SIIPS COLLECTION

EXPANDING THE REACH OF IPS: REMOVING BARRIERS TO FINTECH LICENSING

HIGHLIGHTS FROM THE STATE OF INCLUSIVE INSTANT PAYMENT SYSTEMS IN AFRICA 2024 REPORT

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Contents

This publication is an excerpt from the State of Inclusive Instant Payment Systems (SIIPS) in Africa 2024 report, by AfricaNenda Foundation, the World Bank Group and the United Nations Economic Commission for Africa. It showcases approaches to enabling the increased participation by fintech entities, leading to IPS inclusivity.

Throughout the SIIPS 2024 report, we highlight ways in which the broader financial ecosystem for a given country or region affects IPS inclusivity. The regulatory environment is one of the most powerful ecosystem forces. For example in the landscape chapter, we see how central bank engagement and interoperability mandates contribute to the progression of IPS inclusivity, in accordance with the AfricaNenda inclusivity spectrum framework. Another regulatory area that has significant impact on IPS inclusivity and growth is licensing practices for non-bank PSPs. This publication specifically explores the current state of fintech licensing in the countries with an IPS, and what changes could enable more participation by fintech actors, resulting in inclusivity benefits.

1 | The role of payment fintechs for enabling inclusivity

Traditionally, a small number of providers—usually banks—have controlled the payments value chain in each country. More recently, however, a new category of payment service providers (PSPs) has emerged, with innovation along the payment value chain (Forbes, 2016). This has led to a more diversified and competitive landscape in payments, with implications for IPS. Traditional providers such as banks and other deposit-taking institutions are now co-existing and even collaborating with specialized entities, such as money transfer operators, e-money issuers, payment aggregators, and payment gateway providers (World Bank, 2016). Fintech entities offering payment solutions have been driving much of this trend.[1]

One defining characteristic of the current diversification of the payments sector is that payment fintechs do not all fulfill the same functions. They may leverage technology to offer innovative financial solutions that enhance affordability, convenience, variety, security, transparency, or access (CFA Institute, 2023). But they may do that at different points in the value chain. Including them as IPS participants has the potential to help operators achieve scale and deepen financial inclusion. For example:

M-PESA (Kenya) is one of the most renowned examples of payment fintechs expanding the reach of payments. As one of the first solutions to leverage Kenya's high mobile phone penetration rates to develop and offer mobile money, M-PESA has contributed to a 58-percentage point increase in financial inclusion in the country, from 26% in 2007 to 84% in 2021 (OMFIF, 2024).

MNT-Halan (Egypt) offers a one-stop-shop and end-to-end payment ecosystem in Egypt. It offers a suite of services ranging from buy-now-pay-later, nano-loans, and financing, as well as person-to-person (P2P) transfers, payroll disbursements, and bill payments. In addition, it offers an electronic wallet for disbursing, collecting, and transferring money (MNT-Halan, 2024). By offering its services on an easy-to-use platform, with low barriers to access and lower costs, MNT-Halan has been able to reach hard-to-reach customer segments. In 2022, 90% of all clients were based in rural areas, 419,000 productive loans were disbursed to low-income women, and the company financed approximately 1,700 small and medium-sized enterprises (DPI, 2024).

Despite their presence in the market and proven track record of finding ways to reach underserved end users, African fintechs are seldom direct IPS participants. Only 10 of the 31 IPS have non-bank participants other than mobile money operators.[2] Payment fintechs with newer business models, specifically those beyond e-money, are often challenged from joining IPS, either because they struggle to get licensed or are perceived as increasing risk related to financial stability, integrity, and consumer protection.

1 For the purposes of this report, a payment fintech refers to a firm that is not a bank, microfinance institution, or postal service, yet provides technology-enabled digital payment services.

2 The ten IPS with non-bank participants that are not mobile money operators are IPN and Meeza Digital (Arab Republic of Egypt), EthSwitch (Ethiopia), GIP (Ghana), MauCAS (Mauritius), MarocPay (Morocco), eNaira (Nigeria), NFS (Zambia), and ZIPIT (Zimbabwe), as well as GIMACPAY (CEMAC).

To become inclusive, the IPS should aim to serve the largest possible share of end users at a low cost, rather than focusing only on the most profitable segment. That will be challenging without help from new and innovative providers—including payment fintechs—dedicated to serving traditionally underserved end-user groups. Thus, policymakers and IPS operators must understand the barriers payment fintechs currently face entering their markets and getting licensed, both prerequisites of IPS participation. Similarly, regulators need to understand which regulatory or licensing approaches could equip them to effectively manage the risks that fintechs pose, such as risk to consumers, fraud, insufficient scalability, and reliability (especially in terms of potentially triggering system downtime), without stymying innovation.

This deep dive explores the regulatory challenges, current approaches, and opportunities for enabling payment fintechs to participate in IPS while still managing risks.

2 | Payment fintech licensing challenges

Payment fintechs face barriers at every point of the licensing process. Table 1.0 lists the prominent challenges they face in Africa, as highlighted by research and key informant interviews.

