



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

May 28, 2014

General Joseph F. Dunford, Jr.  
Commander, U.S. Forces–Afghanistan, and  
Commander, International Security Assistance Force

Major General Kevin R. Wendel  
Commanding General, Combined Security Transition  
Command – Afghanistan/Ministerial Advisory Groups

Major General Harold J. Greene  
Deputy Commanding General, Combined Security Transition  
Command – Afghanistan

Dear Generals Dunford, Wendel, and Greene:

Thank you for your response regarding the current status of an Afghan Ministry of Interior pilot program using mobile money technology<sup>1</sup> to pay salaries to the Afghan National Police (ANP). While the vast majority of the ANP are paid through Electronic Funds Transfer (EFT) to individual bank accounts, the mobile money system also appears to be an effective way to pay the salaries of the ANP who live in remote areas and therefore do not have easy access to banks.

However, after reviewing the information you provided in response to my inquiry, I remain concerned about the potential for theft from police salaries through the so-called “trusted agent” payment process, which is used to pay 18 percent of the ANP.<sup>2</sup> Your response indicated that as much as half of the ANP salaries paid through that “trusted agent” system are diverted or otherwise siphoned off from rightful recipients by corrupt pay agents or other illicit means.

Based on those figures, SIGAR analysts conclude that up to \$45.5 million dollars may be at risk of diversion through the trusted agent payment option in Fiscal Year 2014 alone. That figure represents roughly 9 percent of all Law and Order Trust Fund Afghanistan (LOTFA) salary payments to the ANP in Fiscal Year 2014.<sup>3</sup>

According to CSTC-A, LOTFA intends to expand enrollment in the mobile money payment program from the current 1,100 to 3,200 over the next year. Increased participation in the program should reduce the administrative and managerial costs per transaction associated with the mobile money system. If expanded participation in the mobile money program results in lower costs and the virtual elimination of salary-skimming, it will be a step forward.

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<sup>1</sup> This is a system where individuals receive salary payments via mobile credits to an individual mobile phone subscriber accounts. These mobile credits may be used at an existing network of stores to purchase goods and services, and to exchange for cash.

<sup>2</sup> This is a method of salary payment that involves direct distribution of cash to ANP employees.

<sup>3</sup> This analysis is based on funding data provided by the United Nations Development Program (UNDP) to SIGAR detailing total costs for ANP salary and stipend payments forecasted for LOTFA in FY2014 and CSTC-A's response to *SIGAR-14-50-SP Inquiry Letter: ANP Mobile Money Pilot Program, April 16, 2014*, stating that 18% of all ANP salaries are paid through the trusted agent process and up to 50% of trusted agent salary payments are diverted through corrupt practices.

As you know, the U.S. has spent billions of dollars to train and equip the ANP. Ensuring that police officers receive their full salaries is critical to creating an honest, reliable, and sustainable police force. A forthcoming SIGAR audit report will discuss in detail the methods used by the Afghan government, CSTC-A, and the United Nations Development Programme to collect, validate, and use ANP personnel and payroll data to account for reconstruction funds supporting ANP salaries. Therefore, I request that you keep my staff apprised of any new developments relating to the expanded use of mobile money technologies and their potential for reducing corruption.

Should you have any questions or need additional information, please contact me directly, or have your staff contact Jack Mitchell, Director of Special Projects, at [REDACTED] or [REDACTED].

Sincerely,



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

Attachment(s):

- I. USFOR-A Response to SIGAR-14-50-SP Inquiry Letter
- II. CSTC-A Response to SIGAR-14-50-SP Inquiry Letter
- III. SIGAR-14-50-SP Inquiry Letter: ANP Mobile Money Pilot Program



HEADQUARTERS  
UNITED STATES FORCES-AFGHANISTAN  
KABUL, AFGHANISTAN  
APO AE 09354

USFOR-A DCDR-S

2 May 2014

MEMORANDUM FOR United States Central Command (USCENTCOM), MacDill Air Force Base, FL 33621

SUBJECT: United States Forces-Afghanistan (USFOR-A) Response to the SIGAR-14-50-SP Inquiry Letter: Afghanistan National Police Mobile Money Pilot Program

