

COMMERCE & CONFLICT
Angola & DiamondWorks

FINAL REPORT
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Report Prepared by:

Aleisha Stevens, Project Analyst
David Carment, Principal Investigator

Feedback is welcome, and may be sent to cifp@carleton.ca
David Carment, Principal Investigator
http://www.carleton.ca/cifp

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EXECUTIVE SUMMARY

Through the application of CIFP Country Risk Indicators, this report analyzes the interplay of Angolan country and industry dynamics with the corporate activity of DiamondWorks, a Canadian-owned diamond mining company that held operations in the province of Lunda Norte during the year 1998. This analysis is used to identify volatile country and company characteristics that together led to the forced closure of some of DiamondWorks' most promising business ventures in 1998-99. Important high risk factors identified include:

- **Rentier/corrupt government:** Resulting in weak social and economic infrastructure and a lack of accountability and representation, all of which limited the avenues through which grievances could be peacefully aired.

- **Militarization of the diamond industry**: Resulting in habitual human rights violations and consistent, low intensity conflict punctuated by high intensity periods of war.

- **High number of refugees and IDPs**: Destabilizing the country and negatively impacting already deplorable living standards and human development.

- **Unequal distribution of resources:** Encouraged through corruption of the elite; aggravated by domestic legislation favoring the economic endeavors of corporations over those of Angola's citizens. Unequal distribution of resources was especially conducive to conflict because of the unmet expectation on the part of Angolan citizens that the diamond industry would act as an equalizing force, promoting social infrastructure and providing employment.

- **Corporate participation in violence through use of private security organizations:** Contributed to violent repression and forced displacement, causing tension and conflict.

Although Angola's civil war officially ended in 2002, many of these high-risk indicators persist today. It is therefore imperative that corporations returning to business investments in Angola acknowledge the delicate nature of the peace process through conflict-sensitive corporate strategies, both for the economic security of the business, and the social and economic security of Angola.

NOTE

About this Report

This country report has been produced by Country Indicators for Foreign Policy (CIFP) for use by non-governmental organizations, businesses, academics, Canadian policy-makers, and other parties concerned with the impact multinational corporate activity has on countries in conflict. The study applies the CIFP Risk Assessment Template to the operations of DiamondWorks in Angola during the 1990's to highlight the complex and dynamic interplay of commerce and conflict. Conclusions and observations arising form the analysis are designed to aid businesses returning to Angola in the creation of corporate strategies designed to avoid disrupting the peace process currently underway in Angola. Premised on the established need to mainstream conflict prevention in the private sector, this report provides businesses and concerned stakeholders with the means to evaluate the impact of business operations on Angola's conflict, and to subsequently effect necessary change in corporate strategy to avoid exacerbating violence in vulnerable countries.

About the Author

Aleisha Stevens is entering her third year of a four-year combined LL.B./M.A. of International Affairs program offered by Carleton University in conjunction with the University of Ottawa. She focuses her studies on the areas of multinational corporate governance and human rights in conflict zones, and is currently undertaking a study of legal mechanisms designed to regulate the behaviour of international private security organizations. Aleisha holds an Honors Bachelor of Arts degree in Archeology and Anthropology from Wilfrid Laurier University, which she completed through credits earned while studying in Kenya.

About CIFP

CIFP has its origins in a prototype geopolitical database developed by the Canadian Department of National Defence in 1991. The prototype project called GEOPOL covered a wide range of political, economic, social, military, and environmental indicators through the medium of a rating system. In 1997, under the guidance of Andre Ouellete, John Patterson, Tony Kellett and Paul Sutherland, the Canadian Department of Foreign Affairs and International Trade decided to adopt some elements of GEOPOL to meet the needs of policy makers, the academic community and the private sector. The CIFP project as it became known has since then operated under the guidance of principal investigator David Carment of Carleton University and has received funding from DFAIT, IDRC, PetroCanada, the EU and CIDA. The project represents an on-going effort to identify and assemble statistical information conveying the key features of the political, economic, social and cultural environments of countries around the world.

The cross-national data generated through CIFP was intended to have a variety of applications in government departments, NGOs, and by users in the private sector. The data set provides at-a-glance global overviews, issue-based perspectives and country performance measures. Currently, the data set includes measures of domestic armed conflict, governance and political instability, militarisation, religious and ethnic diversity, demographic stress, economic performance, human development, environmental stress, and international linkages.

The CIFP database currently includes statistical data in the above issue

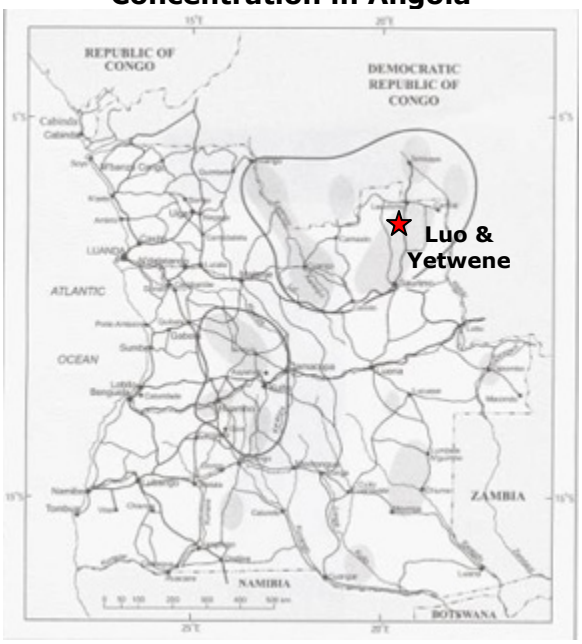
areas, in the form of over one hundred performance indicators for 196 countries for most indicators. These indicators are drawn from a variety of open sources, including the World Bank, the United Nations Development Programme, the United Nations High Commissioner for Refugees, the Stockholm International Peace Research Institute, and the Minorities at Risk and POLITY IV data sets from the University of Maryland.



OVERVIEW
Purpose, Scope and Methodology

In June 1998, the Canadian-owned company DiamondWorks[1] opened the Yetwene mining operation in Angola's northeastern province of Lunda Norte. The company was already active in Angola with its Luo mine, which had been opened in 1996 some 100 kilometers north of Yetwene; both mines were located on the Chicapa River. [2]

Areas Of Highest Diamond Concentration in Angola



Map from: Christian Dietrich. "Inventory of Formal Diamond Mining in Angola" Pp. 143

The Luo mine escaped attack during Angola's civil war thanks in part to the use of private security forces, but the Yetwene project was not so fortunate despite similar protective measures. On November 8 1998, approximately 100 UNITA troops raided the mine, killing 8 employees and kidnapping 10.[3] By early the next year, DiamondWorks had ceased all operations in Angola, citing *force majeur* and unacceptable commercial terms as the cause.[4] The Luo and Yetwene mines had been the company's key exploration and development projects at the time, and placing them on maintenance status was a serious economic set-back for the junior mining company.

The targeting of business ventures by rebel groups suggests a link between corporate activity and conflict. The purpose of this report is to conduct an indicators-based conflict risk analysis in order to determine the nature of the link between DiamondWorks' operations and the civil war in Angola in the late 1990's. The template generated can be used by businesses to establish whether current country and company dynamics have the potential to interact in a similar destructive manner. This comparative approach encourages the application of conclusions to current business strategies, which would lead to the sustainable re-integration of diamond mining companies into the Angolan diamond economy.

Conclusions are generated based on a three stage analytical process outlined below. The analysis employs CIFP Risk Assessment Indicators throughout. Unless otherwise specified, CIFP risk indices are measured on a scale of 0 to 9, with higher risk indices indicating a greater assessed risk of conflict development, escalation, or

[1] Prior to October 1996, DiamondWorks was known as Carson Gold Inc. In 2004, DiamondWorks was renamed Energem.

[2] See map of Angola showing DiamondWorks concessions: at http://www.sedar.com/csfsprod/data9/filings/00084584/00000001/a%3A%5Cdmndwrks.pdf p.16. Source: DiamondWorks 1997 Annual Report.

[3] Embassy of Angola. "UNITA Attacks Diamond Mine, Killing Eight, Kidnapping Ten" in *Pensador* . http://www.angola.org/news/pensador/december98/yetwene.html.

[4] Energem Resources Inc. website. Path: Energem → Business Units → Mineral Projects. Accessed May 9, 2005. http://www.DiamondWorks.com/?&act=1&loc=mineproj

continuation within the country in question. Where not available, index measures are supplemented with other internationally recognized risk indicators that correspond to the CIFP Risk Assessment Template. The results from the indicator-based analysis focuses analytical attention on high-risk issues, which are subsequently supplemented by qualitative elaboration.

Section I of the analysis applies country risk indicators to analyze the socio-political conflict situation in Angola in the 1990s. This section illustrates the volatile context within which DiamondWorks chose to operate in the late 1990's, and provides valuable contextual information that aids in the later analysis of DiamondWorks' impact on country violence.

Section II applies CIFP business risk indicators to Angola's diamond industry. This analysis facilitates greater understanding of the connection between conflict and commerce by providing contextual considerations of the corporate environment within which DiamondWorks was operating during the 1990's.

Section III applies business practice risk indicators to DiamondWorks operations for the purpose of determining the impact of company behaviour on Angola's civil war.

Together, Sections I, II and III serve to highlight the dynamic nature of country conflict and multinational corporate activity by illustrating the cataclysmic effect of certain coinciding variables.

Section IV constitutes a concluding section that highlights moderate to high-risk indicators present throughout the 1990s that persist today. These observations are significant because they identify continuing high-risk variables that can be exacerbated by reckless business practices.

Conclusions and recommendations generated through the application of the CIFP risk assessment template have widespread applicability in terms of investment re-integration issues. The study specifically has potential relevance for other DiamondWorks business operations, as the company today (under the name Energem) largely focuses its investment endeavors in conflict zones of Africa.

NOTE: This information in this report represents a synthesis of reliable source documents. Risk indicator information that was not available, or available only from unreliable sources, has been replaced with a suitable proxy indicator and duly noted as such. The 2005 analysis contains the most recent data available at the time of publication.

SECTION I: CIFP RISK ASSESSMENT OF ANGOLA IN THE 1990's

Angola's civil war began three months after independence from Portuguese rule in 1975, and lasted until the death of rebel leader Jonas Savimbi in 2002. Main parties in contention for power at the time of independence included the National Liberation Front of Angola (FNLA), the Popular Movement for the Liberation of Angola (MPLA) and the National Union for the Total Independence of Angola (UNITA). The agreed-upon transitional government incorporating the three parties quickly crumbled due to widely different political ideologies, leaving the MPLA in control of the capital and relegating the FNLA and UNITA to the status of rebel insurgents in the hinterlands. This political structure was maintained throughout the ensuing 27-year civil war, with the MPLA and UNITA acting as key opposition groups.

CIVIL WAR QUICK FACTS

- Up to 500,000 people died and 15 million landmines were planted during the 27-year conflict
- Agreements between the MPLA and UNITA in 1991 and 1994 failed to bring lasting peace
- Savimbi's death in 2002 brought the collapse of UNITA and the start of a delicate peace process.

The following analysis applies country risk indicators to analyze the conflict situation in Angola in the decade of the 1990s. This section illustrates the volatile context within which DiamondWorks chose to open its Yetwene mine in the northeastern province of Lunda Norte in 1998, and provides contextual information that aids in the analysis of the company's impact on the civil war.

I. HISTORY OF ARMED CONFLICT

History of Armed Conflict - 1998	Rating	Source
Armed Conflict Presence	8	CIFP
Conflict Intensity	3 (War)	CIFP
- Number of deaths	> 1000	SIPRI
Number of Refugees	8	CIFP
Number of IDP's Produced	810,000	UNCAH

A country's historical experience with conflict is a potent indicator of its susceptibility to the continuation or outbreak of violence, especially in the context of irresponsible business practices. Not only does a history of armed conflict indicate an ability and willingness to resort to violence, it also points towards divisions within society that have been created or exacerbated by violence. The creation of refugees and the internally displaced through violent conflict has a large impact not only on the country in conflict, but often on neighboring countries as well.

A. Armed Conflict Presence

The CIFP armed conflict index is a significant measure of conflict severity because it integrates conflict intensity levels with annual conflict related deaths, and presents this indicator as a quantifiable measure. Throughout the 1990's, CIFP indices never fell below 8, indicating that armed conflict was a ubiquitous presence in Angola throughout the decade.

The geographical make-up of Angola exacerbated the continuation of conflict. Its vast and sparsely populated northeastern bushland, where the two DiamondWorks mines were located, made government control of the territory difficult while providing ideal terrain for the guerrilla-style warfare of UNITA.[5] As an unfortunate coincidence, this hard to

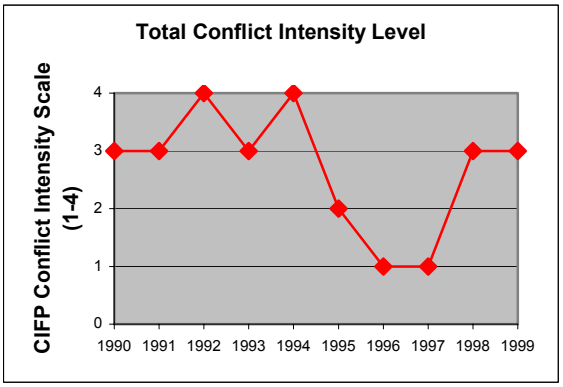
[5] Shackson, Nick. *Fueling the War: Diamonds and Oil.* (BBC News Online: January 28, 1999) http://news2.thdo.bbc.co.uk/1/hi/special_report/1999/01/99/angola/264228.stm

control area held the majority of Angola's widely-scattered alluvial diamonds, which provided UNITA rebels with approximately two thirds of Angola's estimated 700 to 800 million dollar diamond production in 1997.[6] These yields constituted rebel funding for the purchase of military arms, maintaining the high measure of armed conflict presence.

