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ETHIOPIA COUNTRY ASSESSMENT

REPORT ON INCLUSIVE
INNOVATION STRATEGIES
IN MIGRANT REMITTANCES
AND FINANCIAL SERVICES

October 2022

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Acronyms

API	Application Programming Interface
ATM	Automatic Trading Machine
B2B	Business-to-Business
C2B	Consumer-to-Business
CENFRI	Centre for Financial Regulation and Inclusion
EATS	Ethiopia Automated Transfer System
FSP	Financial Service Provider
GDP	Gross domestic product
ICT	Information and communications technology
IOM	International Organization for Migration
IVR	Interactive Voice Response
KYC	Know Your Customer
LDC	Least Developed Countries
MFI	Microfinance institution
MMO	Mobile Money Operator
MNO	Mobile Network Operator
MOU	Memorandum of Understanding
MPI	Migration Policy Institute
MTO	Mobile Transfer Operator
NBE	National Bank of Ethiopia
NBFI	Non-banking financial institution
OTC	Over-the-Counter
PII	Payment Instrument Issuer
R&D	Research and Development
RSP	Remittance Service Provider
SACCO	Savings and Credit Co-Operative Society
SDG	Sustainable Development Goals
SSA	Sub-Saharan Africa
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UAE	United Arab Emirates
UNCDF	United Nations Capital Development Fund
UNHCR	UN High Commissioner for Refugees
USA	United States of America
US\$	US Dollar
USSD	Unstructured Supplementary Service Data
VC	Venture Capital

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Executive Summary

One of the key aims of the United Nations Capital Development Fund (UNCDF) is the improvement of the functioning of the remittance market—to increase the financial resilience of migrant families. Globally, one billion people (1 in 7 people) send and receive remittances.¹ As per UNCDF's mandate of driving financial inclusion in the world's 46 least developed countries (LDCs), supporting increased access and usage of inclusive and innovative remittance products is critical to achieving financial resilience for migrants and their families. Following an overview of the status of inclusive innovation at the product, institution, and ecosystem levels, the Inclusive Innovation Assessment for Ethiopia proposes recommendations for key stakeholders to make remittance products innovative and inclusive.

Migrant remittances have become an increasingly important source of foreign currency and livelihood for many families in Ethiopia, with remittances (i) accounting for more than five percent of gross domestic product (GDP) and about one-quarter of foreign exchange earnings;² and (ii) benefitting 24 percent of households towards essential household expenditures including food, medical expenses, housing, and education.³ This is driven by the steadily growing migrant population of about 1.2 million Ethiopians living abroad, primarily in the USA, Saudi Arabia, Israel, Sudan, and South Africa⁴ and (i) relatives of the 900,000 refugees residing in Ethiopia (second largest in Africa after Uganda) and relying on remittances from their countries of origin;⁵ and (ii) a politically conscious diaspora,⁶ many of whom have been purposefully using formal channels to support their country in the face of political tensions.⁷

However, although the Ethiopian government and the National Bank of Ethiopia (NBE) have launched various strategies, initiatives, and reforms to improve the financial sector and support digital payments,⁸ the formal remittance sector remains suboptimal compared to the market potential, with 78 percent of remittances inflowing through informal channels.⁹ Beyond positive societal outcomes, inclusive innovation in the remittance space also leads to positive business outcomes for Remittance Service Providers (RSPs) in several ways. These include: (i) accessing untapped customer segments such as women, (ii) unlocking cross-selling opportunities with ancillary services, and (iii) increasing populations' access to savings and borrowing at financial institutions. Unlocking these advantages will require a strong steer towards increased inclusiveness and innovativeness of (i) remittance products, (ii) RSPs as institutions, and (iii) the ecosystem, especially along key corridors such as:

- *The USA-Ethiopia corridor*, where strong competition exists between traditional and digital money transfer companies, especially for online remittance offerings, although agent-based remittance services remain the most popular formal channel.
- *The Sudan-Ethiopia corridor*, where there are limited remittance services available, and informal remittances are prominent primarily due to the Sudan embargo. However, the formal market is

¹ UNDESA International Migrant Stock, 2019

² World Bank, 2020

³ World Bank, 2020

⁴ UNDESA, International Migrant Stock, 2020

⁵ CENFRI, Remittances in Ethiopia, Volume 4, 2018

⁶ The number of Ethiopians in the diaspora varies, from over 3 million from government sources, to less than one million

⁷ Stakeholder interviews, 2022

⁸ E.g., economic reform agenda, Digital Ethiopia 2025, national digital payments strategy 2021-2025

⁹ IOM, Scaling up formal remittances to Ethiopia, 2018

starting to grow with some international digital RSPs and traditional RSPs operating in the corridor.

To that effect:

- **More RSPs have been partnering to integrate new technologies and bundles in their product offering to circumvent barriers** relating to (i) a mobile penetration rate which is at 51 percent with a 21 percent gender gap in phone ownership and usage;¹⁰ and (ii) a 19 percent internet penetration rate, which is almost absent in rural areas.¹¹
- **Though lead RSPs in Ethiopia see the benefit of investing in Research and Development (R&D) to develop innovation products that could compete with informal channels** (e.g., Hellocash is the result of R&D orchestrated by tech start-up BelCash and partner banks), challenges linked to resource availability, skills-building, and political instability limit such innovation, digital remittances nevertheless hold great potential to bridge the gap with the formal sector.
- **Ethiopia's payment systems are being modernized as interoperability between banks was recently achieved, and work is being done to achieve more significant sector innovation.**¹² Recent regulations and directives will allow more companies to provide financial products such as mobile money without going through a bank. The country's national switch has also been given more purview to provide interoperability across the market. Mobile banking and the use of Unstructured Supplementary Service Data (USSD) with the two mobile money players are rising. Still, digital uptake is generally slow, and the country remains predominantly cash-based.

This assessment highlights seven key thematic areas that require strengthening to ensure migrant remittances are accessible and affordable and help drive financial inclusion for underserved populations in Ethiopia. The thematic areas include:

Ecosystem

- Supporting digital payment infrastructure
- Kickstarting a financial service-focused innovation ecosystem
- Policy advocacy to strengthen and support formal remittance uptake

Institution

- Building institutional capacity/knowledge to service underserved or unserved segments
- Incentivising investment into R&D for RSPs

Product

- Developing remittance-linked innovative financial products
- Financial interventions to drive product adoption for underserved segments

¹⁰ ITU, Ethiopia ICT Indicators Database, 2022

¹¹ Ibid.

¹² Ibid.

Introduction

ABOUT THIS REPORT

The United Nations Capital Development Fund (UNCDF) aims to make public and private finance work for the poor in the world’s 46 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest, market failures are most pronounced, and benefits from national growth tend to leave people excluded.

One of UNCDF’s key ambitions is to improve the functioning of the remittance market to increase the financial resilience of migrant families while strengthening the economic development efforts of the countries of origin and destination of migrants. UNCDF supports moving away from dominant cash-based models and toward digital channels—in other words, the end-to-end digitization of remittances—as this holds the key to driving down costs, increasing convenience, and promoting transparency. Remittances are also seen as the gateway product for additional financial services, both because remittances are such a universal feature of the migrant experience and due to their extensive last-mile distribution networks creating opportunities for service-aggregation at the last mile. UNCDF efforts to facilitate access to and usage of remittances towards the financial resilience of migrants and their families are enabled through four workstreams, (i) enabling policy and regulations, (ii) empowering customers, (iii) open digital payment ecosystems, and (iv) inclusive innovation. A systemic gender mainstreaming strategy¹³ is at the heart of all workstreams. UNCDF believes that the remittance ecosystem will never achieve its full potential unless gender dimensions are considered.

Under the Inclusive Innovation workstream, UNCDF helps Remittance Service Providers (RSPs) enhance their innovation strategies and make them more inclusive. The aim is to equip RSPs with the necessary tools to develop innovative products, inclusive of migrants, that drive usage and are commercially viable. This would also help create opportunities for tailored financial products and services that can be offered through digital channels, in turn supporting financial resilience and well-being.

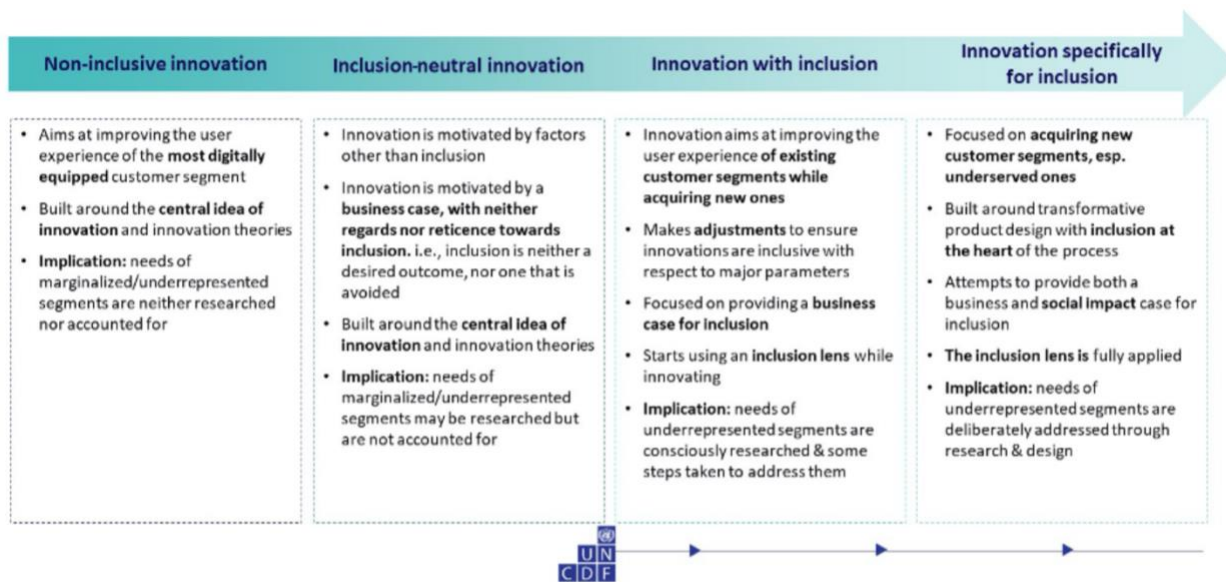
UNCDF uses Country Assessments to understand the existing remittance market and where there may be opportunities to further remittance services’ access and usage, and subsequently, migrants and their families’ financial resilience. This readiness and potential can be mapped on an Inclusive Innovation Spectrum, as shown in [Figure 1](#). The continuum depicts a spectrum of scenarios and situations where a country—including its RSPs and the wider ecosystem—is positioned with respect to its readiness and inclination towards a customer-focused market. The various players involved in the remittance system, including consumers (on the sending- and receiving-end), RSPs, other financial service providers (including but not limited to fintech companies, Mobile Network Operators (MNOs), banks, insurance companies, digital credit lenders, microfinance institutions) and regulators, play distinct roles in driving, achieving, and supporting inclusive innovation.

In an ideal inclusive innovation ecosystem, customers, both men and women, express their realized and latent needs, which guide RSPs and other Financial Service Providers (FSPs) in the definition, development, and provision of remittance and linked financial services. The regulator plays a facilitator and catalyst role for innovation and inclusion. For instance, the state might support innovation in the remittance space, call on stakeholders to mobilize resources or subsidize services for specific underserved segments. The government can also create a conducive regulatory environment for innovation through

¹³ [UNCDF's Migrant Money – Gender Mainstreaming Strategy](#)

strong policy enablers. Therefore, each of these players can contribute to the emergence of innovation and inclusion or lack thereof.

Figure 1 Elements and characteristics of the inclusive innovation continuum



This country assessment provides an overview of the level of inclusive innovation practised at the product, institution, and ecosystem levels in Ethiopia. The report provides background on the remittance sector in Ethiopia and across key corridors (Chapter II). On the innovation spectrum, it then assesses the inclusiveness of (i) remittance products, (ii) RSPs as institutions, and (iii) the broader ecosystem through a series of assessment parameters (Chapter III).

Furthermore, the country assessment provides options for consideration by regulators and market players to support gender-smart and migrant-centric innovation in the country. The report outlines pathways for RSPs to become increasingly gender-smart and migrant-centric; it also proposes options for the regulator and investors to support such shifts towards inclusive innovation.

Country assessments closely study two key remittance corridors, which for Ethiopia are (i) the USA and Ethiopia and (ii) Sudan and Ethiopia. The assessment looks at Ethiopia as a remittance-receiving country (or the country of origin of migrants). The two corridors were identified using various selection criteria, including transaction volume and migration flow, geographical coverage, gender diversity, and ecosystem readiness (see Annexe 1).

KEY METHODOLOGICAL ELEMENTS

The methodology underlying the planning and execution of country assessments has been detailed in the Inclusive Innovation Assessment Guide. This section provides a high-level overview of the key methodological elements. The Guidelines enable different UNCDF players and development organizations, RSPs, Investors, Regulators, and other market players to conduct a similar assessment in other countries. These Guidelines are open source and include tools and templates for the standardized assessment of the application.

The Guidelines are based on the fundamental principles of making remittance products more migrant-centric and gender-smart. UNCDF recognizes the importance of addressing the gender dimensions of remittance access even as remittance and financial products for migrants globally tend to often take a gender-blind approach. Women often experience financial inclusion differently from men, and this experience is further exacerbated as a migrant. Additionally, a migrant-centric and gender-smart approach recognizes that migrants' challenges in access to formal financial systems are different from other customers. To support RSPs in moving away from the current 'one-size-fits-all' approach to designing digital remittances, UNCDF is proposing this novel, migrant-centric and gender-smart approach. While the concepts of 'customer centricity' and 'gender smartness' are not new and have been applied to other areas of inclusive finance, very little has been written on an approach that combines both concepts and applies them in the context of remittances and migrant product design.

Such an approach can help drive better business and development outcomes. It leads to an increased customer base and cross-selling opportunities from a business perspective while strengthening local economies and the financial well-being of migrant households.

Table 1 provides examples of how certain product features can influence the inclusiveness of formal remittances.

Table 1 Examples of how certain product features can influence inclusion

RSPs' INTRINSIC PARAMETERS		RELEVANCE TO RSPs' INCLUSIVE INNOVATION
Product level	Product offering	<ul style="list-style-type: none"> • The presence of a product design process that incorporates the voice, choice, decisions, control and skills of diverse subgroups of customers to strengthen product offering is indicative of companies practising inclusive innovation. • Direct costs (transaction fee, forex spread, compliance costs, limited financial market infrastructure) and indirect costs (financial capability, fraud, dispute resolution, transport, opportunity costs, etc.) incurred by the sender and recipient are critical factors for inclusiveness, given that underserved communities generally have limited financial means and often must face high indirect costs • Low frequency of IT incidents and complaints and the presence of transparent information systems and data protection drive inclusion as they help drive trust in digital technologies and platforms among underserved segments • Bundling additional value-added services (e.g., utilities and payments) on top of remittance products helps drive usage and ensure liquidity within the formal financial ecosystem. • Enabling a downstream digital ecosystem to incentivize migrants and their families to adopt financial products and services—deposits, savings, credit, insurance, pensions, investments—through digital platforms rather than cashing out.
	Delivery of service	<ul style="list-style-type: none"> • Delivery channels drive geographical and demographic penetration of services for more inclusion, as access to digital channels is low among women and other underserved groups in many countries. • Agencies staffed and set up with an intentional focus on inclusion, ensuring that customers are comfortable interacting with the distribution mechanism and interface, whether physical, digital, or a mix of the two, are more inclusive. • Availability of an agency network that makes it easy to cash out. This significantly impacts inclusion as the recipient's ability to access and use remittances easily is often the key deciding factor for the sender in his/her choice of RSP. • Accessibility to customer care support (including non-digital methods) positively impacts inclusion as it helps less financially/digitally literate segments to have their complaints heard and addressed. • Including customers' feedback in the next cycle of product refinement or development—especially that of under-represented customers—can lead to increased levels of inclusion.
	Communication and marketing	<ul style="list-style-type: none"> • Communication and marketing that use the channels and mediums most frequently employed—and most trusted—by different population segments (incl. word of mouth/flat networks for women) help ensure

	<p>equitable distribution of information, avoid information asymmetry, and increase access and usage, especially by underserved segments.</p> <ul style="list-style-type: none"> • Communication and marketing that address underserved segments' specific concerns regarding formal channels around costs, reliability, and access lead to increased inclusion by supporting behavioural changes among these segments.
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Different RSP characteristics can impact their ability to innovate, as well as their capacity to reach underserved customers. Table 2 provides some concrete examples of how certain features of RSPs can influence their ability to innovate inclusively.

Table 2 Examples of how RSP's characteristics can influence their ability to innovate in an inclusive way

RSPs' INTRINSIC PARAMETERS		RELEVANCE TO RSPs' INCLUSIVE INNOVATION
Institutional level	Innovation strategy	<ul style="list-style-type: none"> • Active data analytics of uptake trends help drive customer-centric innovation by tailoring product offering to evolving customer preferences. • Lean business models are better suited for inclusive innovation as they allow tweaking core business processes in response to market demands. • Ensuring the diversity of focus groups testing new products (gender-balanced, diversity of age, rural and urban dwellers, income levels, etc.). • The existence of an innovation culture within the organization, ensuring that skills and mindsets are being nurtured to fuel innovative projects, is crucial to stimulate innovation.
	Organizational capabilities	<ul style="list-style-type: none"> • Agility in organizational structure is critical to support strategy shifts and innovation. • Capacity and (market research) systems are in place for continuous customer engagement and gender-disaggregated data collection. • The capacity to mobilize internal or external financial and human capital resources for innovation is critical to successful innovative product development. • The capacity to engage in and leverage partnerships (e.g., correspondent partnerships, distribution channels, investors, and market players) can be critical to support innovation and strengthening RSPs' understanding and use of an inclusivity lens. • Gender-focused strategies to ensure diverse and gender-balanced workspaces within RSPs are critical to achieving inclusive innovation.

Table 3 provides some concrete examples of how the ecosystem can influence RSPs’ ability to innovate in an inclusive way.

Table 3 Examples of how the ecosystem can support or detract from inclusive innovation in remittances

		RELEVANCE TO RSPs’ INCLUSIVE INNOVATION
Ecosystem level	Innovation stimulus	<ul style="list-style-type: none"> • Active innovation communities (including universities, incubators, etc.) help foster innovation by identifying areas for new product research based on critical market gaps. They also further innovation by providing technical and financial support to inclusive and innovative products at the ideation stage. • The availability of VC/debt for financing helps new ideas flourish in the remittance ecosystem by acting as a clear financial incentive and innovation. • Robust and active industry associations lead to favourable environments for innovation and inclusion by better representing the industry's interests to regulators.
	Policy and Regulatory	<ul style="list-style-type: none"> • The presence of enabling regulations like those supporting the establishment of remittance legal and regulatory frameworks, clear partnership guidelines between MTOs and agents, risk-based Know Your Customer (KYC) requirements and effective customer complaint procedures foster inclusion by enabling RSPs to service a larger proportion of the population. • The appetite for providing subsidies (by government or other donors) greatly enhances inclusion as it helps de-risk harder-to-reach underserved segments for RSPs.

This report builds on existing knowledge captured in interlinked workstreams, namely the enabling policy and regulation, the empowered customer, and the open digital payment ecosystem workstreams. Thus, it capitalizes on strong synergies among UNCDF frameworks and assessment guides.

This report was informed by both secondary research and a series of interviews. Annexe 2 provides an overview of key stakeholders interviewed for this Ethiopia Country Assessment.