Table 1.0 | Payment fintech licensing barriers

Type of barrier	Part of the licensing process where the barrier arises		
	Application	Processing and approval	Post-approval
Limiting or limited license value	✖	-	✖
Regulatory uncertainty	✖	✖	✖
Onerous, lengthy, and costly processes	✖	✖	-
Limited innovation support	✖	✖	-

Limiting or limited license value. Payment fintechs operating with new or alternative business models say that they face barriers in the application and approval stages because existing licensing categories do not apply to their products and services. Even if existing licenses meet some of their needs, they may impose limits around where the license holder can operate and who they can serve. This can result in their application not being submitted; thus, the application process ends before the regulator processes it or the regulator rejects it in the processing stage. Another common challenge, this time at the post-approval stage, is the lack of license passporting, meaning that a license for one activity in one jurisdiction does not make it easier to apply to operate in another jurisdiction. Instead, the payment fintech needs to repeat the process. The costs of applying for another license, especially in smaller markets, inhibits expansion.

Regulatory uncertainty. Payment fintechs struggle to navigate complex regulatory regimes, which can often be unclear about which licensing categories and regulations apply to them and which specific regulator(s) oversee their domain. After applying, fintechs also may have no insight into the state of their application while it is processed. Moreover, fintechs receive no explanation when asked to submit additional information, and no transparency about the reason behind a rejection. Applications that make it to the post-approval phase may also face challenges caused by regulatory volatility. Ongoing debates about blockchain and crypto assets, for example, have resulted in decisions that are inconsistent or reversed due to policy uncertainty. Fintechs operating in those spaces have lost licenses, needed to change their products/services to remain operational, or lost business due to reduced end-user confidence.

Onerous, lengthy, and costly processes. Manual and inconvenient processes, long wait times (both in terms of time needed to apply and time spent waiting for an outcome), the cost of the application, the cost/resources needed to keep the business afloat while waiting for the license, and repetitive processes (being asked for the resubmission of evidence or to submit additional documentation or evidence) all create barriers to licensing. In the application phase specifically, fintechs highlight the barriers caused by high capital requirements, the need for physical documentation, in-person engagements, and the requirement of having a physical presence in a jurisdiction. These factors can create a disincentive to entering a market or force fintechs to withdraw from it.

Limited innovation support. While many jurisdictions boast innovation offices and fintech accelerators, not all these institutions are equipped to support fintechs through their licensing journey. Subsequently, payment fintechs face higher chances of falling out of the application process and of being declined due to omissions and inaccuracies, for example applying for the wrong license, applying for a license with incorrect functions, or not having the necessary documentation of governance structures to support their application. Associations have observed that regulators sometimes prefer to have fintech companies approach them directly, which can inadvertently limit the support that associations can offer.

In response to these challenges, a payment fintech may either abandon their business, sell it, amend their services so as not to need a license to operate, or opt to operate without one. Any of these choices limit their ability to join an IPS and, therefore, may limit innovation in the IPS ecosystem. An additional risk is that technologically advanced payment fintechs could join the informal market, thereby strengthening the informal systems which compete against licensed providers and exposing customers to unmitigated risks.

Alternatively, fintechs may overcome their licensing barriers by partnering with an existing IPS participant. This approach may be more cost effective than applying for a license and adapting the business to accommodate licensing requirements. It also allows the payment fintech to benefit from the partner PSP's regulatory standing and provides access to the partner's existing customer base. The partnership route does not suit all payment fintechs, however, as it often requires them to adapt their products and services to fit the partner's risk appetite and needs. Neither does it necessarily serve the innovation and inclusion goals of an IPS, as it limits the fintech's reach to the customers of that partner and limits the innovations it can offer to those the partner chooses.

To ensure fintechs and other non-bank financial institutions have reasonable options to compete and contribute to payment innovation, countries need innovation-friendly regulatory approaches and licensing tools. In the payment space, an innovation-friendly licensing regime would allow payment fintechs to operate long-term in the market, expand, and join an IPS. To do so, regulators need an approach that can adapt to the rapidly evolving nature of payment fintech business models, activities, and risks—one that still accommodates fintechs with light and agile structures.[3] As such, a necessary regulatory approach is for regulators to define the risks fintechs pose and the roles they play, and leverage the licensing process to ensure that payment fintechs have the appropriate risk mitigation measures in place and that their activities are relevant for IPS purposes.[4]

3 The risks posed should not be underestimated in the promising light of innovation and inclusion. Therefore, there is a limit to which regulatory approaches and licensing can be streamlined for fintechs (Lawack & Puja, 2023).

4 These include risks associated with financial integrity (such as money laundering, terrorist financing, proliferation financing, and fraud), consumer and investor protection, regulatory arbitrage, and liquidity.

3 | Approaches to license or otherwise accommodate payment fintechs

Across the countries in Africa with live IPS, regulators have adopted several approaches to regulating payment fintechs, depending on the type of fintech activity. The two dominant approaches are: (1) License them directly, the approaches to which vary; and (2) Leverage alternative approaches to support a fintech's development to the point where it could be licensed. Regulators may use both approaches in a complementary way in the same jurisdiction.

Direct licensing approaches

Traditionally, payment services have been regulated under an **institutional license**, whereby the regulator issues the license to an institution to engage in a pre-defined set of activities or services. Only specific categories of regulated entities such as banks, switches, clearing houses, microfinance institutions, or postal banks could receive institutional licenses, and the compliance requirements (to mitigate risks) of each were proportionate to the level of institutional risk that each posed. This introduced barriers to entry for smaller or alternative institutions into the payment value chain that provide more narrow payment functions with lower risk.

