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COLLEGE OF LAW AND GOVERNANCE

School of law

**LEGAL PROTECTION FOR MOBILE MONEY
BORROWERS IN ETHIOPIA: ANALYZING PREDATORY
LENDING PRACTICE**

By

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A thesis Submitted in partial fulfillment of the Requirements for the degree of
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APPROVAL SHEET

“LEGAL PROTECTION FOR MOBILE MONEY BORROWERS IN ETHIOPIA:
ANALYZING PREDATORY LENDING PRACTICE”

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DECLARATION

I, Desalegn Nida Kebede, here declare that this thesis is my original work and has never been presented in any other academic institution, and that all source of materials used for the thesis have been duly acknowledged.

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ABBREVIATIONS

APR: Annual Percentage Rate

CBE: Commercial Bank of Ethiopia

FCP: Financial consumer protection

FCPD: Financial consumer protection directive

GBE: Global Bank Ethiopia S.C.

GSMA: Global System for Mobile Association

LAPIID: Licensing and Authorization of Payment Instrument Issuers Directive

MFI: Micro Finance Institution

NBE: National Bank of Ethiopia

NPSP: National Payment System Proclamation

SACCOs: Saving & Credit Cooperative Society LTD

ABSTRACT

The rapid expansion of mobile money lending in Ethiopia has significantly enhanced financial inclusion, offering unbanked populations access to digital credit. This thesis investigated, analyzed, and evaluated the legal protection available for mobile money borrowers in Ethiopia, by focusing on predatory lending practices. By employing a qualitative approach with doctrinal methods, the study evaluates and analyzes legal frameworks governing mobile money lending such as FSPD, NPSP, LAPIID, and Personal Data Protection Proclamation, alongside the practices of Telebirr and Kacha. The absence of robust legal protections, lack of digital lending-specific regulations, and weak enforcement, may expose to unfair lending practices, including exorbitant fees like 730% APR and unfair debt collection, trapping them in debt cycles. The thesis argues that Ethiopia's legal framework is insufficient to counter predatory lending practices, necessitating reforms like clarifying the directive's applicability, enacting digital lending legislation, capping fees, and enhancing transparency and enforcement.

Key words: mobile money loan, digital financial service, Fintech, predatory lending

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The term ‘financial consumer protection’ refers to the legal framework, and institutional structures that safeguard consumers by ensuring fair and responsible treatment for them in the financial market.¹ It is essential for building and maintaining trust in the formal financial system and preserving financial stability by ensuring that financial providers operate responsibly and are accountable for their market conduct with regards to consumers’ harm.² Furthermore, financial consumer protection contributes to equitable economic growth by promoting financial inclusion, by enabling consumers to access and use suitable products that contribute to their well-being and resilience.³

Mobile money is a digital financial service provided through a SIM-card-based mobile phone system.⁴ Digital lending platforms are mobile applications that use technology to provide loans without needing physical collateral or extensive paperwork.⁵ It's fast, convenient, and available 24/7. The platforms positively impact financial inclusion for small businesses and individuals in Ethiopia by making it easier for them to access credit.⁶ The key distinguishing factors of bank loans and mobile money loans are: Mobile money loan eligibility assessment, loan appraisal, and decisions are automated. Mobile money lenders use the borrower’s data to assess their viability and risks that are not used by banks. Also, mobile money lenders offer small amounts of money for a short period of time. The risk is high for mobile money lenders because they do not require

¹ Di Castri Simone and Mestanza Jose Miguel, ‘Financial Consumer Protection Standards and Frameworks for Digital Financial Services Landscape Report’ (GSMA 2023) <<https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2023/08/DFS-CP-FINAL.pdf>> accessed 27 December 2024. P 8

² *ibid.*

³ *ibid.*

⁴ ‘National Digital Payments Strategy 2021–2024’ (National Bank of Ethiopia) <<https://nbe.gov.et/wp-content/uploads/2023/04/National-Digital-Payment-Strategy.pdf>>.p 75

⁵ Yinebeb Bahru, ‘Digital Lending Platforms’ (*UNDP, Ethiopia*, 30 January 2024) <<https://www.undp.org/ethiopia/blog/digital-lending-platforms>> accessed 21 April 2025.

⁶ *ibid.*

any collateral. However the interest rate, facilitation fees, and penalties for the loan is very much higher than the regular bank lending rates.

In Ethiopia, mobile money service providers are licensed and supervised by the National Bank of Ethiopia.⁷ In Ethiopia mobile money service providers are called payment instrument issuers⁸ and mobile money service is called payment instrument.⁹ Without a license or written authorization from the National Bank of Ethiopia, no person shall issue a payment instrument.¹⁰ There are three types of payment instrument issuers; namely licensed, authorized, and limited use.

In August 2020 the National Bank of Ethiopia issued Financial Consumer Protection Directive No. FCP/01/2020. According to Article 3 of this directive, it is applied on financial service providers, financial products and services, and financial consumers and security providers. Payment instrument issuers are not clearly listed as financial service providers in the directive. The definition lists for financial service providers in the directive are not exhaustive.¹¹ But, for the purpose of this directive whether the payment instrument issuers are considered as financial service providers or not are argumentative. Also, the Licensing and Authorization of Payment Instrument Issuers Directive No. ONPS/09/2023 (hereinafter LAPIID) doesn't state whether the Directive is applied on the payment instrument issuers or not. Rather LAPIID listed the minimum customer protection rules and requires the payment instrument issuers to ensure the maximum customer protection while carrying out their business.¹²

As per article 33 (1) of the National Payment System Proclamation (as amended, hereinafter NPSP) a payment instrument issuer up on a written approval of the national bank, may facilitate the provision of micro-credit including overdraft digitally in partnership with a financial institution licensed by the National Bank. The Directive also states that based on written approval of the national bank, a licensed payment instrument issuer under full responsibility of

⁷ National Payment System proclamation (as amended), 2011, Article 5, Proc No. 718, Fed. Neg. Gaz., 17th Year No. 84 (National Payment System (amendment) proclamation, 2023, Proc No. 1282, Fed. Neg. Gaz., 29th Year No. 9) (hereinafter NPSP)

⁸ Article 2 (34) of NPSP (n 7) and Licensing And Authorization Of Payment Instrument Issuers Directive, 2023, Article 2 (25), ONPS/09/2023 (hereinafter LAPIID)

⁹ Article 2 (20) of NPSP (n 7) and Article 2 (24) of LAPIID (n 8)

¹⁰ Article 5 (1) of NPSP (n 7) and Article 4 (1) of LAPIID (n 8)

¹¹ Financial Consumer Protection Directive, 2020, Article 2 (16), FCP/01/2020 (hereinafter FCPD)

¹² Article 12 of LAPIID (n 8)

and written outsourcing agreement with a licensed financial institution and pension funds, may facilitate digital credit products.¹³

Technological developments in the financial sector have created an opportunity to help billions of financially excluded people with innovative products and services.¹⁴ Ensuring financial consumer protection is critical for financial inclusion to be sustainable.¹⁵ To develop and expand digital financial inclusion in a sustainable way, providers and other market participants need a legal and regulatory framework that is: predictable, risk-based, and fair.¹⁶ Such framework should allow market entry for new participants, avoiding excessive and non-risk-based compliance costs.¹⁷ At a minimum, the regulatory framework should include disclosure and transparency; Fair treatment and responsible business conduct; data protection and privacy; and dispute resolution mechanisms.¹⁸

1.2 Statement of the Problem

Borrower's protection regulations are necessary to create a fair, responsible, transparent, and equitable lending environment. The regulation also shapes the conduct of financial service providers. Most of the time lenders had the highest bargaining power; they dictate the terms and conditions of the contract. Lenders' intention is, obviously, profit maximization to the extent possible. These terms and conditions that are unilaterally drawn up by lenders are unlikely to protect interests of borrowers; and these calls for laws that are designed to protect interests of the latter. Without such protection, borrowers may face serious financial problems, which may have greater social and economic consequences.

Fintech can support potential growth and poverty reduction by strengthening financial development, inclusion, and efficiency. Digital lending is crucial for financial inclusion in developing countries like Ethiopia, but without proper protection, it could harm users badly.

¹³ Article 6 (2) of LAPIID (n 8)

¹⁴ Simone and Jose Miguel (n 1) p 20.

¹⁵ *ibid.*

¹⁶ Tianqi Sun, Katharina Spiess and Aysen Kulakoglu, 'G20 High-Level Principles for Digital Financial Inclusion' (Global partnership for financial inclusion 2016)

<https://sdgs.un.org/sites/default/files/publications/2667G20_High_Level_Principles_for_Digital_Financial_Inclusion.pdf> accessed 5 February 2025.

¹⁷ *Ibid.*

¹⁸ 'Good Practices for Financial Consumer Protection, 2017 Edition' (World Bank group 2017)

<<http://hdl.handle.net/10986/28996>> accessed 5 February 2025.

Sometimes borrowers need to borrow the money at whatever cost because they need that money at that moment to cover their expenditures. At this time the lenders use the advantage of the borrower and impose extremely high interest rates, facility fees, and penalties on the loan. Additionally, loan agreements offered by lenders grant greater rights for them and unrestricted means to recover their funds. Some contractual terms are not explicitly disclosed at the time of borrowing, which leads to the unnecessary sharing of debtors' personal information with lenders.

Telebirr is one of the licensed payment instrument issuers in Ethiopia and currently provides digital loans in partnership with Dashen Bank S.C, Commercial Bank of Ethiopia, and Siinquee Bank. Telebirr Mela is a method of lending small amounts of money to individuals and agents to start or expand a small business provided by Dashen Bank S.C in collaboration with Ethio Telecom. From the loan product facilitated by Dashen bank s.c the monthly credit facilitation fee is 3% of the loan amount and the daily fee ranges from 0.3% to 1.2% of the loan amount daily for the rest of the repayment period until the due date.¹⁹ After the due date, the penalty fee is 0.5% per day on the outstanding credit amount upon repayment.²⁰ The total daily fee of a monthly Mela loan ranges from 9% to 36% monthly and it ranges from 109.5% to 438% annually on the loan amount. There is also a facilitation fee of 3% for a monthly mela loan becomes 36% annually. Generally, the monthly Mela loan fee annually ranges is from 145.5% to 474% of the loan.

Due to high interest rates, high facility fees, high penalties, and short repayment periods, borrowers often take new loans to repay existing debts, leading to a cycle of perpetual borrowing. Because of this many borrowers fall into over-indebtedness, and struggle to cover their daily living expenses as most of their income goes toward loan repayment. Digital lending has inadequacies such as consumer exploitation, exorbitant interest rates, aggressive collection tactics, data privacy infringement on account of the vast quantities of personal information found in handheld devices, and lack of clear redress mechanisms for aggrieved consumers who are mostly low-income earners with poor financial literacy.²¹

¹⁹ 'Telebirr Term and Conditions' (*Ethiotelecom, Telebirr*) <<https://www.ethiotelecom.et/mela-micro-credit/>> accessed 15 February 2025.

²⁰ *ibid.*

²¹ Ann Kaswii Muli, 'Digital Lending in Kenya; the Case for Regulation' (Thesis, Strathmore University 2020). P 1

A sound consumer and data protection framework is crucial to building trust and confidence in the acquisition and on-going use of digital financial services, particularly for consumers with limited financial literacy or insufficient resources to handle potential losses.²² So, the researcher wants to investigate, analyze, and evaluate the legal protection available for mobile money borrowers in Ethiopia. Also, the researcher wants to analyze the predatory lending practice²³ on mobile money borrowers in Ethiopia.

1.3 Research Objectives

1.3.1 General objective

The general objective of the study is

- ❖ to investigate, analyze and evaluate the legal protection available for mobile money borrowers in Ethiopia

1.3.2 Specific objectives

The specific objectives of the study are;

- ❖ To identify the existing legal frameworks governing the protection of mobile money borrowers in Ethiopia.
- ❖ To examine Ethiopia's legal protections effectiveness in preventing predatory lending practices.
- ❖ To identify specific legal gaps that enable predatory lending practices.
- ❖ To analyze the key predatory lending practices affecting mobile money borrowers, and to propose regulatory improvements.

1.4 Research Questions

In order to attain the above research objectives, the researcher addressed the following research questions;

²² Sun, Spiess and Kulakoglu (n 16). P 15

²³ Predatory lending involves deceptive or unethical practices by lenders to induce borrowers into accepting loans with unfair terms or loans they don't truly need. A predatory lending practice includes high-interest rates, excessive fees, hidden fees, and deceptive loan terms. 'Predatory Lending' (*National Association of Consumer Advocates*) <<https://www.consumeradvocates.org/for-consumers/predatory-lending/>> accessed 21 April 2025.

1. What are the existing legal frameworks governing mobile money borrowers' protection in Ethiopia?
2. How effective are Ethiopia's legal protections against predatory lending in safeguarding the financial interests and rights of mobile money borrowers?
3. What are the specific legal gaps that allow predatory lending practices on mobile money borrowers in Ethiopia?
4. What are the key predatory lending practices faced by mobile money borrowers in Ethiopia, and how could existing regulations be improved to address these challenges?

1.5 Scope

The thesis evaluate the existing legal frameworks governing mobile money lending in Ethiopia and predatory lending practices to propose a legal reforms and policy recommendations. Also, the researcher examines the existing mobile money lending platforms regarding to this issue. The study focuses on safeguarding the financial interests of mobile money borrowers from predatory lending. The study also incorporates the World Bank's best experiences guidelines on regulating mobile money lending for recommendation.

1.6 Research Methodology

The researcher, for the achievement of its objectives and answering research questions employed qualitative research approach, combining with doctrinal legal research.

In doing this, the primary data sources are relevant national laws including proclamations, regulations and Directives. As secondary data sources books, articles, reports, and research related to the research topic are explored. The study also incorporates the World Bank's best experiences guidelines on regulating mobile money lending. Also Telebirr and Kacha mobile money lending platforms are examined to identify, evaluate and characterize predatory lending practices faced by mobile money borrowers.

1.6.1 Data collection

Relevant laws to the study including the payment system proclamation, payment instrument issuer's Directive, and financial consumer protection Directive was collected.

