



Bank Supervision Division

Consultative Document

Operational Guidelines for

Deposit-Taking Microfinance Institutions

Issued for comments by 8 July 2016

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June 2016

PART A

PREFACE

i. Short Title

Operational Guidelines for Deposit-taking Microfinance Institutions.

ii. Authorisation

The Guideline is issued in terms of section 36 of the Microfinance Act [Chapter 24:29].

iii. Application

The Guideline shall apply to all Deposit-taking Microfinance Institutions (DTMFIs) that are licensed and supervised by the Reserve Bank of Zimbabwe (RBZ).

iv. Interpretations

The following terms used in this Guideline shall be taken to have the meaning assigned to them hereunder:-

“**capital base**” means the net capital of a Deposit-taking Microfinance Institution arrived at by deducting from its gross capital, any investments in or lendings of a capital nature to subsidiaries engaged in deposit-taking microfinance and financial activities which are not consolidated; and encumbered assets acquired by using the DTMFI’s capital funds which have subsequently been pledged as collateral for borrowings or are encumbered by any caveats rendering them unavailable to meet losses arising from the institution’s operations.

“**Financial Exposure**” arises as a result of lending activities, undertaking credit commitments by issuing financial guarantee or indemnity on behalf of a customer

or carrying out any other credit transaction for a person or customer.

“Large exposure” means a loan or credit facility granted to a person and his associates that exceeds 2% of an institution’s net capital base,

“Loans and advances” means the extension of any credit or the provision of any credit facility, including the advance of funds arising from the fulfilment of guarantee and indemnity arrangements entered into between and by the DTMFI on behalf of its client.

“Microfinance loan” means a credit facility not more than 2% of the net capital base of a DTMFI, advanced for productive purposes in any sector of the economy regardless of it being extended to an individual or body corporate.

“Non-Performing Loan” means a credit facility with interest and principal payments past due for 31 days or more.

“Past Due Loan” means a loan whose interest and/or principal has, in terms of the loan contract, remained outstanding for one day or more.

“Registrar” means the Registrar of Microfinance Institutions.

“Related Interest” in relation to an individual, means any company, cooperative, private business corporation, syndicate or association of persons which the individual controls or in which the individual has the largest single interest.

“Restructured or re-negotiated loan” means a loan that has been modified to either lengthen or post pone the original scheduled instalment payments, or substantially alter the original terms and conditions of the loan. Restructured loans shall include loans disbursed to enable repayment or part payment of prior loans that were past due (refinanced loans).

“Reserve Bank” means the Reserve Bank of Zimbabwe.

LIST OF ACRONYMS

CEO	Chief Executive Officer
CFO	Chief Finance Officer
CCPPs	Core Client Protection Principles
DTMFI	Deposit-Taking Microfinance Institution
MIS	Management Information Systems
PaR	Portfolio at Risk

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PART B

INTRODUCTION AND OBJECTIVES

1. INTRODUCTION

- 1.1. The Reserve Bank of Zimbabwe recognises the importance of the microfinance sector in fostering access to financial services for low income households and micro, small and medium enterprises.
- 1.2. These Guidelines provide the minimum standards and practices for the licensing and continuous regulation and supervision of Deposit-Taking Microfinance Institutions (DTMFIs) operating in Zimbabwe. The Guidelines should be considered in conjunction with the applicable statutes.

2. OBJECTIVES

- 2.1. The objectives of these Guidelines are to:
 - a) ensure the safety and soundness of the microfinance sector and ultimately financial stability in the economy;
 - b) promote financial inclusion through encouraging and facilitating the development of the microfinance sector;
 - c) ensure that DTMFIs maintain adequate capital and liquidity levels which enable them to meet customers' obligations at all times and promote public confidence in the financial sector;
 - d) raise awareness on the minimum licensing requirements and supervisory standards applicable to the microfinance sector; and
 - e) adopt transparency and accountability leveraging on international best practices in the regulation and supervision of DTMFIs.

PART C

LICENSING REQUIREMENTS FOR DEPOSIT-TAKING MICROFINANCE INSTITUTIONS

3. GENERAL REQUIREMENTS

3.1. No person shall conduct deposit-taking microfinance business without a valid deposit-taking microfinance licence in terms of section 7 of the Microfinance Act.

3.2. An application for a deposit-taking microfinance licence in terms of the Microfinance Act shall be made in writing to the Registrar of Microfinance Institutions, at the Reserve Bank of Zimbabwe. The following documents and information shall be submitted together with the application:

a) Proof of payment of a non-refundable application fee of US\$2,000 or as may be prescribed from time to time, payable to the **Reserve Bank of Zimbabwe Account Number: 2 0 5 3 5 0 7** through a cash deposit in the Reserve Bank banking halls, or via RTGS transfer.

b) Completed application form in the prescribed format and attach the following documents:

i. Certified copies of Certificate of Incorporation and Memorandum and Articles of Association of the applicant company registered in terms of the Companies Act [*Chapter 24:03*];

ii. Register of members containing names, physical addresses, and occupations of persons who hold significant interest directly or indirectly in the proposed institution and the respective levels and

values of such shareholdings registered with the Registrar of Companies;

- iii. Shareholders' affidavit declaring the beneficial shareholders, where shares are held by unnatural persons. The details should include names of institutional shareholders, the names of natural persons who are beneficial owners of shares in the institutional entity and their respective percentage shareholding.
- iv. Proof of authorized and paid-up capital (Form CR2) duly registered with the Registrar of Companies;
- v. Proof of availability of minimum paid-up share capital in the form of bank statement in the name of the company or the promoters/ shareholders of the company and proof of the sources of the funds;
- vi. Proposed directors (Form CR14) registered with the Registrar of Companies;
- vii. Proof of registration with Tax authorities (ZIMRA);
- viii. A business plan, whose contents are detailed in section 8.1 of these guidelines; and
- ix. Any other information and documents that the Registrar may prescribe or require.

3.3. If the Registrar is satisfied that the applicant has complied with the applicable requirements, a licence will be issued.