B. Armed Conflict Intensity

Armed Conflict Intensity quantifies the frequency and intensity of conflict in a given country on a scale of 1 to 3; "Minor Armed Conflicts" score as "1", "Intermediate Armed Conflicts" score as "2", and "Wars" score as "3". The measure totals the scores in each conflict in a given country in a given year, so for example a country that has one Intermediate Armed Conflict and one War, as was the case with Angola in 1992 and 1994, would score a total of "4".

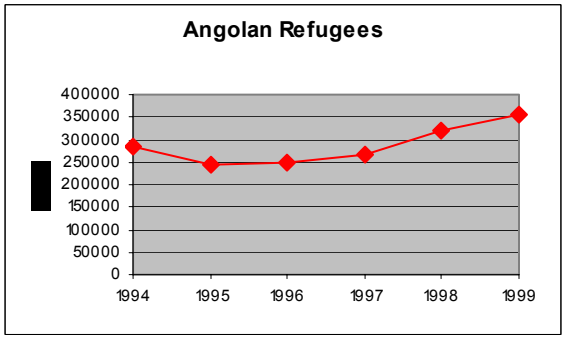
Although the presence of armed conflict in Angola was pervasive throughout the 1990's, the intensity of the conflict varied in accordance with political strife and peace agreements. This cyclical nature of conflict intensity is reflected in the graph below; note that DiamondWorks chose to open its Yetwene mine during the year 1998, a time that marks the beginning of Angola's last intense period of violence.



Source: CIFP Database, "Data Query"

C. Number of Refugees Produced by Angola

The number of refugees and internally displaced persons in a region are two factors that have a significant impact on regional potential for conflict. The flow of these populations has a destabilizing effect on countries by negatively affecting adequate living standards, human development, and the environment. Frightened people fleeing their homes tend to lose the few assets they possess, and displacement severs family and community links destroying human social capital.[7] IDPs crowd into protected residential areas, increasing the risk of health epidemics and causing food shortages as they compete with the resident population for limited resources.



Source: UNHCR. http://www.unhcr.ch/cgi-bin/texis/vtx/statistics/opendoc.pdf?tbl=STATISTICS&id=41d2c1532&page=statistics

An estimated 426,000 Angolans fled their country during the years of war leading up to 1992.[8] The declining presence of armed conflict in 1995 to 1997 following the signing of the Lusaka Peace Protocol in 1994 permitted international organizations such as the

[6] *ibid*

[7] Collier, Paul & L. Elliott & H. Hegre & A. Hoeffler & M. Reynal-Querol, M. & N. Sambanis. *Breaking the Conflict Trap: Civil War and Development Policy.* (Washington DC: The World Bank/Oxford University Press, 2003) Pp. 15

[8] Boucher, Richard. *Aid for Repatriation of Angolan Refugees*. Diplomatic statement. (Dispatch, Vol 3, No 34, August 24, 1992). http://dosfan.lib.uic.edu/ERC/briefing/dispatch/1992/html/Dispatchv3no34.html

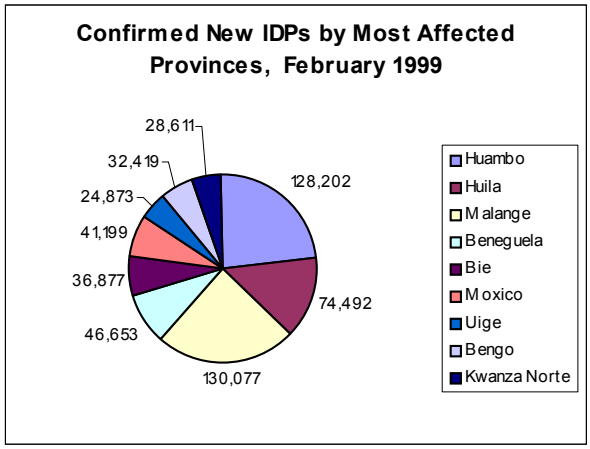
UNHCR to begin repatriation programs to bring back those driven out a few years prior. The organization successfully brought home 145,000 refugees before a subsequent and rapid breakdown in political negotiations not only disrupted repatriation programs, but also led to a further exodus of 30,000 Angolans.[9] In June 1998, the UNHCR was forced to suspend its repatriation program in the face of escalating violence.

A UNHCR report released in 1998 estimated Angola's refugee number to be 315,900,[10] with the majority fleeing to Zambia, Democratic Republic of Congo, Namibia, and South Africa. The CIFP risk index for Angola's refugee status in the 1990's never dropped below 7, and was most frequently at level 8, indicating that refugees constituted a considerable risk to Angola's social stability throughout the decade.

D. Number of Internally Displaced Peoples (IDPs) in Angola

The ubiquity of Angola's civil war resulted in a near constant movement of people in cyclical waves of displacement throughout the 1990's. While some displacement was "voluntary" in the sense that it was undertaken by citizens themselves in order to avoid violence in home regions, many individuals were also physically moved from their home territory through forced displacement tactics undertaken by UNITA and the MPLA.[11]

The heightened intensity of the civil war in 1992 drove between 1.3 and 2 million Angolans from their homes; most made their way to provincial centers and to Lunda.[12] Only limited resettlement followed, and renewed conflict resulted in further displacement with the result that 810,000 Angolans were classified as IDPs in 1998.[13] Military actions launched by UNITA late in 1998 triggered further displacement, raising the IDP population to over 1 million people as of May 1999.[14] IDPs were widespread throughout all 18 provinces during this round of displacement, with the largest concentrations in the provinces of Malanje, Huambo, Huila and Beneguela.



Source: CIDI http://www.cidi.org/humanitarian/hsr/99a/0003.html

II. GOVERNANCE & POLITICAL INSTABILITY

The indicators in this issue area are designed to reflect the influence of the political system and stability on the outbreak or continuation of conflict. A lack of accountability and representation

[9] UNHCR, *Global Appeal 1999: Angola*. http://www.unhcr.ch/cgi-bin/texis/vtx/home/opendoc.htm?tbl=MEDIA&id=3eaff43d12&page=home

[10] UNHCR. *Refugees and Others of Concern to UNHCR – 1998 Statistical Overview*. Pp.7 http://www.unhcr.ch/cgi-bin/texis/vtx/statistics/opendoc.pdf?tbl=STATISTICS&id=3bfa31ac1#zoom=100

[11] Institute for Security Studies. *Angola: Population*. http://www.iss.co.za/AF/profiles/Angola/Population.html

[12] *ibid*

[13] Office of US Foreign Disaster Assistance. *Angola – Complex Emergency Situation Report.* (Situation Report #1, August 31 1998) http://www.angola.org/referenc/reports/usaid0898.html

[14] World Food Program. *Protracted Relief and Recovery Operation – Angola: Assistance to War-Affected People* (9 September 1999) Pp. 4. http://www.wfp.org/country_brief/projects/615900.pdf

on the part of the government limits the avenues through which grievances can be constructively and peacefully aired, aggravating the risk of violence. This situation in particular arises in the case of government deals with multinational corporations that exclude citizens from either a voice in the process or the beneficial economic results.

The government of Angola routinely engaged in such activity throughout the 1990's, garnering mass quantities of unearned income through profit-sharing oil agreements with multinational corporations. As the following data will demonstrate, this did not lead to a higher quality of life for Angola's citizens. Instead, funding was usurped by corrupt high-level officials or channeled into military undertakings.[15] The ensuing denial of basic civil and political rights can exacerbate conflict by limiting the options available for expressing dissent. Such endemic corruption often leads to a loss of confidence in the state and its institutions, freeing the individual from the notion of obligatory peaceful approaches to change in favour of violent activities that fall outside of the political process.

A. Geographic Impact of the Conflict

Geographic Impact of the Conflict - 1998	Rating	Source
Geographic area controlled by UNITA	Variable	HRW
Regime Durability	9	CIFP
Domestic terrorist incidents per year	11	USSD/MIPT
Terrorist acts targeted at businesses	4+	USSD/MIPT

i. Geographic Area under Control by Opposition Groups (%)

The percentage of the geographic area under control by opposition groups refers to how widespread the conflict is in a given region. It is a valuable indicator for the degree of control a government has over rebel forces and the extent of the government's ability to quell violent conflict. In general, throughout the 1990's, UNITA controlled much of the plateau and hinterland area. This provided them with access to between sixty and seventy percent of diamond production, which funded their military endeavors.[16] The MPLA held constant control over the capital region for the entire duration of the civil war, securing access to remuneration from the deep-sea oil fields.

Control over specific geographic areas of Angola varied from one year to the next, depending on the military success of the various warring factions. In 1992, due to aggressive military action triggered by the loss of the 1992 elections, UNITA forces controlled a full two-thirds of the country.[17] This territorial control was weakened in 1994 when the MPLA secured power over UNITA's main stronghold of Huambo, located in the central highlands.[18] The signing of the Lusaka Peace Protocol prompted the reluctant return of further territory to the MPLA, so that in October of 1997, 108 UNITA controlled localities out of 337 detailed for relinquishment to state control had been handed over.[19] As of June of 1998, however UNITA had still not set specific dates for the extension of State administration to its four strongholds of Andulo, Bailundo, Mungo and N'harea. [20]

[15] Gamba, Virginia and Richard Cornwell. "Arms, Elites, and Resources in the Angolan Civil War" in Mats Berdal and David M. Malone (eds.), *Greed and Grievance: Economic Agendas in Civil Wars*. (Ottawa: International Development Research Center, 2000) Pp. 165

[16] Spears, Ian. "Newsflashes Angola: Notes from the Angolan Development Network". Pp. 26-30 in *Southern Africa Report Archive.* (August 1999, Vol. 14 , No. 4). http://www.africafiles.org/article.asp?ID=3736

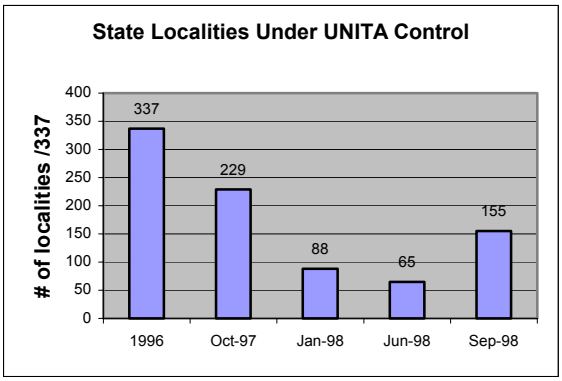
[17] Polity IV *Country Report 2003: Angola* http://www.cidcm.umd.edu/inscr/polity/Ang1.htm

[18] *ibid*

[19] Human Rights Watch Report, 1998: Angola. *Human Rights Developments*. http://www.hrw.org/worldreport/Africa-01.htm

[20] UN. *Angola: MONUA - background* http://www.un.org/Depts/DPKO/Missions/Monua/monuab.htm

After the death of UN special envoy Maître Alioune Blondin Beye in late June of 1998, the tentative peace process crumbled. UNITA had not demobilized to the extent it claimed, and it's remaining forces proved effective as the rebel group re-captured territory it had previously returned to the government. On 13 August 1998, the Security Council demanded by its resolution 1190 that UNITA cease its reoccupation of localities where State administration had been established.[21] Early 1999, however, saw Savimbi loyalists back in control of large tracts of Angolan territory.[22] In February 1999, the UN peacekeeping mission to Angola (MONUA) was terminated, with the explanation that conditions for a meaningful United Nations peacekeeping role had ceased to exist.[23]

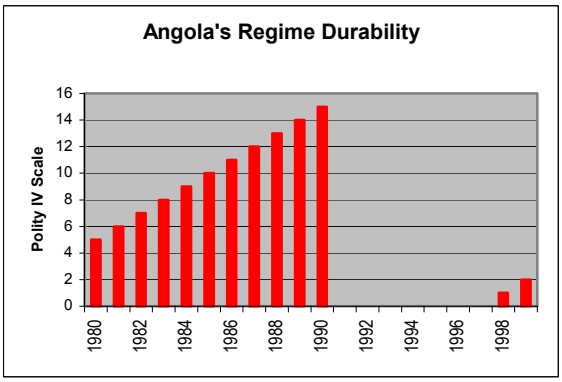


Sources: HRW (June, Sept '98), IRIN (Jan '98), UNCHR

This uncontained violence posed a major hazard to DiamondWorks' business operations in 1998; both the Yetwene and Luo mines were located in Lunda Norte, a province noted for its "persistent tensions".[24] The UN Secretary-General reported in August of 1998 that UNITA rebels continued to threaten government forces located in the region.[25] As a result of the prevailing insecurity, the free circulation of people and goods was impeded in many areas of Angola, and the costs of security measures increased greatly.

ii. Regime Durability

A durable regime reflects the government's capacity to contain violence and to engage in conflict settlement. During the 1990's, Angola's regime durability was frequently at the worst measure possible according to CIFP index measures. The country was classified by other sources as one engaged in "adverse regime change" between 1992 and 1997.[26] Polity IV ratings, graphed below, illustrate the absence of regime durability during the 1990s as compared to the 1980s.



