



Da Afghanistan Bank
(Central Bank)

National Financial Inclusion Strategy **2020 – 2024**

With technical assistance from the World Bank Group

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Acronyms

ABA	Afghanistan Banks Association
ACCI	Afghanistan Chamber of Commerce and Industries
ACGF	Afghan Credit Guarantee Fund
ACH	Automated Clearing House
ADF	Agriculture Development Fund
AIB	Afghanistan International Bank
AMA	Afghanistan Microfinance Association
AML/CFT	Anti-Money Laundering/Countering Financing of Terrorism
APS	Afghanistan Payment System
ATM	Automated Teller Machine
ATS	Automated Transfer System
B2B	Business-To-Business
B2P	Business-To-Person
BDS	Business Development Services
CSD	Central Securities Depository
DAB	Da Afghanistan Bank
EDR	External Dispute Resolution
EFT	Electronic Fund Transfers
EMI	Electronic Money Institutions
FCP	Financial Consumer Protection
FDCR	Financial Disputes Resolution Commission
FID	Financial Inclusion Department
FSD	Financial Supervision Department
G2P	Government-To-Person
GDP	Gross Domestic Product
GPSS	Global Payment Systems Survey
ICT	Information Communication and Technology
IDR	Internal Dispute Resolution
IFC	International Finance Corporation
IMF	International Monetary Fund
KFS	Key Facts Statement
KYC	Know Your Customer
MFI	Microfinance Institution
MISFA	Microfinance Investment Support Facility for Afghanistan
MoIC	Ministry of Industry and Commerce
MSME	Micro, Small and Medium Enterprise
MUDL	Ministry of Urban Development and Land
NFIS	National Financial Inclusion Strategy
NPC	National Payment Council
NPS	National Payments System
P2B	Person-To-Business
PAFI	Payment Aspects of Financial Inclusion

PIN	Personal Identification Number
POS	Point of Sale
PSP	Payment Service Providers
ROA	Return on Assets
ROE	Return on Equity
Urfi	Unregistered Title Deed
WBG	World Bank Group

Executive Summary

1. National Financial Inclusion Strategy for Afghanistan

The DAB and other stakeholders of the NFIS intend to implement the first National Financial Inclusion Strategy (NFIS) for Afghanistan (2020-2024) to reduce financial exclusion in the country by 10% and improve the overall financial access of Afghan citizens. The DAB aims to achieve an inclusive, sound and responsive financial system by the implementation of the NFIS.

The NFIS is developed based on findings of a number of diagnostic studies. These studies identified the opportunities, challenges and impediments towards building an inclusive financial system in the country.

The current strategy is a dynamic document that aims to unlock the opportunities towards establishing an inclusive financial system and will be continuously updated to reflect and include the country's emerging priorities. In this respect, and in view of numerous consultations with relevant stakeholders including market players and relevant Government agencies, the initial focus for the strategy will include addressing key challenges of access to as well as regular use of formal financial services by individuals and Micro, Small and Medium Enterprises (MSMEs), serving the key economic sectors in Afghanistan – particularly the agriculture sector, protecting the rights of consumers of financial services, and leveraging technology to expand the outreach to formal financial services across the country.

Given the looming challenges of insecurity, political instability, and financial sector underdevelopment, building an inclusive financial system will require a gradual approach.

2. Rationale

Financial inclusion has emerged as an important policy issue for public policy makers around the globe. According to the World Bank, in 2017, 1.7 billion adults around the world out of which 980 million of them are women, did not have access to an account in a regulated financial institution.¹ Moreover, data and research suggest that responsible financial inclusion where all individuals and SMEs have improved and efficient access to as well as regularly use formal financial services, will contribute to achieving inclusive growth, improving income inequality and reducing extreme poverty.

The rationale for having an NFIS for Afghanistan stems from the following:

- Around 85 percent of the adults in Afghanistan have no access to a transaction account²
- Financial inclusion and intermediation are low in Afghanistan compared to the region, low income & developing economies and peer countries
- 54.5 percent of the country's population live below the national poverty line
- Financial inclusion contributes to achieving the Sustainable Development Goals in the country
- Access to finance is one of the biggest obstacles the MSMEs face in Afghanistan

¹ Findex database

² Note: Although, supply side data indicates that the ratio of total banking sector accounts by adult population is 23%, lack of data does not allow us to identify duplicate accounts. Therefore, we estimate the above mentioned ratio to be 15%.

3. Financial Access for Individuals and MSMEs

After controlling for individual account ownership duplication, supply side data shows that approximately around 85 percent of adults in Afghanistan lack access to a bank account.³ Data indicates that there is ample room for increasing the use of digital payments, which are used by only 11 percent of adults (Global Findex 2017). The main reason identified by Afghan adults for not having an account with a financial institution is lack of funds, with other reasons being distance, cost or lack of required documentation, religious beliefs, or someone else in the family owning an account. However, only 2 percent report that they do not need an account, which clearly demonstrates a need from the supply-side to expand access points which will in turn facilitate increased account ownership. According to Global Findex 2017, the gender gap in account ownership is quite prominent in Afghanistan and has increased from 12 percent in 2014 to 16 percent in 2017. Furthermore, most of women entrepreneurs (90% based on a sample case study) report they would like to borrow funds to alleviate challenges and serve their business needs on the terms, which are better suited to their sector and business needs.⁴ Moreover, social and cultural norms and women's access to necessary ID to utilize bank services are other factors that impact access to formal financial services by women.

Micro, Small and Medium Enterprise (MSME) financing in Afghanistan lags behind other conflict, low income & developing economies as well as South Asian neighbors. The share of outstanding SME loans was 0.17 percent of GDP in 2018 which is the lowest among all similar and regional economies.⁵ Access to finance is among the biggest obstacles that firms face in Afghanistan. Around 3.9 percent of Afghan firms rely on banks to finance their working capital expenses and only 0.8 percent use banks to fund their investments.⁶ Yet, the potential credit needs of MSMEs are estimated at more than USD 4.7 billion, representing a significant opportunity in the Afghan market.⁷

The low levels of financial inclusion in Afghanistan are due to both supply and demand side constraints. Among the supply side deficiencies are tough lending conditions such as high interest rates; high collateral requirements; lack of expertise and experience in MSME lending in banking sector; weak credit infrastructure which is a major constraint for banks to identify and manage their lending risks; limited outreach of both banks and Micro Finance Institutions (MFIs) particularly in rural areas including the absence of branchless banking and digital transactions; absence of business models in banks and in light of the objective risks of MSME lending that target MSMEs. There is a need for developing alternative lending mechanisms and scaling of the existing mechanisms supporting MSME lending, such as ACGF, IT-enabled delivery channels and credit analysis, including financial instruments such as value chain finance and cash-flow lending to target MSME financing within the banking sector, and leveraging on digitalized data for better credit underwriting. Demand-side restrictions include limited business capacities of MSMEs; high level of informality; lack of proper documentation and record keeping, a low level of financial literacy in the country and lack of capacity building and government interventions, including the role of central coordinating agency (CCA) for MSMEs.

MFIs have limited outreach and face constraints to expand their operations. The efforts in the microfinance sector are being led by Microfinance Investment Support Facility for Afghanistan (MISFA). Despite a remarkable performance by MISFA's partner institutions, there is ample room for improvement. Due to several challenges including high security-related expenses, small-sized loans, poor

³ Source: DAB 2018

⁴ ACGF, Assessment of Women-Owned SME Borrowers, 2019; with funding from Ministry of Finance of Afghanistan and the World Bank and support by IDEA Consulting.

⁵ Source: DAB

⁶ Source: Enterprise Survey, Afghanistan Country Profile, 2014

⁷ Source: IFC, MSME Finance Gap, Oct 2018

infrastructure, costs and difficulties in hiring qualified staff, and high turnover of staff, MFIs' operating costs are very high. The prevailing service charges are not adequate to cover the expansion costs to rural areas and therefore MFIs heavily depend on MISFA for funds to cover lending operations and/or capacity building needs.

4. Agriculture Finance

Agriculture sector contributes significantly to the Afghan economy, both in terms of output and employment. The agricultural sector employs 40 percent of the national workforce and accounts for about 18.6 percent of the national GDP (excluding opium).⁸ Women make up nearly half of the agricultural sector workforce in Afghanistan. Agriculture finance can play an important role in developing rural areas in Afghanistan, creating employment opportunities for the rural population and ensuring a sustainable supply of agricultural commodities and women play a key role in this.

Agriculture finance in Afghanistan is limited, provided by a handful of institutions and affected by both supply- and demand-side constraints. Agriculture and livestock loans represented 4.16 percent of total bank lending in 2018.⁹ Few commercial banks support segments of specific agricultural value chains, focusing on processors and exporters, and mostly providing overdraft facilities for working capital and trade finance. MFIs are more active in financing the agriculture sector than banks and agriculture and livestock represent almost a quarter of their loan portfolio. In addition to short-term loans to farmers for production and to traders for farm produce marketing, MFIs have recently increased their support for the purchase of processing equipment and trade finance. Another source of formal funding for agriculture is the Agricultural Development Fund (ADF).

Agriculture finance is affected by the lack of vertical and horizontal integrations especially the absence of well-functioning value chains; lack of adequate collateral by the potential borrowers and difficult government legislation regarding land as collateral; lack of risk-sharing mechanism and difficulty in identifying potential borrowers. Whilst women's right to own land is enshrined in the 2004 constitution cultural norms often restricts their opportunities to exercise their rights. While commercial banks currently finance some agribusinesses at the upper end of the value chain (i.e. processors and exporters), they blame the weak pipeline of bankable proposals at the lower end of the value chain (weak demand) for their continued lackluster support for this sector. Lenders are deterred by the perceived and objective high risk of the sector and lack of mitigation measures. In addition, there is little knowledge of agriculture in the banking sector and insufficient capacity to tailor financial products to the needs of agriculture.

Ensuring a conducive regulatory and operating environment for agriculture finance is a prerequisite to the introduction of specific products and services. Several revisions to laws that affect access to finance have been proposed in the past and continue to be pursued by the Executive Committee for Private Sector Development (PriSEC) and regulatory authorities. For instance, changes in bankruptcy law to give secured creditors the highest possible priority in bankruptcy proceedings are being implemented. Furthermore, the establishment of a progressive and market-oriented Sharia board has been finalized and the inclusion of Islamic Finance in the banking law is effective. The completion of planned reforms should create a policy, regulatory and legislative environment in which financial institutions are able to develop financial services and delivery channels that respond to the needs of the sector and are supported by an adequate legal framework.

⁸ Source: GDP 2018 NSIA, ALCS 2016-17

⁹ Source: DAB

The Government has developed an Agribusiness Charter¹⁰, which recognizes the important role of agriculture finance in unlocking agribusiness for economic growth and expanding job opportunities. The challenges highlighted by the NFIS are fully aligned with the analysis and recommendations of the Charter.

5. Consumer Protection and Financial Capability

Protecting consumers, particularly women that are less financially literate and are at greater risk of exploitation, and strengthening their financial capability is a necessary precursor to building and maintaining trust in the formal financial sector and thus in encouraging sustainable financial inclusion. There are some key gaps in terms of various aspects of financial consumer protection (FCP) in industry practices. Implementing FCP regulation can bring more trust in the financial system. DAB should combine its FCP measures with the strengthening of the existing deposit insurance scheme to provide protection to deposit holders in case of crises. Strengthening deposit insurance will be part of the follow up work of launching the NFIS.

In terms of institutional mandate, for bank and non-bank payment service providers, DAB currently has an implicit mandate to regulate and supervise the market from an FCP perspective where regulated financial institutions are concerned. Also, Financial Dispute Resolution Commission (FDRC) under DAB acts as an external dispute resolution body between banks, banks and DAB, banks and their customers. FDRC solves any disputes between banks and their customers. Finally, industry associations are present but they have not yet developed any sort of codes of conduct; however, most banks have internal codes which resemble more to internal policies and procedures.

The current legal and regulatory framework for FCP is nascent, and MFIs are unregulated. Banks, payment service providers (PSPs) and e-money issuers (EMI) are specifically regulated and are obliged to comply with existing, FCP standards. However, MFIs, with the exception of those operating under a banking license, are not currently regulated by DAB from both FCP and a prudential perspective, which raises concerns with regards to responsible lending practices. Additionally, the Banking Act touches upon consumer protection in a fairly general manner. Although, a comprehensive FCP regulation was approved by the DAB but several banks have put in place processes and procedures to implement some key FCP principles, as they are required to do so as electronic fund transfer (EFT) providers, which apply to all the products and services that they offer. For what concerns e-payments, the EFT regulation provides specific clear measures, applicable to both banks and EMIs.

DAB is charged with supervising banks, EMIs, and other EFT providers. Currently, DAB does not have an FCP department within its organizational structure. However, Financial Inclusion Department (FID) covers FCP policy issues, it does not function as an FCP department nor it has a supervisory mandate. For what concerns specific supervisory activities, FCP is not looked at systematically and if minor violations are found, they are often disregarded. For what concerns enforcement, within the FSD there is a specific unit dealing with enforcement and the Banking Act specifically gives DAB enforcement powers.

Product suitability appears to be still a nascent concept in Afghanistan and only a few providers seem to assess the need of consumers when offering products, that is particularly significant as women have the need for differing products and services to men. For what concerns debt-recovery and collection practices, all banks appear to have specific procedures; however, it appears that some MFIs do not have specific

¹⁰The Afghanistan Agribusiness Charter for Unlocking agribusiness for economic growth and expanding job opportunities was approved by the Government of Afghanistan in October 2018 for the 2019-24 period.

procedures and may resort to abusive practices, which can disproportionately affect women. For what concerns specific issues relating to e-money, the EMI regulations have specific provision ensuring the protection of customer funds. Finally, with regard to electronic transactions, international good practices suggest that there should be specific rules on the modalities/process of processing and refunding fraudulent, mistaken, and erroneous transactions.

In the FCP regulation, specific provisions for compliant-handling mechanism exist. The FCP regulation makes compliant-handling mechanism mandatory by all regulated financial institutions. Although the Financial Disputes Resolution Commission is explicitly mentioned in the Banking Act to handle disputes between banks and consumers, this limits its jurisdictions to banks, not covering other regulated FSPs offering retail financial services.

6. Payment and Digital Financial Services

Payment systems are an underlying foundation of a country's financial system. A well-functioning payment system can add to financial stability, enhance efficiency of economic activity and intermediation and enable financial inclusion. While payment services are financial service on their own, they have a complementary role to almost every other financial service too – as a result “payment inclusion” is often an important pre-condition for broader financial inclusion. There are several constraints to the efficiency of the payment systems in Afghanistan.

The legal and regulatory framework for payment systems has improved, but several gaps remain. Afghanistan lacks a separate National Payments System Law and currently relies on DAB Act to create the legal framework for payment systems regulation, operation and oversight. In addition, public financial management regulations limit the role of non-banks in disbursement of government-to-person payments.

Public and private sector have displayed commitment, but coordination across stakeholders has been limited. For example, government payments projects have often been based on arrangements negotiated directly with payment service providers, without adherence to an overarching framework. The National Payments Council (NPC), which could act as a forum for coordination between different actors from public and private sectors, is not active.

Shortcomings of financial and information communication and technology (ICT) infrastructure include unreliable broadband and mobile connectivity, which impacts the National Payments System (NPS) and the financial sector at large. Development and adoption of interbank payment systems has been slow, while the interoperability of retail payments is limited. There is no infrastructure for e-Know Your Customer (KYC) or digital on boarding.

The lack of trust in electronic payments by the population, coupled with the lack of tailored transaction account products and limited network of access points, significantly limits financial inclusion. There are few innovative payment products geared towards women. Moreover, Islamic financial institutions have not been active on this market, while a substantial share of financially excluded persons avoid mainstream financial institutions because of religious concerns. Branches, ATMs and POS terminals are concentrated in Kabul and other larger cities. Whilst agent-based models, which are noted for supporting women's access to finance, have been explored, their lack of liquidity means that they cannot be relied upon for cash-outs. The costs of acceptance for merchants are high due to the unavailability of low-cost terminals, resulting in very low acceptance rates. Finally, financial institutions have failed to address the needs of the e-commerce sector.

