

## **Measuring competition in the microfinance industry using Panzar and Rosse approach**

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### **Abstract**

The microfinance sector in Zimbabwe has undergone significant transformation from its pre-independence status when it was dominated by informal credit sources such as unregistered money lenders, rotating savings clubs, credit associations, and family and friends. After the country attained independence in 1980, international and local NGOs emerged as dominant players in the microfinance sector. The sector rose to prominence in the early 1990s, exponentially growing in the early 2000s when a host of macroeconomic factors led to the rapid informalisation of the economy. Formal microfinance institutions have been facing competition from the informal microfinance institutions, the banking sector, and the mobile network operators. In light of these developments the current study evaluated competition in the microfinance industry in Zimbabwe. The study established that the microfinance sector is operating under monopolistic competition. The major drivers of competition include profitability, market share, branch networks, capital adequacy, and inflation. The study recommends that microfinance institutions should adopt prudent lending policies and strengthen their risk management practices to reduce adverse selection and moral hazard problems.

**Keywords:** Microfinance, Competition, Panzar and Rosse, Profitability, Monopolistic.