



Microfinance Sector Recovery Study

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for:

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Acronyms

AfDB	African Development Bank
ASCA	Accumulating Savings and Credit Associations
BAZ	Bankers Association Zimbabwe
CBO	Community Based Organization
CBZ	Commercial Bank of Zimbabwe
CCA	Canadian Co-operative Association
DFID	Department for International Development (UK)
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GoZ	Government of Zimbabwe
GTZ	German Technical Cooperation
IDBZ	Infrastructure Development Bank of Zimbabwe
MDTF	Multi Donor Trust Fund
MFB	Microfinance Bank
MFI	Microfinance Institution
MIS	Management Information System
MIX	Microfinance Information eXchange
MSE	Micro- and Small Enterprises
NACSCUZ	National Association of Cooperative Savings and Credit Unions of Zimbabwe
NMT	National Microfinance Taskforce
NSSA	National Social Security Authority
NGO	Non-Governmental Organization
PAR	Portfolio at Risk
POS	Point of Service
POSB	Post Office Savings Bank
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Society
SCB	Standard Chartered
SHDF	Self Help Development Foundation
SME	Small and Medium Enterprise
UNDP	United Nations Development Project
VS&LG	Village Savings and Loans Groups
ZAMFI	Zimbabwe Association of Microfinance Institutions

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Preface

Zimbabwe is in a deep social, political and economic crisis. Not too long ago Zimbabwe was host to a thriving vibrant financial sector, including microfinance which made access to financial capital for many low-income households a reality.

SNV-Netherlands Development Organisation has always recognized the importance and potential of access to financial capital in poverty reduction. Therefore we have worked over the last six years with individual Micro Finance Institutions (MFIs) and its apex body, the Zimbabwe Association of Micro Finance Institutions (ZAMFI) and provided them with advisory services to increase the access by low income Zimbabweans to appropriate financial products and services.

Activities undertaken by SNV and ZAMFI were: capacity building of its individual members in several topics that included corporate governance and risk management amongst others; contributing to the formulation of a National Micro Finance Policy; study of the feasibility of establishing a Credit Bureau for MFIs; recommendations on establishing an APEX Fund, etc. In response to the hyper-inflationary environment, we adjusted our advice and advised MFIs on hedging their financial resources against inflation.

The harsh environment further worsened by the inability to lend in hard currency and caps on interest rates however made most of the MFIs financially unviable, as their capital was wiped out. However, despite the fact that the sector lost its capital base, there are some signs of vitality which can be rebuilt. Much of its social capital and systems are still there or can be revived. Some assets still exist within the sector, and above all its intellectual human capital did not all flee the country.

SNV believes that it is possible to revive and rebuild this sector by applying appropriate policies and a stimulus package. We hope that this study will pave a way forward in resuscitating the sector and provide an opportunity to millions of low income people in the future to expand their entrepreneurial activities and increase their incomes.

Rik Overmars
SNV Zimbabwe
Harare, May 2009

1. Executive Summary

Background

Zimbabwe is home to a population of 13.2 million, of which 70% live in rural areas and at least 72% live in poverty. It witnessed an increase in activity by microfinance players as a reaction to a steady decline in the country's economic fortunes since 1997. This is because microfinance tends to thrive in developing countries where there is an increase in unemployment and poverty. As people seek to engage in informal sector activities to survive there is a growing demand for small loans for business, education, low-income housing, agricultural inputs, micro-leasing and also for micro-insurance.

Despite this high demand and the initial surge in microfinance service providers, the supply has been drying up since 2004 and more so since 2007, with the closure of many providers and the complete halting of operations of most others. The economic meltdown hit Zimbabwe like a tsunami and at the end of 2008, only a handful of financial institutions were lending, all others had stopped. Moreover, financial institutions in Zimbabwe, particularly the ones operating in lower-income markets, faced a situation where their loan books have been completely wiped out and, with limited other current assets and a small fixed asset base, balance sheets will have to be built up from scratch. As finance is the engine of growth, and microfinance an integral part of the development process at the grassroots level, urgent measures need to be taken along two main thrusts.

Recovery Package

Something will need to be done immediately to bail out the institutions that have survived until now but are unlikely to make it another few months, given the higher cost environment that they are faced with and the risk of losing remaining staff to other sectors. The amount of funding needed is so small, comparatively, while it can make such a difference. The most acute constraint of microfinance service providers is loan capital. Most of them also need some grant funding, either to cover operations costs, train staff or to test the capacity of their clientele in lending in dollars. Agro-processing firms and other financial institutions operating in rural areas also are in dire need of medium- or long-term financing, which can then be wholesaled to smallholders. The new high cost environment rules out doing business as usual. Operations need to be streamlined and business models need to be refined or completely revamped to be efficient. A recovery package to microfinance service providers would restart the financing flow to the poor which will prevent the depletion of assets and restore livelihoods. As such, it functions as a bridge between social protection and private sector development initiatives, providing social protection but through market based solutions instead of donations.

Building an Inclusive Financial Sector

Furthermore, to stimulate solid and rapid development of the microfinance sector, its various building blocks will need to be put in place one by one. Work on this should start fairly soon as well, possibly through the establishment of a Financial Inclusion Fund as proposed in the draft National Microfinance Policy and designed along the lines of successful sector facilities in other countries. With such a facility, Zimbabwe could quickly start to attract the interest of social investors given the knowledge and experience available in Zimbabwe and the diversity in terms of service providers. Moreover, there are existing global solutions to reduce costs in the form of new technologies, including mobile phones and point of service (POS) transactions enabling local traders to serve as agents, as well as linkages with private and public sector initiatives (such as outgrower schemes), and community-based initiatives such as CARE's Village Savings and Loan Groups (VSLGs). Zimbabwe is also a fertile ground for linkages between formal and informal insurance companies, low-income housing finance through linkages with housing cooperatives, and finance and non-financial service providers in the area of HIV/AIDS.

Who Can Do What?

To rescue Zimbabwe's once growing microfinance sector, and rapidly build solid institutions well integrated into the financial sector with robust outreach into rural areas, steps to be taken by the various stakeholders are detailed in section 4.5 of this report and summarized here below:

- Microfinance service providers will need to prepare bankable business plans, approach banks early on to see what type of financing they would be prepared to wholesale, and also fundraise with the corporate world and donors. Merging is another strategy that could make it easier to overcome the current challenges faced. Products and delivery channels will need to change in the higher cost operating environment with a view to increasing efficiency. More efficient business models are also needed to reach a significantly larger customer base than was the case in the past, including hitherto underserved rural areas. One of the microfinance service providers will need to post their 2008 information on the MIX Market for the sector to gain international visibility.
- ZAMFI will need to revise their current work plan in view of the changed economic and political environment, set clear targets on how to build the industry, lobby for an enabling environment and industry infrastructure, restart information collection and dissemination through monthly updates on the ZAMFI website, including a mapping of the geographical coverage of the microfinance service providers. Cooperate with Agribank and contract farming finance providers. As the financial sector becomes more integrated consideration should be given to linking ZAMFI to the Bankers Association of Zimbabwe by creating a microfinance wing within the latter, or perhaps housing ZAMFI within its more centrally-located premises.
- The Government of Zimbabwe should take immediate steps to halt microfinance service provider licensing renewal requirements or waive them for 2009/2010 and start working on removing other legal and regulatory obstacles preventing access to finance. This implies advances need to be made to legal impediments in the area of savings and micro insurance, transactions and leasing instruments for MSEs, business loans including value chain finance as well as consumption finance including low income housing finance. The government should institute the Financial Inclusion Forum envisaged in the National Microfinance Policy and revise the national policy in view of the new political and economic environment, possibly with the facilitation of central bankers from other countries that have successfully addressed the specifics of microfinance and the creation of an optimal legal and regulatory environment. Regulation of microfinance service providers that do not take deposits should move back to the Ministry of Finance, so that the RBZ can focus on prudential regulation and ensuring financial healthiness of the deposit-taking institutions that can pose a systemic risk to the sector. Moreover, the single most important contribution a government can make towards building an inclusive financial sector is to create an enabling environment, at the enterprise and financial institution level.
- Donors need to make funding available for a six- to twelve-month recovery package. This would save the remaining microfinance service providers from going down, as well. It would also reduce donor dependency by enabling them to continue to reach the poor who can help themselves, before they become destitute and dependent on grants. For the medium term, they could opt to pool resources in a Financial Inclusion Fund designed in line with successful experiences elsewhere such as the Microfinance Investment and Support Facility Afghanistan (MISFA), which after an initial US\$ 5 million pilot developed into a US\$ 119 million very successful fund. For Zimbabwe it is suggested that donors can pledge funds for different areas of interest such as rural/value chain finance, food security, microleasing, low-income housing finance, supporting high HIV/AIDS incidence areas, empowerment of women, and support at the middle or macro-level. This facility should be operational before the end of the year.

2. Methodology

This paper represents the results of a two week assessment of the needs for rebuilding the microfinance sector in Zimbabwe. The assessment was carried out in anticipation of full donor re-engagement, which is expected in the near to medium future, in light of the changing political environment. Consequently, donors are planning to make significant amounts of funding available for Zimbabwe to help get the economy back on its feet, improve food security and rebuild basic social services.

Increasing the access to finance for low-income households, including the small enterprise sector, is critical for enhancing food security in Zimbabwe, creating employment and alleviating poverty. This study seeks to ensure that any new support initiatives can optimally contribute to a concerted approach to increase access to finance, so it can be done in the fastest, most efficient manner. Funded by SNV, the study was done by Zimbabwe Association of Microfinance Institutions (ZAMFI) and AYANI - Inclusive Financial Sector Consultants.

We used established methodologies for access to finance assessments, combining insights from studies done in the past with qualitative data generated from stakeholder meetings, with interactive methods to collect and analyze information, as well as one-on-one semi-structured and open-ended interviews. The scope of the study is limited to issues of financial service delivery and does not seek to cover the broad domain of equally important non-financial services needed to assist disadvantaged household to grow out of poverty. Another limitation of the study is the lack of information, part of which is because most organizations had stopped operating and loan books de-capitalized, so most parameters were at zero and records therefore not kept anymore.

In phase 1, we collected secondary data and did a desk review. This started by identifying materials available at ZAMFI. Moreover, policy papers and documents provided by the Reserve Bank of Zimbabwe (RBZ) served as important information sources.

In phase 2, primary data collection took place, mostly in the form of consultative meetings with microfinance service providers, which included two working group meetings. The research team also met with a range of other stakeholders, government officials, donors, banks, NGOs, and other key informants.

In phase 3, stakeholder feedback is to be incorporated into the draft report, with a view towards enhancing the breadth and depth of the report.

Chapter 3 presents the findings on access to finance for low-income families in Zimbabwe. It starts by briefly highlighting the macroeconomic situation and the market realities of micro and small enterprises (MSEs). It then elaborates on the demand of MSEs and low-income households, and the available service providers in this market segment, as well as the industry infrastructure, the legal and regulatory framework and the policy environment.

Chapter 4 is forward-looking and focuses on recovery of the microfinance sector. It first seeks to address some key issues that would need to be tackled for the financial sector at large to be able to increase access to finance. It then discusses a microfinance sector recovery package, establishing what needs to be done immediately to put a halt to the asset depletion that has almost fully destroyed it. The chapter also elaborates on what would need to be done in the longer term to increase access to finance in Zimbabwe, along with an implementation strategy and specific steps to be taken.

3. Assessment of Access to Finance in Zimbabwe

3.1 The Context of Access to Finance in Zimbabwe

3.1.1 Macroeconomic Context

Zimbabwe is a land-locked country, bordering Zambia, Botswana, South Africa and Mozambique. The World Bank Development Indicators estimate the population reached 13.2 million in 2006, some 3 to 4 million of whom are estimated to be in the Diaspora. The number of people living in poverty is high. The most recent study estimated that 72% of the population is living below the total consumption poverty line (*Poverty Assessment Study Survey*, 2003). The number of people infected by HIV/AIDS is 1,300,000 – out of 33 million worldwide.¹ The majority (70%) of the population lives in rural areas, thus rural development is critical to the nation's growth.



Zimbabwe is well endowed with natural resources, including coal, chromium, gold, nickel, copper, iron ore, tin and platinum. Major agricultural products include corn, cotton, tobacco, wheat, coffee, sugarcane, peanuts and livestock.

However, after decades of economic growth and development throughout the 1980s and 1990s, Zimbabwe's economy has taken a dramatic turn for the worse and in January, 2006 the country's inflation reached hyperinflationary levels. At the close of 2008, only 6% of the population was formally employed, down from 30% in 2003. Government policies have continued to harm the traditional informal livelihood strategies, such as street vending, exposing more people to increased vulnerability levels and negative coping mechanisms.² Price, interest and exchange rate controls, a lack of budget discipline, weak export performance, low levels of capital formation, and foreign-exchange scarcity were some of the structural weaknesses in the economy.³ The sizeable decline in national agricultural production over the last seven to eight years is widely seen as the direct result of the structural change following the contested land reform of 2000. Zimbabwe is also prone to flooding and droughts, resulting in the depletion of livestock, besides causing extensive crop failures.⁴

On the 15th of September 2008, when inflation reached an estimated 500 billion percent, a Global Political Agreement was signed by the three political parties represented in the Zimbabwean Parliament and the new Prime Minister eventually sworn in on 11 February, 2009. Since then the economic downturn started to slowly turn the corner. Hospitals and schools opened again, some ministries started to function again and the authorization of transactions among residents in foreign currency officially recognized the virtually complete dollarization of the economy and succeeded in bringing some stability to the economy. But, the dollar is not considered the optimal currency for Zimbabwe, given its smallest denomination is rather high, which would continue to push up prices. Therefore, it is likely the government will shift to the Rand in the near future so that Zimbabwe can reach optimal levels in terms of competitiveness.⁵

¹ NAC/UNICEF (2008), "Zimbabwe's Programme of Support to the National Action Plan for Orphans and Other Vulnerable Children", Harare, Zimbabwe

² OCHA (2008), "Zimbabwe 2009 Consolidated Appeal Process", <http://ochaonline.un.org/zimbabwe>.

³ UNDP (2008), *Comprehensive Economic Recovery in Zimbabwe – A Discussion Paper*, Harare, Zimbabwe

⁴ OCHA (2008), "Zimbabwe 2009 Consolidated Appeal Process", <http://ochaonline.un.org/zimbabwe>

⁵ IMF (2009), "IMF Report 2009"

3.1.2 Market Realities

Micro and Small Enterprises (MSEs)

According to the 1991 Gemini survey of the micro and small enterprise sector⁶, there were some 845,000 micro and small-scale enterprises (MSEs) providing regular employment to 1.6 million people, which represents over 25% of the adult population. A later survey, undertaken in 1998 (McPherson, 1998),⁷ found 860,000 MSEs in the manufacturing, commercial and service sector employing 1.65 million people. Since then, Zimbabwe's formal sector has shrunk dramatically. In many countries, the engine for the informal sector is the provision of services to the formal sector, as informal businesses offer products and services to formal sector companies and employees. Without this engine, entrepreneurs face difficulties in identifying and taking advantage of a diverse array of business opportunities. Nonetheless, the informal sector has become the safety net where the majority of Zimbabweans now find a means of survival. Its dynamics and constraints are therefore important to note.

Ample changes have taken place in the sector between these two survey periods in the 1990s. Trade-related MSEs are much more common than before (45.2%, up from 21.1%) with manufacturing-oriented businesses having gone down from 71.6% to 45.2% (See Box 1). Most of the decrease is due to the shrinkage in the wood and wood products, food, and beverage processing and textile manufacturing subsector, which was affected by import competition of second-hand clothing.

Zimbabwean MSEs face a number of constraints. The most commonly cited problem was market problems – not having enough customers. The second major constraint, after marketing problems, was access to finance. At the time, the same study established that only 10.8% of MSEs had received loans from financial institutions. Though this percentage might have gone up in the early 2000s, the outreach of microfinance service providers has dropped significantly since 2006 and businesses with access to credit are likely close to zero now. With so few businesses able to overcome this key business constraint, it will have an important impact on economic growth in urban areas if proactive efforts to increase financial services to MSEs are made as soon as lending is feasible again.

Moreover, while women occupy a dominant position in the MSE sector in Zimbabwe, they face particular problems as some regulations and controls on markets for raw materials, technology imports and zoning by-laws, target female-dominated sectors such as textiles, food processing, leather works and retail sub-sectors.

Over the past few years the operating environment for businesses has become more difficult. Zimbabwe now ranks very low on the World Bank Doing Business 2009 survey, 158 out of 181 countries and down from 154 in 2008 and 145 in 2005. The business environment for micro- and small enterprises has been particularly hostile. Operation Murambatsvina (officially 'Restore Order,' and literally meaning 'Drive out Trash') was a hawker clean up and slum demolition exercise in 2005 to remove hawkers from streets and

Box 1: MSE Sector in 1998

The country-wide micro and small enterprise survey undertaken in 1998 sheds some light on the features of this category of businesses in Zimbabwe:

- At the time, Zimbabwe's MSE sector was dominated by trading (45.2%), manufacturing (42.4%) and renting rooms, services and transport (11.4%).
- MSEs in Zimbabwe in 1998 averaged 1.91 workers (inclusive of the owner)
- Gender data suggests the important role of women in the MSE sector – as in other countries in Southern Africa – with 58.1% of all MSEs run by women.
- Most MSEs were started as a means of subsistence, rather than in response to new opportunities.
- 90.2% of households have one MSE, 7.9% have two, and 1.8 % have more.

Source: (McPherson: 1998)

⁶ GEMINI (1991), "Micro and Small -Scale Enterprises in Zimbabwe: Results of a Country-Wide Survey," *GEMINI Technical Report 25*

⁷ DAI / PWC (1998), "Zimbabwe: A Third Nationwide Survey of Micro and Small Enterprises," USAID

market places and demolish illegal extensions to houses in high density areas. It left some 700,000 Zimbabweans without homes, livelihoods or both.⁸

Agricultural Sector

Commercial agriculture used to be the largest employer in Zimbabwe's formal-sector. The above mentioned survey (McPherson, 1998) found 442,000 agricultural and mining MSEs, employing 2.2 million Zimbabweans. However, once the bread basket of Africa, the country's agricultural production has undergone a formidable drop and faces huge input, viability and marketing challenges, not the least of which because, until recently, there was a controlled environment for both agricultural inputs and outputs.

Zimbabwe has a dual agrarian structure, with average commercial farms more than 1,000 hectares, and average communal farms less than 10 hectares. The tenure system, even back in the 1980s and 1990s has not been conducive to investment and collateralization as it was based on permits that accorded broad rights to the state, but few to the farmers who were faced with uncertain duration and few rights to compensation for any investments. Since the Fast-Track Land Reform Program (FTLRP) started in 2000, A1 settlers, allocated at least 3 hectares of arable land and with shared grazing rights, were supposed to be issued with temporary occupation licenses that could be converted into proper leases. With regard to the larger A2 commercial farms - small, medium and large scale - with 99-year leases, these appeared to offer little security either. Moreover, despite the potential for a more equal and prosperous society that could share land more equally, the FTLRP led to a decline in agricultural output because of underutilization of commercial farm land. The reduction in output can also be attributed to the fact that new owners and their farm-workers often lacked skills and experience in commercial farming. Critical input constraints and price controls affected commercial farming, just as it had affected smallholder production. By 2007, coffee production had virtually ceased and commercial cotton was no longer produced by large-scale farmers. Maize, tobacco and beef production were down to a third of their 1998 production levels. Tea and sugar production managed to fare a bit better and remained at 83% and 69% of their 1998 levels.⁹

Smallholder maize production peaked in 1985 at 1.7 million tons. This was also the year when the number of farmers receiving loans peaked; smallholder credit then tailed off because of poor loan repayment. Communal yield levels have been declining over the past eight to 10 years, due to declining soil fertility and unsustainable land use. Reduced input availability and drastically increased input prices, combined with tillage constraints (the number of draught oxen have declined significantly), have accelerated this process.¹⁰ Moreover, as many younger people have left the country, much of the labor-intensive work cannot be done. There are limited value-added services—such as processing, storage and warehousing—and so perishable crops have to be sold immediately. The result of these challenges is that there is a high level of poverty in rural areas.

