BANK SUPERVISION DIVISION

MICROFINANCE QUARTERLY INDUSTRY REPORT

AS AT

30 SEPTEMBER 2021

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY 3

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY 4

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY 4

4. FINANCIAL INCLUSION 15

1. EXECUTIVE SUMMARY

1.1. The microfinance industry has maintained positive growth trajectory as reflected by key performance indicators for the quarter under review. The recorded growth is largely driven by the recovery of business in the micro, small to medium enterprises (MSMEs) business sector following the government's relaxation of Covid-19 induced national business and movement restrictions.

1.2. Aggregate capitalization for the microfinance industry increased to $4.00 billion as at 30 September 2021, from $3.33 billion as at 30 June 2021, reflecting a 20.04% growth. The increase was due to organic growth and additional capital injection at some of the microfinance institutions.

1.3. Cumulative retained earnings for the nine months ended 30 September 2021 amounted to $1.22 billion, representing a 127.68% increase over the comparative period in 2020. The increase resulted predominantly from cost containment measures adopted by some of the microfinance institutions that have embraced digital financial services and growing operating income underpinned by growth in loan portfolio. These measures resulted in the improvement in the sector's average operational self-sufficiency (OSS) ratio from 104.35% as at September 2020, to 171.69% for period ended 30 September 2021, which is well above the international benchmark of 100%.

1.4. Total loans increased by 47.86% over the quarter, from $3.97 billion as at 30 June 2021 to $5.87 billion as at 30 September 2021. The growth was driven by increased demand for loans by MSMEs to resuscitate their business following government's relaxation of Covid-19 induced movement restrictions, and low-income households seeking to supplement their disposable incomes to fight the negative effects of the Covid-19 pandemic.

1.5. During the period under review asset quality, however, deteriorated as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 11.55%, compared to 8.57% reported as at 30 June 2021, against the international benchmark of 5%.

1.6. The sector's aggregate deposits increased by 57.69%, from $442.98 million as at 30 June 2021, to $698.55 million as at 30 September 2021, with one deposit taking microfinance institution (DTMFI) accounting for 68.13% of the sector's total deposits. However, the general level of deposits remains low, and that continues to negatively impact on DTMFIs' business sustainability.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1. The microfinance sector had, 176 registered microfinance institutions as at 30 September 2021, comprising 168 credit-only microfinance institutions and 8 deposit-taking microfinance institutions (DTMFIs), down from 184 in the previous quarter. The number of licensed credit-only microfinance institutions declined to 168 as at 30 September 2021 from 176 in the previous quarter, following cessation of operations by some institutions due to the negative effects of the Covid-19 pandemic.

Table 1: Number of Microfinance Institutions in Zimbabwe- Sept 2020-2021

Type of Institution	30 Sept 2020	31 Dec 2020	31 Mar 2021	30 June 2021	30 Sept 2021
Credit-only Microfinance Institutions	201	190	191	176	168
Deposit-taking Microfinance Institutions (DTMFIs)	8	8	8	8	8
Total	**209**	**198**	**199**	**184**	**176**

2.2. Out of the eight (8) licensed DTMFIs, two (2) institutions, namely Ndoro Microfinance Bank and CashBox Financial Services Microfinance Bank were in the process of putting in place, infrastructure in preparation for Pre-Opening Inspection scheduled by the Reserve Bank. The Pre-Opening Inspection will assess the DTMFIs' readiness to commence deposit-taking microfinance operations.

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1. The microfinance industry registered an improvement in its performance as shown by an overall positive trajectory in the key performance indicators over the review period. The performance of the industry is underpinned by the general economic recovery from the effects of Covid-19 pandemic.

3.2. Selected key performance indicators for the microfinance sector for the period under review are shown in Table 2 below.

