



## Exploring Banking Financial services in Afghanistan

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### ABSTRACT

*This paper describes the Banking Financial services in Afghanistan a few years' Banking Financial services in Afghanistan has emerged at November of 2014.*

*The banking system comprising fifteen fully licensed commercial banks and three branches of foreign banks with about 390 bank branches throughout the country had assets of \$4.17 billion total, deposits of \$3.7 billion and an average loan-to-deposit ratio of 18.78 percent. There are three state banks: Bank-e Millie Afghan (Afghan National Bank), Pashtany Bank, and New Kabul Bank (formerly the privately owned Kabul Bank), and there are also branch offices of foreign banks, including Alfalah Bank (Pakistan), National Bank of Pakistan, Habib Bank of Pakistan.*

*Afghanistan has a no public debt market, though the Central Bank issues Afghani-denominated Capital Notes with maturities of one, six, and twelve months. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.*

*Banking Structure in Afghanistan: Da Afghanistan Bank 1. Government Banks (Bank E Millie Afghan, Pashtany Bank, New Kabul Bank) 2. Private Banks (Azizi Bank, AIB Bank, Bakhtar Bank, Maiwand Bank, Afghan United Bank, Ghazanfar Bank, Arian Bank, Afghanistan Commercial Bank, The First Micro Finance Bank) 3. Foreign Banks (Habib Bank of Pakistan, National Bank of Pakistan, Alfalah Bank).*

*Over all financial services provided by banking sector in Afghanistan are: Saving Account, Deposit Account, Western Union Facility, Internet and Mobile banking, Letters of Credit, SWIFT, Islamic banking Services, Fixed, Loan Facility, Electricity Bill Payment, Money Transfer Facility, ATM Services, Debit Card, Credit Card, Money Exchange Facility and Current Account.*

**Keywords:** *Central bank of Afghanistan (Da Afghanistan Bank), Banking Structure in Afghanistan, over all financial services provided by banking sector in Afghanistan, List of banks in Afghanistan.*

### 1. INTRODUCTION

At November of 2014, the banking system comprising fifteen fully licensed commercial banks and three branches of foreign banks with about 390 bank branches throughout the country had assets of \$4.17 billion total, deposits of \$3.7 billion and an average loan-to-deposit ratio of 18.78 percent. There are three state banks: Bank-



e Millie Afghan (Afghan National Bank), Pashtany Bank, and New Kabul Bank (formerly the privately owned Kabul Bank), and there are also branch offices of foreign banks, including Alfalah Bank (Pakistan), National Bank of Pakistan, Habib Bank of Pakistan.

Despite the boom in banking, most Afghans remain “unbanked,” with only a small percentage of Afghans currently holding bank deposits. Moreover, many Afghans continue to rely on money service providers (or Hawalas) to access finance and transfer money, due to the unfamiliarity with a functioning banking system and limited access to banks in rural areas. Banking remains highly centralized, with 75 percent of total loans made in Kabul Province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

Although credit to the private sector increased in 2013 for the first time since the Kabul Bank crisis, part of the increase reflected valuation changes on foreign exchange denominated loans and credit growth over the past few years has been low. The low level of private credit equivalent to only 4 percent of GDP- reflects the scarcity of profitable lending opportunities, given limited information available on potential borrowers and the difficulty in realizing collateral or collecting loans from delinquent borrowers, rather than low supply of funds. Afghanistan ranks 89th out of 189 countries for obtaining credit in the World Bank's 2014 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Afghanistan has a no public debt market, though the Central Bank issues Afghani-denominated Capital Notes with maturities of one, six, and twelve months. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.

The Central Bank, has taken important steps to improve banking regulation and supervision in recent years. However, serious challenges remain, including lack of capacity, limited operational transparency, a weak legal framework, and further need for improvements in supervision. The Central Bank is now conducting both on- and off-site supervision of all 15 commercial banks. Most bank loans have traditionally been structured as lines of credit rather than term loans, which tends to obscure the true level of non-performing loans.

