

Ethiopia's Payment System Regulation: Shaping the Future of Payment Transactions

Description

By Dagnachew Tesfaye, Managing Partner at DMLF



The National Payment System Proclamation No 718/2011 has been amended. The amendment proclamation is the National Payment System(Amendment) Proclamation No 1282/2023. The latter Proclamation was made in Addis Ababa, on February 3/2023. The objective of Proclamation 1282/2023 is to accommodate the developments, changes and innovations in the National Payment System. Since the amendment Proclamation, the National Bank of Ethiopia (NBE) has issued Licencing and Authorization of Payment Instrument Issuers Directive No ONPS/09/2023, effective as of October 6,2023. Regarding payment system operators, the Licencing and Authorization of Payment System Operators Directive No ONPS/02/2020 govern the operators. A brief overview of these laws shall be dealt hereunder.

Payment Instrument Issuer and Payment System Operator

The National Bank of Ethiopia is entrusted to regulate the sector. The NBE shall receive any application from any interested party to be a payment instrument issuer or payment system operator. Payment Instrument Issuer can be a company, or a government owned enterprise or a bank or micro finance institution authorized by the NBE to issue payment instruments. Whereas a Payment System Operator could be a financial institution or any other company licensed or authorized to establish and operate a payment system including routing, matching, clearing, netting and settlement of payment instructions or government securities.

Licencing and Authorization

Among several general requirements, some of the sector specific requirements shall be the focus. A business organization that wishes to acquire a license for payment instrument issuer or a payment system operator shall be obliged to form a subsidiary company exclusively for the business objective of performing payment system operation or payment instrument issuing. The applicant should fulfill minimum paid up capital.

The NBE has put a minimum paid-up capital of ETB 50 million or its equivalent in foreign currency for payment instrument issuer on Directive No 09/2023 Article 4 sub-article(5).The contribution has to be in cash. The cash has to be deposited in a blocked account in a bank in the name of the payment instrument issuer. NBE shall respond to such applications within 60(sixty days).

Similarly, according to Directive No ONPS/02/2020, an applicant intending to be licenced as a payment system operator shall be established as a company, have a minimum of 10 shareholders to operate more than one system, capital of not less than ETB million if it is a switch, ETB million capital, if it is an automated teller machine operator, ETB 10 million capital, if it is a point of sale device orator and ETB 3 million if it is a payment gateway operator.

The national switch operator on the other hand is required to have ownership by a person limited to 40%. The national switch operator shall be only owned by financial institutions and the NBE. The ownership by a natural person is limited to 1 share at the time of entry and have 1 more share every time new shares are sold thereafter. When the ownership is by an institutional shareholder other than the NBE, the ownership is limited to 5%. The national switch operator shall have a paid up capital of ETB 300 million.

Foreign Nationals

Foreign Nationals may be allowed to engage in a payment instrument issuer business or a payment system operator business. Such foreign-owned companies are required to raise capital fully in foreign currency. In the case of collaboration with Ethiopians, the foreign partners are required to contribute in foreign currency to the extent of their aggregate percentage holding.

Investment Protection Fee

Investment Protection Fee has been defined in the Proclamation 1282/2023 as an amount of money paid to the government by foreign nationals who invest in businesses that are reserved for domestic investors only. Hence the foreign-owned company is required to pay not only a licence or authorization

fee but also an investment protection fee. The NBE shall determine from time to time the amount of the investment protection fee.

Rejection of Licencing

The NBE may reject an application for authorization or licensing for payment instrument issuer and payment system operator. These rejection points have been included in NBE Directive No. ONPS/09/2023 and NBE Directive No.02/20 . Such a rejection is appeal-able.

Pilot Trial and Grant of Licence

Based on the result and assessment of pilot trial period of 30 -60 days for payment system operator and 6-9 months for payment instrument issuer, the NBE may grant full licence.

In conclusion, the amendment in the proclamation and issuance of Directives on the payment system signifies a big step in Ethiopia's endeavour to improve and innovate the financial regulatory landscape.

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Retirement Visa: A Need for Incorporation into the Immigration Laws of Ethiopia

By DMLF in collaboration with Geda Yosef Introduction A retirement visa is a special type of visa issued by some nations that allows people with adequate financial resources to live in a specific foreign country for an extended period of time. Retirement visas bring several advantages for developing countries like Ethiopia in terms of socio-economic...

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achieve this plan, the...

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Ethiopia's Liberalization of Export, Import, Wholesale and Retail Trade for Foreign Investors

By Mahlet Mesganaw, Partner at DMLF Introduction The Ethiopian Investment Board by Directive Number 1001/2024, issued the "Directive to Regulate Foreign Investors' Participation in Restricted Export, Import, Wholesale and Retail Trade Investments"(the Directive). The Directive shall come into force as of the date when it is posted on the web pages of the Ministry of...

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Income Generating Business Activities for Civil Society Organizations

By Dagnachew Tesfaye, Managing Partner at DMLF The Ethiopian Civil Society Organization Proclamation Number 1113/2019(the Proclamation), done as of March 12,2019, is enacted to regulate civil society organization. This Proclamation has allowed civil society organizations to engage in income generating business activities. To regulate in detail the business engagement of civil society organizations, the Authority...

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By Geda Yoseph, Associate at DMLF Introduction The Federal Supreme Court Cassation Division on Cassation on File No. 185895 dated 24/02/2021, passed a

binding decision as to whether an agreement on property of the man and woman made during an irregular union that lasted more than three years is required to be presented to court...

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Irregular Union under Federal Family Law

By Geda Yoseph, Associate at DMLF Irregular union is a relationship that is similar to marriage but actually it is not a marriage. Irregular union also produces legal effects. Ethiopian Federal Family Law recognizes the existence of irregular unions and as a result attached some legal consequences to the union. Some of these effects are...

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