As the industry evolved and risk perceptions have changed, however, regulators have evolved to **activity-based licenses** (also referred to as function-based licenses).[5] The activity-based approach draws on the "same activity, same risk, same regulation" principle. It allows for regulations applied to specific payment activities, regardless of what type of institution fulfills them (BIS, 2022a). By focusing on the activity, PSPs can develop and operate niche and innovative business models under narrower, but less onerous activity-based licenses.

Over the past two decades African countries with an IPS have moved in line with this trend to create a broader spectrum of licenses beyond the traditional institutional licensing approaches. This shift has allowed payment service providers to participate directly in the payment system without having a banking or similar institutional license. Table 2.0 illustrates the growing list of payment related licenses available in African countries with an IPS, beyond the traditional institutional licenses required to offer payment services such as banking. E-money, remittances, issuer/acquirer, aggregators, point of interactions (POI), and payment system operators/switches licensing categories open the door for non-bank fintechs to offer payments, allowing an IPS to bring on a diverse network of participants beyond traditional PSPs.

5 The payment landscape has evolved over time, due to a myriad of factors including new guidance being issued by the Financial Action Task Force, learnings from sandboxes and other alternative licensing mechanisms, new considerations such as inclusion, and changing perceptions of risk.

Table 2.0 | PSP license categories across countries with live IPS open to non-bank fintechs[6]

	Licensing categories for payment functions beyond banking						
	E-money	Remittance	Agent	Issuer/ Acquirer	Aggregator/ bureau or bulk distributor	Point of interaction (POI)	Payment System Operators / Switching/ Settlement agents
Angola	✖	✖	✖	✖	✖	-	✖
Egypt, Arab Rep.	✖	✖	✖	✖	✖	-	✖
Ethiopia	✖	✖	✖	✖	✖	-	✖
The Gambia	✖	✖	✖	✖	-	-	✖
Ghana	✖	✖	✖	✖	✖	✖	✖
Kenya	✖	✖	✖	✖	-	✖	✖
Madagascar	✖	✖	✖	✖	-	-	-
Malawi	✖	✖	✖	✖	✖	-	✖
Mauritius	✖	✖	✖	✖	✖	✖	✖
Morocco	✖	✖	✖	✖	✖	-	✖
Mozambique	✖	✖	✖	✖	✖	-	✖
Nigeria	✖	✖	✖	✖	✖	✖	✖
Rwanda	✖	✖	✖	✖	✖	✖	✖
South Africa	✖	✖	✖	✖	✖	-	✖
Tanzania	✖	✖	✖	✖	✖	✖	✖
Tunisia	✖	✖	✖	✖	✖	-	✖
Uganda	✖	✖	✖	✖	✖	-	✖
Zambia	✖	✖	✖	✖	✖	-	✖
Zimbabwe	✖	✖	✖	✖	✖	-	✖
CEMAC	✖	✖	✖	✖	✖	-	✖

The move toward activity-based licenses has enabled fintechs to enter markets with targeted offerings. A prominent example is M-PESA. In Kenya, it offers mobile money under an e-money issuance activity-based license with reduced requirements compared to banks, since the latter fulfill a broader set of activities. Activity-based licensing has the potential to increase the types of payment channels, functions, and services available to end users, thereby helping expand the reach of instant payments. Given its benefits for diversifying the payment value chain, several African countries have, since 2019, revisited their payment regulation to enable a more inclusive PSP licensing approach. These include Angola, Egypt, Ethiopia, Ghana, Mauritius, Nigeria, Uganda, and Zambia.[7]

6 AfricaNenda has used the following sources for compiling the table above in order to validate payment activities covered within each country, (Associação Angolana de Bancos, n.d.), (MC&A, 2021), (Banco Nacional De Angola, 2020), (Lawyers Hub Cameroon, 2022), (4M Legal & Tax, 2023), (Eldib and Co, 2020), (Central Bank of Egypt, 2023), (International Bar Association, 2024), (PaySky, 2021), (National Bank of Ethiopia , 2023), (EthSwitch, 2024), (PayCly, 2024), (Central Bank of the Gambia, 2011), (IFAD, 2024), (Bank of Ghana, 2021), (Ghana Interbank payment and settlement systems limited, 2024), (Koriat Law , 2022), (GSMA, 2014a), (Central Bank of Kenya, 2023), (FinExtra, 2021), (BFAGlobal, 2021), (Africa Business Communities , 2021), (Committee of Central Bank Governors , 2008), (Buckley, et al., 2015), (Government of Malawi, 2017), (Pesapal, 2024), (DPO Pay, n.d.), (Government of Malawi, 2017), (Bowmans , 2021), (Bank of Mauritius , n.d.), (MIPS, 2024), (Mauritius Africa Fintech Hub, n.d.), (Mondaq, 2022), (Bank Al-Maghrib, 2024), (PayCly, 2024), (Cenfri, 2023a), (Club of Mozambique, 2022), (360Mozambique, 2024), (DAI Global, 2018), (Banco de Moçambique, n.d.), (Central Bank of Nigeria, 2020), (Central Bank of Nigeria , 2014), (Laws.Africa , 2018), (National Bank of Rwanda , n.d.), (PPM Attorneys , 2019), (Eternity Law , 2022), (Global Compliance News , 2021), (Bowmans, 2022), (The Citizen, 2022), (Bank of Tanzania, n.d.), (Mobile World Live, 2018), (Central Bank of Tunisia, 2014), (OECD, 2023), (Kampala Associated Advocates , 2020), (Cenfri, 2018c), (Moira Mukaka Legal Practitioners , 2023), (Central Bank of Zambia, 2024), , (Reserve Bank of Zimbabwe, 2017), A desk review of e-money regulations for IPS country central banks (AfricaNenda, 2023c).

