



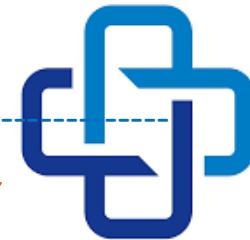
Malawi Internet Governance Forum

30-31 MAY 2022



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*The Regulatory Sandbox
for Financial Inclusion*



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FI refers to the delivery of **financial services** and **products** in a way that is **available, accessible** and **affordable** to all segments of society and *plays a pivotal role in combatting poverty and contributing to inclusive economic growth*

SADC Financial Inclusion Strategy (2016 - 2021)



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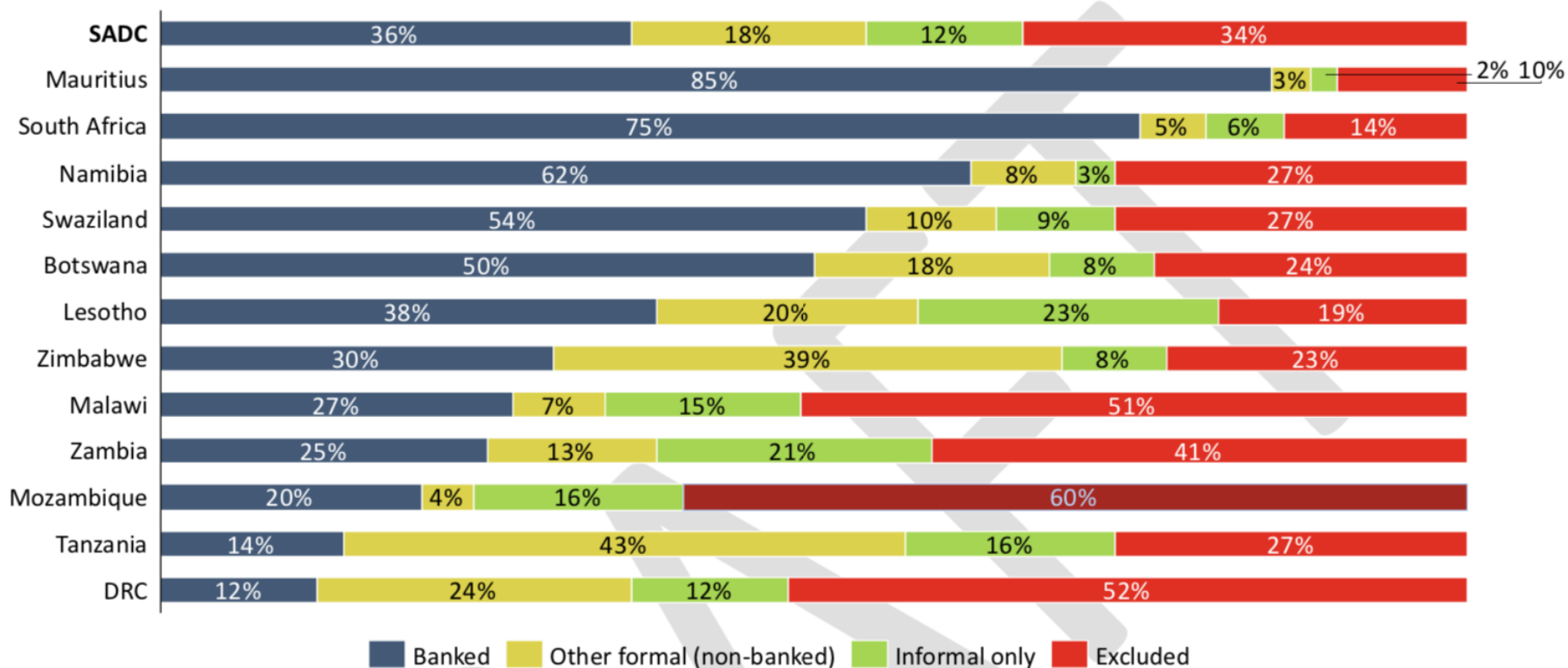


