ETHIOPIA SUMMARY - PAGE 1

MOBILE MONEY SOLUTIONS
Currently 2 mobile money solutions offered; 1 Bank offering, and 1 offered by a 3rd party processor.

POPULATION
102.4 million

MOBILE PENETRATION
33.8 million unique mobile subscribers (33% of population)

BANKED POPULATION
22% through financial institutions, 22% overall, 0.03% through mobile accounts
[Source: World Bank FINDEX]

PERCENT UNDER POVERTY LINE
29.6% (2014) [Source: CIA]

ECONOMICALLY ACTIVE POPULATION
49.3 million (2015) [Source: CIA]

ADULT LITERACY
49.1% (2015) [Source: CIA]

MOBILE NETWORK OPERATORS
Ethio Telecom 100% market share

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ACTIVE MOBILE MONEY IMPLEMENTATIONS

- M-Birr – Launched in September 2015 by Ireland-based MOSS ICT in partnership with the 5 largest MFIs in Ethiopia: Amhara Credit and Savings Institution (ACSI), Dedebit Credit and Savings S.C. (DECSI), Oromia Credit and Savings S.C. (OCSSCO), Omo Micofinance S.C. (OMO), and Addis Credit and Savings Institution (ADCSI), with 100+ agents each and who, collectively, account for 95% of the MFI business in Ethiopia.

- helloCash – Offered by Netherlands-based BelCash in partnership with 3 large banks: Lion International Bank (LIB) with 1255 locations, Somali Micro Finance Institution (SMFI) with 487 locations, and Cooperative Bank of Oromia with 1,984 locations.

OTHER ITEMS OF INTEREST

- Kifiya
Macro-economic Overview

Regulations
Financial Sector
Telecom Sector
Other Sectors
Mobile Financial Services Landscape
### Key Country Statistics

- Population: 102.4 million
- Age distribution: 44% (0-14 years), 20% (15-24 years), 29% (25-54 years), 4% (55-64 years), 3% (over 65 years)
- Median age: 17.8
- GDP (PPP): $161.6 billion (2015)
- GDP per Capita (PPP): $1,800 (2015)
- Urban/Rural split: 19.5% of population lives in urban areas (2015)
- Population below poverty line: 29.6% (2014)
- Literacy Rate (age 15 and over): 49.1% total, 57.2% male and 41.1% female (2015)
- Account Penetration: 21.8% all transaction accounts, 21.8% account with financial institution, 0.02% mobile account
- Labour force: 49.3 million (2015)
- Mobile Penetration
  - All subscribers 46%
  - Unique subscribers ONLY 33%
- Internet penetration: 18.7%

### Insights

- With an already large and young population, Ethiopia has the 9th highest population growth rate in the world – estimated at 2.88% in 2016.
- Financial literacy is likely to be constrained relatively low literacy levels, especially among women, short school life expectancy (7-8 years) and a significant share of children ages 5-14 engaged in work (53%).
- According to ITU data, Ethiopia’s mobile penetration rate (31% in 2014) is among the lowest in the region (73%, on average) and the world, but has increased dramatically from 22% just 2 years prior.
- Significant room for growth in the mobile money market, given the small scale accomplished by existing offerings thus far, and the limited competition in the sector at this stage.
- However, the high percentage of population living in rural areas (>80%) and the low penetration of 3G coverage (<20%), will present challenges.

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1 Data as at 2016, unless otherwise indicated. Source: CIA World Fact Book, accessed October 20, 2016.
3 Data as at Q3 2016, unless otherwise indicated. Source: GSMA Intelligence.
4 The politics behind mobile money in Ethiopia (Center For Financial Inclusion Blog, July 29, 2015)
Macro-economic Overview

Regulations

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REGULATORY BODIES INVOLVED IN MOBILE BANKING

NATIONAL BANK OF ETHIOPIA (NBE)

- NBE licenses, regulates and oversees banks, MFIs, remittances and insurers, but not Payment Service Providers (PSPs), which are presently recognized as value added services (VAS) by the ICT Ministry
- The Payment and Settlement Systems Directorate is one of 6 departments directly under the Governor
- Legal framework consists of a regulation governing mobile and agent banking, along with related several circulars

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY (MCIT)

- MCIT’s mission is to develop, deploy and use ICT to improve the livelihood of every Ethiopian and optimize its contribution to development of the country
- The National ICT Policy and Strategy acknowledges that the regulatory framework for the telecommunication sector is inadequate
- MCIT is responsible for regulating and supervising the 3 PSPs – M-BIRR, Belcash and Kifiya, which are considered VAS

IMPLICATIONS

- Regulation of Mobile and Agent Banking Services Directives No. FIS/01/2012, came into force on Jan 1, 2013 and applies to both Banks and MFIs, who are treated equally
- Circular No. BSD/06/2013 required all FIs previously authorized to provide mobile and agent banking to reapply under the new regulations
- Circular No. FIS/01/2014 sought to clarify the relationships between FIs and Third Parties, including Technology Service Providers (TSPs)
- Circular No. FIS/02/2014 prohibited FIs from offering mobile top up, as it is not a financial service
- To be a mobile money agent of an FI, or partner with an FI to offer mobile money, MNOs would require the approval of the Telecom regulator [Article 9.2.1]
- NBE does not nor has any desire to license and supervise PSPs.

