G:ENESIS

Microfinance in Angola

Landscape, regulation, monitoring and support

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ANGOLA

1.1. INTRODUCTION

Angola has emerged from civil war to become one of the world's fastest growing economies averaging 10.5% real GDP growth between 2000 and 2010[1]. This growth was mainly underpinned by improved oil and diamond production output. Given the importance of oil to the economy, contributing over half of GDP and 90% of export revenues, the country is vulnerable to changes in the oil price[2]. This was evidenced in 2009 and 2010 when economic growth averaged only 2.35%, a significant decrease from its ten year average[3].

Angola has a GDP per capita of US$4,443, which is high by SADC standards. While no longer experiencing the extreme levels of inflation the country became accustomed to in the late 1990s and early 2000s, inflation is still persistently above 10% (13.7% in 2009)[4].

As a result of the civil war, by 2006, 50% of the population was still mainly reliant on the informal trading sector[5]; while 75% of those employed were working in the agriculture, forestry and fishing sector[6]. Further, as of 2000, 70% and 54% of the population lived on less than US$2 and US$1 (PPP) per day[7]. As of 2007, unemployment was estimated at approximately 25%[8]; while in 2008, 43% of the total population was rural[9]. The level of income inequality is one of the highest in the region, as shown by the Gini coefficient of 58.6[10,11].

As of 2010, approximately 11% of the population was served by banks[12].

1.2. MICROFINANCE LENDING

The 40 years of armed conflict leading up to 2002, obviously had damaging effects on the nation's financial system. Banks and non-banks financial institutions were targets for looters and further suffered financially due to macroeconomic instability, very high rates of inflation, and loss of human capital and physical infrastructure[13]. These effects were particularly felt in rural parts of Angola. Leading into 2002, before the complete end of the conflict, rural financial infrastructure, especially, had been destroyed, and had contributed to a massive urban shift in Angola, as populations sought better urban security[14]. The effects of conflict naturally left high incidences of poverty and huge income disparities in Angola, which led to the entrance of donors and the establishment of a number of microfinance programs. Provision of financial services to the masses also became common for many of the country's commercial banks, albeit often with support from the government. In addition, ROSCAs became the predominant

[1] (World Bank, 2011)
[2] (PWC, 2011)
[3] (World Bank, 2011)
[4] (World Bank, 2011)
[5] (Development Workshop Angola, 2006)
[6] (UHY, 2010)
[7] (World Bank, 2011)
[8] (UHY, 2010)
[9] (United Nations, 2011)
[10] (UNDP, 2010)
[11] This is compared to a SADC average (excluding Mauritius and Seychelles) of 51.4 (where a higher Gini coefficient signals higher levels of inequality).
[12] (PWC, 2011)
[13] (Wilson, 2002)
[14] (Wilson, 2002)

means through which people borrowed and saved[15]. While a cooperative market also developed, estimates on the size of this market are not currently available[16].

Commercial Banks

There are 19 commercial banks operating in Angola and focusing their business of retail and corporate banking. A handful of commercial banks, however, do have specific microfinance offerings.

Banco Sol was founded in 2002 and provides both traditional banking services as well as microcredit. The bank recently signed an agreement with the Federation of Angolan Women Entrepreneurs (FMEA)[17] to increase access to microfinance for women at a reportedly reduced interest rate of 3.99% per month over two years[18]. As at the end of 2009, Banco Sol report 66,681 clients across their four categories of microfinance, namely rural group lending, commercial group lending, microenterprise lending and consumer lending. Its groups typically comprise four to seven individuals, who can access loans ranging from US$100[19] through to US$2,500 for a period of 3-12 months. Clients as part of the commercial programs can access higher loan amounts. In 2009 Banco Sol disbursed US$675 million under its microfinance programs, and collected US$15.7 million in deposits[20]. The highest proportion of funds have been awarded for microenterprise lending (48.3%), followed by consumer lending (34.4%)[21]. Rural microcredit only constitutes 13% of the value of loans disbursed, but this is mainly a result of these customers having the lowest average loan balance of just US$44[22].