Background

THE IMPORTANCE OF FORMAL REMITTANCE CHANNELS IN ETHIOPIA

Remittances are crucial in the socio-economic development of recipient countries such as Ethiopia. In low- and middle-income countries, migrant remittance inflows represent a total of US\$540 billion or an average of 1.75 percent of their total GDP and up to 40 percent of households' income.¹⁴ In Ethiopia, remittance inflows represented about \$5 billion or five percent of the country's GDP in 2020, underscoring the centrality of remittance inflows to the economy.¹⁵

The provision of formal digital financial services tailored to the needs of migrants positively affects the lives of migrants and their families in developing countries. Globally, remittances are a crucial source of funds for migrant families, with 75 percent of remittance flows used for essential household expenditures, including food, medical expenditure, housing, and education.¹⁶ In addition, households in rural areas (where 75 percent of the food-insecure population lives) receive over 50 percent of remittances, indicating a reliance on remittances for improved livelihoods and better resilience.¹⁷ Consequently, providing affordable and accessible remittance channels to underserved segments presents a crucial social impact opportunity. In most developing countries, receiving remittances may be the only form of access to formal financial services,¹⁸ making formal digital remittances a potential driver of broader financial inclusion for underserved segments.

Beyond positive societal outcomes, inclusive innovation in the remittance space also leads to positive business outcomes for RSPs in several ways. These include:

- **Accessing untapped customer segments such as women:** Inclusive innovation could significantly enhance the diversity of the customer base and help organizations grow. Currently, almost half of the 281 million migrants worldwide are women.¹⁹ Furthermore, the percentage of income remitted for women migrants tends to be higher than for migrant men. Yet, many women remain underserved, with limited access to digital channels and subject to higher transfer fees.²⁰ Access to affordable remittances for women offers a significant business opportunity for RSPs globally.
- **Unlocking cross-selling opportunities with ancillary services:** Underserved segments also represent a cross-selling opportunity. In Sub-Saharan Africa, on average, 42 percent of the population receives remittances,²¹ while the percentage of the population with access to savings at a financial institution and borrowing from a financial institution are lower at 8 percent and 14 percent, respectively.²² Strengthening access to formal remittances for underserved segments represents a cross-selling opportunity for RSPs to onboard customers through formal remittance products and then offer essential banking services such as savings and credit.

¹⁴ World Bank

¹⁵ NBE, Remittance inflows, 2020

¹⁶ Migration and Development Brief, World Bank Group, 2021 and 2022

¹⁷ Migration and Development Brief, World Bank Group, 2021 and 2022

¹⁸ ACP-EU Migration Action, 2017

¹⁹ UNDESA, International Migrant Stock, 2020

²⁰ UN Women, Migrant Women & Remittances: Exploring the Data from Selected Countries, 2022)

²¹ Due to data limitations in the Findex 2021 data, here access to remittances data is equated to having received domestic remittances in the past year. The analysis assumes that domestic and international remittances use similar channels, and access to them is proportional.

²² World Bank, Global Findex Database, 2021

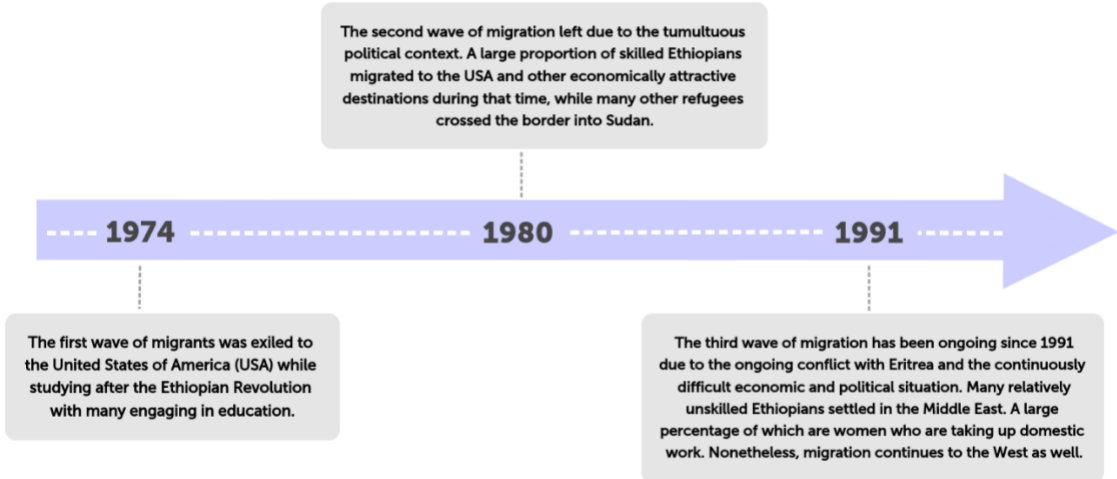
In Ethiopia, there is an opportunity to cross-sell, especially for credit products, as 26 percent of the population has access to savings accounts,²³ compared to²⁴ 16 percent in Sub-Saharan Africa and 11 percent in South Asia.²⁵ However, formal borrowing is the lowest amongst the other three countries of the study (i.e., Bangladesh, Nepal, and Senegal), with 58 percent of saving account holders not having access to loans,²⁶ as opposed to 38 and 0.5 percent, respectively, in Sub-Saharan Africa and South Asia.²⁷ Another opportunity for cross-selling is to decrease the gender gap in access to savings products which is high in Ethiopia compared to other regions (e.g., 13 percent versus two percent in SSA and three percent in South Asia).²⁸

OVERVIEW OF THE REMITTANCE SECTOR IN ETHIOPIA

Emigration and remittances

The number of Ethiopian emigrants grew in the 20th century amid domestic repression, humanitarian crises, and attractive labour opportunities abroad.²⁹ Figure 2 below shows the chronology of key migration waves.

Figure 2 Chronology of Ethiopian migration



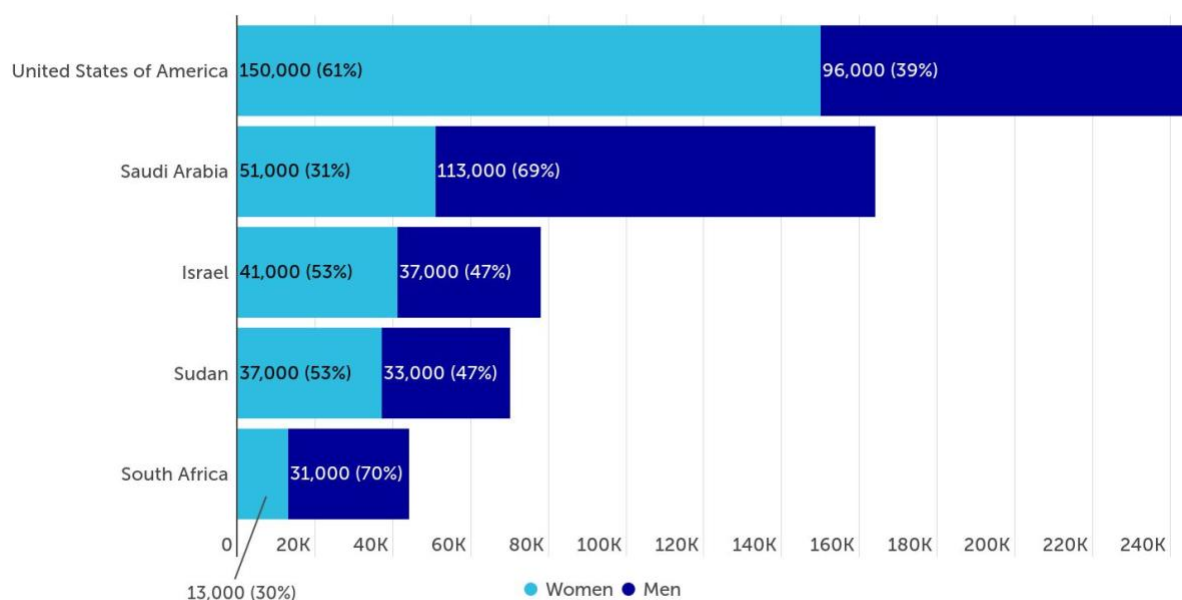
Today, about 1.2 million Ethiopians live abroad, primarily in the USA, Saudi Arabia, Israel, Sudan, and South Africa.³⁰ Collectively, those countries account for 63.6 percent of the migrant population, with (i) women (who make up 49.1 percent of the migrants, compared with a global average of 47.9 percent of

²³ World Bank, Global Findex, 2017
²⁴ It is important to note that disaggregated data for Ethiopia is not available in Global Findex 2021. The data provided is not always comparable across years and regions
²⁵ World Bank, Global Findex, 2021
²⁶ World Bank, Global Findex 2017
²⁷ World Bank, Global Findex, 2021
²⁸ World Bank, Findex, 2017
²⁹ Reliefweb, Once Primarily an Origin for Refugees, Ethiopia Experiences Evolving Migration Patterns, 2021
³⁰ UNDESA, International Migrant Stock, 2020

women migrants) who are mainly present in Sudan, the USA, and Israel; and (ii) men who are mainly in South Africa, Saudi Arabia, and the USA.³¹

In the absence of colonial linkages, the destinations of Ethiopian emigrants can be explained by a combination of factors, including economic opportunities, geographic proximity, migrant networks, policies, socio-political climate, and other historical links with destination countries. For instance, since the 1980s, tens of thousands of Ethiopian Jews were relocated to Israel from Addis Ababa and Sudanese refugee camps with the help of the Israeli government.³² The primary trend, however, is that highly skilled migrants reside in the United States and Europe, while Saudi Arabia and other countries in the Middle East have been top destinations for Ethiopians seeking economic opportunities.³³

Figure 3 Estimated emigrant population (Ethiopia) – Top Five destinations, disaggregated by gender, 2020



With a representation of 1.1 percent of a population of 115 million,³⁴ the Ethiopian diaspora remains closely tied to Ethiopia and sends increasing funds to support families and friends. Apart from a slight drop in 2019/2020 linked to the COVID-19 crisis, remittances have increased continuously since 2010 at about 10 percent per year.³⁵ In 2020/2021, the diaspora sent nearly \$5 billion back to Ethiopia.³⁶ The actual volume of remitted funds is likely much larger since official data do not capture informal transfers (see below section on informal remittances). Informal transfers are typically from the prime emigrant

³¹ Ibid.

³² Stakeholder interviews, 2022

³³ Ibid.

³⁴ UNDESA, International Migrant Stock, 2020

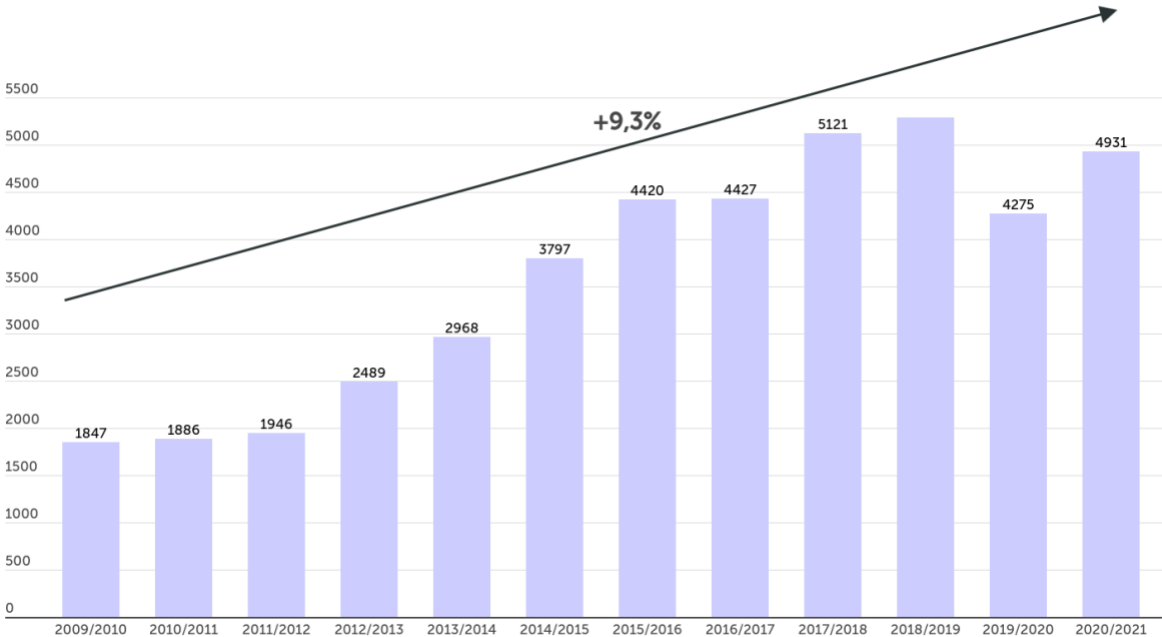
³⁵ NBE, Remittance inflows, 2020

³⁶ NBE, Annual report, 2021. Though other sources provide other estimates (e.g., World Bank) based on different calculation methods, Ethiopia’s Central Bank have stated that NBE data are the official country sources to be used for the estimation of Individual Transfers to Ethiopia

destinations of Saudi Arabi and South Africa.³⁷ Outflows, subject to tight capital controls, were estimated to be around \$60 million for the same period, making Ethiopia a clear net recipient of remittances.³⁸

Migrant remittances have become an increasingly important source of foreign currency and livelihood for many families in Ethiopia, especially with remittances (i) accounting for more than five percent of gross domestic product (GDP) and about one-quarter of foreign exchange earnings,³⁹ and (ii) benefiting 24 percent of households toward essential household expenditures including food, medical expenses, housing, and education.⁴⁰

Figure 4 Remittance inflow to Ethiopia, 2010-2020 (in billion US\$)



³⁷ Reliefweb, Once Primarily an Origin for Refugees, Ethiopia Experiences Evolving Migration Patterns, 2021

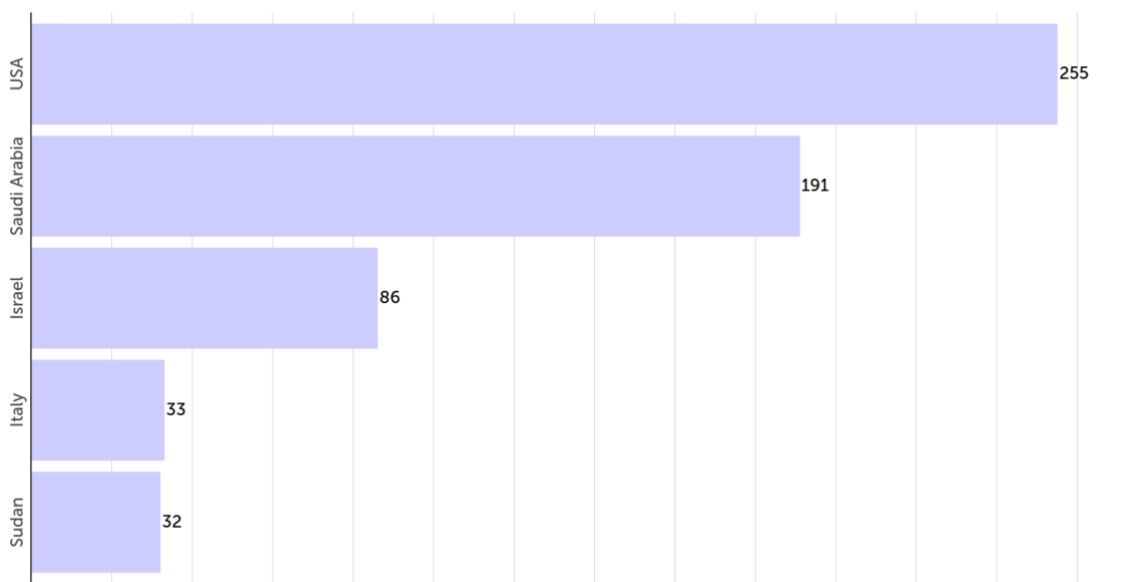
³⁸ NBE, Annual report, 2021

³⁹ Ibid.

⁴⁰ Stakeholder interviews, 2022

Most formal remittances come from outside Africa, as only nine percent of formal inflows were received from within the continent.⁴¹ As shown in *Figure 5* below, the USA and Saudi Arabia lead the way as top remittance-sending markets, followed by Israel, Italy, and Sudan.⁴²

Figure 5 Remittance Inflow (Ethiopia) – Main remittance-sending markets, 2020 (in million US\$)



These transfers mainly come from formal and informal working migrants sending money back to their families and friends but also from the following:

- **The relatives of the 900,000 refugees residing in Ethiopia (the second largest in Africa, after Uganda) who rely on remittances from their countries of origin.**⁴³ Nearly all the registered refugees and asylum seekers in Ethiopia originate from neighbouring countries, including South Sudan (48 percent), Somalia (27 percent), Eritrea (19 percent), and Sudan (six percent).⁴⁴ And,
- **A politically conscious diaspora, many members of which have been purposefully using formal channels to support their country in the face of multiple political tensions.** Since Prime Minister Abiy's election, many Ethiopians abroad have shown support by sending remittances through the banking system, lobbying Western powers to back the government, organising demonstrations abroad, and supporting projects such as the massive Grand Ethiopian Renaissance Dam and a large-scale tree-planting initiative.⁴⁵

The Abiy era has prompted some reforms around remittances, particularly in the financial and banking sector. The National Digital Payment Strategy 2021-2024 recommended that the NBE, the Ministry of Finance and the Ministry of Revenue “review different options to digitize cross-border remittances,

⁴¹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

⁴² Ibid.

⁴³ CENFRI, Remittances in Ethiopia, Volume 4, 2018

⁴⁴ Ibid.

⁴⁵ Stakeholder interviews, 2022

allowing for new operators, new technologies, and innovative schemes; and prepare an assessment to lift restrictions to allow MTOs to provide remittance services independently, with appropriate supervision". Through the support of UNCDF, the NBE amended a directive to "increase permissible forex holdings by 15 percent and ease restrictions on use". The NBE aims to encourage inbound forex flows through the banking sector. **Nonetheless, 46 informal networks remain the most prominent way for Ethiopians to send money to Ethiopia**, particularly to rural households.⁴⁶ The IOM estimates that as much as 78 percent of total remittances are sent through informal channels.⁴⁷

Key reforms under the NBE, several of which have been supported by UNCDF

Directive No. ONPS/01/2020 Licensing and authorization of Payment Instrument Issuers, which eases and clarifies requirements to provide innovative payment instruments, including remittances, to increase the use of financial services.

Directive No. ONPS/02/2020 then authorized fintech companies to offer payment processing and related services.

Directive No. FIS/--/2020 Use of Agents Directive, expanding the use of agents to various financial institutions.

Directive No. FXD/ 69/2021 Establishment and Operation of Foreign Currency Account for Non-Resident Ethiopians and Non-Resident Ethiopian Origin allows non-resident Ethiopians and non-resident Ethiopians to open foreign currency accounts in any Ethiopian bank.

Directive No. FXD/70/2021 allows for foreign currency earnings from export and inward remittances to be retained and used. Beneficiaries are required to give commercial banks 30 percent of their foreign currency earnings and to sell 55 percent of their foreign currency earnings to the bank on the same day they receive it at the prevailing buying exchange rate. Beneficiaries can deposit 45 percent of the proceeds in the retention account for an indefinite time. The 45 percent is calculated once the 30 percent surrender is made on the total earnings.⁴⁸

These reforms will likely impact remittance flows, encouraging more Ethiopians to open local accounts and spur formal remittance flows.

The next section aims to help better understand how (i) the formal and informal remittance markets are structured, (ii) the differences in the way they operate, and (iii) key innovations that formal markets will need—especially in the digital space—to close the gap with the informal market.

