

# THE POLITICAL ECONOMY OF BANKING IN ANGOLA

MANUEL ENNES FERREIRA AND RICARDO SOARES DE OLIVEIRA\*

## ABSTRACT

From inauspicious beginnings in a post-socialist, highly dysfunctional financial system, Angolan banking grew in less than a decade after the end of the country's long civil war into one of Africa's largest. Fuelled by the country's oil boom, banks became crucial in articulating Angola's interactions with the international system as well as a domestic agenda of oligarchic consolidation by the ruling MPLA's elite. This article describes and analyses this growth trajectory in its historical and institutional context and seeks to understand the reasons why it did not lead to either a significant expansion of credit outside the elite or a contribution towards economic diversification outside the oil sector. Important as a study of the political economy of finance in Africa's third largest economy, the article also contributes to the growing literature on the nexus between banking and politics in resource-rich states.

---

AFRICAN BANKING UNDERWENT CONTINENT-WIDE development and deepening integration into global financial markets, in tandem with sub-Saharan Africa's robust economic growth in the decade up to 2014.<sup>1</sup> In this context, no experience is more spectacular than that of the Angolan banking sector following the end of the civil war in 2002. With barely

\*Manuel Ennes Ferreira ([mfereira@iseg.ulisboa.pt](mailto:mfereira@iseg.ulisboa.pt)) is a Professor at ISEG, University of Lisbon, Department of Economics. Ricardo Soares de Oliveira ([ricardo.soaresdeoliveira@politics.ox.ac.uk](mailto:ricardo.soaresdeoliveira@politics.ox.ac.uk)) is an Associate Professor of African Politics at the Department of Politics and International Relations, University of Oxford, and Associated Senior Researcher at the Christian Michelsen Institute. We thank Emily Jones and the Global Economic Governance Programme at Oxford for co-hosting a roundtable on Angola's financial sector in June 2015 where we presented an early version of this paper. We also thank Manuel Alves da Rocha, Rebecca Engebretsen, Odd-Helge Fjelstad, Edward George, Hazel Gray, Adeel Malik, Rafael Marques de Morais, Aslak Orre, Anne Pitcher, Artur Santos Silva, Nicholas Shaxson, Lindsay Whitfield, Arne Wiig, Alexandra Zeitz and the anonymous reviewers for their helpful comments and conversations on the subject. Fieldwork for this research was partly funded by the Norwegian Research Council's Taxation, Institutions and Participation (TIP) program at the Christian Michelsen Institute.

1. See Thorsten Beck and Robert Cull, 'Banking in Africa' (World Bank Policy Research Working Paper No. 6684, World Bank, Washington, DC, 2013) and Mauro Mecagni, Daniela Marchettini, and Rodolfo Maino, *Evolving banking trends in Sub-Saharan Africa* (International Monetary Fund, Washington, DC, 2015).

USD\$3 billion in assets in 2003, Angolan banking had grown into a reported \$79 billion industry (in assets) by 2013, when it ranked as sub-Saharan Africa's third largest, after South Africa's (\$361 billion) and Nigeria's (\$166 billion).<sup>2</sup> This coincided with the era of MPLA hegemony under President José Eduardo dos Santos's rule, during which Angola's oil-fuelled GDP increased ten-fold from 2002 to 2014. This article describes and analyzes this growth trajectory in its historical and institutional context, and seeks to understand the reasons why it led to neither a significant expansion of credit outside the elite nor a contribution towards economic diversification beyond oil.

The study of banking is central to a host of pressing political economy dimensions in contemporary Africa. A broad and deep financial sector is perceived as crucial for poverty alleviation, lending to small and medium enterprises, and the diversification of African economies away from primary sectors.<sup>3</sup> The degree of state control over banks is key for its control over the political economy and arguably affects the capacity of opposition groups to mobilize across ethnic boundaries.<sup>4</sup> Scholars also see highly concentrated, poorly regulated and weakly institutionalized banking sectors as a systemic risk to African economies.<sup>5</sup> Addressing these questions requires understanding Africa-wide financial sector developments. Yet, as Catherine Boone argues, studies that emphasize cross-case similarities 'do not to pick up much variation in reform outcomes'.<sup>6</sup> This article focuses on one major trajectory. Important in its own right on account of size and political significance, Angolan banking also provides the context to ask broader questions regarding the nexus of finance and natural resources as well as the strengths and limitations of recent developments in African banking more generally.

Our findings are three-fold. First, the oil-fuelled growth in the banking sector was elite-controlled and that the cohesive MPLA regime consistently channelled benefits to insiders. State and ruling party tools were placed at the service of oligarch shareholders who in turn became

2. KPMG, 'Banking in sub-Saharan Africa' (KPMG, 2015), p. 3.

3. A long-standing debate exists on the finance-growth nexus, including in Africa, that, for reasons of limited space, we will not discuss in this article. See Hugh Patrick, 'Financial development and economic growth in underdeveloped countries', *Economic Development and Cultural Change* 14, 2 (1966), pp. 174–189; Ross Levine, Norman Loayza, and Thorsten Beck, 'Financial intermediation and growth: Causality and causes', *Journal of Monetary Economics* 46, 1 (2000), pp. 31–77; Victor Murinde, 'Financial development and economic growth: Global and African evidence', *Journal of African Economies* 21, 1 (2012), pp. 10–56.

4. Leonardo Arriola, *Multietnic coalitions in Africa* (Cambridge University Press, Cambridge, 2013).

5. Thorsten Beck, Michael Fuchs and Marilou Uy, 'Finance in Africa: Achievements and challenges' (World Bank Policy Research Working Paper No. 5020, World Bank, Washington, DC, 2009).

6. Catherine Boone, 'State, capital, and the politics of banking reform in Africa', *Comparative Politics* 37, 4 (2005), pp. 401–420, p. 401.

maximizers of regime power in the financial sector. Second, despite exceptional growth in the years of the oil boom, banks were focused on rent-seeking and did not provide much credit to the productive sectors of the economy. While enabling for insiders, the patterns of governance and distributional outcomes created significant sector fragilities. Third, the initial domestic space for influencing sector design was reduced in the context of the post-2014 drop in oil prices, and that global regulatory pressures became a major influence in the sector's trajectory.

Beyond these empirical findings, we make three additional claims. First, building on work by Peter Lewis, Howard Stein and Catherine Boone, we pay special attention to the internal and political dimensions of Angola's reform trajectory.<sup>7</sup> We do not mean to underplay external factors, the importance of which we have discussed elsewhere, such as resource-rich Angola's position in the world economy<sup>8</sup>: the very choices afforded to decision-makers during the oil boom owed to a positive global conjuncture that has since been reversed. However, the remarkable degree of Angolan autonomy in shaping the banking sector is noteworthy in the period from 2002 to 2014. In addition to Angola's *sui generis* post-Cold War capitalism and post-civil war political settlement, the article underlines the importance of late colonial and early post-colonial legacies and the statist mindset of the ruling party for post-2002 banking development. The interests of powerful domestic groups, in a society where business and party elites are virtually coterminous, decisively shaped sector structures, policy and regulation during the period under scrutiny. External actors who have been influential elsewhere, such as the IMF, the World Bank and western donors, played a secondary role in defining the timing or initial character of reform in Angola, even if international regulatory pressures became more important in recent years.

Following from this, we argue that a country's resource endowment, and particularly the presence of large oil reserves, is key in accounting for the creation and evolution of different financial regimes. Oil money contributed to the development of Angolan banking, and the volatility of oil prices keeps it in flux; oil as source of revenue means other sectors are neglected. The importance of oil is clear in terms of the regime's initial aloofness from external pressures as well as autonomy from domestic social forces: without oil, Angola could never have afforded the financial

7. Peter Lewis and Howard Stein, 'Shifting fortunes: The political economy of financial liberalization in Nigeria', *World Development* 25, 1 (1997), pp. 5–22, and Boone, 'State, capital', p. 403.

8. See Manuel Ennes Ferreira, *A Indústria em tempo de guerra* (Cosmos, Lisbon, 1999) and Ricardo Soares de Oliveira, *Magnificent and beggar land: Angola since the civil war* (Hurst, London, 2015).

sector trajectory studied here. Finally, the article underlines the importance of regime type for banking reform in terms of patterns of ownership, regulation, and distributional outcomes.

