ZIMBABWE MICROFINANCE SECTOR INDUSTRY RISK ANALYSIS: 12 DECEMBER 2025

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THE 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), the Microfinance Amendment Act, 2019 (Chapter 24:30) and the Microfinance (General) Regulations, 2025 (Statutory Instrument 85 of 2025). The current regulatory landscape has improved, supporting financial stability, consumer protection, and transparency in the sector. As of June 2025, there are 303 MFIs registered in Zimbabwe, of which nine are DTMFI licensed, and 294 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 (30 June 2025), there were just 510,905 active borrowers. On the outreach, the report indicates that branches and agencies decreased to 3,539 in June 2025from 3,546 in March 2025, reflecting branch closures by some microfinance institutions as part of cost-rationalisation measures. 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. Crucially, women remain the primary target and beneficiary, accounting for nearly 42% of total clients, underscoring the sector’s vital role in female economic empowerment.

MICROFINANCE SECTOR'S CONTRIBUTION TO POVERTY ALLEVIATION IN ZIMBABWE

The Moneylending and Rates of Interest Act effectively served as the precursor to the Microfinance Act. However, the enactment of the 2013 legislation marked a paradigm shift, from merely controlling moneylenders to institutionalising microfinance as a key instrument for poverty reduction and financial inclusion.. The number of credit-only MFIs increased by 11, i.e. from 283 in March 2025 to 294 in June 2025 according to the quarterly report (June 2025) 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 with the help of financial assistance from these MFIs.

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 June 2025, the sector's loan portfolio grew to ZiG 6.37bn, up from ZiG 5.98bn in March 2025. Of this total, credit-only MFIs accounted for ZiG 4.14.bn (representing 65% of the total microfinance industry loans), while DTMFIs accounted for ZiG 2.24bn. On the other hand, the total assets of the microfinance sector grew marginally reachingZiG 10.89bn inJune 2025, from ZiG 10.28bn in March 2025, of which the credit-only MFIs portion stood at ZiG 5.35bn, while DTMFIs stood at ZiG 5.54bn.

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. This funding constraint is strongly reflected in the DTMFIs, with the loans-to-deposit ratio standing at 267% as of 30 June 2025, underscoring the subsector's low deposit base relative to its lending needs.

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 the 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. Further, as per RBZ's Q3FY25 MFI report, within the DTMFI lending sector, one institution was dominant with 64.69% of the total loan book in June-25 raising a concentration risk.

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's quarterly report, MFIs have persistently exhibited weak asset quality, with portfolio-at-risk (>30 days) (PaR) remaining above the internationally acceptable benchmark of 5% over an extended period. PaR30 stood at 11% as of December 2023, improved to 10% in September 2024, before deteriorating to 13% as of 30 June 2025.

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. The Reserve Bank of Zimbabwe has noted concerns regarding predatory lending practices, emphasising the need for MFIs to comply with the Core Client Protection Principles and to enforce standardised Effective Interest Rate (EIR) disclosure.

Non-Compliance with Minimum Capital Requirements As of 30 June 2025, a total of 29 credit-only microfinance institutions were non-compliant with the minimum capital requirement of the ZiG equivalent of USD 25k, deteriorating from 20 non-compliant institutions in the previous quarter. Within the DTMFI subsector, 3 out of 8 operating institutions were non-compliant with the minimum capital requirement of the USD 5m local currency equivalent, largely due to persistent losses that have continued to erode capital, thereby posing a significant threat to their going-concern status. In this context, Lion Microfinance Limited’s licence was subsequently cancelled on 10 December 2025.

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. The Reserve Bank survey found that about 67% of microfinance institutions are now using technology in their operations, particularly for client onboarding, loan processing, loan repayments, and loan classification. However, many MFIs reported that the high cost of acquiring and maintaining digital systems remains a key barrier, limiting wider adoption and full implementation of digital financial services across the sector.

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 cautiously 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, a key concern is persistent non-compliance with minimum core capital requirements, particularly among credit-only MFIs and some deposit-taking institutions. This is increasing the likelihood of further licence cancellations or forced consolidation within the sector. This capital weakness limits MFIs' ability to scale operations, absorb shocks, and comply with prudential requirements. In addition, elevated portfolio-at-risk (PaR) levels remain a major vulnerability. The PaR30 ratio is above internationally acceptable benchmarks, which reflects weak asset quality, driven by economic volatility, borrower income instability, and shortcomings in credit appraisal and monitoring systems. High PaR levels continue to exert pressure on earnings through increased provisioning, further weakening capital positions and threatening overall sector resilience. Further, the macroeconomicchallenges 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.