PRELIMINARY DIAGNOSTIC

REVIEW OF REMITTANCE POLICY, LEGAL AND REGULATORY FRAMEWORK

ETHIOPIA

Autumn 2020

ABOUT THIS REPORT

This report was prepared by the United Nations Capital Development Fund (UNCDF) to augment the National Bank of Ethiopia (NBE)'s ongoing development of a policy and regulatory framework for remittances. The term remittances is defined as any non-reciprocal (meaning no goods or services were provided) transfer of money from an individual or household in one place to another individual or household in another place.[1] In practice, remittances usually refers to breadwinners living elsewhere regularly sending money back home to help support family. For many low- or middle-income countries, remittances represent a significant share of gross domestic product (GDP) not to mention their importance for quality of life at the household level. Ethiopia is no exception: it is estimated that some 1.3 million[2] Ethiopian migrants remit close to USD 5 billion[3] each year, accounting for more than 5 percent of the country's GDP and one-quarter of its foreign exchange earnings.

Important though they are, remittances tend to flow in distinctly suboptimal ways. Migrants earn in the currency of their host country, and then, when it's time to send money home, will pay cash to an over-the-counter remittances provider. This provider may charge high transaction costs to send the money to the recipient, who in turn will often pay a high fee to convert that remittance into the currency of the home country. Remittances may also move through unregulated informal channels (again, as physical cash), exposing both sender and recipient to the inherent risks of carrying cash, and preventing the governments from having a clear picture of their country's currency flows.

The strategic objective for NBE, as for many country's regulators, is to facilitate the transition of remittances from cash-based to digital channels, and from informal to formal ones. At the request of the National Bank of Ethiopia, UNCDF has been working with NBE and other Government stakeholders to increase policymakers' and regulators' capacity to adapt the existing frameworks in order to meet NBE's objectives—lower remittance costs, improved cross-border remittance flows through formal channels, and expanded use of digital channels to receive remittances—all of which create opportunities for a broader suite of migrant-centric financial products that can be linked to remittances. Such services include but are not limited to insurance, pension, credit, savings, and payments.

During the period from mid-March 2020 to June 2020, UNCDF reviewed a number of relevant policies, laws and regulations; interviewed relevant key stakeholders; and made specific comments on the reviewed legislations. Each of the respective policies and regulations observations/comments has been benchmarked against those in a range of four comparable yet diverse policy and economic environments across Africa and Asia: Kenya, Tanzania, Philippines, and Bangladesh. The authors have also prepared a country-level

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[1] Remittances can be "domestic," meaning that the sender and receiver of the remittances are within the same country (but still in disparate locations), or "international", meaning that the sender transfers money from one country to a recipient in another country (Hougaard, 2008).

[2] https://migrationdataportal.org/regional-data-overview/eastern-africa

[3] https://nbebank.com/annual-report

landscaping to map the enablers, inhibitors, and recommendations on the identified areas of possible interventions.

UNCDF recognizes that this report's recommendations cover a wide spectrum of possibilities and UNCDF looks forward to working with NBE staff to determine which considerations can be taken up, in which sequence, and how UNCDF can continue to provide practical support or advice if desired.

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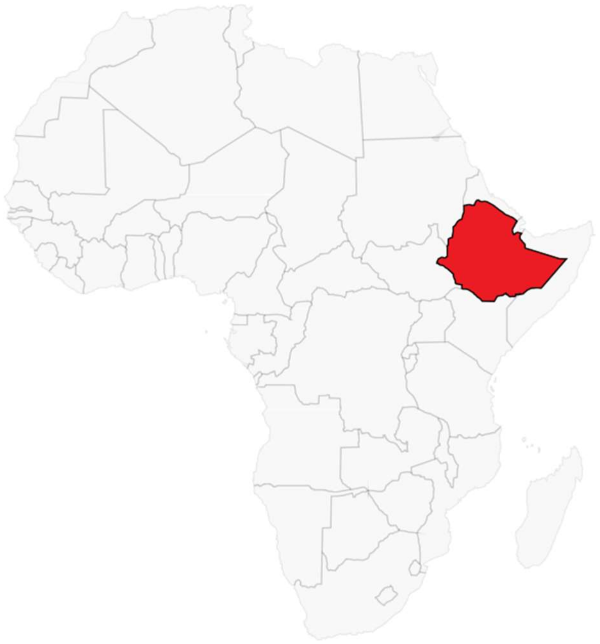

COUNTRY CONTEXT

According to World Bank Migration and Remittances database, remittances currently represent a significant share, up to 22 percent, of GDP for some African countries. The magnitude of remittances' economic impact on the receiving countries depends on how this money is used by the recipient households. If these flows increase consumption in sectors with strong linkages to other economic sectors, remittances' positive effects could cascade broadly through economy. Beyond stimulating greater short-term consumer demand, to the extent that remittances are used for longer-term investments, including children's education, the positive effect on receiving-country development is potentially even more profound.

As noted above, an estimated 1.3 million Ethiopian migrants globally send close to USD 5 billion back to Ethiopia every year, a total which accounts for more than 5 percent of the country's gross domestic product (GDP) and about one-quarter of its foreign exchange earnings. At the household level, remittances represent a vital source of income for many individual recipients. The size and scale of remittances also creates the possibility for harnessing these flows for productive investment, thus contributing to Ethiopia's long-term development.

However, the cost of sending remittances to Ethiopia from Europe, Middle East and North America averages 7 percent, 4 percent, and 5 percent, respectively, of the transaction value. Moreover, while the Government has made great strides in recent years to increase the flow of remittances through regulated channels, evidence suggests that informal networks remain a prominent way for Ethiopians to send money home.

Remittance services providers (RSPs) have recently begun attempting digital models via partnerships with banks, but significant efforts are still required to expand digital channels in order to reduce costs. With expected liberalization of the telecom sector, there is an opportunity to develop mobile agent networks to increase reliable network coverage across rural communities and expand the access points through home-country beneficiaries can receive migrants' remittances.

Intervention may also be considered to address the existing gap between official foreign exchange rates and those on parallel markets, to revisit the foreign exchange holding limitations currently in place, to address regulatory barriers for undocumented migrants in host countries, and to enhance migrants' digital literacy at pre-departure so they leave possessing the knowledge and skills they will need to send remittances through formal digital channels.

POLITICAL ECONOMY

In Ethiopia, the Government has taken several positive measures in recent years to improve the operations and flow of formal remittances, as wellas to reduce the costs of transfers and increase access to international remittance services. Building on the objectives of the second national Growth Transformation Plan (GTP II), Ethiopian authorities unveiled the Homegrown Economic Reform Program (HERP) in September 2019 to complement structural reforms that were already underway. The HERP aims to ease business constraints and foster private sector development through a set of sectoral and macroeconomic measures, including those targeted at breaking up monopolies and removing distortions included in the financial sector. The National Foreign Affairs and Security Policy and Strategy also recognizes the role of the Ethiopian diaspora in promoting investments and trade ties and therefore, the needfor the Government to create the most conducive environment for them to play a constructive role. Moreover, Ethiopia signed the Maya Declaration in 2011 and committed to modernizing the nationalpayments systems, improving financial access, expanding digital financial services, and improving financial literacy.

Ethiopia has a major opportunity to leverage digital financial services (DFS) to accelerate in-bound cross-border remittances. Digital Ethiopia 2025, the country's comprehensive digital strategy,envisions an inclusive digital economy approach that will catalyse achievement of Ethiopia's broaderdevelopment goals. However, the Government must align and build on several moving pieces to benefit from economic liberalization and digitization. As the administration remains committed to the economic liberalization to attract foreign investment and mitigate macroeconomic imbalances and structural bottlenecks in the economy, the Government enacted the Communication Service Proclamation number 1148/2019 on August 12, 2019. The Proclamation aims at restructuring the telecommunication market, introducing competition to enhance the social and economic development of the country. The Proclamation also established the Ethiopian Communication Authority (ECA) whose mandate is to develop high quality, efficient, reliable and affordable communication services; promote a competitive market for the achievement of its goals; expand access; and protect consumers' interests. To further unlock the transformational power of the digital economy, the Government has decided to issue two new telecommunications service licenses. Accordingly, ECA has invited telecommunications companies with proven experience and with large-scale mobile operations to submit expressions of interest.

The Government's strategy regarding citizens abroad, a cohort which, as noted above, could play a major role in the country's development, was formalized in the 2013 Diaspora Policy1 which promotes collaboration between Government, non-governmental organizations (NGOs) and the diaspora in policy implementation. Its stated objective is: "To build up strong relationship between Diaspora with their origin country Ethiopia, encouraging and facilitating a conducive environment for participation of Diaspora in the ongoing peace and democratization building process to benefit their country and to benefit from their engagement and to preserve their rights and interests abroad."

The Government has also expressed renewed fervor to modernize and digitize the country's payments landscape to facilitate the cost-effective flow of remittances and to connect the 80 percent of the population living in rural areas to the financial sector. Success will likely depend on how policies and regulations can be revised to bring the non-bank financial services providers onboard, and on the level of short- to medium-term disruption that may have negative effect on the market.

REMITTANCES LANDSCAPE

Banks. The banking sector consists of 18 banks (including two state-owned banks) collectively holding about 92 percent of total financial sector assets. The state-owned Commercial Bank of Ethiopia (CBE) holds a disproportionate share of the market with 59 percent of total banking assets and 60 percent of total deposits. By June 2020, bank branches had reached 6,508 across the country and about 34.1 percent of the branches were located in Addis Ababa.

Microfinance Institutions (MFIs). Thirty-eight MFIs in Ethiopia collectively hold 6 percent of all financial sector assets. The five largest MFIs are also state-owned. As of June 2020, there were 2,007 MFI branches across the country. None of the MFIs is integrated into the national switch as technologically they are lagging behind banks. MFIs do not appear to be permitted to engage in international remittance business.

Mobile network operators (MNOs). State-owned Ethiotelecom currently holds a monopoly position in the MNO industry. On August 12, 2019, the Government also enacted Communication Service Proclamation No. 1148/2019 which, as noted earlier, aims at restructuring the telecommunication market to foster competition and enhance the social and economic development of the country. The Ethiopian Communications Authority invited expressions of interest from telecommunications companies with proven experience with large-scale network deployment, operation and service provisioning; those expressions of interest were due June 22, 2020. By due date, 12 submissions were received, which include nine telecom operators, two non-telecom operators and one incomplete submission.

Remittance Service Providers (RSPs). No non-bank RSP can provide cross-border remittances except via a partnership agreement with a bank. Exclusive partnership agreements have been prohibited since 2009. However, the recently issued Licensing and Authorization of Payment Instruments Issuers and Payment System Operators Directives recognize local non-bank financial services operators as financial institutions and can offer inward international remittance services.

Payment Services Providers (PSPs). The recently issued Licensing and Authorization of Payment Instruments Issuers Directive allows non-banks financial services providers to provide electronic money issuance services. This is a positive step towards expanding digital channels that can be leveraged for remittances.