Observations are used to supplement the formal data with regard to Telebirr and Kacha mobile money lending platforms lending interest rate, facilitation fee, penalty fee, and term and

conditions. The researcher utilized the purposive sampling technique to select mobile money lending platforms. Telebirr is launched in May 2021 by the state-owned Ethio telecom, and it were chosen because it is a leading mobile money platform in Ethiopia with over 51.5 million customers, over 3.58 trillion ETB electronic money transactions up to December 2024.²⁴ Telebirr currently provide digital loan in partnership with Dashen Bank S.C, Commercial Bank of Ethiopia, and Siinqee Bank. Kacha were chosen because it is the first private payment instrument issuer licensed by the NBE in July 2022. And currently it provides digital loan in partnership with Global Bank Ethiopia S.C, Bunna Bank S.C, Berhan Bank S.C, Dire Micro Finance, Peace Micro Finance, Amigos Saving & Credit Cooperative Society LTD, and Mizan Saving & Credit Cooperative Society LTD. In Kacha there are digital salary advance loans, ride hailing loans, insurance loans, Bajaj loans, and Supply chain loans. They represent the public and private sector dynamics and accessible for data collection.

1.6.2 Data analysis

Data analyzed thematically to identify the predatory lending practices, and legal gaps from the evaluation on the mobile money lending platforms. Also, the World Bank's best experiences guidelines/report on regulating mobile money lending is analyzed to give recommendation for Ethiopia.

1.6.3 Research design

The researcher employs descriptive research design. The descriptive research design is used to describe the current legal framework governing the mobile money lending in Ethiopia and the predatory lending practices.

1.7 Significance of the Study

Digital lending is crucial for financial inclusion in developing countries like Ethiopia, but without proper protection, it could harm users badly. The study is significant for addressing a critical legal and practical gap in the mobile money lending. The findings provide valuable insights for regulatory bodies such as NBE to improve consumer protection in the mobile money loan. The study can create and expand awareness among mobile money borrowers about mobile

²⁴ 'Ethio Telecom 2024/25 Semi-Annual Business Performance Report' (*Ethio Telecom*)
<<https://www.ethiotelecom.et/ethio-telecom-2024-25-semi-annual-business-performance-report/>> accessed 12 March 2025.

money loan and their rights, by identifying and investigating the legal gaps and the predatory lending practice in mobile money loans in Ethiopia. The study also contributes to fostering a more responsible and sustainable mobile money ecosystem that balances financial inclusion with consumer protection. Also the study fills a critical gap in the literature on mobile money borrower's protection in Ethiopia.

1.8 Limitation of the Study

Lack of sufficient time and lack of previous related studies on the area had an impact on the study.

1.9 Literature Review

Mobile money lending in Ethiopia is a new phenomenon. The researcher could not trace any particular legal publication about borrower protection in mobile money lending in Ethiopia. However, there are some legal and non-legal publications about mobile money services in Ethiopia. One of the legal publications about mobile money is 'REGULATING MOBILE MONEY SERVICE AND COMPETITION IN ETHIOPIA: EMPHASIS ON THE PROVISION OF MOBILE NETWORK OPERATOR-LED MOBILE MONEY SERVICE'²⁵ by Dawit Gebru. The author tries to analyze, and explore the regulation of mobile money services and competition in Ethiopia. The author concluded that the abuse of market dominance and some restrictive agreements by Telebirr are creating a burden on other mobile money service providers.

The other related legal paper was made by Gemechis Demissie in 2020. The title of the paper is called 'FINANCIAL CONSUMER PROTECTION IN THE ETHIOPIAN BANKING SECTOR: ANALYSIS OF THE LEGAL AND INSTITUTIONAL FRAMEWORK'²⁶. The study objective was to evaluate the adequacy of the financial consumer protection regime under the Ethiopian banking sector and show the gap that exists in the legislation. This study was done before the FCPD was effective and doesn't include the directive protections.

²⁵ Dawit Gebru, 'REGULATING MOBILE MONEY SERVICE AND COMPETITION IN ETHIOPIA: EMPHASIS ON THE PROVISION OF MOBILE NETWORK OPERATOR-LED MOBILE MONEY SERVICE' (LLM Thesis, Addis Ababa University 2023).

²⁶ Gemechis Demissie, 'FINANCIAL CONSUMER PROTECTION IN THE ETHIOPIAN BANKING SECTOR: ANALYSIS OF THE LEGAL AND INSTITUTIONAL FRAMEWORK' (LLM Thesis, Addis Ababa University 2020).

‘GROWTH CHALLENGES OF MOBILE MONEY PAYMENT SERVICES IN ETHIOPIA’²⁷ by Dawit Haile, and ‘FACTORS AFFECTING ADOPTION OF MOBILE MONEY SERVICES: IN CASE OF TELEBIRR’²⁸ by Muhammed Muhaba are some of the non-legal papers on mobile money service in Ethiopia.

GSMA also wrote a report about the Ethiopian experience called ‘MOBILE MONEY IN ETHIOPIA: ADVANCING FINANCIAL INCLUSION AND DRIVING GROWTH’²⁹ in 2023. The report stated that the digital financial services ecosystem in Ethiopia has improved.

1.10 Organization of the Study

This research comprised five chapters. The first chapter is the research proposal part. The second chapter discusses the mobile money lending in Ethiopia. The third chapter discusses the legal protection available for mobile money borrowers in Ethiopia. The fourth chapter examines the predatory lending practices on mobile money lending platforms in Ethiopia. At the end, the last chapter provides a conclusion and recommendation.

1.11 Citation Rule

To acknowledging different pieces of literature the study uses the rules of citation outlined by the Oxford University Standard for Citation of Legal Authorities (OSCOLA). For domestic laws, the rule of citation of the Journal of Ethiopian Law is used.

²⁷ Dawit Haile, ‘GROWTH CHALLENGES OF MOBILE MONEY PAYMENT SERVICES IN ETHIOPIA’ (MA Thesis, Addis Ababa University 2021).

²⁸ Muhammed Muhaba, ‘FACTORS AFFECTING ADOPTION OF MOBILE MONEY SERVICES: IN CASE OF TELEBIRR’ (MA Thesis, Addis Ababa University 2023).

²⁹ Nigham Shahid, Eugenie Humeau and Kalvin Bahia, *Mobile Money in Ethiopia: Advancing Financial Inclusion and Driving Growth* (GSMA 2023) <https://www.gsma.com/solutions-and-impact/connectivity-for-good/mobile-for-development/wp-content/uploads/2023/06/GSMA_Mobile-money-in-Ethiopia-Advancing-financial-inclusion-and-driving-growth-report.pdf> accessed 12 March 2025.

CHAPTER TWO

MOBILE MONEY LENDING IN ETHIOPIA

2.1 Mobile Money in Ethiopia

Mobile money is a digital financial service that allows individuals to store, transfer, and receive money using a mobile device without requiring a bank account.³⁰ Mobile money is defined as a store-of-value product with the following characteristics:

- ❖ It is a digital representation of fiat currency (legal tender)
- ❖ It is a claim against the provider
- ❖ It can be redeemed at face value on demand, and
- ❖ It is accepted as a means of payment by persons other than the provider.³¹

In Ethiopia, the mobile money service is called a payment instrument.³² Mobile money is also referred as Electronic money (E-money).³³ The NPSP article 2 (20) defines ‘payment instrument’ as any instrument, whether tangible or intangible which is issued against the receipt of fund equivalent in Ethiopian birr, that enables a person to obtain money, goods, or services or to otherwise make payments which include electronic money and cards. And ‘electronic money’ is a monetary value represented by a claim on its issuer, that is electronically stored in a payment instrument or electronic equipment, issued against receipt of fund equivalent in Ethiopian birr, accepted as a means of payment by persons other than the issuer and can be redeemed in cash.³⁴

Mobile money can be a useful and accessible way to manage finances, especially for those who are unbanked or underserved by traditional financial institutions. Also, it can reduce the risk of carrying cash and facilitate financial inclusion. Mobile money is often referred to as the ‘first wave’ of digital financial inclusion.³⁵

³⁰ World Bank, *The Global State of Financial Inclusion and Consumer Protection (English)* (World Bank Group 2023) <<http://documents.worldbank.org/curated/en/099013124180517721>>. P 28

³¹ ‘E-Money’ (*The World Bank, Financial Consumer Protection*) <<https://digitalfinance.worldbank.org/topics/financial-consumer-protection/e-money>> accessed 21 April 2025.

³² Article 2 (20) of NPSP (n 7) and Article 2 (24) of LAPIID (n 8)

³³ ‘E-Money’ (n 31).

³⁴ Article 2 (31) of NPSP (n 7)

³⁵ ‘E-Money’ (n 31).

In Ethiopia, the digital payments ecosystem has seen significant growth over the last few years and as of June 2024; there are over 110 million mobile money accounts.³⁶ The digital payment system promotes financial inclusion for many Ethiopians.³⁷ The expansion of the digital payment ecosystem also fosters economic growth and a growing confidence among the public.³⁸ Expanding financial access and use in severely underserved areas is a national priority and NBE's long-standing target.³⁹ National Financial Inclusion Strategy II is in the process of being implemented and also a comprehensive regional financial inclusion framework has been launched in 2024 for nine regional states.⁴⁰ The NBE itself stated that the framework is mainly prepared to aggressively expand financial access to underserved areas, narrow the regional financial inclusion disparity, and accommodate the regional context.⁴¹

2.2 Regulatory Framework for Mobile Money in Ethiopia

The mobile money service providers are licensed and supervised by the National Bank of Ethiopia.⁴² In Ethiopia, the mobile money service providers are called payment instrument issuers⁴³ and the mobile money service is called payment instrument.⁴⁴ Without a license or written authorization from the National Bank of Ethiopia, no person shall issue a payment instrument.⁴⁵

There are three types of payment instrument issuers; namely licensed, authorized, and limited-use. The authorized payment instrument issuers are financial institutions other than insurance companies, re-insurers, or payment system operators, which are already licensed by the National Bank to provide financial services and become payment instrument issuers.⁴⁶ The licensed payment instrument issuer is a business organization other than a financial institution and government-owned enterprise that get a license from the National Bank to issue a payment

³⁶ 'Financial Stability Report' (National Bank of Ethiopia 2024) p 50.

³⁷ *ibid.*

³⁸ *ibid.* p 51

³⁹ *ibid.* p 57

⁴⁰ *ibid.* p 57

⁴¹ *ibid.* p 57

⁴² Article 5 of NPSP (n 7)

⁴³ Article 2 (34) of NPSP (n 7) and Article 2 (25) of LAPIID (n 8)

⁴⁴ Article 2 (20) of NPSP (n 7) and Article 2 (24) of LAPIID (n 8)

⁴⁵ Article 5 (1) of NPSP (n 7) and Article 4 (1) of LAPIID (n 8)

⁴⁶ Article 6 (2) of NPSP (n 7) and Article 2 (1) & 4 (2) of LAPIID (n 8)

instrument.⁴⁷ A business organization that intends to be a licensed payment instrument issuer shall establish a subsidiary company exclusively for this purpose.⁴⁸ The limited-use payment instrument issuer means a person, including a petroleum distributor, a supermarket, etc. who is registered and recognized by the National Bank to issue payment instruments on a limited scale to its main business customers.⁴⁹

As per article 4 (9) (f) and (g) of LAPIID, the application for license or authorization of payment instrument issuer shall accompany the dispute resolution and management mechanism or system; and customer protection policies and procedures covering at least principles of equitable and fair treatment, transparency, confidentiality and disclosure of information, rights and responsibilities of all involved parties, customer support arrangement, and compliant handling and redress mechanism.

2.3 Mobile Money Loan

There are three key attributes of digital credit that differentiate it from traditional credit products: instant, automated, and remote.⁵⁰ Instant means loans are approved within seconds, automated means the decisions are undertaken without a human review, and remote means borrowers can receive loans and repay them remotely without physical visitation. Also digital credit is collateral-free.

Mobile money issuers offer digital loan services through two models: with the partnership model and the mobile money rails model.⁵¹ The partnership model comprises the business model whereby a mobile money issuer partners with a licensed lending institution.⁵² The mobile money rails model comprises the business model whereby a mobile money issuer participates only as a channel through which the service is offered.⁵³

⁴⁷ Article 6 (3) of NPSP (n 7) and Article 4 (3) of LAPIID (n 8)

⁴⁸ Article 6 (3) of NPSP (n 7) and Article 15 (6) of LAPIID (n 8)

⁴⁹ Article 2 (19) of LAPIID (n 8)

⁵⁰ 'Instant, Automated, Remote' (CGAP, 2 August 2016) <<https://www.cgap.org/blog/instant-automated-remote-key-attributes-of-digital-credit>> accessed 18 April 2025.

⁵¹ Rishi Raithatha, *Mobile Money Policy and Regulatory Handbook* (GSMA 2021). P 9

⁵² Mariana Lopez, *Digital Credit for Mobile Money Providers* (GSMA 2019). P 5

⁵³ *ibid.*

Mobile money loans have revolutionized financial access in low and middle-income countries.⁵⁴ Many previously unbanked individuals now have quick access to loans.⁵⁵ Also, it enabled individuals and small businesses to manage their daily expenses and emergencies.⁵⁶ Access to financial services is critical for ensuring that all people, regardless of income, can reduce inequality and improve their quality of life.⁵⁷ The rapid expansion of mobile money loans demonstrates its potential to significantly enhance financial inclusion when given responsibly.⁵⁸ However, easy access creates various risks like over-indebtedness.⁵⁹

If it is provided responsibly, credit can solve short-term and long-term challenges.⁶⁰ Consumers are frequently applying for digital loans from several providers and facing high interest rates and hidden fees that aggravate their financial burdens.⁶¹ The lack of transparency combined with the aggressive marketing tactics of the lenders can worsen these risks, and lead many borrowers to over-indebtedness.⁶² Therefore vulnerable consumers may be pushed into financial instability rather than lifted out if digital loan is not properly regulated.⁶³

Currently obtaining mobile money is simple and quick. Mobile money lenders use the borrower's data to assess their viability and risks that are not used by banks. They offer a small amount of money for a short period. Digital microcredit products are more expensive than regular bank credit products. The risk is high for mobile money lenders because they do not require any collateral. The mobile money lenders use the data provided by the user to assess their viability and their risk status.⁶⁴ The lenders always compensate their risk through high pricing rates to guarantee substantial return, because there is a high chance of default. The interest rate, facilitation fees, and penalties for the loan are very much higher than the bank lending rates.