As a state owned bank, **Banco de Poupanca e Credito (BPC)** largely distributes microfinance credit through its 239 branches located across all provinces of Angola; utilising some government finance and grants. Although the breakdown of its microfinance activity is not available, it does appear that BPC is actively involved in agricultural microfinance[23]. Most recently BPC agreed a loan amounting to US$10 million as part of the agricultural credit program with the Development Bank of Angola. Under the program BPC will lend to viable and sustainable small and medium agricultural producers[24].

Banco de Comércio e Indústria (BCI)[25] is also majority-owned by government and launched a microcredit program in 2010, expected to benefit 50,000 people across Angola by 2012.[26] More recently, it launched an agricultural credit program, making available US$3.3 million for peasant farmers in the Malenje Province[27].

Banco Africano de Investimentos (BAI) Micro Financas (BMF) became the majority shareholder of NovoBanco in 2007 as part of its low income segment and social development strategy[28]. NovoBanco was previously one of only two non-bank MFIs in Angola; however has now been merged into BMF. Between 2006 and 2010 BMF opened 10 branches in five

[15] (Wilson, 2002)
[16] (Catinda, 2011)
[17] FMEA is a nationwide association of approximately 2,500 business women, founded in 2001.
[18] (Shaughnessy, 2010)
[19] The exchange rate used throughout this paper is US$1 / AOA 93.
[20] (Banco Sol, 2009)
[21] (Banco Sol Angola, 2011)
[22] (Banco Sol Angola, 2011)
[23] (Banco de Poupanca e Credito, 2010)
[24] (Macauhub, 2011)
[25] Commerce and Industry Bank.
[26] (Microcapital.org, 2010)
[27] (Peoples Daily, 2011)
[28] (Banco Africano De Investimentos, 2007)

provinces. The bank disbursed US$9.9 million in 2010, targeted at micro and small entrepreneurs. Since 2007, BMF has made US$54 million in loans to Angolan entrepreneurs[29].

Non-Bank MFIs

After the sale of NovoBanco to BMF, only one non-bank MFI remains in Angola, namely **KixiCredito**. In 2006, KixiCredito was created out of the **Sustainable Livelihoods Project** (SLP), which had been set up in 1999 by Development Workshop Angola (DWA) with support from UK based One World Action. SLAs microfinance program had reportedly been efficient at reaching informal sector men and women through solidarity group lending and it had reported high repayment rates[30]. In 2009, KixiCredito reported 8,582 active borrowers, with a gross loan portfolio of US$9.3 million. The average loan balance per borrower was US$1,086. KixiCredito offers both group and individual lending through its 11 branches across Angola[31].

NGOs

There are a number of international and national NGOs and government departments with microfinance programs in Angola. NGOs **CARE and World Vision** have been present in Angola since 1989, originally focusing on emergency interventions such as food shortages, and health and water concerns. They both now have microfinance programs targeted at rehabilitating the population from the effects of civil war. Other NGOs known to have microfinance operations in Angola include DFID, UNDP and CARITAS.

The **Angola Youth microcredit program** was launched in 2007 by the Ministry of Youth and Sports, through funding from BPC of approximately US$5 million. The program is reportedly still small, providing microloans to 262 young people in Cuene province in 2009[32]. This program is an example of government's involvement in the provision of microfinance in Angola.

Credit Cooperatives

Qualitatively, it has been determined through interviews and secondary sources that significant microfinance activity is carried out by credit cooperatives[33]. However, an inability to reach Banco Nacional de Angola (BNA) has resulted in a situation where we do not have any substantive view on the level of their activity.

Informal Sector

ROSCAS, known by the locals as Kixikilas, have been organised by informal sector vendors. Groups are typically comprised of between 15-40 members, who appoint a committee comprising a president, vice president, treasurer and councilors. Deposits by members occur daily and have been found to be in the region of US$1 at a time[34]. Further data outlining the size of the industry is currently not available.

Kilapis[35], the process of traders receiving goods from other traders or factories on credit, is another form of microfinance in Angola. Goods are then sold at a margin before the trader pays the money to his creditor. Unfortunately no data or estimates on the size of this market are currently available.

