# BANK SUPERVISION DIVISION

# MICROFINANCE QUARTERLY INDUSTRY REPORT

## AS AT

## 30 JUNE 2020

# TABLE OF CONTENTS

## 1. EXECUTIVE SUMMARY

1.1. The microfinance sector recorded positive growth in aggregate net profit, total assets, total loans, aggregate equity, total deposits and outreach during the quarter ended 30 June 2020.

1.2. Total registered microfinance institutions were 217 as at 30 June 2020, comprising eight (8) deposit-taking microfinance institutions (DTMFIs) and 209 credit-only microfinance institutions (COMFIs).

1.3. Aggregate net profit for the sector increased from $20.08 million for the half year ended 30 June 2019, to $372.32 million during the period under review, largely driven by revaluation gains.

1.4. Total sector loans increased by 41.79% from $805.88 million to $1.22 billion, while total assets grew by 50.50% from $1.36 billion to $2.76 billion during the same period.

1.5. Aggregate equity for the sector more than doubled over the review period from $566.69 million to $1.23 billion. The increase was largely attributed to additional capital injections, revaluation of assets and organic growth.

1.6. Total deposits for the DTMFI sub-sector continued on an upward trend from $68.02 million as at 31 March 2020 to $83.09 million as at 30 June 2020 representing a 22.16% growth.

1.7. The microfinance sector continued to increase access points as evidenced by the growth in the number of branches, agencies and satellite offices from 820 to 947 during the quarter under review, despite the Covid-19 induced restrictions. However, the number of active clients accessing loans further decreased from 401,852 to 332,103 during the quarter under review.

1.8. The sector registered a deterioration in the portfolio quality as reflected by an increase in the average portfolio at risk (PaR>30 days) ratio from 12.78% as at 31 March 2019 to 15.28% as at 30 June 2020, largely due to the negative effects of COVID-19 induced restrictions on the performance of borrowers.

## 2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1 As at 30 June 2020 there were 217 registered microfinance institutions as shown in Table 1 below.

**Table 1: Architecture of the Microfinance Industry**

| Type of Institution | 31 December 2019 | 31 March 2020 | 30 June 2020 |
|---|---|---|---|
| Credit-only Microfinance Institutions | 222 | 212 | 209 |
| Deposit-taking Microfinance Institutions | 7 | 8 | 8 |
| **Total** | **229** | **220** | **217** |

2.2 The number of operating microfinance institutions declined over the quarter from 220 to 217 as some microfinance institutions ceased operations citing challenges from the disruptive effects of covid-19 and the limited demand for microfinance loans.

## 3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1 The microfinance sector generally displayed resilience given the impact of the Covid-19 pandemic which has disrupted business countrywide especially the SMEs and informal businesses which form a significant portion of the microfinance institutions' clientele base.

3.2 The sector registered growth in terms of size of the loan portfolio, total assets, aggregate equity, earnings, total deposits (for the deposit-taking sub-sector), and the value of loans to female borrowers.

3.3 A summary of the key performance indicators for the microfinance industry for the period June 2019 to June 2020 is shown in the table below.

