M-Money Channel Distribution Case – Afghanistan

ROSHAN M-PAISA
In 2006, Roshan, the leading mobile operator in Afghanistan formed a partnership with Vodafone Global Services to offer a mobile money transfer service in Afghanistan. The companies agreed to engage in a profit share model for the provision of service and would use Vodafone’s award winning platform that was built for the launch of the successful M-PESA service by Safaricom in Kenya in 2007. In Afghanistan, the product was locally renamed as M-Paisa where “M” stands for mobile and “Paisa” denotes cash in the local languages, Dari and Pashto. In order to mitigate risk in this new line of business for Roshan and Vodafone, the companies jointly registered a holding company known as Mobile Service Development Afghanistan and this holding company acts as a trustee of the funds held in the M-Paisa system.

The M-Paisa pilot was launched in early 2007 and was in operation until the full commercial launch in 2008. M-Paisa was specifically targeted towards microfinance clients and Roshan also formed a partnership with The First Microfinance Bank of Afghanistan (FMFB-A) to facilitate loan repayments through M-Paisa for their client base. Currently, over 5,000 FMFB-A customers are using M-Paisa to make their weekly or monthly loan repayments.

Roshan provides coverage in over 230 major cities and is present in all 34 provinces of the country. The company currently serves over 3.5 million subscribers. Since its inception January 2003, Roshan has invested up to $390.4 million in implementing and maintaining a high quality network making it the country’s single largest investor and tax payer with a contribution of approximately 6% of the Afghan Government’s overall domestic revenue. Roshan is backed by an international consortium of investors, led by the Aga Khan Fund for Economic Development (AKFED) at 51%, Monaco Telecom International (MTI) at 36.75% and Swedish-Finnish TeliaSonera at 12.25%.

FMFB operates in 6 major cities with 8 branches and ended 2006 with 17,000 active borrowers and an overall portfolio of USD 17 million. The network is expected to reach 21 branches in 12 of the 34 provinces of Afghanistan by late 2010 with more than 70,000 borrowers and a loan portfolio of USD 79.5 million.

M-Paisa is a proven system that provides access to financial services for under-served people in a post-conflict country where cities are facing a demographic explosion, where distances are vast, the environment is harsh and transportation remains insecure. M-Paisa will provide much needed services to a range of people across the nation with reduced costs for both banks and customers, using a fast, easy, and secure wireless technology. This paper discusses the methodology used by Roshan during the implementation of M-Paisa in Afghanistan.

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1 Company Information, 2008
**Anchor Product or Products**

M-Paisa in Afghanistan is mainly targeted towards microfinance clients and enables loan disbursements and repayments. Roshan has partnered with The First MicroFinanceBank in Afghanistan to offer this service. M-Paisa also enables national remittance, salary disbursements, airtime purchase, bill payment and merchant services.

**Mobile Phone Penetration**

Medium – mobile phone penetration in Afghanistan is approximately 55% as of the end of 2009 with over 16 million subscribers. The mobile industry is highly competitive with 4 GSM operators and 2 CDMA networks.

**Literacy Levels**

Low – the literacy rate in Afghanistan is only 28.1% for the general population. Literacy amongst men is significantly higher (42.1%) than amongst women (12.6%)\(^2\)

**Access to Finance**

Low – overall access to finance in Afghanistan is extremely low since only 3% of the population is banked. After more than 20 years of conflict in the country, Afghanistan’s formal financial sector is virtually non-operational. The conflict has resulted in the complete disruption of domestic and international payments system, the virtual cessation of all lending activities within the country, significantly reduced deposit taking activities, and a stoppage of most international banking relationships. There are approximately 300 bank branches in the country that are owned by 17 different banks. At present, only 350,000 people are served by MFIs in Afghanistan, yet the potential is estimated to be more than 1 million. Only 10,000 have access to voluntary savings accounts.\(^3\)

**Demand for Services**

Medium – There is a strong need for mechanisms that facilitate microfinance loan repayments due to the difficult operating conditions in Afghanistan. Since M-Paisa is mainly targeted to microfinance clients, the service adequately fills this demand. Other features of the service such as national remittance and bill payment are not highly needed. Many Afghans use local hawala services to transfer money and the country’s infrastructure is not developed enough to warrant bill payment services.

**Regulatory Environment**

Conducive – The Central Bank of Afghanistan has fully regulated mobile money transfer services as payment service providers. During the M-Paisa pilot, the Central Bank passed new legislation to adjust the existing payment service providers’ regulation to accommodate electronic fund movement. A license has been issued to Roshan for the operation of M-Paisa and Central Bank policies are regularly revised to keep up with developments to the service. However, although the Central Bank has taken a positive step by regulating the service, they have also provided strict compliance guidelines and at times this serves as a constraint to further growth of the system.

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\(^2\) CIA WorldFactbook, 2000

\(^3\) FMFB-A, 2007
Technology Adoption

Unprepared – Mobile phone users in Afghanistan are generally hesitant to try new products and services and require extensive consumer education before they are able to catch on to the operation of a complex product such as M-Paisa.

Marketing Campaigns

Marketing during the M-Paisa pilot was conducted through FMFB-A and no above the line methods were pursued for this. Upon commercial launch, both above the line and below the line tactics were used to communicate the money transfer features of the service. The initial campaign played on the emotional aspects of strong family relationships in Afghanistan and encouraged customers to use the product to send money to their friends and family. Although the campaign resonated with customers, it did not present a strong enough value proposition for the service and left many confused about how the product worked. Six months after the launch, a new marketing campaign was designed to position M-Paisa as ‘the hawala on your mobile’ and provided a much better explanation of how the service could be used to transfer money nationally.

