SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

Developing the Supply of Financial Services and Improving the Efficiency of the Banking Sector in Angola

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Executive Summary

This report has been prepared by the Southern Africa Global Competitiveness Trade Hub to provide the Banco Nacional de Angola (BNA) with a critical analysis of key constraints to improving the efficiency of the banking sector and developing a sound and efficient financial sector in Angola. The report addresses five specific elements of BNA's Policy Matrix for Expanding Credit Access: improving the supply of term finance; expanding access to credit for small and medium scale enterprises (SMEs); reducing the cost of credit; establishing benchmark interest rates to guide the pricing of credit products; and assessing the possibility of introducing deposit insurance in Angola. The report takes into account the special conditions prevailing in Angola, and also draws heavily on lessons from international experience.

Based on this analysis, the report offers more than 80 recommendations for consideration by BNA, the Government of Angola (GOA), and other stakeholders, to improve the supply of financial services and the efficiency of the banking sector. Table 1, at the end of this Summary, presents a compilation of the recommendations, and highlights suggested priorities. In addition, the Appendix to chapter 3 of the main report presents 11 recommendations for strengthening the capacity of the government's lead agency for SME development (INAPEM) to support the provision of business development services for SMEs. This is another essential element of a coherent strategy for expanding access to credit. Many of the recommendations presented here endorse or highlight issues that are already under consideration by the authorities, but many others involve new measures for attention.

FINANCIAL SECTOR FUNDAMENTALS

The principal function of a financial system is to mobilize savings and allocate funds efficiently to businesses, households, and governments. Financial transactions are unique in that the main product is a pledge for future repayment of funds, under specified terms and conditions. As a market in promises, the financial system is driven by *information* about the reliability and solvency of the party pledging repayment. Strong legal and judicial foundations are also needed to ensure contract enforcement and property rights, and establish the rules and regulations governing financial institutions.

Commercial banks dominate the financial landscape in Angola. A sound banking system is a vital public good in that economic agents across the board rely on a stable and dependable banking system to facilitate transactions, protect cash balances, and finance operations. Moreover, imprudent banking practices often provoke crises that impose heavy costs on the economy at large. Banks have a basic obligation to protect the funds obtained from their depositors. They must therefore manage risks carefully and avoid undue exposure to possible losses, while seeking an attractive return for shareholders. In addition to strong corporate governance, a sound banking system also needs effective supervision and judicious regulations as a second line of defense against financial instability.

Yet banks can be sound *and innovative,* particularly in developing new financial services and serving nontraditional clients. To facilitate innovation, the government and the donor community can be catalysts for change. The motivation for intervention stems from market imperfections

that cause financial institutions to under-invest in innovations that can benefit economic development. The imperfections include information gaps on both sides of the market. Thus, most banks lack information on appropriate techniques for serving new markets profitably, while most small and medium-sized businesses do not understand the requirements of the lender and lack the capacity to provide necessary accounting data and business plans. Carefully crafted interventions can therefore help financial institutions test new markets and services and help local businesses become more “bankable” through better management and financial controls.

CHALLENGES FACING ANGOLA TODAY

The analysis in each chapter of the report is framed in the context of conditions in Angola today. It is useful at the outset, however, to highlight some major challenges that influence the development of the financial system. One basic challenge arises from the fact that Angola is still recovering from a long period of conflict that ended in 2002. Wars leave a legacy characterized by weak governance; depressed incomes (along with high expectations); degraded infrastructure and public service systems; high inflation and uncertainty; critical problems with physical security and property rights; exceptionally high unemployment, especially among youth and ex-combatants; and a severe shortage of human and institutional capacity. Despite such obstacles, Angola, by 2007, succeeded in achieving rapid growth driven by an oil boom, combined with an aggressive program of reconstruction. In addition, the political situation has stabilized, security conditions are favorable, and macroeconomic policies have greatly improved. In short, Angola has passed the critical initial tests of post-conflict recovery.

In the financial sector, too, Angola has moved beyond initial post-conflict exigencies and now confronts the deeper issue of establishing a sound and efficient financial system to support broad-based growth and rapid job creation. This takes time, though, because it requires the development of skills in the financial system, as well as public confidence in the banks, a supportive legal and judicial system, and improvements in the business climate. Focusing on the business climate, the government faces a host of challenges that affect the scope for financing local businesses, including poor infrastructure, an unfavorable institutional framework, and persistent macroeconomic imbalances.

One problem is that high spending on reconstruction is working at cross purposes with the goal of reducing inflation. Faced with huge injections of liquidity via Treasury operations, the central bank is in the difficult position of having to hit the monetary brakes by issuing domestic debt or selling foreign exchange. The combination of fiscal stimulus and monetary restraint has created a situation in which inflation remains stubbornly in double digits, interest rates on kwanza loans are out of line with rates on dollar loans, and the strong kwanza may be jeopardizing broad-based growth in manufacturing and agriculture. The best solution is to modify the balance between fiscal and monetary policies; but fiscal tightening is hard to sell in the context of high expectations, ample access to financing, a culture of patronage, and national elections planned for 2008 and 2009.

Another critical challenge to the expansion of credit is the legal and regulatory regime. In its Doing Business assessment for 2008, the World Bank ranks Angola as having one of the least supportive environments in the world for private investment.

Overcoming these challenges requires a firm political commitment. Yet countervailing interests could produce a lack of policy coherence. For example, as noted, the desire to pursue rapid reconstruction has an adverse effect on macroeconomic stability, which is essential for financial sector development. Also, even though the government recognizes that the private sector is the main engine for growth, there are tendencies to favor populist interventions that may impair prospects for success. A prominent example is the tendency to view the financial system as a conduit for subsidizing favored sectors through cheap credit. These schemes are usually captured by special interests, at the expense of development goals.

Political considerations are always in play. The important thing is that decision makers understand the benefits of fostering a sound and efficient financial system, and the true cost of interventions that impede these developments. Our hope is that the present study provides not only useful recommendations for expanding the supply of financial services and the efficiency of the banking sector in Angola, but also a justification for pursuing the appropriate measures, in the interests of national economic development.

IMPROVING THE SUPPLY OF TERM FINANCE

Until recently, term lending in Angola has been limited to a select group of affluent bank customers. But the financial system in Angola is quickly evolving. Both the deposit base and the volume of credit to the private sector are growing rapidly, and banks are increasingly extending medium and long term loans. The authorities have been promoting this process by enhancing competition through the licensing of new banks and pursuing reforms to develop the financial system, including the creation of a new stock exchange (BVDA), a regulatory authority for capital markets (CMC) and a new Development Bank of Angola (BDA).