3.4. The Registrar may issue a DTMFI licence with such conditions as may be deemed necessary.

3.5. Where a licence is granted subject to certain conditions, the DTMFI should

comply with those conditions to the satisfaction of the Reserve Bank, within such period as stipulated by the Reserve Bank. Failure by a DTMFI to comply with such conditions may result in the cancellation of the issued licence.

- 3.6. After issuance of licence, the DTMFI shall put in place the required infrastructure and systems to enable commencement of operations. The DTMFI shall invite Reserve Bank of Zimbabwe to conduct a pre-opening inspection before commencing operations.
- 3.7. If the Registrar is satisfied that an applicant institution has complied with the minimum licensing requirements, Microfinance Act and any other applicable laws, the institution may be authorized to commence deposit-taking microfinance business.
- 3.8. A registered DTMFI shall not transfer or assign the issued licence.
- 3.9. In line with the provisions of the Microfinance Act, the Registrar may cancel the operating licence of a DTMFI which does not commence deposit-taking microfinance business within **six (6) months** from the date of registration.

4. MINIMUM PAID-UP SHARE CAPITAL

- 4.1. Every applicant DTMFI shall have and maintain on an ongoing basis, a minimum paid-up share capital of **US\$5,000,000.00** or as may be prescribed.
- 4.2. Paid-up share capital shall consist of the following components:
 - a) Issued ordinary share capital;
 - b) Share premium;
 - c) Irredeemable Preference Shares;
 - d) Retained Profits reflected on audited financial statements; and
 - e) Current year unaudited but verifiable retained earnings.

- 4.3. The following should be submitted together with the application:
- a) verifiable and acceptable evidence of payment by the proposed shareholders of the minimum paid-up capital;
 - b) proof of source of capital in the form of bank statements, investment redemption statements; and
 - c) proof of registration of the capital with the Registrar of Companies, in the form of copies of Forms CR5, CR11 or CR2 where applicable.
- 4.4. Every shareholder shall be required to submit a sworn statement that capital contribution does not consist of borrowed funds or any activities relating to money laundering or illicit transactions.
- 4.5. Every foreign corporate investor shall also be required to submit the following:
- a) proof of capital flow issued by an authorized dealer;
 - b) proof of requisite Zimbabwe Investment Authority (ZIA) and any other relevant approvals;
 - c) Board Resolution authorizing the company to invest in the DTMFI and the designated persons who will represent the company;
 - d) Audited accounts for the past two years and profile of the company; and
 - e) A letter of authorization from the home supervisory authority (for regulated entities).

5. CORPORATE GOVERNANCE

Shareholding Thresholds...

- 5.1. Only companies registered as a public company are eligible to apply for a deposit-taking microfinance licence.
- 5.2. No DTMFI or controlling company shall:
 - a) allot or issue any of its shares to, or register any of its shares in the name of, any person other than the intended beneficial shareholder; or
 - b) transfer any of its shares in the name of a person other than the beneficial shareholder.
- 5.3. Paragraph 5.2 shall not affect the allotment or issue, or the registration of the transfer of shares in a DTMFI or its controlling company in the name of:
 - a) a manager or trustee of a collective investment scheme registered in terms of the Collective Investment Schemes Act [Chapter 24:19] (No. 25 of 1997); or
 - b) an executor of a deceased estate, a trustee of an insolvent estate or the liquidator of a company in liquidation; or
 - c) a curator or guardian of a person under a disability; or
 - d) a holder of a licence issued in terms of Part V of the Securities and Exchange Act [Chapter 24:25] (No. 17 of 2004); or
 - e) a central securities depository established in terms of Part IX of the Securities and Exchange Act [Chapter 24:25] (No.17 of 2004); or
 - f) such other persons as may be prescribed.
- 5.4. No individual, related parties or corporate entities and/or their subsidiaries or

proxies shall own controlling interest in more than one DTMFI, except as approved by the Reserve Bank. Shareholding in a DTMFIs shall be subject to prior approval by the Registrar and the following limits shall apply:

Table 1: Shareholding Thresholds

Type of Shareholder	Percentage Limit
Financial Entity	100
Member of Executive management	5
Any other person	25

5.5. Shareholders with **five percent (5%)** or more equity stake in a DTMFI shall be vetted in terms of the **Prudential Standards No. 07-2014/BSD: Fitness & Probity Assessment Criteria.**

5.6. The acquisition or transfer of **five percent (5%)** or more equity shareholding of a DTMFI shall be subject to prior approval of the Registrar

Board of Directors...

5.7. A DTMFI shall have a board of directors of not less than five (5) members with at least three fifths of the board membership being non-executive directors, of which independent non-executive directors shall be the majority and at least one (1) of the non-executive directors has experience of managing microfinance business or have relevant exposure to microfinance business.

5.8. No individual shall be appointed as a director of a DTMFI if the person is a director of another DTMFI, banking institution or another financial institution in competition with the DTMFI, except where the DTMFI is part of the same group.

- 5.9. Every DTMFI is required to ensure that the board of directors has balance in terms of relevant skills and experience. The appointment of directors shall be subject to prior approval of the Reserve Bank.
- 5.10. Every DTMFI is required to comply with the provisions of **Guideline No. 01-2004/BSD: Corporate Governance.**

Board Committees...

- 5.11. The board of the DTMFI shall constitute and maintain board committees to assist the board perform its oversight function effectively. In particular the board committees will be responsible for:
- a) overseeing the credit origination and sanctioning process;
 - b) review of loans and assessment of adequacy of loan provisions;
 - c) ensuring adequacy of internal controls and risk management systems;
 - d) compliance with laws, regulations and internal policies and procedures;
and
 - e) ensuring the integrity of the financial records and financial statements of the institution.
- 5.12. Each of the board committees shall have comprehensive and clear Terms of Reference.
- 5.13. Each board committee shall have a minimum of three (3) members. No board member shall sit in committees with conflicting mandates in terms of corporate governance best practice.
- 5.14. No executive director, officer or employee of a DTMFI shall be appointed to the board audit committee of the DTMFI.
- 5.15. Every member of the board shall attend at least three quarters of the meetings

of the board and board committees where he/she is a member in any financial year.

Senior Management...

