

# Building Resilience Through Digital Financial Services

Africa COVID-19  
Digital Finance Market Impact Series

## Ethiopia

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

**Ethiopia** is the second most populous country in Africa and 12<sup>th</sup> in the world. With a median age of 19 years, the population is young and increasingly tech savvy. Mobile phone ownership and penetration have more than doubled over the past four years. While banking penetration continues to grow, it is highly concentrated in urban areas with 34% of all branches in Addis Ababa.

Increased mobile phone access paired with the still limited banking penetration rate provides **an opportunity to leverage technology and expand access to financial services**, particularly in rural areas.



## ETHIOPIA: KEY COUNTRY STATISTICS



**113.5 million**

**Population**

21% Urban | 79% Rural  
19.8 Median Age



**\$531 million**

Remittance inflows (~0.5% of GDP)



**8.3%**

**GDP growth 2019**  
**Projection GDP growth for 2020: 7.2%**



**18.6%**

**Internet penetration**  
63% mobile phone penetration



**35%**

**Financial Inclusion**  
12% Gender Gap



**Phone ownership:**

**38.5%** mobile connections  
**36.3m** unique subscribers

Source: IFC DFS Market Scoping Report 2020.

## IMPACT OF THE COVID-19 PANDEMIC

**The pandemic has resulted in reduced employment and household income.** Firm operations were substantially affected. More than 42% of registered businesses in Addis Ababa completely ceased operations and 37% reported no revenue in March or April 2020 and by mid-September about one-quarter were still closed. Expectations for recovery remain subdued, with only 2% of SMEs expecting to hire new workers. Growth in Ethiopia is expected to be 4% lower than the pre-COVID-19 forecast.<sup>1</sup>

More than half of all households reported that their income was either reduced or had totally disappeared in April 2020. Most affected are female-headed households, the self-employed and those working as casual laborers in urban areas. Employment rates have since rebounded but continue to remain lower than before the pandemic.

The significant decline in incomes threatens to stall **Ethiopia's achievements in poverty, which were based on strong economic growth, and the government's ability to provide public services to the poor.**

**The government, the National Bank of Ethiopia (NBE) and the donor community responded to the pandemic with large-scale fiscal packages and support measures** including tax reduction, liquidity injections, expansion of the social protection program, etc. Financial service providers (FSPs) also adapted their service offering to encourage the use of DFS.

Banks & MFIs:	FinTechs:
<ul style="list-style-type: none"> <li>Offered rescheduling and restructuring of loans, including grace periods,</li> <li>Reduced or waived fees for early settlement, late payments, rescheduling, etc.</li> <li>Encouraged the use of digital channels and waived transaction fee for ATM-based and other digital transactions,</li> <li>Made aggressive effort towards saving mobilization and loan collection,</li> <li>Took precautions towards doing new loan disbursement,</li> <li>Created awareness among staff and clients about COVID-19 and tried to maintain a healthy working environment.</li> </ul>	<ul style="list-style-type: none"> <li>Supported distressed customers by making available more ways to transact electronically ensuring social distancing,</li> <li>Cut fees on mobile-based transactions,</li> <li>Offered free transaction fee for P2P transfers, bill payments and electronic purchase of goods and services,</li> <li>Offered cash back on mobile and e-commerce transactions,</li> <li>Charged no transaction fee on transfers from core banking accounts to mobile wallets and vice versa,</li> <li>Educated and incentivized customers to use digital payment instruments.</li> </ul>

### Banks and MFI have indicated that support is needed to:

- Deal with liquidity challenges, in the form of credit lines,
- Extend and /or increase the waiving of directives related to the rescheduling and restructuring of loans and the provisioning linked to these operations,
- Establish a credit guarantee fund for MSME clients,
- Reduce the minimum interest rates for fixed term deposits.

