Life and Death: NGO access to financial services in Afghanistan

January 2022

NORWEGIAN
REFUGEE COUNCIL

Life and Death: NGO access to financial services in Afghanistan

Acknowledgements

The publication was commissioned by the Norwegian Refugee Council (NRC). The paper was written by Dr. Erica Moret. It was produced with the financial assistance of the Swiss Federal Department of Foreign Affairs (FDFA).

NRC and Dr. Moret gratefully acknowledge the interviewees who shared their time and expertise in helping to inform this study, as well as members of the NGO community who attended a research workshop and shared their views and feedback. There are also a number of individual experts and practitioners who gave their time to provide detailed comments on earlier drafts of the report, including Kathryn Stiffolino, Edwina Thompson, Sanzar Kakar, Mark Tait, Daniel Goodwin, Alex Zerden and a number of anonymous reviewers. Special thanks to numerous staff at NRC who supported the research process with guidance, expertise and editorial input, especially Martin Hartberg, Emma O'Leary and Ellie Ward.

Cover photo: Jim Huylebroek/NRC

An informal settlement for forcefully returned refugees from Pakistan in Laghman, Afghanistan.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

TABLE OF CONTENTS

Glossary

ABADEI	Area Based Development Emergency Initiative (UNDP)
ACF	Action Against Hunger
AFN	Afghani (the local Afghan currency)
AIB	Afghanistan International Bank
ARTF	Afghanistan Reconstruction Trust Fund
ATM	Automated teller machine (or cash machine)
AUB	Afghan United Bank
AWCC	Afghan Wireless Communications Company
B2B	Business-to-business
B2C	Business-to-customer
CAB	Crown Agents Bank
CBR	Correspondent banking relationships
CT	Counterterrorism
CVWG	Cash and voucher working group
DAB	Da Afghanistan Bank
DFID	UK's former Department for International Development
EO	Executive Order (US)
EU	European Union
F4ID	Fintech for International Development
FATF	Financial Action Task Force
FDFA	Switzerland's Federal Department for Foreign Affairs
FSP	Financial Service Providers
FXD	Foreign exchange dealer
GBP	Great Britain Pound (Stirling)
GDP	Gross Domestic Product
GL	General Licence (US' Treasury's OFAC)
HMRC	Her Majesty's Revenue and Customs
IMF	International Monetary Fund
INGO	International non-governmental organisation
IRC	International Rescue Committee
ISIL	Islamic State in the Levant
ITU	International Telecommunications Union

IVTS	Informal Value Transfer System
KYC	Know your customer
L/NNGO	Local and national non-governmental organisation
MENA	Middle East and North Africa
MMO	Mobile money operator
MSB	Money service business
MSP	Money service providers
MTN	Afghanistan telecommunications company
MTO	Money transfer operator
NGO	Non-governmental organisation
NRC	Norwegian Refugee Council
OFAC	US Treasury's Office of Foreign Assets Control
OFSI	UK's Office of Financial Sanctions Implementation
PHAP	Professionals in Humanitarian Assistance and Protection
SDGT	Specially Designated Global Terrorist (US)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	Office of the United Nations High Commissioner for Refugees
UN OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNOPS	United Nations Office for Project Services
UNSC	United Nations Security Council
UPU	Universal Postal Union
US	United States
USAID	US Agency for International Development
USD	US dollar
WU	Western Union
WUBS	Western Union Business Solutions

Executive Summary

Afghanistan faces a looming humanitarian catastrophe. Yet aid agencies are unable to operate at scale in the country because formal payment channels are almost completely unavailable to them. The United Nations (UN) is launching its largest ever country funding appeal to support the provision of aid to Afghanistan, including through the Humanitarian Response Plan[1]. It is not clear how these funds – if successfully raised – can be spent in support of the Afghan people, however. This is a result of the severely limited humanitarian fund transfers options currently available, with each type of payment channel facing serious limitations. These challenges need to be urgently addressed by a range of stakeholders if the Afghan people are to be helped at anything approaching an appropriate speed and scale.

Transferring funds into, and within, Afghanistan has become a major challenge for non-governmental organisations (NGOs), since the Taliban's return to power on 15 August 2021, a group targeted by UN, United States (US) and other sanctions and counterterrorism (CT) regulations (described in Annex 1). This has been due to a combination of international and domestic factors, including a halt in most international funding, paralysis of the Afghan Central Bank, capital controls and confusion over permissible activities under sanctions (leading to worsening over-compliance and financial sector de-risking).

The result has been the rise in multiple, overlapping economic crises in the country (fiscal, financial, trade; liquidity); high inflation, and risk of banking sector and public health sector collapse. The situation has severely curtailed the access of local, national and international NGO's (L/N/INGO)[2] access to physical cash, significant in light of its importance in humanitarian programming in the country. Cumulatively, the situation presents significant barriers to NGOs' ability to respond at an appropriate scale and speed to urgent, and mounting, humanitarian needs of the Afghan people.

The situation poses a monumental risk to Afghanistan in light of pre-existing humanitarian pressures linked to widespread poverty, environmental hazards (resulting in flooding and droughts), displacement, conflict, fragile public infrastructure, and the COVID-19 pandemic. The country now suffers from soaring inflation, currency devaluation and crippling unemployment, alongside severe and widespread childhood malnutrition and school closures. The UN warns of a looming humanitarian catastrophe on an unprecedented scale.

This report addresses these gaps by mapping out available payment channels (via a range of financial service providers [FSPs] spanning those of a formal or regulated nature, through those that are more informal or partially regulated) for transferring humanitarian funds into, and around, Afghanistan for NGO use. It explores the extent to which each of these channels allows for access to physical cash required to carry out humanitarian operations to scale in the country. It also seeks to ascertain how such transactions can be scaled up and safeguarded in light of the absence of a fully functional central bank, alongside severely hindered trade and other economic activities.

Drawing on interviews with 26 expert stakeholders held between 01 November 2021 and 10 January 2022 and an online poll targeted at NGOs.[3], this report also examines associated risks (domestic, regional and international) of each channel, as well as questions of reliability, cost and volume capacity. Furthermore, it summarises some of the ongoing global initiatives seeking ways to inject liquidity and physical cash into Afghanistan for use in humanitarian operations, such as through currency/ trade swaps or cross-border bulk cash transfers. It concludes with a set of recommendations for the US Treasury, donor governments, the UN and NGOs. While the research did not focus on household remittances and the impact of Afghanistan's economic collapse on the general population, many of the challenges described in the report directly impact on the lives and livelihoods of the Afghan people.

Key findings on viability of main NGO financing channels

- No one financing channel is yet able to transfer NGO funds into, or around, Afghanistan on a sustainable or secure enough footing, nor approaching required volumes or scale.
- Options for remitting humanitarian funding into Afghanistan are extremely minimal, beset by a range of complex challenges and marked by urgent and mounting needs.
- Transferring amounts that enter into the billions of US dollars (USD) over time, as required to meet humanitarian needs, will not be possible, unless new mechanisms, with appropriate political backing, are launched immediately.
- While larger INGOs have managed a number of transactions via a number of formal and informal mechanisms, no one channel will be able to meet the needs of all NGOs due to absorption capacity challenges.
- With some very limited exceptions, all payment mechanisms available to NGOs face limited access to physical bank notes for use in humanitarian operations and most face a steep (and sometimes prohibitive) rise in transfer fees.
- NGOs face a set of safety, security, compliance and insurance-related challenges when dealing with large quantities of physical cash in Afghanistan, whereby a disproportionate risk burden is carried by NGOs, rather than being shared with donors.
- Payments passing through formal channels in mainstream currencies are subject to widespread banking rejections, linked to the increased compliance burden and financial sector over-compliance. This has rendered platforms such as SWIFT and StoneX largely unavailable for Afghan payments.
- Most channels are extremely limited in number, representing a major risk in relation to potential blockages, longer-term sustainability and potential collapse.
- **Public** and **private banks** are insolvent and risk collapse, facing major challenges regarding access to liquidity and physical bank notes, with withdrawal limits complicating matters further for NGOs.
- **Public banks** are unavailable to NGOs in international electronic transactions on the request of international banks due to concerns over Taliban control.
- International electronic banking payments for NGO funds to **private banks** in Afghanistan face major challenges, including severe delays, repeat rejections from

correspondent banks with US exposure (de-risking) and widespread bank branch closures (exacerbating branch consolidation to urban areas of the country). Only a limited number of NGO transactions have gone through since August 2021 (in the United Kingdom [UK] case, via Crown Agents Bank [CAB] and largely to Afghanistan International Bank [AIB], yet only for certain, larger INGOs, on a case-by-case basis). Major concerns remain over absorption capacity and sustainability in light of the narrow number of channels and increased due diligence requirements.

- The **Afghan postal service** is not a viable option for international transfers due to the country not being a signatory of relevant international agreements.
- **Money Transfer Operators** (MTOs,[4] such as Western Union) have been used to transfer electronic funds into Afghanistan (including via Azizi Bank) but only by some larger INGOs and only in small amounts. Major absorption capacity challenges prevent onboarding of more than a handful of INGOs. Challenges locating enough cash in country has led to delays. Branch closures across the country limit the service to a few urban areas.
- **Money Service Businesses** (MSBs, such as the UK's Ariana Exchange):[5] Regulated exchange houses – often run from grocery stores or mobile phone shops – located in countries like the UK are being used by some NGOs to transfer funds (often with crossover with *hawala*, described below). Limits restrict transfer of large amounts and channels also suffer from capacity problems (only available to some NGOs) and the same problems of liquidity and withdrawal limits in Afghanistan. As not all MSBs pass NGO and banks due diligence checks, these channels are beset by risks of over-loading the few remaining channels and pushing/ pricing out smaller L/NNGOs.
- NGOs have been forced to turn, in large part, to informal value transfer systems (IVTS),[6] such as ***hawala***, widely seen as the most viable – and sometimes only – legal and legitimate option for most NGOs to send money into, and around, Afghanistan (and access to physical bank notes). In spite of longstanding use in the country spanning over 20 years, not all NGOs still count on trusted networks, particularly those able transfer funds into the country. Others have struggled to access *hawaladars* (also referred to as money service providers [MSPs], foreign exchange dealers [FXDs], money exchangers or *sarafs*/*sarafis*) due to increased competition since August. The capacity of *hawala* dealers has reportedly been curtailed by the liquidity crisis, decline in trade and lack of access to physical bank notes. Financial sector de-risking has blocked some NGOs' electronic bank payments to *hawala* agents in third countries due to ongoing reluctance among some donors and confusion over permissible use of intermediaries in third countries (as legal frameworks and regulation on *hawala* varies country-by-country). A sharp increase in transfer fees is pushing out less well-funded NGOs and has disproportionately and negatively affected L/NNGOs
- **UN Humanitarian Financial Corridor:** Recently agreed financing channels may help address some liquidity concerns and provide access to cash to humanitarian organisations, but are not intended to represent long-term solutions. They can be subject to problems relating to finding insurance, the lack of a functioning central bank and high fees. Concerns prevail that it will only benefit UN agencies (and some larger INGOs), leaving smaller L/NNGOs behind. It is also subject to major scalability concerns (it will unlikely be able to replace the Da Afghanistan Bank

(DAB) USD-Afghani [AFN] auctions which were formerly in excess of USD 45 million/ week).[7]

- **The UN Humanitarian Exchange Facility & other currency swaps:** Various models are underway (by the UN, other international organisations, NGOs and businesses) to allow for physical cash in the local currency to be released in Afghanistan for use in humanitarian operations in return for electronic settlement into a bank account, often outside the country. Questions remain over the sustainability and absorption capacity of available swaps, fears over continued capital flight, as well as risks of multiple swaps underway at the same time.
- **Mobile money platforms & other digital payment platforms:** Digital payment platforms represent an important potential means for NGOs to transfer funds to beneficiaries in a way that avoids the need for access to physical bank notes. There are currently four established mobile money platforms in operation, with a number of related digital platforms starting to launch, or planning to upscale, in the coming months. Some have started transferring funds to beneficiaries for NGOs and the UN, including salary payments. Cultural opposition, unreliable digital infrastructure and a lack of a wider digital ecosystem in Afghanistan is thought to have hindered greater uptake to date, but user registrations have been rising exponentially and internet access has reportedly improved since resumption of power by Taliban (albeit from a low baseline). Gendered access is a key concern among NGOs, but some platforms propose solutions to ensure women and young children directly receive humanitarian funds. Access to physical cash is still constrained by availability via banks or *hawala*. In the longer term, NGO support of digital payment platforms may support a wider shift to digital banking, with benefits for broader financial inclusion, stability, accountability and transparency. Such a move necessitates major international resourcing and support as well as functioning central bank oversight.

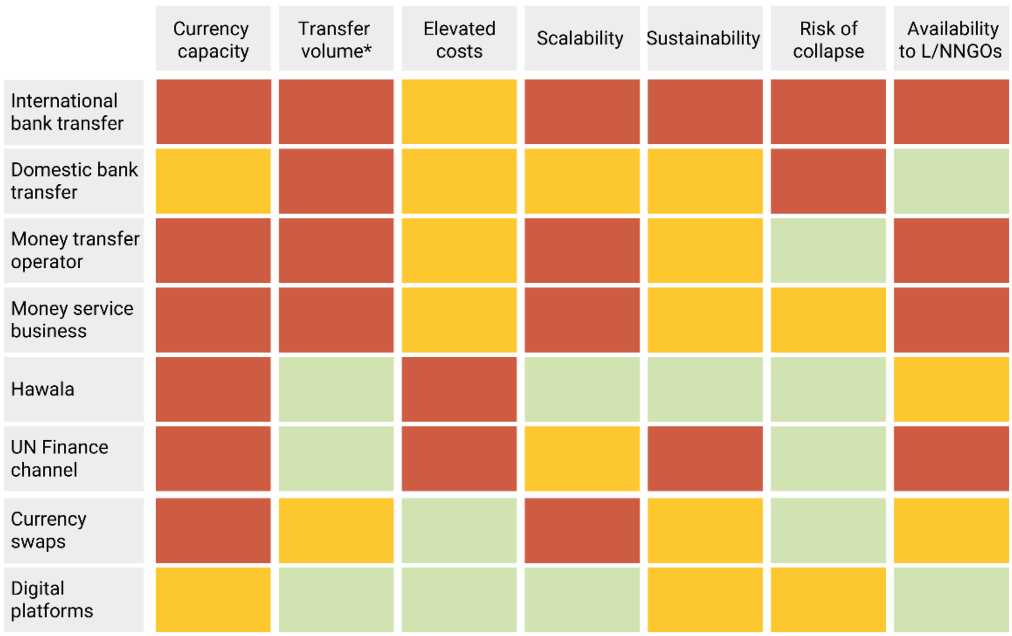
Key recommendations

- All channels should be protected and expanded, where possible, with high-level international and domestic political backing, alongside urgent steps to stabilise and safeguard the formal Afghan banking sector, reduce de-risking and support the resumption of trade, including in essential goods. All channels should be made fully accessible to the range of frontline humanitarian relief providers, to include L/N/INGOs.
- The US Treasury and other authorities should agree ways to allow for continued electronic dollar deposits from humanitarian agencies to be used to purchase USD bank notes outside the country and transport them, potentially under the UN's responsibility (including in relation to monitoring, logistics, security and insurance), for deposit in private banks in Kabul in a scaled-up manner available to a broad range of NGOs. It is also important to ensure that costs are reasonable, and risks are shared.
- The Afghan central bank must be provided with sufficient support to resume its key functions. This should include the purchase and circulation of bank notes, with appropriate safeguards in place. If the circumstances make this insurmountable, then given the urgency of the situation, a private entity could be

used as a strictly interim substitute, along with measures to avoid longer term fragmentation of economic policy and the banking sector. However, this should not undermine efforts to see the central bank resume its full functions in the near future.

- Sanctions guidance should be clear, concise and aligned between regulators (such as the US Treasury's Office of Foreign Assets Control [OFAC] and the UK Government's Office of Financial Sanctions Implementation [OFSI]). This should include explicit (public and private) policy guidance on the scope and intention of sanctions, alongside the full use of the UN humanitarian exception and the US' general licences.
- Governments and the UN should continue to provide sufficient assurance to banks and NGOs so that a full spectrum of humanitarian (and wider development) activities can be financed appropriately and in a timely manner (including in the form of physical cash) under existing sanctions and CT frameworks.
- NGOs should explore options for collective action, joint policy positions and evidence-based research across a range of areas, including in relation to costs; common standards across all humanitarian remittance channels, and piloting of digital payment platforms in humanitarian operations. They could also consider common operational impacts analysis that demonstrates consequences on humanitarian operations of insufficient financial access.
- Such steps should be taken alongside wider macro-economic efforts to stabilise the Afghan economic and banking sector, including the unlocking of private sector assets held by the US and other Governments.

Key risks and challenges of each humanitarian funding channel



* Low = up to USD 199,000/transfer; Medium = between USD 200,000—1 million/transfer; High = over USD 1 million/transfer.

Highest risk/ difficulty

Medium risk/ difficulty

Lowest risk/ difficulty

Photo: Jim Huylebroek/NRC. A pickup truck filled with Afghans leaving for neighbouring Iran makes its way through the unforgiving landscape of Nimruz.

1 Introduction

Remitting funds into, and within, Afghanistan has become a major challenge for humanitarian organisations since the Taliban's return of power on 15 August 2021. A complex set of international and domestic factors have prevented, or severely curtailed, the ability of NGOs and INGOs to access physical cash and liquidity in the country, hindering their ability to respond at an appropriate scale and speed to urgent, and mounting, humanitarian needs. Key drivers include:

1. **Suspension of over USD 8 billion per year of financial and development assistance** by international organisations and governments, formerly accounting for some 43% of Afghanistan's gross domestic product (GDP) and responsible for the financing of some 75% of public spending (ICG, 2021).[8] This has resulted in a lack of liquidity to pay for civil servant salaries[9] and government services,[10] and policy decisions not to channel any funds via government bodies; significant in a country that has been heavily dependent on external aid since 2001.[11]
2. **Paralysis of the Afghan Central Bank** (Da Afghanistan Bank or DAB) and all its functions.[12] Caused in part by the US and other governments' freeze on over USD 10.5 billion of Afghan Government reserves held in the US and other overseas accounts (with USD 9 billion of DAB funds held in the Federal Reserve Bank of New York),[13] alongside sanctions and a reported lack of macroeconomic capacity and expertise within the Taliban. DAB has been unable to process payments or purchase the local currency (Afghanis or AFN) and USD bank notes and is not providing trade financing facilities and deposit/ credit guarantees. Another consequence has been a lack of clarity on areas such as monetary policy and commission rates, among other regulatory matters.
3. **Capital controls** introduced by the new Taliban Government in an attempt to curb inflation, stabilise the economy and prevent a banking sector collapse. This has included a (patchily implemented) ban on the use of foreign currencies on billable activities (such as buying and selling goods or services, as well as retail and rent; albeit with limited evidence of it having been implemented);[14] controls over withdrawal limits by individuals as well as by companies and NGOs,[15] and a requirement to only make cash withdrawals in the local currency.
4. **US and UN sanctions**: US General Licences (GLs) 14-19[16] and the UN Security Council (UNSC) 1988 safeguards under UNSCR 2615[17] have been welcomed by the NGO community and banks, given earlier confusion over their scope. There had also been concern over impacts that US and UN sanctions (in place before the Taliban assumed power of the Afghan Government) could have on humanitarian action (particularly in relation to questions of Taliban *control* of state institutions).[18] Nevertheless, sanctions are considered to contribute to a range of other drivers that impact negatively on the flow of humanitarian funds into the country (and access to physical cash therein), such as financial sector overcompliance and de-risking; a reduction in available correspondent banking relations (CBRs);[19] donor reluctance (including more restrictive donor clauses),[20] and a rise in more time-consuming and costly bureaucracy.[21]

5. **Barriers preventing access to bank notes** has been fuelled by a halt in the delivery of USD to the country and a halt in the printing of AFN. [22] The result has been that the quantity (and quality) of bank notes is severely limited and will continue to decline over time. The country is also thought by some to be suffering from a "liquidity trap" (Byrd, 2021), whereby there has been major capital flight of foreign and local currencies out of Afghanistan (to Pakistan, in particular, and to fund human flight), alongside widespread hoarding of physical cash (especially foreign currencies) by ordinary Afghans as well as among the business community. [23] The situation is exacerbated through inadequate domestic economic controls and a current lack of banking guarantees to safeguard savings in banks. Some have reported that of AFN 4 billion remaining in country, only some AFN 0.5 billion is currently in circulation.

