

**THE PAYMENT SYSTEM  
IN ANGOLA**



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## **OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN ANGOLA**

The Angolan payments system is still in its embryonic stage, and the same can be said of the Angolan financial system. The first initiative towards organising a two-tier banking system in Angola was initiated in 1991 with the approval of decrees that enabled the opening of that sector to private initiative. Until that date, only two state-owned banks were in operation in the country, namely Banco Nacional de Angola (BNA) and Banco de Poupança e Crédito (BPC).

With the advent of peace, it was hoped that the Angolan economy and the banking system would experience a faster growth rate. This did not come about. However, from 1997 it appears that the growth of economic activities and the banking system is being readdressed. Initiatives aimed at expanding the banking service to areas in the countryside which are far away from the capital city have been taken.

In view of the precarious state of the communications infrastructure in the country, the central bank, the Ministry of Finance of Angola, the banking system and the state-owned telecommunication company decided to implement a communication network designed for the Angolan financial system, employing on an independent communication system, by satellite (VSATs), and by the X25 Protocol.

As a follow-up to this communication network and based on the prerequisite that a well-structured payment system enables better use of the available money supply in the economy, equitable sharing of risks and exchange of business transactions, as well as a full discharge of industrial and commercial activities, and provision of services in the country, the central bank established a Task Force (TF) in September 1996, with a view to designing an Angolan payments system and defining a strategy for its implementation.

The above-mentioned Task Force is made up of representatives from the various administrative segments and from all financial institutions operating in the country and the Ministry of Finance. As from September 1997, the TF has been functioning with technical advisors under the Financial Institutions Modernisation Programme (FINSEC), sponsored by the World Bank.

### **1. INSTITUTIONAL ASPECTS**

#### **1.1 General legal aspects**

With the enactment of Decree 4/91 of 20th April, the duty of the Angolan National Bank (BNA), which under the same decree is the country's central bank, is to organise and supervise the banks' clearing houses and to approve the regulation for the Value Clearing Service (CSV). In terms of the central bank Corporate Guidebook, the Issuing and Credit Directorate is charged with the daily settlement, after clearing, of cheques, bills, promissory notes and other values presented by credit institutions.

The Statutory Instrument that regulates the use of cheques in Angola is the Uniform Law on Cheques of the Geneva Convention. Punishment for issuing cheques without funds is provided for in Articles 23 and 24 of Decree 13.004 of 12th January 1927.

There are also other relevant legal instruments which support the development of a consistent policy, namely:

- decree 6/97 of 11th June 1997, the new corporate law for BNA, which has redefined the functions of BNA as the country's central bank, and amongst other matters, regulated its relationship with the financial institutions, granting them its role of lender of the last resort of this system, and reserving itself the duty to organise and supervise the bank's Clearing House; and

- decree 5/97 of 27th June 1997, Foreign Exchange Act, which has disciplined forex operations and trade, including the transactions that are carried out.

Under the Angolan payment system, the Value Clearing System (CSV) is one of its component parts, originally regulated by Statutory Instrument 46/91 of 24th May. Currently, this service is operating under a regulation approved on 8th September 1994, incorporating amendments introduced by Statutory Instrument 81/96 of 21st November.

## **1.2 Roles of financial intermediaries that provide payment services**

The Angolan financial system comprises the following:

- the Angolan central bank (BNA);
- six banking institutions, of which five are commercial banks and one is an investment bank; and
- one credit bank, included under special credit institutions.

Services offered to their customers by the existing seven institutions do not differ much from each other. The same can be said of the non-cash payments instruments offered to customers, which are minimal.

The main activity of banking institutions and the credit bank is to attract deposits, and the main operation is the sale of foreign currency.

Resident customers are entitled to foreign currency and individual entities are entitled to forex. Non-residents who are eligible, and some worker categories are allowed to open and access foreign exchange accounts in the financial institutions based in the Angolan territory.

The availability of credit by private institutions is scarce due to a lack of reliable facilities to carry out these operations. A major inhibiting factor to the provision of credit is the activity of public notaries which is not yet fully restored in the country.

All banking institutions can participate in the Value Clearing Service through which cheques and other documents transfer payments.