1. References:

- a. SIGAR-14-50-SP Inquiry Letter, 16 April 2014
- b. CSTC-A, CJ-6, Response Memorandum to SIGAR-14-50-SP Inquiry Letter, "Afghanistan National Police Mobile Money Pilot Program," 30 April 2014

2. I have reviewed the SIGAR letter and endorse CSTC-A's response.

3. Point of Contact for this action is COL Thurinton Harvell at DSN [REDACTED] or via e-mail at [REDACTED]

Encls:

1. SIGAR Inquiry Letter, 16 April 2014
2. USCENTCOM Letter, 13 February 2014
3. CSTC-A Response, 30 April 2014

JEFFREY N. COLT  
Major General, U.S. Army  
Deputy Commander, Support  
United States Forces-Afghanistan



REPLY TO  
ATTENTION OF

HEADQUARTERS  
COMBINED SECURITY TRANSITION COMMAND - AFGHANISTAN  
MINISTERIAL ADVISORY GROUP  
KABUL, AFGHANISTAN  
APO AE 09356

CSTC-A

03 MAY 2014

MEMORANDUM THRU United States Forces - Afghanistan (CJIG), APO AI: 09356  
United States Central Command (CCIG), MacDill AFB, FL 33621

FOR: Special Inspector General for Afghanistan Reconstruction, 2530 Crystal Drive, Arlington,  
VA 22202

SUBJECT: CSTC-A Response to SIGAR 14-50-SP, "ANP Mobile Money Pilot Program", dated 16  
April, 2014.

1. The purpose of this memorandum is to provide a response to SIGAR's request for information contained in the SIGAR 14-50-SP letter of inquiry concerning the Mobile Money Pilot Program.
2. CSTC-A appreciates SIGAR's continued assistance in identifying the best practices to increase accountability while leveraging technology. The Mobile Money Pilot Program was initiated with the intention of reducing administrative corruption while paying salaries of the Afghan National Police (ANP). While this new technology is one of many initiatives towards moving Afghanistan to operating more independently, CSTC-A realizes that challenges remain in providing proper oversight of ANP salaries within the Ministry of interior (MoI). CSTC-A remains committed to being good stewards of American and donor nation money while providing transparency and accountability.
3. Point of contact for this action is CPT Todd R. Williams at DSN [REDACTED] or via e-mail at [REDACTED]

  
HAROLD J. GREENE  
MG, USA  
Deputy Commanding General, CSTC-A

Encl:  
1) CSTC-A RFI Response

**Enclosure 1**  
**SIGAR Request for Information (RFI)**  
**"ANP Mobile Money Pilot Program"**  
**(SIGAR Letter of Inquiry 14-50)**

To assist SIGAR in developing lessons learned about the use of mobile payment systems in Afghanistan, and their impact on efforts to provide oversight and transparency to Afghan financial transactions, please respond to the following questions:

**1. What is the status of the Afghan Ministry of Interior mobile payment pilot program for Afghan police?**

**1.1 How does the current status of the program compare to the original plan of execution and expansion?**

*CSTC-A Response:*

Original Plan of Execution/Expansion: The Pay-by-Cell-Phone Program expansion startup costs were \$8K USD for SY1389 (2010). These funds were provided via a direct reimbursement to MoF. The original program was to allow ANP in high threat areas, without access to banking, to receive their salaries by electronic means - via text message sent to their cell phones. Electronic salary payment reduces the opportunity for corruption by minimizing cash payment on the battlefield. After successfully completing an 8-month test program, with over 50 ANP in one Afghan police district, MoI approved expansion of the program to approximately 170 more ANP in three additional districts.

Current Status: The program has grown from the 200 in the expansion phase to approximately 1,100 ANP enrollments today. Currently, M-Paisa charges LOTFA a monthly fixed amount of about \$10K USD as their administrative and managerial cost. Additionally, they charge another AFN 170 per transaction for security and other fees. For the number of employees currently paid through M-Paisa, this method is very expensive and costs LOTFA (and ultimately the donors who provide LOTFA its financing) an average cost of \$10.80 per transaction. Further expansion will increase the overall costs but drive down the cost per transaction since fixed costs are spread over a larger customer base.

