

REPORT

Zimbabwe fintech ecosystem study

MARCH 2020



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Acronyms

ACH	Automated Clearing House
API	Application Programming Interface
ATM	Automated Teller Machine
B2B	Business to Business
B2C	Business to Consumer
CEO	Chief Executive Officer
CZI	Confederation of Zimbabwe Industries
DCA	Development Credit Authority
DFID	Department for International Development
DFS	Digital Financial Services
ESO	Eco-System Organization
FCA	Foreign Currency Account
FINSEC	Financial Securities Exchange Commission
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
HIT	Harare Institute of Technology
HNWI	High Net-Worth Individuals
IAS	Intelli Africa Solutions
IFS	Inclusive Financial Services
KYC	Know Your Customer
MFI	Monetary Financial Institution
MNO	Mobile Network Operator
MSME	Micro Small and Medium Enterprises
MVP	Minimum Viable Product
NDA	Non-Disclosure Agreement
NPCI	National Payments Corporation of India
NUST	National University of Science and Technology
POS	Point of Sale
POTRAZ	Postal and Telecommunications Regulatory Authority of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
RCA	Regulatory Cooperation Agreements
RTGS	Real Time Gross Settlement
SADC	Southern African Development Committee
SIDA	Swedish International Development Agency
SMS	Short Message Service
UNCDF	United Nations Capital Development Fund
USAID	United States Agency for International Development
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
ZAMI	Zimbabwe Association for Micro-Finance Institutes
ZEEM	Zimbabwe Emerging Enterprise Market
ZIMREF	Zimbabwe Reconstruction Fund
ZSE	Zimbabwe Stock Exchange
ZSS	Zimbabwe Shared Services
ZWL	Zimbabwe Dollar
ZWMFB	Zimbabwe Women's Micro Finance Bank

Executive summary

Background

This report was commissioned by Financial Sector Deepening Africa (FSDA).

The primary objective of this study is a research report outlining the results of an investigation into the fintech market system in Zimbabwe, with a strategy and/ or set of alternate strategies for improving fintech firms for financial inclusion and capital market development.

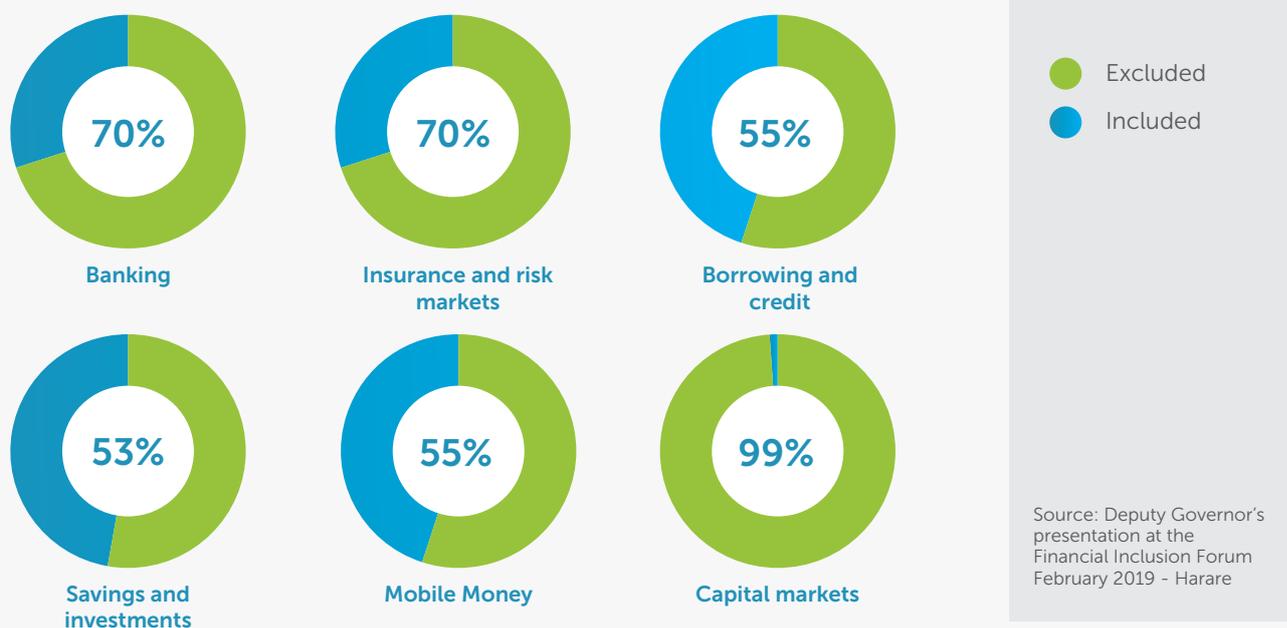
The emergence of new technologies has the potential to drive significant change in Zimbabwe’s financial sector. For people and businesses struggling to cope in the aftermath of macroeconomic and political instability, new and improved services enabled by technology can help people to manage their money, deal with risk and make much-needed investments.

The role of technology is manifold; it can make financial services more efficient and responsive to the needs of the market. It can reduce costs and make products more affordable. It can also expand the scope of financial services to new customer segments, thus acting as a driver of financial inclusion.

The market for fintech in Zimbabwe could be very large. The lack of liquidity over the last 3 years has resulted in a sharp increase in the use of digital payment systems. The population is relatively young and literate and yet often excluded from the formal financial system.

Figure 1: Financial exclusion per subsector

Financial inclusion remains a key challenge within all subsectors of the financial services sector. This figure shows the percentages of Zimbabwe’s adult population that are excluded from each of the financial services subsectors in 2014.



Zimbabwe’s fintech ecosystem is young and dynamic. With 50 fintechs identified, primarily working in payments and remittances, fintechs have a key role to play to provide innovation for the financial sector.

Figure 2: Types of fintechs in Zimbabwe



Source: Primary research

Challenges

However, the fintechs face a range of challenges as shown below.

Funding and investment	Networks	Macro environment
<ul style="list-style-type: none"> Lack of early stage funding Limited VCs and growth investors Thin capital markets Few linkages with formal FSPs 	<ul style="list-style-type: none"> No focal point Limited international access Limited exposure to market opportunities 	<ul style="list-style-type: none"> Unstable currency Bank financing govt deficit Inflation and BoP deficit
Training and skills	Hubs, incubation and acceleration	Policy environment
<ul style="list-style-type: none"> Limited fintech-specific education Lack of entrepreneurship training Few mentorship opportunities 	<ul style="list-style-type: none"> Lack of dedicated incubators Limited acceleration facilities Hubs lack scale and international links 	<ul style="list-style-type: none"> Tendency towards risk aversion Regulatory frameworks ill-suited to fintech Transaction tax on mobile money
Financial sector	Infrastructure and data	Access
<ul style="list-style-type: none"> Capital concentrated in banks Dominance of single player in mobile money Limited innovation or collaboration 	<ul style="list-style-type: none"> Little culture of sharing through APIs Hubs lack scale and international links Lack of publicity available financial data 	<ul style="list-style-type: none"> Limited smartphone access High data costs and poor connectivity

The opportunities for fintech in Zimbabwe are wide-ranging, but the sector needs support to enable greater innovation, growth and development. There are a number of recommendations that can help grow the ecosystem for inclusive fintech development in Zimbabwe, these have been stated below.

Short term recommendations

1. Provide support to RBZ and other key institutions to develop policies and regulations for fintech that appropriately balance innovation and stability.
2. Provide technical support for innovation hubs and ecosystem organisations (ESOs).
3. Promote a more collaborative fintech ecosystem with increased sharing of data and resources.
4. Support the development of a Zimbabwe fintech association.
5. Extend grant funding through innovation competitions.

Medium term recommendations

6. Promote the adoption of digital payment options for social safety net cash transfers.
7. Develop a plan with key stakeholders to update Zimbabwe's financial inclusion data.
8. Develop programming to improve fintech skills in Zimbabwe.
9. Support RBZ and POTRAZ to promote a more competitive regulatory structure.
10. Work with SEC to provide an enabling environment for fintechs to foster capital market development.
11. Look into developing loan guarantee schemes for fintechs lending to MSMEs and under-served sectors.
12. Expand the scope of interoperable financial infrastructure.
13. Explore safe regulatory environments for testing innovative fintech models and technologies.
14. Support the development of credit and collateral registries.
15. Assist in the set-up of an equity-based crowd funding platform or an industrial bond targeted at the diaspora.
16. Support the development of local back-office system for capital markets trading platforms.

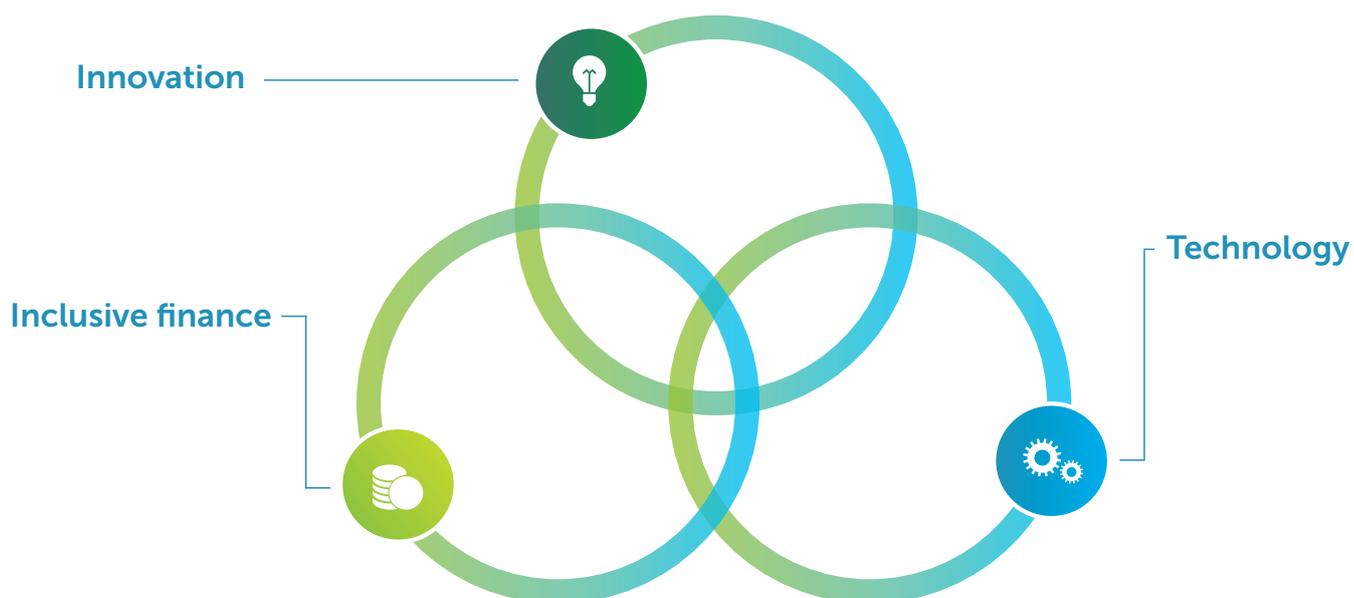
Long term recommendation

17. A collaborative effort to shape the long-term structure of Zimbabwe's digital financial system.

1 | Introduction

At its most basic level, fintech is the intersection of finance and technology. Any company that is using technology to carry out the many functions of the financial sector can be said to be a fintech. However, for the sake of this analysis the scope is narrowed in two ways: firstly, to emphasise the role of finance in reducing poverty, creating jobs and developing livelihood opportunities in Zimbabwe – this is referred to as inclusive finance. And secondly, to highlight the importance of innovation. Fintech in common usage has come to represent new ways of using technology in finance beyond the traditional back-end banking systems and front-end delivery channels. It represents the potential of technology to increase outreach, speed, efficiency and cost-effectiveness of financial services as opposed to a traditional bricks and mortar model. Fintech is used to represent the intersection of inclusive finance, technology and innovation.

Figure 3: A definition of inclusive fintech



Fintech and digital finance are related concepts that for the sake of this report are used interchangeably. By the same measure, inclusive fintech and digital financial inclusion are considered analogous. Fintech is used to refer broadly to the industry as well as for individual fintech companies.

This study report is built upon the making markets work for the poor framework. Section 2 looks at the supply side of the fintech market and its patterns of growth, and section 3 looks at the same patterns from the demand side. The interaction of supply and demand happens within a market ecosystem that is supported by a series of enablers and market infrastructure and framed by policies and regulations. These are examined in sections 4 and 5 respectively. Section 6 provides a summary of the strengths, weaknesses, opportunities and threats for fintech in Zimbabwe. Finally, section 7 provides a series of recommendations for the short, medium and long term.

2 | The fintech sector in Zimbabwe

2.1 The growth of fintech in Zimbabwe

As of July 2019, Zimbabwe had 50 companies which can be classified as fintechs, with an average age of three years. The bulk of these fintechs operate in the payments space with remittances the only other vertical with more than a handful of players. The table below shows the number of fintech companies that were identified, the vertical the companies operate in and the average age of the companies in that vertical. Further details on each company have been provided in Appendix 2 of this report.

Table 1: Summary of fintech companies

Type of fintech	Number of fintechs	Average age (years)	Type of fintech	Number of fintechs	Average age (years)
Payments	17	2.9	Marketplace	2	3.0
Remittances	11	4.0	Insurance	2	1.5
Lending	2	3.5	Cryptocurrency	3	2.3
Infrastructure	3	2.7	Various	10	3.2

To date, fintech in Zimbabwe is largely a story of digital payments. Driven by a range of factors, including the macroeconomic situation, cash shortages and aggressive marketing by Econet, the volume of digital payments grew from 38 million in 2012 to 367 million in 2016, and then accelerated to 1.96 billion in 2018.

Figure 4: Growth of digital payments in Zimbabwe



Source: RBZ

The digital payment space in Zimbabwe is dominated by Econet and its subsidiaries. EcoCash has a near monopoly position in mobile money – according to POTRAZ data, as of end 2018 there were 6.35m active mobile money subscribers in Zimbabwe, of which over 95% were EcoCash¹. Cassava, Econet’s fintech spin-off, has ambitions to offer a bundle of tech-based products emulating Tencent’s full service offering in China. Econet also offers fintech products such as small ticket digital loans through its banking subsidiary, Steward Bank.