1 Regulation of Mobile and Agent Banking Services Directives No. FIS/01/2012 (National Bank of Ethiopia, 2012)
2 NBE Circular No. BSD/06/2013 (National Bank of Ethiopia, 2013)
3 NBE Circular No. FIS/01/2014 (National Bank of Ethiopia, 2014)
4 NBE Circular No. FIS/02/2014 (National Bank of Ethiopia, 2014)
7 Stakeholder Meetings (IFC, October 2016)
Financial Institutions (FIs)\(^1\)

- Only FIs (banks and MFIs [Article 2.7]) licensed by the NBE are permitted to provide mobile banking services [Article 4.1], but they still require the approval of the NBE prior to starting operations [Article 6.1]
- Mobile and agent banking services are limited to the geographical boundaries of Ethiopia and must be denominated in Ethiopian Birr [Article 4.2]
- FIs must own technology and data; if outsourced, it must be transferred by way of licensing to a local institution within 5 years.

Agents\(^1\)

- FIs may use agents [Article 4], defined as a person engaged in a commercial business/activity and has been contracted by an FI to provide the services on its behalf [Article 2.1]
- Agents may open accounts (mobile money and traditional savings), perform KYC, cash in/out, transfers and other payment services [Article 9.1.1]
- All persons engaged in valid and lawful business may be an FI agent, but requires approval of relevant regulator [Article 9.2.1]

Current Regulations

- Market not open to all
  - MNOs and non-FIs must essentially partner with a bank or MFI to offer mobile money in Ethiopia
- Cross-border mobile money is prohibited
- FIs are required to report to NBE on activities provided by agents on a quarterly basis [Article 13,2]

Implications

- FIs are responsible for making sure that agents are able to carry out real time transactions [Article 4.4.2]
- FIs must be able to uniquely identify each of its agents [Article 4.4.5]
- All deposit, withdrawal, payment or transfer transactions must be in real time [Article 4.4.2]
- Foreign entities, or entities partially owned by foreign nationals, religious entities, NGOs may not be agents for FIs [Article 9.2.6].

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\(^1\) Regulation of Mobile and Agent Banking Services Directives No. FIS/01/2012 (National Bank of Ethiopia, 2012)
Current Regulations

• Apart from indicating that agents are permitted to perform KYC on behalf of FIs, mobile money regulations do not mention specific KYC standards or training required for agents
• NBE has established daily balance (Birr 25,000) and transaction limits (Birr 6,000) [Article 5.1 and 5.2]

Implications

• No specific requirements for KYC for mobile money, but all individuals must provide their full name, address, government-issued identification number, and a passport-sized photograph when purchasing a SIM card, or signing up for services at EthioTelecom or an authorized reseller

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1 Regulation of Mobile and Agent Banking Services Directives No. FIS/01/2012 (National Bank of Ethiopia, 2012)
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## FINANCIAL INCLUSION – ACCESS AND USAGE

### Access
- Penetration of financial access points (per 100,000 adults)\(^1\):
  - Commercial bank branches 4.1
  - ATMs 5.3
- There is no national ID in Ethiopia, but all regions and 2 administrative states each have a regional ID card, which is distributed at the sub-regional level at Kebeles – neighborhood centers – and it is unclear what percentage of the population has them.\(^2\)

### Ownership/Usage
- Rates of ownership among Ethiopian adults (age 15+)\(^3\):
  - Account 21.8%
  - Mobile account 21.8%
  - FI account 0.03%
  - Debit cards (0.75%) are more common than credit cards (0.38%); both are rarely used\(^3\)
- Of those who saved in the last year, only 14% used financial institutions, while a larger share (30%) used a savings club or person outside the family.\(^3\)

### Key Insights
- Unlike many African economies, ownership and usage of mobile-enabled financial services is dismally low in Ethiopia.
- The most significant determinants for account ownership are income (16% for poorest 40%, vs 26% for riches 60%), education (37% among those with secondary education or more, vs 19% for those with primary or less) and age (14% for those age 15-24, vs 26% for those age 25 and older). Gender was not a significant factor.\(^3\)

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FINANCIAL SYSTEM OVERVIEW

Ethiopia’s financial sector is bank-dominated, 100% locally owned, with significant state-ownership

**BANKS**
- According to the Proclamation to Provide for Banking Business No. 592/2008, the NBE defines banking business as receiving funds from the public, and using those funds for the purposes of making loans, investments, buying and/or selling of gold, silver and foreign exchange, transferring funds to other local and foreign banks on behalf of bank itself or its customers, etc.
- The Banking System consists of 16 private banks and 2 government-owned banks\(^1\) – some of which service particular segments of the population such as women (Enat Bank).
- Ethiopia nationalized private banks and other financial institutions in 1974, but the banking sector remains small and dominated by the government with state-owned banks. The 5 largest banks, which are all state-owned, account for 90% of all banking assets and just one - Commercial Bank of Ethiopia (CBE) – owns 70% of deposits.
- There are 2,693 commercial bank branches across the country – up from 2,208 in 2015\(^2\) – and approximately 1,500 ATMs.\(^3\) The banks with the largest branch network are:\(^1\)
  - Commercial Bank of Ethiopia (CBE)
  - Awash International Bank

**MICRO FINANCE INSTITUTIONS (MFIs)**
- According to the Micro Finance Business Proclamation No. 626/2009, the main purpose of MFIs is to collect deposits from and extend credit to rural and urban farmers and people engaged in other similar activities, as well as MSMEs.
- There are 32 Microfinance Institutions (MFIs) in Ethiopia, who collectively hold 6% of all financial sector assets. The 5 largest MFIs are also state-owned.
- MFIs have a total of here are a total of 317 branches and 568 sub-branches. The MFIs with the largest networks are:
  - Dedebit (18 branches, 180 sub-branches)
  - Oromia (194 branches)
  - Omo (14 branches and 147 sub-branches)
- The NBE published the Risk Management Guidelines for MFIs (September 2010).
- In addition there are 18,000 SACCOs nationwide, representing 3.8 million active savers, which NBE would like to leverage for financial inclusion.

