

Gaps and Flaws in the Current Statutory Framework for the Regulation and Supervision of Banking Institutions in Zimbabwe¹

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Abstract

There are various statutes that directly and indirectly deal with the regulation and supervision of banks in Zimbabwe. These statutes are explored and discussed in this article to unpack their adequacy and expose the gaps and/or flaws that are imbedded in them in order to recommend possible measures that could adopted by banks, regulatory authorities and policy makers to combat such flaws. Accordingly, the regulation and supervision of banks is carefully discussed in terms of the Banking Act [Chapter 24:20] 9 of 1999, the Microfinance Act [Chapter 24:29] 3 of 2013, the Reserve Bank of Zimbabwe Act [Chapter 22:15] 5 of 1999, the Deposit Protection Corporation Act [Chapter 24:29] 7 of 2011, the Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24] 2 of 2004, the Securities Act [Chapter 24:25] 17 of 2004 and the Insurance and Pensions Commission Act [Chapter 24:21] Act 7 of 2000. These statutes should be revamped to enact adequate provisions that enhance the regulation and supervision of banks in Zimbabwe. Moreover, the aforesaid provisions should be consistently enforced by the relevant authorities to prevent and combat bank failures.

Keywords: regulation, supervision, banking institutions, flaws, statutory framework.

JEL Classification: K22, K23

DOI: 10.62768/PLPA/2025/14/1/04

Please cite this article as:

Ncube, Menelisi & Howard Chitimira, „Gaps and Flaws in the Current Statutory Framework for the Regulation and Supervision of Banking Institutions in Zimbabwe”, *Perspectives of Law and Public Administration* 14, no. 1 (March 2025): 70-88.

Article History

Received: 20 October 2024
Revised: 10 December 2024
Accepted: 10 February 2025

1. Introductory remarks

Banking regulation is a form of state or government intervention and/or exercise of control over banking institutions for the protection of depositors as well as the maintenance of sound monetary policies and financial stability in any country.⁴

¹ The article was influenced in part by Ncube’s Doctor of Laws (LLD) thesis entitled: *A Comparative Statutory Analysis of the Regulation and Supervision of Banking Institutions in Zimbabwe* (LLD Thesis, North-West University, 2022), pp. 71-88.

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Banking regulation occurs when the policy makers enact certain laws, rules and/or regulations to enable banks and other related financial institutions to effectively protect financial consumers, promote financial stability and prevent financial crime by adopting sound banking practices. Banks and related financial institutions are obliged to comply with such banking laws, rules and regulations to ensure the safety and stability of the financial sector as well as the efficiency of the payments system.⁵ On the other hand, banking supervision refers to the monitoring and intervention by central banks and/or relevant regulatory authorities to ensure that banks and related financial institutions comply with the relevant laws, rules and/or regulations to promote the safety and soundness of the banking sector.⁶

Given this background, it is important to note that there are various statutes that directly and indirectly deal with regulation and supervision of banks in Zimbabwe. These statutes are explored and discussed in this article to unpack their adequacy and expose the gaps and/or flaws that are imbedded in them in order to recommend possible measures that could adopted by banks, regulatory authorities and policy makers to combat such flaws. Accordingly, the regulation and supervision of banks is carefully discussed in terms of the Banking Act [Chapter 24:20] 9 of 1999, the Microfinance Act [Chapter 24:29] 3 of 2013, the Reserve Bank of Zimbabwe Act [Chapter 22:15] 5 of 1999, the Deposit Protection Corporation Act [Chapter 24:29] 7 of 2011, the Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24] 2 of 2004, the Securities Act [Chapter 24:25] 17 of 2004 and the Insurance and Pensions Commission Act [Chapter 24:21] Act 7 of 2000. We submit that these statutes should be revamped to enact adequate provisions that enhance the regulation and supervision of banks in Zimbabwe. Moreover, the aforesaid provisions should be consistently enforced by the relevant authorities to prevent and combat financial crime and bank failures.

Dudchenko, Goncharenko, T., Didenko, O., & Olejarz, T, 'Banking Regulation in Ensuring Bank's Efficiency: Looking Through Different Forms of Ownership', 13(1) *Journal of International Studies* (2020), pp. 342, 343-358; S.I., Greenbaum, A.V. Thakor, and A.W.A. Boot, *Contemporary Financial Intermediation* 4th ed (Academic Press London 2019) 355; K. Spong, *Banking Regulation: Its Purposes, Implementation, and Effects* 5th ed (Federal Reserve Bank of Kansas City USA 2000), pp. 5-11.

⁵ L. Dragomir, *European Prudential Banking Regulation and Supervision: The Legal Dimension* (Routledge Research in Finance and Banking Law) 1st ed (Routledge London 2010), pp. 38; J.E. Stiglitz, 'The Role of the State in Financial Markets', 7(1) *The World Bank Economic Review* (1993), pp. 19, 20; G.J Benston, 'Is Government Regulation of Banks Necessary?' 18(2/3) *Journal of Financial Services Research* (2000), pp.185, 188; see related discussion by D. Singh and J.R. LaBross, 'Developing a Framework for Effective Financial Crisis Management', 2 *OECD Journal Financial Market Trends* (2011), pp. 1, 3-30.

⁶ C. Altavilla, et al 'Banking Supervision, Monetary Policy and Risk-Taking: Big Data Evidence from 15 Credit Registers', *European Central Bank Working Paper Series No 2349* (2020), pp. 1, 4; P.K. Ozili, 'Banking Stability Determinants in Africa', 14(4) *International Journal of Managerial Finance* (2018), pp. 462, 464; D.T. Llewellyn, 'Some Lessons for Regulation from Recent Bank Crises', 11(1) *Open Economics Review* (2000), pp. 69, 70; Neanidis, K.C., 'Volatile Capital Flows and Economic Growth: The Role of Banking Supervision', 40 *Journal of Financial Stability* (2019), pp. 77, 81.