A total of 20 bureaux de change are non-financial institutions also authorised and supervised by the central bank. The objective of the exchange houses is to sell foreign currency to individuals and to companies in accordance with central bank regulations.

## **1.3 Roles of the central bank**

The central bank's main objective is to ensure that the national currency value is sustained, and it has the sole right to issue bank notes and metal coins. The central bank also determines the conditions of issue and executes currency distribution, substitution and withdrawal. Additionally, it has authority to:

- act as the sole banker to the state;
- advise the government in monetary, financial and foreign exchange matters;
- cooperate in the definition and execution of foreign exchange policy;
- manage the country's external reserves;
- act as intermediary in the government's international monetary relations;
- strive for the stability of the national financial system ensuring, to that end, that it plays the role of lender of last resort;

- grant and ensure an information collection and processing system for monetary, financial, foreign exchange statistics and other information in areas of its activity so as to act as an efficient coordinating, management and control mechanism;
- prepare and maintain the updated external debt record of the country and carry out debt management;
- prepare the balance of payments;
- supervise the financial institutions, control their solvency and liquidity, and maintain their deposit accounts under the terms and conditions that the Board of Directors may decide; and
- organise and supervise the banks clearing houses.

With a view to achieve better performance of all these functions, the central bank has often promoted actions aimed at improving internal procedures and upgrading their officials, benefiting from the experience of other countries and training projects.

#### **1.4 Roles of other private sector and public sector bodies**

With the exception of the central bank and banks, other institutions of the private and public sectors and the credit bank participate in the payment system as users of the services provided by the financial system, excluding any obligation or participation as providers in the payments system.

Payments by the National Treasury are made by means of vouchers for clearance. The National Treasury holds deposit accounts at the central bank and this account is accessed daily for the amounts paid by the Treasury.

## **2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON-BANKS**

### **2.1 Cash payments**

The national currency is the *Kwanza reajustado* (Kzr). There are no coins in circulation, only bank notes. The bank notes in circulation are: Kzr 5,000,000.00, Kzr 1,000,000.00, Kzr 500,000.00, Kzr 100,000.00, Kzr 50,000.00 and, in very small amounts, Kzr 10,000.00 and Kzr 5,000.00.

According to data from June 1997, the notes and coins in circulation and notes and coins in possession of the public represented respectively 38.9% and 31.1% of the M1, and 29.7% and 23.6% of the M2.<sup>1</sup> In the aggregate M2, the money outside the banking circuit, which in 1990 represented only 7.6% of the money supply in its broad sense, increased and in 1993, 1995 and 1996 represented 32.15%, 22.7% and 22.4% respectively. This trend of high monetary circulation witnessed in the last few years continued throughout 1997 which shows the need to use monetary policy instruments which would attract savings in order to finance economic activity.<sup>2</sup>

Currency is the most used payment media in commercial transactions by retailers and for low-value payments and in rural areas.

A minority of the population use banking services, with salaries being paid directly to workers in cash and kind.

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<sup>1</sup> Banco Nacional de Angola. Panorama Monetário Global. Luanda:1997.

<sup>2</sup> Banco Nacional de Angola. Boletim Estatístico-económico. Luanda:1997.

The provision of services for the payment of wages to the various bodies of the civil service in Luanda, the capital of Angola, which formerly was provided by the central bank, has since November 1997 been carried out by commercial banks. This measure is likely to increase the number of customers for the banks and obviously crediting accounts will, in the near future, be the procedure for the payment of wages to this type of worker.

## **2.2 Non-cash payments**

### **2.2.1 Cheques**

Commercial banks, the investment bank and the credit bank customers are allowed to access their bank accounts by using cheques. In order to reduce restrictions related to the acceptance of this payment instrument, certification of cheques was implemented. The majority of cheques in circulation in the economy are certified.

Only payments of significant value are made by means of cheques. All items passing through the CSV are higher than the equivalent of USD 200, out of which about 85% are of values higher than USD 500.

Among the non-cash payment instruments, the cheque is the most used instrument, representing about 75% of the number of items cleared daily and about 55% of the total value cleared.

