

# NATIONAL FINANCIAL INCLUSION STRATEGY



NATIONAL BANK OF  
**ETHIOPIA**



# **ETHIOPIA: National Financial Inclusion Strategy**



**National Bank Of Ethiopia**

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## Abbreviations/Acronyms

<b>ACH</b>	Automated Clearing House	<b>GTP</b>	Growth and Transformation Plan
<b>AEI</b>	Association of Ethiopian Insurers	<b>HiFi</b>	Harnessing Innovations for Financial Inclusion
<b>AEMFI</b>	Association of Ethiopian Microfinance Institutions	<b>IFC</b>	International Finance Corporation
<b>AML/CFT</b>	Anti-money Laundering and Counter Financing of Terrorism	<b>KYC</b>	Know-Your-Customer
<b>ATA</b>	Agricultural Transformation Agency	<b>MoANR</b>	Ministry of Agriculture and Natural Resources
<b>ATM</b>	Automatic Teller Machine	<b>M&amp;E</b>	Monitoring and Evaluation
<b>CBE</b>	Commercial Bank of Ethiopia	<b>MCIT</b>	Ministry of Communication and Information Technology
<b>CPMI</b>	Committee on Payment and Market Infrastructure	<b>MFI</b>	Microfinance Institution
<b>CSA</b>	Central Statistics Agency	<b>MIS</b>	Management Information Systems
<b>CRB</b>	Credit Reference Bureau	<b>MoFEC</b>	Ministry of Finance and Economic Cooperation
<b>DBE</b>	Development Bank of Ethiopia	<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>DFID</b>	Department for International Development	<b>MWC</b>	Ministry of Women and Children
<b>EAAB</b>	Ethiopian Accounting and Auditing Board	<b>NBE</b>	National Bank of Ethiopia
<b>EATS</b>	Ethiopian Automated Transfer System	<b>NCFI</b>	National Council for Financial Inclusion
<b>EBA</b>	Ethiopian Bankers Association	<b>NFISC</b>	National Financial Inclusion Steering Committee
<b>EEPO</b>	Ethiopian Electric Power Office	<b>NFIS</b>	National Financial Inclusion Strategy
<b>EES</b>	Ethiopian Electric Service	<b>NPS</b>	National Payment System
<b>EFIP</b>	Ethiopian Financial Inclusion Project	<b>NRPS</b>	National Retail Payment System
<b>EPAAA</b>	Ethiopian Professional Association of Accountants and Auditors	<b>PEPE</b>	Private Enterprise Program for Ethiopia
<b>ERCA</b>	Ethiopian Revenue and Customs Authority	<b>POS</b>	Point of Sale
<b>FCA</b>	Federal Cooperative Agency	<b>PSNP</b>	Productive Safety Net Program
<b>FISF</b>	Financial Inclusion Support Framework	<b>RFS</b>	Rural Finance Strategy
<b>FITS</b>	Financial Inclusion Technical Secretariat	<b>ROSCA</b>	Rotating Savings and Credit Associations
<b>FSP</b>	Financial Services for the Poor	<b>RTGS</b>	Real Time Gross Settlement
<b>FUJFSA</b>	Federal Urban Job Creation & Food Security Agency	<b>RUFIP</b>	Rural Financial Intermediation Program
<b>GDP</b>	Gross Domestic Product	<b>RuSACCO</b>	Rural Savings and Credit Cooperative
<b>GIS</b>	Geographic Information System	<b>SSA</b>	Sub-Saharan Africa
<b>G2P</b>	Government to Person	<b>SACCO</b>	Savings and Credit Cooperative
<b>GoE</b>	Government of Ethiopia	<b>SMEFP</b>	Small and Medium Enterprise Finance Project
<b>GPFI</b>	Global Partnership for Financial Inclusion	<b>TPCPA</b>	Trade Practice and Consumers Protection Authority
		<b>UNCDF</b>	United Nations Capital Development Fund
		<b>UNDP</b>	United Nations Development Program
		<b>WBG</b>	World Bank Group
		<b>WEDP</b>	Women Enterprise Development Program





### **A) Introduction**

1. The National Financial Inclusion Strategy analyzes the state of financial exclusion and creates a cogent framework for accelerating efforts towards financial inclusion based on the country's development priorities. Over the past decade, Ethiopia has made substantial progress towards rapid, broad based and equitable economic growth and become one of Africa's fastest growing economies by experiencing high growth levels in gross domestic products, increased life expectancy and significant reduction in poverty levels. Sustained, prudent, and responsible financial inclusion contributes to financial and monetary stability, helps to combat anti money laundering risk, supports accelerated economic growth, greater prosperity and social development. It also helps to build on the social and economic gains of the past decade. In the course of promoting and increasing savings, financial inclusion will contribute towards filling the gap on the ever increasing credit demand and consequently promotes investment that would create employment opportunity and rise in income that ultimately contributes to poverty reduction.
2. Recognizing the overarching positive impact of financial inclusion, the Government has set up National Council for Financial Inclusion accountable to the Prime Minister having the responsibility to promoting financial inclusion through coordinating various financial inclusion initiatives under one umbrella and formulating National Financial Inclusion Strategy. Members of the council comprise minister of Ministry of Finance and Economic Cooperation (Chairperson), Minister of Ministry of Agriculture and Natural Resources, With the Rank of Minister-Chief of Macroeconomic Planning, Effectiveness, Follow up and Support, Commissioner of National Plan Commission, Director of Ethiopian Development Research Institute and Governor of the National Bank of Ethiopia. The Vice Governor for Financial Institutions Supervision will serve as a Secretary to National Council for Financial Inclusion. To enable the council execute its responsibilities, it will set up National Steering Committee for Financial Inclusion. The

foundation work on the National Financial Inclusion Strategy has been carried out by the Financial Inclusion Secretariat, housed under the National Bank of Ethiopia that will also continue on the coordination, monitoring and evaluation work of the implementation of the Strategy. The Secretariat with full technical and financial support from the World Bank has formulated National Financial Inclusion Strategy after undertaking an assessment of the current state of the financial sector and financial inclusion in Ethiopia; fundamentally focusing on the development priorities and socio-economic direction of the country; and taking due consideration to the vision of the country “...to becoming middle income economy by 2025” and targets of the second Growth and Transformation Plan.

### **B) Current State of the Finance Sector**

3. **The financial sector has expanded considerably and the country has taken great strides to develop an inclusive and modern financial sector.** As of March 2016, 18 banks, 17 insurance companies, 35 micro finance institutions, and 5 capital goods lease companies were operating in Ethiopia. Moreover, there were about 18,000 Savings and Credit Cooperatives spreading throughout the country, mainly in rural areas. Besides, there were 19.3 million bank and 11.4 million micro finance institutions accounts, totaling 30.7 million transaction accounts that resulted in 68 transaction accounts per 100 adults<sup>1</sup>. According to the World Bank Survey (Findex 2014), only 22% of adults have transaction accounts in regulated financial institutions<sup>2</sup>.
4. The National Payment System has also been undergoing planned modernization reforms with the objective to supporting a growing and vibrant economy and to create efficient, effective and enabling environment to the finance sector.

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<sup>1</sup> The number of accounts held by members of Saving and Credit Cooperatives, which is estimated to be around 1.8million was not computed in this figure, but will be considered for purposes of monitoring and follow-up of financial inclusion levels, as data about that sector becomes more reliable.

<sup>2</sup> The National Financial Inclusion Strategy uses Findex survey of 2014 of the World Bank to approximate demand side data and cross-country comparisons. According to the survey, 22% of Ethiopian adults (+15 years of age) reported owning an account at regulated financial services providers. The survey also indicated that the margin of error is around 3.7% and defines an adult as being 15 years of age or older (contrary to Ethiopia’s definition of an adult as 18 years of age or older). Moreover, the sample size is limited only to 1001 adults. In view of these, the survey has clear pitfalls to reflect and represent the current realities on the ground. Due to the absence of alternative information, however, the National Financial Inclusion Strategy uses the findings of the survey as indicators to compare the Ethiopian financial inclusion status with peer countries and against international standards.

5. **Despite these developments in the financial sector, there is room for many improvements to allow full financial inclusion.** For instance, as of March 31, 2016, 36% and 54% of bank and insurance branches respectively were operating in Addis Ababa. This shows the physical presence of regulated financial institutions concentration near or around the capital, leaving rural areas underserved. Thus distance remains significant barrier for financial inclusion in Ethiopia. Saving and credit cooperatives, which mostly serve the rural areas, are generally weak and not able to provide services on a sustainable basis. Basic public services, in particular electricity and telecommunications, sometimes fail to support the financial sector. Though digital financial/banking services are emerging, paper-based payment instruments: cash, checks and payment orders continue to be widely used even for large value payments by the government and the private sector. There is a strong informal savings culture in Ethiopia, which is not being leveraged by financial institutions and micro, small and medium enterprises (MSMEs) have difficulties accessing crucial finance to support their businesses.
6. According to Findex 2014 survey, approximately 56% of adults (15+) reported not owning an account but either saving, borrowing or insuring themselves against risks through informal means. 48% of adults (15+) also reported that they saved or set money aside, but only 14% reported saving at a financial institution. Similarly 44% of adults (15+) reported that they borrowed money in some form within the last year, but 7% reported borrowing from financial institutions. In general consideration, the majority of adults (18 +) are excluded from the services provided by the formal financial sector.
7. There are emerging and growing micro, small and medium enterprises that face greater constraints when accessing credit to support their business. Small firms face greater constraints when accessing credit than micro, medium or large firms. According to the International Finance Corporation Finance Gap Database, 38% of Ethiopian micro, small and medium enterprises reported needing financing but did not have access to a loan or line of credit, and 14% of micro, small and medium enterprises that owned a loan or line of credit still reported access to financing as a constraint for their business. Since micro finance institutions traditionally cater to micro-enterprises and banks to better-

established or larger enterprises, small enterprises are often under served: only 3% of small firms in Ethiopia (compared to 18% in Sub-Saharan Africa) have a loan or line of credit and 41% of small firms cite lack of access to finance as a constraint for business (compared to 22% of medium firms). This gap in financing is often referred to as the “missing middle”. According to a WBG study, 88% of small firms reported that their loan application was rejected as compared to 57% of micro-enterprises, which may indicate the need for financing services better tailored to small and medium enterprises market.

### **C) Key Barriers to Financial Inclusion**

8. Low level of usage of regulated financial services has many causes and implications that are both varied and intertwined. For instance, lack of awareness, trust and confidence on the financial institutions would result in limited access and use of financial services by individuals and micro, small and medium enterprises. The National Financial Inclusion Strategy, therefore, focuses on potential underlying causes of financial exclusion to inform and formulate priority measures that foster an inclusive financial sector.
9. In general, Ethiopia is in low level of financial inclusion. According to Findex 2014 survey, 78%, 12% and 2% of adults included in the survey respectively cited insufficient fund attitude, distance and relatively high cost of services as major barriers to access and usage of regulated financial services. Lack of documentation, distrust and religion were also cited as barriers by 1% of adults under each of the categories.
10. These specific challenges can be summarized in four underpinning strategic pillars: i) Underdeveloped (Financial and Other) infrastructure; ii) Inadequate supply of a range of suitable financial products, services and access points; iii) Inadequate financial consumer protection; and iv) Low-levels of financial capability and awareness.

### **D) Strategies for Financial Inclusion**

11. On the basis of the foregoing facts and background and to promoting access and usage of financial services, the following strategies have been formulated.

**i. Vision**

12. Achieving universal access to and use of range of affordable and high-quality financial products and services in Ethiopia by 2025.

**ii. Mission**

13. Promote access and use of a range of suitable (quality and affordable) financial products and services provided by regulated financial institutions by all individuals and enterprises, through innovative and convenient channels, to promote economic growth, poverty reduction, and financial stability.
14. The path to Ethiopia's vision of financial inclusion requires a set of priority actions to address the aforementioned four underlying barriers to financial exclusion. Each area is critical yet not sufficient individually. Accordingly, the following strategies are developed.

**iii. Main strategies****Strategy 1: Strengthening (Financial and Other) Infrastructure**

15. To enable the delivery of a range of financial products and services, a modern payment infrastructure needs to be in place. Similarly, improving credit infrastructure, which includes credit information systems and the framework for secured transactions, is necessary to extend access to finance to micro, small and medium enterprises. Furthermore, enhancing telecommunications and electricity services is crucial for financial institutions to deploy innovative cost-effective business models that offer greater geographical outreach and tailored products that meet the needs of a wider range of clients. The National Financial Inclusion Strategy also advocates for improved financial inclusion data collection and monitoring.

**Strategy 2: Ensure the Supply of Adequate Range of Suitable Products, Services and Access Points**

16. Financial access will rely on the expansion of a diverse and ubiquitous network of convenient and interoperable access points, including alternatives to traditional bank/micro finance institutions/insurance branches such as agents, ATMs, POS, mobile

and internet banking and card system. However, financial access alone does not naturally lead to fuller financial inclusion. A diverse range of appropriate, suitable and tailored saving, credit, payment and insurance products are key to achieve greater levels of usage that lead to financial wellbeing of adults and enterprises. Moreover, inclusion can further be improved by shifting government payments to people from cash to transaction accounts. Hence, during the strategy period, financial services will be improved and government payments will be made through financial institutions.

**Strategy 3: Build a Strong Financial Consumer Protection Framework**

17. Sound financial consumer protection is fundamental to increasing access while maintaining trust and confidence of the general public in the financial system. It is also key to ensure financial inclusion is done in a responsible manner and does not jeopardize stability. In this regard, the National Financial Inclusion Strategy foresees improvement and enforcement of regulations dealing with product suitability, information transparency and disclosure, responsible lending rules, marketing and advertising rules, good customer services and effective mechanisms for dispute resolution. For its implementation, due follow up will be made. This will create solid ground for financial service users to have trust on the financial sector.

**Strategy 4: Improve Financial Capability**

18. A study by the World Bank on the demand side indicated that 78% of adults who participated in the survey feel that they have insufficient funds attitude to use regulated financial services. Higher levels of financial capability will not only help strengthen trust, but also contribute to greater awareness and responsible use of financial products and services. The work in the National Financial Inclusion Strategy will start with a stock taking of current capability (or literacy and education) initiatives, and a nationally representative baseline survey on financial capability and then a unified national financial capability strategy will be developed to address each priority segment identified in the survey.

## E) Main Targets

19. To implement these strategies, the following stretched targets together with their measures are set.
- Increasing the number of transaction accounts, as reported by banks and micro finance institutions, per 100 adults from 68 to 90 by the end of 2020.
  - By 2020, 60% of adults (+18 years) will report (through Central Statistics Agency surveys) personal ownership of transaction accounts in regulated financial institutions.
  - 80% of adults will live within 5 kilometers from financial services access point by 2020, (Baseline figure will be set by Central Statistics Agency).
  - By 2020, 40% of adults will save at a regulated financial institution (Baseline figure will be set by Central Statistics Agency).
  - 5% adults reporting having an insurance policy by 2020 (Baseline figure will be set by Central Statistics Agency).
  - Adults reporting using an electronic instrument in the last 12 months preceding the reporting date will be 40 by 2020 (Baseline figure will be set by Central Statistics Agency).
  - By 2020, the National Financial Inclusion Strategy sets target that 80% of adults are aware of basic account opening procedures (Baseline figure will be set by Central Statistics Agency).
  - Increasing the proportion of agricultural loans to total bank and micro finance institutions credit to the private sector from 10.4% in March 2016 to 15% by 2020.
  - Increasing the percent of adults reporting (to a demand side survey) having a loan at a regulated financial institution from 10% to 40% by 2020.
  - Increasing the proportion of micro, small and medium enterprises lending to 15% by 2020 from total credit of banks and MFIs to the private sector.

20. To effectively achieve these targets, plan of actions have been formulated (ANNEX D). Coordination, monitoring and evaluation structure and system have also been developed and put in place as summarized here under.

## **F) Coordination and Implementation Mechanism**

### **i. The National Council for Financial Inclusion**

21. The National Council for Financial Inclusion is policy level body, accountable to the Prime Minister, having the mission to foster financial inclusion through ensuring effective leadership and coordination of public and private stakeholders' efforts towards advancing financial inclusion in Ethiopia. It will also be pivotal in the implementation of actions that are outside the financial sector, such as improvements in the telecommunications and electricity services to allow expansion of electronic financial transactions, implement national ID system. Members of the council comprise minister of Ministry of Finance and Economic Cooperation (Chairperson), Minister of Ministry of Agriculture and Natural Resources, With the Rank of Minister-Chief of Macroeconomic Planning, Effectiveness, Follow-up and Support, Commissioner of National Plan Commission, Director of Ethiopian Development Research Institute and Governor of the National Bank of Ethiopia. The Vice Governor for Financial Institutions Supervision will serve as a Secretary to National Council for Financial Inclusion.

### **ii. National Financial Inclusion Steering Committee**

22. The National Financial Inclusion Steering Committee provides advice and support to the National Council for Financial Inclusion. The committee is chaired by the Vice Governor of Financial Institutions Supervision of the National Bank of Ethiopia. The Steering Committee comprises deputy ministers of Ministry of Finance and Economic Cooperation; Ministry of Education; Ministry of Agriculture and Natural Resources; Ministry of Communication and Information Technology; Deputy Commissioner General of Federal Police, Deputy Attorney General and heads of representatives of the Ethiopian Banker's Association, the Association of Ethiopian Micro Finance Institutions; the Ethiopian Insurers Association; Ethio Telecom; and agencies including the Federal Cooperative Agency; Central Statistics Agency; the Federal Urban Job Creation & Food Security Agency; the Ethiopian Electric Power Office, the Ethiopian Electric Services,



Agricultural Transformation Agency, Development Bank of Ethiopia and Commercial Bank of Ethiopia.

23. The Steering Committee consults the National Council for Financial Inclusion on broader policy and strategic issues and on the implementation of the National Financial Inclusion Strategy; advises and supports Financial Inclusion Secretariat and other stakeholders on the implementation of the National Financial Inclusion Strategy action plans. It may set up, on a need basis, sub-committees to facilitate implementation of specific action plan measures.

#### **iii. Financial Inclusion Secretariat**

24. Financial Inclusion Secretariat is housed within the NBE and is accountable to the Vice Governor for Financial Institutions Supervision Cluster and also reports to the National Council for Financial Inclusion. The Secretariat periodically collects, assesses and disseminates information on the progress of financial inclusion in the country and coordinates, monitors and evaluates the implementation and the overall affairs of the National Financial Inclusion Strategy and produces periodic reports and performs other duties as instructed by the National Council and the Steering Committee.

#### **iv. The National Bank of Ethiopia**

25. Financial Inclusion Secretariat is structured and housed within the National Bank of Ethiopia and working under the direct command of the Vice Governor for Financial Institutions Supervision Cluster. In this regard, the Vice Governor creates the chain of command and links Financial Inclusion Secretariat with that of the National Council for Financial Inclusion and the National Financial Inclusion Steering Committee as he served secretary and chairman to the latter respectively.

#### **G) Monitoring and Evaluation System**

26. The monitoring and evaluation system will track the progress of the National Financial Inclusion Strategy Action Plan implementation and takes steps to measure the impact of the actions through financial inclusion indicators. The system will be comprised of 3

elements: i) a results framework; ii) robust data infrastructure; and iii) the monitoring and evaluation implementation mechanism.