⁴⁶ IOM, Scaling up formal remittances to Ethiopia, 2018

⁴⁷ Ibid.

⁴⁸ Copyright©2021 Mehrteab Leul & Associates, March 2021

THE FORMAL REMITTANCES VALUE CHAIN: OVERVIEW, DYNAMICS, AND KEY TRENDS

Overall landscape

For formal cross-border remittances, Ethiopia follows a bank-led and highly regulated model in which:

- *Banks facilitate the bulk of formal remittance inflows as all non-bank RSPs, including MTOs, need to partner with banks to process cross-border remittances.* In addition to handling foreign exchange transactions through commercial banks, MTOs must pay out cash to the recipients in local currency. The only other organizations authorized to conduct cross-border transfers are Ethiopian Airlines and Ethiopian Shipping Lines because of their activities requiring them to transfer funds from and to their branches overseas.⁴⁹
- *Only licensed banks can provide mobile banking services and need approval from the National Bank of Ethiopia (NBE) before starting operations.* All other players must partner with a licensed provider. Mobile transactions are limited to Ethiopian birr (ETB)6,000 (around \$212) daily, which seriously impacts uptake by traders, according to stakeholders.⁵⁰
- *NBE licenses and supervises banks* providing remittance services and must approve all RSP partnerships and new operations.
- However, reforms have been adopted to broaden the number of players engaging in payments. Directive No. ONPS/01/2020 permits licensing and authorization of Payment Instrument Issuers (PII) to ‘a person other than a licensed financial institution’, opening up the field for MTOs. As of February 28, 2022, NBE Directive No. ONPS/06/2022 reduces account minimum balances to two levels. These reforms allow MTOs and APIs to offer digital remittance services.

The formal remittance landscape comprises about 42 RSPs: 18 banks, 11 traditional MTOs, 10 Digital FSPs and fintechs, and three system and hub providers.⁵¹ While banks and MTOs are the known formal players, new digital models have emerged over the last few years through partnerships with banks.

⁴⁹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

⁵⁰ Ibid.

⁵¹ UNCDF, Ethiopia remittance review: assessment of payment and financial markets infrastructures review of remittance policy, 2020

Table 4 Summary of key players providing formal remittance services in Ethiopia

STAKEHOLDER GROUP	KEY PLAYERS
Regulator	National Bank of Ethiopia
1 system and hub provider	MSF Africa
1 MTO aggregator	Thunes
18 commercial banks⁵²	Abay Bank, Addis International Bank, Awash Bank, Bank of Abyssinia, Berhan International Bank, Bunna International Bank, Commercial Bank of Ethiopia, Cooperative Bank of Oromia, Dashen Bank, Debud Bank, etc.
8 local and international MTOs (as of report development period)	Amal Express, Azimo, Dahabshiil, MoneyGram, Remitly, Ria, Small World, Walmart2world, Western Union, WorldRemit, Xoom
7 Digital Financial Service Providers and fintechs (as of report development period)	CashGo, HelloCash, Amole, M-Birr (no longer operational), E-Birr, Mamapays, Kifiya, Yenepay
2 PIIIs (as of report development period)	TeleBirr, Kacha
PSOs (as of report development period)	Chapa, Arif Pay
156,856 agents As per NBE data	Multiple bank and third-party agents

Note: Traditional players | New players. Players have been identified from various sources, including stakeholder interviews, various documentation, and company websites.

Although the Ethiopian government and the NBE have launched various strategies, initiatives, and reforms to improve the financial sector and support digital payments,⁵³ the formal remittance sector remains suboptimal compared to the market potential, with only 22 percent of remittances inflowing through formal channels.⁵⁴ Several reasons underpin the current situation:

- **MTOs play a dominant role in remittances, but this role is limited in Ethiopia.** MTOs must place their services through other financial institutions licensed by the NBE, which ultimately can result in a restricted distribution network as, with over 8,000 bank branches,⁵⁵ one branch serves about 17,732 clients.⁵⁶ Equally, with 50 percent of the country's 1,639 ATMs located in the capital, there are 0.46 ATMs per 100,000 adults and rural inhabitants, who represent approximately 80 percent of the population, who are underserved despite being the primary

⁵² Quarterly Bulletin, Second Quarter 2021/22, Fiscal Year Series, NBE

⁵³ E.g., economic reform agenda, Digital Ethiopia 2025, national digital payments strategy 2021-2025

⁵⁴ IOM, Scaling up formal remittances to Ethiopia, 2018

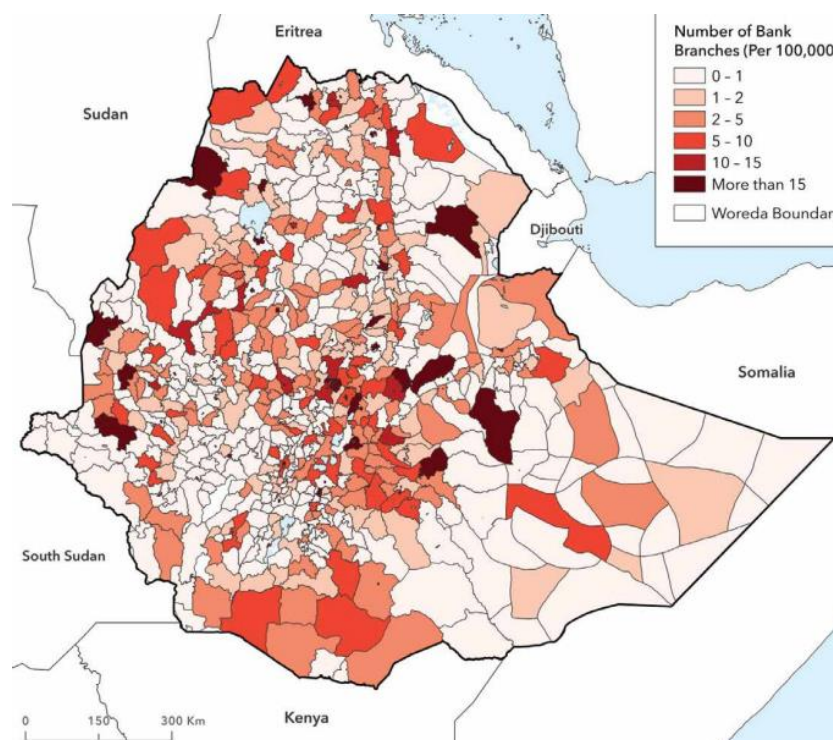
⁵⁵ NBE website

⁵⁶ CENFRI, Remittances in Ethiopia, Volume 4, 2018

remittance beneficiaries.⁵⁷ This sometimes forces rural recipients in Ethiopia to travel great distances to access cash.⁵⁸

- **Important players in the service sector with the infrastructure to provide remittance services—such as postal service providers, telecommunications service providers, credit unions, and microfinance institutions (MFIs)—still have a limited presence and role in cross-border remittances.** However, the recent PII regulations could be a game-changer for all players to provide inward international remittance services.⁵⁹ Furthermore, the network of 40 MFIs and 21 Savings and Credit Co-Operative Societies (SACCOs) could help increase access to financial services, especially in rural areas where they are the most present, as shown in Figure 6.⁶⁰

Figure 6 Number of bank branches per Woreda (Normalized per 100,000 People)⁶¹



⁵⁷ UNCDF, Ethiopia remittance review: assessment of payment and financial markets infrastructures review of remittance policy, 2020

⁵⁸ Stakeholder interviews 2022

⁵⁹ Ibid.

⁶⁰ World Bank, Leveraging Geospatial Technology for Financial Inclusion, 2020

⁶¹ World Bank, Technical Note, Leveraging Geospatial Technology for Financial Inclusion, Financial Inclusion Support Framework, 2020

- **Most formal remittances are handled Over-the-Counter (OTC) by banks and MTOs.** Most formal remittances were sent and received via a bank (59 percent of remitters), followed by in-person or cash interaction via MTOs (40 percent of remitters). **Fewer than 1 percent of remitters stated that they had sent or received remittances via a mobile phone.** Though on the rise,⁶² the uptake of digital remittance services through mobile banking and the use of USSD is generally slow, and the country remains predominantly cash-based.
- **It is illegal to send money out of Ethiopia unless for specified** reasons tracked by the NBE (e.g., payment of school, medical expenses, and purchases). These types of transactions are generally not made via remittance channels, which also encourages the use of informal channels.⁶³

The next section aims to provide greater insight into how the current market dynamics formally affect the price of sending remittances.

Pricing

Sending money to Ethiopia - costs about 6.89 percent of the overall amount, slightly lower than that of Sub-Saharan Africa (7.7 percent).⁶⁴ However, this is below the 10th Sustainable Development Goal (SDG), which aims to reduce transaction costs to three percent). Corridors from the European Union are particularly costly, with rates as high as nine percent on average.⁶⁵ This is mainly due to the low demand for remittance services in these corridors, given the fewer Ethiopian migrants in Europe (16 percent), leading to low competition.⁶⁶ Furthermore, the high operational costs of connecting bank data, applications, APIs, and devices to those of MTOs contribute to the high overall costs of remittance services.⁶⁷ **Corridors such as Sudan-Ethiopia, USA-Ethiopia, and Saudi Arabia-Ethiopia offer lower costs, with the cheapest average rates at 3.5 percent, 3.9 percent, and 4 percent, respectively.**⁶⁸ The lower rate of formal remittances in the Sudan-Ethiopia corridor is driven mainly by high competition with informal channels, the latter being facilitated by the proximity of the two countries. The lower rates of the USA-Ethiopia and Saudi Arabia-Ethiopia corridors are driven mainly by high competition between RSPs, given the importance of migrant stock and remittance volumes in and from those corridors.⁶⁹ [Figure 7](#) shows the costs of remittances in various destination countries of Ethiopian migrants.

⁶² Stakeholder interviews, 2022

⁶³ Ibid.

⁶⁴ World Bank 2020

⁶⁵ World Bank, 2022

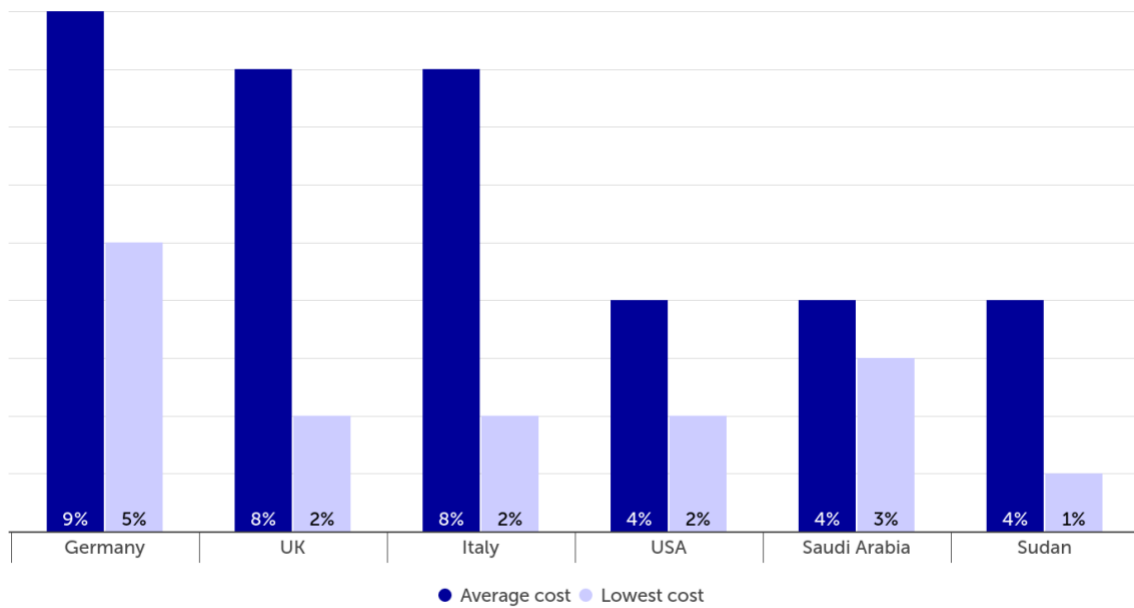
⁶⁶ World Bank, 2022

⁶⁷ Stakeholder interviews, 2022

⁶⁸ World Bank, 2021

⁶⁹ Ibid.

Figure 7 Costs of sending remittances to Ethiopia (percent of \$200 sent)⁷⁰



Gender patterns: overview, dynamics, and key trends

Women migrants make up a significant proportion of the total migrant population from Ethiopia. The most common destination is the USA, where the proportion of women is higher than men at 51 percent.⁷¹ Most women migrants are unmarried and under the age of 25.⁷² Informal emigration is prevalent among Ethiopian women, especially in the Middle East, where many women migrate to be employed as domestic workers with the Kafala system.⁷³ Over the past few years, this Kafala system has come under increased scrutiny because of several cases of violence against women migrants in destination countries.⁷⁴

⁷⁰ Ibid.

⁷¹ UNDESA, International Migrant Stock, 2020

⁷² Tsegay and Litchfield, Changing patterns of migration and remittances in Ethiopia, 2019

⁷³ Council on foreign relations, What is the Kafala System, 2021

⁷⁴ (Tsegay and Litchfield, Changing patterns of migration and remittances in Ethiopia, 2019)

Kafala system⁷⁵

The kafala system is a legal framework defining the relationship between migrant workers and their employers in Jordan, Lebanon, and all Arab Gulf states except Iraq. It was created to supply cheap, plentiful labour in an era of booming economic growth, and its defenders argue that it benefits local businesses and helps drive development.

The system was developed in the Gulf states to regulate the treatment of foreign workers in the pearl industry and other commercial trades beginning in the early twentieth century. Under this system, the state gives local individuals or companies sponsorship permits to employ foreign **labourers**. The sponsor covers travel expenses and provides housing, often in dorm-like accommodations or, in the case of domestic workers, the sponsor's home.

The system applies to almost all foreigners working in kafala destination countries, including all nationalities, economic classes, and professions. Today, most of these workers come from Africa and South Asia. They often take jobs that nationals find undesirable for financial or cultural reasons, such as construction, domestic work, or service industries.

Despite the potential for exploitation, workers often accept jobs in kafala destination countries because they offer higher-paid jobs than their countries of origin. Many workers then send remittances to their countries of origin, the World Bank says can help alleviate poverty in low- and middle-income countries. In 2019, Kuwait, Saudi Arabia, and the UAE were among the world's top ten sources of remittances.

Studies on internal and cross-border migration suggest that Ethiopian women migrants are more likely to send remittances to Ethiopia than men, and their average remittance amounts of both cash and in-kind remittances are also higher (36 percent higher than that of men migrants).⁷⁶ More broadly, however, women in Ethiopia experience a lower rate of financial inclusion than men. While 41 percent of adult men have accounts in formal financial institutions (including banks, MFIs, and mobile money institutions), only 29 percent of adult women own accounts.⁷⁷ The latter rate is lower than the Sub-Saharan Africa average of 37 percent.⁷⁸ Women's low financial inclusion is likely due to high financial illiteracy among women and a preference for informal financial services, given the heavy documentation requirements for formal institutions.⁷⁹ Thirty-six percent of eligible women work in the informal economy and face difficulty providing proof of income.⁸⁰ Also, securing a "proof of address" document can be difficult as such a document is customarily in the husband's name.

There is a need for gender-disaggregated data to understand women's remittance access and needs. Collecting disaggregated data is not mandated by the Central Bank. It is also rarely undertaken voluntarily

⁷⁵ Council on foreign relations, What is the Kafala System, 2021

⁷⁶ (Tsegay and Litchfield, Changing patterns of migration and remittances in Ethiopia 2014-2018, 2019)

⁷⁷ World Bank, Global Findex Database, 2022

⁷⁸ World Bank, Global Findex Database, 2022

⁷⁹ World Bank, Ethiopia Gender Diagnostic Report : Priorities for Promoting Equity, 2019

⁸⁰ Ibid.

by financial institutions, which, in turn, hinders an accurate understanding of women’s exact needs and interventions to meet those needs, as well as the formation of a business case to serve women.

Based on the USA-Ethiopia and Sudan-Ethiopia corridors, the next section assesses the inclusiveness and innovativeness of (i) remittance products, (ii) RSPs as institutions, and (iii) the ecosystem.

THE INFORMAL REMITTANCES VALUE CHAIN: OVERVIEW, DYNAMICS, AND KEY TRENDS

Overall landscape

Due to cost, digital literacy, and trust, not all remittance user groups have adopted formal remittance products. The Centre for Financial Regulation and Inclusion (CENFRI) estimates that informal flows account for 65-80 percent of overall remittances in Ethiopia.⁸¹ Informal channels are associated with higher levels of financial and non-financial risks (including vulnerability to financing terrorism, money laundering, and lack of access to legal recourse) while also taking away the opportunity to provide migrants with broader financial services that could further their economic resilience. Despite this, the use of informal channels continues to be common, particularly in rural households.

STAKEHOLDER RESPONSE TO THE RISKS OF INFORMAL REMITTANCES	
Absence of mechanisms in case of fraud or mistakes	<i>“These are rare and isolated cases. The risk is mainly from friends or family members who can misuse the funds, not with hawaladars.”</i> - Remittance beneficiary
Lack of bundling offers	<i>“Our focus is more on accessing the funds that have been sent or immediate needs and emergencies”</i> - Remittance beneficiary

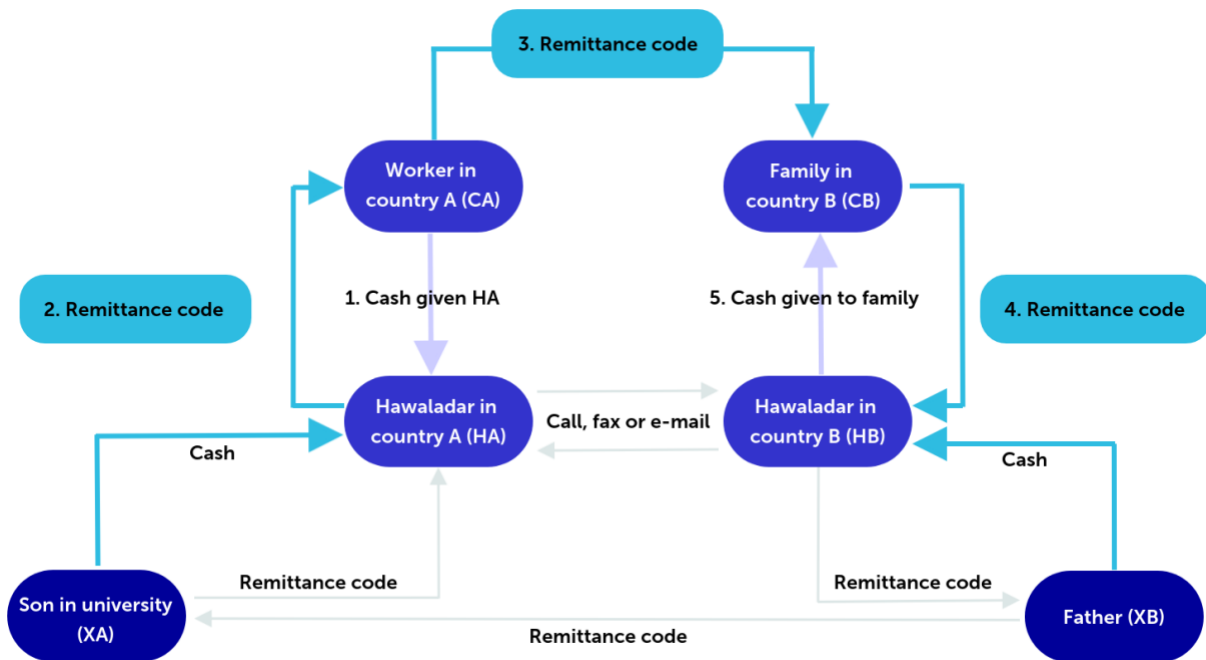
The predominant remittance model is the informal hawala and hundi system, which mainly involves sending cash or goods through family, friends, or informal agents (i.e., the hawaladars or hawala dealers).⁸² However, very little is known about the size and number of informal market actors.⁸³ The system relies on trust-based arrangements between the sender, receiver, and intermediary.

