Understanding Ethiopia’s Digital Financial Services Framework: Distinguishing PIIs from PSOs

Ethiopia's digital finance landscape began to take formal shape with the issuance of the National Payment System Proclamation No. 718/2011, a major milestone that empowered the National Bank of Ethiopia (NBE) to regulate the rapidly evolving environment of digital financial services.

Although the Proclamation envisaged the participation of non-bank actors in the payment ecosystem, it took ten years before this vision materialized. That finally happened with the introduction of two distinct legal regimes: the Licensing and Authorization of Payment System Operators Directive No. ONPS/02/2020 and the Licensing and Authorization of Payment Instrument Issuers Directive No. ONPS/01/2020.

These frameworks opened the sector to new players beyond the banking industry. The PII Directive later went through two amendments—ONPS/06/2022 and ONPS/09/2023, before being replaced entirely by the current Payment Instrument Issuer Directive No. ONPS/09/2023, while compliance across the entire sector is enforced through the Penalty for Non-Compliance Directive No. ONPS/08/2022.

With this regulatory foundation established, it is essential to understand the difference between Payment System Operators (PSOs) and Payment Instrument Issuers (PIIs)—two pillars of Ethiopia's digital finance ecosystem, each serving a fundamentally different function despite working toward the same goal of enabling seamless electronic payments.

A Payment System Operator, as defined in the PSO Directive and in the amended National Payment System Proclamation, is a financial institution or any person authorized by the NBE to own, operate, and administer a payment system.

This definition captures the three core responsibilities of a PSO: ownership, operation, and administration of the system. To appreciate this role, it is important to understand what a payment system is. The PSO Directive describes it as a set of instruments, rules, procedures, and technological arrangements that facilitate the transfer of funds among participants.

This means a payment system is essentially an infrastructure or platform that determines how money moves from one party to another. PSOs therefore deal with the architectural backbone of digital payments. They run the systems that enable switching, routing, clearing, settlement, and interoperability, ensuring that different institutions and platforms can communicate and transfer funds efficiently and securely. In simple terms, PSOs build and maintain the "rails" on which digital payments travel.

PIIs, on the other hand, serve a very different purpose. The Payment Instrument Issuer Directive No. ONPS/09/2023 governs the definition of a payment instrument and identifies who may issue it.

A payment instrument is any tangible or intangible tool—such as a mobile wallet, card, or electronic money account—issued only after the issuer receives funds of equivalent value in Ethiopian Birr. The function of a payment instrument is straightforward: it allows users to obtain money, goods, or services, or otherwise make payments.

The Directive emphasizes that the value stored in these instruments must always be backed 1:1 by actual funds received, ensuring full consumer protection. Electronic money is a significant subset of payment instruments and must be redeemable in cash, accepted by third parties, and represent a claim against the issuer.

Entities that may become PIIs include companies, subsidiaries of telecom operators or banks, government-owned enterprises, and financial institutions such as banks and MFIs. While new market entrants must obtain a full license from the NBE, banks and microfinance institutions require a separate authorization—distinct from their general financial services license—before they can issue payment instruments.

The law is explicit that no one may issue a payment instrument without securing the appropriate approval from the NBE, ensuring that every issuer operates under strict regulatory, technical, and consumer-protection obligations.

When viewed together, the difference between the two becomes clear. PSOs provide the infrastructure, the underlying systems and rules through which money moves. They enable the actual transfer, switching, and processing of funds. PIIs, in contrast, create and manage the digital value that customers hold and use to make payments.

A PII issues the wallet or e-money; a PSO runs the system that moves money from one wallet or bank to another. One constructs and manages the rails, and the other issues the vehicles that travel on those rails.

Despite operating in different layers of the ecosystem, both roles are indispensable. PSOs ensure that digital payments can move smoothly across platforms, while PIIs ensure that consumers have secure, regulated instruments to store and spend value. Together, they form the foundation of Ethiopia's growing digital economy.