### **Central bank of Afghanistan (Da Afghanistan Bank)**

Da Afghanistan Bank is the central bank of Afghanistan. It regulates all banking and money handling operations in Afghanistan. The bank currently has 47 branches throughout the country, with five of these situated in Kabul, where the headquarters is also based. Khalil Sediq is its current governor, since 13 July 2015.

Da Afghanistan Bank (DAB) is a wholly government-owned bank of Afghanistan which was established in 1939.



DAB is active in developing policies to promote financial inclusion and a member of the Alliance for Financial Inclusion.

The seal of Da Afghanistan Bank has the name of the bank in Pashto at the top and Latin script at the bottom, the year 1939 in which it was established and an Eucratides I-era coin having the Greek text, "ΒΑΣΙΛΕΩΣ ΜΕΓΑΛΟΥ ΕΥΚΡΑΤΙΔΟΥ" which means "Of the great king Eucratides.

### **Basic Tasks of DAB are as follow:**

- Formulate, adopt and execute the monetary policy of Afghanistan.
- Hold and manage the official foreign exchange reserves of Afghanistan.
- Print and issue Afghani banknotes and coins.
- Act as banker and adviser to, and as fiscal agent of the State.
- License, regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, securities transfer system operators.
- Establish, maintain and promote sound and efficient systems for payments, for transfers of securities issued by the State or DAB, and for the clearing and settlement of payment transactions and transactions in such securities.
- Accept foreign bank applications from banks that wish to operate in Afghanistan.

## **2. List of banks in Afghanistan**

### **I. State owned banks (Government Banks)**

- a) Bank E Millie Afghan
- b) Pashtany Bank
- c) New Kabul Bank

### **II. Private Banks**

- a) Azizi bank
- b) Afghanistan International Bank
- c) Bakhtar Bank
- d) Maiwand Bank
- e) Afghan United Bank
- f) The First Micro Finance Bank
- g) Ghazanfar Bank
- h) Arian Bank
- i) Afghanistan Commercial Bank

### **III. Branches of Foreign Banks**

- a) Habib Banks of Pakistan
- b) National Banks of Pakistan



**I. State owned banks**

**a) Bank E-Millie Afghan**

Bank-e-Millie Afghan (BMA) was the first financial institution established in Afghanistan in 1933. Similarly, it was the first financial institution established in a public private partnership set up with 72 percent share held by private sector. As a first bank in Afghanistan, BMA introduced formal banking services to the people and government of Islamic Republic of Afghanistan. Since then, the banks competitive strength and ongoing market leadership philosophy lays in its strong capital base and proven trustworthiness.

In 1976, it was fully nationalized by the government of Afghanistan. Since its establishment, BMA is a leading banking in providing modern and secure banking services. Securing depositors' funds is the top priority of the bank. At the same time, the bank is contributing considerably to the development of manufacturing, agriculture, services, and international trade in the country. BMA is operating based on strong corporate governance principles, financial risk management and strict compliance to keep its credibility and trust. BMA has 15 city branches in Kabul and 21 provincial branches and equity investments in United States of America and England. And it is celebrating its 84th years of fame.

**b) Pashtany bank**

is the firm controlled by the Afghan government that controls the Central Bank of Afghanistan, the Afghan national insurance company and Ariana Afghan Airlines. It was established in 1954 to manage the Da Afghanistan Bank, the central bank of Afghanistan.

Pashtany Bank today has 19 branches across the country. It is owned by the government of Afghanistan and offers banking services to personal and business clients. The range of products that it offers includes current accounts, fixed deposit accounts, savings accounts, and loans. And also this bank providing internet banking facilities to their customers, so their customers can view their account online.