## DFS MARKET OVERVIEW

### *Enabling regulation and ecosystem development create new opportunities.*

Over the past two years, the regulatory framework for DFS has improved significantly. The plan to (i) privatize Ethiotel, the government owned telco operator and (ii) issue additional licenses for mobile network operators should further improve mobile phone, voice and data penetration. Meanwhile, the pandemic drove e-commerce and use of DFS as people avoid personal interactions and the physical exchange of cash, which is still the pre-dominant form of payments for goods and services such as utilities, indicating an increasing acceptance of the digitization of these payments.

### *Increasingly banks, MFIs and FinTechs are recognizing the opportunities presented by DFS.*

Very few banks in Ethiopia do not offer some form of technology-enabled access, especially mobile phone-enabled transactions in a context where neither debit nor credit card use is significant.

Policy and Strategic Initiatives	Key Developments	Legal and Regulatory	Market Changes
<ul style="list-style-type: none"> <li><b>The National Financial Inclusion and Development Strategy (NFIDS)</b> blueprint for achievement of financial inclusion goals.</li> <li>Ecosystem Accelerator Program launched.</li> <li>Digital Ethiopia 2015 strategy for inclusive prosperity.</li> <li>National Digital Payment strategy drafted.</li> <li>Government launches mobile apps as part of the e-Government Directorate.</li> </ul>	<ul style="list-style-type: none"> <li>Ethio Telecom partners with Gulf2Africa cable construction.</li> <li>Major changes anticipated in the second Growth and Development Plan to 2020.</li> <li>Ethio Telecom expands LTE reach, considers charging for OTT services.</li> <li>Huawei and ZTE share a \$1.6 billion contract to develop mobile infrastructure.</li> <li>EthSwitch enabled POS and ATM interoperability and working on wallet and account, and payment gateway.</li> </ul>	<ul style="list-style-type: none"> <li>Payment Instrument Issuer and Payment system Operators directives allows non-banks to offer payment services, opening the market for more providers.</li> <li>Value Added Services (VAS) licenses – under VAS Directive No. 2/2005 - issued.</li> </ul>	<ul style="list-style-type: none"> <li>New MNO licenses to be issued.</li> <li>The Ethiopian parliament passed a bill to open up the country's financial sector to Ethiopian diaspora.</li> <li>Growing interest in e-commerce, app based services (transportation, logistics, etc.).</li> <li>Growing MSME market and related interest on digital lending.</li> </ul>

Sources:

<sup>1</sup> [World Bank \(2021\)](#)

Banks	Microfinance institutions
<ul style="list-style-type: none"> <li>Almost all of the 16 private banks and 2 government-owned banks offer mobile banking.</li> <li>State-owned banks dominate the industry incl. access to data: CBE's market share is 66.3%.</li> <li>There are 6,511 commercial bank branches – up from 2,208 in 2015 – and approximately 4,896 ATMs.<sup>2,3</sup> The banks with the largest branch network are CBE and Bank of Abyssinia.</li> <li>Debit cards (4%) are more common than credit cards (0.27%); both are rarely used as are mobile accounts (0.8%).</li> </ul>	<ul style="list-style-type: none"> <li>There are 39 MFIs in Ethiopia.</li> <li>The 5 largest MFIs are state-owned with 86.3% market share.</li> <li>MFIs have a total of 317 branches and 568 sub-branches.</li> <li>18,000 SACCOs, representing 3.8 million active savers, which NBE would like to leverage for financial inclusion.</li> <li>Bulk of Urban Productive Safety Net Project (UPSNP) payments are disbursed via MFIs leveraging electronic payments.</li> </ul>

New service providers, such as Amole and CBE Birr, have entered the market and have seen a quick uptake of their services, while more established players such as MBirr and HelloCash continue to experience solid growth, demonstrating how significant the opportunity for mobile banking in the market is.

