



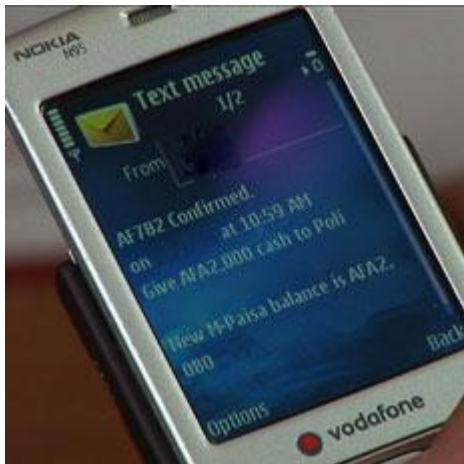
USAID
FROM THE AMERICAN PEOPLE

AFGHANISTAN

NOTE FROM THE FIELD

Increasing Access and Opportunity in Remote Areas

Mobile phones with voice-recognition technology provide access to financial services for the unbanked and illiterate in Afghanistan's rural, remote areas.



Customers can now transfer funds using mobile phones through Roshan's recently launched mobile banking service, *M-Paisa*.

Jamsheed Nabizadby, an M-Paisa user since launch said, "I am very happy with how secure the service is. Usually, it takes me over two hours to go to the microfinance bank to make my loan payment. I need to take time off work, pay for a taxi and travel far. With M-Paisa, I can pay my loan using my Roshan mobile phone in a few short minutes."

Photo courtesy of Roshan Telecom Development Company

After the overthrow of the Taliban in 2001, Afghanistan began the long process of recovering from nearly thirty years of war. The road to recovery has not been an easy one given the scale of infrastructure reconstruction needs, resurgence of insecurity in parts of the country and persistent wide-spread povertyⁱ. The global rise in food and energy prices has also taken hold, increasing the need among Afghans for more sources of income and assistance. Insecurity in particular has made it more difficult for microfinance institutions (MFIs) to operate efficiently and expand services to more remote communities.

A previously non-existent banking infrastructure is slowly emerging, but is still largely inaccessible in remote areas of Afghanistan. Over 97% of the population does not have access to traditional banking services. Quick and efficient money transfer services are needed by migrant workers who typically send money back to their families. Small entrepreneurs have to take time off work and travel long distances to repay their microfinance loans. The existing home-grown channels, *Hawalas*ⁱⁱ, charge prohibitive amounts, yet the service is unavailable in small towns and villages where the secure transfer of funds is most needed.

Despite the daunting environment, new possibilities and hope are being offered through an innovative means of financial service delivery. In February 2008, Afghanistan's leading telecommunications operator, *Roshan*ⁱⁱⁱ, launched its mobile banking service, *M-Paisa*^{iv}. Developed in partnership with Vodafone, the service enables registered customers to transfer funds using their mobile phone in a quick, easy, safe and cost effective manner, for peer to peer transfer, repayment of microfinance loans, salary disbursement and the

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purchase of airtime. M-Paisa is an innovative solution targeted at the majority of Afghans throughout the country who do not have bank accounts or a means to transfer funds.

Roshan's marketing of M-Paisa as the "The Hawala on Your Mobile" is apt given the service's ability to offer a cheap, fast and secure means of money exchange. To deposit or withdraw money, customers simply go to an M-Paisa agent where the agent receives or disburses the funds to the customer. Transactions are recorded on the handset by the agent for deposits and by the customer for withdrawals. An SMS to both parties confirms the transaction. For example, if a customer in Kabul wanted to transfer money to his family living in a village outside Herat in western Afghanistan, he could send an SMS notifying the recipient of the amount. The family member would then receive the transfer from an M-Paisa agent once they show the SMS and the transfer is confirmed with M-Paisa. To ensure financial integrity, the M-Paisa service is regulated and approved under the Central Bank Regulation.

