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Consultancy to Identify priorities and develop timelines for harmonization of financial inclusion policy frameworks and build the capacity of Member States in identified areas of financial inclusion

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List of Acronyms and abbreviations

Acronym	Explanation
AML/CFT/PF	Anti-Money Laundering, Countering the Financing of Terrorism and Proliferation Financing
API	Application Programming Interface
ASEAN	Association of Southeast Asian Nations
BOP	Balance of Payments
CBDC	Central Bank Digital Currency
CCBG	SADC Committee of Central Bank Governors
CDD	Customer Due Diligence
CISNA	SADC Committee of Insurance, Securities and Non-Banking Financial Authorities
COSSE	Committee of SADC Stock Exchanges
ECDD	Electronic Customer Due Diligence
EKYC	Electronic Know Your Customer
DFS	Digital Financial Services
EAC	East African Community
ECOWAS	Economic Community of West African States
ESAAMLG	Eastern and Southern African Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FCP	Financial Consumer Protection
FI	Financial Inclusion
FIC	Financial Intelligence Unit
FIU	Financial Intelligence Unit
FMT	FinMark Trust
FSB	Financial Stability Board
GDP	Gross Domestic Product
GFIN	Global Financial Innovation Network
ICT	Information and Communication Technology
ID	Identification Document
KYC	Know Your Customer
LEI	Legal Entity Identifier
MSME	Micro, Small, And Medium Enterprise
NFC	Near Field Communication
PAPPS	Pan-African Payments and Settlement System
PSOC	Payment System Oversight Committee
QR	Quick Response
RCSO	Regional Clearing and Settlement System Operator
RISDP	Regional Indicative Strategic Development Plan
RTGS	Real-Time Gross Settlement
SADC	Southern African Development Community
SDG	Sustainable Development Goals
SME	Small And Medium Enterprise
TCIB	Transactions Cleared on an Immediate Basis
WURI	West Africa Unique Identification for Regional Integration

Executive Summary

Objective. This project is part of the *Support to Improving the Investment and Business Environment (SIBE) programme*, a partnership between the Southern African Development Community (SADC) and the European Union. The SIBE programme has the overall objective to achieve sustainable and inclusive growth and to support job creation. The objective of the assignment was to identify priorities and long-term financial inclusion solutions for financial sector professionals and policy makers in the SADC region, build the capacity of Member States in the identified areas of financial inclusion; as well as to develop timelines for harmonisation of policy, legal and regulatory frameworks with a focus on the Fourth Industrial Revolution (4IR).

Related reports. This assignment supports the implementation of the SADC Strategy for Financial inclusion and SME Access to Financeof 2016 which is currently being revised. The findings of this report focus on the regulatory priorities required for regional financial inclusion and should be read in the context of the broader Regional strategy.

Importance of financial inclusion and harmonisation. The development of SADC's financial inclusion strategy is anchored in the importance of financial Inclusion and SME access to finance as contained in the RISDP and the SADC Industrialisation Strategy and Roadmap. Beyond industrialisation, financial inclusion - if properly implemented - will "contribute to sustainable economic growth and stability" (SADC, 2016). Digitally enabled financial inclusion is even more significant in the context of Covid 19 where remote access and transactions are critical to allow people to safely participate in the financial system and economy. It has also provided further impetus for the adoption of digital instruments and e-commerce that requires financial innovation (UNECA, 2021). Regulatory constraints can impact financial inclusion. Harmonisation of regulation is therefore important in support of regional goals to avoid unintended consequences or benefit from efficiencies in addressing common problems with shared capacity and resources.

Harmonisation prioritisation criteria. The following harmonisation criteria were applied to select the regulatory harmonisation priorities:

i. Regulatory harmonisation priorities should support regional goals.
ii. Regulatory harmonisation priorities should avoid unintended consequences or benefit from efficiencies in support of regional goals.
iii. Regulatory harmonisation should be prioritised for foundational requirements that enables dependent policy and regulation.

Approach adopted. This report was informed by interviews and a literature review with a focus on Member State assessment of the regional regulatory harmonisation required to support financial inclusion. Thirty-three interviews were held including meetings with 13 of the Member States from the SADC financial inclusion sub-committee, CCBG Subcommittees, CISNA, CoSSE, the SADC Banking association and SADC Secretariat. The literature review included SADC Substructures strategies and reports, the SADC FI and

SME access strategy (2016-2021), Member State national financial inclusion strategies and thematic reports relevant for the objectives of this study.

Regional financial inclusion approaches need to meet Member State and regional needs. Countries within the SADC region differ significantly in terms of income, growth, resource availability and digitalisation. Common trends across the region include a high degree of informality, dependence on small businesses and agriculture for livelihoods and the need to use financial services to engage in economic activity towards a better future. Enabling financial inclusion requires a national approach to address country-specific needs, as well as a regional approach to support common regionalisation goals between Member States.

Current state of financial inclusion. A review of the SADC financial inclusion policies and regional strategy shows a large increase in SADC's adult population that are financially included –from 57% to 70% between 2010 and 2021. This growth has primarily been driven by access to formal non-bank products, such as mobile money, increasing from 10% to 23% over the same period. Despite increases in uptake of financial services, use of financial services to meet broader needs remains constrained, with many accounts being dormant or infrequently used. Women, migrants, youth, rural people and small businesses also remain underserved (FinMark Trust, 2021). Related financial inclusion barriers need to be addressed to achieve regional development and growth goals.

Harmonisation priorities identified. National and regional strategies are in place to improve financial inclusion. At a regional level, the SADC Strategy on Financial Inclusion and SME's access to finance strategy (2016-2021) is currently being revised under the leadership of the SADC Financial Inclusion Subcommittee, established in 2019 (SADC, 2020). At a national level, 12 of the 15 SADC Member States considered have financial inclusion strategies (either standalone strategies or in Malawi's case included in the financial sector development strategy).

The policies identify common constraints to inclusion and common priorities to improve inclusion, with context specific approaches to achieve key objectives. The need for regulatory harmonisation relates to a number of common changes underway in the region where countries can learn from each other and align as processes change to avoid unintended consequences. This is particularly the case with new areas of digital innovation that can address inclusion challenges and offer solutions for remote engagement necessary during Covid-19 and for more rural areas. Some areas of misalignment have also emerged that constrain the achievement of regional goals and requires harmonisation.

Five priorities identified for regulatory harmonisation and related capacity building. Member States and SADC committees identified the following five areas as most significant for regulatory harmonisation:

1. *A regional approach to AML/CFT/PF needed to improve access, reduce the cost of doing business and encourage innovation.* AML/CFT/PF regulations and related customer due diligence requirements underpin access and use of all financial services in the region and are critical to inclusion. Member States and related consultations highlighted a number of financial inclusion and financial sector development constraints stemming from the way that AML/CFT/PF is currently

implemented in the region, notably: differences in formats, standard and identifiers among national identity systems; the lack of context-relevant empirical evidence on risk drivers and impact; the absence of a SADC body in charge of aligning AML/CFT/PF objectives across different regulators and countries; and lack of a comprehensive understanding of risk at a regional level. Cross border services and the implementation of the Transactions Cleared on an Immediate Basis (TCIB) regional instant payment system are particularly exposed to the variations in AML/CFT/PF requirements in the region. A regional framework for AML/CFT/PF requirements is proposed to provide a common vision, principles, and standards to implement related requirements in the region in support of ESAAMLG objectives, supported by local risk metrics, evidence and guidelines.

2. *Regulatory harmonisation to support regional interoperable inclusive payments needed to support innovation, reduce the cost of business and support trade and remittances*. Improving the cost and ease of use of payment systems is a priority across Member States. Digital payments are required for digital financial services and innovation with a related impact on SME growth and jobs. Regional payments are key for trade and remittances and for payments at scale. All Member States and related committees raise the need for regulation to support the entry of new payments providers and to support the implementation of regional payment systems, particularly TCIB. A regional payments framework that provides a common vision and aligned approach to payment service provision and addresses constraints to implement TCIB is needed to achieve these objectives. A learning space to engage on Central Bank Digital Currency (CBDC) and crypto currencies is also required and should be considered as part of the priority on innovation and Fintech.

3. *A regional approach to identity is needed to improve access, use, cost of doing business, innovation, and investment*. Member States highlight identity as a constraint to inclusion and most Member States raise the different approaches to regional identity as a further concern. Users require various documents to access financial services in the formal sector, such as proof of identity, proof of income or proof of residence, which low-income consumers, particularly those working in the informal sector or migrants, do not necessarily have access to. There is a need for regionally interoperable IDs or validation processes that is digitally accessible, i.e., rendering IDs electronically validatable anywhere within the SADC. This does not mean exact standards, but validation based on common fields and access to biometrics or foundational ID files for validation without exporting ID databases information outside of national borders. In some countries with limited rollout of IDs there is a need for financial IDs and also where the national ID cannot support a digital identity or the development of a proxy digital ID stack, then in those instances a digital financial ID would be a valid alternative. No national within SADC should be unidentified within SADC nor be regarded as an illegal to the region. Regional identity is of most concern to Member States with significant migrant activities in the region. Digital forms of identity also allow remote onboarding, important under Covid-19 or in remote areas which are difficult to access. Regional identity frameworks or alignment is also needed to enable two other harmonisation priorities digital payments (particularly TCIB implementation) as well as AML/CFT/PF priorities. Identity frameworks should also speak to legal entities such as SMEs. Existing work

underway by FMT would be relevant to inform the potential regional models that could suite SADC needs.[1]

4. *A regional approach to innovation and Fintech is needed to encourage responsible inclusive products that better meet individual and SME needs.* All Member States have innovation and fintech as a cornerstone of their inclusion policies to overcome various obstacles to economic development and address barriers to financial inclusion, particularly around SME requirements such as peer lending and crowdfunding. Member States and related committees identify the need for a regional approach to build a common vision for fintech, create regional platforms for fintech related testing and learning and align emerging regulation to limit unintended consequences in future of conflicting approaches. The need to engage with data and cybersecurity regulators to harmonise related regulation in support of responsible financial inclusion leveraging technology was also identified as a priority. Fintech and innovation areas were identified as particular priorities for regional capacity building, with a focus on regional engagement to consider their potential to support SME development.

5. *Regional guidance is needed on consumer protection and market conduct supported by financial literacy initiatives important to build trust and improve use of financial services.* Member States and SADC committees engaged identified low levels of trust as a critical barrier to financial inclusion. Related to the objective of building trust is the need for literate consumers who can use products to their benefit and for effective regional cybersecurity frameworks to limit fraud and theft. Enhanced FCP outcomes across the region will contribute to increased trust in the formal financial services sector, increased accountability through transparency, fairer and more competitive financial markets and the promotion of financial literacy through provision of information that enables consumers to make informed decisions on available financial services. In this way, A number of consumer protection frameworks and market conduct approaches are underway in the region that can benefit from regional guidelines on what to consider, supported by capacity building.

Four additional areas mentioned but not included as separate areas as regional regulatory constraints relate to the included priorities. The need to unlock SME finance, cross border financial services (particularly payments and loans), improve financial literacy and improve cash in and cash out across the region were highlighted as key priorities that face regional regulatory constraints. However, the main regulatory constraints at regional level relevant for these areas identified by those interviewed related to cross border payments, AML/CFT/PF, consumer protection and digital innovation, and hence are already covered in the five priority areas outlined above. As no further regulatory harmonisation needs were identified, these topics were not included as separate regulatory harmonisation priorities, but rather integrated in the five priorities identified.

[1] *The CCBG digital identity task team (with the support of FinMark Trust) is currently scoping and testing different regional financial identity approaches (Stakeholder interviews, 2021). FMT is implementing a scoping and piloting project to identify the priority needs for digital identities in SADC, the related constraints and identify and test models of digital identity appropriate for the region.*

Harmonisation next steps. A harmonisation framework and related action plan with related capacity building is proposed to implement the five harmonisation priorities identified by Member States and related consultations. A number of existing harmonisation activities are underway which have been included in the framework given their significance to inform related outcomes and provide a foundation for capacity building.

1 Introduction and Background

Project context. This project is part of the *Support to Improving the Investment and Business Environment (SIBE) programme*, a partnership between the Southern African Development Community (SADC) and the European Union. The SIBE programme has the overall objective to achieve sustainable and inclusive growth and to support job creation. The programme aims to do this by transforming the region into a SADC investment zone and by promoting intra-regional and foreign direct investment, particularly for SMEs.

The SIBE Programme focuses on the following result areas:

- Result 1: An enabling investment policy framework across SADC Member States is supported.
- Result 2: Enhanced integration of financial markets in the SADC region is promoted.
- Result 3: Enhanced financial inclusion is supported.

This assignment was commissioned under Result Area 3, on enhancing financial inclusion, particularly its activity 3.2, which entails the "identification of key financial inclusion regulatory areas for harmonisation and capacity building."

Related reports. The SADC Financial inclusion and SME access strategy (2016-2021) sets out the regional financial inclusion strategy. This report aims to identify priority areas for regulatory harmonisation in the region and should support the implementation of the broader financial inclusion strategy adopted by the region. This strategy is in the process of being revised at the time of drafting this report. The recommendations in this report focus on the regulatory harmonisation priorities to achieve SADC financial inclusion objectives and will need to support the revised priorities once adopted by SADC.

Importance of financial inclusion for SADC. Financial sector deepening is fundamental to foster economic development and to positively impact the poor through the reduction of income inequality and expanding employment as highlighted by the SADC Financial Inclusion Strategy of 2016-2021 (SADC, 2016). Financial inclusion is typically measured as the access, usage and quality of financial services to meet the needs of consumers (AFI, 2019). In SADC, inclusion levels as measured by access has increased in recent years, but usage remains low (SADC, 2021). Inclusion for SMEs is particularly limited (SADC, 2021) which hampers growth, jobs and trade in the region. The development of SADC's Financial Inclusion Strategy is anchored in the importance of financial Inclusion and SME access to finance for the RISDP and the SADC Industrialisation Strategy and Roadmap (SADC Secretariat, 2020). Beyond industrialisation, financial inclusion, if properly implemented, will contribute to sustainable economic growth and stability (SADC, 2021). Digitally enabled financial inclusion is even more significant with Covid 19 where remote access and transactions are critical to allow people to safely participate in the financial system and economy. It has also provided further impetus for the adoption of digital instruments and e-commerce that requires financial innovation (UNECA, 2021). It is therefore critical to address the barriers to financial inclusion in the region.

Importance of regulatory harmonisation for financial inclusion. SADC has acknowledged the increasing need for internationalisation, the need to harmonise financial institution regulation and the interdependence of the activities of financial institutions due to the use of technology (SADC, 2006). Harmonisation refers to the alignment of financial and investment policies across SADC member states to ensure that country-level policies are consistent with SADC's objectives, with the ultimate aim to enable regional investment, growth and development (SADC Secretariat, 2020). Many SADC countries have small economies with limited resources and capacity. Regulatory harmonisation will allow Member States to better leverage such limited resources towards development goals. Regulatory harmonisation also has a critical role to play in regional financial inclusion. Regulatory constraints have been identified as a barrier to financial inclusion in the region. The harmonisation of key components of relevant laws and policies would create conditions for improved access to financial services in the region, as well as lower compliance costs for Regulated Institutions that operate cross-border in the region (SADC, 2006). Thus, harmonisation can promote innovation, create the potential for efficiencies of scale and for the development of shared capacity towards the achievement of common objectives.

