

WHAT ARE THE ECONOMIC AND SOCIAL IMPACTS OF THE MOBILE PHONE SECTOR IN DEVELOPING COUNTRIES?

Roshan, a subsidiary of AKFED, has been granted a mobile operator license in 2003 and has since become a success story in Afghanistan. As the main private project in the country, it is the largest contributor to the State budget. In 2008, Roshan launched an innovative mobile banking service. Samir Satchu – one of the company's historical managers – explains how critical this new service is for customers having little access to banking services, and how it also contributes to customer loyalty.

Rebuilding a Shattered Nation: The Impact of Wireless Communication and Mobile Banking in Afghanistan

In an extremely difficult context – that of Afghanistan at war – mobile phones provide users with some basic services that are essential for the country's reconstruction. The explosion in the development of the mobile phone sector has led to a real "leap forward", particularly for financial services. The implementation of M-Paisa – whereby money transfer can be made via voicemail – has given the population greater access to financial services and has, at the same time, helped combat corruption, the financing of terrorism and money laundering. By reducing transaction costs for financial transfers, the service has also fostered microfinance loan repayments and has consequently promoted the development of microfinance.

By Samir Satchu, General Counsel and Head of Government Affairs for Roshan

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Roshan

Samir Satchu is General Counsel and Head of Government Affairs for Roshan, Afghanistan's leading telecommunications provider.

Since joining Roshan in 2003, he has negotiated loan financing packages led by the Asian Development Bank, for a total of USD 150 million.

Mr. Satchu has steered his department through a period of increased competition (entry of MTN and Etisalat) and regulatory intervention.

Before joining Roshan, Mr. Satchu worked in the telecommunications sector in London. He holds degrees from Cambridge University and Harvard Law School.

Few aspects of life are untouched by mobile telephone technology. Families displaced or dispersed by conflict can remain connected. Commerce can grow when business owners have the tools to search for the best prices, know when goods will arrive, and need not close down their shops to meet with suppliers. Isolated villages and communities can be better integrated into the fabric of the nation and the economy.

Cellular phones above all mean access. And access to information, people and communities is the key to empowering billions around the world to improve their lives. Nowhere is that more evident than in Afghanistan. As the nation's largest telecommunications provider, Roshan has played a leading role in bringing the benefits of wireless telecommunications to the war-ravaged country, simultaneously contributing to the nation's reconstruction and economic development.

Leapfrogging Afghanistan's communications into the 21st century

When Roshan began operations in Afghanistan six years ago, there was virtually no telecommunications infrastructure. Simply placing an international phone call often required walking or traveling hundreds of miles, crossing the border, and paying very high rates. However the near-absence of any

telecommunication infrastructure – a seemingly insurmountable challenge – also constituted a great opportunity. Roshan used the latest wireless technology to leapfrog Afghanistan's telecommunications system into the twenty-first century.

Today, Roshan is Afghanistan's leading telecommunications provider, with coverage in over 230 cities and towns and approximately 3.5 million active subscribers. Since launching operations, mobile penetration rates in the country have risen from 0.25% in June 2003 to 25% in November 2009. Roshan directly employs more than 1,100 people, of which 20% are women, and provides indirect employment to more than 25,000 people. Since its inception six years ago, Roshan has invested approximately USD 425 million in Afghanistan and is now the country's single largest investor and tax payer. Roshan is deeply committed to Afghanistan's reconstruction and socio-economic development. The Aga Khan Fund for Economic Development (AKFED), part of the Aga Khan Development Network (AKDN), is a major shareholder of Roshan and promotes private initiatives and building economically sound enterprises in the developing world. Other shareholders include Monaco Telecom International (MTI) and TeliaSonera, helping Roshan bring international expertise ...

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... to Afghanistan and commit itself to the highest standards of network quality and coverage for the people of Afghanistan.

Financial services through mobile telephony

Roshan continuously seeks new opportunities to harness the power of mobile technology in order to address development challenges, introducing innovative and relevant products that meet the basic, yet unique needs of the geographically dispersed, ethnically diverse local population.