7 This list of countries was identified through a review of the dates of relevant regulation across the IPS countries.

Though activity-based licenses have helped increase financial inclusion in Africa, ongoing differences in how regulators define payment activities and the requirements they set may still limit their inclusion potential. A review of the payment regulatory frameworks for countries with an IPS revealed different licensing approaches for similar payment roles. For example, Ghana and Rwanda categorize their licensing tiers by services permitted, whereas Ethiopia categorizes based on the role played in the payment value chain, such as ATM operators, POS operators, or online payment gateway operators. This latter approach may be too prescriptive for license applicants with business models that don't quite fit the mold. Differences across jurisdictions may likewise complicate a fintech's ability to operate in different countries—more evidence for the importance of regulatory harmonization to help payment services reach all population segments. Even within a domestic context, an overly narrow categorization of activities could lead to fragmentation of the regulatory framework and could stall innovation.

The answer is not to move away from the more flexible activity-based approach but rather to apply it with a risk-based lens. Doing so could equip regulators to manage risk in the payments sector without stifling innovation or limiting inclusivity. Toward that end, some financial regulators are moving away from the rules-based compliance approach, whereby the regulation focuses on inputs and tick-box compliance, towards a risk-based approach (also known as the principles-based approach) focused on outcomes and risk management (FATF, 2014).

A risk-based approach has the following advantages:

- **Strengthen risk mitigation**. Regulators can better identify, monitor, and empirically assess the risks that each payment role poses and thereby apply the appropriate resources and strategies to mitigate risk to acceptable levels (CGAP, 2020b). A risk-based approach also equips regulators to distinguish real risks from those that are still theoretical or immaterial.
- **Streamline the licensing process**. By better understanding the real risks of a given payment activity, regulators will be able to define licensing requirements that are proportionate to them. The practical outcome will be an easier and less labor-intensive licensing process for low-risk payment fintechs, freeing regulator attention for higher-risk payment activities, which would also benefit from faster reviews.
- **Foster inclusion**. Streamlining the licensing process will pave the way for innovative providers to enter the market focused on small functions in the payment value chain or specific segments of the population, potentially increasing reach and inclusion.
- **Balance participation**. A proportionate approach will also deter fintechs that cannot meet respective licensing requirements and encourage them to partner with a licensed PSP. This will allow for direct IPS participation by payment fintechs that can meaningfully expand the system's reach and maintain its integrity, while less suitable ones join forces with existing participants or offer services outside the IPS value stream.

Despite these benefits, the risk-based approach to licensing faces several challenges. It may be difficult, for example, for regulators to establish the organizational culture and mindset for risk-based supervision, especially in the absence of training and development programs. Regulators may also lack the data and systems necessary for accurate and efficient monitoring and risk assessments. Similarly, they may not have the capacity to recognize or differentiate the risks present in newer business models and provider types. This is exacerbated by the fact that there is no single set of global risk principles (CGAP, 2020b).

Box 1.0 | Country examples of leveraging the risk-based approach to licensing

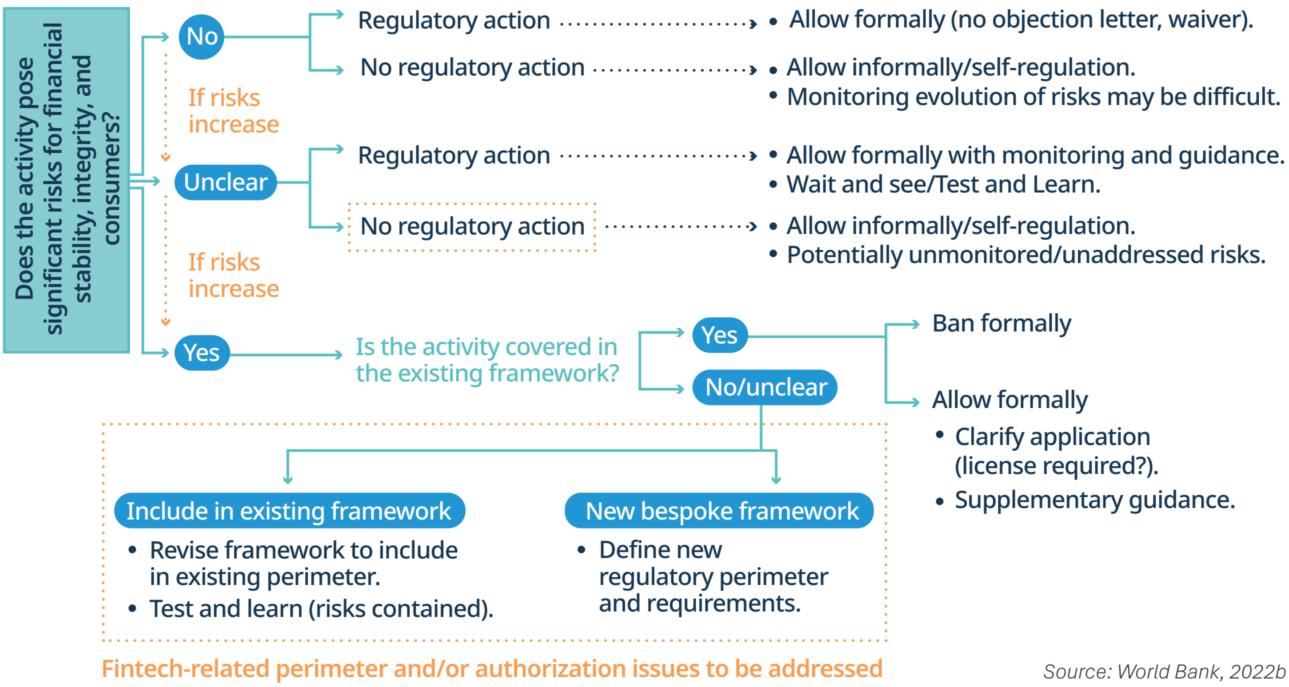
Ghana. Based on the Payment Systems and Services Act of 2019, Ghana currently has six fintech license categories: Dedicated Electronic Money Issuers (DEMI's), PSPs categorized into three licensing tiers (Standard, Medium and Enhanced), PSP schemes, and Payment and Fintech Service Providers (PFTSPs) (AFI, 2023). Since the promulgation of the Act, the Bank of Ghana has issued 46 licenses, most of which have been in the enhanced PSP category (Bank of Ghana, 2024). This segmented approach has allowed the Bank of Ghana to associate risks to each payment role, assign them a category, and allocate proportionate resources to it. The license categories and the tiering approach has also allowed smaller PSPs to scale up and apply for licenses to deliver a wider set of activities (Bank of Ghana, 2024).