Pashtany Bank is a state owned bank established in 1954 and is registered with Da Afghanistan Bank (Central Bank of Afghanistan) under the commercial banking license to operate nation-wide. The Bank has been operating as one of the leading commercial bank and dominated commercial banking sector since its establishment. Its contributions in expanding financial inclusion and providing variety of banking sector products and services has been vital. Moreover, Pashtany Bank has been considerably contributing to the real sectors of economy and the community in addition to its own strategic objectives. To facilitate its customers, the bank has presence in capital city and provinces offering wide variety of products and services based on the market needs and its customers' expectations.

Pashtany Bank started its operations with the initial investment of Afs 120 million employing 22 staff and major shareholding was Pension Fund, Afghanistan Agriculture Bank and some other entities. Since its establishment, Pashtany Bank is committed to excellence and is operating with full transparency, fairness and disclosure to its stakeholders.



**c) New Kabul Bank**

Is a bank in Afghanistan that has its main branch in the capital city of Kabul. It was established in 2004 as the Kabul Bank, the first private bank in Afghanistan. After corruption and scandals, it was re-established in 2011 as the New Kabul Bank.

It is the main bank used to pay the salaries of the national army and security police forces. The bank provides facilities to maintain accounts in Current, Savings Bank, and Fixed Deposits; and offers its consumers branch and automated teller machine services. The bank is under the supervision of the Central Bank of Afghanistan.

New Kabul Bank started its banking activities by having received its license as a commercial bank as a result of high authorities' decisions adhering to all prevailing banking rules and regulations under banking system of the country.

Ministry of Finance is the only shareholder of New Kabul Bank and it (NKB) has four kinds of activity license:

1. Banking license
2. AISA License
3. 3131 Network License
4. 2266 Services License

New Kabul Bank is operating and providing services for valued citizens by covering a wide network in more than 112 branches including a technical and supporting office in Dubai with professional and experienced cadre.

New Kabul Bank is offering the following legal banking services equipped with electronic system.

New Kabul Bank Services:

1. Account Opening
2. Balance Confirmation
3. Issue of Balance Confirmation
4. Deposits Withdrawal and Payment (Banking Transactions)
5. Money Transfer from one Account to another Account
6. Issue of Cheque-book (10-25 page)
7. Internet Banking (to check statements, money transfer from one account to another account, exchange rate, information about balance) and so on.
8. Mobile Phone Banking (coming soon)
9. Mobile Phone Banking (coming soon)
10. ATM Services - 24 hour
11. 3131 Services -24 hour
12. Master Card (master and debit card)
13. Salary Disbursement Services
14. Electricity Bill Payment



15. Islamic Banking Services along with Islamic terms and conditions

New Kabul Bank is equipped with professionally trained security forces and armored vehicles deliver your money safely and securely anywhere inside Afghanistan. New Kabul bank is connected all over the Global SWIFT facility which enables fast funds transfer for customers of bank having correspondent relationship with 7 international banks such as:

- Aktif Bank Turkey
- Bank of China
- Alraji Bank United Emirate
- Crown Agent Bank London
- National Commercial Bank Jeddah
- KBC Bank Brussels
- HDFC Bank India

New Kabul Bank is principal agent for western union Money transfer in Afghanistan therefore it is authorized to transfer and receive money through western union company in all over the world and vice versa.

## II. Private Banks

### a) Azizi Bank

Azizi Bank is the second largest banking group in Afghanistan. The Bank provides a wide range of financial products and services including savings and current accounts, term deposits in Afghani and USD, credit cards, money exchange services, local and international remittance facilities, letters of credit, internet and mobile/SMS banking, etc.

### b) Afghanistan international bank (AIB)

Afghanistan International bank was founded in 2004 and has since established itself as pioneering leader in Afghanistan banking sector.

(AIB) is one the leading banks in Afghanistan. AIB is engaged in Commercial, Consumer, Corporate and Islamic Banking activities.

The major shareholders are Horizon Associates LLC, an investment company of the Mohib Group, a major commodities trader in the region, and Wilton Holdings Ltd, part of the Rahmat Group.

The range of products are that are available includes, current account, saving account, fixed deposit account, gold account, foreign exchange services and loans.