- 5.16. In addition to the appointment of the Chief Executive Officer (CEO) and Chief Finance Officer (CFO) in terms of the requirements of the Microfinance Act [Chapter 24:29], every DTMFI shall appoint, subject to prior approval by the Registrar, any other senior officer based on the nature of the institution's activities.
- 5.17. Officers appointed to key management positions in the DTMFI shall have minimum qualifications and experience as stipulated below:
- a) Managing Director/CEO- a recognized university degree in microfinance or other relevant degree or qualification and/or relevant professional qualification with at least eight (8) years post qualification experience in microfinance or banking or related industry out of which, at least, five (5) must be at a senior management level; and
 - b) Departmental Head - a recognized university degree in microfinance or other relevant degree or qualification and/or relevant professional qualification with at least three (3) years post-qualification experience in microfinance and banking or related industry.
- 5.18. A licensed DTMFI shall notify the Reserve Bank of any proposal to effect changes in the membership of the board or senior management, 21 days in advance with reasons. If prior notification is not practically possible the Reserve Bank shall be notified within three (3) days of its occurrence, with the reasons for such occurrence and the proposed replacement individual.

Certification in Microfinance...

- 5.19. In recognition of the peculiarities of microfinance business and the special skills required to manage a DTMFI, senior management is required to possess requisite certification or training in microfinance management from a recognized institution or professional body.
- 5.20. Where the CEO and any member of senior management do not possess relevant qualification in microfinance, at point of recruitment, they shall be required to submit evidence of the microfinance certification not later than **two (2) years** after assumption of office. Failure to comply with the above condition shall be a ground for the removal of the affected officer.

6. REQUIREMENTS FOR FITNESS AND PROBITY ASSESSMENT

- 6.1. Every shareholder with a minimum of **five percent (5%)** equity in the DTMFI, a board member and member of senior management team shall be approved by the Registrar.
- 6.2. The following information and documentation shall be submitted to the Registrar to facilitate the fitness and probity assessment of individual shareholders, directors and members of senior management team:
 - a) Certified copy of identification certificate or valid passport and one colour passport size photograph;
 - b) Detailed Curriculum Vitae, with the exception of shareholders;
 - c) Certified copies of relevant academic and professional certificates for directors and senior management;
 - d) An affidavit in the format prescribed by the Registrar, see Appendix A;
 - e) net worth statements duly certified by auditors registered in terms of

the Public Accountants and Auditors Act [*Chapter 27:12*];

- f) tax clearance certificate *issued within the last six (6) months*;
- g) police clearance certificate *issued within the last six (6) months*; and
- h) names of at least (2) two independent referees who have known the proposed shareholder/director/senior manager for at least five (5) years, one of which should be in a professional capacity, providing contact details including postal addresses, e-mail and telephone numbers.

6.3. For corporate shareholders, the following information and documentation shall be submitted to the Registrar:

- a) Certified copies of Memorandum & Articles of Association;
- b) Certified copy of Certificate of Incorporation;
- c) Names of shareholders and composition of board of directors accompanied with the appropriate Form CR2 and CR14;
- d) Audited financial statements for the past two (2) years;
- e) Resolution of the Board of Directors or General Meeting authorizing the investment;
- f) Where the company is a shelf-company, the shareholders should submit net worth statements duly certified by auditors registered in terms of the Public Accountants and Auditors Act [*Chapter 27:12*]; and
- g) In the event of documents being submitted from outside Zimbabwe, (with the exception of a curriculum vitae), these must be certified by a notary public registered in the country of origin of documents while an affidavit must be signed before a commissioner of oaths in the country of origin of the documents.

7. NON-PERMISSIBLE ACTIVITIES

7.1. In addition to the provisions of section 25 of the Microfinance Act with respect to non-permissible activities, every DTMFI shall not engage in the provision of the following financial services:

- a) leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries own 5% or more of the equity of the DTMFI, without the prior approval in writing of the Reserve Bank of Zimbabwe;
- b) financing of speculative and illegal activities; and
- c) any other prohibited activities as may be prescribed from time to time.

8. CONTENTS OF A BUSINESS PLAN

8.1. The business proposal for the establishment of a DTMFI in Zimbabwe shall contain at a minimum, the following information:-

Background Information

- 8.2. Name and location of the proposed DTMFI. This should include physical addresses of all the proposed branches. Copies of form CR6, proof of ownership of premises and/or lease agreements for the premises being used by the head office and all branches should be submitted.
- 8.3. The institution's corporate structure, where applicable, including every associate of the institution, and organizational structure, with clear reporting lines, accompanied with detailed functions and responsibilities of the top management team.
- 8.4. A brief discussion of the background to the application.

Market Analysis

- 8.5. The domestic economic situation and its expected impact to the operations of the proposed institution and an analysis of the financial sector operating environment and the market to be served by the proposed institution.
- 8.6. Description of the economic characteristics of the identified markets, including anticipated changes in the market, factors influencing such changes and possible effects on the institution.

Business Strategy and Objectives

- 8.7. A business strategy/model and goals of the proposed DTMFI.
- 8.8. The justification for the establishment of the DTMFI including description of the developmental value of the proposed institution to the target community and the economy at large.
- 8.9. Description of the products and services to be offered by the proposed DTMFI.
- 8.10. The branch expansion programme [if any] within the first 5 years of commencing operations.
- 8.11. A credible three-year financial inclusion plan.

Capitalization and Additional Capital Sources

- 8.12. Description of the plans for financing growth, internally or externally, over the first 3 years of operation.
- 8.13. Description of what additional capital sources are available should the need arise.

Financial Projections and Underlying Assumptions

- 8.14. The business plan should include the following financial projections based on best, normal and worst case scenarios:
- a) a projected annual Statement of Financial Position (Balance Sheet) for at least the first 3 years of operation;
 - b) a projected annual Statement of Comprehensive Income (Income Statement) for at least the first 3 years of operation; and
 - c) a projected cash flow statement for at least the first 3 years of operation.
- 8.15. Financial projections should be supported by major assumptions on which they are based, with reference to variables such as market growth, funding capacity, inflation rates, interest rates and fees, and any other variables of importance to the DTMFI's performance such as products to be offered and markets to be served.
- 8.16. The projections and assumptions should be reasonable and realistic in light of prevailing and forecast economic performance, industry performance, outlined strategies, etc.
- 8.17. The projected accounts should take into account the regulatory capital, provisioning requirements, lending limits, and any other requirements to be complied with.

