

Evolving MENA FINTECH Landscape

Regulatory Sandbox Initiatives by MENA Countries

A white paper by Middle East Venture Partners (MEVP)



A regulatory sandbox is a framework and process that facilitates and encourages the development of the financial technology (“FinTech”) sector in a safe, measured and pragmatic manner. The virtual space created by such a framework provides a restricted area in which FinTech businesses (both established and start-ups) can test and refine their technology-based innovative products, services, and platforms without being immediately burdened by the usual regulatory and financial requirements which would otherwise apply to their activities. The effect is that FinTech firms are able to experiment with their products and services during a specified timeframe within a partially deregulated environment where the firms are able to offer their products and services to customers, but where risks to customers and businesses (and to the wider financial system as a whole) are mitigated.

In parallel, the regulator observes the activities of such fintechs and their impact on businesses, society and the ecosystem where they operate in; the ones that are deemed safe will be granted a license to operate in the country. The regulator can also create new regulation or update existing ones based on the learnings derived from the sandbox.

This allows the regulations to adapt to the changing environment the regulator and businesses are operating in:

- Technological advances and breakthrough are creating new ways to conduct business e.g. Blockchain has allowed the creation of decentralized crypto currencies
- Customers have increasingly high expectations on ease and speed of doing business e.g. instant money transfer using a smartphone
- Businesses are pressured to reduce costs and streamlines operations e.g. Banks want to serve a wider base of customers using technology
- Governments and regulators require more visibility and control e.g. increased requirements for Know Your Customer (KYC)

Sandboxes allow for the creation of local startups who can innovate and launch new disruptive or transformative businesses. These local champions can also prevent international players from coming in and exploiting a virgin market; British digital-only bank [Revolut](#) announced recently that they are expanding to 24 new markets including Saudi Arabia ([source](#)); We believe that the very protective banking regulations that are currently in place across most of the region have prevented the emergence of a digital first Arab bank.

Regulators globally and regionally have launched sandboxes and allowed startups and businesses to innovate in a controlled environment, while adapting the regulations. Examples in the MENA region include:



UAE

- Financial Services Regulatory Authority (FSRA) introduced in 2016 a regulatory lab (Abu Dhabi Global Market RegLab) ([source](#))
 - By creating a regulated, safe environment RegLab has been designed to allow FinTech innovation to be tested without being subjected to the full suite of regulatory requirements that would otherwise apply to traditional financial services firms. The set-up will allow FinTech participants to explore and develop FinTech solutions in a risk appropriate and cost-effective environment.
 - 26 FinTech startups have been accepted into the ADGM RegLab in three cohorts. They were given two years to test their concepts.
 - The 4th cohort will be focused on Sustainable Finance and API economies. The previous cohorts have been focus-agnostic.

- YallaCompare (raised \$17.4M), an online insurance comparison website is a member of the 3rd cohort.
- Dubai Financial Services Authority (DFSA) introduced in 2017 the Innovation-Testing License ([source](#))
 - The license will allow FinTech firms to develop and test innovative concepts from within the Dubai International Financial Centre (DIFC), without being subject to all the regulatory requirements that normally apply to regulated firms.
 - 45 FinTech startups have been granted the Innovation-Testing License.
 - Graduates:
 - [Sarwa](#) (raised \$1.5M), a robo-advisory startup was the first firm to graduate in November 2018, currently an MEVP portfolio company.



BAHRAIN

- The Central Bank of Bahrain introduced in 2017 a FinTech regulatory sandbox. ([source](#))
 - The sandbox first cohort focused on Know Your Customer (KYC), Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT) startups.
 - The second cohort focused on Innovative banking and financial solutions, in addition to the issuance of Crowdfunding regulations for both conventional and Sharia-compliant services.
 - The FinTech Regulatory sandbox has incubated 35+ startups, including Wahed (raised \$15M), a leading Islamic FinTech startup, and ArabianChain (raised \$800K), a public blockchain startup.
 - The Central Bank of Bahrain has supported the integration of FinTech products with more than 11 banks in Bahrain.
 - Graduates:
 - Tarabut Gateway, a technology-based innovative open banking solutions firm, subsidiary of Almoayed Technologies. It was the first company to graduate in December 2018.
 - Rain, a Shariah-compliant cryptocurrency exchange that graduated in February 2019 and is now operating legally across the GCC.