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[29] (Chevron Human Energy, 2011), Chevron is a shareholder in BMF.
[30] (Linda Mayoux, 2002)
[31] (The Mix Market, 2011)
[32] (MicroCapital.org, 2010)
[33] (Catinda, 2011); (Schwettmann, 1997)
[34] (Linda Mayoux, 2002)
[35] (Linda Mayoux, 2002)

1.3. STATE OF REGULATION

1.3.1. Current regulatory environment

Until very recently, MFIs have been regulated as non-bank financial institutions under the Financial Institutions Law (FIL) of 2005. The FIL includes microcredit companies and credit cooperatives in its definition of non-bank financial institutions. Specific regulations for microcredit companies came into effect in February 2011, by means of Presidential Decree 28/11[36]. Credit cooperatives are regulated under the more recent Notice 08/11 of July 2011[37]. These regulations seek to provide a legislative framework to which microcredit companies and cooperatives must comply. Notably, these new regulations are in addition to, rather than in replacement of, the non-bank financial institutions requirements of the FIL. The FIL seeks to govern conduct and rules related to competition and advertising; and is not specific to microfinance. As such, only the newly formed microcredit and cooperative regulations will be discussed here. BNA is the designated body to carry out supervision and regulations of microcredit companies as well as credit cooperatives.

Decree 28/11 – Microcredit Companies[38]

Decree 28/11 defines microcredit as a loan granted to a small entrepreneur, natural or legal person, of an amount that does not exceed US$180,000. Under the regulations, microcredit companies are prohibited from accepting deposits. Institutions have been known to ask clients for collateralised savings, as security for a loan, but BNA has requested that they stop this activity.[39] As part of their business and in addition to the granting of credit, institutions are authorised to carry out consulting services to clients, provide guarantees and credit commitments, and to provide payment services to clients through a suitably qualified and capable institution.

The regulations also lay down key prudential requirements specific to microcredit companies. Companies must be incorporated with minimum share capital of US$450,000[40]; single lender exposures must not exceed 15% of the institution's equity; and microcredit companies must adhere to the prescribed reserve requirements. The reserve requirements mandate provisioning of 1% as soon as a loan is 8 days overdue; and 100% provisioning must occur at 90 days overdue. The provisioning schedule in Table 1 below outlines these in greater detail.

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[36] (Banco Nacional de Angola, 2011)
[37] (Banco Nacional de Angola, 2011a)
[38] (Banco Nacional de Angola, 2011)
[39] (Catinda, 2011)
[40] Minimum capital for commercial banks is US$6 million.

Table 1: Provisioning requirements for MFIs in Angola

Loan Classification	Provisioning Percentage
Portfolio past due 8-15 days	1%
Portfolio past due 15-30 days	3%
Portfolio past due 30-45 days	10%
Portfolio past due 45-75 days	20%
Portfolio past due 75-90 days	50%
Portfolio past due ≥ 90 days	100%

Source: (Republic of Angola, 2011)

The regulations do not apply any interest rate or initiation fee limits on microcredit companies. In the opinion of KixiCredito, the microcredit regulations are deemed suitable for the purposes of engaging in microcredit in Angola[41].

Notice 08/2011 – Credit cooperatives[42]

Notice 08/2011 prescribes the licensing requirements for credit cooperatives but of particular importance requires them to adhere to the following regulatory guidelines
:

- Minimum share capital of US$54,000
- Cooperatives cannot have less than 25 members for a period up to 6 months
- Interest rates may be freely negotiated between cooperatives and their members

These guidelines make no provision for any further prudential requirements.

The microcredit and cooperative regulations are specific to each respective activity and thus not geared toward any form of consumer protection. This is largely because consumer protection is governed by regulations under Notice No.02/2011 of June 1, The Protection of Consumer Products and Financial Services, which outlines the rules and procedures to be followed in respect of consumer protection. Compliance is required by all institutions subject to the jurisdiction of BNA. The notice requires that institutions adhere to standards of conduct; which involve acting with "competence, diligence, prudence, [and] good faith, so as not to defraud the customer, be deliberately negligent, reckless, abusive, coercive or deceptive in advertising[43]". Borrowers must also adhere to transparency in pricing requirements; and must provide for adequate systems to facilitate client complaints. The notice further prohibits acts of discrimination and requires that operators conduct business with clients in a confidential manner.

[41] (Catinda, 2011)
[42] (Banco Nacional de Angola, 2011a)
[43] (Banco Nacional de Angola, 2011b)

As both the microcredit regulations and the consumer protection notice are very recent, the effects on the microfinance landscape are still to be seen. It is hoped that these new regulations will attract new market entrants and expand supply of microfinance services.