Social Performance Assessment Framework

- 8.18. The business plan should also include the DTMFI's proposed social performance management framework with respect to its social mission and objectives guided by the social performance indicators as outlined in Table 2.

Table 2: Social Performance Indicators

Indicator Category	What the Indicators Measure
1. Mission and social goals	The DTMFI's stated commitment to its social mission, its target market and development objectives.
2. Governance	Programme for training of board of directors in social performance management and the presence of a Board committee that will monitor social performance.
3. Range of products and services	Both financial and non-financial products and services offered by the DTMFI to achieve social goals and objectives.
4. Social responsibility to clients	Policies and Procedures to be followed by employees to ensure compliance with the microfinance Core Client Protection Principles (CCPPs).
5. Human resources and staff incentives	The DTMFI's policy regarding social responsibility to staff. This includes human resource policies in place, board and staff composition, staff turnover rate, and staff incentives linked to social performance goals.
6. Social responsibility to the environment	The DTMFI's policies and initiatives in place to mitigate the environmental impact of financed enterprises.
7. Poverty outreach	Methodology for measuring impact of the DTMFI's activities on poverty alleviation including assessment of poverty levels of clients at entry and their movement out of poverty over time.
8. Client outreach by lending methodology	The type of lending methodology (-ies) employed by the DTMFI.
9. Enterprises financed and employment creation	The number of enterprises financed by the DTMFI and employment opportunities created by the enterprises financed.
10. Client retention rate	The client retention rate of the DTMFI.

Adopted from: <http://www.themix.org/social-performance/Indicators>

9. PRE-OPENING INSPECTION

- 9.1. No DTMFI shall commence deposit-taking microfinance operations without the prior authorisation of the Reserve Bank.

- 9.2. Every registered DTMFI shall notify the Reserve Bank of its readiness to commence deposit-taking microfinance activities and shall invite the Reserve Bank for a pre-opening inspection.
- 9.3. The Reserve Bank shall conduct a pre-opening inspection of the institution's premises and examine compliance with the standards and the operational readiness of the institution for commencement of operations. The Reserve Bank shall examine and verify the readiness and suitability of the premises of the institution and confirm, among other issues, the following matters,
- a) the adequacy of the institution's security system;
 - b) evidence of cash payment of the total amount (100%) of capital by shareholders;
 - c) opening statement of affairs signed by the CEO and CFO;
 - d) adequacy and readiness of the Management Information System (MIS) and other business infrastructure;
 - e) availability and adequacy of human resources;
 - f) adequacy of policies and procedures covering all major inherent risks;
 - g) the readiness and adequacy of the administrative and operational processes and the internal control system; and
 - h) adequacy of management systems and procedures, including its risk management systems, its corporate governance framework and its systems for the detection and prevention of money-laundering and the financing of terrorism.

10. CLOSING AND ESTABLISHMENT OF BRANCHES

10.1. No DTMFI shall close a branch in Zimbabwe or establish a new branch in Zimbabwe unless it has given the Registrar at least fourteen business days' written notice of its intention to close the branch or establish the new branch, as the case may be.

11. APPOINTMENT OF AN AGENT

11.1. Where a registered DTMFI seeks to engage in agent banking activities, it shall be required to comply with the stipulated regulatory requirements and guidelines on agent banking business.

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PART D

PRUDENTIAL REQUIREMENTS

12. CAPITAL AND SOLVENCY REQUIREMENTS

- 12.1. Every registered DTMFI shall maintain an unimpaired minimum paid-up share capital and reserves in terms of the Microfinance Act and as defined in these Guidelines, at all times while in operation and holding the licence. Every DTMFI shall be required to maintain unimpaired capital which is above the minimum capital requirement, notwithstanding meeting the minimum capital adequacy ratios.
- 12.2. Every registered DTMFI shall maintain a core capital ratio of not less than 10% of the Risk Weighted Assets (RWA), and total capital adequacy ratio of not less than 15% of the RWA or as may be prescribed by the Reserve Bank from time to time.
- 12.3. The Reserve Bank shall determine whether an institution is in compliance with the capital adequacy requirements as may be prescribed from time to time.
- 12.4. The Reserve Bank may require a DTMFI to maintain higher capital adequacy ratios if it considers that the institution:
- a) is loss making, which may result in capital deficiency;
 - b) exposed to significant risk(s);
 - c) has high levels of NPLs and insider or connected lending;
 - d) is growing rapidly, without adequate capitalization and/or risk management systems among other resource needs; or

- e) is likely to be adversely affected by the activities or conditions of its holding company, associates or subsidiaries.

12.5. In determining the level of unimpaired capital of the DTMFI, the Reserve Bank shall deduct from capital all outstanding loans and advances to related parties and insiders of the institution.

12.6. Where the Reserve Bank determines that a DTMFI is not complying with the minimum capital requirements and ratios, it may impose any of the corrective actions prescribed in terms of section 37 of the Microfinance Act and any or all of the following measures:

- a) prohibit the declaration or payment of dividends;
- b) prohibit the establishment of new branches and introduction of new products and activities;
- c) direct the institution to suspend lending, investment, and borrowing activities;
- d) prohibit acquisition of fixed assets;
- e) prohibit acceptance of further deposits; or
- f) prohibit declaration and payment of bonuses, salary incentives, severance packages, management fees or other discretionary compensation to directors or officers.

13. LIQUIDITY AND FUNDS MANAGEMENT

- 13.1. DTMFIs are required to minimize liquidity risk, which emanates from mismatches in cash flows as well as from not being able to close open positions in a timely manner and at a reasonable cost.
- 13.2. Management of a DTMFI should put in place a comprehensive liquidity management policy that is approved by the institution's board of directors. One of the components of such a policy is a liquidity management plan which should address management structures and information technology systems, measurement and monitoring of net funding requirements, contingency planning and internal controls.
- 13.3. The liquidity management process required for DTMFIs should include the following steps:
- a) preparation of cash flow projections;
 - b) maintenance of a stock of readily available high quality liquid assets in line with the cash-flow projections;
 - c) measurement and controlling of the institution's funding requirements;
 - d) management of access to funds in the market; and
 - e) contingency planning.
- 13.4. Every DTMFI shall be required to maintain a minimum liquidity ratio of thirty percent (30%) of specified liquid assets against deposit liabilities, including short term liabilities or as may be prescribed from time to time.
- 13.5. Specified liquid assets shall include notes and coin held by the institution, cash with other DTMFIs and other banking institutions, treasury bills and

domestic short-term investments with NOT more than 180 days to maturity and any other assets as may be prescribed from time to time by the Reserve Bank of Zimbabwe.

