs were not available for all social projects, but the cost of the three largest projects totaled \$6.66 million. Note that these costs were planned to be carried over a period of up to three years. Revenues from Angola were not easily available, but it is likely that they are similar to StatoilHydro's, given their almost identical production rates. Tax payments might be different though, as indications are BP is investing at a high rate in Angola. The attempt to figure out how much they paid to Angola using their website and the reports published there was unsuccessful.

#### **4.9.3. Total**

Total is an oil and gas company based in France. It is the result of two mergers, first between Total and PetroFina to create Totalfina, and then a merger with Elf Aquitaine to create TotalFinaElf. In 2003 the company was renamed to just Total (Total, 2009c). Total is the world's sixth largest multinational energy company in terms of revenue. In Angola Total has a stake in ten different blocks of oil territory. Total is the operator in six of the blocks, and a partner in four (Total, 2008). Despite a wider involvement than StatoilHydro or BP, Total's production in Angola is very similar, at 205 000 barrels per day in 2008 (Total, 2009a). Revenues from Angola were not easily available, but Total has published a report on their website stating their payments to Sonangol and the Angolan, which amounted to \$3.9 billion in 2007, although this number includes Sonangol's revenues coming from their share of the oil production in the partnerships with Total. The oil revenues belonging to Sonangol as an

interest holder in the oil fields likely constitutes much of this number, seeing how StatoilHydro only paid around \$0.65 billion in taxes on a similar oil production. Total, as the other companies, claims a commitment to transparency:

*“Oil and gas development generates significant revenues that do not always benefit local residents. Total believes that financial transparency is a critical issue and we actively support the Extractive Industries Transparency Initiative (EITI) introduced in 2002. We have also disclosed information on our businesses in certain countries.”*  
(Total, 2009d).

The Extractive Industries Transparency Initiative mentioned is a campaign comparable to the Publish What You Pay initiative. Total has published a code of conduct in which Total says it strives to uphold the principles of the UN Global Compact and the Universal Declaration of Human Rights (Total, 2009b). In their code of conduct, in a section dedicated to “host countries” the following quote can be found: “Total respects the sovereignty of all States and refrains from intervening in or funding the political processes” (Total, 2009b, p. 11). An argument could be made here that the arms purchases the Angolan Government made with oil taxes and signature bonuses in order to stay in power is a political process.

When Global Witness approached Total (then TotalFinaElf) in 2001 to get a response about their stance on transparency no reply was made. Total announced in a press release that they had turned over information to a study undertaken by the IMF and that they had nothing to hide about their business in Angola, yet no information was made publically accessible at that time (GW, 2002). In recent years some improvements have been made. Transparency International awards Total an above average score for their revenue transparency in Angola (TI, 2008b, p. 21). In terms of CSR activities, Total emphasizes their support of local businesses by using them as much as possible as suppliers, and their high degree of local employees (Total, 2007). Total also supports local universities, although the support is limited to geophysics, geology and petroleum engineering programs. Total has created a fund that provides low-interest loans to local businesses and it supports an agricultural training centre and an institute that trains health care professionals to diagnose and treat sexually transmitted infections (Total, 2007). Cost estimates for Total’s CSR activities were not available.

#### 4.9.4. Chevron

Chevron Corporation is the fourth largest multinational energy company in terms of revenue, headquartered in California, USA. Chevron was earlier called ChevronTexaco, but returned to the name Chevron in 2005. Chevron is involved with three blocks in Angola, two of which the company operates. Chevron operates Block 0, the highest producing block in Angola (GW, 2002). Chevron had a daily production of 534 000 barrels in 2008, but only 145 000 of that belonged to the company (Chevron, 2009). Revenues from Angola and payments to Sonangol and the Angolan Government were not available in the annual report and neither were they found at Chevron's website.

Chevron participates in the Extractive Industries Transparency Initiative (EITI) as Total does. The following statement can be found in Chevron's corporate responsibility report:

*“Chevron believes that public disclosure of payments made by extractive industries to governments and revenues received by governments could lead to improved governance in resource-rich countries. Good governance contributes to stable, long-term investment climates and the subsequent improvement of local economies and well-being of communities.”*

*(Chevron, 2008, p. 8).*

In several reports and statements does Chevron voice their support of transparency and the EITI, yet this thesis has been unable to find a stated commitment by Chevron to publish their payments. In 2001 Chevron did not respond to Global Witness' letter about transparency following their investigation into conditions in Angola. Transparency International awards Chevron a below average score for Angola in their assessment (TI, 2008b, p. 21).

Chevron established a program in 2002 called the Angola Partnership Initiative with the goals “to promote peace and stability and improve health and education” (Chevron, 2009, p. 2). Additionally the initiative was intended to help reduce poverty through “agribusiness and the development of micro, small and medium-size enterprises” (Chevron, 2009, p. 2). Chevron made an initial investment of \$25 million for a five-year period, and is committed to spending \$2.5 million a year after the first five until 2012 (Chevron, 2009). During its first five years the initiative established a microfinance bank that made loans to 5000 micro/small enterprises, helped provide food, seeds and tools to 2 million people and increased enrollment at Angola's Faculty of Agrarian Science in an effort to help “revitalize agriculture” (Chevron, 2009). Chevron is involved with multiple programs and projects designed to help local farmers.

When Chevron surveyed their progress in 2007 they found that “capacity building of government institutions and other local partners is vital for success” (Chevron, 2009, p. 3), which corresponds with the premise of this thesis.

#### **4.10. Only one of the issues on the agenda**

Since the early 2000s the issue of undisclosed payments to governments has been put on the agenda for international business. Transparency has become a popular word to use by companies in different statements like codes of conduct, social responsibility reports and business ethics principles. Of the four companies presented, only two provide a reasonable degree of transparency; StatoilHydro and Total. All in all, the revenue transparency among MNCs is not good enough. “The key finding of the *2008 Report on Revenue Transparency of Oil and Gas Companies* is that most companies do not sufficiently report on their payments to governments where they operate. A limited number of companies do report these payments, thereby demonstrating that such disclosure is possible” (TI, 2008b, p. 7). Clearly there is more work to be done in promoting revenue transparency.

The other issue has received comparatively little attention, the issue that money is being paid to a kleptocracy *at all*, regardless of disclosure or not. This problem has not been found directly referred to by the companies researched, likely because of unwillingness to anger host governments. The companies do express that they have a social responsibility in the communities and countries they operate in, and all of them are funding or managing social projects with goals of improving water supply, health care, education, agriculture, and so on.

## 5. Discussion

This part of the thesis will be dedicated to a discussion of the presented information about Angola and the Angolan oil industry. The discussion will draw upon the theory about institutions, human flourishing, virtue ethics, consequentialism, and deontology in an effort to clarify the problems faced by MNCs in Angola's oil industry and then to suggest possible solutions.

### 5.1. Inadequate institutions

Remember the definition of institutions by Douglass North earlier presented: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic" (North, 1990, p. 3). In Angola the institutions were found weak, meaning a low degree of constraints for Angolans and most importantly, their leaders. In the theory section institutions were determined to be created for some good, and that good was the good of all, or human flourishing. Looking at the situation in Angola, it is possible to say that the institutions present there do not promote human flourishing. Or, more fair perhaps, that the institutions are ineffective in their promotion of human flourishing due to a lack of legal and political power. Either way, the institutions will fall under the definition of inadequate in this thesis. One of Aristotle's quotes about human flourishing from the theory section is fitting for Angola: "constitutions which aim at the common advantage are correct and just without qualification, whereas those which aim only at the advantage of the rulers are deviant and unjust, because they involve despotic rule which is inappropriate for a community of free persons" (Miller, 2008). The corruption at high levels and the kleptocracy ruling Angola fits very well with Aristotle's definition of constitutions that are deviant and unjust. North also mentions that institutions are not uncommonly created to serve the interests of the rulers. In Angola there is a disconnect between the government and the people because of the lack of institutions. Normally, support given to a government would equal support given to the people, but not in Angola. Oil industry MNCs need to deal with the disconnected government if they want to operate in the country. This is what brings forth the ethical problems for the MNCs.

## 5.2. Virtue ethics perspective

Virtue ethics is actor-centric rather than action-centric, so in the context of this thesis the focus of this discussion will be on the companies rather than their acts. This will involve a degree of personification of the companies. Aristotle may not have intended for his theory to be applied to organizations, but this thesis believes the application to be useful. In virtue ethics the character of the actor is essential for ethical thinking. For a large company like the MNCs researched here the character of the company will most likely correspond to the organizational culture. Of particular interest are the companies' values and ethical standards and the assimilation of those. For outsiders the best idea of a given company's values and ethical standards can be gained through reading statements about values and codes of conduct commonly published on company websites. Knowledge of the assimilation of a set of stated values can be very difficult to acquire. Although not centered on actions, the best indicator for a company's assimilation of values in the realm of virtue ethics could be the acts it performs. Several of the MNCs researched in this thesis have contradictions between their values or code of conduct and the actions they perform. This can be an indicator of lacking assimilation of the principles the business is supposed to be run by.