Agents. NBE recently issued a "Use of Agents Directive No. FIS/02/2020." The Directive defines activities which can be carried out by an agent, provides a framework to offer agency business service, and sets minimum standards of customer protection and risk management to which agents must adhere. The Directive applies to banks, MFIs, Payment Instrument Issuers and their agents (including super and sub-agents) that provide agent services in Ethiopia.

INFRASTRUCTURE

Payment System. The Ethiopia Automated Transfer System (EATS), Ethiopia's settlement platform, comprises Real Time Gross Settlement (RTGS) and Automated Clearing Houses (ACHs) and is hosted at the NBE. All banks currently participate in the system, and it is available for use by MFIs. All ATMs and POS terminals are connected to EthioPay, a national switch owned by EthioSwitch S.C. which is connected to EATS. The new "Licensing and Authorization of Payment Instrument Issuers Directive" and the "Payment Systems Operators Directive" now recognize non-banks to be "financial institutions" that can stand alone to provide financial and payment services.

Personal Identification (ID) Cards. Different kebele (the smallest administrative unit) offices issue Kebele Cards which serve as ID cards in Ethiopia. The cards all contain a standard set of information but do not follow a standard format. Coverage appears to be very high, although there is no centralized database that allows for an accurate count of how many individuals hold Kebele Cards. These cards are used for many private and public sector transactions. However, Kebele Cards lack any security features and are thus vulnerable to forgery. There is also usually a cost associated with procuring these cards.[4] The Digital Ethiopia Strategy 2025 recommends adoption of the ten Principles on Identification for Sustainable Development drawn around Inclusion, Design and Governance. Implementation of the recommendation will provide another impetus on flow of remittances through digital channels.

Automatic Teller Machines (ATMs). By June 2020, there were 6,259 ATMs but more than 50 percent of them were located in the capital city, Addis Ababa.[5] Given the fact that 80 percent of Ethiopia's population is rural, ATM access is thus low. ATMs are the only interoperable channel in Ethiopia, but banks charge fees for cash-out at rival ATMs.[6]

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[4] Most applicants are charged a fee, typically ETB 10–20 (USD 0.44–0.87) to defray the kebele's printing costs. Applicants also need to pay for the photographs – typically ETB 20 for four prints – which may require travel to another town or village with a photographer. With the minimum public sector wage around ETB 500 (USD 21.85) per month – and far lower incomes for most rural residents – the cost of obtaining a Kebele Card is not negligible. It would be equivalent to about one-fifth of the monthly earnings of beneficiaries of the Productive Safety Nets Programme (PNSP).
[5] NBE Financial Inclusion Data.
[6] Stakeholder interviews.

Point of Sale (POS) Devices and Cards. There were 9,780 merchant POS terminals in the country by June 2020. Around 16 million debit cards were in circulation, which translates to roughly 27 percent of the adult population owning a card.[77] No credit cards exist.

PRODUCTS

Virtually all formal remittances are handled over-the-counter (OTC) by banks and RSPs. Banks and RSPs facilitate the bulk of formal remittance inflows into Ethiopia. As noted above, RSPs are legally required to handle foreign exchange transactions through commercial banks, which are required to pay out cash to the recipients in local currency. Although there are currently 72 RSPs in the country, the market is dominated by just two of them which together account for 74 percent market share. In terms of domestic remittances, Findex (2017) states that 24 percent of adults sent or received domestic remittances during the past year. The majority of these remittances were processed via a bank or MFI (59 percent of remitters), followed by in-person or cash (40 percent of remitters). Less than 1 percent of remitters stated that they had sent or received remittances via a mobile phone. This means that essentially all remittances services, both cross-border and domestic, are conducted via OTC services or in person.

The fee to send the equivalent of USD 200 transaction to Ethiopia averages around 7.2 percent depending on the country: from Saudi Arabia, 5.1 percent; from the United States, 5 percent; from Italy, 9.3 percent; and from the United Kingdom, 9.4 percent. Non-OTC remittances—that is, those where the transaction originates and terminates from or to a bank account ormobile wallet—cost considerably less, an average of 3 percent.

As noted earlier, digital remittance models have been gradually emerging that partner with indigenous financial institutions, but significant efforts are still required to expand the digital channels sufficiently to drive costs down. Both the supply side (the expansionof reliable network coverage via the liberalization of thetelecom sector) and the demand side (the enhanced digital literacy of migrants) will be key to the success of these efforts.

[7] APA News (2017); stakeholder interviews 2017.

ROADMAP TO REFORM: Enablers, Inhibitors and Recommendations for Reform Across Four Domains (Legal and Regulatory; Infrastructure; Market; Cooperation and Collaboration)

1. LEGAL AND REGULATORY FRAMEWORK

(See also Annex for a Legal and Regulatory Benchmarking from four other markets)

Enablers	Inhibitors	Recommendations for Reform
● Existence of a banking law and regulatory authority for licensing and regulating banks and financial institutions	✖ The definition of banking business under the banking law includes some activities such as transfer of funds to other local and foreign persons (on behalf of the banks themselves or their customers) which are normally not isolated as banking business per se. This sounds restrictive and may stifle innovation	● Review and amend the Banking Business law with the aim of sharpening the definition of "banking business." This will leave room for other non-banking financial activities to be delivered by non-bank financial services providers, such as remittance service providers, on the basis of current market environment
● Payments law that defines the payment system to include, among other points, the sending, receiving and processing of orders of payment or transfers of money in domestic or foreign currencies; and payment service providers	✖ Although the recently issued Licensing and Authorization of Payment Instruments Issuers and Payment System Operators Directives recognizes non-bank financial services as financial institutions, it only covers local establishments and excludes foreign-owned ones such as international RSPs	● Some RSPs operate through partners in receiving countries and thus may not need a separate license to provide digital remittance services. However, arrangements by these RSPs depend much on the country's policy and regulatory framework in place. NBE may consider allowing RSP through an approval process to partner with local financial service providers for provision of their ser-vices. This will also spur competition in the market that may lead to reduced transaction cost and improved service delivery. This can be implemented through the envisaged RSP directive
● MFI law that states that microfinance institutions play an important role in providing access to financial services to farmers and people engaged in other similar activities as well as micro and small-scale entrepreneurs, rural and urban	✖ Microfinance institutions are not allowed to engage in cross-border remittance business	● NBE may consider including MFIs in receiving international remittances in order to expand coverage, especially in rural areas. This can be implemented through a directive under the MFI Business Proclamation to extend allowed activities to include in-bound international remittances and by allowing MFIs to be authorized dealers, albeit with limited authority, under the NBE Establishment Proclamation

● The Provisions for International Remittance Services Directive (IRSD) requires remittance services providers to charge zero or minimum tariff on remittance transfer services and to disclose all charges to NBE	✖ Following the issuance of the Licensing and Authorization of Payment Instruments Issuers and Payment System Operators Directives, it is unclear whether the IRSD is still applicable, and how the existing RSPs will be regulated	● There is a need for a separate directive to cover RSPs as provided in other countries, such as Kenya, Tanzania, etc. Given the current policy stance of restricting foreign ownership of financial institutions, NBE may consider allowing international RSPs to partner with non-bank financial institutions without necessarily licensing them as domestic establishments
● The Trade Competition and Consumer Protection Proclamation includes provisions aimed at protecting consumers from misleading market practices, and from harmful goods and services, as well as protection and grievance redress mechanisms. NBE has issued a financial consumer protection directive recently covering the financial service providers	✖ Although the financial consumer protection directive covers money transfer institutions, specific provisions and aspects related to remittance senders and receivers can be further clarified in the proposed RSPs directives	● As further technical support is provided to NBE on a separate directive for RSPs, the issues pertaining to consumer protection, dispute resolution and market conduct for remittance business may be included in the envisaged RSP directive as per NBE's existing policies
● Comprehensive law and regulations on Anti-Money Laundering/Counter Financing of Terrorism that provides for risk-based approach on Know Your Customer and Consumer Due Diligence	✖ Although the existing laws and regulations provide for risk-based approach, there are neither specific guidelines on the use of technology, especially e-KYC nor on how to apply proportionate risk-based approach on KYC/ CDD requirements based on the value of cross-border transactions	● Need for proper guidance on simplified KYC/CDD on the basis of current technological development related to cross-border remittances. Consider the use of technology to facilitate e-KYC and effective supervision and oversight. This can be effectively implemented once the ongoing effort by the Government of putting in place biometric ID materializes. The guidance can also be reflected in the proposed RSP directive
● The NBE Establishment Law mandates that the National Bank of Ethiopia, among other responsibilities, formulate and implement exchange rate policy, manage international reserves, set limits on foreign exchange assets which banks can hold, and set limits on the net foreign exchange position of banks	✖ With a highly managed foreign exchange regime, there is a large margin between the official and parallel market exchange rates	● Implement forex reforms aimed at unifying the official and parallel exchange rates. When that happens, it could definitely aid the shift from informal to formal channels as foreign exchange rate is currently the major contributor to the increased use of informal channels. This reform is already under implementation under the Homegrown Economic Reform Plan (HERP), which is also supported by an IMF program

● Agents Directive that provides a framework for agency business service by banks, microfinance institutions, Payment Instrument Issuers and their agents (including super and sub- agents) that provide agent services in Ethiopia	✖ International RSP will need to partner with local banks or financial institutions to access the local financial service providers' agent networks	● NBE may consider allowing international RSPs to provide their ser- vices through local agent networks without necessarily partnering with local institutions to access the agents of these institutions. Also allow international RSPs to partner with other local non-financial service providers for disbursement of remitted money. This can be accommodated in the proposed RSP directive
● The Licensing and Authorization of Payment Instrument Issuers Directive that expounds the definition of "financial institutions" to include non-bank financial service providers	✖ No clear risk management frameworks that address, among others, risks related to liquidity, settlements and technology/operational risks for RSPs	● Consider putting in place risk management frameworks for operational risks related to liquidity, settlements and use of technology by RSP. This can be accommodated in the envisaged separate directive for RSPs by including a clause that provide for risk management related issues
● New Communication law that introduces competition in the provision of telecommunication services and sets opportunities for foreign and domestic investors to invest in telecommunication infrastructures and services ● The establishment of the Ethiopian Communication Authority (ECA) that creates a single comprehensive authority to regulate the communication services in general	✖ The new law establishing the ECA gives the Authority the power to regulate Operator tariffs. This law may be subject to discretionary interpretation and attribute the Authority with the power to set prices	● The Authority's power to regulate tariffs set by an Operator with significant market share should be clearly articulated in secondary legislations, given that there are no detailed rules in the Proclamation on how this issue is to be implemented

Key to colour coding:

Expected to be implemented in the next six months	Not expected to be implemented in the near future
Expected to be implemented in the next year	Requires further coordination by NBE

ROADMAP TO REFORM: Enablers, Inhibitors and Recommendations for Reform Across Four Domains(Legal and Regulatory; Infrastructure; Market; Cooperation and Collaboration)