Leveraging large-volume recurrent payment streams have played a prominent role in the government's policy. For instance, large-scale programs have been instituted to support electronic

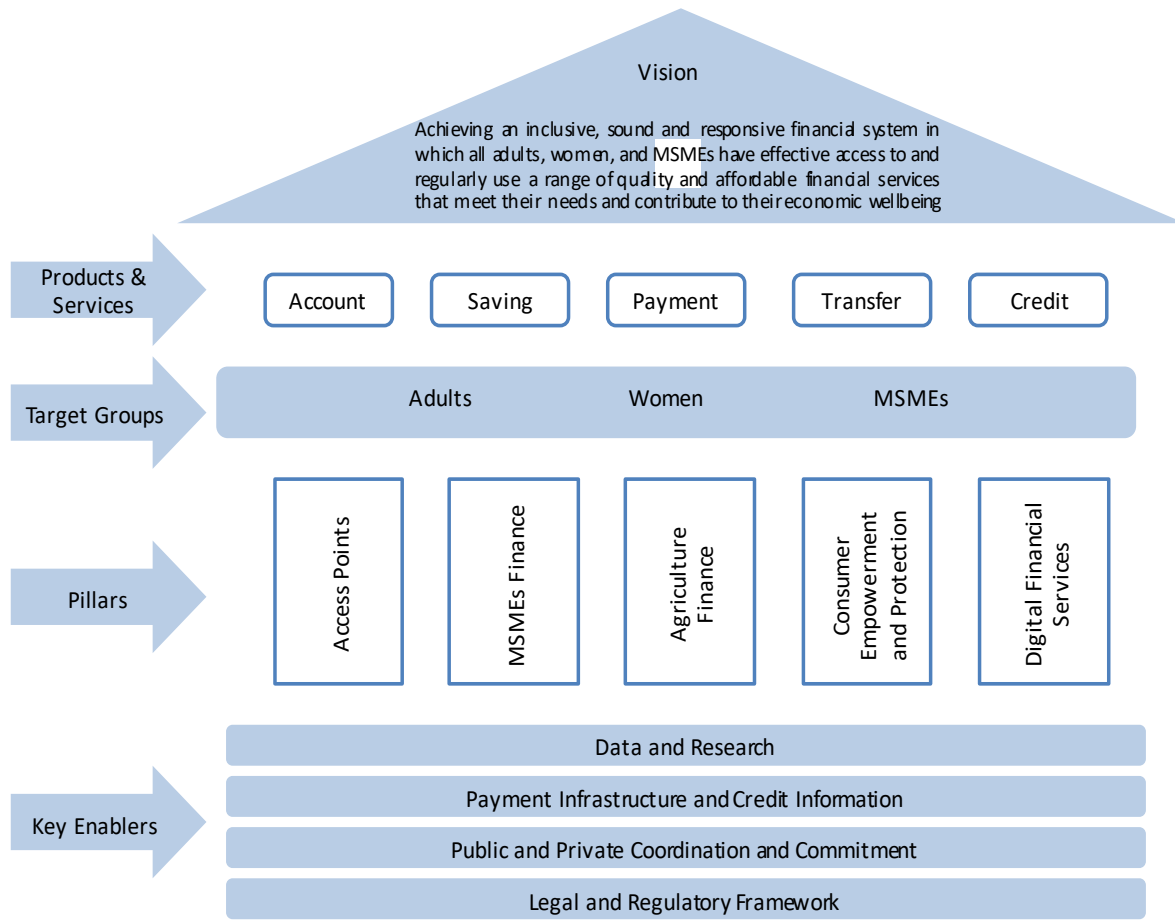
payments of salaries in civil service, police and the military, as well as with respect to government pensions. However, challenges persist: electronic payments of salaries and benefits are rare outside cities, and the private sector, as well as NGOs, have not fully embraced digital payroll delivery.

Encouraging streamlining information collection and improving digital infrastructure by financial institutions. Automatization and decision making with the support of statistical methods improve the efficiency and quality of lending operations, reducing the processing time, enhancing risk management and improving customer service.

7. Implementation of the NFIS

Successful implementation of the NFIS requires a well-defined coordination structure which includes all the relevant public and private stakeholders charged with implementing the NFIS. The proposed coordination structure will be composed of four entities: 1) the NFIS Coordination Council, 2) the Financial Inclusion Secretariat, 3) NFIS Technical Committee, and 4) Working Groups comprising of relevant private and public stakeholders along with development partners that will be involved in implementing the NFIS. The NFIS Coordination Council will set the overall policy and strategic direction for the implementation of the NFIS. It will provide a platform that governs NFIS implementation and provides guidance to achieve the objectives set by the NFIS. The Financial Inclusion Secretariat will provide the day-to-day administrative, coordination and monitoring functions required to operationalize the NFIS. It will be housed within the Financial Inclusion Department of DAB. The Financial Inclusion Secretariat will serve as the link between the NFIS Coordination Council, Technical Committee and the Working Groups in implementing the NFIS. The technical committee (TC) is responsible for preparing, and consolidating the working plans (implementation plan) of the NFIS action plan for each of the working groups to ensure technically successful implementation of the working plans. Moreover, the TC will provide technical advice to working group members as well as the NFIS coordination council through the NFIS secretariat. The main objective of the Working Groups is to facilitate the implementation of the action plan and serve as a forum to resolve issues and propose solutions for their relevant NFIS policy area. The suggested four policy areas are: 1) financial access for individuals and MSMEs, 2) agriculture finance, 3) consumer protection and financial capability and, 4) payments and digital financial services. The Working Groups will be comprised of members from public and private sector implementing entities, that have the relevant technical expertise under the respective policy areas. The Working Groups will also serve to ensure coordination between the various members responsible for the implementation of different action plan items under each policy area. The NFIS action plan is multi-pronged, prioritizing legal and regulatory reforms, market and product development, building capacity and, disseminating knowledge and awareness. The implementation of NFIS would give a big push to scaling up digital financial services to help leapfrog financial inclusion, taking advantage of the government's priority to digitize civil servant salaries. Moreover, priority would be given to agriculture finance as it can have the most direct impact on the real economy in Afghanistan.

FIGURE 0-1 : FINANCIAL INCLUSION FRAMEWORK IN AFGHANISTAN



Introduction

Financial inclusion is an enabler of many development goals including poverty reduction, gender equality and improving shared prosperity. Financial inclusion is also complementary to traditional financial sector goals of financial integrity and financial stability. In the past two decades, many developing countries have started to put an emphasis on finance as an enabler of development objectives, and financial inclusion as a goal in their development agendas. Yet, financial exclusion remains a big challenge for many. The latest data from the World Bank’s 2017 Global Findex database shows that there are still 1.7 billion adults globally and 980 millions of these are women without an account at a regulated financial institution, which is considered as the basic step in accessing the regulated financial system.

Achieving financial inclusion is not as straightforward as a policy objective, given the intersecting policy areas involved. It requires strong coordination and collaboration across many stakeholders from the public and private sector, and across different sectors in the economy – not just the financial sector. For example, the availability of a reliable identification (ID) system is crucial for financial integrity and accessing the regulated financial sector. ID systems, however, are outside financial sector policy. Nonetheless, designing ID systems, or improving existing ID systems need to be done in coordination with financial sector policymakers to respond to the needs of the financial sector for AML/CFT purposes. At the same time, for example, public-private sector coordination is key to expanding financial inclusion to the previously unbanked population by designing the right products and ensuring the necessary regulatory frameworks in place to spur innovation and competition.

In this respect, an NFIS provides an effective tool to map a well-defined and a coordinated course for improving financial inclusion. Within the framework of an NFIS, the stakeholders jointly define objectives of financial inclusion, identify the relevant obstacles and opportunities, and sketch an action plan to tackle the obstacles and to exploit opportunities in a coordinated way.

Under the leadership of Central Bank of Afghanistan (DAB), several stakeholder consultation exercises were undertaken to introduce the idea of the NFIS and solicit feedback, and subsequently present the process for the preparation of the NFIS, collective agreement on a vision, and key priorities areas. At the instigation of the Financial Inclusion Department (FID) of DAB, two NFIS national/stakeholders committee meetings were held to highlight key policy objectives of NFIS, the rationale for developing an NFIS for Afghanistan and the role that the various stakeholders can play. Moreover, the overall NFIS structure, its development phases, the required consultation process and the formation of a taskforce were discussed. Several taskforce meetings and sub-group meetings were held to further develop the concept of NFIS, identify main diagnostics areas and highlight the role and responsibility of the taskforce committee. Meetings were also held with key stakeholders including MISFA, EMIs, banks, Afghanistan Chamber of Commerce and Industry and other relevant stakeholders from the agriculture and agent-banking business areas.

1. Rationale

Financial access and intermediation in Afghanistan are low compared to region, developing economies and other peer countries. Data indicates that around 85 percent of the adult population in the country does not have a transaction account at a regulated financial institution. The barriers to limited access to financial products and services come from both the supply and demand side. From the supply

side, there are inadequate access points which make it costly for individuals to conduct transactions using regulated financial services and documentation requirements that cannot be met by many Afghans. From the demand side, limited income, low financial literacy, heavy reliance on the informal sector, religious beliefs, social and cultural norms and limited trust in the financial sector serve as barriers to financial inclusion. The NFIS will aim to mitigate the barriers to financial inclusion that prevail through a coherent, institutionally coordinated and collaborative approach to promoting financial inclusion in Afghanistan.

The preparation of the NFIS reiterates the Government of Afghanistan’s commitment to financial inclusion in Afghanistan. Increasing access to financial services delivered responsibly is critical to stimulating inclusive growth in Afghanistan. Financial services provide Afghans across all segments of society with the tools to borrow, save, make payments, and plan for retirement. This will, in turn, help smooth consumption and mitigate shocks from emergencies, especially for women and low-income households. In a context of increasing poverty levels - the level of poverty in 2016/17 stood at 54.5 percent which is indicating a sharp deterioration in welfare since 2011-12¹¹ - the NFIS is an opportunity to support efforts by the Afghan Government to reduce poverty, spur private investments and facilitate entrepreneurial activities that boost job creation and growth.

The NFIS will be instrumental for strengthening Afghanistan’s financial sector and ensuring universal access to formal financial products and services for Afghans. A strong financial sector will allow Afghan citizens to save, build resilience against shocks, create an environment for businesses to thrive, and thus, help in the process of poverty alleviation. Access to financial services is a key factor in improving the livelihoods of women and poor households and supporting micro, small- and medium-sized enterprises (MSMEs), which provide employment and boost economic growth. By developing the NFIS, Afghanistan joins over 60 countries that have launched or are in the process of developing National Financial Inclusion Strategies.

The Government of Afghanistan is committed to attaining the SDGs. Financial inclusion and access to finance are important enablers that contribute to achieving the SDGs of No Poverty, Zero Hunger, Good Health and Well-being, Gender Equality, Affordable and Clean Energy, Decent Work and Economic Growth, Reduced Inequalities, and Climate Action.

2. Vision

The overarching vision for the NFIS is as follow:

Achieving an inclusive, sound and responsive financial system in which all adults, women and MSMEs have effective access to and regularly use a range of quality and affordable financial services that meet their needs and contribute to their economic wellbeing.

3. Definition

Defining financial inclusion as it pertains to the Afghanistan context is essential to ensuring a common path for all stakeholders. Within the context of the NFIS and in consultation with all relevant stakeholders, Afghanistan’s definition of financial inclusion is as follow:

¹¹ Source – Afghanistan Living Condition Survey.

A state in which all adults, women and MSMEs have effective access to and regularly use a broad range of quality and affordable financial services including but not limited to account, payment, saving, and credit provided by formal financial institutions in a fair, transparent, and sustainable manner.

The NFIS is a dynamic act in response to the pressing priorities and development challenges for enhancing access to credit in Afghanistan and focusing on financial inclusion and deepening.

4. Objectives

The identified objectives of Afghanistan's NFIS are to:

- i. Expand and diversify access points to enhance adults and women access to formal financial services
- ii. Enhance MSMEs access to finance across different productive economic sectors and various underserved target groups
- iii. Improve agriculture sector access to finance
- iv. Establish a robust financial consumer empowerment and protection framework
- v. Promote access to digital financial services

5. Key Enablers

The enablers will pave the way for implementing the NFIS and achieving financial inclusion goals. Enablers of the NFIS are as follows:

i. Legal and regulatory framework

Sound, proportionate and appropriate legal framework provides the basis and supports innovative financial products and services, outreach of financial services and protects consumers' rights. In order to achieve financial inclusion goals, the legal and regulatory framework should consider the following:

- Should maintain balance and strengthen synergies between financial inclusion, financial stability and financial integrity
- Should be developed in a consultative manner
- Should support innovation
- Should set conducive incentives

ii. Public and private coordination and commitment

Strong commitment and coordination of public and private stakeholders and donors is the cornerstone of a successful implementation of the NFIS and achieving its goals. Therefore, strong commitment and coordination of stakeholders must be ensured among diverse stakeholders.

iii. Payment infrastructure and credit information

Payment and ICT infrastructure is a critical enabler of financial inclusion as well as key to financial sector development. In this respect, the following tasks must be done:

- Create interoperability between banks, Electronic Money Institutions and Payment Service Providers
- Integrate payments systems
- Leverage financial technology to boost financial inclusion and expand digital access points
- Expand the coverage of public credit registry, improve credit information quality, and allow the private credit information bureau to be established
- Develop the credit reporting law

iv. Data and research

Comprehensive and quality sex disaggregated data and additional segmentation and granularity of data helps research, make informed decisions, make evidence based policies, set targets, measure progress and evaluate impact of the NFIS. In this regard, the following actions need to be done:

- Develop comprehensive financial inclusion data collection guideline
- Collect quality and comprehensive sex disaggregated data
- Create database for storing data
- Ensure that the data is analyzed and issue for evidence based policymaking

To ultimately realize the vision and objectives of the NFIS, multiple stakeholders involving the Government, DAB, financial sector and civil society will need to work together to implement the NFIS in a coordinated, and cohesive manner. In this regard the FID of the DAB can play an important role of an effective national coordination structure for the NFIS, which would be key for the implementation and monitoring of the NFIS action plan.

1. Overview of the Financial Sector and Current State of Financial Inclusion

Afghanistan has a bank based financial structure and has achieved many milestones towards a functioning and modern banking sector which is comprised of 12 banks. Seven are full-fledged private banks, three are state-owned and two are branches of foreign banks. All banks in the three categories are regulated and supervised by DAB. The bank branch network comprises 415 branches across the country. Though bank branches exist in all provinces of the country, banks' activities are concentrated in the three largest urban centers of the country – Kabul, Herat, and Mazar-e-Sharif– which account for half of their branch network. Improved confidence in the formal financial sector through modernized infrastructure and improved accountability and governance will be crucial to furthering financial inclusion in Afghanistan.

Afghanistan lags behind other similar countries in terms of financial sector depth. The ratio of private credit to GDP as of Dec 2018 was 2.88 percent. The ratio of loan to deposit in 2018 was 15.45 percent, which is lower than what is observed in similar economies. The ratio of domestic deposits to GDP is 18.64 percent. The share of outstanding SME loans was 0.17 percent of GDP in 2018. This number is much lower in comparison to other similar countries and highlights the lack of support for SMEs in Afghanistan. The low take up can be explained due to lack of product suitability.

The non-bank financial sector is very small in size with limited outreach. There is a formal but unregulated microfinance sector, consisting of six microfinance institutions (MFIs)¹² and while it has grown significantly in the past decade, its customer base remains modest. Also, the efforts in the microfinance sector are primarily led by MISFA and its four partners¹³. The insurance sector is almost non-existent, with five domestic and two branches of foreign insurance companies operating in the country. The Afghan formal social protection system largely consists of a pension scheme for public sector employees, military, police and a Martyrs and Disabled Pension Program. Afghanistan also has three licensed electronic money institutions that are regulated by DAB. As of Dec 2018, there were 17.7 million mobile subscribers, but the total number of registered mobile wallets was 1,069,195, out of which only 50,911 of them were active mobile money users with at least one transaction in a month.¹⁴ Also, there were 1,921 registered mobile money agents across the country¹⁵. The Afghanistan financial system also includes 1,285 Money Service Providers and 1,699 Foreign Exchange Dealers licensed by DAB¹⁶.

There is only one microfinance bank operating in the country which focuses on MSME lending. The microfinance sector, including the microfinance bank, serves more than 150,865 active borrowers, out of which 30 percent are women. The MFIs have 82 branches (as of end-December 2018) located in 17 provinces (Microview 23, AMA, Dec 2018).

Informal financial services providers in Afghanistan continue to flourish and are widely used by Afghans across the country. This is against the backdrop of a regulated financial sector that has made

¹² FINCA Afghanistan, Mutahid, Oxus, IIFC Group, Exchanger Zone,

¹³ FMFB, FINCA, Mutahid, OXUS.

¹⁴ Source: FAS - IMF 2018

¹⁵ Source: FAS - IMF 2018

¹⁶ Source: DAB, Dec 2018

progress from a largely inactive banking system prior to 2001. The main product of the informal sector is Hawala, which is an honor-based network of money transfer providers who are well known and broadly trusted by Afghans.

Modernization of the national payments system (NPS) is currently underway. The new ATS will combine a Real Time Gross Settlement (RTGS), ACH functionality and Central Securities Depository (CSD) as one system operated by DAB. APS is the national card and mobile payment switch; it was officially inaugurated in April 2016 and currently operates under the DAB. As of June 2019, it has 6 participating banks and 111 Automated Teller Machines (ATMs). APS recently launched a Domestic Card Scheme with the support of the DAB to further improve financial inclusion by offering a low-cost payment solution to those that are otherwise unbanked. Payment systems in Afghanistan, however, face several unique challenges. Decades of war and ongoing conflicts have negatively affected trust in the system, occasionally lead to disruption of delivery of critical services and have hampered the operations of Information Technology (IT) and telecommunications infrastructures.

Afghanistan has established a collateral registry and public credit registry which became fully operational in 2013 and 2014 respectively. They are governed by the Law for Secured Transaction on Movable Property in Banking Transactions, Regulation on Registration of Secured Charges and Credit Reporting Regulation, respectively. The collateral registry is now utilized by DAB’s Financial Supervision Department (FSD), all commercial banks, 6 microfinance institutions as well as the Ministry of Finance (MoF) Revenue’s department. The public credit registry provides standard credit information from both banks and non-bank financial institutions, in accordance with international standards. As per a DAB circular issued on November 18, 2014, all commercial banks are mandated to make an inquiry to the public credit registry and obtain a Credit Report before issuing a loan. However, according to the World Bank’s 2019 Doing Business report, only 1.3 percent of Afghan individuals and firms are listed, with information on their borrowing history from the past 5 years (Figure 1-1). Therefore, there is ample room for improving data collection and strengthening the current database by including also a segmentation on gender.