Ecosystem

Since M-Paisa is mainly targeted towards microfinance clients, much of the ecosystem development has been focused on agents and institutions that operate in the same areas as the microfinance customers. Roshan is pursuing relationships with large organizations (such as NGOs and the Afghan military) to increase the uptake of M-Paisa services. Few large retail chains (including petrol stations and supermarkets) exist in the country so building a merchant network is a time and resource intensive task that requires signing contracts with multiple small shops.

Competitive Environment

Medium – Roshan was the first mobile operator to launch a mobile money service and is still the only operator in the country with an operational service. Etisalat and MTN are currently pursuing the development of competitive products. However, M-Paisa faces strong competition from the existing Hawala networks in the country. Presently, the more than 300 registered money exchange dealers in the country and estimates of the number of unregistered money exchange dealers in Kabul and around Afghanistan vary widely from 500 to 2,000.

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4 Hawala is an informal money transfer system with origins in classical Islamic Law. Money is transferred via a network of agents (hawaladars) that operate based on an honour code. A customer approaches a hawala broker in one city and gives a sum of money to be transferred to a recipient in another city. The hawala broker calls another hawala broker in the recipient's city, gives disposition instructions of the funds (usually minus a small commission), and promises to settle the debt at a later date.

Low Levels of Trust

Trust in the formal banking system of Afghanistan is virtually non-existent. Even customers that do have access to financial institutions will not easily place their trust in the formal system due to the country’s turbulent history. This presents both a challenge and an opportunity for M-Paisa. Since many users have demonstrated trust in their mobile service providers, offering M-Paisa is a good opportunity to capitalize on their loyalty. However, most consumers are still skeptical of the service offering and a significant investment in consumer education is required to improve upon this.

Lack of Infrastructure

Decades of war, harsh climate conditions, and neglect due to extreme poverty in Afghanistan have left the country’s infrastructure in a dismal situation. The country still requires development in all major areas including energy, roads, democracy and governance, banking, education and health. The lack of infrastructure has had a huge impact on the economic development of the country and makes it very difficult to easily reach rural areas for agent roll-out and training. The lack of stable power sources in certain areas of the country also lead to frequent service outages and this can further erode trust in M-Paisa.

Limited Commitment from MFSP Leadership

The telecom industry in Afghanistan is highly competitive and the major players are constantly battling for new subscribers and maintaining customer loyalty. With limited skilled staff, Roshan is faced daily with the challenge of prioritizing long term projects to sustain growth and short term promotions to remain competitive. In a presentation at the MMT Africa 2009 conference by Michael Joseph, CEO of Safaricom, he mentioned how important it is that the top management believes in the service and has a long term commitment to it. In Kenya the growth of M-PESA is very much a result of the personal commitment from top management and this is something that was noticeably absent in the formative years of M-Paisa’s development in Afghanistan. As a result, the opportunity to capitalize on the big bang of a new product launch was missed. Management commitment to the service remains a constant battle for Roshan since other services and initiatives often get prioritized over M-Paisa and this reduces the ability for the service to maintain its positive traction.

Strict AML / KYC Compliance

Because of the high risk of money laundering and terrorism financing in Afghanistan, the Central Bank of Afghanistan has provided strict requirements for AML and KYC policies that need to be followed by agents and M-Paisa back-office staff. These requirements have two negative effects. First they place an additional burden on the back-office staff, making it difficult for them to focus on business development and service growth. Second, the extensive work and risk on the part of the agent makes it difficult to convince them of the value proposition of the service.

Unstable and Dangerous Environment

As a war torn country, Afghanistan is still a very insecure environment. Robberies of agent outlets are common and Roshan regularly faces threats from the Taliban of destruction of their cell towers. Since M-Paisa is a product involving the transfer of user’s money, it is important to be able to offer consistent and reliable service and to protect cash stored at the agent outlets. The security challenges in Afghanistan are a constant obstacle.
Adherence to Sharia Banking Laws Required

Islamic banking, a practice that indicates compliance with Sharia law, is prevalent in Afghanistan and Roshan has to be very careful to position M-Paisa as a compliant service. Sharia law inhibits the payment or acceptance of interest fees for lending and accepting money. Although M-Paisa does not pay interest on funds held in the system, the transaction fees charged can sometimes be construed as an interest payment. Roshan currently mitigates this challenge by educating agents and call center staff on how to present the service and to answer questions about the product’s compliance with Sharia law.
Maintaining Close Relationships with Regulators

Roshan has maintained close ties with the Central Bank of Afghanistan and this has gone a long way to facilitating regulatory support. The Central Bank was willing to revise its legislation to accommodate the unique aspects of electronic funds transfer and this was an important factor that enabled Roshan to launch the service. There is still some work to be done with the regulator since the current AML requirements are constraining the service from rapid expansion.

Being First to Market Increases Stickiness

Roshan is the first mobile operator in Afghanistan to launch a mobile payments service and this has positively impacted their brand among Afghan consumers. It has also increased stickiness among M-Paisa subscribers, which is one of Roshan’s key reasons for investing in the product. Roshan currently has a significant market advantage in the mobile money space and is doing their best to leverage this in the highly competitive telecom environment.

Easy to Use Customer Interface

Because of the high illiteracy rate in Afghanistan and the fact that the M-Paisa menu could not be provided in the local languages (due to incompatibilities between the platform and the Dari character set) Roshan decided to invest in the development of an interactive voice response (IVR) feature for M-Paisa. This feature enables users to dial a short code and to select their transaction option by listening to a set of choices in their preferred language. Users can buy airtime, send money, make a loan repayment, deposit and withdraw funds through the IVR. The IVR feature significantly improves access to the product and goes a long way towards helping Roshan achieve their goal of subscriber growth.