The RTGS settlement system (generally used by larger entities and individuals for higher value transactions) accounts for the highest value of payments, however mobile money transactions are catching up fast. Between 2016 and 2018, while the aggregate value of RTGS transactions increased by 72%, the total value of mobile money transactions increased by 628%. The table below shows the number and value of transactions in 2016 and 2018².

Table 2: Value and volume of various forms of digital transactions

	Value of transactions (Billions USD)		% growth	Volume of transactions (rounded)		% growth
	2016	2018		2016	2018	
RTGS	48.11	82.87	72%	2,902,000	6,450,000	122%
Cash	7.48	2.08	-72%	16,252,000	21,435,000	32%
Mobile	5.82	42.36	628%	298,586,000	1,627,060,000	445%
POS	2.9	8.85	205%	52,407,000	270,979,000	417%
ATM	2.28	0.17	-93%	12,333,000	3,521,000	-71%
Internet	2.5	13.04	422%	1,110,000	5,973,000	438%
Cheque	0.11	0.05	-55%	348,000	241,000	-31%

Source: RBZ

As well as Econet and other established financial institutions, there are at least 17 fintechs developing specialist payment options. These are mostly registered as Authorised Dealers with Limited Authorities. With this licence, operators are allowed to complete transfers which include cash-to-cash money transfers, international wire transfers, international mobile transfers and international Automated Clearing House (ACH) transactions, and mobile companion prepaid card transfers.

One of the most successful fintechs in Zimbabwe is Payitup, who recently raised US\$13 million in funding from the UK-based Thawer Fund Management. The company was founded in 2017 and it currently helps consumers make payments for MultiChoice’s DStv service, with a pipeline of additional products to expand its value proposition over the next 5 years. Some of the products it will be developing include loans, investments, insurance and other financial products especially for the unbanked and underbanked local population. Other payment fintechs include Mobipay, Kumusha Fintech and Zympay.

Appendix 2 shows a list of the fintech entities that were identified in Zimbabwe. Outside of payments, the verticals that are most active in the Zimbabwe market include:

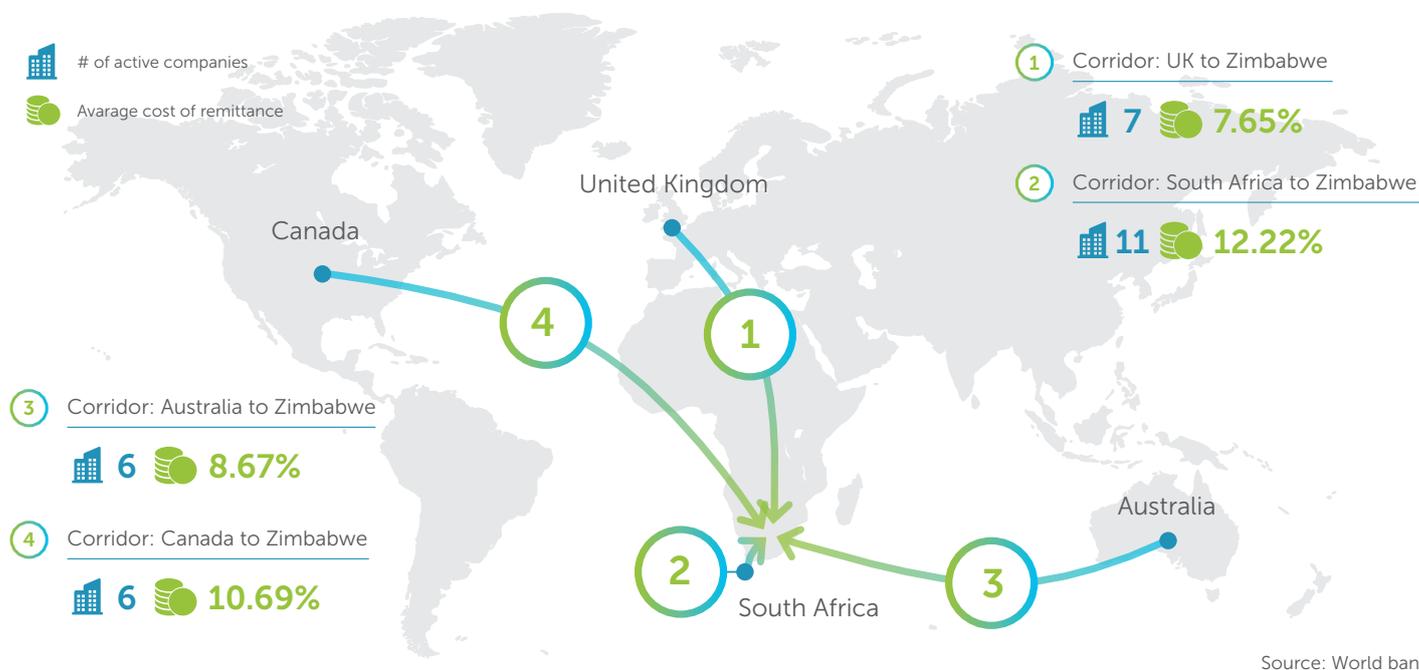
¹ RBZ data for the same period has 6.14m active mobile banking subscribers

² Data presented by the RBZ Deputy Governor at the Financial Inclusion Forum in February 2019

Remittances and international money transfers

It is estimated that over 4 million Zimbabweans live abroad and therefore international remittances represent high potential for the use of fintech. Remittances form an important part of the Zimbabwean economy, but fees remain high. On average it costs 9.81% to send money to Zimbabwe (see Table 3 below) which is higher than the global average calculated by the World Bank. South Africa has the largest number of Zimbabweans in the diaspora, is the closest to Zimbabwe and yet the cost of sending money is between 25% to 90% higher than some of the corridors tracked. The major players in this corridor include Hello-Paisa, World Remit, exchange4free.com, FNB (South Africa), Mama Money, Mukuru, Moneygram, Western Union, ABSA, Standard Bank and Nedbank³. The study identified MamaMoney⁴ who send money between South Africa and several countries in Africa including Zimbabwe. It costs about 4.8% to send money to Zimbabwe through MamaMoney and in some of its other corridors the cost of remittance can as low as 3%. Fintechs like Shumba Money and Simukai Financial Services are working to bring down these costs.

Figure 5: Costs of sending money to Zimbabwe



Lending

Steward Bank was the only commercial bank identified that currently provides lending for personal purposes using fintech. Steward launched a USSD code for accounting opening in 2018. Subscribers to Econet can open a Steward bank account by dialling *236# and this account is automatically linked to individual's EcoCash Wallet. Individuals can access personal loans by dialling the same USSD code. The loan amounts up to a maximum of ZWL100. A handling fee of 5% of the loan is deducted from the principal amount and the loan is repayable within 30 days and it is "interest free".

One MFI, Inclusive Financial Services is currently developing a platform called, "Makosystems" for offering the market nano loans to MSMEs. The MFI is in the process of raising a facility for USD1.5 million to lend under this platform. The entity plans to avail this platform to other MFIs for use in their lending activities. IFS has 14 branches countrywide and plans to make use of tech to reduce the cost associated with processing loans.

³ World Bank remittance prices worldwide - <https://remittanceprices.worldbank.org/en/countrycorridors>

⁴ MamaMoney have indicated that they would be able to share more information about their market size for the South Africa-Zimbabwe corridor after signing of necessary NDAs.

The ZWMFB and NetOne have partnered to provide a nano-loan through the USSD code *550#. The code is called KaTsaona, it takes less than 3 minutes to access loan provided that one has been using their OneMoney account for more than a month. Loans are up to ZWL50 and 30 days under this facility. The loan carries a 10% interest rate.

Harare Receivables Exchange is a company that was established in 2012 and they do invoice discounting that is focused on lending to MSMEs that receivables on their platform are mostly from medium to large reputable debtors who have operated successfully in Zimbabwe for many years. Studies conducted by the company indicate that the size of this receivables market can be as much as 2.3 billion. The same company is looking at developing apps to facilitate trade in Mbare which is the largest market driving the informal economy in Zimbabwe. Other examples of lending fintechs include YouFarm, a fintech focussing on smallholder farmers, and GetBucks, a South African digital lender.

Insurance

Of the entities that were identified and interacted with there seems to be greater scope for provision of insurance services through fintech. Some of the interesting “insuretechs” that were identified in this space include an entity called Nhakalife. Nhakalife was formed in 2016 and they provide an insurance product that is linked to commodities.

Insurance is often offered by lending fintechs as an opportunity for cross-selling and customer retention. Examples include Ecosure, which is a Cassava product, and the bundled insurance offering provided by Inclusive Financial Services (IFS).

Cryptocurrencies

Cryptocurrencies also play a role in the remittance market, though they also have other use cases. Three bitcoin companies were identified in the market – Golix, who started operations in 2014 and were shut down by the RBZ in 2017; BitMari who started operations in 2015; and Vic Falls Coin, which had its first coin issue in July of 2018. BitMari are the only Bitcoin-based company to receive a money transfer license from the RBZ and had a strategic partnership with Agribank to perform remittances for their customers using Bitcoin.

2.2 Fintech and the formal financial sector

Fintech has been slowly embraced by the banking sector. Within Zimbabwe’s thirteen licensed commercial banking institutions, Steward Bank stands out as a leader in digital finance with an ambition to be “Zimbabwe’s first digital bank”⁵. Fintech is seen by the bank as an opportunity to improve not just product delivery but the end-to-end processes of banking, as well as to deliver additional services (such as credit scoring based on advanced data analytics). Fintech is particularly viewed as an opportunity to better engage younger customers and is hence a forward-looking strategy given Zimbabwe’s youthful population.

Other banks also appear to be investing in technology⁶, but their value propositions are different without direct access to EcoCash’s network and data. For all banks, technology provides an opportunity to reduce the cost of bricks and mortar operations and cash-handling, and build more lower cost, data driven banking relationships.

Banks have invested heavily in POS devices – according to RBZ data, in 2018, Zimbabwe has 1,121 POS devices per 100,000 people, up from 261 in 2016. This compares to just 7.7 ATMs per 100,000 people⁷ – this indicates a strong preference from banks for money to remain in digital

⁵ Quote is from a meeting between the consultants and Steward Bank

⁶ For example, Hello Paisa, a fintech, has collection points with MetBank as well as Steward. The banks also partner with money transfer companies like Mukuru. MyCASH is partnered with banks including POSB, CBZ and CABS.

⁷ FinMark Trust “Measuring Progress: Financial inclusion in SADC – 2019”

⁸ ibid

form. The number of commercial bank branches has also reduced significantly, from 7.7 in 2014 to 5.4 branches per 100,000 adults in 2018⁸ as banks move towards agent banking models.

Zimbabwe's insurance sector has also been slow to embrace the potential of fintech. Technology can play an important role in expanding the scope of insurance products, allowing for the pooling of risks, improved risk models through better data and the distribution of micro-insurance products direct to the customer at scale through mobile phones. Internally, technology can help automate end-to-end processes in customer sign-up and claim processing. Some large insurance players have launched tech-based products, such as Sanlam Group's *Zimnat*, one of the leading players in life assurance and short-term insurance sector in Zimbabwe. This includes customer-facing tools like a WhatsApp Bot as well as investments in technology for improving processes such as AI and data analytics⁹.

Where financial institutions have invested in technology, they have tended to favour building in-house or working with established international players. There has been less engagement with the local fintech innovation ecosystem. There are some isolated examples of B2B fintech collaborations; for example, Intelli Africa Solutions (IAS) is a Harare-based fintech start-up with the objective of building software domestically for the banking sector. Currently IAS is building software solutions for a number of Zimbabwean banks, insurance and media houses, including WhatsApp-based chatbots that allow people to do their banking through the app. Despite this and other isolated examples, there are not yet the levels of collaboration that occur in more developed fintech markets.

One reason for this is that **traditional financial institutions, particularly banks and Econet, already have strong market positions** and so have limited incentive to collaborate with new players. The profitability of Zimbabwe's banks appears to be a disincentive for innovation. The banking sector made a combined profit of \$425.3m in 2018, a very healthy return on equity of 20.6%¹⁰. Fintech can be viewed, particularly by more conservative institutions, as more of a threat or an irrelevance than an opportunity. Similarly, Econet's is able to take advantage of its near monopoly in mobile money with little incentive to collaborate or further invest in its payments network¹¹.

The lack of collaboration by large financial institutions means that fintechs are starved of data that could potentially underpin successful business models. The more technologically-advanced banks and mobile money operators have access to large amounts of personal information and transaction data on their customers. Globally, the creative analysis of data has formed the basis for many successful fintech models, for example alternative data credit scoring and targeting products based on customer behaviours. B2B fintechs have formed successful collaborations with banks and mobile money operators whereby the fintech solves for a specific pain point of the larger institution. In these successful cases, data sharing is enabled by a system of APIs that allow for the flow of information between the financial institution and the fintech. This is not currently happening at any scale in Zimbabwe.

A number of fintechs have mentioned that when they pitched to banks or MMOs with new innovations, the larger player went away and built their idea in-house rather than collaborating with an external partner¹². This disincentivises fintechs from pitching ideas in the future and can lead to a culture of secrecy and mistrust, both of which inhibit collaboration.

Interoperability and shared services

In reality, fintech is much more of an opportunity for Zimbabwe's banks than it is a threat. If banks are to compete with mobile money operators on financial transactions, they need to

⁹ <https://www.gigabitmagazine.com/company/how-zimnats-digital-transformation-disrupts-insurance-sector-zimbabwe#>

¹⁰ RBZ Quarterly Banking Sector Report, December 2018

¹¹ Although formal data on transaction reliability are not available, anecdotal evidence from users suggests that failed transactions are common and mobile money infrastructure can be generally unreliable

¹² Observation is based on focus group discussions with Zimbabwean fintechs

embrace a technology-led approach throughout their operations. A more collaborative approach will help greatly – collaboration both within the banking sector and more broadly with smaller fintech companies. Partnership between fintechs and banks also helps banks to innovate much faster as, fintechs are more agile and better connected to customers than banks are.

