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Angola

'For the English to see—the politics of mock compliance'

Rebecca Engebretsen and Ricardo Soares de Oliveira

Introduction

Convergence on international banking standards is expected in countries with internationalized financial sectors (Jones and Zeitz, 2017).[1] The case of Angola challenges this expectation. A high degree of financial sector internalization in the country has only been weakly matched by adherence to banking standards. Rather than acting as advocates, foreign partners and internationally active domestic banks remain apathetic to banking standards. Yet in the aftermath of the 2008–9 global financial crisis (GFC), the above pattern started to change. In 2014, Angola authorities moved ahead with Basel II, although implementation remains highly varied across the sector. In this chapter we ask what prompted Angola to belatedly commit to regulatory reform in the banking sector in line with international best standards after having avoided it for so many years.

We argue that engagement with international banking standards (Basel I and II) is a result of Angola's particular form of financial sector extraversion coupled with the fact that the domestic banking sector remains deeply politicized. In Angola, like in other resource-rich countries, the financial sector plays a key role in facilitating outgoing financial flows. At the same time, the extending of loans, often without collateral, and handing out of bank licences to political insiders remains an important avenue for securing political support for the regime. Before the GFC, the particular constellation of extraversion and politicization of the financial sector meant that Angola's drivers of convergence were much weaker than its drivers of divergence. Strengthening bank regulation threatened to upset the role banks had come to play in Angola's clientelistic system. However, in the wake of the GFC, changes in the international regulatory environment meant that non-implementation of standards was no longer an option. For Angolan banks to

[1] 'For the English to see': This phrase dates back to a treaty signed in 1826 between Great Britain and Brazil supposedly ending the slave trade. The notion of 'for the English to see' suggests that the signing of the law was purely Brazil's measure to placate Great Britain, whilst in reality there was no intention of ending the trade.

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maintain their link to the global financial market, the country needed to signal its readiness to regulate the sector in line with international standards.[2] The result has been an upsurge in regulatory efforts after 2009, and especially since 2014. Yet because the nature of the banking sector has not changed, only some aspects of the standards implemented, and they are not enforced, leading to a situation of 'mock compliance'. As mock compliance is driven by the conflicting preferences of politicians, it is a case of politically driven mock compliance.

This chapter is amongst the first scholarly works to focus on the political economy of banking regulation in Angola.[3] Our analysis builds on fieldwork undertaken in Angola, Portugal, and Washington, DC between 2009 and 2017. Thirty interviews were conducted with current and former government officials including regulators, public and private bankers, and representatives of International Financial Institutions (IFIs) and accounting firms. All interviews were conducted off the record.

Following the introduction, the chapter starts by situating Angola's regulatory trajectory in the broader context of financial sector development in the country. A description of the country's engagement with the Basel standards and other international banking standards to date follows. The chapter then turns to the main analysis to answer the question of what drove regulatory reform in Angola and what characterizes the implementation of international banking standards. We divide the analysis into before and after the GFC in order to highlight the differences and continuity between the two periods. Finally, we conclude.

Political economy context

In order to better understand Angola's engagement with banking standards it is useful to first put the trajectory of banking regulation in the country in a broader perspective.[4] Following the end of the civil war in 2002, Angola's economy grew rapidly to become the third largest in Sub-Saharan Africa (see Table 12.1). The process of reconstruction that ensued was managed by the victorious MPLA regime under the tight control of President José Eduardo dos Santos (Oliveira, 2015), in power from 1979 until September 2017. The impressive growth is inherently linked to the extraction of oil, the dominant force in the economy. Whilst substantial for decades, oil production took off in the late 1990s, from below one million barrels a day in 2002 to reach almost two million by 2008. During the same period, oil prices increased from just over US$20 per barrel to US$147.

[2] 'Managing Angola's financial sector', Event at the Blavatnik School of Government, University of Oxford, 24 January 2017.

[3] See also Ferreira and Soares de Oliveira (2018) and Engebretsen (2018).

[4] For a more general background of the Angolan banking sector see Ferreira and Soares de Oliveira (2018).

Table 12.1 Angola: key indicators

Angola	
GDP per capita (current US$, 2017)	4,170
Bank assets (current US$)	39.4 bn
Bank assets (% of GDP)	41.3
Stock market capitalization (% of GDP)	N/A
Credit allocation to private sector (% of GDP)	21.1
Credit allocation to government (% of GDP)	21.2
Polity IV score (2017)	–2

Note: All data is from 2016 unless otherwise indicated.
Source: FSI Database, IMF (2018); GDI Database, World Bank (2017); Polity IV (2014)

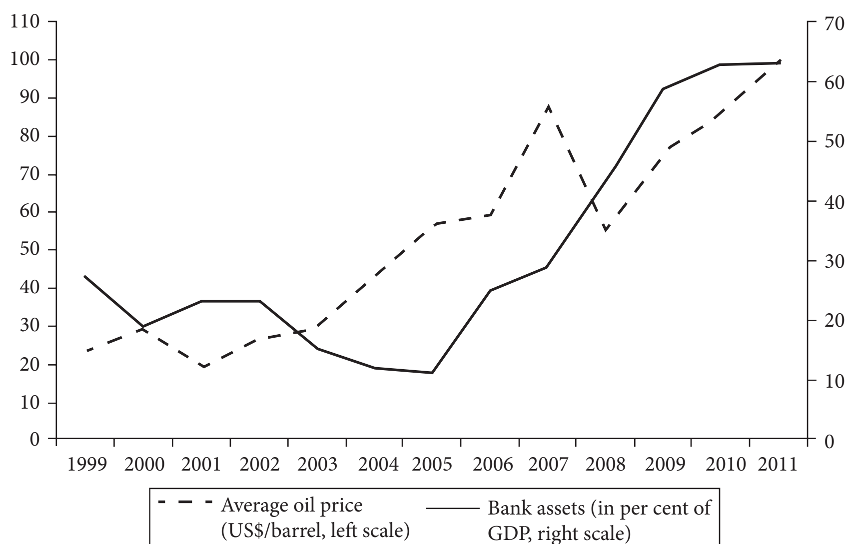

Figure 12.1 Angola: oil price and bank assets.
Source: IMF (2012)

