

**ENDOXA**

# **Regulatory Sandboxes in a Nutshell: The East African Story**

**2024**



## Part 1: Introduction

### Background

Regulatory sandboxes are a relatively new approach to the regulatory and supervisory treatment of innovative products and services. The first regulatory sandbox was launched in 2015 by the UK Financial Conduct Authority (FCA) when it coined the term “**regulatory sandbox**”. They have since generated great interest from regulators and innovators around the world. Since 2015 the concept has been developed in more than 25 countries from Abu Dhabi in the UAE to Sierra Leone. Many other countries are in one of the various stages of development: consultation, announcement, in progress, draft bill, agreement to implement. Sandbox environments have been adopted by many sectors, ranging from FinTech to Health, Transport, Energy and ICT.

A regulatory sandbox is a formal process in which, an regulated environment corporate body conducts tests of new innovative products, services, delivery channels or business models in a controlled environment regulated by BOT. Sandboxes are designed to foster innovation while protecting consumers, allowing companies to experiment with new ideas under the watchful eye of regulators. They're particularly valuable for fintech and digital financial service providers, as these sectors are rapidly evolving and often outpace regulatory frameworks.

In September 2024, the Bank of Tanzania (BOT) introduced new regulations: The Bank of Tanzania (Fintech Regulatory sandbox) Regulations, 2024 aimed at establishing a regulatory sandbox for financial innovations. These guidelines provide a formal structure for businesses to test their new financial products or services in a controlled and limited environment. While sandboxes are not new globally, Tanzania's move aligns with a broader trend across East Africa to encourage technological innovation in the financial sector.

BOT adding another regulatory sandbox to another EAC countries Kenya, Uganda and Rwanda in having a regulatory sandbox.

## Who Can Apply?

The BOT sandbox is primarily open to financial service providers entities that are regulated by BOT and **fintech companies** collaborating with a financial service provider licensed by the Bank of Tanzania and fintech company intending to offer financial solution on financial products and services regulated by the Bank.

Applicants need to demonstrate that their product or service is truly innovative and not merely a minor variation of existing offerings. The sandbox allows these companies to launch a product on a small scale, gather data, and refine it without the usual regulatory barriers. This creates opportunities for smaller fintech startups that may otherwise be bogged down by compliance costs.

## Eligibility Criteria

- Use new or emerging technology or utilises an existing technology in an innovative manner;
- Bridge a market gap or open new opportunities; and
- Improve accessibility, usage, efficiency, security and quality of financial services.

## Types of Products and Services

- Digital payments.
- Digital lending
- Money transfer and remittance services.
- Digital know your customer.
- Digital platform.
- Digital identification services.
- Cyber security services and product.
- Sustainable financing.
- Mobile technology applications.
- Big data and data analytics.
- Applications using distributed ledger technologies.
- Artificial intelligence and machine learning applications.

### What are the benefits of having a Sandbox?

**Encourages Innovation:** By reducing regulatory difficulty, sandboxes promote the development of cutting-edge financial products that can improve access to services, particularly for the unbanked and underbanked populations.

**Risk Mitigation:** The controlled environment allows regulators to assess and manage potential risks before a product or service is fully launched, ensuring consumer protection and financial stability. It does this by conducting live tests of the innovative product under restricted scope, scale and time. In other words, the innovation is piloted in a regulatory lab, with a limited number of users, restricted features and restricted time spans to fully understand the innovation, while simultaneously containing the scale and impact of potential risks.

**Collaboration:** It fosters stronger collaboration between regulators and innovators, allowing a better understanding of emerging technologies and their potential impact on the market and reduce regulatory uncertainty for new products, services and business models.

### What are the weaknesses of the BOT Sandbox?

**Limited Scope:** The BOT sandbox only applies to entities regulated by BOT.

This leaves out subsectors in the financial sector, such as insurance, pension funds and capital markets, which are regulated by other bodies like the Tanzania Insurance Regulatory Authority (TIRA), Social Security Regulatory Authority (SSRA) and the Capital Markets and Securities Authority (CMSA).