The need for harmonisation becomes even more critical in the Fourth Industrial Revolution (4IR) where digitalisation can offer extensive inclusion benefits but requires scale and may also pose new risks to consumers. Managing such risks and leveraging such opportunities together as a region will be significant for SADC's long-term goals, including the critical need for financial inclusion. The work of the authorities to harmonise their respective law and regulatory and supervisory framers also has the aim to reduce practices such as regulatory arbitrage (SADC, 2006).

Criteria for meaningful harmonisation. Regulatory harmonisation is not a simple or quick task: it requires a concerted effort across Member States and may take several years to achieve. Thus, harmonisation should not be pursued just for the sake of harmonisation, but only (i) where policy and regulation differ in a way that impedes regional goals, or (ii) to gain efficiencies or share capacity where countries are working on similar challenges. Identifying core harmonisation priorities calls for an in depth understanding of regional priorities and thematic areas relevant for financial inclusion, the status of regulation and policy across Member States as it relates to regional financial inclusion goals and barriers, as well as capacity realities across the region.

1.1 Objective

The global objective of the Assignment is to contribute to achieving sustainable and inclusive economic growth, support job creation through inclusion of all players in the economy, particularly the previously excluded and disadvantaged, such as women, youth and SMEs. This is also in support of the industrialisation agenda in the SADC region which foresees the enhancement of financial inclusion at regional and national level. This, financial inclusion is a critical vehicle to achieving industrialisation, economic inclusivity, and growth.

Financial Inclusion is also an essential instrument for increasing production for small enterprises and eventually increasing household income. Financial inclusion is also essential to enabling governments to meet their developmental goals, especially on expanding and improving the quality of financial inclusion, which is one of the 2030 Sustainable Development Goals (SDGs).

The specific objectives of the assignment are to identify financial inclusion harmonisation priorities, to assess the capacity required for financial sector regulators and policy makers in the SADC region to implement these priorities, as well as to develop related timelines for harmonisation of policy and regulation.

The following areas were addressed during this assignment:

- **Gap assessment**: Existing financial inclusion policy, regulatory and supervisory frameworks pertaining to financial inclusion in the SADC region were assessed both at a regional and national level to identify current constraints and thematic approaches, with a focus on 4IR (digitalisation) and SME inclusion. The following thematic areas were included in this assessment as required by the assignment: digital financial inclusion, FinTech, retail payments, remittances, Know Your Customer (KYC), consumer protection, cyber-security, financial literacy, interoperability, competition policy, AML/CFT/PF financial inclusion related standards, mobile money, branchless banking, postal services, formal and informal savings groups, loan access and conditions governing access to loans, digital financial services and digital literacy.

- **Harmonisation priorities**: Through a consultative process and in line with good practices in the financial inclusion space, as well as benchmarking with other Regional Economic Communities (Association of South East Asian Nations (ASEAN) and East African Community (EAC)), key financial inclusion regulatory areas for harmonisation and capacity building were identified. Priority was given to areas related to 4IR and post-COVID-19 pandemic scenarios and their potential implications for the financial inclusion framework.
- **Harmonisation framework**: On the basis of the above, a framework is proposed to address the priorities for regulatory harmonisation and capacity identified.

1.2 Methodology

A mixed research method was adopted consisting of desktop review and stakeholder interviews. The desktop review included a review of National financial inclusion strategies, SADC committee reports, regional inclusion strategies in similar regions and thematic reports on gaps and priorities identified. Thirty-three Interviews[2] were held with the Financial Inclusion Subcommittee members of available SADC Member States[3], the relevant SADC Committees responsible for financial systems (CCBG sub-committees, CISNA, CoSSE, and the SADC Banking Association), the SADC secretariat and experts from diverse institutions (refer to Annexure A for a list of the stakeholders interviewed).

1.3 Structure

This document is set out as follows:

- Chapter 2 sets out the financial inclusion gaps and priorities across the Member States
- Chapter 3 derives harmonisation priorities to address the financial inclusion gaps and objectives in the region.
- Chapter 4 sets out a framework of harmonisation needs, and regional actions required to address each of the harmonisation priorities.
- Chapter 5 concludes, summarises key actions and proposes related timelines.

[2] *This number reflects how many interviews where held, however several interviews were held with two or more interviewees present.*

[3] *Malawi; South Africa; Tanzania; Seychelles; Madagascar; Zambia; Angola; Eswatini; Lesotho; Mauritius; Mozambique; Zimbabwe; Namibia*

2 Financial inclusion trends and goals in SADC

The identification of harmonisation priorities flows from an understanding of the common trends and goals regarding financial inclusion in the region.

Regional financial inclusion approaches need to meet Member State and regional needs. Countries within the SADC region differ significantly in terms of income, growth, resource availability and digitalisation. Common trends across the region include a high degree of informality, dependence on small businesses and agriculture for livelihoods and the need to use financial services to engage in economic activity towards a better future. Enabling financial inclusion requires a national approach to address country-specific needs, as well as a regional approach to support regionalisation goals.

Current state of financial inclusion. A review of the SADC financial inclusion policies and regional strategy shows a large increase in SADC's adult population that are financially included – declining from 57% to 70% between 2010 and 2021. This growth has primarily been driven by access to formal non-bank products, such as mobile money, increasing from 10% to 23% over the same period. Despite increases in uptake of financial services, the use of financial services to meet broader needs remains constrained, with many accounts being dormant or infrequently used. Women, migrants, youth, rural people and small businesses also remain underserved (FinMark Trust, 2021). Related financial inclusion barriers need to be addressed to achieve regional development and growth goals.

Widespread policy approaches to financial inclusion. National and regional strategies are in place to improve financial inclusion. At a regional level, the SADC Strategy on Financial Inclusion and SME's access to finance is currently being revised under the leadership of the SADC Financial inclusion subcommittee, established in 2019 (SADC, 2020) (see Annexure C for the SADC governance arrangement on financial inclusion). At a national level, as indicated in **Table 1**, twelve of the fifteen SADC countries considered have financial inclusion strategies (either standalone strategies or in Malawi's case included in the financial sector development strategy). Three countries do not have dedicated financial inclusion approaches (Seychelles, Mauritius and the DRC). Of the twelve inclusion strategies, six reached their end date prior to 2022 and six are ongoing.

Table 1: Financial inclusion strategies across SADC member states as at January 2022

Member State	Strategy designation	End date	Mandated authority
Angola	Financial Inclusion (draft)[4]	2027	Finance ministry
Botswana	Financial Inclusion	2021	Central bank
DRC	No separate strategy	n/a	n/a
Eswatini	Financial Inclusion	2022	Finance ministry
Lesotho	Financial Inclusion	2017	Finance ministry
Madagascar	Financial Inclusion	2022	Finance ministry
Malawi	Financial Sector Development	2021	Finance ministry
Mauritius	No separate strategy	n/a	n/a
Mozambique	Financial Inclusion	2022	Central bank
Namibia	Financial Inclusion	2017	Finance ministry
RSA	Financial Inclusion	2021	Finance ministry
Seychelles	No separate strategy	n/a	n/a
Tanzania	Financial Inclusion	2022	Central bank
Zambia	Financial Inclusion	2022	Finance ministry
Zimbabwe	Financial Inclusion	2020	Central bank

Consistent elements across financial inclusion definitions adopted in the region. Annexure B includes a breakdown of the financial inclusion definitions as noted in the SADC Member States' respective financial inclusions reports. It shows that the definitions used across the Member States[5] vary but are aligned in considering access, use and quality of financial services in support of inclusion, as well as by focusing on both individuals and businesses.

Common constraints identified. As highlighted in Annexure D, national policies identify a number of common constraints across the region, with some national variation. Key cross-cutting constraints to financial inclusion include:

1. SMEs, women, rural inhabitants and youth, in particular, face significant obstacles in accessing fit-for-purpose formal financial products. Challenges highlighted include lack of documentation, trust, financial literacy, and a lack of appropriate products;
2. FSPs lack the incentive, capacity and quality data to deliver appropriate products to serve current and potential markets;
3. Policy uncertainty and regulatory barriers deter innovation and investment; and

[4] *Angola's Financial Inclusion Strategy was at the time of writing, in the process of being drafted.*

[5] *Some of the definitions are based on internationally accepted definitions. For example, South Africa uses the definition as per (CFI, 2013) and Eswatini makes use of the definition provided by (CGAP, 2011).*

4. Limited physical infrastructure and payments infrastructure (including lack of interoperability) make the provision of services across various geographies a costly exercise.

These highlighted constraints are in line with the constraints highlighted in the SADC Strategy on Financial Inclusion and SME's access to finance (2016-2021), currently being revised.

Common goals identified. A similar set of priorities emerge across the varying SADC country financial inclusion strategies, namely:

1. Enabling inclusive innovation and Fintech;
2. Promoting interoperable and inclusive payment systems along with frameworks for remittances;
3. Enhancing the competitiveness of the financial ecosystem to broaden the range of financial services available, including the extension of existing services to SMEs;
4. Ensuring trust in the financial sector through a) consumer protection, b) financial literacy for consumers and c) capacity building for regulators; and
5. Addressing access hurdles, including documentation requirements and digital ID.

A SADC Member State-level breakdown of priorities is captured in Annexure E, these align with those highlighted in the SADC Strategy on Financial Inclusion and SME's access to finance (2016-2021), currently being revised.

The next section identifies the priority fields for regulatory harmonisation to promote the achievement of financial inclusion goals in the region.

3 Harmonisation priorities

3.1 Prioritisation criteria

Harmonisation of regulatory and policy approaches is needed to best address the regional goal of inclusion towards development and growth goals – either to:

- avoid unintended regional consequences of differing regulatory approaches for the region; or
- to benefit from the efficiencies of a common approach both for regulators to share capacity and to reduce the cost of doing regional business through common and clear regional rules.

The following criteria were applied to identify priority areas in which regional harmonisation is warranted:

i. Harmonisation priorities should support regional goals:

   a. *Support implementation of SADC Strategy for Financial Inclusion and SME Access to Finance (2016-2021) or as revised.* The identified area of prioritisation aligns with and contributes to implementing SADC's strategy to promote financial inclusion in the region.

   b. *Serve the SADC RISDP regional objectives of SME, job growth, and digitalisation.* Priorities need to support the RISDP objectives, including industrial development, regional integration, market integration, and intra-SADC and foreign direct investment in the region.

ii. Harmonisation should avoid unintended consequences or benefit from efficiencies in support of regional goals:

   a. *Unintended regional consequences are avoided.* Priorities should address differences in approach between Member States which deter regional investment or increase the cost of doing regional business, thereby constraining innovation, particularly in smaller economies.

   b. *Regional efficiencies are generated*. Priorities should enable the region to benefit from learning together and applying common resources to common problems through regional frameworks and laws. The gain is particularly significant in new areas or regulation which require capacity and learning to address. Such frameworks also provide common and clear laws for cross-border and regional business which reduces the cost of doing business and encourages innovation. The efficiencies are more significant where they lay foundations necessary for subsequent regulation. These foundational areas are systematic and sequentially significant and will be prioritised ahead of dependent regulation.

iii. Harmonisation efforts should focus on foundational regulation that makes the most contribution to development goals and that can enable other areas of inclusion.

3.2 Priority identification

The prioritisation of regulatory harmonisation topics is based on Members' assessment of regional goals identified through interviews with the SADC financial inclusion subcommittee representatives across the majority of Member States, the CCBG, CISNA, the SADC Banking

Association and CoSSE, as well as a detailed desktop review of financial inclusion-relevant policies supplemented by a review of additional regulatory approaches and frameworks where required across Member States as set out in Annexure F. The activities required for harmonisation were further informed by interviews with key informant that are specialists in these fields.

Financial inclusion constraints go beyond the need for regulatory harmonisation. The interviews highlighted that regulatory harmonisation is not the answer to all financial inclusion constraints in the region. Limited digital capacity, lack of financial literacy and significant informality were common inclusion constraints identified in interviews where required interventions go beyond regulation. Such constraints need to be addressed in a holistic manner including the regulatory priorities identified in this document. The SADC Strategy on Financial Inclusion and SME's access to finance (2016-2021, or as revised in future), sets out the broader set of actions required to address these constraints.

Five areas met the prioritisation criteria. Across the interviews and desktop review, five topics met the prioritisation criteria, as set out in **Table 2**.

Table 2. Regulatory Harmonisation priority areas

Priority area	Harmonisation goal	SADC FI subcommittee member states that support the priority	Other SADC committees that support the priority
1. Consumer Protection	Regional framework for consumer protection and market conduct framework to build consumer trust	**12**	CCBG, CISNA, SADC BA
Includes related priorities	Financial literacy and digital capabilities – individuals and SMEs Cybersecurity		
2. AML/CFT/PF	Regional framework on outcomes and standards of AML/CFT/PF to improve access, use, reduce SME cost of doing business, reduce illicit flows and encourage investment	**12**	CCBG, CISNA, SADC BA
3. ID for FI	Regional framework on ID for FI to improve access, use, reduce SME cost of doing business and encourage regional investment	**11**[6]	CCBG, SADC BA
4. Digital payments	Regional framework for digital cross border payments to enable scale, inclusion, regional trade and remittances	**12**	CCBG, CISNA, SADC BA
Includes related priority	E-money and CBDC		
5. Innovation and Fintech	Regional framework for innovation to improve competition, entry and fintech participation to develop inclusive products	**12**	CCBG, CISNA, SADC BA
Includes related priority	Competition policy (encourage market entry, barriers to entry, market dominance)		

Four additional areas mentioned but not included as separate priority areas. The need to unlock SME finance, cross border financial services (payments and loans mentioned in particular), improve financial literacy and improve cash in and cash out across the region were highlighted as key priorities that face regional regulatory constraints. However, the main regulatory constraints relevant for these areas identified by those interviewed related to cross border payments, AML/CFT/PF, consumer protection and digital innovation, and hence are already covered in the five priority areas outlined above. As no further regulatory harmonisation needs were identified, these topics were not included as separate regulatory harmonisation priorities.

Three topics for broader consideration. Three further areas were identified as critical to financial inclusion outcomes but were not considered the primary mandate of financial sector regulators i.e. cyber security, data governance and SME taxation. These areas require a joint engagement with the SADC ICT committees to ensure that work in this regard supports financial inclusion in the region. They were also included as part of the innovation and fintech priority as well as the consumer protection priority.

[6] Tanzania indicated that a regional identity framework for individuals was less of an inclusion constraint for them as their national frameworks are sufficient for inclusion

One theme not included. The harmonisation of listing rules currently in progress was not included as a financial inclusion priority. It is a relevant theme for financial sector development, but it was not considered by interviewees as core to financial inclusion objectives.

The harmonisation framework in the next section outlines the Member State assessments and realities that support the prioritisation of each topic in greater detail.

4 Harmonisation framework

This section explains the basis for prioritisation of each focus area, as well as the rationale and purpose of harmonisation in this focus area, as basis for concluding on the recommended activities to support harmonisation towards SADC financial inclusion goals on each of the priority focus areas. These recommendations can be developed as a regional financial inclusion harmonisation framework or as separate standalone frameworks for each priority area, depending on the implementing body.