Source: CIFP database, "Issues Query"

iii. Domestic Terrorist Incidents 1998

The number of terrorist attacks by country is indicative of the extent and prevalence of terrorism in a given country. The term "terrorism" as applied by the United States Federal Government means premeditated, politically motivated violence perpetrated against non-combatant targets by sub-national groups

[21] *ibid*
[22] Polity IV *Country Report 2003: Angola* http://www.cidcm.umd.edu/inscr/polity/Ang1.htm
[23] *Supra* note 19
[24] Global Dialogue. *The Rise and Fall of Angola's Lusaka Peace Process*. (Volume 4.1 April 1999). http://www.igd.org.za/pub/g-dialogue/africa/angola.html
[25] *Supra* note 19
[26] State Failure Task Force. "Adverse Regime Change" in *Internal Wars and Failure of Governance 1955-2002.* http://www.cidcm.umd.edu/inscr/stfail/sfcodebk.htm#top

or clandestine agents, usually intended to influence and audience.[27]

Under the definition of terrorism used here, there were in fact countless terrorist incidences in the year 1998 alone, without accounting for the years leading up to it. Throughout the 1990's, both UNITA and Government forces engaged in forced displacement, systematic rape, illegal conscription, village burning, and indiscriminate civilian killings.[28]

This widespread and uncontrolled violence against civilian populations poses a serious threat to the integrity of business operations through the creation of unstable social and economic circumstances. It also provides an environment within which unscrupulous corporations might benefit from poor treatment of the population; for example, through forced displacement in its favour.

To produce a quantifiable measure, all terrorist incidents that were "significant" in 1998 are outlined below. The criterion of significance is met if a major terrorist monitoring organization reported the incident.[29],[30]

Significant Terrorist Incidents in Angola 1998

Date (1998)	Terrorist Group/incident	Killed	Missing	Wounded
March 23	FLEC-FAC / abduction		2 – both later returned	
April 22	FLEC-FAC / abduction		10 - 1 later returned	
April 30	UNITA / abduction		2	
May 19	Possibly UNITA / UN car attack	1		3
Nov. 8	UNITA / DiamondWorks attack	8	10	16
Dec. 26	Undetermined / UN aircraft attack	14		
Dec. 26	Undetermined/ News agency attack			
Dec. 31	Possibly UNITA / Assassination	2		1
General	3 mining business attacks reported by Endiama; No details available			
Total		**25**	**24**	**20**

iv. Terrorist Acts Targeted at Businesses, 1998

There were six major terrorist incidents targeted at international businesses operating in Angola in 1998. Two occurred in the province of Cabinda, where rebels from the Front for the Liberation of the Cabinda Enclave – Cabinda Armed Forces (FLEC-FAC) abducted employees of Mota & Company on two separate occasions. Twelve employees were kidnapped in total; two on March 23 and 10 on April 22. Three were reported returned, all of whom were Portuguese; no information was provided regarding the outstanding nine abductees, all of whom were Angolan.[31]

The Yetwene mine attack was the last of four mining projects destroyed by UNITA forces during the 1998 year. Additional scattered hit-and-run attacks forced foreign mining companies to

[27] Memorial Institute for the Prevention of Conflict (MIPT). 2002. MIPT Terrorism Database System. http://db.mipt.org/mipt_rand.cfm

[28] *Supra* note 18, and Human Rights Watch. *Unfinished Democracy: Media and Political Freedoms in Angola*. http://hrw.org/backgrounder/africa/angola/2004/1.htm#_Toc77413305

[29] United States of America Department of State. "Appendix A: Chronology of Significant Terrorist Incidents" in *Patterns of Global Terrorism, 1998.* http://www.fas.org/irp/threat/terror_98/appa.htm

[30] MIPT Terrorism Knowledge Base. "Angola". http://www.tkb.org/Category.jsp?catID=8206&contentType=0&sortBy=3&sortOrder=0&pageIndex=0 Path: Knowledge Base Directory > Incidents > Geographical Location > Africa > Angola

[31] *Supra* note 28

consolidate their personnel in core mining areas.[32]

Prior to 1998, UNITA already had a history of targeting mines as a strategy for limiting government access to revenues generated by foreign investment.[33] For example, in 1984, UNITA took hostages from diamond operations in the Cuango area; the following year the rebel outfit attacked a diamond sorting center in Nzaji.[34] This strategy continued after the Yetwene attack; for example, early in 1999, thirty UNITA rebels attacked a Land Rover carrying employees from an Australian-owned mining company, killing all four on board.[35]

B. Attitudes and Policies of Government and Opposition

Attitude and Policies of Government and Opposition	Rating	Source
Democracy/Autocracy Index	7	CIFP
Civil and Political Rights index	8	CIFP
Civil liberties score	6	CIFP
Political Rights score	6	CIFP
Press Freedom score	74	FH
Press Freedom index	8	CIFP

i. Level of Democracy

The level of a country's democracy is a significant measure of the attitude and policies of the government with regards to tolerance of opposition and freedom of expression permitted in society. In the CIFP database, a perfectly democratic society (index rating of "1") would have established institutions for citizen expression and executive constraints, as well as a guarantee of civil liberties to all citizens. Autocratic scores (index rating of "9") indicate an absence of effective institutions to ensure political competition and procedural fairness in the political process. A rating of –88 indicates a transition period, and –77 indicates a period of "interregnum" where there is a complete collapse of central political authority. The index ratings below represent Angola's failed struggle to establish a democracy during the 1990s.

CIFP Democracy/Autocracy Index, Angola, 1990's

90	91	92	93	94	95	96	97	98	99
8	-88	-77	-88	-88	-88	-88	7	7	7

In a promising move, Angola shifted from a one-party Marxist-Leninist system ruled by the MPLA to a nominal multiparty democracy following the 1992 elections. MPLA President dos Santos retained his title with more than 49% of the vote compared to that of UNITA leader Jonas Savimbi, who received only 40%.[36] Savimbi rejected the results, claiming a rigged election, and a second round balloting was postponed because the country disintegrated into civil war.

Angola made a second attempt at democracy in April 1997 when the multi-party Government of National Unity and Reconciliation (GURN) was established. The National Assembly reconvened, and seventy UNITA deputies, elected in 1992, took their seats in this legislative body. However, despite the establishment of the GURN and the reinstatement of the National Assembly, the MPLA continued to dominate policy formulation and implementation in Angola.[37] In June 1999 the National Assembly voted to postpone new presidential elections indefinitely due to the renewal of conflict with Savimbi's UNITA forces. The failed attempts at democracy explain Angola's routine classification as a transitional or autocratic state throughout the 1990's.

[32] *Supra* note 2
[33] *Supra* note 29.
[34] Justin Pearce, *War, Peace, and Diamonds in Angola: Popular Perceptions of the Diamond Industry in the Lundas.* (Institute for Security Studies, Situation Report. June 25, 2004). P.3
[35] *Supra* note 29
[36] US Department of State. *Background Note – Angola.* http://www.state.gov/r/pa/ei/bgn/6619.htm
[37] *Supra* note 21

ii. Restrictions on Civil Liberties and Political Rights

Restrictions on civil and political rights are included as a conflict risk indicator because the measure reflects the level of government tolerance and respect for human rights. It can therefore highlight situations in which a government might be more willing to engage in violence in order to quash rebellion. The indicator can also identify situations in which citizens feel the need to resort to violence, as when there are few institutionalized means to air grievances or participate in the political process.

Political rights are those rights that enable citizens to participate freely in the political process, which includes activities such as the right to vote and run for public office. Civil liberties include the freedoms to develop views, institutions, and personal autonomy apart from the state. Freedom House uses a 1-7 scale to measure both civil liberties and political rights where 1 indicates high degrees of civil and political freedoms and 7 indicates a very low measure. In 1998, Angola scored a "6" for both civil liberties and political rights, and was classified as "not free" by Freedom House.[38] The CIFP civil and political rights index, which are based on a 1-9 scale, where 1 is "free" and 9 is "not free", likewise indicate low levels of civil liberties and political rights for the country. The best rating Angola received in the 1990s was in 1991, when pending elections allowed for a rating of "7". In years that followed, Angola scored either 8 or 9.[39]

iii. Restrictions on Press Freedom

Like civil liberties and political rights, press freedom is a useful indicator of suppression that might justify or provoke violence on the part of either a government or it's citizens. In addition, press freedom can gauge if international businesses are receiving the flow of information necessary to properly assess the degree of risk in an investment. Freedom House assesses the degree to which a country permits the free flow of information on a 1-100 point scale, where countries scoring 61-100 are regarded as having a restricted press. Freedom House gave Angola a rating of 74 out of 100 for both 1998 and 1999, classifying the press as "not free".[40] These figures translate into a CIFP press freedom index rating of 8 out of 9.

Restrictions on press freedom were generally severe in Angola during the 1990's; these years saw a reversing of the partial liberalization that had occurred in the run-up to the 1992 election. The private media and the civic and political groups that had appeared with the adoption of a multiparty constitution in 1992 were afterwards confronted by serious and often violent denial of those freedoms. The MPLA frequently detained journalists without trial, and only pro-government groups were permitted to demonstrate. Throughout the 1990s, journalists operating in government areas were murdered, assaulted, and received threats to their physical safety. UNITA similarly monopolized the media and allowed no dissent in the areas under its military control.[41] Journalists who worked for the Voice of the Resistance of the Black Cockerel (VORGAN), UNITA's radio station, were threatened with physical aggression and imprisonment if suspected of passing information to government forces.

[38] Freedom House. *Freedom in the World: Country Ratings 1972 through 2003.* http://www.freedomhouse.org/ratings/allscore04.xls

[39] CIFP. http://www.carleton.ca/cifp/ Path: Data query and mapping > Angola/civil and political rights index/1990-99.

[40] Freedom House. *Freedom of the Press - Angola* http://www.freedomhouse.org/research/pfsratings.xls

[41] Human Rights Watch. *Unfinished Democracy: Media and Political Freedoms in Angola.* http://hrw.org/backgrounder/africa/angola/2004/1.htm#_Toc77413305

C. Level of Corruption

Level of Corruption	Rating	Source
Corruption Perceptions Index	1.7	ICCR
Bribe Payers Index (Canada)	8.4	TI

As the following analysis of Angola illustrates, corruption is one of the factors that helps to sustain situations of poor governance, state failure, and violent conflict. Angola has been classified as a "rentier state"[42] meaning its officials rely on unearned income from oil and diamond revenues and have weak ties to the citizens of the country. The result is that foreign investment revenues are used to fund their own personal expenses rather than investing in social welfare plans.

Global Witness supported this classification with the finding that over $1 billion US – approximately ¼ of the annual budget - disappeared from state revenues on an annual basis between 1996 and 2001[43] indicating an extremely poor transparency level. Much of the profit remaining funded military endeavors. By devoting public resources to the personal ambitions and needs of government officials, the basic needs of civil society were ignored and Angola's social development suffered as a result. This rentier activity provided fertile grounds for the violent mobilization of popular grievances.[44]

i. Corruption Perceptions Index

The CPI is designed to measure the degree to which corruption is perceived to exist among public officials and politicians in a given society. Angola did not receive a CPI rating during the 1990's. It was first rated in 2000, when it received a score of 1.7 out of 10, 10 being highly "clean" and 0 being highly corrupt. It placed 85th out of 90 countries scored that year.[45]

ii. Bribe Payers Index

The Transparency International Bribe Payers Index was developed as a complement to the CPI, and addresses the supply side of bribery by ranking leading exporting countries in terms of the degree to which international companies with their headquarters in those countries are likely to pay bribes to senior public officials in key emerging market economies. A perfect score, indicating zero perceived propensity to pay bribes, is 10.0, and thus the ranking below starts with companies from countries that are seen to have a low propensity for foreign bribe paying.