⁸¹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

⁸² IMF, How does this informal funds transfer system work, and should it be regulated, 2002

⁸³ Stakeholder interviews, 2022

Figure 8 Overview of the hawala system



How does the hawala system work?⁸⁴

An initial transaction can be a remittance from a customer (CA) from country A or a payment arising from a prior obligation to another customer (CB) in country B. A hawaladar from country A (HA) receives funds in one currency from CA and, in return, gives CA a code for authentication purposes. He then instructs his country B correspondent (HB) to deliver an equivalent amount in local currency to a designated beneficiary (CB), who needs to disclose the code to receive the funds. HA can be remunerated by charging a fee or through an exchange rate spread. After the remittance, HA has a liability to HB, and the settlement of their positions is made by various means, financial or goods and services. Their positions can also be transferred to other intermediaries, who can assume and consolidate the initial positions and settle at wholesale or multilateral levels.

The settlement of the liability position of HA vis-à-vis HB that was created by the initial transaction can be done through imports of goods or "reverse hawala." A reverse hawala transaction is often used for investment purposes or to cover travel, medical, or education expenses. In a country subject to foreign exchange and capital controls, a customer (XB) interested in transferring funds abroad towards, for instance, university tuition fees, provides local currency to HB and requests that the equivalent amount be made available to the customer's beneficiary (XA) in another country (A). Customers do not know if the transaction they initiate is a hawala or a reverse hawala transaction.

HB may use HA directly if funds are needed by XB in country A or indirectly by asking him to use another correspondent in another country where funds are expected to be delivered. A reverse

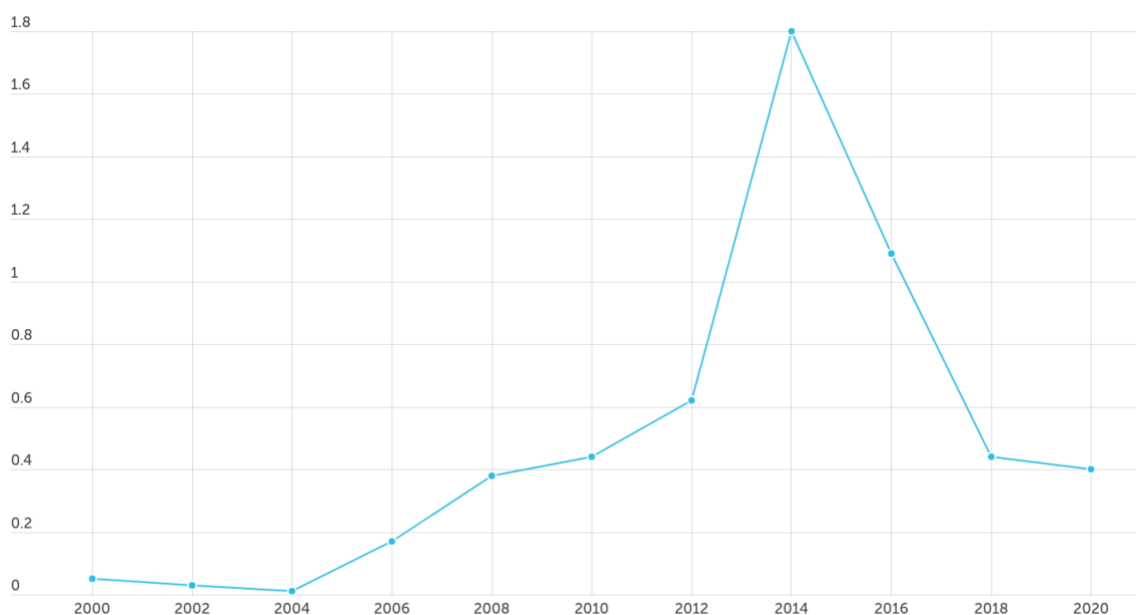
⁸⁴ IMF, How does this informal funds transfer system work, and should it be regulated, 2002

hawala transaction does not necessarily imply that the settlement transaction must involve the same hawaladars; it could involve other hawaladars and be tied to a different transaction. Therefore, it can be simple or complex. Furthermore, the settlement can also take place through import transactions. For instance, HA could settle his/her debt by financing exports to country B, where HB could be the importer or an intermediary.

Informal channels are mainly physical, generally using trade payments offset without cash crossing borders. Some transactions do, however, sometimes involve digital components to move funds (e.g., when a remittance sender in the USA and his/her intermediary use digital channels to transfer money before the latter hands the remittance to the receiver in Ethiopia). Informal channels are predominantly used in African and Middle Eastern corridors where there tend to be (i) large and clustered Ethiopian communities facilitating hawala systems and (ii) many undocumented migrants with low levels of education.⁸⁵

According to World Bank data, the shift toward informal channels became increasingly visible in 2014 when transaction amounts channelled through formal channels went from \$58 million to \$1.8 billion between 2000 and 2014 before starting to decline by 17 percent per year to reach \$436 million in 2020.⁸⁶

Figure 9 Personal remittances, received (2000 – 2020 current \$) – Ethiopia⁸⁷



⁸⁵ Stakeholder interviews, 2022

⁸⁶ World Bank, Findex, 2022

⁸⁷ Ibid

The predominance of informal remittances over formal ones is not imputable to a specific regulatory change or event but rather the constant ability of informal market actors to innovate by (i) adapting their service offering to market needs and (ii) staying above market foreign exchange rates and below operational fees. In other words, the formal market did not adapt its service offering rapidly enough to the needs of the market around pricing, reliance, and convenience, while informal market flows became better organized as they increased their understanding of how the formal system works, known and trusted from the word to mouth between the different users and trusted by users,⁸⁸ and causing the yearly decline of transaction amounts being channelled through the formal channels.

“In the Southern part of Ethiopia, there is marketplace called Joburg; That’s where people come to send and receive informal remittances from/to South Africa.”⁸⁹

The following section aims to provide further insight into how the current market dynamics influence the price of sending remittances via informal channels.

Pricing

The cost of sending remittances through informal channels varies between 0 and 1.5 percent of amounts transferred, depending on various scenarios,⁹⁰ as presented in [Table 5](#).

Table 5 Summary of informal market prices

SCENARIOS		
1	2	3
Transfer offset through family or friends	Hawaladar collects a percent of the amount	Hawaladar makes profit from the exchange rate
No cost as transaction is done with a friend or relative who would give equivalent of amount received. Thus, no funds need to be transferred	Fee is usually between 0.5 to 1.5 percent of the amount sent - depending on (i) affinity with sender; (ii) amounts; (iii) sending/receiving country; and (iv) urgency of request. At 1.5 percent, the fee is still lower than the formal channel average	No direct fee however the hawaladar will buy currency at a rate that is lower than the informal channel rate at the time of the transaction (e.g., instead of buying 1\$ 72 Birr, the hawaladar buys at 67 Birr - which is lower than the formal market of 52 Birr, at a given time

Regardless of the scenario, informal channels remain cheaper than formal ones as they are not tied to any regulations and do not carry the operational costs of formal players (e.g., rent, salaries, and electricity). Other drivers of lower costs include better exchange rates that are 35 to 42 percent above the NBE rate and transaction fees that are lower than the 6.5 percent average.⁹¹ Also, informal channels are perceived to be more reliable (i.e., speed of transactions and trust) and more convenient (i.e., transaction amounts, outgoing payments, and reception and withdrawal channels). [Table 6](#) summarises the key parameters that drive the choice of users.

⁸⁸ Stakeholder interviews 2022

⁸⁹ Ibid

⁹⁰ Ibid

⁹¹ Stakeholder interviews, 2022

Table 6 Comparison of key parameters driving the choice of users towards the informal or formal market⁹²

KEY PARAMETERS		INFORMAL CHANNEL	FORMAL CHANNEL	
		HAWALA/HUNDI	OTC BANK/MTO	DIGITAL-BASED TRANSFER
Pricing	Transaction fees	Cheapest (0 to 1.5 percent)	Most expensive (6,5 percent) as banks, payment system providers, and digital solution providers all take commissions	Second cheapest (five percent)
	Formal exchange rate	Best (\$1 = ETB67 to 80)	Second best (\$1 = ETB52)	
Reliance on people	Speed of transaction	Second fastest (within the same day or T+1) – trust-based	Fastest (in real time) if through MTOs/slowest if through banks (5 days) – need verifications and approvals	Fastest (real-time)
	Trust	Trust-based - no KYC needed --- Beneficiaries usually know the agents and are familiar with the channel	Rigorous KYC (i.e., gov ID needed) --- Beneficiaries usually know the agents and are familiar with the channel	More flexible --- Beneficiaries are usually less familiar with the channel due to their lower digital literacy levels
Convenience	Transaction amounts	Unrestricted – depends on the availability of funds	Restricted – depends on the bank account (i.e., classic vs platinum)	Restricted – depending on KYC level
	Outgoing payments	Unrestricted (B2B, C2C, C2B)	Restricted to B2B and C2B payments (e.g., school/medical fees)	
	Reception/withdrawals channels	Three options (i.e., face-to-face handover, resend for OTC through bank or mobile wallet)	Two options (i.e., OTC through Bank/third-party agents or mobile wallet)	Two options mobile wallet – direct partner bank, third party agent)

⁹²Ibid

Based on the USA-Ethiopia and Sudan-Ethiopia corridors, the next section assesses the inclusiveness and innovativeness of (i) remittance products, (ii) RSPs as institutions, and (iii) the ecosystem.

OVERVIEW OF SELECT CORRIDORS: USA-ETHIOPIA & SUDAN-ETHIOPIA

USA-ETHIOPIA

Demographics of migrants

Thirty percent of all migrants from Ethiopia reside in North America, mostly in the USA.⁹³ In 2020, about 246,000 Ethiopian migrants were in the USA, of which 51 percent were women.⁹⁴ Most first-generation Ethiopian migrants in the USA are of working age (86 percent), and many arrived during or after the year 2000, likely due to the Eritrean-Ethiopian war.⁹⁵ Second-generation migrants are mostly under working age (87 percent), with 62 percent children of parents born in Ethiopia.⁹⁶ According to a Migration Policy Institute (MPI) study, 52 percent of Ethiopian migrants in the USA cite family reunification as their primary reason for migrating. In comparison, 18 percent said they migrated under the diversity visa programme, and 19 percent were admitted as refugees.⁹⁷ Ethiopian immigrants have a naturalization rate of 47 percent, compared to 44 percent of the total population of migrants in the USA.⁹⁸

Top RSPs and mapping of products

Strong competition exists between traditional and digital money transfer companies along the USA-Ethiopia corridor, especially for online remittance offerings. The leading digital MTOs that have emerged over the past decade offer competitive prices and the cheapest remittance services in the corridor. These digital MTOs include Remitly, Wise, and WorldRemit, which charge as low as 2.3 percent for a \$200 digital remittance.⁹⁹ However, they are followed very closely (with the same rate or slightly higher) by traditional transfer services such as MoneyGram, Ria, or Western Union, which now offer multichannel services¹⁰⁰ comprising digital and physical channels, with applications linked to bank accounts, credit cards, and agent outlets.

Agent-based remittance services remain the most popular formal channel. Traditional channels for transfer services and agent outlets predominate in the formal transfer market despite the emergence of digital channels with their competitive prices. Estimates suggest that 50 percent of remittances through formal channels are with Western Union and that 80 percent of remittances through the same channels are picked up in cash, reflecting the prevalence of traditional and physical services.¹⁰¹

⁹³ UNDESA, International Migrant Stock, 2020

⁹⁴ Ibid.

⁹⁵ Most Ethiopian immigrants arrived later in the 1990s, following the war triggered by Eritrea when invading Ethiopia. Immigration to the U.S. from Ethiopia during this 1997-2002 period averaged around 5,000 individuals per year. John Powell, Encyclopedia of North American Immigration, 2009

⁹⁶ Migration Policy Institute, The Ethiopian diaspora in the US, 2014

⁹⁷ Ibid.

⁹⁸ Ibid

⁹⁹ Migration Policy Institute, The Ethiopian diaspora in the US, 2014

¹⁰⁰ Multichannel refers to many or multiple channels

¹⁰¹ UNCDF, Ethiopia remittance review: assessment of payment and financial markets infrastructures, 2021)

SUDAN-ETHIOPIA

Demographics of migrants

While only 16 percent of all Ethiopian migrants live in East African countries, 46 percent of them migrate to neighbouring Sudan.¹⁰² In 2020, about 70,000 Ethiopian migrants were in Sudan, of whom 53 percent were women, making Sudan the fourth most frequent destination for both men and women Ethiopian migrants.¹⁰³

Ethiopian migration to Sudan is mainly economically and politically motivated. Two broad sets of movements dominate Ethiopian migration to Sudan. These include (i) agricultural work mobilizing thousands of seasonal workers intervening in commercial farms in eastern Sudan and (ii) socio-political conflicts, including that of Tigray. In the latter case, the UN High Commissioner for Refugees (UNHCR) registered 46,412 Ethiopian refugees displaced in eastern Sudan fleeing the conflict in Tigray from November to December 2020.

Top RSPs and mapping of products

Limited remittance services are available along the Sudan-Ethiopia corridor, and informal remittances are prominent due to the Sudan embargo. The economic embargo put in place by the United States against Sudan between 1997 and 2017 has hindered the development of the financial services industry by restricting international banking transactions and technology exchanges. This has led to the development of the informal circuit for international remittances, which has been particularly reinforced in the Sudan-Ethiopian corridor, given the proximity of the two countries.

However, the formal market is starting to develop with some international digital RSPs and traditional RSPs operating in the corridor. The formal services generally used by migrants in this corridor are offered by MoneyGram and Western Union and are attractive due to their OTC service offerings.¹⁰⁴

CORRIDORS TO MONITOR

According to IOM, the Middle East-Ethiopia corridor witnessed 60 percent of the 32,270 Ethiopian departures wanting to move to Saudi Arabia and six percent to the UAE as of February 28, 2022. Women accounted for 30 percent of all departures.¹⁰⁵ Up until 2018, Ethiopia had banned travel to the Gulf countries to seek employment. The ban was lifted in 2019, and the government continues to engage in policy and agreements with Gulf countries to formalize employment, especially for women seeking domestic work opportunities. For example, a Memorandum of Understanding (MOU) between Ethiopia and the UAE, and an Agreement on the Employment of Domestic Workers between Ethiopia and Saudi Arabia, have been signed, all promoting the welfare of Ethiopian migrant workers in these countries. An MOU was being discussed with Kuwait.

South Korea and the Czech Republic have also been identified as countries to explore such partnerships.¹⁰⁶ These trends will also drive remittances and represent an opportunity to develop targeted inclusive products and services.

¹⁰² UNDESA, International Migrant Stock, 2020

¹⁰³ UNDESA, International Migrant Stock, 2020

¹⁰⁴ Ibid.

¹⁰⁵ IOM, Migration along the Eastern Corridor, Report 24, as of February 28, 2022

¹⁰⁶ Labor Market Assessment, Market trends and opportunities in Ethiopia and the Gulf, International Labor Organisation, 2020

Inclusive Innovation in the Remittance Sector in Ethiopia

This chapter considers the inclusive innovation spectrum through the review of (i) remittance products, (ii) RSPs as institutions, and (iii) the ecosystem in Ethiopia, with a focus on the USA-Ethiopia and Sudan-Ethiopia corridors.

INCLUSIVE INNOVATION LANDSCAPE ASSESSMENT AT THE PRODUCT LEVEL









This section investigates the level of innovation of remittance products in the Ethiopian market. It also investigates how products stimulate or deter access to formal remittances for all population segments—migrants and their families receiving remittances, regardless of their skills, gender, status, education level, age, or geographic location.

Product offering

Over recent years, more RSPs have been integrating new technologies into their products to overcome barriers relating to (i) a mobile penetration rate which is at 51 percent and a 21 percent gender gap in phone ownership and usage;¹⁰⁷ and (ii) a 19 percent internet penetration rate stemming from underdeveloped telecommunications infrastructure, which is almost absent from rural areas.¹⁰⁸

Today, in addition to commercial banks and traditional MTOs’ phone applications, various digital remittance providers have deployed innovative products and services which are helping with financial inclusion. *Figure 10* provides a snapshot of key remittance digital products in Ethiopia (non-exhaustive list).

Figure 10 Snapshot of key digital remittance products in Ethiopia (illustrative)

Organization (illustrative list)	Launch year	Short description of the product or service
 HelloCash	2014	• HelloCash offers a completely paperless online cash register, with total mobility and data hosting in the cloud. The updates are automatic in order to remain in conformity with the regulations in force
 Amole	2014	• Amole is an omni-channel seamless banking experience that the customer uses to interact with the bank through various channels such as mobile, internet, USSD, all with the same username and password.
 M-BIRR	2015	• M-BIRR was an innovative mobile banking service offered by Ethiopian banks and microfinance institutions that allows financial transactions to be made using a simple phone. M-BIRR stopped operations in the first quarter of 2022.
 E-Birr	2016	• E-Birr is a telecom value-added and Mobile Financial Service provider. E-Birr is using the safarifone Mobile Financial Services technology (MFS) and customized it in a way to fit the Ethiopian market.
 CBE Birr	2017	• CBE Birr is a mobile based banking whereby the bank selects, trains and authorizes agents to provide banking services on behalf of the bank through a mobile phone. It is deployed as a means of extending financial services to the unbanked segment of the public
 CashGo	2021	• CashGo is an international money transfer app, which allows anyone to transfer and donate money from anywhere in the world to Ethiopia with low transaction fee
 MamaPays	2021	• MamaPays is a payment gateway platform which allows abroad users to pay the bills of their friends or relatives based in Ethiopia. Only a 1\$ fee is applied per transaction regardless of the amount. It is a product from BeCash.
 Telebirr	2021	• Telebirr is a mobile money service offered by Ethio telecom, and developed by Huawei.

¹⁰⁷ ITU, Ethiopia ICT Indicators Database, 2022

¹⁰⁸ Ibid

Product technology

There is low public trust in digital remittance offerings due to technological challenges, potentially coupled with a small risk appetite. Stakeholder interviews with RSPs and migrant groups such as Returnees Network Ethiopia show that Ethiopians lack the confidence that their money will reach the intended beneficiaries if sent through digital channels. In addition, connectivity and App lag issues cause even highly digitally literate members of the population to have trouble navigating the product.¹⁰⁹ These members, therefore, choose to visit banks and financial institutions in person instead. This implies exacerbated challenges for populations with low digital literacy.