FIGURE 1-1. COVERAGE OF PUBLIC CREDIT REGISTRY

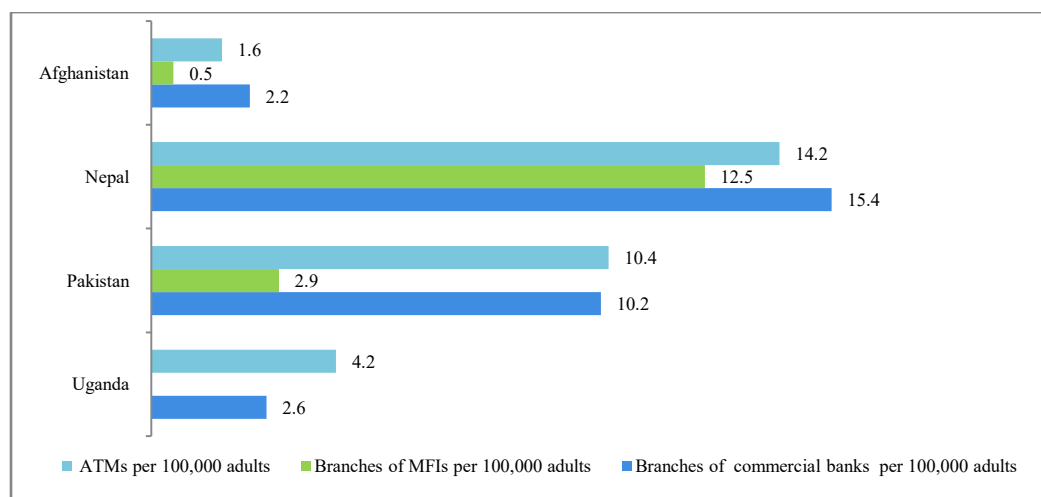
Coverage	Credit Registry
Number of individuals	240,227
Number of firms	6,261
Total	246,488
Percentage of adult population	1.3%

Source: World Bank Doing Business, 2019

The number of regulated deposit-taking institutions in Afghanistan is very low relative to its comparator countries. As of end December 2018, there were 2.2 branches of commercial banks per 100,000 adult people in Afghanistan, while this number was 15.4 for Nepal, 10.2 for Pakistan, and 2.6 for

Uganda in the same period (Figure 1-2). In 2018 they were 1.6 ATMs per 100,000 adult people in Afghanistan which is much lower compared to Nepal (14.2), Pakistan (10.4), and Uganda (4.2). There has been very slow growth in the number of bank branches both in absolute and per 100,000 adult people terms, in particular in rural areas, since 2013(Figure 1-3). This decrease in bank branches is primarily due to population growth.

FIGURE 1-2. ACCESS POINTS PER 100,000 ADULTS



Source: IMF Financial Access Survey, 2018, DAB, & NSIA

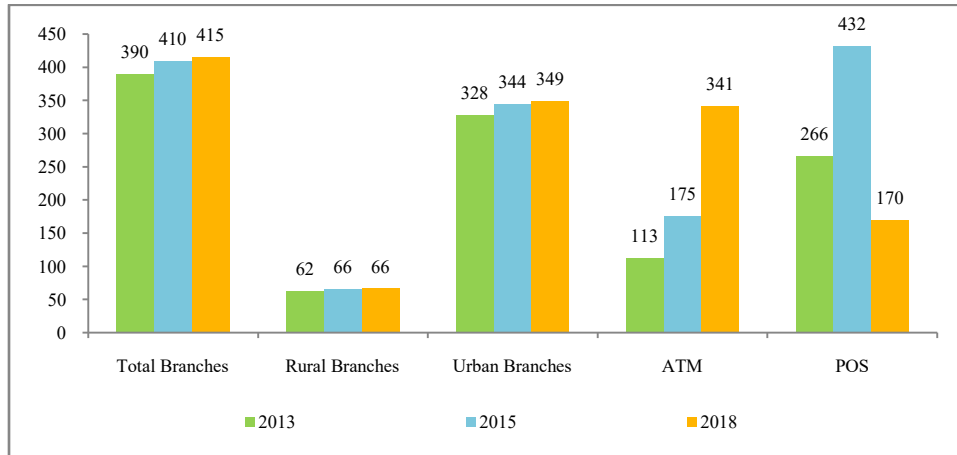
According to the World Bank’s Global Payment Systems Survey (GPSS), the number of Point of Sale (POS) terminals is far lower in Afghanistan. There are 170¹⁷ POS in Afghanistan, much lower compared to Pakistan (41,183). Overall financial access points are highly concentrated in urban centers of the country – Kabul, Herat, and Mazar-e-Sharif, which account for half of their branch network. The expansion of financial access points in rural areas is critical to the financial inclusion agenda in the country.

State-owned banks which have the largest outreach among all the banks in Afghanistan, provide only limited financial inclusion. Their intermediation activity is marginal and loan portfolio is 4.97 percent of their total assets as of end December 2018. Even though state-owned banks operate the most extensive brick and mortar branch network, accounting for a total of 130 outlets country-wide (or 31 percent of the banking sector network), their ATM network consists of 49 ATMs across the country. Given their outreach potential especially in rural areas, state-owned banks are well-placed to bridge the rural-urban gap in financial inclusion since private banks which currently dominate Afghanistan’s financial sector are more susceptible to market failures and higher transaction costs. They are also best placed to develop women’s desks to facilitate women’s participation in the financial system.

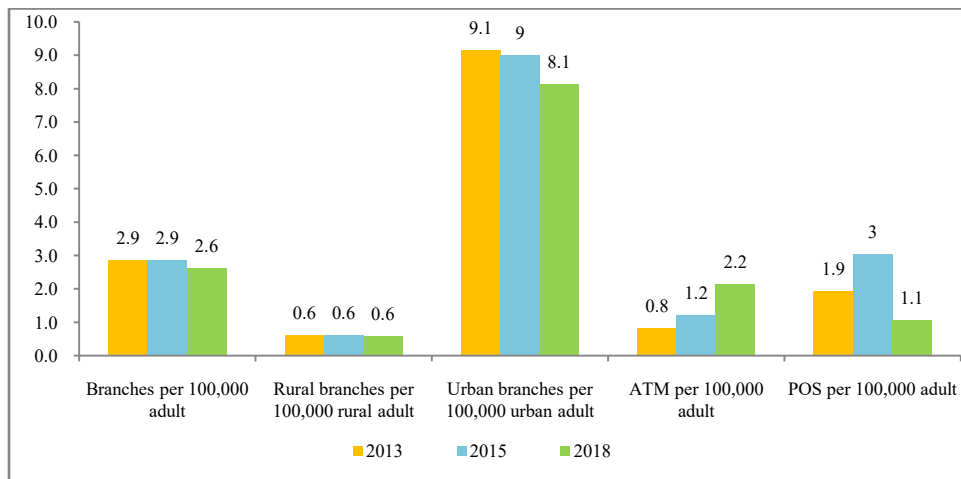
¹⁷ Source: DAB

FIGURE 1-3. ACCESS POINTS 2013-2018

A. Number of Access Points



B. Number of Access Point per 100,000 Adult



Source: DAB and NSIA

2. Policy Areas

Building an inclusive financial sector in Afghanistan – that has low level of financial intermediation and account ownership requires a gradual approach that takes into consideration the existing level of financial development, poverty, political instability, weak infrastructure, and widespread insecurity. Moreover, there is a prominent gender gap of 16% in account ownership, which is higher than all comparable countries such as Nepal (8 percent), Uganda (13 percent), region (11 percent), low income countries (10 percent) and developing economies (8 percent), however, it is lower than Pakistan (28 percent).

The current strategy will be a dynamic document that will be continuously updated to accommodate the country's priorities. In this respect the initial focus for the strategy will include serving key economic sectors, addressing key challenges of access to formal finance to the individuals and micro, small and medium enterprises (MSME), protecting the rights of consumers of the financial services as well as leveraging technology to expand the outreach to formal financial services across the country. These policy areas are identified based on the following:

- Account ownership among individuals is very low in Afghanistan, where only 15 percent of adults have access to account.
- MSMEs in Afghanistan have very low level of access to finance and have identified finance as one of the major constraints towards their growth¹⁸.
- Agriculture sector which has the strong potential to contribute to economic growth and is the main source of employment for around 40 percent of the labor force, has extremely low access to finance. Also, women account for nearly half of the agricultural workforce.
- Lack of trust is one of the key reasons that most of the unbanked people do not use formal financial services in Afghanistan. Therefore, consumer protection, particularly for women, is identified as a key policy area to build public's trust in the system
- Advanced payment system is a key enabler of financial development and financial inclusion. Therefore, leveraging payment technology is essential for promoting financial inclusion in the country.

This section of the note highlights challenges for the four main areas of focus from the financial inclusion standpoint and the corresponding policy recommendations.

¹⁸ According to Enterprise Survey 2014, only 5 percent of firms have access to loans or lines of credit and only 2 percent have loans for financing investment.

2.1 Financial Access for Individuals and MSMEs

2.1.1. *Individuals' Financial Access*

Around 85 percent of adults in Afghanistan lack access to formal financial services. Moreover, despite the positive increase in account ownership from 10 percent in 2013 to 15 percent in 2018, Afghanistan still lags behind developing & low income economies, as well as regional and peer countries. In addition, mobile money account ownership is also low in Afghanistan; only 1 percent reported personally using a mobile money service (Figure 2-1). For individuals, access to formal financial services through transaction accounts is a steppingstone to a broader set of financial services, such as savings, payments, credit, investment, insurance, and pensions.

Both individual account ownership and usage are very low in Afghanistan, compared to other countries. This reflects low economic activity and high level of informality. According to Global Findex 2017, the few Afghans who own an account seldom use them. 34 percent of Afghan adults with an account did not make any deposit or withdrawal for a year. This ratio is higher than in Pakistan (18 percent), Uganda (29 percent), low income countries (27 percent) and developing economies (26%), however, it is lower than South Asia average (46 percent). In terms of digital transactions, only 11 percent of Afghans reported having made or received digital payments in the past year; lower than Pakistan (18 percent), Nepal (16 percent), Uganda (55 percent), South Asia (28 percent), low income countries (26 percent), and developing countries (44 percent) (Figure 2-2).

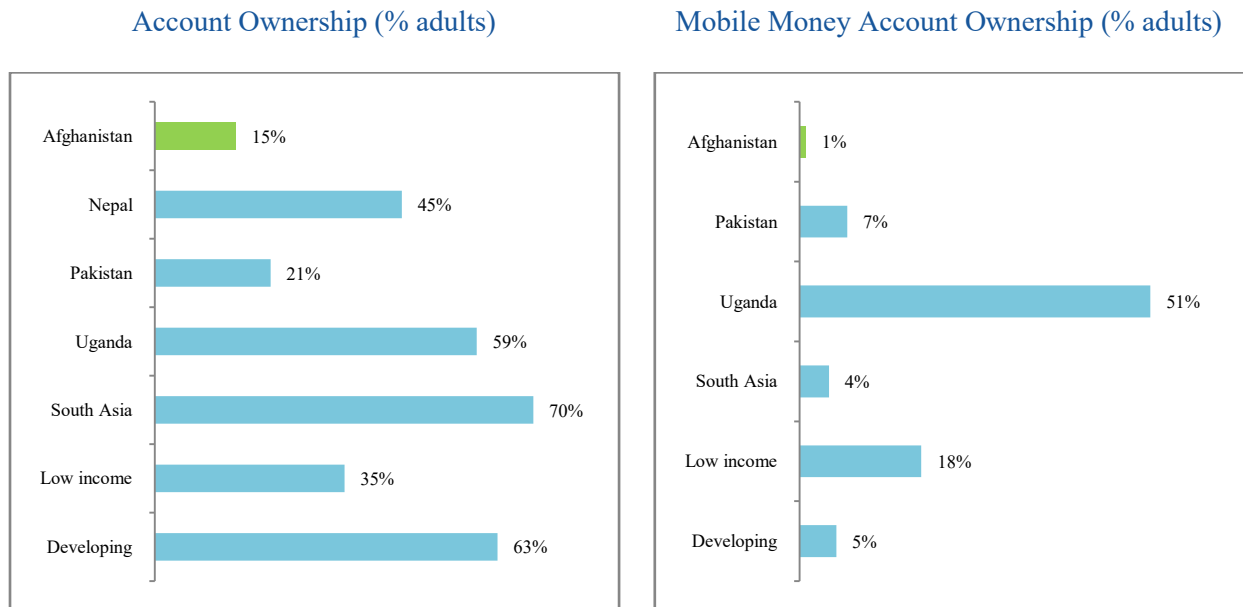
The number of checking accounts for individuals has been increasing since 2013. This trend holds for both the male and female population and for accounts held at rural and urban locations in Afghanistan. The total number of checking accounts increased around 170 percent in 2018 compared to 2013. Growth in urban checking accounts was recorded around 160 percent while checking accounts in rural areas increased above 9 times during the same period; but remains low in terms of number of accounts (Error! Reference source not found.). In 2013, around 82 percent of male checking accounts were classified as active while female active accounts (though still very low in terms of absolute number in comparison to male population) stood at 84 percent. This ratio for male increased to 83 percent in 2018, and for female, it increased to 91 percent of checking accounts. This highlights that when women do have access to an account they are proactive users. Due to their very low numbers currently this is an area where financial inclusion can be significantly increased.

A significant number of unbanked adults reported not having an account due to lack of funds. Approximately 84 percent of unbanked adults cite “insufficient funds” as the main reason for not having account at a financial institution, 35 percent cite distance, 24 percent cite cost or lacking required documentation, 24 percent cited lack of trust and 16 percent cited religion or someone else in the family owning an account as reasons for not owning an account. However, only 2 percent report that they do not need an account¹⁹, which clearly demonstrates a need from the supply-side to expand access points which will, in turn, facilitate increased account ownership.

¹⁹ Source: Findex 2017

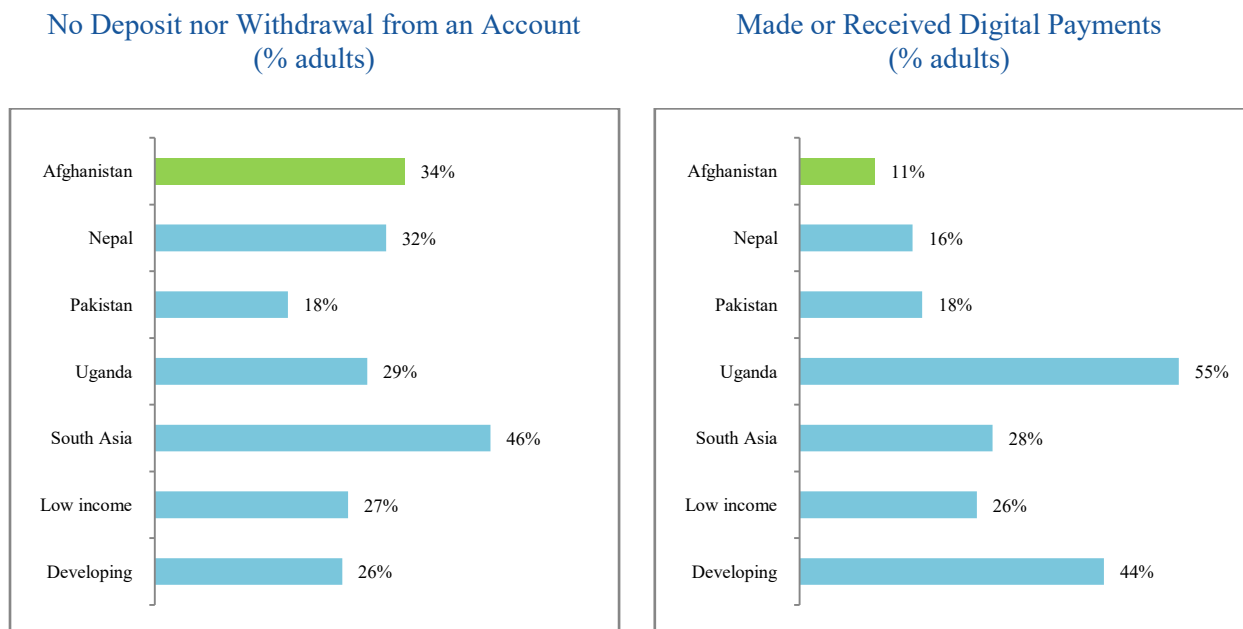
The use of both online and mobile banking has been expanding in Afghanistan since 2013. The number of online and mobile banking users increased from 49,000 in 2013 to 109,000 in 2018. However, this increase is low. This is while in mid 2019, the DAB issued a circular that has encouraged banks to offer mobile banking services (Error! Reference source not found.).

