BANK SUPERVISION DIVISION

MICROFINANCE INDUSTRY REPORT

FOR

QUARTER ENDED 31 DECEMBER 2018

MARCH 2019

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1. EXECUTIVE SUMMARY

1.1. The microfinance industry continued on a growth trajectory supported by an expanding deposit base and organic capital growth on the back of rising demand for loans in an increasingly informalized economy. Positive growth was recorded in terms of outreach, loan portfolio size, funding, gender focus and deposit mobilisation.

1.2. The microfinance sector disbursed loans amounting to $387.87 million as at 31 December 2018 to a total of 349,341 low income clients. Total number of clients as at 31 December 2018 of 349,341 represented a 20.94% increase from 288,858 clients as at 30 September 2018, while the loan portfolio of $387,87 million represented a 10.38% in total loans from $351.39 million as at 30 September 2018.

1.3. Over the year, the sector registered a 7.88% growth in the number of active clients from 323,826 as at 31 December 2017 to 349,341 as at 31 December 2018. The loan portfolio for the sector registered a 52.68% increase over the year from $254.04 million as at 31 December 2017 to $387.87 million as at 31 December 2018.

1.4. The sector continued to spearhead gender financial inclusion initiatives particularly targeting marginalized women. The value of loans to women increased by 48.44% from $76.07 million as at 30 September 2018, to $112.92 million as at 31 December 2018, in line with the increase in the number of female borrowers from 153,980 as at 30 September 2018, to 161,023 as at 31 December 2018.

1.5. The deposit-taking microfinance institutions (DTMFIs) subsector registered a 272% increase in deposits from $6.41 million as 31 December 2017, to $23.85 million as at 31 December 2018. The deposits from the sub-sector increased by 13.57% over the quarter from $21 million as at 30 September 2018. This was largely due to the aggressive deposit mobilization initiatives by the two largest

DTMFIs.

1.6. Over the review period, the microfinance sector registered an improvement in portfolio quality as reflected by an improvement in portfolio at risk (PaR>30 days) ratio from 15.51% as at 30 September 2018, to 10.51% as at 31 December 2018.

1.7. The industry registered a 45.80% increase in equity over the year from $135.66 million as at 31 December 2017, to $197.79 million as at 31 December 2018, and a 5.13% increase over the quarter from $187.87 million as at 30 September 2018. The increase was attributed to capital injection into the sector by new institutions as well as capitalisation of retained earnings by some microfinance institutions.

1.8. The sector registered a 23.1% decline in reported net profit over the year from $21.64 million in 2017, to $16.62 million for period ended 31 December 2018, due to losses recorded by some institutions.

1.9. As at 31 December 2018, the average Operational Self-Sufficiency (OSS)[1] for the industry was 153.11%, up from 135.80% as at 31 December 2017, pointing to sustainability of the sector over the review period.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1. As at 31 December 2018, a total of 205 microfinance institutions were operational as indicated in the table 1 below:

[1] *The **OSS** is defined as the ratio of an MFI's operating revenues to its operating expenses including the financial costs and impairment losses on loans.*

Table 1: Architecture of the Microfinance industry

Type of Institution	30 September 2018	31 December 2018
Credit-only Microfinance Institutions	194	199
Deposit-taking Microfinance Institutions	6	6
Total	**200**	**205**

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1. The microfinance sector continued to play a critical role in financial inclusion and financial intermediation as reflected by positive growth in the loan portfolio size, equity funding, deposit mobilization and outreach during the quarter under review.

3.2. A summary of the key performance indicators is shown in Table 2 below.

Table 2: Key Performance Indicators, December 2017 to December 2018

Indicator	Dec -17	Mar-18	June-18	Sep -18	Dec-18
Number of Licensed Institutions	183	190	196	200	205
Total Loans (US$m)	254.04	272.95	297.52	351.39	387.87
Total Assets (US$m)	333.27	360.46	412.29	463.56	490.27
Total Equity (US$m)	135.66	142.94	138.15	187.87	197.85
Net Profit (US$m)	21.64	9.08	13.67	9.98	16.62
Average Operational Self-Sufficiency (OSS)	135.80%	142.92%	154.76 %	114.45%	153.11 %
Total Deposits (DTMFIs) (US$m)	6.41	11.84	15.35	21.00	23.85
Number of Savings Accounts (DTMFIs)	7,226	8,668	10,196	24,386	68,258
Portfolio at Risk (PaR>30 days)	7.34	9.55%	10.15%	15.51%	10.51%
Number of Active Loan Clients	323,826	282,024	276,660	288,858	349,341
Number of Female Borrowers	115,690	107,226	107,566	153,980	161,023
Number of Outstanding Loans	415,979	296,544	297,843	323,129	393,219
Number of Branches	682	676	660	781	750