Table 2: Microfinance Industry Selected Key Performance Indicators

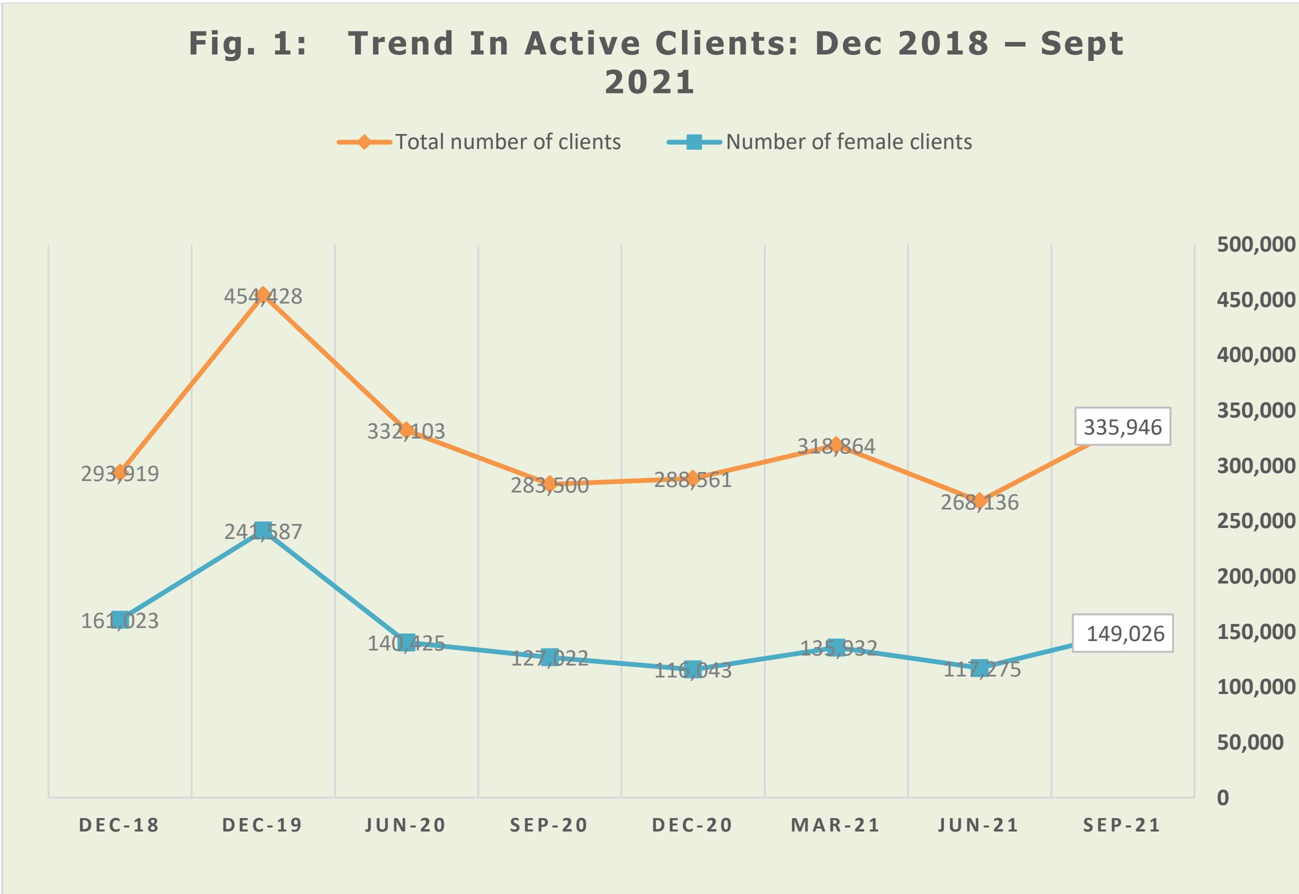
Indicator	Sept-20	Dec-20	Mar-21	June 21	Sept-2021
Total Loans ($m)	1,439.17	2,011.69	3,100.56	3,968.57	5,867.82
Total Assets ($m)	3,341.69	3,752.39	5,542.91	6,810.38	9,357.41
Total Equity ($m)	1,545.79	1,677.82	2,647.01	3,332.30	4,000.37
Net Profit ($m)	536.50	384.77	596.71	1,033.77	1,221.51
Average Operational Self-Sufficiency (OSS)	104.35%	111.86%	146.07%	187.22%	171.69%
Total Deposits (DTMFIs) ($m)	144.56	239.11	350.02	442.98	698.55
Portfolio at Risk (PaR>30 days)*	12.04%	8.34%	10.63%	8.57%	11.55%
Number of Outstanding Loans	356,738	279,909	343,199	319,843	361,773
Number of Active Loan Clients	283,500	288,561	318,864	268,136	335,946
Number of Female Borrowers	127,022	116,043	135,932	117,275	149,026
Loans to Female Borrowers ($m)	509.57	673.22	1,188.41	1,664.38	2,467.30
Number of Branches	916	697	694	724	837

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

Microfinance Outreach…

3.3. During the quarter under review, the sector registered a 25.29% increase in the number of active clients, from 268,136 to 335,946 as at 30 September 2021.

3.4. Figure 1 below shows the trend in active loan clients since December 2017.



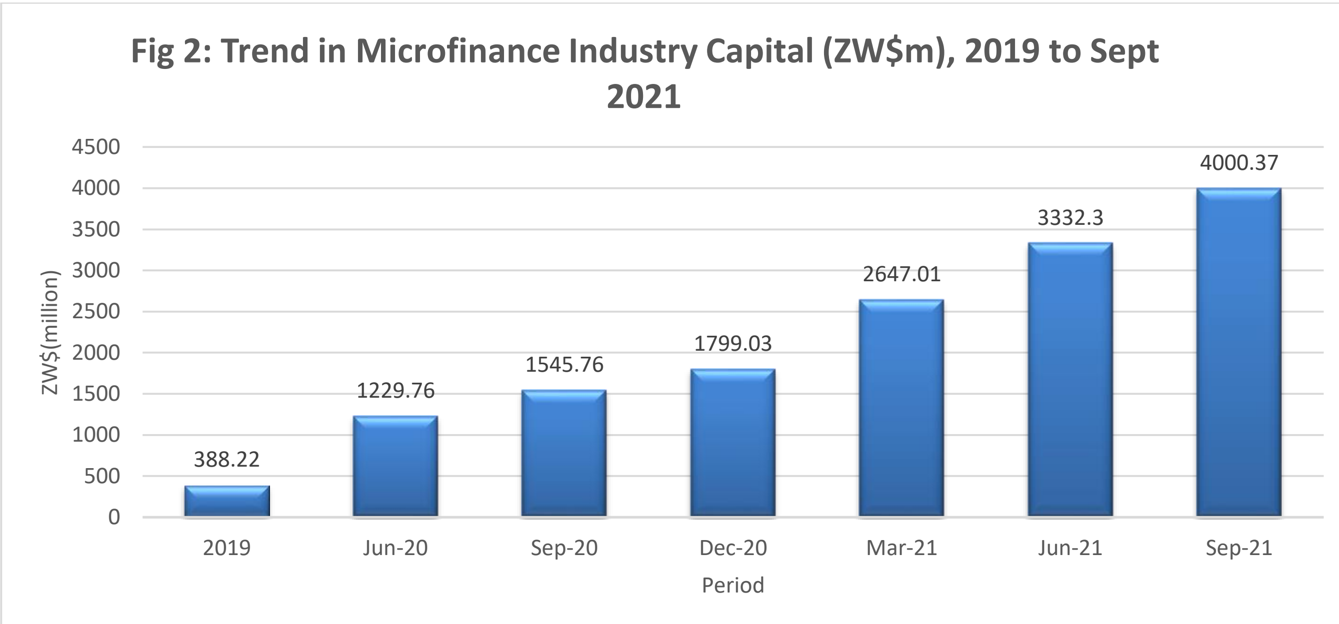
3.5. The industry recorded an increase in the number of women accessing loans during the quarter, from 117,275 to 149, 026. The value of loans to female borrowers also increased by 48.24% during the quarter under review to $2.47 billion, up from $1.66 billion.