1.3.2. Proposed future regulation

As the microfinance regulations have only recently been released it is unlikely that there will be any further regulatory developments, or modifications in the near future.

1.4. EXTENT OF MONITORING AND SUPPORT

1.4.1. Extent of monitoring

BNA requires that microcredit companies report financials quarterly and that they are published annually by 30 April each year; after being audited. Both on-site and off-site monitoring takes place. In addition, BNA monitors prohibited activities such as deposit-taking.

Customers are welcome to indicate dissatisfaction of a microcredit company's practice, upon which, BNA will investigate each complaint and take appropriate action. KixiCredito has already been through an on-site inspection and has submitted a quarterly report to BNA. As there is currently only one non-bank financial institution to monitor, capacity constraints at this point are a non-issue.

Although BNA could not be reached for comment, it does not appear that it monitors or collects microfinance data from any other institutions active in the sector. Obviously the commercial banks report to BNA regularly, however they are not currently required to report at a sufficiently segmented level that would allow for monitoring of bank microfinance activity.

1.4.2. Extent of support

Government support of microfinance is substantial but it seeks to play a direct supply role rather than to support existing or new institutions. Nonetheless, the amount of money that it provides to commercial banks is substantial as reflected in the case of BPC and BCI. Donors as well are still active in Angola, either running their own microcredit programs or assisting government in programs that seek to address the problem of poor access to finance.

For example government and UNDP ran a program between 2007 and 2009 called the Angola Enterprise Program, which had three key focus areas, one of which was microfinance[44]. The program provided capacity building services for banks and other financial institutions, with the aim of increasing access to finance for entrepreneurs. It also assisted government in drafting the microfinance policy[45]. KixiCredito, as the only non-bank MFI in the market, highlighted that support for the institution is limited[46]. Access to funds is a constraint, especially affordable funds. As MFIs in Angola are not allowed to mobilise deposits, they are reliant on wholesale funding (where equity and retained profits are not enough). Local commercial banks are often very expensive and not considered a good source for these funds; while apex funds are non-existent in the country. KixiCredito, and some NGOs, typically borrow from international

[44] The others being the provision of business development services for MSMEs and the improvement of the business environment.
[45] (UNDP, 2009)
[46] (Catinda, 2011)

sources as a result. KixiCredito highlighted poor infrastructure and reliance on the countries large base of civil servants, as other key constraints.

1.5. FINDINGS AND RECOMMENDATIONS

While there are a range of suppliers of microfinance in Angola, including commercial banks, non-bank financial institutions, NGOs and ROSCAs, there is currently no publically available consolidated view of the industry. While it is possible to get a sense of the level of lending by some of the more formal providers, such as commercial banks, the level of activity in the informal sector is currently not known.

In terms of potential improvements and recommendations, the Angolan government should consider the following:

- **Monitoring**: Given the lack of consolidated data in the market, it may be worth requiring other types of institutions to report to the BNA, or another suitable regulator, in order gain a better understanding of the total level of activity within the market. If this is likely to overburden BNA, it might be worth providing a threshold under which institutions are not required to report. That would allow for a fuller picture of the landscape (that is, different types of institutions) without necessarily overburdening the regulator. Further, the take-up of the new microcredit company licenses should be monitored to gauge interest and take up of these licenses over time. Clearly if take-up is not good, the BNA could then consider whether any amendments are required.

- **Forced Collateralised Savings:** KixiCredito was once engaged in collection of collateralised savings but was requested by BNA to stop. While the regulations explicitly prohibit acceptance of deposits by microcredit companies, it may be worthwhile exempting collateralised savings from the definition of deposits. BNA should, however, only consider this proposal if accompanied by certain risk reducing conditions. For example, the forced savings should not be lent out, and could be placed in a trust account at a regulated deposit-taking institution.

- **Prudential requirements:** The cost benefit analysis of prudentially regulating non-deposit taking institutions may well be biased in favour of costs. The risks of a failed credit-only MFI are significantly lower than the risks of a failed deposit-taking institution; however, the regulatory burden may be similar if prudential requirements are included. Consideration should therefore be given to focusing on non-prudential requirements for credit only institutions. Minimum capital requirements of US$450,000 could well exclude smaller institutions from legally participating in the market, which could in turn reduce the levels of credit extension.

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