### c) Bakhtar bank

Bakhtar Bank is the 3rd largest bank in terms of assets, operating according to the best international standards. The Bank provides a wide range of financial products and services including current and saving account, fixed/term deposit, safe deposit locker, electric bill collection, internet and mobile banking, business



loans, letters of credit, etc. Bakhtar Bank is a wholly-owned subsidiary of Azizi Bank, the 2nd largest banking group in Afghanistan.

**d) Da Afghanistan bank**

(DAB) is the central bank of Afghanistan. The Bank regulates all the banking and money handling operations in Afghanistan.

Bank's strategic objectives: develop and implement rational monetary policies to achieve price and exchange rate stability, ensure the thorough and timely supervision of all financial institutions, as defined by the DAB Law, provide for the quality and the profitability of the management of the foreign exchange reserves for the country, develop a nation-wide electronic payments system that serves all provinces of Afghanistan.

**e) Maiwand Bank**

Maiwand Bank is one of the strongest commercial banks in Afghanistan. The Bank operates as an international commercial banking institution and acts as a strong catalyst for economic growth and business prosperity in the economic reconstruction process of Islamic Republic of Afghanistan.

Products and services: deposits, loans, trade finance, internet banking, SMS and mobile banking, ATM, Debit Card & POS services, Islamic banking on profit sharing basis, multi-currency transactions in Afghani, US\$, Euro, GBP & PKR. Maiwand Bank recognized the need to provide special products and services of banking to lady's community through a special branch for ladies.

**f) Afghan United bank**

The Bank has 6 branches around the country and has plan to establish at least 15 Branches during 3 years of the operation to expand its network to other important cities and towns of the country having Business potential and in accordance with given needs of people. The Bank has also plan to introduce special products and services like ATMs, Credit Cards, Mobile Banking, Debit Cards and Internet Banking facilities. Afghan United Bank will also contribute in development of Agriculture, Industrial Sector, Construction Sector, Infrastructure, Telecommunication, Government Servants, NGOs Defense and Police employees in the country.

Ghazanfar Bank, a full-fledged licensed commercial Bank, commenced its operations in March 2009. The Share Holders of the Bank belongs to one of the leading business groups of Afghanistan. As a leading business house Ghazanfar Group is involved in various key businesses sectors as a front runner such as import and distribution of Petroleum/Gas and other various important industrial sectors. Ghazanfar Bank started off its operation from Kabul, Afghanistan and is offering key financial services both under conventional and Islamic. And also they provide services like, SMS banking, save deposit locker, western union, internet banking, SWIFT, ATM Debit cards.

**g) Arian Bank**

A joint venture between Iran's Bank Melli and Bank Saderat Listed by the European Union on July 26, 2010, as an entity linked to Iran's proliferation-sensitive nuclear activities or Iran's development of nuclear weapon delivery systems; removed from the E.U. list in January 2016 as part of the Joint Comprehensive Plan of Action; added to the Specially Designated Nationals (SDN) list maintained by the U.S. Department of the



Treasury's Office of Foreign Assets Control (OFAC) on October 25, 2007, pursuant to Executive Order 13382, which targets proliferators of weapons of mass destruction (WMD) and their delivery systems; removed from the SDN list in January 2016 as part of the Joint Comprehensive Plan of Action.

Listed by the British government in 2015 as an entity of potential concern for WMD-related procurement

## **h) Afghanistan Commercial Bank**

Afghanistan Commercial Bank ACB is a full-fledged commercial bank owned by reputed afghan entrepreneurs. ACB operates from its head quarter located at Share Naw Kabul and so far, has opened four fully functional branches at different locations in Kabul. The Bank is expected to launch its branches in the provinces of Herat, Mazar-iSharif, Jalalabad and Kandahar soon to meet clients' expectations at their door step.

General Banking, Corporate Banking, Trade Finance, Small & Medium Enterprise, ATM, and International Debit Card facility.

