

Chemonics International Inc.
USAID Small & Medium Enterprise Activity

Development of Framework for FinTech Regulations

SOW # C1BEE-07

Scope of Work Summary:

The USAID Small and Medium Enterprise Activity (SMEA) needs to engage a team of local and international consultants to analyze the current Fintech regulatory environment and ecosystem in Pakistan and see how the State Bank of Pakistan can update either its regulations, and/or develop a new regulatory framework to improve the growth of Fintechs in Pakistan. As a part of this analysis, the consultants will also analyze the regulatory environment in other countries that have supported and helped grow the Fintech sector. Based on this comparative analysis, the consultants will identify and propose what sort of changes in the regulatory and institutional frameworks are needed. One of the expected areas of support is the development of a Fintech Regulatory Sandbox approach for SBP to encourage greater experimentation by Fintechs to help them penetrate the SME market in Pakistan.

1. Position Title & Department:

Consultant for “Development of Framework for Fintech Regulations for Pakistan”.

2. General Summary:

USAID Small and Medium Enterprise Activity (SMEA) is a five-year project that is supporting Pakistan in the small and medium enterprise (SME) led economic growth that will help create jobs, foster entrepreneurship, and contribute to an increased GDP.

The BEE component identifies opportunities for policy changes needed for a conducive environment for SMEs across Pakistan. Engaging with the private sector to articulate and advocate for their policy needs, the project work with the Government of Pakistan at both the federal and provincial levels to ease out key policy and regulatory hurdles that hamper SME growth and new investments. SMEA has launched its reforms package in some key areas of economic growth. This policy, regulatory and institutional reforms are SME focused with an aim to contribute to their economic well-being.

Fintech Regulations

Commercial banks and other financial institutions have struggled to penetrate into the largest business category in Pakistan: SMEs. Serious challenges such as a general lack of motivation to pursue small ticket clients, risk aversion and focus on safer investments, lack of understanding of the sheer diversity of SME sectors and their business lines, high customer acquisition costs, complicated compliance and application procedures have resulted in only 8.73% of total financing of private sector made to SMEs (December 2017, SBP¹). Even established businesses which fulfill the documentary requirements of the banks either do not apply for loans or are not actively pursued by banks due to the availability of “easier” clients. These easier clients are usually large corporations that offer greater stability, necessary documentation and lesser risk. Financial Technology Firms, or Fintechs and technology enabled financial services startups and SMEs that offer limited and focused financial services that are not only innovative but also easy to understand customers such as small and medium enterprises who are not used to dealing with formal financial institutions. Most of the fintech’s business models are geared towards serving these customers where there is little physical

¹ <http://www.sbp.org.pk/sme/PDF/DFG/2017/QSMEF-Dec-2017.pdf>

infrastructure, remote accessibility, simple procedures, alternate credit scoring techniques and low-cost acquisition and client service costs which makes their services more affordable. These factors help them enter neglected segments, hence possess huge potential of spurring financial inclusion.

However, this agility and innovation comes with its own challenges due to an ambiguous or absent regulatory environment. Most of these Fintechs operate in a general state of ambiguity as to their legal identity which starts from the registration phase at SECP and often spills over into their operations if they are to be governed by the State Bank of Pakistan. There is currently no Fintech classification under SECP nor any regulations and policies from SBP. This limits their ability to gain licenses to operate and, even when they do, there are concerns of whether their innovative, and often difficult to understand, business models might bypass or conflict with important SBP regulations on financial services (such as Anti Money Laundering and Combating the Financing of Terrorism concerns that help SBP track the flow of finances).

USAID SMEA is proposing a partnership with SBP to develop Fintech Regulations by engaging international and/or national experts. One of the major focus areas for the project is to improve access to finance for small and medium enterprises across Pakistan from various business sectors. To achieve this objective, SMEA aims to increase and support the availability of alternate financial service providers such as Fintech companies. This effort would also include the development of a Regulatory Sandbox approach where, rather than attempting to exhaustively understand the business model before implementation, the regulator allows the Fintech to undertake limited operations and monitors the business. This approach allows for innovative solutions to be implemented rather than stifling innovation at the outset either due to a lack of understanding or general regulatory ambiguity. Another important component of this would be to engage with SECP to propose Fintech specific classifications for company registration.

