



OPERATIONAL GUIDELINES

Microfinance Institutions
Lending in Foreign Currency
Guideline No.01-2022/BSD

JANUARY 2022



1. INTRODUCTION

- 1.1 Following the Press Statement of 26 March 2020 on Interventions in Response to the Financial Vulnerabilities Caused by The Covid-19 Pandemic, which made available to the transacting public, an option to use free funds to pay for goods and services chargeable in local currency, many Microfinance Institutions (MFIs) have approached the Bank for authority to lend in foreign currency.
- 1.2 Microfinance Institutions advised that they were receiving numerous enquiries on foreign currency denominated loans from both exporting and non-exporting clients, who earn significant revenue in foreign currency from local sales as well as foreign remittances.
- 1.3 Having considered the important role played by Microfinance Institution in economic empowerment of MSMEs, women, youth and other marginalised communities, the Reserve Bank hereby authorises Microfinance Institutions to lend in foreign currency subject to the following operational guidelines:

2. APPLICATION

- 2.1 These guidelines are applicable to all Microfinance Institutions registered in terms of the Microfinance Act [Chapter 24:30] who may wish to lend in foreign currency.
- 2.2 Every Microfinance Institution is required to apply for authority, from the Registrar of Microfinance Institutions, to lend in foreign currency. Such application shall be copied to the Exchange Control at the Reserve Bank of Zimbabwe.
- 2.3 The application shall be accompanied by the applicant Microfinance Institution's board resolution authorising the institution to engage in lending in foreign currency.
- 2.4 No Microfinance Institution shall engage in lending in foreign currency without authorisation from the Registrar of Microfinance Institutions.

3. PERMISSIBLE SOURCES OF THE FOREIGN CURRENCY

- 3.1 Every microfinance institution is required to submit evidence of availability and / or capacity to raise the foreign currency.
- 3.2 For clarity, the applicant shall submit the following, together with the application:
 - (a) Institution's bank statement (for a period of at least three (3) months; and

(b) In cases where the foreign currency was borrowed locally, a copy of facility letter confirming source of foreign currency loan(s).

3.3 Microfinance institutions seeking to access foreign lines of credit shall seek prior approval from Exchange Control. Any offshore borrowings by microfinance institutions shall be made in line with the current Exchange Control provisions for external borrowing.

4. RESTRICTIONS ON SOURCE OF FUNDING

4.1 Microfinance institutions are prohibited from applying for foreign currency from the foreign currency auction floor for the purposes of on-lending.

4.2 There shall be no recourse to the interbank market or Foreign Exchange Auction System by microfinance institutions for on-lending or repayment by the borrower.

5. CASH DISBURSEMENTS

5.1 The maximum loan amount that MFIs can disburse to borrowers as cash is USD250. For avoidance of doubt any approved foreign currency loan amount above USD250 shall be disbursed through normal banking channels.

6. BORROWERS

6.1 Microfinance institutions are required to lend to borrowers with sustainable sources of foreign currency income to meet loan repayments.

6.2 The microfinance institutions are required to ensure that effective KYC systems are in place to determine the borrower's sources of foreign currency.

6.3 The institution is required to put in place systems and measures to manage money-laundering risk.

7. LOAN AGREEMENT

7.1 A template of the loan agreement to be used for foreign currency denominated loans shall be submitted, together with the application, to the Registrar of Microfinance Institutions and copied to Exchange Control.

7.2 Every microfinance shall ensure that a borrower in foreign currency is given either a hard or a soft copy of a signed loan agreement spelling out all terms and conditions of the loan and with a Repayment Schedule attached thereto

7.3 All interest rates and any other charges on foreign currency denominated loans shall be subject to prior approval by the Registrar. The Registrar shall subject the interest rates and any other charges to assessment on reasonability of pricing and fairness.

8. ADMINISTRATION OF FOREIGN CURRENCY CASH & FCAs

8.1 Every microfinance institution issuing loans in foreign currency shall be required to open Nostro FCA (Domestic) with Authorized Dealers of their choice where banking of foreign currency receipts and disbursements of foreign currency receipts and disbursement of foreign currency loans shall take place.

8.2 No microfinance institution shall operate individual foreign currency accounts for its clients on its own account.

8.3 The deposits into Nostro FCA (Domestic) shall not be subject to 20% statutory liquidation. In all circumstances, funds received as cash from clients shall be deposited into the FCA account and thereafter withdrawn for utilisation to facilitate proper accounting of such funds.

8.4 In order to reduce administrative costs, the MFI shall maintain float of up to USD2,500 and balances above the float limit must be banked with Authorised Dealers.

9. QUARTERLY REPORTING

9.1 Every microfinance institution that lends in foreign currency shall be required to submit, to the Reserve Bank of Zimbabwe or Registrar, within fourteen (14) working days from the end of the reported quarter, a Quarterly Report on its foreign currency lending activities.

9.2 The report shall clearly detail the names of borrowers, the purpose of the loan, principal amount, instalment, and outstanding balance.

9.3 Further, the microfinance institutions are required to submit a report on asset quality for the foreign currency denominated loan portfolio on a quarterly basis

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