## **III. Branches of Foreign Bank**

### **a. Habib Bank of Pakistan**

Founded in 1941, HBL became Pakistan's first commercial bank. In 1951 it opened its first international branch in Colombo, Sri Lanka. In 1972 the bank moved its headquarters to the Habib Bank Plaza, which became the tallest building in South Asia at the time. The Government nationalized the bank in 1974 and privatized it in 2003, at that time the Development acquired a controlling share.

As of 2016, HBL has 1700 branches with presence in over 25 countries spanning across four continents. It is the largest company in Pakistan in terms of assets, and has repeatedly ranked top Pakistani company in the Forbes Global 2000.

Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer- finance companies, stock brokerages, investment funds, individual managers and some government sponsored enterprises. Financial services companies are present in all economically developed geographic locations and tend to cluster in local, national, regional and international financial centers such as London, New York City, and Tokyo.

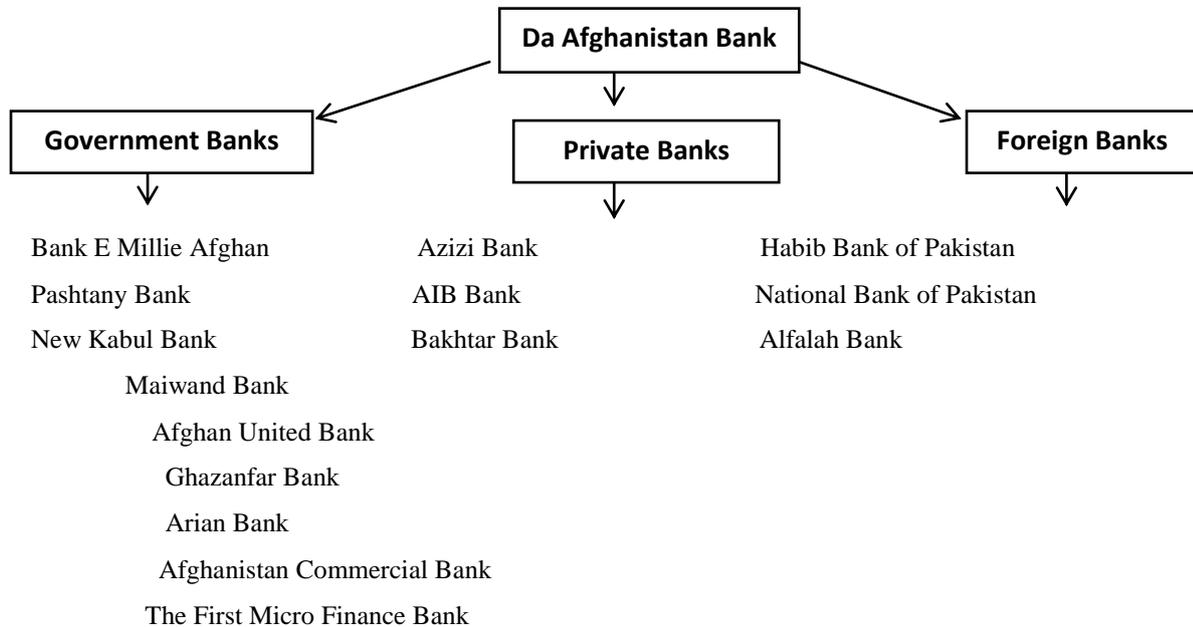
### **b) National Bank of Pakistan**

Is a major Pakistani commercial bank with headquarters in Karachi. Although state-owned, it operates as commercial bank, while still continuing to act as trustee of public funds and as the agent to the State Bank of Pakistan..

The bank provides both commercial and public sector banking services. It is a lead player in the debt equity market, corporate investment banking, retail and consumer banking, agricultural financing, treasury services. As of March 2017 it has 1,450 branches across Pakistan with assets of approximately USD 17.2 billion. The Bank also operates a network of 21 international branches, 2 international Subsidiaries and 3 international Representative Offices. The Bank also has presence in the UK through United National Bank Ltd (UNBL), a banking institution incorporated in the UK.