2. The relevant statutes for the regulation and supervision of banking institutions in Zimbabwe

2.1. The Reserve Bank of Zimbabwe Act

The Reserve Bank of Zimbabwe Act⁷ was enacted to, *inter alia*, provide a statutory framework for the regulation and supervision of banks through the Reserve Bank of Zimbabwe (RBZ) in the Zimbabwean financial sector. The RBZ was established in terms of section 4 of the RBZ Act. The RBZ is empowered to supervise banking institutions and maintain the proper functioning of the Zimbabwean monetary policy.⁸ The RBZ Act enumerates the powers and functions of the RBZ.⁹ It also regulates office bearers of the RBZ and their powers and duties in relation to, *inter alia*, bank supervision, issuance of local and foreign currencies, monetary policy and interest rates.¹⁰ The RBZ is further required to regulate the monetary system, maintain the stability of the Zimbabwean dollar and foster the liquidity, solvency, stability and proper functioning of the Zimbabwean financial sector.¹¹ The RBZ is empowered to act as a banker, financial adviser and fiscal agent of the state and represent the interests of Zimbabwe in international or intergovernmental meetings, multilateral agencies and

⁷ Section 6(1)(e) of the Reserve Bank of Zimbabwe Act [Chapter 22:15] 5 of 1999 (RBZ Act), the RBZ Act states that the RBZ has the powers “to supervise banking institutions and to promote the smooth operation of the payment system”; see related discussions by S. Mukoka, ‘Diaspora Remittances and Economic Growth in Zimbabwe’, 1(4) *International Journal of Multidisciplinary Research and Growth Evaluation* (2020), pp. 36, 37; M. Chipere, ‘Crisis of Political Leadership in Zimbabwe’, 47(164) *Review of African Political Economy* (2020), pp. 313, 317; Machirinani, S., Shoko, T., Shoko, J., Dube, S.D.G. & Nyoni, T., ‘Evaluating The Effectiveness of the Macropprudential Policy and Its Interaction with the Monetary Policy In Zimbabwe (2009-2017)’, 7(4) *International Journal of Economics, Business and Management Studies* (2020), pp. 17, 24.

⁸ Section 6(1)(e) & (f) of the RBZ Act; J.D.G Nhavira, E. Mudzonga, and E. Mugocha, ‘Financial Regulation and Supervision in Zimbabwe: An Evaluation of Adequacy and Options’, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 1, 10-11; O. Kuraone, et al, ‘Tax Evasion, Political/Public Corruption and Increased Taxation: Evidence from Zimbabwe’, 28(1) *Journal of Financial Crime* (2020), pp. 300, 306; O.A. Olubukola, et al, ‘Saving Practices and Economic Performance: A Zimbabwean Case 1980-2015’, 11(2) *Asian Economic and Financial Review* (2021), pp. 118, 123.

⁹ Sections 6 & 7 of the RBZ Act; J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10-11; M.T. Tipedze, et al, ‘The Effect of Monetary and Exchange Control Policies on the Quality of Financial Reporting in Zimbabwe’, 4(12) *Journal of African Interdisciplinary Studies* (2020), pp. 91, 92; S. Dzomira, ‘Analysis of Bank Failures During Financial Tumult in Africa-Zimbabwe: A Historical Review’, 3(3) *Journal of Governance and Regulation* (2014), pp. 75, 79.

¹⁰ Sections 6-7 & 14-24 of the RBZ Act; M.T. Tipedze, et al, 4(12) *Journal of African Interdisciplinary Studies* (2020), pp. 92; J.K. Muorwel, and L. Vincent, ‘Covid-19 in Zimbabwe: Exposing Government Flaws and Testing People’s Resilience’, *International Institute of Social Studies Working Paper No 669* (2020), pp. 1, 11.

¹¹ Section 6(1)(a) to (c) read with section 7 of the RBZ Act.

other organisations in matters concerning monetary policy.¹² Notably, the RBZ is obliged to promote the interests of Zimbabwe whenever appropriate and in accordance with any written directions given to it by the relevant Minister in terms of the RBZ Act.¹³ The RBZ is obliged to provide banking services for the benefit of foreign governments, foreign central banks or other monetary authorities, and international organisations of which Zimbabwe is a party.¹⁴ It is further required to actively participate in the programmes and/or activities of like-minded international organisations that seeks to promote financial and economic stability through international monetary co-operation and collaboration.¹⁵

However, the RBZ has to date struggled to fulfil its functions optimally and consistently. This has given rise to a number of bank failures that are directly and directly attributable to the poor regulation of the banks and other related financial institutions by the RBZ since 1980 to date.¹⁶ The RBZ has grappled with the enforcement of the relevant provisions of the RBZ Act and other related legislation that is discussed below.¹⁷ This was exacerbated by the introduction and utilisation of the multicurrency system in Zimbabwe, which created numerous regulatory and capacity challenges for the RBZ and other enforcement authorities. Moreover, the RBZ has also grappled with risk-based supervision. For instance, the RBZ has reportedly faced numerous challenges to adopt and utilise an adequate risk-based supervision approach for banks and other related financial institutions since 1980 to date.¹⁸ It further struggled to enforce and comply with the relevant Basel II and/or Basel III standards for banking regulation and supervision. This was worsened by its failure to provide appropriate and consolidated supervision of banks and related financial institutions in accordance with the RBZ Act and international best practices.¹⁹

The RBZ has struggled to regulate mobile money services effectively. It is submitted that the RBZ adopted a “wait and see” approach to mobile money regulation, which allows mobile money operators to provide their services without many

¹² Section 6(1)(g) & (h) read with section 7 of the RBZ Act.

¹³ Section 6(1)(h) & (k) read with section 7 of the RBZ Act.

¹⁴ Section 6(1)(i) read with section 7 of the RBZ Act.

¹⁵ Section 6(1)(j) read with section 7 of the RBZ Act.

¹⁶ See J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10-11; M.T. Tipedze, et al, 4(12) *Journal of African Interdisciplinary Studies* (2020), pp. 91, 92; S. Dzomira, 3(3) *Journal of Governance and Regulation* (2014), pp. 75, 79.