Despite its size and importance, the Angolan banking sector is under-researched. This article is therefore exploratory in character. It is based on the limited available data,<sup>9</sup> interviews with stakeholders and the authors' knowledge of Angola's political economy. The article's focus is on banking because the financial sector outside banking is underdeveloped. Though Angola had, on the eve of the 2014 oil price fall, a newly minted Sovereign Wealth Fund, there is still no stock exchange, capital markets are embryonic, and non-banking financial institutions such as insurance companies and pension funds play a peripheral role, with almost 100 percent of the country's financial assets held by banks.<sup>10</sup>

Section one provides historical context on Angola and the development of its banks up to the end of the civil war in 2002. The purpose of section two is to analyze the rise of banking in the decade up to the oil price crisis in 2014. Paying particular attention to the role of the state as the handmaiden of banking expansion, the section studies the variety of banks that emerged, their partnerships with foreign banks, the character of operations, and relations with the oil sector. The third section discusses the limits of banking development during this decade, the major regulatory efforts, and the impact on banking of a 70 percent oil price collapse since 2014. The final section provides an explanation of Angola's banking expansion since 2002 and suggests a number of broader lessons for the study of the political economy of banking in contemporary Africa.

### *Angolan banking until 2002*

A number of scholars of African banking claim that the prior character of state-society relations and institutional and regulatory configurations are crucial in understanding the outcome of financial sector reform in individual countries.<sup>11</sup> The choices of postcolonial leaders are important in accounting for outcomes.<sup>12</sup> In the case of Angola, these took the form of the early dismantling and nationalization of the late colonial financial system, followed in the 1990s by an elite-controlled post-Socialist reform

9. We are particularly appreciative of the work of the Centro de Estudos e Investigação Científica at the Catholic University of Angola, whose annual reports are an invaluable source for the study of the Angolan economy.

10. IMF, 'Sub-Saharan Africa: Time for a policy reset' (World Economic and Financial Surveys, Regional Economic Outlook, IMF, Washington, DC, 2016), p. 54.

11. Lewis and Stein, 'Shifting fortunes'.

12. Arriola, *Multiethnic coalitions*.

process that excluded the financial sector from privatization.<sup>13</sup> The subsequent expansion of banking welcomed both national and international private capital, but with state ownership (and overarching regime oversight) left intact. Despite their critique of colonial financial arrangements, Angolan leaders have also borrowed from the pre-1975 arrangements throughout different policy regimes over forty years. This longer history, with its unbroken emphasis on political control over banks, conditions contemporary banking development in myriad ways.

The role of metropolitan financial capital in the exploitation of Angola harks back to the mid-nineteenth century. The Banco Nacional Ultramarino, the sole bank in existence until 1926, favored the interests of the Lisbon bourgeoisie to the detriment of those of Angola's settler bourgeoisie.<sup>14</sup> Its successor, the Banco de Angola, remained both the issuer of currency and the only commercial bank for another three decades until metropolitan financial capital created non-financial enterprises in Angolan farming, services and industry in the 1950s. A significant economic boom in the 1960s and early 1970s (partly owing to policies that responded to the emergence of armed struggle against Portuguese rule) brought the commercial activities of five additional banks and four financial institutions to Angola.<sup>15</sup> These banks had a privileged relationship with a select group of financial-industrial conglomerates that were often owned by the same shareholders and dominated particular sectors of the economy.<sup>16</sup> Metropolitan capital again played the crucial role, while the white settlers as well as black Angolans were marginal in this process. Foreign banks did not operate in late colonial Angola but held shares in Portuguese banks and Angola's largest firms.<sup>17</sup>

At independence in 1975, the fairly well developed banking system consisted of the Banco de Angola (simultaneously a central bank, currency issuer and commercial bank), other commercial banks and non-banking financial institutions.<sup>18</sup> Although the early postcolonial period saw radical changes, three legacies of the late colonial period would prove influential

13. Manuel Ennes Ferreira, 'La reconversion économique de la nomenclatura pétrolière', *Politique Africaine* 57 (1995), pp. 11–26.

14. See Adelino Torres, 'Le rôle du capital bancaire dans les colonies portugaises de l'Angola et de St. Tomé de 1864 au début du XXe siècle', *African Economic History* 12 (1983), pp. 227–240; William Gervase Clarence-Smith, *The third Portuguese empire* (Manchester University Press, Manchester, 1985).

15. Banco Nacional de Angola, 'História', <<http://www.bna.ao/Conteudos/Artigos/>> (14 February 2016).

16. Henrique Guerra, *Angola: Estrutura económica e classes sociais* (Livrangol Editores, Luanda, 1974).

17. See Mário de Souza Clington, *Angola libre* (Editions Gallimard, Paris, 1975); Guerra, *Estrutura económica*, pp. 33, 43, 46.

18. Governo de Angola, 'Programa de saneamento económico e financeiro: Bases gerais para a definição do sistema bancário' (Governo de Angola, Secretariado Técnico, Luanda, 1988).

for financial liberalization in the 1990s. The first is the importance of a robust banking sector for late colonial economic success and an understanding that its redevelopment after the Socialist period (1975–1991) was essential. The second is the perceived need to associate the banking sector with local business groups, and the synergies that could result from that. Thirdly, that foreign capital can be present in Angolan banking, provided it is tamed by the state and by regime interests.

The advent of independence under the Socialist rule of the MPLA was transformative,<sup>19</sup> owing to the movement's policy of 'revolutionary suppression of private property of the means of production'.<sup>20</sup> The confiscation of settler property, including in the financial sector, started in March 1976 and did not end until 1990.<sup>21</sup> In order to be 'real and profound', President dos Santos argued, the transformation 'needed to [impact] on the economic and financial interests of the Portuguese colonialists'.<sup>22</sup> (Ironically, the reopening of the financial system in the 1990s drew in Portuguese investors first and foremost.) The Banco de Angola and the private banks were nationalized. The Banco de Angola became the Banco Nacional de Angola (BNA),<sup>23</sup> the country's central bank, currency issuer, treasury, and commercial bank. The Banco Comercial de Angola became the Banco Popular, meant to deal with individual savings. All bank deposits were transferred to state banks. In 1978, private banks were closed, with the BNA taking over banking branches, and insurance activities were moved to ENSA (Empresa Nacional de Seguros e Resseguros de Angola), the new state insurer. The remaining private insurers were closed in 1981.

The 1976 Nationalizations and Expropriation Law and the Marxist–Leninist 1978 Constitution sought to create a new financial system. As stated in the MPLA First Congress, 'all vestiges of the colonial financial system and of the mechanisms of a society ruled by the capitalist mode of production must quickly [disappear], giving way to a new financial system whose characteristics match the demands of central planning of the national economy and the construction of socialism'.<sup>24</sup> Yet the Marxism of the MPLA only partly explains the shape of the post-independence financial sector. A centralizing agenda fitted the ethos of the liberation movement turned one-party state as well as the background of the new

19. Governo de Angola, *Lei Constitucional da República Popular de Angola de 1975*, Diário da República, n°1, I Série, 11 de Novembro de 1975.

20. MPLA, 'Orientações fundamentais para o desenvolvimento económico e social 1978/80' (I Congresso do MPLA, Luanda, 1977), p. 21.

21. Ferreira, *A indústria em tempo de guerra*, and Governo de Angola, *Lei da Nacionalização e Confisco de Empresas e Outros Bens*, Diário da República, n°52, I Série.

22. José Eduardo dos Santos, 'Discurso na abertura da I conferência nacional do MPLA/PT', 14 de Janeiro, Luanda, 1985.

23. Governo de Angola, *Lei n°69/76*, Diário da República, n°266, I Série, 10 de Outubro.

24. MPLA, 'Orientações 1978/80', p. 21.

elite, who mostly came from the public sector and had little private sector experience. The settler exodus also guaranteed that no autonomous business class would counter this statist agenda. More important, the new MPLA rulers understood the need to control access to capital as a precondition for their tenuous grip over the war-torn country.