4.1 Regional AML/CFT/PF[7] framework

4.1.1 Why a priority?

Differences in AML/CFT/PF practices highlighted as financial inclusion constraint. AML/CFT/PF regulations and related customer due diligence requirements underpin access and use of all financial services in the region and are critical to inclusion. SADC has recognised the need for regional action through Annex 12 of the Protocol on Finance and Investment, ongoing consultancies on AML/CFT/PF being run under the SIBE programme, and other existing activities discussed below. The consultations highlighted a number of financial inclusion and financial sector development constraints stemming from the way that AML/CFT/PF is currently implemented in the region, that increases the cost of doing business, affects investment in innovation and makes it difficult to roll out regional products or infrastructure. Coordination is needed between different financial sector regulators for clear and consistent requirements as well as between countries to improve how risk is managed towards development goals. Cross border services and the implementation of the Transactions Cleared on an Immediate Basis (TCIB) regional instant payment system are particularly exposed to the variations in AML/CFT/PF requirements in the region[8]. ESAAMLG already exists as the regional FATF style body to provide regional direction for Southern and Eastern Africa, however a SADC wide institution would help coordinate and learn locally to inform and deliver on ESAAMLG agreements.

Wide support of prioritisation. In light of the above, twelve Member States and all the SADC subcommittees interviewed for this assignment supported the need for a regional framework for AML/CFT/PF to address constraints and better achieve the agreed objectives of ESAAMLG.

4.1.2 Harmonisation rationale and purpose

Key constraints to overcome. The following constraints limit the implementation of inclusive AML/CFT/PF in SADC and underpin the need for harmonisation:

- *Different principles and standards adopted to the implementation of risk-based AML/CFT/PF regulation and supervision*. Risk-based approaches need to be context specific and align with country requirements. An identical approach across member states is not desirable given differences in Member State risk profiles. Regional alignment and capacity are required on how to identify and evaluate risk, what drives risk in the region and the tools to respond to risks as identified. This need grows more significant with digitalisation, where limited regulatory or

[7] *Commonly referred also as AML/CFT/PF to include proliferation finance to the definition.*

[8] *Member States all implement the FATF recommendations, however variations in approach arise from different risk assessments and tools implemented to manage related risks.*

supervisory capacity can increase risk or hamper desirable innovation (Cenfri, 2018).

- *Different approaches adopted to identity and digital identity (for individuals and SMEs).* Countries have different identity requirements and related documentation as discussed in section 4.3. The range of approaches limits the potential for a regional approach to customer due diligence (CDD) and KYC processes. Cross border services are particularly affected. TCIB is a significant example as the scheme rules need to accommodate country specific identity and AML/CFT/PF requirements, which constrains implementation and adoption across the region (see section 4.4). A regional approach that stipulates and standardises minimum core fields, identifiers and ISO standards so that citizens can utilise or retain their identity and verify credentials regionally as well as digitally, as per section 4.3 which addresses this constraint.
- *Lack of context relevant empirical evidence on risk drivers and impact*. Significant assumptions underpin the current roll out of risk-based approaches in the region, unsupported by evidence or dependent on evidence from developed countries with different realities to SADC. A risk-based approach requires the assessment of the likelihood and impact of a risk to determine an appropriate response to manage the risk (Cenfri, 2018). Limited local evidence is available on the impact or likelihood of key risks, which limits an effective risk assessment and mitigation (FMT, 2018; ISS, 2009). It also impedes inclusive innovation as countries have no defence for mutual evaluations that draw on untested assumptions. An example is the use of proof of address as an identity verification measure for AML/CFT/PF despite no evidence that this addresses the related risk in SADC given the extent of migration in the region and absence of formal address systems in much of the region (FMT, 2015). A regional evidence base on risk drivers and impact is required to inform the regional approach to risk-based AML/CFT/PF
- *Independent AML/CFT/PF mandate without SADC coordination function*. The Protocol on Finance and Investment proposed the SADC Anti-Money Laundering Committee which has not been implemented given the presence of ESAAMLG. A SADC body is required to supplement ESAAMLG with a focus on regional objectives. Such a body should enable financial sector regulators to support, coordinate and implement the consensus and initiatives of ESAAMLG within the SADC region and providing consolidated regional feedback to enrich deliberations.
- *Lack of a comprehensive understanding of risk at a regional level.* A regional view of risk is important to avoid obfuscation of the origin of funds through round tripping[9]. A comprehensive understanding of risk at a regional level is required to guard against illicit flows of funds.

Four main use cases. Member state consultations and the SADC FI and SME access strategy (2016-2021) highlight the need for a regional approach to AML/CFT/PF to reduce the cost of compliance across financial services, encourage cross border transactions such as remittances and trade, incentivise innovation and limit displacement of criminal acts to lower security environments (SADC, 2016). The consultations confirm four main use cases for a regional approach to AML/CFT/PF to support financial inclusion in SADC:

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[9] *"Round-tripping is the process where funds are returned after being transferred to an entity, shell company, financial instruments, location, or a person that have lower regulatory standards or obligations – giving the impression that the funds have derived from a clean source and thus completing a round trip." (AML-CFT, 2020)*

1. *Incentivise product innovation to lower income markets*. Harmonisation of AML/CFT/PF principles and standards could enable regional implementation of remote onboarding to facilitate the reduction of face-to-face interactions and the need for extensive branch networks allowing innovations to reach the underbanked in a less expensive way and in a safer way given Covid constraints (SADC, 2016). Regional AML/CFT/PF approaches can also facilitate the provision of innovative and cheaper services across borders as well as the receipt of funds in rural areas. As an interim measure common outcomes, timelines and measures at the policy level could be useful to ensure alignment in goals rather than methods.
2. *Reduce compliance costs*. The harmonisation of AML/CFT/PF principles and standards in the region could reduce the cost of compliance. Especially for entities operating across borders, harmonisation has the potential of limiting the expenses associated with modifying products to cater for different jurisdictions in the region (FMT, 2015).
3. *Facilitate transactions across borders*. The heterogeneity of AML/CFT/PF regulations in the region has complicated cross border transactions. The complexity of CDD exacerbated by its differences between countries makes the provision and the usage of financial products more complex for underserved customers (SADC, 2016).
4. *Improved risk management supports more effective policies and growth.* Regional learning and engagement to improve the effectiveness of the SADC AML/CFT/PF measures and organisations can raise the status and rating of the region within the financial world, capital markets and geopolitical sphere. More integral financial services markets are not only more affordable, but they are also more consistent and effective when it comes to monetary and fiscal policy implementation with better economic growth potential at all levels of the pyramid.

Focus on e-CDD. Member States were particularly interested to build regional capacity on digitalisation of customer due diligence (e-CDD and e-KYC) and risk-based approaches. They highlighted the need to complement existing work by ESAAMLG (the regional FATF style body to which SADC member states belong). See **Box 1** for more information.

Box 1: Standards and regional structures

A regional approach to AML/CFT/PF would need to meet the requirements of global standards and complement existing structures in the region.

The Financial Action Task Force (FATF) is the global inter-governmental money laundering (ML) and terrorist financing (TF) watchdog. FATF recommendations set the international standard to mitigate the adverse effects of criminal economic activity to promote integrity in financial markets. FATF is committed to financial inclusion through adoption of a proportionate risk-based approach to AML/CFT/PF adapted to country circumstances. The FATF recommendations set out measures to identify the risks and develop policies and domestic coordination; apply preventive measures; establish powers and responsibilities for the competent authorities and facilitate international cooperation (FATF, 2021).

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is the regional FATF style body to whom SADC countries belong. ESAAMLG works as a platform for its member countries to coordinate with other international organisations on AML/CFT/PF. The organisation performs mutual evaluations on the effectiveness of AML/CFT/PF systems and the level of compliance with FATF Recommendations (ESAAMLG, 2017). Other activities include gathering knowledge on AML/CFT/PF trends and techniques; strengthening regional cooperation among member countries; and consolidating regional AML/CFT/PF capacity building for the adoption of a risk-based approach to standards (ESAAMLG, 2017).

4.1.3 Required activities

Building on current activities. The following activities are already underway to support AML/CFT/PF harmonisation in SADC:

1. *SADC forms part of ESAAMLG.* SADC Member States engage on AML/CFT/PF related matters as part of the regional FATF style body ESAAMLG. A regional focus would help coordinate and implement activities or objectives agreed at this level.

2. *SADC FATF recommendation review.* The SADC-SIBE programme is currently consulting experts to assess the level of a risk-based approach to implementation of the Financial Action Task Force (FATF) recommendations to ensure effective and proportionate measures against Money-laundering, terrorist financing, and proliferation financing in the SADC region are commensurate with the risks they pose.

3. *CCBG AML/CFT review for digitised payment products and services.* One of the CCBG's focus areas for 2021-2023 (CCBG strategy) is the harmonisation of AML/CFT policies to address digitised payment products and services based on new and disruptive technologies in collaboration with other authorities. The goal of the strategy is to develop a framework on harmonised AML/CFT provisions which have been developed and adopted. The report will be available in the second quarter of 2022.
4. *CCBG KYC mapping.* The CCBG AML/CFT harmonisation task team is presently mapping the main KYC, item limits and originator information[10] requirements in the region (Stakeholder Interviews, 2021). This mapping will show the various interpretations, thresholds, and regulations that different countries in the region have applied. These exercises are needed as a basis for determining the principles that could govern an effort to harmonise AML/CFT provisions in the region. The exercise is currently limited to remittances, mobile money accounts, bank accounts and card transactions (debit/card).

[10] *Name, address, date of birth and ID No.*

5. *CISNA AML/CFT/PF activities*. CISNA is currently evaluating how best to collaborate around AML/CFT as part of Annex 12 Anti-money Laundering of the Protocol on Finance and Investment (CISNA, 2019) (Stakeholder Interviews, 2022) as a next step to build on the earlier work by the CISNA AML/CFT/PF technical committee. This committee aimed to help non-bank financial institutions achieve full harmonisation of regulatory practices of the SADC countries' AML/CFT/PF activitiesin line with FATF with a focus on model laws and licensing.

Additional activities required. The following additional activities are proposed:

1. *Establishing a SADC AML/CFT/PF Committee* as proposed by Annex 12 of the SADC Finance and Investment protocol (SADC, 2006) to coordinate in the region on the implementation AML/CFT/PF priorities agreed at ESAAMLG level, establish regional AML/CFT/PF outcomes, principles and standards and develop local evidence and capacity. This sub-committee could also coordinate with other SADC structures towards common objectives (e.g., CCBG, CISNA, ICT) and implement the consensus and initiatives of ESAAMLG within the SADC region and providing consolidated regional feedback to enrich deliberations.
2. *Develop a regional AML/CFT/PF framework with a focus on risk assessment considerations, evidence, tools, and approaches.* The framework would include identifying the nature of risks, how risks manifest, establishing risk measurement standards and determining the risk management response. The latter should provide a foundation to guide implementation of eCDD and consider verification methods in support of inclusion. Standards of evidence are required for stakeholders to know what and how to calculate to understand critical risk on a common basis for comparability, based upon established actuarial, statistical and scientific disciplines. Such evidence should replacement of subjective risk assessments with objective quantitative analysis and models and validation through qualitative research.
3. *Establish regional principles-based guidelines to implement AML/CFT/PF as an alternative to a traditional rules-based approach*. A regional principles-based approach would facilitate ID and CDD recognition facilitating the implementation of regional identities for finance (this subject is discussed in chapter 4.3) and enable regional implementation of remote onboarding allowing to reach the underbanked. Principles-based regulation, in contrast to rule-based approaches, relies less on detailed, prescriptive rules and "more on high-level, broadly stated rules or principles to set the standards by which regulated firms must conduct business" (Black, 2007). In this sense, outcomes and objectives are set but the mechanisms on how to achieve those outcomes are determined by each country. The guidelines should show how to evaluate markets and develop an appropriate response based on the local context.
4. *Build capacity with relevant regulators on regional AML/CFT/PF approaches* with a focus on regional evidence, risk-based approaches[11] and digitalisation. Existing work with ESAAMLG and forums such as the Egmont Group of Financial Intelligence Units[12] could be useful in this regard, however a regional approach focussed on regional objectives would be useful in addition to other capacity building options available.

[11] *"A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk" (FATF, 2014).*

[12] *The Egmont group is an international body conformed by 167 Financial Intelligence Units that provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF) (Egmont Group, 2021).*

5. *Data management and Regtech to reduce illicit flows*. A regional risk management approach is required to avoid round tripping permitting illicit flows (Klasa, 2018). Legal entity identifiers (LEIs) ought to be explored as part of the effort against illicit flows (FSB, 2020).

4.2 Regional digital payments framework

4.2.1 Why a priority?

Broad consensus on importance of payments digitalisation. Enabling digital payments forms the basis for the development of new products and services and increases the uptake of financial services (SADC, 2021). SADC recognises the critical role of payments and the need for a regional approach in Annex 6 Cooperation on Payment, Clearing and Settlement Systems of the Protocol on Finance and Investment. Interoperable digital payments can foster the reduction of cash usage, enable the use of formal financial services, and reduce the cost of remittances and trade. It also has a second-tier impact on SME growth, job creation and economic integration, both in-country and across the region (SADC, 2016). Thus, payments digitalisation is a strategic objective for SADC[13]. This was confirmed in the interviews, where regulators from twelve member countries, as well as the CCBG and the SADC FI Subcommittee highlighted the role of digital payment systems to foster the implementation of lower cost and immediate payment systems for domestic and cross-border payments (Stakeholder interviews, 2021)[14].

4.2.2 Harmonisation rationale and purpose

Key constraints to overcome. The following constraints limit the implementation of inclusive cross border digital payments in SADC and underpin the need for harmonisation:

1. *Low margins, high cost of delivery of digital payments across the region, forex constraints and a preference for cash limits digital payment supply and demand*. Regional innovation and regional infrastructure are required to reduce costs and enable innovative models that can meet the needs of the excluded.
2. *Regulatory complexity impedes the implementation of regional infrastructure and innovation*. Payment definitions, licensing, and conditions to operate within the payment system varies significantly across the region. Some countries have payments regulation and others include payments requirements within the regulation of banking legislation. Some countries are not yet interoperable at a national level. Identity, AML/CFT/PF and exchange control regulation further complicates the roll out of regional systems. Alignment is required to implement the TCIB and RTGS systems towards inclusive regional interoperability.

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[13] *One of CCBG strategic objectives is to enhance the SADC payment system platform to include non-banks financial institutions on the current platform with the expected output of improving the payments system platform to include non-bank financial institutions.*

Annex 6 of the Finance and Investment Protocol provides for the establishment of a framework for co-operation and coordination between Central Banks on payment, clearing and settlement systems. The scope of the Annex concerns issues relating to payment, clearing and settlement systems within each State Party, (as well as for the Region as a whole,). In the Protocol State Parties agree that the application of the Annex is intended to culminate in convergent national payment system features, policies, practices, rules and procedures within the Region.

