

## Six Degrees of Mobile Money in Afghanistan

*“In a spirit of leadership and cooperation, we must bring together the resources and competencies of our fellow agencies, the private sector, country leaders, and the people we serve—and in the process, build a broader community of development partners.”*

— USAID Administrator Dr. Rajiv Shah<sup>1</sup>

**T**raditionally, USAID Missions have managed development programs by segmenting activities into technical offices such as democracy and governance, economic growth, health, education, and infrastructure. Cross-fertilization takes place occasionally, when mutual interests are identified; but meaningful collaboration is rare. The focus on mobile money in Afghanistan breaks out of the usual stovepipes, demonstrating how dynamic teams bringing expertise from different disciplines in partnership with host-country counterparts can contribute to a collective goal—even in a difficult operating environment.

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<sup>1</sup> Dr. Rajiv Shah, “Leadership Qualities Essential to Delivering Meaningful Results,” Executive Message to USAID Staff, June 15, 2011.

Ten years after the introduction of mobile-phone technology to the country, more than half of all Afghans have mobile phones, and more than 80% have access to a mobile-phone network.<sup>2</sup> But only 7% of Afghans have a bank account.<sup>3</sup> 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 businesswoman can repay her microloan without having to spend valuable time away from her business.

Once customers have registered for the service, they can visit a local mobile-money agent to

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<sup>2</sup> “Afghanistan: Communications,” *The World Factbook*, Central Intelligence Agency, continually updated, [www.cia.gov/library/publications/the-world-factbook/](http://www.cia.gov/library/publications/the-world-factbook/), accessed March 14, 2012.

<sup>3</sup> Eltaf Najafzada and James Rupert, “Afghan Police Paid by Phone to Cut Graft in Anti-Taliban War,” Bloomberg, April 14, 2011, [www.bloomberg.com/news/2011-04-13/afghan-police-now-paid-by-phone-to-cut-graft-in-anti-taliban-war.html](http://www.bloomberg.com/news/2011-04-13/afghan-police-now-paid-by-phone-to-cut-graft-in-anti-taliban-war.html).



**An Afghan youth uses his mobile phone to take pictures of U.S. Marines from 1st Battalion, 8th Marines as they patrol the town of Musa Qala on January 18, 2011.** | AFP Photo: Dmitry Kostyukov

withdraw actual cash that had been deposited in their mobile wallet. The agent serves as the ATM, exchanging mobile money for cash once the customer inputs a PIN number into the phone. Mobile-money service provider bank accounts pool funds from all clients in at least four banks to diversify risk.

Mobile money can fundamentally transform the lives of Afghans, just as it has in Kenya, the Philippines, and a growing list of countries around the world. USAID's strategic approach focuses on three main areas of intervention:

- Engaging with key stakeholders, including government ministries, private-sector companies, and international donors
- Ensuring an appropriate legal and regulatory environment and support from relevant host country government agencies
- Encouraging innovation through public-private partnerships that could lead to greater financial inclusion and development results

USAID/Afghanistan started engaging with key partners in the mobile-money initiative in early 2011. Because only one of the four mobile-network operators—Roshan—had a mobile-money service, USAID encouraged the other three operators to focus on mobile money as a corporate priority. 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



**A customer (left) signs up for mobile banking at a supermarket on March 3, 2011, in Port-au-Prince, Haiti.** | Photo: Kendra Helmer/USAID

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.

Stakeholder collaboration was important as Afghanistan's Central Bank worked to provide robust supervision of mobile-money services to protect consumers and prevent fraud. USAID had previously helped the Central Bank to adopt a new regulation for electronic money institutions in 2009, incorporating international best practices for mobile-money oversight. In November 2011, with additional support from USAID, the Central Bank formally adopted revisions to the existing regulation, lowering barriers to market entry and strengthening mechanisms to fight money laundering and interdict terrorist financing. These important amendments incorporated the expertise of representatives from the U.S. Department of

the Treasury, World Bank's Consultative Group to Assist the Poor, the Bill & Melinda Gates Foundation, and the GSM Association, as well as local banks and telecommunications companies.

### **Expanding the Application to Benefit Development Priorities**

USAID has committed to partnering with Afghan public- and private-sector organizations to expand the use of mobile financial services through the \$5 million Mobile Money Innovation Grant Fund, launched in March 2011. By August, \$2 million had been granted to three mobile-network operators working to initiate mobile-money banking for 100,000 Afghans by the end of 2012.