FIGURE 2-1.ACCOUNT OWNERSHIP



Source: World Bank, Global Findex Database, 2017

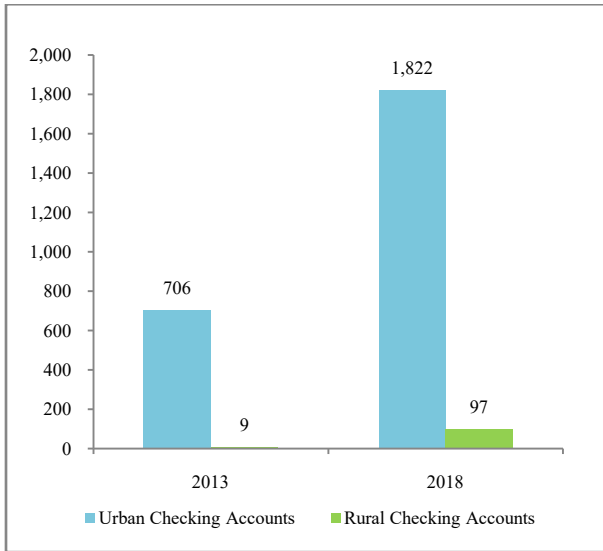
Figure 2-2.Deposit, Withdrawals and Digital Payments



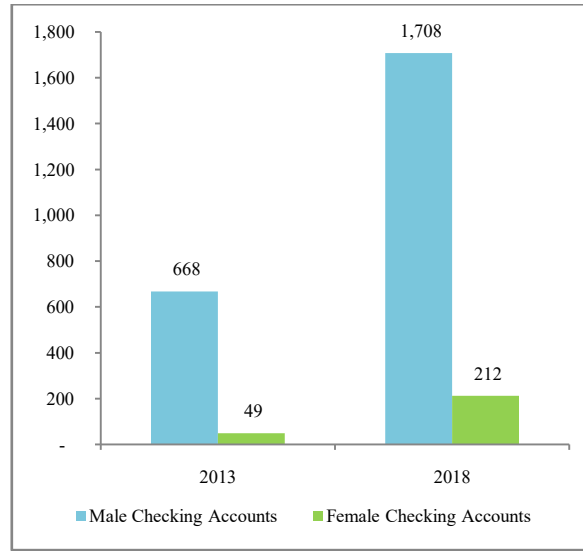
Source: World Bank, Global Findex Database, 2017

FIGURE 2-3. HOUSEHOLDS' CHECKING ACCOUNTS BY REGION AND GENDER

Rural Vs Urban (in Thousands)



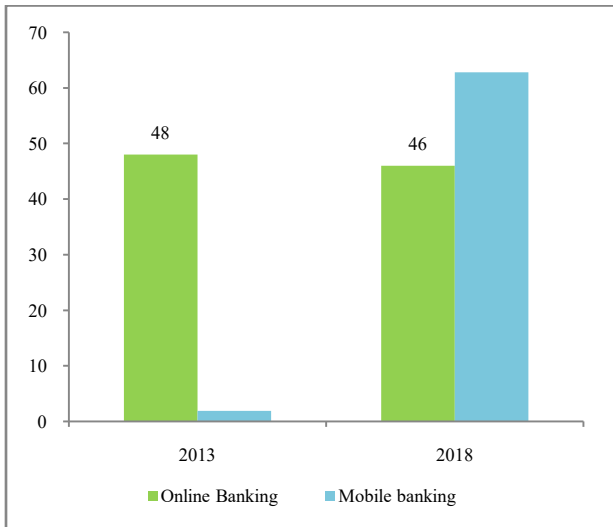
Male Vs Female (in Thousands)



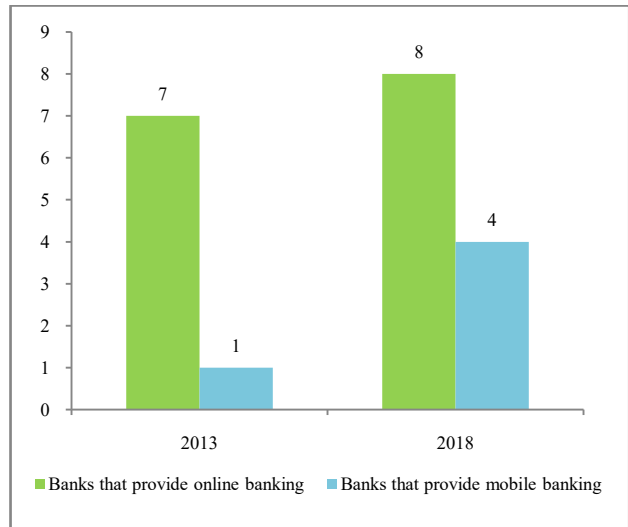
Source: Da Afghanistan Bank

FIGURE 2-4. HOUSEHOLDS' ONLINE AND MOBILE BANKING

Mobile and online banking users (in Thousands)



Mobile and online services provided by banks

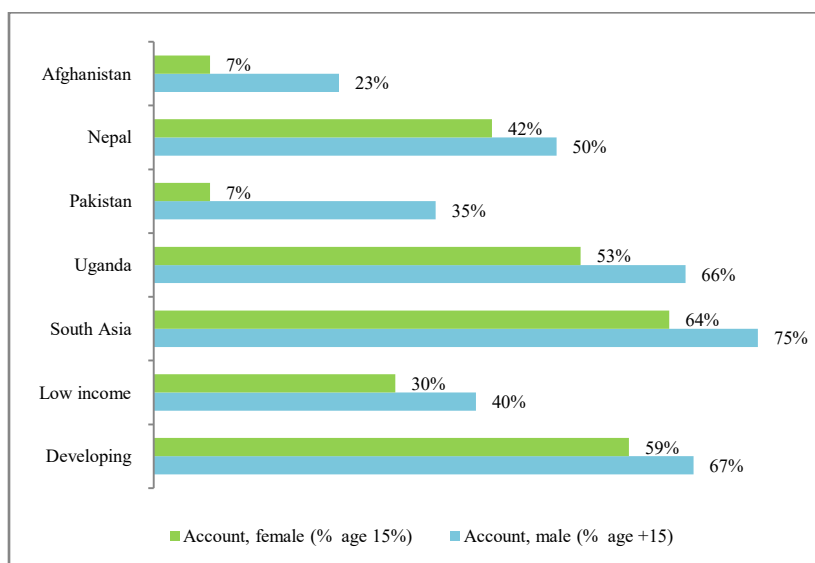


Source: Da Afghanistan Bank

Gender gap in account ownership is quite prominent in Afghanistan and has increased from 12 percent in 2014 to 16 percent in 2017. While account ownership among women is 7 percent, account ownership among men is 23 percent, resulting in a gap of 16 percentage points.²⁰ Gender gaps persist in other comparator countries 12 percent in Nepal, Pakistan (28 percent), Uganda (13 percent), South Asia (11 percent), low income countries (10 percent and 8 percent in developing economies (Figure 2-5).

Due to low levels of account ownership and usage of digital payments, Afghanistan presents a large opportunity to leverage digital payments to improve financial inclusion. According to Global Findex 2017, the majority of adults that pay utility bills, send or receive domestic remittances using “informal” means of payment. These informal means are basically defined as either cash or over the counter transactions at agents for sending remittances or paying utility bills at a bank branch, which can otherwise be made easily using a transaction account. This represents a big opportunity because more than half the adult population can indeed make use of more efficient and safer payment options provided by a simple transaction account.

FIGURE 2-5.ACCOUNT OWNERSHIP BY GENDER



Source: World Bank, Global Findex Database, 2017

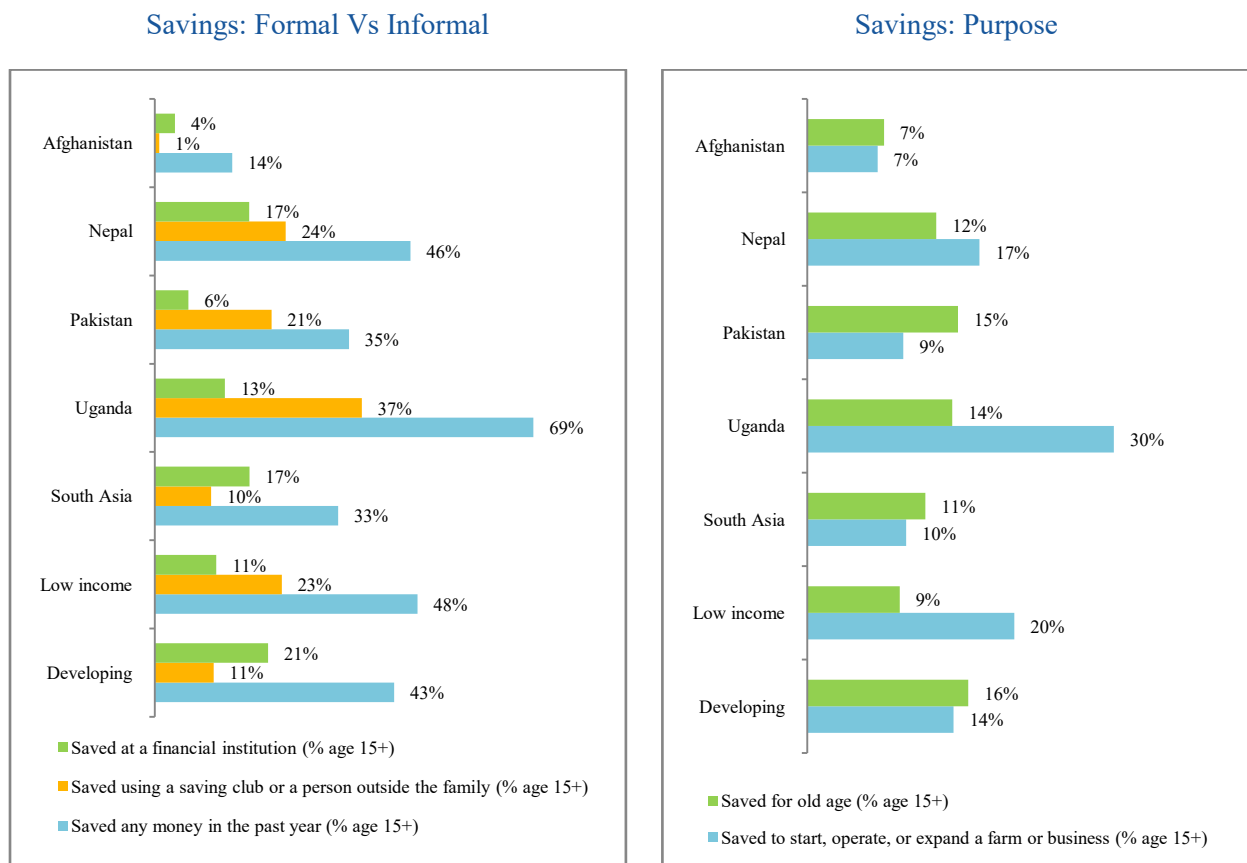
Only 14 percent of Afghans saved in the past year according to Global Findex 2017. Only 4 percent of Afghan adults save using a formal financial institution. The preference for formal savings is higher in all the other countries in the analysis. However, those in Afghanistan also reported less likely to save using a savings club or person outside the family (1 percent) as compared to other countries. While overall saving rates are low, where adults decide to save and what they save for, varies across countries. Only 7 percent of adult reported that they save for old age which is very similar to the pattern in low income countries (Figure 2-6).

²⁰ Once more granular data from Global Findex 2017 becomes available at country level, this analysis can be repeated to understand how these opportunities in Afghanistan may have evolved over the past three years.

Overall, about a third of adults borrowed in the past 12 months in 2017 in Afghanistan. However, only 3.3 percent of Afghan adults borrowed from a financial institution or used a credit card in the past year which is lower than all comparator countries, except Pakistan where borrowing from regulated financial institutions is low. Around 26 percent of Afghans rely on family and friends when they need to borrow money. Relatively similar patterns are observed in Pakistan, where 29 percent of adults borrowed from family and friends. More adults borrowed for medical reasons than to start or expand a business or farm in Afghanistan which is similar for South Asia average, but is different from the pattern in low income as well as developing economies (Figure 2-7).

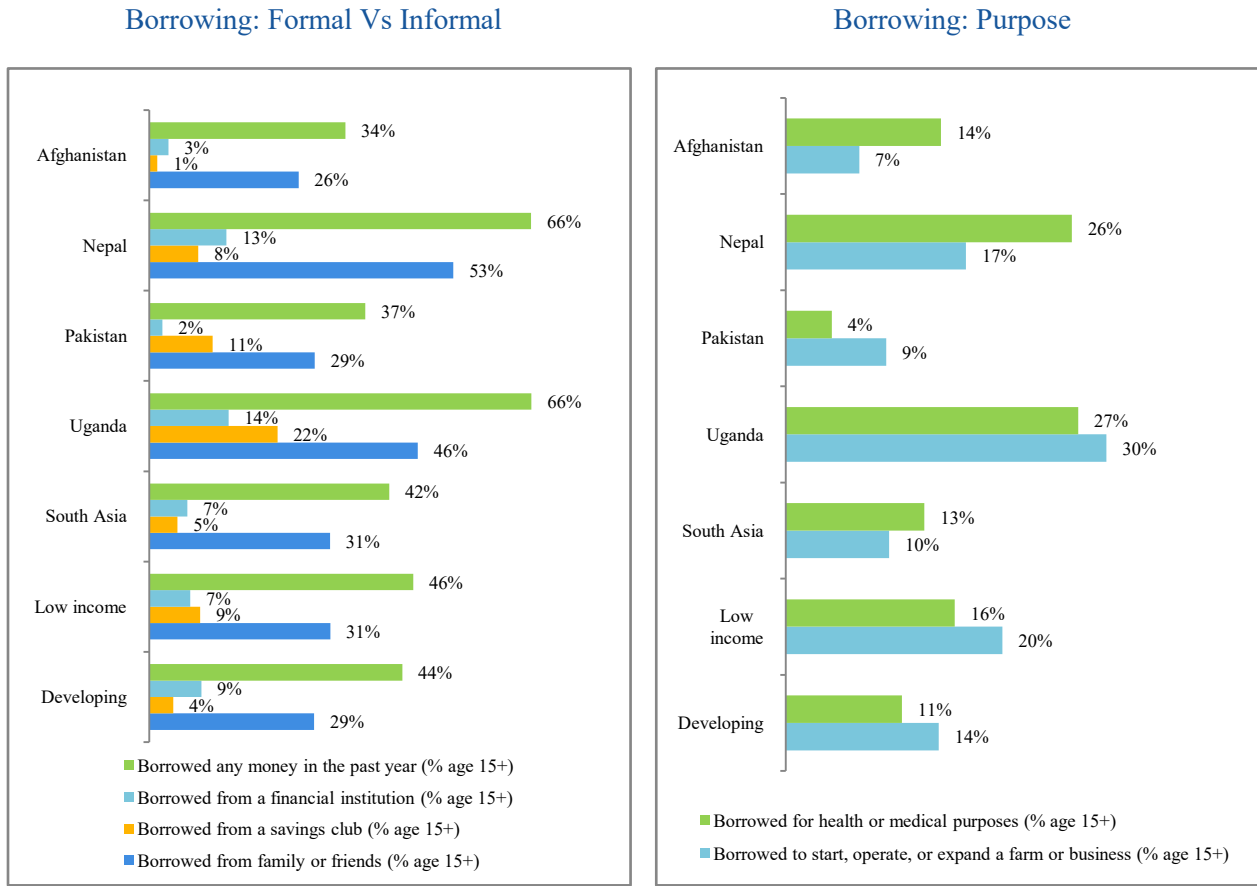
According to Global Findex 2017, 42 percent of adults in Afghanistan reported that they are not able to come up with emergency funds when needed. Among the other economies, adults in Uganda, and Pakistan reported having similar constraints to come up with emergency funds, more than those from Nepal (Figure 2-8). According to Global Findex 2017, a higher percentage (56 percent) of Afghan adults reported being able to come up with emergency funds, but the majority of these adults are not included in the formal financial system, indicating the need for collective saving/insurance schemes to enhance Afghan’s ability to mitigate shocks.