13.6. Every DTMFI shall provide, monthly liquidity information to the Reserve Bank as set out from time to time, provided that the reporting frequency may be increased where an institution has been determined to be in breach of the liquidity requirements.

Limit on Investment in Fixed Assets...

13.7. No registered DTMFI shall be permitted to invest in fixed assets, an amount exceeding **25%** of shareholders' funds or as may be prescribed from time to time.

13.8. Shareholders' funds comprise capital and shareholders' loans to the DTMFI.

13.9. Where the DTMFI has breached the minimum prudential liquidity ratio and fixed assets ratio requirement, the institution shall be liable to corrective action in terms of the Microfinance Act.

13.10. No DTMFI shall be allowed to finance any of the following, other than from the shareholders' funds unimpaired by losses:

- a) Acquisition of fixed assets;
- b) Equity investments in permissible activities or long term debentures;
and
- c) Branch expansion.

Restriction on Payment of Dividends...

- 13.11. A DTMFI shall not declare or pay dividends on its shares until it has :
- a) written off all its preliminary and pre-operational expenses;
 - b) adequately provided for all loan losses and write-offs;
 - c) has complied with the minimum regulatory capital adequacy requirements; and
 - d) met all matured obligations.
- 13.12. Where the DTMFI has received an adverse/qualified report from its external auditors or the DTMFI's annual accounts have not been signed off by external auditors, the DTMFI may only declare dividends after obtaining approval from the Registrar.

14. LENDING LIMITS

- 14.1. Every DTMFI shall be required to have a credit policy which guides the lending processes for all credit facilities regardless of them being extended to related parties, insiders or other general customers. The credit policy should among other factors indicate that all credit extensions must be made on an arm's length basis.
- 14.2. In addition, the credit policy should provide for control mechanisms to ensure that directors or senior management with potential conflict of interest are not involved in the approval of credits to related companies and individuals as well as to insiders.
- 14.3. Every member of the board of directors or senior management of the DTMFI

whose social or business standing might directly or indirectly create conflict of interest with his/her duties as a director or officer of the institution, or who is directly or indirectly connected, related, linked to or has some interest in an outstanding credit facility or advance or proposed credit facility or advance or service contract with the institution he/she is serving, shall be required to declare the nature and extent of the interest in writing to the board. Such board member and officer shall recuse themselves from any board deliberations relating to the outstanding credit facility, loan proposal or application for provision of services to the institution.

Portfolio Composition...

- 14.4. Every DTMFI is required to have and maintain a portfolio of microfinance loans of not less than **75%** of the aggregate loan portfolio at all times.

Lending Limit to single Borrower

- 14.5. A DTMFI shall not assume financial exposure to a single borrower (single person, partnership or common enterprise other than a common group) exceeding **three percent (3%)** of the net capital base: provided that aggregate financial exposure to a group of related parties shall not exceed **five percent (5%)** of the net capital base.

Lending Limit to Insiders...

- 14.6. No DTMFI shall extend loans and advances to any single insider in excess of **one percent (1%)** of its net capital base, provided that the aggregate financial exposure to all insiders shall not exceed **ten percent (10%)** of the institution's net capital base.

Other Lending Limits...

- 14.7. All loans and advances extended to related parties and insiders of the

institution should be fully secured and approved by the board and such security should be perfected prior to disbursement of funds.

14.8. A DTMFI is required to establish appropriate limits for products and activities in addition to limits for particular industries or economic sectors, as well as geographical regions to manage concentration risk.

14.9. Credit limits should be periodically reviewed to take into account changes in economic and other relevant conditions.

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15. ASSET QUALITY AND PROVISIONING

Loan Reviews...

15.1. Every DTMFI shall review, classify and appropriately make provisions for its loan portfolio not less frequently than each quarter, with a view to achieving the following objectives:

- a) to ensure the conformity of the loan portfolio and lending function to sound lending policy documented, approved and adopted by the board;
- b) to keep executive officers and the board adequately informed regarding portfolio risk;
- c) to properly identify and classify problem credits and, as necessary, place them on non-accrual basis in accordance with these Guidelines; to ensure that adequate provisions for potential losses are made; and
- d) to ensure that write-offs of identified losses are made in a timely manner.

15.2. Every DTMFI shall maintain sufficient records of every loan review, evaluations of individual loans and advances, and of the entries made to its provision for loan losses account.

Classification of assets...

15.3. Every DTMFI shall classify its loan portfolio into the following grades:

- 14.3.1 **“pass”**, if the asset in question is performing in accordance with contractual terms and is expected to continue to do so while fully protected by the paying capacity of the obligor;

14.3.2 “**special mention**” if the asset in question:

- a) is past due 1 to 30 days; or
- b) although currently protected, exhibits potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the institution’s position at some future date, for example, where:
 - i. the asset in question cannot be properly supervised due to an inadequate loan agreement; or
 - ii. the condition or control of the collateral for the asset in question is deteriorating; or
 - iii. the repayment capacity of the obligor is jeopardised or adverse trends in the obligor’s financial position; and
 - iv. there is an unreasonably long absence of current and satisfactory financial information or inadequate collateral documentation in regard to the asset.

14.3.3 “**substandard**”, if the asset in question:

- a) is past due 31 to 60 days; or
- b) is a renegotiated loan, unless all past due interest is paid by the borrower in cash at the time of renegotiation and a sustained record of timely repayment of principal and interest under a realistic repayment programme has been demonstrated for a period of not less than 90 days; or
- c) whether or not it is past due, is inadequately protected by the current paying capacity of the borrower by reason of the fact that:
 - i. the primary source of repayment is insufficient to service the debt

and the institution must look to secondary sources such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment; or

- ii. there is an unduly long absence of current and satisfactory financial information or inadequate collateral documentation in regard to the asset; or
- iii. generally, there is more than a normal degree of risk attaching to the asset due to the borrower's unsatisfactory financial condition.

