



## Cashless economy of Afghanistan

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### Abstract

Cashless economy is an economy in which all the transactions take place on electronic bases despite using currency banknote or coins. Here in this paper we are trying to cover the cashless economy of Afghanistan, role of banking sector in development of cashless economy overall, role of central bank of Afghanistan (DAB) in development of Afghanistan's cashless society, privates banking sector and its role.

Software and applications which are used and play a big role in moving the Afghanistan society toward cashless society, like: (Azi-pay M-Paisa, M-Hawala, My-Money and Afpay) and which banks are too active for making these facilities.

Role of government toward the awareness of people from cashless payment moods, and programs which aware the people from the advantages of cashless society in a country and adding the role and regulation for it in the constitution of the country.

Role of USAID "united states agency for international development" toward making Afghanistan a cashless economy and their effort toward using the modern technology in order to make branchless banking and mobile money transactions easily available in Afghanistan.

United States of America and its useless effort in order to get Afghanistan to use E-Payment.

And also we will discuss the "National payment switch" and its role on cashless society of the country.

**Keywords:** cashless society, Azipay, payment switch, Afpay and EMI

### Introduction

What is cashless society: a cashless society is where financial transactions are not being done in the term of currency notes, coins or physical cash money. Transactions into a cashless economy is an international issue and many of the countries already become a cash less economy. However, the new concept of cashless transactions in cashless economy are made with the help of digital currencies where legal tender (money) is exchanged and recorded only in the electronic digital form.

A country which is being hunted by war for more than four decades and millions of peoples are being displaced because of the war and uncertainties, which is still taking life of the innocent people and people need safety more than anything else. But still the government has worked on each and every sector including making the country a cashless economy. In Afghanistan there are about sixteen commercial banks with more than 400 branches across the country.

In Afghanistan from about 38 million population only 5.7 million of them are having bank accounts which is about 15% of the whole population of the country and unfortunately it shows a very low percentage.

The transactions are almost done on cash bases, less than 10% of the people are using cashless payment moods in the country. Millions of people still don't have bank accounts, internet network and connection is not proper and about 85% percent of the people are using mobile phones.

Lack of knowledge for using online payment method and illiteracy of the people all these factors are contributing toward the use of cash payment instead of digital payment methods.

However, the government of Afghanistan and the central bank is working hard toward moving the country to a

cashless society, therefor they have given license to some of the non-monetary institution which are accepting cash and doing the cashless payments globally for their customer. They have developed some applications and allowed the commercial banks to use all these facilities "like AziPay of Azizi bank" which help the country toward moving to a cashless economy.

USAID "united states agency for international development" and its partners are also working hard with the coordination with the government of Afghanistan and the central bank (DAB) to take the country toward using electronic money instead of cash in order to decrease the corruption level in the country.

### Objective of the study

1. Role of DAB "De Afghanistan Bank" and other commercial banks and its programs toward making Afghanistan a cashless society.
2. Challenges and opportunities of cashless society of Afghanistan.
3. Mobile money and its role in making Afghanistan a cashless economy.
4. To study the efforts of USAID and its partners toward making Afghanistan a cashless economy.

### Research Methodology

Electronic databases and online libraries are being searched for relevant literatures using a comprehensive set of keywords and graphical representations relating to cashless technology of different countries including Afghanistan. Information was gathered from web-based search engines, published literatures.

**Secondary Data**

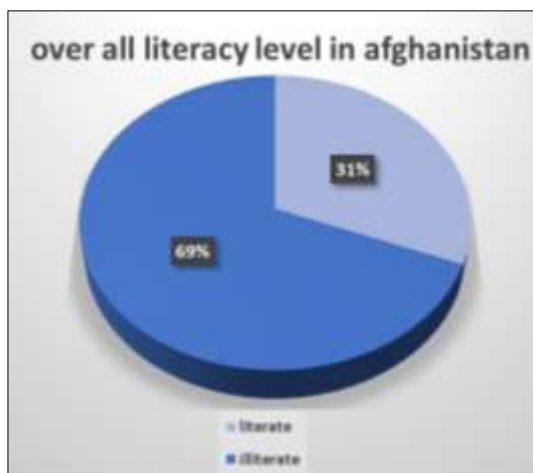
The secondary data are collected through government records, annual reports of the central bank of Afghanistan, Articles, Journals, magazines, Survey reports, Research Data and Websites information.