As a result of Zimbabwe's dual economy, market linkages between smallholders and firms higher up in the value chain are less common, except for in a few sectors like cotton. The nation's cotton crop is almost entirely produced by over 200,000 small-scale farmers and linkages with contract farmers are common in this sector. On the other hand, small-scale farmers produce only a small amount of tobacco, one of the country's most important export crops.¹¹ With these reduced production levels, firms across all sub-sectors are starting to look for smaller producers and contract farming is increasing. The new government sees contract farming as an important way of revitalizing the agricultural sector. For the coming summer crop season, it will be calling for increased contract farming and seeks to engage agro-processing companies in the provision of inputs, financing and extension support to farmers on a contract farming win-win basis.¹² Another opportunity in Zimbabwe is that large stretches of land have been under irrigation in the past,

⁸ <http://www.crisisgroup.org/home/index.cfm?id=3618>

⁹ UNDP (2008), "Comprehensive Economic Recovery in Zimbabwe – A Discussion Paper," Harare, Zimbabwe.

¹⁰ ACWG (2008) "Short and Medium Term Priorities for the Agricultural Sector," Harare, Zimbabwe

¹¹ SNV (2007), "Inventory of Smallholder Contract Farming Practices in Zimbabwe," Harare, Zimbabwe

¹² GoZ (2009), "Short Term Emergency Recovery Programme (STERP)", Harare, Zimbabwe

which makes them less prone to droughts than rain-fed agriculture. Moreover, promising experiments have been going on with conservation farming, which has the potential to significantly increase productivity.

3.2 Demand from MSEs and Poor Households for Financial Services

Ascertaining demand for the various types of financial services low-income households need is one of the most important aspects of developing a financial sector strategy; at the same time, it is one of the most difficult. Nonetheless, in recent years, significant advances have been made in developing proxy indicators for demand, through measuring effective access to and use of financial services, along with how people manage their money and what drives financial behavior. Such research in markets in South Africa has enabled a robust segmentation of the financial market in terms of access and attitudes to financial services, ranging from those who have full access to those who have no access at all. Data has enabled banks and other commercial operators to enter new markets and offer appropriate products. The leading organization in this type of research is Finscope which, in addition to South Africa, has undertaken surveys in many countries in Southern and East Africa, but not in Zimbabwe.¹³ In the absence of such solid market insight, the following sections on the demand for loan products, savings, insurance, money transfers and leasing is anecdotal, and more of a point of departure to understand some of their basic features in Zimbabwe.

3.2.1 Loan Products

The most commonly known financial service for low-income households in Zimbabwe is microcredit. It refers to small loans that are accessible to people who have traditionally been excluded from formal financial services. Microcredit does not refer to a specific methodology, but rather the provision of credit services to low-income people. This may range from group and individual business loans to consumption loans for low-income employed populations. Microcredit clients typically have limited collateral, and thus its techniques depend on alternative guarantees such as social collateral or movable assets.

Types of Loans in High Demand

The National Microfinance Survey and Proposed Legal and Regulatory Framework, commissioned by the Reserve Bank of Zimbabwe (RBZ) in 2005, found demand for business, education, food and shelter loans.¹⁴ It did not cover demand for inputs, although that is another type of credit that is in high demand.

Demand for Enterprise Loans

Most of the available information on demand for loans concerns business loans, though the information is outdated. Only 10% of manufacturing, commercial and services MSEs had access to loans in 1998, 4.2% from family/friends, 1.4% from formal credit sources (12,000 MSEs), 1.1% from so-called microloan programs (9,400 MSEs), and the rest from other sources. It was found that formal credit seldom went to women. The microloan programs, on the other hand, primarily served women. The percentage of MSEs with access to credit was roughly the same among agriculture and mining MSEs (10.8%), but varied widely per activity. Among cotton growers, 35.7% had received some sort of credit, while 16% of maize and multiple crop owners had, too. However, those working in cattle, poultry-raising and mining were less likely to have access to credit.

Demand for Education Loans

Besides demand for business loans, low-income households in Zimbabwe also seek loans to pay for school fees of their children. Payment of school fees is normally due in January, right after the festive season and at a time when people are generally short of cash. With the dollarization of the economy, and school fees now being paid in hard currency, it has become even harder for low-income households to send their children to school without education loans. Capturing seasonal cash flows in the form of a contractual savings product can diminish the size of the loan needed.

¹³ FINScope official website, <http://www.finscope.co.za/about.html>

¹⁴ Reserve Bank of Zimbabwe National Microfinance Survey and Proposed Legal and Regulatory Framework, Ernst & Young, March, 2006.

Demand for Housing Loans

There is demand for housing improvement loans, e.g. windows, doors, plastering or roofing to assist in finishing houses that have already been built; loans for the acquisition of sites and services; and loans for complete house construction or for the cost of purchasing a house. Like other countries in Southern Africa, building code standards have long created a mismatch between demand and supply, as the houses being built do not reflect what large segments of the population would actually desire. What people really want are more cost-effective housing options, so that they can also put their income towards education and many other important household demands. Linkages between technical NGOs such as Housing People of Zimbabwe and existing housing cooperatives in Zimbabwe provide useful synergies. The NGOs provide technical expertise and training to housing groups (though these need not necessarily be registered as cooperatives), while the microfinance service providers can process the funding.

Pundutso, CBZ, and CABS are among the financial institutions that have reason to believe there is a market for low-income housing finance. CABS has been experiencing steady drops in mortgage lending since it peaked in 1996 because of the decade-long economic recession and collapsed mortgage business, but is now projecting a bright future for the industry, following the liberalization of the country's economy. The estimated loan size for low-income housing finance loans is between US\$2,000-\$10,000,¹⁵ and is higher for the CABS' clientele. The housing backlog for Zimbabwe's 29 urban centers alone has been estimated at 542,630 units.¹⁶

Demand for Other Consumption Needs

The rapid growth in microfinance services in the form of moneylenders during the early 2000s evidences the interest in consumer finance in Zimbabwe. However, because of the economic malaise, the demand has decreased dramatically, and many moneylenders have shifted their product offerings to loans for businesses.

Demand for Loans for Agriculture

The main constraint faced by agriculture and mining enterprises in the 1998 survey¹⁷ was lack of inputs (26.4%), followed by the constraints of finance problems (19.1%). This translates into 84,422 enterprises severely constrained by finance, but includes mining enterprises. This data was also captured before the major land reforms since 2000, which dramatically changed the country's farming system situation. There are currently an estimated 1.1 million smallholder farmers.¹⁸ Smallholders are in need of both short-term as well as medium-term finance.

Table 1 below overviews some major sub-sectors in which MSEs are active. The numbers are old, but still give an indication of the magnitude of the various sub-sectors in terms of number of small holder enterprises. The number of smallholders growing vegetables has increased to some 50,000 that produce for the market.¹⁹

Table 1: Major Agricultural Sub-Sectors with Large Numbers of Small Holders	
	Number of Small Enterprises Per Sub-Sector
Poultry	118,948
Maize	116,422
Cotton	36,001
Vegetables	29,433

¹⁵ It should be noted that the estimate from Pundutso came prior to actual survey data reflecting the changed economic environment.

¹⁶ Ministry of Local Government, Public Works and Urban Development (2007), "Zimbabwe Urban Housing Database," Harare, Zimbabwe

¹⁷ DAI / PWC (1998), "Zimbabwe: A Third Nationwide Survey of Micro and Small Enterprises", USAID

¹⁸ Michael Dawes, Consultant SNV and facilitator of Market Linkages Working Group

¹⁹ Morgen Gomo, SNV Senior Economic Advisor, Vegetables

Cattle	14,631
Forestry	10,663
Goats	6,999
Ground nut	6,811
Paprika	5,838
Pigs	2,996
Bananas	7,000 ²⁰
Tea	1,900 ²¹
Sugar	600 ²²

Source: Mc Pherson (1998) unless otherwise referenced

There is limited information about the financing arrangements in these value chains, but to illustrate the range of financing needs and corresponding productivity constraints, Table 2 below provides an overview of the goat value chain.

Table 2: Goat Small-Holder Value Chain – Credit Needs		
Value Chain Level	Type	Credit Needs
Retailers	- Supermarkets	
Traders / Wholesalers	- Traders/ Goat trader association - Cold storage - Limited export	- working capital (to buy in bulk) - investment capital for trucks, etc.
Processors	- Not a lot of milk/other processing	
Producers	- Farmers with small goat flocks	- transport costs - veterinary services costs - supplementary feeding costs
Input Distributors	- Veterinary Services network	- working capital
Input Providers	- Services - Watering - Fodder - Housing	

Extent of Demand for Loans

Demand for microcredit is substantial in Zimbabwe. Table 3 presents in a very rough order of magnitude estimates of the minimal enterprise loan demand in rural and urban areas, based upon the number of MSEs the 1998 survey found in urban and rural areas respectively. At the time, a UNDP assessment²³ estimated the percentage of microenterprises and the percentage of small and medium enterprises demanding credit to be 15% and 25% respectively, and the average loan size to be US\$400 and US\$2,700 respectively. It is hard to speculate about how the demand has changed since then, but if you increase the rather low estimate for average SME loans to US\$5,000, the demand goes up to US\$109 million. Given a more expensive operating environment, the average loan size is likely to be higher for any business to venture into a meaningful activity. Once financial service providers restart lending, there will be more accurate information as to this key parameter.

²⁰ Morgen Gomo, SNV Senior Economic Advisor, Vegetables

²¹ ZTGA, "Smallholder Contract Farming," SNV CD of Contracting Smallholder Farmers Workshop

²² International Sugar Organization (2008), "Sugarcane Smallholders in Sub-Saharan Africa: Status, Challenges and Strategies for Development," London, UK

²³ Pearson, R. Hungwe, P. (1997) "UNDP Microfinance Assessment Report for Zimbabwe," UNDP

Table 3: Estimates of the Demand for Business Loans						
		Micro (94.4%)		SMEs (5.6%)		
	Number of MSEs (off-farm)	Percentage Demanding a Loan	Average Loan Demand	Percentage Demanding Credit	Average Loan Demand	Total Loan Demand 2008
Urban	331,251	15%	US\$400	25%	US\$2,700	US\$31 million
Rural	529,078	15%	US\$400	25%	US\$2,700	US\$50 million
Total	860,329	-	-	-	-	US\$81 million

Source: McPherson (1998), Pearson, R., Hungwe, P. (1997)

As to the number of enterprises, it is uncertain whether the total demand will exceed the findings at the time of the 1997 survey or not. Many people have resorted to the informal sector to make their livings or supplement their income, but this does not necessarily mean the effective demand will be higher.

But, as mentioned above, low-income families also need loans for other purposes such as education, emergencies, housing, durable consumption goods and farming inputs, etc. This significantly increases the total demand from low-income households for loans. However, it is even harder to estimate the demand for these other types of loans, so all we seek to do is establish that the total demand is significantly larger than US\$100 million, not less than was determined in studies in the early 2000s. Table 4 gives the reader some idea of what the demand for loans for education and emergencies could add up to; Tables 5 and 6 present the same for housing finance and input loan demand. In the absence of market data, we used the number of households as point of departure for education and emergency loan demand, and the housing backlog and number of small holders for housing loan and input finance calculations. The amount of school fees and hence average loan demand for education loans is still changing, and so the round figure of US\$100 is being used for now.

Table 4: Estimates of Demand for Loans for Education, Emergencies				
	Number of Households	Percent Demanding a Loan	Average Loan Demand	Total Loan Demand 2008
Urban	807,472	63%	US\$100	US\$51 million
Rural	2,045,685	45% ²⁴	US\$100	US\$92 million
Total	2,853,157			US\$142 million

Source: Mc Pherson (1998), Koch (2005)

Table 5: Estimates of Demand for Incremental Housing Finance Loans				
	Housing Backlog	Percent Demanding a Loan	Average Loan Demand	Total Loan Demand 2008
Urban	542,630	Minimum 10%	US\$2,000	US\$108 million
Rural	-	Minimum 10%	US\$2,000	-
Total				US\$108 million

Source: Ministry of Local Government, Public Works and Urban Development (2007), "Zimbabwe Urban Housing Database," Harare, Zimbabwe

Table 6: Estimate of Demand for Inputs Loans				
	Number of Small holders	Percent Demanding a Loan	Average Loan Demand	Total Loan Demand 2008
Rural	1.1 million	10%	US\$300	US\$33 million
Total				US\$33 million

Source: Dawes, M

²⁴ In the absence of any other information, the percentage is based on a recent demand study in another comparable country in Africa (Sierra Leone). Of the 2.8 million rural households, it is then estimated that 45% are seeking access to loans on regular bases, as are 63% of the 807,472 urban households.

3.2.2 Savings Products

Micro-savings are deposit services that allow low-income savers to keep small amounts of money for future use. Often without minimum balance requirements, savings accounts allow households to save in order to meet unexpected expenses and plan for future investments.²⁵ They may be offered by formal, regulated institutions, such as commercial banks, or by informal, member-owned and managed institutions, such as Rotating Savings and Credit Association (ROSCAs).

Types of Demand for Savings

For those Zimbabweans who used to save, they did so for a variety of reasons including life-cycle demands: births, children's education, *lobola* (bride price), establishing a home, consumption smoothing, emergencies, and to finance investment opportunities. This broad range implies that flexible savings accounts are important for emergency savers, while structured savings products (for example regular, small deposits) are appropriate to assist savers to build assets to invest in a business or for education. The savings for death seem to supersede every other emergency, as there is a strong belief in "not being poor in death." This is evidenced by the high incidence of funeral and burial insurance or savings schemes among the poor in Zimbabwe.

Low income households in Zimbabwe want to save with formal, semi formal as well as informal institutions. The informal mechanisms that were identified during a 2001 Microsave study on savings behavior, when inflation was still somewhat contained, but already in double-digit numbers, are:

- burial societies
- savings clubs and ROSCAs/ASCAs
- savings at home and in-kind
- reciprocal lending
- saving with employers.²⁶

Burial societies have demonstrated that they are responding to a huge need. Many were started by Malawian immigrants during the colonial era, as they could not afford a decent burial. As a result, Malawian communities formed numerous burial societies. Some households belong to several burial societies, in order to increase the benefit on death; for instance, one for the casket, and one for cash for relatives. With economic hardship and the HIV/AIDS pandemic, burial societies increased in the early 2000s.

The savings clubs have increased from 30 in 1970 to over 7,000 in 1998.²⁷ The use of savings has changed from a focus that was predominantly on agricultural inputs to needs such as school fees, school uniforms, business working capital and loan repayments. The savings clubs' savings activities mirror the seasonal patterns for most households, with November, December and January as the lowest savings months. Almost all respondents in the savings research by Microsave were members of at least one rotating credit mechanism such as "*maround*" or "*ukuholisana*," otherwise known as ROSCAs. The typical ROSCA has 4-15 people with a common bond e.g. employees at the same company, friends or businesspersons operating at the same market, who make daily, weekly or monthly contributions. Each member of the ROSCA takes the money (pay-out) in turn, until all have received a pay-out. ROSCAs are common throughout the country, especially among women. Like in East Africa, the poor realize that ROSCAs are risky and have a limited life span, but they still find the convenience, flexibility in terms of the amounts that one can save up, low transaction costs, and the non-restricted use of the savings outweigh the costs associated with the mechanism. A variant to the ROSCA is the Accumulating Savings and Credit Association (ASCA), where not all members take out the money; those that receive the lump sum pay interest to the group and at a pre-determined time, and all members share the dividends from profits generated from lending activities.

²⁵ <http://www.bot-tz.org/MFI/Default.asp?Menu=FAQ>

²⁶ Chigara, P., Mutesasira, L. "Use and Impact of Savings Services among Poor People in Zimbabwe," Microsave, Nairobi, Kenya, 2001.

²⁷ Chigara, P., Mutesasira, L. "Use and Impact of Savings Services among Poor People in Zimbabwe", Microsave, Nairobi, Kenya, 2001.

Savings in-kind is a very common form of saving among the poor, which are later liquidated through outright sale or pawning. The most popular items include purchasing assets such as furniture (in urban areas) or goats and cattle (in rural areas).

The most common form of savings among the poor is reciprocal lending. The poor lend among themselves both in monetary terms and in-kind.

Savings with employers used to be a very popular method with housemaids/gardeners, farm laborers and other low-income jobs, but has faded over the years.

Extent of Demand for Savings

Over the past two decades, increased access to savings services through credit union networks, village savings groups and other financial service providers has demonstrated that Africa's poor have a strong demand for savings. In fact, the industry information source Microfinance Information eXchange (MIX) found that the median microfinance service provider in Africa mobilizes more savings compared to its loan portfolio than those in other regions.²⁸ Microfinance service providers have learned over the years that reaching poorer, rural areas often requires savings-led initiatives, since savings are generally in higher demand than loans. Like in many countries in Africa, in principle there is a strong culture of savings in Zimbabwe. The Post Office Savings Bank (POSB) is one of the largest in Africa, and in addition many low- and middle-income households have joined savings and credit cooperatives. CBZ, MicroKing Savings and Credit Company (Pvt.) Ltd, and POSB designed specific savings products for low-income savers.

However, in the hyperinflationary environment that Zimbabwe found itself since January 2006, the appetite for monetary savings kept decreasing. The more financially versatile people transformed all their Zimbabwean dollars in 2007 and 2008 instantly into US dollars, livestock, pots and pans, or anything of value.

But now that the situation in Zimbabwe is stabilizing, it is expected that people will start saving again, first with informal sources, and slowly gaining confidence in institutions, as well. So, it is within this light that the researchers sought to estimate this latent demand that at some point could be tapped. In the absence of survey data, we had to resort to a rough calculation presented in Table 7 below. It presents information on rural and urban households, the estimated number of those demanding savings services, and data on average savings balances from an in-depth study on savings behavior among low-income households in Zimbabwe.²⁹

Table 7: Estimates of Demand for Savings				
	Number of Households	Percent of HH Demanding Savings	Average Savings Capacity (US\$)	Total Savings Demand 2008 (extrapolated)
Urban	807,472	54%	\$50 ³⁰	US\$22 million
Rural	2,045,685	54%	\$25	US\$28 million
Total				US\$50 million

Source: Mc Pherson (1998), Chigara (2001)

The cost of services appears to be a major problem in the region, so low-cost or free accounts for the lowest income market segment would be a way to attract more savers, and capture the savings of the very poor. This type of service could also be vital for enabling people to build an asset base.

²⁸ http://www.themix.org/press_media.html

²⁹ Chigara, P., Mutesasira, L. "Use and Impact of Savings Services among Poor People in Zimbabwe," Microsave, Nairobi, Kenya, 2001, p27.

³⁰ Pundutso's first experience with savings mobilization in US dollars was in early 2009

Restoring confidence in financial institutions and the ability to freely access ones' own funds are critical for savings to increase significantly in Zimbabwe.