**INSURANCE COMPANIES**
- There are 17 insurance companies licensed to operate in Ethiopia, 1 of which is government owned.
- They account for 4% of financial sector assets.

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\(^{1}\) List of licensed banks in Ethiopia, National Bank of Ethiopia website, accessed October 20, 2016
\(^{2}\) 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)
\(^{4}\) IFC Meetings, October 2016.
FINANCIAL SYSTEM OVERVIEW – ADDITIONAL PLAYERS

SWITCHING, CLEARING & SETTLEMENT

- National Bank of Ethiopia (NBE’s) 2009 National Payment Systems Strategy requires that all banks use centralized online real-time & electronic (CORE) banking solutions, which interface with the Central Bank and clear settlements between them, without the necessity of any physical presence and has three parts;
  - Development of an RTGS
  - Development of an ACH
  - Introduction of a national switch

- Ethiopian automated transfer system (EATS) was launched by the National Bank of Ethiopia (NBE) in May 2011. EATS is comprised of 2 systems;
  - the Real Time Gross Settlement (RTGS), for low volume high value transactions
  - the Automated Clearing House (ACH), for high volume low value transactions

- There is strong emphasis on financial inclusion and digitization
  - With the support of the World Bank, NBE is in the process of developing a National Financial Inclusion Strategy (NFIS) which includes RTGS, ACH, a switch, which have all been implemented, and a security depository, which is still outstanding. Digitization is a key element of the NFIS.
  - The government’s Growth and Transformation Plan (GTPII) includes a mandate for banks to increase their branch network by 30% each year over the next five years as well as develop agents (50 per branch) in the GTP2.

1 Ethio-Pay celebrates official launch (AddiBiz, May 23, 2016).
2 Stakeholder Meetings (IFC, October 2016)
FINANCIAL SYSTEM OVERVIEW – ADDITIONAL PLAYERS

SWITCHING, CLEARING & SETTLEMENT

- Ethiopia’s national e-payment switch – Ethio-Pay (EthioSwitch) – serving the integration of Automated Teller Machines (ATMs) and Point of Sale (POS) machines, was officially launched on May 12, 2016 and has been operational since July 2016.¹
  - The NBE is the administrator of the national switch, and is also responsible for regulating, licensing and supervising ET Switch
  - all 18 banks are required to be members and hold equal shares, regardless of whether they have an ATM network and its size, creating the possibility to issue ATM cards without investing in a proprietary ATM network and paving the way for full-scale operational interoperability in the future
  - MFIs can join, but have yet to do so. PSPs – such as Belcash, M-BIRR and Kifiya can link to the switch and a formal request from M-BIRR has already been approved
  - The switch expects to break even within the next 4 years. Income is earned from an interchange fee which is split among acquirers, ET-Switch and NBE. The mandate of the switch is to be “affordable” so cost recovery is what they strive for. Any extra revenue will be used to lower fees (currently 25 cents per 100 BIRR withdrawn).
  - Systematic capacity to switch all payment transactions exists and the switch can also act as a clearing house, but only ATM and card switching are live. Mobile payments, internet and invoice payments have not yet been integrated with the banks.
  - ET-Switch is connected to NBE for settlement. Banks connect to the switch either through their own switch or a shared switch or their CBS. The system can support 100 transactions per second. Currently the system has about 20,000 transactions per day, most of which are withdrawals at ATMs.
  - The majority of transactions since launch (47%) were from cardholders of Awash and Dashen Banks, who already collectively share one third of the Ethiopian market share, and 16% took place at Bank of Abyssinia ATMs
  - BPC Banking Technologies and EthioSwitch S.C have collaborated to launch SmartVisa - a unified payment system linking 17 retail banks, and integrating over 1,500 ATMS, over 13,000 POS terminals, and 2.5 million cardholders all over the country²
  - All banks are able to issue cards. EthioPay is the brand name for the domestic debt card (there are no credit cards in Ethiopia), which may be VISA or Mastercard branded debit cards for traveling purposes only. EthioPay has its own scheme rules. ATMs are interoperable, but customers incur a fee for using another bank’s ATM
  - The switch is currently in the process of building a payments gateway to connect all merchants and facilitate e-commerce (online). They do not plan to connect to billers, but rather to aggregators for bill pay such as Kifiya.

¹ Stakeholder Meetings (IFC, October 2016)
² Ethiopian banks attain ATM, POS interoperability with SmartVisa (ATM marketplace, May 12, 2016)
FINANCIAL SYSTEM OVERVIEW – ADDITIONAL PLAYERS

ETHIOPIA INCLUSIVE FINANCE TRAINING & RESEARCH INSTITUTE (EIFTRI)

- EIFTRI serves as a clearing house for M-BIRR on M-BIRR platform and, as such, is considered as a financial institution.
- EIFTRI was established in November 2014 with the objective of supporting MFI automation.
- The company is registered with the ministry of trade and holds a license as VAS from ICT ministry and has total capital of BIRR 7.7 million.
- Currently, shareholders consist of 23 MFIs and 1 bank, but membership is open to others.
- EIFTRI also currently facilitates the M-BIRR platform for the MFIs connected to it under a revenue share model (10% of transaction fee), but this arrangement will end in two years. After that, EIFTRI expects the relationship with M-BIRR as technology provider for mobile and agent banking application for the MFIs to continue, possibly in a different form with EIFTRI acquiring the license and paying a system maintenance fee.
- ETIFS’s priority is the procurement of a CBS which can be shared by its shareholders, but has not yet secured funding.