⁵⁴ Raithatha Rishi and Gianluca Storchi, 'The State of the Industry Report on Mobile Money 2025' (GSMA 2025). P 66

⁵⁵ *ibid.*

⁵⁶ *ibid.*

⁵⁷ Aanchal Paliwal, *Mobile Money and Consumer Financial Health* (GSMA 2022). P 2

⁵⁸ Rishi and Storchi (n 54). P 66

⁵⁹ *ibid.*

⁶⁰ Shahid, Humeau and Bahia (n 29). P 66

⁶¹ Rishi and Storchi (n 54). P 66

⁶² *ibid.*

⁶³ *ibid.*

⁶⁴ Muli (n 21). P 2

Due to high pricing rates, and short repayment periods, borrowers often take new loans to repay existing debts, leading to a cycle of perpetual borrowing. Because of this many borrowers fall into over-indebtedness, and struggle to cover their daily living expenses as most of their income goes toward loan repayment. Digital lending has inadequacies such as consumer exploitation, exorbitant interest rates, aggressive collection tactics, data privacy infringement on account of the vast quantities of personal information found in handheld devices, and lack of clear redress mechanisms for aggrieved consumers who are mostly low-income earners with poor financial literacy.⁶⁵

When the lenders are offering unique products or monopoly offers the loan and when the demand for a loan is higher than the supply, they use the advantage of the borrowers and impose extremely high interest rates, facility fees, and penalties on the loan.

Loan agreements prepared by the lenders grant them greater rights and unrestricted means to recover their funds from the borrowers. Some contractual terms require unnecessary sharing of the debtor's personal information with the lenders.

2.4 Regulatory Framework for Mobile Money Loan in Ethiopia

In Ethiopia, a payment instrument issuer can facilitate micro-credit. As per article 33 (1) of the NPSP, a payment instrument issuer upon written approval of the National Bank, may facilitate the provision of micro-credit including overdraft digitally in partnership with a financial institution licensed by the National Bank. The directive also states that based on written approval of the National Bank, a licensed payment instrument issuer under full responsibility of and written outsourcing agreement with a licensed financial institution and pension funds, may facilitate digital credit products.⁶⁶

According to the NPSP, all types of payment instrument issuers whether licensed, authorized, or limited use can facilitate micro-credit. However, the LAPIID excluded authorized and limited-use payment instrument issuers from facilitating microcredit. This means licensed payment instrument issuer is only authorized to facilitate microcredit. Licensed payment instrument

⁶⁵ *ibid.* P 1

⁶⁶ Article 6 (2) of LAPIID (n 8)

issuers are business organizations other than financial institutions and government-owned enterprises that get a license from the National Bank to issue a payment instrument.⁶⁷

There is no unique substantive law in Ethiopia to regulate mobile money lending. Mobile money loans are unique from the traditional bank loan. Vulnerable consumers may face several problems. In 2022 The Reporter newspaper interviewed the Payment and Settlement System Director at NBE and reported a draft bill that will grant digital credit issuers a special license is in the pipeline.⁶⁸ However, still no law was enacted.

⁶⁷ Article 6 (3) of NPSP (n 7) and Article 4 (3) of LAPPID (n 8)

⁶⁸ Sisay Sahlu, 'Bill to Grant Special License for Digital Credit Providers' *The Reporter* (19 November 2022) <<https://www.thereporterethiopia.com/28028/>>.

CHAPTER THREE

FINANCIAL CONSUMER PROTECTION FOR MOBILE MONEY BORROWERS

3.1 Financial Consumer Protection Aim

Financial consumer protection aims to ensure that financial consumers are treated fairly and responsibly when they utilize financial products and services and when they deal with financial service providers.⁶⁹ Also, it is essential for building and maintaining trust in the formal financial system and preserving financial stability by ensuring that financial providers operate responsibly and are accountable for their market conduct about consumers' harm.⁷⁰

Financial consumer protection is especially important where new financial products and services are increased through new distribution channels.⁷¹ Some of the challenges faced by consumers are: financial products' complexity and difficulty to understand for average consumers; consumers do not use financial products regularly; and are unable to familiarize themselves with the structure of products and language of contracts.⁷²

The financial consumer protection framework goal is to reduce the inherent imbalance of power, and information between financial service providers and consumers.⁷³ Also, it contributes to equitable economic growth by promoting financial inclusion, by enabling consumers to access and use suitable products that contribute to their well-being and resilience.⁷⁴

The main concepts of financial consumer protection frameworks are legal mandate/institutional arrangements, legal framework, supervision and enforcement, disclosure and transparency, fair treatment and business conduct, and dispute resolution.⁷⁵

⁶⁹ 'Financial Consumer Protection' (*OECD*) <<https://www.oecd.org/en/topics/sub-issues/financial-consumer-protection>> accessed 14 April 2025.

⁷⁰ Simone and Jose Miguel (n 1). p 8

⁷¹ Jennifer Chien and Ligia Lopes, 'Financial Consumer Protection' (World Bank Group 2018). P 18

⁷² *ibid.* P 3

⁷³ *ibid.* P 4

⁷⁴ Simone and Jose Miguel (n 1). P 8

⁷⁵ Chien and Lopes (n 71). P 7

3.2 Financial Consumer Protection Law for Mobile Money in Ethiopia

According to Article 3 of the FCPD, it is applied to financial service providers, financial products and service, and financial consumer and security providers. In this directive, the term ‘financial service provider’ means banks, insurers, microfinance institutions, capital goods finance companies, postal savings, money transfer institutions, or other similar institutions as specified by the National Bank.⁷⁶ Payment instrument issuers are not clearly listed as financial service providers on this directive. The definition lists are not exhaustive. But, for the purpose of this directive whether the payment instrument issuer is considered as financial service provider or not is arguable. The directive stated that ‘other similar institutions as specified by the National Bank’ are also considered as financial service providers. The NPSP and LAPIID included payment instrument issuer as a financial institution.⁷⁷ Even if in the scope of applications part of FCPD payment instrument issuers are not included, the directive provides a definition clause⁷⁸ for ‘mobile wallet account’ and a format for key fact statements content for mobile wallet account⁷⁹.

The licensing and authorization of payment instrument issuers directive no ONPS/09/2023 doesn’t state whether the financial consumer protection directive is applied to the payment instrument issuers or not. Rather directive no ONPS/09/2023 listed the minimum customer protection rules and required the payment instrument issuers to ensure the maximum customer protection while carrying out their business.⁸⁰

The FCPD listed 5 main customer protection sections. These are fair treatment, transparency and disclosure, product design and suitability, data protection, and complaint-handling mechanisms.

⁷⁶ Article 2 (16) of FCPD (n 11)

⁷⁷ Article 2 (12) of NPSP (n 7) and Article 2 (14) of LAPIID (n 8)

⁷⁸ Article 2.21 of the FCPD define ‘Mobile wallet account’ as a means of “on-demand account used to receive and send money and pay for goods and services via a mobile device such as a mobile phone, but which does not have attached or it a check or overdraft facility.”

⁷⁹ Article 5.2.4.2 (c) of FCPD (n 11) states the contents or key generic information for key fact statements in relation to mobile wallet accounts shall be as per the format of Annex V.

⁸⁰ Article 12 of LAPIID (n 8)

3.2.1 Fair treatment

The purpose of the consumer protection law is to ensure fairness.⁸¹ The directive mandates financial service providers shall treat all financial consumers equitably, respectfully, honestly, and fairly at all stages of their relationship with the financial consumers and give special attention and priority to the particular needs of and difficulties faced by vulnerable, socially, and economically marginalized consumer groups such as inexperienced consumers.⁸² They should not discriminate any financial consumer based on a personal characteristic or affiliation with the financial consumer unless required/permitted by law.⁸³

The directive stipulates the fair treatment or business conduct requirements under Article 5.1. The requirements are unfair contractual terms; unfair fees and charges; barriers to account mobility and account closure; obligation to acquire insurance; unfair credit-related practices; debt collection; and unauthorized and mistaken transactions.

3.2.1.1 Unfair contractual terms

In a free market economy, a contract depends on the principle that parties can freely negotiate their obligations.⁸⁴ Both parties are assumed to bargain on equal terms.⁸⁵ However, such equality may be affected by factors such as one party's want, simplicity, and lack of business experience, which may allow the other party to exploit such vulnerabilities.⁸⁶

The FCPD Article 5.1.1.1 states that "A financial service provider shall be prohibited from including, or seeking to enforce against a financial consumer or security provider, any unfair term in a standard form contract." The contract shall be unfair if it imposes terms inconsistent with article 1710(2) of the Civil Code that is, having the consent of the injured party by taking advantage of his want, simplicity of mind, senility, or manifest business inexperience.⁸⁷ The Civil Code Article 1710 states a contract may not be invalidated on the sole ground that its terms

⁸¹ Oya Pinar Ardic, Joyce A Ibrahim and Nataliya Mylenko, 'Consumer Protection Laws and Regulations in Deposit and Loan Services: A Cross-Country Analysis with a New Data Set' [2011] Policy Research Working Paper, The World Bank. P 8

⁸² Article 4.1.1 & 4.1.3 of FCPD (n 11)

⁸³ Article 4.1.2 of FCPD (n 11)

⁸⁴ Mesganaw Kifelew and Demelash Shiferaw, *Law of Contract I Teaching Material* (Justice and Legal System Research Institute 2009). P 53

⁸⁵ *ibid.*

⁸⁶ *ibid.*

⁸⁷ Article 5.1.1.2 of FCPD (n 11)

are substantially more favorable to one party than to the other party. The law doesn't allow invalidation merely because the contract is much more profitable for one party than the other party. If it is allowed security of trade would be endangered.⁸⁸ However, where justice requires the contract may be invalidated as unconscionable where the consent of the injured party was obtained by taking advantage of his want, simplicity of mind, senility, or manifest business inexperience.⁸⁹ Professor George Krzecznowich on this article states that: "It is not enough to prove that the victim was in a state of want, simplicity, senility, inexperience. It must also be proved that the other party knew and successfully exploited the inferior condition of the victim."⁹⁰ Whether or not a contract is substantively fair is determined by looking at the contract at the time of its making.⁹¹

The term "taking advantage of his want" in this article means being forced to accept unfair or exploitative financial terms, like high loan interest. The term can also be understood to cover other states of distress or necessity.⁹²

As per Article 1808 (1) of the Civil Code, the contract may be invalidated at the request of the party whose consent is defective. According to Article 1710 (2) of the Civil Code, the court has the power to invalidate the contract or to refuse the invalidation. The other party also can prevent invalidation of the unconscionable contract by offering to make good the injury.⁹³

According to article 5.1.1.2 of FCPD, the contract shall be also unfair if it

- ❖ causes a significant imbalance in the rights and obligations between a financial consumer or security provider and a financial service provider;
- ❖ causes detriment to the financial consumer or security provider; and

⁸⁸ George Krzecznowich, *Formation and Effects of Contract in Ethiopian Law* (Faculty of Law, Addis Ababa University 1983). P 64

⁸⁹ Civil Code Proclamation, 1960, Article 1710 (2), Proc. No 165, *Neg. Gaz.*, year 19, No 2.

⁹⁰ Krzecznowich (n 88). P 65

⁹¹ Mulugeta M Ayalew, 'Ethiopia', *In International Encyclopedia of Laws: Contracts* (Kluwer Law International 2010). P 92

⁹² Krzecznowich (n 88). P 65 Professor George Krzecznowich gives two examples regarding the victim's problem: "(a), if somebody offers a million dollars to have his life saved from a sea storm or fire by a hard bargaining rescuer, there is, strictly speaking, no 'duress', since nobody's 'act' has threatened him. The immoral rescuer only takes advantage of the victim's distress. (b), where people, fearing confiscation by an enemy, sell out their belongings, other people exploit their distress by paying them trifling prices."

⁹³ Article 1812 of the Civil Code (n 89)

- ❖ is different from the one that is stipulated to protect the financial service provider's legitimate interests.

The FCPD states non-exhaustive examples of unfair terms including clauses allowing unilateral changes by financial service providers without describing the circumstances to the consumer in which such change may be made; allowing the charging of fees or charges not previously disclosed or prohibited by law; or restricting early repayment of a credit contract.⁹⁴

3.2.1.2 Unfair fees and charges

The directive prohibited financial service providers from charging undisclosed fees, or early repayment penalties that exceed a reasonable administrative cost.⁹⁵ Early repayment is paying off a full loan or a portion of it before the scheduled due date.

3.2.1.3 Unfair credit-related practices

The directive prohibited financial service providers from charging an interest in advance.⁹⁶ Financial service providers shall charge interest only based on an annual percentage applied to the unpaid balance of the loan.⁹⁷ Also, the financial service provider shall charge a higher rate of default interest only on the overdue amount; and accept partial early repayments or outstanding loans at any time with permitted fees and charges disclosed at the time of concluding the contract.⁹⁸

3.2.1.4 Debt collection

Financial service providers are barred from harassing borrowers or engaging in abusive practices, like communicating with borrowers outside business hours; unnecessary contact with a person beyond reasonable in the circumstances; seeking payment other than the liable borrower or security provider; disclosing the existence of a debt to a third party; misrepresenting the debt's character, amount, financial service provider legal rights, potential consequences of non-payment; public shaming such as disclosing debtor's identity public; attending at a person's

⁹⁴ Article 5.1.1.3 of FCPD (n 11)

⁹⁵ Article 5.1.2 of FCPD (n 11)

⁹⁶ Article 5.1.5.1 of FCPD (n 11)

⁹⁷ Article 5.1.5.2 of FCPD (n 11)

⁹⁸ Article 5.1.5.3 - 5.1.5.5 of FCPD (n 11)

workplace; threatening to harm or to damage property, or harming any person or damaging property; and threatening to seize or seizing property not provided as collateral.⁹⁹ However, the directive doesn't prohibit disclosing debt to a debt collector acting on behalf of the financial service provider or a third party purchasing the debt.¹⁰⁰ According to Articles 5.1.6.3 & 5.1.6.4 of the FCPD, the financial service provider takes all responsibility for the confidentiality of the given information and is liable for the conduct of the purchaser. Also, they must have adequate controls and appropriate training to ensure third parties acting on their behalf in debt collection act consistently with the directive requirements. The above prohibitions protect mobile money borrowers from unfair and abusive debt collection practices.