The earliest measure for Canada was taken between 1998 and 2002, and places the country 5th out of 21 countries on the BPI with a score of 8.1.[46] This positive rating comes with the caveat that junior mining companies, as DiamondWorks was in 1998, are capable of "flying below the

[42] See for example Looney, R. "The Broader Middle East Initiative: Requirements for Success in the Gulf" in *Strategic Insights*, (Volume III, Issue 8 August 2004) Pp.1 www.ccc.nps.navy.mil\si\2004\aug\looneyaug04.asp and
Isham, Johnathan, Michael Woodcock, Lant Prichett, Gwen Busby. "The Varieties of the Rentier Experience: How Natural Resource Endowments Affect the Political Economy of Economic Growth". (World Bank: Working Paper 2002) Pp.18 http://info.worldbank.org/etools/docs/voddocs/171/352/rentier.pdf

[43] Global Witness, *Time for Transparency 2004*. Pp.4 http://www.reliefweb.int/library/documents/2004/gw-transparency-24mar.pdf

[44] Seymour, Lee J.M.. "It's About Diamonds and Oil! Angola's Political Economy of Violence" in *Review*. (North South Institute, Summer 2001)

[45] Transparency International. *The Corruption Perception Index 2000*.. http://www.transparency.org/cpi/2000/cpi2000.html

[46] Transparency International. *Bribe Payers Index 2002*. http://www.transparency.org/pressreleases_archive/2002/2002.05.14.bpi.en.html

radar" in the legal and moral sense.[47] This caveat has significant implications for DiamondWorks' home country of Canada, which has a reputation as a source of easy venture capital for small mining and exploration companies.[48]

D. Human Rights

Human Rights	Rating	Source
Physical Quality of Life Index	43	Lijn
Number of core human rights treaties ratified	4	UN

i. Physical Quality of Life Index (PQLI)

The PQLI is a measure that combines the measures of literacy, infant mortality rate, and life expectancy to measure human rights. It reflects the level of socio-economic rights and ranks countries in terms of changes in real life chances, rather than focusing on income. Angola's rating of 43 out of 100 in 1992 was low compared to Canada's measure of 94, indicating poor social conditions in the home and the external environment, and an inability of Angolan citizens to participate in shaping their environment.[49]

ii. Number of core human rights treaties signed and ratified by host country

The number of core human rights treaties signed and ratified by a given country has been used in the past as a significant measure of human rights because it suggests a nation's commitment to the welfare of it's citizens through consent to an internationally recognized agreement. By 1998, Angola had ratified 4 of the 7 core human rights treaties. Ratified were: The International Convention on Economic, Social, and Cultural Rights (1992), the International Covenant on Civil and Political Rights (1992) and its Optional Protocol (1992), the Rights of the Woman (1986), the Rights of the Child (1990). As of 1998, Angola had yet to ratify the Convention on Torture, the Genocide Convention, and the Convention for the Elimination of all Forms of Racial Discrimination.[50]

In addition to ratification, adherence to these human rights treaties must be monitored and noted. In this regard, Angola's evaluation is poor. Reports required to indicate compliance with the 4 ratified treaties were all outstanding in 1998.[51] In addition, human rights abuses were widespread throughout the 1990's, with both the MPLA and UNITA restricting freedom of movement, arbitrarily abducting or detaining civilians, denying fair trial, censoring information, and conscripting child soldiers.[52] These actions violate every one of the four ratified treaties.

[47] Danielson, Luke. *Striving, Surviving, and Thriving: Sustainable Development and Junior Mining and Exploration Companies.* Pp. 4 http://64.233.167.104/search?q=cache:rmJKKREAa_EJ:www.minersmanual.com/news/LD_StrivingSurvivingThriving.pdf+Striving,+Surviving,+and+Thriving:+Sustainable+Development+and+Junior+Mining+and+Exploration+Companies&hl=en

[48] Smillie, Ian Lansana Gberie, and Ralph Hazelton.. *The Heart of the Matter: Sierra Leone, Diamonds, and Human Security*. (Partnership Africa Canada January 2000) http://www.sierra-leone.org/heartmatter.html

[49] van der Lijn, Nick. *Measuring Well-Being With Social Indicators: HDI, PQLI, and BWI for 133 countries for 1975, 1980, 1985, 1998, and 1992.* (Tilburg University, Research Memorandum No. 704 1995) Pp. 7, 8 http://greywww.kub.nl:2080/greyfiles/few/1995/doc/704.pdf

[50] UN. *For the Record 1998: The UN Human Rights System* Path: For the Record > Volume 2: Africa> Angola. http://www.hri.ca/fortherecord1998/vol2/angolarr.htm

[51] *ibid*

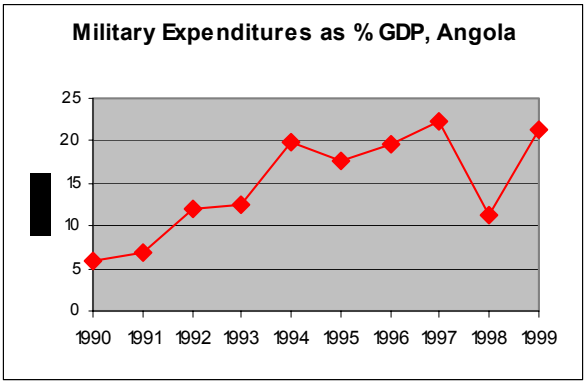
[52] Human Rights Watch, World Report 1999: Angola http://www.hrw.org/worldreport99/africa/angola.html

III. MILITARIZATION AND SECURITY

Militarization and Security	Rating	Source
Military Expenditures (as % of GDP)	9	CIFP
Small Arms Proxy: Arms imports index	8	CIFP
Total armed forces - MPLA (thousand)	114	CIFP
Total armed forces - UNITA (thousand)	30	SIPRI
Total landmines existing (million)	10 to 15	UN

A. Military Expenditures (% of GDP)

Military expenditures as a percent of GDP in Angola were high throughout the 1990's, rating 9 on the CIFP Risk Index for every year. This indicates a general militarization of the state apparatus and reflects the potential for increased military involvement in public affairs. It was estimated that in the early and mid 1990's, the government was spending up to 60% of its oil revenues on defense, as well as mortgaging future oil sales.[53] These excessive military expenditures reduced investment in the social sectors, which in turn had negative consequences for incomes and social indicators. This conclusion is supported in the "Human Development" section of this analysis.



Source: SIPRI, via FIRST database search http://first.sipri.org/index.php Path: > Angola/Military Expenditures.

[53] Southern African Center for Defense Information (SACDI). "Southern Africa Arms Transfers 1990-96: Sub-continent Follows Global Demilitarization Pattern" in *Defense Digest* (Defense Brief No.1) http://ccrweb.ccr.uct.ac.za/archive/defencedigest/defbrief01.html

B. Total Imports of Small Arms Proxy measure: CIFP Arms Imports Index

Total imports of small arms is a significant indicator of conflict risk because they are the most readily available of all military purchases, and have the potential to transform group tensions into widespread violence.

Purchases of small arms are extremely difficult to track because the UN Register does not have a category for small arms and because transfers of small arms are easily hidden from customs officials and the media.[54] No comprehensive statistics were available for Angola with regards to small arms imports by UNITA during the 1990's, although it is widely recognized that war in Angola was fueled in large measure by the cheap and plentiful small arms supplies from former Soviet bloc countries.[55] This is despite a mandatory UN arms embargo against UNITA established in 1993 (UN 864).[56]

During the 1990's, Angola's government forces were authorized to receive small arms from the United States. The Angolan government made significant purchases of weapons in the 1990's despite a regional pattern of disarmament and downsizing of armed forces.[57] Between the years 1997 and 1999, the MPLA spent a total of $15,042,132 US on small arms purchases, including ammunition ($7,781,169), and various small arms such as rifles, shotguns, and pistols ($7,260,963).[58]

[54] *ibid*

[55] Don Melvin "Small Arms, Mass Destruction" in *Atlanta Journal - Constitution* (July 8, 2001). http://www.globalpolicy.org/security/sanction/angola/2001/0709guns.htm

[56] UN. *UNAVEM II – Angola, Background.* http://www.un.org/Depts/DPKO/Missions/Unavem2/UnavemIIB.htm

[57] Norwegian Initiative on Small Arms Transfers, via FIRST database search. http://first.sipri.org/index.php Path: Selected Databases >Angola/NISAT small arms database.

For the purpose of qualitative analysis, this study employs the CIFP proxy measure of Arms Imports. The CIFP rating of 4 in 1997 doubled to 8 in 1998, reflecting the government's perceived need to increase armament due to increasing rebel hostilities.

C. Total Active Troops for Each Opposition Group

The total armed forces active for each opposition group is a significant indicator of risk, because it indicates the presence of human capital that can be mobilized to instigate or continue conflict. The comparative measure is important because an opposition group that is greatly outnumbered in terms of troops does not pose as great a threat to the peace. There are two reasons for this: first, smaller armies are less likely to instigate violence in the face of likely defeat; second, smaller armies are more easily defeated, which puts an end to immediate conflict. Guerilla warfare is an exception to these general rules; small armies can be extremely effective in the military sense if they have advantageous terrain and engage in effective ambush tactics.

In 1998, the MPLA had an approximate total of 114,000 active forces, which constituted approximately 9.5 troops for every 1000 people.[59] The CIFP index rating of 5 indicates this number is in the moderate risk range. [60] The number of UNITA troops in action during the year 1998 is difficult to determine due to their necessarily covert operations. Under the Lusaka Protocol, UNITA was to offer up its soldiers for disarmament and demobilization; however, in 1997 there was compelling evidence that this requirement had not been met. Despite UNITA's assertion that it had not maintained its guerilla force, the rebel group showed considerable military resistance to a Government army offensive in May of 1997. The MPLA estimated active troops at the time still numbered 35,000, while the UN estimated a more modest number of 20,000, and UNITA claimed it had only 6,052 active troops.[61] In 1998, the UN increased its estimate, reporting that UNITA had in fact a standing force of some 30,000 men and very large arms caches in the various parts of Angola's interior still under its control. [62]

D. Total Number of Active Landmines

Angola has one of the highest numbers of landmines of any country in the world. Like the risk indicator of small arms, landmines are indicative of the potential to create widespread violence in what might otherwise be a containable conflict. Unlike small arms, however, landmines have the capability to lower social well-being for decades after a civil war has ended. In Angola, landmines have been employed as a military strategy since before independence; in 1998, there were an estimated 10 to 15 million active landmines in Angola[63], with 120 people killed by landmine explosions the previous year. The death toll from landmines is typically low because they are designed to maim, not kill. Their effectiveness in this capacity is evidenced by the 70,000 amputee survivors accounted for in

[59] CIFP database. Path: Issues Query >Angola/total armed forces per 1000 people/total armed forces. http://www.carleton.ca/cgi-bin/cifp/data.pl

[60] CIFP database. Path: Issues Query >Angola/total armed forces index. http://www.carleton.ca/cgi-bin/cifp/data.pl

[61] Human Rights Watch – Africa, 1997 – *Angola*. http://www.hrw.org/worldreport3/Africa.htm

[62] Posthumus, Bram. "Angola: War Without End?", in *Searching for Peace in Africa.* (European Center for Conflict Prevention, 2000) http://www.conflict-prevention.net/page.php?id=40&formid=73&action=show&surveyid=47

[63] Australia Foreign Affairs and Trade. "Australia commits $1.5 million to de-mining in Africa" in *Peace and Disarmament News.* (Statement by Parliamentary Secretary to the Minister of Foreign Affairs and Special Representative on De-mining: March 1998) http://www.dfat.gov.au/isecurity/pd/pd_march_98/pnd01_0498.html

Angola by the year 1998.[64] The threat of landmines also perversely causes hungry civilians to leave arable land lying fallow, and creates fear when attempting to carry out tasks of basic necessity such as collecting firewood or fetching water. Landmines make repatriation of refugees difficult, and make life precarious for displaced peoples. Social progress is difficult under these circumstances.

In 1999, the U.N. confirmed UNITA had recently engaged in the laying of landmines in the provinces of Bie, Malange, Lunda Norte, and Lunda Sul. The government, although it signed the Ottawa landmine ban treaty in December 1997, maintained its stockpiles and also began to lay new "defensive" minefields in Luena, Saurimo, Malange, Quibaxe, Uige, Kuito and in Cabinda.[65]

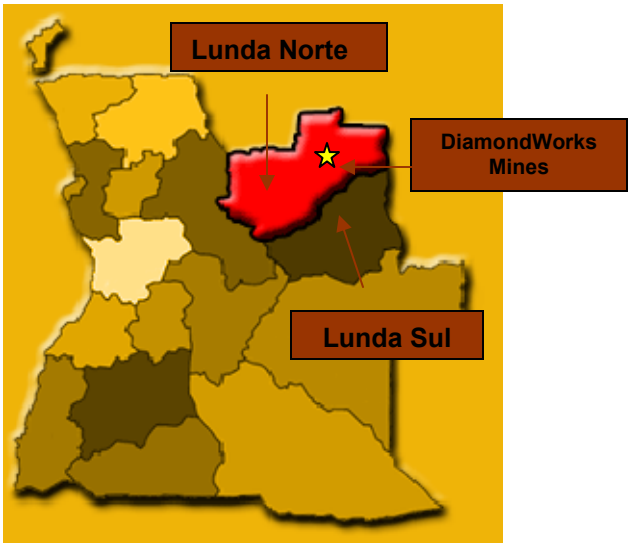
IV. Demographic Stress

Demands made by MNCs on local land and resources can contribute to the displacement of local groups from their land and create destabilizing effects within affected regions and countries. The Angolan government, as a rentier government, had weak ties to it's citizenry and was thus unlikely to seek approval before engaging in displacement operations to facilitate foreign investment. Local populations experiencing a loss of shelter, food security, and access to personal property can not only lead to serious impoverishment, but can also trigger violence aimed at both the government and the MNC in question.

A. Regional Population in the Lundas

This CIFP measure is designed to indicate how many individuals were affected through displacement by the establishment of MNC operations and infrastructure. It is, however, difficult to determine the net effects of displacement in Lunda Norte and Lunda Sud caused by DiamondWorks' mining endeavors in 1997 and 1998 given that Angola's IDP population was already quite high and increasing due to the pervasive threat of violence and forced displacement. For example, armed clashes in 1997 resulted in the displacement of more than 10,000 people in the Lundas.[66] However, while the actual displacement rate by MNC related activity cannot be determined with any degree of accuracy, the Angolan Diamond Law, brought into force in 1994, provides some insight into the potential for MNC induced displacement as facilitated by country law.