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Figure 2: Financial Access by country (in percent with upper middle income countries highlighted)¹⁶



SOURCE: FinMark Trust. "Financial Inclusion in the SADC Region", 2015; World Bank country classification¹⁷

Malawi – 51% Excluded

Only 3rd to DRC at 52% and Mozambique at 60%

- FI has been identified as an **enabler** for 7 of the 17 **Sustainable Development Goals**.
- The G20 committed to advance FI worldwide and reaffirmed its commitment to implement the G20 High-Level Principles for Digital FI.
- The World Bank Group considers FI a key **enabler** to **reduce extreme poverty** and **boost shared prosperity**.



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A regulatory sandbox is a **framework** set up by a regulator that allows FinTech startups and other innovators to conduct live experiments in a controlled environment under a regulator's supervision

- *CGAP* (Consultative Group to Assist the Poor)



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The Regulatory Sandbox allows firms to test innovative propositions in the market with real consumers.

One Thing Regulators Should Do Before Launching a Sandbox

Consult the industry stakeholders first



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Industry stakeholders for Financial inclusion

Financial inclusion stakeholder coordination involves appropriate mapping of the players and identifying/ categorizing the key contributions and interests.



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STAKEHOLDER CLASSIFICATION

<p>PROVIDERS</p>	<p>Institutions that provide financial products and services, and their partner infrastructure and technology providers.</p>
<p>ENABLERS</p>	<p>Institutions responsible for setting regulations and policies on financial inclusion, including regulators and public institutions.</p>
<p>SUPPORTING INSTITUTIONS</p>	<p>Institutions that can provide technical and funding assistance towards financial inclusion.</p>
<p>TARGETED POPULATION</p>	<p>Financially excluded groups mostly consisting of low- income sectors, rural dwellers, micro, small and medium enterprises (MSMEs), etc.</p>



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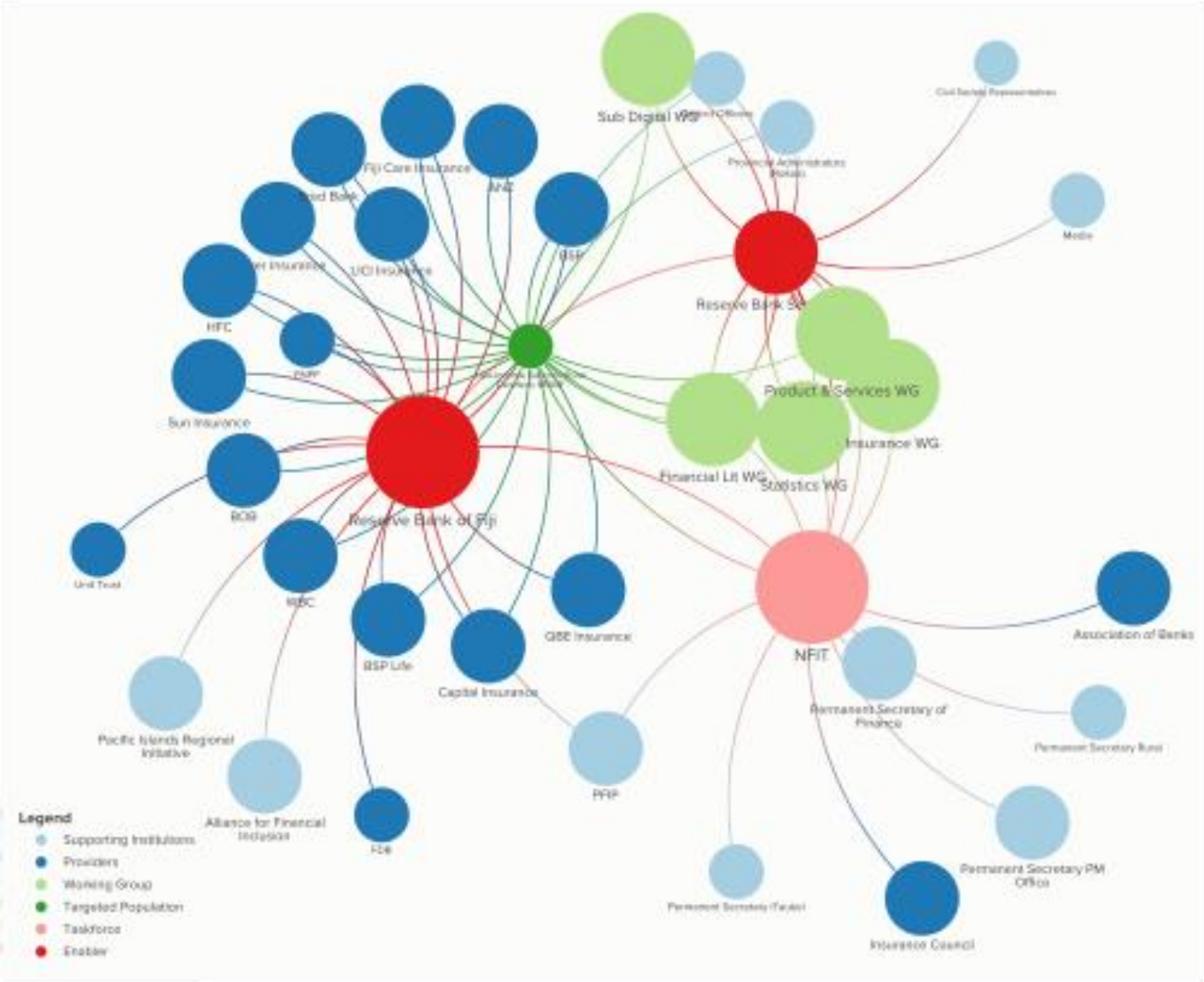