Business Model Needs to Reflect Low Transaction Volumes

Vodafone does not have any stake in Roshan but the two operators were able to establish a partnership agreement based on a profit share model for M-Paisa in Afghanistan. This model has its strengths and weaknesses. Since Roshan does not pay license fees to Vodafone they are able to register customers even if they are not generating large transactions volumes. However, the model can also slow down growth of the business since the operators sometimes have different motivations and may not immediately agree on strategic decisions.

Market Segmentation Need to be Conducted Early and Often

Prior to launching M-Paisa, very little market segmentation was done by Roshan and as a result the national remittance feature of the service was targeted towards all Afghan consumers. About 6 months after the launch of the service, a detailed market segmentation analysis was performed and this revealed that there was an unmet opportunity to target the service towards specific user needs. For example, the analysis identified that Afghan women would highly benefit from the service. M-Paisa would provide them with the ability to become microfinance customers and business owners and would enable them to make their loan repayments without having to leave the privacy of their homes – a feature that is extremely important given the culture in Afghanistan. The segmentation analysis also identified the Afghan military and police force as excellent candidates for the salary disbursements through M-Paisa. Roshan has now begun to adjust their marketing strategy to leverage the results of the segmentation analysis.
Current Cash Movement Systems are Strong Competition

Initially, Roshan underestimated the impact of Hawalas in Afghanistan and disregarded them as a true source of competition. Hawala money transfer agents are generally well trusted and have been used for centuries in the region. Dealers rarely fail to effect payment and there is a well-established code of business practice where default risk is eliminated through a variety of hawala dealer selection criteria that has been adopted by users (see Appendix A for details). Since the fall of the Taliban regime, the volume of financial flows through the hawala system has grown significantly and there is currently no limit on the volume of funds transfers the money exchange dealers can transfer; individually or severally. The cost of making funds transfers into and around Afghanistan averages 1 to 2 percent, making it extremely competitive with M-Paisa. Recent marketing campaigns for M-Paisa liken the service to a hawalas dealer that is available on your mobile phone and can therefore be accessed from the convenience of your home. This tactic has significantly improved the impression and understanding of M-Paisa in the eyes of the Afghan consumer.

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Regulations

During the M-Paisa pilot in Afghanistan, several meetings were held with the Central Bank of Afghanistan (also known as Da Afghanistan Bank) to address how the service would be regulated. After extensively reviewing existing legislation available in the country, The Central Bank decided that M-Paisa fell under the category of a money service provider and Roshan would be required to submit an application to regulate the service under this provision. Upon further review of the regulation by Roshan’s legal team, it was determined that certain aspects of the law were outdated and did not accommodate electronic money transfer systems. The Central Bank agreed to update the regulation to address the unique needs of an electronic service. Amendments included the ability for Roshan to submit electronic reports detailing audit history and to notify the Central Bank of suspicious activity through electronic means such as email.

Requirements for the application included the completed application form, a fully documented anti-money laundering policy, a letter of approval from the Roshan board of directors, a letter approval from the Roshan lenders, and the application fee. The Central Bank also stipulated that each agent outlet would need to be approved and licensed and each employee in the agent outlet that was responsible for operating M-Paisa would also need to be registered. Details of the application fees are summarised in Figure 1. The terms of the license issued to agents can be found in Appendix B.

Figure 1: Regulatory Fees for Money Service Provider Application

<table>
<thead>
<tr>
<th>Registration Fee per Agent Outlet</th>
<th>USD 300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual License Maintenance Fee for First Location</td>
<td>USD 200</td>
</tr>
<tr>
<td>Annual License Maintenance Fee for Additional Locations</td>
<td>USD 100</td>
</tr>
<tr>
<td>Annual License Maintenance Fee per Shop Employee</td>
<td>USD 20</td>
</tr>
</tbody>
</table>

Source: Company Information, 2008

The Central Bank also stipulated that Roshan would be held liable for the actions of the dealer and therefore required Roshan to have a contractual relationship with each agent. This regulation presents a significant challenge for Roshan as it means that the network roll-out is constrained to dealers in the existing airtime distribution network and places a heavy risk on the mobile operator. Roshan is currently trying to get this rule amended but for the time being is operating under this constraint.

Roshan applied for the license in mid 2007 and the application was approved and processed by early 2008.

Market Research

Afghanistan is an extremely unique market and even though the team had access to the results of the M-PESA launch in Kenya, they were well aware that Afghan consumers would react differently to M-Paisa. Several market research studies were conducted during the trial period including a quantitative survey on existing mobile phone subscribers, focus groups with existing Roshan customers, interviews with participants of the M-Paisa pilot and mystery shop visits to agents servicing the pilot.

Key findings from the research can be summarised as follows:

• Banks, hawalas, and direct cash payments were the most commonly used money transfer channels. Very few respondents used Western Union.
• All categories of respondents thought the lack of access to bank branches and financial services in rural areas was an essential issue.
• The majority of participants thought they could trust their mobile operator to carry out their financial transactions, especially if the operator was reputable and has significantly invested in the country.
Almost all participants were excited by the prospect of using M-Paisa in the near future. However, concerns over costs and security of transactions were raised. The majority of participants thought transaction charges for sending should be no more than 1% of the transaction, and the receiving transaction should be free. After using M-Paisa, 90% of the pilot participants were satisfied with the service and would recommend it to a friend. Overwhelming feedback from agents suggests that they were not convinced about the business case for offering M-Paisa services in their shops. The requirement to invest in the cash float is their major concern. M-Paisa pilot participants trust the service since it was introduced to them by FMFB-A, an institution they know (see Figure 2).