The Lundas and DiamondWorks' Concessions



When brought into force in 1994, the Diamond Law gave Endiama, the state diamond mining company, sole rights over diamond mining in Angola. Lunda Norte, a high diamond bearing reserve zone, subsequently became subject to heavy state regulation, to the detriment of its population. Prior to the passing of the

[64] *ibid*
[65] Human Rights Watch. *World Report 1999: Angola.* http://www.hrw.org/worldreport99/africa/angola.html
[66] Government of Angola – Reference Center. *Report of the Secretary General on MONUA.* (August 13, 1997) http://www.angola.org/referenc/reports/unrep0813.html

law, tens of thousands of hectares of the province had already been granted in mining concessions, limiting free circulation and causing displacement of the local inhabitants.[67]

The Diamond Law 1994 classifies land as either "restricted zones" or "protection zones". Restricted zones are concession zones, while protection zones cover the surrounding areas of the concession zones and areas where the occurrence of diamonds has been verified. These definitions form the basis of provisions in the 1994 Diamond Law which promoted the practice of civilian displacement in the pursuit of international investment. For example:[68]

- Art. 17(1): "Access to the restricted zones is prohibited, except for the personnel linked to diamond production activity" The only exceptions are the "leaders of the State" and "the people and entities who travel [...] on official duty are entitled to access".

- Art.18: In the protection zones (note that these are not ceded in concession) movement is prohibited to "whomsoever is not an official or whomsoever does not have a pass document from the concessionaire."

- Art 20(1): On the restricted zones and in the protection zones "any kind of economic activity is prohibited [...], whether of an industrial, commercial, agricultural nature or other...."

These zones constitute 200,000km of land in which locals are not permitted to engage in any act that might bring subsistence levels of living, let alone profit.

- Art.21: Provides for a residency prohibition in the restricted zones and in the protection zones.

This article gave institutionalized legitimacy to forced relocation, absent any remuneration from authorities or concessionaries for the move. Compensation for removal under the law only applies to "title holders" of companies and goods in the respective areas. Dysfunctional state administration had prevented the registration of villagers' property, denying them legal status and resulting in their removal without pay.

Aggravating this insecurity in the Lunda Norte region was a law passed two years prior, which permitted private security companies and the diamond companies' own internal security services to "monitor access and control, residence and movement" in their respective facilities.[69] This delegation of authority to unaccountable individuals promotes militarized commerce and leads to lower quality of life for any part of the population that depends on subsistence agriculture. Soon after the law was passed, privately armed diamond mining companies began preventing citizens from accessing their fields because of nearby mining operations. The same occurred with fishing carried out in rivers of the region.[70]

Together, these articles of the Diamond Law promote forced displacement through military action, or "voluntary" displacement through a search for territory that permits freedom of movement and economic activity. Given Angola's domestic laws, it is not surprising that Simon Mann, DiamondWorks Operations Officer in Africa until 1997, responded to an inquiry about local mining

[67] Marques, Rafael & Rui Falcao de Campos, eds. *Lundas – The Stones of Death.* (March 9, 2005) P.5 http://www.niza.nl/docs/200503141357095990.pdf

[68] Legislation quotes and comments from *ibid* Pp.11-12

[70] Campaign for a Democratic Angola. *Lunda-Sul, Saurimo.* (Public Report #4, May 2004) Pp. 1. http://64.233.161.104/search?q=cache:vy_0P7Od6yUJ:www.conectasur.org/files/angrep.pdf+displacement+Lunda+Norte+mining&hl=en

operations in Lunda Norte by saying "[There's] nobody. They've all been cleared out".[71]

V. ECONOMIC PERFORMANCE

Economic Performance - 1998	Rating	Source
GDP growth rate	5	CIFP
GDP per capita (PPP US $)	7	CICFP
Foreign Investment	4	CIFP
Gini coefficient	54 (*)	SARPN
Unemployment rate proxy: Poverty Rate	54.7%	SARPN

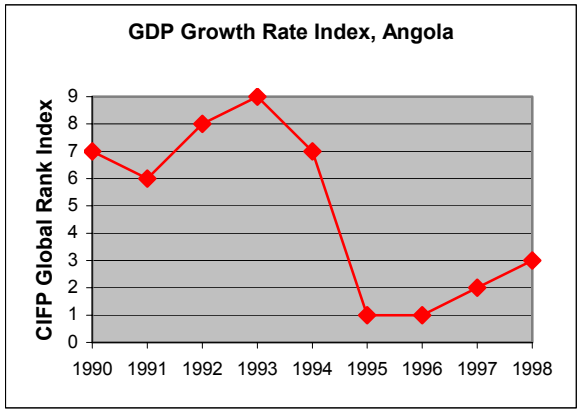
(*) Time series 1980-98

The connection between economic performance and potential for violent conflict is strong; typically, low or declining incomes, high inflation, exchange rate fluctuation or collapse, and volatile levels of foreign investment significantly impact material living standards, and can create or aggravate dissatisfaction with government performance. In the case of Angola, however, it's citizens were receiving so little social support in any event that it is possible fluctuations in government revenues were not as heavily felt as might otherwise have been the case.

A. GDP Growth Rate

The growth rate of GDP is affected by conflict, and in turn, conflict can be affected by the growth rate of the GDP. One econometric study found that during civil war countries tend to grow around 2.2 percentage points more slowly than during peace.[72] Hence, after a typical civil war of 7 years duration, incomes are approximately 15 percent lower than had the war not happened. The cumulative loss of income over the 7 years is equal to about 60 percent of a year's GDP. These statistics have significant implications for Angola after nearly 30 years of war.

While Angola did not fare well in terms of GDP growth rate during the early part of the 1990's, the economy picked up significantly beginning in 1995. This can largely be attributed to Angola's natural resource exports; oil revenues for 1996 exceeded $4 billion and diamond revenues exceeded $850 million.[73] Growth, however, doesn't make the poor rich enough unless public policy is pro-poor and unless peace prevails. As an example of this, Angola's real annual GDP growth rate averaged 6.5 per cent for 1995-99, yet Angola's poor saw very few benefits because revenues were not spent on social services.[74]



Source: CIFP database. http://www.carleton.ca/cifp/
Path: Issue Query>Angola/GDP Growth Rate Index.

B. GDP Per Capita

GDP per capita is a useful quantitative indicator of susceptibility to risk. Doubling per capita income approximately halves the risk of rebellion, with each additional percentage point on the growth rate reducing the risk of conflict by

[71] Hart, Matthew. *Shackled: the Diamond Dog of War*. The Times (UK) (27 April 2004). http://www.zimbabwesituation.com/apr28_2004.html

[72] *Supra* note 6 at 17

[73] US Department of State. *Angola Country Report on Human Rights Practices for 1996.* (January 30, 1997) http://www.usemb.se/human/human96/angola.html

[74] Addison, Tony. "Growth Makes Poor Richer, But Still Not Rich Enough" in *Financial Times.* (Letter to the Editor, January 30,2001). Excerpt at: http://cuts-international.org/ccc07.htm. Path: Cuts>Citee>publications>E-Newsletter> CutsCitee Communiqué> Issue No.7

approximately one percentage point.[75] Angola's GDP per capita according to CIFP Global Rank Index was generally poor throughout the 1990s, fluctuating between 6 and 8 throughout the decade.

There is generally a strong relationship between human development and income in the South African region. For example, Seychelles, Mauritius, and South Africa have the highest levels of GDP per capita. These countries also have the highest HDI values in the region. As the exception, Angola's GDP per capita does not reflect the well being of its citizens; although Angola has a higher per capita GDP than both Tanzania and Zambia, it has lower levels of human development. [76]

C. Foreign Direct Investment (FDI)

Largely through the country's oil and diamond industry, Angola's government garnered $360 million dollars in FDI in the year 1998, earning Angola a respectable rating of 4 on the CIFP FDI Index.[77] These finances could have been used to stimulate economic growth and foster social improvement through the emergence of democratic regimes and reduced risks of violent conflict. However, as later analysis demonstrates, the pursuit of profit at the expense of public accountability circumvented the positive externalities of FDI for the nations citizenry. Instead, a wide prosperity gap emerged between the political elite and the general public, further weakening fiscal discipline and freeing state officials from political accountability.

D. GINI coefficient

Angola's GINI ratings are rare and lack temporal specificity. The most relevant available statistic for this study gives Angola a GINI rating of 54 for the time period of 1980 – 98.[78] A more recent study by the World Bank found that income inequality in Angola had increased sharply between 1995 and 1998, with the richest 10 percent of the population enjoying a 44 percent increase in wealth, while the poorest 10 percent suffered a 59 percent decrease.[79] The irresponsible distribution of oil rents in a manner that perpetuated macro-economic instability is often cited as the cause of Angola's income inequality.[80]

E. Unemployment Rate

Angola's unemployment rate throughout the 1990's was not documented, but was likely very high given it was rated the poorest out of 14 countries in the South African region in 1998, with a poverty rate of 54.7%[81]. Although there was substantial foreign direct investment in the oil and diamond sectors during the decade, these industries are often capital intensive, requiring a few skilled personnel for their operation. The failure of FDI to contribute to local employment levels prompted the expansion of informal diamond mining. In Lunda Norte, men unable to find work became *Garimpeiros*, workers who search for alluvial diamonds by sifting gravel by hand. This large informal working sector operated without the benefit of protective employment laws, resulting in persistent human rights violations and precarious economic conditions.

[75] *Supra* note 6 at.58

[76] Development Policy Research Unit. *Human Development Indicators in the SADC Region.* (DPRU Policy Brief No.1/P13 May 2001) Pp. 4 http://www.commerce.uct.ac.za/DPRU/p13.pdf

[77] CIFP database. http://www.carleton.ca/cifp/. Path: Issue Query>Angola/FDI Net Inflows/FDI Index.

[78] South African Regional Poverty Network. *Poverty Indicators: Angola*. www.sarpn.org.za/RegionalViews/angola.php

[79] The World Bank, *Angola: Country Brief*, September 2000. www.worldbank.org/afr/ao2.htm.

[80] Aguilar, Renato. *Angola's Private Sector: Rents Distribution and Oligarchy.* (Cornel University May 2-3 2003) http://64.233.167.104/search?q=cache:86cWj9zLsGUJ:www.kyle.aem.cornell.edu/lusopaps/Renato_Aquilar.doc+Income+inequality+Angola&hl=en

[81] *Supra* note 77

VI. HUMAN DEVELOPMENT

Human Development	Rating	Source
Human Development Index (HDI)	0.405/9	UNDP/CIFP
Gender Development Index (GDI)	0.331/8	UNHDI/CIFP
- Gross enrolment ratio to males	21:25	UNDP
- Earned income ratio to males	2:3,3	HRDC
Access to improved Water Source (%)	38	UNDP
Access to improved sanitation (%)	44	UNDP

As with overall levels of economic development, poor levels of human development correlate strongly with higher risk of violent conflict and state failure. Low levels of investment in human capital can hinder the development of a skilled labour force necessary for creating livelihoods and increasing incomes, preventing an increased standard of living and leading to decreased confidence in the legitimacy of the state apparatus. In all of the following CIFP risk indicator categories, Angola's ratings are inadequate if not deplorable.

A. Human Development Index

The 1998 human development index is a composite measure of education, life expectancy, and real GDP per capita. Countries are scored out of "1", with high scores indicating a higher level of human development.

Angola rated very poorly on this scale, with a score of 0.405, which placed the country in position 160 out of 174 countries.[82] The CIFP Human Development Index rated Angola a "9" throughout the entire decade.[83] These scores reflect the absence of public services in Angola during the 1990's, which adversely affected the country's health care, education, water purity and sanitation. These conditions are not conducive to the promulgation of peace, as they tend to decrease citizenry confidence in the state and aggravate civil unrest.

B. Gender Development Index

The HDI measures average achievements in a country, but it does not incorporate the degree of gender imbalance in these achievements. The gender-related development index (GDI), introduced in the Human Development Report 1995, measures achievements in the same dimensions using the same indicators as the HDI but captures inequalities in achievement between women and men. Gender disparity measures are a valuable tool of analysis, because they reveal social expectations and practices that can hinder development efforts and increased vulnerability to conflict through the presence of inequality.

Angola's gender development index value was 0.331 in 1995 when Canada's GDI value was 0.94.[84] Additional measures are useful for explaining this dismal value. Measures employed here, including earned income and educational enrolment, are gender-comparative in order to differentiate between discriminatory standards and a generalized low quality of life experienced by both genders.

Earned income is an important measure of gender empowerment because financial stability can increase a woman's independence by expanding her choice set and providing opportunity for a higher standard of living. In 1995, the real GDP per capita for females in Angola was $2.01. Males by comparison earned a full fifty percent more, at $3.279.[85]

[82] UNDP. *Human Development Indicators, 2000.* http://www.undp.org/hdr2000/english/book/back1.pdf

[83] CIFP. http://www.carleton.ca/cifp/ Path: Issues Query >Angola/Human Development Index

[84] Gender Related Development Index (Dartmouth University, from UNHDI 1998) http://www.dartmouth.edu/~chance/teaching_aids/data/98gdi.htm

[85] HRDC. *Research and Teaching on Human Rights, Gender Issues and Democracy in Southern Africa.*

Educational enrolment is a significant indicator of a country's future prospects for improved economic and social standards. The UNDP 2001 survey on Angola reports that, while combined primary, secondary, and tertiary female enrolment for 1999 was at a deplorable 21%, males did not fare much better at 25%.[86] Females in fact surpassed males in numbers enrolled in primary education between 1995 and 1998, with 109 girls compared to 100 boys.[87] These statistics highlight the importance of a comparative approach by illustrating that both females and males in Angola suffered from a lack of adequate education.