The political rationality of this agenda notwithstanding, the economic inefficiencies of the statist approach to finance were soon evident, and made worse by the return of UNITA's South African-backed insurgency from the late 1970s. At the First Extraordinary Party Congress in 1980, proposals emerged regarding the reformulation of the financial sector, the possibility of 'autonomous' management of 'the BNA's central banking and commercial-banking roles' and the creation of a foreign trade bank.<sup>25</sup> By 1985, the economy had declined to such an extent that the MPLA Second Congress dealt at length with the problems of the financial sector.<sup>26</sup> Yet the first attempt at reform came only with the 1987 Programa de Saneamento Económico e Financeiro (SEF).<sup>27</sup> In 1991, the BNA announced the creation of three state-owned commercial and investment banks, Banco de Poupança e Crédito (BPC), Banco do Comércio e Indústria (BCI) and Caixa Agrícola e de Pescas (CAP). These new banks would guarantee continuing state control over credit. The BNA also mentioned the possibility of allowing shareholders 'that aren't just state companies', i.e., private shareholders.<sup>28</sup>

Held in 1990 at the tail end of the Cold War, and in the face of sweeping changes in southern Africa, the MPLA's Third Congress confronted the failure of the Socialist model. The MPLA made an equivocal commitment to financial sector reform, seeing the 'the existence of a functional [domestic] financial system' as a prerequisite for Angola's articulation with the global economy,<sup>29</sup> but the goal was to keep banks and credit allocation under strict control. The conundrum was how to involve the state with the private sector, and Angolan shareholders with foreign shareholders, without loss of MPLA preeminence.<sup>30</sup> This degree of initial uncertainty meant that the state-supported creation of an Angolan business class through privatization would not include banking, which was

25. MPLA/PT, 'Orientações fundamentais para o desenvolvimento económico e social 1980–85' (I Congresso extraordinário do MPLA/PT, Luanda, 1980), pp.162–163.

26. MPLA/PT, 'Sistema de direcção da economia' (II Congresso do MPLA/PT, Luanda, 1985).

27. Governo de Angola, 'Programa de saneamento económico e financeiro' (Luanda, 1987).

28. *Revista Comércio Externo*, 17, 'Interview with Generoso de Almeida', vice-governor of BNA, March 1991, pp. 36–42.

29. MPLA/PT, 'Projectos de teses' (III Congresso do MPLA/PT, Luanda, 1990a), pp. 51–61.

30. For a landmark study of similar dynamics, see Anne Pitcher, *Privatizing Mozambique* (Cambridge University Press, Cambridge, 2002).

deemed a strategic sector and remained in the hands of the state. Noting its status as a 'sensitive sector [that demands] probity and vocation for [financial] business',<sup>31</sup> decision-makers were in no hurry to allow the new business class full access to bank ownership.<sup>32</sup>

The emergence of Angola's private banks was therefore protracted and piecemeal. As late as 1993, the BNA was responsible for 84 percent of credit to enterprises and householders, a role it kept until it ended its commercial activity in 1996.<sup>33</sup> Amidst currency devaluations, a currency replacement, three-digit-high inflation and the war against UNITA, the MPLA preferred to keep a grip over credit allocation. The three public banks were never privatized, despite repeated commitments to do so.<sup>34</sup> MPLA loyalists held shares in the new private banks, but the banks were also heavily participated by the state, state-owned enterprises such as the national oil company, Sonangol, and even (in the case of BAI in 1997, BCA in 1999 and Banco Sol in 2001) direct MPLA participation through its GEFI business conglomerate.<sup>35</sup> This pattern of state, SOE and party participation in the development of private commercial banks is a distinctive characteristic of Angola's banking sector.

A focus on the problems and underperformance of the financial sector elides the key role played by the national oil company, Sonangol, in managing the real finances of the state. A relatively well managed, if unorthodox, corporation that was Africa's second largest by 2013, Sonangol acted as the regime's lifeline to the world economy.<sup>36</sup> Its creditworthiness was higher than that of the state and was placed at the service of contracting loans from international banks, many of them oil-backed and run through opaque special purpose vehicles. In a highly unusual financial role for an SOE, Sonangol routinely realized quasi-fiscal operations that, according to the IMF, amounted to half of the government's revenues by the late 1990s.<sup>37</sup> It is unsurprising that the first 'private' Angolan bank, BAI, was established in 1997 with Sonangol as the largest shareholder. In short, though its formal financial system was a shambles, the regime's running of the war economy through Sonangol's parallel state was capable and contributed towards victory in the civil war in 2002.

31. *Revista Comércio Externo*, 'Interview', pp. 37–38.

32. Mário Nelson, 'O redimensionamento do sector empresarial do Estado e o SEF', in CCIPA, *O redimensionamento do sector empresarial do Estado Angolano* (CCIPA, Lisboa, 1991), pp. 23–25.

33. Governo de Angola, 'Programa económico e social' (Luanda, 1994), p. 8.

34. Renato Aguilar and Asa Stenman, 'Angola 1995: Let's try again' (SIDA, Stockholm, 1995).

35. Rafael Marques, 'MPLA Ltd', February 2010, *Makaangola*, <<https://www.makaangola.org/wp-content/uploads/2012/04/MPLALimited.pdf>> (3 April 2017).

36. Ricardo Soares de Oliveira, *Oil and politics in the Gulf of Guinea* (Hurst, London, 2007).

37. Tony Hodges, *Angola: Anatomy of an oil state* (James Currey, Oxford, 2004), p. 142.

While lucrative for regime insiders, the political economy of war was changing even in the last years of the conflict. The chaos of the 1990s had been instrumental for elite accumulation through strategies ranging from privatization and exchange rate scams to war profiteering.<sup>38</sup> However, those unstable conditions now stood in the way of new opportunities. Dos Santos pushed for economic stabilization and a ‘renewal of the management style’ that imposed the ‘minimal conditions, not for the country’s development, but for the functioning of a renewed (even if fundamentally rentier) capitalism’.<sup>39</sup> This reformist turn, while welcomed by foreign investors and the World Bank and IMF, was internally generated. At this stage, the presence of the World Bank was peripheral and the relationship with the IMF acrimonious. Though devastated by the war, oil-rich Angola was not dependent on western donors.<sup>40</sup> The key incentive for this reform drive was to enable the benefits of the oil-fuelled peace economy to flow to favoured constituencies through both the distribution of available rents and the creation of new rents. While officially designed to buttress a national ‘private’ sector, the strategy was state-led. The resulting banking sector is a hybrid that is neither public nor private, and is best conceived of as ‘state-, party- and elite-owned’,<sup>41</sup> in which public efforts create the conditions for elite private accumulation.

### *Angolan banking since 2002*

At the turn of the century, Angola’s banking sector could still be described as the ‘ideal-type case of a statist regime’.<sup>42</sup> As the IMF noted in 2001, ‘management problems in the state-owned banks have generated large shares of non-performing loans and recurrent recapitalizations’.<sup>43</sup> But starting with the creation of Banco Keve in 2003, the growth of banking was unstoppable until 2015. In 2002, there were nine banks. In 2015, 27 banks were in operation and three had recently received licenses (Ecobank de Angola, Banco Postal S.A., and Bank of China). Three banks are fully state-owned (BPC, BDA and BCI). The state remains a

38. Ferreira, ‘La reconversion économique’.

39. Olivier Vallée, ‘Du palais au banques: La reproduction élargie du capital indigène en Angola’, *Politique Africaine* 110 (2008), pp. 21–46.

40. Angola tried to convene a donors’ conference to help with post-war reconstruction but this was postponed by donors due to governance concerns. In 2004, strong growth in oil production and the price of oil, as well as a new strategic relationship with China, led Angola to rely instead on its own resources for reconstruction.

41. We thank Edward George for this point.

42. Boone, ‘State, capital’.

43. IMF, ‘Angola: Article IV consultation discussions and review of performance under the staff-monitored program’ (Briefing Paper, IMF, Washington, DC, 6 July 2001).

major shareholder (directly, but often through Sonangol or other SOEs)<sup>44</sup> in eight additional private banks, including BAI, BFA, Millennium Angola and Banco Económico (since 2014). Private domestic investors are majority shareholders in fifteen banks, while foreigners are majority shareholders in five.<sup>45</sup> Angolan banks, both nominally private and public, are remarkably dependent on the state for their operations.