27. A tracking methodology will be used to report monitoring and evaluation findings periodically and highlight deviations from the National Financial Inclusion Strategy targets and Action Plan so that corrective actions can be timely adopted. The framework and tracking methodology will include (i) data consolidation; (ii) tracking and monitoring; and (iii) reporting. Financial Inclusion Secretariat will coordinate and consolidate data from a variety of sources, in coordination with the National Financial Inclusion Strategy implementing stakeholders. Financial Inclusion Secretariat will report to the National Financial Inclusion Strategy coordination structure on a periodic basis, such as through quarterly performance reports. Similarly, the Secretariat will produce an annual national financial inclusion report, program level and component data.
28. Key National Financial Inclusion Strategy stakeholders have been identified and their roles and responsibilities have been assorted under Annex F. In addition, various financial inclusion initiatives that have been undergoing in a scattered manner have been summarized and presented in Annex G. They are subject to coordination by Financial Inclusion Secretariat and follow up will be carried out on their performance in accordance with the framework for the National Financial Inclusion Strategy.

**Over the past decade, Ethiopia has substantially progressed towards rapid, broad based and equitable economic growth.** Ethiopia is one of Africa's fastest growing economies and experienced gross domestic product growth averaging 10.1% per year between 2011 and 2014. Extreme poverty fell from 44% in 2000 to 23% by June 2015. Throughout this period of economic development, Ethiopia maintained low level of inequality and greatly improved social wellbeing. For instance, life expectancy increased from 55 to 65 years between 2003 and 2014.

**Financial inclusion is a core element in Ethiopia's path towards accelerated economic growth, greater prosperity and social development.** Financial inclusion provides and expands opportunities for a range of micro, small and medium enterprises and households to become economically empowered and self-reliant over time. Access to finance contributes to reducing poverty and income inequality by promoting job creation in the private sector and helping households better manage their finances through the use of more efficient and better-designed financial instruments that meet their needs.

**Sustained, prudent, and responsible financial inclusion contributes to financial and monetary stability and integrity:** it enhances the transmission of monetary policy, broadens the banks' deposit base and brings previously untraceable cash-based transactions into the regulated financial sector. It is needed to successfully achieve the two overarching goals of the Growth and Transformation Plan 2015/16-2019/20: increasing domestic savings and increasing jobs by fostering a vibrant productive sector (which is in part achieved through a greater range of financing instruments to micro, small and medium enterprises and smallholders). These two tracks of financial inclusion (savings mobilization and greater financing to foster job creation) will support Ethiopia's transformation from an agricultural economy to an industrial economy and provides background for the National Financial Inclusion Strategy.

## ETHIOPIA IS ONE OF AFRICA'S FASTEST GROWING ECONOMIES



Source: Central Statistics Agency 2011 & 2015

While the Government of Ethiopia and the private sector have taken great strides to develop an inclusive financial sector, much of the adult population remains without access to regulated financial services. According to supply side data there were 19.3million bank accounts and 11.4million micro finance institutions accounts totaling 30.7million transaction accounts as of March 31, 2016<sup>1</sup>. This resulted in around 68 transaction accounts per 100 adults (using an estimate of 45million adults 18 years of age and over). Furthermore, there were approximately 0.8million insurance policies in the country as of March 31, 2016.



Source: NBE

<sup>1</sup>The number of accounts held by members of SACCOs, which is estimated to be around 1.8million was not computed in this figure, but will be considered for purposes of monitoring and follow-up of financial inclusion levels, as data about that sector becomes more reliable.

**Measuring financial access requires both supply and demand side data to provide a comprehensive picture.** The Central Statistics Agency is currently developing a demand side financial access module that will provide relevant financial inclusion data by late 2016. Since demand side data is constructed using outcomes of individual interviews within a representative sample of the country's population, Central Statistics Agency data may differ or show lower results than the supply side data mentioned above. Despite differences in estimation, supply side (number of accounts divided by adult population) data shows clear opportunity for fostering financial inclusion in Ethiopia.<sup>2</sup>

**This National Financial Inclusion Strategy creates a cogent, unique framework for advancing, accelerating and effectively monitoring efforts to advance financial inclusion in Ethiopia.** The analysis of the current status (section 2) and an overarching framework for action (section 5) help set headline targets (section 6) and a time-bound Action Plan for the period of 2016-2020 (Annex D). The National Financial Inclusion Strategy will ensure strong commitment, stakeholder accountability (Annex F: National Financial Inclusion Strategy Key Stakeholders and their Roles), and effective implementation by setting a national coordination and implementation structure (section 7). Moreover, the implementation of the National Financial Inclusion Strategy will be supported by a comprehensive monitoring and evaluation system (section 8). Through effective monitoring and evaluation, stakeholders can propose adjustment to the National Financial Inclusion Strategy action plan, identify and provide timely solutions to bottlenecks, and facilitate engagement among key counterparts. Targets and Action Plan measures within this National Financial Inclusion Strategy are also subject to a mid-term review.

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<sup>2</sup>This National Financial Inclusion Strategy uses Findex survey of 2014 of the World Bank to approximate demand side data and cross-country comparisons. According to the survey, 22% of Ethiopian adults (+15 years of age) reported owning an account at regulated financial services providers. The survey also indicated that the margin of error is around 3.7% and defines an adult as being 15 years of age or older (contrary to Ethiopia's definition of an adult as 18 years of age or older). Moreover, the sample size is limited only to 1004 adults. In view of these, the survey has clear pitfalls to reflect and represent the current realities on the ground. Due to the absence of alternative information, however, the National Financial Inclusion Strategy uses the findings of the survey as indicators to compare the Ethiopian financial inclusion status with peer countries and against international standards.



### 2.1 Overview of the Financial Sector

**The financial sector has been expanding substantially.** As of March 2016, 18 banks (of which 16 are private and 2 are state-owned with one development bank), 17 insurance companies (of which 16 are private and 1 is state-owned), 35 micro finance institutions, and 5 capital goods finance companies operated in Ethiopia. In line with international trends, there is a growing though still nascent digital financial services industry. According to the Federal Cooperative Agency there are approximately 18,000 savings and credit cooperatives spread throughout the country (mostly in rural settings). Capital markets are at a nascent stage mainly transacting treasury bills and government bonds. Leasing is beginning to develop and receiving significant support from the Government of Ethiopia. Although the share of privately owned institutions has grown, the majority of access points to the financial sector (section 2.3.2.1) remain concentrated with the Commercial Bank of Ethiopia.

### 2.2 Financial Inclusion of Individuals and Micro, Small and Medium Enterprises in Ethiopia

**There is a clear need to improve the levels of account ownership in Ethiopia. Similar to other countries in Sub-Saharan Africa, uptake and usage of a diverse range of regulated financial services (e.g., savings, credit, insurance, electronic payments) is low.** Many adults and MSMEs do not use regulated financial institutions to conduct a range of daily transactions, to expand or run their businesses, or manage their financial lives. According to Findex 2014, 30% of banked adults (15+) reported that they had not made any deposits or withdrawals within the past year. Approximately 44% of adults (15+) reported that they borrowed money in some form within the last year, but 7% reported borrowing from a financial institution. From the supply side, data shows only 9.6 loan accounts per 100 adults (18+). In terms of saving, 48% of adults (15+) reported that they saved or set money aside, but only 14% reported saving at a financial institution. While Central Statistics Agency data will confirm, there is evidence of the limited use of transaction accounts (e.g., store of value accounts at regulated financial institutions, including savings and checking accounts)

implying that suitable financial products may not be reaching the majority of the population for varied reasons.

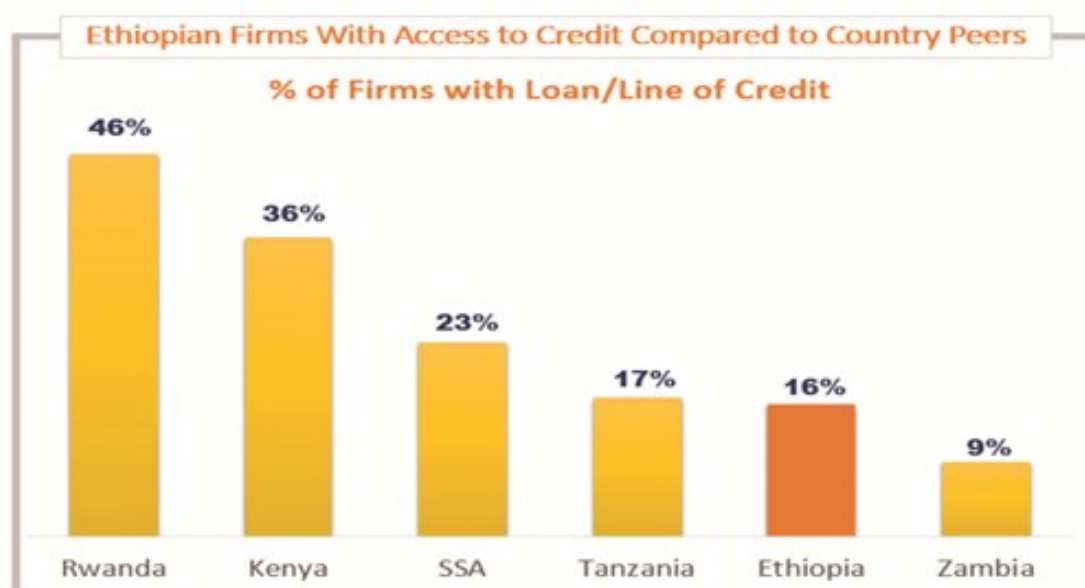
**Limited access to and usage of regulated financial services does not mean that Ethiopians are not using financial tools to manage their lives.** Ethiopians use a range of basic and informal financial services (i.e. through friends, family, groups or unregulated providers). According to the Findex 2014 survey, approximately 56% of adults (15+) reported not owning an account but either saving, borrowing or insuring themselves against risks through informal means. This represents a huge potential market of approximately 25 million adults that are experienced with financial services (albeit informally) and likely to see the benefit of upgrading to better tailored, more efficient, cheaper and/or safer services provided by regulated financial institutions.

**Rural households' makeup a large portion of the potential market for regulated financial services.** According to Findex 2014, approximately 48% of adults who live in rural areas reported either saving or putting money aside. It is believed that the majority of rural households save in cash instead of using banks, micro finance institutions or saving and credit cooperatives. There is opportunity to leverage strong savings culture by offering an appropriate range of suitable services linked to transaction accounts.

**Account ownership among small and medium enterprises is high but has not translated into access to credit, loans or leasing.** According to the World Bank Group's Enterprise Survey 2011, 94.7% of all firms (92.9% of small firms; 95.5% of medium firms and 99% of large firms) in Ethiopia have a checking or savings account. However, 33% of all firms identify access to finance as the biggest obstacle to their business, and only 15.8% reported having a bank loan or line of credit. In comparison, 92% of Kenyan firms own a checking or savings account, 36% of firms own a loan or line of credit (including 30% of small firms) and only 10% of firms cite access to finance as their main constraint to business. Economic growth can be spurred by a stronger offering of regulated and more suitable financing instruments to MSMEs in Ethiopia.



Formal definition of micro, small and medium enterprises varies from institution to institution. But, differentiating between micro, small and medium enterprises is important in order to track financial inclusion and progress towards GTP II targets. Definitions used in the Enterprise Survey 2011 differ from the definition of micro and small enterprises used in the Ethiopian Micro and Small Enterprises Development Strategy<sup>3</sup>. The survey defines small, medium and large firms as having 5-19, 20-99, and 100+ workers, respectively. The Small Enterprises Development Strategy defines micro and small enterprises as having 0-5 and 6-30 employees, respectively, and also applies total assets as an additional parameter. Despite the incompatibility of the definitions offered by Enterprise Survey and the Small Enterprises Development Strategy, the survey data is used in this National Financial Inclusion Strategy as reference to allow for international comparisons and benchmarking. At the national level, developing a definition for MSMEs allows for better tracking of SME targets and financing.

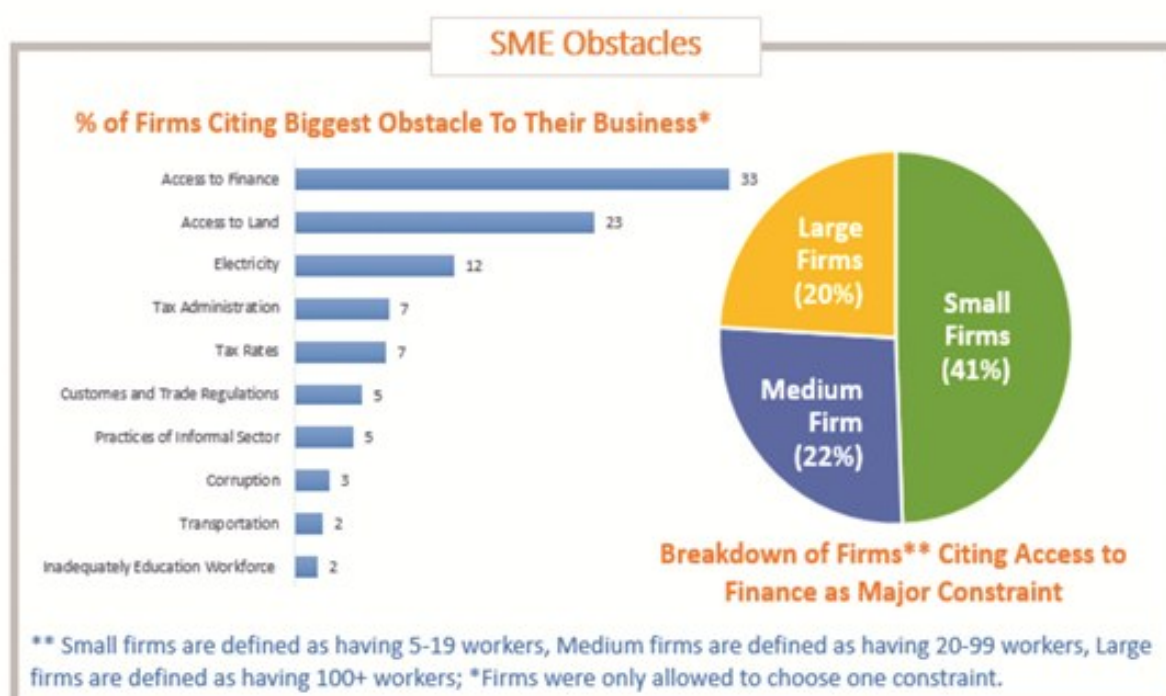


**Source:** WBG's Enterprise Survey 2011

**Small firms face greater constraints when accessing credit than micro, medium or large firms.** According to the International Finance Corporation Finance Gap Database, 38% of micro, small and medium enterprises reported needing financing but did not have access to

<sup>3</sup> SME Development Strategy 2011, FMSEDA

a loan or line of credit, and 14% of micro, small and medium enterprises that owned a loan or line of credit still reported access to financing as a constraint for business. Since micro finance institutions traditionally cater to micro-enterprises and banks cater to better-established or larger enterprises, small enterprises are often under served: only 3% of small firms in Ethiopia (compared to 18% in Sub-Saharan Africa) have a loan or line of credit and 41% of small firms cite lack of access to finance as a constraint for business (compared to 22% of medium firms).<sup>4</sup>This gap in financing is often referred to as the “missing middle”. According to a WBG study,<sup>5</sup>88% of small firms reported that their loan application was rejected as compared to 57% of micro-enterprises, which may indicate the need for financing services better tailored to the SME market.



**Source:** WBG’s Enterprise Survey 2011

**Low usage of regulated financial services has many causes and implications that are both varied and intertwined.** For instance, lack of familiarity and trust may both cause and result in limited use of services within the financial sector by both individuals and MSMEs. Similarly, lack of convenient access points (e.g., branches, sub-branches, agents and other channels) limit uptake of services, which may be perceived by financial institutions as weak

<sup>4</sup>Enterprise Survey 2011.

<sup>5</sup> World Bank Group. *SME Finance in Ethiopia: Addressing the Missing Middle Challenge*. 2015.

demand, hindering investment in further developing the network of access points. Misperceptions by financial institutions may be reinforced by incomplete information about potential markets through demand side data. This National Financial Inclusion Strategy focuses on potential underlying causes of financial exclusion to inform priority measures to foster an inclusive financial sector (section 4).

## 2.3 Sectoral Analysis

### 2.3.1 Financial and Other Infrastructures

#### 2.3.1.1 Payment Infrastructures

**Modernizing payment infrastructures and ensuring interoperability are key priorities that contribute to financial inclusion.** Since 2008, the National Bank of Ethiopia has spearheaded payment system reforms in coordination with the government of Ethiopia. More specifically, the National Bank of Ethiopia created the Ethiopian Automated Transfer Systems as an integrated funds transfer and interbank settlement system.<sup>6</sup> Currently, all banks participate in Ethiopian Automated Transfer Systems and micro finance institutions may participate once their systems allow for integration. Automated teller machines (ATMs), point of sale (POS) networks and mobile money schemes mostly lack interoperability which hinders efficiency and increases costs for merchants and providers alike, resulting in a limited network of access points to serve firms and individuals throughout the country. The national payments switch, EthSwitch, when fully operational and as all banks and micro finance institutions are connected to the system, will allow for full interoperability. Finally, there is need to integrate technological service providers into the National Payment System, through improving the regulation on payment service providers in line with international practices.

An overarching framework and action plan for modernizing Ethiopia's retail payments system was developed under a National Retail Payment System Strategy. The National Retail Payment System Strategy has profound linkages with this National Financial Inclusion Strategy as it promotes access to transaction accounts and fosters a balance between competition and cooperation, access (physical and remote) and affordability.

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<sup>6</sup> The EATS is a modular system comprising of a real time gross settlement system (RTGS) and an automated clearinghouse (ACH).

### 2.3.1.2 Credit Infrastructure

**There is room to improve Ethiopia’s credit infrastructure to foster financial inclusion and responsible lending that supports financial stability.** Responsible lending, including the assessment of a borrower’s creditworthiness, helps to ensure that the expansion of access to credit does not jeopardize financial stability and consumer protection. In 2012, the NBE developed the directive for the Establishment and Operation of a Credit Reference Bureau to build adequate, timely and reliable credit information on borrowers and ensure that banks take prudent lending decisions. Currently, the Credit Reference Bureau is housed at the NBE and collects data from 18 licensed banks. However, the Credit Reference Bureau does not include saving and credit cooperatives, micro finance institutions and leasing companies. Overall, the Credit Reference Bureau covers only 0.2% of Ethiopian adults, compared to 5.7% in Mozambique, 71.9% in Mauritius, and 14% in Ghana.<sup>7</sup>

**The legal, regulatory and institutional infrastructure for creditor rights and the use of movable collaterals could be strengthened.** A strong legal, regulatory and institutional framework for protecting creditor and debtor’s rights and for enabling the use of alternative collateral for micro, small and medium enterprises financing can further foster job creation and financial inclusion in Ethiopia. There is need to evaluate measures to align such infrastructure to international best practices, including the introduction of a unified legal framework for secured transactions to enable the creation, publicity, and enforcement of security interests in movable assets.<sup>8</sup> The efficacy of the current foreclosure regime can be improved by ensuring secured creditors are paid first in the case of default or business liquidation, and by providing clear grounds for relief and instituting time limits. Evaluating whether there are inefficiencies in the enforcement of contracts and the overall secured transactions framework would be in order.

### 2.3.1.3 Other Infrastructure

**Mobile penetration in Ethiopia is low when compared to country peers, but strides have been taken to improve access to mobile telecommunications and Internet services.** There

<sup>7</sup> WBG’s Doing Business 2014.