¹⁷ See J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10-11; M.T. Tipedze, et al, 4(12) *Journal of African Interdisciplinary Studies* (2020), pp. 91, 92; S. Dzomira, 3(3) *Journal of Governance and Regulation* (2014), pp. 75, 79.

¹⁸ C.L., Dhliwayo, ‘Limiting the Risk of Failure in Financial Institutions’, *Public Accountants & Auditors Board Conference* (2015), pp. 1, 2-21; J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10-11; M.T. Tipedze, et al, 4(12) *Journal of African Interdisciplinary Studies* (2020), pp. 91, 92; S. Dzomira, 3(3) *Journal of Governance and Regulation* (2014), pp. 75, 79.

¹⁹ C.L., Dhliwayo, *Public Accountants & Auditors Board Conference* (2015), pp. 1, 2-21; J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10-11.

restrictions. Additionally, the RBZ failed to adopt and introduce mobile money operations timeously. For instance, the RBZ has been formulating a series of poor and unsuccessful monetary policy strategies in Zimbabwe since 1980 to date. The RBZ struggled to supervise and enforce its monetary policy strategies such as monetary targeting, reserve money targeting, central bank quasi-fiscal activities and dollarisation.²⁰ It is submitted that political interference, corruption and the lack of independence on the part of the RBZ have contributed to the failure of its monetary policies and the poor supervision of banking institutions in the Zimbabwean financial sector.²¹ This follows the fact that the RBZ Act does not expressly provide for the functions of the RBZ to be exercised independently. For instance, the RBZ Act requires the governor of the RBZ to exercise his or her duties subject to the policy direction of the Minister of Finance, especially on the formulation and implementation of the monetary policy.²² This could indicate that the RBZ governor does not have operational independence.

Notably, the RBZ Act stipulates that any government borrowing from the RBZ should not exceed 20 per cent of the previous year's ordinary revenue collections of the state.²³ However, the government of Zimbabwe exceeded this statutory limit in 2018 since the state revenue collections obtained in 2017 amounted to US\$3,814 billion yet the government of Zimbabwe's overdraft with the RBZ was already about US\$2,3 billion in October 2018, which is more than three times the statutory limit.²⁴ Thus, more needs to be done to ensure that the RBZ governor has operational independence to combat political interference and corruption.

2.2. The Deposit Protection Corporation Act

The Deposit Protection Corporation Act²⁵ was enacted to protect depositors and other financial consumers that utilises banks and related financial institutions from losing their monies and investments arbitrarily and unfairly. This Act seeks to promote the safety and soundness of banks and related financial institutions in the Zimbabwean financial sector. Accordingly, the Deposit Protection Corporation (DPC) was established in terms of section 4 of the DPC Act. The DPC provides a guarantee for the repayment of deposits and/or payment of compensation to the depositors of money in affected banks or related financial institutions in case of bank failures and/or

²⁰ W. Kavila, and P. Le Roux, 'The Role of Monetary Policy in Zimbabwe's Hyperinflation Episode', 9(2) *African Review of Economics and Finance* (2017), pp.131, 142.

²¹ W. Kavila, and P. Le Roux, 9(2) *African Review of Economics and Finance* (2017), pp.131-142.

²² S. Buigut, 'The Effect of Zimbabwe's Multi-Currency Arrangement on Bilateral Trade: Myth Versus Reality', 5(3) *International Journal of Economics and Financial Issues* (2015), pp. 690, 691.

²³ Section 11 of the RBZ Act; F. Mushoriwa, and B. Moyo, 'A Case for Independence of the Reserve Bank of Zimbabwe', *Mushoriwa Pasi Attorneys Media Release* (2019), pp. 1-3.

²⁴ In this regard, the statutory limit was US\$ 762,8 million (0.20 x US\$ 3,814 billion).

²⁵ Deposit Protection Corporation Act [Chapter 24:29] 7 of 2011 (DPC Act); J.D. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10; M. Koziańska, 'The Non-Payout Functions of Deposit Insurance Schemes', 27(2) *International Journal of Finance & Economics* (2022), pp. 1749, 1750-1768.

insolvency.²⁶ The DPC administers the Deposit Protection Fund (DPF) in terms sections 5(1)(a) and 13 of the DPC Act. The DPC is empowered to levy contributions from contributory institutions and monitor the business and activities of such institutions to ensure minimal DPF withdrawals.²⁷ In this regard, it should be noted that the term “contributory institution” refers to a banking institution, building society or any other organisation which is a contributory institution in terms of Part IV of the DPC Act, that is not suspended or revoked in terms of section 27 of the same Act.²⁸

The DPC is obliged to assist the Minister of Finance and the RBZ in the formulation and implementation of the fiscal and monetary policy to ensure sound banking practices and fair competition among banks and/or contributory institutions in Zimbabwe.²⁹ Furthermore, the DPC is required to keep the public informed regarding its role in promoting financial stability and the rights of depositors, particularly when the contributory institution become insolvent.³⁰ It is also authorised to exercise any other function conferred upon it in terms of the DPC Act or any other statute.³¹

The DPC is required to enhance competition between different financial institutions in the Zimbabwean financial sector so as to encourage contributory institutions to promote best practices.³² The DPC is obliged to exercise its functions in a fair, accountable and transparent manner at all times.³³ Nonetheless, the DPC is yet to effectively and consistently conduct its statutory functions and duties in a fair, accountable and transparent manner owing to, inter alia, flaws and gaps in the DPC Act, poor enforcement of the DPC Act, political interference and corruption.³⁴

2.3. The Banking Act

The Banking Act [Chapter 24:20] 9 of 1999 (Banking Act) was enacted to, inter alia, monitor and regulate banks,³⁵ capital requirements of banks,³⁶ accounting and audit

²⁶ Section 5(1)(c) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

²⁷ Section 5(1)(b) & (d) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

²⁸ Section 2 of the DPC Act.

²⁹ Section 5(1)(e) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

³⁰ Section 5(1)(f) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

³¹ Section 5(1)(g) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

³² Section 5(2)(c) & (d) of the DPC Act.

³³ Section 5(3) of the DPC Act.