[14] *Inclusive digital payments in the region also depends on innovation in the use of technology and fintech addressed in the related priority.*

3. *Capacity and capital constraints limits inclusive innovation*. SADC has a relatively small market for digital payments compared to other regions[15] given low-income levels and use of digital payments, with evidence suggesting that only 27% of SADC citizens access digital financial services (FMT, 2022). Digital payments systems become viable only with increasing scale and become ubiquitous where that scale is able to reduce cost friction to similar levels to cash in a virtuous cycle, such scale is uncommon at country level in SADC. A regional approach to create an enabling regulatory environment for regional payment system providers and regional use of digital payments is needed to attract investment into the region and leverage scarce capacity.
4. *Different levels of digitalisation across economies impact potential of and interest in technological innovation in payments for inclusion*. CBDC, crypto assets and paytech offer potential to support inclusion for some countries. The extent to which these areas are priorities for inclusion differs across the region. A regional approach to learn together and align on the regional approaches for innovation and fintech is needed (see related priority).
5. *Regional remittance legislation accommodates person to person payments, not SME small value trade transactions*. As the primary sending country in the region, the South African Authorised Dealers with Limited Authority (ADLA) regulations provide for simplified requirements to make personal cross border remittances to accommodate migrant families (SARB, 2022). SMEs face significant constraints to make formal cross border payments which affects the use of formal payments for trade. Regional payment related regulation and systems need to accommodate small value trade to support the growth of SMEs.
6. *SADC mandate and nature of regional integration limits role in infrastructure roll-out such as the TCIB payment scheme*. The nature of payment systems such as the TCIB, whose structural design combines a private actor for its implementation and management (BankservAfrica) (World Bank, 2021), with oversight of SADC bodies (SADC Banking Association, PSOC and PSMB), has complicated the communication and dissemination necessary for potential participants to understand the functioning, advantages and requirements of the payment system including those responsible for oversight at member country level (Stakeholder interviews, 2021).

Box 2 3: Transactions Cleared on an Immediate Basis (TCIB)

The TCIB is a cross-border, low value payment scheme that enables the immediate clearing of single credit transactions which are settled on a deferred basis. The interoperable platform developed by the SADC Banking Association, in collaboration with BankservAfrica, is open to banks and non-banks across SADC with integration points into other economic communities (EAC, COMESA) (BankservAfrica, 2021). The TCIB can cater for high volume, day-to-day, low value transactions in real time.

The payment system allows banks and non-banks to participate, provided they meet a set of criteria including acquiring a letter of authority from both their local central bank and cross-border payment regulators and adhering to AML/CFT/KYC/BOP reporting requirements as directed by their home regulator (SADC-CCBG, 2021).

TCIB transactions can be initiated via mobile phone or agents for cash-in and cash-out purposes. However, the authorised bank or non-bank sends the payment instructions, in any of the currencies in

[15] *According to the latest World Bank Findex survey data, globally in developing economies 44 percent of adults reported making or receiving at least one digital payment in the past year. In SSA, 34% of the people surveyed reported having made or received digital payments compared to 58% in East Asia & Pacific (Kunt, et al., 2018).*

SADC, to the SADC Regional Clearing and Settlement System Operator (RCSO). “The obligations arising from the TCIB are settled daily through the SADC-RTGS system or via correspondent banking arrangements where the settlement currency is not yet onboarded on the SADC-RTGS” (SADC-CCBG, 2021, p. 6)

“BankservAfrica has been authorised as the SADC RCSO to provide clearing services for SADC retail payments which will include the TCIB payment scheme. Furthermore, the SADC PSOC has appointed BankservAfrica as the TICB Scheme Manager, which role shall be executed in terms of the mandate agreed and signed between the SADC PSOC and BankservAfrica” (SADC-CCBG, 2021, p. 6).

TCIB was launched in a controlled environment in July 2021 within two countries (Namibia and Zimbabwe) and will be implemented across all 15 active SADC PSOC member countries[16] (SADC-CCBG, 2021). The system is now open to other participants (banks and non-banks) with the objective of on-boarding 40 new members during the first two years of the project (World Bank, 2021).

Diverse approaches. As indicated in Annexure F, thirteen SADC countries provide for payments digitalisation and interoperability as part of their financial inclusion strategies. However, Member States are taking different approaches in terms of who can offer payment services, licensing conditions, prudential requirements, consumer protection requirements, AML/CFT/PF requirements and cross border reporting. New types of providers also need to be regulated in a harmonised manner, which SADC Mobile Money guidelines released by the CCBG seeks to support (SADC-CCBG, 2016). The CCBG digital payments task team has developed a payments model law and is in the process of mapping the varied approaches to digital payments regulation through SADC members.

Three main harmonisation use cases. Out of the above, the main use cases identified for a harmonised approach to digital and cross-border payments are:

i. *Implementation of TCIB*. Several interviewees emphasised that regulatory harmonisation is needed to adopt the TCIB low-cost cross border regional retail payment scheme, but not all of them have implemented or regulated for this new payment system. Once implemented this could provide a channel for cross border trade.

ii. *Implementation of the SADC mobile money guidelines* (SADC-CCBG, 2016). The mobile money guidelines form a core framework for harmonisation, but implementation is not yet universal or uniform. Four regulatorshave adopted the guidelines as at the date of drafting (FMT, 2019)[17].

iii. *Access to payment systems by new entrants to encourage inclusive innovation.* New providers of payment services will be key to inclusion. Mobile money providers are an early example, but current paytech initiatives provide an increasing range of options towards inclusion. A regional payments framework would provide alignment on the actors who can participate, thresholds and transaction limits, AML/CFT/PF requirements, cross border transaction requirements, risk management measures, reporting requirements, forex requirements and consumer protection measures which would encourage inclusive regional innovation and build consumer trust (Abrahams, 2017).

Exploring Central Bank Digital Currency (CBDC). Additionally, five countries are in the research stage for the implementation of CBDC as a ubiquitous digital government payment

[16] *Angola, Botswana, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Tanzania, Zambia, and Zimbabwe.*

[17] *Malawi, Lesotho, Zimbabwe and Eswatini have implemented the guidelines to date with Botswana underway.*

system (CBDC Tracker, 2021). Again, a harmonised approach will help to guide Member States along this journey.

Box 4: Regional structures for payments harmonisation – other regional and pan-African examples

East African Community regional harmonisation. The EAC is looking to modernise the payment and settlement systems linking the East African Payment System (EAPS) with other payment solutions to enable transfers across the continent at both retail and wholesale levels (Kasekende, 2019). The EAPS uses the existing real-time gross settlement framework to achieve safe and efficient cross-border transfers. The EAC is working on policy and regulations to support the payments and settlement system, some of these initiatives include the development of a harmonised legal and regulatory regional framework; a cross border regional regulatory framework; a regional oversight policy framework and regional failure to settle policy. The EAC is also initiating preparation for an integrated Single Payment System for the region (EAPS 2); establishing real time clearing for low value retail payments and a regional switch that will connect to the national switch in each EAC country. (EAC, 2019).

Pan-African Payment & Settlement System (PAPSS). PAPSS is a cross-border, financial market infrastructure enabling payment transactions across Africa. The systems permit instant transfer of funds between originators in one African country and beneficiaries in another. To enable instant payments PAPSS supports three core processes: instant payment, pre-funding, and net settlement. Instant payments, this allows users to pay in their own currency while the vendor receives payment in their own currency (PAPSS, 2022). The project is being developed in collaboration with the African Export-Import Bank and will facilitate payments and aim to formalise some of the non-registered cross-border trade. The system provides an alternative to current high-cost and slower correspondent banking relationships. PAPSS decreased liquidity requirements of commercial banks, decreased liquidity requirements of central banks for settlement as well as its own payments, and strengthens Central Banks' oversight of cross border payment systems (African Union , 2021). PAPSS has been successfully piloted in the six countries of the West African Monetary Zone and it is "also set to deliver harmonisation across the continent through its comprehensive legal, regulatory and operational framework comprising standardised rules, formats and governance arrangements, harmonised Know-Your-Customer and Anti-Money Laundering procedures, payment confirmation and settlement finality. A precondition for participation in PAPSS is compliance with its set rules and standards" (AFREXIMBANK, 2022).

ASEAN payments harmonisation infrastructure. The Association of Southeast Asian Nations is harmonising their payment infrastructure particularly through the adoption of the ISO20022 standard[18] to facilitate payments across borders. Other actions include the development of an ASEAN Interoperable Quick Response (QR) Code to simplify retail payments across the region. More recently three real-time payments systems have established cross-border linkages between countries in the region (Sinay, et al., 2021). Another way in which the payment landscape in the region is being revamped is by prioritising the harmonisation of standards to ensure interoperability of systems; promote the adoption of common data frameworks for faster cross-border transactions; and develop regulatory frameworks to smooth transactions across jurisdictions. An additional priority is establishing safeguards to minimise disruptions in payment systems across the region in case of security issues (Sinay, et al., 2021).

[18] *As described in the ISO webpage "ISO 20022 is a multi-part International Standard prepared by ISO Technical Committee TC68 Financial Services. It describes a common platform for the development of messages"*

4.2.3 Required activities

Building on current activities. There are a number of current activities to build on to address the constraints identified in support of regional goals:

1. *National implementation of regional mobile money guidelines developed by CCBG*. The guidelines establish five guiding principles to be taken into consideration when harmonising a regulatory framework: 1 – Central Banks as the only regulatory authority of mobile money; 2 – The telecommunications regulators play a central role in the provision of these services; 3 – The mobile money services providers are the only entity licensed by central banks to provide mobile money services 4. – Financial intelligence units must be consulted regarding AML/CFT/PF compliance and 5. – AML/CFT/PF standards must be suitable for domestic market conditions and consider SADC regional harmonisation objectives (SADC-CCBG, 2016).
2. *TCIB implementation to support regional interoperable retail instant payments*. The Scheme was launched in a controlled environment in July 2021 for transactions between a non-bank in Namibia and a bank in Zimbabwe. The payment scheme's full regional implementation was schedule to occur on the fourth quarter of 2021 (SADC-CCBG, 2021). It will be important to establish forums and open communication lines to discuss the barriers and challenges that payment systems such as the TCIB face in their implementation. Implementing the required harmonisation activities around AML/CFT/PF, retail transaction amounts and exchange control or other reporting requirements will be important to facilitate adoption of TCIB.
3. *CCBG's landscaping of KYC and CDD requirements*. The CCBG digital payments harmonisation task team has contacted regulators for payments and AML/CFT/PF in the region to put together a database of specific KYC and AML/CFT/PF requirements. The landscaping has the purpose to enable the rolling out of the TCIB by enabling regulatory harmonisation.
4. *Continue RTGS implementation for real time gross settlement system to reduce cost and improve speed, access, and transparency* (Masela, 2021). There is ongoing work by the CCBG and the SADC Banking Association to carry out these initiatives. To date, the SADC Banking Association has assisted in onboarding approximately 70 banks into the RTGS (SADC, 2021).
5. *Mapping of digital payments regulation*. The CCBG digital payments task team is in the process of mapping the varied approaches to digital payments regulation of SADC members.

Additional activities required. The following additional activities are proposed:

a) *Consider if a regional payment system framework is required to enable non-bank actors to participate in support of inclusive innovation*. The framework could determine adoption of data protocols, such as ISO 20022, and technical standards, including standards for interoperability, data sharing, and APIs, in line with international practice and to be overseen by central banks.

4.3 Regional identity for finance framework

4.3.1 Why a priority?

A main access barrier. Users require various documents to access financial services in the formal sector, such as proof of identity, proof of income or proof of residence, which low-income consumers, particularly those working in the informal sector or migrants, do not necessarily have access to. Member consultations and inclusion strategies highlights a lack of appropriate documentation as one of the main barriers which undermines a consumer's ability to fully access and utilise financial products and services. Lack of proof of identity is one of the main constraints. The World Bank estimates that 138 million people living in the SADC region do not have access to a legal identity (Kettles, 2018). Identity also needs to be electronically validatable to enable use of digital financial services and remote onboarding, key under Covid-19 constraints.

There is a need for regionally interoperable IDs or validation processes that is digitally accessible, i.e., rendering IDs electronically validatable anywhere within the SADC. This does not mean exact standards, but validation based on common fields and access to biometrics or foundational ID files for validation without exporting ID databases information outside of national borders. In some countries with limited rollout of IDs there is a need for financial IDs and also where the national ID cannot support a digital identity or the development of a proxy digital ID stack, a digital financial ID would be a valid alternative. No national within SADC should be unidentified within SADC nor be regarded as an illegal to the region.

Broad support for prioritisation. Eleven regulators and the SADC FI Subcommittee recognised that a regional digital ID framework would help ease the implementation of financial inclusion objectives and enable the virtual onboarding of new customers.

4.3.2 Harmonisation rationale and purpose

Different approaches to identity affect access, use, cost of doing business and investment. The interviewees suggested that the implementation of regionally interoperable identities that are electronically validatable would encourage the use of financial services and reduce the cost of doing business for MSMEs by lowering barriers to entry and facilitating transactions. Digital identity is needed to enable two other harmonisation priorities digital payments as well as AML/CFT/PF policies.

Three key use cases. Three use cases can be defined for digital identity to support financial inclusion in SADC:

1. *To include formally excluded individuals and migrants*. Digital ID[19], can make new forms of identity available to the millions of people in SADC that lack access to traditional forms of identification thereby allowing them to develop a more robust digital footprint and risk profile (FATF, 2020). Digital IDs that are recognised across countries could be particularly beneficial given the high level of migratory flows in various corridors in the region and the increasing need for improving cross-border financial

[19] *such as the biometrics in India's Adhar system*

services (Stakeholder Interviews, 2021)[20]. Migrants in the SADC region would be better included if they could use regional services regardless of location or nationality[21].

2. *To support remote onboarding and usage of digital financial services.* Digital ID systems allow for non-face-to-face account opening or onboarding of customers. Remote onboarding has become even more significant for the SADC region considering the drop in remittances experienced due to the Covid-19 pandemic (FMT, 2021). In so doing, it supports a shift towards cashless payments and greater financial inclusion (McKinsey, 2020). Globally, digital transactions are growing by 12.7% annually (GSMA, 2021). In SADC, there has been a significant increase in remote transactions and online activity in the region during the Covid-19 pandemic (McKinsey, 2020; Stakeholder Interviews, 2021).
3. *To facilitate trade*. Use of a digital ID could lower CDD costs while keeping high standards in the region. This would encourage businesses to trade across SADC (BFA, 2018).