### **2.2.2 Credit transfer orders**

The credit transfer order is another payment instrument available to customers of the banks, and is a document that certifies receipt. There is also a similar document, standardised by the Ministry of Finance of Angola, exclusively issued by the Treasury, whose denomination and operation of transfer are similar to those of the transfer order available to the public. This explains why an instrument that is used in smaller quantities, about 10% of items that are cleared daily, has an average value, by order issued, equivalent to USD 70,000, which is far higher than the cheque whose average value, per issued cheque, is equivalent to USD 15,000.

### **2.2.3 Standing/stop order drafts**

The draft is a credit transfer instrument, a document that represents receipt and standardised by the Angolan Ministry of Finance, is used exclusively for Treasury payments, making its issuance an exclusive right of the Treasury. The drafts represent about 15% of the number of items cleared daily and 15% of the total value cleared. The average value of an issued draft is equivalent to USD 20,000.

### **2.2.4 Other documents to be cleared**

Deposit slips, debit/credit payment orders and debit transfer orders for low-value quantities and amounts pass through the CSV.

### **2.2.5 Other transfer documents**

**Direct debits.** Financial institutions provide direct debits to accounts, but this product is not used extensively by their customers.

**Card-based payments.** Payments by means of cards are used basically in supermarkets and petrol stations.

Supermarkets accept two types of cards:

- cards for which payments to supermarkets are made directly by the companies, which in turn inform holders and supermarkets of limits loaded onto the cards; and
- cards issued by only one financial institution on which value paid by the holder is stored, in accordance with the funds available in their respective deposit accounts.

Cards accepted at petrol stations are available provided that payment of a fee for the amount to be loaded is previously made to Sonangol, the fuel utility.

**Credit cards.** Very few businesses, mostly hotels and restaurants, accept payments by means of credit cards. Banking institutions do not issue credit cards to customers, for use either locally or internationally.

**Travellers' cheques.** Travellers' cheques in foreign currency are sold by financial institutions and bureaux de change in accordance with regulations and limits that are fixed by the central bank. Customers contact the institutions which are authorised to sell and purchase foreign currency in order to acquire travellers' cheques. However, in view of the difference in the exchange rates between the official and the non-official (parallel) markets, their use by residents and foreigners differs. Foreigners and residents of Angola and Angolan citizens exchange foreign currency bank notes in the parallel market.

**ATM and POS networks.** There is no provision for financial transfer services by means of ATM and POS in Angola. The banking institutions intend to offer the abovementioned services as soon as the communication system for the financial system is implemented.

### **3. INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS**

#### **3.1 General overview**

As stated in the information in the introductory section, the Angolan Payments System is undergoing transformation. The basic ideas on the changes being implemented in the Value Clearing Service are presented in greater detail.

#### **3.2 Structure, operation and administration**

The operation of CSV, which is the only subsystem of the Angolan payment system in operation, is presented in this section.

The Value Clearing Service is regulated by a regulation approved in 8th September 1994, with amendments introduced by Statutory Instrument 8/96 of 21st November and executed by the central bank, which bears all the costs of this system.

Eligibility for membership of the system is extended to banking institutions that keep Reserve Accounts at the central bank. These institutions are entitled to direct participation in CSV, although indirect participation by proxy is permitted, with all obligations being borne by the delegated party, including settlement of the delegating bank's position at the clearing house.

Cheques, drafts and payment orders, transfer orders and deposit vouchers are cleared through the CSV.

The clearing sessions, covering exchange and return of vouchers, are carried out once a day in the morning at the clearing houses in the various places, all of them installed at central bank branches.

The process of exchange and return of vouchers is undergoing computerisation. Implementation is in the initial stage. This process makes the closing of the positions of the

participants faster, and it also enables the acquisition of data for the formulation of statistics on clearing. In this system, the closing of participants' positions are made automatically with the data processed. Participants submit a copy of the list of presented/returned documents to all other participants.

The central bank processes the received data by means of a specific application which shows the net credit/debit position of each participant. This position is recorded in a specific voucher which is then sent to BNA's section in charge of the management of the participants' Reserve Accounts to be posted to the participants' accounts. There is a physical exchange of all documents, from participant to participant.

