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ETHIOPIA PAYMENT MECHANISM ASSESSMENT REPORT

Piloting Guidance for Multipurpose Cash

DECEMBER 2017



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Acronyms

BOFED	Bureau of Finance and Economic Development
CBE	Commercial Bank of Ethiopia
CDD	Customer Due Diligence
DRC	Danish Refugee Council
ETIFT	Ethiopian Inclusive Finance Technology
FATF	Financial Action Task Force
FI	Financial Institution
FIC	Financial Intelligence Centre
IFRC	International Federation of Red Cross and Red Crescent Societies
IOM	International Organization for Migration
KYC	Know Your Customer
MCIT	Ministry of Communication and Information Technology
MFI	Micro Finance Institution
MOFEC	Ministry of Finance and Economic Cooperation
MPG	Multipurpose Cash Grants
NBE	National Bank of Ethiopia
NFIC	National Financial Inclusion Council
NFIS	National Financial Inclusion Strategy
NRC	Norwegian Refugee Council
PSNP	Productive Safety Net Program
RUSACCO	Rural Savings and Credit Cooperative
SCI	Save the Children International
SMFI	Somali Micro Finance Institution
TSP	Technology Service Provider
UNOPS	United Nations Office for Project Services
WFP	UN World Food Programme
WOFED	Woreda Finance and Economic Development

Introduction

Humanitarian organizations today are facing unprecedented challenges in addressing crises in the Middle East, Africa and across the world. The crises are both urgent and, in many cases, protracted in nature; the varying scenarios have driven the need to better understand how to select the modality of humanitarian Multipurpose cash grants (MPGs) and how and with which partners to execute such transfers and implement them at scale.

It is within this context that consortium partners the Cash Learning Partnership, Danish Refugee Council (DRC), Mercy Corps, the UN Office of the Coordination of Humanitarian Affairs, and Save the Children, with support from the European Union Civil Protection and Humanitarian Aid, have undertaken to increase the uptake of multipurpose cash assistance. As a part of this effort, Mercy Corps developed draft payment mechanism assessment guidance (hereafter the Delivery Guide) for humanitarian cash transfers for global use. The Delivery Guide is intended to assist humanitarian agencies in understanding the landscape, assessing possible payment modalities, and selecting partners. This report was funded under a sub-award from Save the Children. Any views and opinions in this report are the views of the authors and do not necessarily represent those of Save the Children or the European Union.

Methodology

This report documents pilot use of the Delivery Guide in Ethiopia in December 2017. The testing – intended to illustrate what a humanitarian organization should find when using the tools to prepare for MPGs – was conducted by Mercy Corps staff together with Kap Tower Partners LLC. The Delivery Guide toolkit has been updated as a result of our findings. The report shares our knowledge gained through use of the toolkit; however, it is not intended as a comprehensive ‘how to’ guide for starting an MPG in Ethiopia.

The toolkit consists of desk research questions, with guidance on potential sources, a stakeholder matrix format, question guides for different stakeholders (e.g. beneficiaries, regulators, other implementing agencies, financial institutions), and overarching questions to guide this kind of payment mechanisms report. The focus questions for the report include:

- What delivery mechanisms are available and potentially appropriate for this humanitarian response?
- What delivery mechanisms are available but likely not appropriate for this humanitarian response?
- Will any regulatory considerations affect the design of my program? For example:
 - Will the program need to facilitate access to ID documents?
 - Will the program need to keep transfer values under a certain threshold?

The Delivery Guide also includes tips for drafting program requirements and preparing evaluation criteria to select the optimal delivery mechanism. These tools were not tested in this assessment as needs assessment testing was occurring concurrently but tools could be tested by an implementing agency interested in implementing MPGs in this area.

Testing took place in Addis Ababa, and in three Woredas in the Somali region of Ethiopia: Harshen, Tuliguled, and Kebribeyah. Harshen Woreda is purely pastoralist; Tuliguled engages in sedentary farming; and Kebribeyah is agro-pastoralist. Original plans called for testing in Babile Woreda as well, but operational considerations prevented travel to the area.

The report authors at Kap Tower and Mercy Corps are happy to share experiences with interested stakeholders.

Ethiopia: Local Context and Humanitarian Needs

Part one of the toolkit supports gaining an understanding of the national and local context where the intervention will take place. A desk review and in-person assessment illuminated the following points related to cash transfer program requirements in the Somali region. An important factor to remember when conducting desk research is that desk research may show data that does not exactly mirror what is reported in real time in the field, however it is useful in indicating broader trends and guiding expectations.

Desk Research¹

Ethiopia currently has a population of roughly 88 million people – the second largest population in Africa. The population in the Somali region is 5.3-7 million.² Although the economy has been growing rapidly, a majority of the population lives in rural areas vulnerable to drought and economic instability.³ Approximately 35% of the population lives in Jigjiga⁴, with the remaining population living in 52 rural werdeas (districts). Ethiopia is also home to over 855,000 refugees and 27 refugee camps, making it the second largest refugee operation in Africa.⁵

The Somali region hosts a total of eight organizations operating cash transfer programs, including DRC, Oxfam, Save the Children, World Food Program (WFP), International Organization for Migration (IOM), Norwegian Refugee Council (NRC), Mercy Corps and International Federation of Red Cross and Red Crescent Societies (IFRC) – this is the highest number of cash transfer programs of any region in the country.⁶

Environmental and Beneficiary Factors and Program Requirements

There are many environmental and beneficiary-related factors that impact cash transfers. The information below is illustrative of the types of cash transfer program requirements. These factors need to be investigated through a combination of desk-based research and field visits.