The role of oil in the Angolan economy cannot be overstated and it is within this context that the country's financial sector has emerged. The Angolan financial system grew exponentially from a small and tightly controlled base aided by market liberalization and the end of forty years of conflict in 2002 (Ferreira and Soares de Oliveira, 2018). From only US$3 billion in assets in 2003, by 2013 the sector held an estimated US$60 billion in assets.[5] Sector growth was particularly fast between 2007 and 2009, with yearly average asset growth exceeding 66 per cent (IMF, 2012) (Figure 12.1).

[5] Edward George, 'Angola's financial sector: An overview', Presentation, Oxford, 18 June 2015.

Despite the impressive growth of the Angolan financial sector, the sector's development impact is limited, adding weight to the theory that there is a resource curse in financial development (Beck et al., 2011; Bhattacharyya and Hodler, 2014). Like in other resource-rich economies, the sector remains concentrated, with the five largest banks accounting for almost 70 per cent of total assets (Wise, 2015). Banking operations in the country have long been rudimentary, characterized by high fees and a restricted number of services. Angolan banks made 'the bulk of their earnings from government bonds rather than growing their loan books' with a marked preference for short-term operations (Wallace, 2015). Financial inclusion is limited as access to services is low: only 29 per cent of those aged fifteen or older reported having a bank account in 2014, compared to a Sub-Saharan Africa average of 34.2 per cent (World Bank, 2014). Credit to the private sector (as a percentage of GDP) stood at 27 per cent in 2015, below the Sub-Saharan average of 46 per cent (see Figure 12.2) (World Bank, 2018). Loan opportunities are largely limited to politically connected individuals or firms.

The rapid growth of the financial sector, described here, has posed particular challenges for the financial regulator, the Banco Nacional de Angola (BNA). Together with other state institutions, the BNA was deliberately undercut for much of the 1990s to allow the then president maximum discretionary power over oil revenues (Hodges, 2004). The institution has gained strength since then, but ultimately the policy space in which the BNA has to manoeuvre remains at the discretion of the executive who, for much of Angola's modern history, has carried considerable stakes in the financial sector.

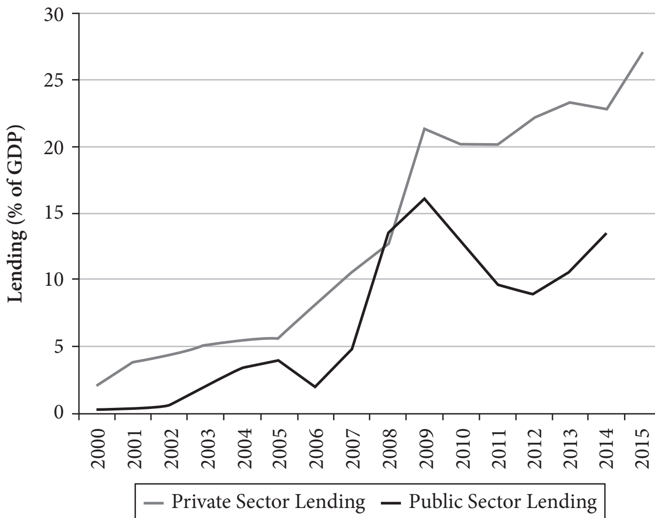

Figure 12.2 Angola: credit to government and private sector.
Source: World Bank (2017)

Commercial banks dominate the Angolan financial system with 99 per cent of financial assets, whilst non-bank financial institutions, including the insurance and pension sectors, are still at an infant stage (IMF, 2012). Another defining feature of the Angolan financial sector is the heavy presence of the state. As is the case in other resource-rich countries, public ownership of oil and gas reserves and equity stakes in the oil and gas industry renders vast revenues to the Angolan state at the expense of the private sector (Beblawi and Luciani, 1987). Angolan banks, both private and public, are extremely dependent on the state for their operations. Public sector entities have equity interests (including minority stakes) in around 90 per cent of the banking system (in terms of assets) (IMF, 2012). Eight banks (including two of the top five) are directly owned by the state or by public enterprises, including the National Oil Company, Sonangol.

The public banks have historically been erratically managed, steered by political purposes rather than on a commercial basis. Angola's major public bank, Banco de Poupança e Crédito (BPC), lends predominantly to public sector institutions and employees.[6] Public banks lend with explicit state guarantees, including as part of the government's programme to support micro, small, and medium enterprises, Angola Investe (Agência Angola Press, 2012), or with an implicit guarantee. In addition to an increasing percentage of non-performing loans (NPLs) arising from the large number of loss-making state-owned enterprises, there is a large quantity of fraudulent or NPLs originating from credit being extended to senior political and military figures. These 'loans' are granted 'recurrently without any collateral or even risk-assessment', with prominent members of the ruling Movimento Popular de Libertação de Angola (MPLA) not expected to repay (Africa Confidential, 2017a). The extent of the problem is amply shown by revelations regarding BPC's extensive NPL burden. According to the BNA, impaired loans reached 30 per cent of BPC's total loans in 2017 (Fitch Ratings, 2017).

