

MICROFINANCE INDUSTRY IN ZIMBABWE

INDUSTRY OVERVIEW

The term "microfinance" describes the provision of financial services to low-income individuals and microentrepreneurs who are typically overlooked by traditional financial institutions. Around the world, the primary goal of microfinance is to make financial services more accessible to the underprivileged and disenfranchised members of society. Given that so many nations utilise it, microfinance is recognised and accredited on a global scale for its contribution to the battle against poverty. Throughout the previous few decades, Zimbabwe's microfinance sector has experienced substantial expansion and improvement. In rural and isolated locations with limited access to traditional banking infrastructure, microfinance institutions (MFIs) are especially important in helping the unbanked and underbanked people receive financial services.

REGULATORY ENVIRONMENT

The regulatory framework for microfinance in Zimbabwe is governed by the Reserve Bank of Zimbabwe (RBZ) under the Microfinance Act (Chapter 24:29) and Microfinance Amendment Act, 2019 (Chapter 24:30). The current regulatory landscape has improved, supporting financial stability, consumer protection, and transparency in the sector. As of December 2024, there are 277 MFIs operating in Zimbabwe, of which nine are DTMFI licensed, and 268 credit-only MFIs licensed.

FINANCIAL INCLUSION

A sizable segment of the Zimbabwean population is still underserved by formal financial institutions. According to the Reserve Bank of Zimbabwe's quarterly report (31 December 2024), there were just 574,385 active borrowers. On the outreach, the report indicates that branches and agencies decreased to 3,046 in December 2024 from 3,106 in September 2024. MFIs are essential in advancing financial inclusion because they give low-income people and microentrepreneurs access to credit, savings accounts, insurance, and other financial goods and services.

MICROFINANCE SECTOR'S CONTRIBUTION TO POVERTY ALLEVIATION IN ZIMBABWE

Despite being a novel concept in Zimbabwe, small financial services have already made a noticeable impact. The number of credit-only MFIs increased by 38 from 230 in December 2023 to 268 in December 2024, according to the quarterly report (December 2024) from the Reserve Bank of Zimbabwe. It is common for rural households to be ineligible for standard banking services. Given Zimbabwe's predominantly agricultural economy, small-scale farmers have greatly benefited from this

shift. By acquiring top-notch equipment, they can increase productivity and profit from yields without the constant danger of debt.

MARKET LANDSCAPE

The microfinance sector has experienced significant growth, driven by increased demand for credit among Medium, Small and Micro Enterprises (MSMEs) and low-income households. By December 2024, the sector's loan portfolio grew to ZiG 5.15bn, up from ZiG 4.43bn in September 2024. Of this total, credit-only MFIs accounted for ZiG 3.65bn (representing 75% of the total microfinance industry loans), while DTMFIs accounted for ZiG 1.51bn. On the other hand, the total assets of the microfinance sector reached ZiG 8.59bn in December 2024, from ZiG 7.37bn in September 2024, of which the credit-only MFIs portion stood at ZiG 4.36bn, while DTMFIs stood at ZiG 4.23bn.

CHALLENGES

Economic Instability

One of the most significant obstacles is economic instability, characterised by high inflation, currency volatility, and a challenging macroeconomic landscape. These factors erode the value of loan repayments, making it difficult for MFIs to maintain the real value of their assets, plan for the long term, or sustain profitability. Borrowers, especially in the informal sector, are highly vulnerable to these economic fluctuations, leading to increased loan defaults and difficulty in maintaining a healthy loan portfolio.

Limited Access to Affordable Capital

Limited access to affordable capital is a persistent challenge for Zimbabwean MFIs. They often rely on external sources of funding, which may come with high costs or be denominated in foreign currencies, further exposing them to exchange rate risks. This restricts their ability to offer competitive interest rates and expand their operations to meet growing demand, particularly in underserved rural areas. Without affordable and consistent funding sources, MFIs are constrained in their capacity to offer larger or longer-term loans, thereby limiting their impact on financial inclusion.

Regulatory Pressures

MFIs face regulatory pressures as they must comply with evolving financial regulations and reporting requirements. While the regulatory framework is generally supportive of financial inclusion, frequent changes or stringent compliance demands can disproportionately affect smaller MFIs that lack the

resources to manage these administrative burdens efficiently. This may also increase their operational costs, diverting funds away from direct lending activities.

Growing Competition

Growing competition from commercial banks, fintech companies, and mobile network operators that are expanding into microfinance space is also another challenge. These larger players often have better access to capital, more advanced technological platforms, and the ability to offer a wider range of services, such as microloans, mobile money, and savings products, putting pressure on traditional MFIs to innovate while maintaining affordability for their low-income clients.

Risk Management

Effective risk management is necessary for MFIs to succeed in the long run. Nonetheless, many institutions face trouble identifying and reducing operational and credit risk as well as external variables, including shifting market dynamics and legal obligations. According to the Reserve Bank of Zimbabwe quarterly report, the credit only MFIs experienced a deterioration in asset quality as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 11.61% (in December 2024) compared to 9.71% recorded as of September 2024, against an international maximum acceptable benchmark of 5%.

High Interest Rates

Due to the high costs of capital, staff, administration, and loan losses, the country's microfinance institutions charge high interest rates. There is no single system used by all MFIs to calculate interest rates. The interest rates applied are differentiated by product attributes and features, including loan type, cycle, amount, and duration. Most of these institutions are not transparent in their pricing systems. Therefore, the interest rates charged are usually stated at nominal rates rather than effective rates, which leads customers to make uninformed borrowing decisions.

Inadequate Working Capital

Most of the MFIs have inadequate working capital, resulting from their inability to secure affordable and reliable financing sources. The Reserve Bank of Zimbabwe's December 2024 quarterly report states that 24 credit-only MFIs were non-compliant with a minimum capital requirement of USD 25,000, and 4 deposit-taking MFIs out of 9 were non-compliant with a minimum capital requirement of USD 5m.

OPPORTUNITIES

Technological Advancements

The increasing penetration of mobile phones and internet services in Zimbabwe presents an opportunity for MFIs to leverage digital platforms to enhance service delivery. Mobile banking, digital wallets, and fintech innovations allow MFIs to reach previously inaccessible clients, reduce operational costs, and improve efficiency. Digital platforms also make it easier for borrowers to apply for loans, make payments, and access financial education, further expanding the market for microfinance.

Diversification of Financial Products:

There is potential for MFIs to diversify their product offerings beyond traditional microloans. By introducing microinsurance, savings products, remittance services, and education loans, MFIs can cater to a broader range of client needs. This diversification not only increases revenue streams but also enhances customer loyalty by offering more comprehensive financial solutions.

Partnerships and Collaboration

Collaborating with fintech companies and mobile network operators offers MFIs the chance to scale rapidly and expand their service offerings. Partnerships can enable MFIs to offer digital financial products, integrate mobile money services, and improve loan processing times. Such collaborations also provide access to fintech innovations like digital credit scoring, which can help MFIs assess risk more accurately and extend loans to individuals without traditional credit histories.

FUTURE PROSPECTS

The future prospects of the microfinance industry in Zimbabwe are promising, driven by the increasing demand for financial inclusion, particularly among underserved rural populations. The government's push for financial inclusion, coupled with regulatory frameworks that support microfinance institutions (MFIs), creates a conducive environment for growth. The sector is also likely to benefit from technological advancements, including mobile banking and digital platforms, which can enhance service delivery and reduce operational costs. However, challenges such as inflation, currency volatility, and limited access to affordable capital may pose risks to the industry's stability. Continued innovation and prudent risk management will be essential for MFIs to thrive and expand in this dynamic environment.