A virtue used as an example earlier is honesty. Honesty as a virtue for StatoilHydro, BP, Total or Chevron would mean the company would choose to never steal, lie or deceive because the organizational culture believes it to be wrong and believes honesty to be something valuable. The most relevant issue with respect to honesty is the transparency of the companies' operations in Angola and their payments to Sonangol and the government. On one hand a truly honest company would strive to uphold an agreement made (confidentiality agreement with Sonangol), yet on the other hand the truly honest company would recognize the greater need of the people to know how their own resources are being governed. Such a company would likely never have signed a contract in the first place, as it chooses its partners with care, but if it had it should have recognized the disconnect between government and people and become fully transparent as a response to the situation. Two of the companies had easily accessible information on their websites about payments; StatoilHydro and Total. This does not necessarily mean that StatoilHydro and Total are honest companies in the virtue ethics meaning of the term. For that to be true they would have to have published their payments solely because they believed it the right thing to do, and not out of concern for regulatory pressure or negative publicity. When media attention to the corruption in Angola increased in the early 2000s StatoilHydro was already publishing their payments while Total did not



publish. StatoilHydro was required by the Norwegian government to disclose financial information, but this was only available at the Brønnøysund Register Centre in Norway as a report in Norwegian. Only later have StatoilHydro started publishing payments on their website, in English. To some degree then, both companies have likely been encouraged to increase their transparency as a result of outside influence or the anticipation of outside influence. Public relations and a good corporate image are good motivators for any MNC to change their behavior. All in all none of the four MNCs can be said to possess honesty as a virtue in the classical meaning of the concept virtue. As is remarked in the theory, an actor that fulfils all the requirements of a perfectly virtuous person is rare. The companies can possess a virtue to a degree. Those who do a virtuous act in spite of obstacles are worthy of praise, and in Angola the mandatory confidentiality agreement definitely qualifies as an obstacle. In light of this, the action of publishing payments to the government is commendable. If, however, the greater obstacle was not respect for the confidentiality agreement, yet rather an internal unwillingness in the company to expose anything of their business regardless of circumstances, then the action will not be praiseworthy. In virtue ethics the mental disposition of the actor matters. In a MNC, the mental disposition can also be compared to the organizational culture, especially at the manager and senior executive level where major decisions are made.

Aristotle wrote that a virtue is related to feelings, and that it was possible to be in excess or deficiency of what was virtuous. With honesty as the virtue and MNCs in Angola as the actors, determining what is deficient is not difficult; it must surely be the act of publishing nothing. Excessive honesty in this case is trickier; perhaps it is the act of unnecessarily antagonizing the Angolan Government, for example by distributing flyers in Angolan cities detailing their payments. The intermediate option seems to be disclosing relevant information in a report published at the company website, as Total and StatoilHydro does. There has been no public action taken against these two companies by Sonangol for doing what they have done, despite the threats Sonangol made in 2001. Risk of contract repudiation is then no longer an excuse for other companies to refrain from disclosing information.

Another aspect of virtue and the pursuit of human flourishing is the need for practical wisdom or *phronesis*. Practical wisdom means the knowledge of how to do the right thing in a given situation. The MNCs in Angola have probably increased their practical wisdom in the last ten years. Corporate social responsibility and ethics in business has been an increasing trend. In

2002, when Global Witness published their report on Angola, Total had not published any documents detailing their stance on CSR or ethics at all (GW, 2002). Since then, transparency and corruption has entered the vocabulary of all the MNCs. The companies may have learned something about their responsibility outside of responsibility to the owners, and the effect they can have in the fight against corruption. It is possible that a lack of practical wisdom ten years ago made the companies unable to make the right decision. This does not absolve them of responsibility for their actions or lack of actions; it means they were incapable of acting in an ethical manner (in the realm of virtue ethics). What the MNCs did or did not know about the corruption in Angola's government is hard to tell, but in the present day none can claim a lack of knowledge or practical wisdom. The corruption and generally poor governance in Angola is widely reported, and several large campaigns or movements have suggested steps to be taken by companies and countries, with transparency being the most important. Practical wisdom being present, the only thing lacking for a company to become virtuous is the right character or disposition. On the face of it, all four MNCs researched have code of conduct or other statements of commitment that declare the importance of transparency. The problem then must be one of assimilation; that all parts of the organization do not follow the ethical principles the company claims to follow. This is directed in particular at BP and Chevron, who seem to include transparency as a part of their values and principles, but fail to follow through.

Human flourishing in Angola needs to be clarified. Human flourishing means living well and living a life in accordance with virtue. For this to be possible in an entire country, institutions that protect against violation of rights or injustice seem vital. Human flourishing presupposes that people possess goods such as health, food, family, wealth, and power to some degree. In Angola most people are lacking several of these goods. This is a big obstacle for human flourishing in Angola. For an actor in Angola pursuing human flourishing, as all should per the theory, providing these goods to the people should be the first step. One criticism of using moral theory popular in one's home country as a decision guide in host countries comes from proponents of moral relativism. Moral relativism holds that what is morally right in one country might not be so in another country, due to differences in culture. Now perhaps this is true when it comes to judgments based on the more esoteric virtues mentioned by Aristotle, like *greatness of soul*, but the need for basic goods such as health, food etc. cannot believably be claimed to be relative to culture. What is morally right is unquestionably to provide these goods. In Aristotle's summary of spheres of experience common for all, a relevant sphere is

that of “Distribution of limited resources” where the corresponding virtue is justice. This virtue is largely missing in Angola, as vocal opponents of the government are imprisoned (McMillan, 2005) and the government is unaccountable for its actions and spending. More than any other virtue, justice is dependent upon proper institutions. For the MNCs in Angola’s oil industry this means that any measure taken to increase the accountability of the government is a move towards human flourishing. Most of the social projects started by the MNCs are aimed at providing the basic goods to local communities, so they are also promoting human flourishing. Remember though, that in the context of virtue ethics, the outcome of a single action is not important, what matters is the character of the company, or the internal processes that lead the company to act as it did. Determining whether self-interest in terms of publicity or moral standards were the driving force behind a decision is difficult, but it is most likely a combination of both for all the companies, making them fall short of full virtue.

Nussbaum’s revised list of features common to all of humanity can also be used to demonstrate the similarity of people across the world and, following that, the similarity in ethics. There is no reason for a company to act significantly different in a host country compared to the home country in terms of how they handle ethical problems. Less developed countries can often have fewer rules and regulations for international companies to adhere to, as is the case in Angola. Yet this should not affect a company’s decision making concerned with questions of ethics. When people in essence are the same across the world, the same respect should be paid them no matter the country.

It seems then, that for a virtuous company there is no way to rationalize not publishing everything they pay to Sonangol and the Angolan Government or in any way impede transparency in the oil-driven economy. A virtuous company would aid whenever possible with the building of institutions that promote justice and accountability. This covers the issue of secrecy around the payments made to the government, but the issue that payments are being made at all remains uncovered. Virtue ethics may not be the best tool for this problem, consequentialism could be more suitable, seeing how it is action-centric. Suffice to say that a fully virtuous company that upheld virtues such as honesty and justice would likely never have started operations in Angola at all; as such a company would find a kleptocracy an unsuitable partner. Yet, again, such a company or actor is rare. This line of reasoning assumes the companies were aware of the kleptocracy when they first entered, which may or may not

be true. The MNCs researched likely used local experts or consultants to set up their business that were fully aware of the corruption at high levels in the government, which would mean that companies that were unaware wanted to be unaware, or that they made no effort to learn. This is merely speculation though.

### **5.3. Consequentialist perspective**

With consequentialism as a tool a better job can hopefully be done of discussing the issue that money is being paid to a kleptocracy, regardless of transparency. In order to determine moral rightness of an act, the consequences of that act needs to be mapped. The act that is under scrutiny is the transaction of money from MNCs to Sonangol and the Angolan Government in return for oil extraction rights. If the transaction is regarded with a narrow view no obvious problems are found; the Angolan Government is selling a right to extract oil to the MNCs and is presumably being paid fairly for it. MNCs get the oil they desire and Angola gets the foreign currency they need. The consequence is that both parties profit. This sort of common business deal is not immoral with a consequentialist perspective, assuming the negotiations of terms were fair.

If the view is expanded however, problems become evident as earlier discussed. The Angolan Government is selling extraction rights to oil that belongs to the people. The disconnect between government and people means the oil's rightful owners are being cheated out of their proceeds. To make a judgment about the moral rightness of what the MNCs are doing it is necessary to explore what options are available to them. Three options that seem evident will be discussed here; do as before (maintain status quo), stay in Angola but do everything in one's power to improve conditions and finally; stop paying money to the Angolan Government entirely (in effect closing down operations).

#### **5.3.1. Maintain status quo**

The first option will involve no changes to what is currently being done, continuing production and paying Sonangol and the government with some transparency but not enough. The parties that are most affected by the consequences will be the Angolan Government, the Angolan people, the MNCs and the MNCs' customers. To start off, a classic utilitarian perspective will be used. Concerning the end users of the oil, the MNCs' customers, the 1.9

million barrels of oil produced daily in Angola (CIA, 2009) are likely to provide a slight increase in pleasure. Oil enables people to live a life with personal luxuries that would otherwise be impossible. The supply from Angola will exert a downward pressure on the oil price, although to what degree is uncertain. The consequences for oil consumers are that they can consume slightly more oil, or that they can consume more of other goods because of the somewhat lower price. If the principle of diminishing marginal utility is applied, the increase in consumption will probably lead to no more than a small increase in pleasure. On the other hand, the number of people affected is very large because most countries rely on oil imports. For the MNCs the main consequence will be the profits they achieve as a result of extracting and selling the oil. The people who work in the MNCs and the owners or shareholders get pleasure from the continued profitable operation of their company, either in the form of salaries or dividends. The size or value of this pleasure is hard to estimate. For the Angolan Government the consequences of continued status quo is that they can continue as before, embezzling state revenue and using it to stay in power, with little pressure to change. As long as there are MNCs who keep their payments secret it will remain easy for them to embezzle. This would bring them some amount of pleasure.