Figure 2: Trust in M-Paisa

![Bar chart showing trust in M-Paisa agents with my money]

Source: Company Information, 2007

Roshan continues to collect market research data on an on-going basis to help drive the strategy for continued growth and to ensure that the service is improving over time.

Pilot Implementation

The M-Paisa pilot officially started on February 11, 2007 and ended on February 10, 2008. In order to have access to a suitable base of customers, Roshan partnered with The FirstMicrofinanceBank of Afghanistan (FMFB-A) and slowly began offering M-Paisa to their clients for loan repayments. The clients were also encouraged to use the other features available in the system such as airtime purchase and money transfer. The trial was mainly conducted in Kabul and approximately 500 users and 12 agents were registered during the pilot. By the end of 2008, approximately USD 1 million had been transferred through M-Paisa. Trial users were required to provide their own handsets but were given a USD 1 airtime voucher as an incentive to participate.

Since FMFB-A operates using an individual microfinance model, there was little risk of M-Paisa contributing to the breakdown of the group structure as was observed with Faulu during the M-PESA pilot in Kenya. The pilot with FMFB-A allowed Roshan to test acceptance of M-Paisa among microfinance users, to determine if the transaction fees were suitable, to prove to other MFIs the value of

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7 Typically, microfinance is associated with joint liability lending where borrowers form groups and are held liable for each other. Some MFIs have abandoned this model and are loaning to individuals instead of groups. The rate of loan default in these cases is approximately the same as it is for group lending.

8 Vodafone partnered with Faulu Kenya during the M-PESA pilot in 2006. One of the results of the pilot was that M-PESA enabled individuals to easily repay their loans without needing to attend the weekly group sessions and this contributed to a breakdown of the group structure.
the system and finally to provide enough data for the Central Bank to get comfortable with the reporting of the system. Performance Indicators of the M-Paisa Pilot with FMFB-A are summarised in Figure 3.

Figure 3: M-Paisa Pilot KPIs

<table>
<thead>
<tr>
<th>Key Performance Indicators as at October 15, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Registered Customers</td>
</tr>
<tr>
<td>Total Active Customers</td>
</tr>
<tr>
<td>Average Number of Transactions Processed Per Week</td>
</tr>
<tr>
<td>Average USD Value Processed Per Week</td>
</tr>
<tr>
<td>Average USD Loan Repayment Amount</td>
</tr>
<tr>
<td>Average USD Deposit Amount (per deposit transaction)</td>
</tr>
<tr>
<td>Number of Loans Disbursed to date</td>
</tr>
<tr>
<td>Total USD Value of Loans Disbursed</td>
</tr>
</tbody>
</table>

Source: Company Information, 2007

In September 2007, Roshan decided to expand the pilot to test a new feature of the platform, salary disbursements. In Afghanistan, salaries are typically paid by companies once per month in cash and employees often wait in lengthy queues to receive their pay. Since the process is manual, it can be extremely cumbersome for HR and Finance staff and since large amounts of cash are paid out, this method is also very dangerous for the companies and the employees.

Approximately 100 Roshan employees were selected for the pilot and began receiving their monthly salary through M-Paisa. Initial feedback from the employees was extremely positive as the users were thrilled with the fact that they no longer had to queue with their colleagues to receive their pay. However, after 2-3 months of using the service, the trial participants began to complain about the transaction withdrawal fee they were required to pay when they wanted to withdraw their money from M-Paisa. Eventually, Roshan was required to compensate the users for the cost of this withdrawal fee in order to convince them to continue using M-Paisa for salary disbursements.

Marketing Strategy

Roshan’s marketing strategy for M-Paisa was initially quite similar to that of Safaricom in Kenya for MPESA. The product was marketed as a money transfer service and played on the emotional aspects of strong family ties. Above the line and below the line tactics were used to make customers aware that they could register for the service and use it to send money to family in other parts of the country. Leaflets were printed and distributed to all Roshan airtime dealers to help educate customers. All material was provided in English and the local languages, Dari and Pashto.

After about 6 months, the Roshan team realized that although the campaign did stir strong emotional reactions from customers, they were still confused about how the service worked. Roshan re-launched the campaign as ‘The Hawala on your Mobile”. Since most people in the country are familiar with hawala services, this positioning helped to clarify the offering and customer registrations started to pick up.
Initially, M-Paisa transactions were also priced similarly to M-PESA in Kenya which used a tiered pricing model. In the tiered model, transaction values are banded into groups, with an upper and lower limit, and a flat fee is set for each group. However, this pricing model proved to be particularly confusing for Afghan customers and the company switched to a flat fee per transaction type. Details of the current transaction fees for M-Paisa are provided in Figure 5.

**Figure 5: M-Paisa Afghanistan Transaction Fees (USD)**

<table>
<thead>
<tr>
<th>Value Transaction</th>
<th>Value ($)</th>
<th>Charge ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Deposit</td>
<td>1.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Send Money To Registered Customer</td>
<td>1.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Send Money To Unregistered Customer</td>
<td>1.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Withdraw Money - Registered Customer</td>
<td>1.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Withdraw Money - Unregistered Customer</td>
<td>1.00</td>
<td>2,000.00</td>
</tr>
</tbody>
</table>

**Additional Transactions**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Enquiry</td>
<td>Once per day: Free</td>
</tr>
<tr>
<td></td>
<td>More than once per day: 0.05</td>
</tr>
<tr>
<td>Change PIN</td>
<td>Once per day: Free</td>
</tr>
<tr>
<td></td>
<td>More than once per day: 0.05</td>
</tr>
<tr>
<td>Change Language</td>
<td>Once per day: Free</td>
</tr>
<tr>
<td></td>
<td>More than once per day: 0.05</td>
</tr>
<tr>
<td>Change Secret Word</td>
<td>Once per day: Free</td>
</tr>
<tr>
<td></td>
<td>More than once per day: 0.05</td>
</tr>
</tbody>
</table>

*Source: Company Information, 2010*
Network Development

Agent network development is one of the biggest barriers to scaling the M-Paisa roll out in Afghanistan. Convincing agents to invest in the business and to maintain a large enough float balance to support transactions has proven extremely difficult. Even with larger commissions than were offered in Kenya and Tanzania, Afghan agents are still skeptical of the value of offering the service. Business in Afghanistan is still very transactional and agents have not progressed to a level where they see the future potential of a service and are able to invest in it today.