³⁴ J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 10.

³⁵ Section 11 of the Banking Act; K. Nyakurukwa, ‘The Zimbabwe Code on Corporate Governance (ZimCode) and Financial Performance’, 23(3) *Journal of African Business* (2022), pp. 549, 554.

³⁶ Section 29 of the Banking Act; H. Chitimira and M. Ncube, ‘The Regulatory Nexus Between Corporate and Financial Markets Law in Promoting Economic Growth and Viable Financial Markets in Zimbabwe’, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 91, 94.

requirements³⁷ as well as the supervision and investigation of banking institutions³⁸ and related aspects of curatorship and winding up of such institutions.³⁹ Notably, the term “banking institution” refers to a company that is registered or required to be registered in terms of the Banking Act to conduct any class of banking business in Zimbabwe.⁴⁰ Likewise, the term “banking business” refers to the business of accepting deposits withdrawable or repayable on demand or after a fixed period or after notice and the employment of those deposits, in whole or in part, by lending or any other means for the account and at the risk of the person accepting the deposits.⁴¹ Section 2 of the Banking Act defines “mobile banking” as an arrangement that allows a customer of: (a) a banking institution; or (b) a licensee under the Postal and Telecommunications Act [Chapter 12: 05]; or (c) any other operator of a wireless communication system to access any financial service activities through a mobile device. Moreover, the terms such as “accepting house”, “banking activity”, “commercial bank”, “debt security”, “financial institution” and “deposit” are broadly defined in section 2 of the Banking Act. Nonetheless, key terms such as “bank regulation” and “bank supervision” are not defined in section 2 of the Banking Act.

The Banking Act establishes the office of the Registrar of Banking Institutions that is responsible for the registration and cancellation of banking institutions in Zimbabwe.⁴² The Registrar of Banking Institutions is required to exercise his or her functions impartially and in accordance with the Banking Act.⁴³ The functions of the Registrar of Banking Institutions are enumerated in sections 4A and 4B of the Banking Act. Section 4C of the Banking Act provides an overview on the adoption of prudential standards of bank supervision in Zimbabwe. These prudential standards of bank supervision are statutorily enforced by the Registrar of Banking Institutions. Section 4D of the Banking Act empowers the Registrar of Banking Institutions and the RBZ to co-operate with other regulatory authorities regarding its duties and functions in order to ensure the efficient and coordinated regulation and development of the Zimbabwean financial sector. Such regulatory authorities include the Chief Registrar of Companies, the Commissioner of Insurance, Pension and Provident Funds, the Registrar of Collective Investment Schemes, the Director of the Bank Use Promotion and Suppression of Money Laundering Unit, the Chief Executive Officer of the Securities Commission, the Registrar of Asset Managers and the Chief Executive Officer of the DPC.

³⁷ Sections 36 and 40 of the Banking Act; H. Chitimira and M. Ncube, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 94.

³⁸ Sections 45-52 of the Banking Act; H. Chitimira and M. Ncube, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 94.

³⁹ Sections 53-57 of the Banking Act; H. Chitimira and M. Ncube, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 94-112.

⁴⁰ Section 2 of the Banking Act; H. Chitimira and M. Ncube, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 94-112.

⁴¹ Section 2 of the Banking Act; H. Chitimira and M. Ncube, 10 *Interdisciplinary Journal of Economics and Business Law* (2021), pp. 94-112.

⁴² Sections 4 & 4A(1) of the Banking Act.

⁴³ Section 4B(1) of the Banking Act.

The Banking Act stipulates that banking businesses and banking activities are only conducted by registered banking institutions.⁴⁴ Any person who contravenes this provision shall be guilty of an offence and liable to a fine not exceeding level fourteen or imprisonment for a period not exceeding five years or to both the fine and imprisonment.⁴⁵ Although these penalties are a welcome development, they are not deterrent enough to discourage those that may want to operate without licences. Section 6(1) of the Banking Act enumerates classes of banking business such as commercial banks, accepting houses, discount houses and finance houses. It appears that section 6(2) of the Banking Act requires banking institutions not to be registered in more than one class of banking business. The rationale for this restriction is not clear. We argue that banks should be registered in many banking classes provided that they have capacity to conduct their banking activities in such classes.

Banking activities such as buying and selling instruments, buying and selling shares, money broking, receiving deposits, extending credit, including consumer and mortgage credit, factoring, with or without recourse and the financing of commercial transactions are outlined in section 7 of the Banking Act. The registration of banking institutions is outlined in section 8 of the Banking Act. The terms and conditions of such registration, issuing of registration certificates, amendment of registration, cancellation of registration and the maintenance of banking institutions register is administered and enforced by the Registrar of Banking Institutions.⁴⁶

The Banking Act does not adequately provide for market conduct regulation and prudential regulation of banks and related financial institutions. It appears to promote a haphazard and fragmented regulatory approach which utilises many regulatory authorities. Consequently, there is poor supervision and regulation of banks and related institutions. This also negatively affects the promotion of financial stability, sound business practices and good market conduct in the Zimbabwean financial sector. Thus, the supervision and investigation strategies that are currently employed to banks and related institutions under the Banking Act are flawed.⁴⁷ This is worsened by the fact that Zimbabwe is still not very much technologically and financially equipped⁴⁸ to effectively implement some of the Basel II and III recommendations. Accordingly, the Banking Act should be amended to incorporate robust provisions on prudential regulation of banks and related financial institutions in line with the Basel II and III recommendations. Banks and related institutions should be statutorily obliged to comply with such provisions to enhance prudential regulation in the Zimbabwean financial sector.

⁴⁴ Section 5 of the Banking Act.

⁴⁵ Section 5(3) of the Banking Act.

⁴⁶ Sections 9-11; 13-15 of the Banking Act.

⁴⁷ Sections 45-52C of the Banking Act.

⁴⁸ According to J.D.G Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9, the financial crisis that occurred in Zimbabwe from 2000 to 2008 has hindered the full implementation of the Basel I and II banking recommendations in Zimbabwe.