FIGURE 2-6.SAVINGS



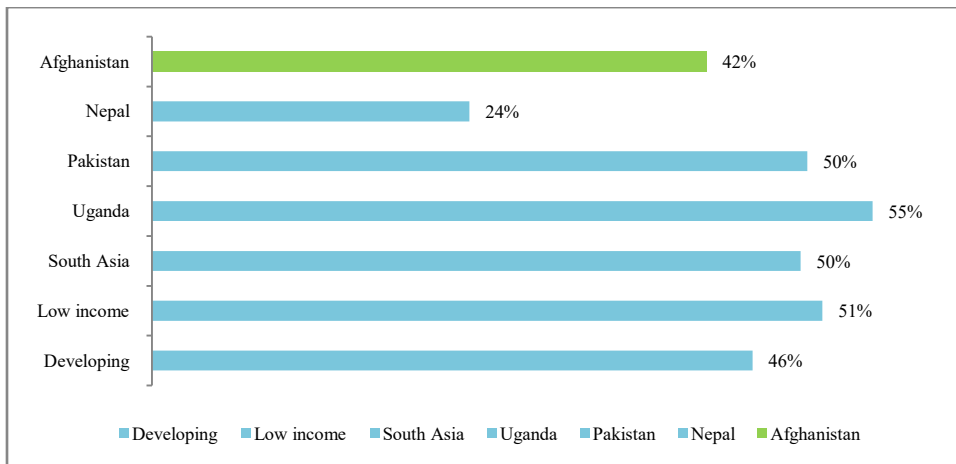
Source: Global Findex database, 2017

FIGURE 2-7. BORROWINGS



Source: World Bank, Global Findex Database, 2017

FIGURE 2-8. EMERGENCY FUNDS



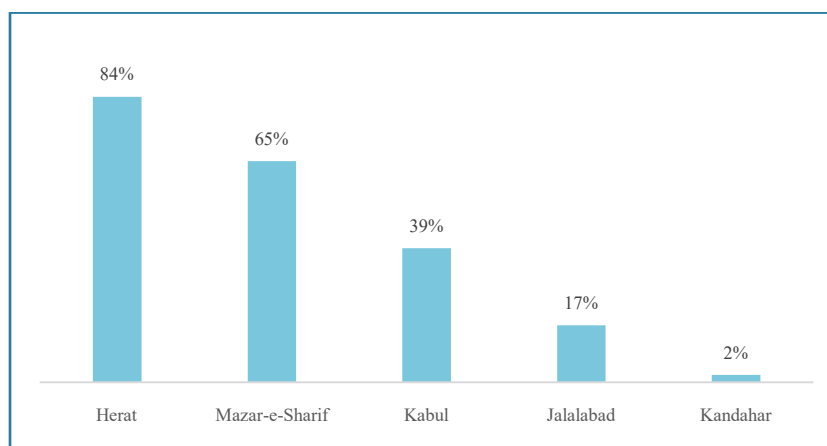
Source: World Bank, Global Findex Database, 2017

2.1.2. Financial Access for MSMEs

In terms of finance for MSMEs, Afghanistan lags behind when compared to peer countries and some of its South Asian neighbors. The share of outstanding SME loans was 0.17 percent of GDP in 2018 which is the lowest among all similar and regional economies.²¹ Moreover, access to bank account and loan or line of credit among Afghan MSMEs is low. Internal funding is by far the most common source of finance for working capital and purchasing fixed assets for MSME. Access to finance is among the biggest obstacles that firms face in Afghanistan according to reports by enterprises.

Afghan firms demonstrate low levels of account ownership. According to World Bank Enterprise Surveys (2014), 44 percent of Afghan firms had a checking or savings account. Firms that report owning an account are mostly located in urban Afghanistan (Figure 2-9). Account ownership is lower for small firms (32 percent) followed by medium (67 percent) and large firms (83 percent).

FIGURE 2-9. ACCOUNT OWNERSHIP BY FIRMS ACROSS REGIONS



Source: World Bank Enterprise Survey 2014

The ratio of firms that have loan, line of credit or use banks to finance their investment is very low. 5 percent of firms have a loan or line of credit and only 2 percent of firms use banks to finance investments. Approximately 45 percent of firms report not needing a loan in the first place, yet 35 percent also reported that their recent loan application was rejected. The major source of credit for firms, as reported by those with loans or line of credit, is private commercial banks (73 percent). Even though a significant percentage of firms report not needing a loan, approximately 48 percent of firms identify access to finance as a major constraint.

The potential credit needs of MSMEs are estimated at more than USD 4.7 billion, according to the International Finance Corporation (IFC) Enterprise Finance Gap Database (2017).²² This represents a significant opportunity in the Afghan market given the negligible level of support that currently targets the financial needs of this group. Furthermore, 39.19 percent of MSMEs are fully financially constrained and 14.5 percent partially constrained.

²¹ Source: DAB

²² <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

Banks do not have significant MSME lending operations. Lack of expertise, and experience as well as lack of risk-mitigation tools in MSME lending are major reason for the lack of engagement from banks. The enterprises suffer from tough lending conditions by financial institutions. Very high interest rates and excessive collateral requirements, which disproportionately affect women as they are less likely to own land, are among the main reasons that the enterprises could not access loans. Afghan banking sector needs to target MSMEs, women entrepreneurs, rural clients and financing start-ups which are a segment with growth potential. There is a need for developing alternative lending mechanisms, expansion and up-scaling of existing risk sharing mechanisms like credit guarantees, IT-enabled delivery channels and digitalized data and credit analysis, including financial instruments such as value chain finance and cash-flow lending to target MSME financing within the banking sector.

MFIs have limited outreach and level of lending in the country. The efforts in the microfinance sector are being led by MISFA. Despite a remarkable performance by MISFA's partner institutions, there is ample room for improvement. Due to several challenges including expenses incurred on security measures, small sized loans, poor infrastructure, high costs of hiring of expatriate qualified staff, and high turnover of international staff, the operating costs of MFIs are very high, especially when they expand to rural areas.

2.2 Agriculture Finance

The agriculture sector is undoubtedly the backbone of the Afghan economy, employing directly or indirectly bulk of the population and making significant contributions to the GDP. Approximately 17.2 million Afghans live in poverty and about 71.5 percent of people, mainly the poor, live in rural areas and at least 54 percent of rural households are involved either in farming or tending livestock. The agricultural industry employs 40 percent of the national workforce, and 43% of the agricultural workforce is women, 61 percent of all households derive some income from agriculture, and 90 percent of manufacturing is in this sector. Agriculture accounts for about 18.6 percent of the national GDP (excluding opium) and as of 2018; agricultural products were almost 60 percent of total licit exports of Afghanistan.

Among Afghans in the agriculture sector, access to formal financing continues to be inadequate. According to the 2018 Agricultural Credit Enhancement II Survey conducted among Afghan farmers, only 8 percent of farmers obtained bank loans and 5 percent reported getting a loan from an MFI. The majority of farmers continue to rely on cash loans from friends and family (65 percent) or short-term informal agreements with Sarafi/Hawala (17 percent) and as trade credit from input suppliers or local businessmen (15 percent). For those who did not access loans, a total of 61 percent said they were not interested in loan products that charge interest (and are not Sharia-compliant), and 31 percent were concerned primarily about their ability to repay the loan.

Agriculture finance in Afghanistan is provided by different institutional forms that target different types of value chain actors. Commercial banks involved in agriculture mostly provide overdraft facilities (and occasional up to 3-year term loans) to their clients for working capital and trade. As of end-December 2018, agriculture and livestock loans represented less than 3.86 percent of total bank lending (US\$21 million approximately)²³. Few commercial banks have been supporting parts of some agricultural value chains, focusing mostly on processors and exporters, while some banks do not have any lending to

²³Source: DAB

the sector. Banks do not use the value chain financing approach. MFIs are more active in financing the agriculture sector than banks, in terms of volume of financing (US\$ 26 million). Agriculture and livestock represent almost a quarter of the total MFI loan portfolio (24 percent). MFIs provide support to agriculture, concentrating their efforts at the lower end of the value chain. They generally support short-term loans to farmers for production and to traders for farm produce marketing. MFIs have recently increased their support for the purchase of processing equipment and some also provide trade finance. Another source of formal funding for agriculture is the Agricultural Development Fund (ADF). ADF has approved 275 loans since its inception in 2010 and disbursed a total of US\$91.4 million as of end-2017. Total outstanding loan portfolio stood at US\$24.2 million. ADF is however not regulated or supervised by the DAB.

Constraints to agriculture finance reported by both banks and MFIs are both supply and demand-side. These include the lack of vertical and horizontal integrations, especially the absence of well-managed value chains; the lack of adequate collateral by potential borrowers and difficult government legislation regarding land as collateral which disproportionately affects the agriculture sector; and the lack of risk-sharing mechanisms. Moreover, commercial banks that currently finance few agribusinesses at the upper-end of the value chain (i.e. processors and exporters) blame the weak pipeline of bankable proposals at the lower end of the value chain (weak demand) for their continued lackluster support for this sector. Lenders are generally deterred by the perceived high risk of the sector and lack of mitigation measures. In addition, there is little knowledge of agriculture in the banking sector and insufficient capacity to tailor financial products to the needs of agriculture.

Ensuring a conducive regulatory and operating environment for agriculture finance is a prerequisite to the introduction of specific products and services. Several revisions to laws that affect access to finance have been proposed in the past and continue to be pursued by the Executive Committee for Private Sector Development (PriSEC) and regulatory authorities. For instance, changes in bankruptcy laws to give secured creditors the highest possible priority in bankruptcy proceedings are being implemented. Furthermore, the establishment of a progressive and market-oriented sharia board has been finalized and the inclusion of Islamic Finance in the banking law is effective. The completion of planned reforms should create a policy, regulatory and legislative environment in which financial institutions are able to develop financial services and delivery channels that respond to the needs of the sector and are supported by an adequate legal framework.

2.3 Consumer Protection and Financial Capability

The existence of a sound financial consumer protection framework is fundamental to increasing access to, and usage of, financial services, the quality of those financial services and to supporting financial sector deepening. This is because financial consumer protection is a necessary precursor to building and maintaining trust in the formal financial sector and thus in encouraging sustainable financial inclusion. Trust is particularly important in a country such as Afghanistan which has relatively low levels of financial inclusion but with a clear commitment to improving those levels. Further, consumer protection helps ensure that expanded access to financial services benefits the consumers and the economy: while increased access can result in significant economic and societal benefits, it can be neutral or even harmful if consumers (i) cannot exercise their rights as consumers, (ii) cannot select the financial products that suit them best; and (iii) are not protected from mis-selling, fraud and other market abuses. This is particularly relevant when looking at women's consumer protection.

The diagnostic study of FCP covered various key aspects of financial consumer protection in Afghanistan. These aspects are divided into seven main categories. Institutional mandate, legal and regulatory framework, supervisory arrangements and enforcement powers, disclosure and transparency, fair treatment and business conduct, privacy and data protection, and dispute resolution mechanisms. The recently developed FCP regulation should bring more trust in the financial system and – given the recent history of banking crises in the country – it has to be combined with strengthening of the deposit insurance scheme²⁴ to provide protection to deposit holders in case of crises. Strengthening deposit insurance is not covered under the NFIS but will be part of the follow up work of launching the NFIS.

Institutional mandate: DAB has an implicit mandate to regulate and supervise the market from an FCP perspective where banks and non-bank payment service providers (PSP) are concerned. The current review of the Da Afghanistan Bank Act, 2003, (DAB Act) would include a more explicit FCP mandate for DAB. The microfinance sector on the other hand remains unregulated with the exception of those operating under a banking license. The apex body, MISFA, is aiming to raise the overall standards in the sector to ensure that FCP is taken seriously by its members and has developed a Consumer Protection guideline which is similar to FCP of DAB in terms of scope and mandate. Also, Financial Dispute Resolution Commission (FDRC) under DAB acts as an external dispute resolution between banks, banks and DAB, banks and their customers. There is also a need for Industry Associations to develop appropriate codes of conduct that are in sync with what the Government agencies are using to ensure uniformity.

Legal and regulatory framework: The DAB has issued the first financial consumer protection guideline in January 2019. In Mid 2019, with some additions, the guideline was upgraded to a comprehensive regulation which is currently effective. The regulation covers all key FCP principles such as disclosure and transparency, fair treatment and business conduct, data protection and privacy, dispute resolution mechanism and financial education. Although overall rules concerning FCP for banks and EMIs are still new, the FCP diagnostic study found that several banks have put in place processes and procedures to implement some key FCP principles, as they are required to do based on EFTs (Electronic Fund Transfers) regulation, which applies to all the products and services that the providers offer. The EFT regulation also provides specific clear measures, applicable to both banks and EMIs regarding e-payments. The microfinance sector, with the exception of those with a banking license, are not regulated from a prudential perspective or from an FCP perspective.

Supervisory arrangements and enforcement powers: DAB is charged with supervising banks, EMIs, and other EFTs providers. Currently DAB does not have an FCP department within its organizational structure. In 2016 DAB established a Financial Inclusion Department (FID), which also covers some FCP policy issues. While FID covers specific issues relating to FCP, it does not function as an FCP department nor does it have a supervisory mandate. In late 2018, an FCP team of 10 people from FID, FSD, and PSD was established to discuss FCP principles, develop and introduce the FCP guideline and regulation to the regulated financial institution. The FCP team is expected to start monitoring the implementation of the introduced FCP principles under FSD's and FID's joint leadership in 2021 until a dedicated FCP department or unit under FID is established.

²⁴Afghan Deposit Insurance Corporation (ADIC) was established under proposed Afghan Deposit Insurance Corporation Law 2009 to administer the national deposit insurance system in Afghanistan. ADIC insures deposits up to AF 100,000 per depositor per member institution. The AFN 100,000 limit includes both the principal amount of a deposit and the interest.

Disclosure and transparency: Based on the FCP diagnostic study findings, a lack of uniformity in terms of rules applicable to Financial Service Providers (FSPs), in particular with regard to disclosure and transparency was observed. The lack of specificity in general disclosure requirements was the reason why the observed industry disclosure and transparency practices varied significantly. While specific rules for FSPs on advertisement are recently introduced (FCP guideline), many institutions reported that rules on marketing material apply to them. The obligation to display conditions is generally respected, but there were no minimum standards on format and manner, nor were there common practices in terms of standardization and comparability of fee schedules. Beyond the lack of format requirements with regard to the display of fees and charges, it appears that consumers may have difficulties keeping and examining such information. There was no obligation to provide consumers with a standardized summary document/Key Facts Statement (KFS). Regarding the terms and conditions, the obligation to give consumers a copy of the contract was only limited to FSPs offering EFTs and banks. While most institutions retained the right to unilaterally change terms and conditions, the EFT regulations make it an obligation to inform consumers about changes in terms and conditions. Finally, like in many other jurisdictions, inactivity and informing clients for inactivity remain as problems.

Fair treatment and business conduct: In general, the diagnostic study found that there were no rules concerning the fair treatment of consumers. Providers appeared to include some terms and conditions and recur to practices which may be abusive. In particular, with regard to EMIs, there were numerous examples of unfair terms. Because of lack of clear rules on these matters, some FSPs apply certain "anti-competitive" fees and practices, which limit competition and force users to remain in the business relationship. Product suitability appears to be still a nascent concept in the country and only a few providers seem to assess the need of consumers, especially women, when offering products. Staff training with regard to FCP, professional competence requirements and measure to avoid conflicts of interests were almost non-existent. All banks and MFIs appear to have specific debt recovery and collection practices and procedures. The EMI regulations have specific provision ensuring the protection of customer funds, with regard to e-money. Finally, electronic transactions follow international good practices, meaning that there should be specific rules on the modalities/process of processing and refunding fraudulent, mistaken, and erroneous transactions.

Privacy and data protection: While there was not a general data protection and privacy framework, some scarce provisions are included in the Banking Act and the EFT regulation also contain more detailed provisions on data protection and privacy. While the diagnostic has not investigated privacy and data protection in details, the recently approved FCP regulation includes certain provisions on privacy and data protection and requires banks and EMIs to have privacy and protection procedures and policies in place.

Dispute resolution mechanisms: The diagnostic study found that Except for specific provisions for EMIs and EFTs providers to have a complaint-handling mechanism, no other provisions existed. While EMIs are obliged to report data on complaints' trends to DAB, it was perceived that they lack an understanding of the importance of allowing consumers to raise complaints and analyze the relevant data. While there is no designated External Dispute Resolution (EDR) Mechanism, the Financial Dispute Resolution Commission (FDRC) plays a potential role in solving financial services consumers related complaints. The Banking Act specifically provides that the FDRC handles disputes between banks and consumers. This limits its jurisdictions to banks, not covering other regulated FSPs offering retail financial services.

2.4 Payments and Digital Financial Services

Payments and digital financial services are an underlying foundation of a country's financial system. They consist of all the institutions, information, technologies, systems, payment instruments, rules and standards that enable the exchange of monetary value. A well-functioning payment system can add to financial stability, decrease the gender gap, enhance the efficiency of economic activity and intermediation and enable financial inclusion. While payment services are a financial service on their own, they have a complementary role to almost every other financial service too – as a result, “payment inclusion” is often an important pre-condition for broader financial inclusion. Payment systems are used to deliver numerous financial services, such as credit and savings, and for many individuals are the first point of interaction with financial institutions. It has also been an area significantly affected by disruptive innovation that alter existing business model and models of service delivery. For all these reasons, addressing payment system issues must be an integral part of the NFIS for the country, which is a cash-based economy with a very limited adoption of digital payments.

Leveraging payments to boost financial inclusion is a complex undertaking, and the approach adopted by the Payment Aspects of Financial Inclusion (PAFI) should be considered for the development of the country's payment system. PAFI, prepared and adopted by the World Bank and the CPMI, sees the role of payments in fostering financial inclusion as combining two roles: that of “critical enablers” including public and private sector commitment, legal and regulatory framework and financial and ICT infrastructure is foundational. Moreover, that of “catalytic pillars” including driving access and usage such as transaction account and payment product design, readily available access points, awareness and financial literacy and large-volume recurrent payment streams is essential. Accordingly, a coordinated approach to payment systems development is warranted.

A 2015 study conducted by the World Bank Group and the World Economic Forum corroborates that the prevalence of digital payments in Afghanistan is indeed low. According to this study, only 15 percent of retail payments by consumers at micro, small and medium-sized merchants are estimated to be done electronically (Figure 2-10). In addition, this same study also identifies that more than half of wage earners working at micro, small and medium-sized merchants (60 percent) in Afghanistan are paid in cash rather than into a bank account electronically, reducing incentives for them to use digital means for their payments for goods at retail stores. Moreover, these merchants lack any incentive to accept digital payments or pay their employees' salaries electronically, as most of their supplier payments are cash-based (68 percent).