3.2.2 Transparency and disclosure requirements

Transparency and disclosure requirements are necessary to ensure consumers receive accurate, simple, clear, and timely information about features, risks, obligations, and other terms and costs of any financial products or services. Modern consumer protection regulations seek to empower consumers by allowing them to compare offers and thus enhance competition.¹⁰¹ Disclosure rules require financial service providers to disclose information on the terms of financial products in a standardized manner to enable comparison.¹⁰² Such disclosure may be required during advertising or promoting a service, during signing a contract, and throughout the contractual relationship.¹⁰³

3.2.2.1 Advertising and promotional materials

As per article 5.2.1 of the FCPD, any advertising or other promotional materials about the financial product and services shall be accurate, simple, clear, not misleading or deceptive, include balance benefits with risks, and specify the name, license, and registration number of the financial service provider.

Disclosing the annual percentage rate is also one of the standards. Article 5.2.1.5 of the FCPD states "If it includes any reference to an interest rate of any type, discloses the rate as an annual

⁹⁹ Article 5.1.6.1 & 5.1.6.2 of FCPD (n 11)

¹⁰⁰ Article 5.1.6.3 of the FCPD (n 11)

¹⁰¹ Ardic, Ibrahim and Mylenko (n 81). P 8

¹⁰² *ibid.*

¹⁰³ *ibid.*

percentage rate and not, for example, a rate for a shorter period”. Therefore, the financial service provider should disclose the rate annually not daily, weekly, or monthly. They should also disclose other fees and costs for the service.

3.2.2.2 Form and manner of disclose

Financial products and services shall be easily legible (minimum font size 12), simply and clearly expressed without the use of technical language, and available in Amharic, English, and the regional working language where the financial consumer is located.¹⁰⁴

3.2.2.3 Publications availability and display of product pricing, terms and conditions

Article 5.2.3.1 of the FCPD states “a financial service provider shall publish, display and make available the standard terms and conditions including itemized fees and annual percentage rate, about all of their financial products and services”. Also, they shall make available the terms and conditions of the financial product or services in a prominent manner that allows consumers to retrieve and keep it for future reference, at any of their or their agent’s premises attended by the financial consumers and display a notice at such premises the availability of terms and conditions.¹⁰⁵ They should also provide copies of the information on the request. The disclosure of terms and conditions via electronic formats is less comprehensive and more difficult to read and difficult to store and access at later times.¹⁰⁶

The directive states that the National Bank by its discretion may publish information relating to financial products or services in any form, to facilitate the ability of financial consumers to understand and compare financial products or services.¹⁰⁷

3.2.2.4 Key facts statements (KFS)

The financial service providers must provide a summary of up-to-date KFS that includes key generic information as per the annex V for mobile wallet accounts at the inquiry stage, before signing the contract with adequate review time, and as part of the signed contract.

¹⁰⁴ Article 5.2.2 of the FCPD (n 11)

¹⁰⁵ Article 5.2.3.2 of FCPD (n 11)

¹⁰⁶ Chien and Lopes (n 71). P 20

¹⁰⁷ Article 5.2.3.4 of FCPD (n 11)

As per Annex III of the FCPD, financial service providers must provide KFS on fixed term loans. The KFS shall include the total amount of loan; amount of loan received after deduction of upfront fees and charges, loan term, repayment amount and frequency, total interest per year, total fees and charges, annual cost of loan as a percentage, and total cost of the loan. However, annex III only applies to fixed term loans, not to mobile money loans.

KFS standardizes disclosure, which makes sure that borrowers receive short, critical information to know about their loan obligations and risks.

3.2.2.5 Contents of contractual document (terms and conditions)

Contracts must include the financial service provider's name, contact details, consumer's benefits and rights, key risks, terms of the contract, all fees and charges, details of change and how consumers will be informed, consumers consent for sharing the information to credit reference bureau and movable collateral registry office of the NBE, compliant mechanism, contact information for external dispute resolution service, and date.¹⁰⁸ This rule ensures contracts to be transparent and comprehensive.

As per article 5.2.6 of the FCPD, for credit contracts the amount of credit or credit limit, nature and amount of any deduction of a loan before disbursed, the current annual percentage rate and how applies, the total amount of interest charge, the default rate of interest and when it will be applied should be disclosed in the contract. The amount of each repayment including due date, number of repayments, and total amount; consumer's right to prepay credit contract; and enforcement expenses which may be charged following default should be included in the contract.¹⁰⁹

3.2.2.6 Signing and provision of contract

The contract shall be in writing and signed by the consumer or the contract in clearly specified and verifiable in an electronic way acceptable by the borrower accessing the credit.¹¹⁰ Before the contract was signed the financial service provider should give a reasonable time to the consumer

¹⁰⁸ Article 5.2.5 of FCPD (n 11)

¹⁰⁹ Ibid

¹¹⁰ Article 5.2.10.1 of FCPD (n 11)

to review it. Also, the financial service provider shall furnish the final contract to the consumer personally or electronically.

3.2.2.7 Periodic statement

The financial service providers must provide monthly statements free of charge on request. As per article 5.2.11.6 of the FCPD in mobile wallet account, a financial service provider shall make available an electronic facility to access the information and kept for future reference. These provisions allow borrowers to monitor loan repayments.

3.2.2.8 Notifications of change

Financial service providers must notify consumers about contractual changes and secure consent.¹¹¹ Also, contractual terms that allow changes without notice are null and void.¹¹² This provision prevents unilateral changes and predatory lending practices and ensures borrower protection by invalidating the contracts that allow unilateral change by the financial service providers.

3.2.2.9 Payment receipts

Financial service providers must issue receipts for payments that at least contain minimum contents such as transaction number, date, amount paid, account, and contact details for queries or complaints.

3.2.3 Product suitability and responsible lending requirements

Financial service providers must take responsible steps to ensure the behaviors of financial consumers in the target market to minimize the risk of harm to those financial consumers.¹¹³ The financial service providers must have documented policies to design products for specific target markets, taking into account consumers' needs and risks, and monitor products for harm.¹¹⁴ Financial service providers before offering credit must assess a borrower's creditworthiness. However mobile wallet product is exempted from suitability and creditworthiness assessment

¹¹¹ Article 5.2.12 of FCPD (n 11)

¹¹² Article 5.2.12.3 of FCPD (n 11)

¹¹³ Article 4.3.1 of FCPD (n 11)

¹¹⁴ Article 5.3.1 of FCPD (n 11)

because of the simplicity and low-risk nature of the product.¹¹⁵ In mobile money loans, the creditworthiness assessment is performed automatically by previous transactions. Besides article 5.3.8 of the FCPD, sending unsolicited, pre-approved offers of credit or credit limit increases to financial consumers is prohibited. This provision protects consumers from pressure to accept unnecessary loans.

3.2.4 Data protection

Entering into a financial contract must be based on trust and client confidentiality. Data protection rules are necessary to safeguard consumer data against misuse and to ensure confidentiality. The FCPD under article 4.4 provided that a financial service provider shall keep the data confidential and secure, and only use and disclose for legitimate purposes agreed by a consumer or permitted by law.

Financial service providers shall apply policies and procedures to ensure the confidentiality and security of consumers' data. They shall inform and make available to consumers regarding their policies for the protection of data; for collection, use, and disclosure of data; on the kinds of data that it collects; and on the third parties to whom it may disclose such data.¹¹⁶ They shall provide privacy policy copies on request and make them available on their website.¹¹⁷ A financial service provider must implement appropriate organizational, physical, and technical measures to protect data from unauthorized access, misuse, loss, or damage.¹¹⁸

As per article 5.4.6 of FCPD data collection must be using lawful and fair means and for legitimate purposes necessary for financial service provider activities. Consumers have a right to access their data on request without fee and a reasonable time.¹¹⁹

3.2.5 Complaint handling

There is a big power gap between financial service providers and customers, especially for low-income people.¹²⁰ Most customers don't understand or can't afford how to initiate legal action

¹¹⁵ Article 5.3.6 of FCPD (n 11)

¹¹⁶ Article 5.4.2 of FCPD (n 11)

¹¹⁷ Article 5.4.3 & 5.4.4 of FCPD (n 11)

¹¹⁸ Article 5.4.5 of FCPD (n 11)

¹¹⁹ Article 5.4.9 of FCPD (n 11)

¹²⁰ Ardic, Ibrahim and Mylenko (n 81). P 13

when they are treated unfairly.¹²¹ A modern financial consumer protection framework uses two main tools to fix this.¹²² First, the financial institution shall establish an effective mechanism to receive and resolve customer complaints.¹²³ Second, if the complaint is not resolved quickly or the customer is not satisfied with the result, the complaint may be referred to an independent third-party dispute resolution mechanism.¹²⁴

The financial service providers shall provide easy access to a transparent, effective, prompt, and free internal complaints process and aware consumers about external dispute resolution mechanisms, including those provided by NBE and courts.¹²⁵ They must develop and implement such policies; establish an Internal Complaint Handling Unit at their head office, with its location, address, and contact details communicated to consumers at contract signing; allow consumers to make complaints through a variety of communication channels; adequately resource the complaints process and train staff; ensure staff to assistance to submit a complaint without limitation (e.g., illiterate, disability or cannot understand the process).¹²⁶

Article 5.5.3 of the FCPD states the process and timeline of complaints. Complaints shall be acknowledged promptly with receipt and a unique tracking number; investigate as soon as possible and communicate outcomes within 10 business days, or shorter. Outcomes must include proposed resolutions, reasons for rejection, delay explanations (if it is not finished within 10 days), and external dispute resolution contacts. The consumer may submit the complaint to the National Bank if he is not satisfied or has not received a response, and the financial service provider should report within two days if they are unable to resolve the complaint. Financial service providers must maintain detailed complaint records and submit monthly reports to the NBE including dates, contacts, outcomes, and reasons for unresolved cases.

¹²¹ *ibid.*

¹²² *ibid.*

¹²³ *ibid.*

¹²⁴ *ibid.*

¹²⁵ Article 4.5 of FCPD (n 11)

¹²⁶ Article 5.5.1 and 5.5.2 of FCPD (n 11)

3.3 Mobile Money Consumer’s Protection on LAPIID

The LAPIID under Article 12 listed the minimum customer protection rules. It requires the payment instrument issuers to ensure maximum customer protection while carrying out their business. Upon opening an account, the payment instrument issuer shall enter into an agreement with the user and the agreement shall include at least disclosing the price for products and services, stating the confidentiality of all users’ information, notifying easily the rights and responsibilities of users, etc...¹²⁷ The PII shall make and share clear and standard terms and conditions applicable to all users about the use of the instrument.¹²⁸ The PII cannot amend the terms and conditions without prior approval from the National Bank.¹²⁹ Such restrictions are very essential for the consumers. The LAPIID under article 12 (5), requires mobile money service providers to establish a mechanism for customer support, complaint handling, and dispute management with necessary resources. Also, it requires mobile money service providers to announce their address, compliant reporting, types of products and services, and applicable fees and charges on their website.¹³⁰

3.4 Mobile Money Protections on Personal Data Protection Proclamation

Recently Ethiopia enacted Personal Data Protection Proclamation No. 1321/2024. The proclamation strengthens data privacy protection in Ethiopia by setting clear rules for data handling. The main objective of the proclamation is to safeguard personal data privacy, ensure lawful and transparent data processing, and establish enforcement mechanisms to protect data subjects.

Since, mobile money lending platforms use automated systems to assess creditworthiness, loan approvals, and customer management they collect and process a lot of private data, such as contact and identification information, and financial transactions. Without data protection frameworks, this information is vulnerable to misuse, unauthorized disclosure, and exploitation

¹²⁷ Article 12 (2) of LAPIID (n 8)

¹²⁸ Article 12 (3) of LAPIID (n 8)

¹²⁹ Article 12 (4) of LAPIID (n 8)

¹³⁰ Article 12 (6) & (7) of LAPIID (n 8)

for aggressive debt collection. Consumers should have the right to privacy and security for their personal information gathered by financial service providers. And financial service providers must ensure that consumers' personal information is safely safeguarded and not exploited.

The proclamation defines Personal Data as “any information relating to an identified or identifiable natural person who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person.”¹³¹ Financial data are considered as personal data. However, according to article 2 (5) of the proclamation, financial data are not considered as sensitive personal data. The proclamation mandates extra protective measures for sensitive personal data.¹³²

A data subject¹³³ has a right to be informed about data processing, access to his data, erasure, rectification of inaccurate data, object, portability, protection against automated decision making, and restriction processing.¹³⁴ The Ethiopian Communication Authority has the power to ensure compliance, promote public awareness, investigate complaints, and impose administrative fines.

3.5 Non-compliance

According to Article 10.1 of the FCPD financial institutions that fail to comply with the provisions of the directive shall be subject to a penalty of Birr10,000.00 (ten thousand birr) for each violation. Also, the NBE additionally may take any other measures considers necessary.¹³⁵

The LAPIID doesn't put any penalty on non-compliance rather it states that a penalty for non-compliance shall be administered by the relevant penalty directive of the NBE.¹³⁶

The Personal Data Protection Proclamation imposes administrative sanctions and criminal sanctions on non-compliance. As per Article 60 (1) of this proclamation, the Ethiopian

¹³¹ Personal Data Protection Proclamation, 2024, Article 2 (2), Proc. No 1321, Fed. Neg. Gaz., 30th Year No. 35

¹³² Article 9, 10, 22 (3), 31 (3), 40 (1) (c), 47 (2) (b), 60 (2) (b), and 64 (4) (c) of Personal Data Protection Proclamation (n 131)

¹³³ As per article 2 (9) of Personal Data Protection Proclamation (n 131), Data subject means an individual who is the subject of personal data.