Emerging from the shadow of Angola's poorly managed state-owned banks, the rise of Angolan private banks signifies the dual purpose of the country's modern banking sector. Angola's private banks are amongst the most profitable on the continent (see Figure 12.3) (Wallace, 2012). Some are partly owned by public sector entities, including national oil company Sonangol, or are associated with large Angolan private companies (Expansão, 2016). All, however, have so-called Politically Exposed Persons (PEPs) amongst their shareholders, including leading MPLA politicians, ruling party officials, current and former members of the security forces, or close family members of the above. Elite members possess shareholdings in their own names or through front men and/or companies, which have subsequently been revealed to represent their interests.

[6] Interview, former banker, Luanda, September 2015.

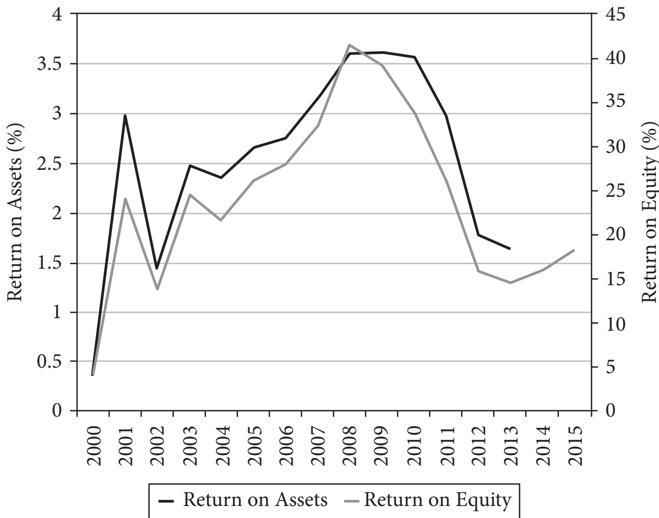

Figure 12.3 Angola: rates of return on assets (RoA) and equity (RoE).
Source: Bankscope and Orbis Bank Focus, Bureau van Dijk (2018)

The category of Angolan private banks is broad, encompassing sizeable (and partly Sonangol-owned) Banco Angolano de Investimentos (BAI), which by now has operations in Portugal, São Tomé and Príncipe, and Cape Verde, as well as a significant number of smaller banks. So far, the smaller 'political banks' have had limited operations.[7]

Angola's private banks also encompass foreign-owned banks, dominating the country's banking sector in terms of total assets and capital. Contrary to the vast majority of African banking systems but similarly to that of Nigeria, Angola has not been reliant on foreign investments to secure capital flows as sizeable foreign exchange is generated by the oil sector. Instead, foreign investors are needed in Angola for their sectorial expertise, introducing modern financial tools in the country. Foreign partners are also important on account of their (and their home jurisdictions') credibility (Ferreira and Soares de Oliveira, 2018).

Meanwhile, these partnerships are formally (through Angolan majority ownership) or informally (a bank's dependence on the Angolan market) calibrated in ways that guarantee Luanda's prominence. Although the legal framework allows foreign banks to have 100 per cent equity stakes, in the course of the boom period of 2004–9, foreign banks generally followed Angolan authorities' advice (and in some cases, such as Banco de Fomento Angola (BFA), were practically pushed) to seek local partners and divest their shareholdings to 51 per cent stakes (IMF, 2012). Foreign banks often sold the remaining stakes to Angolan private

[7] Interview, private bank, Luanda, October 2016.

interests. This was the case with Angola's major Portuguese banks, as well as South Africa's Standard Bank (attained by Sonangol before being acquired by the former president's son, José Filomeno dos Santos) (Semanário Angolense, 2008). The result was that, between 2005 and 2015, the percentage of total banking assets in Angolan private ownership rose from 28 per cent to 49.3 per cent.[8]

In light of the above analysis, it appears more fruitful to distinguish the Angolan banks by the purpose they serve rather than their proprietors, a point stressed by Engebretsen (2018). As we have seen, in the majority of cases the proprietor is the Angolan state, and its influence is extensive even in cases in which it doesn't have ownership. As the next section will further elaborate, the heavy presence of the state in finance and the prominence of politically connected persons leave the BNA in a particularly delicate situation.

Basel adoption, implementation, and enforcement

Angola's engagement with international banking standards appears relatively recent and is particularly noticeable following the GFC. Yet, on closer inspection it is clear that Angolan authorities' engagement with standards such as the Basel standards is not new but dates back to 1991. As in other countries covered in this volume, the early introduction of banking standards in Angola followed engagement by the authorities with the IFIs in the late 1980s. The initial law governing Angola's financial sector (Law 5/91) after sector liberalization incorporated capital requirements based on Basel I, requiring banks to maintain a minimum capital ratio of 10 per cent (Deloitte, 2012). Additionally, the 1991 Law outlined rules for prudential regulation, supervision, and compulsory external auditing (World Bank, 1992).

Whilst in line with Basel I, banking standards were at best erratically enforced throughout the 1990s (IMF, 2000). Further liberalization of the financial sector from 1997 saw the enforcement of a new Central Bank Law (Law 6/97) and the new law for Financial Institutions (Law 1/99), both with the stated aim of bringing banking regulation in line with Basel Core Principles (BCPs). To what extent the authorities achieved this is difficult to say, however. Assessments from that time, evaluating Angola's banking regulation against international standards, were not made public.[9]

Angola continued to express its commitment to strengthen bank supervision and fully implement the BCPs throughout the 2000s (IMF, 2011a, 2010, 2009, 2000). In 2009, the IMF reported that the BNA had taken necessary measures to strengthen regulations in line with the BCPs, including adopting a revised loan

[8] Authors' estimates based on KPMG (2016) and bank reports.
[9] World Bank and IMF reports indicate that such an assessment took place.

classification and provisioning standard. Banks would now be required to classify loans by their risk as well as make provision for expected losses (IMF, 2010). As of spring 2018, the BNA was still working to 'update the regulatory framework and create the conditions for a risk-based approach supervision' (Agência Angola Press, 2017; Santos and Santos, 2018).