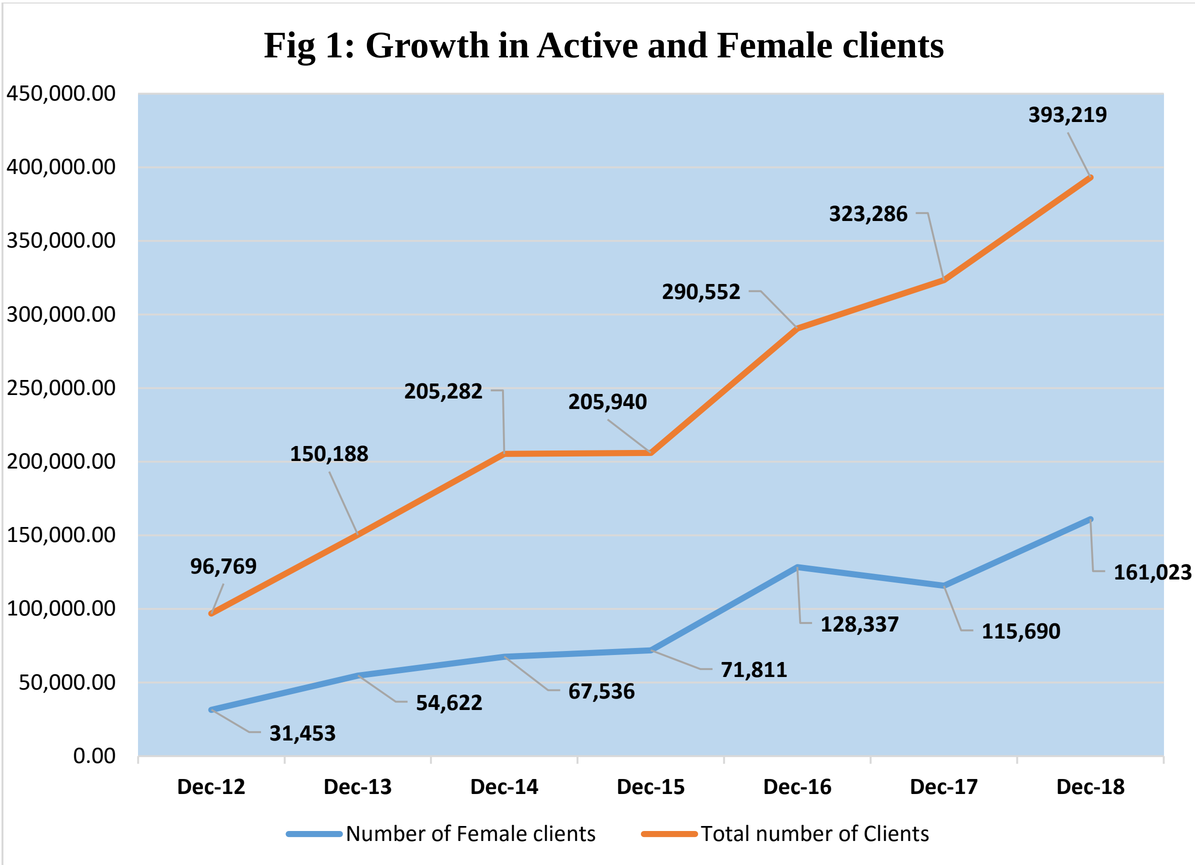
Microfinance Outreach…

3.3. While the sector registered a 9.97% increase in the number of branches over the year from 682 as at 31 December 2017, to 750 branches as at 31 December 2018, the sector witnessed a 3.97% decline in branch network over the quarter from 781 as at 30 September 2018. The decrease was attributed to consolidation and closure of branches by some microfinance institutions as part of cost-cutting measures to ensure viability, and adoption of digital finance to facilitate access to finance by low income groups while minimizing the cost of service delivery.

3.4. A total of eleven (11) institutions had more than 20 branches each, while one deposit-taking microfinance institution had over 3,600 microfinance access points as microfinance institutions endeavor to increase access to finance through agency banking.

3.5. The number of active microfinance clients increased by 20.94% over the quarter, from 288,858 active clients as at 30 September 2018, to 349,341 as at 31 December 2018.