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STAKEHOLDER MAP IN FIJI



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Outcomes of a good coordination structure:

1. The interwoven collaboration between all stakeholders results in an **effective & authoritative position on FI**.
2. Stakeholders can **achieve more** in terms of FI when **working together**.
3. Every stakeholder has a **sense of ownership** of their responsibilities & works towards achieving their **target**.
4. Each stakeholder is **accountable** and **effective**; thus, **monitoring of the outcomes** becomes very **easy** for the **lead stakeholder**.
5. Based on the familiarity between the stakeholders, they can count on the **continued support** of other stakeholders in the implementation process.

Effective Stakeholder Coordination for National Financial Inclusion Strategy implementation (2019)



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The steering committee to over see implementation

- Ministers or senior representatives from relevant and key government ministries
- The **governor/ deputy governor** of the central bank
- The CEOs of non-bank financial regulators (including pensions, insurance and capital markets)
- Leaders in the **NGOs** identified as actors in FI
- The national program director/head of the agency responsible for FI
- Leaders in **development finance institutions** (DFIs)
- Leaders in **savings and credit cooperatives** (SACCOS)
- Leaders in **rural finance**
- Leaders in **credit institutions** (banks and non-banks)
- Telecommunications **regulatory agencies**



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Technical committee/working groups

- Payment systems: provided both privately by the banks and by telecommunications companies
- Regulators/leaders in bank supervision
- Regulators/leaders in non-bank organization supervision (including pensions, insurance and capital markets)
- Member(s) of the financial inclusion coordination agency



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COUNTRY EXPERIENCES

- Fiji,
- Solomon Islands,
- Vanuatu, and
- Rwanda
 - Have established a **National Financial Inclusion Task Force (NFIT)**,
 - Chaired by the central bank.