Settlement of credit/debit position of the banks is performed on a daily basis, after the clearing session, by effecting the appropriate entries, either debit or credit, to the Reserve Accounts of the respective participants at the central bank.

In the case of insufficient funds in the participating institution's account, the existing CSV Regulation provides for the annulment of the session that has been held, and the staging of a new session from which the defaulting institution is banned, both for payments and for receipts.

Additionally, the same regulation provides for the suspension and exclusion from the clearing service as a sanction against participants who do not comply with the security and liquidity requirements for maintaining the good quality of the clearing exercise. These sanctions are justified by the recurrent violation of the regulation.

The Value Clearing Service has installed clearing houses in:

- Luanda, where all financial institutions own branches and where documents received and circulated in bank branches in Luanda, Caxito, Cacucaco and Viana, are cleared as if they were received and circulated within one single banking area;
- Benguela, where five financial institutions own branches and where documents received and circulated in bank branches in Benguela, Lobito, Baía Farta and Catumbela are cleared as if they are received and circulated within one single banking area;
- Cabinda, where three financial institutions own branches, and where documents received and circulated in bank branches in Cabinda are cleared; and
- Lubango, where four financial institutions own branches, and where documents received and circulated in bank branches in Lubango and Namibe, are cleared as if they are received and circulated within one single banking area.

Regulation will make it compulsory that all documents presented at branches of financial institutions across the country for clearing be settled through the CSV (Value Clearing Service), with the following maximum periods for clearing and settlement of vouchers:

- in those areas where there is a clearing house and the drawee and drawer institutions are located in the same banking area as the clearing house, a period of three business days is allowed for presentation, starting from the business day after receipt of the voucher at the bank branch, and a further three business days for returns, starting from the first business day after presentation of the document to the clearing house;
- in those areas with a clearing house and where the drawee and the drawer institutions are located in different banking areas but in the same province as the clearing house, the allowed periods are four business days, both for the presentation and for returns; and
- in areas where there is no clearing house, the allowed periods cover 15 business days for presentation and from the end of this period an additional fifteen business days for returns.

The CSV's operation, including clearing periods, is undergoing reassessment because it is difficult to comply with the existing rules, due to absence of shared transportation system for vouchers for clearance and previously defined routes.

#### **4. SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS**

##### **4.1 Exchange and settlement systems for international transactions**

The selling of foreign currency to financial institutions by the central bank is carried out at fixing sessions. It is necessary that payment of the "counter value" in the national currency is debited to a bank's reserve account at the central bank and a correspondent bank is instructed to make payment of the foreign currency to an overseas bank within a period specified by the central bank.

International transfers are made through correspondent banks using instructions transmitted by telex.

The main currencies traded are: US dollar, German Mark, Swedish krona, Netherlands guilder, pound sterling, Belgian franc, French franc, Swiss franc, yen, escudos and pesetas.

##### **4.2 Exchange and settlement systems for securities transactions**

The existing securities market is for the securities of the National Treasury. However, this market has been inactive for more than a year because the National Treasury liquidated its issued securities and it is not now financing itself by means of these instruments.

#### **5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SYSTEMS**

##### **5.1 General responsibilities**

The central bank, as provided for by law, is the exchange authority in Angola and is empowered to organise and supervise the bankers' clearing houses.

Thus, the central bank manages and carries out sales of foreign currency to commercial banks, regulates and operates the Value Clearing Service. As a result the central bank posts the debits corresponding to the counter value of the foreign currencies in the local currency sold to commercial banks to their respective reserve accounts as well as credits or debits from the daily closing position of the clearing.

##### **5.2 Provision of settlement and credit facilities**

The central bank provides financial institutions with rediscount facilities (treasury credit) to utilise the liquidity of short term assets to meet the cash needs of institutions. The central bank also provides guaranteed loans (against collateral) to correct short term liquidity imbalances.

Thus, problems of liquidity of financial institutions can be reduced by using these facilities, which are regulated by Statutory Instrument 03/97 of 28th June 1997.