**Analysis of the study**

Afghanistan is one of the countries with least use of digital money transactions, since the majority of the people are living in rural areas and the banking facilities, education facility and use of mobile money is not that much available to them and that is because of insecurities and other problems, people prefer cash and cash based transaction more than digital payments mood because of its simplicity. Illiteracy is one of the biggest issue on the way of Afghanistan going toward a cashless economy, Afghanistan is one of the countries with lowest literacy rates in the world, currently estimated at about 31% of the adult for the whole population (over 15 years of age). Female literacy levels are on average 17%, with high variation, showing a strong geographical and gender discrimination. The highest female literacy rate, for instance, it is 34.7%, found in the capital, Kabul, while rate as low as 1.6% is found in two southern provinces of the country. Male literacy rates average is about 45%, again with high variation. The highest male literacy rates are in Kabul the capital of the country, at 68%, on the other hand lowest is found in Helmand one of the southern province, at 41%.

This high variation between male and female literacy rate, is due to combination of factors, such as culture and norm, and women are not attending school and spending time managing the household, security problems in travelling to classes, and sometimes families are not allowing women to attend classes. The disparity in urban and rural areas in adult education rate is due to several factors as well, including security problems, lack of schools in remote areas in the country, long walking distance to schools and low demand for literacy in particular for women literacy, due to cultural barriers. (UNESCO ELA covers all provinces via SBL and BGL)

The following pie chart shows the level of literacy in Afghanistan:

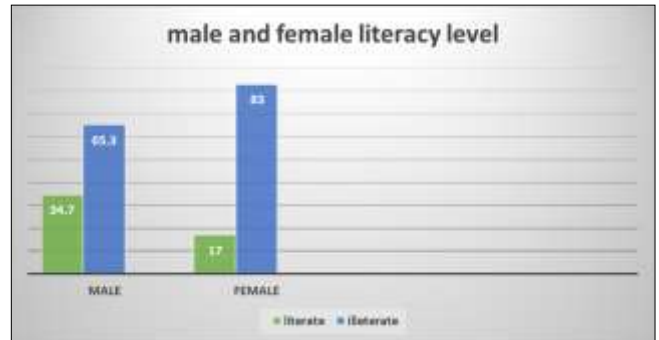


Source: (UNESCO ELA covers all provinces via SBL and BGL) end 2017

Fig 1

Literacy of male and female in percentage according to the

UNESCO is as follow by the end of 2017:



Source: UNESCO ELA covers all provinces, end 2017

Fig 2

If we see to the world there are countries in which the transactions are taking place on the cashless bases on a very high percentage, UK is the third most cashless society in the world, which take position after Canada and Sweden, which were found to be ahead of the trend in removing the cash from the economy of the country.

The rankings were based on six metrics: the number of credit cards per person; the number of debit cards per person; the cards in issue that have contactless functionality; the growth of cashless payments over the past five years; payment transactions made using non-cash methods; and the number of people that are aware of what mobile payments options they have available to use.

The research, conducted by Forex Bonuses, looked at 20 of the world's top economies, with only the top 10 ranked. Canada topped the table because its citizens have more than two credit cards per person, and the majority (57pc) of payments are made using cashless methods. However, it had the lowest number of debit cards per capita of all countries included in the research, and only 26pc of its debt cards have contactless functionality.

In Sweden, 59pc of consumer transactions are completed through non-cash methods, and 47pc of citizens are aware of the types of mobile payment services available to them, making it the second most cashless country in the world, according to Forex Bonuses.

**Countries with most cashless society in the world**

Table 1

ranking	country	forex cashless score
1	Canada	6.48
2	Sweden	6.47
3	United Kingdom	6.42
4	France	6.25
5	United state	5.87
6	China	5.17
7	Australia	4.92
8	Germany	4.19
9	Japan	3.12
10	Russia	1.95

Source: worldatlas.com

If we see here Canada is the country which has the most cashless society in the world and unfortunately Afghanistan is not even among the 20 countries which are having the most cashless society in the world. Sweden is the second in

which it is estimated that by 2025 fifty percent of the merchants will not accept cash and in the country about 50% of the people are not carrying cash with themselves, they are using their debit card and credit cards.

### **Central bank of Afghanistan (DAB) and overall role of banking sector in making Afghanistan a cash less economy**

Central bank of every country play an important role in making the country a cashless society, even we can say that the complete control that whether a country is going to be a cashless society or not is at the hand of central bank of the country.

The role of central bank is to manage the money supply, these developments of electronic payment and going to a cashless society have wide-range of consequences. Are central banks needed as issuer of a means of payments in the modern digital payment market? Are banknotes and coins the only means of payments that should be supplied by a central bank? Is there a risk of future concentration in the payment s market infrastructure that central banks should be monitoring?

In Afghanistan the central bank of Afghanistan (DAB) “Da Afghanistan Bank” is acting as a main issuer of currency and controller of the inflation rate in the country and also it is controlling the other private and public banks of Afghanistan.