Kenya. To overcome challenges associated with recognizing evolving fintech business models and reconciling competing and conflicting regulatory mandates, the Central Bank of Kenya (CBK) is preparing to bring all digital financial services under the regulatory purview of the CBK (National Assembly Bill No. 21). This is Africa's first all-encompassing approach to regulating digital financial services conduct, supervision, and licensing (Bowmans, 2021a). This will allow the CBK to comprehensively assess the risks associated with each payment activity across different sectors and develop fit-for-purpose licensing categories.

Rwanda. The Central Bank of Rwanda has revised the regulations governing PSPs to include tailored licenses and a streamlined process for modifying licenses (National Bank of Rwanda, 2023). This allows licensees to add or remove specific payment services with approval by the central bank (Kayisanabo, 2023).

The World Bank's Fintech Regulatory Decision Tree below provides a useful illustration to guide African IPS countries' decision-making where navigating activities that pose significant risks for financial stability, integrity, and consumers as depicted in Figure 1.0 below:

Figure 1.0 | The Fintech Regulatory Decision Tree



Source: World Bank, 2022b

In navigating regulatory responses to new activity risks, African countries with an IPS should consider the nature of fintech activity along with country specific factors such as the state of the payment market, capacity constraints, and their existing financial regulatory framework. The decision tree also provides a useful illustration of alternative regulatory approaches that most African IPS countries have begun adopting as a response to addressing activities that are not covered by an existing regulatory framework but still require regulatory action.

Alternative approaches to licensing

In addition to the licensing approaches described, regulators are leveraging one or more alternative approaches to supervising new and emerging payment fintechs. The three most popular alternative approaches in African countries with IPS are the wait-and-see approach, the test-and-learn approach, and the innovation facilitator approach, as follows:

The wait-and-see approach

The wait-and-see approach involves regulators observing and monitoring an innovation before intervening. Regulators typically adopt this approach when there is regulatory ambiguity around a fintech's activity or business model. Waiting and seeing brings the advantage of allowing regulators to avoid rushing into a long legislative process unless it proves necessary. The disadvantage is that waiting requires careful monitoring, as unrestricted innovation can pose risks to consumer protection and financial stability. It is therefore an interim rather than a permanent solution (World Bank, 2020c).

Box 2.0 | Wait and see in Nigeria

The Central Bank of Nigeria (CBN) applied the wait-and-see approach to virtual assets (cryptocurrencies) before introducing official regulations. Between 2017 and 2020, the CBN closely monitored virtual asset service providers (VASPs). In that time, it released several guiding notices to the public, including a notice on the inherent risks associated with dealing in cryptocurrencies. By 2021, the CBN had determined that virtual assets posed too great a risk and were too volatile. It therefore prohibited banks, non-bank financial institutions, and other financial entities from opening accounts for VASPs. As time progressed, however, the landscape around VASPs evolved, as did global trends and approaches to risk mitigation. Based on new knowledge, the CBN developed appropriate regulations outlining how banks and financial institutions could open cryptocurrency accounts, provide settlement services, and facilitate foreign exchange inflows for firms transacting in virtual assets (African Business, 2024).

The test-and-learn approach

The test-and-learn approach allows regulators to leverage provisional licensing mechanisms, such as a letter of no objection, to new technologies and business models. Provisional licenses are limited to a controlled environment, for example, through a sandbox. Almost all regulators with IPS have developed regulatory sandboxes, thereby presenting innovators with an opportunity to test their products without having to fully comply with regulations. Sandboxes also allow regulators to learn about the potential risks and impacts their products present to the market and to end users (Cenfri, 2021).