**Table 2: Microfinance Sector, Key Performance Indicators**

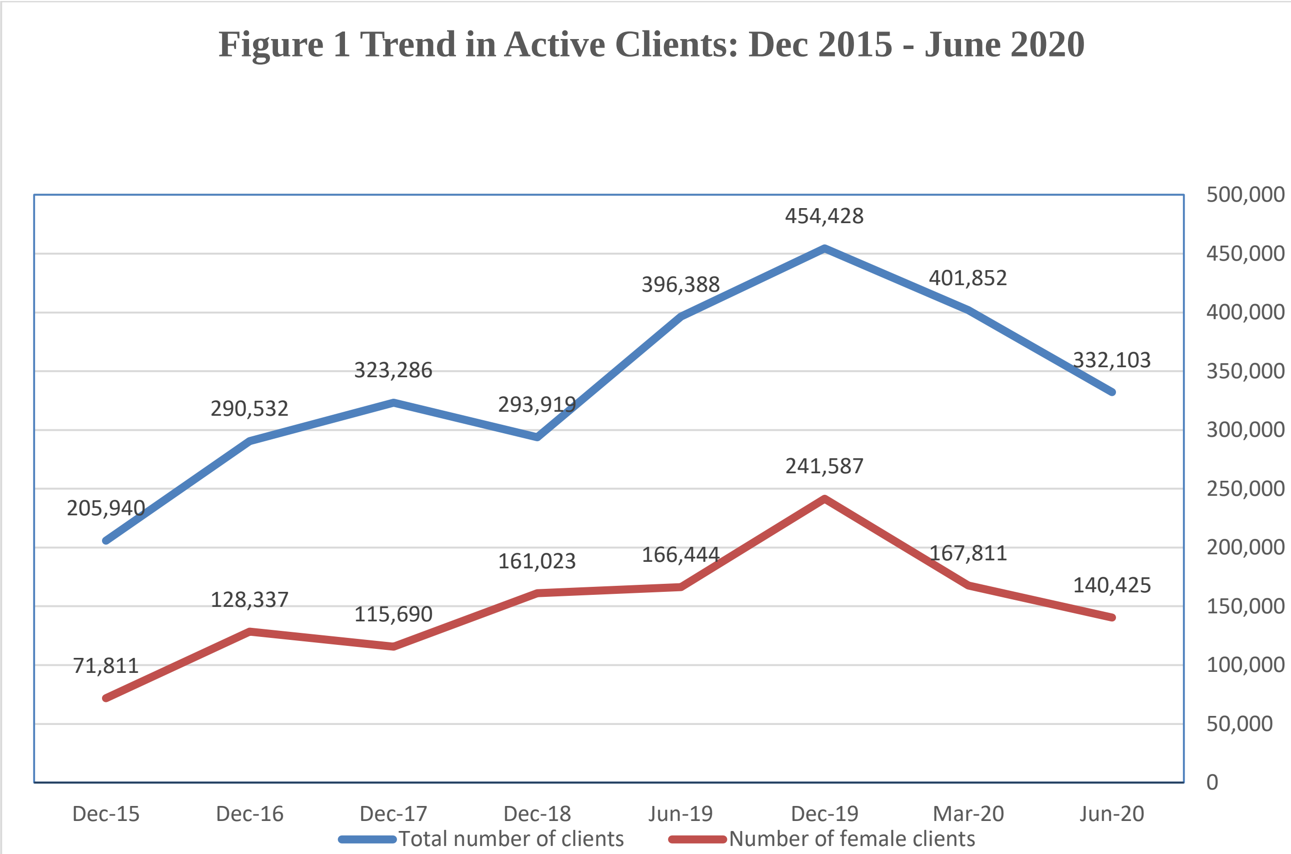
| Indicator | June-19 | Sept-19 | Dec-19 | Mar-20 | June 20 |
|---|---|---|---|---|---|
| Total Loans ($m) | 554.21 | 625.85 | 632.67 | 805.88 | 1,223.30 |
| Total Assets ($m) | 721.99 | 1.088.23 | 1,041.88 | 1,364.09 | 2,755.67 |
| Total Equity ($m) | 220.89 | 276.98 | 388.22 | 566.69 | 1,229.15 |
| Net Profit ($m) | 20.08 | 36.88 | 35.99 | 13.03 | 372.32 |
| Average Operational Self-Sufficiency (OSS) | 164.56% | 158.63% | 140.69% | 142.60% | 142.00% |
| Total Deposits (DTMFIs) ($m) | 15.29 | 27.87 | 35.95 | 68.02 | 83.09 |
| Portfolio at Risk (PaR>30 days) | 9.90% | 15.90% | 10.96% | 12.78% | 15.28% |
| Number of Active Loan Clients | 396,388 | 349,859 | 454,428 | 401,852 | 332,103 |
| Number of Female Borrowers | 166,444 | 147,699 | 241,587 | 167,811 | 140,425 |
| Value of Loans to Women ($m) | 134.35 | 221.70 | 250.00 | 228.22 | 257.13 |
| Number of Outstanding Loans | 425,288 | 532,944 | 567,980 | 386,039 | 446,782 |
| Number of Branches, Agencies & Satellite Offices | 796 | 844 | 1,017 | 820 | 947 |

**Microfinance Outreach…**

3.4 During the quarter under review, microfinance institutions recovered some ground lost due to Covid-19 pandemic in the previous quarter. The number of branches, agencies and satellite offices increased from 820 in the last quarter to 947 as at 30 June 2020, as institutions prepare to resume full operations.

3.5 Despite the opening of additional branches, the number of active clients accessing loans further decreased from 401,852 to 332,103 during the quarter under review, with the number of female borrowers also declining by 16.32% from 167,811 to

140,425 as shown in Figure 1 below.