Afghanistan now faces an acute liquidity crisis; a struggling banking sector at risk of collapse (with local banks facing runs on deposits and widespread bank branch closures), and a barely functioning economy (including major limits to the trade in essential goods, such as food and medicines). [24] Unable to pay staff salaries and operational costs, many public and private banks' branches have closed across the country, further limiting cash withdrawals to NGOs as well as to ordinary Afghans. The situation has hit Afghanistan particularly hard, in light of its profound reliance on humanitarian and development funding as well its heavily dollarised economy and dependence on US bank notes. The country was already reeling from widespread poverty, drought, conflict (and associated damage of vital infrastructure, including hospitals), COVID-19 and corruption, [25] as well as an already fragile banking system.

As the UN warns of a humanitarian catastrophe in the country (with the UN Development Programme [UNDP] projecting 97% poverty in June 2022 under the current trajectory), Afghan banks are not only insolvent, but also going bankrupt. The country faces a balance of payments crisis. An unprecedented 30-40% of the country's GDP has been wiped out in a matter of months. An Afghan banking sector collapse is described as "likely" by UN interlocutors and would entail the loss of any remaining savings of ordinary Afghans. In the words of one UN expert, "no modern economy has ever faced such an abrupt shock" (ICG, 2021). Afghanistan now suffers from soaring inflation (at some 30%); currency devaluation; [26] crippling unemployment; reduced household purchasing power; mass school closures and some 700,000 unpaid civil servants. As outlined by the UN Office for the Coordination of Humanitarian Affairs (OCHA) in the 2022 Humanitarian Response Plan for Afghanistan, almost 23 million people in Afghanistan are facing acute hunger, including 8.7 million people at emergency levels. All 34 provinces of the country are facing crisis or emergency levels of acute food insecurity. Severe, childhood malnutrition is also widespread. The collapse of basic health systems in the country services would leave 1.1 million acutely malnourished children under the age of five years without access to treatment services. The humanitarian community warn that up to 131,000 children could die in 2022 if no action is taken.

In the midst of these mounting, multiple crises, humanitarian operations have suffered, which is ultimately impacting on vulnerable Afghans in need. While some NGOs have been able to make use of funds held in domestic bank accounts to pay staff (where access to physical cash was possible), many of these funds have now been exhausted. Other NGOs have been unable to pay staff in country; leading to significant welfare concerns. [27] Some NGOs have reported that their projects are now "in hibernation" or only operating on a basic footing (at least for the time being) owing to lack of access to cash. NGOs have also struggled to convert repurposed development funding into cash in-country to support humanitarian needs (which donors have been slow in approving). The rapidly changing situation has made the planning and execution of humanitarian funding cycles a complicated and costly exercise, where cash remains (at present) the only realistic humanitarian programming modality.

Structure

After describing the methods employed in this report, the scope of its focus and research constraints encountered, it proceeds to outline financial services and alternative financing mechanisms that remain available to NGOs in remitting funds into, and around, Afghanistan as well as accessing cash for humanitarian operations in-country. It covers Afghanistan's public and private banks; MTOs; MSBs; *hawala* and digital financial service providers, including mobile money operators. It also explores, and rules out, options that might be used in other "high-risk" jurisdictions by NGOs, such as post offices. It also describes initiatives designed to inject new supplies of cash into Afghanistan (in particular, the UN financing channel) or release liquidity and physical bank notes through international and domestic currency swap mechanisms. For each category of financing channel, the report outlines associated challenges in relation to absorption capacity, costs, sustainability and safety and provides case studies detailing NGO use of each option. It concludes with a series of recommendations geared to different stakeholders.

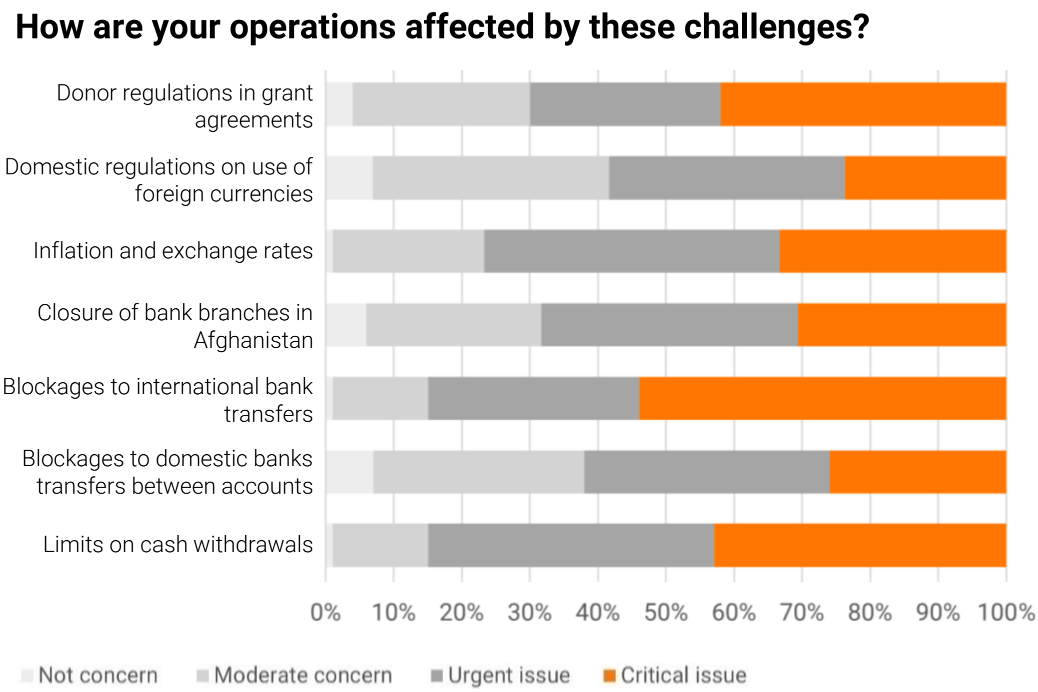
Methods/scope

Evidence-based research for this report was carried out between 1 November 2021 and 10 January 2022. It was commissioned by NRC, with funding from the Swiss FDFA. It draws on a poll of almost 80 NGO representatives (described below) and a series of 26 semi-structured interviews and informal consultations with representatives of NGOs; banks; members of banking associations; international MTOs, UK-based MSBs, *hawala* and remittance specialists, digital FSPs and UN/ US/ UK/ European Union (EU)U member states (serving and former) officials working on Afghanistan. [28] Much of the information contained in the report has been anonymised, respecting the wish of interviewees. In other cases, details have been left out due to security concerns. [29]

Preliminary results from the research were presented to a group of 174 NGO representatives, organised and hosted through a workshop entitled "NGO access to financial services in Afghanistan: A matter of life and death" organised by NRC, with support from Professionals in Humanitarian Assistance and Protection (PHAP), on 16 December 2021. [30] A set of two polls was conducted during the event, covering specific challenges faced by NGOs in remitting funds into, and around, Afghanistan, as well as in accessing cash for humanitarian operations. [31] In spite of a final review process of the report that counted on input from over 12 expert and practitioners, some inaccuracies or out-of-date information may remain (for which the author assumes sole responsibility).

2 Overview of financial access challenges

NGOs have faced a series of challenges in financing humanitarian operations in Afghanistan since mid-August 2021. In the online poll completed by 72 NGOs on 16 December 2021, the first question explored NGO obstacles relating to financial access in Afghanistan operations (Graph 1).

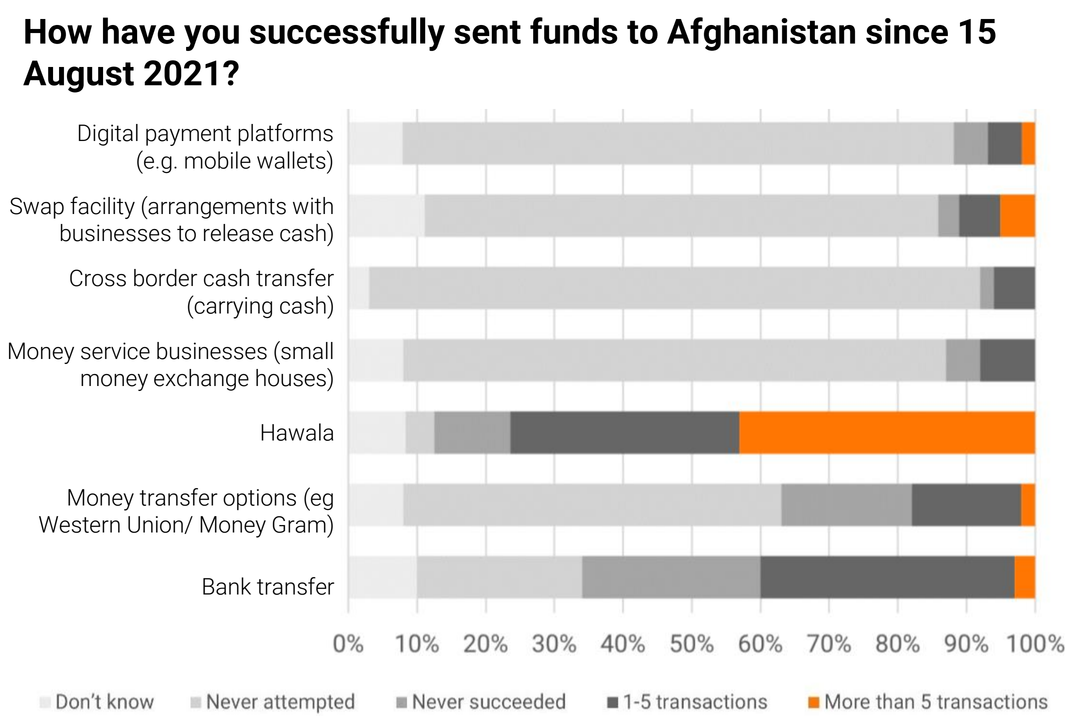


Graph 1: Poll results on NGO challenges in Afghanistan that pose risks to humanitarian operations between 15 August to 16 December 2021 (taken from 16 December 2021 workshop).

The top two concerns, both ranked at 85% (as urgent or critical issues), were linked to bank de-risking and limits to cash withdrawals. In parallel, other major concerns included inflation and exchange rate effects (76%); donor regulations and restrictions in grant agreements (70%); bank closures (69%); blockages to domestic electronic bank transfers between accounts (62%), and domestic regulations on use of foreign currencies (59%). These results confirmed that the research findings stemming from consultations for this report reflect the widespread concerns of the NGO sector. Further detail on barriers to remitting humanitarian funds into and around Afghanistan are explored in the next section, according to different categories of financing channels.

3 Options for remitting humanitarian funds into Afghanistan

This section details formal and informal financing channels that remain available to humanitarian organisations to transfer funds into Afghanistan since the Taliban assumed power in mid-August 2021. In each case, details are provided (where available through desk research and consultations) on challenges such as domestic, regional and international legal frameworks; liquidity and access to physical bank notes; transport and security; financial sector de-risking; currency exchange rates and costs/ fees. In the online poll completed by 62 NGOs on 16 December 2021, results suggest that NGO access to physical cash in Afghanistan for use in humanitarian programming has been severely limited through challenges faced by all remittance channels, including via regulated financial services as well as alternative transfer mechanisms (Graph 2).



Graph 2: Poll results on NGO experience transferring funds to Afghanistan between 15 August-16 December 2021 (from 16 December 2021 workshop)

Poll results suggest that *hawala* has enjoyed a reasonable success rate (though still at low levels) while some NGOs admit to having had to resort to carrying physical cash to Afghanistan. The graph also suggests that formal channels have been almost entirely out of bounds. It suggests that NGOs have had no choice but to rely on less formal channels to deliver aid because the formal payments system is almost entirely blocked. These findings were further corroborated through desk- and interview-based research, detailed below.

3.1 Formal banking options

3.1.1 Afghanistan's banking sector (general)

Afghanistan's banking system was already in a rudimentary state and mired by corruption before the Taliban resumed power in August 2021 (Transparency International, 2021; World Bank, 2018), with banking networks described in 2018 as "very limited" by the World Bank (*ibid*, 2018: 5). An International Rescue committee (IRC) report notes that as of 2019, Afghanistan counted on 410 bank branches in the country and 356 cash dispensers (ATMs) that were all restricted to city centres (Sahak & Choudhury, 2021). They are concentrated in the three largest urban conurbations of Kabul, Herat and Mazar-Sharif, accounting for "two- thirds of their branch network and essentially the totality of their lending operation" (World Bank, 2018: 5). This is due to a combination of factors, including decades of conflict and instability; the earlier era of Communist rule (between 1978-1992); fierce competition with MSPs (*hawaladars*), and widespread poverty across the country (Choudhury, 2021A).

Afghanistan: A cash-based economy

Cultural preferences and historical circumstances also mean that there are low levels of banking use among the general Afghan population. Only some 10% of Afghanistan's pre-crisis population are understood to have access to a bank account, falling to under 4% for Afghan women (World Bank, 2018). Some assess these figures to be even lower today, since banking use has dwindled the start of the current crisis.

Other than DAB (created in 1939), [32] Afghanistan counts on 12 regulated banks, composed of three public (state-owned) banks (accounting for almost 27% of market share as of December 2020), seven private banks (68% of market share; three of which are branches of international conglomerates) and two Pakistani banks (just under 6% of market share). [33] Arian Bank is also reportedly operating in the country, [34] but without a licence. Afghanistan's banks must adhere to the Afghanistan Banking Law, passed in 2003 and again in 2015 (Sahak & Choudhury, 2021). In addition, Islamic banks are obliged to observe a number of additional regulations, including the Regulations on Licensing to Islamic Bank/Window (n.d.) and Regulation on Islamic Banking Liquidity Risk Management (*ibid.*, 2021). The main difference between public and private banks is that the former count only on the Afghan Government as a single shareholder, whereas the latter have private shareholders (*ibid*., 2021).

Since the Taliban resumed power, liquidity of all currencies has been very low in banks of all ownerships. Branches from all categories of banks have closed or restricted services across the country. Human flight has also reduced the numbers of qualified staff across the country's banking sector, including in DAB. Only certain Afghan banks have relationships with international correspondent banks, allowing them to receive international wire transfers. Given this, and the range of constraints in place, limited wire transfers are only available at present among a small number of banks, subject to DAB approval.

Afghanistan's banking sector

Private state-owned banks (other than DAB)	Private banks	Pakistani commercial banks
Bank-e-Millie Pashtany bank New Kabul bank	Azizi Bank Ghazanfar Bank Afghan United Bank (AUB) Afghanistan International Bank (AIB) Islamic Bank of Afghanistan Maiwand Bank First Micro Finance Bank	Bank Alfalah Ltd National Bank of Pakistan

3.1.2 Regulated public banks

DAB is a National Public Bank managed by the Afghan Government. Prior to the crisis, all public and private banks' assets and liquidity were maintained in DAB while individuals, companies and other entities could also bank there. It set daily exchange rates (for AFN) against other foreign currencies and provided cash to all public and private banks on a daily basis for their financial transactions with their account holders. DAB determines cash withdrawal limits from any bank accounts held in the country. Afghan banks are not yet interoperable (in other words, ATM users can only withdraw cash from their own banks), in spite of efforts to improve the service, under the Afghan Payment System initiative (Sahak & Choudhury, 2021). DAB also manages and monitors activities of public and commercial bank and *hawaladars* across the country. The country's three public banks had an outsized role in the payroll of civil servants, the military and healthcare workers, prior to August 2021.

Significance

Regulated public banks are not considered a viable option for NGOs' receipt of international fund transfers or access to physical cash in light of major liquidity challenges, capital controls, lack of access to hard cash and compliance concerns of donor and international banks.

3.1.3 Regulated private banks

Consultations conducted for this report suggest that private banks in Afghanistan face a series of serious limitations that are similar to public banks, in addition to a worsening decline in correspondent banking options via international banks and rejections of transactions in USD (and other major currencies) by correspondent banks more generally. This means that NGOs have found it difficult to remit funds into the country via such channels and have also struggled to access physical cash held in their accounts in private Afghan banks. Afghan banks consulted for this report highlighted the need for some of the private banks' frozen funds overseas to be released and for them to be re-injected into the Afghan banking system.

International banks consulted for this report noted that most NGOs did not try to transfer funds via formal banking channels into Afghanistan the early stages of the crisis, due to difficulties accessing funds already in accounts in the country in light of bank branch closures, banks lacking liquidity and cash withdrawal restrictions. Furthermore, most Afghan banks closed their doors for the two weeks following the Taliban's return to power (Sahak & Choudhury, 2021). Instead, NGOs switched entirely to *hawala* at this time, only revisiting banking options from November 2021, following the slight easing of restrictions on withdrawal limits.

According to one financial service specialist interviewed for this report, certain major international banks are reportedly employing up to 50 staff members for any one transaction to Afghanistan. This represents a redeployment of significant internal resources to support due diligence for Afghanistan-related transactions. Consulted banks said that the current situation cannot be sustained. Another constraint relates to costs. Many banks are increasingly taking the decision not to work in, or in connection with, Afghanistan for commercial reasons as the excessive costs and resources are not worth their while. It remains unclear how the UNSC exemption might ease this pressure, particularly as a great deal of "de-risking" regarding Afghanistan appears to be linked to ongoing US compliance concerns.

NGOs also described a steep increase in bureaucracy in order to process payments to Afghanistan. Consulted NGOs reported new requirements from European banks to fill in pre-payment forms (of the kind first brought in for Syria, Sudan, Myanmar, Iran and North Korea) in addition to other due diligence requirements. As part of this process, NGOs are required by some banks to notify them of any involvement of Afghan state entities or officials for each payment. This has led some banks to refuse to service transactions for some smaller NGOs due to the time required to "onboard" them (or take them on as new clients) and capacity limits to approve individual transactions for more than only a handful of NGOs.

More widely, banking sector de-risking is negatively impacting international payment routings to Afghan banks, according to most interviewees, particularly for those with any exposure to US markets. One UN interlocutor described the transfer of electronic funds into Afghanistan through the banking system as "an extremely onerous and time-consuming process". The same official said that transferring amounts that enter into the billions of USD over time (as required to meet humanitarian needs) "will not be possible", unless new mechanisms, with appropriate political backing, are launched imminently. One INGO described how initial payments were rejected in the months following the Taliban takeover (routed via the INGOs' UK bank, via the UK bank's US branch, then to Citibank in the US [the correspondent], then on to AIB).

Implications of de-risking also include the following for NGO fund transfers:

1. SWIFT, the global provider of secure financial messaging services, was largely unavailable (at the time of writing) in relation to Afghanistan-related transfers, in light of concerns over questions of control under US sanctions.
2. StoneX (a corporate bank that serves as a foreign exchange broker to connect clients – including NGOs, companies, traders and investors – which counts on direct legacy links to central banks and other banks in Afghanistan and other "high risk" jurisdictions in the world) was blocking transactions to Afghanistan due to the US exposure of the company and the "very risk averse stance" of its main bank, Bank of America. International banks consulted for this report stated that StoneX had told its banking clients and customers that they were "waiting for clarity on US and UN sanctions" before resuming services to Afghanistan. [35]
3. A number of banks with US exposure, including Standard Chartered, Deutsche Bank, Citibank and Bank of America, were "stepping back, seeing what happens and waiting for further guidance", according to one consultation (though recent moves have made the use of Citibank available to some NGO clients, detailed below). One interviewee whose organisation banked with a leading US financial institution said they had been repeatedly asked to complete new know your customer (KYC) forms relating to Afghanistan, even for transactions that were executed prior to August 2021. They feared that their account would be shut down as a consequence of these checks if they sought to execute a payment to Afghanistan (simply due to the connection to the country, irrelevant of the type of payment in question or parties involved).