Most RSPs are integrating new technologies in their product offering to overcome barriers relating to low internet penetration, low digital literacy, and low financial inclusion. Emerging mobile money-driven solutions help advance financial inclusion by integrating the following:

- **The unstructured Supplementary Service Data (USSD) system¹¹⁰** addresses issues linked to low internet penetration, low digital literacy, and low access to banking solutions by imposing minimal requirements on remittance recipients. Only a basic mobile phone, mobile network, and mobile money account are required to receive remittances digitally. Remittances can be sent via a system which consists of typing a code on the keypad and then selecting proposed options via the same keypad. This solution fosters the inclusion of unbanked populations, people with low literacy levels, and those not using the internet. The USSD technology has been adopted by leading Mobile Money Operators (MMOs) such as HelloCash, Telebirr and Mbirr—who can cover the technology.¹¹¹
- **The interactive Voice Response (IVR) system¹¹²** addresses illiteracy and low internet penetration issues by enabling users to call a number (through the mobile network) and 'speak' to a system with automated prompts (pre-recorded voice messages). This solution allows people with low levels of education and/or low internet access to access their account and has been adopted by leading MMOs such as HelloCash.¹¹³

However, infrastructure gaps remain in developing and adopting new technologies, particularly in rural areas. About 45 percent of the population belongs to a mobile network and experiences frequent network issues due to low coverage and outages.¹¹⁴ In addition, only 43 percent of the total population has access to electricity, which drops to 27 percent in rural areas, where 80 percent of the population lives.¹¹⁵ This leads to low uptake of digital products on the customer side. On the supplier side, this results in merchants' low uptake of Points of Sale (POS) devices and low expansion of agent networks to foster the provision of digital services.

¹⁰⁹ Stakeholder interviews, 2022

¹¹⁰ The USSD is global system for mobile communications protocol linked with the service providers' (e.g., Ethio telecom) dedicated application program.

¹¹¹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹¹² The IVR is an automated telephone system that combines pre-recorded messages or text-to-speech technology with a dual-tone multi-frequency (DTMF) interface to engage callers, allowing them to provide and access information without a live agent.

¹¹³ Stakeholder interviews, 2022

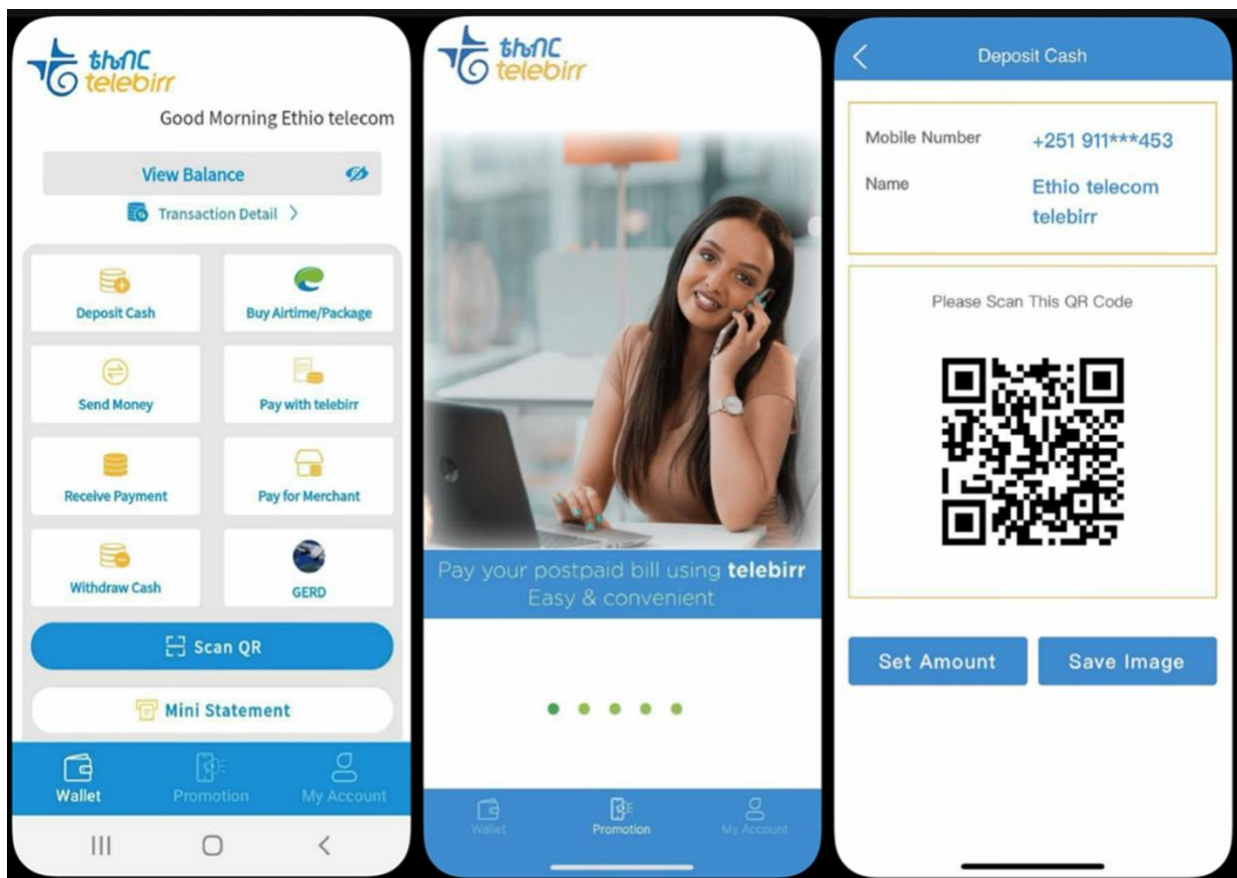
¹¹⁴ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹¹⁵ Ibid.

Product user-friendliness for recipients

Most digital providers in Ethiopia offer similar user-friendliness features. RSPs cater to the preferences and access levels of different users, including those with low levels of digital literacy. The strong predominance of informal services and the cash culture have forced digital operators to offer new services to attract new users. As presented above, four channels are available, USSD and IVR systems and channels, a mobile application and a chatbot. Applications allow users to remit by navigating an interface, such as that of Telebirr showcased in *Figure 11*. The Chatbot channel allows users to remit transactions through a chat on commonly used social networks such as Telegram, WhatsApp, and Facebook Messenger.¹¹⁶

Figure 11 Examples of simple design and clear categorization in digital



Nonetheless, access for populations with low digital literacy and education levels remains challenging. The most intuitive way for users with limited digital knowledge to access RSP digital services is through the IVR channel. However, this channel does not offer all features that can be accessed online or with the USSD channel. These technologies also don't provide for person-to-person communication. For instance, the user selects options based on a pre-existing menu rather than articulating the issue in their own words. Only more digitally literate users can successfully use the three other channels: USSD, application, and chatbot.¹¹⁷

¹¹⁶ Haske' Conseil, Scan of RSPs websites , 2022

¹¹⁷ The USSD channel requires the customer to read the service options available and chose the one that meets their needs. The application also requires the user to read information and options as well as enter some data. The chatbot channel also requires customers to read and write,

Product pricing

With an average cost of 6.89 percent of the sent amount, the cost of sending remittances to Ethiopia is below the 7.7 percent average cost in Africa.¹¹⁸ Disaggregating costs by transfer method, end-to-end digital remittances tend to be cheaper (five percent) than cash-to-cash remittances (7.4 percent).¹¹⁹ Therefore, to move closer to the price recommended by SDGs to make remittances inclusive (three percent of the sent amount), end-to-end digital transactions should be encouraged through a move from the most popular method (digital-to-cash). Solutions such as Mamapays are launching innovations (e.g., transaction cost capped at \$1, and transactions are at a maximum of ETB250,000).

Furthermore, the extra cost linked to the official exchange rate is borne by customers when using formal channels to remit to Ethiopia. RSPs are subject to the fixed exchange rate issued by the NBE, which is higher than the rate applied in the informal (parallel) market, resulting in a materially diminished net value of remittances received.¹²⁰ There is a 12-13 ETB difference per US\$ between the informal market and the official foreign exchange rates, i.e., a 25 percent difference.¹²¹

In addition, receiving remittances is particularly costly for the population living in rural areas due to high indirect costs. Although up to 80 percent of the population lives in rural areas, 50 percent of financial access points set up by banks, MFIs, and MMOs are located in urban areas.¹²² Accessing those points is associated with additional costs for rural communities, which include the cost of transport and the opportunity cost associated with getting to the closest remittance pay-out location and waiting in line.¹²³ Expanding agent networks in rural areas is therefore essential to fostering the inclusion of rural populations in the short and medium terms and aligning with the impetus of expanding digital services.

On the positive side, RSPs communicate transaction costs transparently in alignment with NBE regulations. To ensure customer protection and to instill a culture of transparency in the remittances market, the NBE requires RSPs to (i) reveal terms and tariffs applicable to remittance services, including their correspondent bank, agent fees and other services they provide, and (ii) indicate the exchange rate that RSPs employ to convert foreign currencies to ETB and vice-versa.¹²⁴ A review of the websites of the main RSPs operating in the country suggests that they comply with these requirements.¹²⁵ This price transparency stimulates competition in the remittance market and helps build customer trust, which is likely to drive inclusion.

Product bundling

Remittance services in Ethiopia are primarily bundled with banking services, which is not unexpected given banks' essential role in the remittance ecosystem. The dependence of RSPs on banks is the direct result of the bank-led regulatory framework for remittances.¹²⁶ Thus, some RSPs offer associated savings products, payment services (bank cheque, online banking etc.) and loan services alongside remittance services. This is the case, for example, of the Diaspora Mortgage Loan (DML) and the Diaspora Vehicles Loan (DVL)¹²⁷ offered by Lion International Bank against remittances. Migrants must remit money (20-40

¹¹⁸ World Bank, 2020

¹¹⁹ Ibid.

¹²⁰ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹²¹ Ibid.

¹²² Ibid.

¹²³ ACP-EU Migration Action, 2017

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹²⁷ The DML facility enables customers from the Ethiopian diaspora to deposit 20 percent of the total investment

percent of the loan amount) into their Ethiopian bank account and meet some eligibility criteria (e.g., be Ethiopian/of Ethiopian origin, not blocklisted by the NBE or listed as a terrorist) to use such services.¹²⁸ The role of banks in transfer services can help to improve the financial inclusion of migrants and their families.

In addition, the emergence of mobile money services in recent years has made it possible to expand the range of services bundled with remittances. Mobile money providers—either banks and MFIs or MMOs partnering with banks—offer transfers from a bank account to a mobile money account and vice-versa, P2P transfers, utility bill payment services (water, electricity, gas, airtime, and tuition fees), merchant payments, and microloans.¹²⁹ HelloCash Micro Loan, enabled by its partnership with various banks and MFIs, is an example of a bundled service powered by mobile money. Customers are required to open or migrate to a HelloCash Express, VIP or Business¹³⁰ account, either with an agent or with a partner bank, as opposed to the HelloCash Go¹³¹ account that does not include microloans, to access the service. However, the challenges for MMOs to partner with FSPs restrict the potential to bundle remittance services with other types of services. Such collaboration challenges, mostly linked to a lack of trust, are detailed in the ecosystem section of this chapter.

Delivery of services

Agent network

Despite the recent ongoing expansion, RSP agent networks remain relatively scarce in rural areas. As of February 2022, each MMO counted an average of 28,000 agents (between 15,000 and 46,000 per MMO),¹³² which has tripled since 2017.¹³³ Banks and MFIs are also expanding their agent networks, but to a lesser extent than MMOs.¹³⁴ Across these groups of RSPs, most agent branches tend to be located in urban areas, even though 80 percent of the country's population is rural.¹³⁵ For example, as many as 33 percent of bank branches are located in Addis Ababa, where only three percent of the population resides.¹³⁶

Part of the explanation for this lack of expansion in rural areas is the agent network regulation and costs of rural branches.¹³⁷ Merchants must have a business license and audited financial statements to become an agent. As the vast majority of merchants, particularly those in rural areas, operate informally and cannot produce financial statements, these requirements hamper their ability to join RSP agent

for mortgage in US\$, GBP or Euro and have access to the remaining 80 percent as a loan from the Bank while the DVL facility enables customers from the Ethiopian diaspora to deposit 40 percent of the total investment on Vehicle in US\$, GBP or Euro and have access to the remaining 60 percent finance from the Bank.

¹²⁸ Lion International Bank, International banking services, 2022

¹²⁹ Haske' Conseil, RSP products and services review, 2022

¹³⁰ HelloCash Express and VIP accounts require customer to provide an ID (e.g., regional ID, drive license, passport, student ID). The HelloCash business account requires the provision of documents such as business and trade license, business registration, and general managers ID. Once registered in one of these accounts, the customer can access services including micro loans.

¹³¹ HelloCash Go account opening requires the provision of name, telephone number date of birth and recent photo of the user. The service offering are limited to basic mobile money services such as sending/receiving remittances bill payment.

¹³² Haske' Conseil, RSPs' agent network review , 2022

¹³³ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹³⁴ There are about 6,508 branches for banks and about 1,000 branches and sub-branches for MFIs, CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹³⁵ Ibid.

¹³⁶ UN Habitat, Ethiopia database, 2017

¹³⁷ NBE, Remittance services, 2022

networks.¹³⁸ Furthermore, financial institutions are reluctant to expand their agent network as the agent banking regulation requires them to report on the activities of their agents, which comes with high operational costs and liquidity management costs.¹³⁹ For the latter, the cost is higher in rural areas than urban ones due to added transport and security costs to move funds around over long distances and in areas which might present security concerns.

An increase in agent-based services has the potential to drive inclusion among underserved segments.

Remittance recipients tend to prefer physical interactions over digital services, especially in rural areas with less exposure to digital services.¹⁴⁰ Expanding the agent network alongside digital remittance services would therefore be a determining factor for the inclusion of underserved populations into formal remittance channels and for rural users to gradually adopt digital services. The support and guidance agents provide customers to adopt digital products remains critical.

After-sales support

In a drive for better customer retention, RSPs have adopted product features to support customers and effectively and empathically address their needs, to build trust amongst users.

Several RSPs offer multiple channels for customers to voice their needs (e.g., phone, chat, and email), including the ability to engage in the local language. The leading RSP, HelloCash, advertises support 24 hours a day and 365 days a year through technologies such as IVR, chatbot or support agents.¹⁴¹ Various studies suggest that customers take into account multiple factors, including the service provider's demonstrated assurance to address customers' requests and empathy to assess the quality of service and adapt it accordingly.¹⁴² Thus, the adoption of the various channels to collect customers' needs and the assurance given to the customer to address these requests are likely to build trust in digital services.

However, infrastructure challenges in rural areas impact the quality of after-sale services for rural users. Several studies suggest that financial service customers consider various dimensions to assess quality, five of which relate to after-sales support.¹⁴³ In rural Ethiopia, two criteria are unmet due to network coverage gaps and electricity shortage. Firstly, the low number of RSPs in rural areas does not allow them to address customers' requests, and secondly, the network quality does not always ensure the processing of customer requests in real time.¹⁴⁴ Expansion of agent networks and improving IT infrastructure are necessary to serve rural populations better.

Communication and marketing

MMOs use various channels and incentives to promote digital remittance services and stimulate product uptake.

MMOs most heavily promote remittance services, which position themselves as the technical partners of banks and MFIs for mobile money operations. The channels used by MMOs comprise media communication (social networks advertising, TV, and radio advertising) and non-media communication (billboard advertising, events sponsorship, direct contact via SMS, etc.). However, the latter is more prominent due to low internet penetration and infrastructure deficiencies, as discussed

¹³⁸ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹³⁹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹⁴⁰ Stakeholder interviews, 2022

¹⁴¹ Haske' Conseil, Review of RSPs' customers support system, 2022

¹⁴² IISTE, The Effect of Service Quality on Customer Satisfaction: A Case Study of Commercial Bank of Ethiopia Adama City, 2019

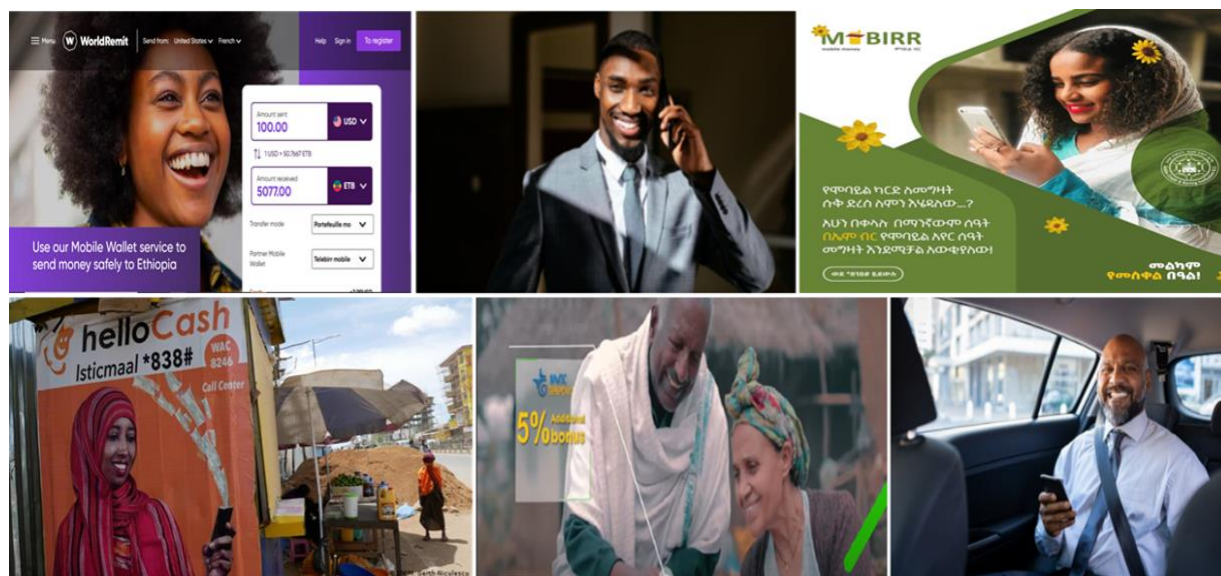
¹⁴³ Ibid Those are: (i) the tangibility of the service provider that allow consumers to get in touch for their requests, (ii) the empathy of the service provider to capture customers' needs, (iii) the assurance demonstrated by the service provider to address customers' issues, (iv) the quality of the network used by the service provider for the processing of customers' requests, (v) the effective responsiveness to customers' requests

¹⁴⁴ Haske' Conseil, Review of RSPs' customers support system, 2022

above.¹⁴⁵ MMOs also distribute gifts to incentivize people to adopt their products. For example, Telebirr distributed a 5-10 percent bonus in airtime or mobile money on international remittances to its customers.¹⁴⁶

In their communication initiatives, MMOs target a relatively large group of people, including underserved groups such as women and rural populations. Advertisements on social networks, television and billboards include representation of young people, women, men, rural dwellers, elderly, and blue-collar workers. Figure 12 has some illustrative advertisement examples.¹⁴⁷

Figure 12 Sample of remittance services advertisement



However, international RSP communications on mobile money-enabled remittance service offerings are limited. Western Union, WorldRemit, and Remity do not promote the services of MMOs to which they are affiliated to provide bank-account-to-mobile-money remittance services. According to stakeholder interviews, this is likely because these RSPs do not perceive the profitability of mobile money services, thereby focusing their communication on OTC remittance services, which, as mentioned above, currently account for up to 80 percent of remittances through formal channels.¹⁴⁸

¹⁴⁵ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹⁴⁶ TeleBirr, website, 2022

¹⁴⁷ Haske' Conseil, Scan of RSPs websites, 2022

¹⁴⁸ Stakeholder interviews, 2022 and UNCDF, Ethiopia remittance review: assessment of payment and financial markets infrastructures, 2021

Key takeaways on inclusive innovation at the product level



Product offering: In Ethiopia, RSPs are making efforts to advance financial inclusion, for example, through the integration of USSD and IVR systems in their product offering. However, some infrastructure gaps remain for the development of new technologies, and some digital literacy gaps impact *uptake*, particularly in rural areas. Turning to product use, the fact that remittance services are available through multiple channels has contributed to the inclusion of groups with different user preferences.