Capital and Funding…

3.6. The aggregate capitalization for the microfinance industry increased by 20.05% for the period under review to $4.00 billion as at 30 September 2021, up from $3.33 billion.

3.7. The increase in the sector's capitalization was largely attributed to additional capital injections by some institutions to grow their loan books following Covid-19 induced capital depletion. Furthermore, the additional capital injections were also pursuant to complying with the new minimum capital requirements of ZW$ equivalent of USD25,000 for credit-only microfinance institutions and USD5 million for deposit-taking microfinance institutions effective 31 December 2021.

3.8. Figure 2 shows a seven-year trend in the aggregate capital position of the microfinance industry for the period December 2019 to September 2021.



Capital and Funding for Credit-Only Microfinance Institutions (COMFIs)

3.9. The subsector registered a 21.97% increase in capitalization from $2.15 billion as at 30 June 2021 to $2.62 billion as at 30 September 2021 as shown in **Annexure 1 – Key Performance Indicators for Credit-only Microfinance Institutions.**

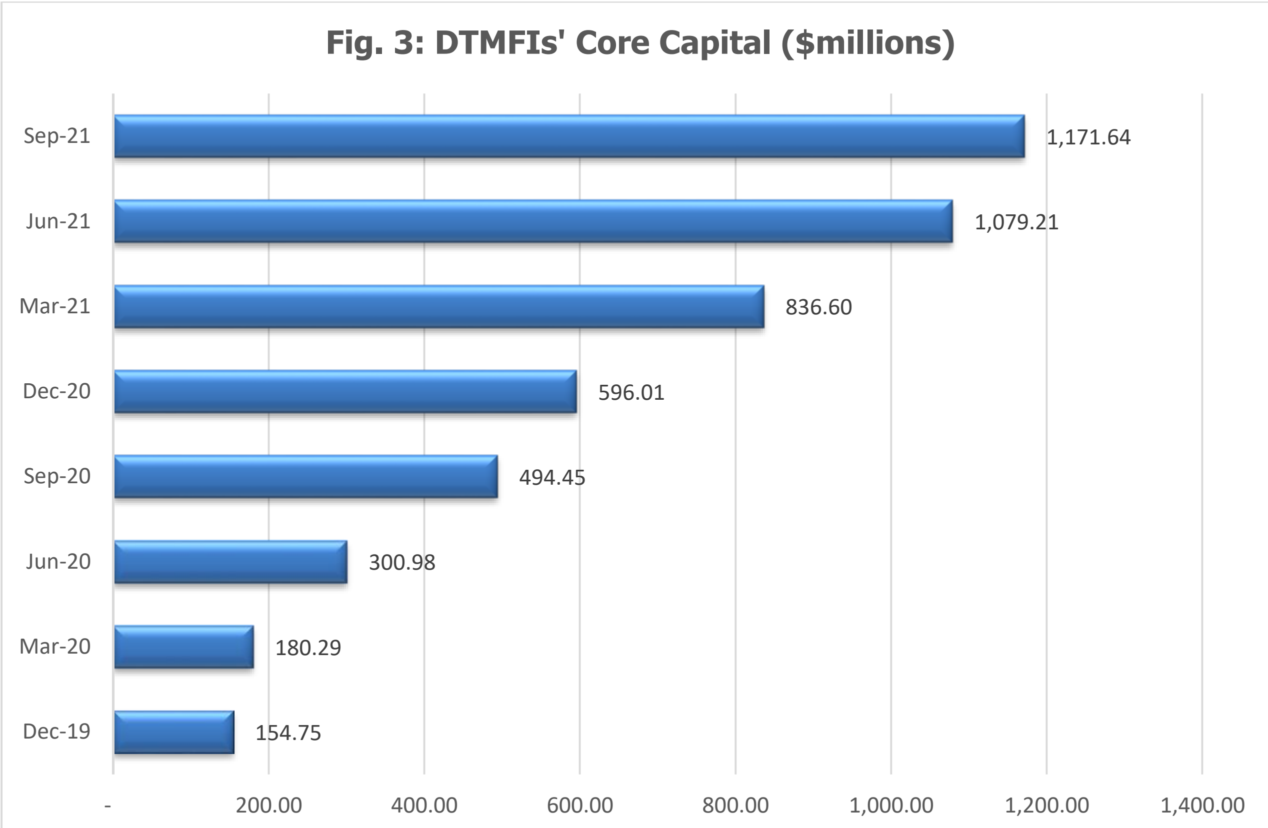
Capital and Funding for Deposit-Taking Microfinance Institutions (DTMFIs)

3.10. DTMFIs remained adequately capitalized, with capital adequacy ratios (CARs) remaining above the current minimum statutory requirements.

3.11. The aggregate capitalisation of the DTMFI sub-sector increased by 8.56% from $1,08 billion the previous quarter to $1,17 billion as at 30 September 2021. The increase in aggregate core capital was mainly driven by organic capital growth in three of the six operating DTMFIs.

3.12. The DTMFIs have initiated capital raising initiatives to meet the new minimum capital requirement of ZW$ equivalent of USD5 million by 31 December 2021.