On a more positive note, Afghan banks were showing a great deal of willingness to serve NGO clients. On 20 November 2021, the Afghan Ministry of Finance issued a statement regarding the importance of working with humanitarian actors. In addition, AIB reportedly signalled that limits to bank withdrawals would not be applied to new customers (Sahak & Choudhury, 2021).

Photo: Jim Huylebroek/NRC. Children play in the streets of Takhali Khana, an area of Maimana, Faryab, in northern Afghanistan, mainly inhabited by IDPs.

Case study: Use of Afghanistan International Bank (AIB) and Azizi Bank

AIB, widely considered the most reputable and dependable bank in Afghanistan (seen as a tier down from the Central Bank), is the main bank still being used by NGOs operating in Afghanistan for incoming transfers. AIB has a longstanding relationship with UN agencies and foreign embassies. International banks report an excellent working relationship with the bank's leadership, including since the transition to the new Afghan Government. Some NGOs also mentioned accounts held with other banks in Afghanistan, including Maiwand Bank, Bank Alfalah and AUB but none reported having successfully transferred funds to these banks at the time of writing. On the other hand, a number of INGOs and UN agencies confirmed they had been able to put through electronic transfers to Azizi Bank towards the end of 2021, allowing them to access limited amounts of cash.

Taking the example of UK banks, there have been two main ways that they have been able to execute a (highly limited) number of payments into Afghanistan on behalf of NGO clients. One is electronic fund transfers from an NGO account in a UK bank, that uses the UK's Crown Agent Bank (CAB) as a correspondent, through to AIB. The other option is for NGOs to bank directly with CAB and for CAB to then transfer these funds on to AIB (possible as CAB shares a direct banking relationship with AIB). CAB can credit a client account that already banks with AIB, allowing NGOs to then withdraw cash in the confines of the capital controls in place or for an inter-account book transfer to be used to M-Paisa or another mobile money operator that also banks with AIB. One large INGO relayed that, by January 2022, they have been able to transfer over USD 10 million through this route, with each transaction entering into the USD millions.

In late 2021, a new banking channel started operating using Citibank as the correspondent. Only a small number of INGOs were able to use this service, according to one consultation. Requirements were that the NGO must be on Citibank's NGO "white list" and must have a US Citibank bank account.

The vast majority of NGOs consulted for this report stated that all their attempts to send bank transfers to Afghanistan had been blocked by correspondent banks (other than via the CAB route, described above). Earlier attempts were rejected without any reasons offered from the correspondent banks (including German, UK and US banks, in these instances, citing "internal policies"; a term understood by NGOs as a euphemism for sanctions over-compliance) but some later attempts made it through. Another NGO confirmed AIB was receiving international transfers, mostly via Turkey, but that the transfers had been subject to increased transaction rates. One UK bank was also able to remit funds to Azizi Bank using a correspondent bank in Central Asia, according to one interviewee.

Transfer flow: Use of Afghanistan International Bank (AIB) and Azizi Bank

Challenges

- *Absorption capacity:* Branches of private banks that remain open are fast running out of cash and most ATMs are empty. DAB has sought to transfer funds to private banks to improve liquidity, to little effect. Widespread branch closures have taken place due to lack of liquidity. Private banks must also observe the same cash withdrawal limits as described above, which are set by DAB. Even if the restrictions were removed, the lack of bank notes in the banking system would remain a problem due to the absence of a functioning central bank or an alternative institution licenced (and with available funds) to purchase US or Afghani currency notes.
- *Cost:* Conversion rates are far higher than usual, according to some.
- *Sustainability:* Steep increases in due diligence requirements mean that international banks will not be able to process many payments and smaller L/NNGOs will not be retained as clients.
- *Safety:* Banks in Afghanistan that remain open are subject to long queues, overcrowding and mounting tensions. This poses a range of security risks, particularly for NGO employees exiting banks with large quantities of bank notes. [36]

Significance

Whether it is USD or AFN, the liquidity is minimal in private banks. Each transaction is now considered on a case-by-case basis, with many facing considerable delays and unexplained rejections (especially of USD payments routed via US banks). A very limited number of international banking routings represents a major risk in terms of sustainability. Only a small number of new clients wishing to remit funds to Afghanistan can be onboarded by international banks, to the exclusion of smaller L/NNGOs. De-risking among correspondent banks was already dire and is expected to worsen.

3.2 Regulated postal services

Post offices are sometimes efficient ways to remit funds across borders. Their outlets are typically dispersed throughout an entire country, including in hard-to-reach areas, whereas banks may be more concentrated in urban areas, as is the case in Afghanistan. The national postal organisation of Afghanistan, Afghan Post, has over 400 offices in all provinces of the country [37] and was "partially digitalised" in 2019, formerly allowing for online bank payments (Shah Omid, 2019). In 2008, efforts were underway by the Afghan Government, with support from the International Telecommunications Union (ITU), Universal Postal Union (UPU) and Government of India to allow Afghan Post to accept international electronic money transfers (ITU, 2008). Nevertheless, one former UN official interviewee familiar with Afghanistan's postal services, explained that while Afghanistan is a member of the UPU, it is not a signatory, meaning that it does not belong to the inter-governmental accord concerning postal payment services (the IUPU). This signifies that Afghanistan is not part of the global exchange network allowing for electronic postal transactions of the UPU.

Significance

The regulated postal service is not a viable option at present but might become one in the future if Afghan Post expands it money transfer services on an international scale through signature of relevant accords and if questions of ownership and control are not deemed prohibitive. Such a move would not solve the current liquidity issue or provide increased levels of access to hard cash, however.

3.3 Regulated money transfer operators (MTOs)

In the run-up to the August 2021 crisis, Afghanistan counted on the presence of at least four MTOs: Western Union, Moneygram,[38] Transfer Galaxy[39] and Small World Financial Services.[40] They all ceased offering services at the onset of the crisis (Wall Street Journal, 2021), with the former two resuming some operations in September 2021 – especially for personal[41] and retail services. Few MTO services are available to NGOs at the current time, due to a combination of constraints, which include limited access to physical bank notes in Afghanistan and over-compliance.

Case study: NGO use of a leading MTO (Western Union)

Western Union (WU) 42 has been able to facilitate some business-to-business (B2B) and business-to-customer (B2C) transactions into Afghanistan, albeit on an infrequent and case-by-case basis. At the start of the crisis, WU was hard hit by domestic restrictions over USD withdrawals as this had been the only payment option for the company at the time, leading to suspension of operations. It took up to eight weeks to launch the new mechanism to allow for cash dispersal in AFN. WU counts on seven partners in Afghanistan for consumer payments, with Azizi Bank as the primary partner (counting on the broadest footprint across the country) and others including Bank-e-Millie, New Kabul Bank and Maiwand Bank. The former two (both public banks) stopped B2C services for Western Union Business Solutions (WUBS) since the crisis but they reportedly kept servicing consumer payments for WU Retail. Azizi Bank continues to provide a service to WU in the country, while communication channels with Maiwand Bank were more limited, hindering attempts to pay through this channel. At least one sizeable transfer has gone through WU (using Azizi Bank) on behalf of a major INGO since October 2021. Azizi Bank had also confirmed to WU in October 2021 that they could service withdrawals over the AFN 30,000 limit (per person per week) as the AFN 20,000 limit reportedly related to the consumer network, according to communications from DAB.

WUBS (distinct from the individual and retail platforms offered by WU) is the part of the company traditionally used by NGOs to remit foreign currencies into the country; with many NGOs holding accounts with WUBS. Some smaller NGOs reported they had been unable to access WUBS' services since the start of the crisis (even if they were already onboarded with the company). For those unable to access WUBS, some also believed they were unable to make use of the other WU platforms due to various internal restrictions (use of the Consumer network for NGO activity is generally not encouraged by WU, yet it can be used for smaller NGO with an annual cap of some USD 20,000 on cash payments). On the other hand, one bank said that NGOs should be in a position to make use of these facilities if registered in the UK (alongside a limited number of other jurisdictions, including the US, Canada and Switzerland), suggesting some level of confusion among the NGO community over what services are currently available and to whom. WU, for its part, confirmed that the current solution in Afghanistan revolves around retail financing or B2C transactions. Its ability to put through B2B transactions was described as an "incredibly rare" occurrence by one bank. This was due, in large part, to bank account withdrawal restrictions. The low levels of these types of payments are most likely down to a lack of demand, rather than compliance or routing issues, according to one interviewee.

Between September and December 2021, for each transaction, WUBS had to consult the WU US compliance team, then Azizi Bank (regarding details on the location and pick up), then on-the-ground agents to ascertain who can service the transactions through access to sufficient cash reserves. Since 23 December 2021, WU had been able to facilitate over 100 cash payments via the B2C facility, through collaboration with Azizi Bank, totaling over Great British Pounds (GBP) 40,000 in local currency for both staff payroll and supplier payment purposes. Pickups have been made successfully in the localities of Kunduz, Sar E Pol, Faryab, Jowzjan, Puli Khumri, Mazar E Sharif and Kabul. One sole location in Kunduz catered for over 50 payments alone, totalling over AFN 3,000,000. The largest single payment through these channels was the AFN equivalent of GBP 3,700. Almost 60% of the total payment figure was collected on or after 01 January 2022. Since late December 2021, WU began cross-referencing data from their systems regarding the locality of successful pickups against the Azizi agent location lists (83 sites in total). WU has also recently been able to identify a potential 50 sites across Afghanistan which may have sufficient liquidity and be able to service transactions, based on the collection data analysed since 23 December 2021.

Transfer flow: MTO

Challenges

- *Absorption capacity:* Many MTO outlets have been forced to close due to liquidity problems since August 2021 due to an inability to settle funds with local remittance agents, in turn due to lack of cash reserves. Services are now largely limited to a handful of locations in Kabul with weekly limits. [43] Elsewhere, WU is reportedly no longer operating as the banks cannot service the transactions. In Kabul, there are long queues to receive funds from offices, coupled with limits on cash withdrawals. Some improvements had been noted since collaboration with Azizi Bank was stepped up in late 2021, however.
- *Cost:* Losses are incurred through the need to use non-mainstream currencies in the transfers (to avoid problems associated with de-risking), which can carry higher fees when exchanged.
- *Sustainability:* WU highlighted problems with liquidity as the main challenge in limiting current NGO transfers, particularly as it has become extremely time consuming to work out who has liquidity in-country and to process each transaction. [44]

Significance

MTOs face a major challenge in upscaling transactions for INGOs. Each transaction is being assessed on case-by-case basis. Smaller L/NNGOs are very unlikely to be serviced due to increased compliance and logistical burdens.

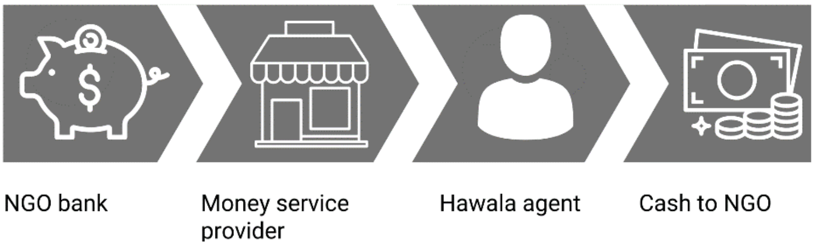
3.4 Regulated money service businesses (MSBs)

MSBs are another regulated way of sending money to Afghanistan and one that is frequently favoured by Diaspora communities to send household remittances to friends and family in their home countries (Annex 2). There is considerable crossover with *hawala* in some MSBs' operating models (in fact, some *hawaladars* in Afghanistan can be considered MSBs or MSPs depending on how they are registered with the authorities). A number of MSBs exist in the UK and elsewhere around the world that are able to remit funds to Afghanistan, though some have not made it past due diligence checks of banks.[45] NGOs also demonstrated differing levels of risk appetite regarding different MSBs, particularly as there was not always full transparency on the entire payment chain.[46]

Case study: UK NGO use of UK MSB, Ariana Exchange

In the UK, Ariana Exchange,[47] is currently being explored and/ or used as an option for remitting funds to Afghanistan by a number of NGOs.[48] One smaller UK-based NGO said they had been able to send several transactions through this channel, with the support of their UK bank. There did not seem to be limits imposed on NGOs using the service, but they had been asked not to put through amounts exceeding GBP 100,000 in one go (representing a small amount compared to required volumes and in light of the risk and process burden involved). Initial payments were slow in light of detailed questioning from banks, but subsequent payments had become more straightforward.

Transfer flow: Hawala agent



Challenges

- *Absorption capacity:* Some NGOs raised concerns that MSBs would not be able to deal with the increased demand. Permitted volumes were also insufficient to meet the programming needs of NGOs operating in the country.

- *Cost:* Some NGOs raised concern over mounting rates among MSBs, that currently sat at around 6-7%.
- *Sustainability:* NGOs also reported that some MSBs have become extremely risk averse (representing over-compliance in the sector).

Significance

MSBs are the only an option to a limited number of INGOs and not for large volumes at present.

3.5 Partially regulated hawala

At the current time, *hawala* is increasingly the sole transfer mechanism with sufficient liquidity capacity and access to physical cash to respond to the programmatic and operational needs of the different humanitarian organisations operating in Afghanistan.

What is hawala and how is it regulated in Afghanistan?

Hawala is a trust- and barter-based mechanism considered legal and legitimate in major donor countries, including the UK, EU and US, as well as in Afghanistan. It is defined here as:

> An informal remittance system that does not require transferors' identity verification, or detecting and reporting [of] suspicious transactions. The transfer of money is carried out through unregulated networks with no physical or electronic movement of money. The settlement takes place between two hawaladars [hawala dealers], one is the sender and the other is the receiver of the money (MENA FAFT, 2005).

The years running up to the Taliban's resumption of power saw some tentative steps taken by the Afghan Government (with input from the International Monetary Fund (IMF), World Bank, US Treasury and then-UK Department for International Development [DFID]) to formalise Afghanistan's *hawala* sector. This has required MSPs to register with DAB, in return for a business licence that allows them to operate legally in the country. They are regulated through the Regulation of the Activities of Money Exchangers and Money Service Providers (1398/2019) ("Exchanger Regulation") and can apply for two licences: the foreign exchange dealer license, allowing an exchanger to convert currencies but not engage in *hawala* transfer, and the money service provider (MSP) license, allowing for both currency conversions and *hawala* transactions (Sahak & Choudhury, 2021). They were also required to obtain a guarantee from other existing MSPs, pay licence fees and hold a deposit with DAB. Many of Afghanistan's *hawaladars* or *sarafs* can thus be considered "lightly regulated", in spite of strong pushback by the sector (which, in recent years, have included sectoral strikes and subsequent U-turns from the Afghan Government regarding tightened regulations). DAB's website lists all those *hawaladars* who have licences (which cover domestic and international transactions; including over 1560 MSPs and over 1600 foreign exchange dealer licences; albeit no longer considered up to date), along with details of any suspensions or any other problem. *Hawala* in Afghanistan makes use of encrypted messaging platforms, such as Whatsapp, to track and confirm transactions and to document domestic and international transfers.

The use of *hawala* dates back centuries in Afghanistan and has represented the preferred method for transferring funds for many over recent decades (Annex 3), including for personal/ household remittances (Thompson, 2011; Munzele Mainbo, 2003). Its widespread use elsewhere in the world has been honed over recent years by the NGO community and UN in many "high risk" jurisdictions, such as Syria. Its use has also been widespread among NGOs in recent decades, albeit beset by a range of challenges in recent months. One INGO consulted for this report said "following the fall of Kabul in August, the scope of local *hawala* networks within Afghanistan was incredibly limited. No *hawala* providers were available due to the financial constraints imposed on the banks as well as due to the liquidity crisis. The very few *hawala* providers available had high and non-negotiable commission fees and were in simultaneous high-demand by different INGOs still operating in country".

NGO history of *hawala*-use in Afghanistan

INGOs and L/NNGOs have a long history of using hawala in Afghanistan, especially since 2001 (following the end of Taliban rule), when hawala reportedly became "the only functioning financial network" available to them (Choudhury, 2021A). A "large and vibrant informal market" has thrived in Afghanistan in the following two decades in light of the destruction of formal financial services through the country's 20-year conflict (Munzele Mainbo, 2003: 1). In the early 2000s, 300 registered, MSPs (or hawaladars) were recorded in Kabul (working through a self-regulating market) and up to 2000 unregistered dealers across the country (ibid, 2003). In 2011, an estimated USD 4.6 billion left Afghanistan via hawala, a sum than exceeded the country's entire national budget (Blacklock, 2015). The US State Department estimated in 2014 that 90% of Afghanistan's financial transactions took place via hawala and that over 900 providers were operating across the country (US Department of State, 2014). In 2019, the volume of loans stemming from Sarai Shahzada (Kabul's money exchange market) was estimated to sit at around double that of commercial banks in the country. One 2017 study details the more recent use of hawala by one NGO in Afghanistan:

> Action Against Hunger (ACF), a French NGO specialised in relieving food and nutrition insecurity, also depended on Hawala for its operations in the Afghan provinces of Samangan and Daykundi, both with volatile histories of Taliban and warlord control. Despite the challenges, ACF's report notes that the Hawala system "proved to be efficient, effective and transparent. It reached those that have been selected without causing any conflict in the communities. The programme also helped reduce security risks as ACF staff did not directly handle cash. Also, using the community's traditional system provided transparency and strengthened the local trust in ACF" (Barzegar & El Karhili, 2017: 28-29).

NGOs and remittance experts consulted for this report suggested that most INGOs have made use of hawala (as a legal tool that is often of last-resort in the absence of alternatives) at one stage or another for the past two decades in order to carry out humanitarian projects, including over recent years. This has particularly been for cash distribution to vulnerable beneficiaries in remote areas where banking services are not available, or in areas that may be too difficult or dangerous to reach, such as Kandahar.

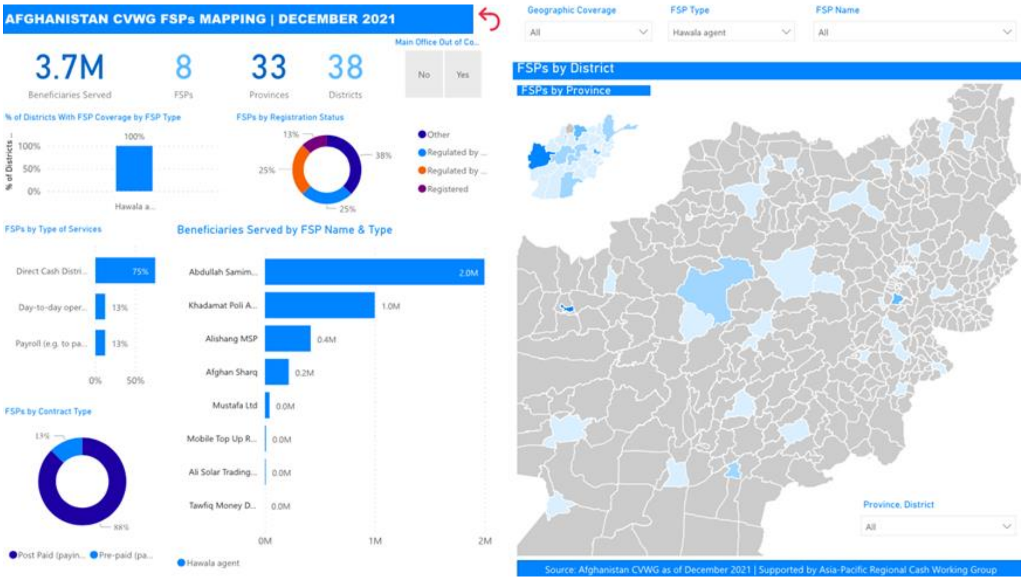
The crisis appears to have impacted the sector in a number of important ways. First, the Taliban takeover and security situation caused some MSPs to leave the country. Second, reduced investment linked to the security situation and increased political risk has hurt the private sector, including *hawaladars* (Choudhury, 2021A). Third, as the devaluation of the Afghani (linked to the asset freeze and international aid) and scarcity of USD notes (including dollar flight to Pakistan) has also impacted negatively on the economy as a whole, and MSPs indirectly. Fourth, limits placed on banks have impacted on the availability of capital required for daily transactions and wider business activities, curtailing the need for *hawala*. Fifth, *hawaladars* have been under higher-than-usual demand from humanitarian actors and from Afghan families remitting household funds to their loved ones in the country (household remittances tend to work in a countercyclical manner, increasing in times of economic stress, and vice versa).