THE ETHIOPIA COMMODITY EXCHANGE (ECX)¹

- Ethiopia is one of about 40 countries in the world – Ethiopia being the largest – without a stock exchange and has no securities market, except for short-term government treasury bills.
- To partially fill the gap, The Ethiopia Commodity Exchange (ECX) - an organized marketplace, where buyers and sellers come together to trade, assured of quality, quantity, payment, and delivery – was established in 2008 with the aim to revolutionize Ethiopia’s tradition-bound agricultural system through creating a reliable and sustainable marketplace that serves all market participants including farmers, traders, processors, exporters and consumers. Agricultural produce, such as coffee, sesame, beans, wheat and maize, are currently traded. The ECX has 16 warehouses across the country.

¹ Stakeholder Meetings (IFC, October 2016).
² The Ethiopia Commodity Exchange website, accessed October 24, 2016.
FINANCIAL SYSTEM OVERVIEW – ADDITIONAL PLAYERS

CREDIT BUREAUS

- Regulation governing the establishment and operation of credit reference bureau in Ethiopia (Directtivs Number CRB/01/2012) was published by NBE in 2012.
- Compuscan was contracted by the National Bank of Ethiopia (NBE) to provide a fully functional Consumer and Business Credit Information Bureau, inclusive of infrastructure and application setup, training and data migration strategies.
- The system was officially launched in August 2011.
- According to the 2016 World Bank Doing Business Survey
  - Ethiopia received a Getting Credit score of 15, less than half of the SSA region average (37.5) for the same period, and ranks 170 out of 190 countries.
  - Only 0.2% of the population are covered by a credit registry and coverage by credit reference bureau is negligible. The regional averages were 6.9% and 7.6%, respectively.

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2 Compuscan website, accessed October 24, 2016.
# BANKING SECTOR: SNAPSHOT

**Commercial Bank of Ethiopia (CBE)**
- Total assets: 244,128 millions 384.6 billion (2016)
- Total liabilities: 233,036 millions
- Branches: 1,140
- ATMs: 1,500
- POSs: 8,000
- Agents: 12,000
- Wholly owned by the Government of the Federal Democratic Republic of Ethiopia.
- There are no shares and no par value.

**Wegagen Bank**
- Total assets: 13,711,365,059
- Total liabilities: 11,296,992,048
- Branches: 190
- ATMs: 135
- POSs: 200
- The number of Shareholders is now 2,280.

**Dashen Bank**
- Total assets: 24,763,885,516
- Total liabilities: 21,839,991,536
- Branches: 196
- ATMs: 220
- POSs: 958
- Dashen Bank has some 2,200 shareholders, mainly friends and family of the owner, Sheik Mohammed Al-Amoudi, who maintains a number of business interests in Ethiopia.

**Zemen Bank**
- Total assets: 4,874,340,646
- Total liabilities: 4,109,483,732
- Branches: 1
- ATMs: 60
- POSs: 0

**United Bank**
- No information available.

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Note: A selection of banks. Full list of banks operating in Ethiopia available on NBE [website](#).

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1 Source: CBE [website](#), unless otherwise indicated.  
1a Data as of June 2016. Total Assets and Liabilities data are as at 2014 and are from [2013/2014 Annual Report](#).


3 Data as of June 30, 2015. Source: [DASHEN BANK Balance Sheet as at June 30 2015](#) and Dashen Bank [website](#).

4 Data as of June 30, 2015. Source: [Zemen Bank Annual Report 2015](#)

5 United Bank [website](#), unless otherwise indicated.

6 Stakeholder Meetings (IFC, October 2016).

Amounts are in ETB unless otherwise stated.
Exchange rate: 22.37 ETB to USD 1.00
Bank of Abyssinia (BoA) 1

Total assets: 13,666 millions

- Branches: 190
- ATMs: 89
- POSs: 146

- BOA has 1,732 shareholders who are successful businessmen, intellectuals, celebrities, etc.

Note: A selection of banks. Full list of banks operating in Ethiopia available on NBE website.

2 Source: Stakeholder Meetings (IFC, October 2016).
CURRENT CHALLENGES TO THE BANKING SECTOR

GOVERNMENT OWNERSHIP

- 2 of the 18 banks in Ethiopia are government owned.
- Of greater concern is the dominance of these government owned banks. For example:
  - The Commercial Bank of Ethiopia—the largest bank in the country whose assets represent about 70% of the sector—accounts for 70% of total deposits and 55% of loans and advances.¹
  - The Development Bank of Ethiopia and the Construction and Business Bank of Ethiopia together account for 15.6% of the total capital of Ethiopian banking sector.¹

27% TREASURY RULE

- A 2011 regulation mandated that private banks devote 27% of their loan portfolios to low-interest treasury bills and this measure is considered to have constrained access to credit.
- Many observers speculate that those funds are channeled into the Grand Ethiopian renaissance dam, a flagship state project that will cost more than $4bn and generate up to 6,000MW of power.