The price of digital remittances is below the average in Africa but still above SDG targets. Factors adding to the price are linked to the official exchange rate, significantly higher than the parallel market rate, and to high indirect costs for users in rural areas. On the positive side, RSPs communicate transparently about transaction costs following NBE regulations.

Remittance services are primarily bundled with banking services, which is expected given the role of banks in the remittance ecosystem. In addition, the emergence of mobile money in recent years has made it possible to expand the range of annexe services to remittances. However, the challenges for RSPs to partner with other FSPs restrict the potential of bundled services.



Delivery of services: RSP agent networks are growing but are mostly concentrated in urban areas. The lack of expansion in rural areas is likely linked to challenges associated with agent network regulation as well as costs. However, agent-based services have the potential to drive inclusion among underserved segments which are not yet ready or able to transition to digital services.

Turning to after-sales support, in a drive for better customer retention, RSPs have acted to address customers' needs effectively and empathically, for example, by providing multiple channels for customers to voice their needs (phone, chat, and email) and support via technologies such as IVR, chatbot or through support agents. However, access challenges linked to insufficient network infrastructure persist for rural users.



Communication and marketing: MMOs use various channels and incentives to promote digital remittance services and stimulate product uptake among the Ethiopian population. They are making efforts to be inclusive in their communication representing various population segments, including women and rural populations. However, international RSPs' communication on mobile money-enabled remittance service offerings is limited.

INCLUSIVE INNOVATION LANDSCAPE AT THE INSTITUTIONAL (RSP) LEVEL

This section investigates the level of innovation of RSPs in Ethiopia, focusing on those operating in the USA-Ethiopia and Sudan-Ethiopia corridors.

Innovation strategy

Research & Development (R&D)

With about 50 start-ups, the fintech ecosystem focuses on solving local problems as a market penetration strategy due to various constraints within the country (e.g., illiteracy, lack of connectivity, etc.). These companies are leveraging technology to design tailored products for the mass market. Some of the most common digital transfer products are listed in *Figure 13* below.

Figure 13 Common fintech products in the Ethiopia market



RSPs in Ethiopia are investing in R&D to develop products to capture remittances currently flowing through informal channels. With 65-80 percent of remittance flows entering Ethiopia through informal channels, RSPs have become aware of the need to design attractive products to shift behaviours in favour of formal products.¹⁴⁹ For example, Hellocash is the result of R&D orchestrated by the tech start-up BelCash and its partners (Lion Bank International, Wegagen International Bank, Cooperative Bank of Oromia, and Somali Micro Finance). Hellocash provides interoperable international services with mobile money and is accessible through various channels, including USSD, application, and chatbot. A Hellocash customer can receive remittances in various banks through the application or USSD channel (e.g., Somali Micro Finance, Commercial Bank of Ethiopia).¹⁵⁰

However, challenges in the broader financial industry restrict RSP's willingness or ability to undertake R&D activities. These gaps, mostly linked to resource availability, skills-building capacity, and political

¹⁴⁹ CENFRI, Remittances in Ethiopia, Volume 4, 2018

¹⁵⁰ Ibid.

instability in the country, are developed in the ecosystem below. On the one hand, availability and skill-building capacity are some key elements lacking in the Ethiopian ecosystem, according to the Global Innovation Index report. On the other hand, various studies suggest that political instability hampers companies and investor willingness to invest in R&D activities.¹⁵¹ The mandate for FSPs to spend two percent of their annual revenue on training has presented some opportunity to build the capacity for staff to innovate, but the willingness to support such initiatives remains low.

Business/Pricing Model

All MMOs have built their pricing around the same model: a tiered pricing system¹⁵² based on the amount remitted and/or withdrawn. This penalizes senders of small amounts and, therefore, also low-income populations. Remittance senders and recipients are both charged on the amount transferred, doubling the costs. In addition, the tiered pricing system means a higher percentage cost for users transferring the smallest amount in the same band (the percentage difference being even larger within higher bands).

Organizational capabilities

Structure & processes

Digital RSPs in Ethiopia have mostly adopted agile organizational structures and processes, which allow them to be innovative and responsive to market developments. Many international and national MTOs (e.g., WorldRemit, Remitly, Hellocash) have adopted an agile, team-based organizational structure (with teams like business development, engineering, field operations, growth distribution and sales) and a strong focus on problem-solving, cooperation and employees' empowerment.¹⁵³ This structure supports identifying and overcoming market constraints¹⁵⁴ by enabling idea creation and quick translation into proof of concept for potential scale-up.¹⁵⁵ Digital RSPs have thus led innovative and inclusive solutions (such as mobile money, bank account/card-to-mobile money account transfer, and USSD-enabled transactions) to overcome some of the challenges of the Ethiopian remittance ecosystem. This positioning on the market allows digital RSPs (e.g., Remitly, Small World, and WorldRemit) to be the most appreciated (75 percent approval rate) in terms of digital service compared to traditional RSPs such as MoneyGram and Western Union (25 percent approval rate).¹⁵⁶ These assessments are made by customers on Monito, based on criteria such as credibility, trust, quality of services, and customer satisfaction.¹⁵⁷

Traditional RSPs such as Non-Banking Financial Institutions (NBFIs), banks and MFIs are much more rigid in their structures and processes, preventing them from proactively innovating and being responsive to market developments. MFIs or NBFIs (e.g., Western Union and MoneyGram) are organized in a pyramidal and siloed manner (with a board of directors, CEO, heads of departments overseeing managers and other employees).¹⁵⁸ While this allows for a clear definition of responsibilities, it reduces employees' opportunities to express new ideas and the RSPs' ability to develop and scale innovative

¹⁵¹ Ibid.

¹⁵² Tiered pricing is a method where a service provider fixes prices according to bands or tiers of transactions or vice-versa. RSPs indicates a range or bracket (upper and lower amount limit), between which customers will have to pay a fixed amount.

¹⁵³ Haske' Conseil, Scan of RSPs websites, 2022

¹⁵⁴ As discussed throughout this document, in Ethiopia market constraints largely relate to low banking inclusion, digital literacy and internet penetration.

¹⁵⁵ Indeed, 10 Types of Organisational Structures, 2021

¹⁵⁶ Monito, Find the best providers to send money to Ethiopia, 2022

¹⁵⁷ Haske' Conseil, Scan of RSPs websites, 2022

¹⁵⁸ Indeed, 10 Types of Organisational Structures, 2021

products that quickly overcome market constraints.¹⁵⁹ Traditional RSPs (such as MoneyGram) have not yet pivoted from followers to trailblazers. Instead, they primarily collaborate with MMOs to leverage the latter's innovative digital services for their own digital offering.¹⁶⁰ This contributes to the low performance of traditional RSPs in Ethiopia when assessed for their digital transfer services.

Financial capital

Innovation in the financial services ecosystem can be enhanced through increased access to capital, especially risk capital¹⁶¹ (e.g., early-stage venture debt and equity). Most financing available in Ethiopia is in the form of traditional debt, especially from banks. While there are no special provisions for debt capital for RSPs, established RSPs did not flag this as a significant concern. However, risk capital is substantially misaligned in the ecosystem, especially for fintech products. Due to the limited risk appetite of donors and development financiers in Ethiopia, risk financing only becomes available in the later stages of an organization's growth cycle.¹⁶² Regulatory inhibitors also prevent new instruments like venture debt from being delivered to RSPs. These challenges decrease RSPs' focus on new product innovation and hinder the scaling of innovations from outside the financial services ecosystem.

Stakeholder engagements revealed that MTOs could benefit from financial support to engage in R&D and business development which would be critical to developing more inclusive products. Capital is required for the development of digital solutions (e.g., AI-based remittance products), the acquisition of licenses (e.g., Visa license to process cross-border remittances with a credit card), the expansion of agent networks, especially in rural areas, the promotion of digital services (e.g., bank account to mobile money account remittance product offering), or for the onboarding of populations with low literacy on digital services usage.

Partnerships

MMOs such as Hellocash or Telebirr have partnered with banks (e.g., Lion International Bank and Wegagen Bank) and MFIs (e.g., Somali Micro Finance) to provide remittance services in Ethiopia as required by regulation (further discussed in the Ecosystem section). Besides, to extend their services to mobile money services (e.g., cross-border remittance reception or microloans) and reach a larger group of potential users (including the unbanked), banks and MFIs partner with MMOs for their specific expertise (technical partnership). However, partnerships are hampered by lengthy establishment processes and a lack of capital.¹⁶³ Although financial institutions tend to express willingness to enter into partnerships with MMOs, those partnerships are slowed by implementation delays because the NBE's license approval process for new products can take several months.¹⁶⁴ Furthermore, the limited capacity of FIs (e.g., banks and MFIs) for integrating systems¹⁶⁵ delays the implementation of partnerships.¹⁶⁶

¹⁵⁹ As discussed throughout this document, in Ethiopia market constraints largely relate to low banking inclusion, digital literacy and internet penetration.

¹⁶⁰ Indeed, 10 Types of Organisational Structures, 2021

¹⁶¹ Risk capital refers to funds allocated to speculative activity and used for high-risk, high-reward investments. Any money or assets that are exposed to a possible loss in value is considered risk capital, but the term is often reserved for those funds earmarked for highly speculative investments (Investopedia, 2021)

¹⁶² Haske' Conseil, Scan of RSPs websites, 2022

¹⁶³ Stakeholder interviews, 2022

¹⁶⁴ Ibid.

¹⁶⁵ The integration of systems echoes the connection of the IT infrastructures of partner organisations (e.g., a bank with an MMO) to provide a digital service (e.g., transfer of funds from a bank account to a mobile money account).

¹⁶⁶ CENFRI, Remittances in Ethiopia, Volume 4, 2018

These delays, coupled with some uncertainty regarding the final outcome of the licensing process, impact potential partners' appetite for collaboration and, ultimately, innovation.

Key takeaways on inclusive innovation within RSPs



Innovation strategy: RSPs operating in Ethiopia are investing in R&D to develop attractive products that capture remittance flows currently coming through informal channels. However, challenges in the broader financial industry restrict RSPs' willingness or ability to undertake R&D activities.

Regarding their business model, all MMOs have built their pricing around the same model, a tiered pricing system based on the amount remitted and/or withdrawn, which disadvantages small senders and low-income populations. However, the leading MMOs have made transfers and withdrawals of less than \$2 free to stimulate the uptake of digital channels, which should help drive the uptake of mobile solutions by low-income populations. Digital remittance costs are driven by high operational costs resulting from partnerships between MMOs and banks/MFIs to provide digital transfer services.



Organizational capabilities: Digital RSPs have mostly adopted agile organizational structures, contrary to more traditional ones. This is reflected in how both types of organizations approach innovation. For example, digital RSPs are developing innovative and inclusive solutions as trailblazers. In contrast, more traditional RSPs are positioned as followers as they tend to partner with and rely on existing MTOs once the latter release their innovative digital services.

Regarding financial capital, stakeholder engagement revealed that MTOs operating in Ethiopia report insufficient funds for R&D and business development.

Finally, MMOs partner with banks and MFIs to provide inclusive and innovative remittance services. However, partnerships are limited by lengthy partnership establishment processes and a lack of capital.

INCLUSIVE INNOVATION LANDSCAPE ASSESSMENT AT THE ECOSYSTEM LEVEL

Beyond RSPs, other stakeholders play a key role in fostering—or, by contrast, slowing down—inclusive innovations in remittance services in Ethiopia, as investigated in this section.

Innovation ecosystem

The 2021 Global Innovation Index (GII) ranked Ethiopia 126th among the 132 economies featured in the index. Within Sub-Saharan Africa, Ethiopia ranked 23rd among the 27 economies in the region. According to the GII report, this low score is likely due to the following:

- **Low market sophistication:** Due to gaps in investment instruments (e.g., venture capital) and domestic credit to Ethiopia's private sector entities. These gaps hinder the deployment of innovative solutions on the market and among underserved groups.
- **Low business sophistication:** Due to the financial sector cluster development gap and the lack of joint ventures and strategic alliances in Ethiopia. These challenges mean insufficient partnerships are being created in the FSP community (including RSPs) and, consequently, a number of missed innovation opportunities as partnerships are conducive to innovative thinking and pulling resources for successful R&D.
- **Low infrastructure availability:** Due to the country's gap in information and communication technologies (ICT) and electricity access. This leads to the low deployment of digital services in low-income neighbourhoods and rural areas.
- **Weak development of human capital and research:** Due to insufficient investments in R&D by FSPs (both insufficient investments in human capital (trained innovators) and financial capital) to develop innovative products aligned with market realities (e.g., low literacy). Many remittance senders or recipients can also not adopt digital products in the wider population.¹⁶⁷

In addition to these factors hindering innovation, political instability in Ethiopia might be another complicating factor. Since the 1974 revolution and with recurrent conflicts with Eritrea and, most recently, Tigray,¹⁶⁸ Ethiopia has been undergoing political and social tensions. These have affected the private sector's willingness to invest in innovations due to perceived risks on returns. According to a survey of 848 Ethiopian companies, political stability is one of the three main covariates that require special attention to enhance Innovativeness.¹⁶⁹ Furthermore, several studies consistently suggest that political instability negatively affects budgets for R&D activities at national and enterprise levels.¹⁷⁰ It also weakens collaborations between academics and practising enterprises, reduces government spending on technology, and deteriorates the quality of education (impacting human capital)¹⁷¹—all of which harm RSPs' capacity to innovate.

However, the inclusion lens for product design is somewhat ingrained in the innovation community in Ethiopia, signifying inclusivity potential when the above-mentioned obstacles are lifted. To persuade informal channel users to switch to their formal products, digital RSPs (through product design) and

¹⁶⁷ WIPO, Global Innovation Index: Ethiopia, 2022

¹⁶⁸ The conflict opposing the government and the Tigray People's Liberation Front (TPLF) along with Oromo Liberation Front (OLF). The conflict began in November 2020 and at the time of drafting this report, is ongoing

¹⁶⁹ Other variants are quality of labour and access to training and foreign markets. Shumetie & Watabaji, Effect of corruption and political instability on enterprises' innovativeness in Ethiopia: pooled data based, 2019

¹⁷⁰ Gayle & Al., Political instability, pro-business market reforms and their impacts on national systems of innovation, 2012

¹⁷¹ Ibid.

incubators/accelerators have adopted an inclusion lens, the former via product design and the latter via fintech support. Efforts have been focused on improving access to remittances for people with low to no internet access or with a low level of digital literacy. Nevertheless, there remains room for improvement as available solutions such as IVR or USSD technologies do not respond entirely to those groups’ needs.

Some multilateral donors are providing financial support to MTOs, expecting to advance digital finance or financial inclusion, but this is insufficient to cover the providers’ full capital requirements. These include organizations such as USAID, UKAID, and UNCDF, providing capital to private sector entities on specific projects which align with those donors’ in-country agenda and objectives often linked to digital finance or financial inclusion.¹⁷² For example, UNCDF provided a \$300,000 grant for a start-up to develop a digital agent network management tool. However, stakeholder engagements revealed that the support provided by donors is minimal compared to the financial needs of MTOs and is usually suitable for developing a proof of concept rather than a start-up’s business development. Hence, financing capital is insufficient to support the expansion of digital services to different population segments. This partly explains the prioritization of urban areas by MMOs for remittance services at the expense of rural areas.

Regulatory landscape for innovation

Five parameters in the legal and regulatory framework act as levers for inclusive innovation in the remittance space in Ethiopia. Table 7 lists significant gaps and inhibitors observed in recent years and key reforms undertaken to stimulate innovation and inclusion.

Table 7 Key gaps and reforms in Ethiopia’s remittance regulation framework

PARAMETERS	KEY GAPS AND INHIBITORS	KEY REFORMS
Licensing & Authorization in remittance service provision	The banking business includes some activities such as the transfer of funds to other local and foreign persons, which are normally not isolated as banking business.	Amendment of the banking business law for a sharper definition of “banking business”, enabling other non-banking financial activities to be delivered by non-bank financial service providers (e.g., RSPs)
	Licensing and Authorization of Payment Instruments Issuers and Payment System Operators Directives only covers local establishments and excludes foreign-owned ones such as international RSPs when recognising non-bank financial services as financial institutions	Authorization of international RSPs to partner with local financial service providers through an approval process for the provision of their services.
	Prohibition of MFIs from engaging in cross-border remittance business	Extension of activities allowed to MFIs which now include in-bound international remittances
International Remittance Services Directive (IRSD)	IRSD provisions require remittance services providers to charge zero or minimum tariff on remittance transfer services and to disclose all charges to the NBE	Need for a separate directive to cover RSPs, such as allowing international RSPs to partner with non-bank financial institutions without necessarily licensing them as domestic establishments

¹⁷² Stakeholder interviews, 2022

PARAMETERS	KEY GAPS AND INHIBITORS	KEY REFORMS
Consumer protection	Lack of consumer protection directives covering remittance senders and recipients	RSPs directive addressing issues pertaining to consumer protection, dispute resolution and market conduct for remittance businesses
Risk management: AML/CFT & liquidity	No specific guidelines on the use of technology, especially e-KYC, nor on how to apply a proportionate risk-based approach to KYC/Customer Due Diligence requirements based on the value of cross-border transactions	Guidance on the use of technology to support e-KYC and effective supervision and oversight after the implementation of biometric ID
	No clear risk management frameworks that address risks related to liquidity, settlements, and technology for RSPs	Risk management frameworks for operational risks related to liquidity, settlements, and use of technology by RSPs
Exchange rate	The foreign exchange regime causes a high margin between the official and parallel market exchange rates	Forex reforms aimed at unifying the official and parallel exchange rates
Agent network	Requirement of international RSPs to partner with local banks or financial institutions to access the local financial service providers' agent networks	Authorisation of international RSPs to provide their services through local agent networks without necessarily partnering with local institutions to access the latter's agents
Payment Instrument Issuers	The Licensing and Authorization of Payment Instrument Issuers Directive expounds the definition of "financial institutions" to i.e. non-bank financial service providers	Risk management frameworks for operational risks related to liquidity, settlements and use of technology by RSPs

Status of the reforms:

Implemented	To be implemented	Requiring further coordination
-------------	-------------------	--------------------------------

A governmental policy enables RSPs to offer bundled services such as loans to Ethiopian migrants abroad.¹⁷³ To attract foreign capital, the government has classified Ethiopians abroad as domestic investors, allowing them to open local bank accounts abroad and remit directly to Ethiopia, as well as providing a bespoke banking service for Ethiopian migrants. Diaspora loans offered by Lion International Bank and highlighted in the product bundling section are examples of financial services driven by the policy. Therefore, this inclusion policy makes it possible to redirect Ethiopian migrants' remittances to formal channels and encourages RSPs to innovate on product offerings to migrants.

Furthermore, the NBE's financial inclusion monitoring by RSPs reinforces their willingness to make remittance services accessible for women and rural dwellers. Through the NBE's National Financial

¹⁷³ UNCDF, Policy, legal, and regulatory framework in Ethiopia to enhance remittances, 2020

Inclusion Strategy, banks and MFIs are required to share information on accounts.¹⁷⁴ The NBE then aggregates the data by region, gender, and type of institution to assess the level of inclusion of bank and MFI services. Hence, RSPs promote their services in a way accessible to women and rural populations, which is reflected in the inclusive communication (discussed in the communication and marketing section) of RSPs regarding their products and services.

Key takeaways on inclusive innovation within the Ethiopian ecosystem



Innovation ecosystem: According to the GII report, Ethiopia would gain to spur innovation by strengthening market and business sophistication, infrastructure availability and human capital and research. The homegrown economic reform agenda issued in 2020 identifies enhancing financial sector development and developing capital markets among its priorities, with goals to foster financial inclusion through increased access to mobile payment technology. The inclusion lens for product design is somewhat anchored in Ethiopia's innovation community, which is a promising sign for future developments. In addition, to support MTOs, some multilateral donors such as USAID, UKAID, and UNCDF have provided support through grants to advance digital finance and financial inclusion.