For the people of Angola the consequences are grave. The current situation in Angola with widespread poverty, dismal health care, malnourishment and human rights abuses must cause a lot of pain for millions of people. To clarify, “pain” in utilitarianism is not necessarily physical pain; the term is meant to equate “suffering”. The difficulty here lies in determining the strength of the relationship between the MNCs’ operations and behavior and the suffering of the Angolan people. At the very least, MNCs who do not embrace transparency can be considered a hindrance to reform in Angola and therefore complicit in the perpetuation of the people’s suffering. If the history is considered, the MNCs’ operations were found to be funding the civil war between MPLA and UNITA, but the war is over and focus must be on today’s situation and today’s decision problem.

Classic utilitarianism would have us calculate the total value of the positive and negative consequences of this act; maintaining status quo. This value would then be compared with other possible acts, acts which are mutually exclusive so only one could be chosen. This is a very complex task and utilitarians largely agree that most people are unable to calculate or estimate utilities. In trying to calculate utilities in this case, one can see why this observation is true. As an example, let us imagine that one billion people gain a minor increase in

pleasure, while ten million in Angola live with a major degree of pain as a result of the kleptocracy in government propped up by oil revenues. How does one measure and compare a small increase in pleasure times one billion with a large increase in pain times ten million? Without reverting to speculation this would be almost impossible. Especially the measurement of the Angolan people's suffering seems an insurmountable task.

### **5.3.2. Cease operations**

The next option that will be discussed is the full stop of payments by the MNCs to the Angolan Government, which would entail closing down their operations. With a drastic reduction in income there would be a high risk of collapse of the government. In current Angola the power players can be kept happy with money; if that money disappears there would probably be a higher degree of instability within the ruling regime. Such a shock to the economy could also cause mass protests or even uprisings. Considering the fighting President dos Santos and MPLA have already done to stay in power, they are unlikely to give up their position peacefully. The worst case scenario is another civil war. In reality affairs will never transpire this far though. For the act of stopping all payments to work, it requires joint action by all the oil companies present in Angola. Without a common governing body for all the MNCs a joint action is hard to imagine. If somehow the Western oil companies like the four MNCs researched were forced to leave Angola, other companies from the Middle East or China would be keen to take their place. These other companies are under little pressure to adhere to ethical guidelines from their home country, and in terms of transparency would be considerably worse than the Western MNCs currently operating in Angola. One must also remember the capabilities the national oil company Sonangol has built up through decades of partnerships with the MNCs. Sonangol would likely be able to operate many of the oil fields alone. In other words, if for example StatoilHydro, BP, Total and Chevron decided to up and quit it would only lead to a short-term reduction in oil revenues for the government. Knowing this, the MNCs will need intense regulatory and public pressure from home to even contemplate leaving Angola.

This option then, is doubtful to ever be more than a thought experiment. Nevertheless, let the thought experiment run its course. The consequences for the MNCs' customers would be the opposite of the previous act discussed; a slight reduction in pleasure for people of all foreign oil-reliant countries due to an increase in the oil price. This reduction would only be

temporary though, as Sonangol and “replacement” oil companies brought abandoned production sites back online. For the MNCs choosing to leave the country the main consequences will be financial loss. Loss of future profits, investments made, and jobs results in a measure of pain. For the Angolan Government this act will cause them financial loss in the short term and a risk of being toppled if the people’s reaction to the news is severe enough. If this does not happen the Angolan Government could enjoy an increase in pleasure long-term, as they would control a larger part of the oil industry themselves, yielding them even higher state revenues. For the people of Angola the consequences are very uncertain; they would depend on what happens to the government. If the news of all the MNCs abandoning Angola were to reach most of the population it could kindle mass protests and perhaps provide an opportunity for pressuring forth some change in government. If the kleptocracy was ousted it could lead to a large increase in pleasure for the people, supposing it were replaced with something better. That is not necessarily so, the institutions will still be inadequate, leaving a potential new regime with free reins. If this process were to happen, it would probably involve violence and bloodshed of an unknown scale. Short-term a lot of pain would be the result with a chance of great pleasure long-term, provided the new government acted in the people’s interest. Most likely though, is the situation were the current government remains in power, either through suppressing the facts about MNCs leaving Angola or through the use of military force. In that case the consequence for the people will be the same conditions as today’s or even worse, that is, suffering and pain.

### **5.3.3. Evolution over revolution**

The last option for the MNCs to be discussed is the act of remaining in Angola’s oil industry, paying Sonangol and the Angolan Government, but contributing in every which way possible to improve the institutions of Angola and the accountability of the government. This act will require no less than full transparency of the business in Angola. The MNCs would also have to utilize other channels available to them in order to pressure the government to increase their openness and reform. One way of doing this could be to set requirements for any further investments to be made in Angola, citing one’s ethical guidelines and increased shareholder interest in business ethics as the reason for the change in attitude. This could work, as there is a faction within the government that wants to reform and make Angola more acceptable to the international community (McMillan, 2005). Some baby steps have already been made, with the publishing of signature bonuses on a few contracts by the Angolan Government. The

advantage of reform is the lack of violence or armed conflict. The disadvantage is that the effect may be limited when the nature of the leadership does not change. But if increased openness allows institutions to grow and strengthen, over time it could force the leadership to change.

The consequence for the MNCs' customers, the oil consumers, will not be any different than it is today. That is, a small degree of pleasure coming from the higher consumption Angola's oil allows. For the MNCs there are several consequences. Firstly, a better reputation as companies that does try to act according to ethical guidelines. A better reputation helps in marketing their products and in attracting new investors. The act of becoming transparent themselves is unlikely to bring forth any negative consequences, as StatoilHydro and Total are already doing this to some degree, without sanctions being imposed on them. There is some risk of negative consequences if the MNCs were to pressure the government too hard to increase their openness and transparency. The Angolan Government could choose to impose some sort of sanction on the MNCs, yet their actions towards BP in 2001 suggest they are more likely to make threats and then let business continue as usual if the company backs off a bit. All in all the consequences for MNCs will probably involve more pleasure than pain. For the Angolan Government any change is assumed to be painful. Considering the power they currently have they should be right where they want to be. For the people of Angola this option is not guaranteed to bring pleasure, but it does provide an opportunity for them to provoke a change in government. Increased transparency and openness enables them to hold the government accountable for decisions and spending. This could in the future lead to a better governance system, which could pull Angola out of the humanitarian trough they are in now. That would reduce the suffering of the people greatly.

#### **5.3.4. Comparison**

Three different responses to the ethical problem of paying money to a kleptocracy have been outlined. Based on hedonism, consequences in terms of pleasure and pain were discussed. Little attempt was made to value the consequences as that is considered too difficult in utilitarianism. Although we cannot determine exact values of utility, it is possible to estimate which *direction* this utility will take; either positive (pleasure) or negative (pain). Based on this some comparisons can be made. Consider the first and last option. If the MNCs chose to pursue the last option instead of continuing as before the consequences for oil consumers do



not change, the consequences for the MNCs changes slightly in a positive direction, the consequences for the Angolan Government changes in a negative direction and finally, the consequences for the Angolan people changes in a positive direction. Weighing positive consequences for the people against negative consequences for the government is not difficult, the people are ever so more important and numerous. Clearly then, the last option would be preferable to the first, and if these were the only two options available the last option would be the only morally right choice because the total utility is bound to be higher. Comparing the option of leaving the country entirely with the option of staying and improving conditions is not as easy. Both actions could lead to a regime change. Leaving the country entirely could bring about a change quicker, but the drawback is the risk of armed conflict. Overall it seems that gradual improvement in transparency, institutions and government accountability would have a higher likelihood of achieving a beneficial regime change with lower risk. Assuming this is the case, the last option presented is the only morally right action to undertake for any of the MNCs researched in this thesis.

With classic utilitarianism based on hedonism it was possible to reason which of the available options to the MNCs was preferable because the utility of the oil consumers did not change notably between the options. Thus the problem of valuing the pleasure of a billion against the pain of ten million was avoided. The utility of the MNCs and the government did change, but with a wide perspective they are such minor players compared to the people of Angola, numbering just in the tens of thousands most likely. If the problem of comparing utility between oil consumers and the Angolan people is to be resolved some modifications to classic utilitarianism needs to be brought in. The first step can be to discard hedonism and replace it with pluralism. Pluralism allows for a wider set of values to be included in the definition of utility. Most relevant for this thesis is human flourishing. The previously discussed small increase in consumption for oil consumers was found to yield a small increase in pleasure. If the small increase in consumption is regarded with a human flourishing perspective it would barely register on the utility scale. Human flourishing requires a certain amount of personal goods, but it is doubtful if it requires as much as the one billion consumers from industrialized nations already possess. A small increase in goods should not affect human flourishing at all.

For the Angolan people however, the human flourishing perspective will register a very large amount of disutility. The living standard of most Angolans is contrary to the ideals of human flourishing. Now it is possible to make a judgment about the utilities of the current situation.