2.4. The Microfinance Act⁴⁹

The Microfinance Act was enacted to provide for the registration, supervision and regulation of persons conducting microfinance business in Zimbabwe.⁵⁰ This Act does not expressly define the term “microfinance”. Microfinance is a financial service that is specifically designed to help persons such as low-income earners and small businesses (SMEs) that struggle to access conventional banking and other related financial services. Put differently, microfinance is a category of financial services targeted at the poor, low-income earners and SMEs that do not have access to traditional banking and related services.⁵¹ Microfinance includes microcredit, small loans, savings, microinsurance, micro-leasing, payment systems and remittances.⁵²

The Microfinance Act defines a “microfinance business” as a credit-only microfinance business or deposit-taking microfinance business.⁵³ Section 2 of the Microfinance Act defines a “microfinance institution” as a person that conducts microfinance business. A “credit-only microfinance business” is a business of providing loans or other credit facilities to persons who operate micro-enterprises, small enterprises or medium enterprises as defined in section 2 of the Small and Medium Enterprises Act [Chapter 24:12]; or individuals whose monthly income is below the poverty datum line or individuals that belong to households whose combined monthly income does not exceed five times the poverty datum line as fixed by the Zimbabwe National Statistics Agency in terms of the Census and Statistics Act [Chapter 10:29] and who are not shareholders or members of the person providing the loans or credit facilities.⁵⁴ This implies that microfinance is mainly targeted at providing credit-only microfinance services to those that are marginalised and financially excluded from accessing the formal financial services such as the poor, vulnerable and low-income earners. Section 2 of the Microfinance Act provides that a “credit-only microfinance institution” is a microfinance institution which conducts credit-only microfinance business.

Moreover, section 2 of the Microfinance Act provides that a “deposit-taking microfinance business” is a business of accepting deposits from persons who operate micro-enterprises, small enterprises or medium enterprises as defined in section 2 of the Small and Medium Enterprises Act [Chapter 24:12]; or individuals whose monthly income is below the poverty datum line or individuals that belong to households whose combined monthly income does not exceed five times the poverty datum line as fixed by the Zimbabwe National Statistics Agency in terms of the Census and Statistics Act [Chapter 10:29], where the depositors are not shareholders or members of the person

⁴⁹ Microfinance Act [Chapter 24:29] 3 of 2013 (Microfinance Act), see ss 2-43.

⁵⁰ Sections 2-43 of the Microfinance Act.

⁵¹ S.M. Sundaresan, *Microfinance: Emerging Trends and Challenges* 1st ed (Edward Elgar Publishing Cheltenham 2008), pp. 3-122.

⁵² J.C. Brau and G.M. Woller, ‘Microfinance: A Comprehensive Review of the Existing Literature’, 9(1) *Journal of Entrepreneurial Finance and Business Ventures* (2004), pp. 1, 3-17.

⁵³ Section 2 of the Microfinance Act.

⁵⁴ Section 2 of the Microfinance Act.

accepting the deposits. Likewise, section 2 of the Microfinance Act provides that a “deposit-taking microfinance institution” is a microfinance institution which prioritises deposit-taking microfinance business and the issuance of loans. Nonetheless, this Act does not define other relevant terms such as “bank”, “banking institution”, “supervision”, “lending”, “loan” and “finance”.

The Microfinance Act empowers the RBZ to appoint the Registrar of Microfinance Institutions who is responsible for registering microfinance institutions and cancelling their registration and/or performing any other relevant functions.⁵⁵ These and other related functions of the Registrar of Microfinance Institutions are outlined in section 5 of the Microfinance Act. Section 5A of the Microfinance Act establishes the Microfinance Advisory Council that is empowered to, inter alia, advise the relevant Minister on strategies and policies to develop microfinance businesses as well as to promote good financial practices among microfinance institutions and to exercise any other functions that are conferred on it by that Minister. Section 6 of the Microfinance Act provides that no person may conduct any microfinance business unless if they are registered in terms of the same Act. In this regard, any person who contravenes the aforesaid provision shall be liable to a fine not exceeding level fourteen or to imprisonment for a period not exceeding five years or to both the fine and imprisonment.⁵⁶

Microfinanciers should be registered and the Registrar of Microfinance Institutions is obliged to keep the register of all microfinanciers.⁵⁷ Section 10 of the Microfinance Act provides that the registration of microfinance institutions remains valid until they are lawfully cancelled.⁵⁸ A microfinance institution shall immediately cease to conduct any microfinance business soon after the cancellation of its registration.⁵⁹ The registration of microfinance institutions may be amended in terms of section 11 of the Microfinance Act. Credit-only microfinance institutions may renew their registration in terms of section 10A of the Microfinance Act.

Every microfinance institution is obliged to comply with the microfinance institutions code of conduct as provided in sections 17 and 19 of the Microfinance Act. Thus, the directors and shareholders of microfinance institutions should ensure compliance with the microfinance institutions code of conduct, corporate governance requirements and fiduciary duties.⁶⁰ Microfinance institutions are also required to have a risk committee to, inter alia, identify and prevent possible risks as well as to evaluate the adequacy and efficiency of the adopted risk policies, procedures, practices and/or controls.⁶¹ They are also required to keep proper records of their accounts, audit records, transactions and financial records of all corporate microfinanciers.⁶² Microfinance

⁵⁵ Section 4 of the Microfinance Act.

⁵⁶ Section 6(2) of the Microfinance Act.

⁵⁷ Sections 8-9 of the Microfinance Act.

⁵⁸ Section 12 of the Microfinance Act.

⁵⁹ Section 14 of the Microfinance Act.

⁶⁰ Sections 20A and 20B of the Microfinance Act.

⁶¹ Section 20D of the Microfinance Act.