**Banking Structure in Afghanistan**



**3. Over all financial services provided by banking sector in Afghanistan:**

- Current Account
- Fixed
- Loan Facility
- Electricity Bill Payment
- Money Transfer Facility
- ATM Services
- Debit Card
- Credit Card
- Money Exchange Facility
- Saving Account
- Deposit Account
- Western Union Facility
- Internet and Mobile banking
- Letters of Credit
- SWIFT
- Islamic banking Services

**Current Account**

Afghanistan banking provides current account from which money withdrawn any times, typically it's an active account and have more usage in Afghanistan.

**Saving Account**

It's an interest bearing deposit account, so it allows customers to deposit money, keep the fund safe, and withdraw funds, but the bank allow limit number of withdrawals customers can make from the saving account each month.



**Fixed deposit**

This account is used for investment instrument offered by bank, where people can deposit for higher rate of interest than saving account, so people can deposit for specific period of times 7 day to 1 year 5 year.

**Salary Account**

This account is provided by government to government employees like, Teachers, Army soldier, and other government offices employees.

**Loan facility:**

Banking sector in Afghanistan are able to provide loan facilities all sectors.

**Electricity Bill Payment:**

Banking sector accept clearance of electricity bill payment.

**WESTERN UNION Facility:**

WESTERN union is an international transaction facility.

**Money Transfer Facility:**

This facility is using through private banks in which can transfer money to Asian countries.

**ATM Services:**

The ATM automatic machines are available in inside the banks and outside banks.

**Debit Card:**

Debit Card is a card allowing the holders to transfer money electronically from their bank account while making purchase.

**Credit Card:**

Credit Card is a small plastic card issued by a bank, building society, etc., allowing the holder to purchase goods or services on credit.

**Money Exchange Facility:**

Money exchange facility is another facility provided by bank, like exchanging Dollar to Afghani or other currencies like pond, rupee etc.

**Islamic Banking Services:**

It's also known as non-interest banking, is a banking system that is based on principle of Islam economic; operate on the basis of risk sharing.

**SWIFT:**

It's also worldwide interbank financial communications; it's secure and very fast.

**Letters of Credit:**

A letter issued by a bank to another bank (especially one in different country) to serve as a guarantee for payments made to a specified person under specified conditions.

**Internet and Mobile banking:**

It enables the customers to execute transaction via cellular devices electronically.



#### 4. CONCLUSION

Banking financial services make infrastructure for availability of funds, capital formation, level of investment, employment, and contribute in calculation of GDP, GNP and economic growth of the country.

Banking sector in Afghanistan is facing big challenges, which is less liquidity, this low liquidity is one reason that around 45% of people in Afghanistan are under poverty line, and another reason is restriction from Dean scholars which introduced banking sector and its services illegal, so those people who have saving capacity avoid to deposit their money to banks.

Banking sector is formed through shares of big traders and political parties, so banks are under influence of political parties. Loans are paid based on political and social ranking of borrower not based on investment plan of borrowers, so we can say that mostly political parties gain benefit from banking loan not all people.

Banking sector in Afghanistan still need long way to provides standard and high quality services. This study shows that private banks performance is better than government banks because they are equipped with modern and computerized financial services.

Afghanistan Central Bank which control other banks and plane for monetary policy in the country is not independent sector, their plans and policies are under satisfaction of government. So, this sector should work according to benefits of government not benefit of economic conditions.

The amount of loans which are providing by banks are low with high rate of interest, firstly it cannot procure requirement of investors and secondly the rate of interest is high whereas, investors cannot gain benefits from their investment.

The main key role of banking sector in Afghanistan is money transferring from one place to another, or one country to another country which is through money transfer services and WESTERN UNION which is international money transfer services.

According to this study unfortunately, people have no more trust on banking sector in Afghanistan, which itself is a big deal for the banking financial services in the country.

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