

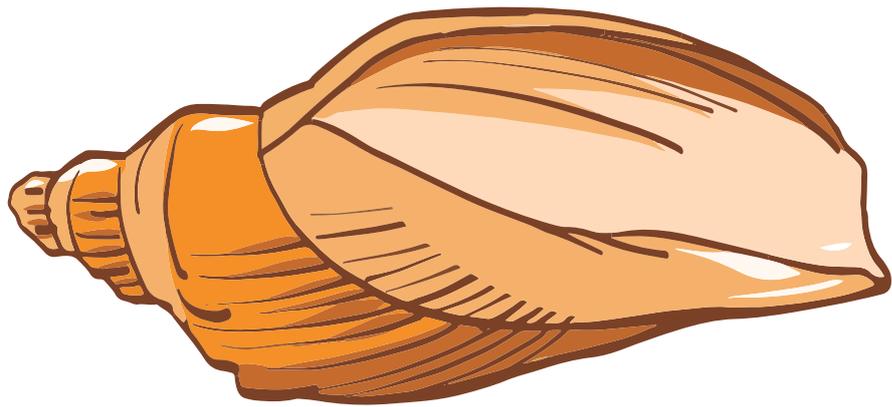


2020

# Summary of BNA Strategic Plan



BANCO NACIONAL DE ANGOLA



**NZIMBU**

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## **I. Introduction**

This document presents a summary of the Strategic Plan of the National Bank of Angola (BNA), hereinafter referred to as NZIMBU, which signals the institution's return to its origins, in order to project the future by creating in the present. The summary was prepared by the Organization and Planning Department and was reviewed and approved by the BNA Board of Directors.

NZIMBU covers the period 2018-2022 and builds on the work and achievements of our previous plans. It defines BNA's main objectives for the next 5 years, having as its underlying and ultimate objective to generate value for the Angolan Society as a whole.

NZIMBU is reviewed annually and its progress is published in our annual report.

Considering the multiple functions of BNA as a Central Bank, NZIMBU served to reformulate our institution's strategic reference, without prejudice to the principles defined by our act (BNA's Law). For that purpose four major challenges were defined (Strategic Pillars), focusing on specific areas which will be discussed in further detail throughout the document, namely:

- (i) **Macroeconomic stability,**
- (ii) **Financial stability,**
- (iii) **Support for financial inclusion policies,**
- (iv) **BNA's operating model.**

NZIMBU places a specific focus on banking sector reforms as BNA recognizes that the stability and robustness of the banking sector is a critical success factor for financial economic growth.

## **II. Strategic Pillars**

### **1. Macroeconomic Stability**

BNA's mission is to guarantee price stability and the soundness of the financial system and its medium-term goal is to achieve a single-digit inflation rate by 2022. In order to achieve this milestone, BNA adopted a restrictive monetary policy, avoiding excessive liquidity in the market.

Decisions about the course of monetary policy are made by the Monetary Policy Committee (MPC), chaired by BNA's Governor and include all members of the Board and departments related to monetary and exchange rate policy (FX). The MPC meets ordinarily every 2 months and extraordinarily when needed. At the end of each session, an official statement is published on the BNA website. In addition, all Board members make themselves available for a press conference at the end of each MPC session.

As of March 2020, the inflation rate has been steadily declining, having decreased from approximately 42% in 2016 to 17% at the end of 2019. Updated information on the inflation rate can be found on the BNA website (<http://www.bna.ao>).

In January 2018, BNA ended the Fixed Exchange regime for the Kwanza and adopted a Managed Fluctuation regime. The objective was to gradually move towards an exchange rate determined by the market.

## **2. Financial Stability**

With the objective of reviving the economic growth in Angola, the Angolan Government initiated a reform program. A key part of this program involves the restructuring of the nation's banking system. A sound banking system will expand the availability and use of credit needed for economic growth, as well as enabling Angolan banks to reestablish correspondent banking relationships with major international banks. Such correspondent relationships will permit Angolan banks to provide cross-border payment services to Angolan businesses, facilitate international trade, and support the government's efforts to diversify the economy.