It is important to note that the Capital Markets and Securities Authority (CMSA), released a draft of **The Capital Markets and Securities (Regulatory Sandbox) Regulations, 2024**, for a public review and invited comments on 4th September 2024. This sandbox will offer the controlled environment for testing capital markets related innovations. Once finalized these regulations will officially come into support and regulate new technologies in capital markets space.

Therefore, there is a need for a more inclusive approach that encompasses other financial regulators to fully tackle the potential of technological advancements across the financial ecosystem. A better approach would have been to have a unified sandbox involving all the financial sector regulators. This is the approach taken in South Africa by the regulatory sandbox operated by the Intergovernmental Fintech Working Group (IFWG). It will enable an innovator offering a solution, product or service which cuts across more than one subsector of the financial sector to test the solution, product or service in a single testing environment and obtain all required consents at the same time reducing the time taken to enter the market.

**Regulatory uncertainty after exiting the sandbox:** Following the successful completion of the testing period, BOT will approve the product and recommend the financial solution to be introduced in the market subject to complying with existing laws. The law is silent as to how the participant will be regulated after leaving the sandbox. This creates challenges in securing long-term investment, scaling innovation, and maintaining regulatory compliance, as businesses struggle to adapt to full-market requirements that may differ significantly from sandbox conditions. Without a predictable regulatory pathway, confidence weakens, sabotage innovation risks, and promising startups may be discouraged from participating. This uncertainty ultimately limits the sandbox's effectiveness in promoting scalable innovation and can diminish Tanzania's competitiveness in the fintech sector.

### **Comparison with EAC regulatory sandbox?**

Despite the above uncertainties, Tanzania's regulatory sandbox represents a significant step forward in supporting financial innovation. Ultimately, the East African countries with regulatory sandboxes are to be credited for promoting financial inclusion in East Africa. For this reason, we have provided a high level summary of requirements for the regulatory sandboxes in Tanzania, Kenya, Uganda and Rwanda for innovators.

## Part 2: Regulatory Sandbox Comparison between Tanzania, Rwanda, Kenya and Uganda

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
1	<b>Regulations</b>	Yes The Bank of Tanzania (Fintech Regulatory Sandbox) Regulations 2024	Yes Bank of Rwanda Regulatory Sandbox Regulation, 2022	Yes Capital Markets Regulatory Authority, Regulatory Sandbox Policy Guidance Note, 2019	Yes Capital Markets Regulatory Authority, Regulatory Sandbox Policy Guidance Note, 2019
2	<b>Regulators name</b>	Bank of Tanzania (BoT)	National Bank of Rwanda (NBR)	Capital Markets Authority (CMA)	Bank of Uganda (BoU)
3	<b>What the regulator offers</b>	Testing environment for innovative for financial products and services	Testing environment for innovative for financial products and services	Testing environment, allows temporary operation under relaxed regulation	Sandbox for digital financial services
4	<b>Type of regulatory support</b>	Case worker support. Technical guidance.	Case worker support, mentorship, guidance	Access to case worker, technical support, regulatory guidance	Dedicated case worker, compliance support

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
5	<b>Who can apply</b>	A financial service provider licensed by BOT fintech company collaborating with a financial service provider licensed by BOT and fintech company intending to offer financial solutions on financial products and services regulated by BOT.	Financial institutions licensed and/or supervised by the Bank of Rwanda and the legal entity alone or in partnership with a financial institution or with any individuals with innovative financial products, services and solution.	Company incorporated in Kenya or is licensed by a securities market regulator in an equivalent jurisdiction and intends to offer an innovative product or solution or services in Kenya following a successful exit from the regulatory sandbox.	<ol style="list-style-type: none"> <li>1. Innovators already licensed by BOU under the National Payment System Act.</li> <li>2. Non-licensed local Fintechs or startups developing a new Fintech solution with a view to deploying it in Uganda. Access to the Sandbox may be through one of the following options                             <ol style="list-style-type: none"> <li>a) Partnering with institutions licensed by BOU. In this scenario, the party accountable to BOU for the content of the application and execution of the testing will be the licensed institution; or</li> <li>a) Applying directly to BOU.</li> </ol> </li> </ol>