Nonetheless, Roshan has begun implementing aggressive network development strategies and currently has about 50 agent outlets servicing 5,000 microfinance clients across the country. Since recruiting agents is so difficult, Roshan has been relying on its super dealer network to provide a pool of agents to recruit from.

Another challenge to scaling the network in Afghanistan, is the fact that Roshan is not able to use the agent aggregator model\(^9\) that was successfully applied in Kenya since the money service providers license issued by the Central Bank of Afghanistan contains strict conditions stating that each agent of the service will be the responsibility of Roshan and Roshan is therefore required to contract and manage each agent outlet.

Selection Criteria

Since Roshan is directly responsible to the Central Bank of Afghanistan for the actions of the agents, agents are carefully selected from Roshan’s the pool of existing airtime dealers. From this pool of agents, Roshan looks for the following criteria:

- Operates the business from a secure location (i.e. a kiosk or shop that has some facility to securely lock up the cash float)
- Is able to deposit at least USD 500 for the initial cash float for each retail outlet
- Is able to provide at least 2 handsets that are compatible with the service for use in each retail outlet
- Can provide at least 2 part-time staff members to service transactions
- Is willing to sign an agent agreement outlining their responsibilities in offering M-Paisa services (Appendix B)
- Is willing to participate and to have their staff participate in product and anti money laundering (AML) training programs

Roles & Responsibilities

M-Paisa agents are responsible for registering new customers and facilitating cash deposits and withdrawals. For each transaction they process, the agents are required to record the details in a paper log book which is collected by the Roshan team each month and submitted to the Central Bank of Afghanistan for their records.

Due to the high risk of terrorism financing and money laundering in Afghanistan, the anti money laundering (AML) policy that has been drafted by Roshan is quite detailed and sets out strict guidelines for appropriate agent conduct. Agents are required to attend AML training and to take an AML test that will assess their understanding of the training. The agents are also required to directly report any suspicious behavior to the Central Bank of Afghanistan and to avoid tipping off the end users.

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\(^9\) In the agent aggregator model, the operator signs a few deals with large master agents that are then responsible for recruiting and managing smaller retail agent outlets. This enables rapid expansion of the network with minimal effort on the part of the operator.
Transaction limits are set at USD 2,000 per day for cash deposits, airtime purchases, transfers and withdrawals.

Agents also play a critical role in customer education. Many new M-Paisa subscribers depend upon the agent to explain the benefits of the system and to guide them through the first use of the M-Paisa menu. Since the literacy rate in Afghanistan is extremely poor, Roshan relies on agents to verbally instruct customers and to provide face-to-face support.

**Value Proposition**

As mentioned above, incentivizing agents is one of the biggest barriers to the development of the agent network in Afghanistan. Although there is significant opportunity for the service to grow, agents are still not quite convinced about their return on investment in M-Paisa. The existing value proposition is quite weak and to compensate for this Roshan has provided a commission structure that is more attractive than the ones offered in many other countries but Afghan agents are still more interested in airtime sales than in offering money transfer services. The current value proposition for M-Paisa in Afghanistan consists of the following elements:

**Revenue:** Agents earn commissions on every deposit, withdrawal and new customer registration that they process. The commission for a deposit is on average about 0.54% (ranging from USD 0.04 to USD 1.36) of the transaction value and 0.62% for a registered user withdrawal. A flat fee of USD 1 is paid for new customer registrations and USD 0.04 is paid for each unregistered user withdrawal.

**Increased Footfall:** Agents also earn additional revenue since M-Paisa drives traffic into their place of business and this serves as an opportunity for them to increase their bottom line.

**Community Service:** Agents are aware of the positive social and economic impact of M-Paisa in Afghanistan and are proud to be able to offer a valuable service for the community.

**Commission Structures**

Incentivizing agents is a key concern for Roshan since it is so difficult to convince them of the value of offering M-Paisa services. Agents are paid USD 1 for each new subscriber they register, but they only receive this commission after the user has made their first transaction. This structure is in place to discourage agents from fraudulently registering fake customers.

Agents also receive a commission for each deposit or withdrawal they process. Details of the commission structure can be found in Figure 6. In order to give the agents some incentive to convince high value users to register, Agents are paid more to process withdrawals for registered users as opposed to unregistered users. When the unregistered user comes into the shop to receive their money transfer, the agent can explain the benefits of the service and can take the customer through the registration process. After the user is registered for M-Paisa and the withdrawal is processed, the agent will receive the commission for registering the user as well as a higher withdrawal commission if the user has transacted more than USD 20.

