Da Afghanistan Bank
Financial Inclusion Department (FID)

Financial Inclusion in Afghanistan

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Introduction

- Given the importance of financial inclusion for the country, DAB established the Financial Inclusion Department (FID) in June 2016 and since then started working on developing the National Financial Inclusion Strategy (NFIS).
- It took more than two years to complete the data and information collection, financial sector's diagnostic studies and formulation of the NFIS.
- Luckily, the NFIS has recently been completed and sent to the relevant stakeholders for their comments, and the implementation phase will start soon right after the DAB's supreme council approval.
- It will be a dynamic strategy and will be implemented over the next five years (2020-2024)

Rational

- Nearly 85 percent of adults in Afghanistan are unbanked which is low compared to the region, low income countries and other peer countries.
- More than half 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.

NFIS Vision

- **Vision:** 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.

- **Definition**: 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.

NFIS Core Objectives

- To expand and diversify access point and enhance adults and women access to formal financial services
- To enhance MSMEs access to finance provided by formal financial institutions
- To improve agriculture sector access to finance
- To establish a robust financial consumer empowerment & protection framework
- To promote access to digital financial services

Priority Areas identified in the NFIS

Four policy areas are identified in the NFIS:

- Financial access for individuals and MSMEs
- Agriculture finance
- Consumer protection and capability
- Payment and digital financial services

NFIS Pillars

- The NFIS has the following five pillars, which are based on four policy priority areas.

1. Enhance and diversify the access points
2. Financial access for MSMEs
3. Agriculture finance
4. Consumer protection and capability
5. Digital Financial Services (DFS)

Target Groups

- The target groups of the NFIS are:

1. Adults (15-64 years)
2. Women
3. MSMEs

Products and Services

- The NFIS will facilitate access to the following financial products and services:

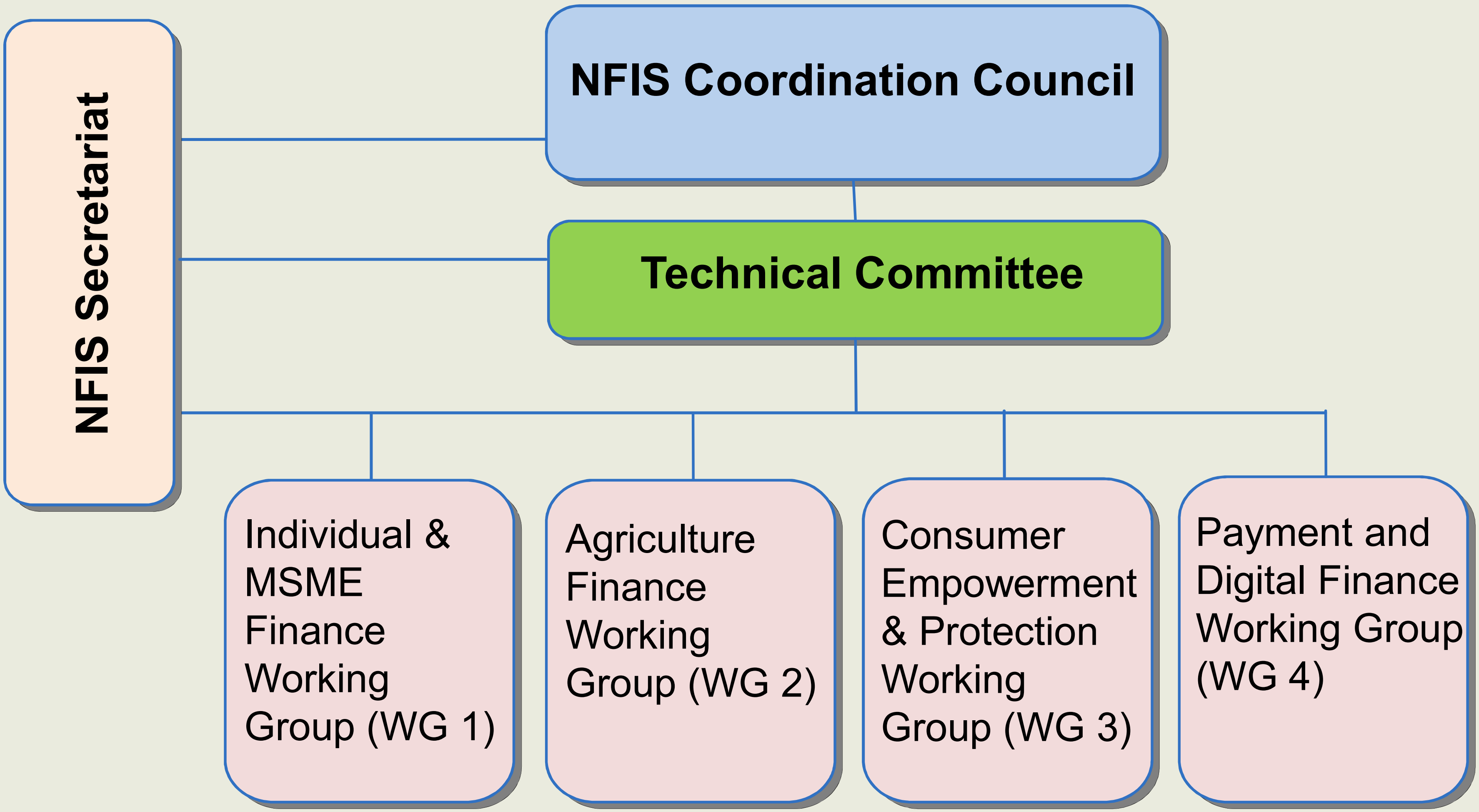
1. Accounts
2. Savings
3. Payment
4. Transfer
5. Credit