Nonetheless, most banks limit their term lending to a select group of customers whom they know and trust and most businesses and households continue to lack access to finance for investment. This is because the banks still face daunting obstacles to expanding the market for term loans. The constraints include a lack of medium to long term sources of funds; a poor institutional environment to enforce loan contracts; a limited supply of *bankable* investment projects; the absence of a central source of credit information for assessing lending risks; and weak institutions for registering property, which undermines the availability of collateral to secure term loans. Moreover, the banks have to view every loan in terms of their need to manage risks carefully.

For smaller enterprises, access to term credit is also constrained by the very high cost of business registration. And while procedural requirements have been greatly simplified at the one-stop shop established recently in Luanda, red tape remains daunting elsewhere in the country. There are also serious problems with the ability of most local entrepreneurs to present a credible business plan or demonstrate effective financial management. Problems with the underlying business environment, including continued double-digit inflation, poor infrastructure, and widespread corruption further impair the scope for term lending for investment. In addition, the strong kwanza virtually rules out the possibility of term lending for investment in export activities other than oil and minerals, and may be undermining the competitiveness of many potential producers in agriculture and manufacturing. One constraint that is less of a problem than expected is the physical outreach of the banking system. Recent investment in new

branches has created a network sufficiently well distributed to make term loans available to (viable) businesses in most parts of the country.

Given all of the constraints, it is impressive to see that banks are increasingly engaged in term lending, including housing loans with a maturity of up to 15 years. Banks are evidently comfortable with the financial status of a numerous borrowers, and have found ways to control risk through channels other than judicial action. Nonetheless, there is a need for concerted attention to the institutional problems that still limit term financing for investment.

As a major instrument for overcoming these problems, the government established the Development Bank of Angola (BDA) in June of 2006 to promote domestic investment and support implementation of the national development plan. BDA will manage a Development Fund that receives 5% of the government's fiscal revenue from the oil industry and 2% of revenue from the diamond industry. Previous government-run development finance schemes in Angola have ended in costly failure, but BDA is intent on avoiding this outcome by establishing a culture of careful loan appraisal and diligent risk management. BDA will directly finance projects involving US$5 million or more, and extend credit lines to partner commercial banks for smaller projects. Additionally, BDA will undertake capital investments, offer long term financing to commercial banks, provide grants for business development services, and offer risk guarantees of up to 90% to commercial banks. Initially BDA is focusing on financing value chains in four priority sectors: maize, beans, cotton, and construction materials.

State-owned development finance institutions (DFIs) in most developing countries have failed due to lax lending standards, political interference in credit decisions, and a patronage approach to staffing. Yet there are prominent cases of success, where DFIs adhere to commercial lending standards and attract high quality personnel, as in Brazil, Peru, and South Africa. In this respect, BDA's plan conforms to best practices. Even so, BDA will be constrained by the limited scope for viable term lending, given Angola's weak business environment. It will also face difficulties in achieving a diversified portfolio to mitigate risks, and scale economies to hold down costs. If BDA finds only a limited number of borrowers who meet its careful appraisal standards, then tensions will grow between its commitment to risk control and the government's interest in moving the money in the run-up to elections in 2008 and 2009. BDA can minimize this risk by using a larger share of Development Fund resources for lending through the commercial banks, or providing long-term financing for the banks themselves.

BDA plans to charge a fixed interest rate of 8% on its loans, including those channeled through partner banks. This may limit commercial bank interest in working with BDA, and also preclude lending to SMEs, which involves higher per unit costs. Moreover, setting a *real* interest rate that is negative in kwanza terms allows investment proposals to pass the test of *financial* viability even when they are not *economically* viable. This invites a serious misallocation of Development Fund resources and diminishes the growth impact of BDA operations. These problem can be avoided through greater flexibility in setting interest rates.

Major corporations in Angola will soon have a new option for term financing via the newly created Angola Stock Exchange (BVDA). While stock and bond markets are a natural source of medium and long term financing, experience elsewhere in Africa suggests that the capital market will not be a major source of *direct* funding for investment, as few firms are likely to test the waters by floating securities. If commercial banks are among the early participants, then the

capital market can still have a broad *indirect* impact by channeling long-term savings to term lending by the banks. In any case the government will need to jumpstart the market through public sale of Treasury bonds and shares in parastatal companies. The demand side looks more promising, given the severe lack of other investment vehicles aside from real estate, and rapid growth of long-term saving in pension and insurance funds.

Disclosure formalities are a major constraint for many potential borrowers. Some African exchanges address this problem through a second tier market with less stringent regulations and reporting requirements. Although securities issued in this market are more risky, the risks can be priced to deliver an attractive yield. The practicality of this scheme in Angola remains to be seen. Another concern is that BVDA is pursuing a high-cost approach that will probably require government subsidies for many years to come. Wherever possible, the new exchange should opt for cost-effective methods of operation.

Two other sources of term finance warrant attention – leasing and venture capital. Leasing is a simple and convenient form of lending using the value of the asset being financed as collateral. The new Financial Institutions Law of 2005 authorizes leasing in Angola, but it is not currently available due to the lack of a regulatory structure. Even when the regulations are issued, the market may be limited due to the lack of a secondary market for liquidating many types of assets. Another potentially important source of investment finance is from risk capital ventures. Over the next 5 to 10 years the supply of risk capital to Africa is likely to display tremendous growth. Currently, though, few Angolan businesses have the technical capacity, management skills, and market potential to attract this form of financing. One way to facilitate venture capital financing would be to provide technical assistance to high-potential enterprises to help them qualify for financing.

Finally, investment financing cannot be separated from the mobilization of long-term saving. The most promising development in this regard is the rapid growth of pension and insurance funds. Currently, the national pension program is operating on a pay-as-you-go basis. This is appropriate for covering disability and ensuring a minimum income for retired workers and surviving family members. But a funded scheme would be far superior in generating long-term savings to meeting the needs of future retirees while stimulating faster development of the capital market. Converting to a funded system is a complex task that requires detailed planning, a strong legal and regulatory framework, highly capable management, and a firewall to prevent the misuse of funds for political purposes. Most important, a funded system requires a blue-chip strategy for allowing diversified investments to protect the growing pool of capital and deliver a rate of return sufficient to secure future pension benefits. But the best time to introduce a funded scheme is when the labor force is young, and current liabilities are low, as they are now in Angola.