¹ Information in this section guided the assessment team to identify potential challenges and topics about which to gather additional information. Although the data obtained from a desk review may lag behind actual statistics depending on frequency of collection and methodology, information on these topics can help teams gather a general picture of conditions and trends to monitor.

² Official government statistics note a population of 5.3 million; Mercy Corps estimates that the population is closer to 7 million.

³ Mercy Corps Ethiopia at <https://www.mercycorps.org/countries/ethiopia>

⁴ We will use the Somali spelling of Jigjiga for this report; it may also be spelled Jijiga.

⁵ UNHCR at http://reporting.unhcr.org/node/5738#_ga=2.74417553.2040593767.1514221920-461851824.1507333035

⁶ CTP Response Modality Mapping, World Vision Ethiopia, Prepared by Saba Consulting PLC, November 2017 p16

Environment-Related Considerations

- **Network Connectivity:** Digital cash transfers require network connectivity. If a program is locally run and requires consistent internet access to process payments, connectivity should be verified, especially those that provide real-time payments. If possible, any such locally run program may benefit from the ability to generate payments remotely from a location with reliable internet connection. In most areas surveyed for this assessment, network connectivity was available, and few people reported that it was a consistent problem.⁷ However, it appeared to be spotty at times and access to the internet was intermittent.
- **Electricity:** Electricity is needed by the organizations implementing cash transfer programming and potentially by beneficiaries, particularly if the transfers are digital. In all three woredas, electricity is established.
- **Penetration of Financial Services:** Financial institutions (FIs) facilitate transfers delivered through stored value accounts. There are 35 Micro Finance Institutions (MFIs) operating nationally, but only one is currently operating in the Somali region. Of the two largest mobile money providers, one (M-BIRR) lists no agents in the Somali region. With HelloCash present in the region, mobile money is an option; however, the lack of competition may impact service delivery and agent penetration in the target area.
- **Partner Capacity:** Partnering FIs, be they banks, MFIs or mobile money providers, must have the capacity to execute against the type of transfer planned. Today, many programs operate via manual cash transfers rather than digital. The accuracy rate for manual cash transfers is reportedly good in the Somali region. Based on interviews and observations, some capacity building may be needed in areas such as record keeping and customer privacy.
- **Branch and/or Agent Network and Liquidity:** Any program that relies on the ability to cash out must have a reliable branch and/or local agent network; the branch and agent network affects both the humanitarian organization's feasibility assessment and program costs, and the beneficiaries' ability to access the service in question. The National Financial Inclusion Strategy (NFIS) notes that: "Rural areas are underserved in terms of (agent) access points, and the use of agents in such areas is limited by strict regulatory requirements. Saving and credit cooperatives have extensive coverage



Photo: Kinfemichel Abraha, Kap Tower Partners LLC

THE IMPACT OF GENDER AND AGE

The largest difference in both account ownership and ability to use mobile technology related to the age of the individual. Older focus group members of both sexes were less likely to use mobile technology, and more likely to rely on relatives or friends to make transactions for them. Literacy also appeared to track more closely with age than gender, although women's level of literacy and inclusion was lower than men's.

⁷ Kedir Muhe, the SMFI Acting General Manager, reported that he believes network coverage in the area is approximately 80%

in rural areas, but the sector faces multiple challenges. The use of agents is still in its infancy, but already nationally 11 commercial banks and six micro finance institutions are offering mobile financial services through agents. However, hiring agents has proven difficult, as commercial activities in rural areas are often not formal businesses and therefore cannot comply with the minimum qualifications set by regulation.”⁸ While service providers report adequate branches and the existence of an agent network in the target area, both the National Bank of Ethiopia (NBE) and local residents report that the agent network is not always liquid. In remote areas, FIs incur high costs in maintaining agent liquidity, and this can drive up the cost of providing cash transfer services. For example, the Somali Microfinance Institution MFI (SMFI) reports that they have 905 agents in the Somali region; maintaining liquidity for these agents is very expensive, and as a result they charge a 7.5% fee for the transfer of physical cash in Somali Region.⁹

- **Safety and Security of Funds:** Cash transfers must be safe for the beneficiaries, for staff of the humanitarian organization, and for others involved in the process including mobile money agents. Interviews revealed that the Productive Safety Net Program (PSNP) found that digital transfers increased transparency and reduced leakage. In focus groups, the participants noted that security was not a concern within their communities when it comes to carrying cash or transacting and saving in cash.