Implementation of new prudential regulation, aiming to bring domestic regulation closer to Basel II, was due in January 2008 but was postponed (African Development Bank, 2008). The BNA reconfirmed its intentions to implement Basel II on several occasions over the next few years but little tangible progress was made (IMF, 2011b). A Financial Sector Assessment Programme (FSAP), a joint programme of the IMF and the World Bank, was conducted for the first time in 2011. The report highlighted the limitations of Angola's regulatory and supervisory framework, noting that the country was compliant or largely compliant with only eight out of twenty-five BCPs. Significant gaps were identified especially when it came to risk assessment, consolidated supervision, and enforcement (IMF, 2012).

It would take until 2015 for Angolan authorities to officially implement Basel II. In one year, draft regulation was published covering all different types of risk under Pillar 1 of the standard (FSI, 2015). Speaking to the *Financial Times* in February of that year, then BNA Governor José Pedro de Morais confirmed that Angola had drafted forty-one new regulations since 2014, with twenty-three issued and the remainder to be published later that year (England, 2016).

Angola went ahead with standardized approaches for calculating risk, discarding more advanced requirements that would require each bank to account for all risk categories.[10] Neither the banks nor the regulators were judged to have the capacity to apply such advanced models. As the IMF noted in 2012, the BNA lacks 'clear understanding concerning banks business models and risks' (IMF, 2012).

With regards to prudential supervision (Pillar 2), Angola has advanced since 2012 when the IMF wrote that 'neither the BNA nor the banks conduct sensitivity or stress tests to assess vulnerabilities and key data are not readily available' (IMF, 2012). The same year, a Financial Stability Committee was established to act as an advisory body to the latter, monitoring evolving conditions and risks in the financial system. BNA also started conducting regular stress tests on banks under different scenarios from 2012 onwards (IMF, 2015). BNA is obliged to conduct inspections of banks (Law No. 16/10) and does this through regular on-site inspections and external audits.[11] Whilst all banks in Angola are subject to external audits on an annual basis, none are publicly listed, thus limiting the effectiveness of market discipline (Pillar 3). That said, the introduction of disclosure requirements for Angolan banks based on Basel standards as well as International Financial Reporting Standards (gradually introduced since 2014) means that there is greater

[10] Interview, private bank, Luanda, October 2016.
[11] Interview, private bank, Luanda, September 2016.

Table 12.2 Angola: adoption of Basel standards

Basel component	Adoption	Implementation
Basel I	Financial Institutions Law 5/91	1991
Basel II	Pillar 1 (credit, market, and operational risk, standardized approaches) in force since 2016[12] Elements of Pillar 2 in force since 2013 Elements of Pillar 3 market discipline in force since 2015	Credit risk SA—2016 Market risk SA—2016 Operational risk SA—2016 Pillar 2—2013 Pillar 3—2015 (Financial Institutions Law 12/15)
Basel III	N/A	N/A

disclosure on the evolution of various financial risks in the financial sector (KPMG, 2016a) (Table 12.2).

As part of the larger modernization of the financial sector, Angolan authorities also passed corrective legislation in 2014 aimed at removing the country from the Financial Action Task Force's (FATF) 'grey list' (IMF, 2014). Angola was placed under the surveillance of the Financial Action Task Force in 2010 and again in 2012 before being removed in in 2016, signifying the country's successful efforts in bringing the domestic legal framework in line with AML/CFT standards.

Whereas Angola's recent embrace of international banking standards appears impressive, significant challenges remain. From late 2014, banks have grappled with 'a dollar liquidity crunch amid regulatory concerns, bad loans and low oil prices', leading industry magazine *The Banker* to note in 2016 that 'more work needs to be done to enhance system-wide regulation and compliance' (King, 2016). Whilst oil prices have improved since then, more work is needed to ensure that the Angolan banking sector complies with international standards (Santos and Santos, 2018). In particular, a significant performance gap exists between the banks. Many of the larger institutions, often with international shareholders, have established good governance structures and meet international compliance norms, whilst larger public banks and smaller private banks have fallen behind. As we will argue in the next section, this duality characterizing Angola's banking sector is key to understanding the country's engagement, and lack thereof, with banking standards to date.

[12] Notice No. 09/2016 of 22 June 2016; Notice No. 08/2016 of 22 June 2016; Notice No. 07/2016 of 22 June 2016; Notice No. 06/2016 of 22 June 2016; Notice No. 05/2016 of 22 June 2016; Notice No. 04/2016 of 22 June 2016; Notice No. 03/2016 of 16 June 2016; Notice No. 02/2016 of 15 June 2016; Instruction No. 12/2016 of 8 August 2016; Instruction No. 13/2016 of 8 August 2016; Instruction No. 12/2016 of 8 August 2016; Instruction No. 14/2016 of 8 August 2016; Instruction No. 15/2016 of 8 August 2016; Instruction No. 16/2016 of 8 August 2016; Instruction No. 17/2016 of 8 August 2016; Instruction No. 18/2016 of 8 August 2016; Instruction No. 19/2016 of 30 August 2016 (KPMG, 2016b).

The political economy of Basel adoption, implementation, and compliance

The foundations for Angola's financial sector and the state of regulation pre-2009

How to explain Angola's shift from minimal engagement with banking standards to the active involvement we have witnessed over recent years? And how can we make sense of the implementation pattern that has ensued? To address these questions, we divide the subsequent analysis in two: the first part deals with the period preceding the onset of reforms (pre-2009) and the second deals with the period after 2009. In this way, we are able to identify the differences between the two periods and the drivers of regulatory reform witnessed in recent years, which were absent in the early years.