Based on this analysis, the report offers 28 recommendations on steps that can be taken to improve the supply of term finance for domestic enterprises in Angola. (see Table 1 below).

IMPROVING ACCESS TO FINANCE BY SMALL AND MEDIUM ENTERPRISES (SMEs)

A central problem for financial sector development in Angola is the need to expand access to finance for small and medium enterprises (SMEs). Traditionally, banks have catered only to

major companies. But SMEs, too, have an important role to play in generating broad-based growth, job creation, and a more equitable distribution of income and wealth. Surveys show that lack of access to finance is a primary constraint on SME development. The causes include problems with the business environment, with the banks, and with the capabilities of SMEs themselves. The latter factor requires addressing the provision of business development services (BDS), in addition to actions focused on the financial sector.

Even though SMEs can be key agents of economic and social progress, it is not easy to design *effective* interventions for their development. Two broad approaches have been widely tested – (i) direct support through training, subsidies, technical assistance, and networking; and (ii) strengthening the market environment for SME development, including macroeconomic stability, improved infrastructure, and eliminating bureaucratic barriers to doing business. In view of disappointing results with direct SME support programs, the international trend in recent years has inclined towards favoring the second approach.

There is no standard definition of an "SME" in Angola, and no recent data on the composition or characteristics of the SME sector. The limited information available suggests that there are tens of thousands of registered SMEs, with many more operating in the informal sector. For lack of a standard definition, banks use idiosyncratic criteria for classifying SMEs; on this basis, eight banks indicated to the study team that 20-30% of their private sector loan portfolio constitutes SME lending. Most of this, however, goes to enterprises that would not be classified as SMEs in other developing countries. In any case, private sector credit amounted to only 6.8% of GDP (2006), suggesting that SME lending amounts to no more than 2% of GDP. A recent survey conducted for BNA and UNDP shows that only 0.4% of micro, small and medium enterprises (MSMEs) have obtained bank credit.

The weak business environment in Angola is a major constraint on SME business prospects, and hence their access to finance. Particular concerns include cumbersome and costly registration procedures; difficulties with property and land use rights; the lack of an efficient and comprehensive credit reference system; and ineffective mechanisms for contract enforcement. Another basic constraint is deficient infrastructure for transportation, power, and communications. Macroeconomic problems include continued inflation and appreciation of the real exchange rate, which can undermine growth prospects for SMEs producing tradable goods.

On the supply side of the finance equation, most banks are wary of the SME market because of the high costs of administering small SME loans, and perceived high risks. Most Angolan banks also lack specialized know-how and staff to assess the viability of loans to SME clients. Yet there are well-tested techniques for overcoming these constraints and lending profitably to SMEs, which have been applied successfully in countries throughout the world such as Bangladesh, Indonesia, Peru, the Philippines, Bolivia, and Uganda. In particular, banks can lend more profitably and safely to SMEs by adopting "microfinance techniques" for this class of clients, to generate a "double bottom line" of commercial and developmental returns. Collaboration with foreign banks or agencies that specialize in SME lending can be a useful source of assistance. In addition, once appropriate regulations are in place, leasing may be a viable alternative to standard bank loans for financing SME purchases of vehicles and equipment. Lending risks can also be reduced by linking credit to insurance coverage, though the cost of insurance may limit its use for SME financing. Physical access to the banks is not a big issue, as geographical coverage has been rapidly expanding, with over 60 new branches

established in 2006 alone (more than half in Luanda), and at least 3 branches in every provincial capital.

International experience suggests that the public sector can best support the expansion of financial services to SMEs by providing strong institutional and policy foundations. Promoting a competitive financial market may be the single most important role for public authorities in helping SMEs gain access to credit, because competition fuels innovative lending practices. Another crucial area for action is in establishing a credit registry or bureau, to improve the quality of credit information and provide incentives for small business to adopt sound financial management practices. This is a high priority for Angola.

In contrast, government-directed credit schemes for SMEs tend to retard the development of capacity for SME loan appraisal and risk management, while distorting the distribution of financial resources. An alternative approach is to offer guarantees for bank loans to SMEs, as a partial substitute for collateral. The idea is to help lenders learn to deal with new credit products and non-traditional clients on a competitive and sustainable basis. However, credit guarantees also add to the transactions costs for banks, and they can stimulate bad lending due to moral hazard if the guarantee covers a large fraction of the risk. Also, guarantees are often used as a subsidy in disguise to support activities that are not fundamentally viable. Nonetheless, well-structured partial guarantees can be an effective tool for mitigating perceived risks and overcoming information problems that hinder lending to non-traditional clients.

On the demand side, SMEs in Angola face serious problems in seeking bank loans due to weak management and technical capacity, low education and business experience, limited access to skilled labor, capital, and technology; and lack of knowledge about how to use bank services. Hence, the provision of business development support services (BDS) can be a vital tool for improving SME access to credit. Currently, the supply of BDS is underdeveloped, with few providers and low quality services. The most active providers are the Angola Enterprise Program (AEP) and the Centro de Apoio Empresarial (CAE), with the latter supporting SMEs linked to the oil industry. A new initiative by the Centro de Incubacao de Negocios de Cabinda (N'kondo) is in the early stages of development. In addition, the Development Bank of Angola (BDA) is exploring the possibility of supporting BDS providers to help loan applicants meet its appraisal standards. Demand for BDS is concentrated on assistance with tax and fiscal reporting, and feasibility studies and business plans to access bank financing. Most SMEs, however, lack knowledge about BDS services and their value for improving business results. There is also a high level of distrust about sharing business information with outsiders.

International experience suggests that governments are more successful in promoting SME development when: (i) there is a clearly defined target population of SMEs; (ii) duplicative efforts are reduced by designating a well managed lead agency for SME promotion; (iii) SME promotion agencies are evaluated regularly based on clear performance indicators that cover both activities and impact; and (iv) the cost of BDS services is shared by beneficiaries. SME promotion agencies can play a key role as an informational bridge between BDS providers and SMEs. A central aim must be to encourage market-driven BDS services through qualified private sector providers. In addition, an SME promotion agency can directly support BDS activities with public goods characteristics, such as public information programs and training for trainers.