3.2.3 Payment Services and Transaction Accounts

Types of Demand for Payment Services and Transaction Accounts

Transactions and payment services allow clients to make or receive payments. This includes current accounts and money transfer services. If customers have current or savings accounts, funds can be received by check or electronic means, such as direct deposit. This category includes current accounts and most debit and ATM-card accounts, as well as the transfer of remittances. This type of transaction banking provides a key to unlock access to other services: small insurance or savings premiums can be collected cost efficiently from a bank account, and a third-party record of cash flow can be established through a bank account. This can eventually be used to create an accurate and inexpensive credit score for a person working in the informal sector or on a cash-only basis. Increasingly, technology, such as smart cards, "point of service" (POS) technology and mobile phones, is being used around the world as a distribution channel for transaction services.

Those who do not have a bank account but receive remittances through formal channels also benefit from payment services in the form of money transfers (such as Western Union, Money Gram, etc). Where access to formal payment systems is not available, informal means of transferring funds are often used. These include courier services (bus companies, local traders and friends) to physically carry local or foreign currency notes to make payments.

Clearing of checks in Zimbabwe can take a number of days to clear, so increasing payment system efficiency in the country could have an important impact on the demand for formal payment services and transaction accounts in the country.

Size of Demand for Payment Services and Transaction Accounts

To measure demand for remittances, the proportion of households that receive money through formal financial instruments is considered. A recent survey among Zimbabweans living in the UK reported that foreign currency remittances from Zimbabweans living outside of the country—excluding hand-to-hand transfers—is much higher than previously thought. It estimates that remittances from expatriates in Britain to Zimbabwe alone amounts to US\$940 million annually.³¹

Table 8 below, which is based on an older (2006) estimate, shows how Zimbabwe compares to other countries in the region. Together with Mozambique the amount of remittances as percentage of GDP appear to be the highest.

Table 8: Money Transferred Annually in Some Neighboring Countries (USD)		
	Amount Received Annually	% GDP
Madagascar	316 million	5.7%
Malawi	102 million	4.6%
Mauritius	356 million	5.5%
Mozambique	565 million	7.4%
Tanzania	313 million	2.4%
Zambia	201 million	1.8%
Zimbabwe	361 million	7.2%

Source: <http://www.ifad.org/events/remittances/maps/africa.htm>

³¹ Muganha, F., Bailey, A., Cliffe, L. (2009), "Remittance Strategies of Zimbabweans in Northern England", School of Geography, University of Leeds, UK

As with savings, an important consideration for those who choose not to use formal money transfer services is confidence in the institution. Many people prefer to send money through a known courier, such as a local trader, or a family member traveling to the location.

3.2.4 Leasing Products

"Micro leasing is a medium to long-term financing deal for acquisition of production equipment or business assets by micro-entrepreneurs. Micro leasing separates use of an asset from its ownership. It is based on the business philosophy that profits are earned through use rather than ownership of production equipment or business asset. In micro leasing arrangement, the lessee generates extra income from the use of leased assets and the lessor receives income while retaining the security of ownership. Through micro leasing, low-income people with limited capital can acquire new production techniques through use of equipment they otherwise would not have."³²

Types of Demand for Leasing Products

Zimbabwe used to have a number of finance houses whose activities were mainly concentrated on offering asset-based instruments in the form of hire purchase and lease hire advances to the corporate world and individuals. The leasing instruments have typically been for plants and machinery, and less than US\$20,000. In the area of agricultural processing, the absence of micro-leasing makes it difficult for businesses to acquire larger machinery or equipment. As such, it appears that there is room for micro-leasing, potentially in conjunction with training and other business support services in developing microenterprises in productive sectors.

Extent of Demand for Leasing Products

There is limited information on the demand for micro-leasing and the leasing market at large. But the number of finance houses that used to exist indicates leasing is a service that has traditionally been in demand in Zimbabwe. Among the microfinance service providers, CSFS and SHDF have been active in this market and CBZ also felt there was a market for micro-leasing; as such, they are currently piloting the product in the dairy sector (see Section 3.4).

3.2.5 Insurance Products

Micro-insurance refers to the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.³³ It does not refer to one product or product line, nor is it limited to a specific type of provider. Products may range from life insurance, funeral coverage and health needs from formal institutions, to membership in informal quasi-insurers such as burial societies. These products enable low-income people to manage risk around events that may occur (e.g. fire, theft, damage, loss of crops or business failure) or that will occur (death, illness).

Types of Demand for Insurance Products

Compared to some other countries in Africa, insurance is rather common in Zimbabwe. This is the same for low-income families who seem to be interested in insurance, albeit not in the formal market. The type of micro insurance in highest demand has been life insurance.³⁴ The demand for health insurance is much less, but CBZ felt there was enough demand to start piloting a health insurance product for its low-income clients.

The need for crop insurance is increasingly needed to protect farmers from vulnerabilities and promote lending for contract farming initiatives. Crop insurance can be indexed to price or weather. Price indexed insurance is typically offered for export crops, such as coffee, which could be affected by drops in international prices. Weather indexed insurance covers loss due to poor weather conditions. In both cases, reinsurance is needed. Anecdotal information suggests that crop insurance for medium-sized contract farming companies is in high demand and would be a way to boost contract farming in Zimbabwe.

³² Rural Finance Network, <http://www.ruralfinancenetwork.org/pages.php?p=54&r=7&ID=11>

³³ Draft Donor Guidelines, CGAP Working Group (2003)

³⁴ ILO (2006) "Protecting the Poor – a Microfinance Compendium, Geneva, Switzerland, p 231

Size of Demand for Insurance Products

The percentage of the population that demands insurance is very high in Zimbabwe. A study in 2003 among clients of a major microfinance service provider revealed that half of its clients had insured themselves against death.

3.2.6 Demand for Non-Financial Services

Finally, *financial literacy* is an issue for micro-enterprises, particularly in the rural areas, though many entrepreneurs have learned a lot during the past few years, faced with an extremely hostile business climate. As such, financial training would be a valuable intervention, in addition to providing financial services. Such an intervention could possibly be done in coordination with donor projects offering other types of training to entrepreneurs and farmers³⁵

3.2.7 Summary of Demand for Microfinance Services

The demand for financial services from low-income households in Zimbabwe is high. Previous estimates of the demand for microcredit in Zimbabwe amounted to close to US\$100 million, and we believe the market could exceed that amount. There is a *demand for loans for business, education, housing, and agricultural inputs, and in addition for leasing, micro-insurance, savings, transaction accounts, etc.*

Among the various types of credit, the *percentage of clients that demand loans for trading has surged* and, as such, working capital loans are the main type of product currently in high demand. This is because as the business climate has continued to deteriorate, most entrepreneurs have been forced to halt whatever services, production or manufacturing business they were running and instead venture into trade. Moreover, although the demand for consumer loans used to be high, it has declined dramatically as most clients currently need loans for businesses to generate income to make ends meet.

In terms of savings, *though Zimbabwe has a strong savings culture many people have lost their savings* or the value of their savings and pensions in banks, building societies, SACCOs or pension funds. As such, people are currently wary of savings within institutions. However, village-based savings and loans groups are already managing to mobilize funds again.

The demand for local transfer and remittances services used to be and is still high for all income categories. It is believed the amount of remittances from the UK alone could be close to US\$ 1 billion a year.

There is insufficient information to quantify *the demand for services such as low-income housing finance, transaction accounts, and micro-leasing*. A *Finscope* survey looking into demand for and access to these services would be useful for financial institutions in assessing potential demand.

Price sensitivity for recurring expenses such as bank fees is likely to be high, especially during the coming months. This is because the cost of living went up dramatically during the last quarter of 2008. Low-income households will find it hard to afford any additional services beyond rent, school fees, transport, food and medical expenses. As such, unless financial institutions find ways to *increase efficiencies and bring down the fees* on savings and transaction accounts, membership and other financial services, it is likely that efforts to resuscitate the provision of financial services to lower-income markets will be hampered.

3.3 Microfinance Service Providers

Zimbabwe used to boast of a fairly sophisticated financial sector, including commercial banks, merchant banks, discount houses, finance houses, building societies, development banks, the People's Own Savings Bank (POSB), credit unions and housing cooperatives, moneylenders, insurance companies and pension funds. Yet, it was constrained by the fact that the operating environment was one of a planned economy, which most African countries moved away from in the 1970s and 1980s.

³⁵ SNV has put together an inventory of BDS providers

The range of players operating in the lower-income markets segments has also been broad with even commercial banks penetrated the market. Some of the more informal entities used to be fairly organized, with close linkages with formal financial institutions. Table 9 provides an overview of the various types of providers. Microfinance initially increased as a reaction to a steady decline in the economic fortunes of the country since 1997. This is because microfinance tends to thrive in developing countries where there is an increase in poverty and there is a widening gap between the affluent and the poor. The poor become marginalized and excluded from a number of services. In their quest to be economically active, the excluded indulge in informal sector activities.³⁶

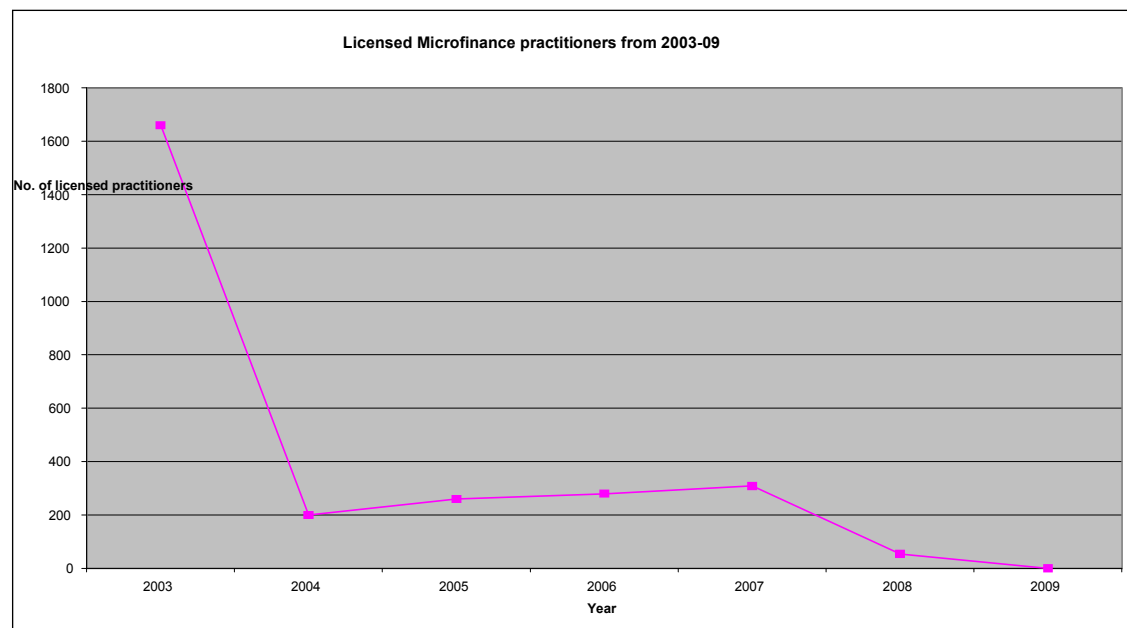
Table 9: Diversity and Size of Financial Sector				
	Credit (million US\$)	Deposits (million US\$)	Number of Institutions	Number Serving MSEs/ Microfinance Segment
<i>Formal</i>				
Banks	516	311	16	3
NBFIs				
Building societies	46	34	5 (2 in curatorship)	1
Finance Houses	16	10	5 (down to 1 in '07)	0
Government-owned institutions				
POSB	3.08	21.36	1	Wholesaling
SEDCO		0	1	Retail to SMEs
Agribank		0	1	
<i>Semi-formal</i>				
SACCOs	1.6	2.8	64	64
Housing coops				

Source: http://www.microfinancegateway.org/resource_centers/reg_sup/micro_reg/country/50/

However, over the past few years, as shown in Figure 1 below, Zimbabwe's economic meltdown was so severe that it led to a rapidly declining microfinance industry over the past few years. The figure shows the number of licensed financial service providers offering microfinance in Zimbabwe over the years. It reflects the increasingly hostile business environment with inflation accelerating in an unstoppable manner from 2005 onwards, it nearly becoming impossible to undertake business in 2007 and 2008. By the end of 2007, there were still 309 institutions licensed as microfinance service providers, but by the middle of 2008, the number had dropped to 150, and again down to 27 by the end of 2008. Not only did the number of providers see a sharp decline, but so did the outreach for each institution.

³⁶ ZAMFI

Figure 1: The decrease in microfinance service providers in Zimbabwe



Source: ZAMFI

This section will look at the supply of finance to low-income households by institutional type. It will explore the strengths and challenges for each type of institution in serving these markets.

3.3.1 Banking Institutions and their Subsidiaries

By the end of 2007, Zimbabwe had 14 commercial banks, 5 merchant banks, 4 discount houses and 1 finance house (See discussion under leasing providers).³⁷ Commercial banks are the largest players in the banking system, in terms of total assets with the broadest range of products on offer. Merchant banks offer a broad range of financial services except current accounts/check facilities. Discount houses deal mostly in securities. Most banking institutions in Zimbabwe have high minimum balances. Fees are also high, like in other countries in Southern Africa and Finscope demand surveys in neighboring countries have shown that clients are price-sensitive.

It should be mentioned that although the banking sector has managed to weather many storms over the past decade, and while the general economic outlook is improving with the new government and the multi-currency environment, the banking sector has become the latest casualty of the economic downturn. In the new high-cost environment, with little liquidity in the banking system and with business still low, a number of banks have sent employees on forced leave.

In the past, banks have been heavily oriented towards financing private durables, manufacturing inputs, raw materials, distribution of goods, and, in the 1990s, agriculture. A number of banks provide special credit lines to the tobacco industry, Zimbabwe's main commodity export product. Several banks, however, have downscaled to lower-income market segments. The main two, CBZ and MicroKing Savings and Credit Company (Pvt.) Ltd, were together reaching less than 5,000 active microfinance clients by September 2005, as the business climate started to deteriorate. By year-end 2007, it had dropped to below 1,000, and, by the end of 2008, no lending was taking place at all. A new bank, TN Bank (part of the TNFH Group) was registered in September 2008. The group also includes TN Microfinance (formerly Geldon Services). TN Bank was formed after the former Trust Finance House license was converted into a commercial bank.

³⁷ Reserve Bank of Zimbabwe, "2007 Annual Report," p.46

CBZ

The Commercial Bank of Zimbabwe (CBZ) has been active in lower-income markets since 1996. CBZ has moved down-market, serving not only SMEs but also down to the microfinance segment, which initially received support from CARE and DFID. In 2005, CBZ had some 3,000 clients but it was hard hit by Operation Murambatsvina and the deteriorating macro-economic environment, so its clientele shrunk rapidly to about 600 in 2006.

CBZ offers group lending as well as individual lending products. Its microfinance loans range from US\$200 to US\$1000 and its SME loans range from US\$1,000 to US\$20,000, and reputable clients are charged lower interest rates. CBZ is diversifying its product menu into micro-insurance, micro-leasing and low-income housing finance – for incremental housing as well as plots with two rooms.

Kingdom Financial Holdings Limited and MicroKing Savings and Credit Company (Pvt.) Ltd

MicroKing Savings and Credit Company (Pvt.) Ltd is a wholly-owned subsidiary of Kingdom Financial Holdings Limited in Zimbabwe. Although it was incorporated in 2005, it actually began lending in October 2001. After one year, it already had 1,000 active clients across four branches, including three in Harare and one in Bulawayo. At its peak in 2003, MicroKing had 10,000 clients. Kingdom Financial Holdings Limited chose the route of creating a specialized financial institution instead of through an internal unit³⁸, and MicroKing is now operating as a separate institution that does not fall under the Banking Act, as it is not taking deposits at this juncture. Like most microfinance service providers in Zimbabwe, it is now licensed as a 'money lender' (See Section 3.6.1).

MicroKing Savings and Credit Company managed to successfully implement an individual lending methodology in the Zimbabwean market when most other institutions were doing group lending. It now also does group lending and order finance and some special initiatives. In 2003, it successfully launched the rural microfinance program. This started as a partnership with CARE International whereby Microking was financing the agro dealers who supply agricultural inputs. Up to December 2008, there were 441 groups that MicroKing was working with. It also has a so-called subsistence loan product for the poorest of the poor. The subsistence loan product is an interesting home-grown idea seeking to move people from unbankable to bankable clients after training them first. Once the training is completed, clients can apply for a loan and have to following normal loan appraisal procedures.

Barclays

Barclays set up a Small Business Unit as early as 1998. It was a participant in a World Bank funded government-operated MSE scheme and also enjoyed a guarantee from SWEDECORP that covered 40% of loan defaults and a matching US dollar credit line from HIVOS that acted as guarantee. Africa-wide, Barclays has also made serious inroads into operating in lower-income market segments.

Standard Chartered Bank

Standard Chartered is an active player in the agricultural sector and it has also been spearheading innovations in small holder finance in the region.

Increasing the involvement of the banking sector in the MSE market is going to be critical for improving access to finance, since most of the liquidity in the financial sector is within commercial banks. Ensuring that this is done effectively will require training and technical support to assist banks through the transition in corporate culture that will be needed to serve this market well and to impart best practices in terms of client appraisal, monitoring and risk assessment.

³⁸ CGAP (2005), "Commercial Banks and Microfinance: Evolving Models of Success", Focus Note No. 28, Washington DC, USA.

Rural Initiatives

Commercial banks generally find that opening branches in rural areas does not make much business sense. General concerns for banks in Zimbabwe are:³⁹

- High information, transaction and monitoring costs;
- Inaccessibility due to poor infrastructure networks;
- Dispersed and intermittent demand for financial services;
- Seasonality in deposits; and
- Lack of acceptable collateral in the absence of legal title to land.

A prime concern in Zimbabwe is the security of property rights. Lack of clarity in land titles is also a concern for collateralizing land. Rural operations and in particular agricultural loans also suffer from the covariant risk, meaning that in the case of a natural disaster, all farmers in an area could be affected. Credit risk is exacerbated by operational risk, as institutions have difficulty recruiting highly qualified staff to reside in rural areas. As of June 2006, 333 bank branches (88.3% of the total branches in the network) were within the urban centers where 34.8% of the population resides, while rural communities were serviced by 44 branches (11.7% of the total branches in the network), despite the fact that 65.2% of the population resides in rural areas.⁴⁰

In order to involve commercial banks in rural areas on a large scale, there will be a need for new distribution channels such as mobile branches, mobile phone banking, POS for savings and transaction services, or a decentralized financial architecture where they work with smaller intermediary financial institutions.

In terms of agricultural finance, Kingdom Financial Holdings and MicroKing, Standard Chartered, Stanbic, FSB and ZABG are all involved in financing agriculture. However, commercial banks do not generally finance individual small-scale farmers with landholdings of less than 5.0 ha.

The participation of banks in agricultural finance will be strengthened by the liberalization of pricing and marketing arrangements. The large role government has been playing in the past, directly out of its budget and also from RBZ facilities, is neither in-line with international best practices nor has it proven effective in Zimbabwe. It would be preferable if the government focuses on creating an enabling environment as it works to restore the level of participation of banks and other financial institutions in lending to farmers and other entities in the value chain. The government should refrain from directly operating any facilities when there is a private sector entity that can do the same.