Mobile Banking Services					
Name	Company Name	Launch Year	#Subscribers	Agents	Services
MBIRR	Moss ICT Consultancy	2010	1.7 Million	14,000	Bill payment, airtime top-up, P2P.
HelloCash	Belcash Technology Solutions PLC	2011	1.5 Million	8,000	P2P, bill payment, airtime top-up E-PSNP, e-commerce and international remittance.
Yene Pay	YenePay Financial Technologies PLC	2015	10,000		Online/mobile payment aggregation for e-commerce, delivery & digital services.
CBE Birr	Commercial Bank of Ethiopia	2017	3.6 Million	10,000	Bill payment, airtime top-up, P2P.
Amole	Moneta Technologies SC	2018	3.5 Million	8,000	Bill payment, airtime top-up, P2P, mobile wallet.

Source: IFC DFS Market Scoping Report 2020

**All FinTechs have partnerships with banks or MFIs** to offer DFS products supported by a large agent network (over 7,000 agents) such as HelloCash and Mbirr. A number of smaller e-money solutions also exist as well as agriculture insurance and financing platforms for smallholder farmers. The Ethiopian automated transfer system (EATS) is in place, consisting of a Real Time Gross Settlement (RTGS), for low volume, high value transactions and an Automated Clearing House (ACH), for high volume, low value transactions, is functioning. Also, EthSwitch operates Ethiopay, the national domestic card scheme, which allows banks to issue and acquire payment cards as well as interoperability for ATMS and POS transactions.

None the less, financial inclusion remains a challenge:

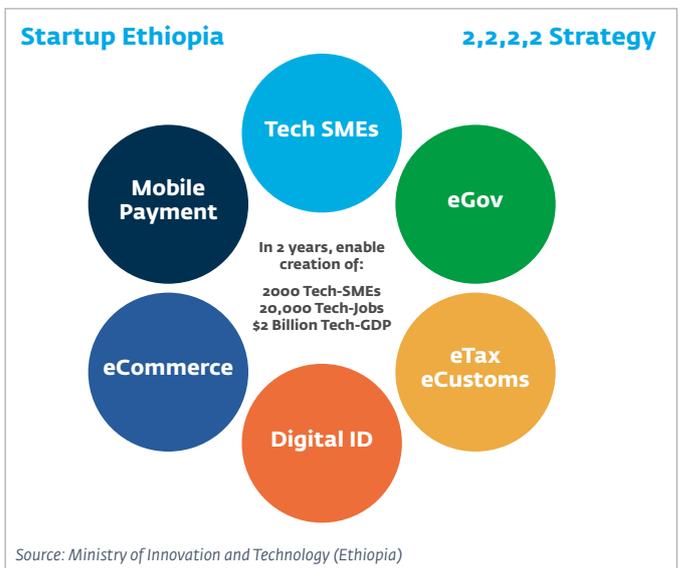
- Ownership and usage of mobile-enabled financial services is very low with a **mobile account usage rate at 0.8%**.
- Financial access points (per 100,000) are limited
- Factors determining (and often prohibiting) account ownership are income, education and age
- Remittances are marginal (0.5% of GDP). The bulk of domestic transfers are government-to-person payments (G2P) leveraging State-owned financial institutions.

**Effective private sector partnerships are in place as well as Government-led initiatives to support DFS expansion**

**The government sees the use of technology as central to its financial inclusion strategy.** Government-led initiatives support the development of the national payment ecosystem including as part of the 2,2,2,2 Strategy championed by the Ministry of Innovation and Technology, designed in 2018 to establish 2,000 tech SMEs, create 20,000 tech jobs, and generate \$2 billion in tech GDP over the course of 2 years.

- The Ministry of Communication and Information Technology (MCIT) has launched an e-Government Plan
- E-Government enables 211 e-services (77 informational and 134 transactional) over a 5-year period to be delivered through 4 channels (Portal, Call center, Mobile devices, Common Service Centers)
- The development of a National Payment Gateway is in progress to enable all modes of electronic payments (card-based, direct debit, eWallet, eBanking, etc), currently connecting 29 federal ministries, agencies, and authorities as well as 6 entities.