**MICROFINANCE SECTOR**

### Amhara Credit and Saving Institution (ACSI)**

| **Total Deposits (USD, millions):** 123.8<sup>c</sup> | **Gross Loan Portfolio (USD, millions):** 194.6<sup>c</sup> | **Active borrowers:** 766,390<sup>c</sup> | **Locations:** 500 |

- **Government (25%)**, other government-backed institutions focused on Amhara region, ORDA (35%), ADA (20%), AWDA (10%) and Endeavour (10%)<sup>1b</sup>

### Oromia Credit and Saving Institution (OCSSCO)**

| **Total assets: 5 billion (June 30, 2014)** | **Gross Loan Portfolio (USD, millions):** 91.9<sup>c</sup> | **Client base:** >800,000 |

- **Oromia National Regional State (25%), several towns (Burayou, 17.9%, Shashemane, 16.7%, Jimma, 13.9%, Nekemete, 13.9%) and others**

### Omo Microfinance Institution (OMFI)**

| **Total Deposits (USD, millions):** 20<sup>1c</sup> | **Gross Loan Portfolio (USD, millions):** 31.2<sup>c</sup> | **Active borrowers:** 327,890<sup>1c</sup> |

- **Unavailable**

### Dedebit Credit and Savings Institution (DECSI)**

| **Total Deposits (USD, millions):** 87.3<sup>1c</sup> | **Gross Loan Portfolio (USD, millions):** 130<sup>1c</sup> | **Client base:** 460,000 |

- **Government (25%), and remaining 75% owned by NGOs, farmers associations and women and youth associations<sup>4a</sup>**

### Notes:

- Full list of MFIs operating in Ethiopia available on NBE website.
- Locations refer to number of branches/sub-branches.

**1** Data as of December 2015. Source: ACSI website or MFI Transparency ACSI Profile (2011 data)

**1a** MicroNote15 (USAID, 2006)

**1b** The Microfinance Mirage: The Politics of Poverty, Social Capital and Women’s Empowerment in Ethiopia (Essayas Bekele Geleta, 2016)

**1c** Data as at 2012. Source: Ethiopia Country Profile (MixMarket.org)

**2** Data as at June 30, 2015 for branches, 2014 for client base and total loans. Source: OCSSCO website

**3** Does not have a website. Facebook page

**4** Website down http://www.decsi.com.et/


**Amounts are in ETB unless otherwise stated**

**Exchange rate:** 22.37 ETB to USD 1.00
MFI ACTIVITY IN DIGITAL FINANCIAL SERVICES

AMHARA CREDIT AND SAVING INSTITUTION (ACSI)

- One of 4 founding members of the Association of Ethiopian Microfinance Institutions (AEMFI), which was established in June 1999.

OROMIA CREDIT AND SAVING INSTUTITON (OCSSCO)

- One of 4 founding members of the Association of Ethiopian Microfinance Institutions (AEMFI), which was established in June 1999.
- Partnership with M-BIRR
- One of a small number of payment service providers selected to participate in the e-payment initiative for the Productive Safety Net Program (PSNP).

OMO MICROFINANCE INSTITUTION (OMFI)

- One of 4 founding members of the Association of Ethiopian Microfinance Institutions (AEMFI), which was established in June 1999.

DEDEBIT CREDIT AND SAVINGS INSTITITON

- One of 4 founding members of the Association of Ethiopian Microfinance Institutions (AEMFI), which was established in June 1999.
- One of the 4 largest MFIs in Ethiopia, with 460,000 customers.

1 MasterCard, Bank of Kigali and RwandaOnline in effort to advance e-Commerce (New Times, September 28, 2016)
CURRENT CHALLENGES TO THE MFI SECTOR

LIMITED CAPACITY TO INVEST IN TECHNOLOGY¹

- Almost all MFIs currently operate in an entirely paper-based environment. The five largest MFIs are in the process of purchasing core banking systems (CBS), but the others are unlikely to be able afford their own system and are instead considering shared infrastructure.

- In partnership with AEMFI (association of MFIs), IFAD funded a study on rural finance and automation of MFIs, including a centralized database/data center. IFAD recommends the establishment of a shared CBS for the industry and has made BIRR 35 million in funding available, which would cover approximately 11% of the system cost.

- Both AEMFI and ETFIS (Ethiopian Technology for Financial Inclusion) consider themselves as potential providers of such a shared CBS and AEMFI is now looking for additional funding as it would like to develop the CBS as a shared service for its members.

¹ Discussions with AEMFI (IFC, October 2016).
PAYMENT SERVICE PROVIDERS – ATMs, POS and Others

EthSwitch S.C.¹

- Eth-Switch is a share company established in 2011 with 80 million Br capital formed by Ethiopian banks as a part of the National Bank of Ethiopia (NBE’s) National Payment Strategy and with the backing of the Ethiopian Bankers' Association and the National Bank of Ethiopia.
- It requires that all banks use centralized online real-time & electronic (CORE) banking solutions, which interface with the Central Bank and clear settlements between them, without the necessity of any physical presence.

BPC Banking Technologies²

- Swiss-based (HQ in Zug, Switzerland) provider of payment solutions, established in 1995 and has 15 offices in different countries. The Company has previously installed a switch system for Malawi and Tunisia in Africa.
- Awarded the contract for the supply and implementation of a National Electronic Funds Transfer (EFT) Switch Clearing, Settlement and Reconciliation System to make inter-bank processing easier winning bid on Tuesday, March 25, 2014 by EthSwitch for an undisclosed sum after a two-year bid process.