Members of leading MPLA families are key shareholders of the new banks, and senior (Politburo and Central Committee) party officials figure prominently on their boards. Everyone of consequence has a stake, but the former president's children are particularly well represented. Isabel dos Santos is the main shareholder of BFA (through a 25 percent stake in Unitel, which in turn owns 51 percent of BFA) and 50 percent of BIC Angola. José Filomeno dos Santos, who headed the Sovereign Wealth Fund until January 2018, is present in Banco Kwanza Invest and acquired 49 percent of Standard Angola. Welwitschia 'Tchizé' dos Santos created Banco Prestígio in 2014, with her brother Coreon Dú as shareholder and their mother,<sup>46</sup> Maria Luísa Abrantes, as chair of the general meeting of shareholders. The former first lady, Ana Paula dos Santos, owns 5.42 percent of Banco Sol. In March 2017, Danilo, the son of Ana Paula and President dos Santos (and until then the only adult presidential progeny without banking interests), was given a license for his twenty-fifth birthday, Banco Postal de Angola. Dos Santos loyalists General Kopelipa and General Leopoldino do Nascimento, through the Geni conglomerate, hold 19.9 percent of Banco Económico (ex-BESA) as well as a share of BFA. Shareholders of BAI include former Vice-President Manuel Vicente, former Speaker of the National Assembly Fernando Piedade dos Santos and former Speaker of the National Assembly and vice-president of the MPLA Roberto de Almeida. President João Lourenço himself owns 5.42 percent of Banco Sol.<sup>47</sup> This paragraph is merely indicative of the extent of elite bank ownership, in a distributive process closely controlled by former President dos Santos.<sup>48</sup> The list of politically exposed persons (current and former high officials of the ruling party, senior civil servants,

44. SOEs with bank stakes include ENSA (the leading insurance company), TAAG (the national airline), the armed forces pension fund, Angola Telecom, Endiama (the state diamond company), SONIP (a Sonangol subsidiary), and the National Institute of Social Security (INSS).

45. Eaglestone, 'Angolan banks' (Research Note, 2015).

46. *AngoNoticias*, 'Mário Palhares apoia Tchizé dos Santos na criação de novo banco', 13 March 2015.

47. Banco Sol, 'Relatório e contas' (Luanda, 2015), p. 21.

48. The process of distribution of banking licences and shareholdings was allegedly directly controlled by the presidency. See Rafael Marques de Morais, *The transparency of looting in Angola* (MSc dissertation, University of Oxford, 2009), p. 15.

generals, and their families) with bank shareholdings would be too lengthy for this article.<sup>49</sup>

The trend towards greater Angolan control of the sector is clearly shown in Table 1. Foreign capital, which was dominant in 2005, with almost half of total assets, falls significantly in the subsequent decade, with Angolan private capital moving from the bottom to a dominant position during the same period.

Angolan banking shows a high degree of concentration, with 68.5 percent of assets held by the top five banks in 2015,<sup>50</sup> and an estimated 91 percent held by the top ten banks, while the remaining, mostly locally owned, banks are small and weakly capitalized. Although the share of deposits held by the top five banks has diminished from 88.8 percent to 65.3 percent (and of credit from 89.8 percent to 74.3 percent, see Table 2) from 2005 to 2015, the top banks showed a noteworthy resilience to the emergence of 16 new banks during this period.

Underpinned by the liquidity provided by the oil boom, banking saw extraordinary levels of profitability, especially in the early years (see Table 3). The initial levels of profitability were not sustainable with the entry of new banks and the impact of the economic downturn from 2014 onwards: while sector-wide return on investment took two and half years in 2005, it was six and half years in 2015. However, it is noteworthy that there are banks that present a return on average equity (ROAE) near or even above 50 percent. Similarly, the return on average assets (ROAA) is high, though it has fallen by half between 2005 and 2015. Moreover, smaller banks also ranked in the top five of profitability (ROAE), denoting how easy it was to perform well in such a financial market.<sup>51</sup>

Despite the increase in the number of banking institutions, operations remain relatively basic, with high charges and a restricted number of services. According to the industry publication *The Banker*, Angolan banks made 'the bulk of their earnings from government bonds rather than growing their loan books' and had a marked preference for short-term operations such as currency trading or trade finance.<sup>52</sup> Financial inclusion is limited: only 29 percent of those aged 15 or older reported having a bank account in 2014, compared to a sub-Saharan Africa average of 34.2 percent.<sup>53</sup> The vast majority of individuals and small and medium enterprises are unable to access formal credit. Long term lending (in fact most

49. See <https://www.makaangola.org/> for a number of important investigative reports in this regard.

50. Peter Wise, 'Angola: Banking – the spark amid the slump?', *The Banker* (June 2015).

51. This was the case, for instance, of VTB, SOL and FNB in 2010 and BCH, VTB, SBA and SOL in 2015.

52. Paul Wallace, 'Banking: A new landscape', *The Banker* (May 2013).

53. World Bank, 'Global Findex: Angola' <<http://datatopics.worldbank.org/financialinclusion/country/angola>> (15 June 2015).

*Table 1* Angola Banking Indicators (2005 and 2015, percent)

	<i>Total Assets</i>			<i>Total Credit</i>			<i>Deposits</i>		
	<i>Public/ state-owned</i>	<i>Domestic private</i>	<i>Foreign private</i>	<i>Public/ state-owned</i>	<i>Domestic private</i>	<i>Foreign private</i>	<i>Public/ state-owned</i>	<i>Domestic private</i>	<i>Foreign private</i>
2005	28.3	28	43.7	27.9	26.8	45.3	28.9	28	43.1
2015	33.7	49.3	17	43.9	46.4	9.7	28	49.8	22.2

*Source:* Authors' estimates based on '*Angola Banking Survey*' (KPMG, 2016) and banks' reports on shareholder participations.

Table 2 Angolan Banks: ranking according to some indicators (top 5) (percent of total banking sector)

2005				2010				2015			
<i>Bank</i>	<i>Assets</i>	<i>Dep</i>	<i>Credit</i>	<i>Bank</i>	<i>Assets</i>	<i>Dep</i>	<i>Credit</i>	<i>Bank</i>	<i>Assets</i>	<i>Dep</i>	<i>Credit</i>
<b>BPC</b>	26.2	26.7	30.9	<b>BAI</b>	18.9	21.3	15.3	<b>BPC</b>	17.8	14.9	33.9
<b>BFA</b>	25.1	26.6	30.7	<b>BESA*</b>	17.8	10.2	22.9	<b>BFA***</b>	16.3	16.6	8.01
<b>BAI</b>	20.4	22.2	16.9	<b>BPC</b>	16.4	13.2	19.4	<b>BAI</b>	14.6	15.4	12.9
<b>BESA</b>	7.6	8.2	6.7	<b>BFA**</b>	14.5	19.7	9.7	<b>BIC</b>	13.0	12.1	10.6
<b>BIC</b>	6.7	5.1	4.6	<b>BIC</b>	11.0	13.3	12.0	<b>BPA</b>	6.8	6.3	8.9

Source: Deloitte, 'Angola: Banca em Análise' (Deloitte, Luanda, 2006, 2011 and 2016).

Note: BPC—state-owned; BFA, BESA—foreign private; BAI, BFA\*\*\*—SOEs + private (national and foreign); BIC—private (mainly national+foreign); BESA\*, BFA\*\*—private (mainly foreign+national); BPA—mainly private (national+foreign)+ public company.

*Table 3* Profitability Indicators: Return on Average Equity (ROAE) (percent) and Return on Average Assets (ROAA) (percent)—Angolan banks ranking (top 5)

2005			2010			2015		
<i>Bank</i>	<i>ROAE</i>	<i>ROAA</i>	<i>Bank</i>	<i>ROAE</i>	<i>ROAA</i>	<i>Bank</i>	<i>ROAE</i>	<i>ROAA</i>
<b>BESA</b>	88.7	9.0	<b>VTB</b>	65	26.3	<b>BCH</b>	63	3.2
<b>BIC</b>	88.6	2.4	<b>BESA*</b>	60	4.67	<b>VTB</b>	57	1.2
<b>BFA</b>	52.8	5.3	<b>BFA**</b>	44	4.28	<b>SBA</b>	48	1.7
<b>BTA</b>	47.7	9.0	<b>SOL</b>	34	2.2	<b>SOL</b>	36	4.4
<b>BPC</b>	42.5	2.8	<b>FNB</b>	33	6.85	<b>BFA***</b>	33	2.5
<b>Sector</b>	42.5	4.1	<b>Sector</b>	33.2	3.1	<b>Sector</b>	15.0	2.0
<b>Average</b>			<b>Average</b>			<b>Average</b>		

*Source:* Deloitte, 'Angola: Banca em Análise' (Deloitte, Luanda, 2006, 2011 and 2016) for ROAE and ROAA in 2005; KPMG, 'Análise ao Sector Bancário Angolano' (KPMG, Luanda, 2011 and 2015) for ROAA in 2010.