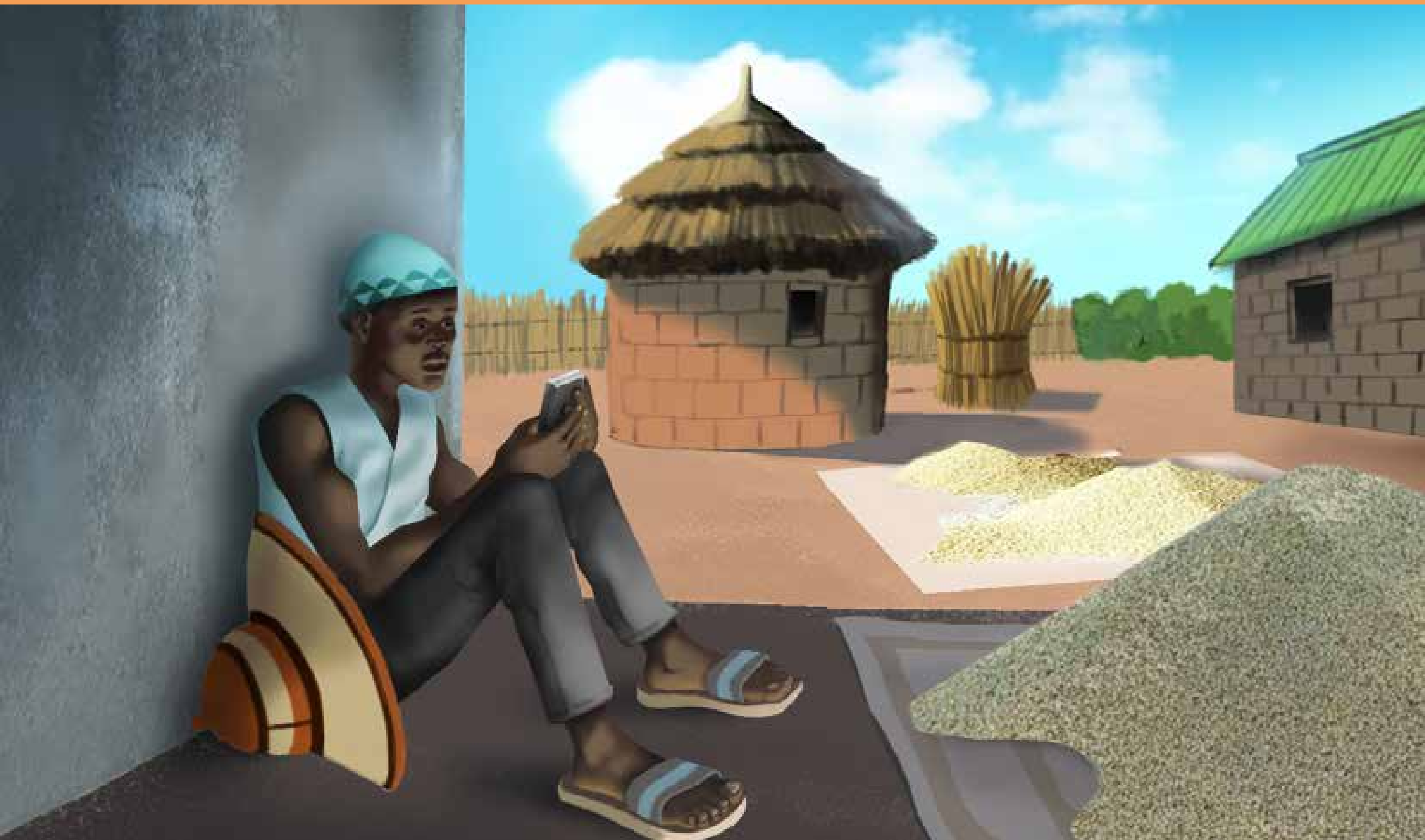
Different countries implement sandboxes with their own rules and structures, tailored to their regulatory goals and the specific needs of their markets. Sandboxes can also be wielded as a tool for financial inclusion. For example, the Central Bank of Egypt has tailored the eligibility criteria for its sandbox to products or services that support financial inclusion (IMF, 2023).

The test-and-learn approach is agile in that it allows regulators to grant restricted licenses or partial exemptions on a small scale, while providing oversight. This creates an active learning environment which produces sufficient data and evidence to allow regulators to understand risks and observe how the market is evolving. This enables them to develop a targeted regulatory strategy better suited to the product and business model and the risks it poses. Ultimately it also improves regulator capacity, supports open and active communication between regulators and innovators, and allows for the accommodation of more, and more developed, fintechs in the payment landscape.

Despite these advantages, regulators often struggle to gather the necessary capacity and resources to provide the required oversight. The differentiation in business activities often makes it difficult to ensure equal treatment of participants, and the risk of providing insufficient monitoring is very high (it can create risks for end users or restrict innovation). Thus, the test-and-learn approach is designed to be an interim measure or stepping stone towards full licensing (World Bank, 2020c).