14.3.4 “**doubtful**”, if the asset in question:

- a) is past due 61 to 90 days; or
- b) exhibits all the weaknesses of a substandard asset and, in addition, is not well-secured by reason of the fact that collection in full, on the basis of currently existing facts, is highly improbable, but the actual amount of the loss is indeterminable due to pending events that have a more than reasonable prospect of mitigating the loss, such as a proposed merger, acquisition or liquidation, a capital injection, perfecting liens on additional collateral, refinancing plans, new projects or asset disposal.

14.3.5 “**loss**”, if the asset in question:

- a) is past due for more than 90 days, unless such asset is well secured and legal action has actually commenced which is expected to result in the timely realization of the collateral or enforcement of any guarantee relating to the asset; or
- b) had been characterised as doubtful on account of any pending event

referred to in subparagraph 14.3.4b) above, and the event concerned did not occur within 90 days, whether or not the event is still pending thereafter; or

- c) is otherwise considered uncollectible or of such little value that its continuance as an asset is not warranted.

Classification of Renegotiated or Restructured Loans...

15.4. Every DTSMFI shall classify a renegotiated or restructured loan in the '*substandard*' category unless:

- a) all past due principal and interest is repaid in full at the time of renegotiation, in which case it may revert to '*pass*' classification; and
- b) all past due interest is repaid in full at the time of renegotiation in which case it may revert to '*special mention*' classification.

15.5. A renegotiated or restructured loan classified as **doubtful** or **loss** shall continue to be classified as doubtful or loss unless:

- a) all past due principal and interest is repaid in full at the time of renegotiation, in which case it may revert to '*special mention*' classification or;
- b) all past due interest is repaid in full at the time of renegotiation in which case it may revert to '*substandard*' classification; and
- c) all past due principal and interest is repaid in full at the time of renegotiation and there has been consistent repayment of contractual principal and interest over a period of three months, in which case it may revert to '*pass*' classification.

Suspension of Interest...

15.6. Where a loan is classified as non-performing, every deposit-taking microfinance institution shall suspend any interest on such loans and advances and shall observe the following:

- a) the interest in suspense shall not be treated as income;
- b) all interest in suspense shall be taken into account in the computation of provisions for non-performing loans;
- c) reverse any interest on non-performing loans or credit facilities accrued into income but uncollected;
- d) a non-performing loan is returned to accrual basis only when all outstanding dues and unpaid obligations have been paid; and
- e) all interest on nonperforming loan or credit facilities previously accrued into income but uncollected is reversed and credited into the interest in suspense account until paid in cash by the borrower.

15.7. If an institution has extended multiple loans or advances to a single borrower that are outstanding and any one of those loans or advances is classifiable as a nonaccrual asset, the institution shall forthwith evaluate every other such loan or advance to ascertain whether they should be reclassified as non-accrual assets.

Portfolio at Risk (PaR)...

15.8. PaR is the value of all loans outstanding that have one (1) or more installments of principal past due for one (1) or more days. The amount includes the entire unpaid principal balance, both the past due and future installments, and excludes accrued interest. It also includes loans that have been restructured or

rescheduled.

- 15.9. Every deposit-taking microfinance institution should ensure that the institution's credit policy identifies credit risk management tools to be used for the institution to maintain low levels of PaR and achieve high levels of timeous repayments and loan recovery rates.
- 15.10. Every deposit-taking microfinance institution shall endeavor to maintain PaR of not more than **five percent (5%)** of total outstanding loans at any given time in line with international best practice.

Provisions for Classified Assets...

- 15.11. Every deposit-taking microfinance institution shall establish a provision for loan losses account consisting of specific and general provisions created through charges to provision expense in the Statement of Comprehensive Income and maintained at a level adequate to absorb expected losses in the loan portfolio and in respect of other assets.
- 15.12. The provision for loan losses account shall be offset against the gross value of loans, advances and other assets for financial reporting purposes.
- 15.13. Every loan loss shall be debited, and every recovery of a loan previously written off shall be credited, to the provision for loan losses account, and at no time shall either of these items be charged or credited directly to "retained earnings" or any other capital account.
- 15.14. Every deposit-taking microfinance institution shall be required to maintain general and specific provisions for performing and past due credit facilities (after deducting any suspended interest accruals), respectively as indicated in the table 3.

Table 3: General and Specific Provisions Requirements

Classification	Days in Arrears	Required Provision	Type of Provisions
Pass	0	1%	General Provisions
Special Mention	1 - 30 days	5%	Specific Provisions
Substandard	31 – 60 days	25%	
Doubtful	61 – 90 days	75%	
Loss	Above 90 days	100%	

- 15.15. A loan graded “substandard”, “doubtful” or “loss” shall be exempt from the provisioning requirement to the extent to which it is secured by cash or cash-substitutes, a segregated deposit held by the deposit-taking microfinance institution, the net realisable value of any collateral, or a reliable guarantee.
- 15.16. A DTMFI shall seek prior approval of the Reserve Bank to write-off insider and related party loans.
- 15.17. The Reserve Bank may require a deposit-taking microfinance institution to make adjusting entries in its provision for loan losses account if it determines that the provisions made are inadequate.

PART E

RISK MANAGEMENT AND INTERNAL CONTROLS

16. RISK MANAGEMENT FRAMEWORK

16.1. In line with the provisions of the Microfinance Act, every deposit-taking microfinance institution shall be required to put in place a robust risk management system that enables the institution to adequately identify, measure, monitor and control risk. The appropriate risk management system should include the four key pillars of a sound risk management framework, namely, adequate board and senior management oversight, sound risk management policies and operating procedures, adequate MIS, and adequate internal controls.

16.2. Deposit-taking microfinance institutions should ensure that the risk management framework is commensurate with the nature, scale and complexity of their activities.

Board and Senior Management Oversight...