3.13. The trend in the DTMFI sub-sector core capital levels for the period Dec 2019 to September 2021 is shown in the graph below:

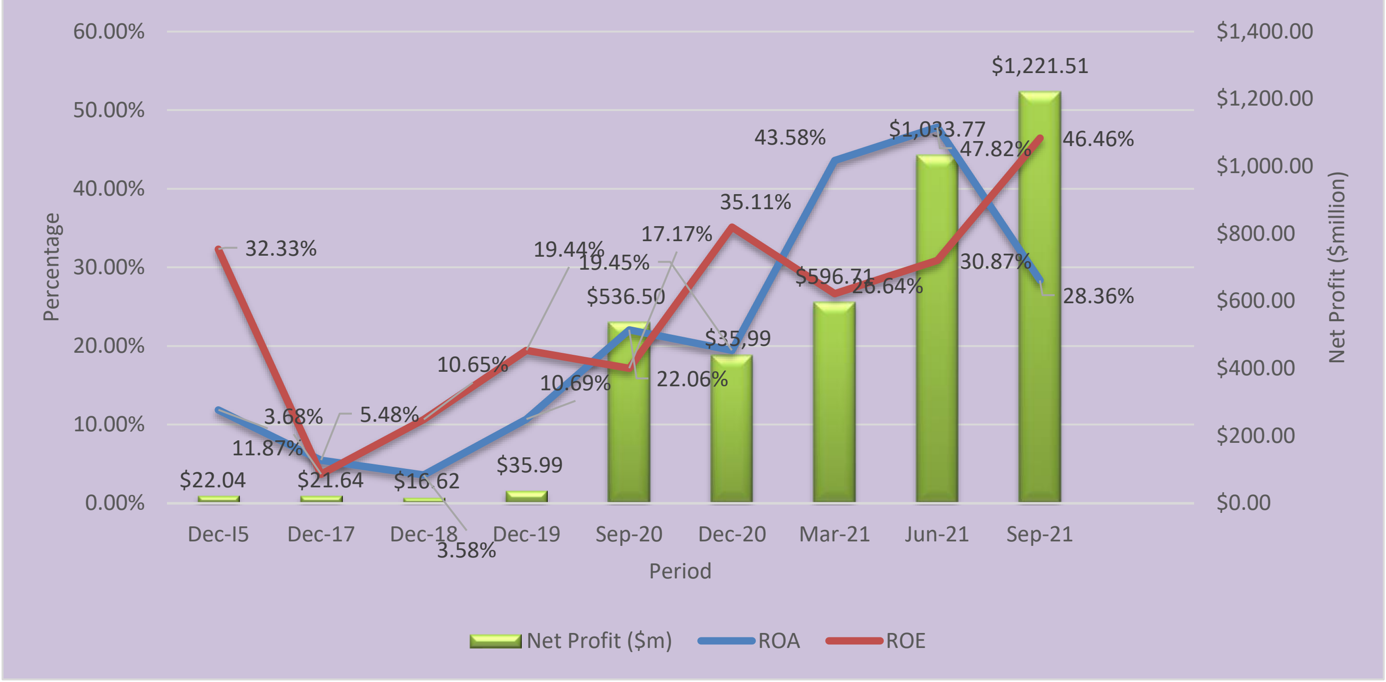


Profitability…

3.14. The microfinance industry recorded improved cumulative retained earnings of $1.22 billion for nine months ended 30 September 2021, representing a 127.682% increase from $536.50 million during the comparative period in 2020. The industry's cost containment measures, in particular adoption of digital financial services, and increased operating income underpinned by loan portfolio growth, contributed to growth in aggregate retained earnings. As a result, the sector's average operational self-sufficiency (OSS) ratio improved from 104.35% as at 30 September 2020, to 171.69% for period ended 30 September 2021, aganst the international benchmark of 100%.

3.15. The trend in profitability indicators for the microfinance industry is indicated in the figure below.

Figure 3: Microfinance Sector - Trend in Profitability, Dec 2015 - Sept 2021



3.16. The return on assets (ROA) ratio for the industry increased to 28.36% during the nine (9) months ended 30 September 2021, from 22.06% for the comparable period in 2020, while the return on equity (ROE) ratio significantly improved from 17.17% to 46.46% over the same period. The improvement in profitability signifies business recovery from the effects of Covid-19 pandemic following relaxation of Covid-19 induced national lockdown and movement restrictions.

Profitability for Credit-Only Microfinance Sub-Sector

3.17. The credit-only microfinance sub-sector recorded an increase in aggregate net profit of 209.60% to $1,222.01 million, from $394.07 million for the comparable period ended 30 September 2020.

3.18. The credit-only microfinance institutions subsector was considered operationally sustainable with the average operational self-sufficiency (OSS) ratio having improved from 104.35% in September 2020 to 187.82% for period ended 30 September 2021, surpassing the international benchmark of 100%.

3.19. All credit-only microfinance institutions reported profits for the nine months ended 30

September 2021.

Profitability of the Deposit-taking Microfinance Institutions

3.20. The DTMFI subsector reported an aggregate loss of $49.97 million for the period ended 30 September 2021, compared to a profit of $193.36 million during the comparative period in 2020. The losses emanated from the other three institutions which are yet to build critical mass to cover escalating operating costs. These institutions however continue to play a critical role in the provision of financial services to the underserved segments.

3.21. Three institutions out of the six operating DTMFIs, reported profits for the period ended 30 September 2021.

3.22. The sub-sector average operational self-sufficiency (OSS) ratio significantly declined to 95.32% as at 30 September 2021, down from 221.82% as at 30 September 2020.

3.23. The earnings performance translated to average return on assets and return on equity ratios of -4.98% and -4.16% as at 30 September 2021, compared to 9.79% and 21.32% as at 30 September 2020 to respectively.

