

Reserve Bank of Zimbabwe

CONSUMER EDUCATION AND AWARENESS BULLETIN

FREQUENTLY ASKED QUESTIONS ON MICROFINANCE INSTITUTIONS



November 2013

1. INTRODUCTION

1.1. The Reserve Bank of Zimbabwe is issuing this Consumer Education and Awareness Bulletin as part of ongoing efforts to educate consumers to enable them make informed decisions when accessing financial products and services.

1.2. This particular Bulletin will primarily focus on issues relating to the microfinance industry. Future bulletins will cover a range of issues considered to be pertinent for consumers of financial services and products at any given point in time.

2. THE REGULATORY ARRANGEMENTS FOR THE MICROFINANCE SECTOR

2.1. Microfinance services in Zimbabwe are offered by a number of categories of financial institutions. The table below shows the categories of institutions offering microfinance services, the type of regulation applied as well as the respective regulatory authorities.

Category of Institution	Type of Regulation	Regulatory Authority
Banks Building Societies	Prudential Supervision	Reserve Bank of Zimbabwe
Deposit-taking Microfinance Institutions (Microfinance Banks)	Prudential Supervision	Reserve Bank of Zimbabwe
Credit-Only Microfinance Institutions	Non Prudential Supervision	Reserve Bank of Zimbabwe
Savings and Credit Cooperatives (SACCOs)	Prudential and Non-Prudential Supervision	Ministry of Small and Medium Enterprises and Cooperatives Development
Small Enterprises Development Corporation (SEDCO)	Non-Prudential Supervision	Ministry of Small and Medium Enterprises and Cooperatives Development

2.2. Prudential regulation/supervision is applied on institutions that mobilize deposits. It is aimed at safeguarding the health of the institution and ultimately at protecting the institution's depositors.

2.3. Prudential supervision is achieved by the application of prudential standards that may include enforcing the following:

- i. Minimal capital requirements;
- ii. Limits on lending to a single borrower or related party;
- iii. Restriction on declaration of dividends;
- iv. Liquidity requirements; and
- v. Standard loan documentation requirements.

2.4. Non-prudential regulation/supervision is applied on institutions, which do not mobilize deposits from members of the public. It is less rigorous and is generally achieved through:

- i. Registration of institutions to conduct the business of lending legally;
- ii. Enforcing appropriate standards on corporate governance arrangements;
- iii. Periodic submission of returns; and
- iv. Monitoring with a view to minimize unethical practices.

3. FREQUENTLY ASKED QUESTIONS

3.1. The Questions & Answers below seek to enhance public understanding of the microfinance sector. It is also envisaged that with the enhanced knowledge, stakeholders will seek to enforce their rights against the players in the financial sector, while on the other hand observing their responsibilities and obligations.

Why are Microfinance Institutions supervised?

3.2. Proper regulation of the microfinance sector is important for the proper functioning of the industry, thus building confidence among stakeholders. This is important for maintaining a stable financial sector.

3.3. The objectives of supervision of microfinance institutions therefore include:

- Protection of depositors in deposit-taking microfinance institutions;
- Promoting fair treatment and minimizing abuse of microfinance customers;
- Ensuring that customers are not charged excessive interest rates and other charges; and
- Ensuring that microfinance institutions do not use abusive methods of collecting debt.

What are the major differences between Deposit-taking and Credit-Only microfinance institutions?

3.4. The major differences between Deposit-taking and Credit-Only microfinance institutions are outlined in the table below.

Deposit-Taking Microfinance Institutions	Credit-Only Microfinance Institutions
Authorised to mobilize deposits.	Not allowed to take deposits.
Subject to prudential regulation.	Subject to non-prudential regulation.
The words “Deposit-taking” appear on the Registration Certificate.	The words “Credit-Only” appear on the Registration Certificate.

- 3.5. Deposit taking by institutions that are legally authorised to take deposits is illegal.
- 3.6. Members of the public are advised not to facilitate illegal deposit taking by institutions that are not authorised to take deposits. Where members of the public deposit funds in institutions that are not authorized to take deposits they have little recourse and they risk losing the deposit as such deposits will be outside regulatory scrutiny and will not be protected under the deposit insurance scheme.

How do I know that a microfinance institution is properly registered?

- 3.7. All microfinance institutions are required to conspicuously display authenticated copies of their registration certificates at every place where they conduct microfinance business in terms of the law that governs their operations.
- 3.8. The Reserve Bank from time to time publishes the list of registered microfinance institutions.
- 3.9. Members of the public have the right to confirm with the Reserve Bank the registration status of a microfinance institution.

What is the role of members of the public in promoting a stable microfinance sector?

- 3.10. It is the duty of members of the public to report to the Reserve Bank or Zimbabwe Republic Police (ZRP) any MFI that they consider to be contravening the laws and regulations governing the conduct of their businesses. This will enable the Reserve Bank in partnership with the ZRP and any other law enforcement agents to immediately take appropriate corrective action and avoid further damage to financial stability.
- 3.11. It is unfortunate that on many occasions, members of the public willingly participate in irregular conduct by some institutions and only rush to the Reserve Bank when they have lost their hard-earned cash or property.

Are there set maximum levels of interest rates and other charges microfinance institutions may charge their clients?