3.5.1 Post-August 2021 use of hawala by humanitarian organisations

Interviewees claimed that the majority of humanitarian organisations in Afghanistan were already using *hawala* to transfer money within the country, particularly in remote areas, through licenced MSPs, and have continued to do so since the start of the crisis. [49] Recent use of *hawala* to remit humanitarian funds into the country was less common, however. The scale of transfers involved has depended on a number of factors, according to interviewees, including "cash needs, number of target beneficiaries and location". Some enjoy existing trusted *hawala* networks in Afghanistan and in transit countries, whereas others lack such access, particularly those that do not have country offices in countries such as Iraq and Pakistan. While satisfaction of *hawala* services is generally good, some NGOs also cite cash delivery delays, high service charges at times of high demand and lack of cash on hand while demand is too high. Others, highlight the fact that *hawaladars* view NGOs as prime clients, in light of the sizeable volumes of regular, long-term and sustainable funding supplies.

A (non-exhaustive) poll conducted by an NGO working group in December 2021, suggested that USD 3.7 million had been served to beneficiaries in 33 provinces and 38 districts of Afghanistan using *hawala* between mid-August and mid-December 2021 (Graph 3, next page). [50] This demonstrates the critical role played by *hawala* in allowing aid deliveries to Afghanistan to continue; representing a lifeline in the absence of other available payment channels.

Mapping NGO use of *hawala*



Graph 3: NGO use of *hawala* recorded as part of Financial Service Providers Mapping, courtesy of Afghanistan Cash and Voucher Working Group or CVWG (and supported by the Asia-Pacific Regional Cash Working Group)

Interviews with NGOs reported a forward-leaning attitude from their principal banks (at least those in the UK and a number of other European countries) regarding the use of *hawala* since the August 2021 crisis, in acknowledgement that humanitarian organisations' need to make use of such channels in light of the scarcity of other options. The banks were also supportive of NGOs' ability to do so in a compliant manner with well-established due diligence checks (based on rigorous procedures with banks) in order to save lives on the ground. One NGO relayed that a leading Swedish bank refused to transfer NGO funds that would involve *hawala* as part of the payment chain, however, indicating diverging donor and banking risk appetites. Some also described onerous donor requirements, including in the UK, whereby NGOs were required to supply details of all *hawala* agents for approval, which could sometimes take up to eight weeks. Another INGO reported making two successful *hawala* transfers in September and October, however reported that a third transaction has been blocked since November. Although the payment was successful to the *hawala* provider, the transfer between Europe and the US was blocked by OFAC for investigation, demonstrating the unpredictability in this mechanism.

NGOs consulted for this report expressed concern over current gaps in knowledge regarding differing legislative frameworks governing the use of *hawala* in sender or transit/ intermediary countries (or those where counterparties are required to settle payments in parallel to transactions carried out within Afghanistan). [51] This makes it a complex matter for NGOs to navigate the broader regulatory landscape. It is also expected that some neighbouring countries may tighten restrictions in time. The risk is that transit becomes a bottleneck in *hawala* payment mechanisms. Transit countries mentioned by NGOs and banks included Singapore, Malaysia, China, Turkey, Pakistan, Iraq and the Gulf Emirates (Dubai, in particular). [52] Further research is warranted on this area.

Hawala case studies

One major INGO described their use of *hawala* since the onset of the crisis, involving the signing two service contracts with two different *hawala* providers since 15 August 2021. The agents were chosen based on previous working relations and through good references from other INGOs or UN agencies, as well as via strong due diligence checks. The INGO had transferred the equivalent of approximately USD 700,000 in early September 2021 and the equivalent of approximately USD 1 million in November 2021 through these channels. The charges applied were 8% per international transfer from the third country in the region and 6% per transfer within Afghanistan. The first two international transfers from the INGO's European bank account to that of the first *hawaladar* were initially blocked by the correspondent bank, before a successful payment was then put through using StoneX. The payment was carried out in USD into the local currency in the intermediary country. The same agent later said they were unable to provide the INGO with the required amount of cash in Afghanistan. The INGO in question presumed that the agent was struggling to meet demand and prioritising transfers for the UN, which appeared willing to pay higher fees. Some challenges were also encountered regarding one *hawaladar* being unable to reach some of the INGO area office locations in more remote parts of Afghanistan.

Another major INGO was making use of three *hawaladars*. One had been used formerly in Syria, alongside two new agents. They were also investigating scope for a fourth whose routing would go via Singapore.

Transfer flow: Hawala

While *hawala* rates in Afghanistan were currently around or below 2% before August 2021, they are now reported to sit between 4% and 13%. [53] One FSP consulted for this report that works with *hawaladars* inside and outside the country described the following fees: 1.5% for cash transfers from Dubai or Turkey to Kabul; up to 15% for cash transfers from other countries to Kabul; 1.5% for cash transfers from Kabul to provincial capitals, and 2% from provincial capitals in cash to district capitals. As such, a *hawala* transfer from Dubai or Turkey to an Afghan district would typically cost 5%, and up to 15% if the transaction originates in another country. Another NGO reported fees of between 8-10% for international transfers via *hawala*, and between 1-2% for provincial transfers. NGOs may have no choice but to pay these rates in the absence of any other option, as highlighted in the aforementioned survey.

Challenges

- *Absorption capacity:* Scope of *hawala* networks are described as extremely limited due to liquidity constraints, curtailed access to physical bank notes and increased demand. As argued by one interviewee, NGOs will only use *hawaladars* who have passed extensive due diligence checks, thus limiting the number available. A UN official stated that while *hawala* is the most resilient option at the current time, the sector has lost 30% of capacity (because of problems faced by banks, wholesalers, retailers and exporters). Smaller *hawalas* have been impacted most, but larger ones are still in business.
- *Cost:* One interviewee stated "due to the crisis, the service charge is inconsistently higher compared to the past". Some NGOs raised concern that UN agencies, which were able to pay higher fees to *hawala*, were driving up the rates in the informal remittance market, pricing out smaller or less well-funded L/NNGOs.
- *Sustainability:* De-risking represents a potential risk to the longer-term sustainability of *hawala* channels. [54] Most *hawala* agents that NGOs are currently using to remit funds into Afghanistan appear to be in Pakistan (with some also in Iraq and elsewhere) but transactions to their offshore bank accounts have been blocked by correspondent banks between the UK and these countries. Furthermore, the approaches and policies of donors (and in some cases domestic laws) vary greatly and often means the same programme or NGOs funded by multiple donors will face challenges in getting approvals.
- *Safety: Hawala* suffers from unreasonable demands and misconceptions by donors about what it is. [55] NGOs highlighted that heterogenous donor interpretations causes confusion among banks and NGOs as to permissible *hawala* use. [56] In spite of these fears, decades of use of *hawaladars* in Afghanistan provides reassurance to compliance officers.

Photo: Jim Huylebroek/NRC. An undocumented returnee family returns to Afghanistan from Pakistan via the Torkham border crossing in Nangahar.

Amanacard: how does it work?

The Amanacard service remit funds into and around the country for NGOs. It seeks to minimise the cash footprint of humanitarian operations, whilst simultaneously ensuring the delivery of critical cash payments via vetted *hawala* networks that operate a verifiable end-to-end money transfer service. The two modes of delivery in the transfer of aid are for recipients to use either a card or mobile phone to authenticate and then receive cash-based support.

The company reports fees at no higher than 3% on the cash delivered and tracked through the end-to-end set of processes and systems, including the use of a transparent banking channel to receive settlements in vetted business accounts. Payment flows using Amanacard can use one of the following models:

Transfer flow: Domestic payments

NGO bank account outside Afghanistan

Fintech company

Tokenised AFN to NGO recipients

These can be redeemed for airtime, goods or services from accredited vendors/agents

Transfer flow: Cross-border payments:

NGO bank account outside Afghanistan

Nominated trading account of local liquidity provider in third country

Vetted and licensed FSP in Afghanistan

Cash in USD/AFN to NGO tracked in real-time

either to intermediary (facility, hospital, school) and/or individual-level (Staff, Supplier, Household)

Transfer flow: Tokenised payments:

NGO bank account in Afghanistan

Bank account of licensed FSP in Afghanistan

Cash in USD/AFN to recipient tracked in real-time

either to intermediary (facility, hospital, school) and/or individual-level (Staff, Supplier, Household)

Significance:

Hawala remains one of the few ways to remit NGO funds into and around the country, including in the form of physical cash. Nevertheless, its use by NGOs requires greater coordination and faces a range of challenges, including limits to physical bank notes, inflated transfer fees, reluctance among some donors and banks and limited capacity due to increased demand.

3.6 Cross-border bulk cash transfers

A number of initiatives were under discussion by the international community (at the time of writing) that seek to inject cash into the Afghan economy and to increase liquidity and access to bank notes to NGOs for humanitarian operations. This is based on the recognition that over USD 3 billion will be required on a yearly basis to ensure a functioning economy; to reduce the dramatic decline in GDP and protect livelihoods. Solutions have, to date, been slow to materialise, however, due to competing visions and bureaucratic hurdles.

As highlighted in the survey results, there have also been some individual initiatives or actions on this front, in the light of absence of alternatives. One NGO reported successfully receiving a USD 1 million in Afghanistan via a physical cash shipment, although this was the result of a one-off and ad-hoc transfer. Providers offering the shipment of cash into the country are reported to charge per agency, rather than per shipment value. As transfer fees reduce based on the amount transferred, agencies remain subject to high fees if shipments cannot be process collectively. Combined with the cost of insurance, the total transfer fees via this route can therefore be up to 7%.

UN humanitarian financial corridor

The UN is establishing a humanitarian financial corridor that will be available to UN agencies and possibly some INGOs. The set-up of the channel is run by UN Office for Project Services (UNOPS) and includes involvement of the World Food Programme (WFP), UNDP and UNOCHA. Dissemination of the plans has been highly restricted in light of security considerations, though some reports and media articles have covered details on earlier iterations of the scheme (e.g. Byrd, 2021; Emmot *et al*, 2021). According to consultations, only five INGOs have so far been approached to be part of a pilot.

Challenges

- *Absorption capacity:* The channel will take some time to set up and it is not yet sure the extent to which it will be available to L/N/INGOs, more widely (signifying potential problems of inclusivity and equity). Banks involved believe there are challenges associated with capacity and scalability.
- *Costs*: Fees could end up being up to 7% once local/national bank transfers are taken into account.
- *Sustainability and security:* Main risks relate to delays from due diligence linked to sanctions and use of the USD, as well as security on the ground and insurance risks to NGOs. A security or terrorist incident could lead to the collapse of the entire channel. Security risks are also placed on NGO staff needing to hold large sums of cash in offices.

Significance

An important development allowing for cash to be made available for humanitarian operations, but not a viable long-term solution. It is unclear whether it will be available to L/NNGOs, as well as a broader range of INGOs in-country, in the future, or what volumes will be allowed. Solutions need to be available and accessible to the range of frontline NGO actors, not just a select few INGOs. Costs are higher than *hawala* in some cases and the lack of insurance once funds reach Afghanistan poses a major risk to NGOs.

Individual NGO cross-border cash transfers

As shown by the aforementioned poll, carrying cash across borders by NGO staff remains another informal remittance channel available to humanitarian organisations operating in the country [57] but is also subject to restrictions in light of the security situation and controls over foreign currency use. [58] If still enforced, every individual is allowed to bring in up to USD 10,000 when crossing into Afghanistan. Some NGOs described having used this method but not to scale.

Transfer flow: cross-border cash transfer:

Significance:

Not sustainable in the longer-term and not currently a common route, in light of security risks and limits to volumes that can be transferred. It cannot be done at a big enough scale for gainful activities in Afghanistan.

3.7 Humanitarian Exchange Facility & other currency swap mechanisms

At the time of writing, various currency swap mechanisms were underway (and under development), intended to release liquidity and bank notes held domestically and make them available to aid agencies for us in humanitarian operations. They make use of an international payments facility, usually outside the country (something that replicates the mechanisms employed in some *hawala* transfers). The idea is to encourage private businesses, sitting on large amounts of cash and reluctant to deposit it in banks, to release some of the funds, which then creates a pool of cash in-country that can be drawn on by humanitarian actors.

Case study: Currency swap facilities in Afghanistan

These include the following:

- *UN Humanitarian Exchange Facility*: [59] UNOPS have been working on a swap facility whose plans (at the time of writing) still need to go through UN leadership and the US Treasury for approval and sign off. The scheme, which counted on World Bank, OCHA and others' support, bypasses DAB and the Afghan Government, but connects to a number of companies to give access to AFN (at least until supplies runs out). The plan is for some INGOs and the UN to be given access to this facility for large scale programmes, though the finer details of inclusion and volumes are still to be decided. It is intended as a temporary mechanism that will be used, first and foremost, to cover basic human needs programming. There is no current to how L/NNGOs without foreign bank accounts might get paid. [60] . It is also not yet clear whether the new Taliban Government will give approval for use of the mechanism.
- Some NGOs are also engaging in their own swaps, according to NGO representatives consulted for this report:
    - One INGO, for example, reported recently conducted a swap with a telecoms company. Some NGOs have engaged in similar swaps with telecoms companies elsewhere in the world in light of these firms often having access to cash).
    - One interlocutor described two forms of currency swaps currently being used by NGOs in Afghanistan:
        - The first, "offsetting", involves an individual or company releasing funds in Afghanistan in return for reimbursement in the UK or elsewhere in the world. Another NGO confirmed use of this model, whereby they work with an agent in Iraq that can pay into Azizi Bank, which then allows them to withdraw assets (the model had been "very successful" so far, according to the interviewee).
        - The second, was the use of "third parties", involving a similar model to that described above, except the individual or company in Afghanistan is not directly involved in the given transaction, and instead a separate individual or company enacts the transactions (often via intermediaries in third countries, particularly Turkey). The funds are then offset through *hawala* or some other funding source in Afghanistan.
- Private sector actors are also running their own "humanitarian swap facilities" for humanitarian actors. [61] More Afghanistan (who operate HesabPay), for example, is currently carrying out swaps able to support several million dollars in the immediate term (and possibly more in the future). The NGO deposits a set amount of funds into Moore Afghanistan's Citibank account in the US, and the company then transfers the same amount of funds from its AIB account in Afghanistan to the NGO's account in country, either in the form of electronic funds or cash (pending availability of physical bank notes). There is no exposure to DAB or the wider Afghan Government.

Tranfsfer flow: currency swap facility

Challenges

- *Absorption capacity:* Constrained by liquidity and physical cash availability. Concerns prevail over capacity of swaps into the longer-term (including lack of experience and ability to run them through a centralised authority). Some argue that humanitarian organisations will not be able to deal with the volumes of cash required in the absence of wider macroeconomic stability and resumption of commercial trade and domestic consumption (which will also need access to paper cash supplies to make purchases). [62] Constraints may prevent L/NNGOs from accessing some of the swaps.
- *Cost:* Some swaps are free of charge (though use of bank transfers or *hawala* as part of the chain incurs charges); others' fees are yet to be determined.
- *Sustainability:* Collectively, these efforts do not recapitalise the Afghan banking system at a large scale and depend on the nature, timing and size of international support and resources and wider macroeconomic developments. Furthermore, challenges remain on how to avoid a liquidity trap (how to keep the cash circulating in the country once it has been released).
- *Safety:* There are some concerns over the vetting of businesses involved (though this is largely mitigated through engagement with major companies). A key risk can be tracking how the individuals/ companies obtained the funds in the first place (which can be very challenges in many cases).

3.8 Digital financial service providers

There are a number of digital FSPs and related services/ platforms that are either available, or under development, in Afghanistan for potential NGO use. The UN is advocating investment in digital payment platforms in Afghanistan that could be used by the UN and NGOs for humanitarian programming. Digital FSPs are also highlighted as a possible way of paying health and education workers without going through the government (as has been piloted already). Indeed, some argue that the current crisis could serve as an opportunity to increase financial inclusion across the country through wider uptake of digital FSP use, particularly in areas where access to formal banking has represented a longstanding challenge. Nevertheless, they are also impacted by a number of challenges, described below. The following is a brief summary of various different models that exist that could allow NGOs to disperse humanitarian funds into, and around, the country, if a number of preconditions are met.

3.9 Mobile money platforms [63]

There are a number of mobile money operators (MMOs or electronic money institutions) that NGOs could use to transfer electronic funds within the country and – as part of a longer chain involving banks, Western Union or *hawala* – into the country. They are regulated through DAB's Electronic Money Institutions Regulation and are characterised by a range of e-money services, including debit and credit cards, e-wallets and stored value account cards (Sahak & Choudhury, 2021).

Four MMOs currently operate to scale in Afghanistan, albeit not yet with sizeable footprints: Roshan's M-Paisa, [64] Etisalat's M-Hawala, [65] MTN's MoMo [66] and Afghan Wireless Communications Companys's (AWCC) My Money. [67] MMO users are registered at only a few tens of thousands for some platforms, to a few million users for others, according to experts. Each platform is linked to just one mobile phone operator (a key limitation) [68] and is so far largely used to store value on phones (rather than in a bank account) and to convert electronic funds to cash ("cash out") from mobile wallets. As such, the mobile phone number of the MMO user is only being used as a form of identification to withdraw cash, rather than for use in broader digital payment mechanisms. As such, they are impacted by the same challenges accessing liquidity and bank notes.

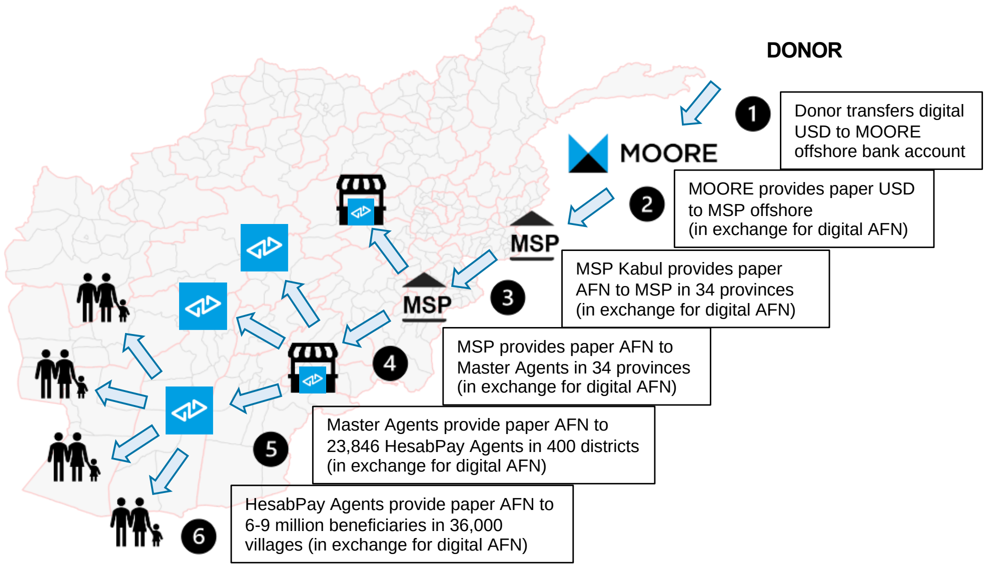
History of digital FSP use in Afghanistan & other jurisdictions

USAID assisted DAB in adopting a new regulation for electronic money institutions in 2009, which incorporated international best practices for digital FSP oversight. The use of mobile financial services was expanded through a USD 5 million Mobile Money Innovation Grant Fund (launched in March 2011); granting funds to three mobile network operators to help Afghanistan start mobile money banking by late 2012, including payment of teacher salaries (Howell, 2012). DAB formally adopted revisions to the existing regulation in November 2011, [69] lowering barriers to market entry, while bolstering anti-money laundering/ counterterrorism financing mechanisms. The initiative drew on expertise from the US Treasury, the World Bank's Consultative Group to Assist the Poor and the Bill & Melinda Gates Foundation, in addition to domestic banks and telecommunications companies (Howell, 2012). Recognising the potential for mobile money in Afghanistan, one 2012 USAID [70] report (optimistically) stated: "By leveraging the mobile-phone network to provide financial services to the unbanked, key public- and private-sector services can be improved to serve hundreds of thousands of women and men across the country. With mobile money, a teacher can receive her salary in full and on time in a remote district; a police officer can transfer funds to his family back in his home village; and a business woman can repay her microloan without having to spend valuable time away from her business" (Howell, 2012: 136). According to one report "United Nations agencies and non-government organisations have previously worked with mobile money platforms in Afghanistan to distribute cash quickly and securely. Afghans have also previously been able to use International Organisation for Migration and UN High Commissioner for Refugees (UNHCR) documents to access low-risk, low-balance financial accounts and mobile money services" (Ross & Barratt, 2021: 3). Elsewhere in the world, some of related payment solutions introduced to humanitarian remittance sector have included prepaid card systems, phone banking and cryptocurrencies, including in the well-known cases of Kenya and Somalia. [71]

3.10 Other digital FSPs and related services

Moore Afghanistan's HesabPay [72] (a type of card/ app payment institution) is rolling out its services in Afghanistan at the current stage. [73] Able to work across all mobile phone networks, the platform offers a digital wallet using either a smartphone app or a QR code card (for those without smartphones); the transfer of funds (including internationally) between individuals, companies or official bodies, and payment of electricity bills (important as the only current option available to Afghans is to stand in a queue in person to settle bills with the country's sole electricity company). It also offers users the ability to "cash out" through HesabPay agents located in 34 provincial offices. [74] The company reports that personal and business registrations have been rising exponentially since the start of the crisis. The company reports that 4,600 families in Faryab have received humanitarian aid via QR code cards at the time of writing. Furthermore, in the latter part of 2021, HesabPay enjoyed the self-registration of over 350,000 users with full KYC, alongside 23,000 agents and 2,500 merchants. The schematic below outlines the route used by HesabPay to carry out cash payments for NGOs in Afghanistan (Graph 4 on next page).