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10 An unregistered user is someone who has been sent money through M-Paisa but has not yet registered for their own account
Figure 6: M-Paisa Agent Commissions

<table>
<thead>
<tr>
<th>Transaction type</th>
<th>Transaction range USD</th>
<th>Agent commission USD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VALUE MOVEMENT TRANSACTIONS</strong></td>
<td>min</td>
<td>max</td>
</tr>
<tr>
<td>Deposit Cash</td>
<td>1.00</td>
<td>20.00</td>
</tr>
<tr>
<td></td>
<td>20.01</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>100.01</td>
<td>200.00</td>
</tr>
<tr>
<td></td>
<td>200.01</td>
<td>400.00</td>
</tr>
<tr>
<td>Withdraw Cash</td>
<td>1.00</td>
<td>20.00</td>
</tr>
<tr>
<td>(registered user)</td>
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</tr>
<tr>
<td></td>
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<td>200.00</td>
</tr>
<tr>
<td></td>
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<td>400.00</td>
</tr>
<tr>
<td></td>
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<td>1,000.00</td>
</tr>
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<tr>
<td>Commission per M-PESA customer registration</td>
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<td>n/a</td>
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</table>

Commissions are inclusive of VAT & withholding taxes where applicable

Source: Company Information, 2008

Liquidity Management

M-Paisa agents currently face severe liquidity management challenges since the product is mainly being used by microfinance clients. Cash withdrawals and deposits are quite unbalanced with the number of deposits by clients wishing to repay their loan far exceeding the number of withdrawals. This means that agents need to keep a significant amount of M-Paisa funds available, requiring them to either tie up a large amount of float in the system or to make frequent trips to the bank. In the coming months, Roshan hopes to address this imbalance by increasing the number of users receiving their salary through M-Paisa.

Since M-Paisa was built off of the same platform as M-PESA in Kenya, similar float management tools are available in the system including the ability to set warnings for the agent and the M-Paisa back office when float amounts fall within dangerous levels, ability to transfer float between retail outlets and the ability to change maximum and minimum float levels for individual retail outlets.

Another factor that contributes to the challenge of liquidity management in Afghanistan is the underdeveloped banking infrastructure. There are only 300 bank branches throughout the country and many of the rural regions do not have any formal bank presence at all.
Agent Training

Unlike Safaricom, Roshan does not use an external firm to deliver training to agent outlets. Instead, they have built a dedicated training team within the M-Paisa company to develop training material and periodically deliver the training to new and existing agent outlets. This strategy has created a bottleneck within the organization and has hindered the roll out of the network. However, at the time of launch it was the only suitable option since an external agency that could meet the strict requirements of the Central Bank and was willing to travel to the dangerous regions of the country could not be found.

A set of simple and clear training modules with screenshots and illustrations have been drafted to walk agents through the main features of the system. Training sessions are typically 1-2 days long and are held in small meeting rooms close to the agent outlets. Agency head office and store staff are provided with different training material that is specific to the role they are required to fill. The first half of the training is a workshop style session where the team presents the training material and uses a demo system to allow the shop assistants to practice processing transactions. The second half of the training takes place at the agent outlets where the team visits the shops to set up merchandising material, evaluate the shop premises and make recommendations to the agent on how to organize and prepare for customer traffic in the shop. A full agent training guide is detailed in Appendix C.

Network Management

Because of the precarious operating conditions in Afghanistan and the difficulty in hiring staff, Roshan faces a big challenge in managing its agent network. Currently, the company relies on its internal team of about 5 resources to monitor agent activity and organize training events. This challenge is one of the reasons that the agent roll out has been so slow.

To help the team facilitate network management, standard procedures and templates have been prepared and staff is sometimes borrowed on a part-time basis from the marketing firm that Roshan works with. FMFB-A is also sometimes involved in facilitating agent training and monitoring. The M-Paisa team is responsible for:

- Training Agents: Train staff in new agent outlets on how to successfully operate M-Paisa and on the AML procedures.
- Delivering Point of Sale Material: Responsible for the delivery of all resource materials including agent tills, transaction log books and registration forms.
- Branding Outlets: effectively provide and put up merchandising materials in all the shops including stickers indicating the agent number, notices to customers, tariff posters and signage.
- Monitoring Usage: Logging in to agent accounts to check that they are maintaining their float liquidity
- Quality Assurance: Following up on any customer complaints that are received about a specific retail outlet.

Risk

The UN has analyzed the impact of informal money transfer systems in Afghanistan and has determined that there is an important connection between drugs and money transfer systems. In Faizabad, for example during certain times of the year close to 100% of the liquidity of the hawala system in the province is drug related. The southern region (Helmand and Kandahar provinces) is also a key centre for money
laundering in Afghanistan (about 60% of the funds are drug related and 80-90% of the hawala dealers in Kandahar and Helmand are involved in money transfers related to narcotics.\textsuperscript{11}

For this reason, Roshan is extremely concerned about the risks of money laundering and terrorism financing through M-Paisa and has implemented a number of policies and procedures to guard against these risks. The company maintains a close relationship with the Central Bank of Afghanistan and regularly reports on the money transfer activities of the high value users. Politically exposed persons (PEPs) are required to follow a stricter registration procedure than normal customers and must be vetted by the board of the company prior to being approved for the service. Furthermore, all M-Paisa users must be over the age of 18 and are required to provide a copy of their national ID when registering for M-Paisa.

Roshan also follows guidelines to mitigate the internal risk of fraud. Employees that have a login to the system (including FMFB-A staff) are required to undergo annual AML training and must pass a test before they are allowed to transact on the system. Two or more employees are required to approve a large backoffice transaction before it can be processed by the bank. There is also a dedicated fraud department within Roshan that monitors the system and highlights any suspicious activity to the management team.

**Staff Requirements**

Because of the difficult operating conditions and on-going conflict in Afghanistan, recruiting skilled international staff is tremendously difficult and expensive. Furthermore, the availability of skilled local staff is also limited since many people of working age are still relatively uneducated. As a result, Roshan has faced a lot of difficulty in growing the M-Paisa company to be able to support expansion of the service.