Technology provides two obvious and large opportunities for the banking sector. The first relates to interoperability. By sharing their infrastructure more effectively, banks can invest less in infrastructure and more in innovation in products and services. Zimswitch has had some success in operationalising a system of interoperability, ever since it began operating in 1994 with just six banks on the platform. ZSS’s shared service offerings have also accelerated the interoperability process by including mobile money operators on their platform, and a greater push to interoperability would have sizeable impact on digital financial inclusion.

Secondly, fintech generates opportunities for low-cost, wide-scale agent networks to extend financial access and improve service delivery at the last mile. RBZ has highlighted agency banking models as a priority for financial inclusion but these models will only work if cost-effective, and technology is critical to this cost-effectiveness. Banks are investing in agent networks, led by Steward Bank, but there are also opportunities for shared agent network providers following a model akin to India’s [Sub-K](#).

2.3 Fintech and microfinance

The micro-finance sector in Zimbabwe continues to play a large and important role in the financial sector, particularly in the context of financial inclusion. As at December 2018 the sector had loan books with the value of US\$233.5m¹³ which is equivalent to about 1% of GDP. This amount remains small however compared to the US\$4.09 billion loaned in the banking sector. The level of borrowings within the micro-finance sector is low relative to the need for borrowings in that sector. This is due to a number of factors:



Fintech has the potential to alleviate some of these challenges, and Zimbabwe’s MFIs have – largely through economic necessity – begun to make the required investments in technology, including:

- The disbursement of funds and repayment of loans has mainly been done electronically over the last two years this is due to the shortages of cash within the market;
- Investments in updated digital Management Information Systems (MIS). The dominant system used in the sector is Musoni which is a technology solution developed in Kenya. Other service providers are Payserve, Escrow, Afrosoft

¹³ Zimbabwe Association of Microfinance Institutes, 2018

The sector has great potential to service women and youth, the most financially excluded groups and groups with potentially the most to gain from technology. The sector had 410,000 female customers as at January 2019 and 45% of loans were made to women. 40% of loans were in the agriculture sector and this is down from previous years. (The sector is not yet tracking the number of youths that it serves.)

Zimbabwe Women’s Micro Finance Bank (ZWMFB) is an important new player in the growth of microfinance for women. The ZWMFB is the first Women’s Bank in the SADC region. The bank signed on 50,000 account holders within 7 months of operating. The bank sees technology as critical to their expansion, from marketing and communication through bulk SMS, voice and data, to digital checks of credit bureau data to digital disbursement and repayment of loans. The bank still needs to implement channel mobile banking and a card system and continues to emphasise the importance of a non-digital, human touch to support their customers, particularly at the point of account opening. The MFI has trained more than 20,000 women in Financial Literacy and had disbursed loans to under half of these women i.e. 7,073 as at 31 December 2018¹⁴.

2.4 Fintech and capital markets

Capital markets in Zimbabwe are thin, and not currently able to finance the country’s development needs. The Zimbabwe Capital market currently has two registered Exchanges; the Zimbabwe Stock Exchange (ZSE) and the Financial Securities Exchange (FINSEC), which was developed by the Escrow Group.

The table below shows the size of the capital markets in Zimbabwe each year on 31 December from 2009 and December 2018.

Table 3: Capital Markets Capitalisation 2009 – 2018

		ZSE ¹⁵	FINSEC Bonds ¹⁶	FINSEC Equities
2009	Unadjusted	3,829,925,096	0	0
2010		3,884,485,459	0	0
2011		3,689,685,939	0	0
2012		3,963,543,353	0	0
2013		5,203,129,775	0	0
2014		4,327,059,383	0	0
2015		3,073,408,931	0	0
2016		4,007,957,109	68,127,716	0
2017	Unadjusted	9,580,566,539	170,174,021	65,000,000
	Rate	1.52	1.52	1.52
	Adjusted	6,303,004,302	111,956,593	42,763,158

¹⁴ “Financial Inclusion in Zimbabwe: from Policy to Practice”, Dr J T Chipika, Reserve Bank of Zimbabwe 2019

¹⁵ ZSE market capitalisation numbers as at 31 December 2009 to 31 December 2018

¹⁶ FINSEC market capitalisation numbers as at 31 December 2016 to 31 December 2018

		ZSE ¹⁵	FINSEC Bonds ¹⁶	FINSEC Equities
2018	Unadjusted	19,424,406,159	410,908,004	70,000,000
	Rate	5.22	5.22	5.22
	Adjusted	3,721,150,605	78,718,008	13,409,962

Source: FINSEC and ZSE

As shown by the conversion of the capitalisation of the exchanges to real USD terms over the year the capital markets have shrunk significantly. The development of the capital markets will allow industry to develop and the development of industry will stimulate economic growth, increase employment and ultimately reduce poverty. According to the CZI the capital markets in Zimbabwe require \$2 billion USD to resuscitate industry. Industry represents 22.2%¹⁷ of GDP of Zimbabwe.

Two entities using fintech to provide access to the capital markets were interviewed i.e. Escrow Systems, who are part of the Escrow Group and the Zimbabwe Stock Exchange (ZSE).

The Escrow Group is a diversified group offering Alternative Trading Solutions, Alternative Banking Solutions, Investment Administration and Technology Solutions. They are an enabler, operator and service provider to alternative financial and capital markets with a strong emphasis on financial inclusion. Escrow systems have recently launched a trading platform C-TRADE. C-TRADE is an innovation developed to harness and promote participation of every type of investor from the smallest retail to the largest institutions in financial and capital markets, through mobile and internet-based platforms. It automates the interface of the retail and institutional investors, giving them direct access to the market with enhanced efficiency and convenience.

In terms of development of capital markets both these systems could be used to attract much needed investment into the markets. Some of the problems faced by these entities in attracting diaspora capital are that payment gateways are not passing client KYC data to them to facilitate trade, that these entities would need integrate their payment systems to an international payment gateway and the requirement by the local regulator for an investor to have a local bank account in an anti-money laundering drive.

Some of the other challenges faced by entities in this space include the lengthy regulatory processes undertaken in order to obtain licence to operate their systems and accessing of APIs from MNOs.

The ZSE is now an automated exchange and as a result of this there are opportunities represented for fintech in this space. The exchange would be open to opening up its data to fintech companies to allow them to develop products.

The ZSE is looking at launching an exchange which is aimed at raising funds for SMEs in the next 12 months. This exchange is called the Zimbabwe Emerging Enterprise Markets and it has significantly less requirements for listing compared to the ZSE i.e. Net Asset Value of 250,000 versus 100,000,000; at least 30 shareholders versus the 100 required for the ZSE and operating for 2 years versus 5 years. The ZSE expect that there may be delays in the exchange going live due to legislation which requires any changes on the capital markets and rules to be enacted as laws by Parliament first.

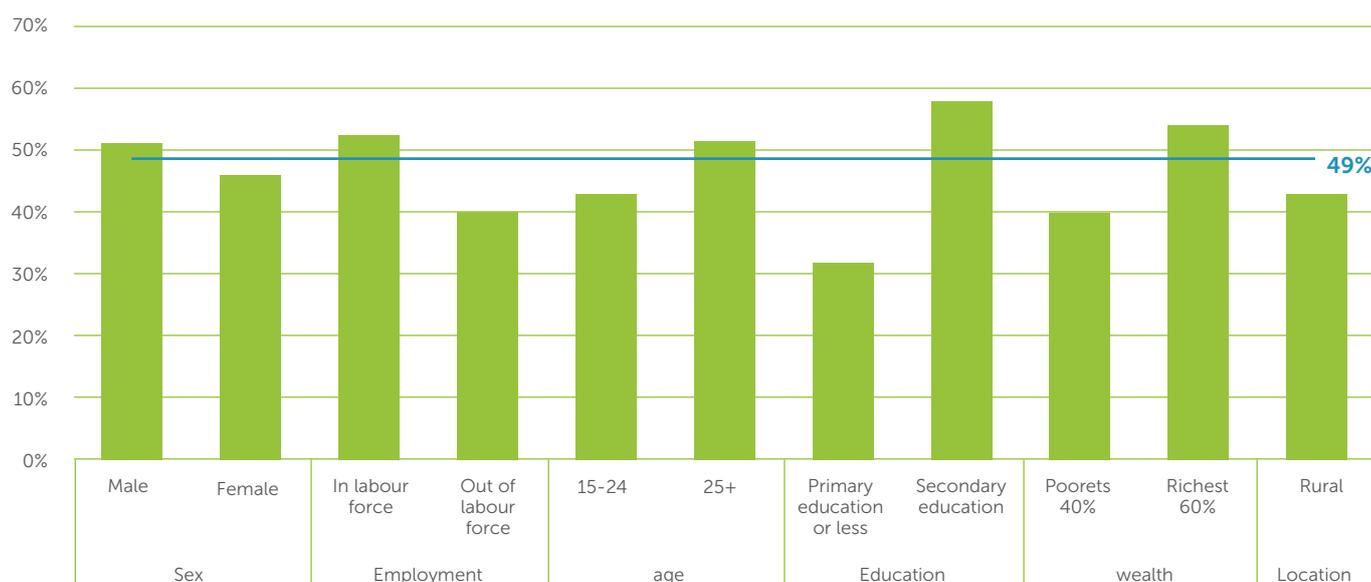
¹⁷ https://theodora.com/wfbcurren/zimbabwe/zimbabwe_economy.html

3 | Fintech and financial inclusion

Financial exclusion is a major issue for Zimbabwe. According to the latest detailed data from Finscope (2014 for households and 2012 for MSMEs), only 30% of the population was included in the banking sector. This number is skewed by high levels of bank penetration in Harare and Bulawayo – in rural areas, only 23% of people had access to banking services. And only 14% of MSME owners were banked, with 1% of adult population making use of capital market services.

Since 2014, significant progress has been made and this has largely been driven by technology. According to Global Findex, in 2017 more than half of the population (53%) has made or received a digital payment in the past year, implying that a majority of the adult population has taken at least a first step towards digital financial inclusion. Between 2014 and 2017 the proportion of Zimbabwe's population with a mobile money account increased from 22% to 49%. This 49% however shows significant variation within different population groups, as shown in Figure 3 below.

Figure 6: Mobile money accounts by different population groups



Data: Global Findex

It is clear from this data that, **while the gap between male and female in mobile money account ownership is relatively small (51% vs 46%) the gap is much larger based on wealth and education.** It is also the case that, while young people may be assumed to be early adopters of technology, Zimbabweans aged 15-24 are much less likely to have a mobile money account than those aged over 25. Interestingly, MMOs are seen as relatively more trustworthy than banks, particularly by women¹⁸.

There are signs that mobile money is improving the inclusiveness of finance. The 40% of the poorest Zimbabweans who have a mobile money account compares very favourably to the equivalent groups in Zambia (19%), South Africa (12%) and Tanzania (30%). This is also changing

¹⁸ "A needs-based approach to financial inclusion measurement in Zimbabwe", insight2impact, June 2018

rapidly - one in three of the poorest 40% of Zimbabweans received a digital payment in 2017, compared to one in ten three years before.

While fintech, and particularly mobile money, has made great progress in financially including Zimbabweans, **it is not clear that access to a mobile money account is being converted into deeper financial inclusion** i.e. the provision of appropriate, affordable and accessible tools to make payments, manage liquidity, meet goals and build resilience.

A recent [demand-side study of Zimbabwean consumers](#) by i2i facility¹⁹ found that **mobile money was seen to be relatively useful for managing liquidity** – small loans, borrowed and repaid regularly through a simple digital platform (see figure 4 below).

Figure 4. How Zimbabwean households source credit for different purposes (Source: i2i facility)

The competitive advantage of banks and MFIs is for larger, goal-oriented loans. The report concluded that “It seems that only MMOs can currently compete against the low transaction costs of the mattress and the informal money lender. Banks and MFIs are going to fall behind unless they partner with low-cost-payment providers or develop alternative channels and systems” – pointing again to the opportunity for formal financial sector players to partner with fintechs to drive innovation and improved service delivery.

The IMF²⁰ has identified financial inclusion as one of the areas where fintech solutions can be potentially transformative. Those solutions can help address several chronic financial problems:



¹⁹ “A needs-based approach to financial inclusion measurement in Zimbabwe”, insight2impact, June 2018

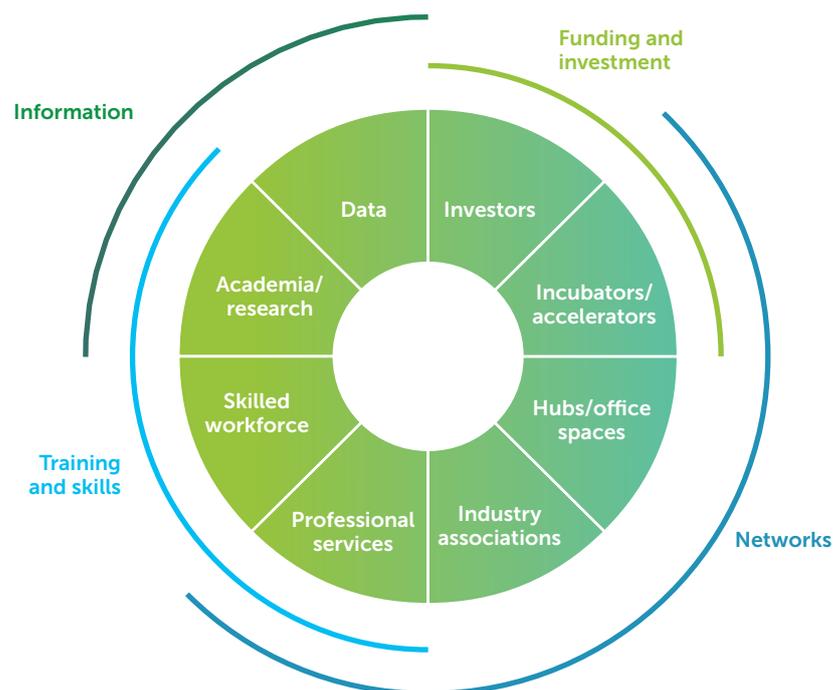
²⁰ <https://www.imf.org/en/News/Articles/2019/05/09/sp050919-paving-the-way-for-fintech>

4 | Support functions and fintech enablers

The fintech sector does not exist in isolation. As with any effective market system, fintech relies on a range of meso-level structures and institutions that form a critical part of the overall ecosystem. These support functions provide services to market players (on the supply and demand sides) and the infrastructure to allow for the effective functioning of the market.