¹³⁴ Article 24-32 of Personal Data Protection Proclamation (n 131)

¹³⁵ Article 10.2 of FCPD (n 11)

¹³⁶ Article 18 of LAPIID (n 8)

Communication Authority has a power to impose administrative penalties on persons. The offence shall be punishable by a fine up to 4% of its total worldwide turnover of the preceding financial year when the offence has been committed by an institution.¹³⁷ Also, any gain made through this act will go to the government.¹³⁸ The criminal sanction is up to ten years imprisonment or up to 600,000 birr or both.¹³⁹ If the offence has been committed by an institution the offence shall be punishable with a fine up to 4% of its total worldwide turnover of the preceding financial year.¹⁴⁰

3.6 Lessons That Ethiopia Can Learn From The World Bank’s Best Experiences Guidelines on Regulating Mobile Money Lending

The World Bank Group (WBG) provides the regulatory approach for the risks in mobile money lending.¹⁴¹ For the risks in the disclosure and transparency the WBG recommends ‘regulatory approach to require prominent disclosure of both total cost metrics and clear breakdown of costs; disclosure of key term and conditions in channel being used for transaction; and indicate specific term and conditions that must be disclosed in transaction channel; and require access to full term and conditions, including after transaction completed.’¹⁴²

‘Encourage greater standardization in presentation of fees, require plain language without technical jargon or graphical elements affecting readability, require standardized presentation of information adapted for digital channels (for example, bite-sized chunks of info provided in consistent manner), provide secondary layers of information for further details, and provide offline channels to obtain further info and assistance as well as the ability to access info for future reference’ are the recommended regulatory approach in the format of disclosure.¹⁴³ Unclear, incomplete or complicated fees, charges and terms can lead consumers to make uninformed decisions.¹⁴⁴

¹³⁷ Article 60 (2) of Personal Data Protection Proclamation (n 131)

¹³⁸ *ibid*

¹³⁹ Article 64 of Personal Data Protection Proclamation (n 131)

¹⁴⁰ *ibid*

¹⁴¹ Gian Boeddu and others, *Consumer Risks in Fintech - New Manifestations of Consumer Risks and Emerging Regulatory Approaches* (World Bank Group 2021). P 53

¹⁴² *ibid*.

¹⁴³ *ibid*.

¹⁴⁴ Lopez (n 52). P 11

For Timing and flow of information risks the recommended regulatory approach is requiring order and flow of info to enhance transparency and comprehension, providing an intuitive digital journey through the transaction process, disclosing pricing and key terms and conditions early, and using behavioral insights to encourage engagement (e.g., requiring confirmation to proceed).¹⁴⁵

The regulatory approach shall ensure user interfaces to be user-friendly and easy to navigate, including on low-end mobile devices, promote consumer testing of interfaces, and require providers to offer clear guidance on their use.¹⁴⁶

The advisement regulatory approach shall, require clear warnings about the risks of short-term, high-cost credit, and information on alternatives and helpful resources; prohibit sales practices that emphasize ease of credit, trivialize credit, or target vulnerable consumers; slow digital transactions with intermediate steps, review screens, or cooling-off periods to encourage reflection; ensure loan options to be presented in manner that is beneficial (or at least neutral) to consumers and non-exploitative manner such as banning defaults like maximum loan sizes or pre-ticked suboptimal choices.¹⁴⁷ Disclosures should be clear and conspicuous in annual percentage rate and term and conditions regardless of the device a consumer is using to view an advertisement.¹⁴⁸

To mitigate the risks in unfair lending practices the regulation shall require providers to evaluate borrowers' repayment capacity, approving only affordable loans; impose requirements that limit rollovers and multiple loans to reduce over-indebtedness; require enhanced monitoring of loan portfolio, especially where automated credit scoring is utilized; enforce product design and governance rules to digital microcredit to address and mitigate consumer risks during design and customer acquisition; and adapt debt collection rules to prevent abusive debt collection practices utilized by digital lenders.¹⁴⁹

¹⁴⁵ Boeddu and others (n 141).

¹⁴⁶ *ibid.*

¹⁴⁷ *ibid.*

¹⁴⁸ *ibid.* P 64

¹⁴⁹ *ibid.* P 53

CHAPTER FOUR

MOBILE MONEY LENDING PLATFORMS IN ETHIOPIA: EXAMINING PREDATORY LENDING PRACTICES

Predatory lending is any lending practice where the borrower is taken advantage of by the lender.¹⁵⁰ Predatory lenders impose lending terms that are unfair or abusive.¹⁵¹ Examples of predatory lending include failing to disclose information or disclosing false information, high interest rates or fees, and risk-based pricing.¹⁵² Predatory lending practices involve unethical, deceptive, or abusive tactics that exploit borrowers through unfair loan terms, and high fees.

4.1 Telebirr

Telebirr means a trade name of Ethio Telecom mobile money service used to access financial services. Telebirr is used for telecom product purchases, deposit, receive, e-commerce payments, goods and services purchases, digital financial services, government services payment, fuel payment, utility payment and entertainment. Telebirr is one of the licensed payment instrument issuers in Ethiopia. The Telebirr Micro credit services are provided by Dashen Bank S.C, Commercial Bank of Ethiopia, and Siinqee Bank S.C.

The loan products provided by Dashen Bank S.C. are called Mela, Endekise, and Medaresha. The Mela credit repayment deadline is 1 day, 7 days, 30 days, and 50 days from the date of taking the loan, depending on the type of loan. The maximum amount loan on Mela is 18,000.00 ETB for the 50 days credit. Telebirr Endekise is an overdraft credit facility and it allows customers to use the credit service when their balance is insufficient. The maximum credit amount for Endekise is 3,500.00 ETB for 30 days. Medaresha micro credit service is provided to employees of private and public institutions based on the agreement with their respective institutions. The credit is based on the employee's salary and there is a 30%, two-month, and three-month salary credit. The repayment is an installment base that will be settled every month.

¹⁵⁰ 'Legal Information Institute' <https://www.law.cornell.edu/wex/predatory_lending> accessed 12 June 2025.

¹⁵¹ *ibid.*

¹⁵² *ibid.*

The loan products provided by the Commercial Bank of Ethiopia are called Deldiy, Enderas, and Adrash. Deldiy is a credit service that allows Telebirr merchants/Agents to borrow up to 50,000.00 ETB. The repayment period is from 1 month to 3 months. Enderas is a credit service that allows customers to borrow up to 15,000.00 ETB for 10, 25, and 60 days. Adrash is a credit service for employees of private and public institutions whose monthly salaries are paid through telebirr service and enables them to borrow up to 50,000.00 ETB. The maximum credit is 4 months' salary for 12 month installment period.

The loan products provided by Siinqee Bank S.C. are called Wabi and Wabi Salary. The maximum credit amount for Wabi credit is 5, 10, 30, and 45 days is 5,000.00, 6,000.00, 15,000.00, and 30,000.00 ETB respectively. The Wabi salary credit is for an employee who receives salary via Telebirr or with a prior agreement with the employee's employer. The maximum amount of loan for Wabi Salary credit is 5-month salary for 14 months repayment periods. The repayment is installment base that will be settled every month.

4.1.1 Fair treatments on Telebirr loan products

The requirements for Fair treatment under FSPD are unfair contractual terms; unfair fees; barriers to account mobility and account closure; obligation to acquire insurance; unfair credit-related practices; debt collection; and unauthorized and mistaken transactions.¹⁵³

4.1.1.1 Unfair contractual terms

According to article 5.1.1.2 of FCPD, the contract shall be unfair if it causes a significant imbalance in the rights and obligations between a financial consumer or security provider and a financial service provider. The FCPD states non-exhaustive examples of unfair terms including clauses allowing unilateral changes by financial service providers without describing the circumstances to the consumer in which such change may be made; allowing the charging of fees or charges not previously disclosed or prohibited by law; or restricting early repayment of a credit contract.¹⁵⁴

The terms and conditions of the loans provided by the banks through Telebirr are the same except for the fee and definition parts. The terms and conditions state that the laws of the Federal

¹⁵³ Article 5.1 of FCPD (n 11)

¹⁵⁴ Article 5.1.1.3 of FCPD (n 11)

Democratic Republic of Ethiopia, the directives of the National Bank of Ethiopia, as well as the relevant working procedures of the banks and Ethio Telecom, shall govern the terms and conditions. However, the working procedures of the banks and Ethio Telecom are not disclosed to the customers. Therefore it is unfair to make these procedures governing law without disclosing them to the customers.

The term and conditions preamble part states that the term and conditions, as well as any related amendments or changes, will become effective by clicking the option “activate”. In the terms and conditions, it is stated that the facilitation fee may be changed at any time by Ethio Telecom and the banks with prior notice. Also, the terms and conditions can be modified or changed at any time by Ethio Telecom and the banks, upon these changes’ notifications are sent to customers through appropriate communication channels as per Article 2 of the terms and conditions. The updated term and conditions are binding on the customer from the date they are published on the Telebirr App, portal, or website. The term and conditions state that the updated term and conditions are binding without requiring consent from the customers.

These term and conditions violate Article 5.2.12 of the FCPD. This article states that financial service providers must notify consumers about contractual changes and secure consent. Also the directive stated that, contractual terms that allow changes without notice are null and void.¹⁵⁵ Therefore the term and conditions article that allow unilateral change is void.

The term and conditions allows Ethio Telecom and the banks to suspend or terminate the agreement wholly or partially due to abuse, misuse, or fraud of any of the micro credit saving and loan services with or without prior notice to the customer.¹⁵⁶ This article of the term and condition shows the significant imbalance in the rights and obligations between a financial consumer and a financial service provider. Therefore the contract is unfair.

4.1.1.2 Unfair Debt Collection

The term and conditions of the loan states that, if the loan is not repaid when it is overdue, Ethio Telecom and the lender Bank may, where necessary, collect the debt using any alternative means, including direct debit from individual customer accounts in the lending bank or from any other bank accounts. The financial service provider doesn’t have any right to direct debit from the

¹⁵⁵ Article 5.2.12.3 of FCPD (n 11)

¹⁵⁶ Article 8 of Term and Conditions

borrower's other bank accounts. According to Article 5.1.6.1 & 5.1.6.2 (d) of FCPD, the financial service provider shall not harass or engage in any unfair or abusive conduct including making misrepresentation such as financial service provider legal rights, and potential consequences of non-payment. Therefore the above term and conditions article misrepresent the financial service provider's right and harass borrowers.

Financial service providers are barred from attending a borrower's workplace to seek repayment.¹⁵⁷ However, the term and conditions of the loans state that 'The individual customer agrees that Ethio Telecom and lender Bank have the right to collect the debt by using alternative means, such as obtaining the individual customer's residential or business address, to assist in the collection of the debt outside of court. Attending a borrower's workplace by the lender bank and Ethio Telecom also creates public shaming on the borrower.

Generally, the Telebirr term and conditions states unfair collection tactics which are contradict to the FCPD and the term and conditions grant them greater rights and unrestricted means to recover their funds from the borrowers.

4.1.1.3 Unfair fees

One of the inadequacies in mobile money lending is exorbitant interest rates. The mobile money lenders offer small amounts of money for a short period of time and do not require any collateral. The financial service providers mitigate this risk by lay high interest rate, facilitation fees, and penalties on the loan.

Micro credit services provided by Dashen Bank S.C

Mela

Telebirr Mela collects three types of fees on the loans: facilitation fee, daily fee, and penalty fee. The facilitation fee for mela daily (1 day credit) is 1% of the loan amount and the penalty fee is 2% per day on the outstanding credit amount up to repayment. No daily fee is collected from Mela's daily credit. The weekly (7 days), monthly (30 days), and 50 days Mela credit facilitation fee is 1%, 3%, and 6% of the loan amount on day one respectively. The facilitation fee is immediately added to the loan amount. The daily fee for Mela's weekly credit ranges from 0.3%

¹⁵⁷ Article 5.1.6.2 (g) of FCPD (n 11)

to 1.2% daily, for Mela's monthly credit ranges from 0.3% to 0.8 % daily, and Mela 50 days credit ranges from 0.5% to 0.7% daily for the rest of repayment periods.

When we calculate the annual percentage rate of Mela daily credit facilitation fee becomes 730% of the loan amount. The annual percentage rate of Mela weekly credit facilitation fee is 52% and the daily fee ranges from 109.5% to 438% of the loan; Mela monthly credit facilitation fee is 36.5% and the daily fee ranges from 109.5% to 292%; and the 50 days Mela credit facilitation fee is 43.8% and daily fee ranges from 182.5% to 255.5%. Generally, the annual fees on the Mela credit are 730% in Mela daily credit, ranges from 161.5% to 490 % in weekly credit, from 146% to 328% on monthly credit, and from 226.3% to 299.3% on 50 days credit facility.

Endekise

The Endekise credit is for 30 days and there is a facilitation fee 2.5% of the loan amount on day one and daily fee ranges from 0.3% to 1.1% daily for the rest of repayment periods. The annual percent rate of this loan is 30% facilitation fee and daily fee ranges from 109.5% to 401.5% of the loan. So totally the fee ranges from 139.5% to 431.5% annually.

Medaresha

The credit is based on the employee's salary and there is a 30%, two month, and three month salary credit. A 30% salary loan has 3 month repayment period and has a 10% facilitation fee. A salary loan has 9 month repayment period and has a 16% facilitation fee. And the three month salary loan has 12 month repayment period and has a 20% facilitation fee. The term and conditions doesn't state when the facilitation fee is paid.

There is also a penalty fee 0.11% per day in all types of loan on outstanding credit amount after the due date up to repayment.¹⁵⁸ However, for Mela daily, the penalty fee is 2% per day on outstanding credit amount up on repayment.

Micro credit services provided by Commercial Bank of Ethiopia

Deldiy

¹⁵⁸ The facilitation fee is from 0.3 % to 1.2 % daily, and penalty fee was 0.5% daily for weekly and monthly credits when the researcher starts writing the research.

Deldiy is a credit service for Telebirr merchants/Agents. For 1, 2, and 3 months Deldiy loan the maximum amount of loan is 10,000.00, 30,000.00, and 50,000.00 birr and it has 10%, 16%, and 21% facilitation fees respectively. No daily fee is collected from this loan.