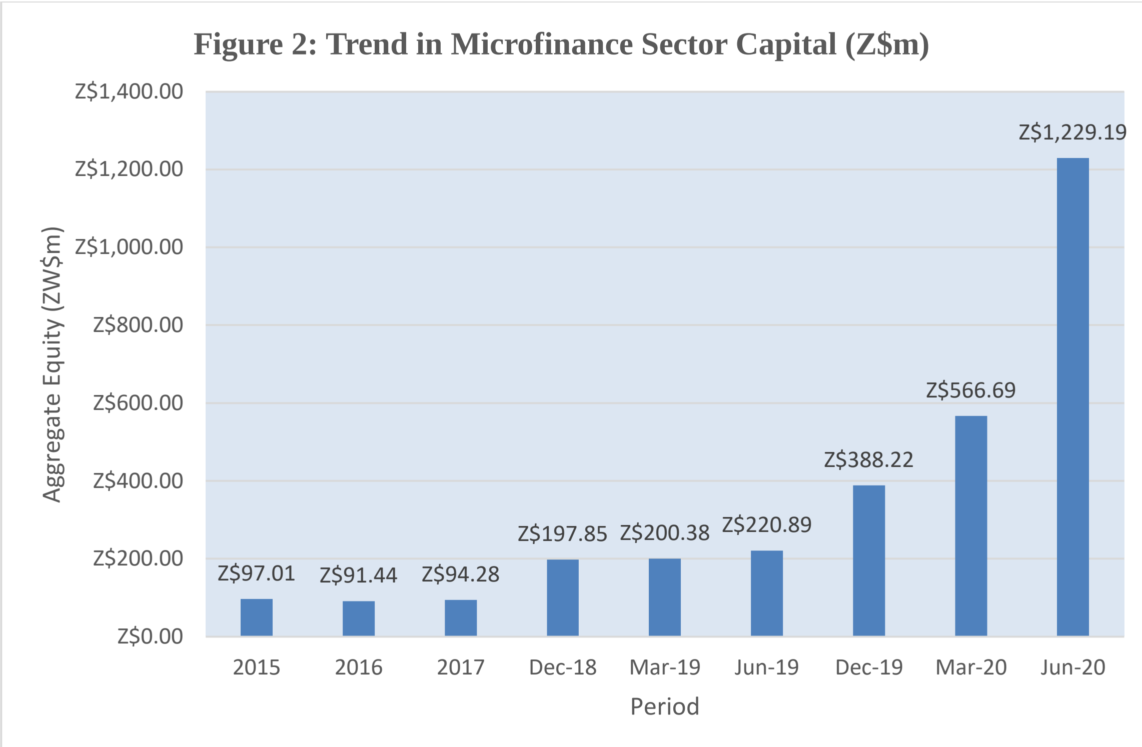



3.6 The value of loans to female borrowers, however, increased by 12.67% to $257.13 million as at 30 June 2020 compared to $228.22 million accessed in the last quarter, largely driven by inflationary pressures.

**Capital…**

3.7 The microfinance sector registered a 118.07% increase in aggregate capital from $563.64 million to $1,229.15 million during the quarter under review.

3.8 The increase was largely attributed to additional capital injection, and gains from revaluation of assets. Figure 2 shows the trend in the aggregate capital position of the microfinance industry for the period 2015 to June 2020.




3.9 Cognisant of the prevailing challenging environment, exacerbated by the negative impact of the COVID-19 pandemic, the Bank, through the 2020 Mid-Term Monetary Policy, extended the deadline for compliance with the pronounced new minimum capital levels of the local currency equivalent of USD5 million and USD25,000 for deposit-taking microfinance institutions and credit-only microfinance institutions respectively, **by one (1) year to 31 December 2021.** In this regard, microfinance institutions are required to submit to the Bank updates on their capitalisation plans by 31 December 2020 and 30 June 2021.

***Capital for Credit-Only Microfinance Institutions***

3.10 The credit-only microfinance sub-sector, registered a 111.04% increase in aggregate equity from $348.44 million as at 31 March 2020, to $735.35 million as at 30 June 2020 as shown in **Annexure 1 –** Key performance indicators for credit-only microfinance institutions.

3.11 During the quarter under review, three (3) credit-only microfinance institutions were undercapitalized, compared to two (2) in the previous quarter. The three (3) credit-only microfinance institutions are in the process of regularizing their capital positions.

***Capital and Funding for Deposit-Taking Microfinance Institutions***

3.12 Aggregate core capital for the DTMFI sub-sector increased by 68.32% from $178.81 million as at 31 March 2020, to $300.98 million as at 30 June 2020. The increase in the capital levels was driven by both retained earnings and fresh capital injections.

3.13 All the five (5) operating DTMFIs were compliant with the minimum regulatory capital requirement of $5 million.

**Profitability…**

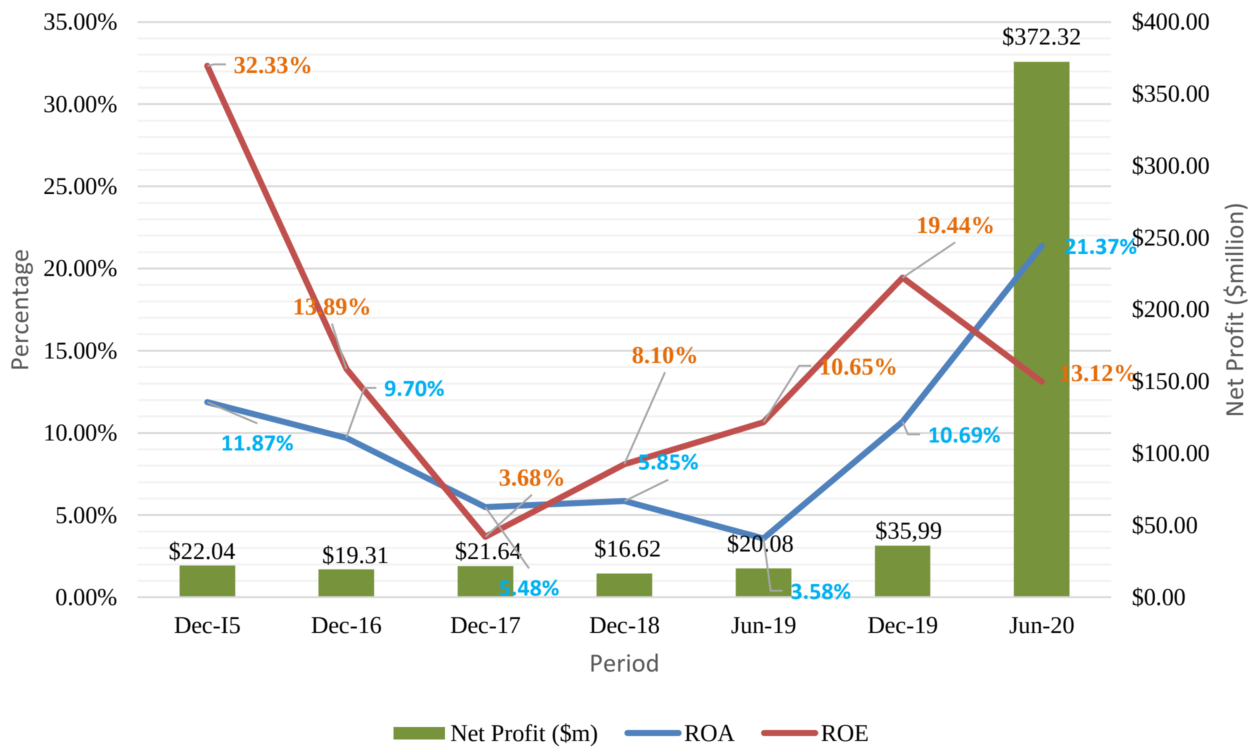
3.14 The sector registered a significant increase in aggregate net profit from $20.08 million for the period ended 30 June 2019, to $372.32 million for period ended 30 June 2020 largely driven by revaluation reserves following the re-statement of foreign currency denominated assets to local currency denomination.