Beneficiary-Related Considerations

- **Literacy:** Ethiopian literacy levels nationally are low; approximately 69% of men and 42% of women are literate.¹⁰ In the Somali region, about 57% of men and 41% of women are literate. During the focus group discussions held in Fafan Zone, the most pronounced difference in literacy was age-related, with younger men and women exhibiting high levels of literacy and older people – especially women – exhibiting lower levels of literacy. Service providers also note that people living in very remote areas have lower levels of literacy, regardless of age. These statistics points to a potential challenge in the ability to read and access mobile money menus. It may also indicate a lack of numeracy, and leave the population vulnerable to exploitation and theft of benefits without sufficient support and training. For a project that is designed to serve Somali refugees, the literacy level in Somalia is also a relevant statistic; national literacy levels in Somalia are also low.
- **Financial Inclusion:** Nationally, nearly 22% of Ethiopians¹¹ have an account at a formal financial institution, while desk research shows that nearly 17% of adults in the Somali region have an account (21% of men and 13% of women).¹² Among the notable data points in the World Bank’s Findex is that 48% of the population saved money and 44% borrowed money, while the percentage who did so at formal financial institutions is only 14% for savings and 7% for borrowing. What the desk research shows is that Ethiopians are engaging in financial activities, they are just not using formal means to do so.
- **Phone Ownership:** With approximately 34% of the population owning a SIM card¹³, Ethiopia is below regional averages for mobile penetration. Despite these formal statistics, phone ownership

⁸ Ethiopia National Financial Inclusion Strategy, p11

⁹ Interview with Kedir Muhe, SMFI Assistant General Manager, 11 December 2017

¹⁰ Central Statistical Agency (CSA) [Ethiopia] and ICF. 2016. Ethiopia Demographic and Health Survey 2016 Addis Ababa, Ethiopia, and Rockville, Maryland, USA: CSA and ICF.

¹¹ The Little Data Book on Financial Inclusion 2015, World Bank Group

¹² Central Statistics Agency, Socio Economic Survey 2016 at <https://dhsprogram.com/pubs/pdf/FR328/FR328.pdf>.

¹³ GSMA: The Mobile Economy: Sub-Saharan Africa 2017 at

<https://www.gsmaintelligence.com/research/?file=7bf3592e6d750144e58d9dcfac6adfab&download>

rates were high among those interviewed regardless of the location. Local SMFI officials in fact note that Somalis are relatively tech savvy compared with other segments of the population. Most of those who participated in focus groups reported that phone ownership within their communities was virtually 100%. Again, the biggest difference was based on age rather than gender.

- **Know Your Customer (KYC):** Ethiopia has pledged to introduce national IDs, but to date has not. Those who have IDs have kebele – or locally-issued – IDs. Most of those who participated in focus group discussions reported having identification, and noted that access to IDs was not a problem. In remote towns and border regions though access to IDs is more challenging; some border towns are reportedly not empowered to issue IDs. Regardless of the location, KYC can prove difficult as people do not carry their ID with them and there is an awareness gap on the clients' side as to why agents require IDs to register for mobile money accounts. In addition, KYC can prove to be a barrier for internally displaced people. There are implications – including loss of ability to inherit land – for those who give up legal residency in their place of origin in order to qualify for residency in another location. Additional details are provided below.
- **Access to Payment Points/Services:** As noted in the environmental review above, the existence of a robust, liquid branch and/or local agent network is an important consideration in planning MPGs. If these services are not geographically accessible, beneficiaries may incur costs – including both time and money – in trying to access the service. In the Somali region, focus group participants were generally positive about HelloCash, particularly for money transfer and airtime top up. However they also reported challenges with liquidity in the local agent network, and issues with customer service including PIN resets and SIM replacement, which require a trip to Jijjiga. Ensuring that these customer service functions can be handled locally should be part of any large MPG.
- **Payment Preferences:** It is highly unlikely that this question can be addressed via desk research. Understanding local preferences will require field work. During focus group discussions in the Somali region, participants noted a number of positive factors that accompanied digital transfers, including privacy and the ability to keep the amount received a secret from those around you. Participants overall indicated a preference for physical cash rather than digital transfers.

Payments Landscape

The payments landscape consists of service providers operating within a defined geographic area and regulatory regime. Using the Payments Mechanism Guidance toolkit as a guide, Mercy Corps and Kap Tower Partners developed analyzed key stakeholders from the government and private sector, as well as the regulatory regime impacting payments.

Key Government Players, Policies and Regulations

There are three government-defined delivery channels for cash transfer programming.

- **Channel 1:** Donors give money directly to the Ministry of Finance and Economic Cooperation (MOFEC). This system uses the Commercial Bank of Ethiopia (CBE) as the only conduit for fund transfers from MOFEC to Bureau of Finance and Economic Development (BOFED) at the regional level, and then in turn to Woreda Finance and Economic Development (WOFED) at the woreda level. Several large programs, including the Productive Safety Net Program (PSNP), are run using this channel.

- **Channel 2:** Donors sign an agreement with the Ministry of Finance that enables them to give money directly to implementing agents, for example the Ministry of Agriculture or other line ministries.
- **Channel 3:** Donors give money directly to recipients through NGOs or programs at the grassroots level. In this channel, MOFEC is not involved. However, the NGOs will be closely monitored by the government's Agency for Charitable Societies, which grants NGOs licenses.

The payments landscape is influenced heavily by government regulations, which determine what can and can't be done in terms of digital or manual payments. There are several governmental bodies that regulate cash transfers, chief among these is the NBE, which as the Central Bank has primary responsibility for regulating the financial sector. The NBE is also responsible for financial inclusion policy. The Ministry of Communication and Information Technology (MCIT) provides a regulatory framework relevant to licensing technology service providers.

National Bank of Ethiopia (NBE)

The NBE has two primary roles that are relevant to cash transfer programming:

- **Policymaker:** NBE acts as a policymaker, including setting key policies related to financial inclusion and the NFIS, and
- **Regulator:** NBE provides the regulatory framework for financial institutions and transactions.