Much of the fintech infrastructure is shared with the tech and financial sectors, and many of the enablers are associated with the development of an effective start-up ecosystem. These fintech “enablers” can come in various forms, but all relate in some form to the key factors of business growth – money, labour (including talent and skills), information and networks. This section details the status of these enablers for Zimbabwean fintechs and the gaps that exist that hinder the potential growth of the sector.

Figure 7: Support functions for the fintech market



4.1 Funding and investment

Fintech companies in Zimbabwe are severely constrained by a lack of early-stage funding. The traditional sources of innovation capital (angel and seed money) – High Net Worth Individuals (HNWIs), government research budgets, angel investors – do not provide nearly enough capital for innovation. It is hard to see how a new idea gets off the ground without significant existing resources, either through own funds or the financial support of family and friends. Even though the cost of taking an idea to MVP stage is relatively small, the market is not supplying enough capital to get ideas off the ground.

Growth capital is also stymied by the economic situation. Venture capitalists (who typically look for a 5-7-year investment and then an exit) will be understandably reluctant to make investments with uncertain economic picture and few potential exits routes. The Zimbabwe Emerging Enterprise Market²¹ (ZEEM) was presumably intended to offer a potential exit for investors and to diversify the range of investors in SMEs, but this does not seem to have found traction.

There is a disconnect between banks, who want to make loans based on traditional discounted cash flow models, and fintechs, who are more likely to seek equity investments or convertible debt to finance their growth. The vast majority of capital (USD13.98 billion²²) is locked up in the banking sector, but banks are not structured to make high-risk, high-potential investments. Additional wealth is locked up in pension funds who are not incentivised to own such risk asset classes. This means that there is little capital available locally to fund the growth of this sector.

One of the local banks, FBC, set up a Venture Capital Fund²³ earlier in 2019 and in future this is a potential source of funds for fintechs. There have been some foreign funds identified that are investing in Zimbabwean fintechs e.g. Thawer Fund Management (UK) – funding Payitup with USD13 million in 2019 – and Savannah Fund (Kenya) who funded Golix with a USD30,000 seed in 2015. Organisations including Ecobank, HIVOS, Old Mutual and the US Embassy are funding innovation challenges which some fintechs could benefit from.

4.2 Networks

Zimbabwe has a small but vibrant tech scene, concentrated around tech hubs in Harare and Bulawayo and coordinated through websites like TechZim as well as social media.

However, the fintech sector in Zimbabwe currently has no focal point. There is no industry network where people can share information, and no association to speak for the sector. This can mean that the sector lacks influence compared to the heavyweights of the banking, telecoms and tech sectors, as well as government. There is no central body speaking for the sector that can coordinate networking opportunities, connect entrepreneurs with mentors and connect fintechs to other advisory services such as legal and accounting. There is also no obvious channel through which banks, MMOs and other larger players can provide exposure to the challenges that they face.

There is an informal fintech association in the very early stages of being set up. The aim is for this association to be part of the Africa Fintech Network (AFN), a new platform that unites Africa fintech leaders and stakeholders through their 25 country associations spanning 21 countries to exchange information and ideas, support creation of innovative technologies and deployment across and beyond Africa. However, the fledgling association may benefit from greater support and international linkages.

While the fintech sector lacks in capital and influence, it can lead in innovation and nimbleness. In an environment in dire need for new ideas and solutions to a range of financial problems, the fintech sector could play a larger role if it had greater weight and coordination behind it.

4.3 Training and skills

Zimbabwe's universities and tech schools produce a good number of graduates with programming skills and the fundamentals of software. Based on discussions with companies in the fintech space, graduates of these institutes often have more theoretical than practical skills, and it would be important for developers and other professionals coming out of the institutions to have more practical experience and to have access to leading technologies. Fewer graduates

²¹ Zimbabwe Emerging Enterprise Market is an alternative market for Small and Medium scale enterprises (SMEs)

²² RBZ Quarterly Banking Sector Report 31 December 2018

²³ The fund was set to operate more like a private equity fund i.e. they are looking more at growing established businesses. Currently operation of the fund has been suspended because of the inflationary environment. The fund is sector agnostic.

have both the technical skills and the understanding of financial sector that are in demand from fintechs. University faculty have described the difficulties that they face to keep up with the latest technologies and trends, but also that many entrepreneurial students taught themselves about cutting edge technologies like blockchain and artificial intelligence in their spare time.

There seems to be an abundance of innovation in young people that is not being effectively channelled into the fintech sector. Once students graduate, there are strong incentives to take “safe” career paths into banking or large corporates, though these jobs are severely limited. Fintech lacks in funding to compete on salaries, but it the intersection of finance, tech and the ability to do good through inclusive fintech should be an attractive option.

To better channel this talent to fintech, there is a need for more fintech-focused education at universities that prepares graduates for the latest challenges and opportunities. For entrepreneurial students looking to develop their own business ideas, universities can provide handholding and incubation along the lines of HIT’s “Technology Transfer, Licencing & Commercialisation Centre” and NUST’s Innovation Hub. Linkages between universities and the financial sector are already there – Steward Bank is an active recruiter on campuses and sponsors competitions for students – but it would be advantageous for the industry as a whole if this was done at an industry level rather than led by one player.

Outside of universities, there is a significant lack of mentorship opportunities for entrepreneurs. With few indigenous fintech success stories, there are limited places to look for advice. University faculty have also remarked that there isn’t much of a culture of continuous learning, which means that people are unable to respond to the changing needs of the sector later in their careers.

Finally, there appear to be gaps in important skills for entrepreneurship and business growth. Skills like how to manage a sales cycle, how to develop different pitches for potential customers and investors and the importance of NDAs when dealing with potential customers have all been mentioned as important skills gaps.

4.4 Hubs, incubation and acceleration

Fintech, like Zimbabwe’s start-up ecosystem as a whole, is lacking in incubation and acceleration facilities.



Incubators are typically designed to provide necessary assistance to start-ups through their inception by providing a base set of services such as equipment, office space, and professional services such as accounting and legal services. They can also assist start-ups in raising capital and performing networking activities.



Accelerators tend to work in a more focussed manner than incubators, taking start-ups in batches for a period of time (typically 3-6 months) with a programme of mentoring and networking aimed at quickly taking the company to its next funding stage.

The closest thing that Zimbabwean fintech has is its network of co-working spaces and tech hubs, such as Bulawayo’s TechVillage and Elevate Trust and Harare’s Tech Hub and Impact Hub. Universities like NUST and HIT are also in the process of setting up their own innovation hubs, to incubate students with start-up ideas through the initial stages of business growth.

With the exception of the Steward Bank and Cape Town's Startupbootcamp AfriTech "FastTrack" event which was held in Harare and a collaboration that TechVillage is working on with incubation facilities in BongoHive Zambia and MHub Malawi there is little collaboration between local incubation and acceleration hubs with regional and international counterparties. Accelerators and incubators in Zimbabwe may benefit from collaborations with some of the more recognised counterparties e.g. [Y Combinator](#), [GSMA Ecosystem Accelerator Innovation Fund](#), [Google Launchpad Accelerator Africa](#); [Fb Start Accelerator](#), and [Startupbootcamp Afritech](#).

4.5 Data and infrastructure

Interoperability, standardisation, and fair and transparent access to key infrastructures are key aspects of an effective fintech ecosystem, as identified by the IMF and World Bank's Bali Fintech Agenda²⁴ of 2018.

There are a number of providers of financial infrastructure that support the fintech ecosystem in Zimbabwe. Some of these include MNO payment platforms, the largest of which is Ecocash. There are also two big switching companies in Zimbabwe: Zimswitch and Zimbabwe Shared Services (ZSS).

Zimswitch is an electronic funds switch and clearing house that domestic card based (ATM and POS) and EFT transactions amongst member banks and other financial institutions occur in real time online. Zimswitch provides the retail and business sector with convenient means of making and receiving payments.

Zimswitch's members and partners include all of the banks in Zimbabwe, deposit taking Micro-finance Institutes, MNOs except Econet (only Ecocash's debit card is on the platform and not the wallet) and some payment companies. Zimswitch has mentioned that they are keen to allow non-banks i.e. fintechs access to their platform through their Third-Party Provider (TPP) framework, however there is a requirement for such connections to meet ISO standard on connections and for many fintechs it may be easier to connect through the banks as these will provide necessary infrastructure for such connections. There are at advanced stages of setting up a sandbox framework²⁵ that would allow payment integrators to connect directly to their system.

ZSS is the biggest bill payments provider in Zimbabwe and its APIs for bill payments are publicly available. ZSS's system integrates with the banks and MNOs.

Interoperability is as a critical component in building up the backbone of the fintech ecosystem²⁶. A number of the systems in Zimbabwe have made some progress in achieving such interoperability as described above and strengthening these systems developed by Zimswitch so that it can become the equivalent of a National Payments platform would be beneficial to the fintech ecosystem.

Unlocking the potential of new data streams from the digitisation of finance will be a critical component of a vibrant fintech ecosystem in Zimbabwe. As more and more transactions are digitised, they create long data trails that can allow fintechs and other financial service providers to build customer profiles in previously low-information environments. New forms of data, such as psychometric data, geospatial data and value chain data can be triangulated with transaction data to increase the accuracy of profiles and reduce information asymmetries.

Zimbabwe's fintech sector is not yet realising these opportunities, in part because data tends to be held privately and there is little culture of opening up data for others to use. This makes it

²⁴ <https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/10/11/pp101118-bali-fintech-agenda>

²⁵ Zimswitch is currently in the process of implementing an innovation hub through which we plan to host Fintechs. The Innovation hub will allow Fintechs to gain access to Zimswitch test environment and experiment on innovative ideas across the platform while working with Zimswitch teams.

²⁶ <https://www.imf.org/en/News/Articles/2019/05/09/sp050919-paving-the-way-for-fintech>

harder and more expensive for fintechs to develop and deliver new products. Data protection is a major issue here, given the potential for misuse of data such as identity, passwords and financial transaction history. These issues must be managed by the relevant authorities. However, there are also plenty of effective models from elsewhere of anonymised transactional data being used to improve product offerings without breaching any consumer protection guidelines.

The key to getting this to happen in Zimbabwe would be to encourage the larger players (particularly EcoCash and the largest banks) to open up their systems via open APIs to allow the frictionless flow of data. For this, [CGAP's five-step process for developing an open-API strategy](#) is a useful guide. Given the dominant position of the market leaders, interoperability (which tends to benefit smaller players more than larger ones) may be difficult to achieve in the current Zimbabwean context compared to countries with a more competitive mobile money industry. However if possible, the change would open up numerous opportunities for fintechs to use data and innovate on top of existing systems to improve customer offerings.

5 | The policy and regulatory environment for fintech

5.1 The macroeconomic environment

Zimbabwe's macroeconomic environment places a number of constraints on the growth of the fintech sector.

The instability of the currency means that people are disincentivised to store money digitally. The divergence of value of RTGS dollars and US dollars means, coupled with an increasingly inflationary environment, that physical assets and cash US dollars are preferred to digital money (and with limited access to cash US dollars, this means an effective preference for physical assets). A stable, secure and trusted means of storing money digitally is a pre-requisite for any functioning digital financial system. The current state of the system in Zimbabwe means that this foundational pillar of the system is unstable.

The policy environment also works against fintech in other ways. The ballooning government budget deficit, which is largely financed by borrowing from the financial sector (both banks and pension funds), leads to both inflationary pressure and the crowding out of lending to the private sector. Coupled with a government-imposed lending ceiling, lenders have little opportunity to appropriately raise the price of credit to the private sector and so the private sector is starved of funding. If the majority of banking sector assets are Government securities, the ability of the sector to finance innovation and development is undermined²⁷.

In addition, the structural balance of payments deficit means that companies that source funding or inputs from overseas face ongoing challenges in remaining competitive and managing their currency risk. A diminishing pool of US dollars and few opportunities for foreign currency earnings means that devaluation of the currency is likely to continue. This raises problems for fintechs buying in hardware and other technologies and competing for talent with overseas markets.

5.2 Government policy on the digitisation of financial services

The nature of Zimbabwe's macroeconomy and political situation puts it in a unique position in terms of the digitisation of financial services. While in countries that are approximately comparable to Zimbabwe in terms of geography and development, the growth of mobile money has been driven by innovation on the supply side meeting specific existing needs on the demand side (e.g. M-Pesa in Kenya), the situation in Zimbabwe is in a sense reversed.

Given the experience of currency devaluation many people now prefer physical assets as safer store of value. This reduces liquidity and effectively pulls money out of the financial system. The government's [Monetary Policy Statement of October 2018](#) talked about a vision of a "cash-lite society" by 2020, but it is not clear that the reduction of cash will have positive economic and developmental consequences in the current situation.

The government's transaction tax on mobile money payments is an additional challenge for the fintech sector. Applying a levy on mobile money transactions not only raises the costs to the consumer, it adds a further roadblock on the path to profitability for fintechs.

²⁷ IMF Article IV staff report 2017

5.3 The regulatory framework for fintech

Financial sector regulation in Zimbabwe remains primarily targeted at traditional financial service providers – banks, building societies, microfinance institutions and insurance companies. The Reserve Bank of Zimbabwe (RBZ) is structured to license, supervise and regulate institutions that take deposits and make loans. It has a tiered regulatory structure to allow it to oversee different business models and different sizes of institutions, but all of these institutions provide the basic functions of financial intermediation.