16.3. The board of directors has the ultimate responsibility for ensuring that an adequate and effective system of internal controls is established and maintained.

16.4. In this regard, the board's mandate in relation to internal controls should include:

- a) ensuring that senior management has developed and implemented a properly structured internal control system;

- b) periodic review of the effectiveness of the internal control system;
- c) timely reviews of evaluations of internal controls performed by management, internal auditors, and external auditors;
- d) periodic checks to ensure that management has promptly followed up on recommendations and concerns expressed by auditors and supervisory authorities on internal control weaknesses; and
- e) periodic reviews of the appropriateness of the bank's strategy and risk limits.

16.5. Senior management should implement the strategies and policies approved by the board as well as develop processes that adequately identify, measure, monitor and control risks faced by the bank.

16.6. Every deposit-taking microfinance institution should maintain an organisational structure that clearly assigns responsibility, authority and reporting relationships and ensure adequate segregation of duties and effective delegation of responsibilities.

Policies and Procedures...

16.7. Every deposit-taking microfinance institution should have comprehensive and sound policies, approved by the board, for prudent management of significant risks arising from its business activities. The approved policies incorporating limits should be consistent with the nature, complexity and scale of the institution's activities.

16.8. The institution should establish appropriate procedures and processes to implement its policies. These should be documented in procedure manuals which are periodically reviewed to ensure reflection of current practices.

16.9. There should also be adequate systems to monitor compliance with established policies and procedures.

Management Information Systems...

16.10. Every deposit-taking microfinance institution should have adequate MIS to facilitate effective risk management and control of all aspects of their operations. The sophistication of the MIS should be consistent with the complexity and diversity of the institution's operations. Institutions should consider key elements such as timeliness, accuracy, consistency, completeness and relevance when developing their MIS.

16.11. The MIS should also be sufficiently flexible to cope with various contingencies and have the capability to monitor compliance with the institution's established policies, procedures and limits.

16.12. DTMFIs should minimize manual intervention in the preparation of management reports. Management and the board should receive reports with adequate information to facilitate effective oversight of the institutions' activities.

16.13. A deposit-taking microfinance institution's MIS should be capable of profiling the institution's lending portfolio in respect of performance analysis.

Internal Controls...

16.14. Every DTMFI should put in place an effective internal controls system that is consistent with the nature, complexity and risk inherent in its on- and off-balance sheet activities and that is designed to respond to changes in the institution's environment and circumstances.

16.15. A DTMFI should develop and maintain an internal controls framework that enables the recognition and continuous assessment of all material risks,

including strategic, liquidity, operational, market, credit, reputational, legal and compliance risks which could adversely affect the financial condition and soundness of the institution.

- 16.16. Management of a deposit-taking microfinance institution should develop an appropriate internal controls system with defined control measures at every business level, including physical controls, access and review levels for different departments or divisions, approvals and authorization levels, verification and reconciliation systems, and checking for compliance with laws, regulations, as well as internal policies and procedures.
- 16.17. The assurance functions of DTMFIs, which include internal and external auditors, risk management as well as the Audit Committee, shall be responsible for providing public confidence in the institution by ensuring that the institution establishes and maintains reliable and effective internal control environment which enables accurate recording and accounting for all business transactions while complying with laws and regulations, as well as policies and procedures.
- 16.18. Every deposit-taking microfinance institution shall be required to conduct an annual review of its internal controls system to ensure that control measures remain effective as business environment and information technology change.

Compliance function...

- 16.19. The board of every banking institution shall establish, as part of a risk management framework, a compliance function to:
 - a) identify, assess, monitor and advise the board on compliance risk; and
 - b) advise the board on ways to comply with all applicable laws, codes of conduct and stands of good practice, and assist the board in complying

with them.

Anti-Money Laundering and KYC Requirements...

- 16.20. Every registered DTMFI shall be required to comply with the regulatory framework governing anti-money laundering activities, circulars and directives relating to anti-money laundering issued by the relevant authorities from time to time.

Appointment of an Internal Auditor...

- 16.21. Every DTMFI should appoint an internal auditor who should assess the adequacy of the institution's internal control systems to guide the operations in conformity with applicable laws and regulations as well as its own policies and procedures.
- 16.22. Appointment of the internal auditor should be approved by the Registrar. Every DTMFI should have a documented audit charter and is also required to prepare an annual audit plan for the next financial year.
- 16.23. Every DTMFI is required to ensure that the governance aspects of the internal audit function, the scope and objectives of the audit charter and annual audit plan are in line with the requirements of Guideline No.:02-2004/BSD: Minimum Internal Audit Standards in Banking Institutions.

Appointment of External Auditor...

- 16.24. The appointment of an external auditor of a DTMFI shall be subject to approval by the Registrar.
- 16.25. In determining whether to approve the appointment of an external auditor of a DTMFI, the Registrar shall be guided by the following among other considerations:

- a) that the external auditor does not represent directly or indirectly the interests of the shareholders or directors of the institution in any business ventures; and
 - b) that the external auditor has not been subjected to any disciplinary action by any professional body.
- 16.26. A deposit-taking microfinance institution shall not appoint any person as an external auditor if:
- a) the external auditor is indebted to the deposit-taking microfinance institution; and
 - b) the external auditor is a firm in which a director of the deposit-taking microfinance institution is the close relative or director.
- 16.27. Every external auditor for a deposit-taking microfinance institution shall keep the Registrar informed of any changes in partnerships, senior management and disciplinary actions against the firm or its partners, within 30 days of the event.
- 16.28. Except with the approval of the Registrar, a DTMFI shall not appoint the same person or partnership as its auditor in Zimbabwe for a continuous period of more than five years in any eight-year period.

PART F

REPORTING AND DISCLOSURE REQUIREMENTS

17. RECORD KEEPING

- 17.1. Every deposit-taking microfinance institution is, in terms of the Microfinance Act, required to maintain proper books of accounts for all business transactions conducted at the head office and all the branches and agents. The financial accounts should give a true and fair view of the financial condition of the institution.
- 17.2. The records in the books of accounts shall be maintained in accordance with International Financial Reporting Standards.