Policymaking Focus

The NFIS is an overarching strategy addressing key elements to support and enhance financial inclusion. This strategy, which is implemented by NBE, is focused on digitizing financial services and payments through four pillars key to successful implementation - infrastructure and technology; products and services; consumer protection; and financial education and capability.

The strategy seeks to build on the existing network of FIs, cash transfer programs and payments to bolster financial inclusion. The existing network includes 1,700+ MFI branches, 4250 Bank Branches, 19,000+ Rural Savings and Credit Cooperatives RUSACCOs and the accompanying agent network). Digitizing financial services requires leveraging this network while also working closely with the national telecom carrier Ethio-Telecom as well as MCIT, in addition to other relevant line ministers and government bodies.

Key learnings of relevance to cash transfer programming include:

- For cash transfer and benefit programs the NBE works closely with the MOFEC under the Channel One program for bulk transfers. Using this method means that money flowing through this channel uses the structures of MOFEC from the federal to the regional and Woreda level. In this case, the government uses the CBE - the state bank - to transfer funds from the federal office all the way to the Woreda level. It also means that the Woreda level office of the government could engage in making actual payments to target recipients.
- NFIS has identified critical constraints for financial inclusion, three of those constraints are KYC requirements, lack of National IDs, and low financial literacy on the part of the beneficiaries.
- These constraints are being addressed by the NBE, through the NFIS, as follows:
 - KYC: NBE plans to introduce tiered KYC regulation by closely working with the Financial Intelligence Centre (FIC) in line with recommendations of the Financial Action Task Force (FATF). The target date for introduction is 2018, although this may be an ambitious target.

- National ID: The government mandated a biometric enabled national ID in November 2012,¹⁴ but not everyone has one yet. This project requires a broader national-level intervention.
- Financial Literacy and Capability: The NFIS calls for developing targeted strategies to address financial literacy within specific groups, for example women and youth.
- To effectively implement this strategy, NBE depends on other players including FIs and Technology Service Providers (TSPs) both of which have capacity gaps.
- The secretariat for the NFIS is housed at the NBE and reports to the National Financial Inclusion Council (NFIC). This poses a potential conflict of interest as the NBE is also responsible for regulating, licensing and supervising the FIs.

Regulatory Focus

The NBE has put in place regulations in the form of directives affecting cash transfers including the Mobile and Agent Banking Services Directives No. FIS/01/2012¹⁵. The regulations are in the process of being updated; the new regulations will be known as Electronic Fund Transfer regulations. These regulations have been reviewed by all key stakeholders and are awaiting final approval by the Governor of the NBE; that approval is likely in 2018.

Key learnings of relevance to cash transfer programming include:

- There are three directorates in the NBE relevant to cash transfers:
 - a) Payment and Systems Directorate
 - b) Microfinance Institutions Supervision Directorate
 - c) Directorate of Bank Supervision
- The proclamations and directives that are relevant to cash transfers are:
 - “Prevention and Suppression of Money Laundering and the Financing of Terrorism Proclamation Number 657/2009”

Tiered Know Your Customer (KYC)

Ethiopia has pledged to implement a national biometric ID, but it is not yet in place. As a result, many individuals rely on locally-issued IDs. For many individuals, this provides the ID necessary for opening a stored value account. However, there are some significant challenges.

- In the border regions, some Kebele (local governments) have been disallowed from issuing identification for security and political reasons. Individuals living in these areas cannot get ID.
- Internal migrants may be unwilling or unable to change their official place of residence because doing so could affect such things as ownership or inheritance of family dwellings. Kebele-issued IDs are valid for one-to-two years, so even if they possess an ID from their home region it will eventually expire.

Ethiopia is in the process of revising their regulatory structure to provide for tiered KYC. This new system, which will be based on the system now operating in Mexico, will allow for very low value accounts to be opened with no identification. This regulatory approach is currently under development. Once it is introduced, it should ease the way for humanitarian organizations to make digital payments via a stored value account.

¹⁴ National Bank of Ethiopia, National Financial Inclusion Strategy, April 2017 p 11 at

<https://www.nbe.gov.et/pdf/service/Ethiopian%20National%20Financial%20Inclusion%20Strategy.pdf>

¹⁵The regulations can be found at: <https://www.nbe.gov.et/pdf/directives/bankingbusiness/FIS-01-2012.pdf>

- “Customers Due Diligence of Banks Directives No. SBB/46/2010”.
- Only NBE-licensed financial institutions (MFIs and Banks) can engage in mobile banking services. Humanitarian organizations cannot independently or in partnership with a TSP alone engage in bulk payments; organizations are able to independently give out cash as long as it does not involve use of a stored value account.
- NBE is responsible for ensuring that financial institutions fulfill KYC requirements in line with their customer due diligence (CDD) directive. The financial institution is responsible for ensuring that agents comply with regulations. Therefore, before implementation of any new program the FI should ensure that all agents who will be servicing clients have undergone a comprehensive due diligence and training process.
- The regulations limit both the amount that can be transacted daily and the amount that can be held in a mobile wallet. Both limits need to be understood in the context of making cash transfers. The daily transaction limit is 6,000 Ethiopian Birr (ETB) (approx US\$220), and the wallet holding limit is ETB 25,000 (approx US\$915). Focus group participants identified the daily transaction limit as a point of friction.