Flow of paper currency during transfer of NGO funds via Hesabpay:



Graph 4: Schematic to show how HesabPay enacts cash payments for NGOs in Afghanistan (courtesy of Moore Afghanistan)

A number of other related platforms are also in the planning stages for possible launch in Afghanistan in 2022: [75]

- Fintech for International Development (F4ID) – born out of a collaboration between Save the Children International, Barclays and Standard Chartered – hopes to launch a new e-voucher platform and payment platform in Afghanistan in 2022 that can be used by any NGO to provide household free access to good and services from local suppliers, to monitor local supply and facilitate client relationship management. [76]
- A repurposed WUBS platform will also launch in early 2022, offering a set of digital FSP options, [77] which may also become available in Afghanistan at some stage in 2022. [78]

A number of other related platforms are also in the planning stages for possible launch in Afghanistan in 2022: [79]

- Fintech for International Development (F4ID) – born out of a collaboration between Save the Children International, Barclays and Standard Chartered – hopes to launch a new e-voucher platform and payment platform in Afghanistan in 2022 that can be used by any NGO to provide household free access to good and services from local suppliers, to monitor local supply and facilitate client relationship management. [80]
- A repurposed WUBS platform will also launch in early 2022, offering a set of digital FSP options, [81] which may also become available in Afghanistan at some stage in 2022. [82]

There are several benefits of digital payments use to NGOs. First, digital payment platforms have the benefit of reducing some dependence on physical bank notes, while also boosting the banking system deposit base and liquidity. This is particularly the case when the platform in question is included in a broader digital ecosystem, such as for payments for goods and services (still in its infancy in Afghanistan). Second, intermediaries can be removed and more comprehensive and automated records of transactions are enabled, which can help to reduce corruption and increase transparency. Third, digital transfers may entail lower transfer fees than other remittance channels. Fourth, digital money platforms have scope for reaching more parts of the country (pending uptake from users and reliable internet and electricity coverage).[83] Fifth, it allows for electronic monetary transfers that do not require travel across long distances (thus saving on fuel costs; providing environmental benefits and reducing security concerns associated with transporting large amounts of cash).

Digital financial access platforms use by NGOs also faces a number of challenges and risks, however:

1. *Gender:* In a culture where women do not always have access to finance and mobile phones, particularly in rural areas (Howell 2012), a challenge is how to ensure that women and young children[84] remain direct beneficiaries.[85] A number of platforms include bespoke proposals to help mitigate these risks.
2. *Banks*: Currently available platforms are directly connected to the banking system (as enshrined in DAB regulations on digital FSPs and MMOs, whereby funds must be held in trustee accounts in commercial banks). This means that mobile wallet operators are subject to the same challenges linked to withdrawal limits, liquidity and stability of the wider banking sector (if banks collapse, so too could the digital payment systems).
3. *Trust:* In a country where trust poses a barrier to uptake, an effective awareness-building communications campaign would be required to build confidence in the system. The number of users and vendors are currently low (largely constrained to cities). Reasons are thought to include the lack of interoperability of mobile money systems between the different phone networks (money in one persons' phone network wallet cannot be transferred to a different phone network's wallet); inability to use a mobile wallet across mobile networks (though something that some, such as HesabPay, are able to overcome), and the lack of a functioning ecosystem for digital payments.
4. *Speed:* The rollout of digital payment platforms can be slow, as demonstrated by cases elsewhere in the world. As noted in one USAID report, for example, "Even in countries where mobile money has been successful, such as Kenya, it has taken three to five years to achieve critical mass" (Howell, 2012: 139).
5. *Geography:* Some NGOs argue that what works in urban settings is unlikely to function in eastern and southern rural areas of Afghanistan, where gender dynamics, literacy and trust issues are likely to be more significant. At the same time, they acknowledge that even limited use of digital/ mobile payment platforms in urban areas could free up liquidity for use in more remote areas.
6. *Sanctions:* At present, sanctions do not appear to present a major obstacle to digital FSP rollout, other than those already outlined regarding contact with government entities where questions of ownership and control are not clearly defined. Out of five of Afghanistan's telecoms providers, most are private companies, although Salam is 100% state owned and AWCC is 20% government owned. There are no current limits on maximum amounts of funds that can be transferred via these channels, nor are there restrictions on which currencies can be used for the transfers, according to one FSP interviewee.

Case study of mobile money platforms used to disperse humanitarian funds since August 2021

- AWCC's *My Money*: is currently implementing a mobile money project with WFP that began in October 2021, which has seen the disbursal of over USD 3.5 million to date. An interactive map on Afghanistan FSPs compiled by the Afghanistan CVWP suggests My Money had served beneficiaries in one province and one district of Afghanistan between September and December 2021 (Afghanistan CVWG, 2021). In addition to its cash-out function, bill payments have also commenced, including for electricity. My Money was also reportedly used to distribute over USD 15 million of funds from WFP, Danish Refugee Council and UNHCR in early 2020, as well as digital salary payments to Afghan police and teachers. Making use of the aforementioned currency swap facility, AWCC uses an offshore account to receive NGO and UN payments and finances the digital transfers in AFN through other revenues, such as internet packages. One expert consulted for this report said that AWCC would be able to increase aid disbursements to USD 5 million/ month.
- Roshan's My-Paisa: Save the Children International reportedly successfully transferred over USD 1 million of funds in late 2021 via CAB to AIB, which was then transferred to beneficiaries via My-Paisa. Users were required to have accounts at both AIB and Roshan. The aforementioned interactive map on Afghanistan FSPs reported that My-Paisa had served 139,500 beneficiaries in two provinces and two districts between September and December 2021 (Afghanistan CVWG, 2021). Some specialists consulted for this report said that Roshan had become overwhelmed with the increased demand of new users and the service had not been reliable at all times.
- HesabPay was used in December 2021 to transfer cash distribution (via cash-in-hand delivery) to 310 families for a European NGO and expects to mobilise funds on behalf of 70 NGOs in the weeks and months to come via its digital payments platform. Regarding use of the platform by NGOs, the company's brochure states, "[t]his mechanism is instant, free, secure, compliant and with zero overhead so 100% of humanitarian funds get to those who need it". For NGOs requiring cash out options, HesabPay passes through the cost of cash transfers to the NGO accordingly.

Transfer flow: Mobile money platform

NGO bank account	Electronic banking transfer to Afghan bank	NGO to transfer funds to beneficiaries' digital FSP account	Option to make onward digital payments or "cash out" funds
	Typically AIB, including via CAB	E.g. salaries or humanitarian assistance	Or under some models, beneficiaries will only be able to use digital funds to purchase certain essential goods or services as specified by the NGO

Challenges

- *Absorption capacity:* The digital FSP platforms need the capability to handle a large scale of transactions or support bulk disbursement by NGOs. In order to do so, Afghanistan requires a sufficiently robust domestic payment infrastructure to support digital merchant services (such as mobile banking or payment card systems) once funds enter the country. This includes not only phone and internet networks, but also stable electricity supplies and functioning banking networks. While internet coverage is described as being better than over the past two decades, coverage rates are low or unstable in some parts of the country and electricity supplies have reportedly started to suffer because of the country's economic woes. Partners on the ground may not be able to support use at scale, particularly if cash conversions remain a preference.
- *Cost:* Costs appear to be low compared to other channels, with some digital transfers at 0% (e.g. HesabPay), though fees are still incurred where bank or *hawala* transactions are needed.
- *Sustainability:* Digital FSPs must be subject to oversight form the DAB, which is likely to be lacking at the current time. DAB has not yet imposed restrictions on how much money can be circulated via mobile money accounts per month.
- *Safety:* Privacy considerations, such as protection of personal and financial data, remain major challenges, particularly in countries, like Afghanistan, where security considerations are paramount (Bryant, 2019). [86]

Significance

While digital payment platforms do not currently exist in large scale, a shift to a broader digital payments ecosystem across Afghanistan (which could be helped via NGO use) could be a promising way to help Afghanistan to overcome issues of financial exclusion and liquidity challenges into the longer-term (with associated humanitarian benefits). Such a move would require investment, resourcing and buy-in from the UN, governments and NGOs across a range of platforms, but could take a number of years.

Photo: Jim Huylebroek/NRC. A baby camel at a settlement on the eastern outskirts of Herat city, Afghanistan, where recently arrived IDPs are living

4 Conclusion

This report finds that options for remitting humanitarian funding into Afghanistan are currently few and far between and beset by a range of complex challenges. No one financing channel is yet able to transfer funds into, or around, Afghanistan on a sustainable or secure enough footing, neither in anything approaching volumes required for an appropriate humanitarian response. Fundamentally, none of the mechanism examined can replace, or are adequate substitutes for, a functioning economy and banking system; critically, a licenced central bank entity that can provide basic functions such as the purchase and distribution of bank notes.

While larger INGOs have managed to put through a highly limited number of electronic transactions to Afghanistan via several formal and informal channels (with hawala being, by far, the most viable option), no one channel is currently able to meet the needs of all NGOs due to absorption capacity challenges. Most humanitarian transactions through formal channels have been impacted by a range of delays (as well as repeat rejections). Furthermore, most payment mechanisms that are patchily available to NGOs face limited access to physical bank notes for use in humanitarian operations and most face a steep (and sometimes prohibitive) rise in transfer fees.

NGOs also face a set of safety, security, compliance and insurance-related challenges when dealing with large quantities of physical cash in Afghanistan (as well as remitting funds via hawala in third countries) whereby a disproportionate risk burden is put on the NGOs shoulders rather than it being shared with donors. All humanitarian remittance channels are facing a worsening problem of financial sector de-risking and over-compliance with sanctions and CT regulations, particularly when payments have exposure to the US banking system or the US dollar (and other mainstream currencies). NGOs also face problems of donor reluctance, restrictive donor agreements and confusing compliance guidance regarding payments to, and within, Afghanistan.

While the mechanisms examined can provide short-term solutions to ensure humanitarian responses can continue in Afghanistan, in order to facilitate long-term aid efforts, and prevent nation-wide economic collapse, the Afghan central bank needs to be provided with sufficient support to resume its key functions. This must include the purchase and circulation of bank notes, with appropriate safeguards in place. If the circumstances make this insurmountable, then given the urgency of the situation a private entity could be used as a strictly interim substitute, along with measures to avoid longer term fragmentation of economic policy and the banking sector. However, this should not undermine efforts to see the central bank resume its full functions in the near future.

The situation presents a significant barrier to NGOs' ability to respond at an appropriate scale and speed to pressing, and mounting, humanitarian needs of the Afghan people. As such, a combination of high-level political action is urgently needed to safeguard and scale up existing financing channels, alongside moves to address wider macroeconomic challenges (Annex 4), including protecting the Afghan banking sector from collapse, curbing inflation and resuming trade.

5 Recommendations

The following recommendations were generated through primary and secondary research (consultations and desk research) carried out for this report and are geared towards the US and donor Governments, the UN and the NGO community.

US Government

OFAC should be commended for its valuable efforts to ensure that flows of vital aid to Afghanistan are not cut off by sanctions by issuing the very necessary GLs that NGOs have been calling for. The licenses are a welcome step in the provision of much needed protections for humanitarian organisations and for the financial institutions that play a vital role in enabling funds to be transferred into the country. As pen holder, the US should also be commended for its work to ensure the adoption of UNSC resolution 2516, which introduced a vital humanitarian exception in the 1988 sanctions regime. While the licenses and the 2615 exception are both welcome and necessary, banks are likely to remain extremely cautious in relation to transfers into Afghanistan, and bank de-risking will remain a major challenge to the scaling up of the humanitarian response. Research carried out for this report reflects that a number of banks with US exposure are "stepping back, seeing what happens and waiting for further guidance". To ensure that bank de-risking does not continue to cripple the humanitarian response, the US must do more to provide comfort and reassurances to banks, including through policy and prosecutorial guidance. This could include:

- Guidance to indicate that those banks that have strong due diligence measures in place and engage in good faith efforts to support humanitarian assistance in country will not be the target of sanctions enforcement.
- Issuance of comfort letters and other safe harbour documents. [87] This would usefully include standing comfort letters, not those that must be obtained on an ad-hoc basis and making publicly available the template, even if the full details cannot be released.
- Further clarify what constitutes "the Taliban" under EO 13268 with regard to wider questions of control to help mitigate banking de-risking by banks and FSPs with US exposure.
- Continued improvement of GLs, particularly the inclusion of education under GL19 (in light of its omission from GL19 in spite of it forming a critical part of the humanitarian response in the country) (updates are expected in January 2022).
- Identify a private entity which can take on some of the functions of a Central Bank, (purchase of bank notes, facilitate transfers etc) to address the liquidity crisis in country.
- Consider releasing private assets to inject cash into the economy. An estimated USD 1 billion of the Afghan frozen assets outside the country are private assets.

Donors

- *Safeguarding remaining channels*: Support for a multipronged approach on safeguarding and bolstering existing payment channels, in recognition that no one option will solve NGO financing challenges in Afghanistan:
    - To combine high level political change with multiple short-term "sticking plaster" solutions.
    - Consider bilateral, regional or multilateral initiatives that could help safeguard existing humanitarian (and household) remittance channels of both a formal and informal nature, which could be along the lines of the 2014 UK-Somalia "Safer Corridor Initiative".[88]
    - Engage in communications with DAB in calling for greater banking flexibility and support for NGOs in light of their vital economic role played at the current time (such as in providing security for in-country cash transfers and increased withdrawal limits, as advocated by Sahak & Choudhury in their 2021 IRC report).
- *Risk sharing*: To include collective work on common donor policies to support an equitable risk-sharing approach (including on due diligence costs and coordination across donors to avoid inconsistent policies without making it a "race to the bottom").
- *Facilitate* a risk-sharing approach so that NGOs-are not solely liable for all the money in-country, in absence of insurance available to cover NGOs who resort to carrying large volumes of cash in country.
- *Flexibility:* Consider greater flexibility in grant agreements in terms of use of funds by NGOs in light of the rapidly changing environment, availability of financing channels and humanitarian needs.
- Sanctions/de-risking:
    - Prioritise, as swiftly as possible, adoption of the UNSC's 1988 (now UNSCR 2515 [2021]) sanctions regime exemption revisions into domestic legislation. Ensuring such legislation/domestic exemptions are accurately and fully implemented, support by clear guidance to, and communications with, banks which confirms that facilitating payments by NGOs for use in the humanitarian response are lawful and should be encouraged.
    - Work towards continued improvement of public and private guidance to NGOs and banks.
    - Consider provision of additional administrative costs required to cover legal and due diligence needed to process Afghan transactions
- Digital payments: Support shift to digital humanitarian financing in Afghanistan (longer-term game) through:
    - Training, pilots and awareness-raising among humanitarian actors (to allow them to be better equipped in the safer and more effective use of new technologies in this field)
    - Invest in mobile wallets and digital e-payment ecosystem in Afghanistan and support the funding of the rollout of new platforms, as well as addressing cultural opposition; supporting technological upgrades and updates and working with providers to ensure gender concerns are addressed.

- *Hawala:* Strive for a common donor position on *hawala*, recognising it as a legitimate and legal tool (of largely last resort) to ensure aid agencies can continue to operate, including:
  - Support and clearer guidance on working via intermediaries in third countries. Donors should provide details on approved routings based on domestic legislation in transit countries and provide updates when such regulations change.
  - Donors should also make judgement on *hawala* engagement based on NGOs' overall due diligence frameworks and not on a case-by-case basis review of all *hawala* agents.
- Push for progress at UN and with other partners on remitting funds via *Humanitarian Exchange Facility* and the *Humanitarian Financial Corridor* and ensure that the UN makes these mechanisms available to all NGOs (including local and national NGOs) and consults more widely with NGO responders.

UN

- *Humanitarian Financial Corridor* & *Humanitarian Exchange Facility*: Accelerate plans and build on pilot to implement a humanitarian exchange facility that is available to a wide range of NGOs. Ensure transfer costs remain low so as to be accessible to a range of NGOs and provide support on securing insurance to reduce the liability of NGOs when cash arrives in Afghanistan.
- Continued improvement of public and private guidance to NGOs and banks.

NGOs

- Consider set of *agreed sector standards* (to include the UN) to avoid a "race to the bottom" in FSP use, in light of scarcity of available channels and inflated costs, based on collective analysis of risks and jointly agreed standards.
- *Banks:* Consider asking banks to use payment channels that avoid US banking intermediaries (where possible) and use of USD (and other leading currencies) as a way of mitigating de-risking in CBRs.
- *Mobile money:* Closer consideration of NGO use of digital FSP providers in Afghanistan to include pilots to test assumptions; training and awareness raising on options available to NGOs to forge stronger understanding; workshops/ meetings with (and briefings from) digital FSPs; seek to work with multiple digital FSP partners (to increase longer-term sustainability and encourage platforms to offer guarantees to incentivise users to store their money electronically and not "cash out" the funds)
- *Hawala*: Consider more capacity building on *hawala* among NGO staff;[89] research into all viable *hawaladars*/ MSPs and help in understanding which are most feasible in connection with absorption capacity and scalability without driving up costs and exhausting cash supplies; development of a consolidated set of guidelines for NGOs using *hawala* in Afghanistan,[90] and collectively approach the money exchange union in Kabul to negotiate a standardised commission rate (as proposed by the Afghanistan CVWG).[91]

- *UN financial corridor*: Engage in collective engagement with the UN on ways to scale up the financial corridor to allow a broader set of NGOs to take part (including in relation to lack of insurance once funds reach Afghanistan and high fees, such as through the use of pooled funds).
- *Research:* Continued collection of evidence-based research of challenges faced when remitting funds into, and around, Afghanistan as well as accessing physical cash in country.