The government has regulated mobile money operators using a type of contractual supervision rather than a permanent regulatory framework²⁸. It remains to be seen whether this approach is appropriate, particularly in terms of consumer protection.

Insurance companies and pension providers are regulated by the Insurance and Pensions Commission (IPEC), which reports into the Ministry of Finance and Economic Development. It has a tiered approach to regulating insurers, with declining capital requirements (\$5 million for life assurers, \$2.5 million for short term Insurers, \$300,000 for micro-insurers, \$5 million for reinsurers, \$2.5 million for funeral Assurers, \$250 000 for fund administrators & \$100,000 for brokers. In theory the accommodation of micro-insurers with much reduced capital requirements presents an opportunity for start-ups and new fintech players (“insuretechs”) to enter the market, however in reality no micro-insurers are currently listed on the IPEC website. Instead, insuretechs have tended to register as distributors who partner with an underwriter in order to avoid exposure to stringent regulatory compliance requirements. IPEC has however recently argued for greater use of innovative technologies in the insurance sector²⁹.

Capital markets and securities are regulated by The Securities Exchange Commission (SEC). The Securities Act of 2004 is currently being updated to align it with international best practices on capital markets regulation. While the current regulatory framework provides little for fintechs looking to raise money on the capital markets, the hope is that a revised regulatory regime that is updated for changes in the financial system could help build the funding ecosystem. FSD Africa is already heavily involved with the SEC in this process through the Africa Regulator Support Programme³⁰.

Fintech can be disruptive to a regulatory framework created for banks and other conventional financial institutions. Fintech companies tend to focus on a specific service offering, as opposed to the full-service offerings of banks. Their focus on technology can mean that their offerings can be hard to understand. Fintechs are more likely to be small and nimble and less tolerant of bureaucracy. Because they are not traditional financial service providers, they often do not fit neatly into the regulatory structure, and to date there has been little movement to re-develop the structures for fintech.

Regulators are constrained in terms of resources and capacity. The emergence of fintech places additional administrative and technical burden on staff, who are primarily trained in traditional financial services and not technology-based models. While there may be a willingness to learn about fintech regulation, there are limited opportunities for exposure to international experiences and best practices. There are also limited channels for regulators to engage with fintechs, learn about business models and understand their potential impacts on the financial sector. All of these constraints around information, capacity and resources lead to risk aversion amongst regulators.

5.4 The regulatory approach to fintech innovation

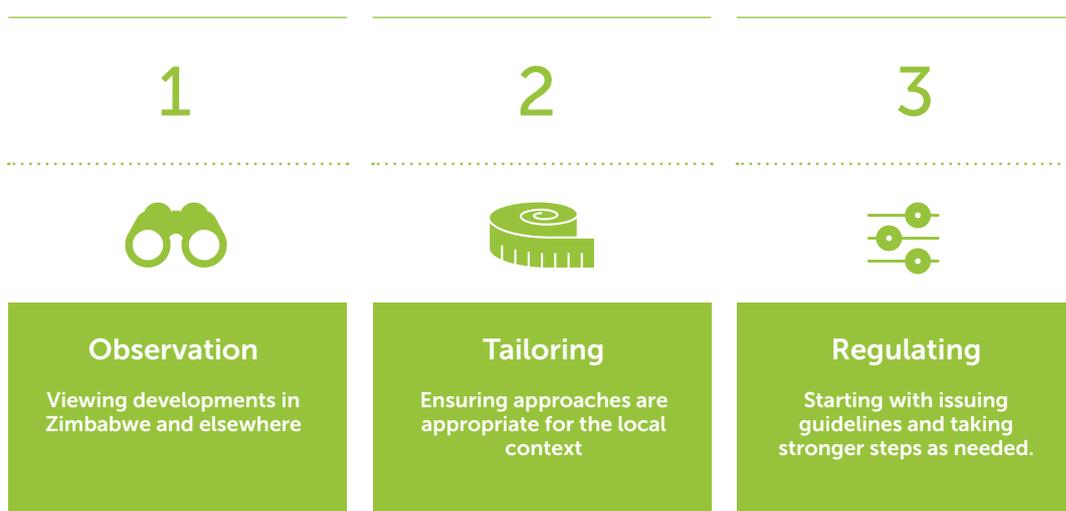
Innovation is identified as one of the four pillars of the government’s [National Financial Inclusion Strategy](#). The strategy identifies innovation in three key areas - institutional innovation, product

²⁹ <https://www.financialgazette.co.zw/zimbabwe-insurance-industry-urged-to-embrace-technology/>

³⁰ The Africa Regulator Support Programme is a Financial Sector Deepening Africa, continent-wide initiative designed to strengthen the continent’s capital market regulators to reach international standards.

innovation and process innovation. The government’s approach to innovation leans towards existing infrastructure and is not necessarily geared towards major changes in the market. This relatively narrow view of innovation was reflected in RBZ’s May 2018 circular to banking institutions on virtual currencies³¹, which effectively shut down cryptocurrency exchanges such as Golix and BitMari and served as a strong disincentive for others to work in the virtual currency space. This decision reflected a general preference for stability over innovation, that makes sense in many regards but may hinder the ability of fintech firms to reach their full potential.

RBZ has explained that they are always open to listening to new ideas and will always do a cost-benefit analysis on regulating new innovations. They have confirmed that it is hard to keep pace with innovation in the financial sector, and that their approach is based on three sequential stages i.e.:



While this “test and learn” approach³² may be appropriate for many of the changes seen to date in the financial sector, it may need to be accelerated if it is to work effectively for fintech, as innovations increase in speed and complexity and fintechs require regulatory clarity to appease investors. RBZ would likely benefit from support to get ahead of the curve and taking a more proactive approach to fintech regulation. They have stated that they lack capacity in certain areas and would be open to an institution providing such assistance. RBZ is also instituting an ad hoc committee on fintech reporting into the Deputy Governor, which could potentially be a good entry point for support.

³¹ <https://www.rbz.co.zw/index.php/regulation-supervision/regulation-supervision/guidelines-circulars-and-public-notice-3/499-circular-to-banking-institutions-no-2-2018-virtual-currencies>

³² “Mapping the Retail Payment Services Landscape in Zimbabwe”, FinMark Trust, 2012

6 | SWOT and PESTEL analysis of the Zimbabwe fintech industry

This section summarises the challenges, the possibilities and the risks facing Zimbabwe's fintech sector. Two tools are utilised for this: the SWOT (strengths, weakness, opportunities and threats) tool which focusses on fintech companies and the industry, and the PESTEL (political, economic, social, technological, environment and legal) analysis which places the industry in the context of a broader ecosystem.

STRENGTHS

An established national ID is an important piece of foundational infrastructure for fintech. Zimbabwe is one of the few African countries with a unique identification number assigned to each adult. This is a great advantage for simplifying paper-based KYC processes and providing the underlying identification system required for a digital finance ecosystem.

The government is aligned with shifts toward the digitisation of finance. Driven by fiscal necessity, the government's push towards digital payments and its emphasis on innovation in the National Financial Inclusion Strategy should provide a supportive environment for fintech.

Depth of digital penetration. Zimbabwe has 85 mobile phone connections per 100 people, higher than the average for sub-Saharan Africa (72) and comparable with countries like Kenya and India. 84% of the country also has access to 3G networks, and just over a third of the population also has access to 4G LTE³³. A young and digitally engaged population, connected through social media but under-served with financial service, provides a big opportunity. A strong existing USSD-based mobile payment system also means that people already have a base level of comfort with digital payments and the fact that the system is USSD means that data costs become less of a constraint (even though some fintechs have stated that they find the cost of obtaining the codes needed to access the USSD platform from POTRAZ relatively high).

On the demand side, Zimbabwe has some of the highest literacy rates in sub-Saharan Africa. According to World Bank data 89% of adult Zimbabweans are literate. This compares to 79% in Kenya and 83% in Zambia and is only slightly less than South Africa (94%). There is therefore less of a constraint on people not being able to use phone-based and other digital services because they are unable to read the screens. It also makes financial consumer protection initiatives less complex to implement.

WEAKNESSES

The shortage of early stage innovation capital makes it difficult for early stage fintechs to get off the ground. Innovation capital – often in the form of a grant or high-risk equity – is required to take a good idea through proof of concept and prototyping to the point at which it might be able to raise investment. The funds required at very early stage can be relatively small - typically an amount in the region of USD10,000³⁴ could support a business for 6-12 months to develop

³³ According to POTRAZ data

³⁴ This was determined based on interactions with fintech start-up and operators of tech-hubs

proof of concept - but there is a gap in the market here. The risky nature of these very early stage investments means that the public sector - government bodies, research institutes, development sector organisations - is generally better placed to supply funding than the private sector.

A dearth of expansion capital also constrains the growth of start-ups. It remains relatively common for start-ups to approach banks to finance their growth plans, despite the fact that bank loans are a poorly designed instrument to finance the risky and unpredictable growth path of start-ups. Shallow capital markets and limited options in terms of venture capital and private equity mean that growth companies can struggle for equity and quasi-equity investment.

Limited collaboration both within the traditional financial sector and between banks, MMOs and fintechs means that many potential synergies are not being realised. Capital is locked up in banks, while MMOs have the broadest networks and fintechs generate much of the innovation. There is limited experience of sharing networks and data through switches and APIs and while this is changing, through shared service providers, the pace of change is slow.

The cost and availability of internet is a major constraint on fintech growth. The economic instability has been pushing up the cost of mobile data to a point at which it becomes a binding constraint to usage for many customers and for fintech developers. Research on data prices show that data costs in real terms are competitive but the problem is that inflation has led to a rise in all costs including data without there being a similar increment in salaries i.e. people's disposal incomes have been eroded.

OPPORTUNITIES

Zimbabwe's financial sector is failing to sufficiently intermediate funds from savers to the productive sectors of the economy. It effectively takes the accumulated savings of corporates, wealthy individuals and government and lends them to corporates, wealthy individuals and (especially) government.

Fintech provides an opportunity to disrupt this model. Technology-driven models have the potential to reduce costs, improve efficiencies and target financing towards sectors that are genuinely value-creating, in terms of job creation and poverty reduction. As the sector grows beyond payments, the areas where fintech holds the greatest competitive advantage include:

Remittances and international money transfers

Remittances are a critical inflow to Zimbabwe's financial system and account for 7.8% of GDP, according to the World Bank. Over the past few years, there has been plenty of innovation in both formal and informal remittances (along the critical South Africa-Zimbabwe remittance corridor, more than three quarters of funds are thought to flow through informal channels). 44% of Zimbabwean adults receive domestic remittances and 13% receive internationally³⁵. A lot of fintechs are already working in this space, from international remittance providers³⁶ like Mukuru, Western Union and local large tech companies like Econet, to local innovators like Bitmari.

The opportunity in remittances isn't just about reducing the cost and increasing convenience. Once the money is received, there are a number of opportunities for fintechs to develop products that leverage these received funds for productive or developmental purposes – for example goal-based savings products or investment in a business³⁷. An expected future income stream from remittances can also be used to underwrite a loan.

³⁵ "MAP Zimbabwe Financial Inclusion Country Report", FinMark Trust, CENFRI and UNCDF, 2016

³⁶ The study identified 14 companies that deal with International Money Transfers in Zimbabwe

³⁷ "The impact of remittances in Lesotho, Malawi and Zimbabwe", FinMark Trust, 2017

MSME lending

There is a significant financing gap for micro, small and medium enterprises (MSMEs) in Zimbabwe. A major factor in this is information asymmetries – banks tend to be risk averse because they do not have sufficient data to identify a good business from a bad one. However as more and more payments go digital, MSMEs will develop more and more useable information on their sales, their purchases, their linkages to value chains and hence their future financial outlook. These new data streams offer larger opportunity for fintechs to develop innovative cashflow-based lending models, using machine learning to identify trends in creditworthiness and provide banks with improved lending systems to close the MSME financing gap.

Data analytics and credit scoring

Although the data environment in Zimbabwe is relatively thin, this is changing rapidly with the rapid increase in digital payment usage. MNOs in particular are sitting on huge quantities of data that, through advanced analytics, could unlock a lot of value for the financial system. The key for fintechs is building the partnerships and the technical platforms, via APIs, to access these new streams of data.

Digital savings

21% of Zimbabweans save cash at home, compared to 18% who save with a formal financial service provider and 16% who save in informal savings groups³⁸. Of the 3.24 million individual RTGS FCA depositors, 95.98% held deposit balances of less than \$1,000 each³⁹. The total accumulated savings account for \$213.42 million, with an average balance of \$80. There is an opportunity for fintech companies to make savings more convenient and linked to the different goals of customers. For example, commitment savings products linked to things like school fees or housing expenses would likely be attractive.

Small ticket lending

Research⁴⁰ has demonstrated the important role that mobile money platforms play in facilitating small value loans for consumption smoothing and liquidity management. The primary tool for this is currently EcoCash/Steward Bank's KaShagi loan product, which offers small amount of collateral-free credit repayable over short time periods. In Kenya, M-Shwari was the first mover in small value digital lending but it also opened the door for a range of new fintechs, competing on product, price and convenience for borrowers. Given mobile money penetration and demand for credit, similar growth trajectory is also possible in Zimbabwe. However consumer protection issues will need to be carefully managed given the potential negative impact of defaults on small ticket digital loans, as was seen in Kenya, where over 2.7 million Kenyans have been reported to a credit bureau with a negative listing for late repayment or default⁴¹ (negatively impacting their future ability to access credit).

Agricultural and smallholder finance

Smallholder farmers remain one of the most financially excluded groups in Zimbabwe. Despite some growth in financial services and mobile money into rural areas, in 2017 only 2% of the population had received a payment for agricultural products into a financial institution account and 4% into a mobile money account⁴². The financial sector is currently failing to meet the needs of the sector, with only 20% of bank lending going to agriculture⁴³. Fintech companies have the opportunity to overcome two of the major challenges of financing smallholders, by using technology to reduce the costs of delivery and improved data to develop financing models that incorporate new data streams relating to value chain activity and agricultural linkages. Fintechs like YouFarm are already developing data-driven collateral-free lending for smallholders, and there are strong potential linkages from these fintechs to improved development outcomes.