Key Observations

- The regulations put almost all the responsibilities for digital finance with the regulated FI; this presupposes that the FI has the capacity. Humanitarian organizations should carry out due diligence of the FI to ensure that the latter has the capacity to undertake the project in question. Specific areas to investigate include the technology and payment platform being used, experience with that technology solution, and the ability to identify, select, recruit and train agents and ensure that those agents have liquidity.
- FIs typically partner with TSPs to provide digital delivery mechanisms. In this case, the capacity of both partners, the length of their partnership, integration of their system and joint ability to deliver on program requirements should be considered.

Government Structure

Ethiopia has a governance structure that extends from the federal government to the regional governments. Regions are further sub divided to Zonal administrations followed by Woreda level administrations and Kebele administrations. There are 769 rural and urban Woredas in the nine regional states; as already noted, in the Somali region there are 96 rural Woredas. Central government budgeting and financing goes all the way down to the Woreda level, where development agents and representatives of line ministries such as the Ministry of Finance and Economic Cooperation (MOFEC) are available. These local representatives of central government ministries can play an important role in cash transfer programming.

Ministry of Finance and Economic Cooperation (MOFEC)

MOFEC plays a direct role in cash transfers that fall into the ‘Channel One’-type humanitarian payments (defined above). MOFEC is also instrumental with payee identification, and determining which individuals and households meet the criteria for participation in specific programs. For example, cash transfer programs like PSNP – which provides cash to chronically food insecure households - make use of the MOFEC structures at the regional and Woreda level.

Ministry of Communications and Information Technology (MCIT)

The MCIT oversees the development of information communication technology including development of telecom infrastructure. MCIT assesses the capacity of TSPs and issues licenses to operate in the country. For cash transfer programs, MCIT can advise on the capacity of a specific TSP as part of the due diligence process. The MCIT is setting up youth-owned businesses to be ICT Centers across the country; these ICT Centers may serve as agents of Ethio Telecom, and internet centers, and so may be valuable assets in the deployment of digital payments, especially in rural areas.

Local Government

In the absence of a national ID, regional governments in Ethiopia issue IDs to their residents. This usually takes place through the local Kebele administration. Some Kebele administration offices in border towns do not have the ability to issue IDs; the Regional or Central Government may revoke this ability for political and/or security reasons.



Photo: Kinfemichel Abraha, Kap Tower Partners LLC

National-Level Financial Services

Ethiopia's financial sector has expanded significantly in recent years. According to the NFIS, as of March 2016 there were 18 banks, 17 insurance companies, 35 microfinance institutions, and 18,000 savings and credit cooperatives.¹⁶ FIs that are licensed by the NBE should have the ability to operate nationwide; however, regional governments can stop them from opening branches locally.

ACCOUNT OWNERSHIP

Many focus group participants in the Somali region indicated that they frequently use financial services through accounts owned by family and friends, in part due to a lack of understanding of the value of owning their own account. Any new cash transfer program that involves use of an account would need to assess if the target population has a similar profile with regard to account ownership. Education campaigns must be undertaken to address this issue where it exists.

¹⁶ National Bank of Ethiopia, National Financial Inclusion Strategy, April 2017 p 11 at <https://www.nbe.gov.et/pdf/service/Ethiopian%20National%20Financial%20Inclusion%20Strategy.pdf>

Somali Region Financial Institutions and Delivery Mechanisms

Financial inclusion in the Somali region is lower than the national level. The gender difference in account holding in the Somali region is pronounced, with nearly twice as many men (21%) holding accounts as women (13%).¹⁷ During the focus group discussions, the gender difference was less pronounced than that of age. Younger participants were more likely to have mobile wallets than older participants.

CBE

The Somali region has far fewer formal financial institutions than are available nationally, particularly in Addis Ababa. The CBE has branches in almost all Woredas in the region. CBE is currently piloting a mobile wallet (CBE Birr), which is targeted at low income customers. The assessment team has observed posters of the service in the visited Woredas.

SMFI and other MFIs

At the time of this assessment, there was only one MFI operating in the region – SMFI, which has 24 branches, mostly in Somali Region. The regional government is a shareholder in SMFI. The assessment team heard report that the regional government had denied Rays MFI from operating in the region despite regulations that indicate that any NBE-licensed MFI is supposed to be able to operate in any part of the country. The team later heard that Rays MFI has been allowed to open a branch in the region and did so just after assessment visit. This MFI at the time of writing did not have expanded presence at the zone or woreda level.

SMFI has engaged in cash transfer programming for United Nations Office for Project Services (UNOPS), PSNP, IOM, DRC, Oxfam and others. Mercy Corps is using HelloCash (a mobile money service offered by SMFI and other FIs in other regions) and several other organizations are piloting use of HelloCash. Many other programs, however, are using manual cash transfers.

SMFI has 905 HelloCash agents in the Somali region, and 619 payment acceptance points for those who want to use HelloCash to pay for goods and services. There are approximately 194,000 active SMFI clients using HelloCash. A total of 37,000 transactions with a value of 36M Birr are processed each day; 27,000 of these are for airtime top-ups.¹⁸ SMFI is able to monitor online when transactions take place and who is getting paid; however, there appears to be a lack of protocols governing information security and customer privacy. Cash transfer programs should define appropriate protections as part of any implementation.