The net total utility will be negative when human flourishing is part of the utility term. When evaluating actions, that action which increases the human flourishing of the Angolan people is almost guaranteed to be morally right, no matter the consequences for the oil consumers. This is assuming the changes in consumption for first world is not so severe that it falls below the unspecified threshold required for human flourishing, but even if all the oil supply from Angola were to cease this is unlikely to happen. The observation made here can be related to the idea within consequentialism that instead of maximizing utility (hard to calculate) one should avoid acts that are believed to reduce utility with a high likelihood, which are a bit easier to identify.

The current situation in Angola is found to be one of net total negative utility. Through the eyes of consequentialism one can reflect on the decisions the MNCs made when they first entered Angola decades ago. Classic utilitarianism holds that only the *actual* consequences of an act matters. In that context, the decision to start operating in Angola was not morally right, because the actual consequence was a situation of negative utility. For the sake of argument it is assumed that the current situation would not be worse if the MNCs decided back then not to enter, something we can never really know. With newer variations of consequentialism other types of consequences are used. If the basis for moral rightness is *foreseen* consequences there is a possibility that the MNCs did not foresee or understand what the consequences of their act would be, making the act not morally wrong. One could argue that the problems should have been foreseen, as the corruption was known, and the problem of governments embezzling state funds had been evident in other African countries at the time. If *foreseeable* consequences were the basis for moral rightness then, the act would be considered morally wrong.

We abandoned hedonism so that the problem of pleasure of a billion vs. pain of ten million could be resolved. If that had not been done, and somehow the pleasure of a billion were found to be higher valued than the absolute value of the pain of ten million people, then a situation would be created where moral theory is contrary to moral intuition. To solve this issue, agent-relative consequentialism can be applied. Classic utilitarianism requires agent-neutrality, that is, the evaluation process of the actor must be the same as that of a third person observer. An observer could find the world where ten million people were exploited to gain advantages of one billion people to be better than the world where it did not happen. With agent-relative consequentialism a MNC could come to a different conclusion. Because the

MNC would have to take part in the exploitation of the ten million people directly, the MNC could evaluate the act as morally wrong based on their own ethical guidelines. One could also use rule consequentialism, allowing the MNC to imagine what would happen if everybody violated some rule. The rule could for example be “do not passively allow injustice to happen”. An MNC could imagine the world where everybody violated this rule and find it morally wrong to carry through with its own act that would violate the rule.

Finally, from the consequentialist perspective, the problem of always maximizing utility needs to be addressed. If an MNC were to maximize utility it would find that every dollar of profit would be better spent in aid to Angolans, as their utility per dollar is higher than the stockholders'. Pay cuts would also be found morally right, that money would also give a higher utility in the hands of the Angolan people. Lower than average wages and no return on investment for stockholders seems an unreasonable demand to put on a company. A modification of consequentialism that solves this problem is progressive consequentialism. With that approach the MNCs would be required to produce a progressively better world rather than the best world. This ties in neatly with the earlier discussion about which course of action for the MNCs that was preferable to pursue. The decision to stay in Angola and contribute in every way possible to improve institutions and conditions is very much an action that aims at progressive bettering of the world.

To summarize the discussion from a consequentialist perspective; what the MNCs as a group are currently doing was found morally wrong. They need to increase their efforts to produce a progressively better world, or in this case a progressively better country. The social projects of the MNCs are good, but the MNCs could have a much greater impact through their business operations, if they increase transparency and pressure the government to do the same. Leaving the country was not found to be the best alternative. When the utility term was defined to include human flourishing the importance of the consequences for the Angolan people completely outweighed that of the other actors involved. Looking back at the time the MNCs first entered Angola, the act of entering was most likely morally wrong.

#### 5.4. Deontological perspective

The deontological perspective is the last major branch of ethics and moral philosophy to be presented. With this perspective an act is considered morally right if it conforms to a moral norm. Looking at the ethical problems for the MNCs in Angola with deontology requires that some maxims are formulated that encompass the actions of the MNCs. In a thought experiment that maxim is made a universal law and we imagine what such a world would be like and if that world is desirable.

One maxim could be “We will do no more than required by law, even though we know the law to be insufficient”. It is not suggested that all the MNCs adhere strictly to this maxim, but some of their actions can be seen in this light. Now imagine a world where every person and every organization in all dealings with other people did the bare minimum required by law, even though they knew that more should be done or something different should be done. A world like this would be colder than our own, with vast numbers of people being exploited due to poor or nonexistent legal rights. Charity and compassion would not exist, and there would be no need for ethics, as everybody would follow the law and no more, making reflection on ethical dilemmas useless. In fact there wouldn't be any ethical dilemmas, only legal dilemmas if the law was unclear or contradictory. The next step is to consider whether the maxim is conceivable in a world where this maxim is a universal law. In this case it seems that the world with this maxim will work, there is no inherent contradiction. The last step is to ask oneself if one could rationally *will* this maxim to be followed in such a world. Here it would not be possible to will the maxim to be followed. The world that would be created then is objectively worse than our current world, due to a reduction in the supreme good which is defined as human flourishing in this thesis. A single MNC could gain from limiting efforts to what is specified in an insufficient legal system, but if everybody were allowed to do that the world would be worse off. In Angola the institutions are found inadequate, with the legal system being one of the institutions. MNCs cannot be content with following Angolan laws and regulations; they are called to go above and beyond the legal requirements. For example, the law does not demand that MNCs contribute to society besides paying taxes, yet other forces and considerations compel them to do so.

Another maxim relevant for this case could be “We will deceptively portray an image of ourselves we do not live up to”. The connection here is obviously those companies who publicly support transparency yet fail to follow through with actions. In a world where

everybody says they are something they are not, lying and deception is the norm. Nobody would trust each other, making all efforts to improve a corporate image useless. The incentives to focus on corporate social responsibility are lessened as the publicity reward disappears. Companies and corporations would be viewed as inherently morally corrupt because of their deception. However, this world will not work. As in the example in the theory section this world will have no trust, and with no trust deception does not work, because there is nothing to take advantage of. If everybody lies and expect everybody else to lie there is nothing to gain from a lie. This contradiction makes the maxim inconceivable in a world governed by the maxim as a universal law. The implication for this thesis is that the act of publishing documents and statements which portrays the company to operate with a high transparency when in fact they do not is immoral.

In addition to the problem of transparency is the problem that money is being paid to a kleptocracy at all. A maxim to be assessed that relates to this problem could be “We will support corrupt governments if it allows us to achieve what we want”. The problem of supporting corrupt governments is that it gives them legitimacy, because any kind of support shows that a company or organization recognizes them as the legitimate rulers of the country. Financial support also gives corrupt governments a better chance of staying in power. If the whole world were governed by this maxim as a universal rule nobody would balk at doing business with corrupt partners, as long as there was some gain to be made. The risks of engaging in corruptive behavior for governments will be greatly reduced and corruption is likely to increase worldwide. Corruption is a force that works against human flourishing. This world will be able to function though, and the maxim is conceivable in such a world. There are no obvious contradictions in a world where all organizations supported corrupt governments in return for some gain, perhaps except that organizations with the function of combating corruption would cease to exist. Yet one cannot rationally will this maxim to be acted upon, because it leads to perpetuated and increased corruption, which in turn constrains or reduces human flourishing. This perspective could be useful to MNCs, as it shows that Angola should not be treated as a special case where ordinary moral rules do not necessarily apply. With a deontological perspective the act of paying money to a known kleptocracy is considered morally wrong. There is a contrast here with the results from the consequentialist perspective, where it was found that the best solution (and therefore the morally right choice) included continuing payments to the Angolan Government. In deontology some choices or

acts are strictly forbidden to make. This makes it hard to figure out exactly what to do about the situation in Angola where every choice could include elements that are immoral.

It is also possible to focus on what is moral rather than what is immoral. A maxim used as an example could be “We will consider the impact of our actions on all affected parties, not just our closest partners”. This maxim covers much of the spirit behind corporate social responsibility. If every actor had a wider perspective when evaluating their actions it would lead to a world of higher moral standard, as considering all affected parties is central in ethics, especially in consequentialism. When an increasing number of decisions or actions made are morally right the world should be a better place with a higher degree of human flourishing. There are no contradictions between this maxim and the world it would create. One is also able to will this world to be and the maxim to be followed because it increases happiness or human flourishing, which is defined as the only end willed by all. For companies in Angola this means their CSR activities and social projects are morally right, which is perhaps not surprising. Take note that deontology does not try to maximize the consequences, so an act that is morally right need not be the very best option available. Spending \$1 on health care in Angola is morally right, but this does not mean a MNC should settle for a \$1 contribution. However, one could make the argument that such a measly contribution is a result of the company not properly considering its impact on all affected parties, thereby breaking the maxim.