*Note:* BESA, BFA, BTA, SBA—foreign private; BIC—private (mainly national+foreign); BPC—state-owned; VTB, BESA\*, BFA\*\*, FNB—private (mainly foreign+national); SOL, BCH—national private; BFA\*\*\*—SOEs + private (national and foreign).

lending, even short term) is given out to the elite. As a senior BNA figure remarked in 2009, 'about 85 percent of Angolan credit goes to two hundred or so clients'.<sup>54</sup>

These obstacles notwithstanding, the number of bank branches,<sup>55</sup> ATMs, point of sale terminals, credit card use, online banking, and percentage of bankable population grew throughout the decade, if overwhelmingly concentrated in the province of Luanda.<sup>56</sup> Bank deposits increased from 21 percent of GDP in 2005 to 49 percent in 2013 (reflecting the increasingly large distribution network), considerably above the sub-Saharan African average of 30 percent of GDP.<sup>57</sup> After 2011, the oil price rise above \$100 led to a reduction of treasuries yields, which became a major incentive to expand loan books. However, the results of this were still limited by the time the crisis started in 2014.

In line with their overarching role in Angola's post-war reconstruction, external partners were important in the expansion of banking. Of the 29 registered Angolan banks in July 2015, nine were partnerships with Portuguese banks and one was a joint venture with Standard Bank of

54. Interview with BNA official, Luanda, July 2009.

55. In 2013, Angola ranked in second place, behind Mauritius, in the number of commercial bank branches per 100,000 adults (KPMG, *Banking in SSA*, p. 12).

56. In 2013, 53 percent of bank branches were in Luanda, according to the BNA (Eaglestone, 2014).

57. IMF, 'Angola: Selected issues' (IMF Country Report No. 15/302, IMF, Washington, DC, 2015), p. 34.

South Africa, which quickly conformed to the Angolan pattern of local-external partnerships by selling 49 percent of Standard Angola to AAA, Sonangol's insurance arm.<sup>58</sup> Other African, East Asian and Western banks (Standard Chartered, Ecobank, Bank of China, Bank of Brazil, Nedbank, BNP Paribas, Commerzbank) have opened representative offices in Luanda and recently received, or expect to receive, licenses to operate. With the exception of Standard Bank and Ecobank, pan-African banks have played a limited role, another atypical pattern in an African context where the footprint of pan-African banks has grown since the turn of the century. Similarly, except for the Lusophone states, Angolan banks are almost absent from other African markets: their size has not led them to seek a stake in regional banking.

Contrary to most African banking systems, bank growth in Angola is not directly dependent on foreign financial capital flows, as their capital is generated by Angola's oil revenues. Instead, foreign partners are needed for their sectoral expertise and have been responsible for the adoption of modern financial tools, the bearers of some policy ideas, and the general shaping (at least in superficial terms) of Angolan banking in the image of international banking. Foreign partners are also important on account of their (and their home jurisdictions') international credibility and legitimacy, a major asset in helping to offset Angola's money laundering and combating the financing of terrorism records. At the same time, 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 control. Indeed, a recurrent pattern sees foreign banks enter Angola only to be pressured into selling stakes to Angolan private interests, as was the case with Standard Bank and the major Portuguese banks.<sup>59</sup> The result is that between 2005 and 2015 the percentage of total banking assets in Angolan private ownership moved from 28 percent to 49.3 percent.<sup>60</sup>

Some scholars argue that foreign banks can be the drivers of change through the promotion of international best practice. In Angola, however, foreign-participated banks respond to the same context and incentive structures as Angolan banks and behave similarly. Foreign banks were allowed in from 1991, with Portugal's Totta & Açores (1993), BPA (1993) and BFA (1994) present even before the creation of private Angolan banks. Their role was calibrated at a level that would not

58. *Jornal de Angola*, 'Seguradora entra no capital do Standard Bank de Angola', 26 July 2012.

59. Candido Mendes and Henrique Almeida, 'Standard Bank's Angola Shareholder sells 49% stake to Exit Unit', *Bloomberg News* 6 May 2016; on Portugal's BPI's stake in BFA, see *Semanário Angolense*, 'Sonangol entra no BFA', 16 April 2008.

60. Authors' estimates based on '*Angola Banking Survey*' (KPMG, 2016) and banks' reports on shareholder participations.

undermine Angolan control or the later emergence of local banks. Foreign penetration since the 1990s is not equated with foreign control of the banking sector. Decision-making and the timing for introducing innovations remain in Angolan hands. Foreign banks are not a panacea to the limitations of African banking, and only truly competitive host economies reap the benefits from foreign bank activity.<sup>61</sup> As these conditions do not obtain in Angola, foreign banks are rational in their adaptation to market limitations. A senior banking executive noted, 'In Angola, there is [often] no address, national insurance number, identity card, [legal] property, [functioning] courts... therefore, there is no real credit'.<sup>62</sup> Foreign banks thus show little concern with financial intermediation. They do not lend to small and medium enterprises or productive sectors and are able to conceive of profit in Angola without broader financial development. Focusing instead on corporate banking, they primarily deal with their own foreign clients present in Angola as well as with the state and SOEs. In the decade up to 2014, foreign banking partners were deferential in terms of the shape of Angola's financial sector and acted as willing instruments of the oligarchs' pursuit of internationalization and the laundering of their monies.<sup>63</sup>

### *Limits to Angolan financial development*

A profitable first decade notwithstanding, the impact of Angolan banks has been disappointing in terms of wider financial development, whether we measure this in terms of broad-based lending or a contribution towards diversification of the economy away from oil. The first limitation pertains to the weak linkages to productive sectors and banks' limited contribution to economic diversification or financial inclusion and deepening. They do not provide much credit to agriculture or industry. Data from 2010, 2011 and 2012 shows that these sectors jointly attracted 14.6 percent, 11.1 percent and 13.8 percent of credit in each of these years, and were dwarfed by real estate, construction, trade and services (see Table 4).<sup>64</sup> Instead of lending significantly to the real economy, Angolan

61. Beck, Fuchs and Uy, 'Finance in Africa', p. 45.

62. Interview, Lisbon, May 2016.

63. According to Dev Kar and Karly Curcio, 'Illicit financial flows from developing countries: 2000–2009' (Global Financial Integrity, Washington, DC, 2011) Angola is one of Africa's top four sources of capital flight. As Jason Sharman notes, 'industrial-scale corruption depends on the services of the world's largest banks and expert financial professionals, and the ill-gotten gains are hosted in the very same countries that are loudest in preaching the gospel of 'good governance''. *The despot's guide to wealth management* (Cornell University Press, Ithaca, 2017), p. 1.

64. Deloitte, 'Angola', 2012 and 2016.

*Table 4* Private credit per sector (percent)

	2010	2012	2015
Agriculture	2.7	3.7	5.5
Manufacturing	11.9	7.4	8.3
Construction	8.5	11.1	11.1
Trade	23.1	18.5	20.8
Real Estate	–	11.1	13.8
Services	14.0	18.5	13.8
Other	39.8	29.7	26.7

Source: Deloitte, 'Angola: Banca em Análise' (Deloitte, Luanda, 2012 and 2016).

banks are net exporters of capital and keep 'a large proportion of their assets overseas'.<sup>65</sup>

The same applies to its reluctance to lend to small and medium enterprises. African banks generally lend less to the private sector than banks in non-African developing countries,<sup>66</sup> but Angolan banks even less so, despite the official commitment towards it.<sup>67</sup> Some of this is explained by the rudimentary nature of Angolan firms: many have nothing like conventional accounting, and securing collateral is almost impossible with a highly dysfunctional judicial system. State-owned banks officially hold two-thirds of non-performing loans,<sup>68</sup> which suggests that private banks are risk-averse in their lending decisions. Yet the manner in which BESA (see below) gave loans to the elite shows not only that non-performing loans by private banks may be underestimated but that their reluctance to lend beyond a tight sphere of insiders is at least partly linked to a reluctance to provide credit to wider constituencies. There is nothing unique to the Angolan elite's lack of support for accumulation beyond the ruling coalition, as 'independent capitalists may become political rivals and [...] pose a serious threat'.<sup>69</sup> This could still have a productive impact if elite beneficiaries redeploy 'resources from primitive accumulation' and channel them 'into production and firms that undertake learning and the

65. According to IMF, 'Angola: Financial System Stability Assessment' (IMF, Washington, DC, 27 June 2012), p. 20, this amounted to \$17 billion in 2011.