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[20] *In South Africa alone there are approximately 2.9 million migrants, of which 50% send money to their home countries regularly (MDP, 2021).*

[21] *A regional digital identity framework could support the role out of country identity approaches, support cross-border services, reduce compliance costs for regional companies and improve access to migrants who need to use services across the region. A common approach to identity is also important for the effective implementation and adoption of TCIB in the region (see chapter 4.2).*

Constraints to overcome. To unlock these use cases, a number of constraints to harmonised digital ID in the region need to be overcome:

1. *Varied national approaches and degrees of digitalisation of national identities*. Countries are taking different approaches to identity and are at different levels of implementing their identity strategies: one country in the region does not have a national identity document, five countries have a non-electronic national identity document, five countries are transitioning to an electronic national identity document, three countries' national identity document is electronic but partially linked to government systems and one country has an electronic national identity document which also provides access to e-services (FMT/BFA, 2018). All in all, 11 countries have no existing electronic ID, which would be required as basis for regional identity (FMT/BFA, 2018).
2. *Low digital infrastructure and digital inclusion*. Internet penetration in the SADC region averages 29%, with countries like Madagascar and the DRC measuring 9.8% and 8.6% respectively (Malanga & Simwaka, 2021). Low digital penetration and digital infrastructure constraints may mean that digital requirements to access financial services may exclude rather than include or just be irrelevant for regional goals in the short term.
3. *Financial sector policy makers and regulators are not the lead regulators for identity*. Implementing a digital ID requires the coordination of diverse authorities with different digital systems and objectives. Financial sector regulators, by themselves, therefore, often do not have the mandate or power to drive such an initiative. Identities also need to provide access to services beyond finance such as health care, education and enable voting. The status of migrants, asylum seekers and refugees are also subject to different policy priorities than those underpinning inclusion. For regional development migration needs to be enabled and with it the related financial identities to access regional services.
4. *The appropriate digital ID model for SADC is not yet known.* Approaches to digital identity in other regions are difficult to replicate in SADC. A centralised approach as with West Africa is unlikely to be feasible or desirable in the SADC environment. A context specific approach based on local requirements is needed. A BFA study in 2018 (FMT/BFA, 2018) highlighted key design elements that need to be addressed to develop a SADC approach to digital identity: defining the objectives of the scheme, to determine the main targets; determine the parties who can issue digital IDs and those that will rely on them; the business case for the parties involved; identify costs of implementation and the bearers of those costs. If the scheme is found to be feasible, it may be tested around specific use cases within a group of selected countries, before considering wider implementation (FMT/BFA, 2018). FinMark trust is working to address these considerations as the evidence base to underpin the design of any regional identity approaches.

Box 5: Defining Digital ID, standards and global practice

The following are some of the central concepts to digital ID:

Identity: An assembly of attributes which uniquely identify an individual or legal entity, such as a small or large business, for particular use cases.

Foundational identity: National governments put various identity attributes together in specific physical documents as part of national identity schemes (e.g., National ID, Passport, business registration) (Ncube, 2020). This creates a "basis for reliance within functional schemes" as described below (FMT/BFA, 2018, p. 7).

Functional Identity: When an identity solution is developed to address specific use cases within a functional scheme such as voting or the right to drive a vehicle. (e.g., driving license, voting card, access card) (FMT/BFA, 2018).

Digital identity: When identity attributes are stored digitally, using technology to establish and prove one's identity. (e.g., a microchip in a National ID document, electronic databases to store and confirm identity evidence, digital credentials to access applications, APIs for authentication of identity and biometrics to help identify and/or authenticate people) (FATF, 2020).

Financial identity: An identity which is accepted or used in the financial sector. It is generally a form of "sectoral or functional identity" that financial institutions decide to use (e.g., credit reference bureaus) (FMT/BFA, 2018, p. 6).

Digital Financial Identity: the intersection of digital identity and financial identity. There are digital identities generally accepted by the financial sector and which SADC has contemplated as an option for the region in the past (FMT/BFA, 2018).

National vs proxy identity: A foundational national identity can be seen as the underlying verified identity that forms the foundation of any proxy identifier (Cooper, 2019). A proxy is an agreed identifier (e.g., cell phone number, email address, QR codes, biometric data and NFC). Proxy-enabled registration systems can be the basis upon which to use a proxy as a payment destination or payment initiation mechanism, without the need to prove one's banking details (Cooper, Barry; et. al., 2019).

Verification of identity: An identity scheme works following a cycle which typically involves 3 stages: enrolment, authentication, and authorisation. Enrolment is the capturing of identity attributes and biometrics, which translates in the issuances of an identity document. Authentication is used when a user is required to verify her identity to the corresponding party and certain factors are recognised (e.g., pin number, a physical card, or biometrics). Authorisation occurs once the verifying entity cross-references the authenticated identity against the rights attached to it, to allow the identity holder access to specific services or accounts (FMT/BFA, 2018).

Global standards

there are global standards that govern different forms of identity such as biometrics and passports. Identity requirements for finance is largely guided by FATF. FATF has issued guidance on digital identity based on existing national and regional requirements (FATF, 2020). The FATF provides guidance on the foundations of digital ID in line with the customer due diligence requirements of the FATF Recommendations (FATF, 2021). The objective of the guidance is to help governments, financial institutions, virtual asset service providers and other regulated entities to determine whether the data or information is reliable and independent for verification. This means that "the digital ID system used to conduct CDD relies upon technology, adequate governance, processes and procedures that provide appropriate levels of confidence that the system produces accurate results" (FATF, 2020).

Under the abovementioned guidance, a risk-based approach is essential to using digital ID for CDD, this approach requires to (1) understand the assurance levels of the digital ID system's technology, architecture and governance and (2) assess whether, given its digital ID's assurance levels, the digital ID system is appropriately reliable and independent, in light of potential fraud and other illicit financing risks.

The FATF standards remain technology-neutral, and do not favour any specific technology or requirements for digital identity for AML/CFT purposes. However, the FATF does recommend governments to develop an integrated multi-stakeholder approach to understanding opportunities and risks relevant to digital ID and develop regulations and guidance to mitigate those risks. This includes co-operation with relevant authorities to ensure the compatibility of AML/CFT requirements with digital ID systems, data protection and privacy rules (FATF, 2020).

Global approaches to regional identity

WURI. The West Africa Unique Identification for Regional Integration and Inclusion (WURI) programme's purpose is to design and implement a digital identification system to provide foundational IDs that are interoperable for all people in the ECOWAS[22] (World Bank, 2021). A foundational identity system is an identity framework which "enables the creation of identities or unique identification numbers to be used for general purposes" (Nwanta, 2020), such as national identity cards.

The goal of the WURI programme is to enable access to financial and governmental services for millions of people and ensure mutual recognition of identities across countries (World Bank, 2021). There are, however, concerns around the exclusionary effects of these kinds of initiatives. For example, in Kenya many individuals were excluded from the registration process of its foundational ID system due to their lack of identity verification documents. In Nigeria, the government has not been able to deliver ID cards to most of those registered for their programme (Nwanta, 2020).

Another example of exclusion can arise from technological failures that prevent users from registering SIM cards or accessing public services (Nwanta, 2020). Additional constraints arise out of the link between digital identities and online and electronic services. This occurs due to low access to internet in countries in the region. Lastly, the implementation of digital identification systems can also exacerbate exclusion and marginalisation, while diminishing privacy and control over data.

East African Regional Identification Project

Funded by the World Bank, this is intended to facilitate the free movement of people, this involves mutual recognition of identity documents based on protocols, upgrade of border posts and interoperability of national ID authorities.

SWIFT CDD registry

SWIFT, the messaging system that is widely used for cross-border financial transactions, allows its members to submit questionnaires on counterparties. This information can then be accessed by SWIFT members (mainly banks). This can help especially businesses trade across borders

4.3.3 Required activities

Building on current activities. The CCBG digital identity task team (with the support of FinMark Trust) is currently scoping and testing different regional financial identity approaches (Stakeholder interviews, 2021). The SADC approach needs to be context specific in order to address regional needs. FMT is implementing a scoping and piloting project to identify the priority needs for digital identities in SADC, the related constraints and identify and test models of digital identity appropriate for the region. This project also explores relevant bilateral information sharing and institutional cooperation mechanisms to enable the usage of regionally verifiable identities, digital identities and financial identities (Stakeholder interviews, 2021).

Additional activities required. The following additional activities are proposed:

1. *Regional identity framework*. Develop a regional digital identity framework to address the main regulatory constraints identified by the scoping study in support of priority use cases currently underway.
2. *Capacity building*. Build technical and supervisory capacity across institutions on suitable identity approaches as determined by the scoping study.

22 *Economic Community of West African States*

4.4 Regional innovation and fintech framework

4.4.1 Why a priority?

Innovation as cornerstone of financial inclusion. The need to innovate[23] for more appropriate inclusive products is a requirement across Member States financial inclusion policies. Interviews and policies highlight that innovation driven by emerging technologies is not only transforming the provision of financial products and services by changing how products are delivered by incumbent financial sectors, but also by facilitating the creation of alternative financial products and services by fintechs outside the traditional financial system. These digital innovations have the potential, at both a national and regional level, to overcome various obstacles to economic development, reduce barriers to financial inclusion, and increase competition in payments, international remittances, and other financial services. At a regional level, the CCBG has identified fintech as a priority[24] and is busy with a related report to identify the current state of fintech in SADC, regulatory constraints and opportunities to enable fintech for responsible inclusion in SADC.

Digital approaches to SME lending another innovation node. The need for innovation to meet SME needs is recognised by most inclusion strategies and policies. Five members states are looking at peer-to-peer (P2P) lending and crowdfunding to improve SME lending.

Cybersecurity and data governance underpin innovation. Cybersecurity and data governance are playing an increasingly important role in enabling innovation and the development of fintechs both at a national and regional level. Cyber and data security breaches can cause significant harm to the stability and security of financial systems and can undermine consumer trust.

Box 6: Global approaches to fintech and innovation

Global standards on fintech are not available although a number of standard setting bodies address institution or service specific aspects. Regulators globally have adopted different approaches to regulate fintech in a way that enables innovation while protecting consumers from risk. The most common approaches are discussed below (GIZ, 2019):

1. **Regulatory cooperation**

Given the borderless nature of technology enabled financial services with many fintechs operating across a number of jurisdictions, regulators benefit from coordinating with one another. The regional nature of many fintech mean collaboration and allowing for information sharing to occur on a deeper, larger and quicker scale, benefiting from a wider range of regulatory perspectives and experiences. There is a need at a regional level to create a safe environment for regulatory authorities to share experience with technology solutions, exchange supervisory information, and collaborate on emerging fintech issues and smart regulation.

Originally proposed as a “global sandbox,” the Global Financial Innovation Network (GFIN) facilitates knowledge transfer and learning across its stakeholders on shared issues of concern, including Regtech, AML/CFT initiatives, and new product trials for innovative companies expanding across borders. Like many of the early individual sandbox initiatives, GFIN draws largely from advanced economy regulators, although it may eventually mature to include a greater financial inclusion focus (GFIN, 2022).

23 Regulating for innovation is defined as follows - the term “innovation” represents both “a new idea” and “the process involved in the development of a new idea”. It may be applied to products, processes, marketing methods, organisational methods in business practices, workplace organisation and external relations. Hence, “innovation” is not just fintech but also anything that confronts regulators with something that they are unfamiliar with or unsure how to treat (Beyers, et al., 2018).

24 The 2021-2023 CCBG Strategy includes an initiative to “Identify and promote the development of innovative financial services and products that facilitate access to the domestic and regional payment services to promote financial inclusion”.

2. Regulatory learning

Financial authorities can build institutional capacities by pro-actively exposing technical experts and decision-makers to joint trainings, peer-learning, and international good practice in country approaches to new technologies. An example of such a regional initiative is the European Banking associations **Fintech Knowledge Hub** – which brings together competent authorities in a common setting and enhances engagement with incumbent and new entrant institutions and other fintech firms, technology providers and other relevant parties. Its aim is to enhance the monitoring of financial innovation, knowledge sharing about fintech and to foster technological neutrality in regulatory and supervisory approaches on an ongoing basis (European Banking Authority, 2021).

3. Regulatory guidance

A variety of approaches exist to foster inclusive regulatory innovation at a regional level, including, bilaterally or multilaterally, implementing joint tests for adequate Regtech for regulators, harmonising approaches to licensing of fintechs (passporting), while other approaches include creating an environment of dialogue, hackathons and bootcamps. In the case of novel, unregulated and potentially disruptive products, authorities have made use of regulatory sandboxes, where innovators have an opportunity to test ideas in controlled environment with live conditions and often with real customers.

The **regulatory sandbox** concept is being actively explored to promote cross-border regulatory harmonisation and enable innovators to scale more rapidly on a regional or global basis. Multi-jurisdictional sandboxes may be attractive for consumers and regulators alike, with many fintech operating across more than one jurisdiction. For many innovators, the ability to deliver a financially sustainable solution requires a scale beyond the reach of country-level markets, therefore, multi-jurisdictional sandboxes may facilitate cross-border expansion through shared testing programs and reduce the potential for regulatory arbitrage across individual sandbox jurisdictions.

The most prominent multi-jurisdictional sandbox currently underway is the **API Exchange** (APIX). Launched by the ASEAN Financial Innovation Network (AFIN). APIX is a cross-border, open-architecture platform which enables financial institutions and fintech firms to connect through a cross-border marketplace, conduct collaborative experiments in a sandbox among financial industry participants, and facilitate adoption of APIs to drive digital transformation and financial inclusion across the Asia Pacific region (AFIN, 2021).

The **Bank of Ghana** has emphasised and mandated the need to ensure that fintech entities are compliant, safe for consumers and offer significant investment potential, with the goal of enabling digital innovation which can spur the development trajectory of the country. As part of the process, a fintech and **innovation office** was established to provide a clear pathway to market for fintechs and to provide clarity of regulation and guidance by ensuring all relevant information is easily available and accessible (Oppong, 2022).

Broad support for priority. Twelve regulators, the CCBG, CISNA, and the SADC Banking Association, agree that a regional approach for innovation and an enabling environment for fintech companies are needed.

4.4.2 Harmonisation rationale and purpose

Common need with differing approaches adopted across the region. As is illustrated by Figure 1, almost all SADC countries are currently implementing new approaches to enabling fintech and innovation, although the nature of approach differs between Member States. The introduction of regulatory sandboxes has been the most commonly adopted approach (adopted by 10 Member States), followed by the creation of innovation offices (5), use of regulatory technology (Regtech) and supervisory technology (Suptech) initiatives and the drafting of fintech strategies (4). A further approach to innovation, which has yet to be adopted, is the introduction of open finance – currently both Eswatini and South Africa are exploring the feasibility of this approach for inclusion and development.