3.3.2 Non-Bank Financial Institutions

In Zimbabwe there are three categories of non-bank financial institutions: building societies, asset management companies and money-lending institutions.⁴¹ Moneylending institutions include moneylenders that are primarily offering consumption lending services and microfinance institutions (MFIs) that usually started as NGO (NGO-MFIs) with enterprise lending products.

Moneylenders

At year end 2008, the number of moneylenders that were operational was close to zero. However, money lenders used to be the largest category of microfinance service providers in Zimbabwe. Most of them were established after 2000. Many of the moneylenders are family businesses employing less than 10 employees and serving a couple of hundred clients only, with the largest one being NISSI Microfinance, which reached some 11,000 clients at its peak and is described in greater detail below.

³⁹ Reserve Bank of Zimbabwe, "Rural Banking, Financial Inclusion, and Empowerment of Small and Medium Enterprises," 2007

⁴⁰ Reserve Bank of Zimbabwe, "2006 Annual Report," p.56

⁴¹ *Reserve Bank of Zimbabwe National Microfinance Survey and Proposed Legal and Regulatory Framework*, Ernst & Young, March, 2006, pp. 18-19

The service menu of moneylenders is rather narrow, focusing on the provision of 30-day consumer loans; however, as a result of the economic crisis, enterprise financing has been increasing since 2005. Often, the lending methodology employed is payroll-based lending. In 2005 their combined reach was estimated to be 100,000 clients.

NISSI

Nissi was established in August 1996 as a private limited company. Later, in June 1999, it was converted at the request of funders to a public limited company incorporated under the Companies Act of the Laws of Zimbabwe. It received funding from HIVOS, MicroStart and the Social Dimension Micro Enterprise Development Program that was provided through the Zimbabwean Ministry of Labor, Public Works and Social Welfare. HIVOS continued funding NISSI until 2002, but other social investors stopped funding micro finance activities in Zimbabwe in 2000, due to the political and economic situation. Nissi senior management together with a determined board of directors led the startup and expansion to 23 branches nationwide, serving over 11,000 clients. However, due to the adverse political and economic situation that has characterized Zimbabwe for the past nine years or so, Nissi decided to expand its operations to South Africa, where it registered Nissi Global Financial Services under the Laws of South Africa. Nissi Global South Africa provides entrepreneurship services ranging from micro financing, entrepreneurship training and business mentoring.⁴² Nissi had to reduce its operations in Zimbabwe; by 2006 they had only six branches left, they were down to four in 2007, two in 2008 and just one in 2009.

Development-Oriented Institutions

The license-holders for this category of institutions have the same license as moneylender license (See Section 3.5). Some of the larger institutions include:

SHD Savings and Credit Company and SHDF

The Self-Help Development Savings and Credit Company (Pvt. Ltd) was incorporated on April 6, 2004 (through the Companies Act, Chapter 24:03). It is a wholly-owned subsidiary of Self-Help Development Foundation Trust, which was launched in 1999. Currently it is one of the few remaining registered microfinance institutions. The company provides loans to the savings clubs formed by the non-profit arm of SHDF. As mentioned, the savings clubs have been highly successful in Zimbabwe and in the past were estimated to reach between 200,000 and 300,000 members. It finances the trade and service sectors and is also active in agriculture, for instance with a product for agro-dealers (carrots, beans, etc.). It finances the trade and service sectors and is also active in agriculture, for instance with a product for agro-dealers (carrots, beans, etc.). By year-end 2008, it was not lending anymore.

Pundutso

Pundutso Microfinance Company is one of the leading microfinance service providers in Zimbabwe and developed out of a World Vision project. It was established in 1998 and, by 2002, it had reached 91% operational self-sufficiency; but at that point things started to decline. By year-end 2008, it served some 7,138 clients. It has been seeking to keep itself going despite the harsh macro-economic environment by venturing into new initiatives. For instance, in 2003, it launched a pilot initiative based on the ASCA methodology seeking to reach a poorer market segment than its other microfinance clients. The pilot covered the informal settlements of Hatcliff Extension (outside Borrowdale), Porta Farm and Casa Banana (on the Harare – Norton road). In 2005, Pundutso took over the running of the Habitat for Humanity Zimbabwe program that built 901 houses in 7 provinces.

Zambuko

Established in 1992, Zambuko was one of the first major NGO-MFIs, reaching 16,668 clients with an outstanding portfolio of US\$1.9 million while employing 122 people at its peak in 2003. Zambuko seeks to transform the lives of the underprivileged in Zimbabwe through microfinance products and services. In 2005, it identified its main challenges as funding, MIS, product development, HIV/AIDS and rural lending.⁴³

⁴² <http://www.nissiglobal.co.za/aboutus.html>

⁴³ <http://www.mixmarket.org/>

Initially supported by Opportunity International, Zambuko also attracted a range of other donors. A high portfolio-at-risk and staff turnover were some of the problems that led to a rapid downfall of clients to only 4, 462 in 2005.

Building Societies

Building societies offer the largest product menu of the non-bank financial institutions, with a broad range of savings, loan, transactions and investment products. They have been capturing the largest share of deposits in Zimbabwe, exceeding both commercial banks and the POSB in 1998, 1999 and 2000.⁴⁴ Traditionally, they lend for residential and commercial mortgages, purchase treasury bills, place funds in the money market and finance low-income housing projects. However, like in other countries in Africa with a shortage of long-term finance, and exacerbated by the economic decline, the mortgage market has shrunk dramatically. In Zimbabwe, a total of only 6,315 mortgages were issued between 2004 and 2006 and, thereafter, loan disbursement declined further.

Of the four building societies that were operational at year-end 2007, CABS was the most active in downscaling to lower-income market segments. CABS has been in business for nearly 60 years, is backed by Old Mutual PLC, and has been awarded an A+ Global Credit Rating. It has a number of products tailored to small and medium-sized businesses and the self-employed. As the macro-economic environment improves, CABS also expects to restart being a significant player in the low-income housing finance market. The other three are Beverly Building Society, which experienced difficulties and was taken over by CBZ and rebranded CBZ Building Society, FBC Building Society (formerly Zimbabwe Building Society) and ZB Building Society (formerly Intermarket Building Society).

Challenges Faced

All of the above-mentioned microfinance service providers—whether micro-lenders, development-oriented or downscaled-building societies—have been stifled in their growth by several factors:

- Institutions cite *lack of funding* and the *legal and regulatory framework* as the key impediments, to the extent that hardly any organizations are currently lending.
- The *lack of skilled staff* was another key constraint mentioned, which is related to well trained, experienced staff leaving, limited funding to train or retrain, and large investment costs in training.
- Even before the current crisis, the microfinance sector was faced with a number of *structural shortcomings*. Firstly, *outreach* has always been low. This was one of the findings of the survey in 2000, which remained valid in subsequent years. The African average in 2006 according to the Microfinance Bulletin was 22,400 clients, with a portfolio of \$7.7 million. In Zimbabwe, there have not been microfinance service providers of this size except for the CARE-supported savings and loan groups, which currently number 15,000 in all.⁴⁵ Second, microfinance service providers in Zimbabwe *were never very efficient*. As such, it is imperative for the sector rebuilding strategy to consider ways to promote efficiency through competition, while strengthening the capacity of service providers to research, pilot and innovate different distribution channels.

Rural Initiatives

Although moneylenders are operating primarily in urban areas, some of the development-oriented microfinance service providers used to have quite a bit of outreach into rural areas, with Zambuko once having 30 branches. The typical microfinance products offered in Zimbabwe are not always well adapted to local needs; for instance, the frequency of repayments is often not in line with business cycles and seasonality. Nevertheless, SHDF works primarily in rural areas and has agro-traders among their main clientele. Pundutso is active in financing goats, heifers and small livestock, and has also experience with drip irrigation. Moreover, they have started to give loans for grains, as well.

⁴⁴ Chigara, P., Hungwe, S. (2000), “ZAMFI National Sector Survey,” ZAMFI, Harare, Zimbabwe, p.11

⁴⁵ Kakono, T. in a discussion on 2 February, 2009

Currently, there are not enough linkages with different types of partners that could stimulate rural finance. Linkages enable service providers to work with institutions that are already trusted by the farmers, as well as those that facilitate market access, as trust and market access are two important constraints in rural markets.

3.3.3 Credit Unions / Cooperatives

At year end 2008, the number of Savings and Credit Cooperative Societies (SACCOs) that were operational was close to zero. But based on government data this type of provider used to be widespread (See Table 10); it includes SACCOs that are member of the umbrella body National Association of Credit and Savings Cooperatives (NACSCUZ) and others. The CGAP microfinance gateway resource center lists 48 SACCOs in 2004⁴⁶ and the World Organization of Cooperative Credit Unions (WOCCU) states there are 64 (See Table 11). Though the information is outdated, it is included to give an indication of which provinces are historically best covered by the presence of SACCOs, such as Mashonaland East, and least covered, such as Manicaland, Matabeleland South and Masvingo.

Table 10: Distribution of SACCOs Per Province			
Region	Functional	Non Functional	Total
Harare	21	15	36
Mashonaland East	31	22	53
Mashonaland West	10	7	17
Mashonaland Central	16	11	27
Manicaland	7	5	12
Matabeleland North	13	9	22
Matabeleland South	5	3	8
Midlands	15	10	25
Masvingo	5	3	8
Total	123	85	208

Source: Ministry of Youth Development, Employment Creation, and Cooperatives, February, 2006

SACCOs draw their membership from the local community or from a similar employer. For instance, the Masvingo Teachers Association Savings and Credit Society reached some 10,000 clients in the mid-2000s. Of the SACCOs in Zimbabwe, 35% are employee-based, 23% enterprise-based, 19% agriculture-based and the remaining 23% are both enterprise- and agriculture-based.

The structural and immediate challenges faced by SACCOs in Zimbabwe are:

- *Governance*: Savings and loan cooperatives need a substantial amount of new and refresher trainings so that their Board members thoroughly understand and are able to perform the duties as part of the governance structure of a financial institution, even if it is very small. Moreover, too much government influence in the case of Zimbabwe has greatly diminished the capacity and performance of SACCOs. In such cases, the cooperatives have also become a political playground, which will generally destroy them.
- *Management*: Cooperative organizations always face the inherent challenge of finding qualified people with the capacity and willingness to work on a largely volunteer basis. This challenge is exacerbated for SACCOs in rural and remote areas that face the additional challenge of finding qualified managers, in a country where a large percentage of the labor force has left the country.

⁴⁶ CGAP http://www.microfinancegateway.org/resource_centers/reg_sup/micro_reg/country/50/

- *Little Support from NACSCUZ:* Umbrella organizations, or apex organizations, partially gain their strength from their members, and so there is a bit of the chicken-and-egg problem if the members are weak, as is the case in Zimbabwe. The initial support from CCA in Canada to NACSCUZ and its members dried up in 2001 and its level of operations steadily declined.
- *Loan Capital:* The main funding base for SACCOs is member savings. As Zimbabweans began reducing their holdings of monetary savings when inflation started to accelerate, the capacity of SACCOs to lend decreased dramatically, which also affected their revenue-generating capacity. The total savings mobilized by NACSCUZ members went down from US\$13 million in 2003 to US\$2.9 million in 2004. The outstanding loan balance went down from US\$9.7 million to US\$ 1.6 million (See Table 11) during the same period.

Table 11: SACCO Performance for the Period With Available Information				
	2004	2003	2002	2001
Unions	64	52	52	46
Total Number of Members	60,488	46,448	46,448	35,159
Outstanding Portfolio	1,607,015	9,668,484	9,668,484	4,200,500
Deposit Balance	2,881,025	12,993,079	12,993,079	4,906,447

Source: WOCCU

3.3.4 Development Finance Institutions

The Government of Zimbabwe (GoZ) in 1980 set up various development finance institutions to service micro, small, and medium enterprises. The institutions include the Zimbabwe Development Bank (which is now IDBZ), the Small Enterprise Development Corporation (SEDCO), and the smallholder finance facility at the Agricultural Finance Corporation (now Agribank).

IDBZ

Formerly the Zimbabwe Development Bank (ZDB), the Infrastructure Development Bank of Zimbabwe (IDBZ) was launched by the Government of Zimbabwe on August 31, 2005 as a vehicle for the mobilization of infrastructure development finance from both domestic and international sources. IDBZ, like its predecessor, is intended to assist and promote the economic development of Zimbabwe. ZDB used to focus on the transport and construction industries, but has also supported lower-income market segments. IDBZ's long-term products include equity, bonds and guarantees, long-term loans and project finance. Short-term products include trade finance, lease finance, working capital, personal loans and treasury services. IDBZ will actively promote the participation of the private sector in infrastructure finance and development, through Public-Private Partnership models, including joint ventures, Build Operate Transfers (BOT) and other similar arrangements.

SEDCO

SEDCO is a state enterprise under the Ministry of Small and Medium Enterprises Development created through the Small Enterprises Development Act of 1984. SEDCO's mandate is to spearhead the development of viable small and medium enterprises (SMEs) through the provision of financial assistance, counseling and related support services, business management training and business infrastructure, with the objective of enabling SMEs to make a significant contribution to national economic growth. Experience in other countries suggests it would be better if SEDCO were to focus exclusively on business development services, while leaving the provision of financial services to the private sector. The development of microfinance internationally recognizes the fact that government-subsidized and managed programs almost always fail, and subsidized rates made the program attractive to the wealthy with connections in high places, instead of the poor who often lack information about the program.⁴⁷

⁴⁷ Chigara, P., Hungwe, S. (2000), "ZAMFI National Sector Survey", ZAMFI, Harare, Zimbabwe

Rural Initiatives

Agribank

The history of the 100% state-owned Agribank, the Agricultural Development Bank of Zimbabwe, dates back to 1924, with the establishment of the Land and Agricultural Bank. In 1971, the Land and Agricultural Bank was transformed into the Agricultural Finance Corporation, which was converted to a commercial bank in 1999 as Agribank. In 2003, the Government decided to transform the bank into an agricultural development bank, earmarked to provide finance to farmers in line with the government's land reorganization strategy. Agribank is registered and operates under the Banking Act. Though various funds managed by Agribank were a sure sign of commitment to the smallholder farmer, the history and precedence set within the former AFC smallholder lending was one of high defaults and Agribank did not sufficiently modify and fine-tune its lending methods to expand successfully. Besides the ASPEF funds that were disbursed by Agribank, among other banks Agribank managed the government's Public Sector Investment Program (PSIP) funding, which was only available to small-scale farmers. PSIP funds were guaranteed by the government and no collateral was required, so repayment was below 50%. Currently, Agribank is facing a problem of capitalization, and given it is owned by the Ministry of Finance and the Ministry of Agriculture, it is not likely funds can be injected in the near future unless it is among the first companies to privatize. But, Agribank has the country's largest branch network, with 54 branches.

Peoples' Own Savings Bank

Established in 1904, Zimbabwe's Post Office Savings Bank (POSB) is one of the oldest and largest of its kind in Africa (See Table 12), although it is not among the stronger banks in terms of governance. It operated through some 200 post offices around the country. Savings mobilized were invested in government securities and provided a steady supply of domestic funding for the public sector. Because of its wide rural network and low minimum savings balances, the POSB's clientele has always been broad ranging from formal to informal clients.

Table 12: Large Postal/Savings Banks in Africa Ranked by Outreach			
Country	Name	Type	Accounts
South Africa	Post Bank	Postal bank	2,100,000
Zimbabwe	People's Own Savings Bank	Savings bank	1,695,000 ⁴⁸
Kenya	Kenya Post Office Savings Bank (KPOSB)	Postal bank	1,636,000
Niger	Caisse Nationale d'Epargne	Postal bank	1,124,000
Tanzania	Tanzania Postal Bank	Postal bank	954,000
Cote d'Ivoire	Caisse d'Epargne et des Cheques Postaux (CECP)	Postal bank	828,000
Cameroon	Caisse d'Epargne Postale	Postal bank	700,000

Source: Africa Finance (2007), p164

In 2000, the POSB restructured into a savings bank known as the People's Own Savings Bank, and broadened its product menu offering an array of retail, loan and investment products. It now has 27 of its own banking halls dotted around the country's major town centers and, in addition, some limited services are provided through post offices. POSB also invested in five new mobile units in 2007. Table 13 shows a similar dramatic decline in the volume of savings mobilized and loans extended. It shows that already in 2002, deposit and loan balances started to go down. It also shows the total reduction to be more than tenfold down to 7% for deposits and 1% for loans.

⁴⁸ NB: The number of actual account holders is much less because some people have multiple accounts and importantly, many of the accounts are dormant.

Table 13: POSB Deposit and Loan Balances in the Early 2000s (in Euros)

Country	2002	2003	2004	2005
Deposits	315.6 m	45.85 m	21.36 m	-
Loans	249.52 m	48.47 m	3.08 m	2.25m

Source: http://www.savings-banks-directory.com/nb_deposits.aspx?org_id=568&start=5

3.3.5 Contract Farmers

Contract farming has been practised since a long time in Zimbabwe and with the changed farming system is likely to increase. An inventory undertaken by SNV found the highest number of smallholders reached through this type of scheme in the cotton sub-sector (77,000 for Cottco and 70,000 for Cargill). Cairns Spices reach some 5000 and Delta some 4500 smallholders.⁴⁹ With the surge in the contract farming modality, corresponding finance options are also expected to become a major source of funds. Box 2 provides an overview of some examples of current contract farming financing in Zimbabwe. By the early 2000s, COTTCO had the largest outreach as a financial service provider in Zimbabwe. In addition to these examples, some new players in the domestic contract growing market include firms like Exhort, FAVCO, Interfresh and Servcor.

Of the major sub-sectors with MSEs—maize, sorghum, tobacco, cotton, tea, sugar, forestry, vegetables, cattle, pigs, goats, chickens, ostriches, etc.—financing is often a constraint. There is not a lot of information on the financing arrangement in these value chains or the reasons for the lack of them, but as an illustration of contract farming financing arrangements, the value chain for vegetables is overviewed below (See Table 14).

Vegetable growers are widespread among smallholders—only 35% of households were not growing vegetables during a recent study undertaken by SNV.⁵⁰ From comparing the participants, it can be seen that leafy vegetables are the most popular, followed by tomatoes, onions, beans and butternuts. Potatoes and cabbage are largely produced by commercial farmers. In Zimbabwe, the fresh produce value chain is well developed, so a lot of the produce goes straight to traders, wholesalers and export packaging firms, instead of to agro-processors. Another feature of the vegetable value chain is that the use of agents and agro-input distributors declined in the hyperinflationary price control environment, with the amount of inputs bought directly from the manufacturers in Harare increasing. The major vehicle

Box 2: Examples of Contract Farming Finance

- Cotton Gridders Association (CGA) has 25 contractors, who generally provide input packages in-kind to smallholders (seeds, chemicals, fertilizers, fuel), though there can be a small cash portion to pay for weeding, picking bags and wool packs. An agreed number of kilograms is deducted at marketing
- Cairns Foods (vegetables) is a processing company that has been working with smallholders for over ten years. It provides loans through financial institutions (not in-kind like in most contract farming arrangements).
- Honeywood Enterprises Canned Food (vegetables) provides chemicals and fertilizer. Repayment improved with deduction before payment of produce.
- Mitchell and Mitchell is currently the pack-house operating the largest horticultural out-grower scheme in the country, working with some 500 small holders.
- Selby Enterprises provides some 390 farmers in 12 groups with seed, fertilizers, chemicals, transport, packaging materials and pack-house facilities and extension. Inputs and services supplied are debited on the individual growers' account and recovered at replacement cost plus a 3% handling fee.
- Zimbabwe Tobacco Association (ZTA) links smallholder tobacco growers with processing and marketing companies that provide working capital.
- Zimbabwe Tea Growers Association (ZTGA) provides fertilizer loans.