66. Beck and Cull, 'Banking in Africa'.

67. This applies to commercial banking as well as to programs such as Angola Investe, ostensibly designed to channel funding to SMEs. See Martins Chambassuco, 'Angola Investe praticamente parado aprovou cinco projectos nos últimos seis meses', *Expansão*, 4 August 2016. See also the case of BDA, a development bank that funneled credit to the politically connected and 'is now on the verge of bankruptcy with around \$400 mn in mostly irretrievable credit'; *Africa Confidential*, 'Bank scandals hit MPLA hard', 31 March 2017.

68. In a sleight of hand, non-performing loans (NPLs) that are 'state-guaranteed' are not listed by the individual banks or by the BNA as NPLs. The IMF also refers to practices of 'ever-greening' to keep bad loans off the books. See IMF, 'Angola', 2012, p.12.

69. Lindsay Whitfield, Ole Therkildsen, Lars Buur and Anne Mette Kjaer, *The politics of African industrial policy* (Cambridge University Press, Cambridge, 2015), p. 297.

development of technological capabilities',<sup>70</sup> but this is not the case in Angola. In sum, the banking sector has acted neither as a promoter of entrepreneurship nor as a catalyst for diversification away from oil.

The second dimension that has held back banking is the lax character of sector regulation.<sup>71</sup> The financial crisis of 2008 had a drastic, if relatively short-lived, impact on the Angolan economy, with oil prices collapsing from \$147 in August 2008 to \$40 later in the year. This fiscal shock resulted in the quick erosion of the BNA's reserves based on a policy of defending Angola's currency, the Kwanza. Simultaneously, persistent claims that senior BNA personnel had stolen considerable amounts of money further deteriorated the credibility of the BNA leadership,<sup>72</sup> and led to their replacement in April 2009 by a new team with a reformist mandate.<sup>73</sup> Although discussions at the presidency with a view to improving regulation were said to have occurred as early as 2007,<sup>74</sup> there is no doubt that the crisis gave impetus to this reformist drive, which would remain in place in subsequent years.

Differently from the internally managed trajectory since the early 2000s, the post-2009 banking reforms received some external support. A 2012 IMF-World Bank Financial System Stability Assessment (FSSA) identified the fragilities of Angolan banking.<sup>75</sup> The IMF standby arrangement from March 2009 to March 2012 also put some emphasis on the need for regulatory reform. This provided decision-makers with some reform strategies, although a prominent Angolan official remarked that the FSSA was 'a [diagnostic], not a roadmap for reform'.<sup>76</sup> But the key reform driver was the political mandate provided by the president to the new team: the IMF's reform agenda was momentarily aligned with the regime's goals, rather than setting the agenda in its own right. Although external pressure increased post-2009 and would steadily build up,

70. *Ibid.* See also Jesse Ovadia and Sylvia Croese, 'Post-war Angola: The dual nature of growth without development in an oil-rich state', in Godfrey Kanyenze, Herbert Jauch, Alice Kanengoni, Masego Madzwamuse and Deprose Muchena (eds) *Towards democratic developmental states in southern Africa* (African Books Collective, Oxford, 2016).

71. Rebecca Engebretsen and Ricardo Soares de Oliveira, 'The political economy of banking regulation in Angola and the role of global banking standards', in Emily Jones and Ngaire Woods (eds), *Governing global finance in the periphery* (Oxford University Press, Oxford, 2019).

72. US Senate, 'Keeping foreign corruption out of the United States: Four case histories' (Permanent Sub-Committee on Investigations, United States Senate, Washington, DC, 2010).

73. Months later, an investigation showed that \$137 million dollars had been stolen, and eighteen BNA and Finance Ministry officials were briefly arrested. The Economist Intelligence Unit, 'Angola country report' (EIU, London, March 2010), p. 11.

74. E-mail correspondence with former BNA official, March 2016.

75. IMF, 'Angola'.

76. E-mail correspondence, March 2016.

internal regime priorities continued to define the character of reform and to place limits to what could be reformed.

Starting in 2010, under the leadership of new governor José de Lima Massano and Vice-Governor Ricardo Viegas de Abreu, the BNA experienced significant restructuring designed to promote ‘convergence with international practice’.<sup>77</sup> Reforms included the establishment of a new department to manage liquidity, exchange rate and operation risk in the banking sector; the creation of a benchmark interest rate, the level of which was to be decided by a new Monetary Policy Committee every month<sup>78</sup>; the creation of the Interbank offering rate (Luibor); new committees on the management of reserves and financial stability; efforts towards convergence on prudential supervision including aspects of Basel 2 and 3,<sup>79</sup> and on the implementation of International Financial Reporting Standards; and an increase in bank capital requirements from \$6 to \$25 million.<sup>80</sup> In order to lower the dollarization of the economy, a Foreign Exchange Law was passed in 2012 mandating that all oil sector operations need to run through Angolan banks, which has expanded flows into the Angolan banking system by about \$20–30 billion.<sup>81</sup> After its blacklisting by the OECD’s Financial Action Task Force as one of five countries that posed a threat to the international financial system, Angola pursued reforms that brought it back from the brink.<sup>82</sup>

However, the outcome of this flurry of reformist measures and enlightened legislation was less than the sum of the parts. ‘The challenge has been implementation’, noted an Angolan senior official in 2016.<sup>83</sup> Some officials pointed to human resource constraints at the BNA and the banks as partly accounting for this lag, but implementation was also constrained by lack of political will. From 2010 regulators could, and to a certain extent were encouraged to, improve sector governance, especially in

77. Interview with BNA official, Luanda, February 2015.

78. The Economist Intelligence Unit, ‘Angola country report’ (EIU, London, December 2011), p. 7.

79. The Basel Committee on Banking Supervision is a committee of banking supervisory authorities hosted by the Bank for International Settlements in Basel. Basel 2 is ‘a set of requirements to capture the credit risk of complex trading activities; a stressed value-at-risk requirement; and minimum capital requirements’. Basel 3 is a ‘set of reform measures to strengthen the regulation, supervision and risk management of the banking sector’ (<<https://www.bis.org/>>, accessed 26 November 2017).

80. Much of this effort is embodied in the Law on Financial Institutions (Lei 12/15, Lei de Bases das Instituições Financeiras).

81. Lei do regime cambial aplicável ao sector petrolífero, Lei no. 2/12, 13 January 2012.

82. In 2010, the FATF noted: ‘Angola’s lack of a comprehensive AML/CFT [anti-money laundering and combating the financing of terrorism] regime poses a risk to the international financial system’ (OECD, ‘FATF Public Statement’, Paris, February 2010). By 2013, Angola had an action plan to deal with these matters but the FATF still pointed out that ‘certain strategic AML/CFT deficiencies remain’ (OECD, ‘Improving Global AML/CFT Compliance’, FATF, Paris, 18 October 2013).

83. E-mail correspondence, March 2016.

dimensions that received negative external attention, yet never received a mandate to rein in individual banks or to impose costs on their shareholders.