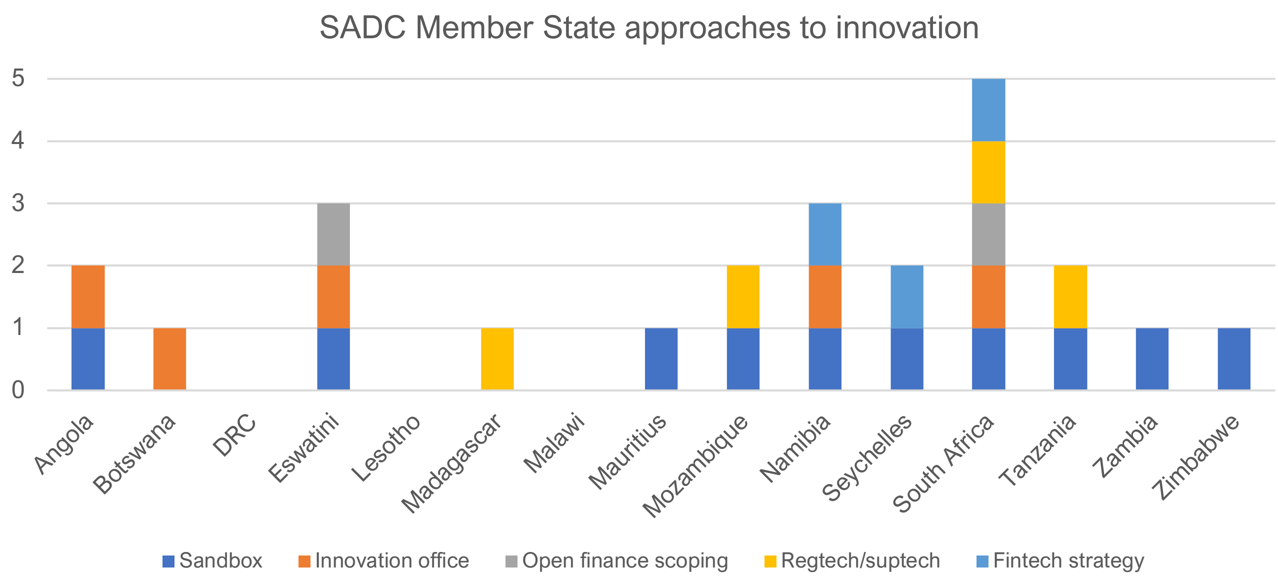

Figure 1: SADC Member States fintech innovation approaches (drawn from the data depicted in Annexure F)

The interviews noted that SADC countries possess varying degrees of regulatory knowledge and competency regarding the regulatory approaches to encourage fintech innovation and are at various levels of technological development. All interviews noted a need to deepen capacity in this area.

Key constraints to overcome. Based on the evidence reviewed, including SADC documents and various stakeholder engagements, the following constraints have been identified as barriers to fintech innovation in the SADC region:

1. ***Regulatory complexity increases cost of regional innovation.*** The varying degrees of digital inclusion between SADC Member States requires different national objectives and strategies related to digitalisation including regulating for innovation, cybersecurity, and data security. These differences across Member States make navigating the regulatory requirements of these different jurisdictions a capacity-intensive exercise for fintech and adds to the administrative burden faced by these firms. These differences amongst SADC Member States in the business regulations and environments compromise both the growth potential for Member States and regional integration prospects for the region at large – this was noted as a key weakness in the SADC Regional Indicative Strategic Development Plan (RISDP) (SADC Secretariat, 2020).
2. ***Capacity limitations.*** Given the pace at which fintechs are leveraging emerging technologies to develop and distribute products digitally, Member State regulators have noted that they are often ill equipped and have limited capacity to engage with the speed and complexity of many of these technology-induced changes. There are also currently limited regional efforts to improve the capacity and knowledge base of SADC Member State regulators.
3. ***Mandate complexity hampers clarity of licensing and supervision, which adds regulatory burden and impedes innovation.*** There are overlaps in the mandate between SADC financial sector regulators and other units such as ICT. Fintech activities tend to fall under multiple purviews within and across regulatory bodies, making it difficult for any entity to bear sole responsibility for supervision or authorisation. This ack of authority also hinder the ability for one entity to drive inclusive financial innovation in the SADC region. There is also the lack of a dedicated structure

which is able to foster regional collaboration amongst regional SADC regulators in different sectors (such as ICT), but also between the regulators responsible for inclusive regulatory innovation at a member state level.

There are two additional constraints which inhibit the foundation of an enabling environment for fintech innovation in SADC:

1. ***Limited cybersecurity mitigation and harmonisation.*** There is significant activity at a SADC national level around cyber security, in additional to the introduction of a SADC cybersecurity model law in 2013. Eleven of the 15 SADC countries have developed cyber security frameworks (Annexure F) and a regional model law has been developed. Only six of the 15 SADC Member States have operationalised National Computer Incident Response Teams (CIRT). These teams typically serve as a national focus point for coordinating cybersecurity incident response to cyber-attacks in the country (International Telecommunication Union, 2021).

   Given the impact on the financial system, the often global nature of cybercrime, the cross-jurisdictional presence of digital innovators and the threat posed by the instantaneous reach of these products, a financial sector specific approach to regional cyber threats and mitigation is needed to ensure the system and its consumers are protected. This approach needs to be designed and implemented through effective coordination between financial sector regulators and ICT regulators to ensure that a regional approach to cyber security supports the financial inclusion objectives of the region[25].

2. ***Limited data security and data sharing harmonisation***. The emergence of digital financial services continues to pose various risks and challenges around the collection, storage, processing and exchange of consumer data by a variety of relevant parties. Data security and data sharing is critical for digital innovation, but the regulatory approaches in the region vary significantly which increases the cost and feasibility of regional innovation. While 13 of the 16SADC Member States assessed have dedicated data protection frameworks in place, there is an increasing trend of SADC countries which have implemented data localisation requirements in various forms – including Mozambique and the DRC, while in South Africa a process is under way. Data localisation limits the business case for regional fintech, or digital financial service offerings given scarce capacity in data science, data storage and data security. Localisation also inhibits the use of cloud services to store and share data across various jurisdictions, meaning firms have to set up expensive servers in countries within which they aim to operate – further hindering the potential of firms to expand throughout the region (UNCTAD, 2016).

Harmonisation use cases. While context-relevant variations in approach are necessary, the region will nevertheless benefit from some level of harmonisation to overcome the constraints noted above. A framework that sets out a regional approach to innovation will provide a platform for learning and alignment across mandate boundaries and help to catalyse priority innovations relevant to the region. Such a regionally harmonised approach to innovation has the potential to increase the economies of scale of investment by enabling access to a larger market, to reduce the cost of compliance, thereby improving affordability, to allow for cross

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[25] *An initiative which has emerged continentally with the aim of undertaking such an approach is the Africa Cybersecurity Resource Center (ACRC), which is dedicated to building a taskforce of African experts to deliver world-class cybersecurity services and information sharing throughout Africa to protect the Financial Sector and its customers, and contribute to Financial Stability and Financial Inclusion (Africa Cybersecurity Resource Center, 2021).*

border distribution of products, to support the development of shared capacity, as well as to promote consumer protection.

The scale of new legislation in data and cybersecurity governance can pose a constraint to financial inclusion if not developed in coordination with financial inclusion policy makers and if not aligned across the region.

4.4.3 Required activities

Building on current activities. For a regional approach to be effective, it needs to be informed by a SADC-specific evidence base on fintech activities currently taking place in the region. The CCBG established a Fintech Workgroup in March 2019, which is chaired by the Payments System Subcommittee with a focus on products supervised by Central Banks. The primary mandate of the workgroup is to analyse fintech developments, in relation to distributed ledger technology, central bank digital currencies, crypto assets, big data, open banking, including related regulatory and policy matters emanating from these developments. The workgroup draws its membership from various Member States and CCBG subcommittees such as the Payments System, Banking Supervision, Legal, Macroeconomic, Financial Market and Information and Communications Technology.

The working group is expected to deliver a framework for innovative financial services and products and provide regular progress reports to the CCBG (SADC, 2019). As part of this process, six workstream projects were established to focus on the landscaping of the SADC fintech environment, scoping of best practice guidelines, development of a framework for fintech, creation of a gaps and harmonised regulatory framework in fintech, scoping of policy positions and regulatory regimes in CBDC as well as the benchmarking of fintech strategies against other structures in the region (SADC CCBG Fintech Workgroup, 2021).

Additional activities required. The current activities, while important, are not sufficient to reach the harmonisation objectives. Based on the various interviews, reports cited in this chapter and the current status of SADCs fintech ecosystem, a regional regulating for innovation framework is needed to address the constraints hampering innovation in the region and provide a shared foundation for national approaches to fintech and digital innovation. Additional activities are recommended:

1. *Evidence base beyond banking and payments*. The current work underway by the CCBG's fintech working groups focusses on institutions in their mandate (mostly banking and payments). A regional approach to fintech and innovation needs to be based on evidence on the state of fintech and related constraints or opportunities across the full suite of financial services, including products relevant for SMEs such as new forms of credit, capital, and insurance.
2. *Innovation and fintech sub-committee needed – could be part of the financial inclusion committee*. A Fintech and innovation sub-committee could be established to act as innovation hub to coordinate and test and learn across financial service institutional mandates (e.g., CCBG, CISNA, COSSE) and engage with ICT and ID regulators.
3. *Harmonised innovation framework*. Regional vision and supporting tools for responsible fintech and digital innovation, including policy, regulatory, supervisory, and softer engagement options and priorities in support of inclusion. Such an approach could encourage healthy competition and entry into the market by responsible institutions.
4. *Build regional capacity.* Partnering with regional experts and fintech networks to develop capacity on emerging digital innovations.

4.5 Regional consumer protection and market conduct framework

4.5.1 Why a priority?

Central to a trusted financial sector. New products and technologies are helping to reduce costs and extend the reach of financial services, but also bring new risks. Thus, there is a need for financial consumer protection (FCP) to ensure that the public is fully protected against unscrupulous and predatory practices and is empowered through adequate disclosure, financial education and recourse to know and act on their rights and responsibilities as consumers.

Importance of FCP for financial inclusion and regional financial integration objectives. The SADC FI Subcommittee, CCBG, CISNA, FIC, CoSSE, and twelve regulators in the region have identified low levels of trust as a critical barrier to financial inclusion. Related to the objective of building trust is the need for literate consumers who can use products to their benefit and for effective regional cybersecurity frameworks to limit fraud and theft. Enhanced FCP outcomes across the region will contribute to increased trust in the formal financial services sector, increased accountability through transparency, fairer and more competitive financial markets and the promotion of financial literacy through provision of information that enables consumers to make informed decisions on available financial services. In this way, FCP is foundational to the development of an inclusive financial sector.

4.5.2 Harmonisation rationale and purpose

No central framework for harmonisation. Several SADC policies and strategies already directly or indirectly reference consumer protection. These include:

- SADC Vision 2050
- SADC Regional Indicative Strategic Development Plan (RISDP) 2020-2030
- SADC Finance and Investment Protocol
- SADC Industrialisation Strategy and Roadmap (2015-2063)
- SADC Financial Inclusion Strategy (2016-2021)
- SADC Mobile Money guidelines
- SADC Declaration on Regional Co-operation in Competition and Consumer Policies

However, there is of yet no integrated view of financial protection to guide the development of a more holistic approach to consumer protection within and across Member States.

Efficiency gains to support broader SADC objectives. Harmonising principles and approaches for FCP across the region creates greater certainty and efficiency for financial institutions operating cross-border, as compliance costs can be streamlined when a central corporate approach to FCP is compatible across different jurisdictions. This promotes investment and cross-border operations in the region, thereby supporting the conditions for regional financial integration to support the achievement of the objectives of the SADC Vision 2050, the SADC Regional Indicative Strategic Development Plan (RISDP) 2020-2030 and the SADC Industrialisation Strategy and Roadmap (2015-2063).

Expressed harmonisation objective. A review of legal frameworks and regulations across the SADC Member States shows that financial consumer protection (FCP) in SADC is not starting from a blank slate (see Annexure F). Most countries have a general consumer protection law, and the majority have dedicated consumer protection provisions in financial sector laws. There is a trend towards the development of dedicated financial consumer protection legislation, as well as explicit inclusion of treating customers fairly principles. However, there is significant variation in terms of where FCP provisions are housed, and different Member States are at different stages of development and implementation of their FCP frameworks.

Consultations with Member States confirmed that there is already significant ground covered on financial consumer protection in SADC, but that frameworks are fragmented, spread across different regulatory authorities, and sometimes outdated. Member States expressed a need to consolidate and update practices, especially in light of new risks arising from digital innovation, as well as to move towards the harmonisation of frameworks across different financial regulatory authorities, in line with a risk-based approach to market conduct supervision. This requires dedicated oversight structures for market conduct and a principles-based approach that centres on consumer outcomes, and that moves towards progressive measurement of consumer outcomes and incorporation of the consumer voice over time.

Box 78. Established global best-practice on FCP

There is a strong global literature that outlines core or foundational principles for financial consumer protection on which to build a harmonised framework for SADC. Key resources include the G20 Principles for Financial Consumer Protection (OECD, 2011), The Centre for Financial Inclusion (CFI) Handbook on Consumer Protection in Inclusive Finance (CFI, 2019), AFI Policy Considerations for Consumer Protection (AFI, 2010), the UN Guidelines on Consumer Protection (UNCTAD, 2016), the World Bank's Good Practices for Financial Consumer Protection (World Bank, 2017) and CGAP's work on Consumer Protection Regulation in Low-access Environments (CGAP, 2010) as well as later publications on consumer outcomes and making financial regulation more consumer centric (CGAP, 2021).

Pertinent FCP needs. The following areas have been identified as pertinent to the evolution of FCP frameworks and approaches across the region:

1. **Digital consumer protection**. The rise of digital financial services brings with it significant potential benefits to consumers, but also risks, especially for vulnerable and less financially literate consumers. Member States emphasised the need to update financial consumer protection frameworks to adequately respond to such risks, and for principles- and outcomes-based frameworks that can evolve with evolving market practices.
2. **Formalisation**. Most Member States have some extent of informal provision of credit and insurance. Users of informal financial services are not afforded any financial consumer protection. This creates an additional formalisation and enforcement imperative as part of the design and implementation of the financial consumer protection framework.
3. **Framework consolidation.** Member States expressed a need to consolidate and update practices on FCP and to move towards the harmonisation of frameworks across different financial regulatory authorities. To keep up with changing market realities, it is important that such a framework is principles-based, rather than rules-based.
4. **Dedicated market conduct oversight**. Consolidation of FCP requirements calls for dedicated oversight structures for market conduct. Some Member States have separated out market conduct units from prudential divisions, but mostly the focus is still relatively new, with such departments still becoming operational. Member States also expressed a cross-cutting need for guidance on market conduct risk-based supervision.
5. **Avoiding unintended consequences**. Consumer protection can create a risk of excluding the low-income market that it intends to protect, if not implemented with due consideration

of compliance cost and likely impacts on market incentives. This reconfirms need for harmonisation of practices across Member States to streamline compliance requirements for provision of cross-border financial services and for financial institutions operating in more than one Member State.

6. **Consumer voice and outcomes**. Finally, there is a need for more work to draw on direct consumer insights to inform financial consumer protection regulation and practices, and for the FCP frameworks applied across Member States to have a consumer outcomes focus and move towards progressive measurement of such outcomes, rather than just tick-box market conduct compliance.

Ancillary harmonisation needs: data governance and cybersecurity. Twelve regulators and the CCBG and the SADC FI Subcommittee expressed concerns around their ability to improve safety given cyber risks. Four regulators, the CCBG, CISNA, and the SADC Banking Association, mentioned the need to harmonise regional approaches on data sharing, data management, and data privacy and security to enable responsible innovation. In this regard, coordination with the ICT sector will be key.

4.5.3 Required activities

***Development of SADC Market Conduct and FCP Guidelines*.** In response to the need for an integrated framework to form the basis for harmonisation on FCP in SADC, SADC, under SIBE, has commissioned the development of *Market Conduct and Financial Consumer Protection Guidelines in line with international best practice*.