2. INFRASTRUCTURE		
Enablers	**Inhibitors**	**Recommendations for Reform**
● Existence of EATS, a settlement platform which comprises of RTGS and ACHs hosted at NBE. Also a national switch, EthioSwitch, which is connected to EATS	✖ The retail payment is not widely available. The retail financial system infrastructure, such as ATMs, merchant payment points, cash-in/cash-out networks and national retail payment systems is mostly not available in rural areas. Currently, only banks, national switch, premium switch (established by six banks) and Ethiopian Commodity Exchange are connected to the national payment systems	● NBE may consider allowing and encouraging RSPs to develop a wider network of remittance-disbursing and -collecting points by expanding their network to other types of locations, such as proprietary agencies, grocery stores, gas station, and merchants. This will increase outreach especially to the underserved areas and convenience in collecting remittances by beneficiaries ● This can be accommodated in the envisaged separate directive for RSPs by including a clause that will allow RSPs to establish relationship with such kind of business establishments
	✖ Limited connection of the national retail payment systems with regional/ international payment hubs and gateways. As of now, RSPs are doing business in a web- based platforms, as they are unable to establish API platforms with banks under the current infrastructure which is only through SWIFT	● Consider open up for the national retail payment systems to be able to connect with local, regional, and international payment hubs and gateways. This will enable RSP to partner with technology service providers to develop APIs platforms and spur a digital ecosystem for cross-border remittances that facilitates the development of value-added products/ services, such as payments, savings, investment, credit and insurance to utilize the full potential of cross-border flows

	✖ Limited domestic interoperability and availability of integrated payments infrastructure with fair access to market players. Currently only ATMs are interoperable and NBE is in the final stages of making the POS interoperable. For instance, one of the international RSP has 14 banking partners in Ethiopia which requires integration and connectivity for each; this increases operating costs and limits innovative products	• For full interoperability, integrate all financial institutions, remittance services providers and potential mobile money operators into EATS and Ethiopay, and clearly define the role and service provision of various platforms and switches • Government's effort to achieve full interoperability is well acknowledged and supported
• Existence of different Kebele Offices (the smallest administrative unit) which issue Kebele Cards that serve as ID cards	✖ Lack of robust identification system to support effective identification and onboarding of customers/user segments, facilitate authentication and verification of cross-border transactions, facilitate effective AML/CFT supervision of cross-border transactions, or expand the digital footprint of the underbanked to enable their access to a broader range of financial services	• Consider putting in place a biometric national ID system connected to the payment system. The Digital Ethiopia Strategy 2025 recommends adoption of the ten Principles on Identification for Sustainable Development drawn around Inclusion, Design and Governance. Implementation of the recommendation will provide another impetus on flow of remittances through digital channels

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3. MARKET ASPECTS		
Enablers	**Inhibitors**	**Recommendations for Reform**
• Existence of some partnership arrangements between banks and international money remittance agents to allow inflow of remittance using banks' agents and mobile platforms	✖ Limited availability of appropriate and reliable access points such as mobile phones and other electronic/ digital devices, and accessible transaction points (cash-in/cash-out agents, online/offline payment points, branches, etc.) ✖ Lack of a digital ecosystem for cross-border remittances that facilitates the development of value-added products/services, such as payments, savings, investment, credit and insurance to utilize the full potential of cross-border flows	• Sensitize RSPs and Fintechs to develop digital ecosystem for cross-border remittances to facilitate the design of value-added products/services, such as payments, savings, investment, credit and insurance to utilize the full potential of cross-border flows. This may include providing incentives to RSPs to adopt a customer-centric approach to product development by use of simplified business processes (customer-friendly environment) • This can be addressed to a great extent by putting in place the envisaged separate directive for RSPs that will provide the needed environment for innovative service provision and product development
• Mobile base of over 44 million subscribers with 44.6% penetration	✖ Banks, which provides remittance services, typically focus on providing traditional incentives to drive the market such as gifts, extension of credit, favor for opening a diaspora account, etc. which are mostly non innovation motivators and do not consider demand-side perspectives	• NBE may consider providing 3% - 5% cashback on all transactions to Ethiopia based on the size of the transaction, as a way to waive the transaction cost • For example, for every $200 sent through a banking channel, $6 - $10 can be reimbursed in the bank account of the migrant/diaspora family member within 30 days. This can be practiced for a limited period of time, say six months and then assess the impact

	✖ Limited consumer awareness and financial literacy programs for migrants and their families	• Develop effective awareness programs to empower migrants and consumers and ensure cooperation through multi-stakeholder participation in financial literacy/education programs. For instance, in Philippines there is an initiative to fast-track pre-departure briefings for workers before they migrate. During the briefing sessions, they are informed of the "dos and don'ts", how to send remittance using formal channels, etc. Some RSP have indicated their willingness to partner with NBE on such initiatives. With the support of NBE, such a pre-departure financial education and digital literacy program can be mainstreamed
• Fairly stable foreign exchange rate	✖ The 30% surrender requirement on forex inflows and the time and limits placed on retention accounts is severely affecting the banks, resulting in their failure to meet maturing obligations on time with correspondent banks. This in turn may affect the country's ratings by international rating companies and consequently may have negative impact on business relationship that includes remittance business with partner RSPs and correspondence banks, further exacerbating the current challenges on remittance flows. It also acts as a disincentive for the banks to mobilize diaspora accounts because of the forex mismatch as a result of inflows in those accounts	• This is one of the aspects under consideration under the ongoing foreign exchange reforms, especially for those inflows which create liability to the banks
	✖ Given the current constraints on the diaspora account with limited incentives, there is evidence that most accounts have minimum sum and may be frequently used in lieu of better exchange rates undermining the purpose of having in place such accounts	• NBE can relax the requirement which limits the funding of a diaspora time- deposit account from the host country only. Since the source of income could be from other countries, this poses double transaction costs and limits the incentives for members of the diaspora to send money from other countries into the forex account maintained in Ethiopia

● Fairly stable foreign exchange rate	✖ Difference between official exchange rates determined by NBE and black market rates (at times a difference of ETB 10 per USD) that motivates people to go for underground remittance channels	● Expedite the envisaged move to a fully flexible exchange rate regime. This will address the major challenge being experienced, which is stiff competition between formal market and the parallel market players. The competition is basically underlined by the huge difference between the formal and parallel exchange rates which is around Birr 10 per USD

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4. COOPERATION AND COLLABORATION		
Enablers	**Inhibitors**	**Recommendations for Reform**
• Existence of Ethiopian Consulates in major remittance-sending corridors	✖ According to a recently concluded assessment, although opening of accounts can be done remotely through the Consulates, some customers have been complaining that when they approach the Consulates they are told they are not authorized to open accounts, especially when they request to open accounts with private banks	• NBE may consider providing marketing and outreach incentives to banks in Ethiopia to encourage overseas entities/correspondent partners to enhance the outreach efforts at the remittance-originating end. The correspondent partners can be compensated every month based on the remittances they mobilize • Examples are from Pakistan Remittance Initiative where a performance-based scheme was developed to encourage overseas entities to enhance their marketing efforts at the remittance-originating end, and overseas entities were reimbursed marketing expenses at the end of the year based on the remittances that they mobilized. To ensure value for money, the costs can be capped as a percentage of value of the remittance mobilized
		• A coordinated effort can be made between public sector institutions and RSPs to set up a help- line to reach out to diaspora and migrants to help them send remittances back home, albeit through over-draft or advance cash facilities. Efforts should also be made to help migrants and diaspora to open bank accounts remotely. Currently, due to CDD requirements, customers (diaspora) cannot open forex account on-line although they can do so through banks' associates in the Consulates where potential customers have to apply by filling in manual forms. Also migrants should be able to open mobile money accounts which may at least partly provide an alternative to opening forex accounts
		• There is a need for the Government through its Consulates to convince banks in host countries to have dedicated outlets for Ethiopian migrants as well as allow and support local banks to open branches in areas, such as the Middle East, where majority of migrants are working
		• In light of risk based approach on KYC and CDD provisions in the AML/CFT laws across countries, the Government may ensure outreach with the host governments through the local embassies and consulates and request to facilitate remittances through formal channels for Ethiopians with limited documentation, especially for low-value transactions. This could be done on humanitarian grounds for a period of six months at the least

• NBE collects and compiles data on Balance of Payment including those related to remittances through formal and informal channels	✖ Reliable data on remittances is key both for the purpose of enhancing the accuracy and completeness of Balance of Payment data, to effectively manage issues related to AML/CFT compliance, to understand the impact of remittances and to form more effective policy for managing remittances. Yet available data leave much to be desired	• NBE may consider to develop an International Transaction Reporting System for remittance data collection, analysis, monitoring and use. To establish this platform, with technical assistance and financial support from UNCDF, a Technology Service Provider is expected to be engaged to assess the already existing NBE data collection system and to develop a platform that, among others, will define appropriate remittance data architecture, data collection and repository systems, define processes for the data measurement & analytics, and data monitoring and use • NBE has provided comments to the Terms of Reference to engage the Technology Service Provider for this engagement
• Every resident of the UAE regardless of citizenship is issued an identification card issued by the Emirati government. The card can be used for financial transactions including remittance	✖ Engagement with some banks in Saudi Arabia, for instance, shows that banks in Ethiopia do not have direct correspondent banking relationships with banks in Saudi, despite the fact that Saudi Arabia is one of the leading migration corridors for Ethiopia	• There is a need for the NBE to push the local banks in Ethiopia to start engagement with banks in Middle East and Gulf states, including Saudi Arabia, and have relationships that will facilitate seamless flow of remittances through the banking system
• Membership in various regional and international fora, including membership to ESAAMLAG and IGAD	✖ Lack of cooperation on AML/CFT measures on cross-border remittance flows among member countries in the region, including sharing of information	• Need to enhance domestic and cross-border regulatory cooperation to strengthen AML/CFT measures through data-sharing and enforcement among IGAD member countries. This can be done by assessing the existing remittance arrangements and challenges, creating building blocks of a response to improve the current regional cross-border remittance arrangements, and putting forth a roadmap of practical steps (with timeframes) needed to achieve harmonization through a coordinated effort from each of the regional central banks. An intended outcome being increased efficiency, affordability and security of intra-regional and cross border fund transfers • A good example is the East Africa Payment System which provides for seamless flow of remittance across the five EAC member states. Its success was mainly due to the commitment and buy-in from each of the central banks, including dedicated coordination and support from the EAC Secretariat

	✖ Un-harmonized laws and regulations related to cross-border remittance across regional blocks	• NBE to spearhead harmonization of remittance regulations within the various corridors and IGAD region. It can be a challenge to make use of regional payment systems if the regulation in each participating system is not harmonized, or if operating standards are different. Across countries, there are differences on AML/CFT requirements and their application especially those related to KYC/CDD that may affect seamless flow of cross border remittances through formal channels. In South Africa, for example, many customers are explicitly excluded from sending formally even if they have a form of ID because the providers require proof of the residency/immigration status. In a country with many unregulated migrants it means none of them can use formal providers even if they want to

Key to colour coding:

Expected to be implemented in the next six months	Not expected to be implemented in the near future
Expected to be implemented in the next year	Requires further coordination by NBE

KEY TAKEAWAYS & NEXT STEPS

Ethiopia has set an ambitious agenda for the modernization and privatization of key economic sectors — most notably telecommunications and financial services — that are most important to the country's development. The Government recognizes the critical contributions that Ethiopian migrants living and working abroad can make to lift up their home country. UNCDF has thus sought to provide a similarly ambitious and comprehensive diagnostic for the specific, and very important, question of optimizing migrant remittances. We recognize that the various recommendations also require various levels of effort and timeframes to implement.