The politicized and circumscribed character of the BNA's reform mandate was evident in the way it dealt with the 2014 fall of BESA. As the lower oil prices had yet to sink in, Angola was hit by the near-collapse of its second largest bank and leading lender. After revelations in April 2014 that BESA held \$5.7 billion dollars in bad loans, many of whose (elite) holders could not be identified or pursued, President dos Santos gave the bank a sovereign guarantee and arranged for a BNA rescue.<sup>84</sup> Following on the heels of the collapse of its Portuguese parent bank, the Espírito Santo Bank, this underlined the mutual dependency of both banking sectors.<sup>85</sup> BESA shareholders had included members of the elite such as Isabel dos Santos through the GENI group.<sup>86</sup> The BNA's swift involvement showed that the state would intervene to defend their interests. Further to this, Sonangol became the biggest shareholder in the rescued bank (renamed Banco Económico), highlighting yet again the company's pervasive role in the financial sector and the symbiotic relationship between oligarchic and SOE participations.<sup>87</sup> The BNA leadership expressed concerns about bad loans in other banks and asked for audits of the asset quality of 14 banks to prevent further damage, but 'its hands were tied by the political contours of the case' and the president's direct involvement in protecting elite interests.<sup>88</sup>

The narrow range of banking activities and the character of regulation meant that sector growth had not resulted in broader financial development. But the impact of the decline in oil prices from \$112 in June 2014 to \$28 in early 2016 halted the progress of Angolan banks. By late 2014, the financial system was hit by dollar scarcity. Soon capital controls were introduced, making it very difficult to take dollars out of Angola, with the BNA responsible for rationing access to hard currency. While designed to ensure 'the import of essential foodstuffs, healthcare supplies and manufacturing equipment',<sup>89</sup> the politicized manner in which the BNA gave

84. *Africa Confidential*, 'Good banks from bad', 14 December 2014. By 2016, estimations of BESA's bad loans had reached \$6.8 billion; Luis Rosa, 'Ministério Público descobre mais mil milhões de créditos irregulares no BESA', *Observador*, 22 April 2016.

85. On the Angolan ramifications of the Espírito Santo Bank (BES), see Rui Verde, *Angola e Dinheiro* (Rui Costa Pinto Edições, Cascais, 2014) and the Portuguese TV documentary 'Assalto ao Castelo' (SIC Notícias Channel, broadcasted in February and March 2017), an authoritative investigation on the collapse of BES, with significant revelations on the Angolan side of the story.

86. 'Isabel dos Santos: o rosto de Angola', *Público*, 20 July 2007.

87. IMF, 'Angola', p. 5.

88. *Africa Confidential*, 'Good banks from bad'.

89. Michael Watt, 'Can Angola weather the oil price storm?', *The Banker* (1 June 2015).

access to dollars as well as the reappearance of a vibrant parallel currency market resulted in widespread dissatisfaction.

In addition, the withdrawal of correspondent banking relationships (partnerships with external financial institutions for the purposes of foreign transactions) as a solution to ‘de-risking’ continued apace.<sup>90</sup> In November 2015, Bank of America, Rand Merchant Bank and other banks stopped providing Angolan banks with US dollars; by December, all but one foreign bank had stopped supplying dollars to Angolan client banks.<sup>91</sup> Attempts to leverage China and other Asian financial centers to counter US pressures did not go far.<sup>92</sup> On top of these problems, a major decision by the European Central Bank cast a harsh light over the credibility of the Angolan financial system. Considering it a poorly regulated jurisdiction, the European Central Bank ordered BPI, a leading Portuguese bank and shareholder of Angola’s BFA, to diminish its exposure by selling off its Angolan assets.

In the early 2000s, the regime had been able to pursue its own course, using external partners to help mold the new banking sector yet maintaining control of the direction of reform. This autonomous space has shrunk considerably in recent years, and banking reform now occurs in a more constraining international context. Some global regulatory pressures, despite Luanda’s protestations, are systemic, rather than targeted at Angola. Others are indeed related to the accumulation of international criticism, particularly over the presence of Political Exposed Persons as shareholders of Angolan banks. The upshot is that Angolan banks are now in the spotlight like never before.

By 2016, therefore, the banking sector was in flux. The crisis showed its deep vulnerability to oil price shifts: banks suffered from the economic slowdown and the scarcity of foreign currency, particularly on account of the centrality of bank income raised from foreign exchange intermediation and trade finance commissions.<sup>93</sup> The IMF was still noting: ‘Angolan banks have relatively solid underlying fundamentals on aggregate’, but warned that the balance sheets of some banks had deteriorated in recent years.<sup>94</sup> The creation of RECREDIT, a public company to manage banking system debt, was seen as a positive step. Optimistic voices hoped that the crisis might be the catalyzer of change in terms of both consolidation (through mergers and the concomitant disappearance of the smaller, undercapitalized banks, or the entry of new shareholders) and increased

90. ‘The withdrawal of correspondent banking relationships: A case for policy action’ (IMF Staff Discussion Note, Washington, DC, 2016).

91. Candido Mendes, ‘Biggest Angolan private bank said to restrict dollar withdrawals’, *Bloomberg*, 17 November 2015.

92. Interviews with two Angolan officials, Lisbon and London, 2016.

93. Wise, ‘The spark amid a slump’.

94. IMF, ‘Angola: Selected issues’, 2015, p. 32.

credit for economic diversification. In 2015, BPA and Millennium Angola merged and in 2017 Grupo Mais took over the Banco Pungo Andongo, but at the time of writing there were no further instances of consolidation. Regarding the provision of credit to the wider economy, the crisis resulted in a further contraction. This was the case of the June 2015 announcement by BPC, the largest public bank and at that stage the leading provider of credit, that it would stop providing credit.<sup>95</sup> Both BPC and BCI, the other major public bank, have been restructured since. As an Angolan banker put it, ‘banks and the sector regulator have not dealt badly with the downturn: thus far a major systemic crisis has been averted. But the key goal is sector survival, not reinvention [...] banks are actually retrenching when it comes to lending’.<sup>96</sup>

### *Making sense of Angolan banking*

While acknowledging the important role of external drivers for the trajectory of the banking sector, especially the oil boom that ended in 2014, this article focuses primarily on the political and internal dimensions of sector reform with emphasis on the timing of reform and sector design. The Angolan case shows a process of banking growth that was initiated at a time, and under terms, defined by the MPLA regime following its war victory in 2002. In addition to the oil money, a hegemonic peace and strong degree of elite cohesiveness jointly enabled this path. A degree of initial discretionary power at the level of the presidency gave further strategic impetus to banking reform. We argue that this can only be understood by reference to ‘pre-existing patterns of state regulation of the economy and by already established patterns of state-society interaction’.<sup>97</sup> The nature of the Luanda regime is central in accounting for patterns of ownership, regulation, and distributional outcomes.

The centrality of the regime agenda for understanding the trajectory of banking is made evident in the MPLA’s strategic goal of creating a so-called national bourgeoisie.<sup>98</sup> This relatively coherent agenda was outlined in party documents and presidential speeches: in the postwar era, Angola needed ‘strong families and business groups’ that held significant capital.<sup>99</sup> Such a bourgeoisie had not been allowed to emerge under settler

95. BPC, ‘Irregularidades no pagamento do crédito mal parado inviabiliza concepção de novos créditos’, July 2015, <[http://www.bpc.ao/bpc/pt/noticias.168/julho\\_2015.169.html](http://www.bpc.ao/bpc/pt/noticias.168/julho_2015.169.html)> (accessed 31 July 2015).

96. Interview, Lisbon, March 2016.

97. Boone, ‘State, capital’, pp. 402–403. Such legacies, Boone goes on to argue, ‘are contributing to continuing differentiation across states’ (p. 416).

98. Soares de Oliveira, *Magnificent and beggar land*, pp. 140–ff.

99. José Eduardo dos Santos, ‘State of the Nation Address’ (President of Angola, October 2013).

colonialism, but now the party-state would be its handmaiden through the judicious distribution of assets, money, and profit-making opportunities. Implicit in this commitment was the MPLA's control of the process of class formation: benefits would accrue to the politically connected, through narrow channels, rather than bestowed upon society. Although this allocation agenda may have favored hundreds of thousands of middle class urbanites close to the party during the boom years, it disproportionately benefitted a handful of oligarchic MPLA families. The modern banking sector, with its dual focus on rent sharing and the generation of new rents, was central to this process, its tightly connected shareholders exclusively drawn from the summit of the regime.

In this context, the usual dichotomy between the private and the public is meaningless. Angola does not possess a sizeable business class that is analytically distinguishable from the political elite: they are mostly the same individuals. The connection of this apparatchik class with the party-state is what defined 'the politics, timing and extent of banking sector liberalization'.<sup>100</sup> The elusive line between the public and the private was further illustrated by the regime's goal of remaining in control of banks through a variety of formal and informal mechanisms. State banks were not privatized; many new banks have Angolan SOEs or the ruling party as key shareholders; and their 'private' investors are party barons or fronts for regime interests.<sup>101</sup> These diverse strategies jointly advance the imperative of remaining in control of the commanding heights of the economy in a manner consistent with the mindset of the post-colonial party-state and with the colonial history of regime-controlled banking.