Currently, the team consists of about 7 full time staff that support all aspects of product management including marketing, sales, financial reconciliation, compliance and training. In addition, there is a team of about 10 call center representatives that man the 24/7 call center dedicated to M-Paisa enquiries. Ideally, both the full-time team and the call center should be doubled within the next year to support growth of the service.

**Customer Training & Support**

Customer education is a vital part of Roshan’s on-going strategy to increase awareness about M-Paisa and to encourage adoption of the service. For microfinance clients, most user training is provided by their loan officer. Loan officers are incentivized by Roshan to spend time taking the customer through the M-Paisa menu and explaining the various features of the system.

Customer education is also provided to Roshan customers through the retail agents. When a new agent is registered, they are trained to deliver a basic overview of the service to new users. Since the agents are only paid their registration commission once the user has made their first transaction, this commission also serves as an incentive for the agent to teach the user how to transact on the system.

Roshan has also tried to implement various educational campaigns through promotional material and marketing initiatives. However, these have proven to be largely ineffective due to the high illiteracy rate in the country. Roshan is now starting to offer short tips and instructions on the IVR system so users can learn how to use the product even if they cannot read.

A 24/7 call center has been established to provide support to M-Paisa customers and agents.

\textsuperscript{11} Byrd, William A.; Buddenberg, Doris, "1: Introduction and Overview", Afghanistan's Drug Industry Book: Structure, Functioning, Dynamics and Implications for Counter-Narcotics Policy, United Nations Office on Drugs and Crime (UNODC)
Appendix A

Sample Selection Criteria for Hawala Dealers

In selecting financially sound hawalas dealers to work with, users apply a variety of selection criteria, some of which include the following:

• **Be registered with the Central Bank, Da Afghanistan:** The registration process includes making a deposit with the central bank and paying an annual license fee. There are no further legal and institutional requirements with which money exchange dealers must comply. Although the central bank currently does not conduct fitness and probity tests of applicants, determine the reasonableness of the applicants business plan or assess the adequacy of the capital proposed for the business, this is an important first step at ensuring the operators legitimacy.

• **Recognized by the Money Exchange Dealers Association:** The market has an informal eight member Executive Committee that meets regularly to discuss its member’s affairs. The Committee’s Executive Director and his three assistants direct the activities of the Money Exchange Dealers Association and ensure that each member adheres to the Association’s unwritten rules of conduct and practices. Membership to the association is voluntary and there are no subscription fees. Membership is also an additional indicator the operator legitimacy

• **Maintain a physical presence at the Sari Shahzada in Kabul:** The physical money exchange market, where the majority of Kabul’s money exchange dealers are currently located has an eighty-year-old history. Established alongside the Kabul River, it is situated close to the gold and silver bazaars and financial service to the metal traders. Kabul’s other specialized markets are all within walking distance of the market, from which traders conduct and conclude their financial transactions. Operators with a physical presence at the market are likely to have a longer operational history than those that do not.

• **Authorized to deal in foreign currencies:** New central bank and banking laws have been drafted and rare expected to be passed soon. It is important that all transactions conducted through informal financial institutions are in compliance with these laws.

• **Be able to execute promptly a large number and volume of transactions:** There is no limit on the volume of funds transfers the money exchange dealers of Kabul can transfer; individually or severally. The NGO’s alone are estimated to have channelled at least US$200 million in emergency, relief and development funding through the hawala system. Single transactions in excess of US$500,000, especially between Peshawar in Pakistan and Kabul, are not uncommon. The larger international organizations and NGO’s have made individual transactions of US$1,000,000. A basic assessment of the operator’s operational capacity needs to be done before being contracted.

• **Agree to issue promptly a detailed monthly statement of funds transfer transactions:** Contrary to common belief, money exchange dealers maintain comprehensive records for each hawala transaction. The financial records the money exchange dealers maintain are detailed, and the entire process of remittance and settlement is very well documented. There are records of everything. Dealers know exactly how much cash they have, how much has been transferred and how much is owed to them. It is important that the accessibility of these documents for users is improved through an agreed financial statement review process.

• **Have established a satisfactory domestic and international correspondent funds transfer network:** Regional money exchange dealers are generally situated located in a regional rather and

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village or provincial town or city and service more than one province. For example, Kandahar based dealers may concentrate on the southern Afghan regions of Helmand, Oruzgan, and Zabol; The international dealers are mainly based in Kabul. They connect the domestic financial system to the rest of the world. Their counterparts are found in traditional trading cities on the Asian sub-continent: Tehran (Iran), Islamabad (Pakistan), and New Delhi (India); and in the Gulf cities and states of: Riyadh (Saudi Arabia), Doha (Qatar) Abu Dhabi and Dubai (United Arab Emirates), and Muscat (Oman). The government needs to determine which operators are able to serve its regions of interest.

- **Must have maintained an account in a formal commercial bank for at least five years:** A relationship with a formal financial institution provides some measure of comfort about the probity of the money exchange dealer. Also, because banks are mandate to report any suspicious transactions involving client accounts, this measure provides additional oversight criteria. The money exchange dealer must provide the bank the authority to communicate with the central bank directly when providing the reference letter.

- **Charge reasonable fees for its services:** The cost of making funds transfers into and around Afghanistan average 0 to 2 percent. However, as is common with every bazaar in South Asia, the final quotation depends on the negotiating skills of both parties and their understanding of how the market operates. Some money exchange dealers quote a flat fee of 2 percent on both international and domestic transactions. Yet, this is usually only a starting point for discussion. Discounts and premiums are offered and charged depending on the volume of the transaction, the financial relationship with the relationship, currency of exchange, security environment in Kabul and the destination of funds. The larger international organizations transferring US$200,000 or more per month pay less in fees than the local NGOs transferring US$7000 or less per month for their administrative expenses.
Appendix B

Money Service Provider Licensing Agreement for Agents

In accepting this license I agree to be bound by the following rules with the understanding that failure to comply with these rules will result in the indefinite revocation of my MSP license.