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- Financial Inclusion and Entrepreneurship Scaling Project (World Bank Facility: 2020-2025)

The Gender Perspective



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Objectives of [financial] regulation

- **Protecting investors** (builds confidence in the market),
- Ensuring that markets are fair (efficient and transparent),
- Reducing **systemic risk** (contagion)
- Protection against **malpractices** (such as money laundering) and
- Maintaining **consumer confidence** in the financial system



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Caution on Regulatory Sandboxes Impact Financial Inclusion

- Sandboxes are dominated by companies innovating in **payments services**, (especially by those testing crypto-based solutions.)
- Evidence of sandbox-driven **regulatory change is weak.**
- Most sandbox-tested innovations do not target **excluded and underserved customers at the base of the pyramid.**



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CGAP/World Bank Survey (2019). Preliminary results (16 responses)

Using new technologies to scale up financial inclusion: *Digital Finance*

Regulatory Enablers for Digital Finance

- Enabler 1: Nonbank e-money issuance
- Enabler 2: Use of agents
- Enabler 3: *Risk-based* customer due diligence (KYC)
- Enabler 4: Consumer protection



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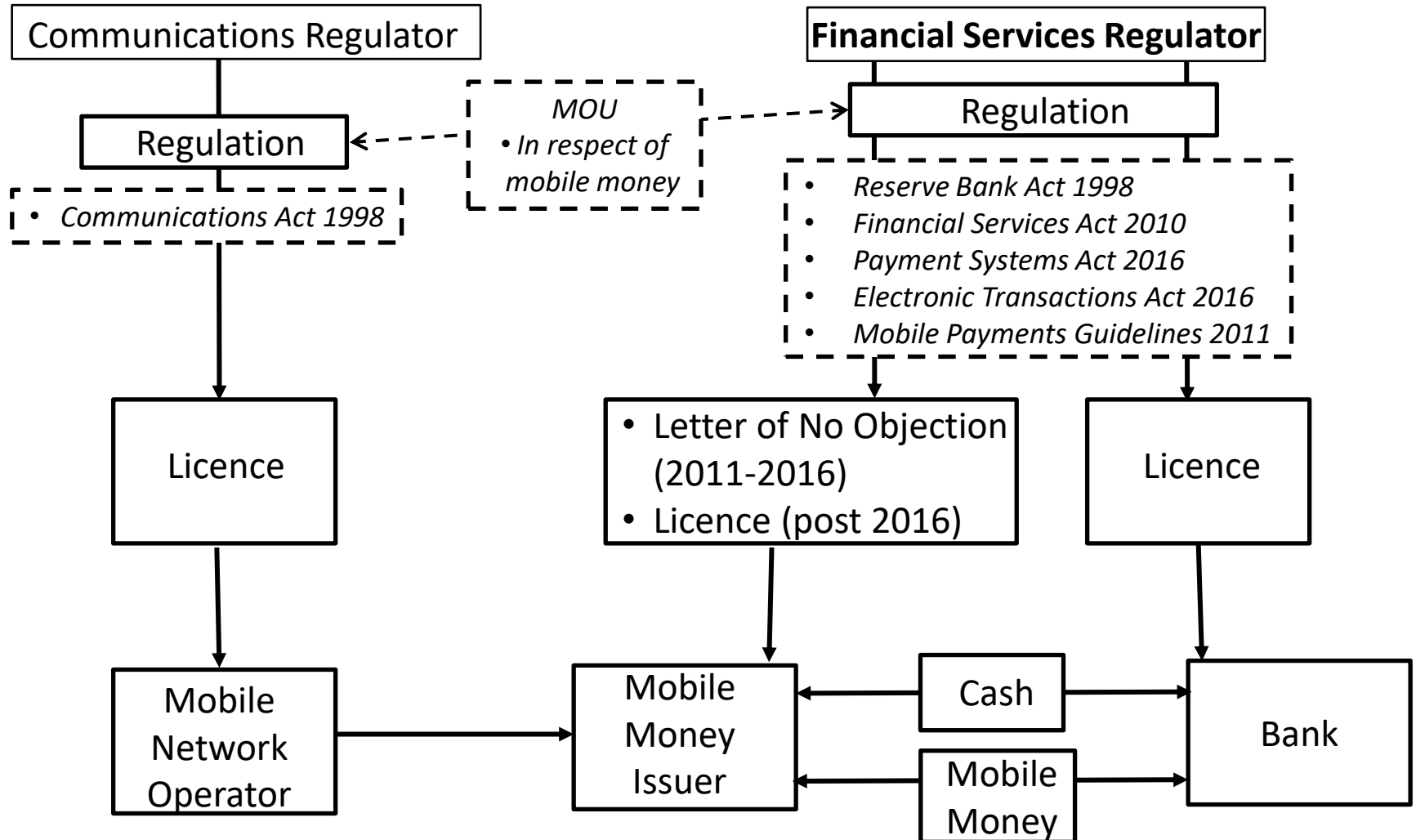
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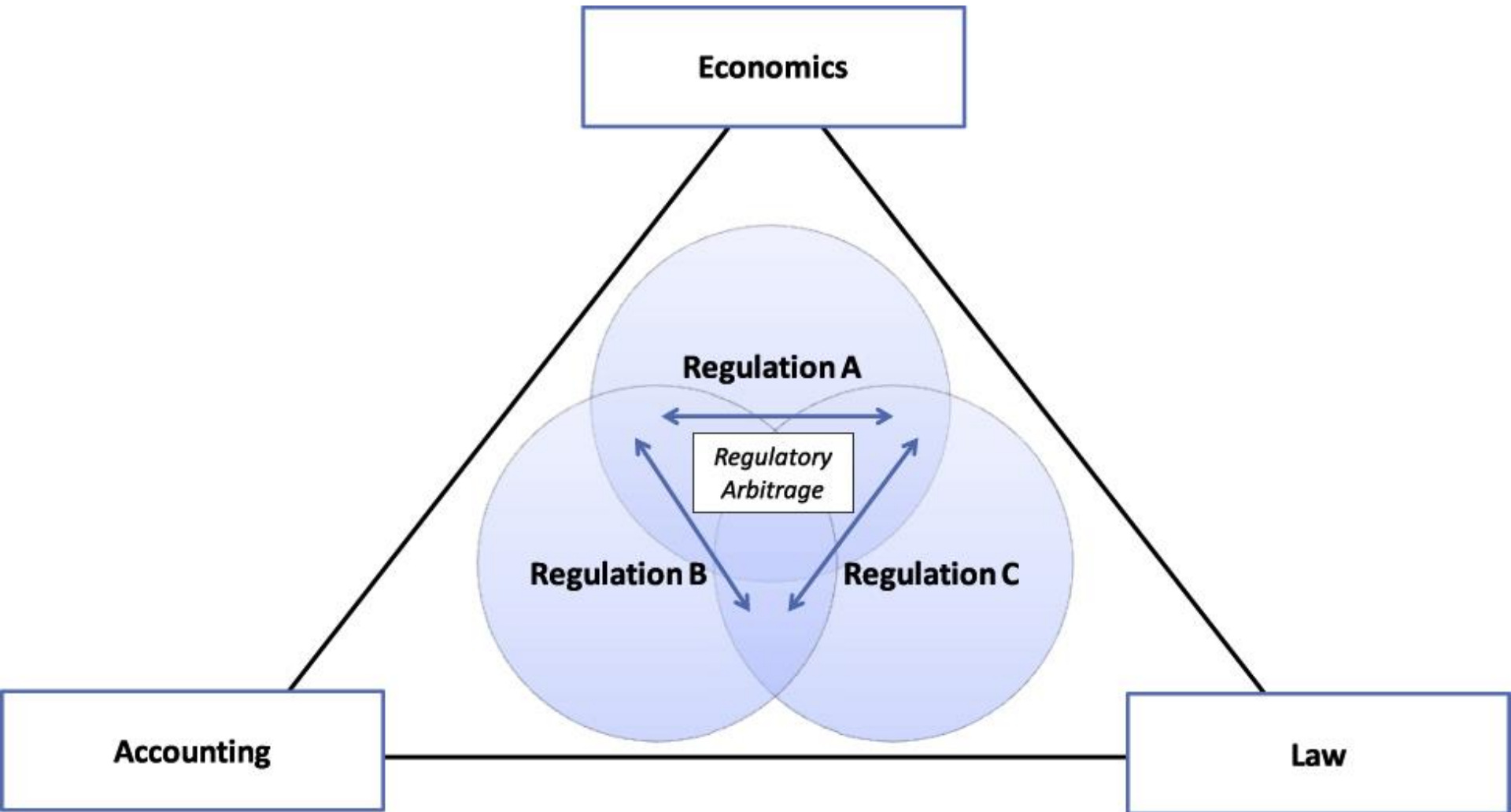