NZIMBU includes a series of actions that the government is undertaking to restructure the country's banking sector. These actions are grouped under two main goals of the Financial Stability pillar, namely:

1. Ensure the stability of the financial system;
2. Ensure the integration of Angola's payment system with international systems.

These two goals in turn focus on four specific areas, which are:

- i. Enhance the Effectiveness of Regulatory Authorities;
- ii. Improve the Legal Framework for Supervising the Nation's Banks and Nonbanks;
- iii. Strengthen the Financial Condition of the Nation's Banks; and
- iv. Prepare for the 2021 Assessment of the Nation's Anti-Money Laundering and Counter Terrorist Financing (AML/CFT) System.

The foundation of a sound banking system is a regulatory framework that can impose and enforce prudential standards, including minimum capital and liquidity requirements, and AML/CFT standards. In this regard, the four topics listed above supported by the two goals of NZIMBU's Financial Stability pillar are designed to achieve such a framework as they envision:

- a set of regulatory agencies with sufficient authority and tools to supervise the banking sector;
- a set of laws that provide clear guidance to regulators and banks and are consistent with international standards;
- a banking sector that is adequately capitalized to provide credit to businesses and consumers; and,
- a planning and oversight process that ensures compliance with international AML/CFT standards.

However, achieving these goals requires a series of specific actions (outlined below), as these collectively are intended to ensure that Angola's banking regulatory framework is aligned with international standards, and to enable major international banks to reengage with Angolan banks.

## **2.1. Area 1 - Enhance the Effectiveness of Regulatory Authorities**

The first area of the Financial Stability pillar serves to enhance the effectiveness of the regulatory authorities responsible for the nation's banking system. The key banking regulatory authorities in Angola are the BNA, which is the prudential regulator for the nation's banks and nonbanks financial institutions and the Financial Intelligence Unit (FIU), which is responsible for policing compliance with the nation's AML/CFT system.

Enhancing the effectiveness of these two agencies requires that they be sufficiently independent, have the necessary resources to perform their respective functions and that they coordinate their activities with other government authorities, international bodies, and private sector organizations. Additionally, enhancing their effectiveness is also crucial to attracting independent, third-party capital to undercapitalized banks.

### **2.1.1. Ensuring Sufficient Independence**

To be effective, regulatory authorities should be sufficiently independent of political influences. Otherwise, the authorities may be unable to implement prudential standards or initiate enforcement actions needed to maintain the safety and security of the nation's banking system. The FIU was established as an independent agency, and the head of the FIU reports only to the President of Angola. Similarly, BNA is also an independent authority, but in certain past occasions its Governor was invited to attend government cabinet meetings. Going forward, the Governor of BNA will no longer be invited to participate in cabinet meetings in order to ensure sufficient independence from political considerations.

### **2.1.2. Providing Sufficient Resources**

An effective system of banking supervision and enforcement requires systems to collect and analyze data. It also requires examiners, lawyers, and other personnel to implement prudential policies and initiate corrective actions when necessary. In this regard, BNA and FIU will be given the financial resources needed to upgrade systems and hire and train personnel in order to effectively examine banks and otherwise implement the reforms envisioned in the Financial Stability pillar.

### **2.1.3. Sharing Information**

The BNA and FIU are part of a governmental framework that includes agencies responsible for other industries as well as agencies that prosecute criminal activities. To ensure that BNA, FIU and these other agencies function in a cooperative and complementary manner, especially in regards to the efforts in combating money laundering and terrorist financing, information sharing agreements (Memoranda of Understanding or MOUs) have been drafted and signed, in order to facilitate the collection of data needed to demonstrate the effective implementation of the nation's AML/CFT system.

Additionally, the head of FIU chairs an inter-ministerial commission that includes the BNA, Interior Ministry, Financial Ministry, and other authorities. That commission meets at least quarterly to coordinate policy actions.