Annex 1: Sanctions against targets in Afghanistan

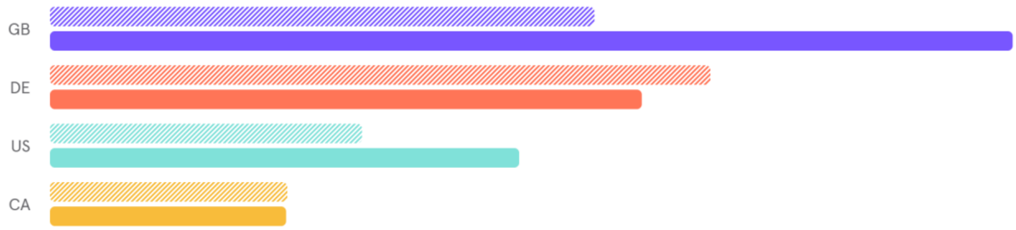
UN CT sanctions relating to the Taliban (S/RES/1988) and Al-Qaida/ ISIL (S/RES/1267/2253) entail a total and global asset freeze on range of legal persons – 135 individuals and five entities (the Haqqani Network and four *hawaladars*) for the former and 12 individuals and 20 entities for the latter. They do not target the Taliban government as a whole. The measures will remain in force unless the UNSC passes a resolution to end the sanctions regime. First adopted in October 1999 (S/RES/1267 of 15 October 1999), the UN's Taliban-related sanctions addressed a set of CT and armed conflict related concerns and later resolutions addressed the Taliban's reluctance to engage in a broader peace process, human rights abuses and threats to Afghanistan's cultural heritage in S/RES/ 1333 of 19 December 2000). The sanctions regime was separated into two in June 2011 to facilitate talks with the Taliban (S/RES/1988 and S/RES/1989 of 17 June 2011) (Hudáková et al, 2021). Collectively they have included asset freezes against individuals and entities linked to the Taliban, as well as a travel ban, diplomatic restrictions, an aviation ban, an arms import embargo and restrictions on materials used in the heroin processing industry (Moret & Blanchet, 2021). The newly formed interim Afghan Government includes 19 Taliban officials (at the time of writing) who are on the UN sanctions list (UN, 2021), including the prime minister (Mullah Hasan Akhund), two deputy prime ministers, the foreign minister, the interior minister (Sirajuddin Haqqani – on the FBI's "most wanted list" due to Al Qaeda ties) and ministers of telecommunications, higher education, and refugees.

The US has listed the Taliban as a Specially Designated Global Terrorist (SDGT) since 2002 (pursuant to EO 13224), representing a *de-facto* prohibition on most forms of contact with the group, and, by default, the new Afghan Government (Moret, 2021) (though a set of general licences have allowed for a number of activities and financial transactions to take place since September 2021). OFAC also imposes designations as SDGTs on individuals and entities that including financiers and facilitators of the Haqqani Network (Pursuant to EO 13224) and the Haqqani Network as a whole as a Foreign Terrorist Organization (under section 219 of the Immigration and Nationality Act). This equates to a block on these individuals' property and interests subject to US jurisdiction as well as a ban on US individuals and entities engaging in transactions with them (US Department of the Treasury, 2018).

Annex 2: Household remittances to Afghanistan

With figures yet to be released for 2021, the World Bank estimates personal remittance flows into Afghanistan in 2020 reached USD 787 million, equating to some 4% of GDP, down from USD 829 million in 2019 (World Bank, 2021A). These figures are based on formal transfers alone, suggesting that the real amounts are likely to be far higher, when taking into account transfers through informal channels (including hawala). Other estimates have put Afghan remittance in-flows as closer to 18% of GDP per year (Economist, 2020). With the displacement of what the UN has estimated to amount to 2.6 million registered refugees in the world (with 2.2 million in Iran and Pakistan) (UNHCR, 2021), remittance flows to Afghanistan from the growing Afghan Diaspora community worldwide will undoubtably further intensify in the coming months and years. Furthermore, as personal remittances work in a counter-cyclical manner and increase exponentially at times of crisis (IMF, 2020), a rise in volume can also be expected through new and existing routes in light of the current situation. One recent report suggests that key sending countries for Afghan household remittances are Pakistan, Iran, Turkey, the Gulf countries as well as the US, Australia countries across Europe (Ross & Barrat, 2021). Comparing the periods of 30 April-31 July 2021 and 1 September-2 December 2021, the household remittance price comparison website, Monito, 92 saw a steep rise in UK and US searches, a marginal rise in searches from Canada and a decline in searches from Germany.

Changes in price comparison searches



Graph 5: Data from the remittance price comparison website, Monito, on changes in price comparison searches for the UK, Germany, the US and Canada between 30 April-31 July and 1 September-2 December 2021 (data and graph courtesy of Monito)

The role of household remittances to Afghanistan, and how it overlaps with humanitarian remittance channels, is an area warranting further research.

Annex 3: History of hawala-use in Afghanistan

There are no accurate figures on overall volumes of informal remittance flows into Afghanistan – pre- or post-crisis – through channels such as *hawala* or cross-border cash transfers. Under the Taliban's former rule until their fall in 2001, Sarai Shahzada in Kabul became the hub for all *hawala*-related matters in Afghanistan (Choudhury, 2021A): "[t]he market is the financial hub of the country, where the equivalent of hundreds of millions of dollars move between hands each day" (Choudhury, 2021B). The need for *hawala* was great at this time, as in 2002, the country's banking sector was, in the words of the World Bank, "physically destroyed, technologically outdated, and operationally nonfunctional" (World Bank, 2011). Writing in 2008, one author described the "magnitude of hawala's footprint in Afghanistan" as "colossal", with 80-90% of the country's economic activities falling under the informal sector (Hancock, 2008: 2).   Dependence on *hawala* was further accentuated through the 2010 Kabul bank collapse (Zerden, 2021B) and ongoing conservative lending practices of Afghan banks (Sahak & Choudhury, 2021). The Afghan exchange market has adapted effectively to an ever-changing political and economic landscape and the country's MSPs have withstood persecution at different times, including those from the Hazara minority under the former Taliban rule between 1996 and 2001 (Choudhury, 2021A).

Hawala in Afghanistan has been described as "well-organized, convenient, and cost-effective means of making international and domestic payments" (Munzele Mainbo, 2003: 1) and "an important informal institution . . . handling both financial transfers and currency exchange" (Thompson, 2011: 155). This is echoed by a 2020 *Economist* report, "Hawala dominates in places like Afghanistan because it is so efficient. Margins on even small international transfers may be as low as 1%, far less than banks' charges". The World Bank report documents a range of services offered by Kabul's *hawaladars* as far back as the early 2000s, which included currency conversions (for international business and personal transactions), international and domestic money transfers, deposit-taking services, deposit-taking facilities, microfinancing for entrepreneurs and trade financing for wholesalers and retailers. A 2021 report described a similar range of services "Money exchangers…operate like one-person credit unions. Beyond exchanging currency, they provide a wide range of financial services: They store money for safekeeping and help facilitate the movement of goods between Afghanistan and neighbouring [sic] countries by providing traders with bills of credit and transferring funds through an informal system called *hawala*" (Choudhury, 2021A: 2). In a strikingly similar situation to the current one, the author notes that in the early 2000s, the international community:

> "had no choice but to rely on money exchangers to move funds to remote provinces. At a rate previously unfathomable, funds flooded the central exchange market, which swelled from 200 shops to more than 400. The market also organized its affairs to protect itself from an encroaching state: Exchangers developed their own

> management structure [hosting] a private court that resolves disputes between exchangers". (Choudhury, 2021A:2).

In the aforementioned 2003 World Bank report, the author notes that an estimated US 200 million was channelled through *hawala* by INGOs and NGOs in 2002 alone, for humanitarian relief, emergency aid, and development financing. The report – which outlines a range of models that NGOs and INGOs used at the time to transfer funds via *hawala* (Munzele Mainbo, 2003: 12), describes how "[m]oney exchange dealers provide[d] NGOs with liquidity they otherwise might not have" (Munzele Mainbo, 2003, 13). It also noted "[o]nly the largest organizations can manage the costs and logistics involved in physically transferring cash around the country [something that may also be the case today]. Occasionally, some agencies bring cash when staff members fly into the country, but the amounts involved are usually small and are meant to cover overhead expenses not program needs. For larger sums of money, the *hawala* system is often the only option" (Munzele Mainbo, 2003: 11). For international payments, the NGOs in the early 2000s worked with *hawaladars* that operated across borders, in particular, those that "target[ed] international traders and investors [as well as] international aid institutions and NGOs disbursing development funds for rebuilding Afghanistan" (Munzele Mainbo, 2003: 4). The report described how trust was established with certain *hawaladars* by INGOs:

> International aid institutions now work with several dealers. Under the Taliban regime, agencies worked with perhaps one or two *hawaladars*, with whom they established long-term relationships. But the competition is now such that the *hawaladars* regularly send agencies dealing in large volumes of cash periodic bids for their services. With each round of bids, rates and services become more competitive. Responding to these inducements, agencies are working with a number of different dealers on different routes. In some cases, the dealer may provide the service at no charge on one route on the understanding that he will receive the contract for another route (Munzele Mainbo, 2003: 11).

On transaction volumes, Munzele Mainbo (2003: 4) wrote "The larger international aid institutions and NGOs have made individual transactions of US$1,000,000. Because there are limited storage facilities in Kabul for large sums of money, however, the majority of organizations included in this study remit funds through the *hawala* system in smaller amounts of US$100,000 to $200,000. The smaller organizations regularly remit US$20,000 to $30,000 to meet operational expenses". On costs: "The larger international aid institutions transferring US$200,000 or more per month pay less in fees than local NGOs transferring US$7,000 or less per month for their administrative expenses" (*ibid*, 2003: 5). Thompson (2006) estimated that 2004-2005 aggregate *hawala* flows in and out of the system approximated USD 6 billion. NGOs were found to generally make bank transfers "into the *hawaladars'* accounts in either Pakistan or Dubai [and when] interviewed, the international agencies and NGOs expressed general satisfaction with the delivery of funds" (*ibid*, 2003: 5). On settlements: "Many of the dealers in Kabul use their Peshawar-based bank accounts to receive dollars from NGOs that want afghani payments made in Afghanistan. Also, to avoid having to carry cash within Afghanistan to settle accounts, dealers credit and debit each other's Peshawar or Dubai accounts via satellite communication. The London and New York accounts are also used to make normal bank transfers to cities where the *hawaladar* has no correspondent relationships with another nonbank institution or partner" (ibid, 2003: 7).

Annex 4: Macroeconomic initiatives

A number of other initiatives are also currently under discussion or roll-out that focus on broader macroeconomic and infrastructural stability in Afghanistan. While this report does not cover them in any depth, they include schemes that seek to keep the Afghan banking sector afloat; get money circulating again within the country; restore confidence in the banking sector; provide trade financing mechanisms and reinforce systems to allow trade and other business activities to resume. CEOs of Afghanistan's private banks, consulted indirectly for this report, highlighted that many of these initiatives will have limited use if the Afghan banking sector collapses. [93] proposals or projects include the following:

- The creation of a private or shadow central bank (such as by AIB) that bypasses DAB (Zerden, 2021A).
- Similarly, Human Rights Watch (2021) proposes a mechanism through which DAB could have access to the international banking system with US Treasury approval (or, failing this, a short-term agreement allowing a private bank or other entity to process large-scale humanitarian payments). [94]
- A deposit insurance mechanism (UNDP; for bank deposits to avoid further withdrawal and encourage new deposits).
- A credit guarantee scheme (UNDP and others) for new loans to businesses to support their operations (and survival) and thus create employment.
- The UNDP Special Trust Fund for Afghanistan, also referred to as the "humanitarian plus" trust fund by some, geared to repurpose existing development money. According to UNDP, the Fund will "serve as an inter-agency mechanism to enable donors to channel their resources and coordinate their support for the Area Based Development Emergency Initiative (ABADEI) [95] strategy, geared to restoring essential services among other activities".

The Repurposed Afghanistan Reconstruction Trust Fund (ARTF) is a multi-donor trust fund that coordinates international aid to Afghanistan, administered by the World Bank. [96] US and UN officials are reportedly currently working on how the funds (which total USD 1.5 billion) could be redirected to Afghanistan, with transfers of some USD 350 million from unallocated ARTF funds expected to be transferred to Afghanistan in late 2021. See, also ICG (2021), which outlines a series of initiatives geared to sustaining essential services.

Such initiatives can be considered in parallel to the channels outlined above, with a considerable degree of interdependency in light of the need for economic and banking structures and a release of international funds in order to be able to address the wider humanitarian crisis and for NGOs to continue providing assistance.

Sources

ACAMS (2021) "Sanctions Rapid Response Briefing Paper Afghanistan and Risk Managing Permissible Payments: Key Aspects Requiring Clarification and Future Public-Private Dialogue", ACAMS International Sanctions Compliance Task Force – Humanitarian Workstream, 9 September, https://www.acams.org/en/sanctions-afghanistan-response-paper

Afghanistan CVWG (2021) "Afghanistan CVWG FSPs Mapping", December 2021, Supported by Asia-Pacific Regional Cash Working Group, https://app.powerbi.com/view?r=eyJrIjoiNjJhYTAzMjktYWUxOS00ZjMyLTgwNTMtMTRlNjBmMjQ0MGM4IiwidCI6IjNmODZkMWI0LTJjNmItNGIxYS1iMmFlLTZmNWU5NTBiY2ExZSIsImMiOjh9

Al-Jazeera (2021), "Western Union to resume money-transfer services to Afghanistan", 02 September, https://www.aljazeera.com/economy/2021/9/2/western-union-to-resume-money-transfer-services-to-afghanistan

Barzegar, Abbas & El Karhili, Nagham (2017) The Muslim Humanitarian Sector: A Review for Policy
Makers and NGO Practitioners, November, https://www.britishcouncil.us/sites/default/files/final_report_-_the_muslim_humanitarian_sector.pdf

Beechwood International (2015) "Humanitarian use of Hawala in Syria: Technical Assessment, Prepared for aid agencies conducting cross-border operations", 31 July, https://f4e5eb49-4ba6-4706-8add-fba9b9e63276.filesusr.com/ugd/a1e9fb_90ab49107ea249c487e4146fe2319cba.pdf

BIS, 2016, "Payment aspects of financial inclusion", April, https://www.bis.org/cpmi/publ/d144.pdf

Blacklock, James (2015) "Hawala: A Misunderstood Money System", The Intelligencer, 09 November, https://www.phc.edu/intelligencer/hawala

Bryant, John (2019) "Remittances in Humanitarian Crises", Humanitarian Policy Group (HPG) Working Paper, Overseas Development Institute, March, https://www.odi.org/sites/odi.org.uk/files/resource-documents/12638.pdf

Byrd, William (2011) "Key to Afghan Relief Efforts: Financial Engineering for Private Sector, Economy", United States Institute of Peace, 17 November, https://www.usip.org/publications/2021/11/key-afghan-relief-efforts-financial-engineering-private-sector-economy

Care International, "Using Hawala to Conduct Cash Programming in Syria", January 2019, https://insights.careinternational.org.uk/media/k2/attachments/Using-Hawala-to-Conduct-Cash-Programming-in-Syria_CARE-learning-paper_2019.pdf, pp.2-3

Charity Commission for England & Wales (2021) "Compliance Toolkit: Protecting Charities from Harm", https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/691191/Chapter4new.pdf

Choudhury, Nafay (2021A) “Afghanistan’s Money Exchangers Are the Economy’s Last Best Hope”, Foreign Policy, 5 September, https://foreignpolicy.com/2021/09/05/afghanistan-economic-crisis-taliban-takeover-banks-money-exchangers/

Choudhury, Nafay (2021B) “Order in the Bazaar: The Transformation of Non-state Law in Afghanistan’s Premier Money Exchange Market”, Law & Social Inquiry, 1-39, 02 September, https://www.cambridge.org/core/journals/law-and-social-inquiry/article/order-in-the-bazaar-the-transformation-of-nonstate-law-in-afghanistans-premier-money-exchange-market/360C7384292BBA1B479936C807CBB794

Cointelegraph (2017) “Crypto Exchange Bitfinex Won’t Support Venezuela’s Petro, Following US Gov’t Ban” 27 March, https://cointelegraph.com/news/crypto-exchange-bitfinex-wont-support-venezuelas-petro-following-us-govt-ban REMOVE?

Coppi, G. and Fast, L. (2019) “State of blockchain and distributed ledger technologies in the humanitarian sector”. London: ODI

CSIS (2021) “Impact of U.S. Sanctions on Aid Delivery in Afghanistan”, 03 September, https://www.csis.org/analysis/impact-us-sanctions-aid-delivery-afghanistan

DAB (2021) “Da Afghanistan Bank Notification”, 9 September 2021 and “Message of Mr Alhaj Abdul Qahir, the Acting Governor of Da Afghanistan Bank”, 15 September 2021. CHECK WHERE FROM.

Das, Dipaneeta (2021) “Afghanistan's Central Bank To Auction USD 10 Million To Prevent Fall Of Country's Currency”, 17 November, Republic World, https://www.republicworld.com/world-news/rest-of-the-world-news/afghanistans-central-bank-to-auction-usd-10-million-to-prevent-fall-of-countrys-currency.html

De Corbion, A., Hosein, G., Fisher, T., Geraghty, E., Callandar, A., Bouffet, T., 2018, “The humanitarian metadata problem: doing no harm in the digital era”, International Committee of the Red Cross (ICRC), Geneva.

Dean, Roger (2015) “Remittances to Syria: What Works, Where and How”, Norwegian Refugee Council (NRC), July, http://reliefweb.int/sites/reliefweb.int/files/resources/2015-07-nrc---remittances-to-syria---reportfinal-(1).pdf

Erbenová, Michael, Yan Liu, Nadim Kyriakos-Saad, Alejandro López-Mejía, Giancarlo Gasha, Emmanuel Mathias, Mohamed Norat, Francisca Fernando, and Yasmin Almeida. 2016. “The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action.” IMF Staff Discussion, Note. Washington, DC: International Monetary Fund.

Eckert, Sue (2021) “Afghanistan’s Future: Assessing the National Security, Humanitarian and Economic Implications of the Taliban Takeover”, Statement before the Senate Committee on Banking, Housing, and Urban Affairs, 5 October, https://www.banking.senate.gov/imo/media/doc/Eckert%20Testimony%2010-5-212.pdf

Emmott, Robin O'Donnell, John and Landay, Jonathan (2021) “Airlifts of cash planned to help Afghans and bypass Taliban, sources say”, KSL.com, 7 October, https://www.ksl.com/article/50257687/airlifts-of-cash-planned-to-help-afghans-and-bypass-taliban-sources-say

FATF (2021) “FATF Public Statement on the Situation in Afghanistan”, 21 October, https://www.fatf-gafi.org/publications/fatfgeneral/documents/afghanistan-2021.html

Government of the United Kingdom (2015) “UK-Somalia Safer Corridor Initiative”, October, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/471064/UK-Somalia_Safer_Corridor_Initiative.pdf

Government of the United Kingdom (2013) “Safer Corridors Rapid Assessment: Case Study Somalia & UK Banking”, led by Thompson, Edwina, Sentis, Keith, Plummer, Robin, Catalano, Michael & Keatinge, Tom; with Beechwood International, September, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/283826/SAFER_CORRIDORS_RAPID_ASSESSMENT__2013__SOMALIA___UK_BANKING.PDF

Hancock, Daniel A. (2008) “The Olive Branch and the Hammer: A Strategic Analysis of Hawala in the Financial War on Terrorism”, The Culture & Conflict Review, Vol. 2: No. 3, Summer, https://nps.edu/documents/105988371/107571254/Hancock.pdf/06328b2d-d76e-4b65-b0f5-983bc2e82850

Howell, George (DATE) “Six Degrees of Mobile Money in Afghanistan”, USAID Frontiers in Development, https://reliefweb.int/sites/reliefweb.int/files/resources/Gregory%20Howell.pdf

Hudáková, Zuzana, Biersteker, Thomas & Moret, Erica (2021) “Sanctions relaxation and conflict resolution: Lessons from past sanctions regimes”, Carter Center, October, https://www.cartercenter.org/resources/pdfs/peace/conflict_resolution/sanctions-relaxation-10-2021.pdf

Jost, Patrick, M. & Singh Sandhu, Harjit (2000) “The Hawala Alternative Remittance System and its Role in Money Laundering”, Prepared by the Financial Crimes Enforcement Network in cooperation with INTERPOL/FOPAC, https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/FinCEN-Hawala-rpt.pdf

JMLSG, 2021, “Current Guidance”, https://jmlsg.org.uk/guidance/current-guidance/

ICG (2021) “Beyond Emergency Relief: Averting Afghanistan’s Humanitarian Catastrophe”, International Crisis Group, Report Number 317, 6 December, https://www.crisisgroup.org/asia/south-asia/afghanistan/317-beyond-emergency-relief-averting-afghanistans-humanitarian-catastrophe

IMF (2020) “Ralph Chami: Umbilical Cord of Remittances Under Threat”, 29 May, Podcast, https://www.imf.org/en/News/Podcasts/All-Podcasts/2020/05/29/Remittances-Chami-covid.