3.15 A total of 23 microfinance institutions, including three (3) DTMFIs weighed down the industry's average profits after posting an aggregate loss of ZW$74.05 million for the year ended 30 June 2020, compared to 34 institutions, including three (3) DTMFIs, which posted an aggregate loss of $12.34 million for the same period in 2019.

3.16 The microfinance sector remained operationally self-sustainable as reflected by a stable average operational self-sufficiency (OSS) ratio of 142.00% as at 30 June 2020, representing a marginal decline from 142.60% as at 30 June 2019, thus reflecting the industry's resilience in the face of prevailing macro-economic challenges during the period under review.

3.17 The trend in aggregate profitability for the microfinance industry is indicated in the figure below.

**Figure 3: Microfinance Sector - Trends in Profitability, 2015 - June 2020**




3.18 The microfinance industry registered an increase in the average return on assets (ROA) ratio over the year from 3.58% to 21.37%. Return on equity (ROE) ratio also increased over the same period, from 10.65% to 13.12%.

***Profitability for Credit-Only Microfinance Sub-Sector***

3.19 The credit-only microfinance sub-sector registered an aggregate net profit of $252.53 million over the year ended 30 June 2020, up from $9.75 million for the corresponding period in 2019.

3.20 The sub-sector's profits of $252.53 million for period ended 30 June 2020, accounted for 67.83% of the total industry's aggregate net profit of $372.32

million.

3.21 A total of 20 credit-only microfinance institutions posted an aggregate loss amounting to $53.90 million for period ended 30 June 2020, compared to 31 institutions with an aggregate loss of $9.23 million for same period in 2019. The losses were largely due to the negative impact of Covid-19 protocols which resulted in loss of business, at a time when fixed operational expenditure remained due.

3.22 The credit-only microfinance institutions subsector was considered operationally sustainable with an average operational self-sufficiency (OSS) ratio of 137.20% for period ended 30 June 2020. However, the OSS of 137.20% for the period under review was lower than the average OSS ratio of 165.63% as at 30 June 2019, on the backdrop of exchange rate induced inflationary pressures and sustainably high operational costs, against reduced revenue due to the COIVD-19 induced national lockdown.

***Profitability of the Deposit-taking Microfinance Institutions***

3.23 The DTMFI sub-sector earnings performance for the quarter under review, improved as reflected by the increase in net income, operational self-sufficiency ratio, as well as return on assets and return on equity ratios.

3.24 Aggregate net profit increased from $10.32 million for half-year ended 30 June 2019 to $119.79 million for half-year ended 30 June 2020. The increase in aggregate profit emanated from two (2) institutions that reported gains from revaluations of assets and these were the only profitable institution during the review period.

3.25 Average return on assets and return on equity ratios improved from -0.61% and 2.66% as at 30 June 2019 to 0.96% and 7.04% as at 30 June 2020, respectively.

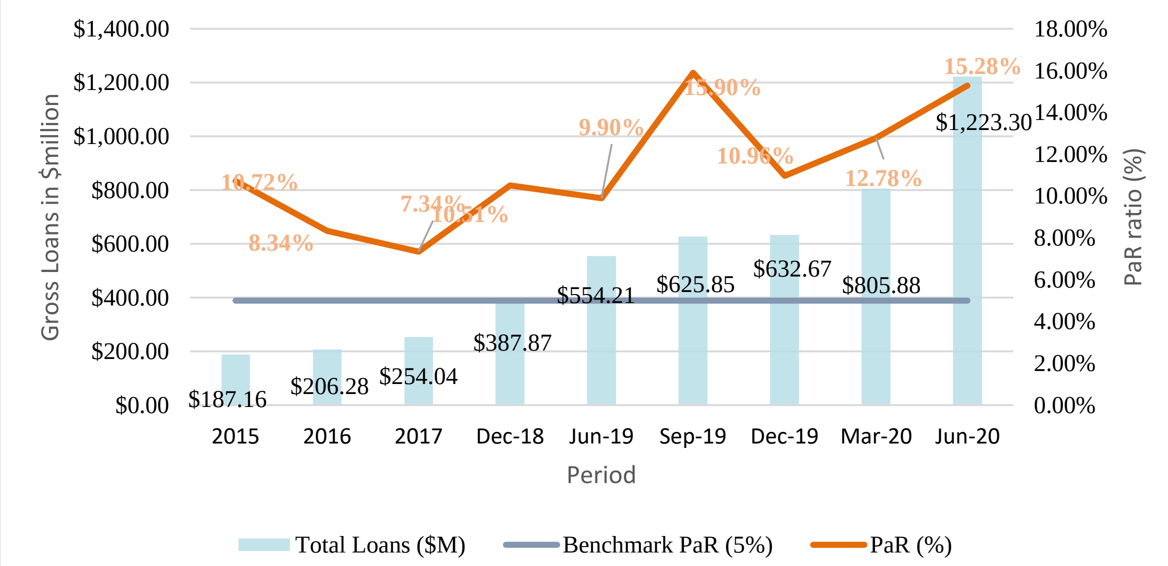
**Microfinance Industry Lending and Portfolio Quality…**