Box 3.0 | The test-and-learn approach in South Africa

South Africa's Intergovernmental Fintech Working Group has adopted a distinct approach to testing and learning. Its regulatory sandbox launched as a joint initiative and included participation from the National Treasury, Financial Intelligence Centre, Financial Sector Conduct Authority (FSCA), National Credit Regulator, South African Reserve Bank, South African Revenue Service, and Competition Commission. The goal of the sandbox is to explore how regulators can more proactively assess emerging risks and opportunities in the market. In parallel, it developed a Regulatory Guidance Unit to help market innovators resolve specific questions regarding the policy landscape and regulatory requirements (IMF, 2023).



Innovation facilitators

The third approach is to leverage innovation facilitators—such as innovation offices, hubs, and accelerators—to create a central point of contact for regulators to support and engage with fintechs wishing to deploy innovative payment technologies (IMF, 2023). Innovation facilitators enable partnership arrangements and collaboration between innovators and government authorities to accelerate growth, innovate on shared technologies, and develop market solutions to financial sector challenges. This allows regulators to become familiar with fintech products, concepts, and firms, so they can regulate and supervise them more effectively (World Bank, 2020c).

These facilitators are only beneficial to the market if they run effectively, and if they have sufficient market participants, thus making them resource-intensive and context-sensitive. Thus, they are more suitable for more developed fintech markets where innovation hubs tend to have wider participation from multiple agencies (IMF, 2023).

Overall, most African countries with IPS use at least one alternative approach to support fintech development as a complement to their licensing approaches. While some have created innovation facilitators, the sandbox is the most popular approach found. Table 3.0 below lists examples across the IPS countries in Africa:

Table 3.0 | Alternative approaches to licensing by country[8]

IPS countries	Example
Angola	Regulatory Sandbox, National Bank of Angola
Egypt, Arab. Rep	Fintech Application Lab Sandbox, Central Bank of Egypt
Ethiopia	The Innovative Finance Lab Sandbox, National Bank of Ethiopia
Ghana	Regulatory and Innovation Sandbox, Bank of Ghana
Kenya	Fintech Sandbox under Kenyan Capital Markets Authority
Madagascar	Habaka - Malagasy is a technology innovation hub that supports a community of entrepreneurs, developers, and innovators.
Malawi	Malawi Fintech Challenge
Mauritius	Regulatory Sandbox focused on financial inclusion, Mauritian Economic Development Board
Morocco	Regulatory Sandbox, Bank Al-Maghrib
Mozambique	Regulatory Sandbox, Central Bank of Mozambique and Financial Sector Deepening Mozambique
Nigeria	Financial Industry Sandbox, Central Bank of Nigeria and Nigeria Inter-Bank Settlement System (NIBSS)
Rwanda	Regulatory Sandbox, National Bank of Rwanda
South Africa	Regulatory Sandbox, Intergovernmental Fintech Working Group
Tanzania	Fintech Regulatory Sandbox, Bank of Tanzania
The Gambia	None noted to date
Tunisia	Sandbox, Central Bank of Tunisia
Uganda	Regulatory Sandbox, Bank of Uganda
Zambia	• Regulatory Sandbox, Bank of Zambia • Fintech4U innovation accelerator (UNCDF in collaboration with BongoHive)
Zimbabwe	Regulatory Sandbox, Reserve Bank of Zimbabwe

8 AfricaNenda compiled the initiatives from a variety of sources, namely, Central Bank websites, UNCDF website, and the Open Bank Project website (Open Bank Project, 2023).

Box 4.0 | Country examples of alternative approaches to expand the fintech ecosystem and create pathways to market entry

Malawi introduced a fintech challenge. The Malawi Fintech Challenge is a flagship initiative led by the United Nations Capital Development Fund (UNCDF) in collaboration with the Reserve Bank of Malawi and supported by several partners to further financial inclusion in Malawi. The objective is to catalyze the development of innovative digital financial solutions and help expand access to and usage of financial services in underserved communities, especially by small-holder farmers, women, youth, and vulnerable groups (UNCDF, 2024).

Zambia launched an innovation accelerator. In partnership with BongoHive (an innovation hub), the UNCDF in Zambia is implementing a FINTECH4U program. The goal is to demonstrate the potential of DFS and supporting the growth of the digital economy by increasing access to financial services for all Zambians. The program aims to support 10 small-to-mid-sized fintechs to navigate the regulatory, licensing and compliance requirements with relevant regulators. The latter include the Bank of Zambia, Zambia Information and Communication Technology Authority, and the Securities and Exchange Commission (UNDP, 2020).

Angola and Ethiopia are leveraging official partnerships to introduce sandboxes. The National Bank of Angola is leveraging a partnership with Beta-i, an innovation consultancy, to create the first fintech regulatory sandbox in the country. One of their objectives is to increase financial inclusion using technology. By 2020, this project had already supported 20 Angolan startups (Fintech Futures, 2020). Similarly, the National Bank of Ethiopia has partnered with the Innovative Finance Lab (IFB) and the Ethiopian Capital Markets Authority. The resulting sandbox aims to help regulatory authorities identify suitable regulatory requirements to foster innovation, and to assist firms in understanding regulatory obligations, thus accelerating their market entry (RegTech Africa, 2024).

4 | Four enablers to improve inclusive IPS outcomes from fintech licensing

A combination of risk-proportionate licensing and alternative approaches can help advance financial inclusion goals. Whatever the approach, however, regulators can make them more effective at encouraging fintechs' participation and reducing the cost of compliance by acting on the following four enablers:

- Provide guidance on the regulatory process.
- Revise and expand the licensing process.
- Leverage supervisory technology.
- Make financial inclusion an integral part of the regulatory sandbox or innovation hub criteria.