Right now the central bank is working hard in cooperation with the other banks of the country and its international partners in order to improve the digital payment moods in Afghanistan, as part of their activities some of them are as follow:

#### **Afghanistan Payment System (APS)**

Afghanistan payment system (APS) as the national Switch of Afghanistan is on a mission to deliver a shared interoperable retail e-Payment infrastructure with low cost and multi-channel switch in Afghanistan with the support of the central bank of Afghanistan. APS is offering e-Payment services by establishing interoperability and connecting among all the state-owned banks, private commercial banks, microfinance institutions, mobile money institutions and payment service providers (PSPs) across the country. According to the approved business strategic plan 2018-2020, APS will entirely cover the following areas in terms of electrification, integration and interoperability:

- Banks and micro finance institutions
- Mobile money
- E-Government
- Payment service providers (PSPs)

In Afghanistan almost 90% of all the transactions are domestic and the cost of transactions are high due to monopoly of foreign gateways. To expand the e-payment services make is accessible for the majority of the residents and reduce the domestic card transaction charges.

#### **Launching of Afghanistan national payment switch**

Afghanistan Payments Systems (APS) in close coordination with Da Afghanistan Bank (DAB) are launching a shared and Interoperable Card/Mobile Payment Switch in Afghanistan.

Afghanistan Payments Systems is the only Payment Service Operator acting as a national provider of secure financial

message switching and connecting its participant financial institutions nationally and also to the global financial network.

This National Switch will provide all Afghan citizens secure and affordable electronic banking services through APS’ processing and telecommunications partners.

“Through this process, it will define the future of Afghanistan people’s Payments and modernize the financial infrastructure by creating cashless payment options to the citizens of the country, increasing transparency and efficiency of financial transactions, introducing international standards and better quality to the Afghanistan banking and financial sector. Connectivity to the global financial network is the key highlight of APS,” states a press release from APS.

Afghanistan Payments Systems is an Afghan company that interconnects its network of financial institutions to a larger and international financial network. After a difficult round of efforts for the last 5 years, the company has developed and established the needed infrastructure to launch the systems today. This entire process is done in a very close coordination with Da Afghanistan Bank.

APS deals with financial institutions, mobile network operators and consumers to enable the consumer to reduce their costs for payment of products and services significantly. Simultaneously, it helps accelerating their profits and empowering their clients through increased access.

Da Afghanistan Bank is the central Bank of the country which is regulating banking and money transactions in Afghanistan. DAB is actively developing policies and procedures to promote financial inclusion and modernize the payments systems in Afghanistan.

#### **AfPay**

AfPay is the only national brand of domestic card scheme of Afghanistan, it is implemented by APS “Afghanistan payment system” and issued by all licensed financial institutions of the country. Afghanistan payment system is a pioneer organization in the field of retail payments functioning the role of national e-Payment Switch of Afghanistan under the umbrella of Da Afghanistan Bank. APS provides interoperability between all the financial institutions and connects the ATM, POS and online payment gateways. Currently there are 5 member banks in the network of APS which are issuing AfPay cards to their clients and they are as follow:

- Azizi bank
- Ghazanfar bank
- BMA “Bank Mellie Afghanistan”
- Pashtani bank
- Islamic Bank of Afghanistan

APS is planning to connect all banks and mobile money services provider till the end of 2019.

#### **Electronic money institution**

Electronic money institutions (EMIs) are non-banking financial institution in Afghanistan which are accepting physical cash payments against electronic money payments and facilitate electronic money payment transfers. These institutions have to hold a license given by the central bank of Afghanistan in order to legalize their activities.

According to the central bank annual report 2017-18 there

are only three institutions which got license from the central bank to operate in the country and they are:

- M-paisa of Roshan
- M-Hawala of Etisalat
- My-Money of AWCC “Afghanistan wireless communication company”

### Mobile money

Afghanistan is one of the least banked countries in the world, with the central bank of Afghanistan reporting that by the end of 2018 approximately 15% of the people aged above 15 has bank account. Since the majority of the people are living in rural areas while banks are based majorly in the cities and people majorly does not have access to it, mobile money is the best option for the economic inclusion and access of the people to the cashless services across the country. In Afghanistan about 90% of the population have mobile communication coverage. Currently there are about 16 banks currently operating in Afghanistan with more than 450 branches across the country.

With the support of United States Agency for International Development (USAID) three of Afghanistan’s four-largest mobile network operators (MNOs): Afghan Wireless Communication Company (AWCC), Etisalat and Roshan, have rolled out mobile money services. Roshan service is M-Paisa while AWCC’s service is My Money, and Etisalat’s is M-Hawala. The other leading Afghan MNO – MTN – has yet to launch its mobile money service. Three international money transfer companies provide remittances to Afghanistan from abroad: MoneyGram; Western Union, which offers cash payouts at over 350 Afghan agent locations; and TransferTo a global airtime remittance and mobile money transfer platform.