C. Access to Improved Water Source and Adequate Sanitation

A dearth of public services such as safe water and sanitation are a sign of weak state capacity to provide and allocate vital services, and indicate increased susceptibility to the spread of infectious disease. In 1999, 38% of the population was using an improved water source, and only 44% had access to adequate sanitation facilities.[88] Given Angola's healthy rate of FDI in 1998, it may be suggested that these readings indicate not only a lack of capacity to engage in social improvement programs, but also a lack of interest in doing so.

Aggravating the low health of the citizenry was Angola's poor doctor to patient ratio; between 1990 and 1999, there were only 8 doctors for every 100,000 patients.[89] Despite the inadequate health infrastructure, the government invested 23.5% of its GDP in military undertakings in 1999, while only 1.4% of the GDP went to funding health initiatives.[90]

SECTION I CONCLUSIONS

The above analysis conducted through the use of CIFP indicators generates the following conclusions relevant to the conflict risk assessment analysis:

- Throughout the 1990's, Angola's government engaged in rentier behaviour. This resulted in increased insecurity and tension. More specifically:

1. It distanced the government from the general populace, leading to a lack of accountability and few effective means - outside of the use of violence - for citizens to air grievances and instigate change.

2. It meant the Government did not place a priority on improving the quality of life of Angola's citizens during the 1990s, causing increased frustration and a decreased sense of loyalty.

- Low levels of employment and education made participation in rebel activity and illegal diamond activity an attractive means of acquiring income.

- The rebel group UNITA targeted diamond businesses in order to interfere with government military funding and usurp diamond revenues for its own purpose.

- In general, Angola suffered from an unstable social, political, and economic environment due to:
    - A high number of landmines
    - An absence of respect for human rights, including domestic legislation that favoured FDI over citizen welfare.
    - A high number of refugees and IDPs.

http://www.hrdc.unam.na/an_gi.htm Path: Angola> Gender Issues.

[86] UNDP. *Human Development Report, 2001.* http://www.undp.org/hdr2001/indicator/cty_f_AGO.html

[87] *ibid*

[88] *ibid*

[89] *ibid*

[90] *ibid*

SECTION II: ANGOLA's MINING INDUSTRY IN THE 1990s

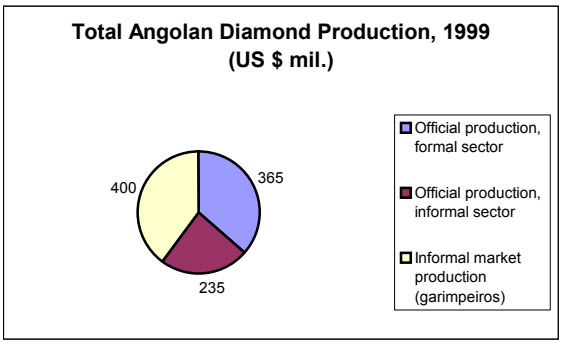
Focusing on industry specific contextual considerations of the corporate environment within which DiamondWorks was operating during the 1990's is a valuable analytical undertaking because it provides insight into what type of behaviour was considered "normal" for the sector, and therefore appopriate. This analysis is not designed to excuse behaviour that was subjectively "normal" or objectively abhorrent. It provides a greater understanding of why corporations might be willing and unwittingly contribute to conflict.

With this in mind, the objective of the second stage of analysis is to apply CIFP business risk indicators to Angola's diamond industry to facilitate greater understanding of the connection between conflict and commerce. Industry issues are discussed under three main headings: Corruption and Violence, Employment, and Human Development.

A. Corruption & Violence

Angola's diamond mining industry in the 1990's can be characterized by three persistent occurrences: corruption, elitism, and violence. State administration covered only parts of existing diamond fields, creating an environment that encouraged illegal prospecting and smuggling. This illegal diamond economy was hugely successful for two reasons. First, Angola yielded an unusually high amount of easily accessible gem-quality diamonds, making diamond mining uniquely lucrative even in the absence of sophisticated capital. Second, government officials and members of Angola's elite encouraged the industry through their willingness to permit illicit mining activity in exchange for bribes. Bribe-seeking by the government elite likewise plagued legal mining companies, incapacitating smaller businesses and usurping profits of larger businesses.[91]

Perhaps because of the prevalence of institutionalized corruption, the Angolan government routinely resisted any monitoring of the diamond sector throughout the decade. As a result of this opacity, Angola's diamond sector produced nearly US $600 million rough-cut diamonds in 1999, but the government received only US $20 million in official revenues.[92]



Source: Dietrich, "Inventory of Formal Diamond Mining in Angola" Pp. 151
http://www.iss.co.za/Pubs/BOOKS/Angola/8Dietrich.pdf

The areas of highest diamond concentration, with the highest prevalence of violence, were in the Lunda provinces. UNITA first began targeting government-controlled mines in the area in 1996, when the group overran a sorting center and took 200 foreigners prisoner.[93] Concentrated incursions by UNITA throughout the 1990s hindered sector development in the area and added a dimension of violence to the business of diamond mining.

The government responded to UNITA's targeting of businesses by deploying the

[91] Christian Dietrich. "Inventory of Formal Diamond Mining in Angola" in Jakkie Cilliers and Christian Dietrich eds., *Angola's War Economy: The Role of Oil and Diamonds*. http://www.iss.co.za/Pubs/BOOKS/Angola/8Dietrich.pdf. (South Africa: Institute for Security Studies, 2000). Pp. 150
[92] *ibid* at 141
[93] *supra* 90 at footnote 10.

Forças Armadas Angolanas (FAA) to subdue UNITA activity in diamond producing areas. When the FAA was unable to defeat the efficient UNITA forces in the Lundas, the MPLA enlisted the services of Executive Outcomes (EO), a South African mercenary firm who aided in the recovery of Cafunfo in 1993.[94] Between mid-1993 and late 1994, EO trained approximately 4,500 Angolan government troops; the company was also hired to directly confront UNITA forces in 1994 when it became clear that government forces were fighting a losing battle. EO and the Angolan governemnt signed a one-year $20 million dollar contract, and the government paid an additional $20 million dollars for weapons and equipment. The contract was extended twice for a total of $60 million dollars in revenue. Suffering only 20 fatalities, EO decisively ended Angola's three-year civil war by pushing Savimbi to sign the Lusaka Protocol in November 1994.[95]

After the offensive, many of the EO mercenaries remained in the Lundas to defend diamond mining projects. EO created a branch company, Alfa-5, which found employment through contracts with major diamond companies operating in the area.[96] Corporate entities engaged in militarized activity to protect against rebel attacks, employing both international companies such as Alfa-5, and local private security forces, to protect their investments in the Lundas.

Companies with adequate in-house private security or mercenary forces were initially seen to be the most effective competitors in Angola's diamond market. Between 1996 and early 1998, when the precarious peace process appeared to be making at least some progress, junior mining companies such as DiamondWorks began vying for concessions and using Angolan private security companies to protect their investments. The resumption of full war in mid-1998 necessitated higher security payrolls, with companies paying as much as $500,000 per month to protect mining operations.

These attempts to use violence as a means to control violence raised break-even production levels for foreign companies and resulted in perpetual low intensity fighting and banditry, punctuated by periods of intense violence that disrupted formal diamond production, most notably in Lunda Norte.

B. Employment

Angolan employment law in the late 1990's stipulated that Angolans were to be given priority for employment, and are required to represent 70% of the total workforce if a company employs more than 5 expatriates.[97] The extent to which this legislation was adhered to is not recorded. What *is* clear is that the nationality of diamond company employees varied in accordance with the nature of the tasks to be completed. In the Lundas, workers reported a high percentage of foreign nationals in middle management and executive positions, while locals were hired largely for manual labour. Locals felt this occurred because they were not trusted,[98] although there is also merit in the argument that locals lacked the requisite skills to perform the tasks required by more advanced positions. Regardless of the actual reason for foreigners occupying jobs that involved greater prestige and larger paychecks, the perception that hiring practices in the Lunda diamond industry were discriminatory is a significant fact in conflict analysis, because it provides a

[94] *supra* 33 at 4
[95] David Isenberg. *Soldiers of Fortune: A Profile of Today's Private Sector Corporate Mercenary Firms.* (Center for Defense Information: November 1997) Pp. 9
[96] *supra* 33 at 10
[97] DiamondWorks Ltd. *1997 Prospectus.* http://www.sedar.com/csfsprod/data6/filings/00033605/00000001/i%3A%5Ckbk%5Csedar%5Cpdf%5Cout%5C044.pdf Pp.16
[98] *supra* 33 at 7

rationale for citizens to have more resentment and less concern for the protection of MNC profits.

C. Human Rights and Development

Prior to Angola`s independence in 1975, the state-owned diamond mining company Diamang took on many of the functions of the colonial government. This was especially so in the remote Lunda provinces, where Diamang build the towns of Lucapa, Duncco, and Andrada (now Nzaji).[99] Diamang can also be credited with the building of a training college for mine technicians, other schools, and hospitals in all the main mining towns.[100]

Diamang's role as a pseudo-government is significant because it created expectations of social contributions from diamond companies.[101] This in turn led to tension in the Lundas in the 1990s, as the new state-owned company Endiamia refused to take on a similar socially conscious role.[102] In fact, during the mid 1990's, many of Endiama's facilities in the Lundas were moved to the coastal capital of Luanda, including the company's hospital and its remaining archives.

Not only did the diamond industry fail to benefit local populations, it often created additional misery and conflict. In both 1992 and 1995, Angola's diamond economy experienced a swell in *garimpeiro* activity, resulting in an estimated US$20 million of rough cuts reaching outside markets from Angola per week at the peak of the 1995 dry season.[103] In 1996, the government initiated an operation, dubbed "Cancer II", designed to put a halt to illegal diamond prospecting. Cancer II reduced banditry in the Lundas, but also generated widespread human rights abuses, including beatings, body cavity searches and rape, as government troops expelled thousands of *garimpeiros*.[104]

Citizens who were not involved in the mining sector likewise experienced human rights abuses as mining companies evicted people from their fields in the Lucapa region without compensation.[105] Without employment and, after displacement, without land for substsence agriculture, life for Angola`s citizens in the Lundas was made precarious by the negative externalities of the diamond industry.

SECTION II CONCLUSIONS

The above analysis conducted through the use of CIFP indicators generates the following conclusions relevant to the conflict risk assessment analysis:

- Angola's mining industry in the 1990s became militarized. A Darwinian process of elimination ensured that the most militarized companies, and the companies most willing and able to pay bribes were the companies who were most likely to remain operational.

- The diamond industry generated resentment in the Lundas for three reasons:

  1. **Exclusion**: As both a capital-intensive industry and an industry where education was required for prestigious and better paying jobs, Angolan citizens were excluded either fully or partially from employment in the diamond business. This led to resentment due to perceived discriminatory practices. Citizens were also excluded from participation in the diamond industry through displacement, and by domestic legislation that forbade unlicensed informal diamond prospecting.

[99] *supra* 33 at 2
[100] *supra* 33 at 2
[101] *supra* 33 at 3
[102] *supra* 33 at 3
[103] *supra* 90 at 147
[104] *supra* 33 at 6
[105] *supra* 33 at 10-11

2. **Absence of social conscience:** Companies ceased their historical practice of engaging in social development programs, which angered citizens who saw the building of schools and hospitals as being the responsibility of big businesses.

