Chapter 11

Financial Sector in Afghanistan: Regulatory Challenges in Financial Sector of Afghanistan

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ABSTRACT

In the following chapter, the authors have proposed to throw light on the scheme of financial sector prevalent in Afghanistan. The purpose of this chapter is to give the readers a brief insight on the financial background, policies and regulations in existence in Afghanistan. Adding upon, the authors have made an attempt to suggest a few recommendations to bring the Afghanistan’s economy at par with the economy of other developing nations of the world. The authors received substantial amount of assistance from the top-managerial officials of Bakhtar Bank of Afghanistan and from a scholar named Abdul Samad Katawazy. The authors would like to thank AREU, AISA and ACCI for providing access to their published surveys and reports. This particular chapter as a whole focuses on ten basic factors which have the ability to make or break Afghanistan’s financial structure and therefore aims to provide an insight into the same.

INTRODUCTION

Afghanistan is a country which has the capability of reaching unthinkable heights in all possible indices in general and financially in particular. This is because it is one of the very few countries of the world with a large resource base but its exploitation has been at a very rudimentary stage. The market in Afghanistan is very flexible and fluid and can be moulded in any way the authorities want it to be. That is where the risk comes and uncertainty of the direction in which Afghanistan’s financial market can go to. It either can follow a rational path by promoting inclusive growth and development of Afghanistan as a whole or it can move towards being a failed state and controlled by militia and various...
terrorist organizations. This chapter tries to study the presence of various such factors for e.g. huge mineral resources, informal sources of dispute resolution etc which have the ability to either make or break the Afghanistan’s economy. Through this chapter we also try to analyse the effect of various factors like ever-rising opium production, illiteracy, corruption and increase-in terrorism on Afghanistan’s financial market and its economy and suggest a few measures to reduce their cascading effect in the short run and completely eradicate them in the long run.

Through this chapter, the authors also comment on the effectiveness of the Kabul Stock exchange and the challenges and opportunities it faces in one of the world’s most unpredictable and resource rich economy. Through this chapter, the authors have also analysed the role of banking sector in Afghanistan which mainly revolves around factors like lack of government support, lack of financial assistance, inefficient leadership etc. The authors have also emphasised on the need to develop the ancillary facilities like credit worthiness, valuation of property, insurance values etc. The authors have also touched upon the dominance of Islamic cultures and values in the financial system of Afghanistan like for example Article 4 of the Islamic republic of Afghanistan’s constitution which talks about making the application of Islamic law mandatory in case of commercial disputes and Article 130 of which talks about application of Hanafi Jurisprudence in case of non-application of any constitutional provision in a legal dispute. The Civil code of Afghanistan has also upheld the same provision as mentioned in Article 130. Finally the authors have analysed the overlapping of the formal and informal system of dispute resolution along with the pros and cons of integrating the two systems.

The last sub-section of this chapter gives an example of a successful pilot project by Norwegian refugee council in integrating the two systems of dispute resolution and thus brings out of possibility of expanding this particular project and introduction of more of such other projects. Therefore the main objective behind this chapter is to critically analyze the regulatory framework of Afghanistan’s financial system and suggest some practical and feasible measures to assist it in giving neck-to-neck competition to other developing countries of the world.

**STOCK EXCHANGE OF AFGHANISTAN**

Stock exchange, also called the stock market or share market, is one of the most important constituent of capital market. It is an organized market for the purchase and sale of industrial and financial security. It’s basically an investment intermediately which facilitates economic and industrial development of a country. It provides a platform for convenient and secured transactions for different securities as per certain well defined rules and regulations to prevent excessive speculation, scams and other undesirable and anti-social activities.

Stock exchange in Afghanistan also known as the Afghanistan Stock Exchange (ASE), is basically a private equity exchange with regards to initial listing, investing in private placements or secondary trading of securities in admitted companies. As far as naming of shares is concerned, private equity ownership shares are ‘named’ as opposed to public shares, keeping a complete track of the title of ownership in relation to shares on offer. A complete digital registry is maintained for keeping all the issued shares of listed companies securitized. The digital registry, Central Business Registry of Afghanistan performs a ‘custodian role’ of traditional exchanges and is supervised by the Kabul Chamber of Commerce and Industries. Afghanistan stock exchange has initiated efforts to get itself licensed from the financial market regulator of Afghanistan, i.e. Da Afghanistan Bank.