Sahak, Fayez & Choudhury, Nafay (2021) Afghanistan Banking Sector Assessment, International Rescue Committee (IRC), December.

ITU (2008) “E-Services through Post Offices in Afghanistan”, Prepared by

International Telecommunication Union (Telecommunication Development Bureau) and

Development Cooperation Directorate International Bureau-Universal Postal Union, July, https://www.itu.int/en/ITU-D/Technology/Documents/RuralCommunications/UPU_Afghanistan.pdf

Landay, Jonathan & Shalal, Andrea (2021) “Exclusive-World Bank works to redirect frozen funds to Afghanistan for humanitarian aid only -sources”, Reuters, 29 November, https://news.yahoo.com/exclusive-world-bank-works-redirect-184711364.html?fr=sycsrp_catchall

Niagi, Kagondu (2021) “Kenya slum dwellers battle COVID-19 downturn with virtual currency”, 20 January, Thomson Reuters Foundation News, https://news.trust.org/item/20210120020034-wrr0f/

Mallard, G., Sabat, F. & Sun, J. (2020) “The Future of the International Trade of Vital Goods in Sanctioned Jurisdictions: A FinTech Solution to the Current Problem of Payments”. Global Governance. 26: 121–153

MENA FAFT, 2005, “Best practices issued by the Middle East and North Africa Financial Action Task Force Concerning the Hawala”, December, http://www.menafatf.org/sites/default/files/Newsletter/best%20practices%20on%20Hawala.pdf

Moret, Erica (2021) “The role of sanctions in Afghanistan’s humanitarian crisis”, International Peace Institute, 14 October, https://theglobalobservatory.org/2021/10/the-role-of-sanctions-in-afghanistans-humanitarian-crisis/

Moret, Erica & Blanchet, Karl (2021) “Sanctions on Afghanistan: Why less is more”, the New Humanitarian, 30 September, https://www.thenewhumanitarian.org/authors/erica-moret

Munzele Maimbo, Samuel (2003) “The Money Exchange Dealers of Kabul

A Study of the Hawala System in Afghanistan”, World Bank Working Paper 13, https://openknowledge.worldbank.org/bitstream/handle/10986/15087/269720PAPER0Money0exchange0dealers.pdf?sequence=1&isAllowed=y

McKay, Hollie (2021) “Afghanistan on brink of economic collapse as cash crisis deepens”, New York Post, 14 September, https://nypost.com/2021/09/14/afghanistan-on-brink-of-economic-and-humanitarian-collapse/

Rahimi, Haroun (2021) “How To Create Better Hawala Regulations: A Case Study of Hawala Regulations in Afghanistan” International Journal of Crime, Law and Social Issues, 08 April, https://ssrn.com/abstract=3825796

REACH (2019) “Syria Market Monitoring Exercise - Cash-Based Responses Technical Working Group - 17 November 2019”, 29 November, https://reliefweb.int/report/syrian-arab-republic/syria-market-monitoring-exercise-cash-based-responses-technical-11

Ribando Seelke, Clare, (2020) “Venezuela: Overview of U.S. Sanctions” Congressional Research Service: In Focus, 21 February, https://fas.org/sgp/crs/row/IF10715.pdf, accessed 21 March.

Ross, Nocholas & Barrat, Stefanie (2021) “Remittances to Afghanistan are lifelines: They are needed more than ever in a time of crisis”, Migration Data Portal, 6 September, https://www.migrationdataportal.org/blog/remittances-afghanistan-lifelines

Shalal, Andrea (2021) “U.S. allows personal remittances to flow to Afghanistan”, Reuters, 2 September, https://www.reuters.com/world/us/us-treasury-allows-personal-remittances-flow-afghanistan-2021-09-02/

Shah Omid, M. H. (2019) “Afghanistan’s Post Office Begins Online Services”, Tolo News, 11 April, https://tolonews.com/index.php/business/afghanistan’s-post-office-begins-online-services

Smith, Adam M. (2021) “The Humanitarian and Policy Challenges of U.S. Sanctions on the Taliban”

The Economist (2020) “Hawala traders are being squeezed by regulators and covid-19”, The Economist, 28 November, https://www.economist.com/finance-and-economics/2020/11/28/hawala-traders-are-being-squeezed-by-regulators-and-covid-19

Thompson, Edwina (2006) “The Nexus of Drug Trafficking and Hawala in Afghanistan,” in Buddenberg, Doris & Byrd, William A. (eds.) Afghanistan’s Drug Industry: Structure, Functioning, Dynamics and Implications for Counter Narcotics Policy, World Bank, Washington, D.C.

Thompson, Edwina (2011) Trust is the Coin of the Realm: Lessons from the Money Men in Afghanistan, Oxford: Oxford University Press.

Thompson Reuters (2021) “U.N. Urgently Needs Cash in Afghanistan, But Struggles for Solution”, 28 October, https://www.shorenewsnetwork.com/2021/10/28/u-n-urgently-needs-cash/

Transparency International (2021) “Corruption Perceptions Index: Afghanistan”, https://www.transparency.org/en/cpi/2018/index/afg

Trulsson Corda, Anette (2021), “Transfer Galaxy's CMO Anette Trulsson Corda talks about the impact of the situation in Afghanistan on BBC Today Radio 4”, BBC Radio 4, 24 August, https://www.bbc.co.uk/sounds/play/m000yyq1

UN (2021) “Millions of Lives Will Depend on How Afghanistan’s New Interim Government Chooses to Govern, Special Representative Tells Security Council”, Security Council 8853rd Meeting (PM), Meetings Coverage, SC/14628, 09 September, https://www.un.org/press/en/2021/sc14628.doc.htm

UNHCR (2021) “Afghanistan”, https://www.unhcr.org/afghanistan.html

UNOCHA (2021) “Humanitarian Response Plan Afghanistan 2022”, https://reliefweb.int/sites/reliefweb.int/files/resources/hrp_2022_summary_v01_lr.pdf

US Department of State (2014) “2014 International Narcotics Control Strategy Report (INCSR)”, https://2009-2017.state.gov/j/inl/rls/nrcrpt/2014/index.htm

US Department of the Treasury (2021) “Treasury Issues General Licenses and Guidance to Facilitate Humanitarian Assistance in Afghanistan”, Press Release, 24 September, https://home.treasury.gov/news/press-releases/jy0372

US Department of the Treasury (2018) “Treasury Sanctions Taliban and Haqqani Network Financiers and Facilitators”, Press Release, 25 January, https://home.treasury.gov/news/press-releases/sm0265

US FinCen, 2003, “FinCen Advisory: Informal Value Transfer Systems”, March, Issue 33, https://www.fincen.gov/sites/default/files/advisory/advis33.pdf

Wall Street Journal (2021) “U.S. Banks and Money-Transfer Firms Tread Carefully in Taliban-Controlled Afghanistan” 21 August, https://www.wsj.com/articles/u-s-banks-and-money-transfer-firms-tread-carefully-in-taliban-controlled-afghanistan-11629557127

West, Adam (2020) “NALA: Africa’s First Offline Payment App that Returns Financial Power to the People in Tanzania and Uganda”, 19 October, https://www.cardrates.com/news/nala-is-africas-first-offline-payment-processing-app/

Woodsome, J. & Ramachandran, V. (2018) Fixing AML: Can New Technology Help Address the De-Risking Dilemma? Center for Global Development, https://www.cgdev.org/sites/default/files/fixing-aml-can-new-technology-help-address-de-risking-dilemma.pdf

World Bank (2021A) “Personal remittances, received (current US$) – Afghanistan”, https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=AF

World Bank (2021B) “Remittance prices worldwide making markets more transparent”, https://remittanceprices.worldbank.org/en/corridor/Germany/Afghanistan

World Bank (2018) “International Development Association, Project Appraisal Document on a Proposed Grant to the Islamic Republic of Afghanistan, For a Modernizing Afghan State Owned Banks Project”, https://documents1.worldbank.org/curated/en/644081522461645615/pdf/Afghanistan-Afghan-State-Owned-Banks-PAD-PAD2481-03142018.pdf

World Bank (2011) “The Financial Sector in Afghanistan: Managing the Postconflict Reform Process”, https://documents1.worldbank.org/curated/en/906721468765919977/pdf/40680.pdf

Zerden, Alex (2021A) “Establishing a Humanitarian Financial Corridor for Afghanistan”, Lawfare, 15 November, https://www.lawfareblog.com/establishing-humanitarian-financial-corridor-afghanistan

Zerden, Alex (202B) “Reassessing Counter Terrorism Financing in a Taliban-Controlled Afghanistan”, Just Security, 17 September, https://www.justsecurity.org/78221/reassessing-counter-terrorism-financing-in-a-taliban-controlled-afghanistan/

Endnotes

[1] For details, see: https://news.un.org/en/story/2022/01/1109492.

[2] While differences between INGO and L/NNGO financial access is stressed throughout this report, the term NGO is used in more general terms where collective sectoral challenges are described or where differentiated impacts were not made clear in interviews.

[3] These NGO representatives participated in a PHAP workshop presentation of the report held on 16 December 2021.

[4] An MTO is defined here as "[a] non-deposit-taking payment service provider where the service involves payment per transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (for example, by cash or bank transfer)" (BIS, 2016).

[5] An MSB is defined here as "[a]n undertaking which by way of business operates a currency exchange office, transmits money (or any representation of monetary value) by any means" (JMLSG, 2021). The term could feasibly also encapsulate regulated *hawala* agents as well as other types of money exchange houses. Regulations regarding MSBs (and other types of IVTS operators) vary according to the country in question. In the UK, the term has a special meaning under the Money Laundering Regulations 2007, defining MSBs as those businesses, "that exchange currency, transmit money (or any representation of money) or cash third party cheques" (Charity Commission for England & Wales (2021: 28). They are required to register with Her Majesty's Revenue and Customs (HMRC) and supervised by a regulator (e.g. Financial Conduct Authority). UK NGOs can check which UK MSBs registered with the HMRC's Money Service Business Register.

[6] IVTS is defined by the United States Department of the Treasury Financial Crimes Enforcement Network (US FinCen) as "[a]ny system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form. The transfers generally take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money" (US FinCen, 2003). According to the Charity Commission for England and Wales, "IVTS are systems [including hawala] for moving funds, or their equivalent value, to a third party in another geographic location, where there may be no formal banking facilities, or limited access to them, without necessarily involving the formal banking system" (Charity Commission for England & Wales (2021: 18)

[7] Over the past 20 years, Afghanistan's exchange rate has been controlled through an auctioning system run by Afghanistan's Central Bank, whereby US dollars are sold for local Afghanis (Das, 2021). Money exchangers play an important role in this process. According to one Afghan *hawala* specialist, the "central bank depends on exchangers for this auction because their strong economic networks can quickly disburse U.S. dollars to businesses across the market. They can also take risks that banks would not, as the loans they provide are often based on trust" (Choudhury, 2021). The auctions have halted since the crisis (Crisis Group, 2021), other than one small auction of USD 2 million, largely consisting of small bank notes (Sahak & Choudhury, 2021).

[8] Particularly notable is that the International Monetary Fund (IMF) also froze its financing to Afghanistan, which included hundreds of millions of US dollars in Special Drawing Rights, which can usually be converted into currency at crisis periods. It also includes the freezing of some USD 1 billion IMF funds and USD 800 million World Bank funds earmarked for Afghanistan and around USD 1.4 billion of EU long-term and emergency assistance funding to the country, which was conditional on the maintenance of democratic institutions (Sahak & Choudury, 2021)

[9] Foreign assistance formerly accounted for some 60% of public servants' salaries (Sahak & Choudhury, 2021)

[10] Freezing much of the existing funding going to NGO development programmes – though some has been 'repurposed' for humanitarian programming.

[11] For example, UN Secretary-General Antonio Guterres called for the IMF "to agree on waivers or mechanisms to get money into Afghanistan", adding "We need to work together to make the economy breathe again and to help people survive… Injecting liquidity into the Afghan economy can be done without violating international laws or compromising principles'" (Thompson Reuters, 2021).

[12] This includes a halt on corporate banking services, a lack of a functioning central bank governing mechanisms (such as settlements between commercial banks, foreign exchange and wider corporate banking services).

[13] Various experts and former US officials have called for the release of some the frozen foreign exchange reserves by the US Treasury, including to one or more private Afghan banks for use in humanitarian programming (e.g. Byrd, 2021, Zerden, 2021A and Grieco, 2021; ICG, 2021). Such a response appears unlikely, however, due to ongoing opposition from the US Treasury, which cites ongoing litigation that is blocking any release of the assets.

[14] This was a point of some confusion among NGOs and banks who said that no official communications had been issued regarding a ban on the use of foreign currencies, other than some online posts from the Taliban's spokesperson, Zabihullah Mujahid, who wrote: "The Islamic Emirate instructs all citizens, shopkeepers, traders, businessmen and the general public to … conduct all transactions in Afghanis and strictly refrain from using foreign currency…Anyone violating this order will face legal action" (according to some African newspapers, e.g. https://mbaretimes.com/2021/11/taliban-bans-use/). One FSP operating in Afghanistan said that the restriction did not impact *hawala* or bank transfers.

[15] At the time of writing, the rules stipulated that individuals could withdrawal cash AFN 30,000 (equivalent to USD 400) from their bank accounts in Afghanistan. Companies/ INGOs/ other entities can withdrawal 5% of their total funds held in an account per month or USD 25,000. Any company or an NGO with two or multiple currency accounts did not have greater access to funds than an INGO with only one bank account in the country. According to the Acting Governor of DAB, the withdrawal restrictions are meant to prevent a bank run of US dollars from leaving the country and to maintain the stability of exchange rates in an attempt to avoid DAB assets from being exhausted (DAB, 2021). Economists consulted for this paper argued that the moves ultimately serve to erode customer confidence, however. Similar rules have been imposed in the past, but with limited success, in part due to the highly integrated nature of the Afghan and neighbouring economies (Sahak & Choudhury, 2021). Shifting a possible change in circumstances, some INGOs consulted in early January 2022 said that they had been able to access physical cash in greater amounts from Azizi Bank. There was also the possibility of applying for waivers from DAB to withdraw greater amounts of cash, particularly when it could be shown that the funds were intended for beneficiaries. The 2021 IRC report adds that "Corporate customers are permitted to transfer up to 25 % of their existing bank account balances for the purchase of the following items: food, medicine, fuel/gas, hygiene items, electricity, raw material and spare parts, transportation and communication items, system maintenance, and other purchases approved by the DAB" (Sahak & Choudhury, 2021: 10).

[16] On 24 September 2021, OFAC issued two general licenses (GLs 14 and 15), which authorises certain types of humanitarian transactions involving Afghanistan relating to the Taliban or the Haqqani Network that would otherwise be prohibited by the Global Terrorism Sanctions Regulations, the Foreign Terrorist Organizations Sanctions Regulations, or Executive Order (EO) 13224. OFAC also issued four Frequently Asked Questions providing clarity of the scope of the GLS and guidance for non-US individuals and entities, including "NGOs and foreign financial institutions, engaging in or facilitating transactions for activities authorized for U.S. persons under the GLs" (US Department of the Treasury, 2021). On 10 December GL 16 was issued, authorising personal remittances, alongside two Frequently Asked Questions. GL 17-19, issued on 28 December 2021, are intended to expand earlier authorisations (along with a related fact sheet), including to cover ordinary, incidental, and necessary NGO activities for meeting basic human needs, including democracy building and education; US Government official business and transactions for official business of certain international agencies (subject to certain conditions).

[17] Adopted on 22 December 2021, following the adoption of the UNSC Resolution 2615 (2021). Some interviewees highlighted the need for donors, such as the UK, to swiftly translate the 1988 carveouts into domestic law to avoid ongoing delays and blockages to NGO international banking transactions.

[18] NGOs would like to see further clarity in certain areas under US sanctions, including a clearer definition of "basic human needs" and what constitutes "The Taliban", as well as further clarity in relation to support of education in Afghanistan. Eckert (2021: 6), critiqued the narrow scope of activities that the first set of GLs covered in comparison to other OFAC actions of recent times. For example, she argued "General Licenses issued by OFAC in 2021 for Yemen, Burma, and…Ethiopia (and previously as applied to Venezuela), have included a broad range of authorized humanitarian and civil society programs".

[19] Any transactions to Afghanistan involving the use of the US dollar or passing through the "clearing" of correspondent banks with involvement of US financial institutions are subject to the US global terrorism sanctions list. This means that, if at any point of the payment chain a currency needs to be converted into USD (something that often happens even if two "frontier" currencies are converted from one to another) then this would be subject to US regulations (the use of US bank notes is not subject to the same regulations, however).

[20] To take the example of the UK, until the new UNSC carveout was adopted on 22 December 2021, UK banks were not allowed to make payments to public banks, government entities (including payment of taxes and VAT) or to state owned enterprises (including telecoms providers and utilities). According to one UK NGO, this meant that "in the short to medium term, the UK Government can't work out how to do an aid programme at any scale". While taxes for salaries are now understood not to violate US sanctions, Canada and Australia are other examples of donors that continue to debate their positions and remain reluctant to authorise such transactions in light of UN sanctions in place. Furthermore, at the time of writing, a number of key UN member states have yet to incorporate the UN exception into domestic legislation, according to one NGO representative. In addition, some have considered adding new requirements, which may serve to undermine the full impact of the exception.

[21] According to one banking sector employee, movement of funds to Afghanistan has largely remained sessile, essentially due to lack of clarity from a regulatory perspective in relation to sanctions (alongside poor alignment across regulatory bodies on what is permissible) and a lack of interconnectivity, transparency and political will from the various responsible parties (government departments, treasuries and regulators) to make clear how

the banking sector and financial institutions can support NGO activities (as outlined, for example, in the UK Trisector Working Group key working principles).

[22] The Afghan currency is no longer being printed in Poland and there is no in-country mechanism for printing new Afghani notes. Furthermore, there is no country around the world willing to take this on (at the time of writing).

[23] Some have reported that of 4 billion AFN available in country, only some ½ billion AFN is in circulation.

[24] Even though the provision of medical supplies and equipment donations to public health facilities are covered under GLs 14 and 19.

[25] Transparency International (2021) rates Afghanistan in among the ten most corrupt countries in the world (in 172nd place in 2018).

[26] According to ICG (2021) "The World Food Programme's regular monitoring of prices showed that wheat, rice, cooking oil, diesel and other essentials were more expensive in September and October than in June; by the third week of October, a day's wages for a labourer purchased 25 per cent less wheat flour than before the Taliban victory. The national currency, the afghani, lost about 13 per cent of its value in the same period, trading at 90 to the U.S. dollar".

[27] Particularly for those employees like guards and drivers, who may not count on savings.

[28] Those interviewed were contacted via the authors' existing network as well as via recommendations from others. Interviews were carried out online (through video conferencing meetings) and participants were given the opportunity to share their views in a fully or partially anonymised manner (with most opting for the latter). In some cases, a set of questions was put to individuals (e.g. senior staff in Afghan banks) via an intermediary.

[29] A list of questions was sent to most respondents prior to each interview, with most lasting between 30-70 minutes. While efforts were made to talk to individuals involved in NGO financing from various parts of the world, there was a greater representation of UK NGOs, MSBs and banks in light of the connection to the UK Trisector Group.

[30] Participants were based in Asia (44.8%), Europe (40.7%) and North America (11.2%), with under 3% from other regions.

[30] Feedback on the report was sought during and following the event, which was used to revise and amend the report.

[31] Results of the polls are included in the report in an anonymised manner, so as to protect the identities of respondents and their organisations.

[32] According to a recent IRC report, "The independence of DAB is enshrined in article 12 of the Afghan Constitution 2004. The President holds the authority to appoint the head of the central bank, and the appointment also requires approval by the parliament. DAB is regulated by the Da Afghanistan Bank Law (2003), which sets out its objectives, organization, roles, and responsibilities. The central office of DAB is located in Kabul and approximately 50 branch offices exist throughout the country, helping to implement DAB monetary policies across the country" (Sahak & Choudhury, 2021: 7-8).