3.26 Total sector loans increased by 41.79% from $805.88 million as at 31 March 2020 to $1.22 billion as at 30 June 2020, despite the negative effects of COVID19 on the industry. During the period under review, the average loan size per borrower increased by 45.56% from $2005.41, to $3,683.51, largely driven by inflationary pressures.

3.27 As at 30 June 2020, top 20 microfinance institutions with a total loan portfolio of $1,084.29 million, accounted for 88.64% of the total microfinance industry loan portfolio.

3.28 Figure 4 below shows the trend in the total sector loans and portfolio at risk ratio from December 2015 to 30 June 2020.

**Figure 4: Microfinance Industry Trends in Total Loans (ZW$m) & PaR Ratio : Dec 2015 - June 2020**




3.29 Over the review period, the microfinance sector registered a deterioration in portfolio quality as reflected by an average portfolio-at-risk (>30 days) (PaR) ratio of 15.28% as at 30 June 2020, up from 12.78% as at 31 March 2020, against the international benchmark of 5%. This deterioration was largely attributed to the covid-19 protocols and lockdown measures which dampened the sector's ability to collect repayments from microfinance borrowers.

***Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality***

3.30 As at 30 June 2020, credit-only microfinance sub-sector total loans increased to $1.09 billion from $685.06 million as at 31 March 2020, representing a 37.09% increase. Top twenty credit-only microfinance institutions out of 104 institutions that submitted their returns, contributed 90.72% to the sub-sector total loans.

3.31 Loan size per borrower for the credit-only microfinance sub-sector increased from $2,484.51 to $4,192.99 as at 30 June 2020, which was reflective of the general increase in price levels.

3.32 Portfolio quality for the credit-only microfinance sub-sector deteriorated as reflected by the PaR (>30 days) ratio of 15.20% as at 30 June 2020, up from 12.98% as at 31 March 2020.

***Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality***

3.33 Total loans from the five (5) DTMFI amounting to $134.33 million as at 30 June 2020 and accounted for 10.98% of total sector loans, down from the 14.99% as at 31 March 2020.

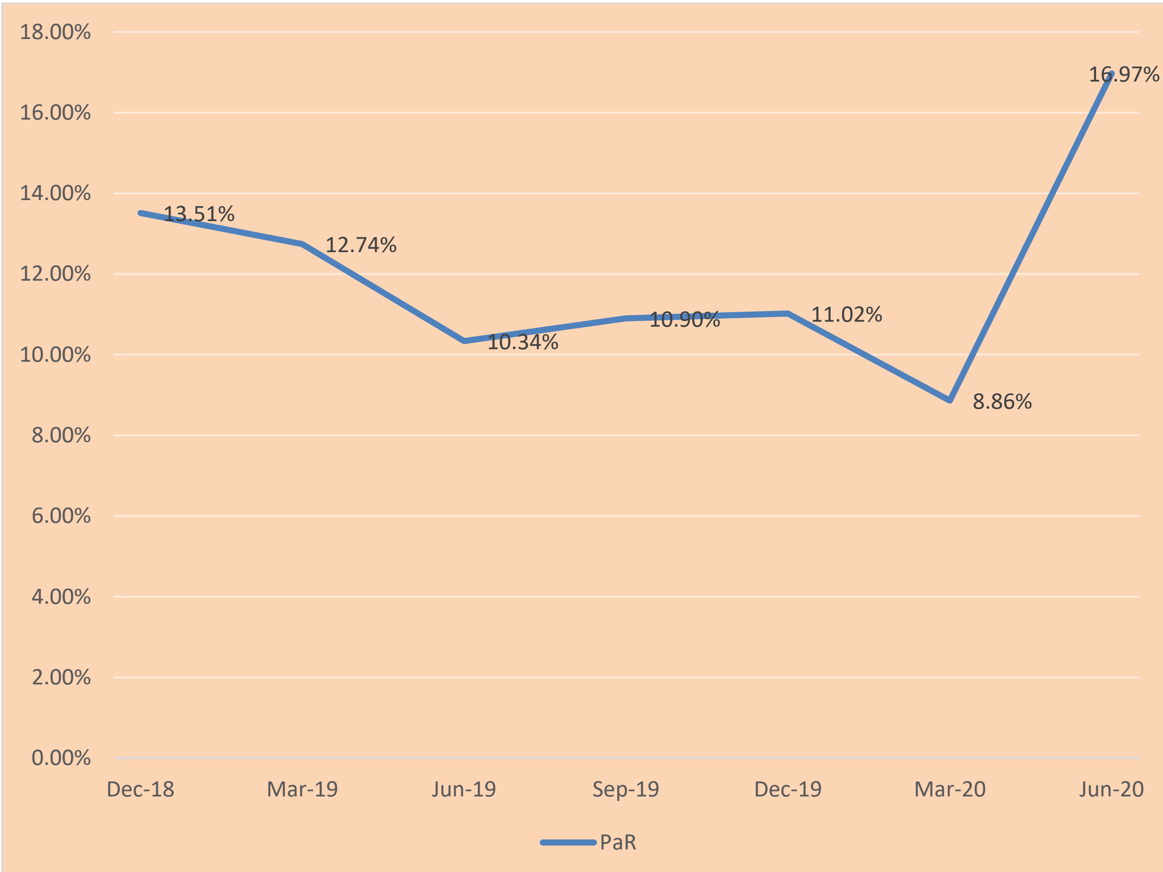
3.34 Asset quality in the sub-sector deteriorated as evidenced by the increase in the Portfolio at Risk (>30 days) ratio, from 8.86% as at 31 March 2020 to 16.97% as at 30 June 2020. The deterioration was mainly due to the COVID-19 pandemic-induced restrictions, which affected borrowers' ability to conduct business, as well as the ability of DTMFIs loan officers to mobilize repayments. DTMFIs were hard hit by the pandemic as most clients are micro-enterprises, which are unregistered hence some never managed to re-open even when the lockdown restrictions were relaxed.