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¹ Ethiopian banks attain ATM, POS interoperability with SmartVisa (ATM marketplace, May 12, 2016).
² Eth-Switch contracts IT Vendor (Addis Fortune, March 30, 2014).
GOVERNMENT PAYMENTS – IN AND OUT

- The Government of Ethiopia, under the auspices of the Ministry of Communication and Information Technology (MCIT), has embarked on an ambitious e-Government Plan¹
  - e-Government aims to enable 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 approach to implementation is divided into 2 priority projects, and strengthened through 6 core projects, one of which is the National Payment Gateway, the aim of which is to enable all modes of electronic payments (card-based, direct debit, eWallet, eBanking etc). Some examples include; G2C transactions (Pension Services, specifically pension payment), C2G payments (online/electronic tax payments).
  - Thus far, the project has been implemented in 29 federal ministries, agencies, and authorities, as well as 6 entities at the regional level, all in Addis Ababa City.²

¹ e-Government Strategy and Implementation Plan (MCIT, January 2011)
² e-Services.gov
PSNP was launched in 2005 and funded by the Government of Ethiopia (GoE) and Development Partners (DPs), and provides food and/or cash transfers to food insecure households in chronically food insecure woredas (currently supporting 8 million people across 319 woredas, but expected to expand to cover 10 million beneficiaries per year, in 411 woredas by 2018). Payments are typically received by the head of the household (roughly 2 million people, for a total of 8 million beneficiaries). Monthly payments are made 6 times per year from February to July (for work conducted January to June).

In 2015, two different electronic payment methods were piloted in Amhara and Oromia Regions.
- The mobile payment method was piloted in two woredas in Oromia region: Bosat and Adami Tulu-Jido Kombolcha.
- The biometric POS method was piloted in two woredas in Amhara Region: Libokemkem and Angolela Tera.

Technology and Payment Service Providers selected for the pilot include:
- Kifiya – Technology service provider
- MOSS ICT Consultancy – Technology service provider for e-payment pilots
- Oromia Credit and Saving Share Company (OCSSCO) – Payment service provider

Some preliminary outcomes:
- Since these pilots have shown positive results, it was decided to scale up the pilots to an additional 20 woredas in Oromia region (6 woredas), Amhara region (7 woredas), Tigray region (4 woredas), and SNNP region (3 woredas).
- 135,000 transaction accounts were opened for PSNP clients receiving electronic payments.
- Applications from consultancy firms to conduct an assessment of the financial capability of PSNP clients and their satisfaction with e-payments were accepted until April 30, 2016, but it is unclear which firm has been selected or the status of the assessment.
FINANCIAL FLOWS – INTERNATIONAL REMITTANCES

MIGRATION AND REMITTANCES

- Ethiopian migrants – approximately 383,885 – live primarily outside of Africa, with the largest populations living in the USA (47%), Israel (21%), and smaller populations in Italy (8%) and Saudi Arabia (7%). Another 16% have migrated to Sudan.¹

- Conversely, immigrants in Ethiopia come almost exclusively from other African countries, such as Somalia (71%), South Sudan (24%), Sudan (3%), Eritrea and Djibouti.¹

- Ethiopia is a net recipient of remittances; Inflows were $624 million and accounted for 1.1% of GDP. Outflows in 2012 (last data available) were $22 million.²

- The average total cost of sending $200 to Ethiopia is roughly 7% of the amount sent; that’s slightly lower than the Global Average 7.6% and significantly lower than the average for the Sub-Saharan Africa region (9.58%).³

¹ Data as at 2013. Source: Migration Profiles (United Nations, DESA-Population Division and UNICEF).
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**TELCOMMUNICATIONS SECTOR IN ETHIOPIA (1/4)**

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### Key Statistics and Trends

- Ethio Telecom has a monopoly in Ethiopia.
- Mobile connections: 46.7 million (98% prepaid).
- Unique mobile subscribers: 33.8 million unique subscribers.
- Mobile penetration:
  - ALL 46%
  - Unique 33%
- Market coverage (Percentage of population)
  - 3G: 17.54%
  - 4G: 14.93%
- A larger share of internet subscribers have access to data 3G or higher.
- The number of Smartphones grew 85% in the last year (Q3 2015 to Q3 2016).

### Internet and Data

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Q4 2015</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Y/YΔ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Internet Subscribers</td>
<td>15,195,008</td>
<td>16,187,983</td>
<td>17,183,588</td>
<td>19,186,592</td>
<td>+11.7%</td>
</tr>
<tr>
<td>% &gt;2G</td>
<td>19.3%</td>
<td>18.4%</td>
<td>17.5%</td>
<td>16.6%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>% &gt;3G, + 4G</td>
<td>80.7%</td>
<td>81.6%</td>
<td>82.5%</td>
<td>83.4%</td>
<td>+7.0%</td>
</tr>
</tbody>
</table>

### Mobile Telephony

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Q4 2015</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Y/YΔ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique Mobile Subscribers</td>
<td>31,045,704</td>
<td>31,999,887</td>
<td>32,915,019</td>
<td>33,797,419</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Penetration (Unique ONLY)</td>
<td>30.9%</td>
<td>31.6%</td>
<td>32.3%</td>
<td>33.0%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Penetration (ALL connections)</td>
<td>41.9%</td>
<td>43.2%</td>
<td>44.4%</td>
<td>45.6%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>SIMS per Unique Subscriber</td>
<td>1.17</td>
<td>1.17</td>
<td>1.18</td>
<td>1.18</td>
<td>0%</td>
</tr>
<tr>
<td>Smartphones (%)</td>
<td>4,788,094</td>
<td>5,618,228</td>
<td>6,505,936</td>
<td>7,442,500</td>
<td>+14.4%</td>
</tr>
</tbody>
</table>

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1 Data as at Q3 2016, unless otherwise indicated. Source: GSMA Intelligence.