Box 9: **Guiding principles for FCP harmonisation in SADC**

Balancing the need for inclusive financial services with responsible market conduct and sound practices that build confidence and trust in the financial system requires a common set of principles or guidelines to set the tone for market conduct and to orient regulatory and institutional structures for financial consumer protection across the region. By mapping the key elements across global best-practice frameworks and adding front-of-mind considerations for Member States in the digital financial services era, the forthcoming *Market Conduct and FCP Guidelines for SADC* identify 11 FCP principles as a guiding framework for harmonisation across SADC member states:

Table 3: Guiding framework: Principles for FCP in SADC

	Principle	*What it entails*
11. Overarching: Fair Customer Outcomes	**1. Recognition of the importance of consumer protection in the legal and regulatory framework**	The inclusion of consumer protection in all relevant forms of law and regulation to set out a framework for addressing consumers' risks.
	2. Effective oversight of consumer protection, including market monitoring by regulators	The creation and empowerment of oversight bodies to monitor consumer protection.
	3. Responsible conduct by service providers	Ensuring that financial service providers (FSPs) "work in the best interest of their customers" and that customers are "treated equitably, honestly and fairly at all stages of their relationship with financial service providers" *(OECD, 2011)*.
	4. Access to information by consumers (disclosure)	Customers are provided with sufficient information in an appropriate manner so that they can understand the product or services as much as is reasonable and make informed choices.
	5. Financial education to build financial literacy	Providing consumers with "the knowledge and skills necessary to understand risks, including financial risks, to [make] informed decisions and to access competent and professional advice and assistance" *(UNCTAD, 2016)*.
	6. Accessible dispute resolution and redress	The provision of mechanisms for consumers to raise complaints against financial service providers, both within the entity and with an independent body.
	7. Protection of consumers' assets through effective prudential regulation	The protection of the prudential soundness of consumers' assets from misuses, such as fraud and deception, and improper management.
	8. Privacy and personal data protection	The protection of consumers' financial and personal data from improper use, management and storage by FSPs or other relevant parties.
	9. Cybersecurity[26]	The protection of consumers from cyber-attacks, including "cyber fraudsters, criminals, hackers and other malicious actors who use digital media technologies to commit heinous crimes" *(MISA-Zimbabwe, 2021)*
	10. A competitive financial sector	Promoting competition in the financial sector so that customers have more choices of financial services and put pressure on FSPs to offer competitive products *(OECD, 2011)*.

Sources: (UNCTAD, 2016) (CGAP, 2010) (CFI, 2019) (World Bank, 2017) (OECD, 2011) (MISA-Zimbabwe, 2021)

26 *Cybersecurity was not noted as a separate element in any of the global FCP frameworks reviewed. Given the growing prominence of cybersecurity as a topic for financial regulators and global financial standard-setting bodies such as the BIS, as well as the risks related to cybercrimes emphasised in the consultations with member states, cybersecurity was separated out from data protection as a standalone FCP element of the SADC guiding framework, even if it has not been noted as such in the FCP literature, specifically.*

The eleventh principle of fair customer outcomes is positioned as an umbrella principle in which all the other principles culminate, and which should guide the overall approach to the development of the FCP framework for each member state.

The forthcoming SADC Market Conduct and FCP Guidelines develops a set of regional context-appropriate guidelines for each principle[27].

Formation of a Consumer Protection and Financial Education Task Team under the Financial Inclusion Sub-Committee. Apart from the ongoing Member State-specific implementation journeys that the Market Conduct and FCP guidelines will inform, there is an imperative for SADC itself to continue its work and coordination on FCP for learning and harmonisation across Member States. The recently established Consumer Protection and Financial Education Task Team under the Financial Inclusion Sub-committee is a good starting point, and the guidelines provide the framework to inform the roadmap agenda for the task team. The creation of such a regional structure as a forum for peer exchange on FCP progress, challenges, and learning, will help to activate and empower the national-level champions referred to above.

Development of model laws. The CISNA secretariat is developing model laws for different product markets/institutions, as well as a cross-cutting model law for financial services intermediaries, that incorporate FCP elements. These model laws already form a vehicle for regulatory harmonisation. However, they are specific to non-bank financial institutions, as the jurisdiction of CISNA members, and hence do not present a cross-cutting FCP framework that also incorporates the banking sector.

Context-relevant implementation and capacity building. Once the *SADC Market Conduct and FCP Guidelines* have been validated by Member States, the onus is on each Member State to implement the guidelines as basis for (gradual) harmonisation. While the Market conduct and FCP principles framework sets the parameters for FCP, an immediate and blanket implementation of all guidelines will not be feasible in all Member States. Rather, by subscribing to the principles, Member States commit to progressively implement the principles and corresponding guidelines within their individual country context and given their existing regulatory and market structures and level of capacity.

Establishing a central market conduct sub-committee across CCBG and CISNA. Given the broad-ranging nature of the FCP topic and the fundamental role of FCP in financial regulation, it may be valuable to elevate FCP as a standalone topic within the SADC committee structures, rather than embedded as a sub-topic within the Financial Inclusion Sub-committee. This could take the form of a dedicated market conduct/FCP sub-committee across the CCBG and CISNA, to allow for the coordination on the topic which is needed between central banks and non-bank financial institution regulators at country level, to also manifest at the regional level. Such a sub-committee would then also proactively engage with the SADC Banking Association to build public-private dialogue on key market conduct elements. It would facilitate peer exchange and learning on market conduct implementation and can form working groups to take forward work on specific topics, given the breadth of scope of FCP. In this way,

[27] *See Appendix X for a summary of the guidelines.*

the committee can help Member States to build up momentum towards a risk-based market conduct supervision founded on customer outcomes principles.

5 Recommendations and conclusion

Financial inclusion can contribute to achieving sustainable and inclusive economic growth, support job creation in SADC through inclusion of all players in the economy, particularly the previously excluded and disadvantaged, such as women, youth and SMEs. Financial inclusion can also support the industrialisation agenda in the SADC region which foresees the enhancement of financial inclusion at regional and national level. Financial Inclusion is also an essential instrument for increasing production for small enterprises and eventually increasing household income. Financial inclusion is also essential to enabling governments to meet their developmental goals, especially on expanding and improving the quality of financial inclusion, which is one of the 2030 Sustainable Development Goals (SDGs).

The specific objectives of the assignment was to identify financial inclusion regulatory harmonisation priorities and related capacity building for financial sector regulators and policy makers in the SADC region to implement these priorities, as well as to develop related timelines for harmonisation of policy and regulation.

This report sets out the main constraints, opportunities and recommendations towards harmonisation and inclusion. The main actions recommended, and related timelines are set out in the action plan in Annexure G to this report.

Member States identified a need to harmonise regulation related to AML/CFT/PF, digital payments, identity for finance, innovation and fintech and consumer protection and market conduct. These areas were considered by those interviewed to be the most significant requirements for regional inclusion – either to avoid unintended regional consequences of differing regulatory approaches for the region; or for the region to benefit from the efficiencies of a common approach both for regulators to share capacity and to reduce the cost of doing regional business through common and clear regional rules.

This report recommends a regulatory harmonisation framework in support of financial inclusion with a focus on the five priority areas identified by Member States[28]. A number of activities are already underway across the region under each priority area and should be continued. The additional harmonisation activities recommended per priority area in this report are set out below:

a) AML/CFT/PF regulatory harmonisation activities proposed:

   i. Establish a SADC AML/CFT/PF Committee as proposed by Annex 12 of the SADC Finance and Investment protocol (SADC, 2006) to coordinate in the region on the implementation AML/CFT/PF priorities agreed at ESAAMLG level, establish regional AML/CFT/PF outcomes, principles and standards and develop local evidence and capacity.

   ii. Develop a regional AML/CFT/PF framework with a focus on risk assessment considerations, evidence, tools, and approaches.

[28] *These activities can be developed into one regional financial inclusion regulatory harmonisation framework or as separate standalone frameworks for each priority area, depending on the implementing body.*

iii. Establish regional principles-based guidelines to implement AML/CFT/PF as an alternative to a traditional rules-based approach.

iv. Build capacity with relevant regulators on regional AML/CFT/PF approaches with a focus on regional evidence, risk-based approaches[29] and digitalisation.

v. Develop regional data management and Regtech approaches to reduce illicit flows.

b) Digital payments regulatory harmonisation activities proposed:

i. Develop a regional payment system framework to enable non-bank actors to participate in support of inclusive innovation. The framework could determine adoption of data protocols, such as ISO 20022, and technical standards, including standards for interoperability, data sharing, and APIs, in line with international practice and to be overseen by central banks.

c) Identity for finance regulatory harmonisation activities proposed:

i. Develop a regional digital identity framework to address the main regulatory constraints identified by the scoping study in support of priority use cases currently underway, drawing on the current scoping work underway by the FMT under the digital identity taskforce.

ii. Build technical and supervisory capacity across institutions on suitable identity approaches as determined by the FMT scoping study.

d) Innovation and fintech regulatory harmonisation activities proposed:

i. Establish a fintech evidence that addresses all financial services, building on the deep work by the CCBG fintech working group focussed on banking and payments including products relevant for SMEs such as new forms of credit, capital, and insurance.

ii. Establish an innovation and fintech sub-committee (as a standalone committee or as a task team under the financial inclusion committee) to coordinate and test and learn across financial service institutional mandates (e.g., CCBG, CISNA, COSSE) and engage with ICT (including data and cyber security) and identity regulators.

iii. Develop a regional vision, framework and supporting tools for responsible fintech and digital innovation, including policy, regulatory, supervisory, and softer engagement options and priorities in support of inclusion. Such an approach could encourage healthy competition and entry into the market by responsible institutions.

iv. Build regional capacity on emerging innovation and related regulatory approaches, partnering with regional experts and fintech networks.

e) Consumer protection and market conduct regulatory harmonisation activities proposed*:*

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29 *"A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risk to which they are exposed, and take the appropriate mitigation measures in accordance with the level of risk" (FATF, 2014).*

i. Develop SADC Market Conduct and FCP Guidelines.

ii. Form a Consumer Protection and Financial Education Task Team under the Financial Inclusion Sub-Committee to guide the development of model laws and capacity building.

iii. Develop model laws related to FCP and market conduct as foundation for Member State regulation and supervision.

iv. Build capacity to implement market conduct and FCP guidelines and laws in a context-relevant manner.

Establish a central market conduct sub-committee across CCBG and CISNA. Given the broad-ranging nature of the FCP topic and the fundamental role of FCP in financial regulation, it may be valuable to elevate FCP as a standalone topic within the SADC committee structures, rather than embedded as a sub-topic within the Financial Inclusion Sub-committee. The harmonisation activities proposed include regulatory frameworks and capacity building as well as new ways of collaborating across regulators. The cross-cutting nature of innovation and consumer protection requires increasing coordination between financial sector regulatory bodies as well as with ICT regulators. New coordination structures will be required to effectively engage on constraints and harmonise regulation towards financial inclusion.

Financial inclusion holds the potential to improve many lives in the region. Harmonising efforts across SADC member states will help achieve this important regional objective.

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Annexure A: Stakeholders interviewed/engaged in data collection[30]

#	Meetings for Financial Inclusion policy harmonisation STE
1	SADC- FIC finance team
2	SADC – FIC Director
3	CCBG – PS + ICT
4	SADC FI – Malawi
5	SADC FI Sub-co – Chair and deputy
6	SADC FI Sub-co – SA Treasury
7	SADC FI Sub-co, CP task team – SA Treasury
8	SADC FI Sub-co – Tanzania MoF
9	SADC FI Sub-co, CP task team – Tanzania TIRA
10	SADC FI Sub-co – Seychelles
11	SADC FI Sub-co – Madagascar
12	SADC FI Sub-co – Zambia
13	SADC FI Sub-co, CP task Team – Angola
14	SADC FI Sub-co, CP task team – Eswatini
15	SADC FI Sub-co, CP task team – Lesotho
16	SADC FI Sub-co, CP Task Team – Mauritius
17	SADC FI Sub-co, CP Task Team – Mozambique
18	CISNA
19	SADC Banking Association
20	SADC FI Sub-co – Zimbabwe
21	SADC FI sub-co, CP task team – Zimbabwe
22	SADC FI sub-co, CP task team – Namibia
23	CoSSE
24	CCBG – Digital Identity Harmonisation task team – FMT
25	CCBG – Fintech innovation harmonisation task team
26	CCBG – AML/CFT harmonisation and Digital Payments (TCIB) task teams
27	AFI – Digital Financial Services
28	Barry Cooper - AML/CFT/PF specialist
29	Jean Louise Perrier – ACRC, Data and Cybersecurity
30	David Medine – Data, Cybersecurity, Fintech specialist
31	Kwame Owambo - ex WB, Ghana CB Innovation lead
32	FinMark Trust – digital identity, AML/CFT/PF
33	Jeremy Grey – Regulating for innovation and fintech specialist

30 The insights shared by the stakeholders interviewed were instrumental in the preparation of this report. Any misinterpretation or incorrect reflection of the discussions is the responsibility of the author of this document, not of those interviewed.

Annexure B: Financial inclusion definitions per Member State policy

	Financial inclusion definition
ANG	*"Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance—delivered in a responsible and sustainable way."*
BOT	*Botswana's Financial Inclusion Roadmap and Strategy (2015 – 2021) does not provide a dedicated definition for financial inclusion.*
DRC	*NA, no dedicated policy.*
ESW	*"Financial Inclusion is broadly defined as the effective access by citizens to a range of quality financial services such as credit, savings, insurance, payments and remittances, provided by diverse financial service providers. "Effective access" involves convenient and responsible service delivery, at a cost both affordable to the customer and sustainable for the provider."*
LES	*"Inclusive finance is broadly defined as access to a range of quality financial services such as credit, savings, insurance and payment systems and remittances by diverse financial service providers (banks, microfinance banks, deposit taking MFIs, credit-only MFIs, financial cooperatives, NGOs, etc.) to those who are excluded or denied financial access from the mainstream financial system. It should be noted that financial inclusion does not only refer to increasing the count (number) of people who access financial services but refers also to improvements in quality of financial services extended"*
MAD	*"The easy access to and use of adapted financial products and services by all segments of the Malagasy population, including savings, insurance, payment and credit, offered by sustainable institutions"*
MAL	*"Inclusive finance is broadly defined as access to a range of quality financial services such as credit, savings, insurance and payment systems and remittances, provided by diverse financial service providers (banks, micro-finance banks, deposit-taking micro-finance institutions [MFIs] non-deposit-taking MFIs, financial cooperatives, NGOs, etc) by those who are excluded or denied financial access (particularly low-income people) to the mainstream financial system. It should be noted that financial inclusion does not only refer to increasing the number of people who access financial services but also refers to improvements in quality of financial services extended."*
MAU	*NA, no dedicated policy.*
MOZ	*"Process of awareness, access and effective use of financial products and services offered by regulated institutions to the Mozambican population as a whole, contributing to enhance their quality of life and social welfare."*
NAM	*"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections (i.e., micro- and small enterprises) and low-income groups, at an affordable cost."*
RSA	*"Financial inclusion is the provision and use of affordable and appropriate financial services by those segments of society where financial services are needed but not provided, or they are*