<sup>8</sup> Some types of assets (e.g., machinery) that could be used as movable collaterals are registered at the Ministry of Transport, but a collateral registry that could advance MSME finance would be an electronic one, accessible for several types of lenders, and that would cover several types of assets.

are approximately 48million mobile phone subscriptions and 9.6million Internet subscriptions in Ethiopia. Mobile telecommunications cover only 43.9% of the population. Comparatively, a study shows that mobile phones have reached around 60% of the population in Africa in 2012.<sup>9</sup> Mobile communications infrastructure is projected to massively improve and government of Ethiopia is committed to increase coverage to 100% by 2019/2020. However, low level of service reliability is a major obstacle for the offer and uptake of electronic financial transactions. Through the National Financial Inclusion Strategy coordination and implementation mechanism (section 7) the NBE, the Ministry of Communication and Information Technology and Ethio-Telecom may ensure improvements to support financial inclusion.

In November 2012, the government of Ethiopia enacted a proclamation for the issuance of new national ID cards that will include biometrics (e.g., fingerprint). A good national ID system supports financial inclusion, strengthens reliability of the Credit Reference Bureau, facilitates monitoring of financial inclusion indicators and facilitates know your customer (KYC) requirements.

**Quality basic public services – in particular electricity– are key to support safe and sustained financial inclusion.** Although the country’s network of paved roads has been increasing considerably spurred by fast economic growth and the Universal Rural Road Access Program, unreliable or absent electricity services are a major barrier to providing financial services in certain areas. In fact, high connectivity downtime (30-40%), of which 80% is caused by power outages, is an obstacle for adoption of automatic teller machines and point of sale (POS) and this may affect the trust that consumers have in electronic payments instruments such as debit cards. Likewise, according to the Enterprise Survey 2011, 12% and 2% of small and medium enterprises identified unreliable or lacking electricity and transportation infrastructure, respectively, as major constraints. Lack of basic public services may also impact households which may otherwise be able to access financial services remotely, such as through mobile phones. The second growth and transformation plan emphasizes the need to increase not only the power generation capacity but also

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<sup>9</sup>Research ICT Africa. (2014). Understanding What is Happening in Ethiopia. A supply-and demand-side analysis of the ICT sector.

investments in sub-stations, transmission and distribution to ensure reliable services, and sets a target of 90% of the population covered by electricity by 2019/2020.

### 2.3.2 Range of Products and Access Points

#### 2.3.2.1 Access Points to the Financial Sector

**Despite significant recent improvements, the physical footprint of regulated financial institutions remains underdeveloped and concentrated in Addis Ababa.** Although the number of bank branches and sub-branches increased by 19.2% during 2015/2016 and reached 3,282 branches in March 2016, the relative number of access points to adult population is low, with only 7.3 commercial bank branches, 3.7 micro finance branches, 0.95 insurance offices, 16.3 point of sale (POS) machines and 3.6 automatic teller machines (ATMs) available per 100,000 adults. As a comparison, Mozambique had, in December 2014, 5 commercial bank branches, 9 ATMs and 95 POS per 100,000 adults<sup>10</sup>. As of March 2016, banks were operating more than 7,337 POS terminals placed with merchants, up from 3,343 in June 2015 that resulted in 119% growth. As of March 2016, ATM also experienced an increase from 1,234 terminals in June 2015 to 1,639 in March 2016 (more than 50% of which are in Addis Ababa). In addition, access points (other than saving and credit cooperatives offices) remain concentrated in Addis Ababa. Data shows that around 35% and 54% of bank and insurance branches, respectively, are in Addis Ababa. Few access points are located in Afar, Benishangul Gumz, Harari and Gambela, which have about 82 bank branches combined to serve a population of over 8 million.

**Rural areas are underserved in terms of access points, and the use of agents in such areas is limited by strict regulatory requirements.** Saving and credit cooperatives have extensive coverage in rural areas but the sector faces multiple challenges (see 2.3.2.6). The use of agents is still in its infancy, but already 11 commercial banks and 6 micro finance institutions are offering mobile financial services through agents. However, hiring agents has proved difficult, as commercial activities in rural areas are often not formal businesses and therefore cannot comply with the minimum qualifications set by regulation.

<sup>10</sup>Mozambique's National Financial Inclusion Strategy as presented in the public consultation workshop in Maputo, July 17, 2015.

**Limited technological capacity of banks and micro finance institutions constrain the supply of efficient electronic payments services.** While banks and micro finance institutions continue upgrading their technology platforms, many bank and micro finance institutions branches are still not connected online to the core banking systems. This limits the range of services that are offered in certain branches, particularly in rural areas. In fact, consultations with the banking industry indicate that there may be a significant number of branches which mainly collect deposits and provide limited other service. The MFI sector is particularly constrained by weak management information systems, which limit their ability to operate in a cost-effective manner and invest in innovation and expansion. Therefore, it is paramount to increase capacity and improve MIS in banks and micro finance institutions so that they can fully use the payment infrastructures that are already in place (e.g., EATS) and provide a wider range of suitable products.

**Ethiopian Postal Service Enterprise may have an important role in financial inclusion.** It has been offering payment services such as domestic money transfers, international remittances, and payment of pension benefits on behalf of the Social Security Agency. Due to its extensive network of offices spread throughout the country, including within rural areas, Ethiopian Postal Service Enterprise can contribute to financial inclusion by expanding the geographic reach of the financial sector. For instance, it could act as agent of regulated financial institutions. However, there does not yet exist a mapping of postal offices or detailed information on Ethiopian Postal Service Enterprise capability (e.g., information systems) to link to banks, micro finance institutions and the national payment system.

**There does not exist granular information on the location of access points (Geographic Information System mapping) in Ethiopia.** This includes, for instance, the location of postal offices, saving and credit cooperative offices, mobile money agents, or Ethio-Telecom's 170 branches. Similarly, there does not yet exist a mapping of full-fledged branches and sub-branches of financial institutions that offer different services. Lack of granularity hinders evidence-based policy-making. A mapping can help provide information where investment or intervention is needed in terms of both access points and other key infrastructure (e.g., cell phone towers). For instance, a mapping of access points can be overlaid with other

factors, such as the existence of paved roads, the electricity grid, cell phone towers, or the profiles of the local population and its economic activities, to provide greater information on investment potential.

#### 2.3.2.2 Range of Products

**Despite recent positive developments in the supply of financial services, there is need for greater product diversity targeting underserved segments of the society.** Many financial institutions are not offering a diverse range of suitable services to a variety of market segments, which partly explains the wide spread use of informal financing, risk coverage and savings instruments by firms (e.g., equb, iddir). Within the financial sector, limited demand-side information (e.g., market surveys about consumer preferences and behaviors) and limited specific expertise at financial institutions (for instance, in agricultural finance and in lending using movable collaterals) affects product innovation.

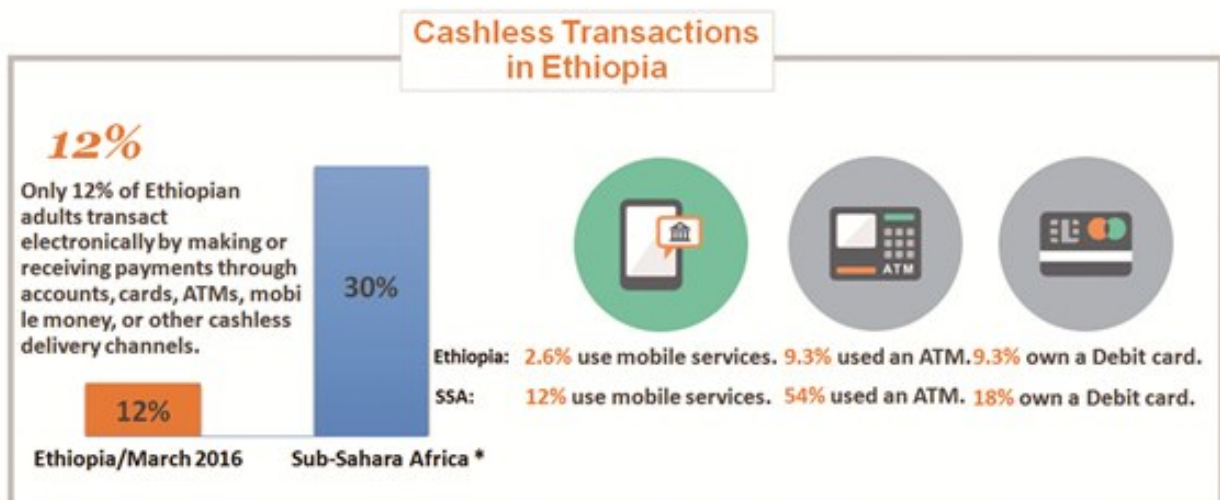
#### 2.3.2.3 Transaction accounts

**Access to a transaction account is a stepping-stone for broader financial inclusion.** According to Findex 2014, roughly 29 million adults who do not own a bank account actively save and make payments outside the regulated financial system. In total, only 6% of adults reported transacting electronically, compared to 30% in SSA. This data evidences an opportunity for offering transaction accounts as an entry door to a broader range of financial services.

**Paper-based payment instruments – cash, checks and payment orders – remain the dominant means of payment in Ethiopia.** Like many other countries, Ethiopia is a cash based society, and there is significant space for offering electronic payment instruments for individuals and firms to make their day-to-day payments, including making purchases, sending and receiving remittances, paying utility and other services, or receiving salary and wages. Large volumes of payments are made in cash or other paper-based instruments. Many legal provisions require paper-based methods for record keeping. This may delay the country's transition to electronic transaction accounts and broader financial inclusion.

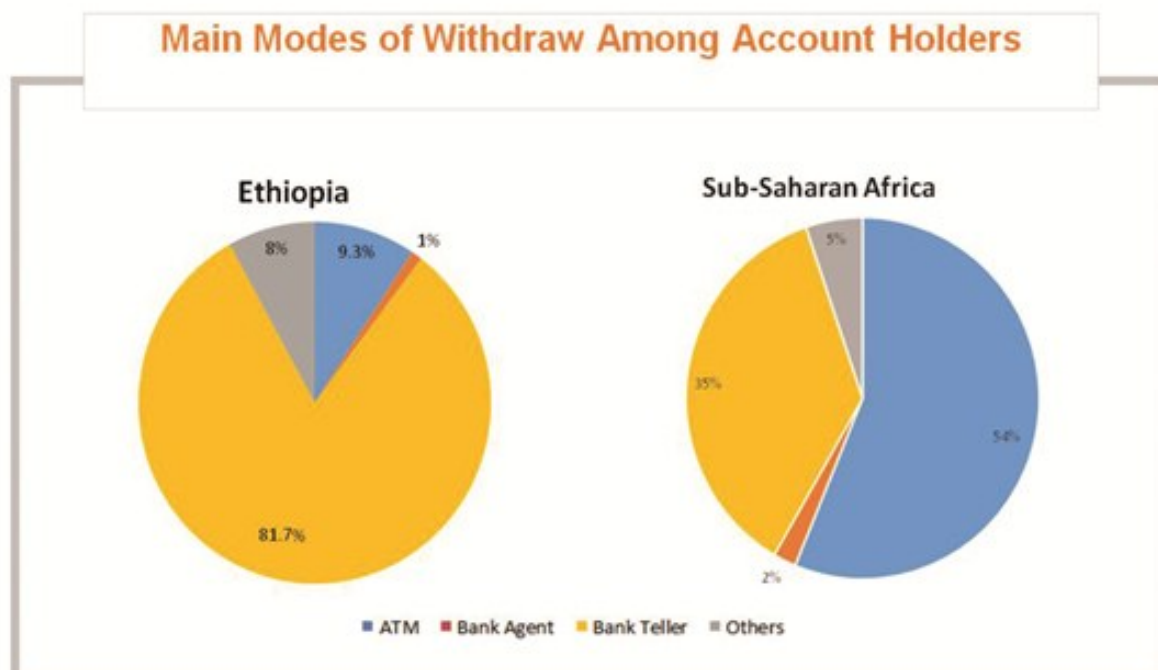


Mobile financial services are an emerging business, but the uptake is expected to grow substantially and relatively fast over the next few years. According to Findex 2014, less than 1% of adults reported using “mobile money”. However, mobile financial services are expected to pick up through partnerships between banks and micro finance institutions and technological service providers, and present a large portion of the population for relatively low cost (if the necessary mobile telecommunication and electricity infrastructures are in place). Also, a range of payment and other services (e.g., insurance) could be offered linked to mobile financial services, as it has been observed in countries like Kenya, Tanzania and Zimbabwe.



Source: \*Findex 2014

Although cash continues to dominate small payments, there has been a significant increase in the total of card accounts. Approximately 4.2 million debit cards have been deployed, as of March 2016, issued by banks (prepaid cards are issued by 2 banks only). Only a limited number of adults surveyed by Findex 2014 reported owning a debit card (there might be a number of people who have more than one card, particularly those who own more than one bank account). However, the cards are not used to their fullest extent: 83% of adults surveyed by Findex 2014 reported using a bank teller instead of using their cards in ATMs and POS. Only 9.3% of banked adults reported using an ATM as their main mode of withdrawal, as compared to 62% in Tanzania and 68% in Zambia.



*Source:* Findex 2014

There is large potential for shifting government payments – such as social transfers and other types of large volume payments (e.g., salaries) – to transaction accounts. For instance, the Productive Safety Net Program is a government transfer program that reaches over 1.5 million recipients.<sup>11</sup> The transfers are largely done in cash. Cash or paper vouchers are also used in other government transfer programs, such as agricultural transfers. The government of Ethiopia is implementing measures with the objective of automating all government payments, using transaction accounts to collect (e.g., taxes and customs duties, license and registration fees, fines, utility payments) and disburse payments (e.g., social transfers, supplier payments and salaries). Shifting government payments to electronic means signifies an opportunity to open transaction accounts to a large number of Ethiopians and firms, helping to achieve scale fast. In addition, micro finance institutions have also been piloting the use of mobile phones, biometric POS terminals and agents to distribute social payments, such as pilots under the Ethiopian Financial Inclusion Project. Likewise, the Agricultural Transformation Agency has created an e-voucher system for farmers.

<sup>11</sup>Typically the head of the household receives the payment for the entire family, which results into approximately 6.9 million PNSP beneficiaries.

#### 2.3.2.4 Savings Mobilization

**There is a strong savings culture in Ethiopia, which could be leveraged to drive adoption of regulated financial services.** While the demand side data is still pending to provide a more accurate picture, it is believed that current informal savings culture in Ethiopia is strong and it could drive adoption of regulated financial products, should they fit the needs and habits of most currently excluded segments of the society. Many urban and rural households save either in cash or in-kind (e.g., livestock). Moreover, a significant number of households are believed to use Iqub, a type of Rotating Savings and Credit Association, as their main savings mechanism.

**Greater savings mobilization by the regulated financial sector will require product tailoring and innovation, as well as convenient access points.** Ethiopians require a range of savings products that meets their financial needs and savings habits. The savings products offered today by banks, micro finance institutions and saving and credit cooperatives may not fit the population's preferences. There is an increasing body of knowledge at the international level showing that product design need to be customer-centric and take into consideration the current financial habits and cultural preferences of potential customers.

#### 2.3.2.5 Micro, Small and Medium Enterprises Finance

**While fast economic growth is driving a higher demand for credit and other financing products (e.g., leasing), the supply of tailored instruments to micro, small and medium enterprises has not kept pace.** Banks primarily cater to large firms and there is limited competition and innovation on micro, small and medium enterprises finance. Banks may perceive the micro, small and medium enterprises segment as a higher risk as compared to large enterprises and they may lack liquidity to prioritize this market. The Second Growth and Transformation Plan provides increased support for the micro, small and medium enterprises sector and to smallholders (e.g., strengthening their productivity through technology learning and investment in management information system), which could facilitate their access to regulated financial services.

**The MFI sector plays an important role in providing finance to microenterprises, but it faces a number of challenges, such as weak management information system and limited funding.** Since 2003, the micro finance institutions total loan portfolio increased by 4,000% and the number of borrowers expanded by 350%: in March 2016 there were 35 micro finance institutions with around 4.1 million active borrowers. However, micro finance institutions are mostly unable to serve small enterprises or even increase significantly their credit supplies to micro enterprises due to lack of enough loanable funds. There are no many funding opportunities. Other challenges for micro finance institutions include low operational efficiency, and weak management and information systems.

**The leasing industry is still in its infancy, although presenting great opportunity to meet financing needs of MSMEs.** NBE has authorized the operation of financing companies, which provide finance leasing and hire-purchase leasing services. The industry is in its infancy and data is still being gathered. According to a WBG study,<sup>12</sup> leasing is mostly not offered to MSMEs by banks. However, the current level of economic growth presents opportunities for the expansion of leasing, which is an important financing tool for a range of enterprise sizes in many other countries. The government of Ethiopia, through Development Bank of Ethiopia, is putting in place a major program to foster leasing.

#### 2.3.2.6 Rural and Agricultural Finance

**Although the majority of Ethiopians live and work in rural areas, most rural dwellers are unable to access and use financial products to meet their needs.** Demand for regulated financial services in rural areas is estimated to be high and largely untapped. Agriculture contributes to 38.7% of the GDP and 85% of employment but received only 11.7% and 9.3% of the total loan portfolio to private sector by commercial banks and micro finance institutions, respectively, as of March 2016. Despite the emphasis given by GTP II to smallholders, there is no an appropriate range of financial services targeting them, including micro savings (e.g., savings for old age, or pensions), insurance, payments, and credit. Informal savings could be better protected if suitable products and incentives were offered

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<sup>12</sup> SME Finance in Ethiopia: Addressing the Missing Middle; World Bank.

to smallholders, which would help modernize agriculture and the rural economy more broadly.

**Many Ethiopians are members of saving and credit cooperatives, but latter face weaknesses that limit their potential.** Saving and credit cooperatives could present an opportunity for increasing the outreach, range and quality of services offered to low-income Ethiopians, particularly in rural areas where they are mostly present. The sector has been supported by the Federal Cooperative Agency, which has helped the number of saving and credit cooperatives reach 18,000, with around 1.8 million members. However, weak governance and a lack of technical and management skills and systems are serious challenges facing the sector, which is reflected in the low (and declining) levels of savings mobilized through saving and credit cooperatives.

#### 2.3.2.7 Insurance and Pensions

**According to Findex 2014, many adults save for old age, housing or to cover unexpected medical expenses either by themselves, with friends, family or informal groups.** Approximately 10% of adults surveyed by Findex 2014 reported borrowing money in the previous 12 months to cover health or medical expenses and 29% reported that it is not at all possible to come up with funds in the case of an emergency. A large number of households may be facing serious financial pressure to cover medical expenses that could be covered if suitable insurance products were available. Moreover, Ethiopia's social protection scheme is still developing and does not cover all, particularly informal workers (i.e., workers who do not have a formal contract with an employer), who are the majority of the country's workforce. Supply of appropriate insurance and pension could alleviate the burden on families, provide stability and contribute to sustainable economic growth and social development.

**While the insurance sector is growing, the overwhelming majority of the population and MSMEs do not use any regulated form of insurance services.** Insurance penetration remains low (0.44% of GDP for nonlife and life insurance together), but the number of insurance companies has already reached 17. As a comparison, gross insurance premiums

represented 1.53% and 0.63% of GDP for non-life insurance, and 1.06% and 0.09% of GDP for life insurance in Kenya and Tanzania, respectively.<sup>13</sup> There has been an expansion of the insurance branch network to 426 as of March 2016, but over 54% of them are in Addis Ababa. Given that alternative channels such as agents are not used by the insurance sector, the claims payment process may be burdensome for clients in areas where there are no branches.

**Insurance product diversity is limited, and insurers are not leveraging the strong informal insurance culture in Ethiopia.** Community-based health insurance is a popular informal arrangement where community members pool payments into collective funds to cover expenses when members get sick or for funerals. It is believed that a significant proportion of rural households belong to at least one Iddir. However, regulated retail insurance lacks diversity to cover the need to protect Ethiopians against risks (it is dominated by compulsory motor insurance), and the linkages with the informal mechanisms are not explored. Only a few index-based products are offered, but easing the negative impacts of climatic conditions such as draughts would be particularly important to support the modernization of agricultural sector.