1. I will conduct only those money service businesses permitted on my license, and will conduct no other related money service businesses.
2. I will conduct money service business only in those locations indicated on my license.
3. Only those people listed on my license will conduct money service business at the licensed locations.
4. I will conduct my money service business using the record books issued by Da Afghanistan Bank (DAB) for recording customer and transaction information and will use no other media (electronic, paper, or other) for recording this information.
5. I will provide the DAB’s Financial Intelligence Unit with exact and unaltered duplicate copies of each month’s transactions by the fifth business day of the following month using the carbonless copy found in my DAB-issued record books.
6. I will transfer money and value as allowed by this license within Afghanistan only with holders of DAB-issued MSP licenses, or commercial bank licenses, or foreign bank branch permits and will record their license number in my transaction log.
7. I will transfer money and value as allowed by this license outside of Afghanistan only with dealers who are properly licensed and permitted within their jurisdiction and will take steps to verify their legal ability to transfer money and value.
8. I will attend all related training offered by DAB, including Anti-money laundering training.
9. I will file Suspicious Activity Reports with the DAB’s Financial Intelligence Unit in accordance with training and guidelines issued by DAB.
10. I will display my license at all times in a prominent location where it may be viewed by customers and potential customers.
11. I take complete and full responsibility for all those listed on my license who conduct money service business in my name.
12. I will not allow anyone not listed on my license to conduct money service business in my name.
13. I will abide by all other relevant rules and regulations issued by DAB.
Appendix C

Agent Training Guide

Introduction

M-Paisa is a new service offered by Roshan Afghanistan with a money transfer service between all mobile customers. This training manual will outline the method that is used to conduct a training session for M-Paisa Agents.

Training Objectives

• Educate Agents on how to become an M-Paisa Agent and the benefits of becoming an agent
• Ensure that all Agents operating M-Paisa are aware of Anti-Money Laundering procedures and how to handle potential money laundering cases
• Provide Agents with training on how to use the handset and registering new customers
• Ensure Agents are aware of how to maintain their floats and their responsibilities as an M-Paisa Agent

Conducting Training Sessions

Pre-Training Checklist:
• Agent forms have been filled
• Agent Terms and Conditions have been signed
• Agent Floats have been deposited
• Agent is created in the system
• Agent SIMs have been setup (MSISDN to be assigned by SM)
• Place and time for the training session is confirmed and all materials are ready

Training Session - Materials required:
• Laptop with Training Module files
• Projector
• M-Paisa demonstration handsets and SIM Card Reader
• M-Paisa Customer Registration Forms and Terms and Conditions
• 2 Posters, 5 Stickers, and 100 Leaflets per shop
• M-Paisa Agent SIMs
• 500 M-Paisa SIMs per shop (250 HLR 1 and 250 HLR 2)
• Training Completion Forms

Training Preparation:
• Ensure familiarity with all M-Paisa content and transactions
• Read through presentations and be familiar with slides and process
• Read through M-Paisa Frequently Asked Questions document and familiarize yourself with potential questions from trainees

Presentation:
• Encourage trainees to ask questions during the training process as it is very important that they understand all aspects of the product and we get their perspective on M-Paisa
• If there is a question that you are not sure of the answer to, do not answer it, but document the question and get back to the trainee once you are sure about a response
• Questions that you do not know the answer to can be directed to the M-Paisa training team (abdulqadir.afidi@Roshan.af)
• Interactive training is often an effective means for trainees retaining information
  ✓ Conducting sample transactions on the handsets for agents is a good idea
• The training process involves retaining a substantial amount of information. It is important to go through the content at a reasonable pace.
• Take breaks to split up the content for groups
  ✓ Suggestion: Depending on how long each module is taking you can take a 10 minute break every 60 minutes

Agent Training

Agent training can be completed over the course of two days
• Day 1 – module training
• Day 2 – assessing individual stores
  ✓ Ensure that the stores have all the needed material for offering the M-Paisa service and look presentable with M-Paisa marketing products
  ✓ Materials:
    ▪ Posters
    ▪ Stickers
    ▪ Leaflets
    ▪ SIM card reader
    ▪ Forms – customer registration form, terms and conditions
    ▪ M-Paisa Red SIMs

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<th>Agent Training</th>
<th>Content</th>
<th>Estimated Time</th>
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<tr>
<td></td>
<td>M-Paisa Overview (include demonstration)</td>
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<tr>
<td></td>
<td>Break</td>
<td>15 mins</td>
</tr>
<tr>
<td></td>
<td>AML Training</td>
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<tr>
<td></td>
<td>Becoming an M-Paisa Agent</td>
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</tr>
<tr>
<td></td>
<td>Register new M-Paisa Customer</td>
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</tr>
<tr>
<td></td>
<td>SIM Data Transfer</td>
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<tr>
<td></td>
<td>Register new Lite M-Paisa Customer</td>
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<tr>
<td></td>
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<tr>
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<td>Additional Transactions</td>
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<tr>
<td></td>
<td>Balance floats through web screens</td>
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</tr>
<tr>
<td></td>
<td>Balance floats through handset</td>
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</tr>
<tr>
<td></td>
<td>Organization Deposit of Funds</td>
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</tr>
<tr>
<td></td>
<td>Organization Withdraw Funds</td>
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</table>

Post-Training Responsibilities:
• Fill out Training Record spreadsheet specifying who gave and received M-Paisa training as well as the training date
• Each individual trainee should fill out a training waiver, which should be collected and completed by trainer at the end
• Distribute customer registration forms to agents during Day 2