#### **2.1.4. Cooperating with International Authorities and Private Sector Groups**

The BNA and FIU are engaged in an on-going dialogue with the IMF and the World Bank regarding the various actions that are part of the Financial Stability pillar. Furthermore, the U.S. Treasury Department has entered into a technical assistance agreement with Angola to assist in implementing anti-money laundering/terrorist financing reforms, and BNA and FIU officials have initiated discussions with officials from the Federal Reserve Bank of New York and the Board of Governors of the Federal Reserve System. The BNA and FIU will maintain these relationships while implementing the Financial Stability pillar.

Likewise, the BNA and FIU will maintain an ongoing dialogue with the Financial Services Volunteer Corps, a leading private sector organization dedicated to strengthening the financial sector in developing countries, which includes support on the development of prudential regulation and anti-money laundering policies that satisfy international standards.

### **2.2. Area 2 - Improve the Legal Framework for Supervising the Nation's Banks and Nonbanks**

The second area of the Financial Stability pillar of NZIMBU is to improve the legal framework for supervising the nation's banks and nonbank financial institutions. The government has recognized that certain features of the current legal framework for supervising the nation's banks, including AML/CFT laws, do not meet international standards. The government has already taken major steps towards this goal with the enactment of a new penal code. On January 27th 2020, the National Assembly approved a new AML/CFT law, which was drafted jointly by the Angolan authorities, the World Bank and the IMF. Additionally, as these new laws and regulations are put in place, procedures will be developed to ensure that banks understand, and successfully implement, such laws and regulations.

#### **2.2.1. Implementing the New Penal Code**

As noted above, Angola recently enacted a new penal code. Among other reforms, the new law limits cash transactions to prevent the circulation of large amounts of money outside the formal financial system. These limits will help the involved Angolan authorities such as BNA and FIU to track and control AML/CFT risks more effectively.

#### **2.2.2. Enacting a New Financial Institutions Law**

To enhance the supervision of the nation's banks, the government is preparing a new financial institution law that will strengthen the supervisory and enforcement powers of BNA and establish a framework for resolving undercapitalized banks. Among other features, this new law will assert that BNA is the macroprudential authority in Angola.

This new law is a fundamental step and will consolidate BNA's role as the guarantor of financial stability and mitigator of systemic risk. Moreover, the proposed text gives the BNA sole authority to resolve problem banks. The proposed law will be presented to the National Assembly by the end of the first quarter of 2020.

### **2.2.3. Enacting a New AML/CFT Law**

In cooperation with the IMF and the World Bank, the government prepared a new AML/CFT law to replace the current AML/CFT law. This new law incorporates the fundamental features of the IMF's model AML/CFT legislation and, as such, will satisfy international standards. As mentioned above, the new law was approved by the National Assembly on January 27th 2020.

### **2.2.4. Developing and Distributing Compliance Guidance**

In conjunction with the passage of these new laws, the BNA is preparing materials and educational programs for the nation's banks that explain the requirements imposed under the new laws and that give banks guidance on compliance with these new laws. This guidance will include information on how Angolan banks can identify and file suspicious activity reports (SARs) with the FIU. These reports are a key tool in detecting and preventing money laundering and terrorist financing.

## **2.3. Area 3 - Strengthen the Financial Condition of the Nation's Commercial Banks**

With adequate capital resources, Angolan banks can provide credit for new businesses and help promote economic diversification. Moreover, in order to reestablish correspondent relationships with major international banks, Angolan banks must be able to demonstrate that they have capital to operate safely in all economic cycles. Thus, the third area of the Financial Stability pillar of NZIMBU is to strengthen the financial condition of the nation's commercial banks.

Achieving this goal requires an assessment of the condition of existing banks, including the quality of their assets and the extent to which loans are recorded on the balance sheet at fair value. Recapitalizing banks will require cleansing balance sheets of non-performing loans by writing-off the loans or selling or transferring the loans to third parties. In turn, this will deplete existing bank capital, therefore increasing the amount of capital that must be raised to stabilize Angolan banks and position them to help fund economic growth.