The U.S. Small Business Administration (SBA) has pioneered many of these practices, including loan guarantees and support for BDS through partnership with the private sector, educational institutions, and other agencies. In addition, autonomous Small Business Development Centers (SBDCs) are supported through the Small Business Development Center National Information Clearinghouse (SBDCNET), which disseminates SME research, best practices, on-site training and distance learning. The SBA coordinates the various programs, and collects data on their performance and impact.

In Angola, the *Instituto Nacional de Apoio às Pequenas e Médias Empresas* (INAPEM) was established in 1992 as the government's lead agency for promoting Angolan SMEs. Today, INAPEM faces challenges with human resources, work incentives, management and oversight. But its role can be strengthened as an apex agency for promoting BDS, possibly on the SBA model. This will require reorienting INAPEM's mission with regard to entrepreneurship promotion, and will involve action in four areas: strengthening institutional capacity within INAPEM; improving and supporting demand-driven BDS delivery; transforming INAPEM into an apex organization for BDS coordination and advocacy; and instituting a national monitoring and evaluation system. The text of this report includes a SWOT analysis for INAPEM, including strategies to overcome the weakness and threats.

Based on this analysis, the report offers 22 recommendations to improve access to finance for SMEs (see Table 1 below). The report also presents a draft Plan of Action for INAPEM involving 11 proposed activities and 38 sub-activities to meet the challenges noted above (see the Appendix to Chapter 3 in the main report).

REDUCING THE COST OF FINANCE

Bank loans and deposits have grown very rapidly over the past two years in Angola, and yet credit to the private sector still amounted to just 7.2% of GDP in mid-2007; deposit balances totaled just 15.7% of GDP; and banks were being used by only an estimated 6% of the population. Are high interest rates and other banking charges a significant factor deterring greater access to financial services?

Interest rates serve an important function in screening out inefficient uses of funds. If financial markets are competitive, then these rates reflect the opportunity cost of financial resources plus the cost of administering bank operations. The basic question, then, is whether interest rates in Angola exceed what one would expect under competitive conditions, and also whether operating costs are in line with international benchmarks.

Considering the lack of effective institutions for tracking credit histories, registering property, securing collateral, and enforcing loan agreements, the interest rates for top-grade customers in Angola (as of September 2007) was astonishingly low, with dollar-denominated loans starting at 7%, and kwanza-denominated loans at 8% (often indexed to the dollar). By comparison, the prime rate in the United States was 7.75%, and in South Africa 13.5%. The prime rate on kwanza loans was also very low relative to the inflation rate of around 12%.

Interest rates are understandably higher for smaller loans and riskier clients. These factors easily explain reported rates of up to 12% on dollar loans, and plausibly justify reported rates up to 25% on kwanza loans. For micro-lending, however, the interest rate can be as high as 60%, reflecting very high transactions costs relative to the amounts involved, and perhaps a lack of

competition in this segment of the market. In any case, these rates are likely to decline as competition intensifies, and as other lending constraints are eased, as discussed above.

Why are the prime lending rates so low? How can banks charge so little? A key factor is that the banks enjoy an attractive interest rate spread despite the low prime rate, by paying very little for deposit funds. BNA data show an interest rate spread of 10.1 percentage points in 2006, mainly because two-thirds of all deposits are in sight accounts, mostly of which bear zero interest. Equally important, the banks have been highly liquid; with bank credit amounting to just 52% of deposits in mid-2007, the banks have little incentive to offer higher deposit rates. In effect, low interest rates on loans come at the expense of savers. The widespread view that Angolans lack a "culture of saving" has, therefore, never been tested because there is not much incentive to save through the banks. BNA's only direct instruments for influencing the interest spread would be to ease the obligatory reserve requirement, which is quite high at 15% of deposit liabilities, or allow banks to earn interest on obligatory reserves.

A second factor holding down the interest rate on prime loans is that Angolan banks derive a large amount of revenue from fees – 46% in the first half of 2007. This is in line with international comparators, and the fee structure generally falls in the mid-range of international benchmarks. A basic problem, though, is the lack of transparency in the fee structure. This points to the need for stronger requirements for public disclosure in a standard format. Explicit fees, of course, are only part of the transactions cost faced by bank customers. There are also costs associated with documentation requirements, and time for travel to the bank and dealing with the transactions. Experience in other countries suggests that inconvenience costs are often a major deterrent to wider use of bank services. These considerations merit more careful study, and broader dialogue on new technologies for extending services to "unbanked" clients and regions.

The interest rate spread, itself, is the *mark-up per unit* between loans and deposits. But net revenue from intermediation depends also on the volume of lending and the yield on other assets. The "intermediation margin" (*margem financeira*) is the difference between interest earnings and interest expenses, as a percentage of total earning assets. In 2006, despite a high interest spread, the intermediation margin in Angola was not particularly high, at 4.3%. This suggests that the banks' low transformation ratio (loans/deposits) and low yield on alternative assets have been major determinants of the high spread between lending and deposit rates. Operating efficiency in the banking system appears to be reasonably good, in terms of ratio of costs to assets, the ratio of costs to income, and average assets per employee. Still, many factors are at work in Angola to increase banking costs, so the low ratios are probably an indication of a heavy concentration on high-grade clients. As banks expand their involvement in other segments of the market, these costs are likely to rise. Similarly, bad debt costs, as measured by the ratio of non-performing loans (NPL) to total loans, do not ring alarm bells, but the rapid growth of credit in recent years may be a warning sign of a serious problems to come.

Another determinant of the lending rate is the profit margin. The banking system in Angola has certainly been generating handsome returns on equity for shareholders, even above the norm for Africa, where shareholders tend to require a premium return to compensate for perceived risks. High profits are therefore a significant factor explaining the spreads and fees. But these returns have also attracted new entrants into the industry, which should erode profit margins and lead to better pricing of services in the future for bank clients.

Finally, our investigation shows that the stamp duty on bank loans is not a major cost factor impeding lending. But these duties also generate hardly any revenue for the Treasury, and create an unnecessary burden for borrowers facing cash constraints. The best practice for taxation in developing countries unequivocally supports elimination of these duties as part of an overall program of tax reform.

In summary, banking costs impede access to financial services for non-prime clients, who face high interest rates on loans, low interest rates on deposits, and high bank fees. It is therefore appropriate for BNA to consider measures that might facilitate a reduction in banking costs. Table 1 outlines 12 recommendations derived from the analysis in this chapter of the report.

