

Lessons for Africa from the Kalifa Review of UK Fintech

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The Kalifa Review of UK Fintech¹ was recently released by the UK Treasury. As a policy document it seeks to ensure the continuance of the UK's leading position in the fintech world, through a nationally coordinated strategy to support financial technology. The report notes that the UK's financial technology industry was stimulated by earlier policy support including the world's first regulatory sandbox in 2016² and a pro competition stance from the Financial Conduct Authority. These policies helped to build a UK industry with a 10% global market share, GBP 11 bn in revenues and GBP 4.1bn in investments in 2020 alone.

The Kalifa review highlights five areas, (1) policy and regulation, (2) skills and talent, (3) investment, (4) international attractiveness and competitiveness, and (5) national connectivity. If the last area were renamed national coordination, then these areas map reasonably well as a prescription for strengthening financial technology across Africa.

This blog explores the lessons for Africa from the Kalifa Review of UK fintech – it aims to encourage African countries to develop appropriate and comprehensive policy frameworks to strengthen their fledgling fintech industries. Clearly the content under each area will differ from country to country depending on a range of factors including the level of financial inclusion, the development of the enabling ecosystem³, the regulatory environment, the strength and focus of the financial sector and the existing development of the financial technology industry. The approach taken in the blog is to explore each issue briefly, and then pose a series of questions which African policy makers can begin

¹ Kalifa Ron (2021), "Kalifa Review of UK Fintech" UK Treasury

² The UK can claim the first regulatory sandbox, but test and learn approaches – that serve a similar purpose were used in the regulatory evolution of M-Pesa from 2007.

³ For more discussion see Cracknell, David "The Enabling Ecosystem for Digital Financial Services" – on www.firstprinciplesinfinance.com

to answer. The discussion and questions are neither intended to be conclusive or exhaustive – but rather to encourage conversation.

A. Policy and Regulation

1. Deliver a digital finance package that creates a new regulatory framework for emerging technology

Regulation in Africa must adjust to facilitate and enable financial technology, in a safe and secure way, this means bringing fintech into the regulatory framework appropriately, through national payments acts, through strengthening financial conduct regulations, through guidelines and through developing new regulatory structures as appropriate. Where possible this must be driven from understanding gained through test and learn approaches, sandboxes and international coordination and collaboration.

Questions to answer: What are the risks inherent in different types of financial technology? What does this mean for a regulatory framework? How can the framework be flexible? How should policy and regulation be coordinated between different government actors? What can we learn from international experience so that we catch up quickly? How is financial conduct to be regulated?⁴

2. Implement a scale-box that supports firms focusing on innovative technology to grow

The Kalifa report talks of a scale-box, this is an interesting idea. It evolves the concept of a regulatory sandbox by introducing measures to support partnering between fintechs and incumbents and providing additional support for regulated firms in the growth phase. African sandboxes are at a much earlier stage of development – but the Kalifa report suggests sandboxes can and should evolve.

Questions to answer: Where are we with sandboxes - how are they working? How can sandboxes be strengthened or made more responsive or flexible? What policies can be introduced to encourage partnerships with fintechs and incumbents? What support can be provided to regulated firms or fintech in the growth phase?

3. Secure fintechs position as an integral part of Trade Policy

The UK is heavily invested in evolving the UK trade policy post Brexit, but Africa too is in a transition phase with the launch of the Africa Continental Free Trade Area (ACFTA), so this too is a highly relevant recommendation. Fintech related to trade could include payments, foreign currency, cryptocurrency, central bank digital currency, blockchain facilitated transactions, smart contracts and more.

Questions to answer: What are the opportunities for fintech that open-up with the Africa Continental Free Trade Area. What are the regulatory implications of this type of fintech?

B. Skills and Talent

The report identifies building skills and talent as a critical success factor, despite the UK having a significant reservoir of skills. The report acknowledges that there are many people already in work

⁴ For more discussion on financial conduct see Cracknell, David “Financial Conduct in the Digital Age” available on www.firstprinciplesinfinance.com

who need new skills to compete in the fintech world, and that continuous investment in upgrading skills is the only way to keep ahead. The report proposes short courses from high quality education providers are available at low cost; a visa stream is introduced to enhance access to global talent and embedded work placements are provided for further education and higher education students.

1. Retraining and upskilling

In this area the Kalifa report notes that existing executives and workers must be retrained and upskilled to contribute to and compete in the new fintech world. It recommends shorter adult education courses to achieve this. In Africa where there are bigger gaps in the tertiary education sector the questions to be asked are broader.

Questions to answer: What are best ways to mentor talent and skills and how can this be incentivised? Where are the gaps in the secondary and tertiary education systems and how can these be filled? Where are the gaps for shorter term adult education and retraining and how can these be filled? Given resource constraints which are the key skills and technical knowledge gaps which need to be addressed? What other ways are there other ways to meet the skills gaps?

2. Enhance access to global talent

For the Kalifa report enhancing access to global talent is mainly about creating a new visa stream to ease the movement of skilled labour. However, for Africa global experience is expensive so the solution can't only be on visas and work permits.