³⁸ "MAP Zimbabwe Financial Inclusion Country Report", FinMark Trust, CENFRI and UNCDF, 2016

³⁹ RBZ Monetary Policy Statement, February 2019

⁴⁰ "A needs-based approach to financial inclusion measurement in Zimbabwe", insight2impact, 2018

⁴¹ <https://pgubb.github.io/digitalcredit.html>

⁴² Global Findex data

⁴³ \$525m of \$2.6b total lending was to agriculture in January 2019 - Source: Reserve Bank of Zimbabwe

Alternative financing models for lending to women

The financial system as it stands is poorly suited to the needs of women. According to Africa Pulse, a World Bank published in April 2019, female entrepreneurs have less access to credit than their male counterparts, due to inequality in the ownership of fixed assets (for example, land or a house), which can serve as collateral to secure loans.

Developments in the fintech industry can be harnessed to unlock the collateral challenge facing Zimbabwe's female entrepreneurs. Alibhai et al. (2018) tested psychometric technology that predicts the likelihood that an entrepreneur will be able to repay a loan, as an alternative to traditional collateral. This pilot is now being scaled up in Zimbabwe and Madagascar, with more to follow in Nigeria, Zambia, and Côte d'Ivoire. In the absence of collateral, and with limited information available on the creditworthiness of women borrowers, psychometric testing is a promising solution.

Stablecoins

The macroeconomic instability in Zimbabwe provides a rare potential use case for crypto currencies built on the blockchain to provide a more stable digital currency than is currently available. The role of so-called "stablecoins" is much debated but there's a theoretical possibility that a digital currency pegged to e.g. the Dollar or the Rand (fiat-backed centralised stablecoins) or gold (commodities-backed centralised stablecoins) could help overcome the issue of people not being willing to hold on to digital currency and therefore holding USD cash or buying physical assets. It could also help reduce the costs of inwards remittances. However, working in this area would require appropriate engagement to overcome feasibility and regulatory hurdles.

Capital markets and regtech

In order for the capital markets in Zimbabwe to develop significantly there is a need to have the right infrastructure in place for these. Some of the things which are relate to fintech and that would promote the growth of Zimbabwe's markets include expansion of alternative trading platforms, development of non-equity financing instruments such as debt and quasi-equity, and promotion of crowd funding platforms that the Zimbabwean diaspora, as an example, could contribute to.

There are opportunities to develop local back-end systems that allow greater agility of the Central Securities Depository (CSD). RBZ and other regulators are also potential customers of fintechns. Provision of real time data management and surveillance systems would help regulators oversee the market.

THREATS

International tech platforms pose a significant threat to the current fintech market. In the same way that mobile money disrupted the banks, it seems very likely that the large international tech platforms will over the coming years create the next level of disruption.

Facebook are ideally positioned to disrupt the payments sector. Through ownership of WhatsApp, they already own the largest and most active digital network in the country. It is not a huge step for them to make sending money as easy as it is to send a message⁴⁴. This has already been rolled out effectively in India, and the company is building a large new digital payments team in London. Facebook are also understood to be [developing their own stablecoin](#)⁴⁵, a blockchain based digital currency that would work as a medium of exchange and store of digital value without the speculative characteristics of other cryptocurrencies like bitcoin.

⁴⁴ Mark Zuckerberg said at the latest Facebook developers' conference that "Payments is one of the areas where we have an opportunity to make it a lot easier. I believe it should be as easy to send money to someone as it is to send a photo,"

⁴⁵ "Why Facebook wants to launch its own currency", Financial Times, 24th May 2019

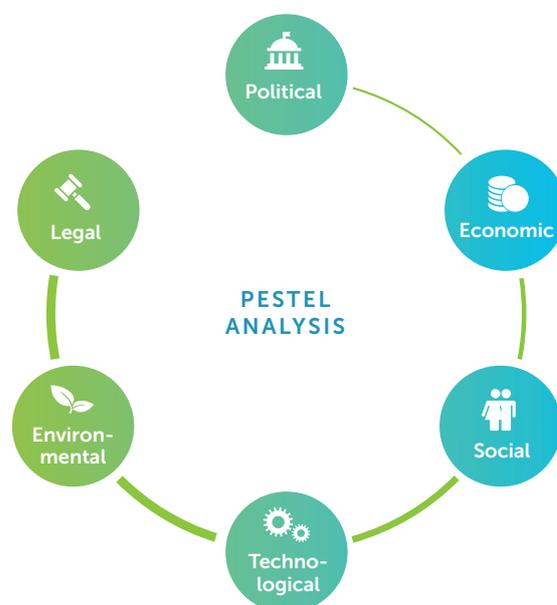
If Facebook/WhatsApp were to launch an international digital payments service, they could completely shake up the structure of the industry and undermine the business models of many current players. Coupled with the fact that most users of internet in Zimbabwe only use the internet for social media the threat of WhatsApp banking in Zimbabwe is very significant.

Regulations pose a threat. Fintechs may also suffer from regulations that do not adequately respond to the nature of innovation in the sector. More broadly, the declining economic situation poses an existential threat to many fintechs, as raising money or paying suppliers could become impossible.

Incumbents in the financial services sector pose an additional threat. Existing players in the financial services sector could easily replicate the products that fintechs develop and as they have more resources to do so these are likely to be better adopted in the market.

The figure below shows a summary of PESTEL analysis for the fintech sector in Zimbabwe. Further details are provided in appendix 3.

Figure 8. Summary of PESTEL analysis of the Zimbabwe Fintech Industry (further details in appendix 3)



 Political	 Economic	 Social	 Technological	 Environmental
<ul style="list-style-type: none"> • There are regulators for the telecommunication companies, the banks, insurance companies and securities exchanges are regulated by POTRAZ, RBZ, IPEC and SEC respectively. • There are regulations on pricing for services provided to the public by companies operating in the financial services sector. • There are no special rates of tax or incentives for fintech companies in Zimbabwe. • Zimbabwe has a Competition Act. 	<ul style="list-style-type: none"> • Zimbabwe has a mixed economy. • Depends mostly on agriculture and mining. • Currency problems. • Overnight interest rates for banks increased to 50%. • The capital markets in Zimbabwe are relatively insufficient as compared to the need of the economy. 	<ul style="list-style-type: none"> • An established national ID is an important piece of foundational infrastructure for fintech. • Literacy levels in Zimbabwe are relatively high. • Zimbabwe has a relatively young population. • Women are more financially excluded than men. 	<ul style="list-style-type: none"> • The use of technology in financial services and communication has been growing in Zimbabwe. • International tech platforms e.g. Libra pose a significant threat to the current fintech companies. • Students at the university and technical colleges are not exposed to the newest technologies in the tech space. • The fintech industry is one which is changing and evolving rapidly. • The cost and availability of internet is a major constraint on fintech growth. 	<ul style="list-style-type: none"> • No factors that have a direct impact on fintech companies were identified <ul style="list-style-type: none">  Legal • Zimbabwe ranks relatively lowly in terms of doing business indicators. • Intellectual property protected by ZIPO and ARIPO. • Laws on data protection relatively weak.

7 | Recommendations

The following recommendations are based on an analysis of the fintech landscape, its challenges and its opportunities and the potential that can be harnessed to support the ambitions of key stakeholders in the Zimbabwean fintech ecosystem. The recommendations are broken down by those for the short term (can be actioned upon within the next year), medium term (1-3 years) and long term (4 years +).

7.1 Short term

Provide support to RBZ and other key institutions to develop policies and regulations for fintech that appropriately balance innovation and stability. RBZ has said they need help on financial literacy and consumer protection, which could be an effective entry point. They also want to know more about regulatory sandboxes. Some of the regulators mentioned that use of reg-tech would make their supervisory role more efficient and this would therefore reduce risks of trading in the markets that they operate in. In general, taking a demand-led approach could open up possibilities for change in other areas later on, but the trust needs to come first.

Provide technical support for innovation hubs and ecosystem organisations (ESOs). Zimbabwe already has a small but energetic fintech community, but they are severely resource constrained. Innovation hubs like TechVillage provide critical infrastructure in developing entrepreneurs with ideas into viable business models and supporting these early stage networks is important for developing the next generation of fintech talent. They are also important for nurturing talent from under-represented populations, such as women entrepreneurs and those from disadvantaged communities. A relatively small amount of targeted grant money linked to relevant technical support from industry experts could go a long way in supporting these hubs.

Promote a more collaborative fintech ecosystem with increased sharing of data and resources. The opening up of APIs is an important step to promote new innovation over the top of a mobile money network. Zimbabwe can learn from the experiences of [Kenya](#) and [Uganda](#), where dominant mobile money providers have opened up their APIs to local third-party developers to stimulate greater innovation in products. This is a positive move both for the MNO and also the local fintech ecosystem, with high-potential fintechs now able to access the data and networks required to scale.

Such a move in Zimbabwe could give a major boost to the fintech sector and it should be a high priority for the industry. (There is already a [petition from local developers and entrepreneurs](#) to make this happen).

The change would require coordination with a range of stakeholders. The authority with the means to force banks and MNOs to open APIs is the government, through RBZ and POTRAZ, but any changes would need to take account of the impact on government revenues through the tax on mobile money transactions. An industry group like the Bankers' Association of Zimbabwe could be a useful counterpart in this regard.

Support the development of a Zimbabwe fintech association. This is needed to help coordinate the sector and provide small players with a stronger voice at the table when dealing with government, banks, MNOs, tech companies and other large players.

The early stages of this process are already happening. The role of entities supporting the growth of fintech in Zimbabwe would likely be to provide seed funding, a physical space and an initial

coordination role. It could also help build connections to the African Fintech Network and fintech associations in the UK and other African countries. It is important that the fintech association provides a democratic platform for smaller institutions to be heard, rather than simply a platform for already-established players to burnish their innovation credentials.

Extend grant funding through an innovation competition. The FSD Africa sprint delivery challenge that has already made awards to HRE and IFS in Zimbabwe is an effective model at finding and funding innovation. It could be repeated and extended to new areas of the fintech sector, given that early stage financing for innovation is a major barrier for fintech growth in Zimbabwe.

There is scope for more small seed-stage investments (grants) for start-ups at proof of concept stage, as well as later stage scaling capital at which point implementing partners could act as an anchor investor to crowd in others. The challenge fund model could be extended to include the Technology Institutes in the country, and these could include windows to tackle specific challenges like financial inclusion for women and for MSMEs.

This is a good option for implementing partners, but it cannot be introduced in isolation. The constraints on early stage fintechs are numerous and even if the financing constraint was lifted, other challenges (e.g. mentorship, market linkages) would likely remain. The failure rate could be reduced by combining funding with technical assistance and basic professional services.

Other innovation competitions offer an opportunity to direct fintechs towards specific challenges and market segments. For example, organising a design sprint for select fintechs in rural areas could expose them to the financial challenges faced by smallholder farmers and help them ideate and develop prototypes for new services based on rapid research and design processes.

7.2 Medium term

Promote the adoption of digital payment options for social safety net cash transfers. Cash transfers have become a popular way of donors providing support to vulnerable groups in Zimbabwe and this has been the case for more than 8 years. There are costs and risks associated with cash transfers that could be mitigated by use of digital ecosystems that support disbursement and reporting on cash transfers made. Systems that have been trying to enter this market include Clic.World and Rapid. It is estimated that more than 7.5 million people need urgent food assistance at an estimated cost of USD1.452 billion⁴⁶.

Develop a plan with key stakeholders to update Zimbabwe's financial inclusion data. A lot of conversations around digital finance and fintech growth remain based on 2014 data, which precedes the rapid growth of Ecocash and the recent macroeconomic instability. A new representative national survey – whether an update to FinScope or a new methodology – would not only provide the market with more information on the role of fintech and DFS but would also form a baseline for future financial sector development work in Zimbabwe.

Develop programming to improve fintech skills in Zimbabwe. Based on discussions held with some players in the fintech space it has been determined that there is a shortage of developers, data analysts in Zimbabwe and more so those that are experienced in fintech. Interested parties could assist in reviewing of curricula at technology training institutes and bringing in guest lecturers to these institutes. Other ways to promote exchange would be to organise short student exchanges with leading fintech institutes. The other areas of technical support that could be provided include providing universities and technical colleges with latest software for their use in teaching.

Support RBZ and POTRAZ to promote a more competitive regulatory structure. The position of Econet in the market has both positive and negative implications. On the positive side, they have

⁴⁶ 2019-2020 Domestic and international appeal for assistance

built an effective business model that takes mobile money to millions of excluded people and are now in the process of delivering a range of over the top financial services to deepen the level of financial access. However, they are an effective monopoly; not just a participant in the market but owners of critical market infrastructure with sole discretion as to who can use the infrastructure and how much they have to pay. This provides the opportunity to extract rents and to quash potential competition, leading to sub-optimal long-term outcomes for consumers.

Work with SEC to provide an enabling environment for fintechs to foster capital market development. FSD Africa has an existing relationship with SEC through the flagship Africa Regulator Support Programme. This a continent-wide initiative designed to support capital market regulators to attain international standards. Through its existing relationship with SEC, interested parties could support the expansion of alternative trading platforms, development of non-equity financing options and promotion of crowd-funding platforms that the Zimbabwean diaspora could contribute to. All of these could help fintechs look for alternative financing.

Look into developing loan guarantee schemes for fintechs lending to MSMEs and under-served sectors. DFID has tried developing risk-sharing facilities with Barclays and Standard Chartered banks in Zimbabwe, with mixed results. In the development sector, DFID has also worked with SIDA and USAID to develop their Development Credit Authority (DCA) tool for insuring lending to smallholder farmers. Credit guarantee schemes or other risk pooling mechanisms can be effective tools to incentivise financial institutions to lend to people or companies who might otherwise be deemed too high risk. Under a model like DCA, a development organisation can guarantee to cover the first losses on a group of loans, incentivising banks to lend more to target sectors.