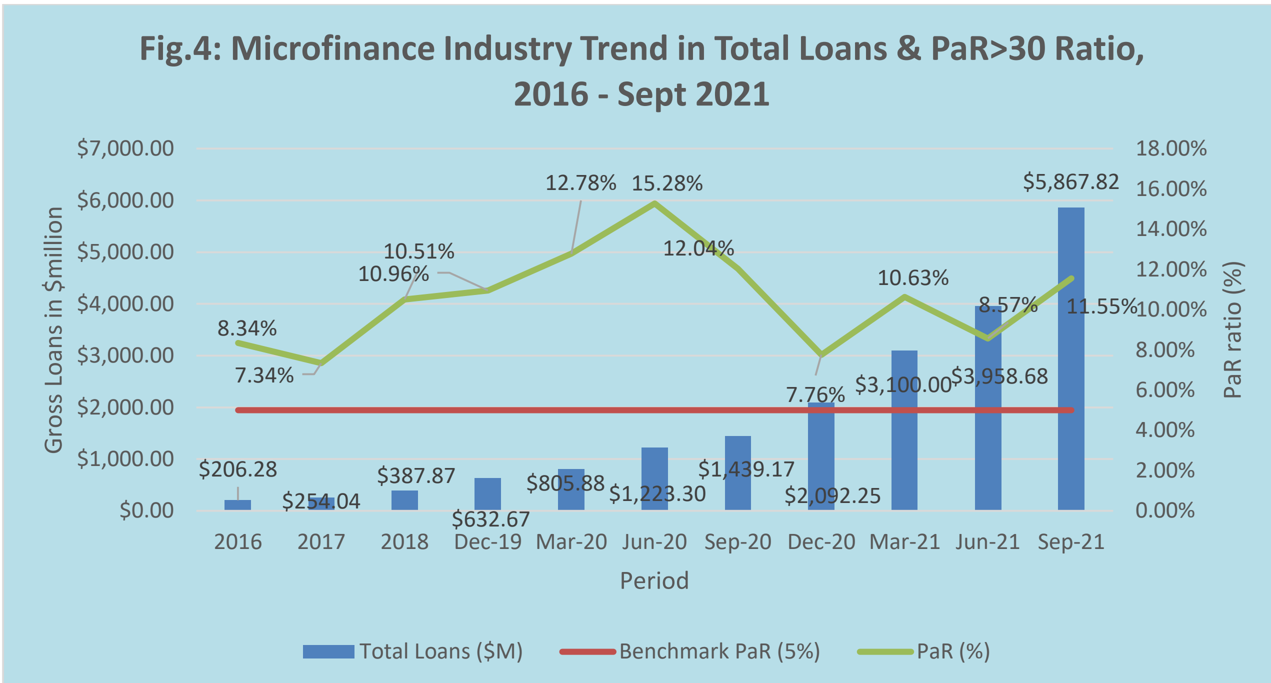
Microfinance Industry Lending and Portfolio Quality…

3.24. The microfinance sector recorded a significant increase in total loans from $3.97 billion as at 30 June 2021, to $5.87 billion as at 30 September 2021 representing a growth of 47.86%. The growth was attributed to increased demand by micro-enterprises seeking to rescuscitate business as the macroeconomic enviroment improved following relaxation of Coid-19 induced national restrictions, and low-income households, seeking to supplement their disposable incomes as they recovered from the effects of Covid-19 pandemic.

3.25. The average loan size per borrower increased by 35.95%, from $12,847.88 as at 30 June 2021 to $17,466.55 as at 30 September 2021 reflective of the operating environment.

3.26. As at 30 September 2021, top 20 microfinance institutions, accounting for 78.98% ($4.63 billion) of the total industry loans, continued to dominate the microfinance industry.

3.27. The trend in the portfolio at risk ratio from December 2016 to 30 September 2021 is shown in Figure 4 below.



3.28. The microfinance industry portfolio quality declined during the quarter under review as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 11.55% as at 30 September 2021, up from 8.57%, against the benchmark of 5%. The deterioration in portfolio quality is largely due to Covid-19 related constraints that impair the borrowers' capacity to repay.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.29. During the quarter under review, the credit-only microfinance sub-sector recorded a 43.62% increase in total loans from $3.37 billion as at 30 June 2021, to $4.84 billion. Total loans from the top twenty credit-only microfinance institutions accounted for 89.57% of the total sub-sector loans as at 30 September 2021.

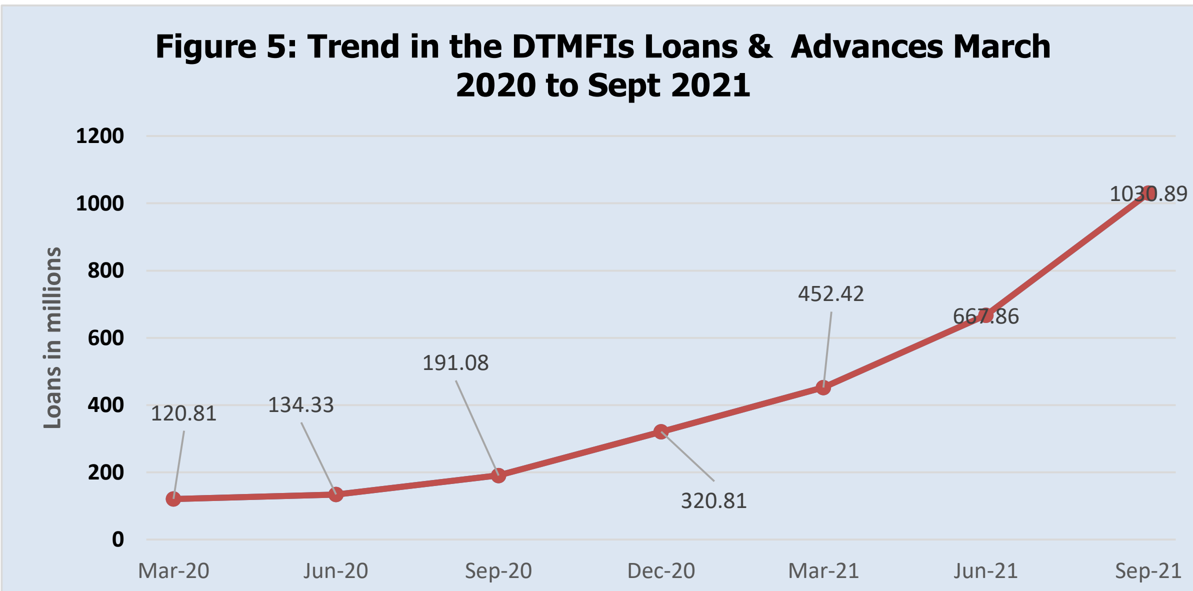
3.30. During the period under review, loan size per borrower in the credit-only microfinance sub-sector increased by 34.03% from $14,761.29 to $19,784.76, as COMFIs increased their lending limits.