**1.2 Has the program been evaluated? What criteria or metrics are used to measure program success?**

*CSTC-A Response:*

The primary criterion for M-Paisa's success is that no better alternative exists for paying a very small percentage of the ANP (less than 1%) due lack of banking facilities in some of the high threat and remote areas of Afghanistan. M-Paisa payees get their full paycheck while other viable methods of payment are subject to corrupt practices.

For example, one alternative for payment is the use of a "trusted agent". There are a number of risks with this form of payment such as:

- Potential for paying nonexistent ANP members
- Salary of absent police persons may be pilfered by the trusted agent
- Some police, especially cadets and patrolmen who are mostly illiterate, may be charged illegal commissions or service fees, or not receive their full entitlements.
- Vulnerable members of the police can be intimidated just by the rank/position of the trusted agent or by actual threats

**Enclosure 1**  
**SIGAR Request for Information (RFI)**  
**"ANP Mobile Money Pilot Program"**  
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Given the advantages of M-Paisa over "trusted agent," LOTFA is in negotiations with M-Paisa to expand to locations where we currently use the "trusted agent." This expansion might include a requirement for Roshan/M-Paisa to expand phone coverage to areas not currently covered by cell phone infrastructure, and this investment would be ultimately be recouped through service charges. LOTFA hopes to expand the number of ANP receiving pay via M-Paisa to 3200 by the end of FY 1393.

**1.3 If the program is on-going, please describe the factors that have enabled it to succeed.**

***CSTC-A Response:***

Factors that enabled M-Paisa to succeed include lack of corrupt practices and the time saved traveling to Mustofiats. Both have led to high customer satisfaction rates. Based on anecdotal evidence, salary payments through "trusted agents" often result in up to a 30% reduction in payments to individuals due to illegal fees or other corrupt practices.

**1.4 If the program has been terminated, please describe a) the factors that led to the decision to terminate the program, and b) the system that is now being used to pay salaries to the Afghan National Police.**

***CSTC-A Response:***

The program has not been terminated.

**2. Are other Afghan government institutions currently using mobile payment systems? Are there any plans to expand the use of mobile payment systems to other institutions in Afghanistan?**

**2.1 Please describe any existing programs or future plans and the respective status of these efforts.**

***CSTC-A Response:***

To our Knowledge, no other Afghan government institutions are currently using mobile payment systems. The Ministry of Finance does not recognize M-Paisa as a method of delivering payment.

Today LOTFA pays 18% of the ANP via trusted agent and less than 1% via M-Paisa. New Kabul Bank (NKB) is proposing "trusted agents" be eliminated in favor of paying all ANP via EFT utilizing mobile technology. The mobile technology is a battery powered, highly portable device capable of performing secure wireless transactions to the payment systems called Point of Sale (POS). The mobile technology used in conjunction with a mobile pay team can access the remote areas and pay via EFT, ensuring a safer transfer of funds and also ensure the proper amount of funds are provided to the policeman. This same process can be used for the policemen currently being paid via M-Paisa.

In terms of comparing the costs of the three methods of payment, the most cost effective is EFT. For EFT the bank charges fees of AFN 80 from each payee who receives more than AFN 15,000 per month. Those who make less than 15,000 AFN per month are exempt from bank fees. By

**Enclosure 1**  
**SIGAR Request for Information (RFI)**  
**"ANP Mobile Money Pilot Program"**  
**(SIGAR Letter of Inquiry 14-50)**

contrast "trusted agent" fees/corrupt practices could take as much as 50% of a policeman's salary. M-Paisa are currently \$10.80 for each transaction from each payee.

LOTFA is examining to implement EFT whenever it is technically feasible.

**2.2 If any program has been terminated, what factors led to the decision to terminate it?**

***CSTC-A Response:***

The program has not been terminated.