We look forward to reviewing this report in detail with key NBE and Government stakeholders and accordingly identify opportunities where UNCDF can provide specific support going forward. For example, there is a need for a separate directive to cover remittance service providers. Given the current policy stance of restricting ownership of financial institutions by foreigners, NBE may consider allowing international RSPs to partner with non-bank financial services providers without necessarily licensing them as local establishments.

Along with consultations to review this report's contents, UNCDF will keep Ethiopian stakeholders up-to-date about the comprehensive body of work we will be pursuing around migration and remittances. That work includes:

- Demand-side research

  Despite digital solutions' great potential to improve the lives of migrants and their families, both access and uptake remain a challenge. Many migrants may lack practical access to a digital transaction account (such as a mobile wallet) whether because such services are simply unavailable in the locale where the migrant is working, or because the migrant lacks the necessary documentation to obtain such an account, or due to some other external factor. Where access is available, the migrant may lack the necessary digital literacy to know how to register for such an account. Finally, some migrants, even those digitally adept, may not see digital solutions as better than cash-based, perhaps not surprising since to date the use-cases for digital remittance channels remain limited. Unless human- centered financial product development, focused on the financial needs and mobility considerations of migrants, are responsively designed and supported by the requisite last-mile delivery infrastructure, commercially viable financial inclusion for migrants and their families will not be achieved. UNCDF's demand-side research thus focuses heavily on human-centered design. We anticipate that the learnings from our human-centered design work will be applicable and valuable to the Ethiopian context.

- Supply-side research

  Access and adoption of digital financial services, including of remittances, requires a robust and inclusive digital finance ecosystem. Such an ecosystem must ensure active participation of both traditional and non-traditional financial service providers to support commercially viable digital remittance channels. UNCDF's supply-side assessment work is aimed at reviewing the constraints faced by the providers—agent networks, liquidity management, business models, products, and digital infrastructure, among other factors—that currently limit their capacity to advance usage of digital products.

- Learning and Implementation

  In parallel with the roll-out of the research strategy, UNCDF will be pursuing an ambitious capacity-building and learning agenda. We are partnering with leading academic and learning institutions to advance understanding of shared challenges and opportunities about building enabling ecosystems, pursuing evidence-based decision-making, and designing migrant-centric financial products. We will look forward to participation by Ethiopian stakeholders as the capacity- building coursework launches. In the meantime, we have already begun working with Ethiopian financial institutions and mobile money providers on different aspects of the programme's overarching mandate: improving access to and adoption of digital remittance channels, improving usage, and designing migrant-centric products and services.

We also look forward to supporting the efforts of National Bank of Ethiopia in implementing an International Transaction Reporting System on remittance data and information-capturing and -sharing. To establish this platform, with technical assistance from UNCDF, NBE is seeking a technology service provider to assess the existing NBE data collection system and develop a platform that, among other features, will define the appropriate data architecture (the objectives of which are to establish the necessary data collection and repository systems) and will define processes for the remittance data measurement and analytics, and for remittance data monitoring and use.

Finally, as we begin collaborating with NBE to review this report, we also look forward to considering the set of recommendations holistically. The holistic approach is important for several reasons. First, all the work with UNCDF will ultimately support the central bank's efforts to improve remittance flows through regulated channels, thus giving regulators a more accurate picture of the true balance of payments. At the same time, the work will also advance the financial inclusion of migrants and their families, thus advancing the financial inclusion agenda for the nation as a whole. Finally, all these recommendations are aligned with the government's Digital Ethiopia strategy which cuts across sectors and demographic segments in the drive to bring the entire country into the digital era and to speed investment and development.

Collectively, UNCDF's set of recommendations in this report form a system; changes to any single factor will likely cascade through that system. Tackling the diagnostic's recommendations systemically, rather than looking at individual recommendations in isolation, will make their inter-dependencies and linkages more visible, keep at the forefront their alignment with the nation's monetary, financial inclusion, and digitalization agendas, and will ultimately create the best path forward.

Annex: Ethiopia Remittance Policy OVERVIEW

The National Bank of Ethiopia Establishment (as Amended) Proclamation

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. 591/2008		Kenya	Tanzania	Bangladesh	Philippines
The Proclamation provides wide ranging authority to NBE,among others, the following relates to foreign exchange: 1) Banning of transactions of foreign exchange except withbanks or authorized dealers; 2) Imposition of terms, conditions and limitations under which residents and non-residents can possess and utilize foreign currency orinstruments of payments in foreign exchange; 3) Imposition of terms and conditions for the transfer of foreign exchange to and fromEthiopia and the settlement of any foreign exchange thatresults from export, import ortransfer; 1) Import or export of valuablegoods or foreign exchange to be disallowed unless conditions, circumstances and terms determined by NBE are fulfilled; and, 2) Monitoring of foreign ex-change transactions of banks.	Current foreign exchange controls in place, among others,include: 1. Foreign exchange rate is closely managed to maintain the purchasing price of the Birr and is not determined bymarket forces; 2. 30% of foreign currency inflows into commercial banksmust be surrendered to the NBE 3. 70% of the incoming foreign currency must be used within28 days, and 30% can be kept indefinitely. The foreign currency shortage has led to long delays in accessing foreign currency to import materials and services and businesses do not always receive their full foreign currency request in time. Apparently, businesses that are more affectedby the shortage of foreign exchange are also more likely to use alternative solutions to access foreign currency. These include non-resident (diaspora) foreign currency accounts and the parallel market. Also the shortage currently being experienced due decreased flow of remittances is severely affecting the banks resulting into failure to meet maturing obligations with correspondence banks timely, which may affect the country's ratings by international rating companies and consequently may have negative impact on business relationship that includes remittance business with partner MTOs and correspondent banks, hence elevate the current challenges on remittance flows. The Ethiopian economy is experiencing many of the costs and benefits associated with managed exchange rates. Benefits include i) cheaper foreign exchange for structural investments, ii) a reduced external debt burden and iii) increased domestic consumption. Costs include i) lower reserves, making shocks hard to manage, ii) exporting businesses with high local content requiring price incentives to overcome higher costs associated with the exchange rate, and iii) rent seeking associated with higher profits in supported sectors and the parallel market which can distort incentives. (Rodrik 2008).	The crawling peg regime lasted eight years to 1990, when Kenya adopted a dual exchange rate up to 1993, when the exchange rate was fully liberalized. Kenya's exchange rate regime is free float determined in the market through demand and supply forces. https://www.centralbank.go.ke/images/docs/Re-search/Exchange_Rate_Re-sponse_to_Policy_News_in_Kenya.pdf	Foreign exchange rate graduallytransformed between 1986 and1993 from a peg with large parallel market premium to unified managed float, determined by market forces. According the Foreign ExchangeAct, 1992: - Any person whether residentor not resident in the 'UnitedRepublic of Tanzania may hold any amount of foreign currency; and - Any person whether resident or not resident in the United Republic of Tanzania may open and maintain a Foreign Currency Account with a bank. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Acts/en/202002130644421417.pdf	- According to The ForeignExchange Regulation Actof 1947, only authorized dealers, as appointed by Bangladesh Bank, may engage in any foreign exchange transactions. - Residents of Bangladesh can hold with themselvesup to US$5000 in foreign currency and may hold any amount of foreign currency in a Resident Foreign Currency DepositAccount with an authorized dealer. Non-res-idents and foreigners may hold any amount of foreign currency with themselves or with a bank. - Inbound remittances fromBangladesh nationals working abroad can be received through banks, post office branches, authorized NGOs, and agents of mobile phone companies. https://www.bb.org.bd/aboutus/regulationguide-line/foreignexchange/nov132017_forextrxind.pdf	Foreign exchange transactions are primarily regulated by the Manual of Regulations on ForeignExchange Transactions. The Manual stimulates the policies that govern: eligible loan purposes, public sector and publiclyguaranteed private sec-tor loans, purely private sector foreign loans, cross-border transfers. http://www.bsp.gov.ph/downloads/Regulations/MORFXT/MORFXT.pdf

Licensing and Supervision of the Banking Business

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. 592/2002, No. 1159/2019		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The legislation puts in place a comprehensive law for thelicensing and supervision of the banking business to ensure safety, soundness and stability of the banking system. The man-date is vested to NBE. Under the law, "banking business" means any business that consists of the following activities: a) receivingfunds from the public through means that the National Bank has declared to be an authorized manner of receiving funds; b) using the funds referred to under paragraph (a) of this sub-article, in whole or in part, for the account and at the risk ofthe person undertaking bankingbusiness, for loans or investments in a manner acceptable by the National Bank; c) the buying and selling of gold and silver bullion and foreign exchange; d) the transfer of funds to other local and foreignpersons on behalf of the banksthemselves or their customers; e) the discounting and negotiation of promissory notes, drafts,bills of exchange and other evidence of debt; f) any other activity recognized as customary banking business, which a bank engaged in the activities described from paragraph (a) to (e) of this sub-article may be authorized to undertake by theNational Bank. The law also provides that NBE may issue directives prescribingstandards on bank's customer due diligence and reporting of suspicious transactions.	The law gives sole mandate to the NBE of licensing and regulating banks. However, the definitions of banking business under the law includes some activities which are beyond theimmediate scope of banking business per-se. This sounds restrictive and may stifle innovation. NBE may consider the broad definition of banking business that is "receiving funds from the general public through the acceptance of deposits payable upon demand or after a fixed period or after notice, or any similar operation through the frequent sale or placement of bonds, certificates, notes or other securities, and to use such funds, in whole or in part, for loans or investments for the account of and at the risk of the person doing such business". This will leave room for other non-banking activities to be considered by non-bank financialservices providers, such as RSPs.	The Banking Act is an Act of Parliament to amend and consolidate the law regulating the business of banking in Kenya and for connected purposes. Defines "banking business" as (a) the accepting from members of the public of money on deposit repayable on demand or at the expiry of a fixed period or after notice; (b) the accepting from members of the public of money on current account and payment on and acceptance of cheque; and (c) the employing of money held on deposit or on current account, or any part of the money, by lending, investment or in any other manner for the account and at the risk of the person so employing the money; (d) such other business activity as the Central Bank may prescribe. PSPs are licensed and regulated under the payments laws https://www.centralbank.go.ke/wp-content/uploads/2016/08/BankingActOct2015.pdf	The Banking and Financial Institutions Act is an Act to providefor comprehensive regulation ofbanks and financial institutions. Defines "banking business" as the business of receiving funds from the general public throughthe acceptance of deposits payable upon demand or after a fixed period or after notice, or any similar operation through the frequent sale or placement of bonds, certificates, notes or other securities, and to use such funds, in whole or in part, for loans or investments for the account of and at the risk of theperson doing such business. The country follows a non-bankled model and therefore RSPs are licensed and regulated under the payments law. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Acts/en/202002130644421316.pdf	The Bank Company Act of 1991 gives Bangladesh Bank sole authority to grantlicenses for conducting banking business in Bangladesh. "Banking" is defined briefly as: "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and with-drawable by cheque, draft, order or otherwise. Section II lists additional acceptableforms of business which banks may engage in. https://www.bb.org.bd/aboutus/regulationguide- line/lawsnacts.php	An Act Providing for the Regulation of the Organization and Operations of Banks, Quasi-Banks, Trust Entities and for Other Purposes. Defines "Banks"to refer to entities engaged in the lending of funds obtained in the form of deposits. http://www.bsp.gov.ph/downloads/Regulations/gba.pdf