**Micro-insurance could potentially increase access to insurance and better meet the needs of a range of client segments.** Life and non-life micro-insurance could provide protection to a range of workers, farmers, low-income entrepreneurs (including women) and their families. However, there are no many product offerings beyond microcredit life insurance. In addition, people are still unable or unwilling to purchase other micro-insurance, despite very low premiums practiced in the industry. Lack of cost-effective distribution channels, burdensome claims procedures, as well as low level of awareness or trust among Ethiopians about insurance slow down uptake, and therefore, innovation.

#### 2.3.2.8 Housing Finance

**Over the last two decades, Ethiopia has introduced a more market-oriented approach to housing development.** However, it is still necessary to strengthen the housing finance

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<sup>13</sup>Global Financial Development Report 2013; World Bank.

sector. Over the last two decades, interest rates for housing loans has increased from around 4.5-7% to 8.5% by CBE and 16% by private banks, making it difficult for low-income individuals to secure a loan.<sup>14</sup> However, more recently the Commercial Bank of Ethiopia ramped up its role in the mortgage industry. The government of Ethiopia has initiated the Integrated Housing and Development Program and its sub-programs, which introduced subsidies for low cost and affordable housing for low and middle income urban residents.

### 2.3.2.9 Sharia-compliant Financial Services

**The availability of Sharia-compliant financial services is limited.** According to the Central Statistics Agency, approximately 33% of Ethiopia is Muslim, but the availability of Sharia-compliant services has not picked up. There is need to improve the data on the actual demand for these services and whether a significant proportion of Muslims exclude themselves from conventional services on the basis of their religion. Increasing the knowledge, through surveys and studies, about the demand for Sharia-compliant financial services will better inform financial institutions and regulatory reforms.

### 2.3.3 Financial Consumer Protection

**The existence of a sound financial consumer protection framework is fundamental to increasing access while maintaining trust in the system.** Consumer protection helps increase access to and usage of financial services, and the quality of those financial services. It is necessary to building trust in the regulated financial sector and thus in encouraging financial inclusion. Further, consumer protection helps ensure that expanded access benefits to consumers and the economy as a whole, and supports financial stability. While increased access can result in significant economic and societal benefits, it can be neutral or even harmful if consumers: (i) cannot exercise their rights, (ii) cannot select the financial products that suit them best; and (iii) are not protected from poor market conduct. Effective financial consumer protection is ever more important in the face of rapid innovation through the use of technology such as mobile phones. If new customers have negative experiences with electronic transactions at an early stage, it could spoil financial inclusion goals.

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<sup>14</sup> National Report on Housing and Sustainable Urban Development; Ethiopian Ministry of Urban Development, Housing and Construction.

**Whilst financial consumer protection represents an important aspect of promoting responsible access, the current regulatory and supervisory framework can still be improved.** In Ethiopia, few detailed financial consumer protection legal and regulatory provisions exist to institute standards for regulated financial institutions. There are opportunities to improve the current framework, including with regard to disclosure and transparency, interest rates and fees and charges, fair treatment of customers, product suitability, responsible lending, insurance claims settlement, and minimum standards for complaints handling mechanisms.

**The current legal framework also does not adequately cover sectors that are not regulated by the National Bank of Ethiopia such as saving and credit cooperatives.** In 2014, the Trade Competition and Consumers Protection Proclamation, which is implemented by the Trade Practice and Consumers Protection Authority, was enacted to curb anti-competitive and unfair market practices though not explicitly and fully cover the degree of focus the finance sector deserves in this respect. In addition, while the NBE can improve and enforce rules covering institutions under its regulatory scope, other institutions, such as saving and credit cooperatives, are not covered by any consumer protection and business conduct regulation and Federal Cooperatives Agency mandate is not clear in this area. There is need to undertake a comprehensive diagnostic of the legal, regulatory and supervisory framework for financial consumer protection, to identify specific measures that would need to be prioritized.

#### **2.3.4 Financial Capability**

**It is important to achieve adequate levels of financial capability for consumers to have knowledge and confidence to make better decisions and to build trust in the financial sector.** For instance, regulations requiring financial institutions to disclose key information on product terms and conditions will have limited impact on a consumer's behavior if the consumer does not understand or does not read disclosure documents. Likewise, any requirement for financial institutions to have standardized procedures for dealing with consumer complaints will be ineffective if consumers do not trust such procedures or do not



know them. Financial capability is especially important in an environment where there are high levels of innovation and use of new technologies.

**Most households, including urban households, lack information and knowledge needed to compare or uptake regulated financial products and services.** It is believed that lack or inadequacy of information about the different types of financial products available and the benefits of using regulated financial institutions is a cause for financial exclusion in Ethiopia, and the use of informal substitute mechanisms. Yet the typical Ethiopian household would make good choices if given the chance to better plan their spending.

**There are no coordinated efforts at the national level to improve financial capability and awareness about financial services and institutions.** Ethiopia has not conducted a nationally representative survey on financial capability that could inform an effective national strategy with targeted interventions in each of the potential priority segments of the population (e.g., women, youth, pensioners, etc) or micro, small and medium enterprises. The absence of a nationally articulated strategy in this matter can result in fragmented and ineffective interventions that do not necessarily support financial inclusion.



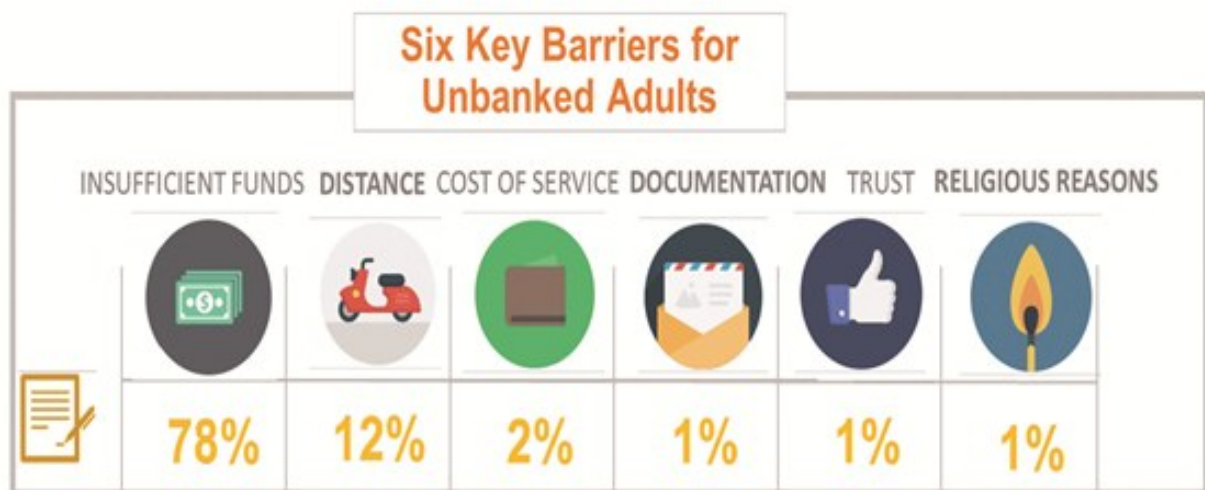
Although the financial sector has broadened its outreach in recent years, both geographically and in clientele, key challenges remain for both the demand and the supply sides. From the demand side, potential and current users face barriers such as (i) a strong perception of owning insufficient funds to use regulated financial services;(ii) long distances to access points, (iii) high costs of services through fees, interest rates, transportation costs and other; (v) burdensome documentation requirements;(v) distrust; and (vi) religious preferences.

**A large portion of unserved adults surveyed by Findex 2014 cited insufficient funds as a barrier to financial access.** 78% adults cited insufficient funds. In comparison, 41%, 51% and 55% of Kenyan, Rwandan and Zambian adults, respectively cited insufficient funds as a major constraint in Findex 2014. Since the majority of adults are saving, borrowing, insuring and making payments outside of the regulated financial sector, financial institutions may not be appropriately tailoring their products, practices or delivery channels to Ethiopians' locations, income, financial patterns and economic lives. Along with individual perceptions, the phenomena of reporting insufficient funds can also be explained by lack of awareness and other nuances. For instance, some may feel that using banks or entering a bank branch require a higher level of income than their own. There is no evidence for this assumption, but the experience of countries like Brazil, Colombia, India, Kenya and Tanzania shows that alternative delivery channels such as agents help overcome pre-conceptions about insufficient funds and reduce actual transaction and transportation costs faced by customers. Therefore, the development of innovative products and channels that are cost effective, efficient and customized will be essential in Ethiopia.

**Distance is the second most cited barrier to access by adults according to Findex 2014, although Ethiopia fares better than country peers.** Approximately 12% of adults cited distance to a regulated financial service provider as a major barrier as compared to 27% of Sub-Saharan African adults. In fact, many Ethiopians may be using informal services due to

proximity when compared to the access points offered by regulated financial institutions. This emphasizes the importance of ubiquitous, diverse (i.e., branch and non-branch, physical and remote) and convenient access points in rural and urban areas.

Still according to Findex 2014, other factors were less often cited as barriers to use regulated financial services. Only 2% of adults mentioned that cost of services act as a barrier, while only 1% sees lack of documentation, distrust or religion as reasons for not using regulated financial services. However, high reporting of insufficient funds could possibly encompass other factors that were less often cited as barriers, including direct costs (fees and charges), as well as religious reasons, lack of knowledge of the location of access points, and inability to comply with account opening requirements.



Source: Findex 2014

**Barriers faced by adults and micro, small and medium enterprises (the demand side) also reflect the obstacles faced by financial services providers (the supply side).** For instance, lack of credit infrastructure (e.g., high quality credit information) may cause banks to require high-value collateral which most micro, small and medium enterprises do not have, thus limiting micro, small and medium enterprises opportunities in accessing appropriate financing tools. Stringent collateral requirements may also be caused by the poor quality of financial statements by micro, small and medium enterprises, high levels of informality, and poor business management practices by micro, small and medium enterprises.

**The underlying causes of financial exclusion that result in barriers for the demand side (adults and micro, small and medium enterprises) and obstacles for the supply side (regulated financial institutions) can be grouped into four areas:**

#### **4.1 Underdeveloped (Financial and Other) Infrastructure**

Infrastructure refers to financial sector infrastructure (payments and credit) and, very importantly, basic infrastructure such as telecommunications and electricity. Underdeveloped infrastructure (e.g., frequent power outages interrupting mobile telecommunications) hinders the use of electronic channels and transactions in the financial sector. As per payment infrastructures, lack of interoperability adversely affects efficiency and slows down financial inclusion. Issues related to underdeveloped infrastructure include regulatory and institutional issues, as well as aspects outside the scope of the financial regulator such as informality and managerial capacity at micro, small and medium enterprises, as well as a national ID system.

#### **4.2 Inadequate Supply of a Range of Suitable Financial Products, Services and Access Points**

**Limited supply of a range of adequate financial products, services and access points asks for the development of enabling regulatory frameworks to spur product innovation and diversity, and the improvement of the capacity of financial institutions to develop and**

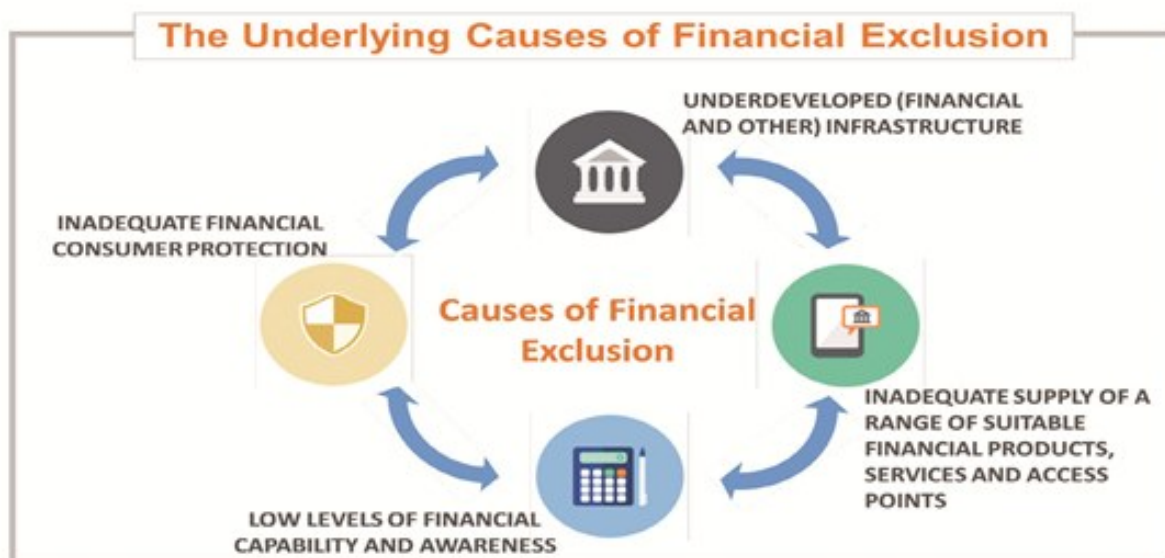
**manage a range of products and types of access points.** For instance, it includes the need for an improved agent regulation, tiered know your customer (KYC) regulatory framework, clear and enabling regulations for emerging sectors such as leasing, as well as good capacity for NBE to assess potential risks when approving new product offerings. The limited capacity of financial institutions to offer a range of suitable products and services is an important issue.

#### 4.3 Inadequate Financial Consumer Protection

Inadequate financial consumer protection includes regulation and supervision for financial consumer protection; organizational culture towards consumers, internal capacity and business conduct of financial institutions; and the national institutional set up for dispute resolution in the financial sector, including in the saving and credit cooperatives sector.

#### 4.4 Low-Levels of Financial Capability and Awareness

This includes the potential limited knowledge and awareness of the adult population about the regulated financial sector and limited levels of financial capability. It is necessary to conduct a national survey to gauge more precisely the current levels of financial capability in Ethiopia, with the purpose of designing a national strategy to coordinate effective priority measures to increase financial capability levels over time.



Addressing the above underlying causes is at the core of the development path proposed in this National Financial Inclusion Strategy next section and reflected in Annex D: National Financial Inclusion Strategy Action Plan.

### 5.1 Vision and Mission for Financial Inclusion in Ethiopia

In order to achieve the complementary goals of savings mobilization, job creation, systemic stability and integrity, financial inclusion needs to provide access to a range of suitable financial products, services and access points. The GTP II prioritizes the modernization of Ethiopia's economy through growing investments and productivity, which ultimately results in sustained job creation. The financial sector has a key role to play, by mobilizing currently informal savings into the regulated financial sector and providing MSME financing. Diverse, competitive and innovative products, services and access points will lead to healthy financial inclusion – i.e., one that meets the needs of customers and benefits from adequate consumer protection and minimum levels of financial capability that provide the skills, knowledge and confidence for customers to select and utilize products that best suit their needs. In that manner, healthy inclusion fosters financial and monetary stability, which are key for economic progress and poverty reduction in the long run. The Government of Ethiopia, therefore, has set the following vision, mission and strategies to lead the country towards universal financial inclusion and usage.

#### 5.1.1 Vision

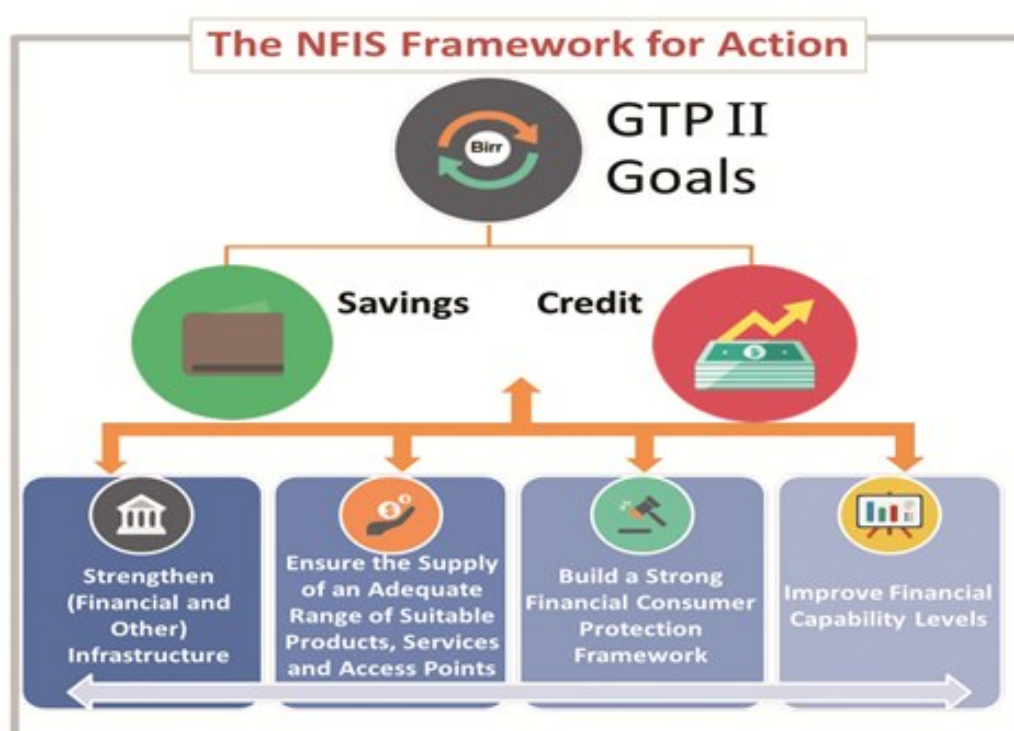
Achieving universal access to and use of range of affordable and high-quality financial products and services by 2025.

#### 5.1.2 Mission

Promote access and use of a range of suitable (quality and affordable) financial products and services provided by regulated financial institutions by all individuals and enterprises, through innovative and convenient channels, to promote economic growth, poverty reduction, and financial stability.

## 5.2 Main Strategies

Overcoming longstanding, emerging and future barriers to financial inclusion requires a framework for strategic actions that supports interrelated and reinforcing transformations. The path to Ethiopia's vision of financial inclusion requires set of priority strategic actions to address the underlying causes of financial exclusion. Each area is critical yet not sufficient individually. It is also relevant that this framework for action is not developed in isolation; rather, it is supported by a range of parallel programs, including actions in the GTP II that are not linked directly to the financial sector.



Although existing initiatives aim at accelerating financial inclusion, a greater range of coordinated measures are needed and laid out in this National Financial Inclusion Strategy. Current major initiatives to improve financial inclusion are listed in Annex G: Main Current Financial Inclusion Initiatives. In order to achieve the vision of financial inclusion, the main strategies are presented below and actions for further work are detailed in Annex D: National Financial Inclusion Strategy Action Plan (grouped according to the 4 underlying causes to exclusion).



### 5.2.1 Strategy 1: Strengthen (Financial and Other) Infrastructure

In order to enable the emergence of a range of suitable products and services delivered through diverse and ubiquitous access points, strong financial and non-financial infrastructure need to be in place. The National Financial Inclusion Strategy Action Plan designates measures to strengthen both the payments and the credit infrastructure, while emphasizing the need to improve basic public infrastructure – most importantly telecommunications, electricity and the ID system– to support financial inclusion.