A real concern here is the MNCs’ motivations. To be morally right the motivation behind an act must be *duty*. The MNCs should feel a duty to uphold moral laws. If the motivation was not respect for moral laws but rather a desire for good publicity the act is not morally right because it does not express a good will. The companies researched here were found to spend between \$2 and \$3 million per year on social projects. These amounts are not very large compared to their revenues, but it should still be considered morally right to do this. The problem is that if the companies really were motivated by duty this would be evident in other areas as well, like for example revenue transparency. Revenue transparency should also be upheld by moral law, so companies lacking in transparency are doubtfully motivated purely by duty. Spending some amount on social projects can be viewed as the easiest way to achieve evidence of a company’s CSR focus. Most of the CSR activities are transactions between the company and other organizations or initiatives, which does not affect or involve the business operations, making it easier to implement. The recipients of the aid will probably

not care about motivations, and if we step back from the moral theory it is hard to criticize financial aid to education, agriculture and health care in Angola. The only concern is that if something other than duty is the driving motivation, like for example publicity, the criteria for when a company considers itself to have done enough could be very different. There is probably a diminishing marginal utility to CSR spending in terms of publicity, so adding a new project could be decided against. With duty as a motivation, the same project could be found to be even more effective than previous projects and the decision would be to start the project immediately.

Another part of deontology that could be brought in is Kant's Humanity formula. The formula states that humanity should not be used merely as a means to an end. In the transfer of oil from Angola to the world market one could discuss whether the Angolan people is being used as a means and not an end. They are not used unfairly as labor; the few thousand Angolans working for the MNCs are not reported to be treated badly. If there is any aspect of humanity that is being misused it would be the ownership rights of the people. The people have little knowledge of how their resources are being managed, in particular what the revenues are spent for and what is borrowed against the oil. If the people had made a rational decision to allow the government to manage their resources there would be no problem. The power wielded by the current government can hardly be said to be the result of a rational decision by the people, the government has fought to get where they are and to stay there. It does not seem rational to let a kleptocracy manage your assets. On the other hand, President dos Santos and the MPLA has won several elections. Although emotions get mixed up in elections, there is supposed to be an element of rationality in casting a vote. The people's ability to make a rational decision can be questioned though, because of the lack of information available to them and the resources available to the sitting government in terms of campaigning. If the decision were not rational then the people is being used simply as a means, and the second formulation of the categorical imperative, the Humanity formula, is broken. Were the people to get their fair proceeds from the oil it would not be possible to say they were being used simply as a means, because a large part of the ends would accrue to the people. This is not the case in Angola, and the Humanity formula remains broken. This problem is mostly between the government and the people, yet by supporting the government, the MNCs play a part too. In general the Humanity formula supports many of the earlier findings, among them the fact that in ethical considerations the importance of the people runs much higher than any other

actors. Any act that is found to reduce human flourishing is likely to break the Humanity formula too.

The deontological perspective supplements the other two perspectives. This section has brought a better look at the CSR activities of the MNCs, questioning if they really are morally commendable. The argument that even more attention should be paid to the Angolan people is strengthened here, as is the idea that companies in their consideration of their environment must go above and beyond what is formally required of them. Not committing to full transparency is also here found to be morally wrong. Paying money to the Angolan Government is found to be immoral with a deontological perspective, but there isn't much help in deontology in figuring out the best way out of the situation.



## 6. The resource curse – a worldwide problem

Angola is rich in oil, yet the economy has not improved for a majority of the people. The problem of abundant natural resources and poor economic development is not unique for Angola; this is a worldwide trend for countries with a large degree of exports being natural resources. A study by Sachs and Warner showed that countries with a high ratio of natural resource exports in 1970 experienced stagnation in economic growth the next 20 years, almost without exceptions (Sachs & Warner, 1995). This is called the “curse of natural resources” or simply the resource curse. Extensive research has been done to see if other factors can explain the stagnation besides natural resources, but it is not easily explained by other variables (Sachs & Warner, 2001). Exactly why the resource curse exists is much debated; “There is now strong evidence that states with abundant resource wealth perform less well than their resource-poor counterparts, but there is little agreement on why this occurs” (Ross, 1999, p. 297). There are economic explanations offered for the slow growth, for example the instability of international commodity markets, poor economic linkages between resource and nonresource sectors and the so-called “Dutch disease” (Ross, 1999). For the purpose of this thesis, the more interesting explanations can be found in the political world. The question is why governments of resource-exporting countries seem to manage their economies so poorly. Most explanations can be separated into three categories; cognitive, societal or state-centered explanations (Ross, 1999).

The cognitive explanations suggest that resource wealth creates a short-sightedness or myopia among actors, both public and private. This short-sightedness can cause lax economic planning and neglect of other sectors than the resource sector. The mentality in the country can create excessive optimism leading to economic bubbles. Cognitive explanations have not been empirically tested (Ross, 1999). The societal explanations suggest that “resource booms enhance the political leverage of nonstate actors who favor growth-impeding policies” (Ross, 1999, p. 310). Powerful organizations or actors outside of the government, for example labor unions, can keep the government from making policy changes that would adversely affect them, even if those policy changes would benefit the country as a whole. Societal explanations have been widely used in research of resource-rich countries in Latin America who have experienced stagnation (Ross, 1999). It is not certain that the findings can be generalized though, as only a small sample of countries have been used. The last category of explanations is state-centered. The term rentier state is used and the theories contend that

“when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and become less accountable to the societies they govern” (Ross, 1999, p. 312). The first researcher to discuss the concept of rentier states was Mahdavy. He suggests that governments who receive large windfalls due to resource rents “grow irrationally optimistic about future revenues and devote the greater part of their resources to jealously guarding the status quo instead of promoting development” (Ross, 1999, p. 312). Another researcher, Chaudry, suggests that “rentier states develop poor extractive institutions and therefore lack the information they need to formulate sound development strategies” (Ross, 1999, p. 313).

Under the umbrella of state-centered explanations for the resource curse the institutional explanations seem most relevant in the case of Angola. The findings from Angola can be used to compare with other countries where institutions are inadequate or poor. Many of the different explanations have not been properly hypothesized and tested, but institutional explanations have. Research by Mehlum et al has tested the hypothesis “institutions are decisive for the resource curse” and found it to be confirmed (Mehlum, Moene, & Torvik, 2006). Their paper separates between two types of institutional environments; producer friendly and grabber friendly. With producer friendly institutions economic rents fall into the hands of the producers, promoting economic activity. Rent-seeking and production are complimentary activities. In countries with grabber friendly institutions rent-seeking and production are competing activities. Grabbing is an unproductive activity; grabbers try to appropriate rents brought about by others.

*“With grabber friendly institutions there are gains from specialization in various sorts of unproductive influence activities, while there are extra costs of production activities due to discretionary power and favoritism. Typical features of grabber friendly institutions are a weak rule of law and a high risk of expropriation, malfunctioning bureaucracy and corruption in the government”*

*(Mehlum et al., 2006, p. 2)*

Having gone through the Angola case it is not hard to recognize these features of grabber friendly institutions. The main finding in this paper was that the “resource curse applies in countries with grabber friendly institutions, but not in countries with producer friendly institutions” (Mehlum et al., 2006, p. 3).

Another study by Boschini et al also finds that institutional quality matters for the development of the resource curse. Their research shows that natural resources lead to growth when institutional quality is high and the resource curse if institutional quality is low. The positive and negative effects are exaggerated if the natural resource in question is diamonds or another precious metal (Boschini, Pettersson, & Roine, 2007). Their measure of institutional quality is taken from an index developed by Keefer & Knack.

The uncovered ethical problems, issues or challenges faced by the MNCs in Angola will probably be found in many other resource rich countries, and perhaps some of the discussion with ethical perspectives can be useful in other countries too. It could be interesting to look at a selection of countries and see if any statistics are similar. The following table has been built for this purpose. All kinds of natural resources can lead to a resource curse, but oil has been chosen here, as the oil industry is the main focus in this thesis. A list of oil rich countries has been compiled by taking the 40 countries with the highest proven oil reserves (from the CIA World Factbook). Other measures include Human Development Index score and economic performance in terms of average annual GDP growth, both numbers from the UNDP. The column “institutional quality” is borrowed from the research done by Mehlum et al. The indicator is a number between 0 and 1, where 1 is maximum producer friendly institutions and 0 is maximum grabber friendly institutions. The numbers were produced as an unweighted average of five other indexes concerned with respectively the rule of law, bureaucratic quality, corruption in government, risk of expropriation, and government repudiation of contracts (Mehlum et al., 2006). Unfortunately this data was not available for all the oil rich countries. The last measure is the latest available score from Global Integrity’s thorough institutional quality research, as used earlier in analyzing the institutions of Angola. Neither here is there data available for all the countries. The two institutional quality measures complement each other to some degree, so out of 40 countries there are 8 without any measure of their institutions.

