

Hirko and Associates (HALO) Legal Update

Ethiopia's Payment System Operators Faces
Its Biggest Regulatory Transformation Since
Liberalization

COMPREHENSIVE LEGAL UPDATE

Licensing and Authorization of Payment System Operators (Amendment) Directive No. ONPS/---/2026

Introduction

The National Bank of Ethiopia has released a draft amendment to the Licensing and Authorization of Payment System Operators Directive, introducing sweeping reforms that could fundamentally reshape the country's digital payments landscape. The proposed changes go far beyond routine regulatory updates. They introduce a new policy direction for market entry, foreign investment, capital requirements, governance standards, consumer protection, and regulatory supervision.

If adopted in its current form, the amendment will have far-reaching implications for payment gateways, fintech companies, POS operators, ATM operators, switch operators, financial institutions, technology providers, and foreign investors seeking entry into Ethiopia's rapidly expanding digital economy.

A Historic Opening: Foreign Investors May Enter Ethiopia's PSO Market

The most consequential reform proposed by the National Bank is the decision to open the payment system operator sector to foreign participation.

For many years, Ethiopia's payment infrastructure industry has largely remained the domain of locally owned businesses and domestic financial institutions. The draft amendment signals a major departure from this approach by allowing foreign-owned companies and foreign-backed subsidiaries to obtain licenses and operate within the sector.

The reform aligns with Ethiopia's broader economic liberalization agenda and is expected to attract international payment companies, technology providers, strategic investors, and global fintech operators seeking access to one of Africa's fastest-growing digital financial markets.

The entry of foreign participants is likely to introduce new technologies, operational expertise, international standards, and additional investment capital into the sector. At the same time, domestic operators may face increased competition as global players enter the market with stronger financial and technological capabilities.

This reform alone has the potential to redefine the competitive landscape of Ethiopia's digital payments industry over the coming years.

Capital Requirements Reach Unprecedented Levels

The draft amendment proposes one of the most significant increases in regulatory capital requirements ever introduced in Ethiopia's payment services sector. The proposed changes substantially raise the financial threshold for market entry and operation across all categories of payment system operators, signaling a clear shift toward a more prudential and resilience-focused regulatory framework.

The most dramatic increase applies to Switch Operators, whose minimum paid-up capital requirement would increase from ETB 40 million to ETB 2 billion, an extraordinary **50-fold increase**. National Switch Operators would similarly see their minimum capital requirement rise from ETB 300 million to ETB 5 billion, representing an increase of more than **16 times** the existing threshold which makes the capital requirement equal with Banks.

The impact is equally significant for payment acceptance infrastructure providers. The minimum capital requirement for POS Operators would increase from ETB 10 million to ETB 80 million, an **eight-fold increase**, while ATM Operators would be required to increase their capital from ETB 20 million to ETB 100 million, representing a **five-fold increase**.

Payment Gateway Operators, which currently operate under the broader Payment System Operator capital framework, would become subject to a dedicated minimum capital requirement of ETB 60 million. This effectively establishes a significantly higher and more clearly defined prudential threshold for gateway operators and reflects the growing systemic importance of online payment infrastructure within Ethiopia's digital economy.

These increases demonstrate the National Bank's intention to ensure that operators responsible for critical payment infrastructure possess sufficient financial capacity to withstand operational disruptions, cybersecurity incidents, technological failures, and other emerging risks. The regulator appears determined to build a payment ecosystem supported by well-capitalized institutions capable of sustaining long-term growth and maintaining public confidence.

At the same time, the proposed capital thresholds are likely to reshape the competitive landscape of the industry. Smaller operators may be required to secure additional investment, attract strategic partners, undertake capital restructuring, or consider consolidation opportunities in order to remain compliant. Consequently, the amendment may accelerate market consolidation and encourage the emergence of larger, better-capitalized, and more institutionally robust payment service providers across the sector.

The Regulatory Bar for Fintech Licensing Has Been Raised

The draft directive significantly expands the information and documentation required from applicants seeking payment system licenses.

Applicants will be expected to demonstrate not only financial capability but also technical readiness, operational sustainability, governance maturity, cybersecurity preparedness, risk management capacity, and long-term business viability.

