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Strengthening Financial Sector Capacity: USAID's Afghanistan Experience

USAID Economic Growth Workshop

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Environment Faced at the Outset

- Twenty five years of war and turmoil had destroyed the banking sector which had once operated within the country.
- In late 2002, there were only inactive state-owned commercial banks and a dysfunctional Central Bank. At the time, the Central Bank (Da Afghanistan Bank) provided most of what little commercial banking was being conducted within the country
- More importantly, high inflation rates and the use of multiple national currencies had left most commercial enterprises and individuals bank-averse and reliant on the informal Hawala system for satisfaction of basic banking needs such as money transfer and provision of credit.

Background

DAB, the Central Bank of Afghanistan, is an autonomous institution within the GoA. The goal is to help build a sustainable institution capable of fulfilling its legal mandate and become an enabling agent in the development of the financial sector and the economy. By law, the DAB is responsible for:

- Price stability
- Currency management and support
- Monetary policy
- Financial institution licensing
- Supervision
- Banking legislation
- Paying and receiving funds on behalf of the government
- Manager and investment agent of the financial reserves of the GOA



Initial Focus for the Financial Sector

- Elimination of multiple national currencies
- The modernization of the Central Bank and renovation of facilities to encourage the growth of the commercial banking sector, to allow the automated transfer of funds domestically and abroad
- Creation of a Monetary Policy Unit and Market Operations Unit.
- Development at DAB of telecommunications networks for regional and international operations
- Spearheading assistance to State-owned commercial banks in developing prudent banking processes based on international best practice

Growth in the Afghan Banking System

- The Financial System has been Reactivated
 - 16 commercial banks in operation
 - 30 licensed foreign exchange dealers
 - 80 money service providers

Consolidated Banking Resources		
US\$ -- Millions		
	March 2004	July 2007
Loans	18	535
Deposits	60	950
Capital	162	231

Da Afghanistan Bank (DAB)

Progress to Date

- Fostered a banking sector with 16 banks and more than 150 branches (incl. DAB Branches) in over 20 provinces that has brought in \$75 million in capital injection.
- Developed capacity for monetary policy to support the GoA's economic development efforts (under the aegis of IMF) along with ability to prudently manage and invest more than \$2 billion in reserves.
- Developed the securities market with capital notes to facilitate liquidity management in the banking & financial sectors.
- Established the DAB electronic payment system that distributes government salaries and collects government revenues nationwide.
- Developed HR capacity by advising on organizational restructuring, improving functional capability and developing a broad range of training programs.

Da Afghanistan Bank (DAB)

Progress to Date (cont)

Laws Passed

- Law of Da Afghanistan Bank
- Law of Banking in Afghanistan
- Afghanistan Law on Combating Financing of Terrorism
- Afghanistan Anti-Money Laundering and Proceeds of Crime Law

Laws Currently Under Review

- Secured Transactions of Moveable Property Law
- Secured Transactions of Immoveable Property Law
- Negotiable Instruments Law
- Leasing Law

Banking Regulations

- There are 20 banking regulations currently in effect ranging from currency exchange to corporate governance.

Da Afghanistan Bank (DAB)

Next Steps

- Advise on utilizing the commercial banks and financial sectors for GoA payment services
- Assist in eliminating impediments to development of the credit market.
- Advise on macroeconomic data collection using the regional DAB network.
- Assist with the strategic development and implementation of the next generation of nationwide payment systems.
- Continue to strengthen the Supervisory and Regulatory functions of the DAB.



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