2 Ethiopia Telecom estimates that there are 2 million smartphones on the market, but this is an educated guess. Source: Stakeholder Meetings (IFC, October 2016).
TELECOMMUNICATIONS SECTOR IN ETHIOPIA (2/4)\(^1\)

- The reform of the communications sector led to a separation between regulatory and operational functions and resulted in the establishment of 2 entities:
  - A regulatory entity – the now defunct Ethiopian Telecommunications Agency (ETA), which regulated the sector from 1997 to 2010 and was the founding member of the Association of Regulators of Information and Communication for Eastern and Southern Africa (ARICEA) – established by Proclamation 49/1996, and
  - A commercial entity – Ethiopian Telecommunications Corporation (ETC) – established by Regulation 10/1996
- In 2010, the Ministry of Communications and Information Technology (MCIT) was established by Proclamation 691/2010, combining 3 key functions into a single entity:
  - aspects relating to communications handled by the former Ministry of Transport and Communications
  - regulatory powers of the ETA
  - implementation activities of the Ethiopian ICT Development Agency
- The mandates of the MCIT, whose mission to develop, deploy and use ICT to improve the livelihood of every Ethiopian and optimize its contribution to the development of the country, include;
  - Implement ICT policy
  - Monitor and evaluate implementation of ICT projects and programs
  - Develop frameworks for the development of ICT in various economic sectors, including Agriculture, Industry, Commerce, Education, Health, etc,
  - Formulate programs to guide ICT development

\(^1\) Source: MCIT website, accessed October 21, 2016.
The 2009 National ICT Policy and Strategy identifies 5 key indicators of the low level of development of ICT in Ethiopia;²
- Absence of appropriate legal and regulatory frameworks
- Limitations in telecom infrastructure and low level of Internet services penetration
- Lack of organized data and information resources, and poor access to those that exist
- Lack of skilled human resources coupled with low ICT literacy
- Underdeveloped private sector

The Ethiopian government, through Ethio telecom, often imposes nationwide, politically motivated internet filtering. Under a 2012 law regulating the telecommunication industry, attempts by journalists to circumvent Ethio telecom surveillance and censorship of the internet could be interpreted as a criminal offense carrying a prison sentence of up to 15 years.³

When purchasing a SIM card, or signing up for services at EthioTelecom or an authorized reseller, individuals must provide their full name, address, government-issued identification number, and a passport-sized photograph. According to some reports, the government has used the SIM registration database to cut off the SIM cards of certain individuals, or prevent them from being able to register a phone in their name.⁴

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¹ Source: MCIT website, accessed October 21, 2016.
³ Reports from OpenNet Initiative and Freedom House.
Ethiopia is one of the few remaining countries in Africa where the national telco – Ethio Telecom – has a monopoly on all telecom services including fixed, mobile, internet and data communications. This monopolistic control has stifled innovation, restricted network expansion and limited the scope of services on offer.

A management contract with Orange Group had dramatically improved performance for Ethio Telecom though there remain weaknesses in quality of service. Although the contract was considered a first step towards privatisation and the introduction of competition, the government in 2013 again rejected calls to privatise the incumbent and allow market competition, citing the need for higher profits from the company to subsidise an unrelated railway project.

Although there is considerable investment in telecoms services – some $3.1 billion has been invested in telecom infrastructure and service expansion projects over the last decade – the sector is heavily regulated and the government has complete control over networks, with virtually unlimited access to the call records of all phone users and to logs of internet traffic.

Most of the technologies deployed have been provided by ZTE and Huawei, which have often been favoured for offering vendor financing.

Despite major vendor contracts aimed at improving the reach and capabilities of mobile networks, the country’s mobile penetration remains among the lowest in the world (31% in 2014) compared to a regional average of 73%.

The gender gap in usage of Internet (60%) is higher than that for mobile phones (21%), and is driven by several factors including education and technical literacy.

The Mobile Economy Africa (GSMA, 2016).
POINTS OF INTEREST IN THE MOBILE MARKET

- At a recent 3-day Summit held in Ethiopia by Future-Sat Africa – themed ‘Digital Skies - Everyone Connected’ and aimed at highlighting the values of satellite communication technology on Africa’s socio-economic development – the Ministry of Communication and Information Technology announced that Ethiopia is taking initiatives to utilize space technology advantage to overcome the challenges faced in the country to ensure access to services, even for sparsely populated nomadic communities and areas with difficult terrain.¹

- Major developments;²
  - Ethio Telecom partners with Gulf2Africa cable construction
  - Government launches mobile apps as part of the e-Government Directorate
  - Major changes anticipated in the second Growth and Development Plan to 2020
  - Value Added Services (VAS) licenses – under VAS Directive No. 2/2005 – issued
  - Ethio Telecom expands LTE reach, considers charging for OTT services;
  - Huawei and ZTE share a $1.6 billion contract to develop mobile infrastructure

¹ Ethiopia Takes Initiatives to Utilize Space Technology Advantages (allAfrica, October 6, 2016), accessed October 24, 2016.
MOBILE NETWORK OPERATORS

- 100% SIMs registered
- 100% market share
- Network coverage is 85% for 2G/3G and 15% for 4G
- In Addis Ababa alone, ET has 48 million 4G subscribers, of which 32 million are active
- ET is issuing 700,000 new sims each month

About Ethio Telecom:
- Ethio Telecom is a state-owned enterprise. Net Income in 2015 was in excess of 20.8 billion Br, and profit increased 33% in the first half of FY2016
- 85% of revenue comes from indirect channels and 70% of Net Income which comes from mobile services.