#### 5.2.1.1 Payment Infrastructures

A precondition for a fully inclusive financial sector is to build good “roads” for the delivery of a range of financial products and services, through modern payment infrastructures. Payment infrastructures enable financial inclusion by facilitating the emergence of products and services (e.g., savings, remittances, government transfers) that are delivered through cost-effective channels (e.g., mobile phones, internet). Strengthening the NPS will allow, over time, the shift from a cash-based society to electronic transaction accounts, which could spur adoption of a broader range of suitable financial products and services. Thus priority will be given to further broaden the electronic networks of individual banks and microfinance institutions and ensure interoperability. To this end, the network of banks and microfinance institutions will be:

- i. further modernized, if necessary, by continuously improving their core banking systems to ensure speed, quality and availability;
- ii. expanded to all areas of the country by connecting all their branches and agents to their system;
- iii. connected through an efficient inter-bank clearing and settlement infrastructure; and
- iv. interoperable by connecting all their payment terminals to central switch system.

#### 5.2.1.2 Credit Infrastructure

**Improving the credit infrastructure is needed to extend eligibility to finance to individuals and MSMEs, foster good credit risk management and product innovation.** Responsible lending is key to help ensure financial inclusion efforts do not generate instability. A

comprehensive review of the relevant infrastructure, including the legal and regulatory framework for secured transactions needs to be conducted including the feasibility to establish an electronic collateral registry. It is also important to improve the Credit Reference Bureau's data quality, breadth and quantity against international best practices.

#### 5.2.1.3 Legal and Regulatory Framework

Digitalization of payments is critical for expansion of financial services and usage. Thus the current payment and settlement legal and regulatory framework will be reviewed so as to promote digitalization of payments. Priority actions for the National Financial Inclusion Strategy include reviewing the role, regulation and oversight of technological service providers, given their potential to facilitate adoption of transaction accounts and the emergence of convenient and ubiquitous access points. In addition, a review of the laws and regulations pertaining to information and communication technologies will ensure that there are no relevant obstacles for the massive deployment of mobile phones, ATMs and POS. Furthermore, regulations on agent banking and branches and sub-branches expansion will be explored to ensure that there are no remaining obstacles.

#### 5.2.1.4 Telecommunication and Electricity

**Intensive use of technology is a major driving force in financial inclusion globally. So it is fundamental to improve telecommunications and electricity services.** Inter-agency coordination will be pursued to align policies of financial and non-financial sectors to support financial inclusion.

#### 5.2.1.5 Financial Inclusion Database

**Ethiopia will strive to improve the financial inclusion data infrastructure through coordination between the public and the private sector.** For instance, it is key that Ethiopia creates its own demand side periodic survey on financial inclusion, taking advantage of Central Statistics Agency current surveys and expertise. The National Bank of Ethiopia, Agricultural Transformation Agency, and Federal Cooperatives Agency will also have pivotal roles in improving and collecting financial inclusion supply-side data, through new data collection methods. Moreover, to improve data on MSME finance, a definition of micro,

small and medium enterprises will need to be articulated at the national level. Also, creating a Geographic Information System (GIS) map that crosses data on the location of cell phone towers and other data on financial sector access points helps to prioritize investments in new access points.

#### **5.2.1.6 National Identification Card**

Implementation of new national ID system will help to improve customers due diligence (CDD), facilitate and reduce costs and risks of account opening. Therefore, efforts will be necessary to accelerate and complete the roll out of the new national ID system.

### **5.2.2 Strategy 2 Ensure the Supply of an Adequate Range of Suitable Products, Services and Access Points**

#### **5.2.2.1 Access Points**

**It is crucial to build a nation-wide network of convenient, diverse, ubiquitous and interoperable access points to the financial sector** that reduces costs for financial institutions, merchants (e.g., retail establishments where people make purchases, such as pharmacies) and customers alike. In particular, the use of agents (i.e., third-party establishments, such as merchants, serving as an outlet to distribute financial products) has shown in other countries to be a powerful instrument to make people more comfortable with the regulated financial sector, and increase convenience through flexible business hours and greater proximity when compared to bank branches. Thus, efforts will be made to expand access points by:

- i. digitalizing financial services and increasing mobile and other electronic access points; and
- ii. expanding physical proximity to financial institutions branches, sub-branches and agents.

#### **5.2.2.2 Suitable Products and Services**

**To achieve scale of transaction accounts, the National Financial Inclusion Strategy Action Plan also prioritizes the shift of large payment volumes from cash to transaction accounts.** A key measure for the adoption of regulated financial products and services will be to shift

large cash or paper-based government and private sector payments (to/from individuals and firms) to transaction accounts. A mapping of large payment flows in both the public and private sectors will kick start this effort, in parallel to pilot programs and an assessment of the alternative mechanisms to shift government and private payments to electronic channels. Such actions will help millions of Ethiopians have access to transaction accounts relatively fast.

**However, full financial inclusion goes beyond access to transaction accounts; hence there is of better capacity, by financial institutions, to design and offer suitable products and services.** Suitability (i.e., quality, safety and affordability) is crucial for Ethiopia's vision of financial inclusion, for promoting products that are tailored to the needs of a wide range of individuals and enterprises. Financial institutions need to adapt existing or devise new products and channels. The Action Plan lists a range of actions to foster product innovation in payments, savings (including pensions for old age), credit and insurance, including building capacity at financial institutions. It also asks for assessments in order to identify and address remaining obstacles in the relevant legislation and regulation. The aim is to build a sound, predictable, nondiscriminatory, and proportional legal, regulatory and supervisory framework that enables the emergence and sustainability of a range of suitable financial products and services.

**To spur savings mobilization and financing to smallholders, including rural women, the SACCO sector will require significant improvements.** To promote rural financial services, particularly agricultural finance, Ethiopia will devise options for strengthening the structure of the saving and credit cooperatives sector, based on international best practices, and supported by a series of learning events. It will be necessary to work extensively in building capacity of saving and credit cooperatives. A well-structured sector helps professionalize saving and credit cooperatives, dilute costs of investments in information systems, create economies of scale and facilitate access to funding. Federal Cooperatives Agency will also need to strengthen its capacity to oversee the saving and credit cooperatives sector.

### 5.2.3 Strategy 3: Build a Strong Financial Consumer Protection Framework

**It is necessary to build a framework that provides for effective consumer protection regulation and supervision of financial services providers.** This will enhance public confidence and trust in the financial sector, contributing to NBE's dual mandate of promoting systemic stability and laying the basis for financial inclusion. It includes, for instance, improvement and enforcement of regulations dealing with product suitability, information transparency and disclosure, responsible lending rules, marketing and advertising rules, fair collection practices and good customer service and effective mechanisms for dispute resolution. The precise nature of the reforms will result from a comprehensive diagnostic review of financial consumer protection in Ethiopia, which is the key action proposed in the Action Plan. The National Bank of Ethiopia will also need to strengthen its internal structure and capacity to take a more active role in financial consumer protection.

### 5.2.4 Strategy 4: Improve Financial Capability levels

**Higher levels of financial capability will not only help strengthen trust, but also contribute to greater awareness and responsible use of financial products and services.** Greater levels of financial capability are expected to result in improved behaviors towards financial products and services and management of one's financial life, through better understanding of risks and rewards, as well as rights and obligations. Good financial capability leads to healthy behaviors by financial consumers. The work will start with a stock taking of current capability (or literacy and education) initiatives, and a nationally representative baseline survey on financial capability, with the purpose of identifying key target segments (e.g., youth, women, smallholders, micro, small and medium enterprises) that will require differentiated initiatives. Ethiopia will develop a unified, national financial capability strategy, which collates the mechanisms to address each priority segment.



# 6

## Headline Financial Inclusion Targets for 2020

Setting objective financial inclusion targets is considered a global best practice in financial inclusion policy making. Headline targets help drive efforts and monitor progress resulting from the implementation of the measures in the National Financial Inclusion Strategy Action Plan and by exogenous factors. Given the lack of nationally owned demand side data on financial inclusion (absence of baseline demand side data), this National Financial Inclusion Strategy focuses on supply side indicators, which are complemented by some demand side indicators. These indicators are used to set 2020 targets. More demand side indicators will be used as they become available. A monitoring and evaluation system will be put in place to track progress in these headline targets, as well as in an additional set of indicators and targets (section 8 and Annex A and B: Headline Impact Indicators). All targets and indicators will be subject to a mid-term review.

The main headline target will be to increase the number of transaction accounts in banks and micro finance institutions from 68 in March 2016 to 90 per every 100 adults (18+) by the end of 2020. Furthermore, on the demand side it is also envisaged to increase adults owning transactions accounts in regulated financial institutions to 60% in 2020 (baseline to be determined by CSA survey)<sup>15</sup>.



<sup>15</sup> Baseline targets for financial inclusion from demand and supply side are different. Although demand side targets as indicated by some studies have been taken as an indicator, they will be adjusted as CSA survey result will be released.

**Additional targets for financial inclusion makeup the following indicators for access points, savings, credit, agricultural credit, micro, small and medium enterprises credit, electronic payments and insurance.** Like the headline target on access to transaction accounts, the targets on access points and products are subject to a midterm evaluation.



**Access points:** FSP Maps 2013 shows that 76.7% of Kenyans, 42% of Nigerians, and 42% of Ugandans live within 5 kilometers from a financial access point to the regulated financial sector. This National Financial Inclusion Strategy, based on the focus it gives to increasing the network of access points, sets a target of 80% of adults that report living within 5 kilometers from an access point by 2020 (baseline to be determined by CSA's financial inclusion module).



**Savings:** According to Findex 2014, 34% of adults were saving or putting money aside outside the regulated financial system and there is evidence that the majority of households save in cash. With the developments in the financial sector and the expansion of access points, the National Financial Inclusion Strategy envisions 40% of adults to have savings at a regulated financial institution by 2020. In this context, "saving" means the number of adults reporting (to a demand side survey) setting aside money for future use, either for a specific use (e.g., a wedding), or for general saving (e.g., for unforeseen expenses or loss of job).



**Credit:** Given the importance of micro, small and medium enterprises to the Ethiopian economy and employment, the National Financial Inclusion Strategy envisions increasing the proportion of micro, small and medium enterprises lending to 15% by 2020 from total credit of banks and MFIs to the private sector (baseline not available). To complement this supply side indicator, this National Financial Inclusion Strategy also proposes increasing the percent of adults reporting (to a demand side survey) having a loan at a regulated financial institution from 10% to 40% by 2020.





**Agricultural credit:** Agriculture receives only 8.5% of bank loans but contributes to 38.7% of GDP and 85% of jobs in Ethiopia. This National Financial Inclusion Strategy envisions increasing the proportion of agricultural loans to total bank credit to the private sector from 10.4% in to 15% by 2020.



**Electronic payments:** Given the importance of using transaction accounts to spur usage of a range of financial services, the National Financial Inclusion Strategy envisions increasing cashless transactions per capita more generally. According to Findex 2014, only 6% of adults reported using an electronic payment instrument (mobile services, online, POS, automatic teller machines, wire transfers, etc) in the last year. This National Financial Inclusion Strategy envisions that the percentage of adults reporting using an electronic instrument in the last 12 months will increase to 40% by 2020.



**Insurance:** The National Financial Inclusion Strategy sets a target of 5% adults reporting having an insurance policy by 2020. As reference, in 2012, only 2% of Nigerians owned an insurance product, and the country set a national target at 40% by 2020. Tanzania set a target of 25% to be achieved in 3 years (2014-2016), with a baseline of 7%. To complement this demand side indicator, the number of insurance policies per 100 adults will also be tracked over time.



# 7

## Coordination and Implementation Mechanism

To advance Financial Inclusion in Ethiopia, high-level coordination among public and private sector representatives is essential. A multilevel structure comprised of relevant authorities and actors was created to promote the effective use of technical skills and competences, and coordinate efforts of stakeholders aimed at implementing the National Financial Inclusion Strategy Action Plan. This structure comprises:

- The National Council for Financial Inclusion (NCFI)
- National Bank of Ethiopia (NBE)
- The Financial Inclusion Secretariat (FIS)
- The National Financial Inclusion Steering Committee (NFISC)
- Coordinators



## 7.1 The National Council for Financial Inclusion

**The National Council for Financial Inclusion is the policy level body, accountable to the Prime Minister, with the mission to foster financial inclusion.** Its objective is to ensure effective leadership and coordination of public and private stakeholders' efforts toward advancing financial inclusion in Ethiopia. It will also be pivotal in the implementation of actions that are outside the financial sector, such as improvements in the telecommunications and electricity services to allow expansion of electronic financial transactions. Members of the council comprise minister of Ministry of Finance and Economic Cooperation (Chairperson), Minister of Ministry of Agriculture and Natural Resources, With the Rank of Minister-Chief of Macroeconomic Planning, Effectiveness, followup and Support, Commissioner of National Plan Commission, Director of Ethiopian Development Research Institute and Governor of the National Bank of Ethiopia. The Vice Governor for Financial Institutions Supervision will serve as a Secretary to National Council for Financial Inclusion. The National Council for Financial Inclusion may invite other entities to participate on a need basis.

The National Council for Financial Inclusion has the following main responsibilities. Additional roles are also listed down under Annex F.

- Formulates the National Financial Inclusion Strategy and secures approval from the Government ;
- Secures higher level political support for the implementation of the National Financial Inclusion Strategy Action Plan;
- Sets overall policy and provide strategic direction to all stakeholders;
- Regularly monitors the National Financial Inclusion Strategy implementation progress;
- Determines and approves the production and publication of financial inclusion and accountability reports;
- Decides on measures proposed by as a result of impact evaluations;
- Clarifies policy related issues arising from implementation of the National Financial Inclusion Strategy Action Plan;

- Spearheads efforts to pass legal reforms necessary to achieve the National Financial Inclusion Strategy Action Plan; and
- Advises the GoE on the best way forward to implement the National Financial Inclusion Strategy Action Plan, as needed.

## 7.2 National Financial Inclusion Steering Committee

The National Financial Inclusion Steering Committee provides advice and support to the National Council for Financial Inclusion. The committee is chaired by the Vice Governor of Financial Institutions Supervision of the National Bank of Ethiopia. Other members of the Steering Committee comprises deputy ministers of Ministry of Finance and Economic Cooperation; Ministry of Education; Ministry of Agriculture and Natural Resources; Ministry of Communication and Information Technology; Ethio-telecom; Deputy Commissioner General of Federal Police, Deputy Attorney General and heads of representatives of the Ethiopian Banker's Association, the Association of Ethiopian Micro Finance Institutions; the Ethiopian Insurers Association; and agencies including the Federal Cooperative Agency; Central Statistics Agency; the Federal Urban Job Creation & Food Security Agency; the Ethiopian Electric Power Office, the Ethiopian Electric Services, Agricultural Transformation Agency, Development Bank of Ethiopia and Commercial Bank of Ethiopia. Other members may participate in some meetings on a need basis. Specific responsibilities include:

The National Financial Inclusion Steering Committee has the following main responsibilities. Additional roles are also listed down under Annex F.

- Consults the National Council for Financial Inclusion on broader policy, strategic issues and on the implementation of the National Financial Inclusion Strategy;
- Advises and supports Financial Inclusion Secretariat and other stakeholders on implementing the Action Plan; and
- Sets up, on a need basis, sub-committees to facilitate implementation of specific Action Plan measures.

### 7.3 Financial Inclusion Secretariat

The Financial Inclusion Secretariat is housed within the NBE and accountable to the Vice Governor for Financial Institutions Supervision Cluster and reports to the National Council for Financial Inclusion as well. It provides secretarial support to the implementation of the National Financial Inclusion Strategy and also continuously collects, assesses and disseminates information on the progress of financial inclusion in the country. Financial Inclusion Secretariat is comprised by dedicated coordinators whose responsibilities also includes coordinating and collaborating with various public and private sector stakeholders and serving as the central link between all of them. Particularly, Financial Inclusion Secretariat will call for meetings, as necessary, coordinate activities, conduct collection and evaluation of data on access and usage of financial services, monitor implementation of the National Financial Inclusion Strategy Action Plan, and perform other activities as directed by the National Council for Financial Inclusion.

Financial Inclusion Secretariat has the following main responsibilities. Additional and detail roles are also listed down under Annex F.

- Regularly takes stock of completed and ongoing Action Plan measures to monitor and report on the implementation progress;
- Receives, compiles and disseminates National Financial Inclusion Strategy progress reports;
- Sets up coordinators, plans, organizes, leads and controls their activities;
- Coordinates knowledge sharing events;
- Builds and maintains a financial inclusion information database, analyzes and disseminates financial inclusion information, including through national financial inclusion reports, as directed by the National Council for Financial Inclusion;
- Proposes to National Council for Financial Inclusion improvements in the National Financial Inclusion Strategy Action Plan or in the headline targets and indicators;
- Serves as secretary to the National Financial Inclusion Steering Committee;
- Participates in knowledge sharing events on both national and international levels and disseminates lessons to stakeholders; and

- Carries out other activities as directed and assigned by the National Council for Financial Inclusion.

#### **7.4 The National Bank of Ethiopia**

Financial Inclusion Secretariat is housed in the National Bank of Ethiopia, accountable to the Vice Governor, Financial Institutions Supervision and further reports to the National Council for Financial Inclusion. The Vice Governor for Financial Institutions Supervision Cluster also serves as a Chairperson to the Financial Inclusion Steering Committee and Secretary to the National Council for Financial Inclusion, which creates the chain of command and links of Financial Inclusion Secretariat with that of the National Council for Financial Inclusion and Financial Inclusion Steering Committee.





**A robust monitoring and evaluation (M&E) system will help identify obstacles, demonstrate results, and allocate resources during the National Financial Inclusion Strategy implementation.** In order to measure progress towards Ethiopia's vision of financial inclusion, a comprehensive M&E system that is well-resourced, well-coordinated and broadly accepted among stakeholders will be built and implemented by Financial Inclusion Secretariat, with the support of other stakeholders participating in the National Financial Inclusion Strategy coordination structure. The M&E system will track the progress of the National Financial Inclusion Strategy Action Plan implementation and take steps to measure the impact of the actions through financial inclusion indicators. The M&E system will be comprised of 3 elements: i) **a results framework**; ii) **robust data infrastructure**; and iii) **the monitoring and evaluation (M&E) implementation mechanism.**

### 8.1 The Results Framework

**The results framework includes 3 elements: a) headline impact indicators; b) program level sub-indicators; and c) component level indicators.** The headline impact indicators (Annex A and B) will measure high-level progress towards financial inclusion in Ethiopia and will be complemented with targeted impact evaluations of specific measures during the implementation of the National Financial Inclusion Strategy Action Plan. The headline impact indicators will also be analyzed alongside indicators outside the scope of the National Financial Inclusion Strategy such as population growth, economic growth and progress in education. The second element is the tracking of sub-indicators that are aligned with the headline indicators. The third element is the tracking of component level indicators, that is, the progress towards the implementation of the Action Plan. Component level indicators are often qualitative, such as passing of a certain regulation. They are monitored by Coordinators under Financial Inclusion Secretariat.

## 8.2 Data Sources

**High quality data is the foundation of a robust M&E system, with a combination of demand side and supply side sources.** The existing financial inclusion data infrastructure needs improvement, and this is a key action listed in the National Financial Inclusion Strategy Action Plan. Central Statistics Agency is currently implementing a financial inclusion module to be added to its periodic household survey, which will provide the main source of demand side financial inclusion data for Financial Inclusion Secretariat to monitor. Other agencies – mostly The National Bank of Ethiopia, but also the Agricultural Transformation Agency and Federal Cooperative Agency– will also improve their own data collection efforts. Financial Inclusion Secretariat will be responsible for consolidating all data and developing a database to facilitate analysis and dissemination.

**This National Financial Inclusion Strategy draws on a limited range of data sources.** While data for headline indicators and targets will essentially be provided by the National Bank of Ethiopia, Federal Cooperative Agency and the Central Statistics Agency, other demand and supply side data will be sourced for a complete data infrastructure. Different data sources usually yield differing numbers for related indicators, but they are complementary and when used together provide a fuller picture of financial inclusion in a country. Currently, Findex 2014 data is used as a placeholder until Central Statistics Agency demand side survey results become available.