Approximately half of focus group participants indicated that they use HelloCash and are comfortable with the service. Focus group users appreciate that the service is faster than other means of transferring funds. However, many users indicated that they use the service through accounts belonging to friends rather than their own accounts because they do not see the value in opening and owning their own account (often because they have limited transaction needs). Any new program would require a significant education component to help beneficiaries become familiar with the features and functionalities of their accounts. Many focus group participants also indicated that the 6-10 Birr fee associated with transactions was too high, and agent liquidity is also reported to be a common problem. Potential solutions include paying the transaction

¹⁷ Central Statistics Agency, Socio Economic Survey 2016 at <https://dhsprogram.com/pubs/pdf/FR328/FR328.pdf> .

¹⁸ Interview with Ahmed Oumer Mohamed, HelloCash agent network coordinator, Jigjiga, December 11, 2017

fees for beneficiaries to cash out their funds, and working closely with SMFI to put in place liquidity management plans.

RUSACCOs

RUSACCOs are licensed by the Regional Cooperative Agency and thus can operate as formal financial service providers. Mercy Corps has helped set up 170 VSLAs in the region, several of which have transitioned to become RUSACCOs. These institutions (and any others established by other bodies) could potentially operate as cash transfer partners, however many have a small membership base and using this avenue for cash delivery could entail a significant management burden in order to oversee multiple small providers rather than one larger provider. In addition, there is a large capacity gap that would have to be addressed to ensure that records are properly maintained, and transactions accurately undertaken.

Dahabshiil

Dahabshiil is a money transfer agent engaged in international remittances; it is allowed to participate in this service through a sole agent license issued by NBE allowing them to partner with a bank. Dahabshiil has eight agents in the Somali region; several focus group members indicated that they use this service regularly. However, Dahabshiil is not available in all the Woredas targeted, and by regulation they are not allowed to participate in financial services other than international remittances. International organizations that have systems that allow for international transfers could potentially use Dahabshiil's network, but regulations make it a limited feasibility choice for emergency cash transfers.

Technology Service Providers

There several independent TSPs in the country of which two – Belcash and MOSS ICT - have been involved in digital finance in the recent past. Per national regulations, FIs are required partners for any transaction involving a stored value account, but TSPs are key in making digital bulk payments work. They can act as an enabling partner and bolster the capability of the FI.

Belcash

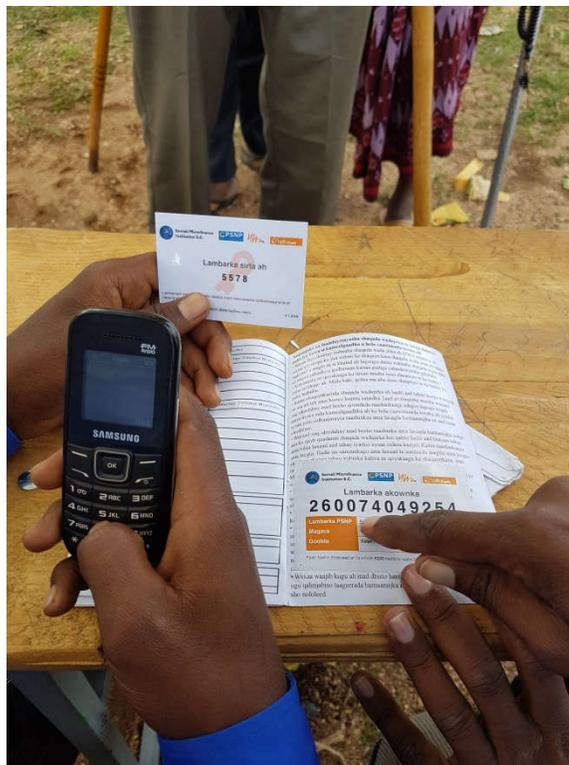


Photo: Kinfemichel Abraha, Kap Tower Partners LLC

› SERVING CUSTOMERS WITHOUT SIMS

Beneficiaries without SIMs can be provided with a card, coupled with a PIN, that enables them to retrieve cash from designated agents. However, this process must be closely regulated to ensure beneficiaries who are not literate receive their entitlements.

Belcash has a platform called HelloCash that supports Mobile Money banking provided by Financial Institutions in Ethiopia. HelloCash allows users to conduct basic banking services – receiving and paying - using their mobile phones. Presently Belcash is working with four financial institutions: The Cooperative Bank of Oromia, the SFMI, Lion International Bank and Wegagen Bank. HelloCash is one of the largest in the country working with over 6,000 agents and making about 40,000 transactions per day. Belcash has worked on projects such as the UNOPS’s emergency response where cash was disbursed to 600 beneficiaries in Somali region; the PSNP project where cash was disbursed to 25,000 individuals in Harari region; Mercy Corps drought program where 4,000 individuals received cash in Dire Dawa and another to 4,000 individuals in Oromia region.

MOSS ICT

MOSS ICT (hereafter MOSS) owns the M-Birr mobile money platform. It was Ethiopia’s first mobile payment platform, introduced in 2009, before the 2012 directive for agency and mobile banking was introduced. NBE allowed M-Birr to offer its services by partnering with microfinance institutions.

MOSS has partnered with five large MFIs (Amhara Credit and Savings Institution - ACSI, Dedebit Credit and Savings Institution - DECSI, Addis Credit and Savings Institution - ADCSI, Omo Microfinance - OMO and Oromia Credit and Savings - OCSSCO) via a technology company called Ethiopian Inclusive Finance Technology (ETIFT), which is owned by and acting on behalf of the MFIs. MOSS signed contracts with ETIFT, who in turn signed with Ethio Telecom. MOSS provides its services to MFIs for free, building its business model on a revenue sharing arrangement. To ensure M-Birr is successful, MOSS provides technical support, marketing, business development, training and other services to the partner MFIs. MOSS’s FI partners are not currently operating in Somali Region, though they may be considered for MPGs in other areas of the country.

