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LEGAL UPDATE

Life Inside the Sandbox: What the National Bank of Ethiopia Requires of Participants During Testing

Regulatory Sandbox Directive No. FS/01/2026 | National Bank of Ethiopia | November 2026

Part Two of Three: Testing and Operational Requirements



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1. Introduction

Admission to the sandbox does not authorise live testing. Under the Regulatory Sandbox Directive No. FS/01/2026 (the "Directive"), an admitted applicant must still obtain approval of a detailed test plan, and only then may it test its innovation with real consumers. The first part of this update examined entry into the sandbox. This second part considers what the Directive requires of a participant from the design of the test through to its day-to-day conduct, namely the test plan, the regulatory relief available, the duration of testing, risk management, consumer protection, and reporting to the National Bank of Ethiopia (the "National Bank").

2. The Test Plan and the Testing Approval Letter

The test plan is the central document of the sandbox relationship. It must describe the innovation and identify any regulatory requirement that needs to be relaxed or evaluated. It must state the objectives, duration, methodology, and measurable success criteria of the test, and it must set control boundaries, including the type and number of consumers, transaction limits, and aggregate exposure thresholds. The plan must also include a consumer communication plan with sample risk disclosures and consent forms, an identification of risks and mitigation measures covering data protection, cybersecurity, customer due diligence, and anti-money laundering safeguards, and customer safeguards that include arrangements for insurance or compensation and for handling complaints. Finally, it must set out governance arrangements, reporting obligations, and an exit strategy.

The National Bank may give feedback on the plan and recommend stronger safeguards. It must review the plan and notify its decision within thirty working days of receipt, and where the plan is approved it issues a Testing Approval Letter. Because the plan later fixes the reporting formats, milestones, and permitted scope against which the participant is measured, the care taken at this stage carries consequences throughout the test.

3. Regulatory Relief and Its Limits

A participant may ask in writing for specific regulatory support that is essential to the execution of the approved plan. The National Bank may grant rule waivers or modifications that are strictly necessary for testing, provided they do not compromise regulatory objectives, financial stability, or consumer protection, and it may also provide tailored guidance and coordinate with other government bodies on matters outside its mandate.

The relief is narrower than the term sandbox may suggest. Certain requirements continue to apply in every case, namely the fit and proper requirements for the project

manager and test team, the rules on anti-money laundering, countering the financing of terrorism and counter-proliferation, the laws on consumer protection, data privacy, and cybersecurity, and the requirement of permanent licensing or post-testing market entry. The participant also remains fully liable for any loss or harm caused to consumers, counterparties, or the financial system, including loss arising from activities conducted under a waiver. Moreover, the National Bank reserves the right to amend or withdraw the support it has granted, with or without prior notice, where risks to financial stability, consumers, or regulatory integrity emerge. A participant should therefore not build its commercial model on the assumption that a waiver, once granted, is secure.

4. The Testing Period

The testing period may not exceed twelve months, and it must begin within thirty days of receipt of the Testing Approval Letter. An extension may be granted to allow further assessment, but only where the participant has demonstrated substantial progress and continued compliance. The request must be made in writing at least thirty working days before the scheduled completion date, the National Bank must respond within fifteen working days, and any extension may not exceed twelve months. Participants should note that the outcome provisions discussed in Part Three describe an extension for additional data as a one-time measure, so the practical prospect of repeated extensions is limited.

5. Risk Assessment and Safeguards

A participant must identify all material risks arising from its test, covering at least consumer harm, market integrity and regulatory arbitrage, financial stability and operational resilience, information security and data protection, and the risks of exit or wind-down. For each risk it must prepare a mitigation plan describing how the risk will be prevented, detected, responded to, and recovered from, and it must establish a governance structure that assigns responsibility for monitoring, escalation, record-keeping, and reporting.

The Directive then requires a minimum set of safeguards. These include limiting the number or profile of consumers and the volume or value of transactions to manageable levels, maintaining adequate data protection and incident-response processes, observing anti-money laundering and customer identification requirements, reviewing the risk profile of the test regularly and escalating any material change to the National Bank, and putting in place appropriate exit procedures for the migration of consumers and the preservation of records.

6. Consumer Protection and Complaint Handling

The consumer provisions are among the most detailed in the Directive and reflect its stated concern for the public. A participant must inform each participating customer in writing that the innovation is being tested under the sandbox and obtain explicit written

consent. Terms and conditions must be disclosed in simple and clear language, and product risks must be disclosed alongside benefits so that advertising remains balanced and non-deceptive. Where a change to a consumer agreement increases the consumer's obligations, the participant must give at least ten working days' prior notice and obtain explicit consent. The participant must also ensure continuity of service, or responsible discontinuation, upon exit, and must provide accessible redress or compensation where testing causes loss or harm.

A participant must also maintain a free, accessible, and transparent internal complaints mechanism, acknowledge complaints promptly, and resolve them within ten working days. Each complaint must receive a unique tracking number and its outcome must be communicated to the consumer in writing, and the participant must keep a complaints database and report systemic issues and trends to the National Bank.

7. Records, Incident Reporting and Supervision

Participants must keep comprehensive records of transactions, consumer interactions, risk assessments, compliance activities, key decisions, incidents, and corrective actions, in a secure and readily retrievable form that the National Bank can review efficiently. Personal data must be handled in compliance with the Personal Data Protection Proclamation and any law issued under it.

The reporting duties are strict. A participant must report to the National Bank within twenty-four hours of occurrence any breach of sandbox conditions or of the test plan, any consumer complaint or dispute indicating a systemic or regulatory concern, any cybersecurity incident including data breaches, system failures, and fraud attempts, any financial distress or operational instability that may affect completion of the test, any suspicion of money laundering or fraud, and any other incident that materially affects financial stability, consumer protection, or regulatory integrity.

Supervision is correspondingly intensive. The participant must submit reports in the format and at the intervals fixed by the test plan, and must provide real-time data access to the National Bank where required, at the participant's own cost. It must grant the National Bank unrestricted access to relevant records, systems, and operational data, cooperate with scheduled and unscheduled inspections and audits, respond promptly to directives, disclose material developments without delay, and implement corrective measures as directed.

8. Independent Observations

Three observations arise from this part of the Directive. First, the combination of a twenty-four hour reporting window, real-time data access at the participant's cost, and unrestricted access to systems imposes a substantial operational and financial burden, and smaller participants should assess whether they can sustain it throughout the test. Second, although the National Bank undertakes under its own responsibilities to keep

non-public information confidential and to use it only for regulatory and supervisory purposes, that undertaking is subject to exceptions, including disclosure required by law and coordination with other regulators. Participants that share sensitive technical or commercial information should consider this when preparing their submissions. Third, the Directive sets out outcomes and obligations in detail but leaves the consequences of a failed test largely with the participant, since it remains liable for losses even where relief was granted. The sandbox therefore lowers the regulatory barrier to testing without lowering the participant's accountability.

9. Conclusion

The testing phase under the Directive is a controlled and closely supervised exercise in which the participant carries primary responsibility for risk, consumer treatment, and transparency. Participants that prepare detailed risk, consumer, and reporting frameworks before approval, and that keep them under continuous review, will be better placed to complete testing without interruption. The third and final part of this update examines what happens when testing is suspended, concluded, or terminated, together with the monitoring and sanctions that follow.

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