- 3.12. In line with international best practice, interest rates are market determined, that is, there is no specific law regulating interest rates charged by microfinance institutions.
- 3.13. The Reserve Bank, however, expects microfinance institutions to charge interest rates and any other charges that are a reflection of their cost of funds and operating costs.

3.14. In terms of the law, all microfinance and moneylending institutions are required to display all their charges including monthly and annual interest rates conspicuously, in easily legible letters, in every premise where they conduct microfinance and moneylending business.

3.15. Customers of microfinance institutions are urged to compare interest rates and charges of different microfinance institutions in order to settle for the best option available.

3.16. The public is urged to make use of available information in order to make informed decisions on which institutions to deal with.

Is it within my rights to know all the terms and conditions of a loan I access from a microfinance institution?

3.17. It is within the rights of the borrowing public to be clearly informed of all the terms and conditions of the loans they access from microfinance institutions. Microfinance institutions are required, in terms the law to adequately explain to the customer the terms and conditions of the loan in the language that the customer understands.

3.18. Further, in terms of the law, every microfinance institution is required to provide to every client, the loan documents (including loan agreements) clearly indicating the rate of interest, terms of repayment, collateral required from the client and details of all charges other than interest (if any).

Are microfinance institutions allowed to use an asset taken as security?

3.19. Microfinance institutions often take security for the loans they advance to the borrowing customers.

3.20. However, microfinance institutions are not allowed to use the security for their own benefit, or to use the security for their own borrowings.

3.21. The security remains the property of the borrowing customer and the microfinance

institution should only hold it as a fall back position in the event of default by the customer.

3.22. Microfinance institutions are also required to follow legal due process in disposing pledged security in the event of default by the borrower.

If I have a complaint against a microfinance institution what should I do?

3.23. The Reserve Bank requires all microfinance institutions to establish internal complaints handling procedures.

3.24. Any person with a complaint against a microfinance institution should first lodge their complaint with the microfinance institution and if the complaint is not resolved to their satisfaction, they have the right to escalate the matter to the Registrar of Microfinance Institutions at the Reserve Bank.

3.25. Complaints referred to the Reserve Bank should provide adequate details of the issues involved and evidence of failure by the microfinance institution to resolve the matter.

What are the risks of investing in investments schemes (pyramid schemes)?

3.26. There has been a resurgence of unethical financial schemes generally referred to as pyramid schemes.

3.27. A pyramid scheme is a scheme under which a person makes a payment to get the right to recruit others into the scheme for which he receives an income. The new recruits also make payments to get the right to further recruit others and in turn receive incomes for such recruitment.

3.28. Such a scheme is called a pyramid scheme because, over time, a hierarchy of participants resembling a pyramid is formed with the introduction of new and larger levels of participants to the scheme.

3.29. Pyramid schemes have emerged with various names including faith clubs, wealth generation

funds, savings clubs, ponzi schemes, cooperative schemes, and rotating clubs. The schemes often promise consumers or investors high interest rates and large profits based primarily on recruiting others to join their scheme.

- 3.30. Victims of pyramid schemes are deceived into believing that they can earn huge amounts of money for doing nothing, other than recruiting a small number of members to the scheme.
- 3.31. Promoters of pyramid schemes may use names of famous persons or organizations such as churches to mislead the public into believing that the scheme is reputable.
- 3.32. Members of the public are warned against participating in these illegal pyramid schemes as they risk losing their money.

Are there recognised standards for microfinance institutions?

- 3.33. The Microfinance Act [Chapter 24:29], which came into effect in August 2013, incorporates a code of conduct specifying acceptable and unacceptable conduct by microfinance institutions.
- 3.34. Internationally, microfinance institutions are urged to observe microfinance Core Client Protection Principles in conducting their microfinance business. Zimbabwe has also adopted the microfinance Core Client Protection Principles and the Reserve Bank requires microfinance institutions to comply with the Principles, which are in alignment with the provisions of the Microfinance Act indicated above.
- 3.35. The microfinance Core Client Protection Principles (CCPPs) are outlined below.

Appropriate product design and delivery

- 3.36. MFIs are required to take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Client characteristics should be taken into account when

designing products and delivery channels.

Prevention of over-indebtedness

- 3.37. MFIs should take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, MFIs should implement internal systems that support prevention of over-indebtedness.

Transparency

- 3.38. MFIs are required to communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. This includes information on pricing, terms and conditions of products.

Responsible pricing

- 3.39. Pricing, terms and conditions should be set in a way that balances affordability to borrowing clients and sustainability of the MFIs.

Fair and respectful treatment of clients

- 3.40. MFIs should treat their clients fairly and respectfully. They should not discriminate and should ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

Privacy of client data

- 3.41. The privacy of individual client data should be respected in accordance with the applicable laws of the country. Such data should only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

Mechanisms for complaint resolution

- 3.42. MFIs should have timely and responsive mechanisms for complaints and problem resolution for their clients and should use these mechanisms both to resolve

individual problems and to improve their products and services.

3.43. Members of the public are urged to enforce their rights under the CCPPs and where necessary report to the Reserve Bank incidences of departure by MFIs.

3.44. Further information on the microfinance Core Client Protection Principles is available on the following web address:
<http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

4.0. Additional information on the Reserve Bank's regulatory and supervisory activities can be found on Reserve Bank website, www.rbz.co.zw. Members of the public may also contact Bank Licensing, Supervision and Surveillance Division on the Reserve Bank numbers (04) 703 000.