Country	Proven oil reserves (barrels)	HDI	Annual GDP growth 1975 to 2005	Institutional quality	Global Integrity score
Saudi Arabia	266,800,000,000	0.835	-2,0 %	n/a	n/a
Canada	178,600,000,000	0.967	1,6 %	0.97	80
Iran	138,400,000,000	0.777	-0,2 %	n/a	n/a
Iraq	115,000,000,000	n/a	n/a	n/a	53
Kuwait	104,000,000,000	0.912	-0,5 %	n/a	55
United Arab Emirates	97,800,000,000	0.903	-2,6 %	n/a	n/a
Venezuela	87,040,000,000	0.826	-1,0 %	0.56	71
Russia	79,000,000,000	0.806	-0,7 %	n/a	69
Libya	41,460,000,000	0.840	2,5 %	n/a	n/a
Nigeria	36,220,000,000	0.499	-0,1 %	0.31	64
Kazakhstan	30,000,000,000	0.807	2,0 %	n/a	76
United States	20,970,000,000	0.950	2,0 %	0.98	87
China	16,000,000,000	0.762	8,4 %	0.57	59
Qatar	15,210,000,000	0.899	n/a	n/a	n/a
Algeria	12,200,000,000	0.748	0,1 %	0.44	47
Brazil	12,180,000,000	0.807	0,7 %	0.64	73
Mexico	11,650,000,000	0.842	1,0 %	0.54	63
<b>Angola</b>	<b>9,035,000,000</b>	<b>0.484</b>	<b>-0,6 %</b>	<b>n/a</b>	<b>41</b>
Azerbaijan	7,000,000,000	0.758	n/a	n/a	61
Norway	6,865,000,000	0.968	2,6 %	0.96	n/a
India	5,625,000,000	0.609	3,4 %	0.58	75
Oman	5,500,000,000	0.839	2,4 %	n/a	n/a
Sudan	5,000,000,000	0.526	1,3 %	n/a	59
Ecuador	4,517,000,000	0.807	0,3 %	0.54	60
Malaysia	4,000,000,000	0.823	3,9 %	0.69	n/a
Indonesia	3,990,000,000	0.726	3,9 %	0.37	69
Egypt	3,700,000,000	0.716	2,8 %	0.44	54
United Kingdom	3,600,000,000	0.942	2,2 %	0.93	n/a
Yemen	3,000,000,000	0.567	1,5 %	n/a	46
Argentina	2,587,000,000	0.860	0,3 %	0.43	70
Syria	2,500,000,000	0.736	0,9 %	0.31	n/a
Gabon	2,000,000,000	0.729	-1,4 %	0.54	n/a
Congo, Republic of the	1,600,000,000	0.619	-0,1 %	0.37	n/a
Colombia	1,506,000,000	0.787	1,4 %	0.53	71
Australia	1,500,000,000	0.965	2,0 %	0.94	84
Chad	1,500,000,000	0.389	0,5 %	n/a	n/a
Denmark	1,188,000,000	0.952	1,7 %	0.97	n/a
Brunei	1,100,000,000	0.919	-1,9 %	n/a	n/a
Equatorial Guinea	1,100,000,000	0.717	11,7 %	n/a	n/a
Peru	930,000,000	0.788	-0,3 %	0.32	69

(CIA, 2008b) , (UNDP, 2008d) , (UNDP, 2008b) , (Mehlum et al., 2006) , (GI, 2008b).

Many of the oil rich countries have experienced negative or slow economic growth. The term stagnation is widely used with two different definitions, either economic growth below 1% annually or below 2-3% annually. If the 1% definition is used, a total of 18 countries on the list have experienced stagnation in the 30 year period from 1975 to 2005 (3 countries did not have economic growth data available). In other words, half of the world's top oil countries have seen little or no economic growth, despite their resource wealth. If only the top 10 are counted, 7 out of 10 have had stagnated economies. These observations correspond with the research about the resource curse.

Looking at the institutional measures one can search for any evidence of an institutional explanation of the resource curse. For the Global Integrity scores any score 70 and below is considered weak. The institutional quality index used by Mehlum et al is more ambiguous, as no definition is given of what is adequate. Consider a score of 0.5. It does not seem reasonable that an institutional environment that favors grabbers just as much as producers is considered adequate. The cutoff point must be somewhere above 0.5. Just for simplicity's sake we can pick the same level as Global Integrity, 70% or 0.7. Of the 18 countries with stagnated economies, only 13 have available institutional quality measures. Of these 13 countries only 2 come close to adequate institutions; Venezuela and Brazil. Venezuela's scores are 0.56 and 71, a poor and moderate score respectively. Brazil's scores are 0.64 and 73, also poor and moderate scores respectively. It bears mentioning that the Global Integrity assessments are in most cases done 10 years later than the institutional quality index from Mehlum et al. This could help explain the difference in scores, in addition to the methodological differences. We find, then, that the majority of oil rich countries with stagnated economies have poor institutions.

A flaw in this table is that the economic performance is an average number over 30 years, while the institutional measurements are done for the current year, at least in the case of Global Integrity's assessments. It is possible that the institutions have changed substantially in later years, and therefore obscuring the relation between economic growth and institutional quality. However, it seems reasonable to think that institutions are more likely to improve over time than to deteriorate. This means, if anything, that the institutional quality of the countries with economic stagnation is worse than reported, when the whole 30 year period is considered. On the other hand recent armed conflicts like a civil war could have deteriorated the quality of a country's institutions, so it is not impossible to have a negative progress in

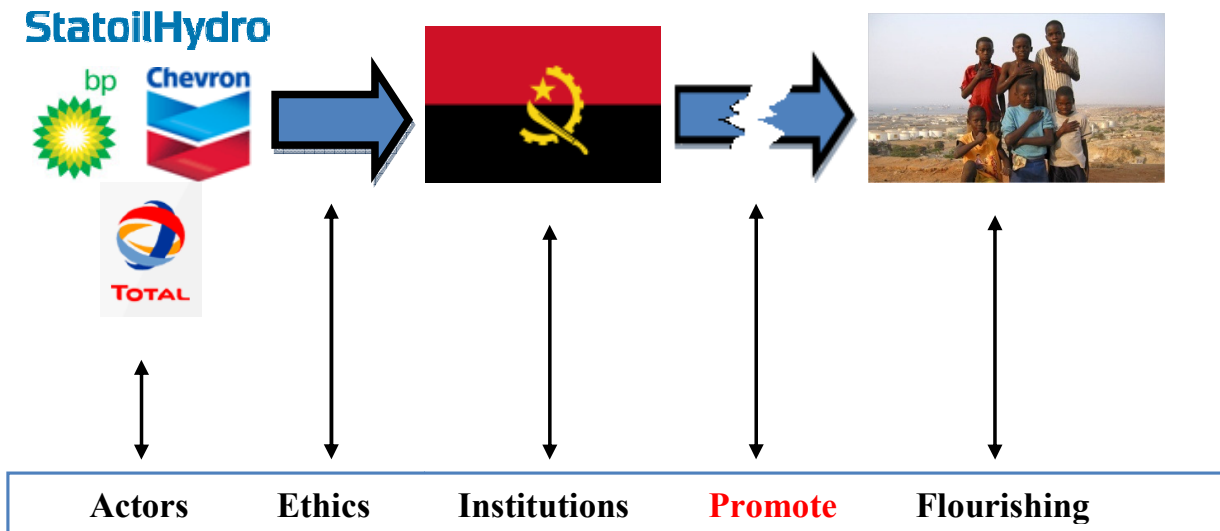
quality. The point is simply that this data is not really fit for quantitative analysis because of the completely different time elements in each variable. The best we can do is a simple comparison between stagnated and nonstagnated economies. For the nonstagnated countries there are 16 with available data on institutional quality. Of these 16 a total of 8 have poor or inadequate institutional quality. Comparing the 50% ratio of poor institutions with the 85% ratio among countries with stagnated growth there seems to be a notable difference. Especially when we consider the fact that the two countries with stagnated growth yet passable institutions were only barely above the lower limit on institutional quality, and the fact that all of the countries with high quality institutions are countries with normal or above normal economic growth.

Institutions do matter, and when their quality is poor it will affect the foreign companies operating in the country in some way. Each country will have its unique set of problems, yet some of the challenges, for example a corrupt government, are bound to be similar. The importance of revenue transparency discussed in this thesis should carry over to all other resource rich countries with inadequate institutions and corrupt governments. Although the oil industry has been focused upon in this thesis, the resource curse and institutional quality connection applies to other natural resource industries as well.

Another relevant table can be found in appendix 9.5. This table shows the largest oil companies in the world in terms of oil and gas reserves, along with corruption scores and an index that measures the risk of a state collapsing. The Failed State Index is calculated based on 12 different indicators of a country's stability. Examples are demographic pressure, uneven economic development along group lines, and criminalization and/or delegitimization of the state. The table shows, firstly, that the vast majority of oil reserves are controlled by national oil companies. National oil companies are not always, or even usually, subject to the same demands of reporting and oversight that privately owned companies are, as Sonangol is a clear example of. Furthermore, a large number of the resource rich countries with dominant national oil companies are shown to achieve poor scores in both the corruption index and the Failed State Index. The contrast between some of the largest oil producing countries and for example Norway is notable. Much of the difference can likely be attributed to the quality of institutions in the respective countries.

## 7. Summary and conclusion

The purpose of this thesis was to find out what problems multinational corporations in the resource industry face when they operate in countries with inadequate institutions and then assess the problems from an ethical perspective. Using Angola as a case study a clear example of inadequate institutions was found.



The institutions in Angola as a whole do not promote human flourishing. This means that acts that support or follow these institutions cannot be called ethical. This is the crux of the problems MNCs face as presented in this thesis. The first problem is that through their activities, the MNCs support the government and the institutions in a major way. Most attention has been put upon the financial support that the government receives from oil revenues and taxes, but also significant is the legitimacy that involvement with multinational organizations awards. The second problem, related to the first, was found to be the confidential nature of the payments to the government. This secrecy has been explained to be a serious hindrance to progress in Angola, because of the unaccountability it provides the government.