### M-Paisa

Roshan Company which has about 7 million subscribers across the country was the first Afghan mobile operator to launch a mobile money services, it formed a partnership with Vodafone group to make M-Paisa in November 2008. M-Paisa has over 100,000 customers and process over \$4m per month, M-Paisa has over 350 active agents across the country, M-Paisa has partnership with the 4 national bank of the country and in each one of them the customer can open account with having Roshan SIM card and his ID card.

In 2012 Roshan signed an agreement with the Transfer To under which Afghans living outside the Afghanistan can send money to Roshan subscribers in Afghanistan and here the subscribers can use this money for whatever purpose they want, like: buying airtime and paying utility bills. The M-Paisa user can link his bank account to his M-Paisa account and can transfer money between them.

If we see the functions of M-Hawala it is the same like M-Paisa just its MNO is different, which is Etisalat, and the case is same for My-Money also which is fully owned subsidiary of AWCC “Afghanistan wireless communication company”

### AziPay

Azizi bank is one of the most active commercial bank of Afghanistan which operate almost in every province of Afghanistan and has about 75 branches across the country, its head quarter is in central of Afghanistan Kabul, and its branches are spread across the country. As its activities are under the control of the central bank of the country and the

central bank is trying to much to take the country toward a cashless society in order to eliminate corruption and decrease the cost of transactions, Azizi bank in coordination with the central bank launches the mobile wallet of “AziPay”.

AziPay is the first Mobile Wallet of the country by a bank. This mobile based application is available on the play store of the google and Apple store for a free download both to customer and non-customer, they can download this application. The AziPay wallet can be loaded with money using the card online or through any branch of Azizi Bank. The wallet can be used for sending money, making payment to merchant, requesting money, bill payments and many other facilities. The wallet-based solution also allows the wallet holders to make cashless payments with their mobile phones across the world.

### Useless efforts of USA in order to make Afghanistan use E-Payment

In US most of the transactions are taking place on electronic bases and that made the life easier for the people also and for the government of the United States also. Since American tax payers are sending billions of dollars to Afghanistan every year in order to kill the Taliban and to rebuild Afghanistan, but unfortunately the major part of that money is going into the pocket of the government officials of Afghanistan. Electronic payment systems would go a long way to eliminate this problem.

The US Agency for International Development (USAID) wanted to do just that. The Agency figured if it could convince those at corruption hotspots, such as customs agents and border guards, to use e-payment methods, then it might curb the amount of cash those agents pocketed every day.

Between 2009 and 2017, USAID spent \$160 million and partnered American tech companies to set up e-pay in Afghanistan, according to a new report from the Special Inspector General for Afghanistan Reconstruction (SIGAR). The goal was to get the border guards trained and using the new methods, with an aim of 75 percent of all customs transactions paid electronically by 2017.

As of today, less than one percent of those transactions are electronic, SIGAR reports. And custom officials hate the system, the officials were saying that the people are not ready to accept and implement this system and they don’t have knowledge of it too, they were continuously saying that cash is fast, cash is efficient and cash is king. The unspoken truth is that cash is good for a quick buck on the side and cheaper for everyone involved. You don't have to pay taxes on transactions you don't report. Depending on the year, a third to a half of all of Kabul's income comes from customs collected at the border. According to US government reports, roughly half of the cash paid out to those border agents is pocketed, diverted, or simply lost, with Kabul officials collecting roughly \$2 billion in taxes and \$4 billion in bribes every year. The amount of money the country's officials make on graft is double what the government makes on taxes.

With such culture of corruption it's not difficult to say why the e-payment system is not coming soon in the country.

### Conclusion

from the above study we can conclude that there are 31% literate people in Afghanistan and about 15% of the people

are having bank accounts in Afghanistan, illiteracy is one of the biggest issue on the way of going the country to a cashless economy and it will take really too much time for the government of Afghanistan to make the country a cashless economy.

The central bank of Afghanistan is working hard with its national and international partners in order to make the e-payment facility available for the people of the country, since the banks are based on the cities and majority of the people are living in rural areas, economic inclusion through banking will take time, that's why mobile money is one of the best option for economic inclusion of the country because about 90% of the population is covered by telecommunication facilities. The central bank of the country has given license to only three EMIs and they are M-Paisa, My-Money and M-Hawala.

Azizi bank is the first bank which introduced mobile wallet in Afghanistan which is called AziPay, it is the wallet through which the money can be transferred, bills payments can be done and also you can ask lone through this wallet.

America wasted 160 million dollar in order to make Afghanistan to use E-payment and there aim was that by 2017 seventy percent of the payment in borders should be done on cashless bases, but unfortunately the officials did not coordinate with them and it was just one percent in 2017.

#### **About author**

Mr. Ezatullah Karimi son of Mr. Shamsullah was born in 1994 in Logar province of Afghanistan. He received his bachelor degree of business administration from SHUATS University, Allahabad, UP, India in the year 2019 and now he is pursuing his MBA from Vivekananda global university, Jaipur, Rajasthan, India.

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