Rather than working exclusively with banks, donors could extend such a guarantee to lending fintechs, who may have more appropriate, lower cost or better products targeting specific groups such as smallholder farmers or MSMEs. This could help to bring fintechs currently working with more “bankable” populations - e.g. salaried workers, larger businesses - into more inclusive markets that they otherwise would deem too risky.

If donors were able to combine this with an innovation competition for fintechs either looking to lend to MSMEs (B2C) or build products for banks to lends to MSMEs (B2B), the combination of new innovations and reduced lending risk could help to direct a lot more much-needed capital to the MSME sector.

Expand the scope of interoperable financial infrastructure There is growing international evidence, particularly from India, that innovation in fintech can be greatly accelerated with the provision of certain layers of infrastructure on to which fintechs are able to build. This technology “stack” can include layers such as a digital identification tool, a simple payments platform, a digital signature and a digital locker (for storing verification documents), all accessible through open APIs. Over time, digital access to a collateral registry and credit registry could be added.

In India, the provision of this infrastructure has provided the foundations for new offerings from a range of start-ups as well as for large international tech players like WhatsApp and Google. The India Stack has been coordinated iSPIRT, a tech-focussed think tank, and championed by the National Payments Corporation of India (NPCI), a not-for-profit public private partnership of India’s banks and government.

While it is difficult to see a direct equivalent model working in Zimbabwe, it is not impossible to see that like-minded organisations could work together to build interoperable infrastructure for fintech innovation. Such a model would be an extension of the interoperability and shared service systems that Zimswitch and ZSS are already offering. Stakeholders interested in the shared infrastructure development, could look to partner with institutions like ZSS or Zimswitch to build the technology, perhaps with international support from Gates Foundation (which has developed its own open source payments platform, Mojaloop).

Explore safe regulatory environments for testing innovative fintech models and technologies.

This could take the form of a regulatory sandbox, following models developed in a number of other countries, including FSD Africa's work in Sierra Leone. However, it is not clear that a full sandbox is required at this point in the evolution of Zimbabwean fintech. Setting up full regulatory sandboxes with live testing environments is expensive and complex, and it may be overkill. Rather, stakeholders can work with RBZ to develop a quasi-sandbox environment that allows fintechs to bring their idea to RBZ for feedback and testing. This will also allow RBZ to keep up to date with the latest developments at the innovation frontier.

Support the development of credit and collateral registries. Lending to MSMEs is constrained by the information asymmetries around borrowing history and ownership of collateral. There has been some work done to ease this constraint – RBZ operationalised a credit registry in January 2017 and as at 31 December 2018 the Credit Registry held 845,672 records, of which 563,420 were active loan accounts.

To reduce the risk faced by MFIs, banks and fintechs into lending it would be worth exploring how stakeholders can assist RBZ in extending the data that is contained in the registry. It would also be useful to review the current credit registry and study the accuracy of this registry through users who have interacted with the registry. The growth of digital transactions and possibilities for algorithms to monitor and learn from transactions should help to improve the operations of the registry.

The RBZ is also planning the launch a moveable assets collateral registry in December 2019, with a view to facilitating lending to MSMEs. Technical assistance may be required to help RBZ develop the necessary infrastructure, potentially in coordination with the World Bank

Assist in the set-up of an equity-based crowd funding platform or an industrial bond targeted at the diaspora. The capital markets have limited funding and is need of FDI. With over 4 million Zimbabweans estimated to be living in the diaspora there is potential for instruments to be set up that would allow the diaspora to invest in the capital markets of Zimbabwe.

Support the development of local back-office system for capital markets trading platforms. The efficiency and risk associated with trading on markets can be reduced by the systems that are in place to facilitate trade in these. The Chengetedzai Security Deposit which operates a central securities depository for the Zimbabwe securities industry. The systems that the CSD run off are developed internationally and a such when there are changes required to the system then there are delays in implementing those changes because of foreign currency requirements. A locally developed solution would allow the CSD more agility and therefore mean that more products could be added with relatively easier.

7.3 Long term

A collaborative effort to shape the long-term structure of Zimbabwe's digital financial system.

Digital is changing the nature of finance and stakeholders, especially RBZ and government, need to be encouraged to look ahead. In particular, issues that need to be considered now include the role of the super platforms (Google, Facebook/WhatsApp), blockchain and AI and how regulatory structures might need to adapt to cope with these changes in market structure. To do this, donors and financial sector stakeholders can to convene some kind of "Future of finance taskforce" to get industry players talking and thinking about potential disruptive forces impacting the sector in the future.

7.4 FSD Africa's value proposition

FSD Africa/FSD Zimbabwe is very well placed to support fintech growth in Zimbabwe. There is a space for a development sector actor to establish itself as a strong core market facilitator for financial inclusion generally and for fintech/digital finance more specifically.

The value proposition for FSD Africa, or a nascent FSD Zimbabwe, can be broken down into six mutually reinforcing factors:

The brand and footprint of the FSD Network - DFID has established FSDs as leaders in financial sector development across Sub-Saharan Africa. It is a model that has demonstrably worked, evidenced by the crowding in of funding from other donors such as Gates Foundation and SIDA into FSDs. The combined learning experience from digital finance and fintech interventions particularly in Eastern and Southern Africa, and the access to international expertise - both internally and externally - would provide FSD Zimbabwe with a significant early advantage. The strength of the network also means that the profile of Zimbabwean fintech can be raised on multinational platforms like VC4A (Venture Capital for Africa).

Learning from international experiences through the FSD Network - A lot of the challenges currently faced by Zimbabwean institutions are similar to those that have been faced by parallel institutions in other FSD countries. For example, Central Bank of Kenya's experience in taking a pro-active approach to regulating mobile money, where a dominant MNO can exploit a monopoly market position to disrupt the mobile payments space, can be useful to Zimbabwe's regulators. Likewise, experience elsewhere in topics including financial consumer protection, financial literacy and cryptocurrency regulation would be valuable.

DFID's status in the Zimbabwe market - a number of market actors have remarked that they were happy that DFID were considering a larger programme in the financial sector and that DFID were seen as a trusted partner, being ahead of other donors in terms of re-engagement.

Links to UK financial sector - the fact that FSD Zimbabwe's funding comes from the UK also provides a unique opportunity to build bridges between Zimbabwe and the UK's world-leading fintech sector. A number of countries are in the process of building "fintech bridges" with the UK government by signing Regulatory Cooperation Agreements (RCAs). These open up opportunities for shared learning between counterparts in regulatory and policy-making bodies as well as for fintechs looking to learn from or partner with peers in the other country.

Proven, effective tools for financial sector development - the FSD Network has pioneered tools that have helped move the needle in terms of developing financial sectors. In particular, the FinScope surveys have demonstrated the power of information in informing decision making. Likewise, challenge funds or innovation competitions, which have been used by most FSDs, have shown how development funds can be effectively used to incentivise innovation in the private sector.

An explicit financial inclusion focus - fintech for financial inclusion, or inclusive fintech, is a subset of a broader fintech ecosystem. FSDs are clear about making financial markets work better for the poor and excluded groups. Within an ecosystem of players who are interested in growing fintech as a whole, FSD Zimbabwe's value is in pulling resources to the inclusive end of the spectrum.

7.5 Potential partnerships and competitors

Potential partners

RBZ are a critical organisation to have onside if FSD Africa is to affect meaningful change in Zimbabwe's financial system. It may be a flawed institution and working with it may be complicated, but it remains at the centre of the system. RBZ have expressed a desire to work with FSD Africa, to learn from international experience and best practices, and appear to acknowledge where their capacity is limited. FSD Africa will need to develop existing relationships and find strong entry points to ensure a seat at the table for important committees and to establish itself as a trusted advisor. DFID have already suggested that working through the FSD window of the ZIMREF Trust Fund, they are able to provide technical assistance to RBZ with just a "no objection".

World Bank cannot currently spend money in Zimbabwe because the government is in arrears to the Bank. However, the World Bank's expertise would be useful to help develop Zimbabwe's creaky payment systems. In addition, the development of a collateral registry and credit registry could help to unlock financing to small businesses. A typical World Bank financial sector development credit in sub-Saharan Africa would tackle all of these issues and they would be the best placed donor to support this market infrastructure. There may also be an option to work with the African Development Bank in similar areas.

Gates Foundation are not currently active in Zimbabwe and at a country level there may not be synergies available. However, if FSD Africa does decide to go down a route that involved building technical infrastructure as a public good (such as a Zim Stack or a stablecoin) Gates Foundation could be an interesting partner to work with. The Foundation has recently developed an open source payments infrastructure for emerging markets called Mojaloop and are also already connected to the FSD Network via investments in various FSDs.

InnovateFinance is the UK's fintech industry association. It has an international programme in which it builds linkages with other countries' fintech associations to facilitate the movement of companies, investment and ideas. They could be a useful partner both in advising on the creation of a fintech association for Zimbabwe and also as a means of building linkages between the fintech sectors of Zimbabwe and the UK.

Potential competitors

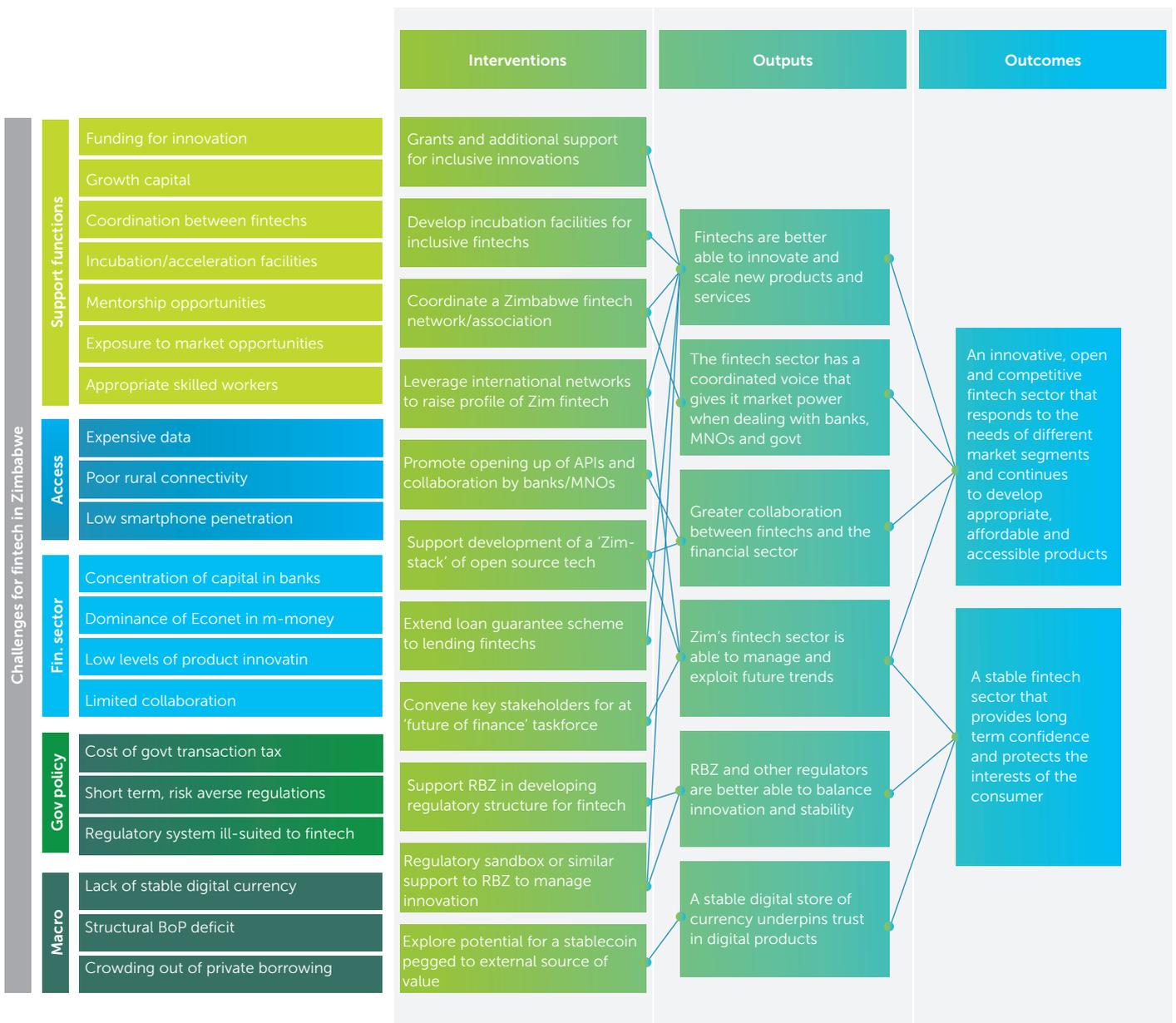
FinMark Trust are a large player in financial sector development in Southern Africa, and since DFID ended their funding have been looking to expand into new markets. They have published a small number of research reports on Zimbabwe⁴⁷, often in partnership with CENFRI (both institutions are based in South Africa). It is not clear what their Zimbabwe strategy is, but it is likely that they will seek to work in some of the same areas as FSD Africa. Coordination will be important to make sure there is no duplication of efforts and so that synergies can be exploited.

Econet, Cassava and Steward Bank are the dominant players in the market and are already carrying out some of that activities that FSD Africa may seek to pursue, for example a fintech accelerator (with Startupbootcamp) and innovation competitions for students. However, it will be much better if these activities are carried out at a market level, so that the value that is created is for the system as a whole rather than for one private player.

⁴⁷ Including "The impact of remittances in Lesotho, Malawi and Zimbabwe", December 2016; "MAP Zimbabwe Country Report", 2016 (in partnership with CENFRI and UNCDF); and "A needs-based approach to financial inclusion measurement in Zimbabwe", June 2018 (in partnership with CENFRI).