⁴⁹ Dawes, M., Murota, R., Jera, C., Masara, C., Sola, P. (2007), Inventory of Smallholder Contract Farming Practices in Zimbabwe, SCAPEMA, SNV, Harare, Zimbabwe, p 16.

⁵⁰ SNV (2008), *Vegetable Sub-Sector Analysis in Zimbabwe*, Harare, Zimbabwe

through which smallholder farmers are accessing inputs is through contract farming arrangements initiated by pack houses and wholesalers. Very few smallholder farmers have access to loans for horticultural production.

Table 14: Financing of Vegetable Value Chain			
Value Chain Level	Actors	Finance from within Value Chain	Other Financial Service Providers
Retail	TM, OK, Spar, hawkers, hotels, restaurants		
Export packaging houses	Mitchell and Mitchell, Selby Enterprises, Highveld Horticulture Zimbabwe (HHZ), Shona Products, TZI, etc.	Pack houses provide credit to small holders.	HHZ funded by IFC, CFC funds TZI
Wholesale/ Trader	Interfresh, FAVCO, Harare Produce Sales, P.G.S, Kutapira, Sunspan, Freshex	Wholesalers provide credit to small holders.	Agribank, Standard Chartered, Stanbic, Barclays, Kingdom, FBC, ZABG
Processing	Cairns, National Foods, Victoria Foods, Honeywood, Honey Dew, Olivine, Nutriveg	Cairns finances producers through banks	Cairns finances producers through banks
Production	Small holders, farmers associations	Mostly in-kind credit from wholesalers or packaging companies and some processors, some in cash.	Hardly any small holders have access to formal finance, except for some associations
Input Provision and Input Distribution	ZFC, Windmill, Stockist, Farm & City, Town and Country, OK, TM and Meikles, informal traders. Makonde Industry, Specialty Foods of Africa, and Exhort are also in processing and some marketing.		Bank access except for informal traders in input distribution

3.3.6 Insurance Providers

The insurance sector in Zimbabwe is, in principle, highly developed. The sector comprises insurance companies, insurance brokers and agents and re-insurance companies.⁵¹ In 2006, there were nine life insurance firms, 26 general insurance firms and six re-insurers, all under the supervision of the Zimbabwe Ministry of Finance's Economic Planning and Development department. The industry used to offer a wide range of insurance products with life, motor and fire insurance classes dominating. The country also has the Insurance Council of Zimbabwe (ICZ). However, the economic meltdown rendered the value of clients' insurance policies virtually worthless. Insurance companies had to diversify operations to remain viable (for instance, investing in property and spreading operations into other countries in the region such as Zambia, Malawi and Angola) and massively downsize operations. But, the dollarization of the economy is intended to revitalize the troubled sector whose operations were being affected by hyperinflation and non-trade of the stock market.

Some MFIs in Zimbabwe offer life insurance. There have also been some innovative linkages in Zimbabwe between formal insurance companies and informal forms of micro-insurance. One formal funeral insurance company called Homage Funeral Assurance, has been specifically targeting the poor and taking a holistic approach: providing funeral services, counseling, training and after bereavement care. Homage works with burial societies to reduce the cost of administration of services to lower-income earners. Individuals

⁵¹ <http://www.mofed.gov.zw/html/licenses.shtml>

interested in participating are referred to a local burial society in their neighborhood. Once the society is ready, trained pastors visit to sensitize the community about the lifecycle from creation to death. The programs are customized to meet different groups' levels and needs.⁵²

Jupiter Insurance offers a well developed agricultural menu of insurance services for cattle, wheat, tobacco and cotton. There are examples where smallholders can benefit from the insurance products on offer. Zimbabwe Leaf Tobacco (ZLT) takes out insurance for its outgrowers for hail and wind damage. This enables farmers to recover from any disasters and pay back their loans to ZLT. Given the prevailing problems with property rights and land titling in Zimbabwe, the insurance of cattle has great potential, as farmers have been able to access loans using the value of their insured cattle as collateral. It can transform the asset value of cattle into a book value, thereby unlocking the investment potential of small holders with a combined asset value of over US\$ 2.5 billion.⁵³

However, some insurance products will take a long time to develop, especially if there is an intention to offer weather indexed insurance. As such, research and development may need to start right away as this financial service is of great importance in Zimbabwe and will help increase financial service delivery in rural areas.

3.3.7 Leasing Providers

The leasing industry has been hard hit by the economic meltdown in Zimbabwe. Finance houses are financial entities that are mainly concentrated on offering asset based instruments in the form of hire purchase and leasing to the corporate and individual sectors. Typical products are equipment and vehicle leasing or collateralized lending in agriculture, tourism, mining and transport sectors. In 1999, Zimbabwe had six finance houses. There was only one remaining finance house in 2007,⁵⁴ down from two on December 31, 2006 and four on December 31, 2005. Finance houses used to be represented by their professional representative body, the Finance Houses Association of Zimbabwe. In addition to finance houses, IDBZ has been providing leasing products and CSFS also has ample experience in leasing.

3.3.8 Pension Facilities

Pension facilities have been a privilege for the working class and non-poor. The National Social Security Authority (NSSA) is a public institution mandated by the government to administer Social Security schemes in Zimbabwe. NSSA used to operate the Pension and Other Benefits Scheme and the Accident Prevention and Workers' Compensation Insurance Fund. Through these schemes, NSSA used to provide protection to employees and their dependents for various contingencies. These included protection against retirement, invalidity, death of a family member and injury at work,⁵⁵ but because of hyperinflation it can no longer service its members in any meaningful way.

Company and individual contribution-based schemes were common for permanent workers including blue collar workers, but rarely available for the self-employed. However, Zimbabwe Farmers' Union (ZFU) created a pension facility for farmers. The ZFU pension facility was a formal pension mechanism being offered by the formal financial insurer ZIMNAT to ZFU members who are communal farmers. These would not, under normal circumstances, qualify as insurance coverage. The pension facility has been designed to allow for small contributions that can be paid as a one-off annual premium after marketing their produce. The fund covered retirement, disability and death. As a pioneering fund, it encountered the following problems:

- Mode of payment of premiums and accessibility: The farmers find the required visits to the payments offices both expensive and time-consuming, as most are located outside the district.

⁵² Chigara, P. and Mutesasira, L., "Use and Impact of Savings Services among Poor People in Zimbabwe," Microsave, Nairobi, Kenya, 2001.

⁵³ Ace Africa (2009), "Unlocking the Value in Livestock"

⁵⁴ Reserve Bank of Zimbabwe, "2007 Annual Report," p46

⁵⁵ <http://www.nssa.org.zw>

- Terms of maturation: The long-term nature of the fund, like any insurance program, does not help farmers meeting their daily financial problems. They would like the flexibility of easily accessing the fund, such as through loans against contributions.
- Limited coverage: The insurance does not cover the loss of assets such as livestock and crops that the communal farmers value. This seems to be a key issue and may affect the long-term sustainability of the fund.⁵⁶

3.3.9 Community-Based Initiatives

CARE has a large program in Zimbabwe supporting the creation of community savings and loan clubs, mostly in remote rural areas. The program is called Kupfuma Ishunga (RMFP) and the model is referred to as the Internal Savings and Lending model or as Village Savings and Loans Groups (VS&LGs). Some microfinance programs including Farm Community Trust of Zimbabwe are based on this methodology.

This methodology has increasingly become respected as a simple yet effective way to reach rural communities around the world, particularly in Africa. The model offers savings and loans services to self-selected groups based in a village. Members go through several weeks of training, during which time they form a constitution detailing how the group will work. All activities are conducted in presence of all members. After saving for eight weeks, groups can start to give loans to members with the share capital contributed to the group. Terms and conditions are set by the group. Funds are kept in a security box held by one member. Each box has three keys, and all key holders must be present to open the box. The process of forming a group and close monitoring takes several months and field agents visit to ensure that the groups are working well. The VS&LGs could be important distribution channels for financial services as varied as loans, savings, money transfers and insurance.

The community-based initiatives spearheaded by CARE International are currently the only financial services to low-income markets that are still available. They are serving approximately 25,000 clients, including 15,000 directly by CARE and some 10,000 by others who are following the CARE example.⁵⁷

3.3.10 Summary of the Supply of Microfinance Services

Zimbabwe's economic meltdown wiped out most of the microfinance service providers and halted financial service delivery of the remaining ones. To understand the strengths, weaknesses and prospects of the industry in Zimbabwe, we therefore looked at the situation prior to the hyper inflation setting in. In 2005, non-bank financial institutions had an outreach of 146,000 (excluding the outreach by the building societies), 100,000 of which were served by some 200 moneylenders. In addition the SACCOs had a total membership of about 60,000 in 2004 and commercial banks were reaching 4,000 microfinance clients. A number of the microfinance service providers have adopted best practices, including the use of lending methodologies appropriate for low-income borrowers and close monitoring. However, few of the NGO-MFI types have ever broken even, a critical need to ensure the sustainability of services.

The picture at the time does not compare favorably with the situation in other countries in Africa. The African average provider in 2006 according the Microfinance Bulletin was servicing 22,400 low-income clients, with a portfolio of \$7.7 million. *In Zimbabwe, there have not been microfinance service providers of this size.* The only type of microfinance service provider that has managed to reach large numbers of poor in Zimbabwe are the CARE supported VS&LGs, which in 2008 reached 15,000 poor supported by CARE and some 10,000 supported by other organization such as Plan International, Africare, etc.⁵⁸ Moreover, Table 15 below shows regional coverage of financial services for lower-income markets, showing *most service providers concentrated in the major urban areas* of Harare, Bulawayo and Mashonaland East.

⁵⁶ Chigara, P. and Mutesasira, L. "Use and Impact of Savings Services among Poor People in Zimbabwe," Microsave, Nairobi, Kenya, 2001

⁵⁷ Kakono, T. in a discussion on February 2, 2009

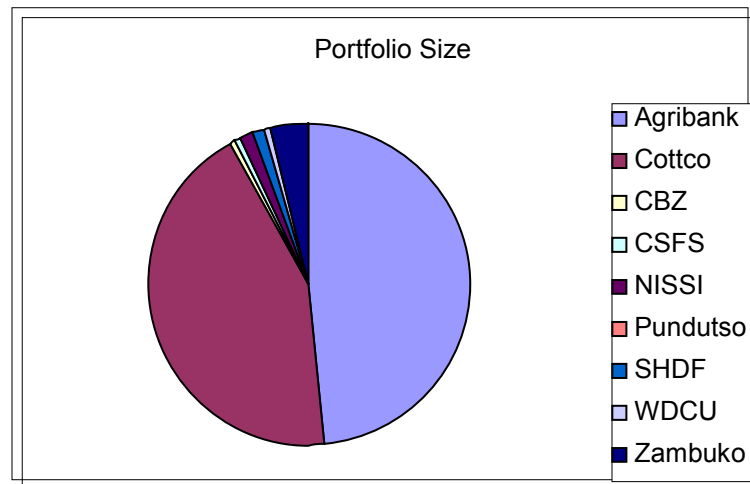
⁵⁸ Kakono, T. in a discussion on February 2, 2009

Table 15: Supply of Financial Services Targeted to MSMEs					
Region / City	Bank & Building Society	NGO-MFI types	SACCO	Moneylender	Total
Harare	5	23	36	95	159
Bulawayo		2		38	40
Mashonaland East			53		53
Mashonaland West			17	3	20
Mashonaland Central			27	1	28
Manicaland			12	7	19
Matebeleland North			22		22
Matebeleland South			8		8
Midlands		2	25	19	46
Masvingo			8	18	26
TOTAL	5	27	208	181	421

Source: RBZ 2006

What bodes well for the future is that, in principle, *Zimbabwe is home to a fair amount of institutional diversity* in terms of financial service providers serving lower-income markets. The figure below presents an overview of the magnitude of supply of loans offered to the low-income market by a broad range of providers before the major deterioration in the business environment started in from 2000 onwards. Agribank and Cottco were the largest providers of finance, though their services are not exclusive to small enterprises, but include medium-sized enterprises as well.

Figure 2: Importance of major low-income financial service providers of the past



Source: Chigara (2000) – Annex 3 and p22

Turning back to the present, the hyperinflationary environment has de-capitalized all microfinance service providers. By the end of 2008, all of them except for the village based savings and loan groups (which, as mentioned, are estimated to reach some 25,000 clients) and Pundutso, which had shifted to lending in-kind (reaching 7,138 clients), completely halted their financial operations. Some maintained a few staff members that still come to work, while others had to close their offices.

Access to finance in *rural areas* has been more limited and its expansion is also less straightforward. It will likely require *different suppliers and channels for different types of services*, and the creation or strengthening of linkages among financial institutions.

3.4 Financial Sector Infrastructure Related to Access to Finance

It is impossible to assess the financial sector without looking at the infrastructure available to suppliers. This section will build on the observations in Section 3.3 to introduce the current availability of infrastructure for financial service providers operating in lower-income markets and assess the need and potential impact of developing it.

3.4.1 Wholesale Finance

Access to Commercial Banks

One of the most critical components for facilitating access to finance for microfinance service providers is local bank finance. Benin, Ethiopia, Kenya and Morocco all evidence the importance of easy access to finance from banking systems to grow the microfinance industry. In Zimbabwe, a number of banks already have experience in lending to microfinance service providers. They have built up an understanding of their business know-how to assess their risks, and have built a relation and credit history with some of them. Barclays is one such bank that has wholesaled funds in the past and is interested in doing so again. Stanbic and SCB are also starting to show an interest. Kingdom and CBZ, major indigenous banks, have also been wholesaling to microfinance service providers, in addition to their retail involvement.

Building Societies

Building societies are another source of funds that could potentially benefit microfinance service providers' short-term funding needs. Asset and liability management of building societies, raising short-term deposits, while issuing mostly long-term mortgage finance, demands a portion of their funding be extended with viable shorter-term credible borrowers, like microfinance service providers.

POSB

Because of its wide rural network and low minimum savings balances the People's Own Savings Bank⁵⁹ clientele has always been broad, and includes entities like SACCOs for whom they offered the nearest banking facilities. Recently, the POSB has been one of the few entities wholesaling funds to microfinance service providers.

IDBZ

IDBZ has in the past provided wholesale finance to microfinance service providers, and though in the coming years the bank will be called upon for the many major infrastructure development projects, microfinance service providers should push the bank to keep on serving them.

FISCORP

RBZ established FISCORP Private Limited in 2007 to take over its quasi-fiscal operations. It is owned 100 percent by the Central Bank. For instance, FISCORP managed the Farm Mechanization Program, and the Agricultural Sector Productivity Enhancement Facility (ASPEF), which was disbursed through banks and the many other support programs. During 2007 and 2008, FISCORP was virtually the only funding source available to microfinance service providers for loan capital, except for some institutions that managed to source food security grants to support village savings and loan groups. However, the fund was not well conceptualized, as its prescribed interest rates and participating organizations were pulled into loss-making operations.

3.4.2 Information Infrastructure

To ease wholesale finance, potential lenders need information on the market segment of low-income lenders and on the individual potential borrowers. Low-income lenders operate in a different manner, and while they

⁵⁹ <http://www.posb.co.zw/>

often do not have collateral themselves, they are often a good credit risk. Consequently, they will have to familiarize themselves with the market and learn how to assess the risk. High quality information is critical for ensuring the soundness of the financial sector. It enables financial institutions to make sound decisions, and encourages confidence on the part of savers and investors.

- High quality information requires *transparency* on behalf of microfinance service providers. Once transparency and accountability become the norm, it facilitates dialogue on addressing weaknesses, mobilization of resources to overcome them and continuous performance monitoring and improvement.
- High quality information also requires the capacity to generate information and then present it in a way potential investors can understand and work with it. Solid *Management Information Systems (MIS)* adapted to the specificities of microfinance are now available on the market and their installation will highlight problems early on. Aware of the importance of a good MIS, a number of social investors with grant facilities at their disposal have made funds available for improving their MIS solutions. Good MIS systems can also facilitate reporting to the Microfinance Information eXchange (MIX). Most socially responsible investors heavily rely on the MIX in making important strategic and investment decisions.
- *Audit and accounting services* are also important components of information in the financial sector. There is a need to strengthen the capacity of auditors to assess levels of risk in different portfolios (for MSE loan portfolios, it would be useful to provide training on CGAP external audit standards). Audit and accounting services also need to consider the impact that new distribution channels could have on financial services.
- At the client level, *credit bureaus* exist for banks. It does not exist for the lower-income markets, however, which would be an important element for improving the industry infrastructure of microfinance service providers. A feasibility study has already been undertaken by ZAMFI. The study recommends not to create a new entity, but instead extend the coverage of one of the two existing credit bureaus beyond their current coverage.
- The last question with regards to information that is increasingly necessary for the MSE and rural finance sectors is the *question of impact*. If institutions are to attract funds from donors and socially minded investors, there will be an increasing need to demonstrate impact. Social Performance Monitoring is increasingly used by institutions lending to the lower-end markets. Tools are available to assist institutions to work monitoring into their management information systems. Investment in this area may be necessary to attract financing for this sector in the long-run.

3.4.3 Financial Sector Professional Associations

A wide range of professional associations exist in the financial sector in Zimbabwe for many different categories of financial service providers, including: The Bankers Association of Zimbabwe (BAZ), the Finance Houses Association of Zimbabwe, the Association of Investment Managers of Zimbabwe (AIMZ), the Insurance Council of Zimbabwe (ICZ), the National Association of Credit and Savings Cooperatives (NACSCUZ), the Association of Building Societies of Zimbabwe, and the Zimbabwe Microfinance Association (ZAMFI). These entities play a lobbying role for their respective member institutions and sub-sectors, and will be elaborated upon below for two major associations, in the light of this study.

BAZ seeks to dialogue with RBZ to improve the enabling environment for banking institutions and to encourage improvements in the industry infrastructure. In addition, the banks will need to join hands to overcome the current difficulties the sector is going through. As banks become interested in retail and wholesale operations in the informal market, they should consider coordinating more closely with the service providers operating in lower-income market segments. from ZAMFI to make the case and convince them about the possible synergies.

ZAMFI managed to put microfinance on the map in Zimbabwe. In the early 2000s, it did a commendable job in setting performance standards, disseminating best practises, accessing international microfinance tools, contributing to local microfinance knowledge development and seeking funding for their members. ZAMFI also played an important role in stimulating dialogue. It managed to enthuse RBZ staff for microfinance and promoted study tours to a number of other countries. This helped to increase the level of understanding among some of the technical staff at RBZ. With hardly any resources, ZAMFI still manages to keep its doors open with a core group of staff who are mostly volunteering their time. In the future, if a donor manages to make some funding available to enable them to start fulfilling their role once again, more attention needs to be paid towards gathering information not only about its members, but also the sector at-large. If funds are to start to flow down to microfinance service providers, and Zimbabwe wants to start appearing on the lists of countries social investors consider, it needs ample and quality information. Secondly, with the new government in place, it should be able to have more impact on the policy decisions being made that affect its members. It will also need a strategy to ensure a more constant revenue flow so as to become a sustainable organization.

BAZ and ZAMFI currently do not work together or coordinate any of their lobbying or other activities.

3.4.4 Deposit Protection Scheme

A deposit protection scheme covering lower-income markets, while important, is not the most critical aspect for promoting financial service delivery to low-income households at this juncture. First and foremost the government needs to improve its performance in managing the macro-economic environment. A deposit protection scheme is of no value when the government cannot maintain the value of money in general, and of people's savings in particular.