The Angolan financial sector plays a key role in facilitating the connection between the domestic economy and international markets. The bulk of the country's banking sector activity continues to be trade financing. The salience of trade in the country is due to Angola importing the majority of consumption goods and capital goods, alongside services required for local production.[13] Cross-border banking business is additionally kept high by foreign companies that need to access foreign exchange to repatriate their Kwanza-denominated earnings or to pay for imports. Adding to this, Angolans are large consumers of foreign exchange, using it to hedge against an unstable local currency, for travelling and consumption (Peralta, 2017). It is commission on these kinds of cross-border transactions that has made Angolan banks amongst the most profitable on the continent (Wallace, 2012). Yet to execute these transactions, domestic banks rely on correspondent relationships (BIS, 2017). Because Angolan banks have limited branches overseas,[14] they are only able to access financial services in overseas jurisdictions and provide cross-border payment services to their customers through correspondent banks.

Based on the high degree of internationalization of Angola's financial sector, incumbent politicians, regulatory authorities, and banks pursue a strategy focused on maximizing through-flow of international financial transactions. In order to facilitate these flows, high levels of adoption, implementation, and enforcement of bank standards could be expected (Jones and Zeitz, 2017). Yet this has not been the case.

We argue that the lack of alignment with international banking standards despite high levels of banking sector extraversion is primarily due to financial sector

[13] During the last five years the imports increased at an annualized rate of 1.7 per cent, from $15.4B in 2010 to $16.9B in 2015. 'Angola Profile', The Observatory of Economic Complexity (n.d.) (accessed 9 May 2017).

[14] Because of the dominance of the oil industry in Angola, transactions are mainly in US dollars.

extraversion working differently in Angola. The activities of Angolan banks, as described earlier, centre mainly on facilitating outflows of capital. This differs from other cases of financial sector extraversion discussed in this book, Kenya and to a lesser extent Ghana and Rwanda, where the goal is to attract capital. In these cases, politicians and regulators use the adoption and implementation of international standards to reassure foreign investors of their country's regulatory set-up. As the second largest oil producer in Africa, attracting foreign capital is less of a concern for Angola. This is reflected in the way the country has historically interacted with banking standards. Contrary to most African cases, the influence of the IMF and of western donors was always limited (Oliveira, 2015). The same is true of so-called 'regulatory networks' of reformist central bankers and technocrats. As the IMF noted in 2012, there have been traditionally low levels of cooperation with foreign supervisors despite the importance of foreign banks in Angola.[15] Patterns of regional banking reform likewise have little influence on the country's regulatory response. Angola remains poorly integrated in the broader region and does not seek to emulate the policies of neighbouring states.[16]

Simultaneously, foreign banks have been unassertive in Angola and adapted to local terms. Whilst in line with the analytical framework, this finding challenges a common assumption that foreign banks advocate for the implementation of international banking standards such as the Basel standards so as to minimize their transaction costs and/or to gain a competitive edge over domestic banks (Gottschalk, 2010).[17] Rather, in the words of an IFI official, foreign banks in Angola 'mind their own business and do not push anything'.[18] Internationally active Angolan banks are not pushing for greater adherence with banking standards but are concentrating on tapping the domestic market. In sum, the submissive behaviour of private banks in Angola resembles that of Ethiopia, where an environment of steady profits discourages bankers from 'rocking the boat'.

In the pre-GFC time period, the pattern described above landed Angola in the domestic-oriented typology. At the time, Angolan politicians, bankers, and the regulator had few incentives to incur the substantial costs associated with adhering to international standards. Several bank insiders confirmed this to be the case.[19] The disinterest in banking standards held true even for banks that were forced to comply with international standards anyway because of their operations abroad. Private banks' lack of interest in pushing for international standards appears to have little to do with the individual bank's interests, however. Rather, it came down to the fact that more rigid regulatory oversight and increased transparency in banking sector operations would hurt other parts of the financial

[15] A long-delayed Memorandum of Understanding with Portuguese authorities was signed in November 2011 (IMF, 2012).

[16] Interview, public bank, Luanda, September 2015.

[17] Interview, private bank, Luanda, October 2016.

[18] Interview, IFI, Luanda, October 2016.

[19] Interview, private bank, Luanda, October 2016; interview, private bank, Luanda, September 2016.

sector in which the owners of private banks also had an interest. Angolan public sector entities hold equity interests in around 90 per cent of the banking system (in terms of assets) (IMF, 2012). Eight banks (including two of the top five) are directly owned by the state, one through national oil company Sonangol.

Specifically, stricter regulation and compliance with international standards was expected to hurt the public banks disproportionally. Public banks continue to be central to the MPLA regime's distribution of patronage through the use of bank credit. The widespread use of the banking sector for political purposes is evident from the public banks' historically poor performance.[20] As an IMF report from 2015 cautioned, 'financial indicators in these [public] banks show relatively high non-performing loans (NPLs) in per cent of total loans, declining or negative return on average assets (ROA), and low capital adequacy ratios' (IMF, 2015, p. 15). Angola's biggest public lender, BPC, extended loans to senior political and military figures, 'recurrently without any collateral or even risk-assessment', with prominent elite members not expected to repay their loans (Africa Confidential, 2017a). In addition to the BPC, other public lenders including national development bank Banco de Desenvolvimento de Angola (BDA) also required bailout after having been granted irrecoverable credit (Africa Confidential, 2017b).

Politicians thus had strong incentives to oppose implementation of bank standards seen to jeopardize the abovementioned arrangements. Public banks were expected to struggle particularly with complying with minimum capital requirements and greater financial disclosure (as required under Pillar 3) as well as stricter enforcement of national guidelines for classification of non-performing loans. Angola's smaller banks would moreover struggle under higher compliance costs as a consequence of bringing the national regulatory framework in line with international standards. Owners of these banks, which include members of the most powerful families in the country, offered especially strong resistance to any rules seen as jeopardizing the viability of their private interests.