DEVELOPING REFERENCE RATES FOR PRICING OF CREDIT PRODUCTS

In its Policy Matrix for Expanding Credit Access, BNA recognizes that there is a need to develop market-based reference rates for government and central bank securities to provide the financial sector with an appropriate benchmark for pricing credit products, particularly those denominated in national currency. Commercial banks generally set their prime lending rate based on the marginal cost of funds in the domestic money market. The gap between the reference rate and the prime lending rate is determined by operating costs, lending risks, and competitive conditions in the market for prime loans. In turn, the interest rate on other loans is set in consideration of the additional risks and costs involved in dealing with less creditworthy clients. For dollar-denominated loans, banks almost universally use the London Inter-bank Offer Rate (LIBOR) as their point of reference; for now, there is no practical alternative to LIBOR for this purpose.

Banks in Angola determine their lending rates in line with these international norms. U.S. dollar loans are generally priced in relation to LIBOR, while kwanza loans are typically priced with reference to the yield on central bank bills (TBCs). The problem with the latter is that the TBC rate is not a market-determined pricing signal, because BNA administers the yield at the weekly “auctions.” A related problem is that the primary market for TBCs is dominated by a handful of large players, as only commercial banks are allowed to bid. Enhancing competition in the primary auction by allowing other bidders into the auction would produce more efficient reference rates for pricing kwanza loans, if BNA would allow the market to speak in determining the TBC yields – which is warranted if BNA wants to use its control of the monetary base as the primary intermediate target for monetary policy.

The price of longer term credit products is normally determined based on the prevailing interest rate for government debt of a corresponding maturity or “tenor”. In countries with well developed capital markets, governments regularly issue debt with various tenors, and secondary market trading is deep enough to provide regular data on the “risk free” yields. The relationship between yield and tenor on these instruments at any point in time is called the yield curve. The Government already issues domestic Treasury Obligations (OTs) to finance designated requirements, with tenors up to 12 years. However, the Treasury sets the interest rates administratively. Even though the Treasury has to assess market conditions in order to sell the securities, it is clear that OT yields, like those on TBCs, do not provide *market-driven* price

signals for pricing other securities. Indeed, the interest rate on Kwanza bonds has been far below the rate of inflation, leaving investors with very negative real returns.

Banks in Angola are rapidly expanding their portfolio of term loans, including housing loans; and the new stock exchange (BVDA) will soon be operational. The absence of market-determined interest rates for government debt at various tenors leaves the market without clear points of reference for pricing these products. Establishing a yield curve for government debt would facilitate the development of these markets. To this end BNA (as the government's banker) and the Treasury should establish a detailed plan for introducing market pricing for at least a subset of OT issues, through BNA in the short run, and through BVDA once it is operating.

Lacking market-driven reference rates, kwanza loans and securities can instead be assessed with reference to two market fundamentals: the Interest Rate Parity (IRP) condition; and the need for positive real interest rates (RIR) to clear the market. IRP is an equilibrium relationship between kwanza and dollar interest rates; with dollar interest rates determined by an objective external factor like LIBOR, IRP can be used to establish a benchmark for kwanza rates based on reasonable assumptions about the expected change in the nominal exchange rate. If market participants, on average, expect the kwanza to continue strengthening against the dollar, then the interest rate on a kwanza loan to a particular borrower should be lower than the dollar rate for that same borrower. Similarly, if market participants expect the nominal exchange rate to be stable, then the two rates should be equal. If banks and other leading financial agents can shift funds between the two currencies, then these interest rate relationships should prevail.

The problem is that kwanza inflation is still high. Consequently, the IRP condition is inconsistent with maintaining positive RIR on prime loans. This inconsistency stems from the fact that Angola's rapid growth is fueled by oil earnings, which is causing the kwanza to strengthen while simultaneously fueling domestic inflation. As long as this situation persists, the monetary authorities face a dilemma. BNA can manage the kwanza yield on TBCs to achieve positive real interest rates, or let the market determine the TBC rates and face the possibility that competition will lead to negative real interest rates, which invite major inefficiencies in the allocation of financial resources. The basic disequilibrium can be resolved either by reducing inflation through better coordination of fiscal and monetary policies, or by altering the management of foreign exchange reserves to permit the kwanza to depreciate in line with the inflation differential.

Based on this analysis, the report offers 8 recommendations on steps that can be taken to establish more meaningful reference rates for the pricing of credit products in Angola (see Table 1 below).

DEPOSIT INSURANCE FOR ANGOLA?

With only 6% of households holding bank accounts, the government of Angola is interested in exploring the possibility of introducing deposit insurance to enhance public confidence in the banks and attract more funds into the financial system. It is not self-evident that deposit insurance makes a great difference given other constraints facing depositors, such as negative real interest rates, fees and charges on bank accounts, and a general lack of knowledge about banking services. Nonetheless, there are certainly instances where deposit insurance has had a

clear positive effect; in Russia, for example, the introduction of deposit insurance increased deposits by 15%.

In essence, deposit insurance protects depositor's balances in the event of a collapse of the bank in which the money is held. It complements more fundamental safeguards, including bank licensing standards; systems for bank supervision; data disclosure requirements; and lender-of-last-resort operations of the central bank. Deposit insurance takes effect only when these other safety valves fail. Deposit insurance is either explicit, in that there is a clearly defined scheme in place, or it is implicit, in that depositors expect the government to reimburse their losses from failed banks. Explicit schemes allow the government to delimit the conditions and extent of coverage. They are also at least partly self-financing if premiums are charged.

There is a growing consensus that deposit insurance can contribute to financial system growth and stability if it is implemented in a context where bank supervision is tight and debt contracts enforced. Otherwise, the insurance can encourage banks to undertake imprudent lending, which might *increase* the risk of a banking crisis. Developing countries may lack the capacity to credibly manage a deposit insurance scheme, in which case it becomes worthless as assurance for depositors. Still, the number of countries with explicit schemes has increased from about 10 in 1970 to over 80 by 2003. But only 5 African countries have explicit insurance, with 2 others in the process of implementation.

A universal objective of deposit insurance is to enhance trust in the banks by giving depositors assurance that their money is protected, up to a certain limit. Historically, a major motive was to prevent a crisis stemming from "runs on the bank" when a contagious lack of confidence threatened a systemic collapse. Where banks are predominantly owned by large, stable, multinational banking groups with strong controls and effective home supervision, as in Botswana, then this motive is less important.

