INDUSTRY ANALYSIS

DEPOSIT-TAKING MICROFINANCE INSTITUTIONS (DTMFIS) IN ZIMBABWE

INDUSTRY OVERVIEW

Deposit-Taking Microfinance Institutions (DTMFIs) represent a crucial segment of Zimbabwe's broader microfinance industry, playing a significant role in enhancing financial inclusion, supporting economic development, and improving the livelihoods of low-income households and small businesses. Unlike credit-only microfinance institutions, DTMFIs have the regulatory authority to accept deposits from the public, allowing them to operate more sustainably by leveraging internally generated funds as well as external credit sources.

The sector has gained traction over the years, particularly due to the increasing demand for small-scale financing and the growing emphasis on formalising financial services for the unbanked and underbanked populations. The formalisation of microfinance in Zimbabwe began in the early 2000s, driven by the need to regulate informal lenders and improve access to structured credit services. The introduction of the Microfinance Act [Chapter 24:30] in 2013 provided a comprehensive regulatory framework governing both credit-only MFIs and DTMFIs, ensuring that these institutions adhere to prudent financial practices. This regulation strengthened the credibility of DTMFIs, enabling them to mobilise savings from depositors and lend at more competitive interest rates.

REGULATIONS AND COMPLIANCE

The Reserve Bank of Zimbabwe (RBZ) is the primary regulator of the microfinance sector, including DTMFIs. This oversight is crucial for maintaining the stability and soundness of the microfinance industry. According to RBZ, as of December 31st, 2024, there is a total of 277 registered microfinance institutions, comprising 268 credit-only microfinance institutions and nine (9) deposit-taking microfinance institutions (DTMFIs). The RBZ actively supervises the microfinance sector. This supervision includes ensuring that DTMFIs comply with minimum capital requirements. As of December 31, 2024, the minimum capital requirement for DTMFIs was USD 5 million. However, despite the sector’s expansion, capital adequacy remains a concern. As of December 2024, four of the eight DTMFIS did not comply with the minimum capital requirement.

MARKET LANDSCAPE

The microfinance sector has experienced significant growth, driven by increased demand for credit among MSMES and low-income households. By December 2024, the total assets of the microfinance sector had reached ZiG 8.59 billion, rising from ZiG 3.49 billion in June 2024. The loan portfolio of credit-only MFIS amounted to ZiG 3.65 billion, with foreign currency-denominated loans standing at USD 95.88 million (ZiG 2.47 billion). On the other hand, DTMFI's reported aggregate Loan portfolio of ZiG 1.51 billion as of December 31st, 2024, a 29% increase from the previous quarter, i.e. September 2024.

CHALLENGES

SUSTAINABILITY

Capital adequacy remains a critical concern, with four out of the nine DTMFIs failing to meet the US$5 million minimum capital requirement as of December 2024. With an average core capital of just US$1.7 million each, their capacity to expand lending and deposit services is severely constrained. This insufficient capital base poses a direct threat to their long-term sustainability, increasing their vulnerability to economic shocks.

RISK MANAGEMENT

The Portfolio-at-Risk (Par) ratio for DTMFIS stood at 8.5% as of December 2024, an increase from 6.2% in June 2024, which is well above the internationally accepted benchmark of 5%, signalling a rising credit risk within the sector. This surge in overdue loans suggests potential weaknesses in credit assessment, loan monitoring, and collection practices. The rising PaR can lead to increased loan loss provisions, impacting profitability and further straining the already limited capital resources of DTMFIs.

CAPACITY BUILDING

Capacity building is also a major concern, particularly due to the concentrated market share. With two DTMFIs controlling over 90% of the market, smaller institutions face significant challenges in competing and scaling their operations. This concentration can stifle innovation and limit access to diverse financial services, especially for borrowers in underserved areas. Smaller DTMFIs often struggle with limited capital, operational capacity, and access to technical expertise, hindering their ability to expand their reach and effectively serve their clients. This lack of competition can lead to a less dynamic and inclusive microfinance sector.

HIGH INTEREST RATES

Zimbabwe does not impose explicit interest rate caps on microfinance institutions. However, the Reserve Bank of Zimbabwe (RBZ) has issued guidelines to ensure responsible lending practices. The "Guidelines to Microfinance Lending" emphasise that while interest rate caps can restrict access by making it challenging to serve small or remote borrowers, it is crucial for microfinance institutions to balance interest rates to cover operational costs without exploiting borrowers.

WORKING CAPITAL & LIQUIDITY MANAGEMENT

DTMFIs face significant liquidity constraints. The four non-compliant institutions had a combined capital shortfall of approximately USD 6.8 million, limiting their ability to expand services and support economic growth.

In Zimbabwe, the prudential liquidity ratio is a regulatory measure used to assess a banking institution's ability to meet its short-term obligations. It is calculated by dividing a bank's liquid assets by its total liabilities, ensuring that banks maintain sufficient liquidity to operate effectively. The Reserve Bank of Zimbabwe (RBZ) has set a minimum prudential liquidity ratio requirement of 30% for all banking institutions. As of December 31, 2024, all DTMFIs reported prudential liquidity ratios above the prudential minimum threshold of 30%. This suggests that the DTMFI sector maintained adequate liquidity levels during that period, with no institutions falling below the recommended thresholds.