In such a context, Angolan politicians had an interest in keeping regulators politically and technically weak, so as to avoid any genuine regulatory interference in the banking sector. Whilst the BNA officially gained greater policy autonomy from the early 1990s (Law 6/97)—having previously been used mainly as a money press for the state—the central bank remained subordinate to the political agenda throughout the first decade of the 2000s. This meant that regulators, like politicians, were domestically oriented. Whereas in other countries, including Ghana, technical assistance from IFIs was an important factor influencing Basel implementation in the country, Angola's engagement with IFIs was ad hoc.[21] To the extent that Angola engaged internationally, this was mainly

[20] For further discussion about the public banks' historic performance see (Engebretsen, 2018).
[21] Angola's first stand-by agreement with the IMF was in 2009.

with former colonial master Portugal, also known for its relatively domestically oriented regulators.[22]

The lack of incentive to push for improved regulation meant that before 2009 Angola's engagement with international banking standards was lacking and negligible commitment to Basel standards was made. For the banking sector, implementation of international standards was unnecessary and even seen as counterproductive. This changed after the GFC. As the next section will show, changed external circumstances meant that non-compliance was increasingly difficult given the banking sector's important role in facilitating trade and outgoing financial flows. Yet implementation of international banking standards continued to conflict with the other important role of the banking sector: allocating resources to favoured constituencies. The result has been mock compliance.

Change and continuity post-2009

Following the GFC, it became clear that the equilibrium in Angola's banking sector—characterized by negligible compliance—was no longer viable. This was mainly due to three factors. First, a drastic, if relatively short-lived, fall in global oil prices resulting from the GFC took the nascent banking sector by surprise, undermining its stability. The prices of oil collapsed from $147 in August 2008 to $28 later that year (Ferreira and Soares de Oliveira, 2018). Second and alongside the economic downturn, accusations surfacing that senior BNA personnel had stolen considerable amounts of money degraded the credibility of the BNA leadership (US Senate, 2010). BNA managers were replaced in April 2009 by a new team with a reformist mandate.[23] Third, already prior to the GFC and the BNA scandal, the president and his economic team acknowledged that the rules of engagement in international finance were changing. To maintain their connection with the global markets, Angolan banks needed to adjust or at least signal their inclination to do so.[24] Accordingly, a heightened emphasis on strengthening Angola's regulatory and supervisory framework along the lines of international best practice advanced from 2009. The goal was to 'bring the banking sector up to international standards quickly' (Wallace, 2014).

The political mandate provided by the president, and his economic team, to the regulators was pivotal in transforming the BNA from a passive bystander to an active leader of the reform agenda. The new BNA leadership differed from their predecessors with their international orientation and background in the private

[22] Interview, IFI, Washington, DC, December 2016.

[23] Months later, investigation showed that $137 million was siphoned off to offshore accounts. Eighteen BNA and Finance Ministry officials were arrested. Interview, private bank, Portugal, September 2016.

[24] Interview, private bank, Luanda, September 2016.

sector, bolstering their standing with Angolan and foreign banks. Between 2009 and 2012, José de Lima Massano as BNA governor and Ricardo Viegas de Abreu as vice-governor successfully manoeuvred a stand-by arrangement with the IMF, the first in the country's history. The regulators were careful, however, in aligning the IFI reform agenda with regime priorities. Even when a Financial System Assessment Program was carried out in 2012, a prominent Angolan official commented that this was primarily 'a [diagnostic], not a roadmap for reform'.[25]

Yet it would be a few years from this initial reform drive before adaptation of Basel standards was implemented. We argue that this is because, before 2014, Angola's regulatory deficiencies did not jeopardize the country's cross-border transactions. The costs of going ahead with regulatory reform were still too high for politicians to accept in 2009–10. On the one hand, the banking sector still played an important redistributive role, which would likely be jeopardized by stricter regulations. On the other hand, the effects of the GFC proved brief and the Angolan economy rebounded quickly, lessening the financial pressure on the government. After an initial setback, banks had quickly resumed the expansion of services and operations (KPMG, 2016a). The period between 2010 and 2014 was therefore characterized by a degree of reformism, but lacked the sense of urgency that had been brought about by the oil price fall in 2009. In 2014 the situation changed again as the country faced an even worse, and far more durable, downturn. This time, externally driven pressure for change would prove more consequential.

In December 2016, the last supplier of US dollar bank notes to Angola discontinued its service (Almeida et al., 2016). Deutsche Bank followed in the footsteps of several banks that had cut correspondent banking relations with the country since 2014, rendering it increasingly difficult for the country to manage payments for imports and remittances. The worldwide phenomenon of de-risking, which led to a withdrawal of correspondent relationships, was not unique to Angola but because of the country's heavy reliance on imports described earlier, the withdrawal hit it particularly hard (Adriano, 2017). With oil prices falling from 2014, banks in Angola were not generating sufficient returns for correspondent banks to cover rising compliance costs (IMF, 2017). Whilst the pressure started to mount after 2014, it was clear that some foreign banks were dissatisfied with Angola's regulatory compliance before the price fall.[26] In 2003, Citibank relinquished its profitable business and pulled out of Angola because of concerns about money laundering (Almeida, 2010). The more stringent AML/CFT enforcement measures taken by the US Department of Justice from 2010 culminated in an investigation by the US Senate Permanent Sub-Committee into how politically powerful officials in Angola, their relatives, and close associates used US financial institutions to conceal, transfer, and spend funds suspected to be the proceeds of corruption

[25] Email correspondence, March 2016.

[26] Interview, private bank, Luanda, November 2015.