Looking at the first problem with a virtue ethics perspective and deontological perspective gave an assessment of the actions currently pursued by the MNCs. Their actions were found to be morally wrong. With these ethical perspectives the obvious solution would be to cut all

support to the corrupt institutions, in effect exiting the country. A consequentialist perspective allowed for more extensive analysis of the first problem. This perspective found that the morally right act was *not* to exit the country, but stay and help improve conditions. This result came from a consideration of the likely consequences of exiting and staying. An important connection to make is with the responsibilities that can be assigned to the MNCs. Working through the theory and discussion it becomes clear that MNCs have a responsibility to avoid acts that harm or reduce human flourishing. This responsibility can be viewed as a *negative* responsibility, in other words an obligation to avoid acts with negative consequences. In addition to this the companies have a *positive* responsibility, or an obligation to pursue acts that increase or further human flourishing. This becomes evident with the consequentialist perspective and the consideration of responsibility as *ability to respond*. Because the companies are embedded in a situation and institutional environment that does not promote flourishing, which could be difficult to get out of, and the fact that they have extensive resources at hand, the end result is that their (positive) responsibility is considerable.

Their positive responsibility, perhaps best explained as the responsibility to produce a progressively better world, can be hard to specify or quantify. To set a level of effort that is considered acceptable or sufficient is beyond this thesis. This thesis can only ask: “Is the company able to do more?”. If a company can increase their support of human flourishing in a host country with limited effects on their own business, they should feel obligated to do so. For the MNCs researched in this case, the funds allocated to social projects seem modest compared to their revenues from Angola. A definite answer is difficult, but it does seem likely that a company that fully recognized its responsibilities would contribute more.

Concerning the second problem facing MNCs, all the different perspectives agreed that anything less than full revenue transparency would be unethical. Pursuing transparency goes against the established institutions, like a sort of civil disobedience. Going against institutions should not be done in such a way that it unnecessarily antagonizes the local government, which could provoke a violent reaction. This seems not to be the case in Angola. To achieve the desired effect it is crucial that all the actors take part in the civil disobedience, but that does not mean lack of support from other companies is a good reason for any one company to refrain from transparency.



For any company in the natural resource industry, in any country, this thesis suggests the importance of institutional quality. Companies should research the institutional environments they are or will be situated in, not only with respect to the formal laws that apply to a company, but with focus on the effects the institutions have on human flourishing. An easy way to do this is through Global Integrity's assessments, if available, or indices like Transparency International's corruption perception index, United Nations' human development index or the Gini coefficient. If a company finds that the institutions in a given country are inadequate there are two courses of action the company can follow; exiting or civil disobedience. Exiting will sever the relationship with institutions that does harm, but the decision should be tempered with a consideration of whether the company can do more good by staying. If a company does not exit, it should engage in civil disobedience in any way that can be imagined to further human flourishing in that country. Beyond going against the institutions, companies must also realize the responsibility they have towards the natural resource owners; the people. Considerable contributions to social projects that improve living conditions, health, and education should be the norm.

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## 9. Appendix

Here is a selection of tables that show key indicators for Angola compared with a sample of other countries; some very similar to Angola and some very different.

### 9.1. GDP per capita (PPP)

Rank	Country	GDP - per capita (PPP)	
2	Qatar	\$	103,500
5	Kuwait	\$	57,400
7	Norway	\$	55,200
10	United States	\$	47,000
19	United Arab Emirates	\$	40,000
21	Canada	\$	39,300
28	Denmark	\$	37,400
58	Saudi Arabia	\$	20,700
74	Russia	\$	15,800
75	Malaysia	\$	15,300
81	Libya	\$	14,400
84	Venezuela	\$	13,500
86	Botswana	\$	13,300
88	Iran	\$	12,800
104	Brazil	\$	10,100
105	South Africa	\$	10,000
<b>114</b>	<b>Angola</b>	<b>\$</b>	<b>8,800</b>
125	Algeria	\$	7,000
153	Congo, Republic of the	\$	4,000
155	Iraq	\$	4,000
158	Indonesia	\$	3,900
181	Nigeria	\$	2,300
183	Sudan	\$	2,200
221	Central African Republic	\$	700
226	Somalia	\$	600

(CIA, 2008a). Angola's GDP per capita is higher in this table than the \$6400 IMF reports because CIA uses a lower estimate of Angola's population.



## 9.2. Gini coefficient

<b>HDI Rank</b>	<b>Country</b>	<b>Gini coefficient (%)</b>
2	Norway	25.8
4	Canada	32.6
12	United States	40.8
14	Denmark	24.7
33	Kuwait	..
35	Qatar	..
39	United Arab Emirates	..
56	Libya	..
61	Saudi Arabia	..
63	Malaysia	49.2
67	Russia	39.9
70	Brazil	57.0
74	Venezuela	48.2
94	Iran	43.0
104	Algeria	35.3
107	Indonesia	34.3
121	South Africa	57.8
124	Botswana	60.5
139	Congo, Republic of the	..
147	Sudan	..
158	Nigeria	43.7
<b>162</b>	<b>Angola</b>	<b>64.0</b>
171	Central African Republic	61.3

The Gini coefficient table is taken from the UN 2007/2008 Human Development Report (UNDP, 2008c) with exception of Angola's score, which is taken from an OECD report (OECD, 2008) because it was unavailable from the UN.

### 9.3. Corruption perceptions index

Country rank	Country	CPI score	Surveys used	Confidence range
1	Denmark	9,3	6	9.1 - 9.4
9	Canada	8,7	6	8.4 - 9.1
14	Norway	7,9	6	7.5 - 8.3
18	USA	7,3	8	6.7 - 7.7
28	Qatar	6,5	4	5.6 - 7.0
35	United Arab Emirates	5,9	5	4.8 - 6.8
36	Botswana	5,8	6	5.2 - 6.4
47	Malaysia	5,1	9	4.5 - 5.7
54	South Africa	4,9	8	4.5 - 5.1
65	Kuwait	4,3	5	3.3 - 5.2
80	Brazil	3,5	7	3.2 - 4.0
80	Saudi Arabia	3,5	5	3.0 - 3.9
92	Algeria	3,2	6	2.9 - 3.4
121	Nigeria	2,7	7	2.3 - 3.0
126	Indonesia	2,6	10	2.3 - 2.9
126	Libya	2,6	5	2.2 - 3.0
141	Iran	2,3	4	1.9 - 2.5
147	Russia	2,1	8	1.9 - 2.5
<b>158</b>	<b>Angola</b>	<b>1,9</b>	<b>6</b>	<b>1.5 - 2.2</b>
158	Congo, Republic of the	1,9	6	1.8 - 2.0
158	Venezuela	1,9	7	1.8 - 2.0
173	Sudan	1,6	6	1.5 - 1.7
178	Iraq	1,3	4	1.1 - 1.6
180	Somalia	1	4	0.5 - 1.4

(TI, 2008a).

### 9.4. Global Integrity Index

Country Score	In Law (L)	In Practice (P)	Implementation Gap (L - P)		Global Integrity Index 2008																															
					I	I-1	I-2	I-3	II	II-1	II-2	II-3	III	III-1	III-2	III-3	III-4	IV	N-1	N-2	N-3	N-4	V	V-1	V-2	V-3	V-4	V-5	VI	VI-1	VI-2	VI-3	VI-4	Law Enforcement		
41	56	26	30	30	53	61	61	38	49	80	34	34	34	10	4	8	13	15	25	16	0	18	66	53	46	60	67	35	57	57	78	37	59	52	58	
70	90	51	39	39	78	93	80	80	67	90	78	34	34	58	71	57	63	42	58	76	52	72	33	76	92	88	58	73	71	80	100	94	63	63	63	
61	87	36	51	51	63	72	59	58	61	70	70	42	47	47	50	37	36	65	57	40	54	52	52	72	87	70	79	67	57	68	100	64	63	46	46	
68	84	52	31	31	54	57	72	32	63	83	86	20	53	53	45	56	51	63	79	53	81	96	68	75	61	78	83	75	79	82	100	77	79	71	71	
66	81	48	33	33	71	65	67	83	61	73	72	38	50	50	63	51	34	50	69	42	88	77	60	80	0	60	100	58	81	87	100	81	92	73	73	
63	87	41	46	46	62	55	75	56	78	88	81	64	59	59	66	59	58	52	43	40	0	68	66	69	61	81	75	63	63	68	100	52	69	50	50	
87	95	79	16	16	91	95	87	90	87	96	95	69	83	84	78	86	85	85	82	85	56	89	100	90	96	96	88	85	87	88	100	81	93	79	79	
46	58	30	28	28	41	58	43	22	55	86	75	5	31	42	13	17	52	36	30	48	44	24	48	48	0	62	71	48	60	63	89	45	64	52	52	
55	70	39	31	31	61	82	60	41	58	79	71	25	44	57	29	31	58	48	36	13	75	70	49	70	49	0	55	79	83	28	69	100	63	58	56	56
80	90	68	22	22	87	89	92	80	86	90	92	77	64	85	60	31	81	81	76	63	71	82	89	87	85	94	79	88	88	77	100	70	81	58	58	
77	87	66	21	21	80	85	85	70	84	97	100	55	67	75	70	62	63	62	62	76	13	69	90	85	77	85	100	73	92	83	100	78	78	75	75	
59	74	41	33	33	61	65	35	83	42	63	62	2	45	47	32	46	54	69	47	75	78	78	78	74	80	84	71	58	75	65	78	59	68	54	54	
71	90	53	37	37	71	61	72	80	67	81	79	43	61	67	52	51	75	70	53	73	70	84	78	78	87	84	71	70	79	76	100	71	60	73	73	
60	75	43	32	32	75	77	80	68	66	86	69	41	60	60	62	62	54	44	58	38	55	27	70	65	80	71	78	54	47	67	68	43	13	13	13	
54	67	38	30	30	43	67	63	0	37	67	14	30	37	51	29	29	40	71	47	63	94	82	67	74	46	71	73	69	71	89	54	82	60	60		
56	82	31	51	51	49	61	41	43	47	67	65	10	39	43	23	31	60	69	45	75	78	78	71	63	78	75	70	69	59	89	61	45	42	42		
59	78	41	37	37	69	60	68	80	68	82	65	55	53	60	72	53	29	50	51	54	48	47	64	86	61	94	53	25	51	89	0	61	52	52		
67	77	55	22	22	60	93	88	0	63	91	82	18	48	41	49	35	69	62	57	33	76	83	85	85	92	92	77	79	82	100	88	80	80	80		