### **2.3.1. Restructuring Banco de Poupança e Crédito and Recredit**

The nation's largest government-owned bank, Banco de Poupança e Crédito (BPC), is an important resource for the economy, yet it is in a challenging condition. To stabilize the BPC, the government is developing a restructuring plan for BPC that will address, among other matters, its balance sheet, staffing, branch network, business strategy, risk management, and internal controls. This plan will be in place by June 2020 and will run for a period of three years. The goal is to return the bank to profitability within three to five years. The government is also preparing legislation to strengthen the autonomy and governance framework for Recredit, which was formed to acquire nonperforming loans from the country's banks.

The legislation will restrict Recredit's mandate to purchase nonperforming loans from BPC only and establish a requirement that assets be transferred to Recredit at fair value, based upon proper due diligence.

### **2.3.2. Evaluating the Condition of the Nation's Banks**

A key step in restructuring the banking sector is assessing the condition of existing banks, especially asset quality and the scope of nonperforming loans. Accordingly, the BNA oversaw an asset quality review of 13 of the nation's commercial banks. This review was completed on December 31st of 2019 and found that 7 banks will need to adjust their capital structure in order to comply with minimum regulatory capital by June 30, 2020.

### **2.3.3. Closing Problem Banks**

Based upon the results of the asset quality review, it may also become apparent that some banks cannot be recapitalized and must be closed. In the past year, BNA has closed three problem banks and will close additional banks if they fail to meet minimum capital requirements. BNA will also review and revoke the licenses of foreign exchange bureaus and credit unions that are inactive.

## **2.4. Area 4 - Prepare for the 2021 Assessment of the Nation's anti-money laundering and counter terrorist financing (AML/CFT) System**

In 2016, based upon reforms in its AML/CFT system, Angola was removed from the list of countries subject to monitoring by the Financial Action Task Force (FATF). The next evaluation of the country's AML/CFT system is scheduled for 2021 and will involve not only a review of the country's technical compliance with the FATF standards, but also an assessment of the effectiveness of the country's implementation of those standards.

The final area in this pillar of the NZIMBU is to put in place a framework that meets FATF standards, is permanent, and is ultimately designed to prevent the Angolan financial system from being used for malign interests, including money laundering and terrorism financing. Achieving this goal will be key to reestablishing correspondent relationships between Angolan banks and major international banks. Moreover, achieving this goal will require the designation of a leader who can oversee the preparations for the evaluation, including an AML/CFT self-assessment; a gap analysis on compliance with FATF standards; and the collection of data to demonstrate the effective implementation of the nation's AML/CFT system.

### **2.4.1. Performing a Self-Assessment of AML/CFT Risks**

As part of the preparations for the evaluation of 2021, Angola has conducted the first National Risk Assessment (NRA). This exercise was conducted with the help of the World Bank. The NRA identified areas that may require corrective action or the implementation of new policies or controls in advance of the FATF evaluation. The NRA involved more than 90 people from the Justice Department, Police, Attorney General, Central Bank, Capital Markets, Insurance, Gaming, Housing, Lawyers, Inspector General, Public Procurement, Accountants, private financial sector, Statistics Institute, and the FIU. The NRA was conducted based upon data from 2015-2017, and will be updated by March 2021 with data from 2018-2020.

### **2.4.2. Conducting a Gap Analysis on Compliance with FATF Standards**

Another step in preparing for the 2021 FAFT evaluation will be a "gap" analysis that assesses the alignment between FATF standards (both technical standards and the effectiveness requirements) and Angola's AML/CFT

system. The gap analysis may identify areas that require corrective action or the adoption of new policies in advance of the 2021 evaluation. It will also serve as a basis for completing the FATF technical compliance questionnaire that must be submitted six months prior to the evaluation.

### **2.4.3. Collecting Data on Effectiveness**

Passing the effectiveness evaluation will require that Angola demonstrates that it meets the eleven immediate outcomes of FATF associates with a sound AML/CFT system. This will require the collection of data on compliance with the FATF standards, such as the number of SARs filed by banks and other institutions and the number of AML/CFT investigations and prosecutions initiated by law enforcement. Collecting this data will be central to passing the evaluation, and the data must be submitted four months prior to the start of the evaluation.