Key Enablers

- Successful implementation of the NFIS will depend on the following four enablers:

1. Legal and regulatory framework
2. Payment infrastructure and credit information
3. Public and private coordination and commitment
4. Data and research

NFIS Coordination Structure



Risks and Challenges

- The following risks and challenges can undermine successful implementation of the NFIS:

1. Insecurity and political instability challenges
2. Weak commitment and coordination risks
3. Technical capacity challenge
4. Budgetary challenge
5. Informal economy
6. Business model challenge

Quantitative Targets

Indicator	Baseline	2020	2021	2022	2023	2024
Number of commercial bank branches per 100,000 adults	2.2	2.3	2.4	2.6	2.8	3
Number of agent banks per 100,000 adults	0	0	0.2	0.5	0.8	1
Number of ATMs per 100,000 adults	1.6	1.8	2	2.3	2.5	2.8
Number of POS machines per 100,000 adults	1.1	1.3	1.5	1.7	2	2.5
Number of bank accounts per 100,000 adults	15,000	17,000	20,000	23,000	27,000	30,000
Number of bank accounts per 100,000 women	7,000	8,000	9,000	10,000	11,000	12,000
Number of mobile money accounts per 100,000 adults	6,500	7,000	7,500	8,000	9,000	10,000

MSMEs financing in Afghanistan

- 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.
- 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.
- Yet, the potential credit needs of the MSMEs are estimated at more than USD 4.7 billion.

Constraints in MSMEs financing

- **Supply-side constraints**
  - High interest rates
  - High collateral requirements
  - Lack of expertise in the banking sector relevant to MSME lending
  - Weak credit infrastructure to identify and manage the lending risks by the banks
  - Limited outreach in the rural areas including the absence of branchless banking and digital transactions
  - Absence of business models in the banks that can target MSMEs

Constraints in MSMEs financing

- **Demand-side constraints**
  - MSMEs limited business capacities
  - High level of informality
  - Lack of proper documentation and record keeping
  - Low level of financial literacy
  - Lack of capacity building and government interventions, including the role of central coordinating agency (CCA) for MSMEs

Quantitative targets for MSMEs financing

Indicator	Baseline	2020	2021	2022	2023	2024
Percentage of SMEs with a loan or line of credit	5% (2014)	5.5%	6%	6.5%	7%	8%
Percentage of SMEs reporting “access to finance” as a major obstacle	48% (2014)	47%	46%	45%	44%	43%
Percentage of SME loans as total percent of private sector lending	5.7%	6%	6.5%	7%	7.5%	9%

Thank you for your attention!

Any Questions?