(Viswanatha and Wolf, 2012).[27] The report uncovered amongst other things how HSBC staff had facilitated suspicious wire transfers into the US on behalf of BAI. HSBC closed all US dollar accounts and ended fund transfers with Angolan banks that year (Almeida, 2010). As the misconduct of banks received greater attention in the US and subsequently in the European Union, international banks were increasingly wary of the threat of sizeable settlements and fines (Erbenova et al., 2016).[28] Attempts by Angolan authorities to leverage its relationship with China for the purpose of alternative corresponding bank links proved unfruitful, with Chinese banks cautious of falling foul of US and EU restrictions.

It was not only compliance concerns that forced foreign banks to rethink their business strategy in Angola. Both Angolan and Portuguese financial sectors were taken aback in 2014 when BESA, Angola's leading lender and subsidiary of Portuguese Banco Espírito Santo,[29] collapsed with US$5.7 billion in bad loans (Africa Confidential, 2014).[30] BESA could not identify many of its customers, although it emerged subsequently that several were politically influential individuals and groups (Africa Confidential, 2014). The political contours of the case, including direct presidential involvement, meant that regulators were reluctant to intervene earlier, even though 'it was obvious to everyone that something bad was going on'.[31] The BNA was perceived as afraid of 'ruffling the feathers of the elite' (Africa Confidential, 2014). With BESA, Angola's supervisory deficiencies and regulatory forbearance came to the attention of the European Central Bank. In 2015, it ruled that Portuguese banks must reduce their exposure to the Angolan market.[32] Following the incident, Banco BPI, Portugal's third largest private financial group, unwillingly sold its controlling share in Angola's top private bank, BFA.[33]

A common feature of the two abovementioned incidents is that they occurred in a milieu of decreasing bank returns caused by the 2014 oil price fall. This meant that foreign banks were finding it harder to maintain business as usual in Angola as it became increasingly obvious that the risks of operating in the country were outweighing the rewards. The result was the closing of correspondent bank relationships and the disinvestment by Portuguese banks, described above, jeopardizing financial sector operations in the country.

Striving to maintain the status quo in the banking sector by signalling their intention to clean up the banking sector became urgent to Angolan actors.

[27] Including former BNA governor, Aguinaldo Jaime. See US Senate (2010).

[28] Especially after Standard Chartered was required to pay over $300 to US authorities in 2012 for breaking sanctions on Iran (BBC News, 2012).

[29] Parent bank BES held a 55.71 per cent stake in the Angolan affiliate.

[30] In late 2013, BESA was the leading lender in Angola with a market share of 27 per cent.

[31] Interview, IFI, Washington, DC, December 2016.

[32] Angola was until then not included by the European Commission in the restricted list of states or territories recognized as having financial institution supervision not on a par with the EU.

[33] The president's daughter Isabel dos Santos holds a controlling share in BFA through telecom company UNITEL.

Forty-one new regulations were drafted between 2014 and 2016, 'covering issues ranging from bank licensing, external auditing, banks' ownership structure and anti-money laundering' as well as the implementation of Basel II (England, 2016). The Basel standards were to apply to all thirty banks in operation,[34] including the state-owned banks and, perhaps more remarkably, the country's state-owned (and poorly managed) development bank, BDA.[35]

In lieu of the significant discrepancies in the mandates and resources of the country's different banks, the implementation of Basel II was planned to happen in stages, with Angola's bigger banks implementing the new minimum capital requirements first, followed by the smaller banks who were due to do so by the end of 2017. Angola's leading private sector banks spearheaded the process,[36] whilst the state-owned banks were on the other end of the spectrum, needing additional capital to comply with the minimal requirements (Fitch Ratings, 2017).[37] As of October 2018, some banks were still due to raise their capital requirements, having been given a new deadline of December 2018 (Pilling, 2018).

It is important to note that Angola's efforts to adopt the Basel standards are part of a larger clean-up of the financial sector as the country works to restore the confidence of the international financial community in its domestic banks (KPMG, 2016a). As the partner of a leading international accounting firm noted, 'The BNA's intention is to be close to international rules'.[38] Alongside Basel adaptation, Angola gradually implemented the International Financial Reporting Standards (IFRS) for all financial institutions from 2014.[39] Currently, IFRS are required for banks and other financial institutions in the country (IFRS, n.d.).[40] Another issue that was subject to increasing concern from foreign partners was Angola's weak framework on Anti-Money Laundering and Combating Financing of Terrorism (ATM/CFT). Although current laws on ATMF/CFT date from 2011,[41] the Financial Action Task Force (FATF) has exposed strategic deficiencies in Angola's legal framework on several occasions since. Following Angola's blacklisting by the organization in 2010, several directives, presidential decrees, instructions,

[34] Interview with banker in international bank, Luanda, September 2016.

[35] Because the Basel standards were originally meant for internationally active banks (Sobreira and Zendron, 2011), the requirements of Basel II are not necessarily compatible with the strategic long-term objective of development banks like BDA, whose mandate is to take excessive risk. See http://bda.ao/pt-pt (accessed 12 May 2017).

[36] In a 2008 interview, BAI chief executive José de Lima Massano confirmed that the 'BAI has to adopt procedures that still have not been established by the central bank. International banks don't want to see you as bringing risk if you are dealing with them. The more our banks are exposed to international rules, the more the central bank will have to adapt' (Corbett, 2008).

[37] In 2015 the IMF noted that public banks suffered from low capital adequacy ratios and since then the position of state-owned banks has deteriorated further (Africa Confidential, 2017a).

[38] Interview with partner in international accounting firm, Luanda, October 2016.

[39] IFRS are a single set of accounting standards recognized globally (KPMG, 2016a).

[40] Interview with partner in international accounting firm, Luanda, October 2016.

[41] Law No. 34/11 of 12 December 2011.

and notices have been issued covering ATMF/CFT (FinMark Trust, 2015). Corrective legislation was passed in January 2014 criminalizing money laundering and terrorist financing, helping to remove Angola from the FATF 'grey list' in 2016 (IMF, 2014).