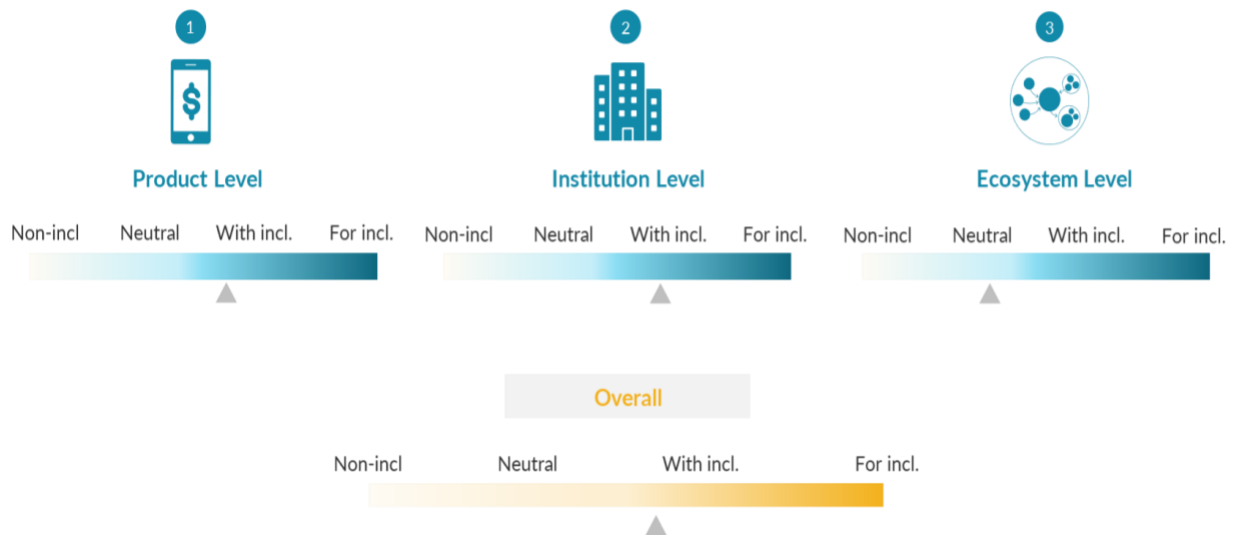
Regulatory landscape for innovation: There are four main parameters in the regulatory framework that hamper access to remittances in Ethiopia. These include the cross-border remittance policy, the foreign exchange fixed rate policy, the mobile money regulation, and the agent banking regulation. However, some government and NBE policies and practices increase remittance access for Ethiopian migrants and their families. This is the case of the governmental policies for migrants' inclusion and the NBE's financial monitoring, which reinforce RSPs' willingness to make remittance services accessible for women and rural populations.

¹⁷⁴ NBE, policy regulations, 2022

CONCLUSIONS ON THE STATUS OF INCLUSIVE INNOVATION IN ETHIOPIA

The section measures the state of inclusive innovation in Ethiopia at all three levels—product, institution, and ecosystem—along the inclusive innovation continuum depicted in *Figure 1*, ranging from non-inclusive innovation to innovation specifically for inclusion. The ratings are informed by a qualitative assessment of the sub-parameters linked to each level and were validated through stakeholder interviews. *Figure 14* summarizes the overall assessment for Ethiopia.

Figure 14 Inclusive Assessment Summary for Ethiopia



It should be noted that this mapping of Ethiopia on the inclusive innovation continuum reflects the overall market trends observed during the assessment. The institutions within the ecosystem and economy may be over-achieving or underperforming compared to what has been indicated.

Pathways to Leverage Inclusive Innovation

This chapter provides recommendations to leverage inclusive innovation in the country, spelling out pathways for RSPs to become increasingly innovative and inclusive and proposing options for consideration for the regulator and other players of the broader remittances and innovation ecosystem to support such shifts towards inclusive innovation. It starts with an overview and then elaborates on detailed recommendations and emerging opportunities, as well as global learnings.

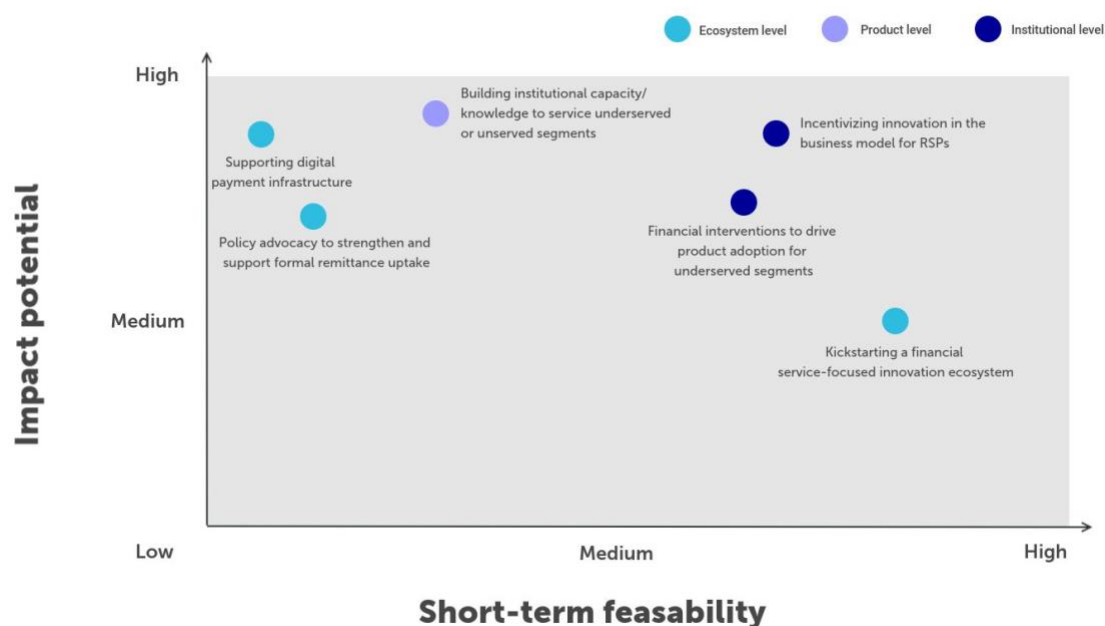
THE WAY FORWARD

To make digital remittance channels and linked financial services more inclusive, interventions should aim to make migrant remittances accessible and affordable while deepening financial inclusion for underserved segments. These interventions should seek to improve inhibitory regulation and reinforce recent progress on diversifying digital channels and incentivising formal remittances in Ethiopia. They can do so with inclusive communication on product offerings and the fee-free of less than \$2 transactions. This section provides a framing to devise recommendations that support inclusive innovation. The recommendations exist along two dimensions: accelerating enabling trends and filling in existing gaps, and each recommendation is mapped to a thematic area.

All recommended interventions can be classified into six key thematic areas that must be strengthened to ensure migrant remittance services are accessible and affordable and help drive financial inclusion for underserved segments in Ethiopia. While cross-synergies exist, each of these thematic areas can be distinctly classified into the following three levels: product, institution, and ecosystem.

Additionally, the framing also lays down some principles to prioritize certain interventions. Figure 15 analyses these thematic areas, placing them on two axes. On the horizontal one, thematic areas are rated according to the estimated feasibility of key interventions in the short term, linking to the implementation timeframe (short-, medium- or long-term), the complexity of the intervention, the agility and resources of stakeholders involved, and willingness or inertia to change, among other factors. On the vertical axis, thematic areas are mapped according to the potential impact of the interventions.

Figure 15 Mapping of thematic areas against impact potential and short-term feasibility



DETAILED RECOMMENDATIONS & EMERGING OPPORTUNITIES

Based on the gaps and opportunity areas identified in the assessment in the previous section, the report lays down a set of key recommendations at the ecosystem, institution, and product levels in Table 8. While these different levels break down the recommendations, it is important to note that certain recommendations also have implications for others. The report also identifies an indicative list of stakeholders that should be consulted for implementing each recommendation to make the recommendations more actionable.

Table 8 Key recommendations linked to each thematic area

THEMATIC AREA	KEY RECOMMENDATIONS	RELEVANT STAKEHOLDERS
<i>Product Level</i>		
Building institutional capacity/knowledge to service underserved or unserved segments	Making digital services more user-friendly through the integration and uptake of adapted features (e.g., IVR, USSD, chatbot) and features in remittance products to support usage by populations with low digital literacy.	RSPs
	Supporting agent network expansion with a gender lens by identifying strategic pay-out locations (mapping access points and combining them with disaggregated data on remittance recipients).	RSPs, Multi-lateral donors

THEMATIC AREA	KEY RECOMMENDATIONS	RELEVANT STAKEHOLDERS
	Supporting RSPs' efforts to underserved users, especially in rural areas, and supporting capacity-building activities for potential agents (including women agents).	RSPs, Multi-lateral donors
<i>Institution Level</i>		
Incentivizing investment into R&D for RSPs	Strengthening capacities of RSPs in terms of organization, physical and communication infrastructure, knowledge, and skills to build trust with potential partners, further engaging existing ones, and ultimately fostering bundled services creation and services uptake for and by underserved segments.	RSPs, Multi-lateral donors
	Demonstrating and implementing a clear and sustainable business case for transfer service fees aligned with the ability to pay for the inclusion of low-income groups in digital services.	Multi-lateral donors, RSPs, and FSPs
Financial interventions to drive product uptake for underserved segments	Providing financial support specifically for R&D (given the likelihood of a long R&D period before users can benefit from the outcome) to explore AI-based solutions (e.g., voice command, chatbot) to enable the uptake of the products by populations with low digital literacy, as well as driving innovations to increase access points.	Multi-lateral donors, development finance institutions, RSPs
	Providing grants and/or result-based financing support to increase RSPs' business development capabilities (e.g., support partnerships with FIs by financing international licensing, support communication and marketing initiatives) and ultimately stimulating RSPs' efforts to include underserved segments.	Multi-lateral donors, development finance institutions, public FIs
<i>Ecosystem Level</i>		
Supporting digital payment infrastructure	Supporting the NBE in exploring the feasibility of and needs for making national payment infrastructure accessible for NBFIs through tailored license provision (e.g., e-money license) to reduce the costs for remittance transfers and the time taken to complete these transactions. PII licensing is a step in the right direction.	<i>Multi-lateral donors</i>
	Supporting MNOs and the government in their efforts to provide reliable infrastructure (e.g., mobile network, electricity) to strengthen the fluidity of digital services and build populations' confidence in the services (especially for rural populations).	<i>Multi-lateral donors</i>
Policy advocacy to strengthen and support formal remittance uptake	Strengthening advocacy to explore the harmonization of the opportunities and risks of the official currency exchange rate for cross-border formal remittance service uptake.	RSPs, UNCDF, Multi-lateral donors

THEMATIC AREA	KEY RECOMMENDATIONS	RELEVANT STAKEHOLDERS
	Supporting the NBE to adopt lighter measures for licensing informal businesses as agents in rural areas (in a way that they progressively comply with current agent licensing regulations) and relieving FIs from supervising their agents' activities, with the ultimate purpose of stimulating agent networks' expansion in rural areas and the inclusion of underserved segments in those areas.	<i>RSPs, UNCDF, Multi-lateral donors</i>
Kickstarting a financial service-focused innovation ecosystem	Providing technical assistance and resources to start-ups, incubators, and accelerators to strengthen start-up RSPs with R&D capabilities to develop more innovative and inclusive financial products meeting underserved segments' (including women's) needs.	Multi-lateral donors, incubators, accelerators

UNCDF acknowledges the constraints and opportunities for inclusive innovation in Ethiopia and will continue to support RSPs and other ecosystem players. It will further strengthen the country's remittance market and push for more innovative and inclusive products, specifically focusing on gender responsiveness and migrant-centricity.

GLOBAL LEARNINGS & APPLICABILITY TO ETHIOPIA

The key recommendations leverage research around best practices globally to drive inclusion for remittance products. Presented below are a few case studies where similar interventions have worked in the context of global remittances (or the broader financial services ecosystem) and can serve as reference points while implementing the key recommendations in Ethiopia. While the context may be different, the learnings are still applicable and provide a blueprint on how some key recommendations can be implemented.

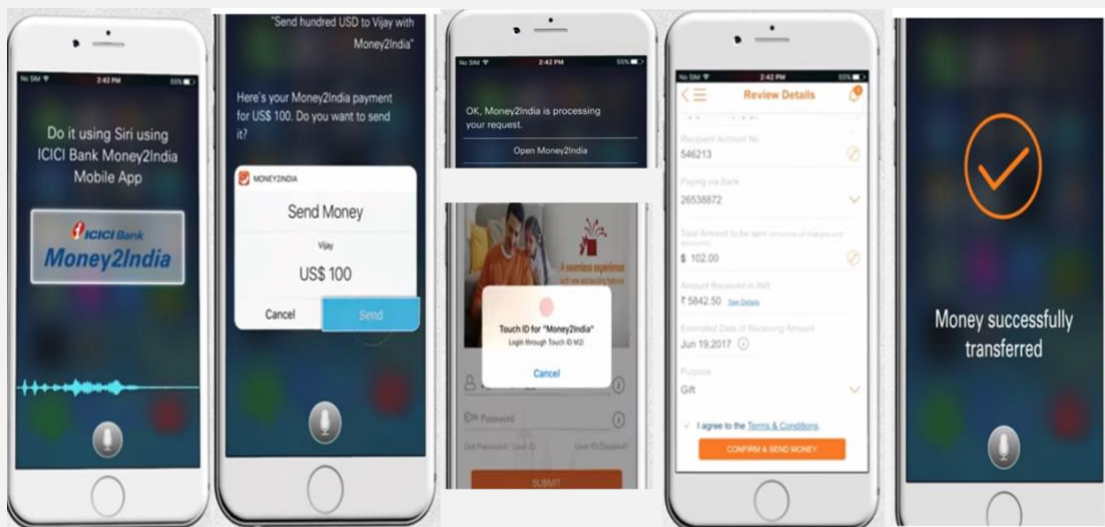
Product intervention case studies

The following three case studies related to the product-level recommendations: “making digital services more user-friendly through the integration and adoption of voice command features in remittance products to facilitate usage by populations with low literacy”; “supporting agent network expansion with a gender lens by identifying strategic pay-out locations”; and “supporting RSPs’ efforts to include underserved users, especially in rural areas and supporting capacity building activities for potential agents’ (including women agent)”.

The first case study relates to the first recommendation to “make digital services more user-friendly through the integration and adoption of voice command features in remittance products to facilitate usage by populations with low literacy”. It demonstrates how using the voice command feature allows people with low digital literacy to benefit from digital services.

Learnings from India: ICICI Bank's cross-border remittance app with a voice command¹⁷⁵

In 2017, ICICI Bank, India's largest private sector bank, launched the country's first voice-based international remittance service to enable Indian migrants to send money to any bank in India. To do so, ICICI Bank integrated Apple's virtual voice assistant, Siri, into its Money2India app. This feature allows a migrant to instantly initiate a remittance transaction to a recipient in India with a simple voice command to Siri on his/her Apple device. The entire process is secured by the customer's two-factor device authentication and secure login. All transactions take place on the secure servers of ICICI Bank with the Money2India app itself, and no confidential or financial information is shared.



Key Learnings/Takeaways:

- The simple voice command **replaces the four or five steps** generally involved in an international remittance.
- **People with low digital literacy** can use the service.

The second case study relates to the recommendation of “supporting agent network expansion with a gender lens by identifying strategic pay-out locations”. It demonstrates how mapping real-time access to financial access points and leveraging communities for data collection help RSPs tailor their products to communities and limit costs.

¹⁷⁵ Money2India, 2022; it is important to note that this system is tailored to an expensive smartphone, that might be accessible only to high skilled migrants, which are usually literate. However, a voice command feature could be developed for more basic smartphones or the IVR usable with basic phones can be further developed.

Learnings from Uganda: Humanitarian OpenStreetMap for financial services¹⁷⁶

In 2015, The Bill & Melinda Gates Foundation partnered with the Humanitarian OpenStreetMap (OSM) Team to develop participatory, local community-based crowdsourced maps. Residents (e.g., university students and community members) are asked to map critical financial access points that are currently not captured to increase access to critical financial services. This purely volunteer-based geospatial data collection methodology is inexpensive, accurate, allows for frequent collection, and integrates seamlessly into existing processes. The project helped service providers analyze gaps in coverage and helped identify financial access points that were officially registered but had ceased operations.



BILL & MELINDA
GATES foundation

HOT
Humanitarian
OpenStreetMap
Team

Key Learnings:

- Mapping real-time access to financial access points can **significantly help providers tailor their products to a community's need**
- Leveraging communities for data collection leads to an inexpensive process, as **costs for data collection by participatory approaches are lower than private sector-led data collection**. However, buy-in from the community is critical for the success of this approach

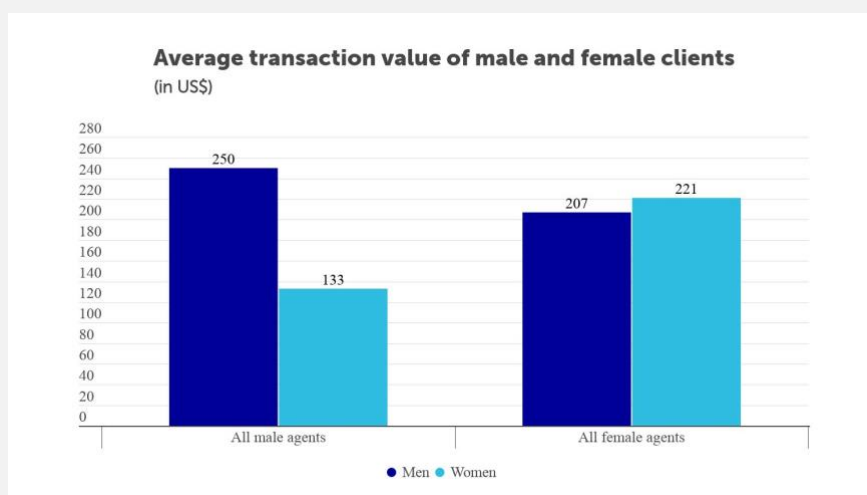
¹⁷⁶ Humanitarian OpenStreet Map Team & BMGF, Mapping Access to Digital Financial Services, 2016

The third case study relates to the recommendation to “support RSPs’ efforts to include underserved users, especially in rural areas and supporting capacity-building activities for potential agents (including women agents)”. It demonstrates how applying a gender lens when supporting RSPs’ efforts to expand their network could be critical for women’s uptake of the products.

Product Case Study 3

Learnings from Uganda: World Bank: The Role of gender in agent banking¹⁷⁷

In 2020, the World Bank used a unique dataset of 1.1 million customer transactions in DRC from 2017-2018 to study the effect of gender matching in agent banking transactions. This was done in collaboration with FINCA DRC, a microfinance institution in the Democratic Republic of Congo, to study whether women prefer to transact with women agents, whether there is a gender difference in transaction amounts, and whether they would travel further to transact with a women agent, among other things. These findings were replicated with a smaller dataset in a randomized controlled trial in Senegal, and the same trends detailed below were found. This study suggested that women’s uptake and usage of financial services may be accelerated by giving them the option to visit a woman agent, making gender part of agent rollout strategies, and designing products to accommodate women’s needs and challenges. It showed that digital financial services (DFS) transaction behaviour is influenced by agent gender.