3.31. The portfolio quality for the credit-only microfinance sub-sector deteriorated as reflected by the PaR (>30 days) ratio of 11.48% as at 30 September 2021, compared to 8.47% as at 30 June 2021.

Deposit-taking Microfinance Sub-Sector Lending

3.32. Total DTMFI subsector loans and advances significantly increased by 54.36% from $667.86 million as at 30 June 2021 to $1,030.89 million as at 30 September 2021.

3.33. Figure 5 below shows the trend in the total DTMFI sector loans and advances from March 2020 to September 2021.

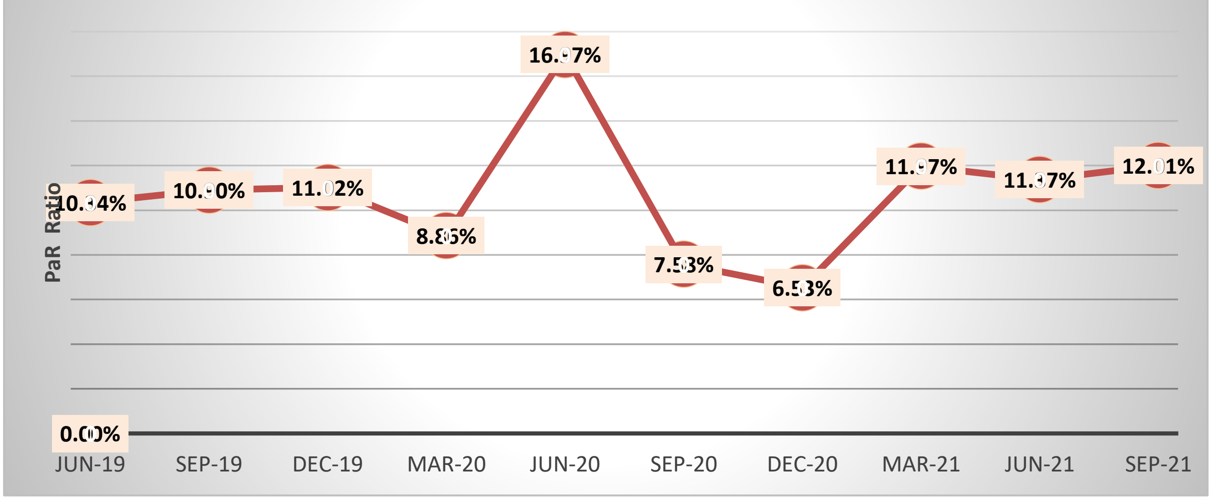


3.34. The deposit-taking microfinance subsector's total loan portfolio of $1.03 billion, accounted for 17.56% of the total microfinance sector loans portfolio.

3.35. As at 30 September 2021, exposure to credit risk remained elevated as reflected by a Portfolio at Risk (PaR) ratio (>30 days) of 12.01% a marginal increase from 11.37% in June 2021, against international benchmark of 5%. The institutions are instituting measures to strengthen their credit risk management practices.