Enderas

Telebirr Enderas collects three types of fees on the loans: facilitation fee, daily fee, and penalty fee. The facilitation fee for Enderas 10, 25, and 60 days is 1.25%, 2.5%, and 6.5% of the loan amount on day one, respectively. The facilitation fee is immediately added to the loan amount. The daily fee for Enderas 10 days credit ranges from 0.5% to 0.8 % daily, for Enderas 25 days credit ranges from 0.5% to 0.8 % daily, and for Enderas 60 days credit ranges from 0.5% to 0.8 % daily for the rest of repayment periods.

The annual percentage rates of facilitation fee for Enderas loans are 45.62%, 36.5%, and 39.54% for 10, 25, and 60 days credits respectively. The daily fee for all Enderas credit ranges from 182.5% to 292%. The total annual percentage fees on the Enderas credit are ranges from 228.12% to 337.62%, 219% to 328.5%, and 222% to 331.54% on the loan amount for 10, 25, and 60 days, respectively.

Adrash

Adrash is a credit service for employees whose monthly salaries are paid through telebirr service. The facilitation fees are 21% for 4 months' salary with 12 months repayment period; 18% for 3 months' salary with 9 months repayment period; 15% for 2 months' salary with 6 months repayment period; 14% and 10% for 1 month salary with 4 and 3 months repayment period respectively.

Micro credit services provided by Siinqee Bank S.C

Wabi

The credit repayment deadline for the Wabi loan is 5 days, 10 days, 30 days, and 45 days from the date of taking the loan. Wabi collects three types of fees on the loans: facilitation fee, daily fee, and penalty fee. The facilitation fee for Wabi 5, 10, 30, and 45 days is 1.5%, 2%, 4%, and 6.5% of the loan amount on day one respectively. The facilitation fee is immediately added to the loan amount. The daily fee for Wabi 5 days credit ranges from 0.35% to 1.2% daily, for Wabi 10 days credit ranges from 0.3% to 0.9 % daily, for Wabi 30 days credit ranges from 0.3% to 1 %

daily, and for Wabi 45 days credit ranges from 0.5% to 0.67% daily for the rest of repayment periods.

The annual rates of Wabi loans are 109.5% facilitation fee and daily fee ranges from 127.75% to 438% for 5 days Wabi; 73% facilitation fee and daily fee ranges from 109.5% to 328.5% for 10 days Wabi; 48.66% facilitation fee and daily fee ranges from 109.5% to 365% for 30 days Wabi; and 52.72% facilitation fee and daily fee ranges from 182.5% to 244.55% for 45 days Wabi on the loan amounts. The total annual percentage fees on the Wabi credit are ranges from 237.25% to 547.5%, 182.5% to 401.5%, 158.16% to 413.66%, and 235.22% to 297.27% on the loan amount for 5, 10, 30, and 45 days Wabi credit respectively.

Wabi Salary

A 5 months' salary Wabi loan has 14 months repayment period and has a 19.5% facilitation fee. The repayment is installment base that will be settled every month. No daily fee is collected from this loan.

Credits offered through the Telebirr platform are for a short period. All the facilitation, daily, and penalty fees collected on the loans are not communicated in the annual percentage rate. The Telebirr credit annual percentage rate fees are very expensive up to 730% of the loan. Also, the penalty fees on Mela's daily loan will double the loan amount just in 50 days. It is expected that in mobile money loans, the lenders always compensate their risk through high pricing rates to guarantee substantial return because there is a high chance of default and no collateral. However, the high pricing rates also create high chances of non-repayment.

The penalty fee on the Telebirr loans (except Mela daily) is 0.11% per day on the outstanding credit amount after the due date up to repayment. However, the daily fee ranges from 0.3% to 1.2% on the repayment periods. The daily fee is calculated from day two of the loan up to the due date. Therefore the penalty fee is less than the daily fees. This encourages borrowers to pay penalties by not paying their loans within the repayment periods. Fees must be reasonable and proportionate.

In Ethiopia Lending rates are freely determined by the lenders. The FCPD doesn't determine the maximum rates on any loans. The NBE sets a policy rate of 15 percent, which is used as a

reference for other interest rates in the banking system. The highest interest rate in CBE is 18%¹⁵⁹ and the highest interest rate in private banks is 23%¹⁶⁰. In a free market economy, a contract depends on the principle that parties can freely negotiate their obligations.¹⁶¹ Both parties are assumed to bargain on equal terms.¹⁶² However, the unbalance between the supply and demands of loan affected this bargain power. Treating unequal persons equally is injustice.

Credit can solve short-term and long-term challenges when it is provided responsibly.¹⁶³ However, Telebirr loans have pushed consumers into financial instability rather than lifted out. Obtaining a loan from the Telebirr platform is simple and quick. Because of this they use the advantage of the borrowers and impose extremely high interest rates, facility fees, and penalties on the loan.

4.1.1.4 Unfair credit-related practices

The directive prohibited financial service providers from charging an interest in advance.¹⁶⁴ Telebirr loans fees are not collected fees in the name of interest rather they use facilitation, daily, and penalty fees. The facilitation fee is immediately added to the loan amount. Also, the financial service provider shall accept partial early repayments or outstanding loans at any time with permitted fees and charges disclosed at the time of concluding the contract.¹⁶⁵ The term and conditions states that the borrower can pay his credit partially or fully at any time. However, for the two and three months Medaresha loan, there is a 3% early repayment charge on the outstanding principal amount.

¹⁵⁹ 'Summary of Products and Services Tariff Guide' (*Commercial Bank of Ethiopia*)

<<https://www.combanketh.et/en/terms-and-tariff/>> accessed 21 April 2025.

¹⁶⁰ Ameha Hailemairam, 'Ethiopian Banks' Lending Rates Soar: Is the National Bank Powerless to Intervene?' *The Reporter* (22 February 2025)

<<https://www.thereporterethiopia.com/43866/#:~:text=Despite%20these%20developments%2C%20Ethiopia's%20regulatory,lending%20rate%20of%2023%20percent.>> accessed 21 April 2025.

¹⁶¹ Kifelew and Shiferaw (n 84). P 53

¹⁶² *ibid.*

¹⁶³ Shahid, Humeau and Bahia (n 29). P 66

¹⁶⁴ Article 5.1.5.1 of FCPD (n 11)

¹⁶⁵ Article 5.1.5.3 - 5.1.5.5 of FCPD (n 11)

4.1.2 Transparency and disclosure

Transparency and disclosure requirements are necessary to ensure consumers receive accurate, simple, clear, and timely information about features, risks, obligations, and other terms and costs of any financial products or services.

4.1.2.1 Advertising and promotional materials

The FCPD requires any reference to an interest rate to be disclosed as an annual percentage rate and not, for example, a rate for a shorter period.¹⁶⁶ However, all of the Telebirr loan fees are not disclosed in an annual percentage rate.

4.1.2.2 Form and manner of disclosure

Financial products and services shall be simply and clearly expressed without the use of technical language.¹⁶⁷ However, the term and conditions of Telebirr loans are not simply and clearly expressed. For instance the Wabi credit term and condition states “ያለብዎትን ዕዳ በቀን ገደቡ ውስጥ የማይከፍሉ ከሆነ ባለበዎት ክሬዲት መጠን ላይ በየዕለቱ የሚሰላ 11% የቅጣት ክፍያ እስከ ሚከፍሉ ድረስ 90 ቀናት ይከፍላሉ።” it is difficult to understand such terms. Also, there is a difference between the Amharic and English versions of Wabi credit terms and conditions related to facilitation and penalty fees. The applicability of changes on existing loans is not clearly stipulated. Also, the term and conditions of Telebirr Medaresha, Adrash, and Wabi Salary credits lack transparency about facilitation fees. The term and conditions don't state whether the facilitation fee is collected monthly or once throughout the repayment period. The lack of transparency combined with the aggressive marketing tactics of the lenders in Telebirr may lead many borrowers to over-indebtedness.

4.1.2.3 Publications availability and display of product pricing, terms and conditions

Article 5.2.3.1 of the FCPD requires a financial service provider to publish, display, and makes available the standard terms and conditions including itemized fees and annual percentage rate, about all of their financial products and services. The term and conditions are published on the

¹⁶⁶ Article 5.2.1.5 of the FCPD (n 11)

¹⁶⁷ Article 5.2.2 of the FCPD (n 11)

Ethio Telecom website.¹⁶⁸ However, the fees are not disclosed on the annual percentage rate. Also, the term and conditions of micro credit services provided by CBE are not disclosed on the Ethio Telecom websites.

The FCPD Article 5.2.3.2 requires the terms and conditions of the financial product or services shall be in a prominent manner that allows consumers to retrieve and keep it for future reference. But, term and conditions for the loans in the Telebirr platform as well as in the Ethio Telecom website are not suitable to download. Therefore the terms and conditions are difficult to store and access at later times.

4.1.2.4 Key facts statements (KFS)

KFS standardizes disclosure are important to make sure borrowers receive short, critical information to know about their loan obligations and risks. The term and conditions of Telebirr loans are not enough to understand about the loans.

4.1.3 Product suitability and responsible lending requirements

The FCPD requires financial service providers to take responsible steps to minimize the risk of harm to financial consumers.¹⁶⁹ But Telebirr loans use the advantage of the borrower's want for a loan and impose extremely high interest rates, facility fees, and penalties on the loan. The lending rate in Telebirr loans is much higher than the regular bank lending rates. The shortened repayment period of the loans makes borrowers frequently apply for new loans leading to a cycle of perpetual borrowing.

4.1.4 Data protection

The FCPD requires financial service providers to inform and make available on their website to consumers regarding their policies for the protection of data; for collection, use, and disclosure of data; on the kinds of data that it collects; and on the third parties to whom it may disclose such data.¹⁷⁰ However such policies are not available on the Ethio telecom website. The term and conditions of the loan state about transferring borrowing personal data to a third party (law firm or individual) involved in debt collection in case of unpaid debt. But it doesn't state what kind of

¹⁶⁸ 'Telebirr Term and Conditions' (n 19).

¹⁶⁹ Article 4.3.1 of FCPD (n 11)

¹⁷⁰ Article 5.4.2 - 5.4.4 of FCPD (n 11)

personal data are transferred to third parties. Some contractual terms require unnecessary sharing of the debtor's personal information with the lenders. Such as: obtaining the individual customer's business address.

4.1.5 Complaint handling

The financial service providers shall provide easy access to a transparent, effective, prompt, and free internal complaints process and aware consumers about the external dispute resolution mechanisms, including those provided by NBE and courts.¹⁷¹ The term and conditions of Telebirr loans can aware borrowers about the internal complaints process and the external dispute resolution mechanisms. However, the terms and conditions don't state the timeline of complaints and the consumer's right when no response is made to go to external dispute resolution mechanisms in 10 days.

4.2 Kacha

Kacha is the first private mobile money service provider. Currently, Global Bank Ethiopia S.C, Bunna Bank S.C, Berhan Bank S.C, Dire Micro Finance, Peace Micro Finance, Amigos Saving & Credit Cooperative Society LTD, and Mizan Saving & Credit Cooperative Society LTD provide a Digital Salary Advance loan in the Kacha platform for employees whose monthly salaries are paid through them. Additionally, Global Bank Ethiopia S.C provides Agar Ride Hailing, and Insurance loans; Dire Micro Finance Bajaj and Supply Chain loans; Amigos SACCOs provide Ride Hailing loans and Saving Based Lending credit services in Kacha.

The insurance loan provided by Global Bank Ethiopia S.C is in collaboration with Lucy Insurance S.C. It enables users to finance insurance premiums for motor vehicles and other products through manageable installments, eliminating upfront cost barriers.

4.2.1 Fair treatments on Kacha loans

4.2.1.1 Unfair contractual terms

The terms and conditions of all types of loans (except the insurance loan provided by GBE and the Supply Chain loan provided by Dire MFI) provided in Kacha platforms are the same. The term and conditions are not even fulfilled the name of the institution and the name of the

¹⁷¹ Article 4.5 of FCPD (n 11)

financial product or service. The fees of any financial product or service are not disclosed in the term and conditions.

The terms and conditions state that Kacha and the bank reserve the right to decline customer's application for a Kacha wallet account or digital lending services at their sole discretion and without assigning any reason. This shows the significant imbalance between the customers and financial service providers. It also creates discrimination on the users.

The terms and conditions stated that pertinent rules and procedures of the bank and the laws of the Federal Democratic Republic of Ethiopia shall govern the terms and conditions. However the working procedures of the banks are not disclosed to the customers. Therefore it is unfair making these procedures governing law without disclosing them to the customers.

In the terms and conditions article 6, it is stated that the amendment on the term and conditions including loan amount and fees shall be posted on Kacha and Bank's website or notice board before implementation. It also stated the continued use of the loan services constitutes the customer's agreement to be bound by the terms of any such amendment or variation. However, the term and conditions of the loan are not disclosed on the Kacha and Bank's website. Also posting the amendment on the notice board is not inconvenient for the users because the loan service is digital. Therefore the updated term and conditions are binding without requiring consent from the customers. These term and conditions violate Article 5.2.12 of the FCPD. Therefore the contract is unfair.

4.2.1.2 Unfair fees and charges

The fees of any financial product or service in Kacha are not disclosed in the term and conditions. Also, the platform doesn't show the fees of the service unless you are eligible to subscribe to the service. The researcher is eligible to see Agar Digital Salary Advance and Agar Ride Hailing loan fees because he works for the bank.

Employees who receive salaries through the bank can take a 33% basic salary loan for 15 days repayment period or a 50% basic salary loan for 30 days repayment period. The 33% Agar Digital Salary Advance loan facilitation fee is 3.5% and 0.4% penalty fee. The 50% Agar Digital Salary Advance loan facilitation fee is 9.5% and 0.5% penalty fee. No daily fee is collected from this loan. The annual percentage rate of facilitation fee for Agar Digital Salary Advance credits is

85.16% and 115.58% for a 33% and 50% salary loan respectively. The annual percentage rate of penalty fee is 146% and 182.5% for a 33% and 50% salary loan respectively.

The Agar Ride Hailing loan is for 7, 14, and 30 day's repayment period. The facilitation fee is 1.5% for 7 day's loan and 2.5% for a 14 and 30 day's loan. The daily fee is 0.7%, 0.8%, and 0.9% daily for 7, 14, and 30 day's respectively. There is also a penalty fee of 0.5% for all types of loans. The platform doesn't disclose whether the penalty fee is daily, once, or monthly. However, the researcher is aware the penalty fees are collected daily.