**3. What potential effect will the use of mobile payment systems have on efforts to combat money laundering in Afghanistan?**

**3.1 How can any identified risks associated with using the mobile phone payment system be mitigated?**

***CSTC-A Response:***

There are no known risks with using the mobile phone payment system. Both EFT and M-Paisa are transparent methods of payment. The EFT modality is the most reliable because the funds are directly deposited in the beneficiaries' bank accounts. The bank (Kabul Bank) has stringent requirements of vetting the identity of the recipient when withdrawing the funds. M-Paisa is also very reliable because of their ability to deposit e-money in the telephone account of the beneficiaries. M-Paisa automatically issues a unique PIN to each police person every month for the collection of his salary. The payee receives his funds from M-Paisa agent by providing him with his account number and the PIN. Upon receiving his payment, the payee sends a code with the amount of money received to M-Paisa through his mobile phone. If there is any discrepancy in the amount to be paid and the amount received, the company will be able to know and follow up immediately. M-Paisa also sends MoI a monthly paper-based reconciliation report.

**3.2 What Afghan law enforcement agency or office is responsible for providing oversight on the use of mobile money payment systems?**

***CSTC-A Response:***

CSTC-A is unaware of any law enforcement agency or office responsible for providing oversight of mobile money payment systems.

**3.3 Does the United States currently provide any advisors or technical assistance to the Afghan government to help develop a capability to combat money laundering activities?**

***CSTC-A Response:***

CSTC-A and the Afghanistan Threat Finance Cell (ATFC) are not aware of any advisors or technical assistance provided to GIRoA by DoD to specifically combat money laundering.

**3.4 Have there been any reported cases of illicit money laundering using mobile money payment systems? If so, were there any successful prosecutions by the Afghan government?**

**Enclosure 1**  
**SIGAR Request for Information (RFI)**  
**"ANP Mobile Money Pilot Program"**  
**(SIGAR Letter of Inquiry 14-50)**

***CSTC-A Response:***

CSTC-A and ATFC are not aware of any reported cases of illicit money laundering using mobile money payments.

APPROVED BY:  
Charles B. Shea  
COL, CJ8  
Director

PREPARED BY:  
Roger Goodson  
CIV, CJ8  
Deputy Director, DSN [REDACTED]

# ATTACHMENT III: SIGAR-14-50-SP INQUIRY LETTER: ANP MOBILE MONEY PILOT PROGRAM



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 16, 2014

General Joseph F. Dunford, Jr.  
Commander, U.S. Forces–Afghanistan, and  
Commander, International Security Assistance Force

Major General Kevin R. Wendel  
Commanding General, Combined Security Transition  
Command – Afghanistan/Ministerial Advisory Groups

Major General Harold J. Greene  
Deputy Commanding General, Combined Security Transition  
Command – Afghanistan

Dear Generals Dunford, Wendel, and Greene:

I am writing to inquire about the current status of an Afghan Ministry of Interior pilot program using mobile money technology to pay salaries to the Afghan National Police. These salary payments are funded in part by U.S. taxpayers through direct assistance funds to the Law and Order Trust Fund for Afghanistan (LOTFA). I recently learned that, although this program initially demonstrated great promise in reducing administrative corruption, it has since produced mixed results. I am also interested in learning whether the use of similar mobile payment systems may be expanded to other Afghan institutions and, if so, the potential risk these systems pose to furthering criminal money laundering activities in Afghanistan.

Less than 5 percent of Afghans have bank accounts, but over 63 percent (16.8 million Afghans) are mobile phone subscribers.<sup>1</sup> Mobile money payment systems have become an increasingly popular platform for supporting financial transactions in Afghanistan in the absence of a capable commercial banking sector. The first mobile phone-based salary payment system was introduced in Afghanistan in 2009 as a pilot program to pay the Afghan National Police by mobile money instead of cash. Known as M-Paisa, this mobile payment system was developed as a joint venture between telecommunications companies Vodaphone and Roshan.

Under a mobile payment system, employees receive salary payments via credits to an individual mobile phone subscriber account. These credits can then be used at an existing network of stores that accept payment using phone credits for goods and services. Some of the stores even serve as “trusted agents” and provide the employee with cash in exchange for the mobile money credits, essentially serving a similar function as a commercial bank.