3.36. The graph below shows the trend in the Portfolio at Risk (>30 days) ratio for the DTMFI sub-sector:

Figure 6: Trend in the DTMFIs Portfolio at Risk Ratio June 19 to Jun 21

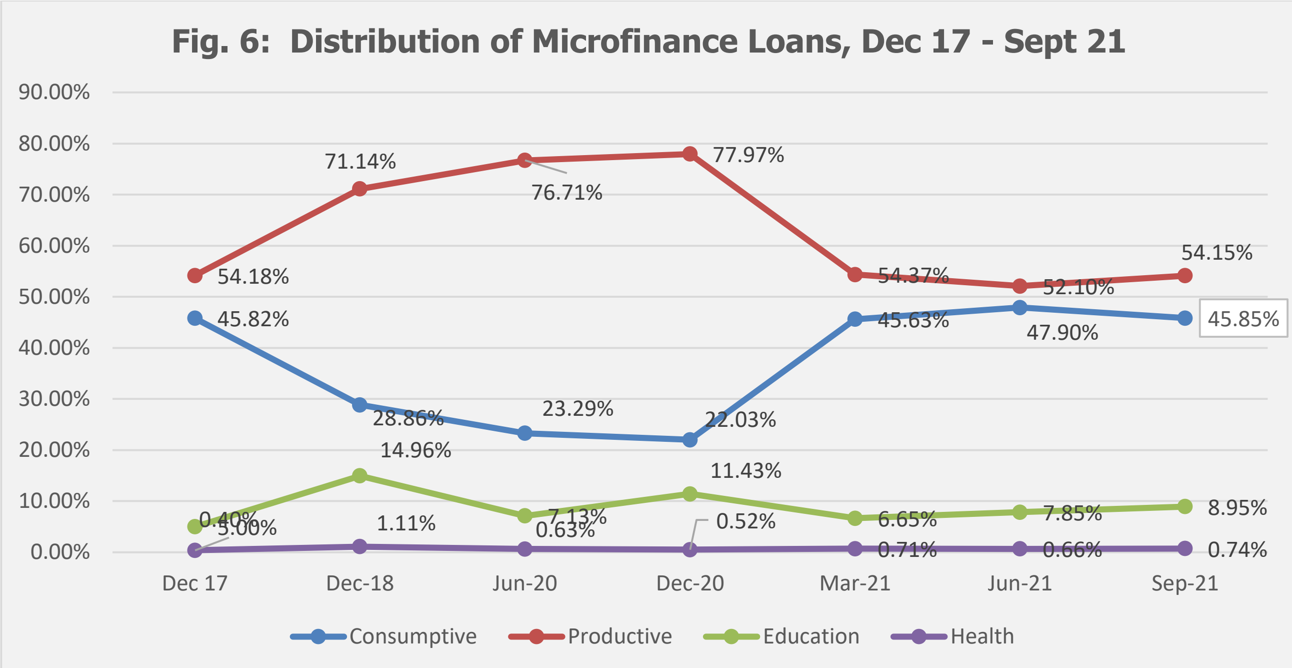


3.37. The heightened credit risk emanated from disruptions in production and economic activity since the onset of the Covid-19 pandemic and the resultant negative impact on cash flows and incomes of businesses and consumers.

Distribution of Loans & Advances…

3.38. As at 30 September 2021 the proportion of productive and consumptive lending to total industry portfolio was 54.15% and 45.85% respectively compared to 52.10% and 47.90% respectively recorded in June 2021.

3.39. Figure 6 below indicates the distribution of loans in the microfinance sector as at 30 September 2021.



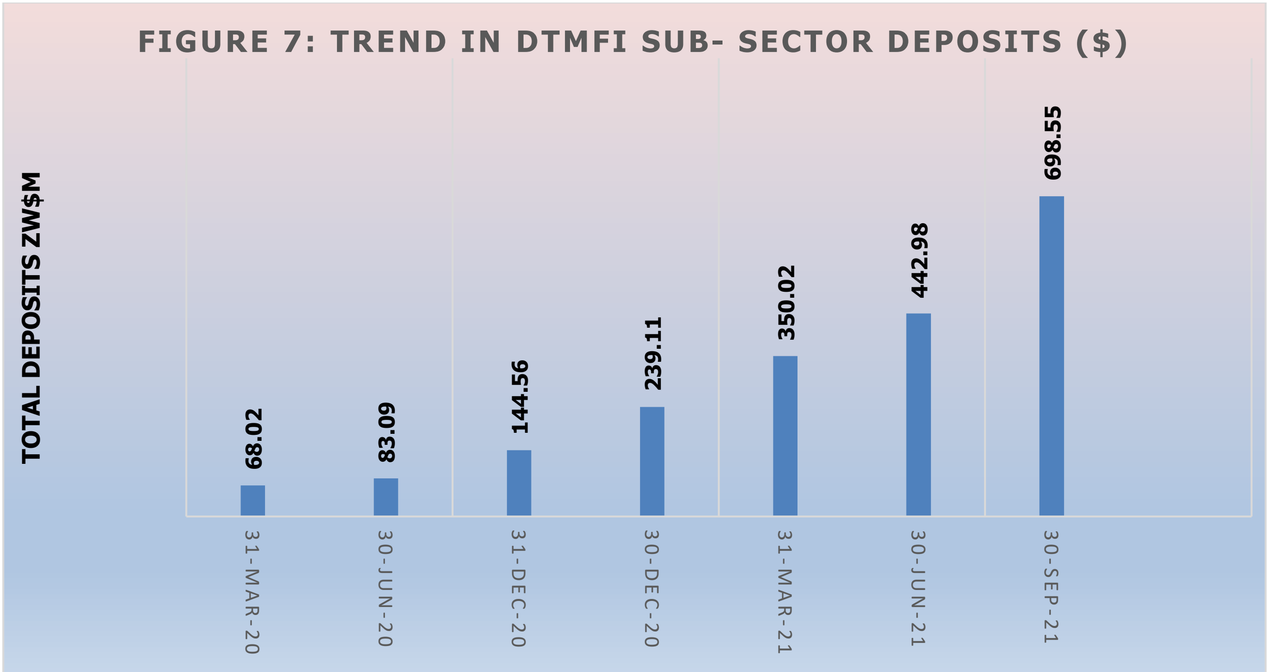
3.40. Total loans for educational purposes increased by 76.59% to $525.28 million as at 30 September 2021 from $297.46 million as at 30 June 2021. The proportion of educational loans accounted for 8.95% as at 30 September 2021, compared to 7.85% of total loans as at 30 June 2021.

3.41. The increase was fundamentally due to increased demand for school fees and additional requirements as learning institutions opened for physical attendance of school programs following a prolonged period of school closure due to the disruptive effects of Covid-19.

Deposits Mobilisation…

3.42. During the quarter under review, total DTMFIs sub-sector deposits increased by 57.69% from $442.98 million as at 30 June 2021 to $698.55 million. The average prudential liquidity ratio reduced from 174.57% as at 30 June 2021 to 119.51% as at 30 September 2021 and remained well above the prudential requirement of 30%.

3.43. The trend in deposits from March 2020 to 30 September 2021 is shown in the graph below.



3.44. The DTMFIs continue to be constrained in their efforts to mobilise meaningful deposits that will capacitate them to support the growth of their loan portfolios.

