Zimbabwe: The Case for a Credit Bureau

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The establishment of a credit bureau in Zimbabwe is long overdue. The move, when finally executed, is set to reduce information asymmetry between lenders and borrowers. Several attempts have been made to establish the much-awaited credit bureau by industry as well as independent individuals but very little has been achieved on the ground. As a result lenders continue to struggle to assess credit risk more accurately resulting in high costs of borrowing.

The Bankers Associations of Zimbabwe (BAZ) has been pushing for the establishment of a credit bureau since 2009 when the economy was dollarized in a bid to promote the exchange of credit information among lenders in the financial sector, largely affected by non-performing loans.

The launch of a credit bureau will help financial institutions make informed lending decisions; support automated underwriting and lower operational costs for banks.

Banks non-performing loans increased to 9.9% of all advances as of June this 2012, up from 7.55% by the same period in 2011 according to the Ministry of Finance. According to the same Ministry, total banking sector loans grew by 18.5% to US$3.7 billion as of June 2012, compared to US$2.7 billion in December of 2011. Lending to individuals grew by 18.0% as at June 2012, compared to 8.6% in the same period in 2011. From the same report lending to agriculture and services sectors dropped 3.6% to 15% and 13%, respectively.

The banking sector continues to advance only short-term loans with a maximum term of two years. Coupled with subdued capital inflows, this has resulted in an economy deprived of investment in capital intensive projects that are imperative for growth. In the same market there are very active microfinance institutions (MFIs) lending to salaried individuals and other consumers. The MFIs, which have a combined loan book of US$120 million, are very prone to bad loans as the customers borrow from every institution as their indebtedness is unknown.

According to the Central Bank, total bank deposits at half-year 2012 increased to US$4.2 billion, representing a 31.8% growth from US$3.05 billion as at December 31, 2011. However, the apex bank also reported that growth in deposits had now slowed down, though there had been an increase in time deposits of more than 30 days which had grown by 96.18%, while deposits of less than 30 days grew by 13.54%.

The nature of deposits reflected a shifting of economic agents from non-interest-earning balances to interest-earning accounts. This was because many banks quoted demand and savings rates at below 3.8%, while time deposits attracted rates as high as 24%. However, despite the growth in deposits, the deposit base continued to be transitory, a development which continues to negatively impact the intermediary role of banks.

Current studies have revealed the relevance of a credit bureau in managing risk and that a functioning credit bureau in an emerging market, like Zimbabwe, would improve information flow and sharing amongst credit givers in the economy which, would in turn, impact the overall availability and accessibility of credit.

“Information is the lifeblood of the modern economies. In many emerging countries, information about a business’s or individual’s credit track record is simply unavailable. The result: borrowing money is difficult and interest rates are high to offset the higher risk”, as noted by the Credit Insurance Conference recently held in Harare.

If lenders have better quality information about borrowers, this would give them (borrowers) improved access to credit which translates to greater availability of credit at lower cost. The bottom-line is that the availability of information will stimulate economic activity and growth of the economy and will reward responsible lending and borrowing.

A study by the International Finance Corporation showed that access to credit results in a reduction in the cost of doing business, particularly for Small and Medium Enterprises(SME) through start-ups driving SME development which leads to the creation of employment and, therefore, higher tax revenues for the Central Government.

Responsible credit increases the purchasing power of consumers leading to increased demand for better homes, better mobility (cars) and increased leisure options and general consumption in the economy.

A weak legal and regulatory framework in Zimbabwe, which is critical to the success of the credit reporting process, presents challenges in setting up a viable credit reference bureau in the country. Strong laws that ensure the integrity of a credit bureau must be implemented so that lenders and consumers can leverage its assets with confidence. Its use must be for permissible purposes only, requiring restricted access to the information and the consent of individuals to curb possible abuse. Integrity of the information in a credit reference database is crucial. Well defined data reporting requirements and their enforcement are necessary to ensure the integrity of the data. Strong security measures including data encryption must be implemented to prevent unauthorized access to the data.

- The successful implementation of a viable Credit Reference Bureau in Zimbabwe would induce transparency in the economy, as there will be greater sharing of information while consumers would be more aware of their financial exposure.
- The bureau would promote a loan repayment culture and ensure easy access to information by banks, easy assessment of credit risk at sector level and help borrowers build good profiles for more bargaining power.
- The bureau would also help banks combat fraud, reduce bad debt, and enhance financial stability and processing of loan applications to key sectors such as agriculture.
- There could more than what's meets the eye in terms of legislation hence the lack of movement in forging ahead in terms of the establishment of such an important institution in the country.