<sup>1</sup> U.S. Agency for International Development. “USAID Administrator Encourages the Expansion of Mobile Money in Afghanistan.” Press Release, August 24, 2011, accessed April 28, 2013, <http://www.usaid.gov/afghanistan/news-information/press-releases/usaaid-administrator-recognizes-progress-and-encourages>.

1550 Crystal Drive, 9th Floor  
Arlington, Virginia 22202

Mail: 2530 Crystal Drive  
Arlington, Virginia 22202-3940

Tel: 703 545 6000

[www.sigar.mil](http://www.sigar.mil)

As late as August 2011, more than 500 Afghan National Police received their salaries and 800 District Counselors<sup>2</sup> were paid stipends via mobile money, thus helping to "ensure the effective delivery of government services in remote districts of Afghanistan."<sup>3</sup> In March 2013, *Time Magazine* reported that the results of the M-Paisa mobile payment system were "both immediate and dramatic: costs dropped by 10% with the elimination of phantom payments to nonexistent officers pocketed by middlemen. And the rest of the Afghan force thought they had received a 30% salary increase because these same middlemen were no longer able to skim cash from legitimate salaries."<sup>4</sup>

SIGAR met with members of the International Security Assistance Force (ISAF) Telecom Advisory Team (TAT) this past year to discuss the mobile money payment pilot program. They were informed that the pilot program had been discontinued due to the circumvention of internal controls established to reduce corruption in the payment of these salaries. Police commanders began registering their own phone numbers in lieu of those of their subordinates, and they resumed their past practice of claiming "a cut" of the salaries paid out to individual police officers. This is the same corrupt practice that the mobile money payment was intended to stop.

To assist SIGAR in developing lessons learned about the use of mobile payment systems in Afghanistan, and their impact on efforts to provide oversight and transparency to Afghan financial transactions, please respond to the questions contained in the attachment.

I am submitting this request pursuant to my authority under Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Please provide the requested information within 14 days of the date of this letter to Jack Mitchell, Director of the Office of Special Projects, at [REDACTED] or [REDACTED]. Please do not hesitate to contact him if you have any questions.

Sincerely,



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

Enclosure: Attachment I: Questions Regarding Mobile Money

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<sup>2</sup> Individuals supported by the USAID-funded Afghanistan Social Outreach Project (ASOP) in 2011 to help facilitate the establishment of local District Community Councils (DCCs) and develop their role as a basis for more permanent local governance to achieve the overarching aims of peace and stability.

<sup>3</sup> *Ibid.*

<sup>4</sup> Erik Heinrich, "How Afghanistan Is on the Leading Edge of a Tech Revolution," *Time Magazine*, March 2, 2013, accessed April 26, 2013, <http://world.time.com/2013/03/02/how-afghanistan-is-on-the-leading-edge-of-a-tech-revolution/>.

## ATTACHMENT I: QUESTIONS REGARDING MOBILE MONEY

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1. What is the status of the Afghan Ministry of Interior mobile payment pilot program for Afghan police?
  - How does the current status of the program compare to the original plan of execution and expansion?
  - Has the program been evaluated? What criteria or metrics are used to measure program success?
  - If the program is on-going, please describe the factors that have enabled it to succeed.
  - If the program has been terminated, please describe a) the factors that led to the decision to terminate the program, and b) the system that is now being used to pay salaries to the Afghan National Police.
  
2. Are other Afghan government institutions currently using mobile payment systems? Are there any plans to expand the use of mobile payment systems to other institutions in Afghanistan?
  - Please describe any existing programs or future plans and the respective status of these efforts.
  - If any program has been terminated, what factors led to the decision to terminate it?
  
3. What potential effect will the use of mobile payment systems have on efforts to combat money laundering in Afghanistan?
  - How can any identified risks associated with using the mobile phone payment system be mitigated?
  - What Afghan law enforcement agency or office is responsible for providing oversight on the use of mobile money payment systems?
  - Does the United States currently provide any advisors or technical assistance to the Afghan government to help develop a capability to combat money laundering activities?
  - Have there been any reported cases of illicit money laundering using mobile money payment systems? If so, were there any successful prosecutions by the Afghan government?