4. FINANCIAL INCLUSION

4.1. During the period under review, financial institutions continued to make inroads into the implementation of the financial inclusion initiatives. The initiatives include value chain financing for smallholder farmers, working capital loans for women and MSMEs, mentorship programs for the youths, financial literacy training and simplified digital platforms for customers to access financial services and products.

Financial Inclusion Indicators…

4.2. Access and usage of financial services and products continued improve steadily, largely driven by digital financial Services (DFS) and the recent developments in banking technology.

4.3. Marginal increases were recorded in the average loans to MSMEs and average loans to youths from 3.85% and 2.67% as at 30 June 2021 to 3.89% and 2.98% of total banking sector loans as at 30 September 2021, respectively.

4.4. Significant increases were noted in average loans to women, which accounted for

6.47% of total banking sector loans as at 30 September 2021 up from 4.69% as at 30 June 2021, as indicated in the table below.

TABLE 3: Financial Inclusion Indicators

Indicator	Sept 2020	Dec 2020	Mar 2021	Jun 2021	Sept 2021
Value of loans to MSMEs (ZW$ Million)	2,032.41	3,013.85	3,967	5,511.15	7,164.95
Average loans to MSMEs as % of total bank loans	3.57	3.66	3.79	3.85	3.89
Number of MSMEs with bank accounts	145,237	139,902	152,504	162,742	167,250
Number of Women with Bank Accounts	2,506,671	2,570,835	2,758,922	2,159,470	2,411,060
Value of Loans to Women (ZW$ Million)	2,450.56	3,280.61	5,039	6,716.62	11,905.96
Average loans to women as a % of total bank loans	4.31	3.98	4.82	4.69	6.47
Number of Loans to Youth	77,697	71,832	68,452	72,924	77,446
Value of Loans to Youth (ZW$ Million)	1,725.16	1,947.52	2,719	3,825.46	5,488.16
Average loans to the youth as a % of total bank loans	3.03	2.36	2.60	2.67	2.98
Total number of Active Bank Accounts (Million)	8.32	8.64	9.06	7.17	6.69
Number of Low Cost Bank Accounts (Million)	5.05	5.85	5.82	4.41	4.45

4.5. The number of active accounts registered a 6.69% decline over the quarter from 7.17 million as at 30 June 2021, to 6.69 million as at 30 September 2021. The number of low cost accounts recorded a marginal 0.90% increase from 4.41 million as at 30 June 2021, to 4.45 million as at 30 September 2021.

END OF REPORT

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

Indicator	Sept-20	Dec-20	Mar-21	June-21	Sept-21
Number of Licensed COMFIs	212	190	191	176	168
Total Loans ($m)	1,088.97	1,752.60	2,648.14	3,366.96	4,836.88
Total Assets ($m)	1,912.62	2,497.49	3,540.33	4,566.87	6,264.61
Total Equity ($m)	735.35	950.57	1,519.75	2,147.29	2,618.99
Net Profit ($m)	252.53	309.99	648.00	1,106.18	1,268.47
Average Operational Self-Sufficiency (OSS)	137.16%	116.59%	142.29%	195.68	236.86
Portfolio at Risk (PaR>30 days)*	15.20%	8.21%	10.57%	8.47	11.46
Number of Active Loan Clients	259,712	208,258	234,676	228,087	244,475
Number of Outstanding Loans	373,341	259,302	259,612	278,953	269,574
Number of Branches	799	665	654	641	813
Number of Women Clients	110,694	82,962	100,794	100,379	108,180
Value of Loans to Women ($m)	208.70	575.96	1,136.27	1,562.00	1,963.57

Annexure 2: Deposit-Taking Microfinance Institutions, Key Performance Indicators

Key Indicators	Sept- 20	Dec – 20	Mar -21	June-21	Sept -21
Total Assets ($m)	1,154.26	1,515.19	2,002.58	2,445.61	3,092.74
Total Loans & Advances ($m)	191.08	320.87	452.42	667.86	1,030.89
Core Capital ($m)	494.45	596.01	836.20	1,079.21	1,171.64
Net Capital Base ($m)	683.95	783.57	1,098.96	1,369.58	1,476.86
Total Deposits ($m)	144.56	239.11	350.02	442.98	698.55
Net Profit ($m)	125.11	140.48	(51.29)	(69.72)	(46.97)
Average OSS ratio	171.10%	128.11%	72.27%	86.52%	95.32%
Average Return on Assets	16.75%	9.27%	-4.78%	-4.77%	-4.98%
Average Return on Equity	7.98%	9.74%	-6.70%	-5.63%	-4.16%
Average Prudential Liquidity Ratio	92.56%	91.73%	194.27%	174.57%	119.51%
Portfolio at risk Ratio (> 30 days)	7.58%	6.53%	11.97%	11.37%	12.01%

Annexure 3: Access Points and Devices

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Mobile Banking Agents	59,219	71,054	-	-	-	-	-	-
ATMs	542	537	537	527	532	520	456	410
Point of Sale (POS)	121,413	122,138	126,696	128,896	125,277	128,803	128,771	136,669
Debit Cards	5,625,031	5,421,991	5,837,878	5,989,282	5,675,458	5,977,006	6,430,419	6,210,432
Credit Cards	18,089	18,060	17,431	16,595	17,093	15,217	15,217	13,229
Prepaid Cards	99,278	116,143	120,433	112,154	124,210	143,438	129,509	142,157
Mobile Banking Subscribers	6,543,758	5,394,816	5,307,515	4,261,048	5,201,677	4,638,369	3,949,341	4,052,994
Internet Banking Subscribers	415,901	360,850	410,724	427,993	447,033	490,679	499,789	615,139

Mobile Banking agents –outlawed by authorities in June 2020
Mobile Banking Subscribers for March 2021 were adjusted to 4.638 million from 6.488 million.