Afghan citizens does not trust electronic payments (only 11 percent of adults' population used digital payments), which significantly limits financial inclusion. Addressing the issue requires coordinated action of authorities and other stakeholders in several critical areas. In line with the Payment Aspects of Financial Inclusion (PAFI) approach, those include “critical enablers” and “catalytic pillars”.

Public and private sector have displayed commitment, but coordination across stakeholders has been limited. For example, projects that have support government payment reforms (mobile salary or pension) have relied on project-based agreement for the distribution of government payments, instead of building a common, overarching framework for all government payments. This has implications in terms of the payment channels including interoperability of the system put in place for every project. The National Payments Council, which could act as a forum for coordination between different actors from public and private sectors, has been inoperative.

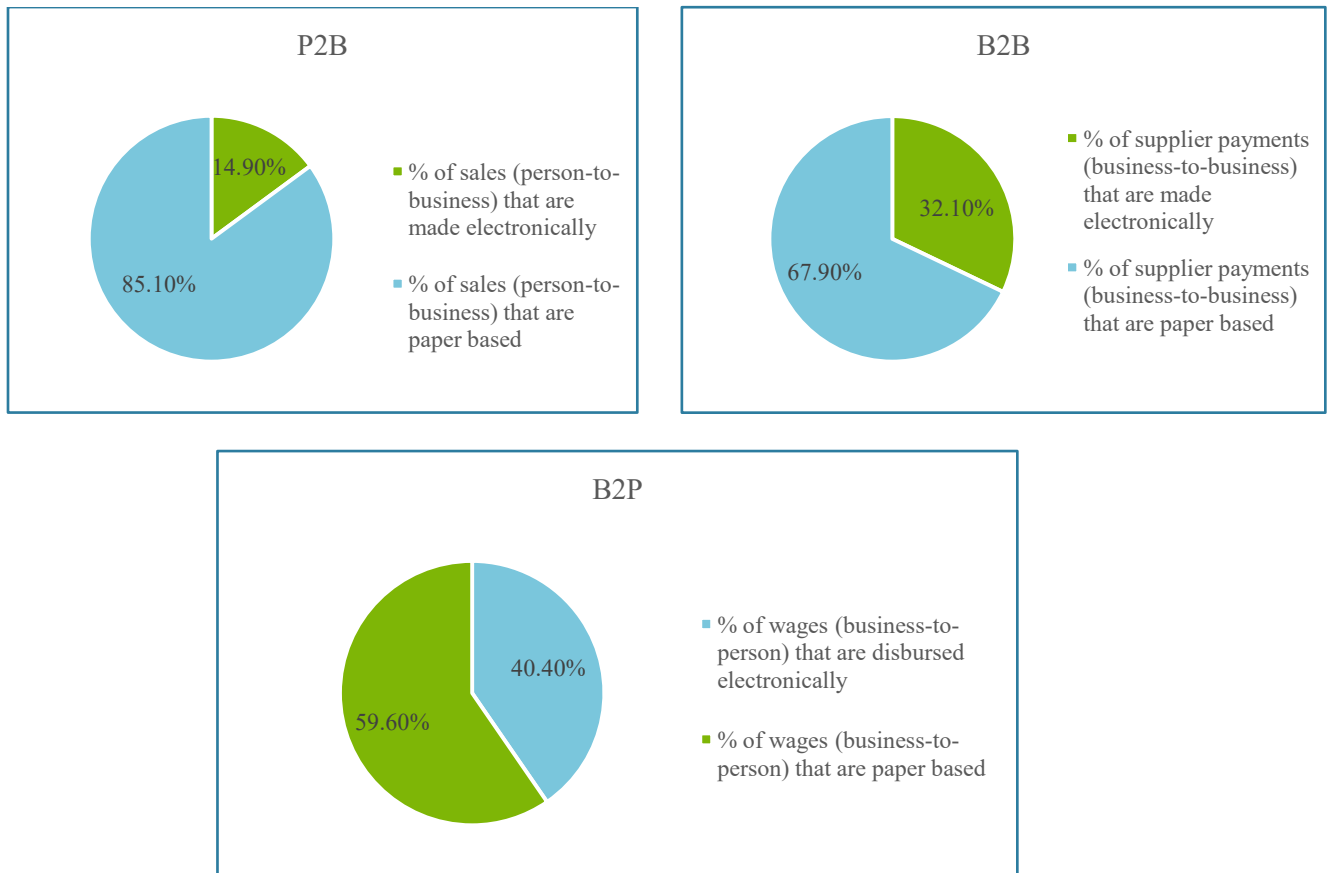
The legal and regulatory framework for payment systems has improved, but several gaps remain. Afghanistan lacks a separate National Payments System Law and relies on the DAB Act to create the legal framework for payment systems regulation, operation, and oversight. However, some definitions and clauses are missing from the law. In addition to that, public financial management regulations limit the role of non-banks in the disbursement of government-to-person payments.

Shortcomings of financial and ICT infrastructure create more barriers to inclusion. Broadband and mobile connectivity in Afghanistan is not reliable, which impacts the NPS and the financial sector at large; there are also concerns about the operational risk of data centers used by commercial banks. Development and adoption of interbank payment systems has been slow, while the interoperability of retail payments is limited. There is no infrastructure for e-KYC or digital on-boarding.

Design of transaction account products often does not address the needs of financially excluded people. There are few innovative payment products geared towards women. Moreover, Islamic financial institutions except one full-fledged Islamic bank have not been active in this market, while a substantial share of financially excluded persons avoid mainstream financial institutions because of religious concerns, overcoming these issues presents a great opportunity to close the gender gap. Microfinance borrowers and recipients of international remittances are other examples of group that have not been targeted with appropriate digital payment products.

Access points across the country are not readily available. Branches, ATMs and POS terminals are concentrated in Kabul and other larger cities. Overall, there are very few ATMs and POS terminals, and those that do exist are often out of order. Whilst agent-based models have been explored, their lack of liquidity means that they cannot be relied on for cash-outs, which disproportionately affects women, who benefit greatly from the opportunity to use female agents. The costs of acceptance for merchants are high due to the lack of low-cost terminals, resulting in very low acceptance rates. Finally, financial institutions have failed to address the needs of the e-commerce sector.

FIGURE 2-10. ELECTRONIC PAYMENT ACCEPTANCE AND USAGE BY SMALL MERCHANTS



Source: World Bank Group and World Economic Forum, 2015

Leveraging large-volume recurrent payment streams has played a more prominent role in the government’s policy. For instance, large-scale programs have been instituted to support electronic payments of salaries in civil service, police and the military, as well as with respect to government pensions. However, challenges persist: electronic payments of salaries and benefits are rare outside cities, and the private sector, as well as NGOs, have not fully embraced digital payroll delivery.

3. Policy Actions

3.1. Financial Access for Individuals and MSMEs

To develop better products and channels by banks and MFIs to explore novel business models that target MSMEs, particularly rural and female-owned MSMEs some reforms need to be implemented. It is recommended to build capacity within banks and MFIs through facilitating design, promotion and close monitoring and evaluation of challenge funds to spur innovation, also by increasing the supply of savings and leasing products, value chain financing, including with the use of emerging digital transaction data. There is also a need for reforms in design, promotion, and delivery of a series of capacity building and knowledge-sharing events to develop segment-specific expertise at banks and MFIs. The agenda would include products such as payments, loans, insurance, leasing, and factoring. Finally, customizing the documentation requirements for account opening and loan processing should be done to tackle the issue of lack of documents as an obstacle to financial access for individuals and MSMEs. Finally, expanding women-operated bank branches and introducing women-dedicated MNO agents that would serving women specially in rural areas can help bring this underserved segment of the population into the formal financial sector.

A rapid expansion of branchless banking and digital transaction accounts and developing the regulation to build digital platforms can be a key facilitator for financial inclusion in the country. The use of agent-based models in rural regions can increase outreach. Providers of digital solutions will need to improve their own capacity and expertise to benefit from the expansion of digital payments. Deepening and diversification of the financial system are essential for the improvement of financial inclusion and intermediation.

To better serve the financial needs of MSMEs, Afghanistan needs to confront the weaknesses in the legal and regulatory framework of secured lending. Afghanistan needs to create a strong framework and infrastructure for contract enforcement and secured transactions. IFC and DAB have been working in partnership to promote secured lending in Afghanistan. Although the legal reform process was successful, and the collateral registry was launched, and recognition of credit guarantees, the integration of a category of assets relating to real estate is required to deepen the credit informational base and strengthen risk management and mitigation efforts. Financial institutions find it difficult to create security interests over real estate considering lengthy and unreliable processes for registration and searches of mortgages. As a result, IFC and DAB have been working to include a class of assets related to immovable property into the collateral registry, in order to make lending using real estate more transparent and encourage the development of innovative products by financial institutions. Similarly, there is a need to create an enabling legal and regulatory framework for factoring services to deepen supply chain financing.

Despite the fact that Afghanistan has a world class public credit registry system, its use is hampered by lack of sufficient information on borrowers. The public credit registry is a tool to reduce information asymmetry amongst lenders, but in order to do this, lenders have to provide acceptable terms for borrowers. While the first phase of the public credit registry was successfully launched and operational, the current data reporting and structure does not yet support many critical features included geographically segregated data nor relevant credit information from non-DAB regulated entities. Moving forward, the second phase of the public credit registry will focus on promoting financial deepening through introducing regulatory reforms as well as investing in the infrastructure. The investment will be

towards including sex disaggregated data from unregulated entities particularly utility companies and mobile operators as well as enhancing the reporting templates to include data from provincial and district level beyond urban areas. This will be complemented by building capacity at the banks' level to enhance the quality of reporting and accordingly reliability on geographically segregated data.

A number of other challenges also exist that may hamper the development of credit information regime in the country. Due to lack of Credit Reporting Law, the current situation does not provide adequate legal support needed for enhancing credit reporting environment including data protection and privacy. Privacy of data, preservation of consumer rights, compliance of credit reporting regulations are important areas that DAB will carefully assess and take necessary actions to enforce in alignment with international good practices. More efforts will be directed to build capacity of various stakeholders to build trust in the data privacy aspects related to credit information and reporting. Moreover, more efforts are needed to inform and educate stakeholders about benefits of the system, its functionality and operational aspects, its potential for increasing access to finance in the country and how their contribution can facilitate this process. A similar situation exists as far as consumers are concerned. They have very limited knowledge of banking practices in Afghanistan and may not realize the importance of building credit history and the role it can play in their financial life, this particularly applies to women. Public awareness efforts are needed to counter such challenges. Quality of the sex disaggregated data collected can also be improved and the public credit registry can play an important role in introducing procedures and building capacity to enhance the quality of data collected. Having a strong supervisory mechanism for the public credit registry can help in this regard. A related point is about having a regular audit process in place that can evaluate the processes of the public credit registry and provide a quality check.

Efficient government support with strong synergies with financial institutions to underserved target segments can help in providing the desired financing instruments and services. Government programs can provide diversified financing instruments and products including long-term loans, financial leases, credit guarantees, etc. across various bank's borrowing clients' segments (such as for farmers, MSMEs, startups and, women entrepreneurs).

Enhancing credit guarantee schemes based on international best practices can facilitate lending processes to MSMEs. Afghanistan can expand MSMEs access to finance by and up-scaling credit guarantees provided by ACGF credit guarantees. Credit guarantees schemes as a risk sharing instrument can help financial institutions to finance MSMEs that are credit constrained due to lack of collateral. Combined with comprehensive technical assistance they can also be a catalyst for innovation and increased outreach of the financial sector.

It is necessary to increase the capacity of MSMEs as borrowers in addition to the efforts to expand supply side capacities. Limited business capacity and informality of MSMEs are key constraints for access to finance. The MSME sector's productivity in addition to the security and conflict constraints in the country has suffered from a lack of infrastructures such as electricity outages and transportation issues. High level of informality is an important challenge for access to finance in Afghanistan. Financial literacy, particularly for women, is a large demand-side constraint for financial inclusion. Moreover, educating MSMEs about the constructive use of credit information data by the credit registry can help in building their trust in formal financial services. Banks in Afghanistan consider many loan applications as poor and risky. It is essential to improve the organization, business, and managerial skills of MSMEs, small rural businesses and women-led MSMEs. This will require efforts by a variety of actors from the private and public sectors, including training events, advisory work, awareness campaigns, etc. Public and

private training programs for MSMEs can provide them with better skills to present their financial statements and establish sound business plans. Taking actions with the aim of encouraging business formalization is desirable.

3.2. Agriculture Finance

The below are in line with the Agribusiness Charter²⁵, which recognizes the important role of agriculture finance in unlocking agribusiness for economic growth and expanding job opportunities.

In terms of regulatory and policy reforms following are recommended: i) Enhancing coverage of credit infrastructure and establishing databases for lenders; ii) expanding the range of eligible collateral types to include movable assets; iii) enhancing the insolvency framework; iv) revising the Asset Classification and Provisioning Regulations; v) Increasing access to land titles by Ministry of Urban Development and Land (MUDL), through the Institutional Development Program for Land Administration (IDPL) and the recently approved World Bank/ARTF-financed Afghanistan Land Administration System Project; vi) Improving the valuation of collateral. This is significant as women are often not able to take ownership of land they are legally entitled to through the pressures of social and cultural norms.

Development of Financial Products and Non-Financial Services via: i) Meeting the demand for targeted financial products; ii) Capacity-building of financial institutions; iii) Agricultural insurance; iv) Expansion of provision of credit guarantees by ACGF²⁶; v) Institutional strengthening of ADF; vi) Introducing warehouse receipt financing. It is important to focus on developing specific products that will be appreciated by actors in the targeted value chains, matching the production cycle, satisfying equipment needs, etc. In parallel, providing adequate risk-mitigation measures to the lenders (including scaling-up credit guarantee schemes) as well as providing training and technical assistance to both lenders and borrowers would help address supply-side constraints to financing the agriculture sector.

Development of Appropriate (Innovative) Operating Models and Strengthening of Value Chains to link private agribusinesses and small farmers. This would be achieved via: i) Mainstreaming the Productive Alliance Approach²⁷; ii) Business development services providers. The Afghan government's support to formalize value chains through reinforced linkages between value chain actors, as well as increased linkages between formal financial institutions and mature farmers/enterprise groups would support the expansion of agriculture finance, through more innovative operating models.

Improving Outreach and Financial Education: i) Financial Literacy and Education; ii) Alternative financial services delivery mechanisms. Improving the outreach of financial services providers will require awareness-raising and financial education of the target population, while using new delivery mechanisms to reach locations that have not been reached by traditional banking outreach mechanisms. Recourse to technology, and to some extent introduction of agent banking, in the provision and delivery of financial services can address some of the constraints to financial access and usage, including security concerns, distance to financial institutions and transaction costs. As a foundational element, mass

²⁵The Afghanistan Agribusiness Charter for Unlocking agribusiness for economic growth and expanding job opportunities was approved by the Government of Afghanistan in October 2018 for the 2019-24 period.

²⁶ ACGF already serves credit guarantees for agricultural loans, but is in process of developing specific strategy and product for this sector.

²⁷ The Productive Alliance Approach links better farmers to markets, by strengthening smallholder producers' integration to local, national, and international value chains.

financial education and biometric technology for the unique identification of client will be necessary to sustainably increase usage of financial services in agricultural and rural areas.

3.3. Financial Consumer Protection

The following series of short-term and medium-term actions are recommended to promote FCP in Afghanistan:

In terms of institutional mandate, it is recommended that i) DAB as the sole regulator and supervisor of the financial sector, regulate and supervise the financial sector from FCP perspective, and ii) DAB should establish entry criteria regarding FCP through the licensing process.

With regards to improvement in legal and regulatory framework: i) overall, considering DAB's implicit mandate, the DAB should ensure that the current FCP regulation covers high-level FCP principles and is harmonized with the existing provisions to ensure that where relevant they apply to all products and services offered by regulated institutions, ii) DAB should ensure that alongside FCP provisions in the legal framework, the FCP mandate is explicitly included in the current reform of the DAB Law, iii) whilst the microfinance sector remains unregulated, MISFA, in coordination with DAB, should look into potential ways to encourage the adoption of key FCP standards and that relevant existing general consumer protection standards are respected.

Given the limited resources and technical capacity with regards to FCP, the DAB should gradually implement a plan for FCP supervision. The plan should look at least at the following aspects: i) designate selected staff and build their capacity, ii) considering the lack of experienced staff in FCP supervision as well as with regard to industry practices, such a plan should begin by monitoring market practices for the regulated sectors, iii) such a plan should also lay out the institutional structure to begin developing a market conduct supervisory function, iv) following the market monitoring, the plan should also indicate the priorities on what to regulate in the medium term.

DAB staff designated to FCP should begin assessing the current business practices as well as reviewing standard adherence contracts. Once this exercise is completed, in the medium to long term, specific regulatory requirements should be introduced to curb unfair practices and terms and set minimum business conduct standards for all types of providers regulated by DAB. For what concerns the microfinance sector, particular attention should be paid to product suitability and recovery practices.

DAB should monitor that contracts follow the provisions of the FCP and EFT regulations. However, it is important that DAB begins monitoring the application of existing requirements.