SECTION III: DIAMONDWORKS IN ANGOLA'S MINING INDUSTRY IN THE 1990'S

Together, Sections I and II have provided a detailed account of the context within which DiamondWorks chose to invest in the mid to late 1990's. A 1997 prospectus issued by the company readily acknowledges the volatile nature of its investment activities when it notes: "The company is subject to certain risks, including political or economic instability…It is essential for the company to maintain effective security for its diamond properties and personnel in Angola and Sierra Leone, where civil war, terrorism, banditry, and guerilla activities have disrupted exploration and mining activities in the past".[106] But the 1997 Annual Report, President Bruce Walsham reports that DiamondWorks was "optimistic about our future in Angola…with solid indications of lasting peace".[107]

The mineral extraction operations of DiamondWorks began in earnest in 1993 with exploration in Venezuela and Philippines, but both investments were abandoned after unsatisfactory survey results. In 1996, DiamondWorks held controlling interests in three key concession areas in Lunda Norte: Luo, Luarica and GT. In total, these concessions covered over 1,250km^2. In addition, the company owned a fourth Angola concession, that of Alto Kwanza in the province of Bie. By the end of 1996, DiamondWorks had invested more than $10 million in these four Angola projects.[108]

The company acquired the ill-fated Yetwene concession in May 1997, a time when Angola was engaged in a precarious peace process and companies were beginning to return to their investment activities. The Yetwene mining area encompassed nearly 550km^2, and was initially accessible by paved road thanks to its close proximity to Lucapa, the capital of Lunda Norte. The concession straddled a series of north-flowing rivers and streams, with the Chicapa and Lumanha rivers being the largest. The Yetwene site had been the subject of fluvial and alluvial mining in the past, though DiamondWorks reported these efforts were apparently limited due to security concerns.[109]

Encouraged by the early success of the Luo mine, whose carat yield continually exceeded expectations, the company invested heavily in its Angola operations. Sales from the Luo diamond concession were used to accelerate construction of the Yetwene operation throughout 1997. When the Yetwene mine opened in 1998, it was viewed as one of the company's most promising investments, with a known alluvial diamond reserve of more than 1.4 million carats representing a projected mine life of more than 10 years.[110]

While operational, both the Yetwene and Luo mines were alluvial concessions worked through Diamondworks' wholly owned subsidiary Branch Energy Ltd. (BEL), acquired when DiamondWorks was operating under the name Carson Gold. Together, production

[106] *supra* 96 at 9
[107] DiamondWorks. *1997 Annual Report.* http://www.sedar.com/csfsprod/data7/filings/00047437/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov4-97.doc Pp.4
[108] DiamondWorks, *1996 Annual Report.* http://www.sedar.com/csfsprod/data/filings/00009660/00000001/s%3A%5Ccorp%5Cdmw%5Cmisc%5Creports%5Cdiamond2.pdf Pp. 14
[109] *supra* 106 at 15
[110] DiamondWorks. *DiamondWorks Announces Record Diamond Production at it's Luo Mine During October.* (DiamondWorks Press Release, November 4, 1997) http://www.sedar.com/csfsprod/data7/filings/00047437/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov4-97.doc

from the two mines was expected to exceed 120,000 carats in 1998.[111] Instead, conflict and security issues led to a yield of only 74,600 carats for all of DiamondWorks' Angolan production combined.[112]

In the following analysis, the CIFP corporate template, developed by Leah Berger and Ashley Campbell and outlined on the CIFP website, is applied to available company data for the explicit purpose of evaluating the impact of DiamondWorks' extraction activities on Angola's civil war during the 1990s. Based on CIFP's MNC-specific risk assessment methodology developed by Leah Berger, the categories address both business-related country risk indicators, and additional CIFP indicators that focus specifically on the corporate concerns and needs of DiamondWorks.

I. DiamondWorks and Armed Conflict

The presence of international corporate businesses in host countries with a history of armed conflict can aggravate violence by providing funding for military goods and engaging in violent measures to protect its facilities. As the following analysis of DiamondWorks demonstrates, the integration of MNCs into civil conflict can have serious consequences for the business itself, resulting in employee harm or death, precarious business operations, increased security costs, and even forced closure of the business endeavor.

A. DiamondWorks' Militarized Commerce

One of DiamondWorks' main business philosophies in the 1990's was that, if host governments lacked the control necessary to ensure the integrity of company investments in the face of rebel activity, it was the responsibility of the company to fill the security void. Recognizing the military weakness of Angola's government and the volatility of the Lunda region in general, DiamondWorks hired Teleservice, a private Angolan security company affiliated with EO, to protect its Luo concession. In return for a fee of US$96,000 per month, Teleservice protected the Luo concession from fire, burglary, terrorism, riot and civil commotion through 24-hour armed patrols, access and egress control, establishment and manning of observation posts, and escorting of personnel to and from the area of operations.[113]

As noted by the UN's Special Rapporteur on the Use of Mercenaries, such ties between companies and private security organizations are problematic because "the presence of mercenaries in armed conflicts tends to make them longer-lasting, more serious and bloodier."[114] It also noted that that groups of professionals selling their skills in war and violence are unaccountable, and may be more prone to violations of human rights and international conventions of just war than traditional armies.

B. DiamondWorks' Perceived Role in Angola's Civil War

The perceived role of an MNC in a civil war, whether the perception is accurate or not, can aggravate violence by angering one or both of the warring factions and thereby acting as a catalyst for violent reactions. The degree to which an MNC is perceived as taking sides in a conflict is therefore a measure of its vulnerability to attack from opposition groups. There are two ways to classify the manner in which an MNC can be perceived as favoring one

[111] *Supra* 106 at 11
[112] DiamondWorks. *Out of Adversity: 1998 Annual Report.* http://www.sedar.com/csfsprod/data12/filings/00134399/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov17a-9.doc Pp. 4

[113] *supra* note 96 at 18
[114] Ballesteros, E. B. UN Special Rapporteur, "Report on the Use of Mercenaries" (16 October 1997), p. 11, par. 20.

warring faction over another: Financial participation and behavioral participation.

MNC behavioral and financial participation in conflict aggravates violence in two ways. First, MNCs may provide resources to a warring faction for military endeavors that would otherwise not be affordable. Second, MNCs can involve themselves directly in the violence through offensive military action, thus provoking a response from opposition groups who resent outside interference.

DiamondWorks motivated Angola's civil war through both financial and behavioral participation. Financial aggravation of the conflict arose from a joint-venture agreement with Sociedade Mineira do Lucapa (SML). SML was formed in 1992 as a company representing the Angolan state-owned diamond company Empresa Nacional de Diamantes de Angola (Endiama) (51%) and Sociedada Portugese de Empreendimnetos (49%). SML held a 50% interest in DiamondWorks' Yetwene project,[115] which would have contributed to corrupt MPLA spending habits including substantial military expenditures and personal kickbacks.

DiamondWorks aggravated conflict in a behavioral manner by establishing dubious business ties with EO and its affiliates. The relationship between DiamondWorks and EO became controversial in the mid-1990's because of suspected deals between the two companies and the Angolan government, whereby EO would clear UNITA rebels out of diamond concession zones and in return the Angolan government would grant the area to DiamondWorks.

Suspicions of patronage first arose soon after EO drove UNITA out of Angola's Cuango valley in 1993, at which time BEL was awarded an important Angolan diamond concession. At the time, EO was rumored to be a major shareholder in BEL, though EO refuted the claim.[116] Not long after, DiamondWorks hired the company Mamboji, an EO affiliate, to ensure the safety of it's mining operations. [117]

In Sierra Leone, a similar event occurred when DiamondWorks was awarded a kimberlite concession in 1995 after EO had been contracted by the government to suppress rebel activity. Soon after, press reports in London disclosed that Executive Outcomes held a 40% share in BEL's Sierra Leone operation.[118] The U.K. media also began to uncover an expansive and complex web of business relationships that connected high-ranking individuals affiliated with both companies.

In 1997, when accusations of aggressive military undertakings were at their peak, DiamondWorks issued a prospectus which stated clearly that the activity of directors - such as Tony Buckingham and Michael Grunberg - who had business ties to mercenary organizations did not represent DiamondWorks in these relationships. Instead, these relationships and the security companies involved were "distinct from [DiamondWorks] and [DiamondWorks] does not have any connection with these other companies either on a corporate or operational basis".[119]

It is true that the personal and business relationships between high-ranking DiamondWorks and EO officials constitute evidence of militarized commerce which is purely circumstantial. Nevertheless, the ties are significant because they were good reason for UNITA

[115] MBendi: Angola Diamond Mining Overview. http://www.mbendi.co.za/indy/ming/dmnd/af/an/p0005.htm Path: MBendi → Angola → Mining → Diamond Mining → Overview.

[116] *supra* 94 at 12

[117] Zagorin, Adam. *Soldiers for Sale.*, *Time* magazine, Vol. 149, no. 21, 26 May 1997. http://www.hartford-hwp.com/archives/27a/064.html

[118] Africa News. *Mercenaries grab Angola's gems.* (AllAfrica Inc., May 9, 1997).

[119] *Supra* 96 at. 70

rebels to suspect DiamondWorks was in some way responsible for their displacement from the northeastern diamond fields. While no authoritative conclusions could be drawn regarding the connection between DiamondWorks and the use of private security organizations for aggressive military action, the *perceived* connection between the two was arguably sufficient to provoke violence. Media reports noted speculation that the Yetwene attack was specifically aimed at the mine because UNITA suspected a connection between DiamondWorks and Executive Outcomes. The attack was a warning not to involve private security firms.[120]

C. Number of MNC Employees Injured by Violence Related to MNC Operations

The number of MNC employees injured or killed by violence related to MNC operations is significant because it is indicative of the extent to which the company is a source of frustration among opposition parties and civil society. The deliberate targeting of the Yetwene mine, absent significant looting behaviour, indicates that the mine, the company, or both, were the source of anger and frustration for UNITA.

Number of DiamondWorks Employees Affected by UNITA Attack[121]

Deaths	Missing	Wounded
8 - 3 foreign nationals. - 5 Angolans	10 - 4 foreign nationals - 6 Angolans	24 NA

[120] Angola Peace Monitor. "UNITA Attacks Diamond Mine", *Action For South Africa* (Issue #3, Volume 5, November 27, 1998). http://www.actsa.org/Angola/apm/apm0503.html

[121] DiamondWorks. *Statement by Bruce Walsham, Diamondworks' Chief Executive Officer.* http://www.sedar.com/csfsprod/data12/filings/00133715/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov13-98.doc (Press conference in Luanda, Angola, November 13 1998)

In order to avoid further death and injury after the Yetwene attack, the 18 foreign nationals remaining at the site were flown to safety, and security measures were increased dramatically. The four foreign nations who went missing were never found. In 2000, DiamondWorks ceased payments to the families of the missing, pending proof of death.[122]

II. Corporate Activity and Political Instability

The perceived geographic reach of a conflict will impact on an MNC's decision to operate in a conflict-affected area, and also determine the nature of the operations once in the region. MNCs are less concerned about the risks of investing when the conflict is contained to a specific area, whereas uncontained violence poses a major hazard to MNC operations. With the signing of the Lusaka Peace Accords in 1994, foreign national companies saw an increase in government control of rebel territory and were again willing to participate in Angola's mining sector.

A. Location of DiamondWorks' Infrastructure in Relation to Terrorist Incident Sites

The location of MNC infrastructure in relation to terrorist incident sites is significant because it directly assesses the geographic reach of the conflict in relation to MNC operations. The proximity of MNC infrastructure to terrorist activity impacts the decision to invest or re-invest in a region. As was demonstrated by the business activities of DiamondWorks, proximity of terrorist incidents may provoke a militarized response that increases vulnerability through heightened conflict.

[122] Christine Gordon (ed), *Diamond Industry Annual Review: Republic of Angola 2004.* (Partnership Africa Canada: Ottawa, July 2004) Pp. 6

In the first half of the 1990s, the diamond fields of northeastern Angola were synonymous with civil war. Reporting to the Security Council on August 6 1998, the Secretary-General noted that UNITA forces continued to threaten government forces in Lunda Norte, the location of the yet unopened Yetwene mine.[123] The prevalence of conflict in the region played a large role in the decision to employ private security companies.

As a result of increasing insecurity, numerous mining companies, small and large, pulled out of investment in northeastern Angola in the 1990s. These companies include Petra Diamonds, TransHex, and DiamondWorks. This forced closure of operations is indicative of a high degree of social and political frustration aimed at the business. It also serves as a measure of the sophistication of military tactics employed by opposition groups, and has implications for the intensity and geographic scope of a conflict.

B. Cost of Damage to DiamondWorks as a Result of Terrorist Incidents

For DiamondWorks, the business costs of operating in Angola's civil war began with the hiring of private security organizations to guard its investments. Diamondworks was required to provide its own security, as the Angolan government primarily protected the core mining areas close to cities and towns, with less emphasis on peripheral concessions such as Yetwene and Luo.[124] At the time of the Yetwene attack DiamondWorks had a combined armed force of over 70 guards on site - one for every two workers at the camp.[125]

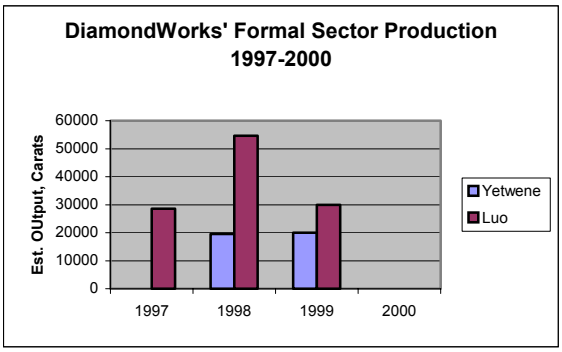
The attack also caused the forfeiture of substantial start-up costs outlined in the initial contract agreed upon in May 1997. The contract stipulated DiamondWorks was to make consultation payments of US $10,000 per month for one year, and pay a signing fee of US$50,000. The company also agreed to reimburse US$398,000 for camp and mining equipment purchased by a previous company for use on the Yetwene property.[126] DiamondWorks advanced all operating costs as well as all capital costs (up to US$5 million) to bring the Yetwene concession into production. In return, DiamondWorks was to be the operator of the project and was promised 50% of the net profits from diamond mining on the concession, as well as preferential payback of the funds advanced for capital expenditures.