Sources:  
 2 Ethiopia: Mobile money schemes, helloCash and M-Birr launched (The Africa Report, February 5, 2015)  
 3 Ethiopia launches mobile money to extend banking reach (Reuters, February 4, 2015)



## GAPS AND CHALLENGES

- The existing regulation limiting ownership of banks and payment service providers to nationals and diaspora Ethiopians adversely affects the inflow of FDI and greatly limits the inflow of expertise.
- If foreign MNOs entering Ethiopia are unable to provide mobile financial services, they may find the value proposition unattractive.
- While regulations for dedicated payment server provider licenses are in place, none have as of yet been issued.
- The lack of interoperability between all bank accounts, including mobile bank accounts limits the availability of use cases, negatively impacting uptake.
- The credit quality of banks' loan portfolios has deteriorated, especially those with exposure to tourism, trade and transportation. Banks' immediate liquidity needs are estimated at around Birr 17 billion in order to meet the NBE's liquidity requirement, as they are challenged by less resource mobilization and reduced loan collection of Birr 10 billion per quarter.<sup>4</sup>

## OPPORTUNITIES FOR MARKET GROWTH

The recent changes in the regulatory environment combined with a pandemic induced behavioral change in the general population opens opportunities in two areas:

- Expansion of DFS use cases
- E-Commerce

Given the agriculture sector is the backbone of Ethiopia's economy, contributing over 35% of the GDP, accounting for over 85% of the labor force and earning over 90% of the foreign exchange revenue, **opening up digital financial services to smallholder farmers and rural MSME is a priority and present a sizeable market opportunity.** Digitization of payments along value chains can provide additional data points enabling banks and MFIs to build financial services around user groups. Insights into the payment behavior and relationships within a value chain have in other markets reduce the risk to serve these segments.

Digital Financial Services	E-Commerce	What it Takes
<p><b>Segments</b> Smallholder farmers, MSME, factory workers, Productive Safety Net Program (PSNP) recipients, government employees</p> <p><b>Use Cases</b></p> <ol style="list-style-type: none"> <li>1. Agricultural lending &amp; remittances</li> <li>2. Credit scoring, loan disbursement &amp; repayment</li> <li>3. Weather index insurance &amp; life insurance</li> <li>4. Customer, bill &amp; supplier payments</li> <li>5. Savings &amp; investment</li> <li>6. E-vouchers</li> <li>7. Salary payment</li> </ol> <p><b>Economic Benefit</b> Increased account ownership for underserved segments Lower transactional costs and risks associated with cash transactions Availability of additional financial services and products tailored for underserved segments Boost aggregate expenditure by providing convenient access to a range of financial products/services</p>	<p><b>Segments</b> Youth, Micro, small and medium enterprises</p> <p><b>Use Cases</b></p> <ol style="list-style-type: none"> <li>1. Payments for goods and services online</li> <li>2. Refunds, rebates</li> <li>3. Secure payments to suppliers</li> <li>4. Onetime sales/yard sales</li> <li>5. Data-driven &amp; cash-flow lending</li> </ol> <p><b>Economic Benefit</b> Improved market access Improved market efficiency Lower transactional costs Progressive formalization of employment by informal workers Increased competition and market transparency, with varying benefits to firms</p>	<ol style="list-style-type: none"> <li>1. Data privacy, consumer protection, e-payments, cybercrime policies and regulations</li> <li>2. Interoperability infrastructure policy and regulations</li> <li>3. Unique ID</li> <li>4. Credit scoring capacity</li> <li>5. Digital financial literacy</li> <li>6. Mobile and internet penetration</li> <li>7. Consumer Trust</li> </ol>

The same applies to e-commerce. Integration of FSP with e-commerce platforms provides additional insights into turn over, reliability and other alternative data points that can be leveraged to offer new products and services.

Sources:

<sup>4</sup> Lelissa, Tesfaye "The Impact of COVID-19 on the Ethiopian Private Banking System" University of South Africa. 11th June, 2020.

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