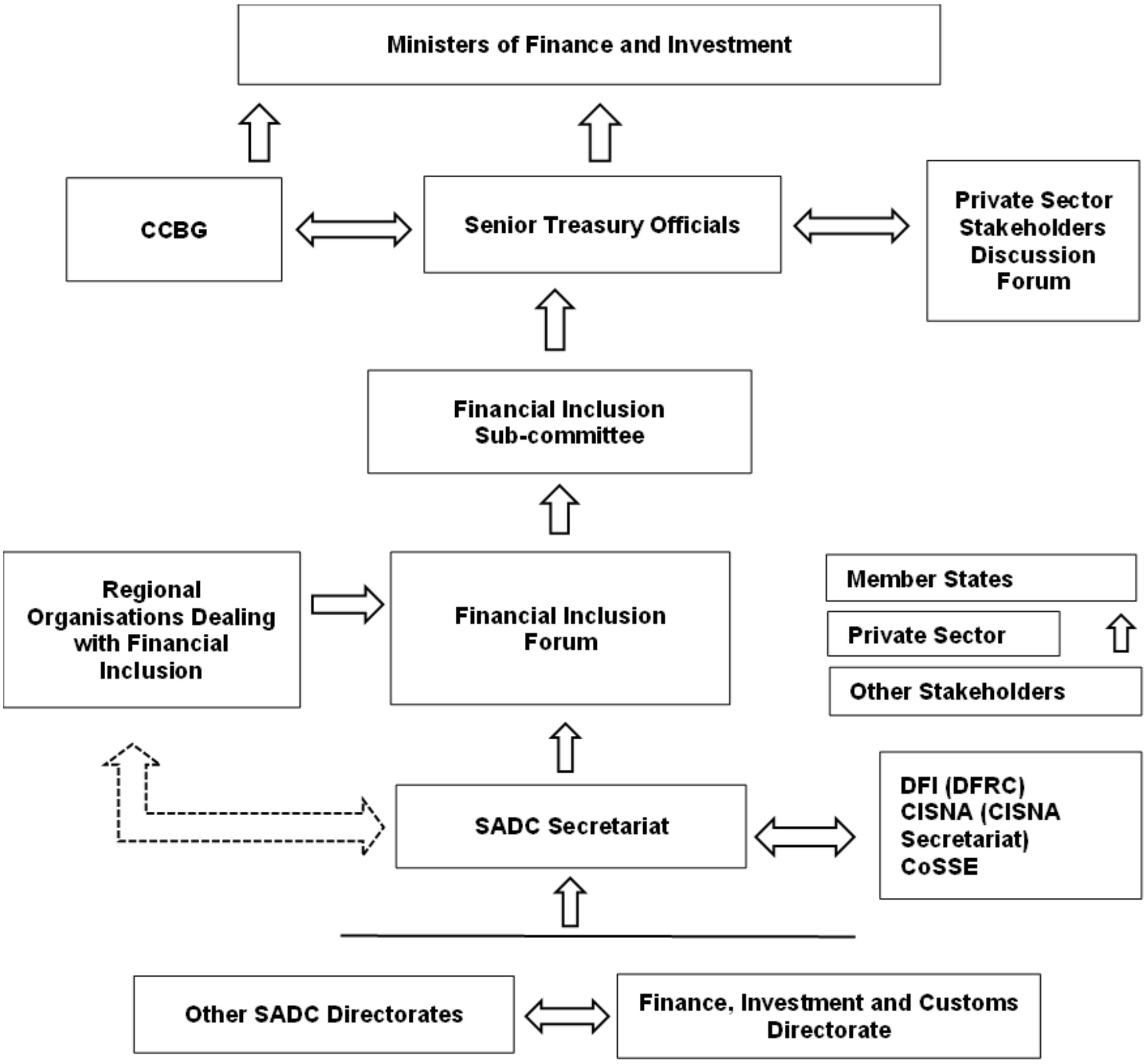
	inadequately delivered. It is an important tool in the economic development of a country, just as financial exclusion is a significant constraint to economic and societal development."
SEY	*"Financial Inclusion[31] means that individuals and businesses have access to useful and affordable financial products and services that meet their needs delivered in a responsible and sustainable way."*
TAN	*"Regular use of financial services by individuals and businesses through financial infrastructures to save, manage cash flows, invest in productive capacities and mitigate shocks, which are delivered by formal providers through a range of appropriate solutions with dignity and fairness."*
ZAM	*"Access to and informed usage of a broad range of quality and affordable savings, credit, payment, insurance, and investment products and services that meet the needs of individuals and businesses."*
ZIM	*"The effective use of a wide range of quality, affordable & accessible financial services, provided in a fair and transparent manner through formal/ regulated entities, by all Zimbabweans"*

Table 4: SADC member state financial inclusion definitions[32]

31 As defined by the Seychelles Central Bank Website

32 Definitions as per the countries' financial inclusion strategies reviewed, except where noted otherwise.

Annexure C: Governance Structure – institutional Mechanism for Dealing with Financial Inclusion Matters in SADC



Annexure D: Financial inclusion constraints per Member State policy

Table 5: SADC Member State financial inclusion constraints according to their financial inclusion policies[33].

	ANG	BOT	DRC	ESW	LES	MAD	MAL	MOZ	NAM	RSA	TAN	ZAM	ZIM	Sum
Supply side														
Poor physical infrastructure			x	x	x		x	x		x	x	x	x	9
Limited financial literacy				x	x	x		x			x	x	x	7
High operating risks		x	x			x	x	x	x				x	7
High barriers to entry		x	x		x		x			x	x		x	7
Lack of consumer data					x					x	x	x	x	5
Limited skills capacity				x			x	x						3
Small capital markets		x												1
Demand side														
Lack of appropriate products	x	x		x	x	x	x		x	x	x	x	x	11
Limited financial capability	x	x		x	x	x		x	x		x	x	x	10
Lack of documentation	x	x	x	x	x	x	x			x	x	x		10
Lack of collateral or assets		x		x		x	x	x	x	x	x	x		9
Limited access for women	x	x		x		x					x	x	x	7
Negative perceptions of the sector			x	x				x		x	x	x		6
Limited access for youth	x			x		x					x	x	x	6
Regulatory														
Suboptimal customer protection	x			x	x	x	x	x	x	x	x	x		10
Lack of interoperability	x	x			x	x	x			x	x	x	x	9
Inefficient payments infrastructure	x		x	x	x	x	x	x		x	x	x		9
Mandate overlaps		x			x	x		x		x	x	x	x	8
Lack of policy harmonisation		x			x	x				x	x	x	x	7
Policy uncertainty		x	x	x	x			x		x			x	7
Differing AML/CFT/PF regulation				x		x			X	x			x	5
SME FI constraints														

33 Only those SADC member states which had a dedicated financial inclusion strategy were included in the benchmarking analysis' highlighted in Table 5 and Table 6. Benchmarking for the DRC was conducted using the National development plan (2018-2023) and the Financial Inclusion Roadmap (2016 – 2021).

	ANG	BOT	DRC	ESW	LES	MAD	MAL	MOZ	NAM	RSA	TAN	ZAM	ZIM	Sum
Lack of access to finance		x	x	x	x	x	x	x	X	x	x	x	x	12
Lack of appropriate products		x		x	x	x			X	x	x	x	x	9
Informality		x		x	x	x				x	x	x	x	8
Complex typology										x				1

Annexure E: Financial inclusion priorities per Member State policies

Table 6: SADC member state financial inclusion priorities according to their financial inclusion policies.

	ANG	BOT	DRC	ESW	LES	MAD	MAL	MOZ	NAM	RSA	TAN	ZAM	ZIM	Sum
Cross-cutting														
Financial Literacy	x	x	x	x	x	x	x	x		x	x	x	x	12
Fintech development	x	x		x	x	x		x	x	x	x	x	x	11
Reduce identity verification hurdles	x	x		x	x	x			x	x	x	x		9
Support alternative financial Institutions		x			x	x		x		x		x	x	7
Broadening the financial services portfolio		x				x			x	x	x	x	x	7
Develop product standards						x			x	x	x	x		5
Foster more competitive markets in the financial sector							x		x	x	x	x		5
Increase products' quality								x		x	x	x		4
Digital ID					x			x			x			3
Product specific goals														
Improve payment ecosystems, mobile payments and e-money	x	x	x	x	x	x	x	x	x	x	x	x	x	13
Interoperable domestic and cross-border remittance		x		x	x		x	x	x	x	x	x	x	10
Innovation in the insurance market		x		x	x	x		x		x	x	x		8
Promote credit for assets over consumption		x		x		x	x			x				5
Target market related goals														
SMEs tailored products		x		x	x	x		x	x	x	x	x	x	10
SMEs financing & tax exemptions for venture capitalists		x			x		x	x		x		x	x	7
Farmers		x		x	x	x					x	x	x	7
Women		x		x		x					x	x	x	6
Youth				x		x					x	x	x	5
SME stock exchange													x	1

ANNEXURE F: MAPPING OF CURRENT SADC MEMBER APPROACHES ACROSS THE PRIORITY AREAS

Table 7: Approaches to each of the priority areas across the SADC member states (National Financial Inclusion Policies)

Approaches		**ANG**	**BOT**	**DRC**	**ESW**	**LES**	**MAD**	**MAL**	**MAU**	**MOZ**	**NAM**	**RSA**	**SEY**	**TAN**	**ZAM**	**ZIM**	**Sum**
Regulating for innovation	Sandbox	x			x				x	x	x	x	x	x	x	x	10
	Innovation office	x	x		x						x	x					5
	Open finance				x							x					2
	Regtech/Suptech						x			x		x		x			4
	Fintech strategy										x	x	x				3
Data protection	FS framework	x	x	x	x	x	x	x	x			x	x	x	x	x	12
	Data localisation			x					x	x		x					4
Cybersecurity	FS framework		x		x		x	x	x	x		x	x	x	x	x	11
	CS Incident response team		x					x	x			x		x	x		6
Payments frameworks	Digital payments	x	x	x	x	x		x	x		x	x	x	x	x	x	13
	E-money	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	15
National Identity System (NID)	NID exists but not electronic				x		x			x	x					x	5
	NID transitioning to an e-system		x					x				x		x	x		5
	Digital NID – no e-services	x				x			x								3
	Digital NID – offers e-services												x				1
AML/CFT/PF	eKYC		x		x			x				x	x	x	x	x	8
SME finance related frameworks	P2P lending				x				x			x		x		x	5
	Crowdfunding	x			x				x			x			x		5
Consumer protection (CP)	CP law	x	x	x		x		x	x	x		x	x	x	x	x	12
	FS law with CP	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	15
	FS CP law					x	x	x				x	x	x			6

ANNEXURE G: HARMONISATION FRAMEWORK ACTION PLAN

The following table summarises the main recommendations and proposes a timeline for harmonisation of the priority areas of regulation identified in this report as well as areas where capacity building is required:

Priority	Objective	No.	Recommended activities	Implementation Period	Owner
AML/CFT/PF	Harmonised AML/CFT/PF requirements and develop a common understanding and approach to manage related risk	1	Activate the SADC AML/CFT/PF Subcommittee to coordinate and build capacity in the region to implement ESAAMLG and FATF objectives	2022 - 2023	SADC FI subcommittee
		2	Develop a regional AML/CFT/PF framework with a focus on risk assessment considerations, tools, and approaches	2022 - 2023	New committee or SADC FI subcommittee
		3	Establish regional principles-based guidelines to implement AML/CFT/PF as an alternative to a traditional rules-based approach	2022 - 2023	New committee or SADC FI subcommittee
		4	Build capacity with relevant regulators on AML/CFT/PF approaches and evidence with a focus on regional evidence, risk-bases approaches, and digitalisation	2022 - 2024	New committee or SADC FI subcommittee
		5	Develop an approach to regional data management and Regtech to reduce illicit flows	2022 - 2024	New committee or SADC FI subcommittee
		Activities Underway: 1. CCBG AML/CFT review for digitised payment products and services 2. CCBG AML/CFT harmonisation task team KYC mapping 3. SADC forms part of ESAAMLG.		 2022 2022 NA	

Priority	Objective	No.	Recommended activities	Implementation Period	Owner
Digital payments	Digital interoperable cross border payments framework to enable competition, innovation, inclusion, trade, and remittances	1	Develop and validate a regional payment system framework that enables responsible market entry and scale.	2022 - 2023	CCBG digital payments harmonisation task team
		Activities underway:			
		1.	Member State implementation of regional mobile money guidelines developed by CCBG.	2022 - 2023	
		2.	TCIB implementation to support regional interoperable retail instant payments (scheme open, participation ongoing).	2022 (ongoing)	
		3.	CCBG's landscaping of KYC and CDD requirements.	2022	
		4.	Continue RTGS implementation for real time gross settlement system	2022 - 2024	
		5.	Mapping of digital payments regulation.	2022	
		6.	Fintech landscaping as set out in priority 4	2022	
Regional Identity for Financial Inclusion	Implementation of regionally recognisable ID that is electronically validatable to enable remote onboarding, use of digital financial services, remittances, trade and digital financial services	1	Develop a regional identity framework to address main regulatory constraints identified by the scoping study in support of priority use cases (informed by scoping underway).	2023 - 2024	CCBG digital ID task team
		2	Build capacity on suitable identity approaches as determined by the scoping study.	2023 - 2024	CCBG digital ID task team
		Activities underway:			
			CCBG's digital identity task team is scoping and piloting regional financial identity approaches.	2022	

Priority	Objective	No.	Recommended activities	Implementation Period	Owner
Innovation and fintech	Establish a regional innovation framework and fintech hub to enable responsible innovation in support of inclusion	1	Establish a Fintech and innovation sub-committee to act as innovation hub to coordinate and test and learn across financial service institutional mandates and engage with ICT and ID regulators (could be included under the SADC FI subcommittee).	2022	SADC FI Subcommittee
		2	Scope the current fintech landscape with related regulatory models and constraints as foundation for a regional framework and learning. (Expansion of current CCBG scoping underway needed to include all financial services).	2022 - 2023	New innovation committee
		3	Develop a regional innovation and fintech framework to set out the regional vision and supporting tools for responsible fintech and digital innovation, including policy, regulatory, supervisory and softer engagement options and priorities in support of inclusion.	2023 - 2024	New innovation committee
		4	Build regional capacity on emerging digital innovations partnering with regional experts and fintech networks.	2022 – 2024 (ongoing)	New innovation committee
		Activities underway: CCBG’s Fintech Workgroup scoping the current landscape and regulatory requirements of fintechs for whom they’re responsible		2022	
Consumer protection	Update and align regional consumer protection practices to build trust in the formal financial system, encourage regional investment,	1	Establish a central market conduct sub-committee across CCBG and CISNA to harmonise requirements	2022	SADC FI subcommittee
		2	Develop and Validate Market Conduct and FCP regional Guidelines	2022 - 2023	New committee or SADC FI subcommittee

Priority	Objective	No.	Recommended activities	Implementation Period	Owner
	reduce the cost of doing business and support responsible innovation	3	Context specific capacity building and implementation of the guidelines by member countries for gradual harmonisation	2023-2028	New committee or SADC FI subcommittee
		Activities underway: 1. SIBE's development of Market Conduct and Financial Consumer Protection Guidelines in line with international best practice 2. The development of model laws for different products and markets by CISNA with consumer protection components Work of the Consumer Protection and Financial Education Task Team under the Financial Inclusion Subcommittee.		2022 2023 N/A	