**Table 1: Data Sources of Financial Inclusion Indicators**

Available data sources	Demand or supply side	Year of most recent data	Frequency	Responsible institution
National Bank of Ethiopia (NBE) data	Supply	March 2016	Varies	NBE
Federal Cooperative Agency (FCA) data	Supply	2015	Not defined	FCA
Central Statistics Agency (CSA) Financial Access Module	Demand	2016 (forthcoming)	Every 2 years	CSA
Financial Inclusion Secretariat (FIS)- Template	Supply	2016 (forthcoming)	Quarterly	FIS

### 8.3 Monitoring and Evaluation (M&E) Implementation Mechanism

**A tracking methodology will be used to report monitoring and evaluation findings periodically and highlight deviations from National Financial Inclusion Strategy targets and Action Plan so that corrective actions can be timely adopted.** The framework and tracking methodology will include (i) data consolidation; (ii) tracking and monitoring; and (iii) reporting. Financial Inclusion Secretariat will coordinate and consolidate data from a variety of sources, in coordination with National Financial Inclusion Strategy implementing stakeholders. For tracking the implementation of each item in the Action Plan, Financial Inclusion Secretariat will use a “traffic light system” (actions completed, on-track, off-track and at-risk). Financial Inclusion Secretariat will report to the National Financial Inclusion Strategy coordination structure on a periodic basis, such as through quarterly performance reports. Similarly, Financial Inclusion Secretariat will produce an annual national financial inclusion report, program level and component level data. The tracking methodology will also include implementation summaries and Action Plan status overviews. The monitoring and evaluation framework will have a built-in feedback loop so the Financial Inclusion Secretariat and the National Council for Financial Inclusion can make adjustments to the Action Plan as needed.

## Annex A: Headline Supply Side Impact Indicators and Targets

Supply side data indicators will be complemented with forthcoming demand side data by the CSA. Findex 2014 data is used as a placeholder for CSA data.<sup>16</sup> Hence, the impact indicators and targets below are subject to change in conjunction with a mid-term evaluation.

No.	Impact Indicator	Data source	Notes	Baseline March 2016	2020 Target	Annual Targets			
						2017	2018	2019	2020
1	# of transaction accounts per 100 adults (18+)	NBE	Aggregated by banks and MFIs. (by region/gender/institution type)	68	90	75	79	84.5	90
2	# of access points per 100,000 adults (18+)	NBE	Composite of financial institution branches, sub-branches, ATMs, POS, agents (by region)	34.5	405.1	127.2	219.9	312.6	405.1
	# of commercial bank branches per 100,000 adults			7.3	8.8	7.7	8.1	8.5	8.8
	# of MFI branches per 100,000 adults			3.4	19.6	7.4	11.4	15.4	19.6
	# of insurance branches per 100,000 adults	NBE		1	1.5	1.2	1.3	1.4	1.5
	# of POS terminals per 100,000 adults			16.3	120.4	42.3	68.3	94.3	120.4
	# of ATMs per 100,000 adults			3.6	25.4	9.1	14.6	20.1	25.4
	# of agents per 100,000 adults			2.6	229.4	59.3	116	172.7	229.4

<sup>16</sup>The Findex data does not reflect actual baseline in Ethiopia as Findex is from 2014, includes all adults over 15 years old (as opposed to 18+) and is methodologically different from the forthcoming CSA financial inclusion survey module.

3	# of savings accounts per 100 adults (18+)	NBE		58	70	61	64	67	70
4	# of credit accounts (loans and leasing) from a regulated financial institution per 100 adults	NBE	By rural/ /gender/age income/ region	9.6	40	17.2	24.8	32.4	40
5	% of MSME credit volume as a % of total bank (includes DBE) and micro finance institutions credit to private sector	NBE	Depends on forthcoming definition of MSME	5%	15%	7.5%	10%	12.5%	15%
6	Agricultural credit volume as a % of total bank (includes DBE) and micro finance institutions credit to private sector	NBE	Depends on forthcoming definition of MSME	10.4%	15%	11.6%	12.8%	13.9%	15%
7	# of insurance policies per 100 adults	NBE	By region/gender	1	5	2	3	4	5
8	Active accounts (one transaction every six months) as a % of total deposit and transaction accounts <sup>17</sup>	NBE	By gender/region)	n/a					80%

<sup>17</sup> Due to the absence of baseline targets, annual targets are not set out and will be filled when the information is available. Targets for 2012 are determined on the basis of different and relevant information.

## Annex B: Headline Demand Side Impact Indicators and Targets

No.	Impact Indicator	Data source	Notes	Baseline 2015 <sup>18</sup>	2020 Target	Annual Targets (%)				
						2016	2017	2018	2019	2020
1	% of adults (18+) that report owning a <b>transaction</b> account	CSA	Account via regulated financial institution or mobile money provider. Available by rural/gender/age/income/region	22% <sup>19</sup>	60%	25.8	34.35	42.9	51.45	60
2	% adults report living <b>within 5km</b> of a financial access point <sup>20</sup>	CSA	Composite of bank branch, MFI, ATM and agent. Available by rural/gender/age/income/region	n/a	80%					80
3	% adults (18+) that report <b>saving</b> at a regulated financial institution	CSA	Available by rural/gender/age/income/region	14%	40%	16.6	22.45	28.3	34.15	40
4	% of adults (18+) reporting owning an <b>insurance</b> product	CSA	Available by rural/gender/age/income/region	1%	5%	1.4	2.3	3.2	4.1	5
5	% of adults (18+) reporting using an <b>electronic payment</b> instrument (e.g. card, mobile, internet) in the past year	CSA	Composite of adults using a payment card, credit card, ATM, mobile or wire transfer service. Available by rural/gender/age/income/region	6%	40%	9.4	17.05	24.7	32.34	40
6	% of adults that are <b>aware of account opening</b>	CSA	Available by rural/gender/age/income/region	14	80%	20.6	35.45	50.3	65.15	80

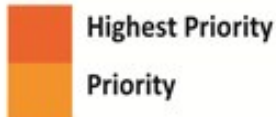
<sup>18</sup> Estimate<sup>19</sup> Findex data takes 15+ age during survey where in the case of Ethiopia below the age of 18 cannot transact as considered minor. This is recognized as shortcoming of the survey. However, the information is used as a baseline to set the 2020 target.<sup>20</sup> Due to the absence of baseline targets, annual targets are not set out and will be filled when the information is available. Targets for 2012 are determined on the basis of different and relevant information.

## Annex C: Program Level Sub-Indicators and Targets

No.	Program Level Sub-Indicator	Data source	Notes	Baseline	2020 Target
1	# of transactions via agents per capita	NBE NFSI Template	-	n/a	To be defined in the context of the National Retail Payments Strategy
2	% G2P transfers (wages and social transfers) dispersed into transaction accounts	MoFEC	(by rural/gender/age/income/region)	n/a	To be defined in the context of the National Retail Payments Strategy
3	Number of MSMEs that received loans secured with movable property	NBE	To be built only after creation of the movable collateral registry	n/a	tbd
4	Volume of financing facilitated by lenders registered in the collateral registry	NBE	-	n/a	tbd
5	% of adults covered by Credit Reference Bureau	NBE	0.04%	n/a	40%
6	% of financial institutions subject to specialized financial consumer protection regulation and supervision	NBE, FCA	-	n/a	100%

**Annex D: National Financial Inclusion Strategy Action Plan**

The actions and time line below will be further detailed in specific plans to be developed by implementing bodies and coordinated by Financial Inclusion Secretariat, which will further indicate sub-activities and month of implementation.

**National Financial Inclusion Strategy Action Plan**

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
<b>Objective 1: Strengthen (financial and non-financial) Infrastructure</b>								
<b>Payment infrastructures</b>								
1	Issue directive on operators of payment systems and issuers of payment instruments and reassess the role, regulation and oversight of technological service providers	NBE(PSSD)	Financial Infrastructure	Highest Priority				
2	Go live and connect all banks to EthSwitch	NBE, EthSwitch, Banks	Financial Infrastructure	Highest Priority				
3	Strengthen regulatory and oversight capacity at NBE on electronic retail payments	NBE (PSSD)	Financial Infrastructure	Priority	Priority	Priority	Priority	Priority
4	Review legal requirements on paper-based record keeping to remove obstacles for electronic transactions	NBE (LSD)	Financial Infrastructure		Priority	Priority		
<b>Credit infrastructure</b>								
5	Conduct a comprehensive assessment of the legal, regulatory and institutional framework for secured lending	NBE (FIS)	Financial Infrastructure	Priority	Priority			
6	Expand the current Credit Reference Bureau database and the institutions using and reporting to it (e.g.,	NBE (BSD)	Financial Infrastructure		Priority	Priority	Priority	Priority



No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
	leasing companies and micro finance institutions) and offer value-added services, such as scoring							
<b>Other infrastructure</b>								
<b>Basic infrastructure</b>								
7	Improve mobile network coverage and quality levels to support the expansion of financial inclusion	MCIT/ Ethio-telecom	Financial Infrastructure					
8	Improve national coverage and reliability of power supply in urban and rural areas to support the expansion of financial inclusion based on electronic transaction and channels	EEPO, EES	Financial Infrastructure					
9	Implement new national ID system to facilitate account opening procedures	GoE	Financial Infrastructure					
10	Enhance the expansion of ATMs, mobile phones, POS and agent banking to support financial inclusion	NBE, Banks, MFIs	Financial Infrastructure					
<b>Financial inclusion data</b>								
11	Implement new data collection mechanisms for financial inclusion data, from both the demand and the supply side	NBE (FIS), FCA, CSA, FUJFSA	Financial Infrastructure					
12	Create, at the national level, a definition of MSMEs, to improve tracking of indicators for MSME financing and goals set in the GTP II	NBE, Mol, FUJFSA, CSA	Financial Infrastructure					
13	Implement a new financial inclusion survey module to gauge financial inclusion levels from the demand side	CSA	Financial Infrastructure					
<b>MSME sector</b>								
14	Conduct a study on	EAAB	Financial					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
	instituting a simplified standardized accounting system for MSMEs		Infrastructure					
15	Improve entrepreneurship development initiatives targeting MSMEs (e.g., challenge in funding and others), and in particular women-owned enterprises, as well as to foster their linkages with the financial sector	FUJFSA, MoFEC, MWC	Financial Infrastructure					
16	Construct a GIS mapping of all types of financial sector access points	NBE (FIS)	Financial Infrastructure					
17	Review the directive on agent banking to overcome obstacles for financial institutions to use agents in rural areas	NBE (BSD, MFISD, LSD)	Financial Infrastructure					
18	Review the regulatory framework for branches and sub-branches and consider feasibility of incentives with the purpose of encouraging expansion, including in rural areas, without undue costs	NBE (BSD, MFISD)	Financial Infrastructure					
<b>Objective 2: Ensure the Supply of a Range of Suitable Products, Services and Access Points</b>								
<b>Products – Payment Services</b>								
19	Issue directive on electronic banking to support and enhance provision of services and products through digital medium	NBE (BSD, MFISD, PSSD, LSD)	Financial Products & Services					
20	Conduct a mapping exercise of large cash-based payments in the government and private sector to identify opportunities to shift to electronic payments instruments	MoFEC, NBE (PSSD), ERCA	Financial Products & Services					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
21	Conduct a series of learning events for banks and micro finance institutions and technological service providers on innovative digital financial services, to share knowledge and increase their capacity to develop sustainable business models and suitable products and services	NBE, EBA, AEMFI	Financial Products & Services/ Financial Consumer Protection and Capability					
22	Conduct an assessment against the CPMI-WBG Payment Aspects of Financial Inclusion	NBE (PSSD)	Financial Products & Services					
23	Review NBE's product authorization procedures, to spur healthy innovation	NBE (BSD, MFISD, LSD)	Financial Products & Services					
24	Conduct an assessment of alternative methods to shift government payments to electronic means	MoFEC and NBE (PSSD)	Financial Products & Services					
25	Conduct an assessment of the remittance market and its regulatory framework based on the General Principles for International Remittances	NBE (Economic Research)	Financial Products & Services					
26	Review the current KYC requirements, with the purpose of implementing a tiered account opening model to benefit the financially excluded	FIU	Financial Products & Services/ Financial Infrastructure					
27	Asses the existing professional development and qualification opportunities and training courses covering electronic payment services	NBE (PSSD), AEI, EBA, AEMFI	Financial Products & Services /Financial Consumer Protection and Capability					
<b>Products - Savings</b>								
28	Invest in and improve MIS	MFIs, AEMFI	Financial					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
	in micro finance institutions to enhance the provision of technology supported products and services.		Products & Services					
29	Identify short term and long term options to strengthen institutional and organizational capacity of the SACCO sector, based on international best practices	FCA, ATA, MoANR	Financial Products & Services					
30	Conduct a series of learning events for banks and micro finance institutions on innovative savings products to share knowledge and increase capacity to develop suitable services for the underserved segments	NBE (BSD, MFISD), EBA, AEMFI	Financial Products & Services/Financial Consumer Protection and Capability					
31	Strengthen institutional and organizational capacity of FCA to collect data on products and services and oversee the SACCO sector	FCA, MoANR	Financial Products & Services					
32	Conduct a study on the need and the adequate design of no-frills savings accounts	NBE (BSD), EBA, AEMFI	Financial Products & Services					
33	Conduct a study to devise mechanisms to link informal savings mechanisms to the regulated financial sector, as well as incentives for savings (e.g., match savings), including for rural population, and women	NBE (Economic Research), EBA, AEMFI, FCA, ATA	Financial Products & Services					
34	Assess the feasibility of legal reforms to bring currently excluded sectors (e.g., cooperatives and microenterprises) to the national pension scheme	NBE (Economic Research), MoFEC	Financial Products & Services					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
<b>Products – Credit and Leasing</b>								
35	Conduct a series of learning events for banks and micro finance institutions on innovative credit products to share knowledge and increase their capacity to develop suitable services for underserved segments, including MSMEs	NBE (BSD and MFISD), EBA, AEMFI	Financial Products & Services/Financial Consumer Protection and Capability					
36	Develop an effective risk-based regulatory framework for financial leasing, in line with international practices	NBE (MFISD)	Financial Products & Services/Financial Infrastructure					
37	Implement capacity building programs for banks and micro finance institutions to improve their capacity and expertise in dealing with the SME sector	EBA, AEMFI	Financial Products & Services/Financial Consumer Protection and Capability					
38	Conduct a survey to assess demand for Sharia-compliant financial services	NBE (BSD, MFISD and ISD), CSA	Financial Products & Services					
39	Assess the available professional development and qualification opportunities and training courses covering credit risk assessment and management activities	NBE (BSD and MFISD), AEMFI, EBA	Financial Products & Services/Financial Consumer Protection and Capability					
<b>Products - Insurance</b>								
40	Conduct a series of learning events for insurers, to share knowledge and increase capacity to develop innovative insurance products for underserved segments	NBE (ISD), EIA	Financial Products & Services/Financial Consumer Protection and Capability					
41	Create a risk-based enabling regulatory and supervisory framework for micro-insurance, based on	NBE (ISD)	Financial Products & Services/Financial					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
	an assessment of obstacles to cater the underserved segments		Infrastructure					
42	Conduct an assessment of the regulatory framework and the data infrastructure for catastrophic risk insurance, and index-based insurance	NBE (ISD), EIA	Financial Products & Services/Financial Infrastructure					
43	Conduct an assessment of the existing development and qualification opportunities and training courses covering retail insurance and micro-insurance, including group insurance	EIA, NBE (ISD)	Financial Products & Services/Financial Consumer Protection and Capability					
<b>Objective 3: Build a Strong Financial Consumer Protection Framework</b>								
44	Conduct a detailed diagnostic of the legal, regulatory, supervisory and overall institutional framework for financial consumer protection	NBE (BSD, ISD and MFISD), FCA, TPCPA	Financial Consumer Protection and Capability					
45	Improve NBE's capacity to conduct consumer protection regulation and supervision	NBE (BSD, MFISD and ISD)	Financial Consumer Protection and Capability					
46	Conduct a diagnostic to consider options for an effective dispute resolution mechanism (e.g., a financial sector ombudsman) for the financial sector.	NBE (LSD), FCA, TPCPA	Financial Consumer Protection and Capability					
<b>Objective 4: Improve Financial Capability Levels</b>								
47	Map relevant financial literacy, education and awareness initiatives	MoE, NBE (FIS), ATA, FCA, TPCPA	Financial Consumer Protection and Capability					
48	Develop and conduct a household baseline survey of financial capability to identify priority segments and best approach for	CSA, NBE (FIS), ATA, FCA	Financial Consumer Protection and Capability					

No.	Action	Main Implementing Body	Coordinating Unit at FIS	2016	2017	2018	2019	2020
	financial capability initiatives (e.g., in relation to public awareness on credit reporting, transaction accounts, account opening procedures, cost of financial services and regulated financial institutions)							
49	Develop a National Financial Capability Strategy based on the findings of the household survey, with specific initiatives targeting each priority segment (e.g., women, youth, children, smallholders)	NBE (CPCMD), FCA, MoANR, MoE	Financial Consumer Protection and Capability					

## Annex E: SWOT Analysis

The SWOT Analysis is a useful and widely used technique for understanding the Strengths and Weaknesses of a context, and for identifying the Opportunities and the Threats to a particular objective. In this case, the objective is the implementation of the National Financial Inclusion Strategy towards the achievement of full financial inclusion in Ethiopia.





## Annex F: National Financial Inclusion Strategy Key Stakeholders and Their Roles and Responsibilities

All stakeholders or participating institutions will set up a unit that effectively monitor and evaluate the execution of the institutions roles and responsibilities as specified in the table below. The Unit also serves as a point of contact for matters of financial inclusion and will have regular exchange of information with Financial Inclusion Secretariat (FIS).

No.	Stakeholders	Major Roles and Responsibilities
1.	<b><i>Government of Ethiopia</i></b>	<ul style="list-style-type: none"> <li>• Undertakes law reforms as and when necessary.</li> <li>• Implements new national ID system to facilitate account opening procedures</li> </ul>
2.	<b><i>Ministry of Finance and Economic Cooperation</i></b>	<ul style="list-style-type: none"> <li>• Make all government payments through electronic medium.</li> <li>• Conducts a mapping exercise of large cash-based payments in the government and private sector to identify opportunities to shift to electronic payments instruments</li> <li>• Mobilizes financial and technical resources from government and other development partners that could be deployed for financial inclusion activities.</li> <li>• Assesses the feasibility of legal reforms to bring currently excluded sectors (e.g., cooperatives and microenterprises) to the national pension scheme together with NBE.</li> </ul>
3.	<b><i>National Council for Financial Inclusion<sup>21</sup></i></b>	<ul style="list-style-type: none"> <li>• Coordinates initiatives, whenever necessary, across various government bodies and secures</li> </ul>

<sup>21</sup> National Council for Financial Inclusion organized by inter-ministerial committee composed of Minister of Ministry of Finance and Economic Cooperation, Minister of Ministry of Agriculture and Natural Resources, With the Rank of Minister-Chief of Macroeconomic Planning, Effectiveness, Followup and Support, Commissioner of National Plan Commission, Director of Ethiopian Development Research Institute and Governor of the National Bank of Ethiopia. The Vice Governor for Financial Institutions Supervision will serve as a Secretary to National Council for Financial Inclusion.