In the short term, it is also recommended that DAB reviews internal dispute resolution (IDR) requirements and begin exploiting complaints data for supervisory purpose. For what concerns MFIs, DAB should coordinate with MISFA for the sector to have adequate IDR mechanisms.

A specific study on the possible structure to be adopted for a potential cross-sectoral EDR mechanism should be conducted as well as on how the FDRC could be adapted to adequately handle consumers complaints. The study should specifically consider whether the FDRC has the capacity to handle a larger amount of consumers complaints against any regulated FSP and whether FDRC is the appropriate forum for consumers.

3.4. Payments and Digital Financial Services

The NPC should be invigorated to ensure momentum and effective communication between all stakeholders. The regulator should ensure that all banks do participate in the automated transfer system

(ATS) and have appropriately integrated their core banking solutions with DAB infrastructure to facilitate straight-through processing. It is recommended that meetings of the NPC take place every quarter, to ensure effective communication channels between DAB, the government, the financial sector and other stakeholders. The NPC may also decide to create smaller task forces or subcommittees charged with addressing the most pressing issues of the NPS, such as those listed in this strategy, including gender

Development of interoperable payment infrastructure should be continued. The use of the newly established automated clearing house (ACH) should be monitored, and addition of new services should be considered based on the feedback of system participants and end-users of payment instruments. At the same time, DAB should encourage and ensure that all banks participate in the ATS and appropriately integrate their core banking solutions with DAB infrastructure. The national switch should complete its work aimed at including mobile money providers and other nonbanks as participants and establish interoperability for credit transfers and merchant transactions between different providers, as well as between mobile money and bank accounts.

A significant role can be played by DAB and other stakeholders to further develop payment systems in Afghanistan and ensure their effective contribution to achieving the goals set for the NFIS. An assessment of the legal and regulatory framework governing the NPS should be conducted to determine whether there is a need for amending the central bank law to make certain oversight powers more explicit and enact the legal definitions of key payment, clearing and settlement terms in primary legislation. As part of instituting a modern financial consumer protection framework, DAB should issue regulations with respect to minimal standards of dispute resolution for electronic payment service providers (more details can be found in consumer protection and financial capability section). A collaborative approach to supply-side data collection should be instituted as lack of access points might be the most significant obstacle to growing the popularity of electronic payments. Additionally, DAB should take charge of assessing the current state of international remittance market in the country based on the World Bank – CPMI General Principles for International Remittance Services.

The government should aim to migrate its entire payroll to electronic payments. This should be the case not only for salary payments, but also for other transfers such as pensions or social assistance benefits. To achieve that, it will be required to ensure sufficient access point coverage but also to streamline payment and public financial management processes to attain effective straight-through processing.

The regulator should actively monitor the operational reliability of payment channels and access points. Based on the data collected, the central bank might contemplate a regulatory action towards institutions whose advertised access points are not operational or register excessive amounts of downtime.

Lightweight acceptance devices should be promoted among small merchants. The APS should introduce the support of QR code-based payments across different providers, ideally based on international standards and best practices. The central bank and the APS should also educate the banking sector and other financial institutions on the range of low-cost acceptance options available on the market. Mobile money providers should be encouraged to expand their merchant networks rather than solely focus on cash-based transactions.

DAB, together with the industry, can design programs incentivizing the expansion of access point networks. This development should be complemented with the introduction of regulation for interoperability between bank and non-bank transaction account.

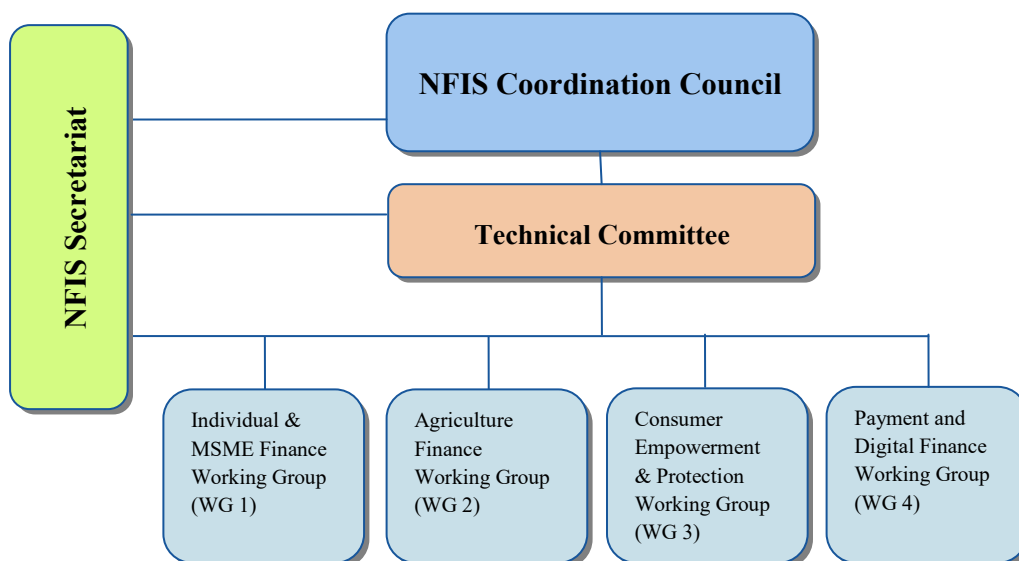
A more detailed assessment of the remittance market should be conducted. The central bank should take charge of assessing the current state of international remittance market in the country based on the World Bank and the Committee on Payments and Market Infrastructures (CPMI) General Principles for International Remittance Services. Collecting data from both the supply-side and demand sides, including overseas Afghan communities, the assessment should look into the current breakdown of the remittance market between regulated and unregulated channels, as well as at the motivation on migrants and their families to choose particular means of payment. A complete report should be used to guide further policy interventions in this area.

4. Stakeholders and Coordination Structure

The earlier sections highlighted pressing challenges facing financial inclusion in the critical areas of focus of the NFIS and identified key high-level policy action to confront these challenges under the action plan of the NFIS. Moving forward, the following sections focus on transforming the policies to well defined and prioritized action plans and defines the institutional structure that will be mandated to coordinate and follow up on the implementation of the action plan and coordination among various relevant stakeholders with DAB orchestrating this effort. The coordination structure will also monitor the progress towards achieving the objectives of the NFIS through a well-defined monitoring and evaluation framework. This will ensure a feedback loop that provides basis to revisit and calibrate the action plans to accommodate the dynamic nature of the Afghan economy. Moreover, the coordination structure will also take the lead on identifying future areas of focus for the following versions of the NFIS.

Successful implementation of the NFIS requires a well-defined coordination structure which includes all the relevant public and private stakeholders charged with implementing the NFIS. As shown in Figure 4-1, the proposed coordination structure will be composed of four entities: 1) the NFIS Coordination Council, 2) the Financial Inclusion Secretariat, 3) the technical committee and 4) Working Groups comprising of relevant private and public stakeholders along with development partners that will be involved in implementing the NFIS.

FIGURE 4-1. NFIS COORDINATION STRUCTURE



4.1. NFIS Coordination Council

The NFIS Coordination Council will set the overall policy and strategic direction for the implementation of the NFIS. It will provide a platform that governs NFIS implementation and provides guidance to achieve the objectives set by the NFIS. The NFIS Coordination Council will be chaired by the Governor of DAB and include high-level authorities from the following institutions: Managing Director of MISFA,

Head of Afghanistan Banking Association and Deputy Ministers from the Ministry of Economy, Ministry of Finance, Ministry of Education, Ministry of Telecommunications, Ministry of Industry and Commerce, and Ministry of Agriculture, Irrigation and Livestock

The NFIS Coordination Council will:

- i. Obtain higher level political support for the implementation of the NFIS Action Plan
- ii. Guide the adoption of major legislative and policy reforms required to realize the vision and objectives of the NFIS
- iii. Ensure sufficient budgetary allocations for resources required to implement the NFIS Action Plan
- iv. Support and advocate for integration of NFIS priorities and actions into the institutional strategies and work plans of respective Council member institutions
- v. Ensure that a functional Financial Inclusion Secretariat is in place and has sufficient capacity to administratively support NFIS implementation
- vi. Monitor performance and provide on-going guidance to the Financial Inclusion Secretariat and technical committee
- vii. Review existing policies and practices, and identify opportunities or barriers to financial inclusion, followed by recommending proper remedial measures
- viii. Meet biannually to take stock of progress of the NFIS and recommend corrective measures as needed and revise action plan accordingly
- ix. Review progress reports prepared by Financial Inclusion Secretariat and determine agenda for biannual meetings based on the key findings of the progress report
- x. Perform other functions required to achieve its purpose

4.2. NFIS Secretariat

The Financial Inclusion Secretariat will provide the day-to-day administrative, coordination and monitoring functions required to operationalize the NFIS. It will be housed within the Financial Inclusion Department of DAB. The Financial Inclusion Secretariat will serve as the link between the NFIS Coordination Council, Technical Committee and the Working Groups in implementing the NFIS.

The Financial Inclusion Secretariat will:

- i. Oversee day-to-day operationalization of the NFIS
- ii. With assistance from the working groups, prepare and approve a detailed work plan based on the NFIS action plan, identifying and assigning specific tasks for implementing stakeholders, over the short, medium and long term
- iii. Operationalize the M&E Results Framework which includes collection of the required data and information to track progress in reaching targets
- iv. Coordinate intra-government, inter-institutional and public-private coordination to obtain the necessary support for legislative, policy and infrastructural changes
- v. Report to the NFIS Coordination Council on the implementation progress and results of the NFIS on a biannual basis
- vi. Prepare bi-annual progress report with consolidated findings and updates from the quarterly progress reports, that should be shared with the NFIS Coordination Council prior to its biannual meetings

- vii. Implement the NFIS communication guideline (including the public awareness) decided by the coordination council and instructed by the technical committee
- viii. Perform other duties as directed by the NFIS Coordination Council

4.3. NFIS Technical Committee

The technical committee (TC) will be chaired by the DAB second deputy governor and will provide technical advice to working group members as well as the NFIS coordination council through the NFIS secretariat. The TC consist of relevant senior, experienced and relevant Director Generals of the DAB that have technical expertise in defined areas. The TC members will meet quarterly. The main roles and responsibilities of the TC are as follows:

- Develop a communication and coordination guideline
- Ensure implementation of the assigned activities under the NIFS action plan in their relevant departments
- Keep a closer follow-up of the work streams from the working groups
- Provide and propose solutions, support implementers in technical areas or solve technical issues of each action
- Review the effectiveness of the working plan of each group and bring necessary changes if needed in coordination with the secretariat
- Perform other duties as directed by the NFIS Coordination Council.

4.4. Working Groups

Working groups will be formed in the following policy areas: (i) Financial Access for Individuals and MSMEs; (ii) Agriculture Finance; (iii) Payments and Digital Financial Services; (iv) Consumer Protection and Financial Capability. Additional cross-cutting working groups that focus on topics such as women may also be formed in response to Government's priorities. The Working Groups will be comprised of members from public and private sector implementing entities that have the relevant technical expertise under the respective policy areas. The main objective of the Working Groups is to facilitate the implementation of the action plan and serve as a forum to resolve issues and propose solutions for their relevant NFIS policy area. The Working Groups will also serve to ensure coordination between the various members responsible for the implementation of different action plan items under each policy area.

The main tasks of the Working Groups will be to:

- i. Develop detailed work plans for their policy area along with timelines and delegation of responsibilities in coordination with the technical committee
- ii. Consult with other key stakeholders to ensure buy-in for particular action items or solutions
- iii. Coordinate with other members of the Working Group or other Working Groups, on the action plan items relevant to its policy area
- iv. Highlight challenges and propose remedial measures to the action plan and targets as needed
- v. Perform other duties as directed by the Financial Inclusion Secretariat

5. Implementation Risks and Challenges

In order to implement the NFIS, risks and challenges that can potentially impede successful implementation of the NFIS should be identified and mitigated. The following risks and challenges are identified that may undermine successful implementation of the NFIS:

1. **Insecurity and political instability:** These two are the most serious challenges that can adversely impact implementation process of the NFIS. Uncertainty due to political instability as well as insecurity will not allow financial institutions to expand their business, in particular in rural areas. The mitigation of these two risks depends on improvements in political atmosphere as well as security conditions in the country.
2. **Weak commitment and coordination:** Stakeholders commitment and coordination are the strongest determinant to successful implementation of the NFIS. Thus, weak commitment and coordination can be potential risks that could hamper successful implementation of the NFIS. Inclusive & continuous participation of the stakeholders and wide consultation and political buy in will help mitigate these risks.
3. **Low Technical capacity:** Low technical capacity is one of the fundamental problems that can challenge successful implementation of the NFIS action plan by the stakeholders. The DAB will hold introductory and technical workshops to the working group members to improve their knowledge of financial inclusion and discuss the policy areas of the NFIS as well as the NFIS action plan from technical perspective. This will help representatives of the stakeholders to better understand the technical aspects of the NFIS and do better in its implementation.
4. **Budgetary Limitation:** Lack of fund or insufficient budget is one of the potential challenges that can impact implementation of the reforms and activities by the stakeholders. To overcome this challenge, the DAB will coordinate with MoF to ensure fund for the NFIS public stakeholders.
5. **Corporate Business models:** Most banks in Afghanistan have corporate centric business model which constrains financial inclusion of MSMEs and even individuals. The DAB would encourage and support banks to consider MSMEs as an emerging market segment, particularly women owned MSMEs, and serve them by designing innovative products .

6. Action Plan

I. FINANCIAL ACCESS FOR INDIVIDUALS AND MSMEs												
Objective 1: Expand & diversify access points and enhance access to formal financial services			Policy Areas	Priority level	Timeframe					Responsible		
					2020	2021	2022	2023	2024	Lead	Partner	
Activities/Actions	1.1	Develop and implement a legal framework for agent-banking and roll-out agent networks across the country.	Financial Access for individuals and MSMEs	High						DAB (WG 4)		
	1.2	Reduce account opening initial deposit, and reduce or abolish minimum balance requirements for individual accounts		High						DAB (WG 1)	FIs	
	1.3	Encourage abolishing account maintenance fee, dormant account activation fee, and cash withdrawal fee for individual accounts		High						DAB (WG 1)	FIs	
	1.4	Issue a circular to require banks to design and introduce asset and liability side financial inclusion products for individuals and MSMEs		High						DAB (WG1)	FIs	
	1.5	Encourage banks and EMIs to expand the number of women-operated bank branches and increase the number of female officers in branches and introduce women dedicated MNO agent		Medium						DAB (WG 4)	FIs	
	1.6	Provide partial support fund and incentive for financial institutions to expand their access points i.e. ATM, POS, and agent network under PAISA project		High						PAISA (WG4)	DAB, FIs	
Objective 2: Enhance MSMEs access to finance												
Activities/Actions	2.1	Develop a formal definition for MSMEs and define Women owned/led businesses		Medium							MoIC (WG 1)	
	2.2	Review and if necessary, amend the formal definition for MSME finance		Medium							DAB (WG 1)	FIs
	2.3	Develop the regulatory framework for leasing and build the capacity of Central Bank to supervise commercial banks and companies offering financial leasing		High							DAB (WG 1)	WB/IFC

	products.							
2.4	Create a strong framework and infrastructure for secured transactions including: I) An adequate secured transaction law in accordance with international best practices, II) Improved extra-judicial collateral enforcement mechanisms.	High					DAB (WG 1)	WB/IFC
2.5	Issue a circular to customize account opening and loan processing documentation requirements across legal forms of companies to facilitate the application process for financial services.	High					DAB (WG 3)	MISFA, AMA
2.6	Develop and enact the credit reporting law to expand sex disaggregated data coverage and quality	High					DAB (WG 1)	WB
2.7	Develop a regulation and build a digital platform for developing and sharing digital financial transaction sex disaggregated data on MSMEs to be housed in APS/Collateral Registry to facilitate building credit history for MSMEs.	High					DAB (WG 4)	Payment Services Providers, Banks, EMIs, MFIs
2.8	Establish a TA facility at MoIC in coordination with ACCI for MSMEs financial and business capacity enhancement to prepare appropriate records and financial statements to facilitate quality loan applications.	Medium					MoIC, (WG 1)	ACCI, DAB, International Partners
2.9	Launch a series of knowledge sharing events to increase awareness of commercial banks about the tools for financing MSMEs, particularly women's MSMEs.	Medium					DAB (WG 1)	AMA, MISFA, ABA, ACGF, WBG
2.10	Scale up the existing credit guarantee schemes and assess the efficiency of the current governance mechanism to reflect international best practices.	High					DAB (WG 1)	MoF, ACGF, Development Partners
2.11	Design products and financial instruments to target MSME financing including along agriculture value chain within banking sector and Micro Finance sector	High					ABA, MISFA (WG 1)	ACGF, AMA, MAIL, FIs, Development Partners
2.12	Conduct in depth market feasibility study for introduction of factoring, warehousing receipts						DAB (WG1)	

	financing, supply-chain financing and scaling up Islamic Finance products and leasing.		High						
2.13	Allocate a dedicated partial credit guarantee fund for SMEs owned by women		High						DAB (WG 1) MoF, ACGF, International Partners
2.14	Provide targeted lending to female-owned MSMEs		High						MISFA, ABA (WG 1) MFIs, FIs, ACGF, Development Partners
2.15	Provide target lending to rural women		High						MISFA, ABA MAIL, AMA, Development Partners
2.16	Provide education to enhance MSMEs appreciation of the constructive use of credit information data by the credit registry to build trust and reliability and raising financial literacy and awareness about formal financial services particularly in rural areas		Medium						DAB (WG 1)
2.17	Have a regular audit process in place that can evaluate the means of the public credit registry (PCR) and provide a quality check		Low						DAB (WG1)
2.18	Issue a circular or amend relevant regulations defining SME loans to total loan portfolio ratio		High						DAB (WG 1)
2.19	Issue a circular to support lending to Green SMEs		Medium						DAB (WG 1)