The establishment of a deposit insurance scheme requires careful planning to determine the appropriate institutional and technical characteristics for Angola. There are many choices to consider. Depository insurance may be voluntary or compulsory for the depository institutions. Globally, 91% of the schemes are of the latter kind, including 100% of those in Africa. This is recommended in the case of Angola, lest the best banks opt out to avoid the premium cost. Since a large number of bank in Angola are foreign owned, there must be a clear understanding of the parent banks' liability in the event of a subsidiary failure.

Most deposit insurance schemes cover a limited amount for each account (or each insured person), and exclude accounts that belong to those with ties to the bank itself. In most countries, the threshold is relatively low, so only a small fraction of deposit balances are covered. Most schemes cover foreign currency deposits. Coverage of inter-bank deposits is less common.

Charging a premium for the insurance helps to defray costs in the event of a bank failure, but also adds a new element of cost to the pricing of bank services. Co-insurance by the depositors, which is much like co-payments for medical insurance, can also be used to reduce the cost to the Treasury. Another technical issue is whether to vary premiums based on the risk profile of insured institution. Approaches that impose additional administrative demands are not well suited, though, for Angola.

Most insurance schemes are funded in advance, but some countries only collect a payment from the insured banks after one has failed. A pre-funded scheme is more credible because the fund is immediately available for use in the event of a crisis. But this raises the question of where the premium funds should be invested, and by whom. This is especially problematic in countries like Angola with underdeveloped financial markets. It is simplest to let the insurance organization invest the funds in short term instruments, including international investments, with the actual management outsourced to an appropriate external firm. Another important decision variable is the determination of an institutional apparatus to administer the deposit insurance. Different institutions, public or private, may be tasked with different aspects of the technical and administrative aspects.

In addition to technical parameters, the deposit insurance program must be well managed, and work in close collaboration with the banking supervision authority. In fact, the bank supervisor usually assumes responsibility for deciding what to do with failed banks, in consultation with other key agencies. Instituting effective mechanisms to pay claims on time is crucial in maintaining the credibility of the scheme. Similarly, procedures to handle bank assets after insolvency must be instituted in accordance with bankruptcy laws.

On balance, it does make sense to introduce a deposit insurance scheme in Angola, particularly in light of the vulnerabilities created by the entry of small, new banks and the risks associated with rapid growth in bank lending. Whether or not the insurance attracts more funds into the banking system, there is value in clarifying the limits of what will be covered and not covered in the event of a banking failure. In addition, an explicit scheme will at least provide assurance that small depositors will be not be victimized by a possible banking failure, and establish procedures and criteria to administer this guarantee, if it is needed.

More specifically, the report offers 10 recommendations on steps that can be taken to design and implement an appropriate deposit insurance scheme for Angola (see Table 1 below).

CONCLUSIONS AND RECOMMENDATIONS

In summary, there are many serious constraints facing the financial system in Angola today, but there are also many ways to address the constraints through appropriate measures and programs that will facilitate the development of sound and efficient financial markets. There are also some welcome improvements that have taken place already, with helpful policy reforms and developments in the financial sector that are already being driven by increased competition. Table 1, below, summarizes more than 80 recommendations covering the topics discussed in this study. Both the analysis and the recommendations presented herein represent the views of the consulting team, as inputs for consideration by BNA and the Government in their efforts to develop the supply of financial services and improve the efficiency of the banking sector in Angola.

TABLE 1. Recommendations for developing the Supply of Financial Services and Improving the Efficiency of the Banking System in Angola

Issue	Recommendation	Agency	Proposed Priority
Access to term loans	*BNA should play a lead role in helping ministries and other agencies understand the links between legal, institutional and regulatory reforms and development of the financial system.* For this purpose, BNA should convene a national conference on these issues.	BNA	**Top**
	Accelerate the development the new credit information system.	BNA	**Top**
	Establish computerized registries for both non-movable and movable properties.	GOA	**High**
	Accelerate action on streamlining procedures for business registration throughout the country and reducing the cost of formalizing a business.	GOA	**High**
	Formally target a major improvement in Angola's ranking in the World Bank "Doing Business" assessment as a policy objective	GOA	**High**
	Undertake or sponsor studies to help banks understand whether the strong Kwanza is affecting the competitiveness of various sectors and prospects for term lending in those sectors.	BNA or GOA	Secondary
	Maintain a strong macroeconomic policy focus on reducing inflation to single digits. This requires supportive fiscal policy, so as not to place the full burden of stabilization on monetary and exchange rate policies.	Treasury & BNA	**Top**
Development Bank	*BDA should emphasize second-tier financing through commercial banks, and long-term quasi-equity financing of commercial banks, as preferred uses of the Development Fund,* to minimize competition with the commercial banks and the risk of political interference in lending decisions.	BDA	**High**
	Focus BDA financing on term loans of 5 to 15 years, rather than 2 to 9 years as planned, again to minimize direct competition with the commercial banks.	BDA	**High**
	Allow BDA to use the Development Fund for infrastructure financing, so that BDA can effectively deploy the rapidly	BDA & Govt	**High**

Issue	Recommendation	Agency	Proposed Priority
	growing Fund without compromising lending standards.		
	Allow BDA to participate in regional consortium financing in collaboration with DBSA or other institutions, for the same reason as above	BDA & Govt	Secondary
	BDA should adopt a flexible interest rate policy that will reflect the actual costs of administering loans to smaller and riskier borrowers. Otherwise, the fixed interest rate may cause partner banks to avoid lending to SMEs.	BDA	**High**
	BDA should consider setting the interest rate at least two to three points higher than the inflation rate so that the price mechanism itself will help to screen out wasteful projects..	BDA	**High**
	BDA should appraise both the economic and financial rates of return in the loan screening process to ensure that BDA funding is used for efficient investments. This is especially important if the real interest rate on kwanza loans is negative.	BDA	**High**
Capital market s	P*repare public offerings of shares in major state-owned enterprises, to help jump-start the stock market.*	Treasury	**High**
	Channel at least a portion of new Treasury Obligation issues through the BVDA, in kwanza terms, and at market prices, in order to stimulate development of the bond market and establish reference rates for the pricing of other securities (see chapter 5).	Treasury	**Top**
	Consider negotiating an agreement with the Johannesburg Stock Exchange to allow joint listing of Angolan securities.	CMC & BVDA	Secondary
	Set listing and trading fees at a level that will not preclude development of the market, even though this will require heavy subsidies from the Treasury for years to come.	BVDA. CMC & Treasury	**High**
	Wherever possible seek low-cost options for market development in order to minimize the required subsidy.	BVDA & GOA	Secondary
Other Term Financing Options	*Fast-track the drafting and approval of leasing regulation*, to unblock an important new avenue for term financing. In preparing the regulations, BNA should confer with banks and other stakeholders.	BNA	**High**