[33] According to the Afghanistan Banks Association website. See: (http://www.aba.org.af/tablecontent.php?lang=en&content=Member%20Banks%20Profile).

[34] A joint Afghan-Iranian venture between Iran's Bank Melli and Bank Saderat, listed by the US, EU, the UK and others (https://www.iranwatch.org/iranian-entities/arian-bank).

[35] Problems of de-risking are also applicable to wider trade with Afghanistan. The CEO of one major Afghan bank consulted for this report confirmed that even USD payments for their best commercial clients were not being approved by US banks, even in relation to the permitted trade in essential goods.

[36] One month's average salary in the local currency would need to be carried in a suitcase, for example. These NGO staff cannot be armed and are not able to use intermediaries to transfer the cash. NGOs raised concerns that these challenges were frequently overlooked, yet "it's only a matter of time before people are injured or killed".

[37] According to its website. See: (https://afghanpost.gov.af/index.php/en/history).

[38] A number of NGOs reported having accounts with Moneygram but said that these channels did not seem to be operating, and/ or were subject to large transaction fees so were not being used (much or at all) at the current stage. Moneygram was being used for certain parts of the payment chain involving to agents in third countries, however. One NGO said that they use the platform to transfer funds electronically to Turkey, where it is then transferred to Afghanistan through *hawala* with a 3% commission charge.

[39] The Swedish start-up MTO, Transfer Galaxy, does not appear to be servicing Afghanistan at present, though it had been operational at the start of the crisis (Trulsson Corda, 2021).

[40] See more info at: https://www.smallworldfs.com/en/money-transfer/afghanistan

[41] The World Bank only provides details of some limited aspects of personal remittance flows to Afghanistan (only covering formal channels). For example, data is only provided for Germany, Pakistan, Saudi Arabia, the UK and the US as sender countries using Western Union and Moneygram (World Bank, 2021B). One news report lists Iran, Saudi Arabia, the UK, Germany and the US as the main personal remittance sending countries pre-

crisis (Shalal, 2021), though further research is warranted to understand how this has changed since August 2021.

[42] WU has a banking license but is not bank. It works with banking partners across the world to facilitate payments in different currencies. WU traditionally services bank to bank (B2B) transactions for NGOs and also provides a bank to cash solution. It also deals with areas such as international payroll and treasury funding. According to one industry review "WUBS business is one of the world's largest non-bank providers of cross-border business payment and foreign exchange solutions processing over $110 billion in total payments volume in 2020. With an existing customer base of more than 30,000 small and medium-sized businesses, educational institutions, financial institutions, law firms, and NGOs spanning over 40 countries and territories and 140 currencies, the business possesses a truly global footprint and serves some of the fastest-growing segments of the B2B cross-border payments markets". See: (https://www.convera.io/convera-announcement/).

[43] Of USD 500, paid in AFN.

[44] According to one remittance expert, WUBS has the benefit of being able to carry out transactions without the need for correspondents (using SWIFT or Automated Clearing House [ACH] routings instead). This helps to avoid some of the problems associated with de-risking faced by banks other than CAB or those using StoneX and other similar platforms. Nevertheless, all these channels have been beset by de-risking.

[45] Although registered with Companies House and the UK's Financial Standards Authority (FSA), MSBs in the UK tend not to have bank accounts in UK and expect funds to be provided in cash or cheque; something that can serve as a barrier to NGOs as they are unable to chart where the cash is going, including via intermediaries.

[46] To take the example of UK NGOs, OFSI guidance to outlines requirements for use of MSBs by charities (Charity Commission for England & Wales, 2021).

[47] From offices in London and Birmingham.

[48] According to its website (see: http://www.arianaexchange.com), Ariana Exchange, which is registered with the UK tax authorities and regulator, allows senders to remit funds to Afghanistan from the UK, as well as from China, the Netherlands, Pakistan and the United Arab Emirates. While could usually be accessed in Afghanistan in a range of currencies, limitations at the time of writing meant that only Afghanis could be delivered, according to one NGO.

[49] One Afghan *hawala* specialist argues that "the international community must not be alarmed over any increased reliance on informal exchangers, which it may associate with the illicit movement of funds or the descent of the financial system. On the contrary, that reliance may be an indication that the Afghan economy has a fighting chance" (Choudhury, 2021A).

[50] They listed the main *hawala* agents used so far as Abdullah Samim Naved MSP, Khadamat Poli Ali Shan MSP, Afghan Sharq and Mustafa Ltd.

[51] In the UK, for example, the UK Charity Commission guidance includes a detailed chapter on moving funds internationally, including via *hawala*, with pages 21-25 dedicated to using "intermediaries", noting that "Trustees should consider appropriate financial controls, risk management and assurance procedures…to demonstrate effective management and conduct when using intermediaries, including proper decision making and the identification and management of any problems" (Charity Commission for England & Wales, 2021: 8).

[52] In 2003, international in- and out-payments were made via *hawala* counterparts in Iran, Pakistan, India, Saudi Arabia, Qatar, United Arab Emirates and Oman (Munzele Mainbo, 2003).

[53] It is important to keep in mind that such figures can be misleading when the settlement methods are not defined, however. For example, rates differ according to whether cash is accepted in settlements, or whether a bank transfer into a business or individual account is required. Rates also vary if there are links to a business or individual's account in Afghanistan and whether the transfers are for reimbursement or pre-funding.

[54] Afghanistan was on the Financial Action Task Force's (FATF) grey list between 2012 to 2017 for monitoring but was removed with diplomatic and technical assistance and after implementing AML/ CFT legislation. The US ceased to designate Afghanistan as a "major money laundering country" in 2020. The fact that the Afghan Government (including the Financial Intelligence Unit, or FIU, of DAB) have taken over by a designated terrorist group may lead to additional restrictions in the coming months and years. FATF issued a statement on 21 October 2021, reading "In light of recent events in Afghanistan… FATF calls on all jurisdictions' competent authorities to provide advice and facilitate information sharing with their private sectors on assessing and mitigating any emerging ML/TF risks identified, in accordance with the risk-based approach… The FATF calls on all jurisdictions to protect non-profit organisations from being misused for terrorist financing. This includes competent authorities conducting sustained and targeted outreach, consistent with the FATF Recommendations, while respecting human rights and fundamental freedoms" (FATF, 2021).

[55] Like the UN, which currently designates four *hawaladars*, the US has also designated a number of *hawala*-related individuals and entities as SDGTs pursuant to EO 13224 and the Foreign Narcotics Kingpin Designation Act (which also appear on the UN list).

[56] According to one interlocutor, the US government is also reportedly considering new restrictions on those employing *hawala* as a way of exerting leverage over the Taliban (in light of their dependence on *hawala*).

[57] The transfer of physical cash by NGOs is guided by different legal frameworks in different countries. In the UK, for example, financial controls in respect of physical cash transfers are outlined by OFSI including "on return

a detailed breakdown of expenditure should be provided with receipts as far as possible, accompanied by a self-declaration of how funds were expended by the person responsible for taking the cash, or more than one such declaration if more than one person is travelling" (Charity Commission for England & Wales, 2021: 21).

[58] The UK Government defines cash couriers as "persons who physically transport currency on their person or in accompanying luggage, often from one jurisdiction to another, usually charging for the service. Cash courier activity is not regarded by HMRC as a 'Money Service Business activity'" (Charity Commission for England & Wales, 2021: 5).

[59] ICG (2021) argue "The U.S. government and its allies should find ways of injecting liquidity into Afghan currency markets. Ideally, Washington would greenlight the phased return of frozen reserves to the Afghan central bank…releasing an initial tranche on a trial basis to monitor for unintended effects. This step would allow the central bank to regulate the Afghan currency and run U.S. dollar auctions. If the Biden administration is not prepared to do that, currency swaps supervised by the World Bank or a UN agency might serve as a temporary fix".

[60] Though some reported that a domestic currency swap scheme was also being discussed by UNDP.

[61] According to one interviewee, current or possible "Humanitarian Swap Partners" are largely concentrated around Afghan Banks, including AIB and possibly Ghazanfar (for over USD 50 million/month); importers, including top food and fuel importers to Afghanistan (for over USD 20 million/month) and telecom companies, including Roshan, AWCC, MTN and Etisalat (for over USD 6 million/month).

[62] Some parts of the UN argue for the importance of getting the World Bank and large IFIs involved as they know how to distribute funds and aid. There is also a need development funds to resume work as humanitarian organisations do not have capacity to cover all service needs.

[63] The UK's Foreign, Commonwealth and Development Office defines "mobile money transfer" as "a way to send money using mobile phones. It is a transfer of money to a recipient in which the funds are deposited into a mobile or 'virtual' wallet…including where: the donor deposits cash with an agent specialising in such transactions who then sends the funds to the virtual wallet (mobile phone) of the recipient; the donor uses a mobile phone to transfer funds to an agent who then passes the cash on to the recipient; there is a mobile phone to mobile phone transaction where the funds are transferred directly between donor and recipient" (Charity Commission for England & Wales, 2021: 29).

[64] M-Paisa is run by Afghanistan's network provider, Roshan (TDCA), launched M-Paisa in 2007, and banks with AIB, Azizi Bank, the First Microfinance Bank of Afghanistan and AUB and also partners with Western Union). According to its website "Businesses, Government offices, Public and Private Institutions or Micro Finance entities can disburse salaries and funds to their employees and staff through M-Paisa. This ensures that beneficiaries receive 100% of their salaries & loans instantly in a safe, secure and cost-efficient manner. Employees or loan borrowers can then withdraw or cash out theirs salaries/loans or use the e-money in their M-Paisa accounts to buy mobile phone credit, pay bills or transfer money to friends and families from and to anywhere and at any time safely and securely" (https://www.roshan.af/en/personal/m-paisa/other-m-paisa-services/). Roshan has engaged with Afghan government and NGO partners since the early 2010s (according to Howell, 2012).

[65] Etisalat was launched in November 2011. It banks with AUB and has partnered with USAID.

[66] MTN was launched in early 2020.

[67] Afghan Wireless Communication Company (AWCC) was launched 2013 and is the biggest MNO in Afghanistan. It banks with Kabul Bank and Maiwand Bank and has also partnered with USAID.

[68] Afghanistan Payments System, developed by DAB with World Bank support, has been designed to provide retail digital payment infrastructure able to connect all financial service providers.

[69] Illustrating the slow pace in progress in mobile money in Afghanistan over the past decade, Howell (2012: 139) wrote that "By the end of 2011, USAID/Afghanistan had compiled a list of more than 15 potential mobile-money applications [active in Afghanistan], including initiatives to empower women, in partnership with the Ministry of Women's Affairs; pay pensions on behalf of the Ministry of Labor; organize a mobile-money contest for university students; and establish money agents through USAID-funded Farm Service Centers. NATO Training Mission-Afghanistan has also been working to register the national police personnel for salary payment via mobile money".

[70] Howell (2012: 138) wrote that "In March 2011, USAID organized the Afghanistan Mobile Money Stakeholder Summit, where more than 150 representatives from government, donors, NGOs, and companies interested in mobile money highlighted the challenges and opportunities facing this nascent financial service and created a network of interested stakeholders. A U.S. government interagency working group was subsequently established to address implementation issues, and the Association of Mobile Network Operators of Afghanistan was formed to encourage ongoing dialogue between the main partners".

[71] The role that could be played by distributed ledger technology (including Blockchain), KYC utilities, big data, machine learning, legal entity identifiers and biometrics in seeking to help alleviate de-risking trends in the financial sector, have also been highlighted elsewhere (Woodsome & Ramachandran, 2018).

[72] *The Economist* (2020: 4) wrote about the service in 2020, stating that "Hesab Pay…says if regulators allow it, hawala merchants could work as mobile-money agents on the side. Transactions around the country at least

could be done instantaneously on phones [which could]…expand Afghans' access to banking, and gradually formalise the financial sector".

[73] There have been several other attempts to adopt simpler apps in Afghanistan in the past, according to one consultation, including TamasPay, FastPay and AziPay (Azizi Bank). None of them are currently functioning, however.

[74] According to HesabPay's brochure: "any person with a smart phone can provide their identification on the app and register to use HesabPay. Any person with a simple phone and any SIM card can register through an agent who has a smartphone to photograph their ID… Through HesabPay, donors can immediately send digital Afghani to any registered phone number instantly, securely and in full compliance with Afghan and international legal compliance requirements, including US- Office of Foreign Assets Control (OFAC)".

[75] Others consulted for this report said that UN agencies are exploring ways to work with Azizi Bank using a card that works like an e-voucher, but only for use in urban and peri-urban areas; though no further details were made available. In addition, one European official reported that the Chinese payments platform, Alipay, could be used to carry out payments from Pakistan into Afghanistan (though no evidence of this was available via the company's website).

[76] Fintech for International Development (F4ID) was launched in November 2021 and its platform is currently being tested in Kenya, with its pilot programme due to start in Nigeria in March 2022.

(https://www.eweekuk.com/fintech/fintech-for-international-development-launches-for-global-good-deeds/). The platform is designed to evidence the verified supply of assistance to households and provide end-to-end transactional tracking and dynamic reporting in real time. End beneficiaries will be able to use the platform to purchase a variety of goods and services that donors want to fund (including WASH, food, vaccines, education and healthcare). The NGOs relationship through this mechanism is with the local merchant or service provider, who serves as the ultimate payee beneficiary (meaning the due diligence relates to the merchant and not the end beneficiary). If and when launched in Afghanistan, it could be used in conjunction with any telecoms provider and would have the ability to link to *hawala* (albeit through the NGOs own networks).

[77] WU already has a basic mobile wallet platform, which is not widely used. However, with WUBS' recent acquisition by by Goldfinch Partners, LLC and The Baupost Group, LLC it will begin trading under the fintech brand Convera (for further details: https://www.convera.io/convera-announcement/). It plans to launch a more sophisticated mobile wallet and card solutions and will retain access to its existing agent network. It will seek to offer a broader range of services to the NGO sector from early 2022.

[78] One interviewee also suggested that AWCC had been in talks with Western Union in relation to a new digital wallet.

[79] Others consulted for this report said that UN agencies are exploring ways to work with Azizi Bank using a card that works like an e-voucher, but only for use in urban and peri-urban areas; though no further details were made available. In addition, one European official reported that the Chinese payments platform, Alipay, could be used to carry out payments from Pakistan into Afghanistan (though no evidence of this was available via the company's website).

[80] Fintech for International Development (F4ID) was launched in November 2021 and its platform is currently being tested in Kenya, with its pilot programme due to start in Nigeria in March 2022.

(https://www.eweekuk.com/fintech/fintech-for-international-development-launches-for-global-good-deeds/). The platform is designed to evidence the verified supply of assistance to households and provide end-to-end transactional tracking and dynamic reporting in real time. End beneficiaries will be able to use the platform to purchase a variety of goods and services that donors want to fund (including WASH, food, vaccines, education and healthcare). The NGOs relationship through this mechanism is with the local merchant or service provider, who serves as the ultimate payee beneficiary (meaning the due diligence relates to the merchant and not the end beneficiary). If and when launched in Afghanistan, it could be used in conjunction with any telecoms provider and would have the ability to link to *hawala* (albeit through the NGOs own networks).

[81] WU already has a basic mobile wallet platform, which is not widely used. However, with WUBS' recent acquisition by by Goldfinch Partners, LLC and The Baupost Group, LLC it will begin trading under the fintech brand Convera (for further details: https://www.convera.io/convera-announcement/). It plans to launch a more sophisticated mobile wallet and card solutions and will retain access to its existing agent network. It will seek to offer a broader range of services to the NGO sector from early 2022.

[82] One interviewee also suggested that AWCC had been in talks with Western Union in relation to a new digital wallet.

[83] Some, like HesabPay, are able to work in areas without such services when a QR code is used, however.

[84] Representing the bulk of many NGOs' target populations for humanitarian assistance in Afghanistan.

[85] Some platforms, like F4ID, will seek to offer mechanisms to mitigate this risk (such as the ability for donors to insist that women are the recipients of certificates of entitlement linked to dispersed aid).

[86] Guidelines put out by the International Committee of the Red Cross, help highlight some of the knowledge gaps in the humanitarian sector about data security and the need to mitigate associated risks implicit in the use of some new technologies in humanitarian work more widely (De Corbion *et al*, 2018).

[87] Smith (2021) and Byrd (2021) advocate the use of such assurances by the US Treasury and others to US and international banks to reassure them that they will not be "prosecuted or fined for inadvertent, small sanctions violations in transactions with specified Afghan banks" (Byrd, 2021).

[88] The UK-Somalia Safer Corridor Initiative was an innovative multi-stakeholder platform that sought to "address underlying deficiencies in the UK-Somalia remittance corridor; provide assurance to banks that the risks can be managed effectively [and] support the Somali authorities to build a regulated financial sector in Somalia". The initiative came about in light of recognition in 2014 over the risk that remittance corridor could collapse in light of de-risking and other pressures. HMG began looking into contingency measures should the worst happen. One of these measures was a Safer Corridor Pilot, which could be mobilised in the event of a significant disruption to the flow of remittances". The UK Government noted that while it "does not intervene in the decisions of banks to offer services to a particular customer or group of customers…the Safer Corridor Initiative aim[ed] to strengthen existing channels and to address the concerns of banks which have led to the closure of accounts in the MSB sector" (Government of the United Kingdom, 2015 & 2013). Devised by the UK's former Department for International Development (DFID), FSD Africa (a DFID-funded not-for profit organisation), the World Bank and Consult Hyperion (a consultancy specialising in payments technology), the plan was never used as the need was not deemed great enough (Erbenová *et al*, 2016).

[89] Earlier reports suggest *hawala* may not widely understood by the NGO community (Bryan 2019) and that major capacity gaps exist in relation to the ability to conduct required levels of enhanced due diligence. Others, however, have highlighted a growing niche understanding of *hawala* among certain members of national staff and local partner NGOs (Dean, 2015).

[90] The EU's Directorate General for Humanitarian Affairs (DG ECHO) have offered to supplement and endorse such guidelines if and when CVWG develop them**.**

[91] Such proposals are not new. In the Syria context, Beechwood International, writing in 2015, suggested that humanitarian organisations would benefit from closer coordination in order to ascertain suitability of specific *hawala* dealers, as well as push for reasonable commission rates.

[92] For further details see: https://www.monito.com/en/remittances.

[93] Instead, they argue for access to USD 1 billion of their funds, which is held by DAB outside Afghanistan and not currently accessible to them.

[94] HRC (2021) suggests it should be "monitored by officials with the World Bank, UN, or a designated third-party auditing entity", adding "The US Treasury and other authorities should then issue guidance to allow the designated private bank or entity to utilise incoming electronic dollar deposits from humanitarian agencies to purchase paper US dollars outside the country and transport them, under international monitoring, for deposit in private banks in Kabul. Remittance banks should be provided with similar licenses to allow arrangements with private banks to facilitate legitimate US dollar transactions and, if necessary, physical shipments, monitored by an independent auditor".

[95] According to UNDP "The ABADEI strategy represents one of the first large-scale attempts to operationalize a basic human needs approach within the complex and fast evolving context of Afghanistan. Conceptually, it provides an articulation of investments in basic services, livelihoods and community resilience that complement humanitarian efforts by helping households, communities, and the private sector cope with the adverse effects of the crisis. The ABADEI strategy aims to promote more effective and joined-up responses by strengthening the collaboration coherence and complementarity of interventions with those covered through the Humanitarian Action Plan. All eight administrative regions of the country will benefit from interventions of the Fund, to deliver support in the four thematic areas. Targeting of interventions within the regions will be guided by the following criteria: community needs (poverty, vulnerability), level of basic services, exposure to economic and / or climatic shocks, and accessibility" (for further details, see: https://mptf.undp.org/factsheet/fund/AFG00).

[96] The original ARTF was formerly the largest source of funding for Afghan development, financing up to 30% of the country's civilian budget and providing support to the core functions of the government. WFP and United Nations Children's Emergency Fund are expected to be the main beneficiaries and the funds will be focused on addressing urgent health care needs (not on covering teacher and other civil servant salaries).