18. REPORTING

- 18.1. Every DTMFI shall be required to submit to the Registrar all reports, financial statements, any other documents and information relating to the institution's operations and conditions pursuant to the provisions of the Microfinance Act.

19. DISCLOSURE

- 19.1. DTMFI are required to comply with the provisions of the Microfinance Act in relation to disclosure requirements as well as **Guideline No. 01-2008/BSD: Minimum Disclosure Requirements for Financial Institutions.**
- 19.2. A deposit-taking microfinance institution shall be required to publish as part of the annual report, the latest risk assessment matrix determined by the Reserve Bank through an on-site examination.

- 19.3. Every deposit-taking microfinance institution is required to submit information in the prescribed format, to the Credit Reference System.
- 19.4. Every deposit-taking microfinance institution shall ensure the availability of a certified copy of the most recent audited financial statements at the head office and all premises where it conducts business, for inspection by members of the public.
- 19.5. The CEO and CFO of a deposit-taking microfinance institution shall sign off and shall be jointly responsible for the accuracy, reliability and correctness of every report, statement, schedule and return required to be submitted to the Registrar or published in terms of Microfinance Act and these Guidelines.

PART G

CONSUMER PROTECTION

20. FINANCIAL CONSUMER PROTECTION POLICY

20.1. Every deposit-taking microfinance institution should comply with internationally accepted standards and practices of consumer protection (including CCPPs) and the Microfinance Code of Conduct in the First Schedule of the Microfinance Act.

20.2. Pursuant to the First Schedule of the Microfinance Act, every deposit-taking microfinance institution should develop a financial consumer protection policy that will among other issues address the following three pillars of consumer protection:

- a) **Adequacy and transparency of information** – Deposit-taking microfinance institutions should give customers clear, simple and complete information in plain language, (including national languages) on products, interest rates and other costs, terms and conditions;
- b) **Fair treatment** – Deposit-taking microfinance institutions should treat customers fairly by being transparent, avoiding predatory advertising and marketing, and abusive collection and recovery practices, as well as protecting privacy of client information; and

- c) **Recourse mechanism** – Deposit-taking microfinance institutions should develop and make available simple but well-articulated complaints handling procedures which are readily accessible to customers. DTMFIs should maintain a register of customer complaints which captures details of the customer, nature of complaint, date of launch and resolution of complaint.

Avoidance of Over-indebtedness...

- 20.3. Pursuant to the requirements of the Microfinance Act, every deposit-taking microfinance institution should develop a comprehensive credit assessment framework that will facilitate accurate evaluation of the customer's repayment capacity.

PART H

DEPOSIT INSURANCE SCHEME AND INDUSTRY ASSOCIATION MEMBERSHIP

21. COMPLIANCE WITH THE DEPOSIT PROTECTION CORPORATION ACT [CHAPTER 24:29]

21.1. In terms of the Microfinance Act, every licensed DTMFI shall be required to insure its deposit liabilities with the Deposit Protection Corporation.

22. MEMBERSHIP OF INDUSTRY ASSOCIATION

22.1. Every DTMFI shall be required to be a member of any recognized Industry Association in Zimbabwe.

APPENDIX A

AFFIDAVIT OF FITNESS AND PROBITY

I, [*insert name, national registration number*] of [*insert physical address*], do hereby make oath and state that:

1. [*insert declarations as to directorships in other companies*];
2. [*insert declarations as to shareholding in other companies (including shareholding in a related subsidiary, whether held directly or indirectly through other interests)*];
3. [*insert declarations as to whether you have the appropriate qualification and experience to effectively fulfil the role and responsibilities of the position and enclose curriculum vitae*];
4. [*insert declarations as to whether you are assuming concurrent responsibilities and how you will manage conflict of interest and ability to discharge your duties*];
5. [*insert declarations as to whether you are or have been the subject of any proceedings of a disciplinary or criminal nature, or have been notified of any impending proceedings or of any investigations, which might lead to such proceedings*];
6. [*insert declarations as to whether you are or have been the subject of civil or financial crime within the last five (5) years or enforcement action, in relation to the management of an entity, or commercial or professional activities, which were determined adversely against you (including consenting to an order or direction, or giving an undertaking, not to engage in unlawful or improper conduct)*];
7. [*insert declarations as to whether you have faced criminal convictions or served sentences and whether you have been granted free pardons, whether in Zimbabwe or any other country*];

8. [insert declarations as to whether you have contravened any provision made by or under any written law designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice];
9. [insert declarations as to whether you have contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies];
10. [insert declarations as to whether you or any business in which you have a controlling interest or exercises significant influence, has been investigated, disciplined, suspended or reprimanded by a regulatory or professional body, a court or tribunal, whether publicly or privately];
11. [insert declarations as to whether you have been engaged in any business practices in a negligent, deceitful, oppressive or otherwise improper (whether unlawful or not), or otherwise discreditable business or professional practices];
12. [insert declarations as to whether you have been associated, in ownership or management capacity, with a company, partnership or other business association that has been refused registration, authorization, membership or a licence to conduct any trade, business or profession, or has had that registration, authorisation, membership or licence revoked, withdrawn or terminated];
13. [insert declarations as to whether you have made any arrangements or composition with your creditors, filed for bankruptcy, been adjudged bankrupt, had assets sequestered, or been involved in proceedings relating to any of these];
14. [insert declarations as to whether you have held a position of responsibility in the management of a business that has gone into insolvency, or liquidation while you were connected with that business and whether you contributed to receivership, insolvency, or liquidation];

15. [insert declarations as to whether you have been a director of, or directly concerned in the management of, any institution which is being or has been wound up by a court or other authority competent to do so, or of any regulated entity, the licence of which has been revoked under any written law and whether you contributed to the winding up];
16. [insert declarations as to whether you have non-performing loans with any banking institution, building society, microfinance institution or other lending institution in Zimbabwe or outside Zimbabwe]; and
17. [insert declarations as to whether you are free from any business or other relationship which could materially pose a conflict of interest in discharging your duties as an appointed person within the institution].

SWORN TO AT.....THIS...DAY OFYEAR.....

.....
SIGNATURE

BEFORE ME: FULL NAME

.....
COMMISSIONER OF OATHS
(SIGNATURE AND STAMP)