Moreover, improvements in governance, information about government-owned deposit-taking institutions and the larger SACCOs, and better supervision of deposit mobilizing institutions need to be put in place first, before talking about deposit insurance. Once those critical issues are taken care of, deposit protection for low-income markets can add further value. The National Microfinance Policy already plans to do this by incorporating deposit-taking microfinance service providers into the existing deposit insurance scheme already in operation for the banking sector.

3.4.5 Payment Infrastructure

Zimbabwe has a Real-Time Gross Settlement (RTGS) payment system, with the transaction value significantly larger than the total check payments. The clearing house membership stands at 16 financial institutions. The Central Securities Depository was upgraded not too long ago. In terms of electronic payment, Zimbabwe has two main point of sale terminal merchants; *Zimswitch* and *Visa*. The dollarization of the economy has managed to stabilize the economy, but as yet the payment infrastructure has not been adjusted to the changed situation.

Though payment systems in the past were relatively well developed, over the past few years they formed a major constraint. The lack of major elements of the payment system (which stopped functioning at various points in time due to hyperinflation), coupled with the lack of stability of the payment system, severely hampered business operations. Payment systems are now more stable but more limited, as the payment infrastructure has not yet been adapted to the new hard currency environment.

The mobile phone payment infrastructure has not yet been developed in Zimbabwe, but the experience of countries like DRC, Kenya, Sudan, Senegal and South Africa show its potential. Mobile phone access is still limited in Zimbabwe with coverage focused on the major urban areas. G3 data transfer infrastructure will soon be launched. Some basic mobile phone banking services are already available, such as checking account balances, but it will take some time to develop it into a user friendly product offering that can meet the wide ranging demand of potential clients. As noted above, this type of service will likely be important for rural expansion of financial services.

3.4.6 Training for Financial Institutions

Human resource capacity is an issue in the delivery of financial services affecting the recruitment of qualified staff, the cost of training staff, and the difficulties in retaining staff. There is no simple short-run solution, and as such, it is recommended to take both short-term and long-term approaches to addressing this question. With the new government and new policies in place, it is envisioned that the supply of financial services will need to grow rapidly, and this means having enough qualified staffing to make it work. Training is critical in order to ensure that the pool of financial staff—from the loan officer to high management—is sufficient for enabling the required growth.

Local Technical Service Providers

Zimbabwe has some specialist local capacity. MS Consulting has been providing specialist consulting services for many years now, though many of its senior consultants have left the country. Zimbabwe has also been the base for the Southern Africa Capacity Building Facility (SAMCAF), but due to funding constraints this is hardly operational anymore.

Universities and Institutes

Discussions have been going on, with the support of ZAMFI, on whether and how to start offering specific courses, diplomas or degrees in microbanking at universities and/or management training institutes in Zimbabwe. A steady stream of graduates who understand not only the art of banking, but the specifics of microbanking could greatly spur the increase in access to finance in Zimbabwe. Such centers of knowledge can also be incubators for local consulting expertise in up and coming areas such as social performance monitoring.

Zimbabwe is also home to the Institute of Bankers Zimbabwe and the Insurance Institute of Zimbabwe.

Research Capacity

Equally important to inclusive financial sector building is to build local research capacity in matters related to the delivery of financial services to low-income markets. This includes baseline information on sub-sectors and the types of financial needs of the various types of enterprises. It also includes documentation of the various financial service delivery models and an analysis of efficiency, strengths and weaknesses, and potential. This capacity could well be built by creating a research center within the university/training center described above. The Institute for Development Studies of the University of Zimbabwe has shown some interest in microfinance issues.

3.4.7 Complementary Interventions

An area that should be carefully thought through is that of *client training*. If financial services are to have the intended impact, they would be more effective in coordination with providers of other services. To this end, financial service providers could dialogue and work hand-in-hand with non-financial service providers in training in literacy, numeracy, business and technical skills.

For instance, financial service delivery could be coordinated with the activities of the Zimbabwe Opportunities Industrialization Center (ZOIC) or Chimanimani Business Trust. Or HIV/AIDS awareness campaign entities could speak at one of the microfinance weekly or monthly group meetings for the ones that employ the group lending approach.

3.5 Policies on Access to Finance

A lot of progress has been made in the microfinance policy domain. The RBZ and other stakeholders started planning for a consultative process on the policy, legal and regulatory framework for microfinance service providers, which culminated in a draft National Microfinance Policy. The consultations took place in the framework of a National Microfinance Taskforce that was constituted to this end.

The National Microfinance Policy allows for a variety of institutions and services in the sector, and is largely reflective of international best practices, except for the following issues. Item 8.2.1f mentions the RBZ as entity to manage the Financial Inclusion Fund, whereas elsewhere, it has proven important to have the day

to day management of such funds be done by private entities, while reporting on progress to the RBZ. Items 5.2.2 on the supervising agency and 5.4 on interest rates will be discussed in the next section.

Shortly after developing the National Microfinance Policy, the government formulated what is referred to as the Financial Inclusion Framework,⁶⁰ which takes a broader perspective than the National Microfinance Policy, also promoting bank and building society downscaling, expanding the outreach of established development finance institutions such as POSB and Agribank, urging authorities to ensure provision of roads, telecommunications and electricity, and the provision of incentives to financial institutions engaged in rural banking.

But as already pointed out, in 2000, when the government was positive about the growth of the microfinance sector, as evidenced by the existence of facilities such as the Social Development Fund on-lending window and making specific provisions for microfinance in the budget, it did not make *coordinating the creation of an enabling environment* a top priority. Another constraint is fragmentation, so it will be important to streamline the number of players involved in the coordination of microfinance.

3.6 Regulatory Framework and Supervision

A variety of laws directly or indirectly affect the supply of financial services to low-income markets. These have been well documented in two studies dedicated to the issue,⁶¹ so this section only seeks to provide a brief overview of the key laws that matter and highlight current constraints in the legal and regulatory framework and their supervision.

3.6.1 Rules/Regulations/Laws and Their Application

Moneylending and Interest Rate Act (Chapter 14:14)

The Moneylending and Rates of Interest Act is an important law for microfinance service providers. Together with the Prescribed Rates of Interest Act (Chapter 8:10) and Statutory Instrument 126 of 1993, the Moneylending and Rates of Interest Act controls the operations of the largest number of registered microfinance service providers, all the moneylenders, and recently also the development-oriented microfinance service providers. RBZ had initially issued two distinct types of licenses, one for moneylenders, and one for development-oriented microfinance service providers, but it turned out there was no legal base for the development-oriented license so they were lumped together with the moneylenders. The Presidential Powers (Temporary Measures) (Financial Laws Amendment) Regulation of 2004 stipulated that as of January 2005, institutions not licensed by the Reserve Bank of Zimbabwe were to be dissolved.

The Moneylending and Rates of Interest Act, however, dates back to 1930, and its content is not attuned to the current times. It certainly is not a sound and balanced legislation that promotes the creation of healthy financial institutions. Examples of concerns include:

- The license is not really a license, as it has to be renewed every year. No investor will invest in an entity that has such a short guaranteed lifespan as an ongoing concern. In addition, renewal requirements are excessive.
- The Act stipulates that “No lender shall stipulate for, demand or receive from the borrower interest greater than the prescribed rate of interest.” Interest rate controls have not proven to be an effective instrument for consumer protection and leads to a more limited and less responsive supply of financial services for low-income households. The current cap of LIBOR + 6% will need to be removed. It prevents microfinance service providers from becoming sustainable early on and

⁶⁰ RBZ (2007), “Rural Banking, Financial Inclusion and Empowerment of Small to Medium Enterprises”

⁶¹ ZAMFI (2004), “Review of Microfinance Institutions’ Regulatory Framework in Zimbabwe,” ZAMFI, Harare and Zimbabwe and Reserve Bank of Zimbabwe (2006), “National Microfinance Survey and Proposed Legal and Regulatory Framework,” and updates on the RBZ website www.rbz.co.zw

optimally reaching out to lower-income markets. Competition is the best driver to ensure affordable interest rates, while offering services clients need.

- In some countries, lower-income households, and especially the poor, highly value savings. Zimbabwe is a country with a highly developed savings culture, so once the hyperinflationary shock has become a thing of the past in everybody's mind, clients from microfinance service providers would value savings products. However, this is not possible under this law, under which the largest number of microfinance service providers are now registered. This has been realized and a new Tier 2 organization is proposed (see next section).

In general, the regulations for this sector should only focus on what RBZ needs to regulate (i.e. deposit-taking institutions which on-lend savings), and those which it can regulate (i.e. ensure that licenses are granted in line with supervision capacity). Acts and regulations should not be too prescriptive.

Cooperative Societies Act (Chapter 24:05)

The Cooperative Societies Act, commenced in 1990, governs the set-up and operations of SACCOs and cooperative societies in general. SACCOs are the second largest category of financial service providers to low-income households, after the micro-lenders. Registered SACCOs are allowed to mobilize savings from members. The Act is very detailed in terms of how SACCOs should be governed. However, the law is generic, and does not specify items of special importance to financial institutions. SACCOs also do not fall under a financial supervisory entity, but under the Ministry of Youth Development, Employment Creation and Cooperatives or the relevant Ministry whose name can change from time to time.

Banking Law (Chapter 24:20)

Banks are subject to the Banking Act of 2004 and Banking Regulations of 2000. The Act applies to companies registered under the Act: commercial banks, merchant banks, discount houses and finance houses. In Zimbabwe some institutions governed under the Banking Act do have a microfinance line of business. Ultimately, it is hoped that servicing lower-income market segments will not be the domain of some institutions or special categories of institutions but that it is common practice for all banks to provide access to finance to all.

For the banks that are involved in microfinance, the supervisory and regulatory regime applicable is prudential supervision in terms of the Banking Act and the Banking Regulations. As such, it is important to analyze how banking institutions can be enabled to more effectively serve the MSE and rural finance sectors. The following specific issues are currently constraining banks to move down market:

- The collateral requirements are such that they make it very difficult for banks to engage in microfinance instead of being supportive of inclusive financial service delivery.
- The reserve requirements are high

Box 3: Other Institutional Charters under which lending to low-income takes place

- **POSB Act:** Zimbabwe's Post Office Savings Bank (POSB) has been operational since 1904 until 2001 when the POSB Act, Chapter 24:22 was promulgated in Parliament to give birth to the People's Own Savings Bank.
- **Building Societies Act:** Establishes building societies that are defined as associations of persons that raise money through shares and deposits to advance money to members and others upon the security of a mortgage or hypothecation.
- **Infrastructure Development Bank Act:** Formerly the Zimbabwe Development Bank, the bank became operational in 1984 under the Zimbabwe Development Act, until 2005 when the Infrastructure Development Act was promulgated in Parliament.
- **Small Enterprises Development Co-operation Act:** The Act establishes and regulates the financial affairs of the Small Enterprises Development Co-operation, a state enterprise under the Ministry of Small and Medium Enterprises.

- The clause stating no banking institutions shall engage in any business or activity other than approved banking business is restrictive and could be nuanced in view of the fast changing business of finance.
- Like other laws, it should be reviewed with regards to new distribution channels, in particular mobile phones.

The Hire Purchase Act (Chapter 14:09) is another piece of important legislation for finance houses that also operate under the Banking law, and that are in the business of leasing and hire-purchase.

Insurance Act (Chapter 24:07)

The insurance sector is legislated by the Insurance Act of 2001. The Insurance Act deals mainly with the responsibilities of the insurance companies towards their clients. Insurance companies are licensed and regulated by the Commissioner of Insurance. The main responsibilities of the Commissioner include the protection of the rights, benefits and other interests of policy owners and of any beneficiaries of policies; the monitoring of the solvency of insurers and the maintenance of sound insurance principles and practices in the conduct of insurance business; and the regulation and strengthening of the insurance market in Zimbabwe. The insurance sector can be characterized as being oligopolistic, i.e. an industry dominated by a small number of big organizations, notably Old Mutual, ZIMNAT and First Mutual Limited (FML).

Other Important Laws and Guidelines

Guideline No. 01-2006 BUP/SML: *Anti-Money Laundering* was invoked in 2006. The guideline applies to banking institutions registered under the Banking Act, building societies and the POSB. While obviously important, care has to be taken that the requirements set out in the guideline will not discourage entities like building societies and the POSB, which have ample potential to increase access to finance for low-income households because of their infrastructure. Whether some of Act's provisions will make it harder for wholesale finance to be extended to smaller MFIs will have to be determined.

In a country like Zimbabwe coming from a planned economy, where until recently the state has not been interested in creating an enabling environment—which is the normal business of governments—and has instead been pre-occupied with controlling every aspect of society, care has to be taken in the application of the *Consumer Contracts Act*. Consumer protection is extremely important, for instance in protecting consumers from aggressive collection practices that infringe on people their basic rights like confiscating IDs. However, the law should not be used to limit the capacity of microfinance service providers to run their businesses on a commercial basis, which is needed to build financially healthy institutions that are capable of serving more costly lower-income market segments. Protecting consumers from high prices is generally best done through enforcing transparency and the disclosure of rates, combined with low industry entry barriers so that competition and innovation will drive down prices. In this way, consumers can benefit from products that are more suitable and of a wider range.

Investment in Zimbabwe is subject to exchange controls and limitations on ownership and transfer of shares by non-resident investors, as prescribed by the *Exchange Control Act* (Chapter 22:05). For investment in existing enterprises by non-resident investors, prior approval by RBZ is a prerequisite. The reality of the new multi-currency economy is only slowly setting in and confusion about FOREX dealership licenses is still hampering financial service delivery to the poor.

Taxation is high in Zimbabwe. The income tax rate for companies is 35% of profits. In terms of the country's *Tax Laws*, it will be important to consider how to use taxes to encourage access to finance. Examples could include tax incentives for banks operating in remote areas, tax incentives for wholesale lending to microfinance service providers, or retail lending to the MSE market. High taxes can also be an impediment to growth in supporting industries such as mobile phones as high rates obviously impact the cost of usage, and will hamper expansion of affordable financial services through these channels.

3.6.2 Capacity to Regulate

The regulatory framework is currently too tight for the stage of industry development. Prior to the promulgation of the Presidential Powers (Temporary Measures) (Financial Laws Amendment) Regulation in 2004, which empowered RBZ to license and regulate the microfinance sector and moved the Registrar of Moneylenders as well, the Ministry of Finance exercised limited supervision of microfinance institutions. The implication of a too strict supervisory framework is a lessening of the access to finance. The framework is also not focused enough on the most important issues, protection of depositor funds and ensuring financial system stability. Larger SACCOs are in need of regulation by an entity specialized in financial regulation, not credit-only microfinance service providers.

The draft National Microfinance Policy includes a tiered system of microfinance service providers with the supervision differing accordingly (See Table 16). The RBZ has already made proposals to amend the Banking Act [Chapter 24:20] to incorporate the licensing and supervision of Microfinance Banks (MFBs), a new category of deposit-taking institutions that would be allowed to mobilize and intermediate deposits to the public, in addition to banking institutions. The tiered system is in line with the principle of risk-based supervision that RBZ is employing and tiering is in line with international best practice. It also addressed a main constraint of the category moneylenders who were constrained by the inability to mobilize deposits.

Table 16: Foreseen Tiered System for Supervising Microfinance Service Providers			
Tiers	Institutions Category	Nature of Supervision	Supervisory Agency
Tier 1	Banks and Building Societies	Prudential	RBZ
Tier 2	Microfinance Banks	Prudential	RBZ
Tier 3	Savings and Credit Union Cooperatives	Prudential Supervision-Discretionary	Ministry responsible for Cooperatives
Tier 4	Microfinance Institutions	Non- Prudential	RBZ

Source: RBZ Annual Report 2006, p.57

However, though the proposal has the potential to increase the supervision capacity, in its current form it does not optimize this important capacity as yet. The problematic areas are marked red. Non-deposit taking, non-prudential regulations will require minimal oversight of the institutions and should therefore not have the RBZ as supervisory agency. Placing Tier 4 MFIs under the Ministry of Finance will create the space for the RBZ to focus its attention on the institutions that can pose a systemic risk to the financial sector such as MFBs, especially the larger ones, and other financial institutions under its supervision. On the other hand, the larger SACCOs from Tier 3 might have to be moved to a financial entity for supervision, most likely the RBZ.

Moreover, once deposit-taking regulations are passed for the new category of MFBs, this will require solid supervision, including field inspections. As such, the RBZ needs to ensure that in addition to continuous training, it has enough computers, vehicles and budget to appropriately undertake these supervisory duties. RBZ staff members have already built up an understanding of how providers of microfinance are different from traditional banking institutions and how they can assess their risks and could build up their technical capacity to supervise these new and more numerous entities. Capacity needs to be built in setting up data management systems, balancing the tasks taken on with institutional capacity, facilitating innovation by not regulating new aspects too early, etc.

3.7 Summary: Access to Finance for Low-Income Households in Zimbabwe

This chapter outlined the state of the art, including main constraints and opportunities with regards to the context, demand, supply, financial infrastructure and policy and regulatory environment of financial service providers serving lower-income market segments. This analysis will serve as a basis for the proposed strategy in Chapter 4.

Most service providers in Zimbabwe were *concentrated in the major urban areas* and *never matched the scale of operations of their African peers*. Nevertheless, what bodes well for the future is that, in principle, Zimbabwe is home to a fair amount of institutional *diversity in terms of financial service providers* serving lower-income markets. However, the deteriorating business environment took a huge toll on the financial service provision. As early as 2002 volumes of deposits mobilized already went down by a factor 15 for the POSB. A similar sharp decline was recorded by the SACCOs in 2003/2004 with the deposit volume decreasing by a factor 6. By the mid-2000s, the environment rendered lending barely viable. As at year end 2008 *balance sheets of microfinance service providers that were built up over the years were all completely wiped out and there was no access to finance for low income households*.

Licensing renewal requirements are with loan capital, the most acute constraint to access to finance for low income households. Though things have improved since March 2009, the liquidity in the banking system is still very low and there is no longer term capital available in Zimbabwe at this juncture. Other constraints are *human resources* and the *lack of information*.

4. Rebuilding the Microfinance Sector

As described in the previous chapter, financial institutions in Zimbabwe, particularly those operating in lower-income markets, find themselves in an unenviable situation at this point in history. Their loan books have been completely wiped out, and with limited other current assets and a small fixed asset base, their balance sheets will have to be rebuilt from scratch.

However, important elements of the infrastructure are there—in terms of skills at the financial institution level, some building blocks of the industry support infrastructure, and an improving enabling environment in a former middle-income country. The needs are still high, though, with large segments of the population depleted of their coping capacities, while local industries plagued by capital depletion, lack of equipment, power outages and a shortage of finance were forced to operate well below their capacity. Both are faced with cost structures that used to be relatively low, that have increased over the past few months. Therefore, targets should also be established to ensure that increased access to financial services results in economic development.

The objectives set-out in this report will require investment, technical support and a revision of existing laws and policies. But the microfinance market and other lower-income market segments are all part of the financial sector, and are inherently related to its development and evolution. Consequently, the next section will first elaborate on some elements that are critical for creating a vibrant financial sector.

4.1 Financial Sector

4.1.1 Conditions for Financial Sector Deepening to be Successful

A recent World Bank mission observed that Zimbabwe's banking system exhibits all the characteristics of a stressed environment, including: the failure of legal and regulatory structures; the virtual cessation of all lending and deposit-taking activities within the country; the disruption of international and domestic payments systems; and a stoppage of regular international correspondent banking relationships.