Over 97% of the population in Afghanistan does not have access to a traditional bank account or financial services, one of the highest percentages in the world. Afghanistan's conventional banking industry is virtually non-existent and highly fragmented: a total of 17 banks share among them approximately 300 branches around the country (most of which are in major cities) and there are only 38 ATMs for a population of 32 million.

Afghans have minimal trust in their country's banking system. In contrast, Roshan has developed a strong brand over the past six years, building relationships with its customers and earning the trust of increasing numbers of Afghans. As mobile penetration rates continue to grow and banking penetration rates remain stagnant, Roshan is presented with a unique opportunity to bridge this divide, providing access to basic financial services for the Afghan population.

Migrant workers require quick and efficient money transfer services to send money to their families. Small entrepreneurs often have to take time off work and travel long distances to repay their microfinance loans. Companies need secure ways to pay and disburse salaries to their employees. Existing methods of money transfer in Afghanistan, however, are mostly inefficient and insecure. Moving cash throughout the country is risky, expensive and time consuming. Furthermore, the political situation in the country remains fragile and shifting, especially in the aftermath of the recent presidential election.

In 2008, Roshan partnered with Vodafone to launch M-Paisa in Afghanistan. M-Paisa enables registered Roshan customers to transfer money using their mobile phone in a quick, easy, safe, and cost effective manner for peer-to-peer transfer, repayment of

microfinance loans, purchase of airtime and salary disbursement for companies. Today, M-Paisa has over 120,000 registered subscribers.

The M-Paisa SIM application is embedded on a GSM SIM card, which means that any Roshan subscriber can use the service. The sender simply punches in the mobile number of the recipient and the amount for transfer, followed by a PIN code that ensures security in the system. A secure Short Message Service (SMS) is sent to the recipient. Roshan's extensive distribution network, present in the most remote villages, serves as a transaction point for deposits and withdrawals. The recipient visits an M-Paisa agent to withdraw funds, entering a PIN code to secure the transaction. Both the agent and recipient receive a confirmation SMS once the transaction is complete.

Roshan's experience in understanding the local and technical environment of Afghanistan, along with Vodafone's technical experience with mobile money, helped bring banking services to the marginalized. It is a significant development for Roshan customers and even all Afghans looking for a means to conduct financial transactions. Even more significantly, it also serves as a catalyst for Afghanistan's economy by facilitating business transactions, loan repayments, and the movement of money nationwide.

The challenges of financial services

Roshan is rapidly expanding its network nationwide, making it easier for Afghans to access financial services, and working to overcome obstacles such as illiteracy, lack of awareness, a shortage of trained agents and the overall lack of development.

During the initial soft launch phase, Roshan quickly realised that it had to simplify the overall customer experience. In a country where less than one third of the population is literate, users find it difficult to use text messaging (SMS) to transfer funds. In response, the company developed a tri-lingual Interactive Voice Response (IVR) system through which users can be guided through prompts to complete transactions, in English, Dari and Pashto. The IVR can be used by low-income users who have no formal education. Awareness of IVR services is growing rapidly and Roshan expects this to increase user adoption. ...

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... Roshan has faced challenges both at the customer and agent level. Mobile money transfer and even conventional banking are relatively new concepts in Afghanistan. Most advertising has had to focus on educating the customer and explaining the value of the service. Once users realize the added value and benefits of using the service, they consistently and actively use it.

At the agent level, Roshan is working on developing tools for M-Paisa agents to provide them with the support to promote and encourage usage of the service. This includes developing training sessions, pictorial guides, and an agent-only IVR in the coming months. Agents can truly serve as ambassadors of the service, working to educate users on the benefits of mobile phone-based financial services. In addition, Roshan has had to constantly monitor agent float to ensure that there is enough cash on-hand to serve the customers in a particular city or village.

A second major challenge for Roshan is to navigate through Afghanistan's very specific political circumstances: a country still grappling with war and insurgency, in which the central government's authority is at best precarious and effectively exists to varying degrees in different parts of the country.

Such factors mean that for the time being, drafting and enforcing regulation related to mobile commerce is extraordinarily difficult. Therefore, Roshan has proactively been working with the Government, through the Ministry of Communications and the Ministry of Finance, to ensure the security and transparency of the service.