## **3. Support for Financial Inclusion Policies**

BNA has concluded that one of the key ways to support public policy is to actively increase financial inclusion, as including more and more Angolans in the banking sector allows them to make savings and obtain access to credit and microcredit.

The World Bank data indicates that in 2017 the global financial inclusion rate was around 69%. In contrast, Angola's financial inclusion rate is currently 29%.

BNA is committed to drastically improve the rate of financial inclusion in Angola and for this reason has been active in reforming the nation's payment systems by updating the Payment Systems Law and launching mobile and instant payment systems.

In this regard, with the support of the World Bank, BNA undertook a review of the nation's Payment Systems Law, which was adopted in 2005, and based upon that review is developing a new law that is designed to:

- a)** Promote competition;
- b)** Align with best practices in terms of KYC/AML/CFT;
- c)** Guarantee more security to clients' transactions;
- d)** Introduce the concept of electronic currency;
- e)** Introduce innovative services such as open banking, payment initiators and information aggregators.

This new Payment Systems Law should pave the way for new types of entities to enter the market, such as fintechs. BNA has also launched a start-up incubator and regulatory sandbox to identify, develop and promote start-ups that seek to add value to the payment systems in Angola. To date, this project has identified 10 start-ups that will go through a 10-month training period where their business models are tested before going to the market.

Additionally, BNA has recently finished a draft framework for mobile and instant payments. An RFI/RFP related to this framework will be launched during the first semester 2020. When concluded, this initiative will allow for telecom companies, banks, fintechs, and other entities to market new and innovative payment solutions.

BNA is focused on guaranteeing interoperability between the various market participants, because, a vibrant and diverse payment system can significantly expand the availability of financial products and services to consumers and businesses in Angola.

#### **4. BNA's Operating Model**

BNA understands the importance of having a good and robust operating model, with effective processes and a motivated workforce. In that regard, a series of initiatives have been carried out in order to improve BNA's operating model, namely:

- Revised HR management policies – such policies aim to ensure the implementation of procedures that, contribute to a more effective management of the workforce, focusing on recognition, performance and potential as a basis for support and success in achieving the goals defined by the institution.
- Better internal processes - BNA started automating many of its most relevant processes, in particular the bank's payment process, as well as strengthening its control mechanisms (Internal Control System) in accordance with international good practices.
- Business Continuity Week Event – held by BNA in an effort to consolidate the business continuity plan defined and ensure its effective communication.
- Effective representation through all regions – inauguration of the East Regional Delegation and the approval of the Governance and Management framework for the Regional Delegations, in order to ensure BNA effectively covers its responsibilities in all the provinces.
- Creation of the BNA cycle of conferences, which broaches over topics of relevance in the banking sector, with a special emphasis on the conference about corporate governance in the banking sector, held in the last quarter of 2019, which congregated many experienced speakers from the sector.

Furthermore, understanding the benefits of innovation and a good technological framework, BNA set out to carry a diagnosis of its IT Governance Model, focusing on the dimensions of human resources, Processes, Technology and Training, which together with the recently approved process management methodology, will allow the Central Bank to restructure itself in a more effective manner and with better results.

### **III. Conclusions**

The goals and actions contained in this summary of the NZIMBU will enable the Bank to become a more robust institution, equipped and ready to participate in the development of the Angolan financial sector.

Additionally, the current review of the BNA Act, with the technical assistance of the IMF, further demonstrates the Bank's commitment in becoming an institution aligned with best international practices, which in turn will impact Angola's Financial System in a positive manner.

Collectively, these efforts will create the conditions for the nation's banks to support economic growth in Angola, through their traditional role of financial intermediaries.

The approaching 2021 FATF evaluation is also an important and decisive event. BNA, the FIU and other institutions are committed and working together closely to ensure a successful evaluation.

A successful evaluation will reposition Angola in the international financial system as a trustworthy player and partner.



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