The licensing process appears to move away from a relatively straightforward authorization framework toward a more rigorous prudential assessment model. Regulators will have broader powers to examine ownership structures, sources of capital, management competence, technical infrastructure, outsourcing arrangements, and business models before granting approval.

For prospective entrants, obtaining a payment system operator license is expected to become considerably more demanding than under the current regulatory regime.

NBE Expands Its Oversight and Enforcement Powers

The proposed amendment significantly strengthens the supervisory authority of the National Bank.

The regulator will enjoy broader discretion to reject applications, require additional information, impose operational conditions, demand amendments to system rules, and intervene where payment system activities pose operational, cybersecurity, consumer protection, or systemic risks.

The proposal reflects a clear policy objective: moving from a framework focused primarily on market development toward one that places greater emphasis on regulatory oversight, risk management, and financial stability.

For licensed operators, compliance will no longer be viewed merely as a licensing requirement but as an ongoing regulatory obligation subject to continuous scrutiny.

Cybersecurity Becomes a Core Regulatory Priority

One of the most notable features of the draft amendment is the strong emphasis placed on cybersecurity and operational resilience.

The National Bank proposes extensive requirements relating to information security, fraud monitoring, system integrity, data governance, business continuity planning, disaster recovery mechanisms, outsourcing controls, and cyber risk management.

Operators will be expected to establish sophisticated frameworks capable of identifying, monitoring, mitigating, and responding to a broad range of technological and operational threats.

This reflects the growing recognition that cyber incidents and technology failures can threaten not only individual businesses but also the stability of the wider financial system.

The message from the regulator is clear: cybersecurity is no longer a technical issue; it is now a core regulatory requirement.

New Opportunities for Payment Innovation

While the draft introduces stricter regulatory obligations, it also creates new opportunities for innovation.

The amendment recognizes a broader range of payment services and technology-driven business models than ever before. Services such as payment aggregation, merchant acquiring, payment orchestration, QR-based payments, API-enabled payment solutions, merchant platforms, and other digital payment innovations are expressly accommodated within the proposed framework.

This modernization reflects the rapid evolution of the digital payments ecosystem and demonstrates the National Bank's intention to support innovation while maintaining regulatory safeguards.

For fintech companies and technology providers, the amendment may create greater regulatory certainty regarding the legality and licensing treatment of emerging payment products and services.

Stronger Protection for Consumers and Merchants

Consumer protection occupies a central place within the proposed reforms.

The draft introduces enhanced obligations relating to transparency, customer communication, complaint handling, data protection, confidentiality, disclosure of fees and charges, and dispute resolution.

Payment system operators will be expected to adopt formal customer protection frameworks and ensure that consumers are treated fairly throughout the lifecycle of payment transactions.

As digital payments continue to expand across Ethiopia, these measures are likely to play an important role in building public trust and encouraging broader adoption of electronic payment services.

Governance Standards Move Closer to International Expectations

The National Bank also seeks to strengthen governance requirements across the sector.

Directors, chief executive officers, and senior executives will face more rigorous suitability assessments, while operators will be expected to demonstrate stronger governance structures, clearer accountability mechanisms, and enhanced internal controls.

The proposal reflects a growing international trend toward holding senior management accountable for the safety, integrity, and resilience of financial institutions and payment infrastructure providers.

Governance is no longer viewed as a corporate formality; it is increasingly treated as a critical component of financial stability and regulatory compliance.

What This Means for the Industry

The draft amendment represents the most significant regulatory reform of Ethiopia's payment system operator framework since the sector was first opened to private participation.

The proposal simultaneously seeks to attract foreign investment, strengthen market confidence, improve operational resilience, enhance consumer protection, support innovation, and safeguard financial stability.

However, these objectives come with substantial compliance costs. Existing operators may need to raise significant capital, strengthen governance arrangements, invest in cybersecurity infrastructure, review operational frameworks, and reassess long-term business strategies.

For investors, fintech companies, and financial institutions, the proposed reforms signal that Ethiopia's digital payments market is entering a new phase—one characterized by greater opportunity, higher regulatory expectations, and increasing integration with international standards.

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