The annual percentage rate of facilitation fee for Agar Ride Hailing loan is 78.21%, 65.17%, and 30.41% for 7, 14, and 30 day's loan respectively. The annual percentage rate of daily fee for Agar Ride Hailing loan is 255.5%, 292%, and 328.5% for 7, 14, and 30 day's loan respectively. The annual percentage rate of penalty fee is 182.5% for all loans. Generally, the annual fees are on the 7 day's loan 333.71%, on 14 day's loan 357.17%, and on 30 day's loan 358.91%.

Like the Telebirr loans, all the facilitation, daily, and penalty fees collected on the loans are not communicated in the annual percentage rate. The annual percentage rate fees are very expensive up to 358.91% of the loan.

4.2.2 Transparency and disclosure

4.2.2.1 Advertising and promotional materials

The FCPD requires any reference to an interest rate shall disclose as an annual percentage rate and not, for example, a rate for a shorter period.¹⁷² However all of the Kacha loans fees are not disclosed in an annual percentage rate.

4.2.2.2 Form and manner of disclose

Financial products and services shall be simply and clearly expressed without the use of technical language.¹⁷³ However, the term and conditions are not simply and clearly expressed. The applicability of changes on existing loans is not clearly stipulated. Also, the penalty fee is not disclosed whether it is collected daily or once.

¹⁷² Article 5.2.1.5 of the FCPD (n 11)

¹⁷³ Article 5.2.2 of the FCPD (n 11)

4.2.2.3 Publications availability and display of product pricing, terms and conditions

Article 5.2.3.1 of the FCPD requires a financial service provider to publish, display, and makes available the standard terms and conditions including itemized fees and annual percentage rate, about all of their financial products and services. The term and conditions are not even fulfilled the name of the institution and the name of the financial product or service. The fees of any financial product or service are not disclosed in the term and conditions. Also, the term and conditions are not posted on the Kacha website.

The FCPD Article 5.2.3.2 requires the terms and conditions of the financial product or services shall be in a prominent manner that allows consumers to retrieve and keep it for future reference. However, the term and conditions for the loans in the Kacha platform are not suitable to download. Also, once you have read and accept the term and conditions there are no way to access it at later times.

4.2.2.4 Key facts statements (KFS)

KFS standardizes disclosure are important to make sure borrowers receive short, critical information to know about their loan obligations and risks. The term and conditions of Kacha loans are not enough to understand about the loans. Even the term and conditions are not fulfilled product name and fees.

4.2.3 Product suitability and responsible lending requirements

The FCPD requires financial service providers to take responsible steps to minimize the risk of harm to financial consumers.¹⁷⁴ Unlike Telebirr, the Kacha loans are not presented to anyone. However, Kacha loans impose extremely high interest rates, facility fees, and penalties on the loan. Most of the borrowers are employees. The shortened repayment period of the loans makes borrowers frequently apply for new loans leading to a cycle of perpetual borrowing.

4.2.4 Data protection

Kacha privacy policies are posted on their website.¹⁷⁵ The FCPD requires financial service providers to inform and make available on their website to consumers regarding their policies for

¹⁷⁴ Article 4.3.1 of FCPD (n 11)

¹⁷⁵ 'Kacha' (*privacy of policy*) <<https://www.kacha.et/legal/privacy>> accessed 30 April 2025.

the protection of data; for collection, use, and disclosure of data; on the kinds of data that it collects; and on the third parties to whom it may disclose such data.¹⁷⁶ The term and conditions of Kacha loan states what kind of data are collected.

4.2.5 Complaint handling

Like the Telebirr loan, the Kacha loan term and conditions aware borrowers about the internal complaints process and the external dispute resolution mechanisms. However, the term and conditions don't state the timeline of complaints and the consumer's right when no response is made to go to external dispute resolution mechanisms in 10 days.

4.3 Summary on Predatory Practices

Both Telebirr and Kacha's terms and conditions provisions create significant imbalances, which benefit lenders only. They allow for changes to loan terms, such as facilitation fees, to become effective upon posting on the platform or website without obtaining the consumer's consent. Also, the Kacha platform permits changes in the terms and conditions by posting changes on notice boards. Terms and conditions also allow for the arbitrary rejection of loan applications, which may lead to discriminatory practices. They may also terminate the contract without notice for alleged misuse or fraud.

Telebirr platform and the lender bank misrepresent their rights by allowing direct debits from any other bank account linked to the borrower, even those not designated for loan repayment. They also obtain business addresses for debt collection to attend in workplaces, which can lead to public shaming and harassment.

The fees on both platforms are structured to maximize the lender's profit only. They charge extremely high fees, often not disclosed transparently. They significantly increase the cost of borrowing and push borrowers into financial distress rather than being lifted out. Telebirr Mela, Enderas, and Wabi collect facilitation fees, daily fees, and penalty fees. It resulting an annual percentage rate of up to 730% and the penalty fees double the loan amount quickly (e.g. within 50 days in Mela daily credit). Kacha Agar Ride Hailing loan also collects facilitation fees, daily fees, and penalty fees. The annual percentage rate is up to 358.91%. These fees are often hidden or not clearly disclosed, making it difficult for borrowers to anticipate costs.

¹⁷⁶ Article 5.4.2 - 5.4.4 of FCPD (n 11)

Both platforms engage in unfair credit-related practices, such as charging immediately and imposing penalties for early repayment (in Medaresha loan 3% early repayment fee after collecting the facilitation fee on the loan). Also, the terms and conditions doesn't state about reimburse of facilitation fees on early repayment in Medaresha loan.

Both platforms are failing to provide clear, simple, and accessible information about loan fees and terms and conditions. The fees are not disclosed in the annual percentage rate format. Terms and conditions are difficult to understand and not easily accessible or downloadable, limiting borrower access to critical information. Kacha loan's terms and conditions are not published online and cannot even see it after acceptance in the platform. The terms and conditions do not disclose product names, fees, and provider's names.

The short repayment periods and high fees encourage perpetual borrowing, trapping users in debt cycles. Both platforms are designed with features that promote over-indebtedness by exploiting borrowers' immediate financial needs.

Telebirr data protection policies are not published on its website, and the terms and conditions allow sharing personal data, such as business addresses, with debt collectors without specifying the scope of data shared, increasing risks of misuse.

The complaint mechanisms provided by both platforms are insufficient, lacking clear timelines, and consumer rights for unresolved issues. This may limit borrower options to challenge unfair practices.

These unfair term and conditions may affect low-income and less financially literate individuals who rely on mobile money platforms for quick access to credit. The high costs, unfair collection tactics, and lack of transparency lead to financial instability and perpetuate borrowing.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Mobile money is a digital financial service that can support potential growth and poverty reduction by strengthening financial development, inclusion, and efficiency. Ensuring financial consumer protection is critical for financial inclusion to be sustainable.

Ethiopia enacted a FCPD in 2020. Mobile money (payment instrument) issuers are not clearly listed as financial service providers on this directive. However, the definition lists are not exhaustive. Therefore the FCPD will apply on mobile money service providers too.

In a free market economy, a contract depends on the principle that parties can freely negotiate their obligations. However, the free market is influenced when the market is controlled by lenders who can dictate the terms and conditions and pricing. Also treating unequal persons equally is injustice.

The term and conditions of Telebirr and Kacha mobile lending platforms allow financial service providers to make unilateral changes. The Platforms can alter terms without borrower consent. So this term and conditions may lead to unfair practices. Additionally the term and conditions may lead the financial service provider to unfair credit-related practices and unfair debt collection tactics. The platforms collected extremely high fees sometimes even without disclosing them transparently in the term and conditions. The short repayment periods and high fees on the loans may encourage to perpetual borrowing and trap users in debt cycles.

The FCPD is found inadequate to counter unfair lending practices in mobile money lending. The terms and conditions of mobile money lending platforms are not monitored by the NBE. Furthermore, enacting financial consumer protection laws alone is not enough without effective implementation.

In Ethiopia, licensed payment instrument issuer is only authorized to facilitate mobile money lending. Additionally the licensed payment instrument issuers are allowed to provide mobile

money lending only in partnership with financial institutions. Ambiguity in FCPD's scope, lack of digital lending regulations, and no-fee caps are the major legal gaps in mobile money lending. The enforcement mechanism is also so weak.

5.2 Recommendations

Based on the findings of this study, the researcher would like to forward the following recommendations:

❖ Clarify Regulatory Framework for Mobile Money Lending

The FCPD should be amended to explicitly include mobile money loans within its scope, addressing the current ambiguity that limits its effectiveness in regulating digital lending. Alternatively, given the unique nature of mobile money lending, such as short repayment periods and digital delivery, enacting a new regulation specifically tailored to digital lending may be more appropriate.

❖ Promote Competition in Mobile Money Lending

To foster a competitive lending environment in mobile money lending the law should allow other payment instrument issuers (authorized payment instrument issuer and limited use payment instrument issuers) to provide mobile money lending. And also the law should additionally allow mobile money issuers to provide mobile money lending if they have the capacity to provide by their own capital without relying on banks' capital. By enabling these entities to operate independently, the market could benefit from increased competition, which may lead to more favorable loan terms, lower fees, and innovative lending products.

❖ Implement National ID Verification

The mobile money service providers should use the National ID system into their customer verification processes to reduce risks associated with false or inaccurate information.

❖ Enhance Supervisory Capacity and Enforcement

The NBE's should strengthen its supervisory capacity and the penalties for non-compliance shall be higher than the current.

❖ Set a Maximum Annual Percentage Rate (APR)

To protect borrowers from exorbitant charges, the NBE should set a maximum annual percentage rate to mobile money lending.

❖ **Mandate Financial Literacy Counseling**

The NBE should require mobile money providers to provide financial literacy counseling before loan disbursement, educating borrowers on risks and repayment obligations.

❖ **Launch Public Awareness Campaigns**

The NBE should launch public awareness campaigns to educate borrowers on their rights, loan risks, and complaint mechanisms.

❖ **Translate Regulatory Documents**

To enhance accessibility, the FCPD should be enacted or translated into Amharic and other local languages.

❖ **Provide Clear and Accessible Disclosures**

The law shall require providers to present bite-sized disclosures that can be accessible, and downloadable before, during, and post-transaction. Also, The FCPD's Annex III which is the key facts statement for fixed-term loan format shall be applied to mobile money loans too.

❖ **Introduce Cooling-Off Periods and Review Screens**

It shall introduce cooling-off periods and review screens in digital loan applications to encourage informed decision-making, reducing impulsive borrowing.

❖ **Ensure User-Friendly Platforms**

The FCPD should require mobile money lending platforms to test user interfaces with low-income consumers to ensure accessibility and comprehension, particularly for rural and low-literacy users.

❖ **Establish a Digital Complaint Mechanism**

An independent digital mechanism should be established under the NBE to facilitate the submission of borrower complaints.

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APPENDIX

Appendix 1 Term and conditions of Mela credit

TERMS AND CONDITIONS FOR THE ACTIVATION AND USE OF MELA (MICRO-CREDIT) SERVICES

The Contract

This contract sets out the complete Terms and Conditions (hereinafter called "These Terms and Conditions") which shall be applicable to mela micro credit service.

These terms and conditions, as well as any related amendments or changes, will become effective once the credit customer has read and accepted them (by clicking on the option to "activate").

1. Definitions

In these Terms and Conditions, the following words and expressions bear the below meanings:

- 1.1. **"Dashen Bank"** means a regulated financial institution agreed to provide mobile financial services to telebirr customers in collaboration with Ethio telecom.
- 1.2. **"Ethio telecom"** means a licensed payment instrument issuer who is agreed to provide Mela micro credit services to its telebirr customers in collaboration with Dashen Bank.
- 1.3. **"National Bank of Ethiopia (NBE)"** means the Institution established to license and regulate the activities of financial institutions in accordance with establishment proclamation No. 591/2008
- 1.4. **"telebirr"** means trade name of Ethio telecom mobile money service used to access financial services.
- 1.5. **"Telebirr Account"** means account opened for telebirr user to store, send, and receive electronic money.
- 1.6. **"Mela Micro credit Service"** means Micro credit service provided by Dashen Bank in collaboration with Ethio Telecom that enables individual customers to access credit service through telebirr channels in accordance with these terms and conditions set forth below.
- 1.7. **"Mela Medaresha Micro Credit service"** means micro credit service provided by the Dashen Bank in collaboration with Ethio telecom via telebirr platform to employees of private and public institutions based on the agreement with their respective institutions.
- 1.8. **"Individual customer"** means a natural person who has telebirr account and agreed to use mela micro credit service
- 1.9. **"Electronic Money/E-Money"** means the electronic monetary value depicted in customers' telebirr account representing an equal amount of cash in Ethiopia Birr and operated Individual customers.
- 1.10. **"You" or "your"** means the individual Customers and includes the individual's personal representatives.
- 1.11. **"We," "our," and "us,"** mean Dashen Bank and Ethio telecom.
- 1.12. **"Facilitation fee"** This is a fee charged by individual customers to use the Personal Loan Service. The amount of this fee may be changed at any time by Ethio Telecom and the Dashen bank with prior notice.
- 1.13. **"Daily fee"** means the fee paid by individual customers on daily basis for the number of days that the principal amount is not paid within the contract period.
- 1.14. **"Penalty fee"** means the fee which individual customers will be charged if they fail to honor their commitments on time.
- 1.15. **"Due date"** Is the last date in which the individual customer Is expected to complete his credit repayment.
- 1.16. **"Bad debit"** is a debt that has not been paid within 90 days after the due date.

1.17. "Words expressed feminine also applicable to masculine.

1.18. The word "individual " shall include both the masculine and the feminine gender.

2. Acceptance of the Terms and Conditions

2.1. Before applying to use mela micro credit service you should carefully read and understand these Terms and Conditions which will govern the use and operation of mela Micro Credit service.

2.2. If you do not agree with these Terms and Conditions, please do not click the "activate" option and click "Cancel" on the Menu.

2.3. You will be deemed to have read, understood, and accepted these Terms and Conditions where:

Upon clicking on the "Activate" option on the Menu requesting you to confirm that you have read, understood, and agreed to abide with these Terms and Conditions; and/or by using or continuing to use and operate Mela micro credit Service.