Microfinancing Business Proclamation and its Amendments

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. 626/2009		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The legislation states that micro-financing institutions (MFIs) play an important role in providing access to financial services to rural farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs, thus it is necessary to have an appropriate legal framework that further enhances the development and soundness of the micro-financing business. According to the law, the main purpose of an MFI shall be to collect deposits and extend credit to rural and urban farmersand people engaged in other similar activities as well as microand small scale rural and urban entrepreneurs, the maximum amount of which may be deter-mined by the NBE. The law givessole mandate to NBE to licence and regulate MFIs.	MFIs are well placed to serve the population of Ethiopia as their branches are predominately in rural areas. However, they are currently only permitted to participate in the remittances market, as a sub-agent of a banking partner. Although the law does not directly provide that money transfer activity is one of permissible activities, it is provided in the law that MFI may engage in other activities as specified by directives of the NBE from time to time. "Because microfinance institutions (MFIs) often serve low-in-come clients and clients in underserved geographic areas, money transfers help MFIs meet their social goals by delivering an additional service demanded by low-income customers—often at a cost lower than that of mainstream providers(Isern, Deshpande, and van Doorn 2005)"	RSPs are allowed to con-duct money remittance business through an agentsubject to approval by the Central Bank of Kenya, Under the law "place of business" means any premises, other than the head office, including a branch, sub-branch, satellite branch, agency, outlet, mobile unit, marketing office or such other premises as may be approved by the Central Bank, at which an institution transacts deposit-taking microfinance business and which is open to the public. http://extwprlegs1.fao.org/docs/pdf/ken128661.pdf	Section 4 (3) (d) of the Micro-finance Act, 2018 provides that the microfinance business undertaken under the Act shall include "transfer and payment services, including digital microfinance services" RSPs are also allowed to conduct moneyremittance services through agents in line with requirements stipulated in the relevantregulations https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Acts/en/2020021306444 21418.pdf	Under the Microcredit Regulatory Authority Act of 2006, the Government established the Microcredit Regulatory Authority (MRA)to oversee the activities of Non-government Microfinance Institutions. According to the Act, the MRA will be responsible forthe three primary functionsthat will need to be carried out, namely: Licensing of MFIs with explicit legal powers; Supervision of MFIs to ensure that they continue to comply with the licensing requirements; and Enforcement of sanctions in the event of any MFI failing to meet the licensingand ongoing supervisory requirements. http://www.mra.gov.bd/images/mra_files/mra_act_2006_english.pdf	The Microfinance NGOs Act, 2015 defines "micro-finance" as the viable andsustainable provision of abroad range of financial services to poor and low-income individuals engaged in livelihood and microenterprise activities. It uses non-traditional and innovative methodologies and approaches, namely: the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, cash flow-based lending, alternative loan repayments, minimum requirements for CBU/ minimum balance retention, and small denominated savers' instrumentsaimed to improve their asset base and expand their access to capital and savings. https://www.officialga-zette.gov.ph/2015/11/03/republic-act-no-10693/

National Payment Systems

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. 718/2011		KENYA	TANZANIA	BANGLADESH	PHILIPPINES
The legislation provides for the rules on establishment, governance, operation, regulation and oversight of the national payment system so as to ensure its safety, security and efficiency.The mandate is vested to NBE. According to the law, "national payment system" means a system in the Federal Democratic Republic of Ethiopia that consists of the; a) sending,receiving and processing of orders of payment or transfers of money in domestic or foreign currencies; b) issuance and management of payment instruments; c) payment, clearing and settlement systems; d) arrangements and procedures associated to those systems specified under paragraph (c) of this sub-article; and e) paymentservice providers, including operators, participants, issuers of payment instruments and anythird party acting on behalf of them, either as an agent or by way of outsourcing agreements,whether entirely or partially operating in the country. The law also provides provisionsfor powers and duties of NBE, and issuance of authorization; settlement, netting and finality; electronic fund transfers; regulation and oversight; and other miscellaneous provisions.	As provided in the law, the national payment system consistsof, among others; sending, receiving and processing of orders of payment or transfers of money in domestic or foreign currencies and payment service providers, including operators, participants, issuers of payment instruments and any third party acting on behalf of them, either as an agent or by way ofoutsourcing agreements, whether entirely or partially operating in the country. Remittance Service Providers are better placed to be under this law given the functions and objectives of payment systems as well as the current market conditions. However, itis important to consider Remittances as an essential services,as part of financial services, and there should not be any differentiation. "International remittance services are part of the nation-al payment system and often rely on individual payment systems for settlement. Therefore, the public policy objectivesfor international remittance services are closely interrelated with those for payment systems" (CPSS/World Bank - General principles for remittances - January 2007)	The National Payment System Act, 2011 make provision for the regulation andsupervision of payment systems and payment service providers, and for connected purposes. Money Remittance Providers (MRPs) are licensed under the Money Remittance Regulations made under the payments Act. https://www.centralbank.go.ke/images/docs/Li-censing%20Procedures/LICENSINGMONEYREMITTANCE.pdf	Payment Service Providers are li-censed and regulated under theNational Payment Systems Act (2015). The Act grants the Bank of Tanzania with the power to regulate, supervise, investigate, and oversee the operations of payment systems in addition to providing settlement services and operating a RTGS system. RSPs are licensed under the Payment Systems (Licensing and Approval) Regulations, 2015. https://www.bot.go.tz/PaymentSystem/regulations	By mandate of Bangladesh Bank Order 1972, the Payment Systems Department (est. 2012) oversees the regulation, policy, licensing,and operation of the country's payment systems. Un- der the law, PSPs and PSOs are licensed separately. https://www.bb.org.bd/fnansys/paymentsys/pay - systems.php#legal	The National PaymentSystems Act (NPSA) grants Bangko Sentral the authority to operate and regulate the Philippine Payment and Settlement System (PhilPaSS). Under the NPSA, the Central Bank's regulatory oversight is expanded beyond banksand non-bank financial institutions to cover all payment service providers and operators of the payment systems. https://www.bsp.gov.ph/SitePages/PaymentsAndSettlements/PaymentsAndSettlements.aspx#NRPS

Communication Service Proclamation

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. 1148/2019		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The Proclamation, which was published on August 12, 2019 aims at restructuring the telecommunication market and introducing competition in the provision of telecommunication services and enhance the social and economic development of the country. As opposedto the previous approach of regulating the communication sector through several pieces of legislations, the Proclamation creates a single comprehensive legislation to regulate the communication services in general. The Proclamation establishes the Ethiopian Communication Authority ("Authority") and makes it accountable to the Prime Minister. The Authority's objectives are development of high quality, efficient, reliable and affordable communication services; promote a competitive market for the achievement of its goals; and to promote accessibility and interest of consumers. The Authority has the mandate to initiate and conduct a public hearing, basedon its own motion or on a written request by other parties,in the course of undertaking its activities. The law also stipulatesthat the number of telecom operators entering into the market,the condition of the entrance and time for issuance of the licenses shall be determined bythe government.	As a result of the establishment of the Authority, the role of the Ministry of Innovation and Technology, which used to bethe main regulatory body of the telecom sector, is generally limited to formulating national policies for the sector and liaising with the Authority to facilitate the exercise of proper regulatory powers on actors in the communications sector. While setting forth fresh opportunities for foreign and domes-tic investors to invest in telecommunication infrastructures and services, the law would presumably help consumers receive more affordable and better-quality services. However, the following provisions are worth noting and mayrequire amplified secondary legislations for effective implementation: I. To cater for the passive telecommunication providers, which play a significant role in the current telecom service provision. For instance, one of these passive providers are tower companies that provide infrastructure services (tow-er, mast, power, shelter, etc.) for active telecom Operators. ii. The Authority has exclusive jurisdiction to determine anti-competitive behavior with regard to communication services and take appropriate measures. Consideration may be given of leaving the competition part in communication services to be regulated by the already existing Trade Competition and Consumer Protection Authority andenhancing its capacity thereof. iii. The Authority's power to regulate tariff set by an Operator with significant market share need to be clearly articulated in secondary legislations. Given that there are no detail rules in the Proclamation on how this issue is implemented,it may be subject to discretionary interpretation to attribute the Authority with the power to set price.	The Communications Authority of Kenya (CA) is the regulatory authority for thecommunications sector in Kenya. Established in 1999 by the Kenya Information and Communications Act, 1998, the Authority is responsible for facilitating the development of the information and communications sectors including; broadcasting, cybersecurity, multimedia, telecommunications, electronic commerce, postal and courier services. https://www.ca.go.ke/about-us/	The Tanzania Communications Regulatory Authority (TCRA) is a quasi independent Government body responsible for regulating the Communications and Broad-casting sectors in Tanzania. To issue, renew and cancel licenses;to establish standards for regulated goods and services; toestablish standards for the termsand conditions of supply of the regulated goods and services; to regulate rates and charges; tomonitor the performance of the regulated sectors in relation to levels of investment, availability, quality and standards of service; the cost of services; the efficiency of production and distribution of services; to facilitatethe resolutions of complaints and disputes between operatorvs operator and consumer vs operator; and to disseminate information about matters relevant to the functions of the Authority. https://www.tcra.go.tz/pages/know-tcra	The Bangladesh Telecommunications Act (2001) empowers the Bangladesh Telecommunication Regulatory Commission (BTRC) to regulate the sector. The BTRC us tasked with regulating the establishment, operation, and maintenanceof telecommunication services. Specifically, they are responsible for issuing licenses, issuing guidelines on interoperability between operators, ensuring compliance with regulations, and setting required service standards. The National Telecommunication Policy (1998) puts forward the strategic vision of the Governmentto ensure universal and affordable cellular services throughout the country. https://www.banglajol.info/index.php/IIUCS/article/view/27433/18300	The regulatory body for the telecommunications industry is the National Telecommunication Commission (NTC). It is a government agency created under ExecutiveOrder No. 546 (1979). The agency has sole authority to regulate public and private radio stations, the provision of public telecommunica-tions services, the radio spectrum, and radio and television broadcast stations, cable television, and pay television. Despite over 71% of the population subscribing to data services, there are only 16,500 base stations across the country's 7,000islands, mostly localized in Metro Manila. That is 1.5 4G sites per 10,000 people, 75% lower than the required capacity. (Country Diagnostic: The State of Digital Payments in the Philippines, December 2019) https://ncr.ntc.gov.ph/?page_id=6777