⁶² Sections 21-23 of the Microfinance Act.

institutions are strictly restricted to their registered microfinance business and are not authorised to engage in activities such as issuing of third party cheques; opening current accounts; foreign trade operations; trust operations; enterprise capital investments; underwriting or placement of securities and wholesale or retail trade.⁶³ All microfinance institutions are obliged to keep a minimum capital and reserves as may be prescribed and are restricted to a certain percentage on shareholding and transfer of shares.⁶⁴ The aforesaid restrictions and requirements are probably aimed at curbing systemic risks and financial crimes such as money laundering, naked short selling, market manipulation and insider trading. Nonetheless, the RBZ has to date struggled to effectively monitor and supervise microfinance institutions to ensure their compliance with the Microfinance Act.⁶⁵

The RBZ has also struggled to oversee the application of the Microfinance Act to microfinance institutions, any subsidiary or division of a banking institution and building societies that conduct microfinance businesses.⁶⁶ Before the enactment of the Microfinance Act, the Moneylending and Rates of Interest Act⁶⁷ and the Banking Act were also not effectively enforced to regulate microfinance institutions in Zimbabwe.⁶⁸ The Microfinance Act did not repeal the Banking Act and the Moneylending and Rates of Interest Act. However, the Banking Act and the Moneylending and Rates of Interest Act were amended in order to enable microfinance institutions to conduct their business without necessarily functioning like banking institutions.⁶⁹ Over and above, the functions of microfinance institutions are still poorly regulated, giving rise to possible systemic risks, financial instability and poor investor confidence in the Zimbabwean financial sector and financial markets.

2.5. The Bank Use Promotion and Suppression of Money Laundering Act⁷⁰

The Bank Use Promotion Act was enacted to enhance bank regulation and combat money laundering activities in the Zimbabwean financial sector. It established the Bank Use Promotion and Suppression of Money Laundering Unit⁷¹ in a bid to promote the use of formal banking institutions and combat financial crime activities such as money laundering in the Zimbabwean financial sector.⁷² Section 2 of the Bank

⁶³ Sections 25; 26; 28; 29 & 30 of the Microfinance Act.

⁶⁴ Sections 33 & 34 of the Microfinance Act.

⁶⁵ Section 5(1)(f) of the DPC Act; J.D.G. Nhavira, E. Mudzonga, and E. Mugocha, *Zimbabwe Economic Policy Analysis and Research Unit Working Paper Series* (2013), pp. 9-10.

⁶⁶ Section 3 of the Microfinance Act; T. Makuyana, 'Microfinance Regulation and Supervision in Zimbabwe: A Critical Overview', 7(1) *Mediterranean Journal of Social Sciences* (2016), pp. 376, 378.

⁶⁷ Sections 2-8 of the Moneylending and Rates of Interest Act [Chapter 14:14] 9 of 1930 (Moneylending and Rates of Interest Act).

⁶⁸ T. Makuyana, 7(1) *Mediterranean Journal of Social Sciences* (2016), pp. 377.

⁶⁹ T. Makuyana, 7(1) *Mediterranean Journal of Social Sciences* (2016), pp. 377.

⁷⁰ Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24] 2 of 2004 (Bank Use Promotion Act).

⁷¹ Section 3 of the Bank Use Promotion Act.

⁷² Sections 3-32 of the Bank Use Promotion Act.

Use Promotion Act defines the term “finance agent” as a person who discounts private sale agreements under which goods are sold by another person who is not a registered operator as defined in the Value Added Tax Act [Chapter 23:12]. This suggests that financial agents operate unlawfully since they are not registered under the relevant legislation. Section 2 of the Bank Use Promotion Act provides that a “financial institution” refers to any banking institution registered or required to be registered in terms of the Banking Act or any building society registered or required to be registered in terms of the Building Societies Act [Chapter 24:02] 20 of 1965; or the People’s Own Savings Bank established in terms of the People’s Own Savings Bank of Zimbabwe Act [Chapter 24:22] 18 of 1999 and/or the RBZ. The term “cash” refers to Zimbabwean coins and banknotes that are currently designated as legal tender.⁷³ The term “cash dealer” means any person that carry on the business of an insurer, an insurance intermediary, a securities dealer or stock broker, a futures broker, or an operator of a gaming house, casino or lottery; or that issue, sell and/or redeem travellers’ cheques, money orders or similar instruments dealing in bullion, or collect, hold and deliver cash as part of a business that provides payroll services; or offer money-changing services or exchange currency, money cheques, travellers cheques or other negotiable instruments.⁷⁴ Section 2 of the Bank Use Promotion Act stipulates that “currency” refers to the coin and banknotes of Zimbabwe or those of a foreign country that has been designated as legal tender and is ordinarily used and accepted as a medium of exchange in the country of issue. Section 2 of the Bank Use Promotion Act also defines the terms “cash detainable offence”, “financial institution”, “law enforcement agency”, “money lender”, “negotiable instrument” and “compliance order”. However, other key terms such as “money laundering”, “banking system”, “unlawful proceeds”, “bank regulation” and “bank supervision” are not defined under the Bank Use Promotion Act. It appears that the meaning and interpretation of these terms was left to the enforcement authorities and the courts.

The Bank Use Promotion and Suppression of Money Laundering Unit promotes the use of financial institutions by the public for the purpose of mediating, facilitating or obviating cash transactions.⁷⁵ It also receive reports of suspicious transactions that are issued by designated institutions or their employees and consider such reports to determine if there are any reasonable grounds to suspect that the transactions are illicit activities so as to transmit the reports to the appropriate law enforcement authorities.⁷⁶ Such suspicious transactions could be indicative of various financial crime activities such as money laundering, market manipulation and insider trading. The Bank Use Promotion and Suppression of Money Laundering Unit is obliged to compile statistics and records on matters relating to its functions and disseminate such information to the relevant persons.⁷⁷ This is probably done to increase awareness about its functions to the public, investors and other relevant persons. The Bank Use Promotion and

⁷³ Section 2 of the Bank Use Promotion Act.

⁷⁴ Section 2 of the Bank Use Promotion Act.

⁷⁵ Section 4(a) of the Bank Use Promotion Act.

⁷⁶ Section 4(b) & (c) of the Bank Use Promotion Act.

⁷⁷ Section 4(d) of the Bank Use Promotion Act.