EGYPT

- The Central Bank of Egypt established in 2019 a \$58 million fund to invest in FinTech startups ([source](#))
 - Will act as a “Fund of funds” investing in VCs focused on FinTech startups or co-investing with partner VCs.
- The Central Bank of Egypt introduced in 2019 the Financial Technology Application Lab (sandbox) ([source](#))
 - The purpose of the Regulatory Sandbox is to pave the way for faster and easier access to new financial solutions and embed compliance within the FinTech ecosystem at an early stage. This will not only allow Fintech innovators to focus on their core offering, but also ensure that consumers and other players in the market are not adversely affected by the regulatory uncertainty of the disruptive FinTech activities.
 - The first cohort will be accepted in Q3 2019 and will focus on e-KYC applications



SAUDI ARABIA

- The Saudi Arabian Monetary Authority (SAMA) introduced in 2019 a regulatory sandbox. ([source](#))
 - SAMA’s Regulatory Sandbox accepts two cohorts per year starting in 2019.
 - 2019 startups will be focused on P2P Payments.
 - SAMA’s Regulatory Sandbox aims to attract local and International FinTech businesses that are looking to leverage existing or new technology in an innovative way to deliver new financial products or services to KSA markets or improve business processes.
 - 21 startups have joined SAMA’s Regulatory Sandbox in two cohorts of seven and fourteen, respectively.



JORDAN

- The Central Bank of Jordan introduced in 2018 a FinTech regulatory sandbox. ([source](#))
 - The sandbox aims to create an incubator for entrepreneurs and innovators and encourage competition and increase effectiveness, and security in money transfers, which in return will enhance accessibility to formal financial services without jeopardizing the integrity and stability of the financial system, keeping data of financial consumers protected.



OMAN

- The Information Technology Authority (ITA) of Oman introduced in 2019 a regulatory sandbox. ([source](#))
 - The sandbox will be focused on Blockchain and is being launched in partnership with BSS (Blockchain Solutions and Services)
 - The goal is to use the sandbox test environments for Blockchain to help cement partnerships between governments and businesses



LEBANON

Lebanon does not have a FinTech sandbox yet. The Lebanese financial sector is the pillar of the Lebanese economy and will soon be threatened by borderless FinTech disruptors and later on by cryptoassets ventures.

Historically, the Lebanese banking sector was at the forefront of technological advances and used to lead the way with the support of several Banque du Liban initiatives. Now Lebanon must

follow the lead of other MENA countries where regulators are supporting startups and incumbent banks through accelerators and sandbox initiatives.

We trust that the newly created Ministry of Technology and Investments has been inspired by the proactiveness of Lebanon's Arab neighbors in issuing sandbox licenses. (MEVP is ready to support)



Guideline to launch a successful Sandbox:

1. **Develop and nurture the ecosystem.** The key element to a successful sandbox is the ecosystem developed around it. There are four groups of stakeholders that need to be involved in the sandbox: FinTech Startups, Regulators, Financial Institutions, and Investors (VCs / Accelerators). Identifying the right members of these groups is the first step to building the sandbox.
2. **Identify the areas of banking that would benefit the most from innovation** (i.e. Online Payments, eKYC, Blockchain, Credit score, etc.). Then, provide startups with the resources necessary to experiment in those areas under regulatory watch, leveraging members of the ecosystem as partners and mentors.
3. **Identify ways to fund the sandbox.** Since the sandbox is a not for profit entity it should find funding for its operations without causing a burden on the regulator.
 - a. **License fees:** Corporates, startups and Venture Capital firms backing the startups, can be charged for the right to become part of the sandbox. However, this could be a deterrent for startup innovation if fees are not kept free or near-free for startups.
 - b. **Corporate Sponsorships:** Leveraging financial institutions in the ecosystem to sponsor the sandbox as part of their innovation programs. This would give them early access to innovative startups, and engagement with the technologies being tested and developed.
 - c. **NGO and Special Programs Funding:** Leverage funding available to support FinTech innovation especially those with similar objectives.

4. **Choose the organizational structure and governing members of the sandbox.** The sandbox should have: An Advisory Board, a Technical Committee and a Management Team. Most of the members of these bodies should come from partner organizations, specifically Financial Institutions and Regulators and Government. Technical expertise is required.
5. **Determine the Startup Evaluation Criteria** to approve companies into the sandbox and measure their performance.
6. **Get inspired from other programs:** Inspiration can be drawn from other FinTech sandboxes in the region and abroad. Successful cases can be found in the UAE (Dubai's Innovation Testing License and ADGM's Reglab), Bahrain, Singapore and Malaysia.

About Middle East Venture Partners (MEVP)

MEVP has already invested in 6 FinTech ventures in the past 5 years.

MEVP is a Middle East-focused venture capital firm that invests in the early and growth stages of innovative companies run by talented entrepreneurs in the Middle East region with a focus on the GCC and Levant countries.

With a team of 22 VC professionals across offices in Beirut, Dubai, Riyadh, and Bahrain, MEVP manages 4 regional funds with more than USD 260 million in Assets Under Management. MEVP is the largest and most established VC firm in the region, with clear cross border investment appetite.

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