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Life and Death: NGO access to financial services in Afghanistan

Executive Summary

January 2022

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 Plan0F0F . 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)1F1F 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 NGOs2F2F , 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.

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Key findings

- **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.

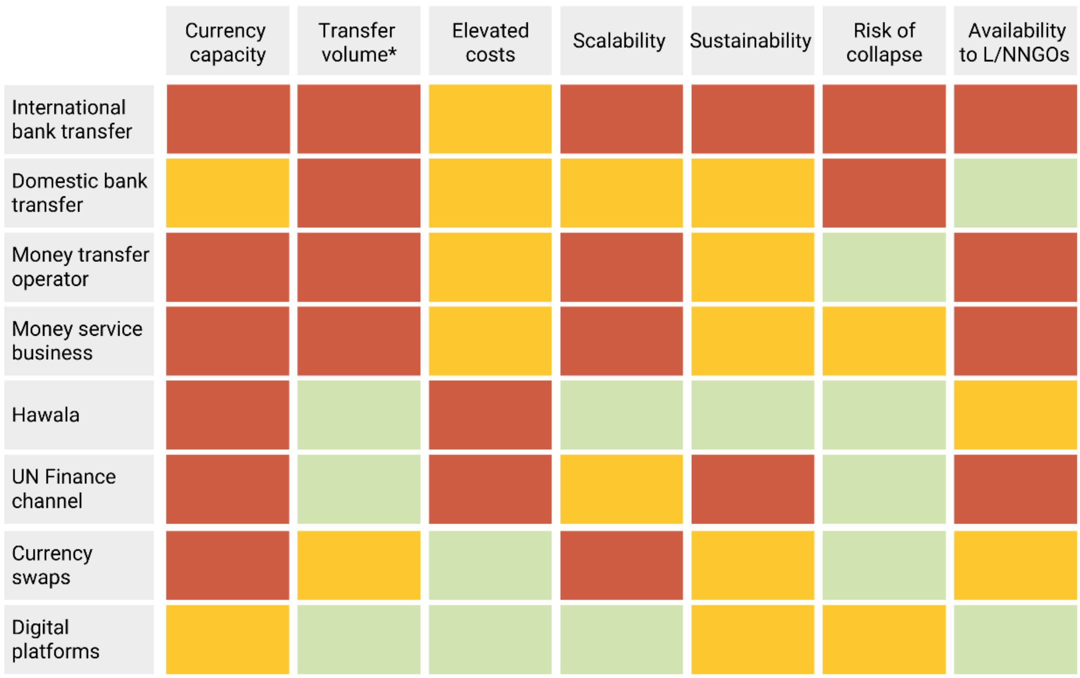
- **Public** and **private banks** are insolvent and risk collapse, facing major challenges regarding access to liquidity and physical bank notes, with withdrawal limits complicating matters further for NGOs.
- **Public banks** are unavailable to NGOs in international electronic transactions on the request 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, 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): 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), 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).
- **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 licencing exception the US' general licences.
- Governments and the UN should continue to provide sufficient comfort 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.

Categorisation of key risks and challenges of each humanitarian funding channel



* Low = Up to USD 199,000/transfer; Medium = between USD 200,00—1 million/transfer; High = over USD 1 million/transfer

Highest risk/ difficulty | Medium risk/ difficulty | Lowest risk/ difficulty