Key Learnings:

- Customers **prefer agents of their own gender**. Women customers are, on average, 7.5 percentage points more likely to transact with a woman agent than a man. This effect is stable irrespective of the representation of women agents (if high or low)
- Clients transact **higher value amounts** with agents of their own gender. On average, women customers’ transactions are **66 percent larger with women agents** than agent men. When they have higher balances, **women clients are more likely to transact with women agents**.

¹⁷⁷ World Bank, Does agent gender matter for women’s financial inclusion, 2020

Learnings from Kenya: BodaPesa delivering finance to rural areas¹⁷⁸

The challenge:

Rural women often live far away from an agent, ATM, or bank branch. They must take long, costly, unpredictable trips to access money, which means time away from work and family.



The solution:

Last Mile Money partnered with PesaKit (i.e., a fintech agent network in Kenya) and BodaPesa to pilot and launch a new roving agent model, optimized for rural areas and explicitly designed for women, that brings digital financial services closer to women in rural, northern Kenya.

How it works:

Women can request transactions through a trusted community member who aggregates requests and coordinates with an agent who visits the community and fulfils the requests, much like a mobile, on-demand ATM.

BodaPesa offers customers more than the ability to deposit or withdraw funds from digital financial accounts. They can also save digitally and purchase household goods delivered to them by the agent.

Latest results:

After an early 2021 pilot with 200 women, PesaKit has launched MVP support from BOMA Project IDEO.org and Last Mile Money. The pilot, which is currently underway, should reach 1,000 women in Northern Kenya.

Key learnings:

- Women are attracted by mechanisms that can drive down the cost/save time in accessing digital financial services.
- Increased mobility of agents instead of stationary models can create more sound business cases for agents and even more benefits for women.
- Boda riders aggregate goods delivery to drive down the cost for the users and maximize their profit per trip.

¹⁷⁸ Women & Design, a path to close the gender gap, 2021

Institution intervention case studies

In line with institution-level recommendations, the following case studies highlight examples of financial interventions and business model innovations to drive product design and their uptake by underserved segments. The first case study relates to the recommendation of “providing patient capital to R&D to explore AI-based solutions (e.g., voice command) to enable the uptake of the products by populations with low literacy.” The case study demonstrates how grants specially dedicated to R&D and with an inclusion lens help trigger business opportunities serving underserved and marginalized segments.

Institution Case study 1

Learnings from the South African government: Grants for small R&D projects¹⁷⁹

The government of South Africa offers incentives to private sector enterprises that invest in creating, designing and improving new products and processes. The government has developed the Support Programme for Industrial Innovation (SPII) in line with these incentives. The programme was designed to provide financial assistance through a grant to develop commercially viable, innovative products and/or processes and support the commercialization of such technologies. The grants are capped at \$337,000 and are intended for South African private-sector companies with an inclusion lens through the requirement of at least 26 percent of women and black recipients and those living with disabilities.

Key Learnings:

- Incentives can trigger businesses to **improve or extend their product offerings and processes**, leveraging new technologies through **applied research and prototyping**.
- Adopting an inclusion lens in the choice of businesses could capture and address **underserved segments' specific needs** to make services **more accessible to them**.

¹⁷⁹ South Africa Government, Investment incentives, 2022

The second case study relates to the recommendation of “providing grants and/or a result-based financing support to increase RSPs’ business development capabilities and ultimately stimulate RSPs’ efforts for the inclusion of underserved segments”. It demonstrates how cross-sector collaboration to drive early-stage funding and inclusive innovation can strengthen the capacity to reach many underserved customers.

Institutions Case Study 2

Learnings from CGAP: Catalyst Fund accelerator to support inclusive tech innovators in emerging markets¹⁸⁰

A CGAP report on fintechs and financial inclusion suggests that while donors and development finance institutions (DFIs) may not have the tools to assess the viability of early-stage business models, they could consider setting up early-stage investment units collectively, which operate similarly to a VC fund but align to development impact. An example is the Catalyst Fund, an inclusive fintech accelerator funded by the UK Department for International Development and JPMorgan Chase & Co, managed by the Bankable Frontier Associates (BFA) Global. Catalyst provides grant funding and technical assistance to new fintechs targeting low-income communities.

Key Learnings:

- The advantage of such a fund is to enable development funders to better **coordinate market-level strategies** between innovation, growth, and exits and to provide visibility on **emerging innovations** for **growth stage investments**.
- Catalyst’s portfolio companies have raised significantly more follow-on funding to ultimately reach a large **number of underserved customers** for their stage.
- While the average funding amount raised per start-up in the 12 months following an accelerator programme was \$547K, Catalyst graduates raised \$2.5M on average. Catalyst start-ups also operate in emerging markets, where access to capital is more challenging.

¹⁸⁰ (CGAP, Fintech and Financial Inclusion: Funders' Guide to Greater Impact, 2021 and Catalyst Fund, Why the Catalyst Fund startup accelerator delivers outsized success, 2020

The third case study relates to the recommendation of “demonstrating and implementing a clear and sustainable business case for single transfer service tariffs and free withdrawals for RSPs for the inclusion of low-income groups in digital services”. It highlights a positive example of applying a single tariff to accommodate and incentivize low-income population digital services uptake.

Institutions Case Study 3

Learnings from Senegal: Wave’s Business model innovation for more inclusion¹⁸¹



In 2021, Wave introduced a pricing model based on the billing of transfers between individuals at relatively low (percentage) prices in Senegal. This business model is based on three key principles: free money withdrawal, no costs associated with payments, and democratising access to the service. This innovation has enabled Wave to acquire different customer segments, including small traders and fishermen in rural areas, to build a solid and loyal customer base. Furthermore, this innovative model has had an industry-wide impact with the alignment of the mobile money leader on the same business model base. Wave has benefitted from several venture capital firms’ investments, including Sequoia, Stripe, and Partech, the latter valuing the start-up at \$1.7 billion.

Key Learnings:

- There are **business opportunities in adopting an impact-based profitability model and servicing lower-income communities**, and disregarding such opportunities can open the door to competition
- **Leveraging a low-cost model for onboarding new users could significantly reduce customer acquisition costs and help drive increased uptake of the platform for financial services needs**

¹⁸¹ Wave Mobile Money, Senegal's CEO intervention at the Africa Fintech Forum, 2021

Ecosystem intervention case studies

Two case studies related to ecosystem-level recommendations shed light on interventions that could strengthen and support formal remittance uptake and stimulate the creation of a financial service-focused innovation ecosystem.

The first case study addresses the recommendation of “tailored license provision (e.g., e-money license) to reduce the costs for remittance transfers and time it takes to settle these transactions”. It highlights the benefits of licensing mobile money providers to provide remittance services.

Ecosystem Case Study 1

Learnings from Tanzania: GSMA: Licensing mobile money remittance providers – early lessons¹⁸² & Dalberg: AgriFin Accelerate – Tanzania Ecosystem Assessment¹⁸³

In 2017, the international mobile phone association GSMA reviewed early learnings from various licensing models surrounding mobile money remittance providers. GSMA found that the Tanzania model has several advantages, where licensed electronic money providers are authorized to provide inward and outward remittance services.

In addition, strategy consulting company Dalberg conducted a study in Tanzania for Mercy Corps to assess the ecosystem for digital financial and informational services for farmers and evaluate the role of such services in smallholder financial inclusion in Tanzania.

Key Learnings from Both Studies:

- A regulatory system that licenses international remittances and mobile money has several advantages, including **greater process efficiency**, the potential to increase competition and reduce remittance transaction costs, and greater market efficiency.
- Further, GSMA also shows that mobile money can play a key role in creating a price revolution in remittances and achieving the remittance price objective set in the SDGs. Using mobile money is, on average, more than **50 percent cheaper** than using the services of global MTOs. It is also particularly **competitive for low-value transactions, increasing global competition** and **driving down the price** of remittance services. Thus, mobile money-enabled remittances are helping broaden financial inclusion objectives.
- The Dalberg ecosystem study of Tanzania showed that **mobile money is improving the historically limited financial inclusion** situation in Tanzania, as **80 percent of the population has access to a mobile phone**, and **36 percent of farmers use mobile financial service providers**, compared to five percent using banks and 24 percent using informal financing mechanisms. However, the high cost of mobile money transfers can be a deterrent, particularly to those who transact small amounts.

¹⁸² GSMA, Driving a price revolution: Mobile Money in International Remittances, 2016

¹⁸³ Dalberg Advisors Analysis

The following case study relates to the ecosystem-level recommendation of “policy advocacy to strengthen and support formal remittance uptake”. It highlights how start-ups' lobbying and implications in the co-creation of the regulatory framework could address the regulatory obstacles that start-ups face regarding services provision and/or uptake.

Ecosystem Case Study 2

Learnings from Senegal: *i4policy: advocacy and support for the creation of the Senegal Start-up Act*¹⁸⁴

The organization i4policy led the Innovation for Policy Process, a co-creation and lobbying process gathering more than 1000 participants from the Senegalese public and private sectors. The inclusive legislative process was supported by the Presidency of the Republic, under the leadership of its Delegation for Rapid Entrepreneurship (DER/FJ), which brought together a coalition of citizens for the co-creation of the Start-up Act with experts from the World Bank, leading local law firms, and leaders of the Senegalese entrepreneurial ecosystem. The 19-month-long process resulted in the "Sen Start-up Act", an iterative framework for public policy reform that optimizes public policy by raising the knowledge and preferences of users, analysts and policymakers through deliberations, expert reviews, and inclusive participation.

Key Learnings:

- **Advocacy and lobbying** can bring together various stakeholders, including start-up founders, to create an ideal legal framework that allows start-ups to flourish.
- The creation of the "Sen Start-up Act" fostered the **advent of a legal regime supporting the economic development of Senegalese start-ups** through the **streamlining of the procedures** for labelling start-ups, the **effectiveness of the support mechanisms** put in place, and **tax measures to alleviate** the financial pressure on start-ups at their creation.

This case study recommends “providing technical assistance and capacity-building capabilities (in skills and resources) to start-ups, incubators, and accelerators to strengthen their R&D capabilities to develop more innovative and inclusive financial products meeting underserved segments’ needs.” It shows that there are opportunities for donors and other ecosystem players to support interventions that enable access to early-stage risk capital in the Ethiopia financial services ecosystem, with a particular focus on inclusion.

¹⁸⁴ Senegal Ministry of Numeric Economy and Telecommunication, Senegal start-up act, 2020

Learnings from Egypt: IFC Start-up Catalyst Programme – Incubator Support¹⁸⁵

Launched in 2016, IFC's Start-up Catalyst Programme aims to support the local venture capital ecosystems in developing countries that are crucial to building and sustaining healthy entrepreneurship and innovation. It sought to support innovation by addressing the knowledge and funding gap in the early stages of entrepreneurship. In 2016, IFC invested \$2 million in Flat6Labs Cairo, with a target to invest in over 100+ Egyptian tech start-ups.

Key Learnings:

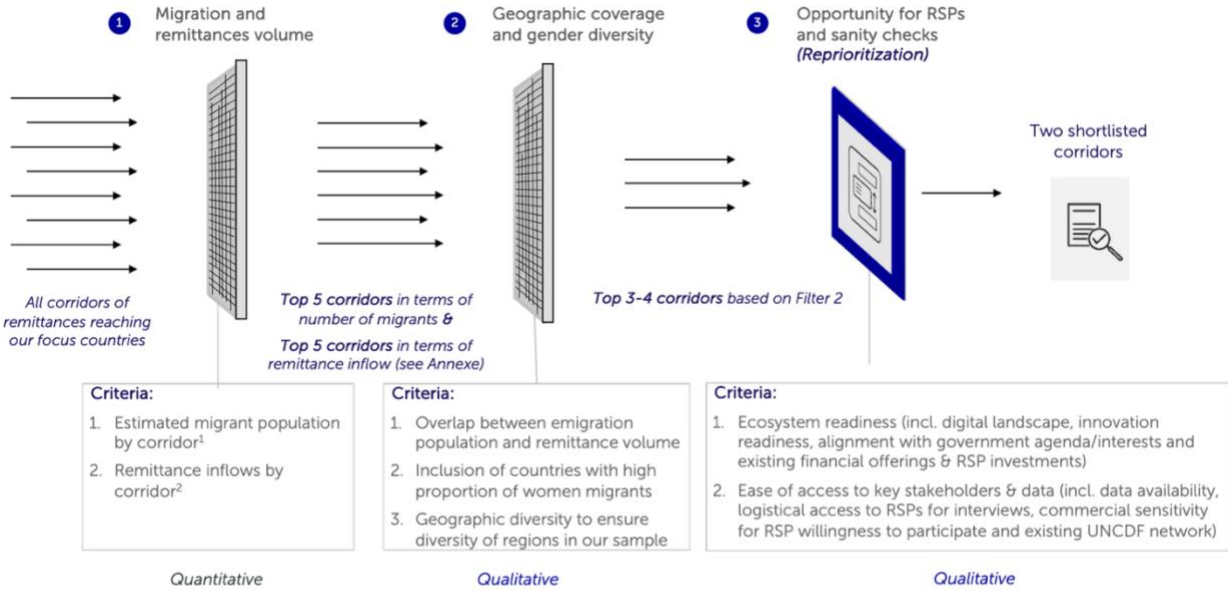
- In a context where seed-stage funding was limited, **IFC's support helped catalyse the seed-stage equity asset class** and mobilize institutional capital from other investors.
- IFC also complimented the equity investment with advisory services that helped Flat6Labs conduct various events and workshops **to build and support local, sustainable ecosystems for inclusive innovation in Egypt** with products targeting unserved customer segments.

¹⁸⁵ IFC, Project information & data portal, 2017

ANNEXE 1: Corridor Selection Process

To select our two focus corridors (USA-Ethiopia and Sudan-Ethiopia), quantitative and qualitative filters were used in Figure 16, based on key data in Figure 17.

Figure 16 Corridor filtering process

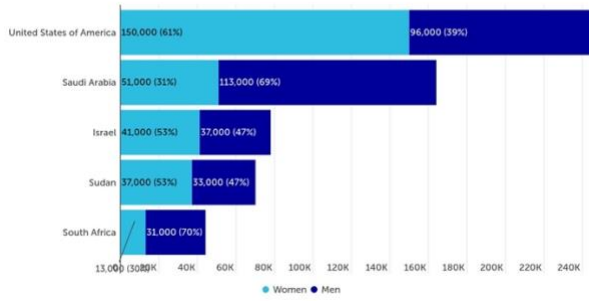


Notes: (1) UNDESA International Migrant Stock 2020; (2) World Bank Bilateral Remittance Matrix, 2017

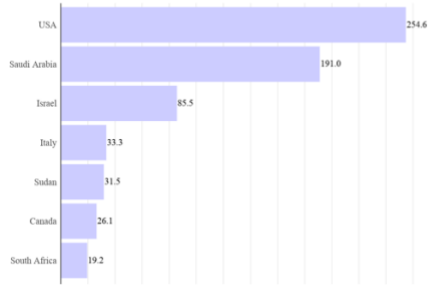
	FILTER 1	FILTER 2	FINAL SELECTION
 Ethiopia	Host country 1. USA 2. Saudi Arabia 3. Israel 4. Sudan 5. South Africa	Remittance volume 1. USA 2. Saudi Arabia 3. Israel 4. Italy 5. Sudan	1. USA 2. Saudi Arabia 3. Israel 4. Sudan
	1. USA - Ethiopia: Highest number of migrants and highest remittance inflow 2. Sudan - Ethiopia: Top 5 in migrant numbers and in remittance volume		

Figure 17 Ethiopia corridors data

Estimated migrant population by destination and gender (2020)



Remittance inflows to Ethiopia - by country, 2017 (in million US\$)



Average remittances per migrant (yearly)

USA	US\$ 1,036
Saudi Arabia	US\$ 1,163
Israel	US\$ 1,094
Italy	US\$ 1,182
Sudan	US\$ 449
Canada	US\$ 739
South Africa	US\$ 435

ANNEXE 2: Mapping of Formal and Informal Value Chains

Figure 18 and Figure 19 show key types of players along the formal and informal channels of the remittance value chain.

Figure 18 Key types of players along the formal channel of the remittance value chain from the sending country to Ethiopia¹⁸⁶

	Sending		Processing			Receipt	
	Sending channel	Payment method	Sending provider	System/hub	Receiver entity	Receipt channel	Payment method
Cash-based transfer	- Agency/in person	- Cash	- MTO - Bank/post office	- MTO's system - EATS - SWIFT - EthSwitch	- Bank/post office	- Agency/in person	- Cash - Bank/postal account
Digital-based transfer	- Internet - ATM - Mobile network	- Payment card - Bank/postal account - Mobile money	- Bank/post office - MTO	- EATS - EthSwitch - VISA - MTO's system	- Bank/post office - Fintech - Electronic money issuers	- Internet - ATM - Mobile network	- Bank/postal account - Payment card - Mobile money account

Figure 19 Key types of players along informal channels of the remittance value chain

	Sending		Processing		Receipt	
	Sending channel	Payment method	Intermediary	System	Receipt channel	Payment method
Cash-based transfer	- In person	- Cash - Goods/services - Hawala & hundi	- Relative/friend in the diaspora community - Buyer/Business partner	- Trust-based arrangement - Informal agent-based payment method (hawala & hundi)	- In person	- Cash
Digital-based transfer	- Internet - Mobile network - ATM	- Payment card - Mobile money account - Bank account	- Buyer/Business partner - Relative/friend in the diaspora community	- Trust-based arrangement	- Mobile network	- Mobile money account

¹⁸⁶ (RemitScope, Ethiopia Country Profile, 2021)

ANNEXE 3: Stakeholders Consulted

Several RSPs operating in Ethiopia were consulted to gather data on inclusive innovation in the remittances space. Regarding gender dynamics, the interviews were conducted together by a man and woman interviewer, and 15 percent of the interviewees were women. *Table 9* shows the list of stakeholders who were consulted.

Table 9 Stakeholders consulted

#	ECOSYSTEM player	POINT OF CONTACT	ROLE
1.	Thunes	Blen Tenaw	Business Development Manager
2.	Moneta Technologies / Amole	Samson Getu	VP Operations
3.	Chapa Ethiopia	Nael Hailemariam	CEO & Co-Founder
4.	Lion International Bank	Girum Shitta	Director of Alternative Banking Channels Department
5.	Dashen Bank	Yohannes Million	Chief-Digital Banking Officer
6.	ILO	Aida Awel	Chief Technical Advisor
7.	National Bank of Ethiopia (NBE)	Habtamu Workneh	Director of External economic Analysis and Internal Relations Directorate
8.	Oromia International Bank	Geleta Bekuma	Chief Officer, IT Infrastructure and Services
9.	Hagere	Wondi Mitiku	CEO & Co-founder
10.	Western Union	Hawi Assefa	Agent
11.	Small Informal RSP	Tadele Getawhew	Operator
12.	Remittance Beneficiary	Mariam Kedebe	N/A
13.	HelloCash	Abrham Gulilat	Chief Operating Officer
14.	MTN Sudan	Walla Mohamed & Mohammed Moawia	Senior Managers - Fintech Products and Services
15.	BelCash	Benyam Abera	Director, BelCash Holdings
16.	Dalberg	Lillian Kidane	Partner, Digital Finance Expert
17.	UNCDF	Mercy Wachira	Digital Finance & Migrant Remittance Expert
18.	UNCDF	Endashaw Tesfaye	Digital Finance Expert
19.	Cepheus Capital	Berhane Demissie	Co-Founder and Managing Partner
20.	FSD Africa / Ethiopia	Ermias Eshetu	CEO
21.		Tewodros Tassew	Project Manager
22.	IOM	Malambo Moonga	Senior Programme Coordinator

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