M-Paisa is regulated in Afghanistan by Da Afghanistan Bank, the country's Central Bank. The service is, first of all, "Know Your Customer" (KYC) compliant: to open an account, prospective customers need to provide national identification and a photo, and are also required to sign a statement that they are not involved in any terrorist activities. Secondly, M-Paisa is "Anti-Money Laundering" (AML) compliant: this means that each transaction is closely monitored and suspicious transactions need to be reported immediately to the Central Bank. Finally, M-Paisa is "Combating the Fight of Terrorism" (CFT) compli-

ant. All three compliance systems have been put in place as part of an attempt to prevent illegal activity and money laundering.

M-Paisa's capacity to measure money flows is a key ingredient to its success, especially in light of the environment in which it operates. M-Paisa provides a legitimate and transparent way for funds to be tracked, reducing the transfer of money between illegitimate industries.

Mobile telephony as a tool to widen access to microfinance and combat corruption

M-Paisa has also facilitated access to microfinance for thousands of individuals, following a partnership between Roshan and First MicroFinanceBank (FMFB) to test-run M-Paisa in Afghanistan. Today, over 2,500 microfinance clients make loan payments through M-Paisa. M-Paisa makes it easy for small informal, often rural entrepreneurs, as well as women and the ultra-poor with no access to banks, to reimburse loans without having to travel vast distances and shut down operations for a day. With a repayment ratio of 97%, microfinance loans have been a roaring success to date.

Clearly, as the experience with FMFB seems to suggest, microfinance institutions (MFIs) in Afghanistan can benefit greatly from a product such as M-Paisa. Interest rates charged by MFIs are typically higher than those charged by conventional financial institutions, given the high administration costs of thousands of small accounts and the logistical difficulties of traveling to remote areas to deliver loans in cash or receive reimbursements. With the introduction of M-Paisa, MFIs no longer need to open additional branches. Instead, a Roshan agent can serve as an outsourced micro-branch, increasing the MFI's presence in cities and towns to a level the industry could not have hoped to reach before.

In Afghanistan, the Ministry of the Interior physically distributes salaries to the Afghan National Army (ANA) and Afghan National Police (ANP) in cash. This practice is intrinsically risky, and M-Paisa can offer an alternative solution which mitigates security and corruption issues, as well as the issue of soldiers often going absent without leave shortly after salaries are paid. M-Paisa can serve as a secure, instantaneous, scheduled mechanism to transfer and receive funds. ...

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... In July 2009, Roshan and the Afghan government started a salary disbursement trial run with the Afghan National Police (ANP) in the District of Jalreez, in Wardak Province. A recent assessment made by the United Nations Department of Safety and Security (UNDSS) reported that the security situation in Wardak province is now volatile, making it difficult for officers to leave their post to deliver salaries to their families. Without funds, families could be left without basic provisions for weeks.

In this trial, 49 ANP officers received their salaries via M-Paisa instead of the traditional method of cash paid through one of three trusted agents in Wardak. The salaries range from 5,000 AFN (USD 100) to 21,000 AFN (USD 420) per person. Now these ANP officers can visit an authorized M-Paisa agent to withdraw their salaries in cash at their convenience and send cash to their families in their home villages.

Many of the ANP officers who received their salaries through M-Paisa realized for the first time what their actual salaries were. Until then, the cash used for the payment of salaries went through so many intermediaries that inevitably some of the funds were either stolen or skimmed. The trial

run is now expected to be replicated throughout the country in the coming months. With a formal mechanism of delivering salaries to their families, mobile money can help the National Police to dematerialize transactions and prevent the circulation of physical cash that currently helps to fuel the war. In a country where economic development is desperately needed, the benefits of allowing legitimate funds to flow freely are endless.

In 2010, Roshan will continue to expand and rollout M-Paisa nationwide, to provide more Afghans with access to financial services. Roshan is also looking for ways to further integrate utility invoice payments into the system, hoping to work for instance with the Ministry of Water and Energy, which could ultimately receive payments through M-Paisa.

M-Paisa has the potential to boost economic growth through the elimination of common financial barriers, especially in remote areas and in particular with regards to women, who often are the sole supporters of their families. Through M-Paisa and Roshan's wide mobile network coverage, there is now an important vehicle providing financial inclusion for the majority of Afghans. ●