DEPOSIT INSURANCE & PROTECTION MECHANISMS

The Deposit Protection Corporation (DPC) in Zimbabwe provides deposit insurance to contributory institutions, primarily focusing on traditional banks. The DPC is developing materials to inform depositors about coverage limits and insured institutions. Getbucks subscribes to the DPC and has deposit insurance coverage.

ANTI-MONEY LAUNDERING (AML) & KNOW YOUR CUSTOMER (KYC)

One primary challenge stems from the fact that a substantial portion of deposits within DTMFIs are denominated in US dollars. This necessitates adherence not only to local AML/KYC regulations but also to international standards, particularly those related to USD transactions. Furthermore, the nature of microfinance, which often involves serving low-income and informal sector clients, presents unique difficulties in implementing effective KYC procedures. Many potential clients may lack formal identification documents or have limited financial records, making it challenging to verify their identities and assess their risk profiles.

However, Zimbabwe's AML and KYC regulations for microfinance institutions are governed by the Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24]. These regulations mandate that all financial institutions, including DTMFIs, implement robust customer identification and verification processes to prevent money laundering and financing of terrorism.

CYBERSECURITY

Cybersecurity has become an essential aspect of Deposit-Taking Microfinance Institutions (DTMFIs) in Zimbabwe as these institutions increasingly adopt digital banking solutions. With the rise of mobile banking, online transactions, and electronic fund transfers, the sector faces significant risks related to cyber threats, including fraud, hacking, and data breaches. The lack of digital literacy among both customers and employees presents another cybersecurity challenge. Many individuals are unfamiliar with secure banking practices, making them vulnerable to social engineering attacks where fraudsters manipulate users into divulging confidential information. Ensuring robust cybersecurity measures is critical for maintaining trust among customers and safeguarding financial stability.

OPPORTUNITIES

Despite the challenges facing Zimbabwe's Deposit-Taking Microfinance Institutions (DTMFIs), several opportunities can drive growth, improve financial inclusion, and enhance the sector's sustainability. Key areas of opportunity include technological advancements, product diversification, strategic partnerships, and regulatory improvements.

FINANCIAL INCLUSION

DTMFIs have played an instrumental role in advancing financial inclusion, particularly in rural areas where 63% of Zimbabwe's population resides. By offering deposit and credit facilities, these institutions have provided much-needed financial access to individuals and small businesses that were previously excluded from formal banking services. However, challenges remain in reaching the most remote communities due to infrastructure limitations and the need for enhanced digital financial services.

CONTRIBUTION TO POVERTY ALLEVIATION

With an estimated 60% of the country's workforce engaged in informal employment, access to microfinance services has enabled many individuals to start or expand income-generating activities. DTMFIs have also contributed significantly to poverty alleviation by providing financial support to small-scale entrepreneurs and informal sector businesses, which constitute a major segment of Zimbabwe's economy. This leaves room for DTMFI's to be able to cater to a significant portion of the country's workforce while bringing a positive impact.

TECHNOLOGY ADOPTION

The integration of digital financial services presents a significant opportunity for DTMFIs to expand their reach, reduce operational costs, and enhance customer experience. Zimbabwe has a high mobile penetration rate, with over 13.5 million active mobile subscribers as of December 2024 (Postal & Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) Report, 2024). Mobile banking and fintech solutions can help DTMFIs provide seamless access to credit, savings, and other financial products.

PRODUCT DIVERSIFICATION

DTMFIs can improve their financial sustainability by diversifying their product offerings to meet the evolving needs of small businesses and low-income individuals. Opportunities for product expansion include:

- **Micro-Insurance Products:** With more than 60% of Zimbabwe’s workforce engaged in informal employment, micro-insurance can offer protection against risks such as illness, crop failure, or business losses.
- **Agricultural Financing:** Given Zimbabwe's strong reliance on agriculture, tailored financing for smallholder farmers, including weather-indexed crop insurance and input financing, can help mitigate risks and improve yields.
- **Green Finance Initiatives:** The global shift towards sustainability creates an opportunity for DTMFIs to introduce loans for solar energy, clean cooking solutions, and eco-friendly businesses.
- **Remittance-Linked Products:** With a significant Zimbabwean diaspora remitting over USD 1.6 billion annually, DTMFIs can develop products that leverage remittance inflows for savings and investment opportunities.
- **Education Loans:** Offering flexible loan products for school fees can help address financial barriers to education, particularly in underserved communities.

OUTLOOK

The DTMFI sector in Zimbabwe stands at a pivotal point, requiring strategic action for enduring impact. Capital adequacy remains a core challenge, demanding innovative funding and regulatory flexibility. Robust risk management, through enhanced credit analysis and borrower education, is vital to mitigate rising loan risks. Digital financial services offer substantial growth potential but necessitate strong infrastructure and security. The sector's stability is closely tied to Zimbabwe's economic health. Expanding rural access requires partnerships for infrastructure development. The RBZ should consider tiered capital requirements for smaller institutions. Strong AML/KYC compliance, particularly for USD transactions, is essential. Product diversification and financial literacy initiatives are crucial. Addressing market concentration and extending deposit protection are necessary. DTMFIs must balance profitability and social impact, prioritising underserved populations. Collaborative partnerships and responsible lending practices are vital. Attracting impact investments and data-driven decision-making are key to long-term viability. The sector's ability to adapt to economic shifts will determine its success.