No.	Stakeholders	Major Roles and Responsibilities
		<p>higher level political support for implementation of National Financial Inclusion Strategy Action Plan.</p> <ul style="list-style-type: none"> <li>• Sets overall policy and provides strategic direction on the implementation of the National Financial Inclusion Strategy.</li> <li>• Takes responsibility for the implementation of the National Financial Inclusion Strategy and regularly monitor the implementation progress.</li> <li>• Approves targets and their revision in relation to the reporting and monitoring process.</li> <li>• Decides on measures proposed by Financial Inclusion Secretariat and other stakeholders on the basis of evaluations conducted by Financial Inclusion Secretariat.</li> <li>• Clarifies policy related issues affecting implementation of National Financial Inclusion Strategy Action Plan.</li> <li>• Approves proposals and reports by the Financial Inclusion Secretariat.</li> <li>• Spearheads efforts to pass legal reforms proposed by the National Financial Inclusion Strategy Action Plan.</li> <li>• Reviews any other issues related to implementation of the National Financial Inclusion Strategy as needed, with a view of advising the GoE on the best way forward.</li> <li>• Reviews and approves the National Financial Inclusion Strategy of the country.</li> <li>• Decides on and coordinates the design,</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>implementation and follow-up of financial inclusion strategy at higher political level with the aim of gaining adequate support and assistance for the effect of same.</p> <ul style="list-style-type: none"> <li>• Advises the GoE on the best way forward to implement National Financial Inclusion Strategy Action Plan, if needed.</li> </ul>
4.	<b><i>National Financial Inclusion Steering Committee<sup>22</sup></i></b>	<ul style="list-style-type: none"> <li>• Consults the development, implementation and revision of National Financial Inclusion Strategy.</li> <li>• Closely works with the National Council for Financial Inclusion and the Financial Inclusion Secretariat and gives advices and consultation appropriate for the achievement of targets for financial inclusion.</li> <li>• Advises the proper performance of financial inclusion targets, initiatives and projects and may also come up with new initiatives to further enhance the progress and implementation of the National Financial Inclusion Strategy.</li> <li>• May advice other stakeholders on implementation of the National Financial Inclusion Strategy action plan.</li> </ul>

<sup>22</sup> FISC comprises deputy ministers of Ministry of Finance and Economic Cooperation; Ministry of Education; Ministry of Agriculture and Natural Resources; Ministry of Communication and Information Technology; Deputy Commissioner General of Federal Police, Deputy Attorney General and heads of representatives of the Ethiopian Banker's Association, the Association of Ethiopian Micro Finance Institutions; the Ethiopian Insurers Association; Ethio-telecom; and agencies including the Federal Cooperative Agency; Central Statistics Agency; the Federal Urban Job Creation & Food Security Agency; the Ethiopian Electric Power Office, the Ethiopian Electric Services, Agricultural Transformation Agency, Development Bank of Ethiopia and Commercial Bank of Ethiopia.

No.	Stakeholders	Major Roles and Responsibilities
		<ul style="list-style-type: none"> <li>• Sets up, on a need basis, sub-committees to facilitate implementation of specific action plan measures.</li> </ul>
5.	<i>Financial Inclusion Secretariat</i>	<ul style="list-style-type: none"> <li>• Implements data collection mechanisms for financial inclusion, from both the demand and the supply side</li> <li>• Ensures that appropriate arrangements are made for financial inclusion data gathering, collects financial inclusion information, maintains database, and analyzes data on the overall performance of and progress of the National Financial Inclusion Strategy.</li> <li>• Sets up working groups, as the case may be, and coordinate and assess their activities.</li> <li>• Tracks, monitors and evaluates progress on National Financial Inclusion Strategy Action Plans against the targets.</li> <li>• Coordinates stakeholder activities, as outlined in the National Financial Inclusion Strategy, towards increasing Financial Inclusion.</li> <li>• Reviews and revises roles and responsibilities of stakeholders as required.</li> <li>• Liaises with and ensures that all stakeholders on financial inclusion perform their roles and responsibilities.</li> <li>• Takes regular stock of completed and ongoing financial inclusion initiatives with the objective of monitoring, evaluation and reporting of progress of the National Financial Inclusion Strategy Action Plan implementation.</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<ul style="list-style-type: none"> <li>• Coordinates different stakeholders as needed, including through knowledge sharing events.</li> <li>• Identifies possible areas of improvement in the National Financial Inclusion Strategy Action Plan or its targets and indicators and initiates necessary revisions and supports evidence based policy making.</li> <li>• Serves as secretary to the Financial Inclusion Steering Committee.</li> <li>• Participates in forums, workshops, training and knowledge sharing events concerning financial inclusion and related issues on both national and international level to share experiences, lessons and challenges.</li> <li>• Assists and coordinates the conduct of financial inclusion diagnostic study and subsequent development and implementation of national financial inclusion strategy as per the guidance of the National Financial Inclusion Steering Committee.</li> <li>• Serves as link between institutions and committees and coordinate financial inclusion activities among different stakeholders.</li> <li>• Coordinates the participation of multiple stakeholders specifically on cross cutting issues.</li> <li>• Manages financial inclusion framework structure and other project management governance structure to be created from time to time.</li> <li>• Prepares work plan and budget of the</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>secretariat and reports progress quarterly.</p> <ul style="list-style-type: none"> <li>• Facilitates the publication of reports on financial inclusion using set of various demand and supply side indicators including performance of new and existing government donor supported financial inclusion initiatives.</li> <li>• Reviews possible areas of improvement and/or opportunities in terms of access to financial services and proposes changes including drafting of policies and regulations that aim at maintaining, promoting and advancing financial inclusion.</li> <li>• Organizes different meetings and workshop that discusses on and aim at advancing financial inclusion in the country.</li> <li>• Advises the National Council for Financial Inclusion and National Financial Inclusion Steering Committee on issues related to development of sound inclusive and balanced financial system in the country.</li> <li>• Manages and administer funds that are allotted from various sources for the designating and implementation of financial inclusion related activities.</li> <li>• Carries out other activities as directed and assigned by the National Council for Financial Inclusion.</li> <li>• Takes stock of completed and ongoing Action Plan measures regularly to monitor and report on the implementation progress.</li> <li>• Compiles and disseminate National Financial</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>Inclusion Strategy progress reports to National Council for Financial Inclusion and NSCFI.</p> <ul style="list-style-type: none"> <li>• Coordinates knowledge sharing events.</li> <li>• Builds and maintains a financial inclusion information database, analyze and disseminate financial inclusion information including through national financial inclusion reports, as directed by the National Council for Financial Inclusion.</li> </ul>
6.	<i>National Bank of Ethiopia</i>	<ul style="list-style-type: none"> <li>• Maintains safe, sound and stable financial sector.</li> <li>• Provides the human, physical and other resources and supports to Financial Inclusion Secretariat.</li> <li>• Conducts a detailed diagnostic of the legal, regulatory, supervisory and overall institutional framework for financial consumer protection.</li> <li>• Conducts an assessment of the regulatory framework and the data infrastructure for catastrophic risk insurance, and index-based insurance together with AEI.</li> <li>• Issues directive on operators of payment systems and issuers of payment instruments and reassess the role, regulation and oversight of service providers</li> <li>• Strengthens regulatory and oversight capacity at NBE on electronic retail payments.</li> <li>• Reviews legal requirements on paper-based record keeping to remove obstacles for electronic transactions.</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<ul style="list-style-type: none"> <li>• Expands the current Credit Reference Bureau database and the institutions using and reporting to it (e.g., leasing companies and micro finance institutions) and offer value-added services, such as scoring.</li> <li>• Conducts a comprehensive assessment of the legal, regulatory and institutional framework for secured transactions.</li> <li>• Implements new data collection mechanisms for financial inclusion data, together with Financial Inclusion Secretariat, from the supply side.</li> <li>• Reviews the directive on agent banking to overcome obstacles for financial institutions to use agents in rural areas.</li> <li>• Reviews the regulatory framework for branches and sub-branches and consider feasibility of incentives with the purpose of encouraging expansion, including in rural areas, without undue costs.</li> <li>• Constructs a GIS mapping of all types of financial sector access points.</li> <li>• Issues directive on electronic banking.</li> <li>• Conducts a series of learning events for banks and micro finance institutions and technical service providers on innovative digital financial services, to share knowledge and increase their capacity to develop sustainable business models and suitable products and services.</li> <li>• Reviews NBE's product authorization</li> </ul>



No.	Stakeholders	Major Roles and Responsibilities
		<p>procedures, to spur healthy innovation.</p> <ul style="list-style-type: none"> <li>• Conducts an assessment of the remittance market and its regulatory framework based on the General Principles for International Remittances.</li> <li>• Conducts a series of learning events for banks and micro finance institutions on innovative savings products to share knowledge and increase capacity to develop suitable services for the underserved segments together with EBA and AEI.</li> <li>• Conducts a study on the need and the adequate design of no-frills savings accounts.</li> <li>• Conduct a study to devise mechanisms to link informal savings mechanisms to the regulated financial sector, as well as incentives for savings (e.g., match savings), including for rural population, and women.</li> <li>• Assesses the feasibility of legal reforms to bring currently excluded sectors (e.g., cooperatives and microenterprises) to the national pension scheme together with MoFEC.</li> <li>• Conducts a series of learning events for banks and micro finance institutions on innovative credit products to share knowledge and increase their capacity to develop suitable services for underserved segments, including MSMEs together with EBA and AEMFI</li> <li>• Conducts an assessment of GoE's initiatives and programs to incentivize credit to priority</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>segments together with MoFEC.</p> <ul style="list-style-type: none"> <li>• Conducts a series of learning events for insurers, to share knowledge and increase capacity to develop innovative insurance products for underserved segments together with Insurers.</li> <li>• Creates a risk-based enabling regulatory and supervisory framework for micro-insurance, based on an assessment of obstacles to cater the underserved segments.</li> <li>• Conducts an assessment of the existing development and qualification opportunities and training courses covering retail insurance and micro-insurance, including group insurance together with AEI.</li> <li>• Conducts a detailed diagnostic of the legal, regulatory, supervisory and overall institutional framework for financial consumer protection.</li> <li>• Improves NBE's capacity to conduct consumer protection regulation and supervision.</li> <li>• Conducts a diagnostic to consider options for an effective dispute resolution mechanism (e.g., a financial sector ombudsman) for the financial sector, covering regulated and unregulated financial services providers.</li> <li>• Maps relevant financial literacy, education and awareness initiatives.</li> <li>• Develops and conducts a household baseline survey of financial capability to identify priority segments and best approach for</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>financial capability initiatives (e.g., in relation to public awareness on credit reporting, transaction accounts, account opening procedures, cost of financial services and regulated financial institutions) together with CSA.</p> <ul style="list-style-type: none"> <li>• Develops a National Financial Capability Strategy based on the findings of the household survey, with specific initiatives targeting each priority segment (e.g., women, youth, children, smallholders) together with MoE, MoFEC and MoANR.</li> <li>• Issues necessary directives for financial inclusion in general and in particular on access points, products, delivery channel etc. and implement as indicated in the plan of action through assessment and survey.</li> <li>• Licenses, regulates and supervises financial institutions and their branches with the aim of maintaining safe, sound and stable financial sector.</li> <li>• Promotes shared services initiatives such as EthSwitch to reduce channel costs and ensure interoperability.</li> <li>• Works how funds will be available to MSME businesses through the banks, micro finance institutions and other possible means.</li> <li>• Develops financial literacy strategy and programs and activities (in native languages) that raise awareness about the availability and benefits of products.</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<ul style="list-style-type: none"> <li>• Leverages providers to deploy ATMs and POS in rural communities.</li> <li>• Supports micro finance institutions in their plan to increase penetration into and serving rural communities.</li> <li>• Promotes necessary funding for youth, women and others.</li> </ul>
7.	<b><i>Ministry of Communication and Information Technology and Ethio-telecom</i></b>	<ul style="list-style-type: none"> <li>• Facilitate and dedicates bandwidth for data services to give priority to payments and other e-channels to drive electronic payments.</li> <li>• Expand mobile phone services and outreach.</li> <li>• Improve mobile network coverage and quality levels to support the expansion of financial inclusion.</li> <li>• Improve national coverage and reliability of telecom supply in urban and rural areas to support the expansion of financial inclusion based on electronic transaction and channels.</li> </ul>
8.	<b><i>Ministry of Agriculture and Natural Resources and Agricultural Transformation Agency</i></b>	<ul style="list-style-type: none"> <li>• Identify short term and long term options to strengthen institutional and organizational capacity of the saving and credit cooperatives sector/rural saving and credit cooperatives sector, based on international best practices.</li> <li>• Strengthen institutional and organizational capacity of Federal Cooperatives Agency to collect data on products and services and oversee the saving and credit cooperatives sector/ rural saving and credit cooperatives sector.</li> <li>• Develop, together with the NBE, a National Financial Capability Strategy based on the</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>findings of the household survey, with specific initiatives targeting each priority segment (e.g., women, youth, children, smallholders)</p> <ul style="list-style-type: none"> <li>• Conduct a study together with EBA, AEMFI, FCA, to devise mechanisms to link informal savings mechanisms to the regulated financial sector, as well as incentives for savings (e.g., match savings), including for rural population, and women</li> <li>• Map relevant financial literacy, education and awareness initiatives together with MoE, NBE, FCA and TPCPA.</li> <li>• Develop and conduct a household baseline survey of financial capability together with CSA, NBE and FCA to identify priority segments and best approach for financial capability initiatives (e.g., in relation to public awareness on credit reporting, transaction accounts, account opening procedures, cost of financial services and regulated financial institutions)</li> </ul>
9.	<b><i>Ministry of Education</i></b>	<ul style="list-style-type: none"> <li>• Develops and implements curriculum for financial literacy in primary and secondary schools as well as tertiary institutions.</li> </ul>
10.	<b><i>Ethiopian Electric Power Office and Ethiopian Electric Service</i></b>	<ul style="list-style-type: none"> <li>• Improve national coverage and reliability of power supply in urban and rural areas to support the expansion of financial inclusion based on electronic transaction and channels</li> </ul>
11.	<b><i>Central Statistics Agency</i></b>	<ul style="list-style-type: none"> <li>• Conducts surveys and provides data on financial inclusion.</li> <li>• Implements new data collection mechanisms</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>for financial inclusion data, from the demand side.</p> <ul style="list-style-type: none"> <li>• Develops together with the WB and NBE and Implement a new financial inclusion survey module to gauge financial inclusion levels from the demand side.</li> <li>• Develops and conducts a household baseline survey of financial capability to identify priority segments and best approach for financial capability initiatives (e.g., in relation to public awareness on credit reporting, transaction accounts, account opening procedures, cost of financial services and regulated financial institutions) in collaboration with MoA, NBE, ATA.</li> </ul>
12.	<i>Financial Intelligence Center</i>	<ul style="list-style-type: none"> <li>• Reviews the current KYC requirements, together with NBE, with the purpose of implementing a tiered account opening model to benefit the financially excluded.</li> </ul>
13.	<i>Ethiopian Postal Service Enterprise</i>	<ul style="list-style-type: none"> <li>• Acts as an agent for Banks and micro finance institutions in line with the enabling law.</li> <li>• Acts as a distribution centers for financial literacy materials.</li> </ul>
14.	<i>Federal Urban Job Creation &amp; Food Security Agency and Ethiopian Professional Association of Accountants and Auditors</i>	<ul style="list-style-type: none"> <li>• Conduct a study and institute a simplified standardized accounting system for MSMEs.</li> <li>• Creates, at the national level, a definition of MSMEs, together with other concerned bodies, to improve tracking of indicators for MSME financing and goals set in the GTP II.</li> <li>• Conducts a study on measures and incentives to foster formalization of MSMEs.</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<ul style="list-style-type: none"> <li>Improves entrepreneurship development initiatives targeting MSMEs and in particular women-owned enterprises, as well as to foster their linkages with the financial sector together with MoFEC.</li> </ul>
15.	<i>Federal Cooperative Agency</i>	<ul style="list-style-type: none"> <li>Implement new data collection mechanisms for financial inclusion data, from both the demand and the supply side.</li> <li>Identify short term and long term options to strengthen institutional and organizational capacity of the SACCO sector, based on international best practices.</li> <li>Strengthen institutional and organizational capacity of FCA to collect data on products and services and oversee the SACCO sector.</li> <li>Conduct a study to devise mechanisms to link informal savings mechanisms to the regulated financial sector, as well as incentives for savings (eg, match savings), including for rural population, and women.</li> <li>Map relevant financial literacy, education and awareness initiatives particularly for SACCO sector.</li> <li>Develop and conduct a household baseline survey of financial capability to identify priority segments and best approach.</li> </ul>
16.	<i>Banks and Micro Finance Institutions</i>	<ul style="list-style-type: none"> <li>Plan and work towards achieving the National Financial Inclusion Strategy (NFIS).</li> <li>Develop innovative products and delivery channels such as retail payment system.</li> <li>Participate in shared service initiatives to</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>reduce channel costs and ensure interoperability.</p> <ul style="list-style-type: none"> <li>• Leverage multifunctional (saving and payment and other services) ATM and POS channels to expand reach and reduce costs.</li> <li>• Expand low cost services particularly in rural areas through possible outreach means such as agent banking and electronic banking.</li> <li>• Establish linkages for wholesale lending to micro finance institutions by main stream banking.</li> <li>• Implement agent banking model to extend outreach.</li> <li>• Implement a no-frills (zero balance) account.</li> <li>• Implement tiered KYC framework or risk based approach to account opening and transactions.</li> <li>• Discourage the use of cash and checks to reduce transaction costs and with the view to create cash less society.</li> <li>• Provide periodic information and when needed on financial inclusion.</li> <li>• Go live and connect all banks to EthSwitch to ensure interoperability.</li> <li>• Invest in and improve MIS in micro finance institutions, to enable product and channel innovation and better risk management (Only micro finance institutions) together with AEMFI.</li> </ul>
17.	<i>Development Bank of Ethiopia</i>	<ul style="list-style-type: none"> <li>• Provides capacity building to MSMEs on lease financing to improve their financial literacy</li> </ul>



No.	Stakeholders	Major Roles and Responsibilities
		<p>and credit worthiness.</p> <ul style="list-style-type: none"> <li>• Implements targeted financial inclusion programs e.g. credit guarantees, refinancing, lease and SME financing.</li> <li>• Provides periodic information and when needed on financial inclusion.</li> </ul>
18.	<p><i>Ethiopian Bankers Association, Association of Ethiopian Insurers and Association of Ethiopian Micro Finance Institutions</i></p>	<ul style="list-style-type: none"> <li>• Contribute to the review process of the National Financial Inclusion Strategy, whenever necessary.</li> <li>• Plan and work on common agenda items of the National Financial Inclusion Strategy and implement.</li> <li>• Promote financial inclusion in their respective area and scope.</li> <li>• Define and implement literacy programs in their area of concern: why saving, credit, insurance, cashless society, MSME etc.</li> <li>• Promote cooperation for the cause of financial inclusion among institutions.</li> <li>• Conduct a series of learning events for banks and micro finance institutions and service providers on innovative digital financial services, to share knowledge and increase their capacity to develop sustainable business models and suitable products and services.</li> <li>• Asses the existing professional development and qualification opportunities and training courses covering electronic payment services.</li> <li>• Conduct a series of learning events for banks and micro finance institutions on innovative savings products to share knowledge and</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>increase capacity to develop suitable services for the underserved segments (Excluding AEI) together with NBE.</p> <ul style="list-style-type: none"> <li>• Conduct a study to devise mechanisms to link informal savings mechanisms to the regulated financial sector, as well as incentives for savings including for rural population, and women.</li> <li>• Conduct a series of learning events for banks and micro finance institutions on innovative credit products to share knowledge and increase their capacity do develop suitable services for underserved segments, including MSMEs together with NBE.</li> <li>• Implement capacity building programs to improve their capacity and expertise in dealing with the MSME sector, rural financing and manufacturing.</li> <li>• Assess the available professional development and qualification opportunities and training courses covering credit risk assessment and management activities (AEMFI and EBA).</li> <li>• Conduct an assessment of the existing development and qualification opportunities and training courses covering retail insurance and micro-insurance, including group insurance together with NBE (Only for AEI).</li> </ul>
19.	<i>Insurers</i>	<ul style="list-style-type: none"> <li>• Expand the current portfolio of insurance products to better address consumer needs for example, micro-insurance, Islamic insurance (Takaful) and index-based</li> </ul>

No.	Stakeholders	Major Roles and Responsibilities
		<p>insurance.</p> <ul style="list-style-type: none"> <li>• Increase focus on outreach and specific sectors, e.g. lower-income segments.</li> <li>• Process and pay claims in a timely manner to build trust and confidence of the public particularly in the micro sector.</li> <li>• Promote life insurance in particular and long term insurance in general.</li> <li>• Define and implement insurance literacy programs.</li> <li>• Develop micro-insurance products, Islamic insurance (Takaful) and index-based insurance products to serve low-income/rural individuals.</li> <li>• Define initiatives for insurance agents to increase outreach in rural areas.</li> <li>• Provide periodic information and when needed on financial inclusion.</li> <li>• Conduct a series of learning events to share knowledge and increase capacity to develop innovative insurance products for underserved segments together with NBE.</li> </ul>
20.	<b><i>Development Partners</i></b>	<ul style="list-style-type: none"> <li>• Provide technical and financial assistance to Banks, micro finance institutions insures, saving and credit cooperatives, ATA, NBE and others for the implementation of the National Financial Inclusion Strategy by developing their own plan of action, which shall be subject to agreement with NBE.</li> <li>• Monitor the implementation of own action plan on financial inclusion as agreed.</li> </ul>

## **Annex G: Main Current Financial Inclusion Initiatives**

### **1. Agricultural and Rural Finance**

In 2011, the International Fund for Agricultural Development supported the implementation of the Rural Financial Intermediation Program (**RUFIP**) II project. The project built on the successes of RUFIP I to scale up delivery of financial services and products to reach 7 million poor rural households by 2019. RUFIP II provides support to build capacity of micro finance institutions and cooperatives, investments to improve regulation and supervision of micro finance institutions and Rural saving and credit cooperatives (**RUSACCOs**), and credit to bridge liquidity gaps for micro finance institutions and RUSACCOs. The program also provides technical assistance to the FCA. The overall goal of the RUFIP II program is to provide sustainable access to a range of financial services through a nationwide network of 30 micro finance institutions and 5,500 rural saving and credit cooperatives.