Physical Cards

Where beneficiaries lack phones or SIM cards, MFIs issue unique ID cards linked with a PIN that can be provided to enable cash out. Although these cards may help avoid the lack of SIM cards, they can still be problematic as agents may take advantage of illiterate beneficiaries and take his/her money. This card-based solution is used by the PSNP for some of its transfers.

Challenges

General challenges to using mobile money throughout Ethiopia include the following:

- Lack of mobile phones on the part of beneficiaries
- High turnover of agents especially in the beginning when business is low
- Agents’ liquidity management
- Beneficiaries located in the most rural parts of the country have poor infrastructure and limited access to financial institutions.
- The beneficiaries have no prior experience or knowledge on financial services

Humanitarians should consider to what degree these factors apply to their target implantation environment when selecting a delivery mechanism.

Key Observations

- For national programs seeking to make bulk cash payments in various regions, there may be significant advantages to working with a TSP and a FI that have national networks and broad coverage. This will help address the issue of interoperability.
- Financial literacy and awareness on the part of the beneficiaries is critical. The key players in the bulk payments – humanitarian organization, TSP and FI - should all be involved before and during the period of disbursements to observe if and how beneficiaries are able to understand the communications they receive, and whether they are able to count the cash received and take steps to address the barriers encountered. For example, even if beneficiaries may not be literate in the language that SMS messages are received in or they may need to be taught how to recognize and count the funds they are receiving.
- Mobile money platforms and agent banking appear to be the most viable means of cash transfer as penetration of bank and MFI branches in some of the visited Woreda was very low. The agent network and mobile network coverage and usage of mobile phones seen in the areas visited was quite high. Based on this observation, in the areas visited, a mobile money-based cash transfer using SMFI and Belcash may be viable.
- Recognize that introducing and promoting digital literacy among people - especially for populations which are new to mobile technology - requires continued training and opportunities to practice, which may be a challenge in short-term humanitarian programs.
- Ensure that beneficiaries' unfamiliar with mobile technologies should have adequate support to cash out their transfers during the project, including community phone holders and Agents.

Conclusions

Through use of the Payments Mechanism Guidance tools, Mercy Corps and Kap Tower Partners were able to identify key regulatory considerations and stakeholders at the national level and scope potential FI partners at the regional level and some coverage at the level of the target woredas. As no proposed MPG design was available at the time of the assessment, implementing organizations can use these assessment findings to liaise directly with potential FI partners to select the optimal solution for their proposed program. Additional tools from the delivery guide can help with these next steps. Key findings from Ethiopia included:

Somali Region – Target Woredas

- Today, digital payments are used within the target region, and are a viable mechanism to reach many potential beneficiaries.
- Specifically, SMFI has worked with a variety of humanitarian agencies to implement physical cash and mobile money transfers.
- Mobile network coverage is strong in woreda and kebele level settlements in the target woredas in Somali region: Harshen, Tuliguled, and Kebribeyah.

Delivery Channel Selection:

- Financial institutions are key partners; however, they vary greatly in terms of capability and capacity. Comprehensive due diligence must be completed – based on a sound description of the services required to implement the program - before a decision is made regarding an FI.

- Agent networks in rural areas may not be robust; before launching a program, it is vital to understand what the agent network penetration is in the target area for the program.
- The ability to both execute payments, maintain records, and protect beneficiary privacy varies. Due diligence and needs assessment is necessary to understand what capacity building might be necessary. Humanitarian organizations should be prepared and have resources available to provide technical assistance to the FI around digital finance to carry out the bulk cash transfer.
- For many payment service providers, liquidity is an issue in rural areas. Providing a clear understanding of liquidity needs in the target area and the timing of those needs is vital. Regular audits of liquidity are advisable, particularly in rural areas.
- Since Ethio-Telecom offices are farther from beneficiaries than mobile money agents, in much of Somali region, ensuring that customer service functions (such as issuing SIM cards and addressing PIN issues) can be handled locally should be part of any large MPG program using mobile money.
- Attention to beneficiary privacy practices is recommended when considering all possible FI and TSP partners.

Beneficiary Considerations:

- Beneficiaries have varying levels of literacy, which could impact their ability to use a digital system. There was a pronounced divide based on age, with older participants less likely to be literate. There was also a noticeable divide based on gender, with women less likely to be literate than men. Lack of literacy and/or numeracy leaves beneficiaries open to exploitation at the time of payment and should be reflected in program design or training planning.
- Beneficiaries have varying levels of ownership of and access to mobile technology; younger beneficiaries are more likely to be comfortable with digital payments than are older people regardless of gender.
- Focus group participants did not necessarily value having their own account, versus using the account of a friend or family member. Education around this issue is likely to be important for any program relying on the use of an account.
- Fees associated with digital payments are a potential barrier and should be considered in designing a program.
- Given beneficiary challenges, including literacy levels, humanitarian organizations should plan and budget for training of both beneficiaries and agents before and during disbursements. Training would focus on the basics of mobile money and how to use the mobile money menu. Humanitarian organizations may also need to explore the possibility of providing either phones or SIM cards to beneficiaries. Ethio Telecom has indicated that it would be a willing partner in this regard.
- While the majority of FGD participants in the target woredas were at least familiar with mobile money; TSPs report that some beneficiaries have a lack of awareness and therefore skepticism about digital payments as opposed to physical cash, especially in remote areas.