Issue	Recommendation	Agency	Proposed Priority
	Solicit expert opinion to ensure that the tax laws do not create a cost disadvantage for leasing transactions.	BNA	**High**
	Explore innovative ways to solve the secondary market constraint to asset-based lending.	BNA, ABANC, Private sector	Secondary
	Establish a demonstration program of technical support to help selected local businesses qualify for venture capital finance, funded by either the government or a donor.	GOA, donors	**High**
Long-Term Savings: Insurance & Pension	*Allow qualified insurance companies and pension schemes to participate in the primary market for TBCs and OTs*.	BNA, Treasury	**High**
	Eliminate the stamp duty on insurance services, to remove an unnecessary and distortionary extra cost factor (see chapter 4 regarding stamp duty on banking services).	Treasury	**High**
	Seriously consider fundamental reform of the national pension system to replace the pay-as-you-go structure with a system of funded personal accounts, while retaining the safety-net benefits of the present system.	Treasury	**High**
	Encourage competition in the insurance industry to promote innovation and efficient pricing, while adhering to strict prudential standards to ensure that insurers are financially sound and professionally managed.	INSS, GOA	**High**
	Above all, continue pursuing a full range of market-supporting reforms and reconstruction measures to improve the overall business environment To the extent that private sector growth is limited by a weak investment climate, so will be the impact of any initiatives to improve access to term finance.	GOA, BNA	**High**
SME Access to Finance	*BNA should maintain its commitment to private-sector-led development of the banking system and fostering competition by licensing qualified bank applicants.*	BNA	**High**
	BNA should accelerate the work on creating a framework for alternative financing products such as leasing and factoring, and encourage the entry of NBFIs into these lines of business.	BNA	**High**
	BNA should seek a dialogue with international banks that have a strong track record of successful SME lending and discuss the possibility of their entering Angola or providing technical support to interested Angolan banks engaged in SME	BNA	Secondary

Issue	Recommendation	Agency	Proposed Priority
	business		
	BNA and the Government should continue to pursue development of capital markets to enhance financial sector competition and create alternative ways for businesses to obtain finance.	GOA, BNA	**High**
	BNA can encourage SME financing partnerships by actively discussing the issue with the banks.	BNA and Bank Training Institute	Secondary
	BNA can help to educate the banks on international best practices and prospects for SME lending in Angola, by organizing a conference in conjunction with ABANC on this topic.	BNA and ABANC	**Top**
	BNA should sponsor a systematic study to document the reasons for rejection of SME credit applications by the banks and suggest changes in procedures, lending criteria, or staff training to overcome unnecessary obstacles to lending.	BNA	**High**
	Once a sufficient level of interest is reached among the banks, then the Bank Training Institute should seek international assistance to introduce training modules and train trainers on international best practices in SME lending.	BNA and Bank Training Institute	**High**
	BNA should give high priority to accelerating the creation of a credit information system to reduce information asymmetries and facilitate credit in general, and lending to SMEs in particular. • Participation in the credit information system should be mandatory for all banks and financial institutions. • The credit bureau at BNA may start with only basic information on loan payment history, but it should ultimately adhere to the standard indicated by the six criteria used by the World Bank to assess credit information systems for the Doing Business reports • In the Angolan context a public registry is indeed the most feasible, quickest, and most widely supported option in the short term. It is appropriate, though, that BNA is thinking to shift the system to a private sector operator in the medium term.	BNA, commercial banks	**Top**
	BNA should accelerate its plan to issue an appropriate regulatory framework for leasing, to unblock an important new	BNA,	**High**

Issue	Recommendation	Agency	Proposed Priority
	avenue for SME finance. • In preparing leasing regulations, BNA should confer with banks and other stakeholders to avoid undue restrictions. • BNA should encourage the entry of specialized leasing companies that are independent of the commercial banks, to promote the use of leasing to SMEs and enhance financial competition in general. • BNA should confer with the MOF on the tax laws to ensure that leasing is not placed at a disadvantage compared to other forms of finance.	ABANC, private sector	
	Encourage synergies between banking and insurance through dialogue between the supervisory agencies (BNA and ISS), the banks, and the insurance companies, and through training modules at IFBA on using insurance to reduce credit risk.	BNA, ISS, IFBA	Secondary
	Encourage competition in the insurance industry in order to promote innovation and competitive pricing – while adhering to strict prudential standards to ensure that insurance companies are financially sound and well managed.	BNA, ISS	**High**
	Explore the option of joining the Africa Trade Insurance (ATI) network to provide trade credit insurance as a tool for expanding access to credit for Angolan exporters.	GOA, ISS	Secondary
Credit Guarantees	*The MOF, BDA and BNA should carefully examine the feasibility of allocating a portion of the Development Fund to a Credit Guarantee Program for SME lending by commercial banks*.	MOF, BDA, BNA	**High**
	Any credit guarantee fund should be carefully designed based on international best practice to develop sustainable capacity for bank lending to SMEs while minimizing the risk of encouraging poor lending practices through moral hazard.	MOF, BDA, BNA	**High**
	To this end, a task team from MOF, BNA, and ABANC should consult with the banks, SMEs, donors, potential corporate partners, and other stakeholders on the best technical design and administrative structure, before introducing any credit guarantee fund. The task team should: — Identify sources of funding. — Define the eligible SME target group. — Define parameters for partial guarantee. — Define eligibility criteria for participating commercial banks, includes a willingness to introduce best practices for SME lending methodology. — Elaborate standard procedures and reporting	MOF, BNA, ABANC, private sector, donors, others	**High**