Appendix 1

A theory of change for Zimbabwean fintech



Appendix 2

Fintech companies in Zimbabwe

Organisation	Type of Fintech	Brief description	Start Up or Established	Age of Company
Meikles Financial Services (MYCASH)	Consumer Banking	MFS provides low KYC bank account; it allows all mobile money transactions, including transfers, utility payments, and savings, in addition to other regular banking services.	Established	4 years
Steward Bank	Consumer Banking	Steward bank is the largest bank by number of customers in Zimbabwe and is part of Econet group.	Established	5 years
Harare Receivables Exchange	Equity Financing	HRE works with businesses on their platform to alleviate financing challenges by allowing these businesses an efficient marketplace which offers them money in exchange for their receivables.	Established	4 years
YouFarm	Equity Financing	YouFarm provides farmers with access to collateral free funding and technology by getting people to invest in crops and livestock and share the profits with the farmers when the produce goes to market.	Start-up	2 years
Old Mutual	Insurance	OM has developed a number of products including Ruzhowa/ Uthango which is a micro insurance solution in response to the uncertainties in climate patterns that small holder farmers face.	Established	124 years
Antanalytica	Insurance	An advisory company that helps companies to analyse data to provide insights for the company. They are in the process of working with insurance companies on analytics tools for insurers.	Start-up	1 year
Nhaka Life Assurance	Insurance	NLAs mission is to strengthen the financial resilience of underserved African consumers through insurance. They provide a technology-led distribution system for insurance.	Start-up	2 years
Mukuru	International Money Transfers	Mukuru helps move money around Africa. People can send cash for instant collection or top up a bank account or mobile wallet.	Established	18 years
Kaah Express	International Money Transfers	Kaah Express is a money transfer agency.	Established	3 years
Shumba Money	International Money Transfers	ShumbaMoney is platform to send and receive money across international borders.	Established	3 years
Hand2Hand	International Money Transfers	Hand2Hand is a Zimbabwean registered forex company, enables anyone anywhere in the world to transfer money to an EcoCash Wallet, and Zimbabwean bank accounts through their website.	Established	4 years
Send Money Home	International Money Transfers	Online platform that allows for sending money to Zimbabwe.	Established	4 years
World Remit	International Money Transfers	Allows for sending money across international borders instantly.	Established	8 years
Moneygram	International Money Transfers	Allows for sending money across international borders instantly.	Established	15 years
Ntshintshi	International Money Transfers	A platform for sending and receiving money across borders.	Established	4 years
Simukai Financial Services	International Money Transfers	Allows for sending money to Zimbabwe across borders. The company specialises in UK to Zim Corridor.	Established	6 years
TransferWise	International Money Transfers	TransferWise is a UK-based money transfer service.	Established	7 years

Organisation	Type of Fintech	Brief description	Start Up or Established	Age of Company
GetBucks	Lending	GetBucks Zimbabwe is a fintech company that embraces technology as a means to provide financial products and services to customers.	Established	3 years
Quest Financial Services	Lending	Provides microfinance.	Established	4 years
MyBucks	Lending	MyBucks is a Fintech company that embraces technology as a means to provide financial products and services.	Established	3 years
Golix	Other	Golix was Zimbabwe's first cryptocurrency exchange.	Established	5 years
VicFalls Coin	Other	VFC was the first 'tourism-focused' cryptocurrency in the country. VicFalls Coin is a crypto that was aimed for use in the tourism sector, particularly in the Victoria Falls Community (both in Zimbabwe and Zambia).	Start-up	1 year
ZimCoin	Other	Zimcoin is launching their own Bitcoin exchange that allows people to buy and sell Bitcoin.	Start-up	1 year
Intelli Africa Solutions	Other	IAS is a tech start-up company with the sole objective of providing innovative software solutions spanning across all industries.	Start-up	1 Year
Cellulant Zimbabwe	Payments	CZ provides digital payment platform for every sector by providing a reliable, real-time link to all things digital payments across Africa.	Established	19 years
Zympay	Payments	ZymPay empowers the diaspora around the world to manage their finances in a better way by enabling access to financial products and payment services.	Established	3 years
ICECash	Payments	ICEcash's primary focus is to provide Enterprise Solutions for large organisations in both the public and private sectors.	Established	4 years
CABS	Payments	CABS have launched Textacash which is a low-cost bank account and low KYC with a Zimswitch debit card that can be linked to your mobile phone.	Established	5 years
E-tranzact	Payments	A Nigerian based electronic transaction payment and switching platform that has operations in Zimbabwe.	Established	9 years
Rapid	Payments	Rapid Tickets allows people to buy tickets for movies, sporting events, transport and other events using USSD. They are also looking into getting into payments systems for donor cash transfers.	Start-up	1 year
Lawbasket	Payments	A legal services marketplace which has also developed a payment platform for services rendered through its marketplace.	Start-up	1 year
Pay Easy	Payments	PayEasy is a financial technology application (Currently available for android only) which seeks to introduce convenience in the way people in Zimbabwe and across Africa make payments.	Start-up	2 years
Zimswitch	Payments	Zimbabwe's largest payment switch. They facilitate transactions between banks on ATMS, the internet and mobile and POS devices.	Start-up	2 years
PayNow	Payments	PayNow is an online payment platform.	Start-up	2 years
Click and Pay Investments	Payments	Click & Pay offers a wide range of Information and Communication Technology products relating to e-commerce and ticketing.	Start-up	2 years
Mobipay	Payments	Payment processing on mobile point of sale devices (MPOS).	Start-up	2 years
Afrosoft	Payments	Afrosoft developed an application called Instapay which allows users to buy prepaid electricity as well as airtime for all three mobile networks (Econet, Telecel and NetOne) with the option to make the payment via EcoCash and Telecash.	Start-up	3 years

Organisation	Type of Fintech	Brief description	Start Up or Established	Age of Company
Zapper	Payments	Zapper makes mobile payments convenient and secure across all market sectors for both consumers and merchants through use of Zapper QR codes.	Start-up	4 years
Zing	Payments	The company has booths around the country, where they electronically vend electricity, airtime, bill payments, DSTV subscriptions, and other services.	Start-up	5 years
Escrow Group	Payments, Consumer banking, Personal Finance, Lending and Equity finance	Their solutions include: Core Banking, Sacco/MFI Management, Leasing, Mortgage, Etax, Clearing and Settlement (including Truncation), E/Channel Banking (Mobile, Internet, Agency, ATM and POS), CRB Reporting, Business Intelligence, CRM, ERP, Managed Services, Database, Unified Communications, Consultancy, and Switching.	Established	25 years
PenFin	Consumer Banking, Lending and Insurance	PenFin looks to serve the unbanked through the use of mobile technology, allowing migrants to access a bank account, micro-insurance, loans and low-cost remittances.	Established	3 years
BitMari	Payment and IMT	BitMari is a payment platform that significantly lowers the cost and increases the speed of remittance payments throughout the African Diaspora using Bitcoin.	Established	3 years
Zimbabwe Shared Services	Consumer Banking, Payments	ZSS is focused on concepts promoting inter-operability and universal ecosystems.	Established	5 years
Cassava Smartech	Payments, e-Commerce, Agri-Tech and Insurance.	Cassava Smartech has evolved from a Fintech operation (primarily Mobile Money) to a full-fledged smartech business, constantly tapping into new opportunities to address everyday challenges through innovative, inclusive, stable and reliable digital solutions. They have established a portfolio of distinct synergistic business pillars, namely FinTech, InsureTech, Social Payments, On-Demand Services, e-Commerce, AgriTech, HealthTech and EduTech.	Established	6 years
Kuvacash	Consumer Banking and payments	Kuvacash is a physical and digital cash (DASH) platform focused on convenience and ease of use.	Start-up	1 year
Clic.world	Consumer Banking, Personal Finance, Payments and Lending.	The Clic.World Social Banking Platform forms the basis of the Clic Social financial eco-system and provides a comprehensive general ledger-based solution for social banks, cooperative savings and loan groups, investment clubs and micro finance institutions.	Start-up	2 years
Kumusha Fintech	Payments, IMT	Kumusha Tech Group (KTG) provides cashless payment technology for Cross Border Payments.	Start-up	2 years
Payitup	Consumer Banking, Personal Finance, Payments and Lending.	Consumers make payments for MultiChoice's DStv service, with a pipeline of additional products to expand its value proposition over the next 5 years. Some of the products it will be developing include loans, investments, insurance and other financial products especially for the unbanked and underbanked local population). The company recently got funding of \$13 million USD so they can market their product. Payitup would also like to set up a clearing house for stock exchange, be the Amazon of Africa where they create a place to earn, invest and spend as well as setting up a mobile wallet that they are coming up and set-up a marketplace for insurance companies.	Start-up	2 years
Ok Money-Wave	Payments and Consumer Banking	With Ok MoneyWave one can make purchases on any ZimSwitch enabled point of sale device and perform cash deposits and withdrawals instore and from any ZimSwitch enabled ATM.	Start-up	3 years

Appendix 3

A Political, Economic, Social, Technological, Environmental and Legal (PESTEL) analysis of the fintech in industry in Zimbabwe

POLITICAL

There are regulations on pricing for services provided to the public by companies operating in the financial services sector. Such regulation is managed through the regulators of the telecommunication companies POTRAZ, the banks RBZ, insurance companies IPEC and securities exchanges SEC.

There are no special rates of tax or incentives for fintech companies in Zimbabwe. There are some licensing requirements to operate as companies under the Banking Act and Insurance Act and some of these have been listed below:

Type of institute	Application Fee (ZWL)	Minimum Capital Requirements (ZWL)
Bank	\$2,000 ⁴⁸	<ul style="list-style-type: none"> Tier I - \$25 million (current) \$100 million (2020) Tier II - \$25 million (current) \$25 million (2020) Tier III – \$5 million (current) \$7.5 million (2020)
Insurance Company	\$500 for all classes of insurance business, \$200 for micro-insurers and \$500.00 for Insurance Brokers ⁴⁹	\$5 million for Life assurers, \$2.5 million for Short Term Insurers, \$5.5 million for Reinsurers – Life and Reinsurers – Short, \$2.5 million for Funeral Assurers, \$0.25 million for Fund Administrators, \$0.20 million Professional Indemnity and \$0.10 million approved securities for Brokers and \$0.075 million Professional Indemnity and \$0.025 million approved securities for Multiple Agents

There are regulations on wages of different industries through the National Employment Councils (NEC). Each NEC has its own collective bargaining agreements for the different grades of workers that are under their protection.

Zimbabwe has a Competition Act that aims to promote and maintain competition in the economy of Zimbabwe and provides for the establishment of a Competition and Tariff Commission.

ECONOMIC

Zimbabwe has a mixed economy in which there is some private freedom. Zimbabwe’s economy depends mostly on agriculture and mining, areas hard to reach by fintech.

In 2016, the government introduced the bond note a legal tender only accepted in Zimbabwe, at the time of its introduction, it was at par with the USD but the rate between the USD and the bond has been fluctuating significantly over the last 18 months. The gap between the Interbank and the parallel market exchange rates is closing but the years of differences between the rates led to inflationary pressures as shown in Figure 9.

Figure 9: Inflation rate May 2018 – April 2019



Source: Trading Economics.com| Reserve Bank of Zimbabwe

The capital markets in Zimbabwe are relatively insufficient as compared to the need of the economy.

SOCIAL

Literacy levels in Zimbabwe are relatively high. As at 2014 it was estimated that 89% of the population who are 15 years old and above were literate. Literacy of the population is key for the demand of fintech products.

Zimbabwe has a relatively young population. Approximately 33.20%⁵⁰ of the population is aged between 20 and 39, whilst 22.20%⁵¹ is aged between 10 and 14. In the medium term (3-5 years) over 50% of the population will be at an age where they require financial services and these will either be Millennials and Generation Zs who are known to be tech-savvy generations.

Women are more financially excluded than men. 57%⁵² above of the MSME business owners in Zimbabwe are women.

TECHNOLOGICAL

The use of technology in financial services and communication has been growing in Zimbabwe. The leading network has 6.35m active mobile money subscribers in Zimbabwe which represents over 95% of the mobile money subscribers and adult population.

Facebook recently launched Libra a permissioned blockchain digital currency. This is likely to disrupt the payments space where most fintechs in Zimbabwe are operating in.

Students at the Universities and Technical Colleges are not exposed to the newest technologies in the tech space.

The fintech industry is one which is changing and evolving rapidly and therefore fintech firms have relatively little time to set up and become profitable before more advanced products are offered in the market.

ENVIRONMENTAL

No factors that have a direct impact on fintech companies were identified. There is an increase interest in greening industry in Zimbabwe as demonstrated by the recent update in listing requirements of ZSE listed companies which require Sustainability Reporting to be part of the listing requirements. Other policies relating to environmental matters are the Renewable Energy Policy which passed the validation stage in 2017 and is yet to be adopted.

LEGAL

Zimbabwe ranks 155⁵³ of 190 countries in terms of doing business indicators. It is therefore relatively difficult to start up a business in Zimbabwe.

Intellectual Property (IP) in Zimbabwe is protected by Zimbabwe Intellectual Property Office (ZIPO) or the African Regional Intellectual Property Organisation (ARIPO). Of notable absence on the IP that is protected and in line with global practice is software development.

The only law dealing with data protection, or protection of personal privacy is the Access to Information and Protection of Privacy Act Chapter 10:27. The Act deals with the prevention of unauthorised collection, use or disclosure of information by public bodies. Private institutions are not regulated by the Act. There was a data protection bill that was gazetted in 2018 and is currently awaiting assent by the President. In June 2019 Government acceded to demands by parliamentarians to amend the Consumer Protection Bill and this is currently under amendment.

The law relating to consumer protection is not as strong as laws in other jurisdictions. There are clauses on consumer protection in the Banking, Insurance and Telecommunications Acts but these are not as comprehensive as consumer protection laws in some more developed markets.

⁵⁰ <https://www.populationpyramid.net/zimbabwe/2019/>

⁵¹ According to POTRAZ data

⁵² Data presented by the RBZ Deputy Governor at the Financial Inclusion Forum in February 2019

⁵³ Economy Profile of Zimbabwe Doing Business 2019 Indicators – World Bank



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