One grant will focus on paying teacher salaries through a cell phone—the result of a dynamic team formed to pioneer new ways of harnessing mobile-money technology in Afghanistan and improving the efficiency and transparency of

public expenditures. Officials from USAID and the Ministry of Education recognized that mobile money would add value to their programs, and more importantly, boost teacher livelihoods. Additional consultations with the Ministry of Finance clarified the current rules and regulations related to employee salary payments, and the support of additional U.S. government offices and donor implementing partners assisted in the work to map implementation of a new payment process. During the event to announce the grant, Afghanistan's Education Minister, Farooq Wardak, highlighted the urgent need for mobile payments as he told the story of a Ministry staff member who was killed while transporting cash to pay teachers. He expressed frustration that thousands of teachers sometimes wait months to get their salaries—a problem that could be resolved with mobile payments.<sup>4</sup>

By the end of 2011, USAID/Afghanistan had compiled a list of more than 15 potential mobile-money applications, 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. In 2011, the number of those registered increased from 200 to more than 1,000. Each of these individual activities requires the focused efforts of virtual teams from multiple USAID offices, several mobile-network operators, and other Afghan public- and private-sector stakeholders.

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<sup>4</sup> Dr. Rajiv Shah, "Innovating in Afghanistan," USAID Impact Blog, August 24, 2011, <http://blog.usaid.gov/2011/08/innovating-in-afghanistan/>.

Expanding the use of mobile money in Afghanistan has not been without its challenges, and many partners are coming together to address problems that cross multiple sectors:

- Afghans have little trust in the formal banking system, and most use an informal money exchange network—the *Hawala* system—to transfer funds around the country.
- The Afghan Central Bank's capacity to supervise both the traditional banking services and new financial innovations like mobile money must be further strengthened.

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- Vested interests have slowed progress in some areas such as government salary payments.
- The high rate of illiteracy requires that additional training be provided to potential users.
- An extensive mobile-money agent network needs to be established nationally.
- For many Afghan women, conservative cultural norms restrict access to finance and to mobile phones.
- The targeting of cell towers by insurgents has limited the near-term growth of this service in some areas of the country.

Even in countries where mobile money has been successful, such as Kenya, it has taken three to five years to achieve critical mass. After an initial

£1 million grant (\$1.83 million in 2004 dollars) from the United Kingdom's Department for International Development in 2004, Safaricom's M-PESA mobile-money service in Kenya now has more than 14 million subscribers—or over 30% of the country's citizens—transferring \$23 million daily.<sup>5</sup> Former Safaricom CEO and recent World Bank Mobile Money Fellow Michael Joseph noted that mobile money “has changed the lives of Kenyans...it created new jobs, new businesses and new opportunities for millions of people.... Surely this can and must be replicated in other similar countries, many of which have better starting conditions than we had in Kenya.”<sup>6</sup>

With USAID/Afghanistan's targeted funding and multi-sector approach to technical assistance, the market is responding through public-private partnerships. Etisalat introduced its *mHawala* mobile wallet in November 2011. MTN advanced the launch of its mobile money service in late 2011. Roshan is engaging with more Afghan government and NGO partners. Afghan banks are now collaborating with mobile-money service providers. With such positive momentum, USAID expects to see additional quantitative and qualitative results by mid-2012.

Collectively, the efforts of the teams contributing to this initiative will likely lead to greater awareness of mobile money, transformation of the Afghan financial sector, increased transparency of government transactions, more convenience for consumers, new revenue-generation opportunities for partner sustainability, and ultimately, improved lives for Afghans across the country. With support from USAID, other countries are now using

**Several public-private partnerships have recently increased the spread of Afghan mobile money services, offering more secure alternatives to traditional networks. USAID/Afghanistan is working with the Afghan Central Bank and other stakeholders to improve the policy environment for these services.** | Photo: USAID

similar approaches to expand the use of mobile money in Haiti, Indonesia, and Malawi. Other development areas—such as vocational education, health care, and energy—could also benefit from a holistic, networked approach that incorporates staff from multiple USAID offices, counterpart government agencies, international donors, and implementing partners.

By encouraging extensive multi-sector collaboration to promote the use of mobile money through public-private partnerships, USAID/Afghanistan is seeing greater impact in less time—and at a lower cost. Replication of this innovative project management and implementation model could lead to additional benefits for development programs around the world.

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5 George Ngigi, “M-PESA Linked to Inflation,” *Business Daily Africa*, February 14, 2012, [www.businessdailyafrica.com/M+Pesa+linked+to+ris+in+inflation/-/539552/1327538/-/tjism9/-/index.html](http://www.businessdailyafrica.com/M+Pesa+linked+to+ris+in+inflation/-/539552/1327538/-/tjism9/-/index.html).

6 Michael Joseph, “Bringing Mobile Money to the World,” World Bank Private Sector Development Blog, April 25, 2011, [blogs.worldbank.org/psd/bringing-mobile-money-to-the-world](http://blogs.worldbank.org/psd/bringing-mobile-money-to-the-world).