Suppression of Money Laundering Unit is required to give direction to financial institutions on matters relating to its functions to monitor and ensure compliance with the Bank Use Promotion Act on the part of traders, parastatals, designated institutions and other persons.⁷⁸ It is further obliged to create training facilities and provide training to designated institutions on matters relating to its functions and/or any other function that may be assigned to it under the Bank Use Promotion Act or by the RBZ governor.⁷⁹ This could be done to increase financial education and financial literacy on the part of the relevant persons to promote more compliance with the provisions of the Bank Use Promotion Act.

Sections 5 and 6 of the Bank Use Promotion Act empowers Bank Use Promotion and Suppression of Money Laundering Unit inspectors to investigate, examine and search any persons or premises suspected of contravening the aforesaid Act. Moreover, the Bank Use Promotion and Suppression of Money Laundering Unit inspectors may enter any premises and seize any book, account, notice, record, list or other document suspected to part of prohibited illicit activities.⁸⁰ The Director of the Bank Use Promotion and Suppression of Money Laundering Unit may, in consultation with the Governor of the RBZ, issue to financial institutions written directives of a general character regarding the exercise of any functions conferred or imposed on financial institutions.⁸¹ The Bank Use Promotion and Suppression of Money Laundering Advisory Committee (Advisory Committee) is also established to, inter alia, lead the formulation of a national policy to curb money laundering and promote the use of financial institutions by the public for the purpose of mediating, facilitating and obviating cash transactions.⁸² Unlawful trading in cash is further prohibited and no money lenders may keep more than 10 million dollars for the purposes of their businesses, so as to combat money laundering and other illicit activities.⁸³ Moreover, financial institutions are required to offer deposit facilities on reasonable deposit requirement terms so as to encourage all people to utilise formal banking institutions.⁸⁴ This could aimed at promoting financial inclusion of the poor and low-income earners.

Designated institutions are obliged to verify their customers' identity, establish and maintain customer records, report suspicious transactions and establish and maintain internal reporting procedures so as to detect and prevent money laundering and other related financial crimes.⁸⁵ Designated institutions that fail to comply with a disclosure order or compliance order within seven days of the date of service of the order shall be guilty of an offence and liable to a fine not exceeding level eight for each day during which it is in default of compliance with such order.⁸⁶ Police officers and/or inspectors may search a person or premise and seize any cash which is believed on

⁷⁸ Section 4(e) & (f) of the Bank Use Promotion Act.

⁷⁹ Section 4(g) & (h) of the Bank Use Promotion Act.

⁸⁰ Section 6 of the Bank Use Promotion Act.

⁸¹ Section 7 of the Bank Use Promotion Act.

⁸² Section 9 of the Bank Use Promotion Act.

⁸³ Sections 14 & 15 of the Bank Use Promotion Act.

⁸⁴ Section 17 of the Bank Use Promotion Act.

⁸⁵ Sections 24-28 of the Bank Use Promotion Act.

⁸⁶ Section 32 of the Bank Use Promotion Act.

reasonable grounds to be held by the suspects in connection with a cash detainable offence.⁸⁷ In this regard, the police officers and/or inspectors should apply to the magistrate for a search warrant in relation to any cash held by the suspected offenders in connection with cash detainable offences.⁸⁸ Obviously, this enables the police officers and inspectors to conduct their duties lawfully, fairly and constitutionally. Thus, once a search warrant is obtained, the Bank Use Promotion and Suppression of Money Laundering Unit will require the police officers and inspectors to identify, trace, freeze, seize and confiscate unlawful proceeds of serious crimes such as money laundering and drug trafficking from all suspected offenders.⁸⁹ However, the Bank Use Promotion Act does not expressly and adequately require financial institutions and cash dealers to develop and utilise prudential measures to combat money laundering and other financial crimes.⁹⁰ This approach has so far failed to deter criminals from engaging in financial crime activities. The recent gold mafia scandal and other money laundering activities that are still occurring in the Zimbabwean financial sector are a case in point of the poor law enforcement and the flaws embedded in the Bank Use Promotion Act. The RBZ, the Bank Use Promotion and Suppression of Money Laundering Unit and other relevant enforcement authorities have also struggled to effectively enforce the Bank Use Promotion Act and other financial sector laws to enhance the supervision and regulation of banks and related financial institutions in Zimbabwe. Consequently, this has negatively affected public investor confidence, market integrity, market efficiency and financial stability in the Zimbabwean financial sector and financial markets.

2.6. The Securities Act⁹¹

The Securities Act was enacted to, inter alia, establish the Securities Exchange Commission of Zimbabwe (SECZ) and provide for its objectives, functions and powers.⁹² The Act also regulates the control and marketing of securities and investment in securities as well as the registration of securities exchanges.⁹³ The Securities Act regulate the licensing of persons who trade or deal in, or manage securities.⁹⁴ The Securities Act provides for the establishment and functions of central securities depositories to facilitate the marketing and transfer of securities.⁹⁵ This Act also prohibit

⁸⁷ Section 33 of the Bank Use Promotion Act.

⁸⁸ Section 34 of the Bank Use Promotion Act.

⁸⁹ Sections 33-41 of the Bank Use Promotion Act.

⁹⁰ Sections 3-41 of the Bank Use Promotion Act.

⁹¹ See sections 2-107 of the Securities Act [Chapter 24:25] 17 of 2004 (Securities Act).

⁹² Sections 3 & 4 of the Securities Act; P.T., Ncube and H., Chitimira, 'The Statutory Prohibition of Market Manipulation in Zimbabwe', 10(1) *Juridical Tribune* (2020), pp. 130, 131; H., Chitimira and P., Mokone 'The Pros and Cons for Insider Trading Regulation in Zimbabwe', 14(2) *Law and Financial Markets Review* (2020), pp. 102, 102-103.

⁹³ Sections 3 & 4 of the Securities Act; P.T., Ncube and H., Chitimira, 10(1) *Juridical Tribune* (2020), pp. 130-148; H., Chitimira and P., Mokone, 14(2) *Law and Financial Markets Review* (2020), pp. 102-109.