Issue	Recommendation	Agency	Proposed Priority
	requirements that govern the Fund and its relationship with commercial banks, including clear rules for handling bad debts. — Market the guarantee scheme to the banks and the public.		
SME Business Development Services	*See the Appendix to Chapter 3 of the main report for a draft Action Plan for INAPEM.*	GOA, INAPEM	**Top** –
Costs of Banking	*Be patient in letting market forces do their job!* BNA's current policy on approving the entry of sound new banks is intensifying competition and creating incentives for greater efficiency, lower costs, and better pricing of services. The impact on costs, profits, and pricing may be gradual, but it is happening.	BNA, GOA	**High**
	Strong and effective prudential supervision by BNA is essential to minimize the risk of subsequent problems that might emerge as a result of the rapid increase in bank credit and the entry of new banks with less sophisticated risk controls.	BNA	**High**
	Improve the transparency of pricing for basic bank services. More can be done by BNA to ensure that this important information is readily available to bank customers. Options include: • Introducing tighter regulatory requirements for disclosure of banking fees and charges. • Working with ABANC to publish annual or quarterly tables showing basic price comparisons in a simple and standardized format. • Encouraging local consulting companies to include an analysis of banking costs in their banking surveys, and cooperate in providing information. • Introducing stronger regulations on truth-in-lending, requiring commercial banks and other lenders to divulge the *effective* annual percentage rate (APR) on all loans, in line with established international practices.	BNA	**Top**
	Maintain an intense monetary policy focus on reducing inflation in order to reduce macroeconomic risks that affect loan rates, improve the real interest rate on deposits, and reduce the pressure on operating costs arising from rising wages and input prices and appreciation of the real exchange rate..	BNA, Treasury	**Top**
	Reduce the obligatory reserve requirement -- as and when macroeconomic conditions permit. Once inflation is stabilized	BNA	Secondary

Issue	Recommendation	Agency	Proposed Priority
	in the target range (below 10%) BNA can move towards a less onerous reserve requirement in order to reduce this "tax" on financial intermediation.		
	Re-assess data requirements imposed on the banks by BNA to identify possibilities for eliminating duplication and streamlining reporting systems, while still satisfying all legitimate information requirements of the central bank.	BNA, ABANC	Secondary
	Revoke the stamp duty on financial services. This is obviously not a responsibility of the central bank, but BNA can and should initiate a dialogue with the Ministry of Finance for the purpose of convincing the Ministry to eliminate these inefficient duties.	Treasury, BNA	**High**
	Undertake a special-purpose survey of SMEs and households to obtain data on transactions costs involved in opening and maintaining a deposit account, and obtaining a bank loan. This information can provide a much better picture of the actual costs of accessing banking services, and the impact of costs on the use of banking services..	BNA, ABANC	Secondary
Reference rates	*BNA should continue to maintain positive real interest rates on TBC yields through its management of the primary auction as long as the market is beset by a sharp disequilibrium due to countervailing trends in the exchange rate and inflation*. It might be possible, however, to focus interventions short-tenor TBC rates (14 or 28 days), while testing market pricing for other tenors based on pre-announced issues consistent with liquidity management objectives.	BNA and the Government	**High**
	BNA should establish an agenda for moving away from administering the interest rate in the TBC auctions, in favor of market-based pricing, once the market disequilibrium is resolved through lower inflation or gradual depreciation of the kwanza in line with the inflation differential.	BNA	**High**
	Enhance competition in the primary market for TBCs by allowing more bidders to participate. This measure will deepen the market, reduce the dominant influence of the large commercial banks, and improve the quality of the market signals.	BNA	**High**
	To develop the secondary market for TBCs, require licensed traders to post bid-ask spreads, and develop an information campaign to educate the public about saving through TBCs.	BNA	**High**
	To deal with the occasional problem of LIBOR reference rates moving at cross purposes to monetary policy objectives, BNA	BNA	Secondary

Issue	Recommendation	Agency	Proposed Priority
	might introduce a differential reserve requirements on dollar versus kwanza deposits.		
	To develop a yield curve, BNA should seek discussions with the Treasury on a plan for introducing market pricing and kwanza denominations for at least a subset of OT issues, along with a program for stimulating a secondary market in these instruments.	BNA, Treasury	**Top**
	To set a firm foundation for pricing OTs, the Government should seek a sovereign rating from a major international rating agency, after it settles its remaining negotiations with the Paris Club.	Treasury	**High**
	The Government and BNA need to improve coordination of fiscal and monetary policies to bring down inflation, and consider altering the management of foreign exchange reserves to allow the kwanza to adjust in line with the inflation differential. This would resolve the disequilibrium in the financial market as described in the text, and prevent a continued real appreciation that may impair the development of productive activities outside the mineral sector.	MOF and BNA	**Top**
Deposit Insurance	*On balance, we recommend proceeding with careful consideration of a deposit insurance scheme for Angola*. • *If the Government moves in this direction, the first step is to establish a task team to carefully study the many technicalities identified in the text*. • *The Angolan Government and BNA should seek technical assistance in assessing the parameters for a possible deposit insurance scheme.* The Federal Deposit Insurance Corporation in the United States is one leading agency that has experience in providing international technical assistance experience. (USAID can facilitate this link.) Another option is the International Association of Deposit Insurers at the Bank for International Settlements in Basel. • *The assessment process should also include consultation with stakeholders, and study visits to other countries to learn from their experience*, particularly countries like Kenya and Nigeria where significant difficulties have been faced. • *If deposit mobilization is a major reason for favoring an insurance scheme, then either GOA or BNA should commission a study to survey households and small businesses* to determine the extent to which lack of confidence in the banks is inhibiting the use of deposits as a savings vehicle. • *We suggest a coverage ceiling per deposit of about*	GOA and BNA	Secondary

Issue	Recommendation	Agency	Proposed Priority
	$16,000 for 2008, based on the central tendency in Africa and other developing countries to set the threshold at around 3 times the level of per capita GDP. This is a reasonable, though rather arbitrary, benchmark for Angola. • *Simplicity is a virtue in deciding on coverage for foreign exchange accounts, inter-bank accounts, accounts held by linked parties,* as exclusions may create considerable administrative costs and delays in the event of a bank failure. • *Decisions are also needed on the responsibilities of foreign parent banks for covering deposit accounts in their Angolan subsidiaries, should they fail.* • *The deposit insurance scheme should be housed within BNA but operated as an independent legal entity*, collaborating closely with the bank supervisors. The insurance entity should have a relatively limited role with respect to insolvencies, such as monitoring possible payout needs. • *The deposit insurance agent should develop procedures to outsource operational functions in the event of a bank failure*, rather than keeping a large permanent staff on hand to deal with activities such as the payment of claims and realization of assets. • *The deposit insurance fund should be pre-funded via a small premium charge on covered deposits, but it will also require seed capital from the Treasury* to establish credibility in the eyes of the intended beneficiaries: the depositors.		