3.35 Total loans increased by 11.19%, from $120.81 million as at 31 March 2020 to

$134.33 million as at 30 June 2020.

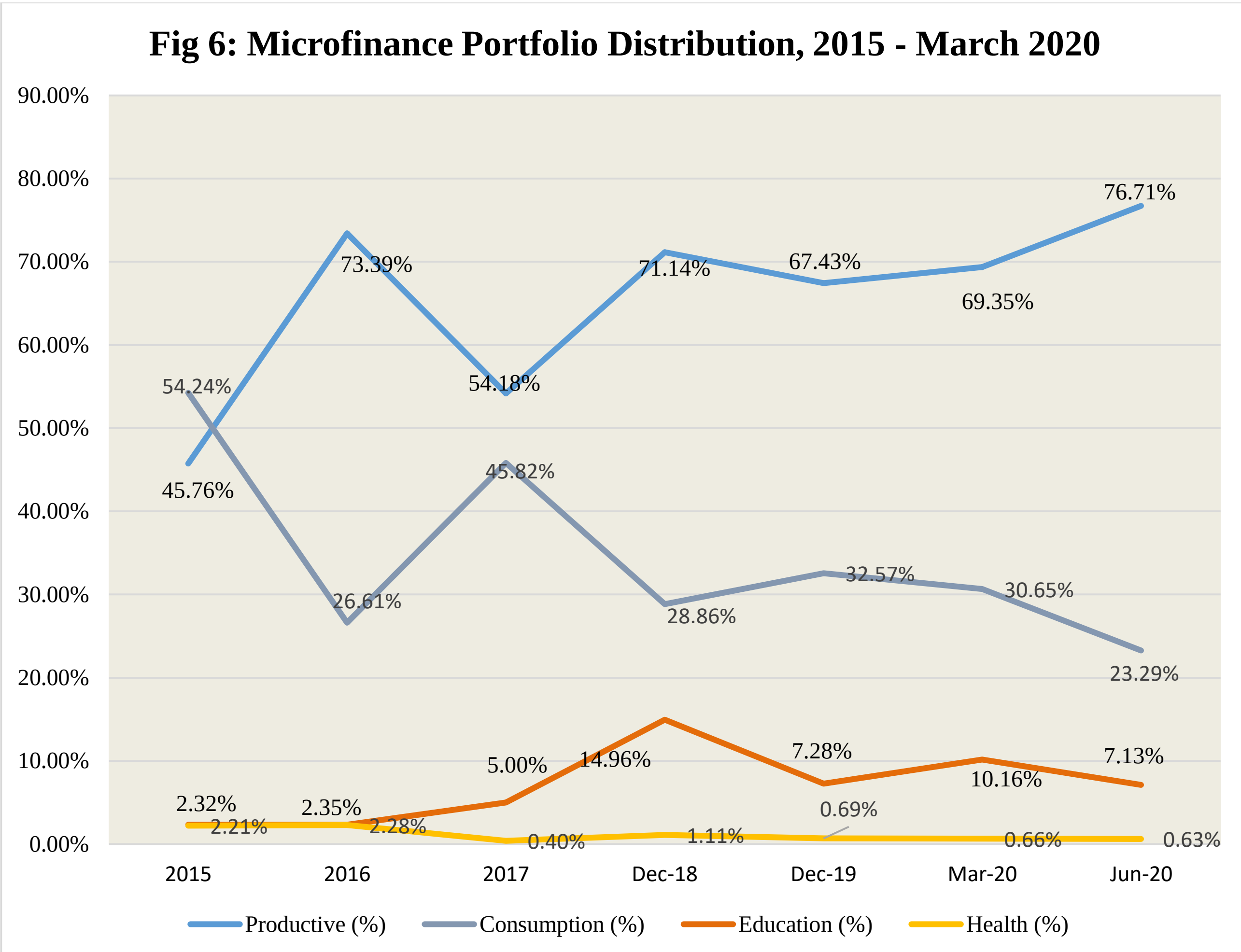
3.36 The graph below shows the trend in the Portfolio at Risk (>30 days) ratio:

**Figure 5: Trend in the DTMFIs Portfolio at Risk Ratio**




**Distribution of Loans…**

3.37 Over the review period, productive loans were predominant reflecting the microfinance institutions continued re-orientation of their lending activities towards financing the productive sector. As at 30 June 2020, loans to the productive sector amounting to $938.34 million represented 76.71% of the total industry loans up from 69.35% as at 31 March 2020, as shown in the figure below.