Questions to answer: Countries must identify where international experience is required, how it can be acquired and perhaps most importantly, how it can best be leveraged. Strategic partnerships can help – for example, the UK's Department of Trade and Industry has established the UK-Kenya Tech Hub⁵.

3. Underpin skills and grow the pipeline of talent

The Kalifa report highlights the ability to grow talent by offering embedded work placements to students and start ups to enable these students to understand these opportunities and to allow fintech's increased interaction with students.

Questions to answer: Building talent from within and ensuring the future pipeline of talent is a key strategy for many fintech's, the question for African countries is how this can be supported through linkages and through policy.

C. Investment

For investment, the Kalifa report recommends a range of actions including:

- i. Expand research and development tax credits, develop an enterprise investment scheme and Venture Capital Trusts
- ii. Unlock institutional capital to create a GBP 1bn Fintech Growth Fund
- iii. Improve the listing environment through free float reduction, dual class shares and relaxation of pre-emption rights

⁵ For more details on the UK Kenya Tech Hub see <https://bit.ly/3tsbl8R>

iv. Create a global family of fintech indices to enhance sector visibility

OK. So, what might this mean for African countries?

Countries with significant fintech potential, but emergent industries are taking significant steps to make finance available and to leverage capital. The Bangladesh Central Bank has just announced a fund⁶ to make finance available for financial institutions to lend to start ups at a subsidised rate and to share risks. Can this approach be used in African countries?

In other countries there is an emergent, industry supplying social capital, impact investor funds, and new ways to match capital to opportunities. For example, the 97fund⁷ in Uganda seeking to channel capital to the 97% of fintech's that are not in accelerators.

There is an ongoing debate on foreign capital inflows to finance fintech investment in Africa. Whilst this blog does not address this issue, it does raise the question on how can or should African countries make it easier for Africans to invest in financial technology? This means more efficient capital markets, and lower cost, easier to manage mechanisms for fintech's and investors, especially for early, smaller capital rounds. Equity based crowd funding could be a suitable instrument if in an appropriate regulatory framework⁸ were developed.

Questions to answer: What mechanisms can be developed to provide capital, especially in African markets that are in an earlier stage of fintech development? Are there lessons which can be applied from the blended capital approaches developed for agricultural finance to match private and public capital? What easier regulations could apply to smaller amounts of capital raised from a larger number of subscribers? How should the issue of foreign verses domestic capital be addressed?

D. International attractiveness and competitiveness

The Kalifa report calls for the establishment of an international plan of action and the creation of task forces. It compares the UK to Australia, Canada, and Singapore. Its action plan includes, expanding into new areas for growth such as financial inclusion; adopting policy initiatives that will help create an enhanced environment for fintech such as digital ID and data standards; enhancing the regulatory sandbox to encourage partnerships; creating a digital economy task force bringing together regulators and policy makers and ensuring that fintech forms a part of trade policy.

Deconstructing this approach: It is about improving the environment for fintech. Once again in Africa the agenda is broader – improving the environment for fintech could include ease of doing business, data protection, data sharing, financial conduct, financial education to encourage adoption, as well as digital ID and data standards. But it could also include a focus on growth partnerships in the sandbox and a digital economy task force.

There should also be greater certainty on taxation in fintech following fintech related taxes which have been introduced, such as the Digital Service Tax in Kenya and the tax on mobile money transfers in Uganda. Furthermore, whilst it may be difficult for countries to compete equally across

⁶ The Daily Star (2021) "Bangladesh Bank to form Tk500 Cr start up fund", published 11th March 2021.

⁷ www.97fund.com

⁸ For a discussion on Crowdfunding in Africa see Cracknell, David (2021) "Crowdfunding in Africa" available on www.firstprinciplesinfinance.com

the range of fintech, smaller markets are developing specialisms which reflect their national economies. Mauritius for example, investing in creating wealth-tech, Ghana in ag-tech.

Questions to answer: Where do we need to improve the business environment? What policies or laws should be introduced in relation to the digital economy? What policies are in place in relation to digital government and how should these be improved? How can appropriate partnerships be encouraged between the financial sector and fintech? What areas of fintech should the country develop which would reflect its commercial comparative advantages?

E. National connectivity

For the Kalifa report this is significantly about nurturing all the fintech clusters in the UK and driving national coordination through a government backed centre for finance, innovation, and technology. Whilst there are fewer fintech clusters in a country in Africa than in the UK, so this aspect may not be as relevant – there is often a need for national coordination. The Kalifa report recommends for the UK that the Centre for Finance, Innovation and Technology has government backing but is led by the private sector. The right form for coordination in Africa may differ – in part depending on the degree of centralisation of the economy, or there may be a need for at least two tiers for coordination at policy and regulatory level (within government) and then between government and the private sector. Again, there is some evidence of this happening across African countries, though it is not always easy to determine the mandate and connections of the range of bodies being established.

Questions to answer: How should national fintech policy be coordinated? How should the government co-ordinate? How should the private sector coordinate? What coordination is required between the private sector and the government? How can national institutions collaborate across borders?

Conclusion

If as a policy maker, you accept that financial technology is the future and is of strategic national importance - then an exercise to assess national fintech readiness similar to the Kalifa review is the place to start, and given how rapidly the sector is evolving, there is no time to waste.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting. David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.



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