# Global Integrity Index 2008

Country Score	In Law (L)	In Practice (P)	Implementation Gap (L - P)	I	I-1	I-2	I-3	I-4	II	II-1	II-2	II-3	III	III-1	III-2	III-3	III-4	IV	IV-1	IV-2	IV-3	IV-4	V	V-1	V-2	V-3	V-4	V-5	VI	VI-1	VI-2	VI-3	VI-4
Ghana	67	77	55	22	60	93	88	0	63	91	82	18	48	41	49	35	69	62	57	33	76	83	85	85	92	92	77	79	82	100	88	80	58
Hungary	77	85	67	18	89	98	83	85	78	97	94	44	68	79	74	44	77	64	64	72	15	78	92	88	81	99	87	81	72	89	61	71	67
Indonesia	69	83	55	28	62	65	70	50	69	88	81	39	70	79	65	71	65	58	58	41	0	88	96	80	87	60	80	75	74	67	81	89	58
Iraq	53	75	32	43	43	70	59	0	49	62	82	2	59	59	57	52	69	49	49	53	46	50	47	61	67	75	63	63	57	89	57	41	40
Italy	79	82	73	9	90	85	89	95	81	97	93	54	74	80	76	54	88	53	60	10	74	67	89	95	100	88	80	83	86	100	85	88	71
Japan	83	91	76	14	88	79	93	93	87	97	91	74	74	85	74	51	85	75	66	67	81	88	82	47	100	96	75	90	92	89	93	92	94
Kazakhstan	76	80	69	11	69	80	76	52	75	81	86	60	56	68	50	42	65	81	60	92	85	89	84	72	73	96	83	97	88	89	88	88	85
Kenya	69	79	56	23	65	75	84	37	63	89	81	17	53	54	57	32	71	77	51	81	91	87	74	40	91	92	80	82	100	88	68	71	
Kyrgyz Republic	64	87	42	45	60	73	44	63	52	64	71	22	67	55	80	69	63	72	70	67	84	68	69	91	69	75	43	69	66	78	76	71	38
Lithuania	74	85	63	22	89	93	90	85	82	93	81	70	62	66	53	63	65	48	60	17	55	60	82	92	94	85	60	79	82	100	83	80	65
Macedonia (FYROM)	76	86	65	21	79	81	80	75	75	79	86	61	75	87	61	79	75	63	63	38	86	65	83	93	91	92	67	71	80	100	76	72	73
Moldova	68	88	48	40	72	85	57	73	69	86	78	42	57	60	56	54	58	64	58	50	67	79	74	82	78	73	63	73	71	100	67	61	56
Montenegro	56	77	36	42	66	57	68	73	68	92	60	52	54	48	61	67	40	37	36	8	63	42	55	78	80	75	12	29	56	89	39	56	40
Morocco	48	58	35	22	39	60	56	3	48	72	21	51	26	8	45	36	17	45	46	0	69	63	69	74	84	79	55	54	60	100	46	50	44
Nepal	64	81	48	33	79	88	79	70	57	77	79	15	57	55	49	53	73	58	49	48	74	54	68	78	81	83	72	25	68	67	77	65	63
Nicaragua	58	76	39	38	75	78	80	68	50	85	65	0	54	58	51	40	69	39	47	8	62	40	54	43	68	75	8	75	73	100	53	69	69
Nigeria	64	79	48	31	51	77	77	0	62	75	79	33	62	57	53	67	71	59	43	42	83	69	69	78	82	81	83	63	81	100	72	81	73
Pakistan	72	94	52	42	79	91	72	73	63	66	80	42	69	59	68	69	81	68	62	75	62	75	78	82	81	83	80	63	78	100	69	74	69
Philippines	71	91	54	38	68	73	72	58	59	79	74	25	70	70	81	58	69	82	74	79	88	86	76	87	93	58	83	71	100	73	51	60	
Poland	88	92	82	9	87	91	90	80	93	98	93	87	81	84	91	61	90	86	86	63	85	95	100	90	97	100	100	63	91	100	85	92	88

# Global Integrity Index 2008

Country Score	In Law (L)	In Practice (P)	Implementation Gap (L - P)	I	I-1	I-2	I-3	I-4	II	II-1	II-2	II-3	III	III-1	III-2	III-3	III-4	IV	IV-1	IV-2	IV-3	IV-4	V	V-1	V-2	V-3	V-4	V-5	VI	VI-1	VI-2	VI-3	VI-4
Romania	80	97	64	34	84	88	88	75	81	94	86	63	76	80	82	73	71	75	84	67	74	77	80	84	81	90	65	79	84	100	84	84	69
Russia	69	89	52	36	66	81	70	48	77	81	74	75	59	66	54	40	75	58	60	2	88	84	80	87	91	71	85	69	74	89	72	69	67
Serbia	62	75	45	30	79	84	87	65	64	98	77	17	47	62	32	36	58	41	40	33	66	24	67	65	42	92	60	75	72	100	64	85	40
Somalia	35	54	14	41	66	79	68	50	24	60	13	0	35	41	21	34	46	22	23	10	5	48	22	0	44	46	0	19	40	100	0	42	17
South Africa	79	86	70	16	83	88	92	70	67	94	100	8	70	77	82	54	67	77	51	77	93	87	90	88	92	100	85	85	84	100	78	83	75
Turkey	69	78	59	19	84	93	71	88	74	96	99	27	51	47	49	44	65	68	49	50	88	84	73	44	88	79	80	73	67	100	26	80	60
Uganda	72	100	49	51	75	73	77	75	65	79	72	43	70	57	70	78	73	77	74	73	79	81	72	75	80	67	70	67	73	100	70	75	46
West Bank	53	68	39	29	59	91	83	3	66	93	91	14	44	50	35	48	44	25	29	8	45	19	64	82	59	83	58	58	56	37	80	60	
Yemen	46	66	23	43	36	47	35	27	46	62	65	11	30	45	22	17	35	44	28	21	57	70	52	53	47	50	48	66	100	56	54	54	
MEDIAN	67	82	49	31	69	79	72	68	65	84	79	38	58	59	56	51	65	62	52	49	75	76	73	78	80	79	70	71	72	100	70	71	60
AVERAGE	65	81	50	31	68	76	72	57	65	83	75	37	56	60	54	49	61	59	53	45	71	69	72	69	77	80	65	67	72	93	65	71	59
MIN	35	54	14	9	36	47	35	0	24	60	13	0	10	4	8	13	15	22	16	0	5	19	22	0	42	46	0	19	40	56	0	41	13
MAX	88	100	82	51	91	98	93	95	93	98	100	87	83	87	91	86	90	86	85	92	95	100	90	97	100	100	88	97	92	100	94	93	94
SDEV	12	11	16	11	15	13	15	28	14	11	20	23	15	18	20	17	17	16	16	29	19	22	14	26	16	14	20	19	12	11	21	15	16

(GI, 2008a)

### 9.5. Corruption, failed states, and the world's biggest oil companies

Country	Company	Billion bbl. of oil equivalent	Ownership	Corruption	Failed States Index
Saudi Arabia	Saudi Aramco	300	State	3,5	77
Iran	NIOC	295	"	2,3	85
Russia	Gazprom	237	"	2,1	79
Iraq	Iraq NOC	135	"	1,3	110
Qatar	Qatar Petroleum	120	"	6,5	52
Venezuela	PDVSA	100	"	1,9	78
Kuwait	KPC	98	"	4,3	62
United Arab Emirates	ADNOC	70	"	5,9	51
Nigeria	NNPC	45	"	2,7	95
Algeria	Sonatrach	42	"	3,2	78
Libya	NOC	40	"	2,6	70
Russia	Rosneft	38	"	2,1	79
Malaysia	Petronas	25	"	5,1	67
USA	Exxon Mobil	20	Private	7,3	32
<i>Reference countries</i>					
Angola				1,9	83
Norway				7,9	17
Denmark/ Sweden/ New Zealand				9,3	22/ 20/ 21

**Corruption:**  
measured from 1 to 10, where a low score equals extensive corruption

**Failed States Index:**  
collection of 12 indicators, where a high score equals high risk of failure

Critical: Over 90  
Warning: 60 - 90  
Moderate: 30 - 59  
Most stable: 0 - 30

Source: Oil data from The Economist/ PFC Energy August 12<sup>th</sup> 2006, corruption index from Transparency International (TI, 2008a) and failed states index from The Fund for Peace (FFP, 2008).