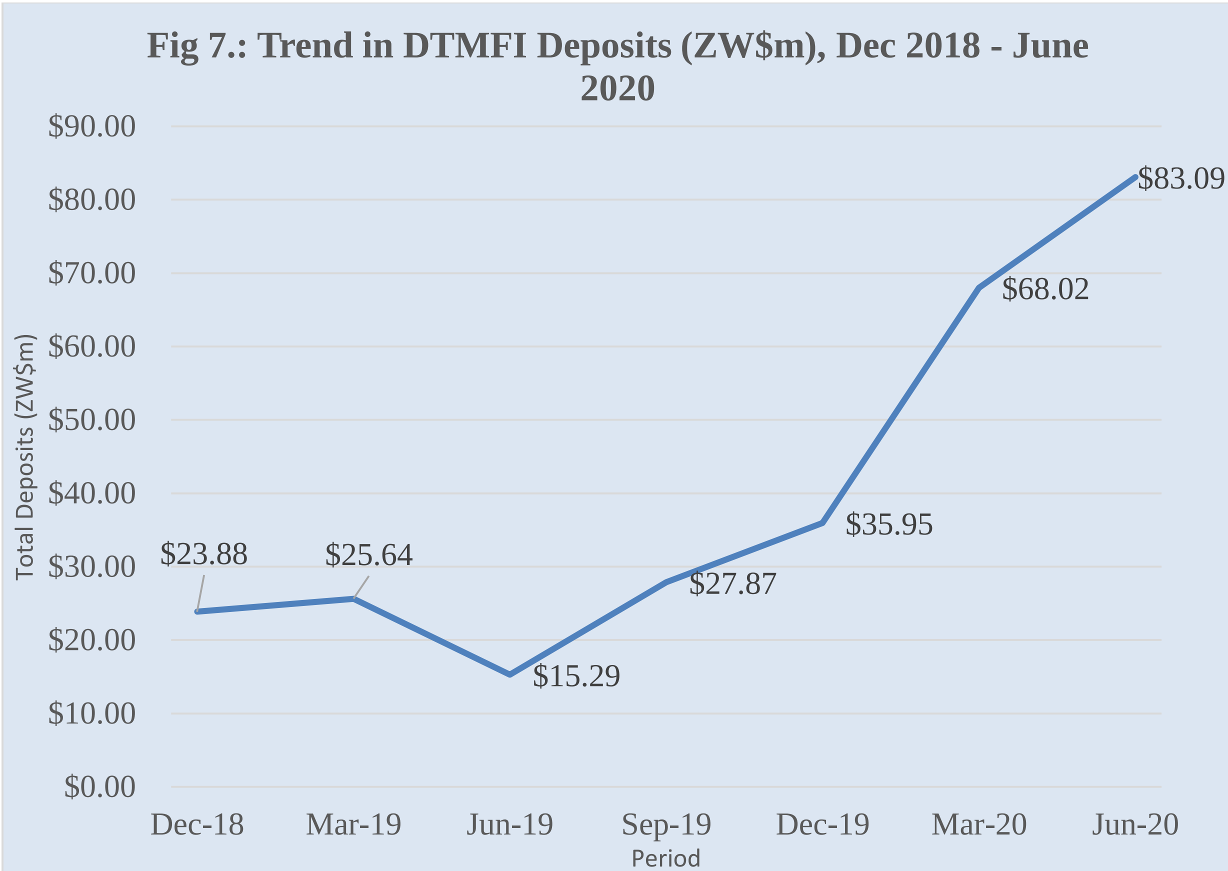



3.38 Disbursement of funds for educational purposes increased by 6.51% to $87.21 million as at 30 June 2020 up from $81.88 million the previous quarter whilst credit advanced for health purposes recorded a 45.15% increase to $7.74 million.

**Deposits Mobilisation…**

3.39 The DTMFI sub-sector recorded a 22.16% increase in total deposits during the quarter, from $68.02 million, to $83.09 million.

3.40 The graph below shows trend in the sub-sector's deposits:




3.41 Although deposits in the subsector continue to increase, the deposit base remains too low to enable DTMFIs to underwrite more meaningful and sustainable business. As a result, DTMFIs are heavily dependent on capital injections from shareholders and lines of credit to finance operations.

***Impact of Covid-19 Pandemic on the Microfinance DTMFIs***

3.42 Following the pronouncement of COVID-19 national lockdown by the Government, effective 31 March 2020, microfinance institutions were requested to submit COVID-19 Impact Assessment Reports by 30 June 2020.

3.43 The submissions revealed that the COVID-19 pandemic has, among other issues, resulted in

a) restructuring of loan facilities for previously performing clients whose loan repayments ability were affected by the pandemic;

b) increase in costs attributable to the COVID-19 protection measures for both staff and clients;

c) deterioration of asset quality due to failure by microfinance clients to repay, particularly in the informal sector, where businesses were negatively impacted by the covid-19 pandemic; and

d) cautious approach to lending with most of the microfinance focusing on existing clients with credible credit history.