Provide guidance on the regulatory process

Regulatory uncertainty, lack of support and onerous processes can disincentivize payment fintechs from pursuing licensing, especially if they do not have regulatory expertise on their leadership team. Though regulators do not want to regulate every new technology or activity, they can leverage tools to guide market players and create clarity. For example:

- **Publish relevant guiding policies.** Guiding policies can help prepare payment fintechs for the licensing process by identifying which regulatory body oversees a given activity and defining the regulatory direction, thereby steering fintech activities and ensuring that these firms operate according to key principles (Cenfri, 2021). For example, Rwanda's Fintech Policy (2022–2027) sets out the national strategic objectives for fintech and signals that Rwanda's financial regulators are open to innovation and keen to engage (MINICT, 2024). South Africa's Financial Inclusion Strategy highlights fintech as a source of technological innovation that enables financial inclusion. The strategy also articulates how regulators support fintech as part of enabling a diversified provider and distribution base (FSCA, 2020). In the context of IPS, guiding policies like these provide clear information to payment fintechs so they can develop in a way that fulfills the regulations required for participation.

- **Empower ecosystem enablers.** Innovation offices can play a key intermediary role by fostering transparent communication between the regulator and the market and acting as a resource for innovators to ask questions, understand the process, and get updates on their license application. South Africa's FSCA, for example, encourages payment fintechs to engage before they apply for a license (Stakeholder Interviews, 2024). Innovation offices can also help to ensure that payment fintechs contribute to national goals. For example, Ghana's fintech innovation office has a financial inclusion mandate, and has requested fintech license applicants to modify their products to advance financial inclusion or mitigate against financial exclusion (for example, by making the product/service available through less modern devices, like feature phones) (AFI, 2023).

- **Ensure strong communication and coordination channels with industry associations.** Fintech associations have the potential to bridge the communication and coordination gap and help fintechs prepare for the licensing process. This can be done by publishing regulatory materials (guidance papers, policies, Q&A documents, and process overviews), providing a common space for fintechs to brainstorm and develop their ideas, and organizing forums between the regulator and fintechs.

Revise and expand license categories

Licensing approaches can evolve in the following ways to ensure they are as inclusive as possible:

- **Preliminary oversight.** At the initial stages, not all fintech activities require licenses and can be regulated through fintech partnerships with existing license holders. Fintechs can also commence operations under letters of no objection during the testing and monitoring stages, which serve as important starting points for new areas of innovation, such as in the case of M-PESA in Kenya.

- **Update licensing categories once an activity has been effectively tested in the market.** Fintechs do not necessarily need a specific entity-based license (i.e. a fintech license). Rather, license categories can be updated and/or added based on new activities that have been thoroughly tested.

- **Use licensing categories to accommodate evolving activities.** When fintechs innovate by combining multiple existing activities into a new offering, they may not require regulators to create a new license type, but instead to provide a license that covers a combination of existing activities, which can evolve over time. In fact, some regulators are introducing flexible and agile licensing regimes. Ghana, for example, has enabled seamless license progression and/or add-ons (see Box 1.0). Rwanda has done something similar in *Regulation Governing Payment Service Providers 2023*. The revisions include tailored licenses and a streamlined process for modifying them (National Bank of Rwanda, 2023).

- **Leverage the risk-based approach to inform licensing (including tiering options).** Taking a risk-based approach to licensing enables regulators to better identify and empirically assess risks, develop appropriate risk mitigation strategies, apply a proportionate share of resources depending on the level of risk, and allow new business models to enter the market with a right-sized degree of oversight.

- **Put the building blocks in place for license passporting.** Despite the growing interest from fintechs in a fintech license passport (or license portability), the current risks and concerns from regulators make it unrealistic (Stakeholder interviews, 2024). There is, however, a growing impetus for harmonizing regulations and licensing standards within regions to enable PSPs to expand across borders without needing a bank partner in the target market.

Leverage supervisory technology

To lighten the load of supervisory tasks, enhance the observation and learning process, and free up capacity, financial regulators should explore using supervisory technology (suptech). Digitalizing the supervisory process and automating standard repeat tasks can free up supervisory resources to provide more complex support, thereby streamlining and accelerating the licensing process. Ghana's integrated financial surveillance system, for example, allows the regulator to centrally collect prudential data and manage the licensing and authorization of supervised entities (AFI, 2022).

Make financial inclusion a foundation of the regulatory sandbox or innovation hub criteria

Finally, regulators embracing a sandbox or facilitator approach can define the eligibility criteria to provide preferential access to products or business models that target unserved or underserved end users and require that these groups are included in the testing samples. Sandboxes and facilitators could also consider financial literacy requirements for new products or services and put safeguards in place to ensure end-user protection (BIS, 2020).

5 | Conclusion

Including payment fintechs as participants in IPS has the potential to expand the reach of instant payments, and by extension, of financial inclusion. Yet fintech participation is only possible in countries with regulatory and licensing approaches that accommodate them. By developing a country-specific approach to addressing the challenges that prevent fintechs from accessing licenses, regulators can safely support payment fintechs and the broader payments sector in delivering services that enhance financial inclusion.

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