Regulatory Effects:

- Regulations only allow licensed financial institutions to engage in transactions involving stored value accounts. Kebele or national ID is required to register for a SIM card or transactional account. Humanitarian organizations should seek to understand if the population they serve either has or will

be able to secure IDs. If they are from a region where access to IDs is not feasible, KYC for account opening will be impacted.

- At the local level, representatives of central government ministries are important and should be consulted. For example, MOFEC officials at the local level play a central role in identifying which households are eligible for PSNP and other programs.
- Changes in key regulations are pending, including KYC rules. These new regulations will potentially enable those without KYC documentation to open small-value accounts and receive digital payments in the near future. It is therefore vital that the Humanitarian organization keeps abreast of developments in the key regulations and KYC. NBE will be a useful source of information..

Annexes

Annex 1: Regulations

Links to the relevant regulations can be found at:

<https://www.nbe.gov.et/pdf/directives/bankingbusiness/FIS-01-2012.pdf>

Other referenced materials and organizations:

www.worldbank.org/en/country/ethiopia

www.adcsi.org

www.oromiamfi.com

www.somalimfi.com

www.mercycorps.org/countries/ethiopia

www.wvi.org/ethiopia

www.unctf.org/ethiopia

www.nbe.gov.et

www.mcit.gov.et

www.m-birr.com

www.ethiotelecom.et

www.belcashethio.com

www.kifiya.com

Annex 2: Interview and Stakeholder List

No	Type of Agency (NGO, FSP, Gov't, Donor, other)	Agency	Locations	Delivery Mech. (Bank, Telecom, Payment Platform, MFI, MFB)	Program Description	Targets / Population	Contact	
							Name	Position
1	Multi-donor Agency	Productive Safety Net Program	Addis Ababa	Mobile money with MFIs	Launched in 2005. Goal: Reduce food insecurity by providing economic opportunities, through cash transfers, public works, and nutritional feeding programs.	National: households not able-bodied receive direct support; able-bodied beneficiaries engage in public works.	Ato Mekdim Yemane	Donor Coordination Team
2	Government	MFI	Addis Ababa	MFI	Road construction program implemented by Addis Ababa City Administration and local communities with the latter providing labor. Cash Payments for labor are made by ADCSI MFI.	Unemployed Youth in the local communities	Lulu Mesfin	Finance and Deputy Manager ADCSI (MFI)

No	Type of Agency (NGO, FSP, Gov't, Donor, other)	Agency	Locations	Delivery Mech. (Bank, Telecom, Payment)	Program Description	Targets / Population	Contact	
3	Government	MFI	Oromia	MFI	Government Pension Scheme Agency	Retired public servants	Tefera Desta	Deputy Executive Managing Director
4	Government	MFI	Somali	MFI	Various Cash Transfer Programs	Relief and benefit recipients	Keddir Muhe	General Manager
5	NGO	Mercy Corps	Somali	Mobile money with MFIs	Somali region drought relief program	Drought affected in selected Woredas in Somali Region	Abdulahi Farah	Financial Inclusion program coordinator
6	Multi Donor Cash Working Group	World Vision International	Addis Ababa	Cash	Relief program	Drought affected area	Solomon Bekele	Cash Working Group Coordinator
7	UN Agency	UNCDF	Addis Ababa	Cash and Electronic	Refugee program	Refugees	Eyob Tesfaye	Programme Director Financial Inclusion
Regulators								
8	Government	National Bank of Ethiopia	Addis Ababa	NA	Regulation and supervision	All Licensed financial services providers	Frezer Ayalew	Director Microfinance Supervision
9	Government	National Bank of Ethiopia	Addis Ababa	NA	National Financial Inclusion Strategy	National	Temesgen Zeleke	National Financial Inclusion Secretary

No	Type of Agency (NGO, FSP, Gov't, Donor, other)	Agency	Locations	Delivery Mech. (Bank, Telecom, Payment)	Program Description	Targets / Population	Contact	
10	Government	Ministry of Communication and Information Technology (MCIT)	Addis Ababa	NA	Formulate projects and programs to guide Communication and Information Technology development with focus on improved service delivery and enhancing good governance.	National	Abiyot Bayou	Director, e-Government Directorate
11	Government Parastatal	Ethio Switch	Addis Ababa	NA	National Switch for Electronic Payments and part of the National Payment System	National	Bizuneh Bekele	CEO
Technology Service Providers (TSP)								
12	Private TSP	MOSS ICT	Addis Ababa	Mobile Money Platform (M-Birr)	Technology service provider	National	Kiddist Zegeye	Deputy CEO
13	Government Parastatal	EthioTelecom	Addis Ababa	NA	Network provider	National	Said Aragaw	Chief Officer Residential Sales Division

No	Type of Agency (NGO, FSP, Gov't, Donor, other)	Agency	Locations	Delivery Mech. (Bank, Telecom, Payment)	Program Description	Targets / Population	Contact	
14	Private TSP	BelCash	Addis Ababa	Mobile money Platform (HelloCash)	Technology service provider	National	Tewodros Tassew	HelloCash Operation Manager
15	Private TSP	Kifiya Technologies	Addis Ababa	POS	Technology service provider		Yilebes Addis	Chief Information Officer

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About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



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