- Ethio Telecom is targeting 80% subscription rate in 5 years and has invested heavily (USD 3 billion over the past 2 years) to replace and build out its network and recently purchased Helios Advanced tracking systems to be installed in their fleet (from Starcom Systems African distributor, Global Tracking Technology Plc).
- Ethio Telecom might be considering to expansion to other East African countries and recently partnered with CMC Networks - a Global Telecommunications Carrier, headquartered out of Johannesburg and Mauritius, which has the largest Pan African network spanning across 50 countries.
- Airtime sales are done through scratch cards and e-top up through select companies such as Kifiya, and very briefly through banks, mainly via their ATMs, until that was prohibited by NBE. Sales through ATMs earned no commission, while distributors earn 8% commission, which is then shared with the retailers (5% distributor, 3% retailer).
- For sim and airtime sales, ET has a large distribution network (214 direct distributors, 50 mega distributors, for a total of 100,000 outlets) ET would prefer to have a choice of distribution channels, including banks.
- ET is interested in entering the mobile financial services market with a view to increasing network traffic, but is unable to do so due to NBE restrictions on non-FI activities in this space. Until then, this will be done through partnerships:
  - NBE is exploring the option to partner with another FI (Commercial Bank of Ethiopia, CBE) to launch a join solution and would consider making the platform available to other banks also.
  - Ethio Telecom recently signed an agreement with two global companies (Credos and Hicma – local providers with international backing) to introduce mobile credit services for its clients, which will facilitate granting short term credit for the purposes of buying airtime in advance and paying later. The key challenge will lie in ensuring data privacy and consumer consent. They prefer an opt-in/out model.
  - ET provides fair and equal access to DSL, USSD and short codes for banks, whom are all considered VIP customers.

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1 Unless otherwise indicated, data as at Q3 2016. Source: GSMA Intelligence.
2 Ethiopia: Ethio Telecom Outsources Credit Card Services (allAfrica, September 13, 2016).
3 Update on Distribution Order (London South East (LSE), September 30, 2016).
5 CMC Networks announces partnership and interconnect with Etho Telecom (PR newswire, July 27, 2016).
6 Stakeholder Meetings (IFC, October 2016).
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Mobile Financial Services Landscape
## QUICK OVERVIEW OF MOBILE MONEY PROVIDERS

<table>
<thead>
<tr>
<th>Product Name</th>
<th>M-BIRR&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Hello Cash&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provider</strong></td>
<td>Ethio Telecom</td>
<td>Belcash, Ethiopia</td>
</tr>
<tr>
<td><strong>Number of Accounts</strong></td>
<td>300,000 active&lt;sup&gt;3&lt;/sup&gt;</td>
<td>500,000&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>ETB</td>
<td>ETB</td>
</tr>
<tr>
<td><strong>Physical Network</strong></td>
<td>1800 total outlets (1,700 agents and 100 MFI branches)</td>
<td>3,726 locations; Lion International Bank (34%), Somali Microfinance Institute (13%), Cooperative Bank of Oromia (53%)</td>
</tr>
<tr>
<td><strong>App Available?</strong></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td><strong>Registration Requirements</strong></td>
<td>Completed application form, and copy of ID (Kebele, Student, Desidence IF card, Passport or Drivers License)</td>
<td>Completed application form, original ID and copy</td>
</tr>
<tr>
<td><strong>Balance/Trans Limits</strong></td>
<td>Transactions of ETB 6,000 or less permitted for non-registered users</td>
<td></td>
</tr>
</tbody>
</table>

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<sup>1</sup> Source: M-BIRR website, accessed October 24, 2016.

<sup>2</sup> Source: HelloCash website, accessed October 24, 2016.

<sup>3</sup> Stakeholder Meeting (IFC, October 2016)

<sup>4</sup> Data as at July 2016. Source: helloCash accounts hit 500,000 in Ethiopia (Telecompaper, July 28, 2016)
## QUICK OVERVIEW OF MOBILE MONEY PROVIDERS

<table>
<thead>
<tr>
<th>Cash In/Out</th>
<th>EthioTelecom Branch or Agent (1,800 total) (PIN required for all transactions)</th>
<th>Agents of partner banks (at least 2,000 locations)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Link with Bank account</strong></td>
<td>Yes</td>
<td>Yes, LIB, CBO and SMFI</td>
</tr>
<tr>
<td><strong>Access to Credit</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Payroll</strong></td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>P2P Payments (Domestic)</strong></td>
<td>Yes, including other M-BIRR customers and unregistered users</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>P2P Payments (International)</strong></td>
<td>No, prohibited by law</td>
<td>No, prohibited by law</td>
</tr>
<tr>
<td><strong>P2B Payments</strong></td>
<td>Yes, pay for electricity (TOTAL), transportation (Zayride), TV subscriptions (DSTV), online shopping (Ethio-Souq), online adds (Mekina)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Mobile Top-Up</strong></td>
<td>No, prohibited by law</td>
<td>Yes</td>
</tr>
</tbody>
</table>

1 Source: M-BIRR website, accessed October 24, 2016.