Fundamental to the recovery of private and financial sector activity in Zimbabwe will be the re-establishment of the Rule of Law and in particular Property Rights, so that corporate entities and individuals have the capacity to borrow from the banking system by offering collateral.⁶² Like other Zimbabwean businesses, financial sector institutions have suffered from the economic decline since 1997, and more so since 2000, when lending against land title deeds became less acceptable, which adversely affected smaller companies that did not own other property that could be mortgaged.

Moreover, the country is in dire need of policies that ensure macroeconomic stability, including a stable currency, which is starting to happen, first with the dollar, and possibly now shifting to the Rand. The Government's new enabling policy direction will hopefully be translated into concrete measures so that businesses can start to flourish again, volumes can increase and prices go down. The speed with which lending and deposit-taking activities resume will be directly correlated with the macro-economic improvements and whether measures are taken to reduce the key obstacles and operational constraints facing financial institutions. A lender of last resort facility in foreign exchange needs to be introduced at the earliest.

Additionally, the government needs to measure how effective its policies are in enabling financial institutions to provide financial services to the people of Zimbabwe.

Another condition for financial sector deepening is stable, affordable and efficient payment systems throughout the country. There is an urgent need to set up a domestic payments system in foreign exchange.

⁶² Imara Investment Notes, March 2009

Re-activating the inter-bank market and prioritizing the enhancement of corresponding banking operations is very important in a country where one-third of the population lives abroad.

Obviously, for the financial sector to flourish, it will need to take off again through investment programs to rehabilitate and build basic physical infrastructure, the reform of parastatals, and rebuilding of the requisite civil service. Longer-term health for the financial sector will also depend on ensuring a skilled manpower base by fostering the return of professionals in the Diaspora, bringing local training institutes up to par again.

4.1.2 Enabling the Financial Sector to Restart Working for Private Sector

Once these elementary conditions are met, the financial sector needs to start working for the private sector again. In terms of indicators, this would mean that the ratio of Private Sector Credit/GDP to Gross National Savings/GDP needs to increase significantly. Besides the macro-economic situation, the underlying causes of why financial institutions have not been able to offer credit and savings on a large scale within the country include lack of tenure and collateral, being risk-averse, and management and funding constraints among financial service providers serving low-income markets. To get the financial sector to work for the private sector again, financial institutions must be provided with capital injections and/or equipment, access to finance, risk sharing and incentives.

The following interventions are recommended:

- Re-activate interbank lending as soon as possible.
- Encourage financial service providers to undertake innovative campaigns that seek to increase their number of depositors, while penetrating new markets.
- Encourage financial service providers to undertake innovative campaigns to increase the savings balances per depositor.
- Offer tax incentives to those institutions that offer zero or low minimal balance accounts for the lowest-income categories.
- Fast-track plans for the privatization of financial institutions.
- Donors should put up medium and long-term financing facilities and encourage venture capitalists.
- There should be a focus on investing in the VS&LG model, so that it can be expanded throughout the country.
- Coordinate with Ministry of Small and Medium Enterprise Development with regards to non-financial support services being offered to MSEs. Establishing referral services with training centers can both build better clients and assist banks in identifying opportunities.

4.1.3 Enhance Agricultural Value Added by Increasing Access to Financial Services

Promoting appropriate financial services in rural areas will require addressing many more challenges than in urban centers. This is the case in almost any country, due to common underlying issues such as the high cost of operating in less populated areas, lack of know-how, need for medium and long-term financing and strategies to mitigate risk. However, in Zimbabwe, there are the additional rather unique challenges described above. First, Zimbabwe has a new farming system without an industry support infrastructure to support the new reality. Second, while land tenure is an issue in many countries, there is a complete lack of security due to land title issues and the disregard of property rights in Zimbabwe. These must also be taken into consideration in order to achieve this objective.

To raise the agricultural value added, the following activities will be required:

- Establish a facility, or window of a facility that offers medium- and long-term funding for financial institutions expanding in rural areas.
- Provide tax incentives for banks and other financial institutions operating in rural areas.
- Offer financing and partial guarantee facilities for agro-processing companies to increase the amount they can lend to outgrowers. This should be done in coordination with the Ministry of Agriculture and outgrower support schemes.
- Establish necessary information systems in preparation for weather-based insurance.
- While addressing land title questions will take time, efforts should be made to see if there are some immediate small steps that can be taken to enable medium-sized agro-processing firms to collateralize their assets.
- Loans to small farmers and traders in rural areas will require a variety of delivery channels, focusing on linkages. Examples are microfinance service providers offering loans to farmers in conjunction with outgrower schemes (e.g. cotton farmers) and community-based initiative (e.g. VS&LGs). These linkages help institutions overcome three important hurdles: markets for crops, institutional trust and cost of delivery.
- There are opportunities to coordinate or connect with some of the many producer associations—the goat association, fresh produce marketing association, citrus and sub-tropical fruit growers association, etc.—and at some point link up with business development service providers, including SNV’s vegetable value chain project.
- The Africa Value Chain Catalyst Fund has already been approached for financing and can hopefully continue to be approached for financing at various levels in the agribusiness value chains. The Catalyst Fund was launched by the Small Enterprise Assistance Funds (SEAF) in cooperation with SNV, a Dutch development organization with 40 years of experience and more than 250 advisors across Africa. The Fund seeks to invest in selected value chains in East and Southern Africa to overcome the value chains’ missing links to improve scale and efficiency.

4.1.4 Develop Capacity to Innovate and Improve Services

Finally, this objective seeks to ensure that Zimbabwe’s financial sector has the human resources, technical support, research capacity and access to information required to allow it to flourish and continuously improve service delivery. Activities to achieve this would include:

- Strengthen the Institute of Bankers of Zimbabwe and grants for course development on micro-banking.
- Invest in a FINSCOPE study.
- Review taxes for mobile phone companies, and consider offering tax breaks to those companies offering mobile banking in rural areas.
- It is important to get the product right. With poverty levels at over 70%, Zimbabwe’s rural population is extremely vulnerable. Providing products that do not meet their needs is not only costly, but could also negatively affect their livelihoods. Successful rural finance service delivery will require funding for market research and product development, capital for expansion, and risk mitigating facilities such as insurance. Social Performance Monitoring tools would also be

useful for all institutions if they could be developed and implemented in a cost-effective manner.

4.2 Microfinance Sector Recovery Package

In view of the above, to rescue the remaining microfinance service providers in Zimbabwe, the following will be needed:

- *Funding:* The lack of funding is by far the biggest obstacle for all financial institutions, including institutions active in lower-income markets. There is a huge need for loan capital, grants for operations, and medium-term finance.
- *Removing Regulatory Obstacles:* The second most acute constraint is the legal and regulatory environment, in particular the requirement to renew licenses every year. Clearly, the new government understands what governments should and should not do, but it is hoped that the new thinking can be speedily translated into corrective measures, policies and laws.
- *Efficiency:* The cost of doing business in Zimbabwe went up dramatically towards the end of last year and beginning of this year, although they have come down slightly again. Given that higher costs of living affect everybody, small and microenterprises likely will be more price sensitive than usual. As a result, microfinance service providers are faced with the unusually difficult situation of having to rebuild their institutions from scratch under a climate of tight margins.
- *Staffing:* Retaining and recruiting staff is a challenge.

4.2.1 Funding

The following types of funding are acutely needed:

- *Grants:* The first thing needed to enable microfinance service providers to restart their businesses is to immediately make some grant funding available for salaries, other operational costs, modest re-equipment and to test the repayment capacity of their clientele in hard currency. Grant needs roughly range from US\$25,000 - US\$100,000 per institution.
- *Access to Banks:* A number of microfinance service providers in Zimbabwe have a good credit history and have shown solid financial and portfolio performance in the past. They will be able to complement this funding with some short-term bank financing. Any donor support should encourage this additional financing and early diversification of funding sources.
- *Medium-Term and Long-Term Finance:* Given the limited liquidity of the banking system at this point in time, and the virtual absence of medium and long-term finance, some donors will need to come in with soft loans. Immediate loan capital needs for microfinance service providers to restart operations range from US\$50,000 to US\$350,000 per institution.
- *Funding Training and Technical Assistance:* Some microfinance service providers have been able to keep up their standards, but some have had high staff turnover and are in need of substantial training and technical assistance.

4.2.2 Removing Obstacles

Immediate obstacles in need of removal include:

- Undertake action to waive all licensing renewal requirements; anybody with a license for 2008 should be allowed to begin operating immediately.

- Given the expected adoption of the rand as reference currency, it would be important to request microfinance service providers, and all taxpayers, to start keeping their accounts in rands. To avoid any confusion, it would be beneficial for the rand to be adopted as the sole unit of account for the public and private sectors.⁶³
- Remaining restrictions as to Forex controls will need to be lifted.

4.2.3 Increasing Efficiency

Zimbabwe will have to leap-frog to catch up. It is somewhat behind in terms of piloting and introducing innovative new products and delivery channels. The changed economic environment necessitates that microfinance service providers revamp their business models to make themselves more efficient. Activities that should be undertaken include:

- The restart offers the opportunity to review all business processes and identify the high-cost elements, with a view towards streamlining overall operations.
- Chasing delinquent clients is not only one of the most costly activities, but it is also an activity that can be easily avoided by proper product development and adhering to a zero tolerance policy towards delinquency. This would also reduce the loan provisioning expense.
- As training the large numbers of new clients who drop out after the first loan is also costly, better identification of clients that meet the institution's profile can reduce these costs.
- Moreover, studying some exceptionally efficient microfinance service providers in Tanzania, Kenya or Ethiopia would also help in determining how dramatic efficiency gains could be made.
- Significant efficiency gains can be achieved through advances in delivery channels and the use of appropriate technology.
- Another way of increasing efficiencies is by merging with likeminded institutions, so that both institutions can benefit from economies of scale.

4.2.4 Staffing

The remaining core staff members at the microfinance service providers that are still operational are very dedicated and have at least kept the offices open, even if virtually no financial services are being provided. To successfully restart operations staffing will be key:

- With employment opportunities increasing in the sectors of the economy that are slowly recuperating, urgent measures need to be taken to retain the remaining talent.
- Bonus payments dependent on performance could possibly create employment within a microfinance institution that would be competitive with some other private sector employment categories.
- When restarting operations, even in some modified form, the training of staff is a key to ensuring success.

Within the next month, one or two donors should pledge some funding for a rescue package for the microfinance service providers still in existence. An RFP should be issued with best practice minimum conditions and outlining selection criteria. The processing can be done by UNCDF, who have done this in a number of other countries or ZAMFI, as the latter gained a good deal of trust from its members.

⁶³ IMF (2009), "IMF Report 2009"

4.3 Reaching 5 Million Low-Income Clients

In addition to the above recovery package, in order to create a vibrant financial market for lower income households, small- and micro-enterprises, it is imperative that they start planning for the future as well. To provide access to finance for all, objectives need to be set that can then be translated into annual quantitative targets. A first estimate arrived at by the workshop in Bulawayo by a group of microfinance service providers came up with a ballpark number of 5 million people to provide access to finance for all. While this number will need to be refined at some point, it is helpful for planning purposes and stakeholders can start their consultations about how and in what timeframe they can get financial services out to this order of magnitude of people. The time frame for such numbers may for instance be ten years.

The figure below highlights critical building blocks that currently pose a constraint and need to be worked towards (red), some of the most urgent building blocks (orange), and other urgent building blocks (yellow) at the various levels. These will then be discussed in the following sections, starting with the policy, legal and regulatory environment (macro level), and subsequently the industry infrastructure and funding sources (meso level), as well as financial institution and client impact (micro level).

Figure 3: Gap Analysis of Building Blocks Needed for Inclusive Financial Sectors

Policy, Legal and Regulatory Environment	Financial sector liberalization - no interest rate ceilings	Government as enabler, not a direct implementor; functioning judicial systems.	Coordinated approach, centrality of central bank / MoF	Microfinance policy with broad buy-in	Supportive laws and regulation
Industry Infrastructure	Strong microfinance association, standard setting and analysis, lobbying	Capacity building & microfinance savvy audit, MIS and research firms	Information, transparency, raters, credit bureau	Technology, payment system	Joint donor sector facilities
Funding Sources	Local equity markets, bonds & securitizations	Local bank finance – short term	Savings mobilization	Grants, soft loans	Guarantees and medium-term finance
Diversified and Efficient Retail Capacity	Banks, savings banks	NBFIs, MLs	Credit unions/cooperatives	Grassroots institutions	Telecom firms, supermarkets
Product Diversity	Savings (Voluntary)	Working capital, asset & consumer finance	Low- income housing and trade finance	Insurance innovations (life, weather, health, etc)	Transfers, payments, other
Poverty Impact	Low minimum balances, loans and affordable fees	Products adapted to women	Services in high HIV/AIDS incidence areas	Rural finance	Other

Source: Adapted from WWB (2005), "Building Domestic Financial Systems that Work for the Poor Majority," New York, USA

4.3.1 Improve Policy, Legal and Regulatory Environment

Reaching 5 million people will be impossible unless every measure is taken to create a conducive environment, where institutions can flourish at the policy, legal and regulatory environment level. As such, stakeholders should:

- Clarify the government's position on liberalization and its own role. The government needs to explicitly state that it will do everything within its powers to create an enabling environment to move up Zimbabwe on the Doing Business and other global lists in the very near future.
- More specifically, promote the creation of an enabling environment as the single most important role and contribution of government to creating a flourishing microfinance sector.
- In view of the above, identify bottlenecks in the legal and regulatory framework for financial institutions, payment systems, and the general business environment, and seek to remove them one-by-one.
- Further to the work of the National Taskforce on Microfinance, continue to open up the national dialogue on the National Microfinance Policy and Financial Inclusion Framework to a broader audience. Invite central bankers from other countries that have successfully incorporated microfinance service providers, such as Tanzania, to facilitate dialogue in consultative fora on the issue of improving the enabling environment and the creation of an optimal legal and regulatory environment.
- Start the envisaged Financial Inclusion Forum, which will work out of the National Taskforce on Microfinance.
- Following consultations, revise the national policy in view of the new political and economic environment. There is a strong consensus this is a key priority to make access to finance more inclusive in Zimbabwe.
- Invest in training/awareness raising programs for national and local government officials with regards to what microfinance can and cannot do.
- Increase the RBZ capacity in supervision and prudential regulation of deposit-taking institutions operating in low-income markets, like the envisaged MFBs, through regular study tours to other countries. Move the other MFIs back to the Ministry of Finance for non-prudential regulation.
- Update insurance laws, with a view towards incorporating micro-insurance and crop/weather insurance.
- In anticipation of the new category of financial service providers, MFBs, develop regulations for deposit-mobilizing institutions with close attention to the capacity to regulate. Overregulation reduces the access to finance because it forces MFIs to focus on larger loans to cover the extra cost.
- The Banking Law to be reviewed to make it easier for banks to penetrate lower income market segments:
 - Consider a reduction of the reserve requirements
 - Consider relaxing of collateral requirements for some categories of activities.
 - The clause stating no banking institutions shall engage in any business or activity other than approved banking could be nuanced in view of the fast changing business of finance.

- The Hire Purchase Act to be reviewed to make it easier for finance houses to penetrate lower income market segments.
- Experience from other countries suggests that SACCOs warrant specific legislation instead of being lumped together with all other types of non-financial cooperatives.
- Laws should also be reviewed with regards to enabling new distribution channels, in particular mobile phones.
- Improve capacity of commercial courts to enforce loans and other contracts.
- Move away from treating the business sector with suspicion as far as the business sector's economic participation and influence is concerned. Small enterprises, in particular, were looked at with contempt, despite their sizeable contribution to GDP.

4.3.2 Create a Supportive Industry Infrastructure

There is no industry infrastructure for lower-income market segments in Zimbabwe, although the challenges are significant. It is hard to imagine they could be overcome without good meso level support services. The banks have a sustainable banking association, credit bureaus and a banking institute. In this regard, a broad range of measures will need to be taken, such as:

- Support ZAMFI for the coming two years with a clear plan about how the organization could become sustainable; for instance, by moving it into the banking association if that could lead to cost-sharing and fuller inclusion in broader financial sector matters. Any other solution that could transform them into a sustainable entity would also be welcome. Regular meetings with RBZ and the Ministry of Finance as is done in Ethiopia will ensure any new cadres will quickly become familiar with the features of microfinance and what the sector needs to flourish.
- Information is a key for the microfinance industry to start gaining the interest of donors and investors, and to monitor and swiftly respond to its own performance. MFIs should release monthly or quarterly information updates, and at least one or two MFIs should start reporting to the MIX.
- Invest in training to upgrade the skills of external auditing firms in auditing microfinance service providers.
- Enhance the research capacity at the University of Zimbabwe and other institutes.
- Continue to discuss the development of a curriculum in microfinance at the University of Zimbabwe, possibly in cooperation with other universities and training institutes in Cameroon, Ethiopia, India, South Africa and elsewhere.
- Invest in the development capacity of one of the credit bureaus to service the lower-income market, including necessary legislation and regulations. Although it is not yet very urgent that microfinance service providers are able to participate, over time this will be necessary.

4.3.3 Scale Up and Diversify Funding Sources

There are no funding sources, except for some limited funding for microfinance service providers with mother companies, such as Pundutso (World Vision) or MicroKing (Kingdom Bank), so a steady flow and range of funding sources will need to be identified and built up. The following measures could be taken to increase funding for microfinance:

- Microfinance service providers will continue to need grant funding beyond the rescue package for some time to come. Grants will need to be provided to stimulate product and delivery channel innovation, for MIS and for training and technical assistance.
- As mentioned, there is a history in Zimbabwe of wholesaling to microfinance service providers, so any donor assistance should tap into that and stimulate that critical funding source, and not crowd it out. As banks might soon be able to provide short-term finance again, donors could complement such funding during this period where there is no liquidity in the banking system with medium and long-term lines of credit.
- Surprisingly for a country that experienced the highest inflation ever in the world, some people have already re-started saving, so there is a demand that needs to be further stimulated and then be tapped, first by banks and SACCOs, and later by MFBs once legislation catering to this new category is passed.
- Offer tax incentives to those institutions investing a certain percentage of their portfolios in the informal sector or in remote areas of the country.
- Fund capacity-building for commercial banks seeking to penetrate lower-income markets. This could be done through technical advisors and scholarship funds managed by ZAMFI.

4.3.4 Build a Range of Financial Institutions Capable of Serving Low-Income Markets

Retail capacity in servicing lower income market segments in Zimbabwe has been diversified but not many actors managed to have significant outreach—partly because when the industry started to take off, the economic downturn started to manifest itself. Exceptions are Agribank and Cottco though their services are not exclusive to small enterprises, but include medium-sized enterprises as well. POSB, building societies and SHDF were largest in terms of offering savings services to low and middle income market segments. As such, the operating space needs to continuously improve and ample support needs to be provided to a range of institutions—banks, microlenders and MFBs, credit unions, development finance institutions, contract farming finance providers, micro-insurance and micro leasing providers and grassroots institutions.

- Non-banking financial institutions need support to restart and be strengthened.
- The remaining credit unions with potential will need significant support in governance, training and MIS. CCA in Canada or the Association of Asian Confederation of Credit Unions (ACCU) in Bangkok should be approached.
- The new category of deposit-taking Tier 2 MFBs will need significant support in efficient deposit-taking service delivery, and in coming up with the information systems that enable the institutions to meet the reporting requirements of regulated institutions.
- Both the POSB and Agribank have a large branch network that should be capitalized upon.
- CABS, a number of housing cooperatives, and Dialogue on Shelter already have some experience in housing finance in lower-income market segments, and their active participation in any new housing finance initiative is important.
- Contract farming is becoming bigger and bigger in Zimbabwe and, in some sectors, the marketing or agro-processing firms are major providers of finance to smallholder farmers. Success stories need to be build upon for new pilots in new sectors.
- As a country that has a number of main supermarket chains with wide coverage, at some point consideration should be given to providing financial service options through this channel.