The speed of Angola's regulatory upgrading after many years of inaction is noteworthy. As one senior official explained, 'regulatory reform in Angola has started to converge with international standards but we are so late in the game that we have to run'.[42] Yet despite notable reformist measures and progressive legislation, Angola's efforts have so far fallen short. 'The challenge has been implementation', remarked an Angolan senior official in 2016. 'At this stage, we should concentrate on applying all the reforms we passed in recent years, rather than commit ourselves to more reforms'.[43] The 'significant disconnect between adaptation and implementation' in Angola's financial sector was confirmed by another IFI representative. Whilst resource constraints at the BNA and in the banks may explain some of this lag, over the last decade an increasing number of foreign consultants have been brought in to compensate for the lack of appropriate skills in the sector.[44] Rather than resource constraints, implementation seems mainly hampered by the lack of political will to change the status quo in the financial sector.

In the aftermath of the GFC, regulators could, and to a certain extent were encouraged to, improve sector governance. This was especially true for areas of banking sector regulation that were the focus of negative external attention. Still, we observe that regulators have refrained from exercising their right to intervene in the financial sector. 'The big political decisions are taken higher up', remarked one IFI official when talking about the BNA's mandate to rein in individual banks or to impose costs on bank shareholders. 'Even when the BNA knew that there was something bad going on, they do not have the autonomy to intervene'.[45] Because the banking standards studied here are considerably more rigorous than Angola's pre-existing domestic financial regulatory and supervisory framework, adjustment costs have been high for the domestic banks although with considerable variation between banks (Fitch Ratings, 2017). On the one hand, most of Angola's private banks (the major exception being BESA) were conservative to begin with—extending fewer loans and holding most assets in government bonds or abroad—meaning that adjustment was less of an issue for them.[46] The problem was primarily with Angola's public banks. As one foreign bank executive

[42] 'Managing Angola's financial sector', Event at the Blavatnik School of Government, University of Oxford, 24 January 2017.
[43] Email correspondence, March 2016.
[44] 'Managing Angola's financial sector', Event at the Blavatnik School of Government, University of Oxford, 24 January 2017.
[45] Interview with representative of international financial institution, Washington, DC, December 2016.
[46] Private banks were expected to be fully compliant with rules on capital adequacy ratios in line with Basel II by late 2017 (Fitch Ratings, 2017).

complained, 'While we are saddled with paperwork [from the regulators]', Angolan public banks 'have serious lacunae but get away with it for political reasons'.[47] The BNA's willingness and ability to impose costs of compliance on domestic interests—some of which are politically influential—is consequently weak.

In a position like this, where regulators, politicians, and bankers face contradictory pressures of international standards and domestic politics, it is predicted that actors 'often opt for a strategy of mock compliance' (Walter, 2008, p. 5). According to Walter (2008), mock compliance occurs when official legislation and regulatory guidelines are not reflected in the behaviour of either regulators or banks. This strategy 'combines the rhetoric and outward appearance of compliance with international standards together with relatively hidden behavioural divergence from such standards' (Walter, 2008, p. 5). In Angola, mock compliance has been driven by the need to signal to foreign partners that domestic counterparts are doing something to address their concerns. At the same time, the BNA has intentionally refrained from strict enforcement of international standards or chosen to enforce such rules only selectively in order to accommodate political interests that prefer to have significant parts of the banking sector, namely the public banks, remain non-compliant.

Conclusion

In this chapter we argue that Angolan actors find themselves in a difficult situation, having to balance mounting external pressures with domestic political interests. More specifically, over recent years it has become increasingly obvious that Angola needs to align its domestic regulatory framework with international standards in order to salvage the role that domestic banks have played in facilitating trade and outgoing financial flows. The problem is that another vital part of the banking sector, which concerns itself with securing political support for the regime through the granting of bank loans and licences, will struggle if faced with such strict regulation. Consequently, we have shown in this chapter that Angola's engagement with the Basel standards—as with other international banking standards—has historically been characterized by weak compliance. Until 2009, this functioned well but following the GFC, non-compliance was no longer an option. With greater external pressure banking standard alignment, Angola has resorted to mock compliance which has left great variation between the country's banks.

The combination of financial sector extraversion with deep politicization of the banking sector makes the Angolan case an intriguing one. On the one hand, it

[47] Interview, foreign bank, Luanda, November 2013.

challenges a common assumption in the international political economy literature that internationally oriented banking sectors will converge towards international banking standards. On the other hand, in line with the analytical framework, the Angolan trajectory demonstrates that even in the case of a highly politicized banking sector, we might see efforts to align domestic regulation with international standards. Thus, the outcome we observe in Angola and the interaction between politicians, regulators, and bankers can be described as conflicting. One thing all actors in the financial sector seem to have in common, however, is that none are there to 'rock the boat'. The financial sector has proved beneficial for all major actors involved and as long as it continues to be important for the survival of the political regime, mock compliance will likely be the way forward. The extent to which this is sustainable will depend on external factors, especially the price of oil, which Angolan actors have little power over. In relation to the analytical framework, as mock compliance is driven by the conflicting preferences of politicians, this is a case of politically driven mock compliance.

This chapter is amongst the first to offer a detailed overview of the political economy of banking regulation in Angola alongside an analysis of the country's adaptation and implementation of Basel to date.[48] We emphasize the uneven pattern of compliance that has emerged in the banking sector but further research is needed to evaluate the efforts of particular banks and whether they will keep to their assigned schedules. As the banking sector and banking regulation in particular are policy areas undergoing significant change—not only in Angola but internationally—it will be crucial for researchers to keep a close eye on future developments. As the example of Angola shows, understanding domestic and global dynamics and how the two interrelate is crucial if one wants to understand local responses to international banking standards.

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[48] See also Engebretsen (2018).

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