3. Objective of the Consultancy:

USAID SMEA is looking to engage a consultant that has previously worked on development of such regulations for other countries and/or has extensive knowledge of Fintechs and their governing policies and regulations to draw up Fintech regulations. The overall objectives of the assignment are:

1. Increased understanding of the current ecosystem within which financial technology firms (operate and the policy level gaps that are hampering growth
2. Comparative analysis of Fintech regulations in at least three other countries with a comparable financial ecosystem that have resulted in growth for the ICT sector and Access to Finance (A2F).
3. Assist the State Bank of Pakistan in developing framework for Fintech Regulations comprising the regulatory and institutional framework to help govern and regulate the operations of these specialist firms with a view to encourage innovation for SMEs' access to financial resources for growth.
4. Propose an institutional design to implement the regulatory framework, including interlinkages between SBP & SECP and mechanisms to make these arrangements work.
5. Design and develop a regulatory sandbox approach that will encourage experimentation while helping SBP and other relevant departments understand the unique business models of Fintechs

The development and implementation of these regulations can potentially have the following impact for the ICT Sector and Access to Finance focus areas of SMEA and Pakistan:

1. Increase in establishment of new Fintechs resulting in increased revenue generation for these enterprises and job creation as a result of growth

2. Help existing Fintechs expand their geographic spread and or develop new products and services in the domestic and export markets
3. The potential of developing of a regulatory sandbox approach which would encourage greater experimentation and innovation by Fintechs

4. Principal Duties & Responsibilities:

- Take stock of current Fintech ecosystem in Pakistan. This analysis should include the geographic footprint of fintechs, the types of products and services offered, general mode of incorporation, relationships with existing financial service providers, innovation and degree of commercialization and growth of fintechs, the list and roles of ecosystem players (Government departments, incubators, accelerators, associations etc) and the future outlook of enterprises working as fintechs.
- Analyze emerging technologies and their associated risks and opportunities.
- Conduct a comparative analysis of Fintech frameworks in other countries.
- Propose clarifications of Fintechs to be defined as corporate entity for purpose of registration, licensing (if needed) and regulation.
- Present recommendations to SBP along with an implementation plan for development and governance of Fintech companies in Pakistan.

5. Specific Tasks of the Consultant:

- Analyze the current policies, regulations and licensing arrangements of SBP and SECP that potentially or currently effect the registration, operations and growth of Fintechs. This would be for tech companies that are offering or looking to offer financial services as their core business.
- Engage with the relevant Government departments to understand and review the relevant applicable policies, regulations and institutional frameworks including, but not limited to, State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Pakistan Telecommunication Authority (PTA), Federal Board of Revenue, Provincial IT Boards, Ministry of Information Technology, Pakistan Software Export Board and others.
- Engage with other ecosystem players such as tech-based incubators, donor funded programs on financial innovation, sectoral associations (such as P@SHA) and prominent Fintechs to discuss the demand side of regulation and what sort of support is expected by Fintechs.
- Identify comparable countries where Fintech Regulations (and Regulatory Sandbox where applicable) have been developed and have resulted in growth for Fintechs. Review the relevant regulations and policies of these countries with a view to replicate their success in Pakistan
- Propose and design specific, detailed Framework for Fintech regulations for Pakistan that can be taken up by SBP and SECP for classification, registration, governance and monitoring of Fintechs
- Identify capacity building and institutional building areas for SBP to help their relevant staff understand and successfully implement the Fintech Regulations Framework.
- Propose and design a regulatory sandbox approach (including but not limited to regulatory sandbox guidelines, objectives and principles of the sandbox, sandbox registration requirements, defining qualifying entities and requirements, evaluation criteria for applicants, rules of business and approval processes, sandbox application templates, etc.) and how this can be implemented in Pakistan given the AML/CFT (Anti Money Laundering and Combating the Financing of Terrorism)compliance related requirements of SBP.
- Define SBPs supervisory principles/framework for observing entities/applicants in the sandbox.
- An implementation roadmap including relevant organizations and timelines for rolling out the designed regulations.