As of August 2008, there were 2,000 clients using M-Paisa, mainly in the northern metropolitan areas of Kabul and Mazar. The M-Paisa mass market launch in October 2008 introduced voice-recognition technology (IVR) to simplify the overall customer experience. The voice activated menu is functional in English, Dari and Pashto, and this inclusive IVR system makes M-Paisa

effortless for all customers to use regardless of their literacy levels. Farmers in the remote and mountainous region of Badakshan, many of whom cannot read or write, are able to use the IVR to receive money or pay their microfinance loans.

Mobile phone technology is often touted for its ability to facilitate the flow of money among rural and poor families at much lower transaction costs, bringing financial services to those currently unbanked. M-Paisa will be able to help MFIs expand more cost-effectively and further reach into remote and rural areas where the need is the greatest. M-Paisa can extend the reach of MFIs, giving them a presence in cities and towns where Roshan has an agent. M-Paisa also has the ability to reduce transaction costs up to 20%.

The M-Paisa service makes it easier for entrepreneurs (ultra poor, women, rural entrepreneurs who lack access to banks) to pay back loans without having to travel vast distances and shut down operations for a day. Jamsheed Nabizadby, an M-Paisa user since launch said, "I am very happy with how secure the service is. Usually, it takes me over two hours to go to the microfinance bank to make my loan payment. I need to take time off work, pay for a taxi and travel far. With M-Paisa, I can pay my loan using my Roshan mobile phone in a few short minutes. An easy to use service like M-Paisa is very important for the people of Afghanistan."

Despite these advances, M-Paisa faces both common and uncommon challenges. Some of the more common issues involve ensuring both sufficient cash at cash points and enough clients to come in to request the cash; regulatory issues related to taxation; and capacity deficits. Roshan is addressing these issues strategically, for example by significantly investing in training and staffing at the outset and by bringing in experts to train local staff.

Security continues to be a major operating challenge for Roshan, which in the past spent a good portion of its operating budget on third party services. Recognizing the criticality of community support for countering insurgent attacks, Roshan instituted a community model where villages participate in the construction of communication towers and are paid to guard them. Currently there are over 100 sites under this model with more sites added each month.

Significantly, despite higher security risks and its ability to generate profit by only serving the more stable parts of the country, Roshan expanded M-Paisa to southern Afghanistan. According to the company's Chief Operating Officer, Mr. Altaf Ladak, Roshan considers it imperative to bring financial services to Afghans in all regions and areas of the country.

As the success of M-Paisa in reaching the unbanked in Afghanistan becomes more widespread, mobile-banking may be

applied in other ways to increase productivity, economic growth, and stability. In the future, M-Paisa may be used to facilitate international remittances if the system can satisfy global financial standards related to money laundering. Additionally, mobile-banking may help the Ministry of the Interior mitigate the problem of soldier absence without leave (AWOL) each time salaries are paid. By providing soldiers a formal mechanism to deliver salaries to their families, mobile-banking can help the National Army address a key impediment to greater security and stability in Afghanistan.

In the coming months, Roshan aims to expand and rollout the M-Paisa service nationwide, to provide all Afghans with access to banking services. The innovative M-Paisa will aid in bringing positive change that can fuel the country's economic development at multiple levels. M-Paisa has the potential to boost economic growth through the elimination of common financial barriers, especially in remote areas and in particular to women who are often the sole supporters of their family. Ultimately, M-Paisa can serve as an important vehicle for the economic regeneration of Afghanistan.

ⁱⁱ "Hawala" literally translates to "transfer" in Arabic and is sometimes synonymous with "trust." Hawala is a centuries-old traditional and informal means of money transfer through trusted intermediaries.

ⁱⁱⁱ Begun in January 2003, Roshan provides cellular coverage in over 222 major cities and towns and over 2.6 million active subscribers. Roshan means "light" in both the national Afghan languages of Dari and Pashto.

^{iv} Afghanistan is the second developing market, following Kenya, where the same service under the name M-Pesa was launched in 2007.

ⁱ Approximately 42% or 12 million Afghans live in poverty (US\$14/month consumption per capita) according to the Government's 2007 National Risk and Vulnerability Assessment (NRVA).