⁹⁴ Sections 29-49 of the Securities Act; P.T., Ncube and H., Chitimira, 10(1) *Juridical Tribune* (2020), pp. 130-148; H., Chitimira and P., Mokone, 14(2) *Law and Financial Markets Review* (2020), pp. 102-109.

⁹⁵ Sections 68-86 of the Securities Act; P.T., Ncube and H., Chitimira, 10(1) *Juridical Tribune* (2020), pp. 130-148; H., Chitimira and P., Mokone, 14(2) *Law and Financial Markets Review* (2020), pp. 102-109.

individuals that have non-public inside information relating to the relevant securities from dealing in such securities to avoid the commission of insider trading offences.⁹⁶ Such offences will give rise to criminal and civil penalties on the part of the offenders. The Securities Act also prohibits illicit trading practices such as market manipulation.⁹⁷ Accordingly, the Securities Act empowers inspectors to supervise licensed persons, registered securities exchange and central securities depositories in order to investigate, detect and combat financial crimes that are perpetrated through such institutions. Nonetheless, this Act does not directly deal with the regulation and supervision of banking institutions because it is mainly focused on the regulation of the securities and financial markets in Zimbabwe. Consequently, it does not provide for the prudential regulation of banking institutions and related financial institutions. Therefore, the Securities Act does not expressly oblige banking institutions and related financial institutions to comply with the international best practices on banking regulation and supervision.

2.7. The Insurance and Pensions Commission Act⁹⁸

The Insurance and Pensions Commission Act was enacted to supervise, regulate, develop and administer the business and operation of insurance companies and pension funds.⁹⁹ The Act also established the Insurance and Pensions Commission to oversee the business and operation of insurance companies and pension funds in Zimbabwe.¹⁰⁰ The Insurance and Pensions Commission Act further established a Board of the Insurance and Pensions Commission¹⁰¹ to enhance the management and enforcement of its functions and duties. This Act does not expressly provide for the supervision and regulation of banks and other financial institutions. Thus, insurance institutions that offer microfinance and/or related financial services are not adequately supervised and regulated in Zimbabwe.

3. Concluding remarks

As indicated above, various statutes that directly and indirectly deal with the regulation and supervision of banks in Zimbabwe were explored to unpack their adequacy. Accordingly, it was noted that the Banking Act, the Microfinance Act, the RBZ Act, the DPC Act, the Bank Use Promotion Act, the Securities Act and the Insurance and Pensions Commission Act have numerous flaws that are negatively affecting the regulation and supervision of banks and related financial institutions in

⁹⁶ Sections 87-95 of the Securities Act; P.T., Ncube and H., Chitimira, 10(1) *Juridical Tribune* (2020), pp. 130-148; H., Chitimira and P., Mokone, 14(2) *Law and Financial Markets Review* (2020), pp. 102-109.

⁹⁷ Sections 96-99 of the Securities Act; P.T., Ncube and H., Chitimira, 10(1) *Juridical Tribune* (2020), pp. 130-148; H., Chitimira and P., Mokone, 14(2) *Law and Financial Markets Review* (2020), pp. 102-109.

⁹⁸ Insurance and Pensions Commission Act [Chapter 24:21] Act 7 of 2000 (Insurance and Pensions Commission Act), see sections 3-23.

⁹⁹ Sections 3-23 of the Insurance and Pensions Commission Act.

¹⁰⁰ Section 3 of the Insurance and Pensions Commission Act.

¹⁰¹ Section 5 of the Insurance and Pensions Commission Act.

Zimbabwe. Therefore, more needs to be done by regulatory authorities and policy makers to adopt appropriate measures to combat such flaws so as to enhance the regulation and supervision of banks and related financial institutions in Zimbabwe. In light of these flaws, the RBZ Act should be amended to expressly empower the RBZ governor to have operational independence to combat political interference and corruption. This will curb undue political interference, corruption and the lack of independence on the part of the RBZ, which negatively contribute to the failure of its monetary policies and the poor supervision of banking institutions and related financial institutions in the Zimbabwean financial sector. The RBZ governor should be statutorily empowered to independently develop innovative and contemporary monetary policies that combat hyperinflation, financial challenges such as credit-risks, liquidity crises and systemic risks in banking institutions and related financial institutions.¹⁰²

Moreover, the Banking Act should be amended to enact adequate provisions on prudential regulation of banks and related financial institutions in line with the Basel II and III recommendations. The RBZ and other relevant enforcement authorities should ensure that banks and related institutions should be statutorily obliged to comply with such provisions to enhance prudential regulation in the Zimbabwean financial sector.

The DPC Act should be amended to enact adequate provisions that empower the DPC to effectively and consistently conduct its statutory functions and duties in a fair, accountable and transparent manner. This could curb the flaws and gaps in the DPC Act which gives rise to the poor enforcement of the relevant provisions, political interference and corruption. The Microfinance Act should be amended to enact adequate provisions that specifically empower the RBZ to effectively monitor and supervise microfinance institutions to ensure their consistent compliance with such provisions. The functions of microfinance institutions should be revamped and carefully regulated to curb all possible systemic risks, financial instability and the effects of poor investor confidence in the Zimbabwean financial sector and financial markets.

The RBZ, the Bank Use Promotion and Suppression of Money Laundering Unit and other relevant enforcement authorities should be statutorily empowered to enable them to effectively enforce the Bank Use Promotion Act and other financial sector laws. This could enhance the supervision and regulation of banks and related financial institutions in the Zimbabwean financial sector. It is submitted the robust and consistent supervision and regulation of banks and related financial institutions will curb negative public investor confidence, poor market integrity, poor market efficiency and financial instability in the Zimbabwean financial sector and financial markets.

Moreover, it is recommended that policy makers and enforcement authorities should implement relevant and appropriate technological measures such as artificial intelligence to enhance the timeous detection of bank fraud, money laundering and other financial crime activities.

¹⁰² D. Sethi and D. Acharya, 'Monetary Policy and Financial Stability: The Role of Inflation Targeting', 53(1) *The Australian Economic Review* (2020), pp. 50, 50-75.

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