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
					<p>3. Non-licensed international Fintech. As a general rule, innovators not registered in Uganda are not allowed to operate in Uganda and cannot apply directly to enter the Sandbox. Access to the Sandbox can therefore be granted indirectly through a partnership agreement between the international innovator and an institution licensed by BOU. In this case the latter will be the applicant to the Sandbox and will remain responsible for the submission of the application, the testing and any associated risks.</p>



S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
6	<b>Eligibility criteria for products and services</b>	<p>1. Use new or emerging technology or utilises an existing technology in an innovative manner;</p> <p>2. Bridge a market gap or open up new opportunities; and</p> <p>3. Improve accessibility, usage, efficiency, security and quality of financial services.</p>	<p>1. The financial product, service or solution is genuinely innovative with clear potential to:</p> <ul style="list-style-type: none"> <li>a) improve accessibility, efficiency, security and quality in the provision of innovative services.</li> <li>b) enhance the efficiency and effectiveness of management of risks.</li> <li>c) address gaps in or open new opportunities for financing or investments in the country; and,</li> <li>d) be in real need and will bring benefits to financial consumers or the financial industry</li> </ul>	Same as above	<p>1. solutions involving a different technology or an existing technology being applied differently which are currently not covered under existing regulations and require an amendment to the existing regulations; or innovators whose proposed solution involves</p> <ul style="list-style-type: none"> <li>a) digital business model that is not currently covered whether explicitly or</li> <li>b) implicitly under the regulations and requires issuance of new regulations and licenses for those solutions.</li> </ul>

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
			<p>2. innovative financial products and services as well as related solutions do not clearly correspond to products or services currently regulated under existing laws and regulations or represent a hybrid product or services; or will be provided differently;</p> <p>3. innovative financial products and services are those that are likely to fall under the supervisory scope of the Central Bank or where the core product or service is likely to be regulated by the Central Bank;</p> <p>4. He or she has conducted an adequate and appropriate assessment to prove the usefulness and functionality of the product, service or solution and identified the associated risks;</p>		

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
			<p>5. He or she has necessary resources to support testing. This includes the governance and required resources and expertise to mitigate and control potential risks and losses arising from offering of the product, service or solution;</p> <p>6. He or she has a clear solution to deploy the product, service or solution on commercial scale after a successful testing phase;</p> <p>7. a proposed technical architecture and solution, detailing the specific technology and innovative ways in which the technology will be applied; and,</p> <p>8. the participants are managed by persons of credibility and integrity that meet the fit and proper requirements.</p>		

S/N	Category	Tanzania	Rwanda	Rwanda	Uganda
7	<b>Products and services</b>	<p>Digital payments.                      Digital Lending.                      Money transfer and remittance services.                      Digital know your customer.                      Digital platform.                      Digital identification Services.                      Cyber security services and products.                      Sustainable financing.                      Mobile technology Applications.                      Big data and data analytics.                      Applications using distributed ledger technologies.                      Artificial intelligence and machine learning applications.                      Any other product, service, delivery channel, technology or business model as May be approved by BOT</p>	Innovative financial products, payments, digital lending	Innovative capital markets-related products, solutions and services	Digital financial institutions, startups, financial technology companies
8	<b>Admission Process</b>	12-month cohorts (Quarterly basis), free entry	3 cohort system, free entry	Cohort System, Pay a non-refundable fee of Kenya Shillings <b>Ten Thousand (KES 10,000)</b> .	Rolling Admission, pay a non-refundable fee of Uganda Shillings <b>One Million</b> .

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9	<b>Duration of the program</b>	12 months. with extension possibilities	12 months	12 months Period	6 to 12 months
10	<b>Impact when you finish</b>	No automatic license, but eligibility for full licensing if successful after the Banks recommendation.	No automatic license, but eligibility for full licensing if successful.	The Participant is granted a <b>license</b> or <b>approval</b> to operate in Kenya.  The Participant is granted a permission to operate in Kenya by a <b>letter of No Objection</b> ;	Grant the participant a license to operate in Uganda.

**Endnotes**

1. The Bank of Tanzania (Fintech Regulatory Sandbox) Regulations 2024
2. Bank of Rwanda Regulatory Sandbox Regulation, 2022
3. Capital Markets Regulatory Authority, Regulatory Sandbox Policy Guidance Note, 2019
4. The National Payment System (Sandbox) Regulation, 2021

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