4.3.5 Meet the Broad Range of Demand

The range of products offered by financial institutions serving lower income markets in Zimbabwe is very limited. Many institutions used to focus on short-term group or individual loans for existing businesses, with a large part of the financing for consumption or trade. Moreover, due to the economic meltdown, most of the small enterprises that were active in the productive sector had to halt their operations and start cross-border trading, as that became one of the few economic activities that made sense in the informal market. This is unfortunate, as developing economies are seeking to capture more of the value additions in the production chain, and move away from raw material export and trade alone. A solid manufacturing sector with forward and backward linkages captures value added to the economy. As discussed in chapter 3, in lower-income markets in Zimbabwe, there is not only demand for credit but also for remittances, insurance, savings, etc.

While the key to a quick kick-start of activities will be the expedient offering of working capital and consumer finance, the product offering needs to increase quite soon:

- Timely stimulation of efforts to restart productive business could be effected by offering tailored loans for enterprises in service and productive sectors.
- Ways need to be found to also offer medium-term asset loans, as many enterprises lack basic equipment.
- Micro-leasing products would also be a highly effective response to the problem of very old machinery and the need to acquire new equipment.
- Defining contract farming insurance products, such as insurance against extreme weather conditions or other disasters, could mitigate some of the drawbacks to entering into a contract farming arrangement, as it reduces the risks of both the companies and the farmers. Farmers would likely even be willing to pay for it because the economies of scale of such arrangement would enable them to get insurance at a low premium cost.
- Promote linkages of smallholder farmers with institutions that provide insurance-based securities for accessing loans. Farmers could use their insured cattle as security for accessing input loans, or associations could venture into all-weather insurance policies, for accessing loans for on-lending to members.⁶⁴
- The backlog in housing provision is huge and the demand for low income housing finance, while not yet surveyed, is likely very high.
- The new category of microfinance institutions, the Tier 2 microfinance banks, is a good response to the high demand for savings.
- Though the communication network coverage is still low in Zimbabwe, as soon as it improves, mobile phone banking services could potentially do well in the country. The technology offers the potential to reach huge numbers of people that would otherwise never be considered bankable.

4.3.6 Increase Poverty Impact

This objective of increasing poverty impact can be achieved through:

- Tracking the right type of information, such as noting whether a client is male or female.

⁶⁴ SNV (2008), “Vegetable Sub-Sector Analysis in Zimbabwe,” Harare, Zimbabwe

- More demand-driven products can greatly increase impact. For instance, developing products that address needs of women, who are generally considered poorer than men.
- Developing products and delivery channels in rural and more remote areas.
- Offer low minimum balances and seeking to work on volume rather than margin, so as to reduce the fees of banking in high density areas.
- Seek to offer services in high HIV/AIDS incidence areas through carefully designed products.
- Some organizations have already experimented with insurance products and others would be wise to consider introducing them, as well. Life, health, and specifically weather and crop insurance are all products that need to be taken up as soon as possible in Zimbabwe.
- Coordination of the microfinance sector with the Ministry of Agriculture is needed to keep abreast of both private sector and donor-funded interventions that create market linkages. This will likely require a lot of monitoring of opportunities, dissemination of information among institutions and coordinating with funding sources.

4.4 Implementation Vehicle

To guide implementation of the vision of reaching 5 million households and businesses in Zimbabwe, it is suggested that a support facility be created, which in the National Microfinance Policy refers to as the Financial Inclusion Fund.

4.4.1 Rationale of Financial Inclusion Fund

Access to finance support facilities—a wholesale mechanism that provides financing and technical support to retailing financial service providers—can help coordinate and rationalize scarce donor resources for microfinance within a sector development framework and support the development of institutional microfinance provider capacity. It can also provide donors with an efficient funding mechanism that meets national market needs.

Such support facilities need to have sufficient flexibility, and also skilled human resources, to be able to effectively support more than one institutional approach. It would need to be respectful and supportive of a diverse array of approaches, ranging from those focused purely on financial service provision to those with broader development goals, including livelihood promotion, value chain finance and market linkages.

It is suggested that the Financial Inclusion Fund (FIF) be modeled upon international experience. An apex that has managed to successfully support the development and start-up of a viable microfinance sector is the Local Initiatives Project (LIP), supported by the World Bank in Bosnia and Herzegovina. This provided financing and technical support to NGO MFIs in Bosnia after the war, supporting their start-up, growth and development. LIP combined performance-based financing with intensive, well tailored capacity-building support.⁶⁵ In Afghanistan a similar approach was followed, which led to a successful facility there as well, the Microfinance Investment and Support Facility (MISFA).⁶⁶ Another facility in Sierra Leone was based on those two models and resulted in eight sustainable financial institutions after four years of operation. It is recommended that the donor spearheading such an initiative incorporate similar design elements into the model for Zimbabwe. All three facilities managed to attract dozens of millions of US dollars and were able to show clear results. An example closer to home is the South African Microfinance Apex Fund (SAMAF), but this facility is still rather recent.

⁶⁵ For more on this project please see www.cgap.org/gm/document-1.9.2810/CaseStudy_06.pdf

⁶⁶ For more on this project please see www.misfa.org.af

The overall objective of the proposed Financial Inclusion Fund as stated in the National Microfinance Policy would be *to promote the development of the microfinance sector through wholesale lending, guarantee funding, providing refinancing facility, capacity building and other promotional activities.*

In summary, a Financial Inclusion Fund could play the following roles:

- Coordinate investment for microfinance by establishing a mechanism to channel donor funds to microfinance providers within a sector-wide development framework.
- Provide well structured financing to kick-start the development of sustainable microfinance providers again, including financing for institution-building and loan fund capital.
- Provide or fund training and advisory services to microfinance providers to build their institutional capacity to deliver high-quality services.
- Promote good microfinance provider performance and transparent operations, by working with practitioners, donors and the government to establish sector-wide performance standards, reporting and monitoring criteria.

There have been discussions about whether to merge the Financial Inclusion Fund with another fund the government foresees to support SMEs. However, matters of microfinance are distinctively different from SMEs, and are better addressed separately. Moreover, facilities of this nature need to be designed as a 'transitional' intermediary from the outset and efforts should be made to transition the Facility's funding to a more sustainable source of commercial or semi-commercial finance, and permanent industry infrastructure support structures. Under no circumstances should the fund be hosted with government or parastatal institution, which would not be in line with emerging best practices from other countries.

4.4.2 Why a Pooled Donor Funding Facility?

Pooling of donor resources in a sector support facility would have the capacity to blend and use grant funding, concessional loans and, over time, commercial loans from a range of sources to structure appropriate financing for microfinance providers. It will also ensure experiences from elsewhere in the world can be taken into account, and that donors with less experience in access to finance matters can still contribute optimally. For the Government of Zimbabwe, having to deal with one entity, instead of a range of donors, will save them a lot of time, which is important given the mammoth task it is faced with of rebuilding Zimbabwe. It would also be in line with the spirit of the Multi Donor Trust Fund. Importantly, facilities can attract larger amounts of funding, which would not normally be allocated to individual projects.

The provision of loan capital will be prominent in the structure of the Facility, as it is widely acknowledged to be the key constraint, especially medium-term finance. Banks could be encouraged to complement the financing with access to short-term finance. Grants to cover the losses expected until microfinance providers reach sustainability are equally important in the Zimbabwe case, where institutions have no balance sheets left. Grant funding is usually provided by a different set of donors, so a joint facility creates the space for offering a broader set of supports. This is also the case for technical assistance donors, which are usually different. By offering them a vehicle to join other donors with complementary support, their funding will be leveraged and the impact of their resources enhanced. Technical assistance will be a key for building a sector that has a number of solid financial service providers within five years' time, by building the capacity of financial service providers and industry support institutions, like associations.

Moreover, there is the implication that donor personnel will have to dedicate less time towards monitoring, as the Facility will do the monitoring for all donors. The monitoring can be very effective, as it will be done by staff members who are specialists in financial sector deepening, and dedicated to this task. Importantly, the monitoring will also be direct and on-the-ground. Performance-based financing, based on rigorous but realistic performance standards, and pooling funding, instead of having scattered support activities, will also speed up institution-building. In the same vein, donors who currently have no concrete plans to fund

microfinance at this stage in Zimbabwe and are unlikely to formulate programs by themselves—but value microfinance as a form of social protection and means of reducing donor dependence—could be attracted to the idea of channeling funds through some form of joint donor initiative to support access to finance.

Importantly, facilities like this offer the capability and flexibility to support innovation and experimentation in a coordinated manner, so as to encourage the development of microfinance methodologies and institutional forms that are effective and appropriate to market niches and the local contexts of Zimbabwe. This matches well with donors in Zimbabwe, which place differing degrees of emphasis on the role of microfinance development. For some, microfinance is seen as a key element of rural development or the provision of low-income housing; for others, the emphasis is more on enterprise development across the value chain and rebuilding markets; still others see a link between microcredit and such objectives as empowering women or as a safety net for communities with high HIV/AIDS prevalence rates.

Donors could pledge funds for different areas of interest including:

- *Rural Finance, Value Chain Finance and Market Linkage Development*

Donors active in rural development could pledge funds for financial service providers in rural areas such as the village based savings and loan groups. Others could provide letters of credit for off-shore finance or lines of credit for agro-processing firms so they can (re)start input supply to their outgrowers. Some donors might be experienced in piloting the financing of whole finance chains, from input suppliers and input distributors, to farmers, agro-processing and marketing companies. Others could make funds available for technical assistance in product development for livestock loans, micro-leasing, crop insurance, etc. or for the training of loan officers in agricultural lending.

- *Finance to Stimulate Productive Sectors*

At this juncture, Zimbabwe's informal market is dominated by an unusually high percentage of people working in trade. Many had to abandon their services or manufacturing businesses, as the business environment had rendered such work unviable. Consequently, this segment needs to be resuscitated. Well tailored loans and/or leasing products could accelerate this process.

- *Low-Income Housing Finance*

Donors active in urban development could pledge funds specifically to support the development of a range of sites and services or housing finance products, according to the specific demands of the various high density areas and secondary cities.

- *High HIV/AIDS Incidence Areas*

In Zimbabwe there are already some documented experiences from which one can learn how financial institutions can respond to the needs in HIV/AIDS-affected areas, while taking measures to manage their own credit risk.

- *Empowerment of Women*

True empowerment starts with economic empowerment, so donors with a mission or focus on gender issues and the needs of women could well be interested in taking part in a program that will economically empower women. Investing in specific product development for women will increase the outreach to women, and could also lead to higher impact of loans.

- *Meso Level Support*

Donors that have supported microfinance associations in other countries might wish to do so in Zimbabwe as well, as the Zimbabwe Association of Microfinance Institutions is still dependent on donor funding. At this level, a number of other sector building blocks also require donor funding to be put in place or strengthened. As mentioned, training will have to be arranged for external auditing firms in the specifics of microfinance. Research capacity will have to be built at academic institutions. Technology applications are likely going to be very important for Zimbabwe, in view of the need to increase efficiency of operations, so there is a need for donors that could help with

Research and Development (R&D) to accelerate adoption of new technologies. Funding the capacity building and system development at one of the current credit bureaus serving lower-income markets is another important contribution donors could make.

- *Macro Level Support*

Donors with experience in macro level support, such as supporting the creation of an enabling environment, are much in need in Zimbabwe. Financial sector liberalization, besides all the positive effects it has on the financial sector, can have a phenomenal impact on microfinance, such as was the case in Haiti.⁶⁷ First and foremost, Zimbabwe needs a donor to step in and assist in the finalization of the national microfinance policy. The document has already covered a number of very important areas. In principle, it would only need for a few items to be reviewed and revisited in order to bring it in line with the new policy environment and international best practices. In terms of the legal and regulatory environment, improvements need to be made in the whole range of relevant acts and regulations.

4.5 Steps to Be Taken

Microfinance Service Providers

- Draft business plans based on the need to effect economics of scale and a critical self-reflection of their efficiency of operation in the higher cost environment, and modify business models accordingly.. Operations for the first months should start with a limited number of core staff, building up to a gradual resumption of normal operations as the portfolio starts to generate income.
- Local resource mobilization plans are needed, focusing on restarting hard currency savings mobilization, approaching banks early on to see what type of financing they would be prepared to wholesale, insurance companies, corporate world and Zimbabwe Stock Exchange.
- Smaller microfinance service providers could consider merging together. Many micro-lenders in South Africa managed to successfully merge, and are now able to serve more people with deeper pockets, which provides additional security in uncertain times. Economies of scale are also needed, given the higher-cost operating environment. For instance, this would also be a cost-effective way for equipping providers with software, hardware and office equipment.
- Approach donors with business plans or rescue package proposals for grants and soft loans, both individually and through ZAMFI. Despite the immense need in Zimbabwe, microfinance will not automatically appear as a donor priority, and so microfinance service providers will have to fight to move up the priority ladder. Social protection cannot only be done by handouts, but also through financial services to the category of the poor who can help themselves, so if the remaining structures are left to die now, it will only increase donor dependency.
- Some donors are sympathetic to the need for product development, which has been brought up as a key issue in Zimbabwe by practitioners. Products and delivery channels will need to change in the higher cost operating environment. To launch the new products, some funding is needed to develop product prototypes. As a matter of caution, some microfinance service providers also want to test lending in dollars to their former clientele, to see if they can still manage.

ZAMFI

- Revise its current work plan in view of the changed economic and political environment, and set clear targets for how to get the industry going.

⁶⁷ Haiti Donor Brief

- Help microfinance service providers lobby for an enabling environment. Participants of a workshop in Bulawayo expressed clearly they do not want to be dependent on external assistance indefinitely. They need a conducive market environment, a level playing field and some start-up capital—and then they can fight for themselves. Set monthly meetings for a fixed date and time with the RBZ and Ministry of Finance.
- Restart information collection and dissemination. As soon as its member organizations start to re-lend, start posting their information on the ZAMFI website. Such transparency will create investor confidence and clearly showing upward trends will make donors sympathetic to the cause, and enhance the resilience of Zimbabwean microfinance service providers.
- Design an implementation plan for the National Microfinance Policy with quantitative annual targets and indicators, with a view towards reaching 5 million Zimbabweans within ten years time.
- As the financial sector becomes more inclusive, and the demarcation of market segments less the domain of specific entities—but instead a range of entities operating vertically among high-middle income, low-middle income, and high low-income categories—consideration should be given to linking ZAMFI to the Bankers Association of Zimbabwe (BAZ). This could be done by creating a microfinance wing within the latter, or perhaps housing ZAMFI within the more centrally-located premises of BAZ. This microfinance wing could play a similar role, but be able to more closely dialogue with broader financial sector lobbying efforts and perhaps reduce its operating costs by sharing some of the secretarial functions with the banking sector, which has greater capacity to fund a permanent structure through its own dues.
- Seek ways to attract staff at all levels back to the sector. Well designed incentive schemes that offer cost-effective base salaries with bonuses for performance should be able to attract staff while, at the same time, helping institutions meet or exceed their targets.
- Schedule regular meetings with donors individually and jointly to highlight sector needs.
- Secure funding and organize training in delinquency management, product development and staff incentive scheme design. Organizing this at the sector level will be a cost-effective way of meeting early staff development needs all institutions are facing. Organize a workshop to introduce some of the recent interesting innovations in credit delivery channels and innovative use of technology going on in other African countries.
- Actively seek to get staff from Zimbabwean microfinance service providers to attend international training courses offered.
- Provide information on smallholder support projects to see whether microfinance service providers that operate in similar areas can hook up with them, as needed. Cooperate with Agribank and contract farming finance providers.

The Government of Zimbabwe

- Take immediate steps to halt licensing renewal requirements or waive them for 2009 and 2010, so that the office in charge of licensing can focus on processing new licenses. Remove all other obstacles that prevent microfinance service providers from restarting operations, such as confusion about any remaining forex control/licensing issues.
- Institute the Financial Inclusion Forum envisaged in the National Microfinance Policy immediately.

- Start working on removing legal and regulatory obstacles in areas such as complete removal of all interest rate caps in the Banking Act and Moneylender Act, reduce extensive reporting requirements, and place larger SACCOs under the supervision of a financial entity, etc. Other laws also need to be reviewed, updated or adapted to ensure increased access to finance from the Cooperative Societies Act, Insurance Act, to the Consumer Contracts Act, Exchange Control Act, Tax Laws, etc.
- Invite central bankers from other countries that have successfully incorporated microfinance service providers, such as Tanzania, to facilitate dialogue on consultative fora on the issue of improving the enabling environment and the creation of an optimal legal and regulatory environment. RBZ has already taken a keen interest in financial inclusion and managed to get the issue high on the policy agenda. In other countries, UNDP/UNCDF and the German Development Cooperation have made resources available to fund such consultation.
- Revise the national policy in view of the new political and economic environment. Remove the interest rate cap that is mentioned and emphasize that the single most important contribution a government can make towards building an inclusive financial sector is to create an enabling environment, at the enterprise and financial institution level. In other countries, UNDP/UNCDF, the World Bank and CIDA have made such resources available.
- Consider moving all microfinance service providers that do not take deposits back to the Ministry of Finance, so that the RBZ can focus on prudential regulation and ensuring financial healthiness of the deposit-taking institutions that can pose a systemic risk to the sector.
- Privatize and ensure speedy capitalization of Agribank.

Donors

- Zimbabwe's microfinance sector is faced with an unprecedented situation that requires a massive donor response. Make funding available for ZAMFI so it has the resources to help kick-start the industry.
- Within the next month, one or two donors should pledge some funding for a rescue package for the microfinance service providers still in existence. An RFP should be issued by the donor(s) with best practice minimum conditions and outlining selection criteria which will stimulate healthy sector development.
- Complementary to grant funding for operations, donors could have a very high impact in contributing to Zimbabwe's recovery by offering relatively modest lines of credit to banks for wholesaling to microfinance service providers' loan capital needs. To restart operations, microfinance service providers' loan capital needs will range from US\$50,000 to US\$350,000 and grant needs will range from US\$25,000 to US\$100,000. Both will be disbursed in tranches based in performance indicators.
- As a follow-up to this study, SNV/ ZAMFI should engage with donors to see if they are interested in a pooled donor facility. The facility could be created through the initiative of: UNDP/UNCDF, the World Bank (MDTF, like in Afghanistan), or through the group of bilateral donors that have been funding financial sector deepening trusts in East Africa.
- Donors who have funded similar sector facilities could have a special interest in moving things forward. The Afghanistan sector facility donors are: CIDA, SIDA, World Bank, World Bank/IDA, Oxfam/Novib and the Embassies of Denmark, Finland and The Netherlands.⁶⁸ The Bosnia and

⁶⁸ <http://www.misfa.org.af/uploads/files/May%2008%20English%20Newsletter-F.pdf>

Herzegovina sector facility donors were Italy, Japan, The Netherlands, Switzerland and UNHCR. The Sierra Leone donors are UNCDF/UNDP, KfW, Cordaid and IFAD.

- If there is interest, the lead donor should begin discussions in the field with the government, possibly begin project formulation, and start preparing for a facility that could start before the end of the year.

Annex 1: People Met				
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