3.44 The need for affordable re-financing remains a major challenge for the microfinance sector. In addition, the Covid-19 pandemic has constrained business operations of some microfinance clients resulting in non-repayment or late repayment of loans, thereby aggravating the funding challenge in the process.

## 4. COMPLIANCE WITH REGULATORY REQUIREMENTS

4.1. The Bank continued to encourage players in the microfinance sector to adhere to a culture of compliance, including compliance with regulatory requirements and other directives from the Reserve Bank. It was, however, noted that some microfinance institutions were still facing challenges with regards to complying with provisions of the Microfinance Act [*Chapter24:30*] in respect of the following:

**Late and Non-Submission of Quarterly MFI Returns …**

4.2. A number of credit-only microfinance institutions experienced connectivity challenges that affected the uploading of quarterly returns on the Bank Supervision Application (BSA) platform. The Bank continued to engage the affected institutions with a view to facilitate smooth and efficient uploading, given the urgent need to go digital on the backdrop of the Covid-19 induced restrictions, which hindered institutions from getting to their offices and accessing the necessary statistical data.

4.3. The Bank continues to take corrective measures to ensure full compliance with this requirement by the microfinance institutions going forward.

**Failure to Meet Minimum Capital Requirements…**

4.4. During the quarter ended 30 June 2020, three (3) credit-only microfinance institutions were non-compliant with the minimum capital requirements of $20,000 for credit-only microfinance institutions.

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**END OF REPORT**

**Annexure 1: Credit-Only Microfinance Institutions, Key Performance Indicators**

| Indicator | June-19 | Sept -19 | Dec -19 | March -20 | June 2020 |
|---|---|---|---|---|---|
| Number of Licensed Institutions | 212 | 223 | 229 | 212 | 212 |

| Indicator | June-19 | Sept -19 | Dec -19 | March -20 | June 2020 |
|---|---|---|---|---|---|
| Total Loans ($m) | 456.77 | 537.06 | 523.08 | 685.06 | 1,088.97 |
| Total Assets ($m) | 563.65 | 861.41 | 758.82 | 960.69 | 1,912.62 |
| Total Equity ($m) | 136.65 | 162.72 | 252.63 | 348.44 | 735.35 |
| Net Profit ($m) | 9.75 | 15.42 | 17.12 | 12.86 | 252.53 |
| Average Operational Self-Sufficiency (OSS) | 166.24% | 160.81% | 141.44% | 127.91% | 137.16% |
| Portfolio at Risk (PaR>30 days)* (%) | 9.46% | 14.51% | 10.20% | 12.98% | 15.20% |
| Number of Active Loan Clients | 368,012 | 331,041 | 314,730 | 275,734 | 259,712 |
| Number of Outstanding Loans | 394,922 | 513,963 | 482,796 | 329,343 | 373,341 |
| Number of Branches | 771 | 817 | 924 | 800 | 799 |
| Number of Women Clients | 152,722 | 138,640 | 133,900 | 114,514 | 110,694 |
| Value of Loans to Women ($m) | 114.33 | 188.27 | 222.54 | 228.22 | 208.70 |

***** Portfolio at Risk [30] days-*The value of all loans outstanding that have one or more installments of principal past due more than [30] days. This includes the entire unpaid principal balance, including both the past due and future installments, but not accrued interest. It also includes loans that have been restructured or rescheduled.*

**ANNEXURE 2: Deposit-Taking Microfinance Institutions, Key Performance Indicators**

| Indicator | June-19 | Sept-19 | Dec 19* | Mar-20* | June 20* |
|---|---|---|---|---|---|
| Number of Operating DTMFIs | 6 | 6 | 5 | 5 | 5 |
| Total Loans and Advances ($m) | 97.44 | 88.80 | 88.83 | 120.81 | 134.33 |
| *Out of which Consumption loans (%)* | 22% | 32.70% | 34.74% | 37.15% | 35.16% |
| *Out of which Productive loans (%)* | 78% | 67.30% | 65.26% | 62.85% | 64.84% |
| Total Assets ($m) | 158.35 | 226.82 | 258.63 | 403.40 | 843.04 |
| Core Capital ($m) | 84.78 | 104.39 | 128.34 | 178.81 | 300.98 |
| Total Net Capital Base (Sm) | 86.10 | 112.09 | 145.54 | 218.25 | 482.98 |
| Net Profit ($m) | 10.32 | 21.47 | 17.39 | 0.17 | 119.79 |
| Total Deposits ($m) | 15.29 | $27.87 | 35.95 | 68.02 | 83.09 |
| Average Operational Self-Sufficiency (OSS) | 115.51% | 171.90% | 122.57% | 97.66% | 241.80% |
| Operating Expenses Ratio (OER) | 38.78% | 45.42% | 75.14% | 44.91% | 86.27% |
| Average Return on Assets | -0.61% | 0.37% | -0.27% | -1.87% | 0.96% |
| Average Return on Equity | 2.66% | 7.37% | 9.53% | -0.49% | 7.04% |
| Portfolio at Risk (PaR>30 days) | 10.34% | 10.90% | 11.02% | 8.86% | 16.97% |
| Number of Active borrowers | 28,376 | 124,855 | 124,000 | 126,118 | 72,391 |
| Number of Female Borrowers | 12,208 | 31,852 | 72,664 | 50,738 | 28,663 |
| Number of Branches, Agencies & Satellite Offices | 25 | 27 | 30 | 20 | 148 |

****figures exclude Lion Microfinance which is under curatorship.***