### **5.3 Monetary policy and payment systems**

The main objective of monetary policy is to preserve the value of national currency, and this is executed by means of conventional instruments such as:

- maintenance by commercial banks of compulsory primary reserves at the central bank;
- interests rates exercised in rediscount operations;
- fixing of credit limits for financial institutions; and
- fixing of maximum interest rates to be used by financial institutions in operations with their customers.

Another conventional procedure in the execution of the monetary policy, the selling of public securities, has not been used by the central bank for more than a year owing to the fact that the National Treasury has redeemed issued treasury bills and it is not financing itself by the issue of treasury bills.

In respect of the development of the Angolan payment system one of the major concerns is that the system should provide the central bank with accurate and timely information on the flow and settlement of transfers and on the reduction of the float, so as to give the central bank a real understanding of the liquidity situation of the banks to enable it to execute monetary policy in a more effective and secure manner.

Execution of monetary policy has typical implications on the payment system. When measures aimed at restricting credit are implemented it is obvious that the volume of cheques returned because of insufficient funds, and the associated documentation for clearance, increases. There is an increase of vouchers in the clearing system particularly when the periods for clearance of these vouchers are long. In such cases, people tend to manage their payments by using the float as much as possible for their own benefit. However, since there is no coordination between the performance of the CSV and the implementation of monetary policy measures there are no grounds on which to either confirm or deny the occurrence of these practices.

### **5.4 Risk-reducing measures**

With regard to reducing credit risk, three initiatives are under way: the establishment of a credit risk centre, the establishment of a centre for complaints regarding bills and promissory notes, and the establishment of a register which includes information on issuers of cheques without sufficient funds.

## **6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM**

### **6.1 General overview**

The task force established to design the Angolan payments systems has decided, initially, to reorganise the Value Clearing Service (CSV) before submitting a proposal for the Angolan payments system. This course of action was based on the following:

- all non-cash payment instruments available in Angola are paper instruments, and their settlement requires more security and speed;
- the substitution of these instruments with electronic transfers, particularly in bank branches situated in the provinces, may take some time before the communication system being implemented stabilises; and

- it is assumed that a reorganised CSV will be a motivating factor for participants in the CSV to become involved in the discussions on the design of the Angolan payment system, particularly where an efficient communication system for the banking system is already envisaged.

## **6.2 Description of the new system**

### **6.2.1 Operation of the Value Clearing Service**

The major ongoing actions for the improvement of the Value Clearing Service, which will initially only affect the clearing house in Luanda, are as follows:

- the implementation of phase II of the computerised system of the CSV, which involves exchange of information on the documents to be cleared between participants by means of diskettes. This will enable the time spent on clearing documents to be reduced by retaining only the physical exchange of vouchers. The information on vouchers for clearance contained on diskettes will also reduce the time required for processing vouchers during clearance because the drawee bank can use this information to access the respective accounts of its customers;
- the setting of a period of two business days for clearing in Luanda, starting from the business day after receipt of documents at bank counters and making it compulsory for banks to communicate this measure to their customers. The measure implements the actual period foreseen for the clearing of vouchers circulated in Luanda;
- the physical presenting of vouchers, in sealed envelopes, at the exchange/return sessions will be compulsory;
- prohibiting participants from opening the sealed envelopes in the clearing house;
- establishing rules for corrections resulting from exchange of misaddressed documents (copying and calculation errors, non-delivery of related document, etc.) by the use of the Differentials Regularisation Document (DR), which is a standardised procedure for handling and confirming these corrections at subsequent clearing sessions.

The interconnection of clearing between bank branches with shared air transportation of documents is one of the measures being implemented in the Value Clearing Service. This system will enable varying clearing periods of four to twelve business days, according to the banking areas involved, including the Luanda banking area (covering Caxito, Cacuaco and Viana), and the Benguela banking area (covering Lobito, Baía Farta and Catumbela), Cabinda, Lubango, Huambo, Uíge, Malange, Soyo, Namibe and Tombua. Ten banking areas (Bucu Zau, Chitato, Porto Amboim, Sumbe, Gabela, Saurimo, Luena, Menongue and Ondjiva) will not be covered by the CSV, although they can be added to the interconnected system in the near future.