2.4. You acknowledge and accept the mela micro credit service and you agreed to do business with Ethio telecom and to operate the mela micro credit service only by electronic means via telebirr.

2.5. The terms and conditions can be modified or changed at any time by Ethio telecom and Dashan Bank, upon these changes' notification will be sent to you through appropriate communication channels. The updated term and condition will be binding on the customer from the date they are published on the telebirr App, portal, or website.

2.6. The individual customer agrees to use the credit for lawful purposes.

3. Activation for Mela micro credit Service

To activate Mela micro credit service with Ethio telecom and Dashen Bank, you must be at least:

3.1. Able to read, understand and accept these terms and conditions.

3.2. Should 18-year-old and above.

3.3. Have an Ethio telecom active SIM card.

3.4. Active user of telebirr and Ethio telecom products such as Data/Voice/SMS.

3.5. Stay on network for (3) (three) months and above after registered for SIM card and telebirr services.

To activate the mela micro credit service, individual customers shall use USSD (*127#) or telebirr super App.

4. Eligibility Criteria to Get Micro Credit Service

A customer's borrowing capacity is determined by his or her 6-month telebirr telebirr transaction and telecom usage prior to the date of the mela credit payment service request. The telebirr transactions listed below are used to determine a customer's creditworthiness.

- o Purchase airtime or packages.
- o Buy goods or service.
- o bill Payment by self-service or at agent.
- o Utility payment by self-service or at agent.
- o Receive Bulk disbursement.
- o Receive Remittance.
- o Ticket purchase.
- o Fundraising payment.
- o Cash-in/Cash-out at agent
- o Saving

- o Send Money
- o Telecom usage like Voice, Data and SMS
- o Credit Repayment History
- However, to get mela medaresha micro credit receiving salary via telebirr or a prior agreement with the institution in the individual customer working is sufficient,

5. Credit Amount and Fees

- 5.1. You can borrow any amount between the minimum and maximum amount permitted.
- 5.2. You will get the requested credit amount, and it will be credited to your telebirr account.
- 5.3. You should repay your previous credit first to get another credit.
- 5.4. You can pay your credit partially or fully at a time.
- 5.5. Credit repayment deadline will be 1 day, 7 days, 30 days, and 50 days from the date of taking the loan, depending on the type of loan.
- 5.6. If you repay your daily credit within the due date, you will be charged a facilitation fee of 1% of the loan amount.
- 5.7. If you repay your weekly credit within the due date, you will be charged a facilitation fee of 1% of the loan amount on day one and you will be charged a daily fee ranging from 0.35% to 1.2% for the rest of the repayment period depending on your credit limit.
- 5.8. If you repay your overdraft credit within 30 days, you will be charged a facilitation fee of 2.5% of the loan amount on day one. And you will be charged a daily fee ranging from 0.3% to 1.1% for the rest of the repayment period depending on your credit limit.
- 5.9. If you repay your monthly credit within 30 days, you will be charged a facilitation fee of 3% of the loan amount on day one. And you will be charged a daily fee ranging from 0.3% to 0.8% for the rest of the repayment period depending on your credit limit.
- 5.10. If you repay your 50 days of credit within 50 days, you will be charged a facilitation fee of 6% of the loan amount on day one. and you will be charged a daily fee ranging from 0.5% to 0.7% for the rest of the repayment period depending on your credit limit.
- 5.11. For mela medaresha, the repayment will be installment base (outstanding credit amount will be prorated for repayment period) that will be settled every month.
- 5.12. A 30% salary Medaresha loan has a three-month repayment period and has a 10% facilitation fee.
- 5.13. A two-month Medaresha loan with a nine-months repayment period and has a 16% facilitation fee.
- 5.14. A three-month Medaresha loan with a twelve-month repayment period and has a 20% facilitation fee.
- 5.15. Early repayment charge will be 3% of the outstanding principal amount for 2 & 3 months mela Medaresha loan.
- 5.16. After the due date, you will be charged a penalty fee of 0.11% per day on the outstanding credit amount up on repayment. However, for mela daily, you will be charged a penalty fee of 2% per day on outstanding credit amount up on repayment.
- 5.17. When the individual customer fails to repay the outstanding amount after 90 days after being overdue, the outstanding amount will be settled from Sanduq Saving account.
- 5.18. The bonus/incentive will not be applicable for telebirr mela repayment.
- 5.19. If the loan is not repaid when it is overdue, Ethio Telecom and Dashen Bank may, where necessary, collect the debt using any alternative means, including direct debit from individual customer dashen bank or any other bank accounts.
- 5.20. After the due date, the ethio telecom and dashen bank will take the outstanding credit

amount from your e-money telebirr account automatically if you do not repay on time and in order to collect the bad debt using out of courts methods

5.21. The individual customer agrees that Ethio Telecom and Dashen Bank have the right to collect the debt by using alternative means, such as obtaining the individual customer's residential or business address, in order to assist in the collection of the debt outside of court.

5.22. The individual customer agrees that if the debt is not paid when it is overdue, Ethio Telecom and dashen bank may transfer the individual customer's personal data to a third party (law firm or individual) involved in debt collection.

5.23. If the debt is not paid through an out-of-court alternative Ethio Telecom and the Dahan Bank have the full right to take the case to a regular court by themselves or through another legal service providing firm or an attorney.

6. Governing Law

The laws of the Federal Democratic Republic of Ethiopia, the directives of the National Bank of Ethiopia, as well as the relevant working procedures of the Dashen bank and Ethio telecom shall govern these Terms and Conditions.

7. Queries

For any inquiries regarding the telebirr Services, Procedures, Terms and Conditions of the telebirr, can call the telebirr Customer Contact Center (127), send a short SMS to 126 or visit the telebirr Social media Pages (<https://telehub.ethiotelecom.et/>) for more information.

8. Termination

We shall be entitled to suspend or terminate this agreement wholly or partially due to your abuse, misuse, or fraud of any of the micro credit saving and loan services with or without prior notice to you. Any termination of this contract completely or in part may not affect any accrued rights and obligations of either party.

9. Complaints

Complaints may be present in person, in writing, by post, fax, email or by telephone. Ethio telecom will take all measures within its means to resolve your complaints within a reasonable time. If You are dissatisfied with the response, you can escalate the matter to Dashen bank and National Bank of Ethiopia sequentially

10. Dispute Resolution

Any dispute arising out of or in connection with this Agreement that is not resolved as per Clause article 9 above shall be referred to Federal court of Ethiopia having jurisdiction over the case.

11. Lien

We shall have a general lien over all your property/assets in its possession in the event that you owe any money to us including but not limited to cash, goods, securities or valuables deposited for safe custody as security, cheques presented, bills and any other movable or immovable property. Where you are indebted to us in circumstances giving us the right to set off, all property held under lien shall be deemed to be held as security for the debt.

12. Set Off

We may, upon notice, combine/consolidate your telebirr Account with any of your other accounts held in us, whether current, loan, savings, deposit, term deposit, joint or any other type and thereafter set off any amount held to your credit against any indebtedness you owe to us.

13. Disclaimer

Your PIN must be kept confidential and not accessible to anyone other than you. You will be

solely responsible for any loss/damage you may incur if you disclose your PIN to a third party or fail to change it regularly, make unauthorized use of your phone, or fail to promptly notify the relevant party and immediate suspend if your mobile phone or SIM card is stolen or lost.

Appendix 2 Term and conditions of Kacha credit

Terms and conditions for Digital Loan through Kacha Wallet

This Agreement sets the terms and conditions that apply to use the Digital Lending products through Kacha. The Kacha Terms and Conditions that you have already signed while opening Kacha Wallet shall be applicable to this Agreement.

1. Definitions

In these Terms and Conditions, the following words and expressions (save where the context requires otherwise) bear the following meanings:

"Customer" or "You" or "Your" means the person in whose name Kacha account is opened with Kacha Digital Financial Service S.C and electronically accepted this Terms and Conditions;

"Credit Scoring" means judging or evaluating the desirability of a loan customer based on his/her basic characteristics, historical financial data, transaction in bank and Kacha wallet account, and past experiences with credit.

"E-Money" means the electronic monetary value depicted in your Kacha Account representing an equal amount of cash;

"Digital loan" means a loan availed to businesses and individuals for the purpose of supporting businesses and consumption.

"National Bank of Ethiopia (NBE)" means a supervising authority, established in accordance with Proclamation No. 591/2008;

"The Bank" means the _____ Bank;

Words importing the singular meaning where the context so admits include the plural meaning and vice versa.

2. Digital Loan through Kacha Wallet

Digital Loan through Kacha Wallet is an instant loan offered through mobile phones for Kacha Wallet customers;

Every process is to be done on the phone (Kacha), from loan application to loan approval and paying the loans;

You shall fulfill the KYC requirement stated in the credit scoring solution;

The loan is instantly credited to the customer's Kacha Wallet account after the necessary approval is done through the credit scoring solution subject to any deductions on account of applicable Facilitation Fees;

You shall score the minimum requirement indicated in the credit scoring solution;

The loan shall be repaid back within a predefined period through Kacha. However, you can repay the loan before the due date, and borrow again, and your loan limit qualification may increase as per the scoring solution criteria;

The maximum amount of loan shall be Birr _____ However, the loan amount shall be determined based on the credit scoring solution;

The cost of credit includes facilitation fee, daily penalty, extension fee and penalty fee as applicable.

The Bank reserves the right to vary the terms of the loan including the any fees payable thereon from time to time having regard to the prevailing rules and regulations of the National Bank of Ethiopia and the policies of the Bank;

You will be charged with an Extension Fee if you request a repayment extension that is available for only one-time which is similar to the original tenure.

If the customer fails to repay the loan as per the schedule, the repayment period will be extended for an additional --- days, and the customer will pay an additional ---% penalty per day on the outstanding loan balance. A similar pattern will continue until the 90th day in which the loan will be categorized into NPL.

When your account is credited with an amount which does not cover the unpaid loan amount and facilitation fee amount, the system shall deduct the penalty fee, accrued daily fee, facilitation fee and principal respectively;

If the credit is not paid within the term and even after 90 days, any outstanding amount shall be deducted automatically from your e-money or the account you hold at the bank;

Without prejudice to the above provision, _____ BANK shall have the right to bring legal action against defaulting as deemed necessary;

You hereby agree to pay charges and expenses incurred by the Bank in obtaining or attempting to obtain payment of any loan owed under your Digital Loan Account, including any legal charges.

3. Requirement to use Digital lending products

- You need to have read, understood, and accepted these terms and conditions;
- You must be at least 18 years old and an active user of Kacha Wallet;

- You hereby agree and authorize the Bank to request the Ethiopian National ID Service, telecom operators and the administration where you reside (Woreda/Keble) for your personal information;
- Kacha & the Bank reserves the right to decline your application for a Kacha Wallet Account or Digital lending services at their sole discretion and without assigning any reason.

4. Disclosure:

You hereby expressly consent and authorize us to disclose, receive, record or utilize your information relating to your Digital loan Account to/from authorized sources including Credit Reference Bureaus as required by any regulatory body including the NBE, Court of law, mandated government organ and the bank;

5. Termination:

The Bank shall be entitled to suspend or terminate this agreement wholly or partially due to your abuse or misuse or fraud of any of the Digital loan services with or without prior notice to you. Any termination of this contract in whole or in part may not affect any accrued rights and obligations of either party.

6. Amendment:

The Bank may vary or amend these terms and conditions including loan amount and fees, from time to time having regard to the prevailing rules and regulations of the National Bank of Ethiopia and the policies of the Bank. The Amendment shall be posted on Kacha and Bank's website notice board before implementation. The continued use of your Kacha Wallet Account and/or the Loan Services constitutes your agreement to be bound by the terms of any Such amendment or variation.

7. Equipment:

The Bank and Kacha shall neither be responsible for any errors or failures caused by any malfunction of your Equipment, and nor shall the Bank be responsible for any virus or related problems that may be associated with the use of the System, the Services, and the Equipment.

8. Procedures

You shall follow the security procedures notified to you by Kacha and or the Bank or such other procedures as may be applicable to the Digital loan product from time to time.

9. Governing Law:

This Terms and Conditions shall be governed by laws of the Federal Democratic Republic of Ethiopia and pertinent procedures of the Bank;

10. Queries:

For any questions related to services, process, terms & conditions of Digital loan product, you can get through Kacha Customer contact Centre by dialing 9964 or through email: customersupport@kachadfs.com

11. Complaints:

Complaints may be made in person, in writing, by post, fax, email, or by telephone. The Bank will take all measures within its means to resolve your complaints within a reasonable time. If you are dissatisfied with the response, you can refer the matter to the National Bank of Ethiopia.

12. Dispute Resolution

Any dispute arising out of or in connection with this Agreement that is not resolved as per Clause 12 above shall be referred to the Federal court of Ethiopia with jurisdiction.

13. Binding:

These terms and conditions shall be electronically accepted and shall be a legally binding agreement between You and the Bank from the date of acceptance. By clicking the button "Accept", You have read and accepted to be bound by the above Terms and Conditions. If you do not agree with these Terms and conditions, please click "Decline" on the Kacha Wallet Menu. This Agreement and any rights or liabilities accruing thereunder may not be assigned by you to any other person.

14. Lien

The Bank shall have a general lien over all your property/assets in its possession in the event that you owe any money to the Bank, including but not limited to cash, goods, securities, or valuables deposited for safe custody as security, checks presented, bills, and any other movable or immovable property. Where you are indebted to the Bank in circumstances giving the Bank a right of set off, all property held under lien shall be deemed to be held as security for the debt.

15. Set-Off

The Bank may, upon notice, combine/ consolidate your Kacha Wallet Account with any of your other accounts held in the Bank, whether Current, loan, deposit, term deposit, joint, or any other type, and thereafter set off any amount held to your credit against any indebtedness you Owe to the Bank.

16. Disclaimer:

You shall keep your PIN confidential and not accessible to anyone except You. You shall be solely responsible and liable for the consequence arising out of the disclosure of the PIN or

unauthorized use of the Kacha Wallet account or cell phone or SIM card or non- reporting of loss or theft or not changing your pin regularly.