After the attack, DiamondWorks suffered economic loss in the form of costs incurred through loss of material goods during the Yetwene attack, and through suspension of production activity. Under the assumption that Yetwene would resume production in January, DiamondWorks estimated that costs relating to the attack, including lost revenue, would total about US $5 million.[127] Each month of lost production after this time cost the company

[123] *supra* 19
[124] *supra* 90 at 150
[125] DiamondWorks Press Release. *Information on Security at the Yetwene Mine.* (Luanda: November 16, 1998)http://www.sedar.com/csfsprod/data12/filings/00134399/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov17a-9.doc
[126] DiamondWorks. *DiamondWorks Acquires the Yetwene Diamond Concession in Lunda Norte Province, Angola*. (DiamondWorks Press Release, May 15 1997). http://www.sedar.com/csfsprod/data3/filings/00014096/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5C05-15-97.doc
[127] DiamondWorks. *DiamondWorks Updates Situation in Angola.* (DiamondWorks Press Release: November 26, 1998). http://www.sedar.com/csfsprod/data12/filings/00137019/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov26-98.doc

approximately US$ 2 million in upkeep fees and lost profits.[128]

The Luo and Yetwene mines (with a small contribution from sampling at Luarica) yielded net sales of production of $5.16 million in 1998. After an attempt in mid-1999 to re-open Yetwene, DiamondWorks withdrew from its diamond mining projects in Angola and recorded a $54-million (U.S.) loss in the three years that followed.[129]



Source: Dietrich, "Inventory of Formal Diamond Mining in Angola" Pp. 154
http://www.iss.co.za/Pubs/BOOKS/Angola/8Dietrich.pdf

C. Infrastructural instability

Twenty-five years of civil war in Angola caused extensive damage to roads, telecommunications services and electricity grids, calling for affirmative action on the part of diamond companies to establish a self-maintained infrastructure in order to remain operational. This demand intensified for DiamondWorks after an incident with the Angolan government in 1996, where 21 BEL employees were arrested for premature access to a concession zone. After this, relations began to sour between DiamondWorks and Angolan officials,[130] and Diamondworks was forced to make large investments infrastructure that should have been the responsibility of the government to ensure security. For example, DiamondWorks was compelled to upgrade customs at Saurimo airport and install a powerful telecommunications system in Luanda linked to the Johannesburg telephone exchange. The objective of these activities, according to Branch Energy, was to provide logistical support for companies wanting to invest in Angola, as well as supporting Branch Energy's own expanded operations.[131] In other words, infrastructural development was not undertaken with the general social well being of Angola's citizens in mind.

After 1998, resumption of full war necessitated cargo transport by air[132] as roads were layered with landmines and subject to armed attack. With all of these additional costs, it is not surprising that the Yetwene mine attack forced the company near bankruptcy.

III. Economic Performance

A. Percentage of GDP contribution by MNC

Diamond ventures didn't make large contributions to the GDP of Angola during the 1990's in comparison to the offshore oil industry, but in general they were still a significant source of revenue compared to other export sectors. For example, in the mid-1990's, DiamondWorks invested USD $60m in Angola by using local competitive

[128] DiamondWorks. *DiamondWorks Updates Situation in Angola.* (DiamondWorks Press Release: December 21, 1998).
[129] Will Purcell. "DiamondWorks Remembers its Dead in Silence" in *Stockwatch Street Wire* (November 11, 2003). General access at: http://www.minesandcommunities.org/Action/press213.htm
[130] Christian Dietrich. "Power Struggles in the Diamond Fields" in Jakkie Cilliers and Christian Dietrich eds., *Angola's War Economy: The Role of Oil and Diamonds*. http://www.iss.co.za/Pubs/BOOKS/Angola/9Dietrich.pdf (South Africa: Institute for Security Studies, 2000). Pp. 176
[131] Africa News. *Mercenaries grab Angola's gems.* (AllAfrica Inc., May 9, 1997).
[132] *supra* 90 at 149

companies for goods and services necessary for mining operations.[133] DiamondWorks reportedly created over one thousand jobs, although the number of those jobs that went to locals or Angolans in general is unclear.[134]

B. Number of Angolan's employed

In 1997, DiamondWorks was one of the largest employers in northeastern Angola with more than 300 Angolans working at their mine. On the site at the time of the Yetwene attack were 208 people – 22 foreign nationals and 186 Angolan personnel. These figures include staff of the company's two security contractors.[135]

In 1998, more than 90% of DiamondWorks' employees at the Luo and Yetwene mines were from the local communities surrounding the mine. Locals were trained to operate modern mining and processing equipment, leading to higher rates of pay.[136]

DiamondWorks' Employee Demographics 1998

	Angolan	Expat	Total
Luo	200	20	220
Yetwene	186	22	208

IV. Human Development

DiamondWorks engaged in several community projects during its time in Lunda Norte. The first was the restoration of a poultry farm, where chickens and cattle were raised as a key source of food for employees, and for sale to local residence. Maize and other crops were planted in the area, both for sale and animal feed, and 90 locals were employed at the farm.

DiamondWorks also claims to have played an instrumental role in the opening of a cultural museum in the Lundas, and began construction of a new medical facility to service employees and the local population. It is not clear whether locals would be required to pay for this service, and if so, whether the cost would have been reasonable to afford given the high poverty rate in the region.

In its 1996 Annual Report, DiamondWorks published intentions to initiate community programs that would encourage maximum employment opportunities for local residents, technical and managerial training, a fair wage scale, support for improved health care and education, and encouragement of local business and self-sufficiency. [137] No follow up report confirmed the start of these activities.

Section III Conclusion

The above analysis conducted through the use of CIFP indicators generates the following conclusions relevant to the conflict risk assessment analysis:

- DiamondWorks participated in militarized commerce occurring in Angola's diamond industry through the use of security organizations to protect investment property.

- UNITA perceived DiamondWorks as participating in aggressive militarized commerce in favour of the MPLA through the provision of funding and through aggressive military action designed to clear rebels out of diamond-bearing zones.

[133] *supra* 111 at 16
[134] Open letter from Bruce Walsham, Chairman and Chief Executive, DiamondWorks, Luanda, 16 November 1998
[135] DiamondWorks. *Media Update #2.* http://www.sedar.com/csfsprod/data12/filings/00133096/00000001/s%3A%5Ccorp%5Cdmw%5Cshare%5Cnewsrel%5Cnov10b-9.doc (Nov.10, 1998).
[136] *supra* 111 at 16
[137] *supra* 107 at 12

- DiamondWorks' mining concessions were located in the heart of a conflict zone; the company invested a considerable amount in an effort to create a viable business environment.

- DiamondWorks hired hundreds of locals to work at their mining operations, and contributed almost 60 million to the Angolan economy by 1998.

SUMMARY OF COUNTRY, INDUSTRY, AND MNC HIGH RISK INDICATORS

CIFP COUNTRY RISK INDICATORS	CIFP INDUSTRY RISK INDICATORS	CIFP RISK INDICATORS - DIAMONDWORKS
Rentier Government… Parasitic behaviour by MPLA officials contributed to poverty and generated feelings of resentment while withdrawing legitimate avenues for addressing them.	**Exclusion of local population from benefits of diamond industry…** Through displacement, limited employment opportunities, and domestic legislation.	**Perceived direct involvement in conflict…** through cooperation with repressive regime via funding and apparent use of aggressive military action against UNITA.
Unequal distribution of resources… Encouraged through corruption and aggravated by domestic legislation favoring corporations over citizens		**Location in the heart of conflict…** necessitating a militarized approach and business-related infrastructural investment
General disregard for human rights… increased tension and decreased standard of living.	**Militarized industry…** Where corrupt and militarized businesses are those most likely to survive	**Participation in violence through use of private security organizations…** Contributed to violent repression and forced displacement, causing tension and conflict.
Absence of (1) loyalty to government and (2) options for employment… together meant citizens were more inclined to support the rebel movement	**Little or no support from the industry for social or economic development …** Violated value set of Lunda citizenry and generated resentment	**Limited inclusion of and development for local population …** so that employment opportunities and infrastructural development was likely far too limited to generate widespread feelings of loyalty towards the firm.
UNITA targeted diamond businesses… as a war strategy.		

Company losses: $2 million per month, downsizing of other operations, shareholder equity from $38.2-million (U.S.) late in 1998 to $4.7-million (U.S.) 2002.
Citizen losses: Exclusion from industry in combination with absence of government and business support in social improvement programs leads to anger and despair.
Country losses: Industries are forced to pull out when militarized commerce strategy fails, leading to millions in lost profits.

Section IV
Summary and Conclusion

I. Summary

Bruce Walsham, Chairman and Chief Executive Officer of DiamondWorks, stated in a press release on November 16 1998, "The attack on the Yetwene mine represented a previously unseen escalation of the threat to mining installations".[138] After the application of CIFP country, industry, and company indicators to the situation in Angola in the 1990's, this statement seems strange. The country situation was volatile throughout the decade, and the industry approach to conflict management was militarized in nature and involved two equally strong warring factions. When these factors are combined with UNITA's history of targeting diamond mines and other high-risk indicators outlined above, the Angola of the 1990s becomes a demonstrably precarious business environment.

II. Evaluation

In her CIFP 2002 CIFP report entitled *Private Sector Risk Analysis and Conflict Impact Assessment: Measuring the Reverse Flow of Risk*, Leah Berger identifies three ways in which companies can choose to operate in conflict situations: They may work *around* the conflict, *in* the conflict, or *on* the conflict.

Working *around* conflict refers to treating the conflict as an impediment or negative externality that is to be avoided. Berger contrasts this with working *in* conflict, which refers to developing a risk mitigation approach to business operations. A third alternative is working *on* conflict, which involves conscious attempts by the MNC to conduct business with its' primary focus on conflict prevention, management, and resolution.[139]

DiamondWorks' activities in Angola were largely attempts to work around and in the conflict. While some of the company's social improvement plans might be considered working on conflict, in general DiamondWorks sought to "conflict proof" its operations through the use of private security organizations and personal-use infrastructure. While this business strategy is capable of generating large profits, it also involves considerable risk because the safety of the investment relies on a company's military effectiveness. As the DiamondWorks case demonstrated, attempting to construct an impermeable bubble within which to do business is an expensive undertaking with no guaranteed returns.

III. Looking Ahead

The end of Angola's civil war in 2002 has meant substantial improvements in many of the CIFP indicator indices. For example, armed conflict presence and intensity has dropped substantially, along with domestic terrorist incidences. Angola is now undergoing a period of regime stability not experienced since the 1980's, and access to basic necessities such as water and sanitary conditions is improving.

There are also, however, risk indicators that have not improved, and some that have worsened. There is a rising need for humanitarian assistance due to the demobilization and reintegration of ex-combatants, the return and resettlement of displaced populations, and the persistent threats of landmines. High levels of government corruption continue, contributing to serious human rights violations and a low standard of living. There also appears to be an

[138] *supra* 124

[139] Leah Berger, *Private Sector Risk Analysis and Conflict Impact Assessment: Measuring the Reverse Flow of Risk.* December 2002: CIFP. Pp. 8

increasing disparity between citizen expectations of Angola's diamond industry (which includes jobs and social security) and the industry reality (which includes exclusion and violence). This disparity has created tension in diamond bearing areas.

Angola is still a weak state at risk of returned conflict. The possibility of irresponsible corporate behaviour on the part of returning businesses has the potential to act as a catalyst, triggering renewed violence. This possibility must be considered through the development of corporate policies that avoid aggravating a still fragile situation.

Appendix #1

Year	Significant Event for Business and/or Conflict in Angola
1991	Legislative liberalization measures in Angola's domestic law gives individuals in the informal sector increased mining rights.
	Dos Santos, Savimbi sign peace deal in Lisbon which results in a new multiparty constitution. (May)
1992	Presidential and parliamentary polls are certified by UN monitors as generally free and fair. UNITA rejection of election results, which favour MPLA, leads to in an intensification of civil war. (September)
1993	FAA and police units take measures to oust *garimpeiros*
1994	EO helps FAA to capture strategic diamond areas in Lunda Norte. (July)
	Diamond Act revokes rights granted to informal mining sector in 1991, but permits work in areas that are not commercially viable for industrial-scale companies. Mining companies are legally responsible for policing artisans who work in the reserve zones. (October)
	Signing of Lusaka peace accord increases investor confidence Diamond Law revokes some rights granted to informal diamond miners. (November)
1995	First of 7,000 UN peacekeepers arrive.
1996	Cancer II operation carried out by FAA and national police has two results: expulsion of illegal miners, and the protection of illegal miners who are able to pay bribe prices.
	Shareholders approve of name change from Carson Gold Corporation to DiamondWorks Ltd. (October)
1997	UNITA relinquishes its last territory in the Lunda diamond fields. The rebels' forced departure from high profile diamond reserves fails to increase security or stability in the Lundas.
	Unified government (GURN) inaugurated, with Savimbi declining post in unity government and failing to attend inauguration ceremony. (April)
	DiamondWorks begin mining operations at Luo (March)
1998	DiamondWorks opens Yetwene Mine in Lunda Norte province (June)
	DiamondWorks closes Luo and Yetwene Mines after UNITA attacks Yetwene concession. (November)

Acronyms

BEL	Branch Energy Limited
CIFP	Country Indicators for Foreign Policy
EO	Executive Outcomes
FH	Freedom House
HRDC	Human Rights, Gender Issues and Democracy in Southern Africa
ICCR	Internet Center for Corruption Research
IRIN	Integrated Regional Information Networks
MPLA	Popular Movement for the Liberation of Angola
SIPRI	Stockholm International Peace Research Institute
TI	Transparency International
UNCAH	United Nations Humanitarian Assistance Coordination Unit
UNDP	United Nations Development Programme
UNITA	National Union for the Total Independence of Angola