In addition to regime type, Angola's resource endowment is key in explaining both the character and the timing of this process. Especially during 2004–2008 and 2010–2014, it generated the vast amounts of capital that would underpin the new banks (obviating the need for foreign capital, which is at the root of many banking sectors in resource-poor African states) and the regime's aloofness from external conditionality. It also gave the Angolan economy a further source of volatility, with oil booms and busts linked to credit booms and busts. As the post-2014 crisis shows, Angolan banks are not shock absorbers, but rather part of the amplification effect of oil on the domestic economy. Before, the major risk was the oil price; now the very size of the banking sector, without adequate regulation, is a 'systemic concern'.<sup>102</sup> The Angolan banking sector faces a major challenge: even if the oil price rebounds, the 2004–2014

100. Catherine Boone and Clement Henry, 'Neoliberalism in the Middle East and Africa: Divergent banking reform strategies, 1980s to 2000', *Commonwealth and Comparative Politics* 42, 3 (2004), p. 357.

101. The public sector has interests in 90 percent of the banking system by assets. IMF, *FSSA*, p. 16.

102. Wallace, 'New landscape'.

boom that allowed its primarily endogenous shaping along rentier lines is unlikely to be repeated. Banks' prosperity and, in many cases, survival will require major shifts. President João Lourenço's banking decisions since coming to power in September 2017 are encouraging, including the replacement of the much-criticized BNA governor, Valter Filipe, with José Lima Massano, a former governor recognized for some earlier improvements.<sup>103</sup> Beyond the reformist signaling, however, at the time of writing it was too early to ascertain the real impact of Lourenço's reforms in a sector likely be defining for his presidency.

Our emphasis on domestic developments does not underplay the enabling global conjuncture, characterized by a broader process of African integration into global capital markets, the internationalization of African banks, and the adoption of new financial instruments. But in the context of Angola's oil boom, during which the crucial decisions regarding sector design and ownership were taken, external pressures played a limited role in the initial process of banking expansion. Foreign advice was sourced, but made to serve regime interests. When risks of non-compliance with external expectations were high or innovations were seen to improve the system, Angolan decision-makers pursued a constructive approach that included piecemeal reform insofar as this advanced their political agenda. Contrary to most African cases, the influence of the IMF and of western donors was limited, as was that of regulatory networks of reformist central bankers and technocrats. The same applies to the influence of regional banking reform, as Angola is poorly integrated in the broader region. For their part, foreign banks proved unassertive and adapted to Angolan terms. More generally, while the impact of systemic shocks has been important, their direct consequences are ambivalent and refracted through domestic decision-making.<sup>104</sup> The end of the Cold War terminated the Socialist experience, but the state has remained central to the financial sector and all the other critical sectors of the economy. Oil price drops opened the way to some changes, but the periods of prosperity also saw reforms that were unrelated to the price scenario.

Recent work has found vast disparities in financial development among democracies,<sup>105</sup> but authoritarian states are usually assumed to result more consistently in repressed financial sectors. Yet evidence from some

103. *Reuters*, 'Angola appoints Jose Massano as new central bank governor', 28 October 2017.

104. For a different view, see Abdul Abiad and Ashoka Mody, 'Financial reform: What shapes it? What shakes it?', *American Economic Review* 95, 1 (2005), p. 66, who argue that influential events shook the policy status quo, while ideology and country structure had limited influence.

105. Victor Menaldo and Daniel Yoo, 'Democracy, elite-bias and financial development in Latin America', *World Politics* 67, 4 (2015), pp. 726–759, argue that this is accounted for by the relative power of elites in recent democracies: wherever transitions are elite-led, or elite-friendly, financial sector outcomes will be disappointing.

authoritarian regimes shows that outcomes may vary and that the political economy of their financial sectors is more complex than often assumed. In particular, formal authority through rational-legal institutions is not a prerequisite for financial sector growth. Deeply personalized, informal frameworks such as Angola's can provide the context for initial development. From Peter Lewis' analysis of Indonesian growth under Suharto<sup>106</sup> to Charles Calomiris and Stephen Haber's study of Mexico's Porfiriato, we find circumstances under which 'authoritarian governments and bankers can align their incentives by forming a rent generating partnership'.<sup>107</sup> Work on financial sector reform in China also shows the extent to which the Communist Party has been able to use American investment banks as sources of needed reform that helped it fortify, rather than dilute, its control over credit in the Chinese economy.<sup>108</sup> Further research into variation across authoritarian financial systems, especially regarding distributional outcomes and degrees of financial development, is overdue.

However, while not preventing financial sector growth, the nature of a regime has a decisive impact on the character of the banking sector and its potential for broad-based development. In an extractive system such as Angola's, the creation of a formal, rule-based structure is eschewed, and legal, prudential and regulatory reforms are often superficial. Despite some improvements since 2009, Angola's key reforms were macroeconomic rather than regulatory or judicial: the system was opened, but in a way that kept President dos Santos' discretionary power as the ultimate arbiter. The creation and maintenance of independent courts, credit watch mechanisms, and property and collateral registries necessary for arms-length lending is expensive, requires significant human resources, and is usually deemed politically costly to insiders. The result is that Angola's banks, structured to favour leading families, have no significant institutional or legal structures undergirding them. Social pressure by elite networks has not proven constraining: 'Powerful people just don't pay back their loans if they don't want to: peer pressure works very unevenly [which means that] we are always only one step away from catastrophe'.<sup>109</sup>

It follows that the Angolan banking sector has not provided (and short of systemic reform, will likely continue not to provide) significant credit to the productive sectors of the Angolan economy. The narrow credit provision and resultant financial repression of the majority of the population

106. Peter M. Lewis, *Growing apart: Oil, politics and economic change in Indonesia and Nigeria* (University of Michigan Press, Ann Arbor, 2007).

107. Charles Calomiris and Stephen Haber, *Fragile by design: The political origins of banking crises and scarce credit* (Princeton University Press, Princeton, 2014), pp. 331, 338.

108. Carl Walter and Fraser Howie, *Red capitalism* (John Wiley and Sons, Singapore, 2012).

109. Interview with Portuguese banker active in Angola, Lisbon, May 2016.

was not the failure portrayed by the World Bank and IMF, though it did have unintended consequences that undermined Angola's economy in the medium run. It was rather a deliberate strategy. Banks and their elite shareholders discouraged independent forms of accumulation and laboured hard to prevent non-insiders (politically unconnected businessmen, the opposition) from accessing credit or becoming shareholders.<sup>110</sup> There was a deep reluctance to put in place secondary debt markets. This narrowness was in turn connected with the skepticism of banks regarding the potential of Angola's economy outside restricted sectors. Banks did not believe in the likelihood of diversification away from oil or the vibrancy of small and medium enterprises and had no incentive to take risks in this regard. Short of systemic change, they will remain narrow generators and allocators of rents as well as enablers of capital flight.

An emphasis on the domestic politics of banking, the character of the regime, and structural legacies informing sector development goes hand in hand with the strong agential action by Angolan decision-makers during much of the last decade, although this has diminished considerably since the advent of the oil price drop in 2014. Partial reform designed to strengthen elite interests adds specificity to the character of Angola's financial repression, but does not transcend it. As Lewis and Stein noted in the Nigerian case, sector outcomes during the boom years were not so much a matter of policy but of structural intent: broad-based financial sector development needs an elite that is really seeking development through domestic investment.<sup>111</sup> We have to look beyond specific policies (sector-enabling or not) and into the broader political economy that determines the evolution of banking. Under the political conditions described in this article, an open and competitive banking system in Angola, or other tightly controlled regimes, is a highly unlikely outcome.<sup>112</sup>

110. As a rule, opposition figures are neither shareholders nor board members of banks. They may access small loans, but are excluded from larger loans through a process of screening, which starts at the level of the MPLA committee inside individual banks.

111. Lewis and Stein, 'Shifting fortunes'.

112. Stephen Haber, Douglass C. North and Barry Weingast (eds), *Political institutions and financial development* (Stanford University Press, Palo Alto, 2007).