II. AGRICULTURE FINANCE

Objective 3: Improve agriculture sector access to finance		Policy Areas	Priority Level	Timeframe					Responsible	
				2020	2021	2022	2023	2024	Lead	Partner
3.1	Finalize and implement regulations for moveable assets and immovable assets.	Agriculture Finance	High						DAB (WG 2)	WB/IFC
3.2	Recognize Urfi through a DAB circular to banks as an acceptable collateral for small loans, and for loans that are covered by a recognized guarantee and widely communicate to borrowers.		Medium						DAB (WG 2)	
3.3	Carry out specific analysis of financial and non-financial needs of actors involved in selected feasible value chains within the agriculture sector.		Medium						MAIL (WG 2)	MoF, ABA, AMA, MISFA,
3.4	Map out and title all land in priority areas by MUDL.		Medium						MUDL (WG 2)	WB, MAIL
3.5	Support MFIs through the WB financed <i>Access to Finance (A2F) project</i> innovation fund to develop innovative products		Medium						MISFA (WG 2)	MAIL, ABA, MFIs
3.6	Ease financial institutions search through digitalization of current land records and titles by MUDL		Medium						MUDL (WG 2)	DAB, WB, MISFA, AMA, ABA
3.7	Target processors whose capacity can be enhanced to support other actors in the value chains linked to their processing facility.		Low						MAIL (WG 2)	IFC, FIs
3.8	Conduct a feasibility study on agricultural insurance and the development of appropriate insurance products for value chain actors.		Low						MoF (WG 2)	MAIL

III. CONSUMER PROTECTION AND FINANCIAL CAPABILITY

Objective 4: Establish a robust financial consumer empowerment and protection framework.			Policy Areas	Priority Level	Timeframe					Responsible	
					2020	2021	2022	2023	2024	Lead	Partner
Activities/Actions	4.1	Introduce regulatory reforms for DAB's mandate to include FCP activities including supervision.	Consumer protection and Financial capability	High						DAB (WG 3)	
	4.2	Develop regulations to cover high-level FCP principles on: Disclosure and transparency; Fair treatment and business conduct; and Internal dispute resolution.		High						DAB (WG 3)	
	4.3	Design and implement a plan for FCP regulation and supervision.		High						DAB (WG 3)	
	4.4	Establish FCP unit under FID		High						DAB (WG 3)	
	4.5	Assess the current business practices by DAB as well as review standard adhesion contracts and evaluate whether rules on unfair terms and conditions and business practices should be issued.		Medium						DAB (WG 3)	
	4.6	Assess feasible options for a potential cross-sectoral External Dispute Resolution (EDR) mechanism including the repurposing of Financial Dispute Resolution Commission (FDRC).		Medium						DAB (WG 3)	
	4.7	Start collecting sex disaggregated data from financial institutions regarding their complaints handling and use these information for the monitoring purposes.		Medium						DAB (WG 3)	
	4.8	Supervise the financial institutions from consumer protection perspectives.		Medium						DAB	
	4.9	Household Financial Inclusion and Capability Survey, mapping and roadmap.		Medium						NSIA(WG 3)	WB, DAB
	4.10	Develop and implement financial literacy programs i.e. radio dramas to reach rural population, farmers								DAB (WG 3)	FIs, MISFA, AMA,

		and illiterate people, teachable moment financial education programs to consumers by financial institutions		Medium								Development Partners
	4.11	Include financial education subject in educational curriculum of the country		High							MoE (WG 3)	DAB
	4.12	Raise awareness of financial products and financial services among women, through consumer education and financial literacy programs.		Medium							DAB (WG 3)	MoE, MRRD, MoWA, MISFA, AMA,
	4.13	Develop financial literacy application to promote financial education among adult.		Medium							DAB (WG 3)	
	4.14	MISFA and AMA, in coordination with DAB, should look into potential ways to encourage the adoption of key FCP standards and that relevant existing general consumer protection standards are respected.		High							MISFA, AMA (WG 3)	DAB

IV. PAYMENTS AND DIGITAL FINANCIAL SERVICES												
Objective 5: Promote access to digital financial services			Policy Areas	Priority Level	Timeframe					Responsible		
					2020	2021	2022	2023	2024	Lead	Partner	
Activities/Actions	5.1	Resume the activity of National Payments Council as a policy coordinating body for scaling up electronic payment at the national level.	Payment and Digital Financial Services	Medium							DAB (WG 4)	
	5.2	Expand ATS and APS membership to all institutions, integration of core banking solution with DAB infrastructure and assess the possibility to link Afghan payment systems to international payment providers		High							DAB/APS (WG 4)	FIs

5.3	Issue a circular to make interoperability between bank- and non-bank-based transaction accounts mandatory.									DAB/APS (WG 4)	
5.4	Create an incentive program for expansion in the access point network and the expansion in the number of bank branches and ATMs in rural areas									DAB/APS (WG 4)	MoF, FIs
5.5	Conduct an assessment of the legal and regulatory framework for the NPS.									DAB (WG 4)	Line Ministries, WB
5.6	Issue a directive to expand the use of digitized ID and leveraging it for e-KYC.									DAB (WG 4)	NSIA, FIs
5.7	Review e-money institutions regulation and convene stakeholders in mobile money transactions to understand the low uptake and devise plan to increase penetration in rural areas.									DAB (WG 4)	EMIs
5.8	Issue guidelines for lightweight merchant acceptance devices, including QR-code base payments									APS (WG 4)	FIs
5.9	Design a roadmap for digitization of all government payments including social assistance and pensions, and fiscal incentives for the use of digital payments for government collections.									DAB (WG 4)	MoF, WB, FIs,
5.10	Provide technical and financial support to the payment system providers that wish to develop digital platforms, especially those that focus on including women.									APS, MISFA (WG 4)	ABA, AMA FIs, Development Partners
5.11	Assess the potential demand for remittances to guide policy interventions to facilitate Diaspora remittances through formal financial sector channels.									DAB (WG 4)	FIs

5.12	Issue a circular to encourage development of mobile banking, and online banking by banks		Medium						DAB (WG 4)	FIs
5.13	Research on internet payment gateway, and propose recommendations to developing internet payment gateway in Afghanistan		Low						DAB (WG 4)	APS
5.14	Introduce and implement IBAN in the financial system		Medium						DAB (WG 4)	FIs
5.15	Encourage mobile money providers to expand their merchant networks rather than solely focus on cash-based transactions		High						DAB	APS
5.16	Monitor the operational reliability of payment channels and access points and based on data collected take regulatory action towards institutions, whose advertised access points are not operational or register excessive amounts of downtime.		High						DAB (WG 4)	
5.17	Improve quality of broadband and mobile connectivity by strengthening of financial and ICT infrastructure which impacts the NPS and financial sector at large.		High						MoITC (WG 4)	Telecoms, EMIs, APS
5.18	Issue a circular to replace customer card with local debit card by all banks free of cost to promote branchless banking and reduce high operational expense of brick and mortar branches.		High						DAB/APS (WG 4)	FIs

V. CROSS CUTTING

Activities/Actions	Policy Areas	Priority Level	Timeframe					Responsible	
			2020	2021	2022	2023	2024	Lead	Partner
			6.1	Strengthen the existing weak insolvency framework to protect creditors' rights in the event of bankruptcy.	High				
6.2	Strengthen deposit insurance to increase public's trust in the financial sector	High						DAB (WG 3)	Development Partners
6.3	Research on interest rate, identify reasons behind higher interest rate, and provide practical & sound recommendations to reduce the lending interest rate	High						DAB (WG 1)	
6.4	Research on Islamic finance in Afghanistan and provide policy recommendations to expand Islamic financial services across the country particularly to bring women access to finance.	Medium						DAB (WG 1)	
6.5	Introduce tiered KYCs to facilitate account opening to very low and low income people	High						DAB (WG 1)	FIs
6.6	Develop comprehensive financial inclusion data collection guideline and collect quality data disaggregated by gender, rural and urban areas to monitor NFIS progress	High						DAB (WG 1)	FIs
6.7	Conduct public awareness campaigns through mass media to aware people about easy and convenient access to formal financial services	High						DAB (WG 1)	MoIC, AMA, WBG, Development Partners, and FIs
6.8	Encourage & support financial institutions to design products geared towards women.	High						DAB / MISFA (WG1)	
6.9	Clarify asset classification and relevant regulations, through the issuance of circulars defining collateral requirements and overdraft-to-term loans distribution.	High						DAB (WG 1)	

6.10	Encourage financial institutions and build the capacity of FIs to better serve women entrepreneurs		High						DAB, MISFA, AMA (WG 1)	ACGF, WBG, Development Partners
6.11	Hold a PPD on women entrepreneurs access to finance		Medium						DAB (WG 1)	FIs, Women Chamber of Commerce, MISFA, MoIC
6.12	Create a comprehensive database of SMEs								MoIC	DAB

7. Monitoring & Evaluation

A robust monitoring and evaluation (M&E) system is critical to measuring progress towards Afghanistan’s financial inclusion goals. A sufficiently resourced and well-coordinated M&E system that is broadly accepted by all stakeholders acts as a powerful, accountability tool that will help identify obstacles, highlight results and efficiently allocate resources to meet the objectives of the NFIS. In order to track progress and chart the course of NFIS implementation, the M&E system will be comprised of four elements,

- i) A results framework to facilitate measurement of impact-level and intermediate-level financial inclusion outcomes
- ii) Robust data infrastructure that feeds into the results framework and measures progress
- iii) Tracking methodology to ensure that execution of NFIS measures and actions are on track
- iv) Evaluation of strategically important financial inclusion initiatives to measure and keep track of impact.

7.1. NFIS Results Framework

The results framework is an explicit articulation of the results expected from the development of the Afghanistan NFIS. The NFIS results framework establishes Key Performance Indicators (KPIs) that allow implementing institutions and other stakeholders to monitor progress toward the NFIS objectives. The KPIs reflect the full range of available data resources produced by a range of stakeholders. The indicators are structured as i) headline impact indicators and ii) action indicators. Headline impact indicators represent national-level targets that measure progress towards financial inclusion in Afghanistan and will be analyzed alongside factors outside the scope of the NFIS such as population growth, economic growth and progress in education. The second element of tracking action indicators which is directly linked to implementation of the NFIS Action plan and can be qualitative such as passing of a certain regulation; these indicators represent the linkage between NFIS outputs and outcomes.

7.2. Tracking Implementation of the NFIS

A key component of the M&E system is a tracking methodology to ensure that the NFIS action plan is being executed by the responsible entity according to the specified timeline and linked to the results framework. The implementing institutions (as is noted in the Action Plan of the NFIS) will be responsible for reporting to the coordinating agency (DAB FID, as is noted in the coordination structure) on implementation status and highlighting deviations from the NFIS action plan and targets, so that corrective actions can be adopted to adjust the NFIS action plan in a timely manner by the coordinating agency.

The tracking methodology will be developed by the coordinating agency (DAB FID) once the NFIS is launched and implementation starts. The tracking methodology will include implementation summaries and action plan status overviews on a periodic basis, which will be used to produce an annual national financial inclusion report, program level and component level data.

7.3. Financial Inclusion Data Infrastructure

High quality sex disaggregated data is the foundation of a robust M&E system. The data for the headline impact indicators will be provided by a combination of supply-side and demand-side sources. The coordinating agency, DAB FID, will be responsible for the continuous updating of this resource.

Different sex disaggregated data sources will be required to yield the statistics for the KPIs proposed in the results framework to provide a full picture of financial inclusion in Afghanistan. Hence, it is critical that efforts to increase the scope and quality of Afghanistan's data infrastructure be undertaken and prioritized so that the M&E results framework can incorporate these data sources, indicators and targets as they become available. Demand-side measurement of financial inclusion through access, usage of quality of financial services will be particularly required in the context of Afghanistan. Activities under the NFIS action plan will be devoted to strengthening the data landscape to better monitor and evaluate financial inclusion.

DAB FID has already been working on annual collection of supply side data on financial inclusion. The analysis of this supply side data, from a financial inclusion perspective, is critical to form a baseline assessment from a supply side perspective using access points and number of accounts. As supply side data can be more frequently collected at a lower cost, it enables more frequent monitoring of progress. At the same time, if collected and used accordingly, it may allow for a mapping of the distribution of access points across the country, showing areas that need more attention.

7.4. Evaluation of Key Actions

In addition to keeping track of progress towards Afghanistan's financial inclusion goals, it is important that evaluations of key NFIS actions be conducted to determine their effectiveness and impact along with the degree to which they contribute to national-level NFIS objectives and targets. DAB will be responsible for leading, supervising and mobilizing the necessary resources for these evaluations. To follow in TABLE 8- 1 is a set of core indicators that are proposed to evaluate the progress of the NFIS implementation at the national level.

TABLE 8- 1 NATIONAL RESULTS FRAMEWORK

Policy Area	No.	Impact Indicator	Baseline (2018)	Target					Source	Reporting Frequency	Reporting Breakdown
				2020	2021	2022	2023	2024			
Delivery channels	1	# commercial bank branches per 100,000 adults	2.2	2.7	3	3.2	3.5	3.7	IMF FAS/DAB	Annual	Province level
Delivery channels	2	# agent banks per 100,000 adults	0	0	0.01	0.05	0.15	0.2	DAB	Annual	Province level
Delivery channels	3	# ATMs per 100,000 adults	1.6	2.5	3	3.5	4	4.5	IMF FAS/DAB	Annual	Province level
Delivery channels	4	# of registered mobile money agents per 100,000 adults	9.1	15	18	20	23	30	IMF FAS/DAB	Annual	Province level
Delivery channels	5	# of institutions deploying digital platforms	3	4					DAB	Annual	By province
Product	6	# of bank accounts per 100,000 adults (15+)	15,000	15,500	17,500	19,000	22,000	25,000	DAB	Annual	By province
Product	7	# of bank accounts per 100,000 women (15+)	7,000	7,000	7,200	7,500	8,000	9,000	DAB	Annual	By province
Product	8	# of mobile money accounts per 100,000 adults (15+)	6,500	7,300	7,700	8,200	9,500	12,000	DAB	Annual	By province
Product	9	# of payment cards per 100,000 adult (15+)	3,264	6000	8000	9,500	11,000	12,500	DAB	Annual	By province
Products	10	% of adults (15+) that own an account	15% (2017)	15.5%			22%		Global Findex	Triennial	By gender, age, rural, income, province

Products	11	% of women (15+) that own a transaction account	7 (2017)	7			8		Global Findex	Triennial	By province
Products	12	% of adults (15+) making or receiving a digital payment	11 (2017)	12			15		Global Findex	Triennial	By gender, age, rural, income, province
Products	13	% of adults saving at a regulated financial institution	4 (2017)	4.5			6		Global Findex	Triennial	By gender, age, rural, income, province
Finance for Growth	14	% of SMEs with a loan or line of credit	5 (2014)	5				8	WB Enterprise Survey	As data available	By firm size, industry, gender, province
Finance for Growth	15	% of SMEs reporting “access to finance” as a major obstacle	48% (2014)	47%				42%	WB Enterprise Survey	As data available	By firm size, industry, gender, province
Finance for Growth	16	% SME loans as total percent of private sector lending	5.7 %	5%	6%	7%	8%	9%	IMF FAS/DAB	Annual	Country Wide
Payment	17	Total # of transaction with payment cards (debit, credit, & prepaid cards)	6,2 million	10 million	10.5 million	11.5 million	12.5 million	13 million	DAB	Annual	By type of transaction

Policy Area	No.	Impact Indicator	Baseline (2018)	Target					Source	Reporting Frequency	Reporting Breakdown
				2020	2021	2022	2023	2024			
Agrifinance	1	% of land record/titles digitized	0	50,000 (including geo-spatial and legal information) (2024)					DML/MU DL	Annual	By province
Agrifinance	2	% of adult individuals covered by the collateral registry	1.5 %	2%		3%		5%	DAB	Biannual	By gender, rural, province
Agrifinance	3	% of individuals holding sharia deeds	TBD						TBD	Annual	By gender, rural, province
Agrifinance	4	% of agriculture loans as total percent of private sector lending	3.5 % (2016)					7%	WB/ DAB	Annual	By province
Protection and Capability	5	# of designated staff for financial consumer protection supervision at DAB with FID	1	5	8	10	13	15	DAB	Annual	National level
Protection and Capability	6	% of FSPs rated compliant with disclosure requirements	0		100%		100%		DAB	Biannual	Provider type: FIs
Cross-cutting	7	# of NFIS annual reports released publicly	0	1	2	3	4	5		Annual	National level
Cross-cutting	8	# of stakeholders actively participating in NFIS coordination structure	4	7	7	7	7	7		Annual	National level
Cross-cutting	9	% adults reporting trust as a barrier to access	24% (2017)	23%			20%		WB Findex	As data available	National level