### **6.2.2 Prospects for the Angolan payment system**

The financial institutions' communication system is in its final implementation stage and the system is expected to be up-to-date, reliable, fast and secure. Two fundamental rules for the Angolan payment system are envisaged:

- the first rule states that all interbank electronic transfers, directly between institutions or through appropriate electronic systems, should have the positions at the financial closing of each banking institution settled, by electronic control, in the reserve accounts at the central bank;

- The second rule states that it is compulsory for any system that performs financial electronic transfers to be available to all banking institutions and not limited in its scope to one institution.

## **7. INFRASTRUCTURE**

### **7.1 Telecommunications infrastructure**

The telecommunications infrastructure is very precarious in urban areas, and almost non-existent in rural areas.

In order to ensure the feasibility of the communication system for use by the banking system, the central bank and the Ministry of Finance a communications network for the financial system in Angola is being implemented. It relies on a private communication system and is to be implemented in two phases.

The first phase will comprise the interconnection, by satellite communication, of the central bank with regional branches and of the headquarters of the financial institutions based in Luanda with their branches in the provinces. The status of the work related to the implementation of this phase is as follows:

- the central bank and three commercial banks have decided to acquire VSAT terminals from SRC (Services, Networks and Communications), using HUB station services which are installed in South Africa and which enable the transmission of data, voice and image.
- the remaining banks have decided to acquire terminals from Portugal Telecom (Marconi), using the services of the same HUB station in South Africa:
- aeriels have already been installed at the central bank, both in Luanda and in Benguela, and it is expected that by the end of 1997 this will have been extended to Cabinda and Lubango. Four commercial banks have already started installing their own terminals;
- configuration of the infrastructure for communication at the branches of the central bank, started in November 1997, and the alignment and the configuration of the VSAT terminal for one of the commercial banks in Luanda;
- according to conservative estimates, the communication system for this first phase will have been implemented in the central bank by the end of the first quarter of 1998.

In the second phase, the central bank in Luanda is expected to be interconnected with the headquarters of the commercial banks and the latter to their respective branches in Luanda. The communication system will have the infrastructure of Protocol X.25, managed by the Angola Telecom as national operator.

Under this Protocol, communications will be processed by means of public telephone lines and access will be strictly for users of Protocol X.25. The status of the work involved is as follows:

- the lines installed at the central bank and in one of the commercial banks are being configured, the lines that were installed at the Ministry of Finance have already been configured;
- it is expected that by the end of the first quarter of 1998, the second phase of the communication system will have been implemented in the central bank.

According to evaluations carried out, the costs of communication by means of this type of system are far lower than the costs of communication by means of leased telephone lines.

It is hoped that, within the short term, the Angolan payment system will be made up of a Value Clearing System, which must be effective and fast, covering most banking areas which are economically viable for the country, with a short term system of fast and effective system for electronic financial transfers.

## **7.2 Availability of electricity**

The availability of electricity in urban areas is precarious, whereas it is almost non-existent in rural areas.

## **7.3 Road infrastructure**

The road infrastructure is precarious. It is expected that recovery of this sector will take place within a shorter time than that of the telecommunication and electricity sectors. As a result of an inadequate road network, air transport was the only option left for the transport of instruments for the clearing of payments.

In order to have an efficient payment system, it is required that an adequate telecommunications infrastructure, road network and electricity network be available. However, since the ideal facilities in the sectors referred to are not available, there must be more inventiveness in designing and implementing an efficient payment system in spite of the prevailing conditions. This is another challenge for the task force that is addressing the Angolan payments system.

Table 1  
**Basic statistical data**

	1992	1993	1994	1995	1996
Population (millions) .....	10.60	10.90	11.20	11.60	11.80
GDP (billions of Kwanza) .	778.00	2,741.00	30,647.00	736,491.00	15,723,136.00
GDP per capita (Kwanza) ..	73,396.23	251,467.89	2,736,339.29	63,490,603.45	1,332,469,152.54
Exchange rate (vis-à-vis USD)					
Year end .....	550.00	6,500.00	513,627.00	5,749.00	203,009.00

Source: Statistical - Economic Bulletin.