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Regulatory framework of mobile money in Malawi





**RACE TO THE
BOTTOM**

The word "BOTTOM" is rendered in a large, bold, sans-serif font. From the bottom of the letters 'O' and 'T', two thick, dark grey arrows point downwards, extending beyond the bottom of the text.

Pragmatic approaches towards FI

1. National ID system
2. Leveraging government payments.
3. Allowing mobile financial services to thrive
4. Welcoming new business models, such as leveraging e-commerce data for financial inclusion
5. Taking a strategic approach by developing a national financial inclusion strategy (NFIS) & bringing together diverse stakeholders
6. Paying attention to consumer protection & financial capability to promote responsible, sustainable financial services



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Registrar of financial institutions

Section 8 – Financial Services Act

(1) There is hereby appointed a Registrar of Financial Institutions for the purposes of this Act and all financial services laws, *who shall be the regulatory and supervisory authority* for the financial services industry.

(2) The **Governor of the [RBM]** shall be the Registrar.



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s19. Arrangements with other Agencies

(1) In carrying out his supervisory functions, the Registrar shall **consult**, and may enter into **arrangements** with, **other agencies** of the Government that have functions related to the financial system, the regulation or supervision of financial services, taxation or social security.



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s20. Delegation by the Registrar

(1) The Registrar may delegate any of his supervisory functions, other than this power of delegation [*delegatus non potest delegare*], to—

- (a) a director or employee of the Reserve Bank;
- (b) an examiner;
- (c) an investigator; or
- (d) a self-regulatory organization.



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s21. Financial institutions to be licensed or registered

(1) A person shall not operate, as a business, a financial institution unless—

(a) the financial institution is **licensed or registered**;

(b) the financial institution is **complying with the terms of the licence**, including any conditions to which the licence is subject.



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s100. CDD / KYC

(1) A financial institution in Malaŵi shall—

(a) demand proof of and record the identity of its clients or customers, whether usual or occasional, when establishing business relations or conducting transactions, and in particular, when performing large cash transactions; and

(b) together with its directors, officers and employees, report promptly to the Financial Intelligence Unit (FIA) any suspected money laundering activity related to any client or customer of the financial institution.



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Lessons: Sierra Leone's Regulatory Sandbox?

1. **Financial inclusion objective** - linked the sandbox programs to national financial inclusion strategies.
2. **Coordination with ecosystem-building initiatives.** As voluntary regulatory programs, sandboxes require interest and participation **from market actors.**
3. **Institutional commitment and leadership.** Program has benefited from deep institutional engagement and support, starting with the Office of the Governor.
4. **Sunset provision.** Pilot program requires review and reauthorization after the initial one-year pilot term - conveying the country's willingness to experiment and learn from new regulatory approaches.



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Final Thoughts

1. New wine in old wone containers?
2. Village banks –*bank nkhonde*
3. Inclusive financial inclusion strategy
4. Government must come also join the match
5. Leveraging Government payments
6. Redefining the financial inclusion matrix?
 - Access
 - Affordability
 - Accessibility



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Thank you



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