Trade Competition and Consumer Protection Proclamation

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. 813/2013		Kenya	Tanzania	Bangladesh	Philippines
The law aims to protect consumers from misleading market con-ducts, and harmful goods and services. It also tries to create the possibility that consumers get goods and services com-mensurate to the price they pay.According to the law, consumershave the right to 'get sufficient and accurate information or explanation as to quality and types of goods or services they purchase. They also have the rights to purchase goods or ser-vices on their own free will, not to be obliged to buy, and to be received humbly and respectfully without any abuse from the business person, the law states. Moreover, consumers can claim compensation or related rights for any damage they incur frompurchasing or using goods or services. Such compensation/related rights can be claimed from persons who are involved in thesupply of the goods or services as manufacturer, importer, wholesaler, retailer, or any other way. Apparently, these parties are jointly and severally liable for damages caused by their products.	Among others, the service provider are required to display the price of goods and services, and refrain from announcing mis-leading or false advertisements. The law imposes administrative and criminal penalties on persons or entities that violate the provisions of the proclamation. Most of these penalties are fines but some circumstances may result in imprisonment. The law provides for general competition and consumer protection matters. Apparently, NBE has recently issues a Financial Consumer Protection Directive No. FCP/01/2020. The directive aims to promote fair, responsible and transparent financial transactions and shape professional conduct of financial services providers towards financial consumer. It applies to any financial service provider, financial product and service, and financial consumer and security provider. Given this new development, issues related to consumer protection for cross-border remittance transactions can be further considered under the envisaged RSP Directive.	The Consumer Protection Act, 2012 sets out to provide for the protection of the consumers, prevent unfair trade practices in consumer transactions and to provide for matters incidental thereto. No specific legislation in respect of financial consumer protection. http://www.parliament.go.ke/sites/default/files/2017-05/Consumer-ProtectionActNo46of2012.pdf	Bank of Tanzania issued a Financial Consumer Protection Regulations in 2019. The Regulation apply to financial service providers operating in the country. According to the Regulation "financial consumerprotection "means laws, institutions, practices and policies to safeguard consumer rights, enable consumers to make informed financial decisions andensure fairness in the provision of products and services by financial service providers. It requires every financial service provider to have in place a structure of governance that willensure effective implementation of consumer protection in accordance with the provisions of the Regulations. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Regulations/en/2020031802343226.pdf	The Financial Integrity & Customer Services Department (FICSD) within Bangladesh Bank is responsiblefor protecting the interests of customers, managing complaints against banks and financial institutions, improving the banker-customer relationship, and ensuring the standard of customer-services within the banking sector. The Guidelines for Customers Services and ComplaintManagement (2014) statesthe standards of custom- er services which banks must adhere to, including procedures for receiving and handling customer complaints, and details customers' rights with regards to banking services. The Bank also has requirementsthat customers must have access to information aboutinterest rates, fees, terms and conditions, and risks of financial products and services. https://www.bb.org.bd/aboutus/regulationguide-line/ficsd/cipc_eng.pdf	The Financial Consumer Protection Department (FCPD), a part of Bangko Sentral, has the mandateto protect consumers' financial rights. The four core functions of the FCPD are: (1) consumer assistance, (2) financial education, (3) policy initiation, and (4) market conduct regulation. https://www.bsp.gov.ph/Pages/InclusiveFinance/FinancialConsumerProtectionNetwork.aspx The FCPD uses a five-point framework instituted by Circular No. 857 (2014) to uploadconsumer protection standards of conduct: (1) disclosure and transparency, (2) protection of client information, (3) fair treatment, (4) effective recourse mechanism, and (5) financial educationand awareness. https://www.bsp.gov.ph/Pages/InclusiveFinance/FinancialConsumerProtectionNetwork.aspx?ID=1865

Prevention and Suppression of Money Laundering and the Financing of Terrorism Proclamation

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. 780/2013		Kenya	Tanzania	Bangladesh	Philippines
This is a principal legislation in AML/CFT in Ethiopia. The law repealed and replaced the Sup-pression of Money Laundering and the Financing of Terrorism Proclamation, No. 657/2009 which was enacted in order to deal with threat that ML/FTposes on the domestic as well as the global financial system. Apparently, money launderingwas criminalized under 2004 Criminal Code. The law is comprehensive covering important aspects of AML/CFT including cross-border transportation of cash and bearer negotiable instruments; transparence in financial transactions; identification of customers; obligations regarding wire transfers; enhanced or simplified due diligence; record keeping; financial institutions internal prevention programs; penalties; and aspects related tothe Financial Intelligence Centerthat includes its powers and duties, access to information, disclosure, and reporting of suspicious transactions.	The law adopts the FATF Recommendation and stresses the need to apply a risk-based approach to ensure that measures to prevent and mitigate ML/FT are proportionate with the identified risks. The issue is whether NBE has taken advantage of this flexibility in the law by ensuring service providers are implementing risk based approach on KYC for customeronboarding and related requirements. Recently, FATF President issued a statement on COVID-19 and measures to combat illicit financing. The FATF encourages governments to work with financial institutions and other businesses to use the flexibility built into the FATF's risk-based approach to address the challenges posed by COVID-19 whilstremaining alert to new and emerging illicit finance risks. The FATF encourages the fullest use of responsible digital custom-er onboarding and delivery of digital financial services in light of social distancing measures. Also, FATF has issued a Guidance on Digital Identity which is intended to assist governments, regulated entities and other relevant stakeholders in determining how digital ID systems can be used to conduct certain elements of customer due diligence (CDD) under FATF Recommendation 10.	The Financial Reporting Centre (FRC) is a Government institution created bythe Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) 2009, with the principal objective of assisting in the identification of the proceeds of crime and combating money laundering. The Prevention of Terror-ism Act (POTA) 2012 tasks the FRC with combating terrorist financing. http://www.frc.go.ke/	The Financial Intelligence Unit of the Ministry of Finance and Planning was established underthe Anti Money Laundering Actof 2006 to fight money laundering and terrorist financing. https://www.fiu.go.tz/AboutFIU.asp	The Bangladesh Financial Intelligence Unit (BFIU) was established in 2002 as a department of Bangladesh Bank and was bestowed operational independence in 2012. The unit is responsiblefor putting in place legal, administrative and judicial arrangements for the prevention of money-laundering, terrorist & proliferation financing. https://www.bb.org.bd/bfiu/index.php	The Anti-Money Laundering Council (AMLC) is the Philippines' Financial Intelligence Unit. It was created by, and is responsible for implementing, the Anti-Money Laundering Act of 2001. It's mission to (1) protect the confidentiality of bank accounts (2) to ensuring that the Philippines is not used as a money laundering site and (3) to extend cooperation intransnational investigation of money launderingactivities. http://www.amlc.gov.ph/about-us

Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. 01/2014		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
Among others, the Directive intends to ensurethat Financial Institutions have sound policies, procedures and controls in place that enable them to identify their new and existing customers. The Directive requires Financial Institutions to take a risk-based approach to KYC requirements,carry out full range of CDD measures on a risk sensitive-basis, determine in each case if the risks are lower or not, depending on the type of customer product, transaction or location of thecustomer, and understand and, as appropriate, obtain information on, the purpose and intended nature of the business relationship including the expected or predictable pattern of transactions. Financial Institutions are required, in addition to performing CDD measures in accordance with the provisions of the Proclamation and the directives, put in place appropriate risk management systems to determine whether a potential customer or existing customers or the beneficial-owner is a Politically Exposed Person (PEP). For domestic transfer of Birr 20,000 or cross-border wire transfers of USD 1000 or any equivalentforeign currency or more, the Directive require Financial Institutions, including intermediary Financial Institutions, money or value transfer service operators, to obtain and keep a record, for at least ten years, the full originator's and thebeneficiary's information in the message or payment form accompanying the wire transfer. Financial Institutions are also required, in the course of their business, identify and report to the Financial Intelligence Center (FIC), any suspicious transactions. Financial Institutions shall report all cash transactions in any currency abovethe sum of ETB 300,000 or USD 15,000 or equivalent foreign currency for both individuals and legal persons to the Center whether conducted as a single transaction or several transactions that appear to be linked.	The Directive is comprehensive enough and covers important aspects for AML/CFT, including institutional framework and internal compliance programs; KYC and identification procedures; CDD measures; monitoring and reporting of cash and suspicious transactions; employee conduct and training programme;and miscellaneous provisions covering keeping records, supervision of financial institutions, and sanctions for non-compliance. The issue is to what extent Financial Institutions comply with the provisions of the Directive. With absence of unique and reliable ID, implementation of the regulations, especially on the basis of risk based seems challenging. A country need not impose a separate licensing or registration system with respect to natural or legal persons already licensed or registered as financial institutions (as defined by the FATF Recommendations) within that country, which, under such license or registration, are permitted to perform money or value transfer services, and which are already subject to the full range of applicable obligations under theFATF Recommendations.	Under the Anti-Money Laundering Guidelines forthe Provision of Mobile Payment Services (2013) issued by the Central Bankof Kenya, it is the obligation of a Mobile Payment Service Provider to (a) investigate any account exceeding a daily turnoverof KShs 100,000 and any personal account trans-acting more than KShs 300,000 per week (b) take reasonable action to verifythe true identity of any applicants before enteringinto business relation-ship and (c) allow mobile payments accounts to onlybe opened using valid identification documents. https://www.centralbank. go.ke/images/docs/NPS/Regulations%20and%20Guidelines/Guide- lines%20-%20Mobile%20money%20AML%20Guide-lines.pdf	Tanzania established a National Identification Authority (NIDA) which is among others, responsible for issuing Identity Documents to Tanzanianscitizens and residents and maintaining IdentityRegister with the aim of strengthening security and peace for economic and social development of the Nation. By March, 2020 NIDA had successfully biometrically registered a total of 21,823,026 citizens, 26,794 foreign residents and 207,644 refugees. The goal is to reach populationof 27,796,983 adults (age of 18 and above) by June 2021. Mobile companies in the country had successfully registered more than 37.29 million mobile sub-scribers using fingerprints. https://nida.go.tz/swahili/	The Money Laundering Prevention Act (MLPA), 2012, Mutual Legal Assistance in Criminal Matters Act and the Anti Terrorism Act serveas the legal framework for BFIU. The MLPA establishes whatcircumstances constitute money laundering, establishes customer identification requirements, sets record keeping standards for institutions engaged in financial activities, and re-quires that such institutionsreport suspicions of money laundering. MPLA requires that board of directors of banks and financial institutions have an anti-money-laundering compliance policy that outlines the division of activities, roles and responsibilities for the prevention of money laundering. All financial institutions must designatea Chief Anti-Money Laundering Compliance Officer (CAMLCO). https://www.bb.org.bd/bfiu/bfiu_lawguidelist.php	The Anti-Money Laundering Act (AMLA) of 2001 and the Terrorism Financing Prevention and Suppression Act (TFPSA) grant theAMLC and Bangko Sentral the authority toissue and upload regulations in order to combat money laundering and the financing of terrorism regulations. Money laundering broadly defined as the act of knowingly transacting, converting, or concealing any monetary instrument or property related to the proceeds of any unlawful activity. The law further states that any person who fails to report such activity is also committing money laundering. Among other requirements from the AMLA, all covered institutions are responsible for establishing a Compliance Office to carry out their Money Laundering and Terrorist Financing Prevention Program (MLPP). Remittance and Transfer Companies (RTC), Money Changers (MC), and Foreign Exchange Dealers (FXD) are required to register with the Anti-Money Laundering Council Secretariat (AMLCS) and all personnel directly involved in operations are required to attend a Bangko Sentral- or AMLC- ac-credited seminar on the requirements of the AMLA before the start of operations. A refresher training is required every two years thereafter. Note: MORNBFI mentions that there is a face-to-face process under the KYC requirements that must be adhered to even for originating new accounts using electronic channels. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Suspicious Transaction Detection and Reporting Guidelines for Financial Institutions