6. Job Qualifications

Advisor	Person Specifications	Level of Effort
Fintech Consultant (Local)	<ul style="list-style-type: none"> • Master's degree in Banking Law, Finance, Technology or Business Administration from a reputed local or international university • At least 10 years of experience working with the financial sector and preferably with the financial technology (Fintech) sector • Deep knowledge and understanding of the national, regulations and policies covering financial services in Pakistan or a comparable country and especially the growth of Fintech sector • A sound understanding of issues related to financial inclusion for SMEs and how current commercial banks struggle to penetrate the SME market • Experience working with the State Bank of Pakistan on design and promotion of policies is seen as a strong positive • Previous experience or knowledge of Fintech Regulations or Regulatory Sandbox in other countries preferred • Excellent communication and report writing skills 	35 days
Fintech Consultant (International)	<ul style="list-style-type: none"> • Master's degree in Banking Law, Finance, Technology or Business Administration from a reputed international university • At least 10 years of experience working with global financial sector and with the financial technology (Fintech) sector • Deep knowledge, understanding and experience of the regulations and policies covering financial services in countries such as Singapore, Bahrain, India and the UK and especially the growth model of Fintech sector • A sound understanding of issues related to access to credit and other financial services SMEs and how current commercial banks struggle to penetrate the SME market • Experience working with the Central Bank/Monetary Authorities of the above mentioned countries in designing and promotion of policies will be seen as a strong positive • Previous experience or knowledge of Fintech Regulations or Regulatory Sandbox in other countries is required • Excellent communication and report writing skills 	20 days

7. Duty Station:

The consultant should be available to work with the SMEA team preferably out of SMEA’s Islamabad or Lahore office. However, given that Karachi is the financial capital of Pakistan, the local consultant can also work remotely from Karachi. Besides the assigned duty station, the consultant would be required to conduct other meetings in various parts of Pakistan. The costs of traveling and accommodation will be paid according to the standard Chemonics policy.

8. Reporting:

The consultant will report to the BEE Deputy Component Lead and Component Lead for Competitiveness Enhancement or any other designated staff and will work closely with other members of the SMEA team.

9. Duration of the Assignment:

This assignment is planned to take place as per a start date of on or around December 24, 2018, and end date of on or around March 31, 2019, up to a total of 57 days (35 days for Local STTA and 22 days for International STTA) level of effort (LOE).

10. Deliverables:

The following are the key deliverables and their associated deadlines. The timeline for the LOE assigned for each activity as mentioned in the following table will be discussed and agreed with the technical team and the consultants.

No.	Activity / Deliverable	LOE Local STTA	LOE Intl. STTA
1	Inception Report : Workplan and Stakeholder Consultation list	3	
2	Pakistan’s Ecosystem Analysis for firms operating in the financial technology space	10	2
3	Stakeholder consultation brief to record and summarize stakeholder feedback	6	
4	Global (comparable economies) best practices scan and review	3	4
5	Interim Presentation to USAID, USAID SMEA and SBP	2	
6	Draft Framework for Fintech Regulations for SBP including registration and classification guidelines for SECP	2	4
7	Draft Fintech Regulatory Sandbox design and implementation plan	2	4
8	Recommendations on capacity building areas for SBP and SECP to understand and implement the newly proposed Regulations and Sandbox	2	3
9	Final Presentation to USAID, USAID SMEA and SBP	2	2
10	Final Framework for Fintech Regulations, Regulatory	3	3

	Sandbox Design and Implementation Guidelines		
		35 Days	22 Days