In 2015, Agricultural Transformation Agency (ATA) drafted Rural Finance Strategy, in consultation with MoFEC, FCA and the Ministry of Agriculture and Natural Resources, which aims to increase access to finance for smallholder farmers and other actors in the agricultural value chain. The Rural Finance Strategy is awaiting approval. As an extension of a range of research initiatives, ATA is piloting an input e-voucher system, and is heading a financial literacy campaign targeting farmers.

### **2. Payment Systems**

The HiFi program, funded by DFID-UK and implemented by the WBG, is focused on scaling up financial inclusion by harnessing technology (e.g. mobile) and innovation (e.g. electronic payments of welfare benefits to people). Specifically, HiFi focuses on developing and implementing a model payment system infrastructure, strengthening legal and regulatory framework for payments infrastructure, and developing strategies to scale up electronic payment services. The project is implemented mainly in partnership with the NBE and will cover various measures included in the National Financial Inclusion Strategy Action Plan that relate to payments infrastructure.

### **3. Insurance Services**

The WBG in cooperation with NBE is preparing a 3-year technical assistance program on “Promoting Inclusive Insurance” to be launched in September 2015. The program, funded by FIRST Initiative, has the objective of supporting the NBE in promoting access to insurance services of quality, value and safety for low-income groups in Ethiopia and contributes to broader financial inclusion.

### **4. Household Savings**

MicroLead, a joint program between the United Nations Capital Development Fund (UNCDF), the Bill and Melinda Gates Foundation, and The MasterCard Foundation has a savings-lead business model approach with a focus on women, rural markets, and technology. The objectives of the program are to strengthen the microfinance sector by providing technical assistance, strengthening governance and management systems, strengthening operations systems, increase financial literacy, and capacity building. Among others, the program aims to increase voluntary savings, the client base of rural women, introduce IT support quality services for risk mitigation and improve operations.

### **5. SME Finance**

The WBG, in collaboration with MoFEC, the DBE, and the DFID-UK funded Private Enterprise Program for Ethiopia (PEPE), is preparing a Small and Medium Enterprise Finance Project (SMEFP) that aims to foster an SME finance culture in Ethiopia by providing working capital, investment finance and lease finance to MSMEs on a commercial basis. The program will assist in the provision of dedicated lines of credit for MSMEs and the provision of relevant technical assistance to financial intermediaries.

### **6. Support to Improvement of the Broader Business Environment and Financial Inclusion**

The Ethiopia Multi Donor Initiative was launched in 2014 by the Canadian, Italian, Swedish, UK and Ethiopian government, as well as the IFC, to harmonize donor activities and leverage resources to build a more dynamic and competitive private sector. Other notable initiatives include the DFID-UK-funded PEPE and the IFAD-funded RUFIP, both

mentioned above. These initiatives are relevant for financial inclusion to the extent that they strengthen MSMEs, which would improve their ability to access finance, strengthen saving and credit cooperatives, which would help them provide better service to rural communities, and also work on supporting mechanisms to facilitate finance, such as credit-guarantee schemes.

#### **7. WBG's Financial Inclusion Support Framework (FISF)**

The WBG Ethiopia FISF program, funded by the Netherlands Ministry of Foreign Affairs and the Bill and Melinda Gates Foundation, aims to accelerate and increase the effectiveness of government reforms and help achieve national financial inclusion targets and is preparing a range of technical assistance and capacity building measures to advance financial inclusion **in Ethiopia**.

#### **8. Leasing Sector Development Project**

IFC in collaboration with the National Bank of Ethiopia has launched this initiative. The goal of the initiative is to improve the existing legal and regulatory leasing framework, facilitate the development of leasing sector and build capacity and raising public awareness with regard to role and benefit of leasing.

These and other initiatives that are still active are listed in the table below.

## Financial Inclusion Initiatives Being Implemented in Ethiopia

2015/2016

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
1	Rural Financial Intermediation Program (RUFIP) II project	International Fund for Agricultural Development (IFAD)	Development Bank of Ethiopia	to provide sustainable access to a range of financial services through a nationwide network of 30 micro finance institutions and 5,500 RUSACCOs	<ul style="list-style-type: none"> <li>provides support to build capacity of micro finance institutions and cooperatives,</li> <li>investments to improve regulation and supervision of micro finance institutions and Rural saving and credit cooperatives (RUSACCOs),</li> <li>credit to bridge liquidity gaps for micro finance institutions and RUSACCOs</li> <li>provides technical assistance to the FCA</li> </ul>	Active
2	Rural Finance Strategy	Agricultural Transformation	Agricultural Transformation	to increase access to finance for smallholder	<ul style="list-style-type: none"> <li>scale up e-voucher system, and is heading a financial literacy</li> </ul>	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
		Agency	Agency	farmers and other actors in the agricultural value chain	campaign targeting farmers	
3	Harnessing Innovations for Financial Inclusion (HiFi) Program	Department for International Development (DFID-UK) and implemented by the WBG	MoFEC	focused on scaling up financial inclusion by harnessing technology (e.g. mobile) and innovation (e.g. electronic payments of welfare benefits to people)	<ul style="list-style-type: none"> <li>developing and implementing a model payment system infrastructure,</li> <li>strengthening legal and regulatory framework for payments infrastructure,</li> <li>developing strategies to scale up electronic payment services</li> </ul>	Active
4	Promoting Inclusive Insurance	FIRST Initiative implemented by the World Bank Group (WBG)	National Bank of Ethiopia	supporting the NBE in promoting access to insurance services of quality, value and safety for low-income groups in Ethiopia and contributes		Active



S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
5	Women Entrepreneurship Development Program (WEDP) (Program until 2017)	World Bank Group (WBG)	Ministry of Trade & Industry	to broader financial inclusion aims to increase the earnings and employment of MSEs owned or partly owned by women in targeted cities	<ul style="list-style-type: none"> <li>tailoring financial instruments to the needs of the participants and ensuring availability of finance; and</li> <li>developing the entrepreneurial and technical skills of the target group and supporting cluster, technology and product development for their businesses</li> </ul>	
6	Private Enterprise Program for Ethiopia (PEPE) - Small and Medium Enterprise Finance Project (SMEFP)	The WBG, in collaboration with MoFEC, the DBE, and the DFID-UK	First Consult	aims to foster an SME finance culture in Ethiopia by providing working capital, investment finance and lease finance to MSMEs on a	<ul style="list-style-type: none"> <li>assist in the provision of dedicated lines of credit for MSMEs and the provision of relevant technical assistance to financial intermediaries</li> </ul>	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
7	The Ethiopia Multi Donor Initiative	Canadian, Italian, Swedish, UK and Ethiopian government, as well as the IFC	IFC	commercial basis to harmonize donor activities and leverage resources to build a more dynamic and competitive private sector	<ul style="list-style-type: none"> <li>bolstering direct investments in priority sectors, small and micro enterprise development and supporting the government in improving the investment climate</li> <li>investing in scalable private sector interventions, aiming to support development and increase access to finance</li> </ul>	Active
8	FISF program	The Netherlands Ministry of Foreign Affairs and the Bill and Melinda Gates Foundation implemented by the WBG	National Bank of Ethiopia	Aims to accelerate and increase the effectiveness of government reforms and help achieve national financial inclusion targets and is preparing a range of technical assistance and		Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
9	Leasing Sector Development Project	IFC	National Bank of Ethiopia	capacity building measures to advance financial inclusion in Ethiopia.	<ul style="list-style-type: none"> <li>Develop finance leasing regulations/directives.</li> <li>Provide technical expertise on leasing reforms; including training on leasing regulation and supervisory functions.</li> <li>Develop finance lease /Capital Goods finance/ supervision manual</li> </ul>	Active
10	Trainings	UNCDF	AEMFI-EIFTRI	<ul style="list-style-type: none"> <li>establishing a sustainable and well-functioning human</li> </ul>	<ul style="list-style-type: none"> <li>Training on areas like- saving mobilization, financial literacy, customer satisfaction survey,</li> </ul>	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
11	Enabling access to financial services Branchless Banking Pilot 1	Gates Foundation	Kifiya, micro finance institutions,	resource development system for the inclusive finance sector  Enabling MFI delivery PSNP payment through opening of a bank saving account for the beneficiary.  Enabling ACSI open satellite branches to enroll, open saving account, allow withdrawals and deposits through DFS infrastructure	Risk management, Agricultural value chain, Livelihood promotion, marketing and customer service, product development etc  A DFS infrastructure for MFI utilize to provide branchless services at service point – for every two kebele (effectively within 5 km of rural communities) over 10,000 points	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
12	Branchless Banking Pilot 2	DFID-UK & Kifiya	Kifiya, micro finance institutions	Enabling MFI delivery PSNP payment through opening of a bank saving account for the beneficiary.  Enabling SIDAMA MFI open satellite branches to enroll, open saving account, allow withdrawals and deposits through DFS infrastructure	A DFS infrastructure for MFI utilize to provide branchless services at service point – for every two kebele (effectively within 5 km of rural communities) over 10,000 points	Active
13	SAB	Kifiya & DFID-UK	Kifiya, saving and credit cooperatives, Unions, Financial Institutions	Use of saving and credit cooperatives as service point for financial institutions through building capacity of the	IF the model works it is scalable and solves for the potential of establishing service points across the country to provide access to financial services through saving	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
				SACCO.  SACCO is equipped with <b>smart phone + biometric card reader printer</b> , connected DFS infrastructure.  *This initiative takes 10 saving and credit cooperatives, 2 UNIONS and 2 Financial Institutions*	and credit cooperatives. It will also Strengthen saving and credit cooperatives to provide better services to members.	
14	SNV KFT Market linkage	KIFIYA	Kifiya, Unions, MPCs	Linking multi-purpose cooperatives (MPC) to unions to large buyers to enable access to market to farmer.	Potential of 10,000 MPC linking to large buyers and over 380 unions enabling logistics.  Enabling the small holder farmer	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
				MPC is equipped with a smart phone + biometric card reader printer through DFS infrastructure, linking to Union and Buyer which are either equipped with smart phone or they connect to DFS infra through their PCs to initiate purchase and logistics	has better access to markets and prices for produce.  Increasing ability to savings.	
15	Heineken market linkage and access to advance payment/credit	KIFIYA	Kifiya, Unions, MPCs	Linking multi-purpose cooperatives (MPC) to unions to large buyers to enable access to market to farmer.	Linking SHFs to markets to get better prices, enabling them to increase income and saving accordingly.	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
16	Innovation on agents accepting Merchant payments and merchants	Gates Foundation	Kifiya	Developing and adapting DFS technology to test the concept of combining agent services	MPC is equipped with a smart phone + biometric card reader printer through DFS infrastructure, linking to Union and Buyer which are either equipped with smart phone or they connect to DFS infra through their PCs to initiate purchase and logistics	Technology development in combining two historically different sectors of agent services and merchant services to one. Agent could accept merchant
						Active



S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
	providing agent services			and merchant payment acceptance	payments and Merchants to do agent services	
17	Innovation digital Merchant payments	KIFIYA, Master Card Foundation	Kifiya, MPCs	Developing and adapting DFS technology to test the concept of digital small merchant payment acceptance	Enabling cooperatives to accept digital payments to allow market linkages to large buyers	Active
18	Micro Insurance	KIFIYA, Dutch Enterprise Agency		Developing technical product (algorithm to measure risk) that insurance companies can configure to products based on cloud platform and in the process move to paper lite lifecycle management of insurance.	Small holder farmers biggest risk is weather related. Success in micro insurance (crop and livestock) will increase production and also safeguard farmers from adverse shocks thus enabling them to have sustainable savings	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
19	Joint Flagship Program-on Gender Equality & Empowerment of Women	Unicef, ILO, UNDP, UNFPA, UNESCO, UNWOMEN	Ministry of Women & children affairs	In parallel to utilize digital channels to deliver these products. Developing risk models for agricultural insurance [crop and livestock], traditional coping mechanism and health	1. Rural and Urban Women have increased income for improved food & nutrition security and livelihoods 2. Rural and Urban Women and girls have increased opportunities for education, leadership and decision making 3. Federal and Local level government institutions have	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
				female student associations. 3-To build the capacity of the government institutions so as to mainstream gender 4-To increase the capacity of service providers to deliver gender responsive support, improved law enforcement and increased community action to protect the rights of women and girls	strengthened their capacity to implement national and international commitments on gender equality 4. Federal and local level institutions and communities have enhanced their capacity to promote and protect the rights of women and girls.	
20	Women Breakthrough	European Union	Ministry of Women & children affairs	improving entrepreneurship skills	Rural and Urban Women have increased income for improved	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
21	Gender, Climate and Agriculture Support	AfDB	Ministry of Women & children affairs	and basic business skills so as to economically empower poor women Empowerment of small holder women farmers and improvement of policies where there are gaps	food & nutrition security and livelihoods Empowered women small holders farmers and introduced improvements on policies gap	Active
22	Women Entrepreneurship Development Project	World Bank	FUJFSA	Provide training and finance/ loan support to women entrepreneurs	To provide loan and training services through micro finance institutions and TVET	Active
23	Entrepreneurship Development Centre	UNDP (Canada Government)	FUJFSA	Provide training and business development services to micro and small enterprise	To provide training and business development services through advisory and consultancy	Active
24	Micro Finance Institutions	Regional governments	Regional finance institutions	Provide financial services to micro and small	To provide sustainable access of financial services through regional	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
25	Rural Finance Intermediation Program(RUFIP); working in 8 regions except AA, Dire dawa, and Harari (RUFIP-II)	International Fund for Agricultural Development(IFAD)	<ul style="list-style-type: none"> <li>• IFAD (Coordinate the program)</li> <li>• Federal cooperative Agency.</li> <li>• Regional &amp; Wereda Cooperative Bureaus /Agencies</li> </ul>	<p>enterprise</p> <ul style="list-style-type: none"> <li>• Promotion /establishment of new RuSACCOs</li> <li>• Saving mobilization</li> <li>• Provision of material support for RuSACCOs like office furniture, Capacity building support for RuSACCOs and promotion Agencies to fill technical capacity gap.</li> <li>• Provision of credit fund for RuSACCOs</li> </ul>	<p>micro finance institutions</p> <ul style="list-style-type: none"> <li>• The RuSACCO members able to access financial services in sustainable way;</li> <li>• The RuSACCO members able to engage in different IGAs</li> <li>• The livelihood of RuSACCO members will be improved</li> </ul>	Active
26	Productive Safety Net Program		<ul style="list-style-type: none"> <li>• Ministry of Agriculture and</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion and strengthening of saving</li> </ul>	<ul style="list-style-type: none"> <li>• The SACCO members in food insecure areas able to access</li> </ul>	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
	(PSNP); Working in Food insecure areas (selected weredas in Amhara, Tigray, Oromiya, and SNNP; now Afar and Somale regions are added)  (PSNP-IV)	World Bank, USAID, Irish Aid, EC, Royal Netherland Embassy, IDCA, WFP, DIDA, DFATD-Canada, UKDID, UNICEF	Natural Resource (coordinate the program) <ul style="list-style-type: none"> <li>Federal cooperative Agency.</li> <li>Regional &amp; Wereda Cooperative Bureaus /Agencies</li> </ul>	and credit cooperatives in food insecure areas <ul style="list-style-type: none"> <li>Promotion of Financial literacy for members.</li> <li>Enabling food insecure SACCO members to Carry out Off-Farm and on farm activities by accessing credit from their saving and credit cooperatives</li> <li>Promote credit life micro insurance activities for SACCO members</li> <li>Saving mobilization.</li> </ul>	financial services in sustainable way; <ul style="list-style-type: none"> <li>The SACCO members in food insecure areas able to engage in different IGAs</li> <li>The livelihood of SACCO members will be improved as a result of increment in Household income,</li> </ul>	
27	Pastoral		<ul style="list-style-type: none"> <li>Ministry of Federal</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of saving and</li> </ul>	<ul style="list-style-type: none"> <li>The pastoral community will</li> </ul>	Active

S.N.	Initiatives	Funded By	Initiative Executed By/ Implementing Partner	Goal/Output	Initiative Details	Remark
	Community Development Project; working in Afar, Somale, southern Oromiya, and some part of SNNP) (PCDP-III)	IFAD	Affairs (coordinate the program) <ul style="list-style-type: none"> <li>Federal cooperative Agency.</li> <li>Regional &amp; Wereda Cooperative Bureaus /Agencies.</li> </ul>	credit cooperatives in pastoral areas. <ul style="list-style-type: none"> <li>Capacity building Support to Pastoral saving and credit cooperatives.</li> <li>Enabling pastoralist SACCO members to Carry out Off-Farm and on farm activities to increase their income.</li> <li>Saving mobilization.</li> <li>Provision of Seed funding to pastoral saving and credit cooperatives</li> </ul>	have sustainable access to a range of financial services <ul style="list-style-type: none"> <li>The SACCO members in food insecure areas able to engage in different IGAs</li> <li>The livelihood of pastoralist community will be improved as a result of increment in HHs' income,</li> </ul>	

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