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. 02/2019		Kenya	Tanzania	Bangladesh	Philippines
The Guidelines has been issuedby the Financial Intelligence Center (FIC) aimed to assist Financial Institutions in applyingnational measures to combat ML/TF and in particular, in detecting and reporting suspicious transactions. The Guidelines intends to clarify the obligationsof financial institutions to reportsuspicious transactions, to ease the challenge for the identification of suspicious transactions, and to reduce the subjectivity on the identification of suspicious transactions	The Guideline provides answers to a number of questions ranging from what is suspicious transactions (STs) with examples, how to identify STs, what constitute STs, what to report, what protection is there for reporting persons, what to disclose, etc. The Guideline also provide guidance on red flag indications in various aspects and dimensions. However,the issue remains on how are the guidelines applied in real situation.	The Proceeds of Crime andAnti-Money Laundering Act (POCAMLA) 2009 states the obligations of institutions to file a reportof suspicious activity withthe Financial Reporting Centre (FRC). http://www.frc.go.ke/downloads/download/10	Under the Anti Money Laundering Act of 2006 to fight money laundering and terroristfinancing, reporting persons areto submit a report of suspiciousactivities to the Financial Intelligence Unit within 24 hours ofhaving a suspicion. https://www.fiu.go.tz/AMLguidelinesForBankingInstitutions.pdf	The Guidance on ReportingSuspicious Transaction Report for the Reporting Organization, published by the BFIU empowers thereporting organization to submit a suspicious trans-action or activity report to BFIU through an online reporting system and specifies the reporting chain. The guidelines list possible red flags that could trigger a report. https://www.bb.org.bd/bfiu/bfiu_lawguidelist.php	The Manual on Regulations of Non-Bank Financial Institutions (MORNBFI) requires that the BSFI have in place strong detection systemsthat will alert staff to unusual activities and suspicious transactions. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf The Republic Act 9194 (2003) amendment to the AMLA stipulates the reporting requirements of banks with regards tothe detection of money laundering. Institutions are responsible for reporting to the AMLC allcovered and suspicious transactions within five working days of occurrence. http://www.amlc.gov.ph/laws/money-laundering/2015-10-16-02-50-56/republic-act-9194

Licensing and Authorization of Payment Instrument Issuers

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. ONPS/01/2020		Kenya	Tanzania	Bangladesh	Philippines
The Directive applies to payment instruments issuers authorized by NBE and providesfor among others, requirementsfor authorization and licensing, governance, permitted products, electronic account management, account limits, float management, CDD, customer protection and oversight issues. The minimum capital for service providers is Birr 50 million ($1.6 million) which is to be depositedin a blocked account. No individual, other than government is allowed to hold more than 20% of the shares of any licensed service provider, and any company other than a government enterprise is required to have a minimum of 10 shareholders. Licence application fees is Birr 5,000 and licence fees is Birr 5,000 which is valid for one-yearrenewable at a fee of Birr 5,000.New product or service authorization fess is Birr 3,000 and fee for registration of limited use instrument is Birr 2,000. Permitted products and services includes, CICO, local money transfers, domestic payments, over-the-counter transactions, and inward international remittances. Account transaction limits have been set in three levels. Level 1 with a maximum account balance of Birr 5,000, aggregate daily transaction limit of Birr 1,000 and aggregate monthly transaction limit of Birr 10,000. Limits for level 2 areBirr 20,000, Birr 5,000 and Birr 40,000 while for level 3 are Birr 30,000, Birr 8,000 and Birr 60,000respectively.	The Directive marks a very important milestone for the payment system modernization journey and in improving the quality of the digital financial services in Ethiopia. The Directive is expected to encourage and diversify the interest of investors in financial services that have been largely restrictedto banks, insurance firms, lease financiers and micro-finance institutions and provide impetus to the envisaged remittancereforms. However, the capital requirement could be restrictive as it is not based on scope of business and levels of risks. Also foreignownership restrictions will limit the international RSPs from being licensed to provide remittance services. Apparently, the scope of the directive does not include licensing of RSPs, however remittance services can be provided by licensed or authorized payment instrument issuer. According to the Directive: 1. "financial institution" means a bank or a micro-finance institution Incensed by NBE. For the purpose of the directive, payment instrument issuers and postal services other than banks and microfinance institutions that provide electronic money related financial services using agents as per the relevant payment instrument issuer directive of NBE shall be considered a financial institution; 2. "payment instrument" means any instrument whether tangible or intangible that enables a person to make paymentsor transfer money and it includes electronic money. 3. "payment instrument issuer" means a person authorized or licensed by NBE to issue payment instruments againstreceipt of funds in Ethiopian Birr as per this directive. Under the General Principles of Remittance, "Remittance Ser-vice Provider (RSP)" means an entity, operating as a business,that provides a remittance service for a price to end users, either directly or through agents.	RSPs are licensed under a separate regulation "The Money Remittance Regulations 2013"which providesthat where a money remittance operator is licensed under the Regulations, it shall at all times maintain a minimum core capital of not less than KShs 20 million ($190,000) https://www.centralbank.go.ke/wp-content/up-loads/2016/08/The-Mon-ey-Remittance-Regula-tions-2013.pdf	Electronic money issuers and RSPs are licensed under two different regulations. No minimumcapital requirements provided inthe Regulations for RSPs. Capital is based on the scope and risk. The license fee for operating a remittance payment system is One Million TZS. ($430) It is estimated that out of the total 120–130 million remittances sent monthly, less than 4% are digital and 80% of all remittances are made over-the-counter (OTC). As a result, Filipinos continue to bear the high cost and the administrative burden of sending remittances through brick-and-mortar branches. *(Country Diagnostic: The State of Digital Payments in the Philip-pines, December 2019).* https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Regulations/en/2020030903280842.pdf	Under the Bangladesh Payment Settlement Systems Regulation 2014, licenses are issues in two categories:Payment Service Provider (PSP) and Payment Service Operator (PSO). Bangladesh Mobile Financial Services Regulations (2018) specify regulations for Mobile Financial Services(MFS). Only licensed PSPs may offer MFS. Bangladesh Bank permits Cash in, Cash out, Person to Person (P2P), Person to Business (P2B), Business to Person (B2P), Person to Government (P2G) and Government to Person (G2P) payment services through MFS domestically. No cross border money transfer is allowed under this service, but localdisbursement of inward foreign remittances arrivingthrough banking channels is permitted. Any adult can open a MFS account with any provider at an agent point or bank branch with aphoto and legal identification but may not hold morethan one MFS account withthe same provider. https://www.bb.org.bd/aboutus/regulationguide-line/bpss.pdf	Money or Value TransferService (MVTS) or MoneyService Business (MSB) are regulated by the Manual on Regulations of Non-Bank Financial Institutions. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Retention and Utilization of Export Earnings and Inward Remittances

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. FXD/11/1998		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
According to the directive, regular recipients of foreign ex- change remittance from abroadand exports of goods and services are eligible customers to open retention accounts at commercial banks. There are two types of retention accounts that can be opened for eligible customers. Foreign Exchange Retention Account A and Foreign Exchange Retention Account B. The major change introduced by this amendment is in regards to the percentage of foreign exchange earnings that can be retained in foreign currency by an eligible customer. The previous directive provided that eligible customerscan retain only 10% of their foreign exchange earnings for an indefinite period of time under account A and 90% of their foreign exchange earningsfor 28 days under account B. This amendment increased the percentage of foreign exchangeearnings that can be retained in-definitely to 30% under accountA and the remaining 70% under account B will be converted to local currency if not utilizedwithin 28 days. Therefore, eligible customers can only use the money to finance direct business related and current payments such as importation of goods, paymentfor promotion, subscription fee,settlement of external loan andthe like.	Although the expanded limits could be a good news but generally by the mere fact that the directive puts limits in the utilization of amount received, may have unintended consequences of discouraging the use of formal remittancechannels. No such limits exists in Kenya, Tanzania, etc.	Exporters may retain all their export proceeds in foreign currency accounts with local banks, or sell such proceeds to obtain local currency. Residents may borrow abroad with no limit on the amount; however, the government will not guarantee any borrowing by the private sector. Although payments under technical, management, royalty, and patent fees are freely remittable, relevant agreements and renewals are subject to approval. https://www.trade.gov/country-commercial-guides/kenya-trade-financing#:~:text=Foreign%20Exchange%20Controls%3A,transferring%20funds%20associated%20with%20investment	The Foreign Exchange Circular No. 600/DEM/EX.REG/58 dated 24th September 1998 provides that"as a general rule, banks andfinancial institutions are allowedto provide foreign currency facilities to residents in respect of all current account payments and transfers free of any ceilings,the exception being for travel abroad in which case the USD 10,000 ceiling for an individual shall continue to apply" The Circular also requires banks to observe normal prudent banking practices including production and retention of relevant documentary evidence in support ofthe request made. Receiving loans from abroad is allowed as an inward capitalaccount transaction by the bank. The Circular mandatorilyrequires all foreign loans to be registered with the Bank of Tanzania and for a Debt RegistrationNumber (DRN) to be obtained. Remaining restrictions are on the acquisition of Governmentsecurities by non-EAC residentsand on outward investments beyond the EAC region. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Circulars/en/2020021122490831519.pdf	Resident and non-resident Bangladeshis may hold foreign currency accounts. Earnings from the export of goods or services from Bangladesh may not be de-posited into these accounts.There are no limits on the utilization of funds from the account. https://www.bb.org.bd/aboutus/regulationguide - line/foreignexchange/nov132017_forextrxind.pdf	Residents may receive non-trade remittances in foreign currency and mayuse them freely for any purpose. They may be sold for pesos, retained, or deposited into foreigncurrency accounts. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Limits on the Domestic and Foreign Currency Holding in the Home Country

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. FXD/49/2017		Kenya	Tanzania	Bangladesh	Philippines
The Directive aims to limit the amount of birr and dollars that can be held by travelers coming in and out of Ethiopia. The key restrictions related to foreign ex-change under this directive are no person residing in Ethiopia is allowed to hold foreign currencyfor more than 30 days, and any resident entering Ethiopia from abroad shall declare its possession if it holds more than 1,000 USD. The minimum USD rises to 3,000 if such person is non-resident, and any resident carrying foreign currency shall convert the currency in an authorized bank. Non-residents can possessthe foreign exchange until the validity date of their visa.	The forex thresholds are considered very low and restrictive compared to other countries and therefore may have unintended consequences on forex inflows to the country. For ex- ample in Sudan, amounts exceeding USD 10,000 or equivalentmust be declared for incoming and must be accompanied byimport declaration in case of outflow. No holding limit.	Non-residents may importlocal and foreign currencies without restrictions but amounts exceeding USD10,000 must be declared. For residents and non-residents leavingKenya, need to have documents indicating the source of fund and the purpose of this amount if the amount is USD5,000 ormore. No holding limit https://www.wikipro-cedure.com/index.php/Kenya_-_Currency_Im-port_and_Export#:~:-text=Non%2Dresi-dents%20may%20import%20and,USD%20 10%2C000%20must%20be%20declared.	Residents and non-residents may import foreign currencies without restrictions. If a person is in possession of currency equal to or above to USD10,000or equivalent, shall have to declare by filling declaration formsIssued by Customs Officers at entry or exit points. According to the Anti-Money Laundering (Electronic Funds Transfer and Cash Transactions Reporting) Regulations, 2019, every Reporting Person shall re-port to the Financial IntelligenceUnit: (a) a currency transaction equivalent to USD10,000 or more; and (b) an Electronic Funds Transfer equivalent to USD 1,000 or more. https://www.fiu.go.tz/ELEC-TRONIC_FUNDS_TRANSFER_ AND_CASH_TRANSACTION_RE-PORTING_REGULATIONS_2019. pdf	Non-residents may bring up to USD $3,000 in foreigncurrency into Bangladesh without declaring. Non-resident foreigners are permitted to open and holdforeign currency accounts with authorized dealers without prior permission from Bangladesh Bank. https://www.bb.org.bd/aboutus/regulationguide- line/foreignexchange/nov132017_forextrxind.pdf	- Any person may freelybring in or out of the Philippines up to PHP50,000 in Philippine pesos. - Any person may freelybring in or out of the Philippines up to USD 10,000 in foreign currency. - Residents may purchase foreign currency within a daily limit with a duly completed application to purchase foreign currency.Any purchase in excessof USD 500,000 for non-trade purchases isallowed with additional documentation. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Establishment and Operation of Foreign Currency Account for Non-Resident Citizens and Non-Residents of Home-Country Origin

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. FXD 64/2019		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The Directive repeals the Foreign Currency Account for Non-Resident Ethiopians and Non-Resident Ethiopian Origin Directive No. FXD 55/2018. It provides the requirements and procedures for non-resident Ethiopians and non-resident foreign national Ethiopians to openand operate a foreign currency account in Ethiopia. The Directive provides for three types of foreign currency accounts that can be opened by non-resident Ethiopians andnon-resident foreign national Ethiopians, namely Fixed account, Current Account, and Non-repatriable Birr Account that takes the form of saving de-posit and can be used for local payments only. The directive expands the mode of crediting theaccounts to include individuals/ entities, a spouse or employerof the account holder, business entity owned by the account holder or any other entity as pera valid contractual agreement, but removed the ability to trans-fer between accounts.	Permitting Diaspora to open and maintain bank accounts in local banks may boost the use of formal channels for Remittance. However, there is a need to revisit the requirements and restrictions associated with maintaining the accounts, drawing experience from other countries.	Under the Guidelines on Foreign Exchange (2016), non-residents may open a foreign currency bank account with an authorized dealer in Kenya provided that they meet KYC requirements. https://www.centralbank.go.ke/wp-content/up-loads/2016/08/foreignex-changeguidelines.pdf	The Foreign Exchange Act, 1992allows residents and non-res- idents to open and maintain foreign currency accounts with abank in Tanzania https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Acts/en/202002130644421417.pdf	Foreign Currency Accountsmay be held by non-resident Bangladeshis with notime criteria. https://www.bb.org.bd/aboutus/regulationguide- line/foreignexchange/nov132017_forextrxind.pdf	Overseas Filipinos may hold a peso account in the Philippines while abroad and make depos-its in foreign currency from funds obtained from a prescribed list of sources (that includes salary abroad). Deposits are convertible back into foreign currency provided that the fundshave been used for localinvestments. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Provisions for International Remittance Services Directive

No. FXD/30/2006 (and as amended by Directive No. FXD 58/2018)

Proclamation/directive	UNCDF observation comments	International examples and benchmarking			
No. FXD 58/2018		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The directive intends to provide guideline for enhancing incoming remittance transfers and regulating the processes to improvethe operations of the formal remittance transfer system in Ethiopia. The Directive defines "Remittance Service Providers (RSPs)" to mean a licensed business organization that provides remittance service to customers either directly by banks or through money transferring agents working in association with banks. The RSPs include International money transfer operators and Commercial banks (Bank-to-Bank transfers through SWIFT and other media). "MoneyTransferring Agent" means a business organization having a valid license issued abroad that captures or distributes remittance transfers in association with domestic banks and othersto be specified by NBE. Under the directive, International money transfer operators in association with banks, Commercial banks and Non-financial organization such as the Ethiopian Airlines and the Ethiopian Shipping Lines are permitted toprovide international remittanceservices. However, the 2009 amendment restricts only banksand the Ethiopian Postal Service to provide remittance services in association with International Remittance Service Provider ("IRSP").	The directive restricts cross-boarder remittance service to onlybanks. RSPs can offer their services only through banks or other financial institutions licensed by the NBE, which then act as the distribution network of the RSPs. RSPs are prohibited from offering their services "directly", through a proprietary network of agencies, or from establishing franchised servicesin retail stores, supermarkets, MFIs or other outlets. Also the directive is silent on other digital channels of providingremittance services. One of the best way to reduce the price of remittance services is to encourage a competitive market for remittances. Competition in the provision of remittance services helps to improve the services being provided. It give senders and receivers clear information about the price and other features of the services,easy access to remittance services, and reasonable protection from operational failures and criminal abuse. However, some of the provisions of this Directive contradictswith the new "Payment Instruments Issuers Directive" and therefore implying that the Directive could be no longer applicable	Kenya issued Money Remittance Regulations in 2013 for licensing and regulating Money RemittanceOperators (MROs) - definedas a person licensed to undertake money remittance business. MRO shall deal ininbound and outbound international money transfer transactions. Fees (KSh.): 1. Annual licence fee peroutlet 100,000 2. Application fee for anew licence 20,000 3. Application fee for anew outlet 10,000 4. Application fee for anagent 1,000 5. Annual renewal fee foran agent 1,000 https://www.centralbank.go.ke/wp-content/uploads/2016/08/The-Money-Remittance-Regulations-2013.pdf	RSPs are licensed and regulated under the Payment Systems (Licensing and Approval) Regulations, 2015. Licence fee for remittance business is TZS 1mnand remain valid for five years. Renewal fee is TZS 1mn. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Regulations/en/2020030903280842.pdf	According to the Bangladesh Payment and Settlement System Regulations, 2014, in order to obtain a license from the Bangladesh Bank, an applicant may be required to maintain capital adequacy at levels as specified by the Bangladesh Bankfrom time to time. Capital level will be determined by the type ofservice, average value of payments, aggregate valueand other factors as the Bangladesh Bank deems necessary. https://www.bb.org.bd/aboutus/regulationguide- line/bpss.pdf	The Manual on Regulations of Non-Bank Financial Institutions (MORNBFI) requires businesses providing remittance services to register with the Bangko Sentral before operating. Remittance and Transfer Companies (RTC), MoneyChangers (MC), and Foreign Exchange Dealers (FXD) are divided amongsix categories based on their transaction volumesand type of service. RTCs/MCs/FXDs owe a one time registration fee, scaled in accordancewith their category and thereafter an annual service fee. Two out of three Filipinos are financially excluded, and, thus, do not own a digital wallet or account. This situation limits the number of users who have a digital means to receive social benefits, receive remittance, pay bills, andsave formally *(Country Diagnostic: The State of Digital Payments in the Philippines, December 2019).* https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf

Use of Agents Directive

Proclamation/ directive	UNCDF observation comments	International examples and benchmarking			
No. FIS/02/2020		**Kenya**	**Tanzania**	**Bangladesh**	**Philippines**
The Directive defines activities that can be carried out by an agent, provide a framework to offer agency business service, and set minimum standards of customer protection and risk management to be adhered in the conduct of agency business service. The Directive applies to Banks, MFIs, Payment Instrument Issuers and their agents (including super and sub-agents) that provide agent services in Ethiopia. The Directive provides for application and approval process foruse of agents, appointment of agents by financial institutions including due diligence and eligibility, agency contract formation and minimum contents,permissible and prohibited activities, responsibilities of parties, risk management issuesincluding AML/CFT, supervisionof agents, consumer awarenessand disclosure, and moratoriumfor implementation.	The new "Payment Instruments Issuers Directive" categorizes non-bank financial service providers as part of financial institution and therefore eligible to use agents as provided in the Directive. However, the directive only covers local financial service providers.	Under the Money Remittance Regulations, 2013, a Money Remittance Operator may conduct money remittance business through an agent subjectto approval by the CentralBank of Kenya (CBE) and shall— (a) submit to CBE a signed copy of the Con- tract between the money remittance operator and the agent; (b) any other additional information as may be required by the CBE; and (c) conduct the business in compliance with both the applicable laws. The Regulation also provides for detailed con- tents of the Contract. https://www.centralbank.go.ke/wp-content/up-loads/2016/08/The-Mon-ey-Remittance-Regula- tions-2013.pdf	Under the Payment Systems (Licensing and Approval) Regulations, 2015, RSP may appoint an agent to undertake services on its behalf by entering into an agency agreement. The Agreement shall (a) provide for non-exclusive use of an agent; (b) provide compliance to anti-money laundering and com-bating financing of terrorism laws; (c) consumer protection mechanisms; and (d) any otherrequirements that the Bank of Tanzania shall prescribe. https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Regulations/en/2020030903280842.pdf	Under the Guidelines on Agent Banking for the Banks, among the services that are covered is inward foreign remittance disbursement and facilitating fund transfer. https://www.bb.org.bd/aboutus/regulationguide-line/psd/agentbanking_banks_v13.pdf	The Manual on Regulations of Non-Bank Financial Institutions (MORNBFI) empowers registered Remittance & Transfer Company (RTCs)to accredit their own Remittance Service Agents (RSA), who are subject to the same regulationsas the RTC. Agents are subject to the same anti-money launderingregulations as RTCs and the RTC is responsible foroversight of its RSAs. https://www.bsp.gov.ph/Regulations/MORB/2018_MORB.pdf