3.6. The trend in the number of active clients and female borrowers over the past seven (7) years is shown in Figure 1 below.



3.7. A number of microfinance institutions continue to embrace gender policies in their microfinance activities as reflected by an increase in the number of female borrowers. In this regard, the sector continues to make inroads in providing access to finance to low income female borrowers as their prime target business development. The sector registered a 39.18% increase over the year from 115,690 female borrowers as at 31 December 2017, to 161,023 female borrowers as at 31 December 2018.

3.8. The increase is partly attributed to increased access to empowerment facilities earmarked for women entrepreneurs such as the Women Empowerment Facility and the Business Linkage Facility. The women borrowers accounted for 40.95% of the total active clients and accessed 29.11% ($112.93m) of the microfinance industry’s total portfolio of $387.87 million as at 31 December 2018, which, however, remains low relative to the women population.

3.9. The microfinance sector continues to leverage on technology such as mobile banking services and agency arrangements in order to increase the depth and breadth of microfinance products to reach out to remote rural areas.

Deposit Mobilization…

3.10. The level of deposits in the subsector increased marginally from $21.00 million as at 30 September 2018, to $23.85 million as at 31 December 2018. One deposit-taking microfinance institution commanded 64.79% of the sub-sector's total deposits of $23.85 million as at 31 December 2018.

3.11. The sub-sector registered a significant growth in the number of bank accounts from 24,386 as at 30 September 2018, to 68,258 as at 31 December 2018, with one DTMFI commanding 63.09% of the total number of accounts in the sub-sector. The growth was largely attributed to the business development and outreach strategies deployed by some of the DTMFIs, including the need to open an account and accumulate some savings as a condition for accessing loan facilities.

Capital & Funding…

3.12. Lack of adequate and affordable funding continues to be a major challenge to the microfinance sector's ability to increase outreach and underwrite more business.

3.13. The sector's aggregate equity for the period ended 31 December 2018 was $197.85 million, representing a 5.31% increase over the quarter from $187.87 million as at 30 September 2018. The equity as at 31 December 2018 represents a 45.84% year on year increase from $135.66 million as at 31 December 2017. The growth is partly attributed to capitalization of profits by some microfinance institutions, and injection of capital into the sector by shareholders of newly registered microfinance institutions.

Capital and Funding for Credit-Only Microfinance Institutions

3.14. The credit-only microfinance subsector's total equity of $134.17 million as at 31 December 2018 denotes a 6.45% increase from $126.04 million recorded as at 30 September 2018.

3.15. As at 31 December 2018, a total of nine (9) credit-only microfinance institutions were non-compliant with the minimum capital requirements of $20,000 for credit-only microfinance institutions. The non-compliant microfinance institutions have been directed to inject additional capital as well as seek additional sources of funding to enable them to play a more meaningful role of financial intermediation by reaching out to low-income and marginalized groups.

3.16. Lack of long-term sustainable funding continues to militate against increased depth and breadth of microfinance outreach. Microfinance shareholders are therefore urged to inject additional capital and/or to consider mergers and acquisitions in order to come up with stronger, more sustainable and well-funded institutions. Further, there is also scope for MFIs to engage external funders for lines of credit in order to augment their underwriting capacity.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.17. Five (5) out of the six (6) operating DTMFIs were compliant with the minimum capital requirement for DTMFIs of $5 million. The Reserve Bank has directed the non-compliant institution to regularize its capital position,

3.18. The DTMFI sub-sector registered a marginal increase in aggregate core capital from $62.22 million as at 30 September 2018, to $62.26 million as at 31 December 2018.

Financial Inclusion…

3.19. The Reserve Bank continues to collaborate with other stakeholders in implementing various initiatives to enhance access to formal financial services by the majority of the people.

Financial Inclusion Indicators

3.20. There has been notable progress regarding access to formal financial services (banking institutions and microfinance institutions) by the targeted groups such as women, micro-small medium enterprises (MSMEs) and the youth as shown by the indicators table 3 below.

Table 3: Financial Inclusion Indicators - Dec 2016-18

Indicator	Dec 2016	Dec 2017	June 2018	Sept 2018	Dec 2018
Value of loans to MSMEs	$131.69m	$146.22 m	$168.25m	$131.83m	$169.96m
% of loans to MSMEs over total loans	3.57%	3.75%	3.57%	3.84%	3.94%
Number of MSMEs with bank accounts	71,730	76,524	81,369	97,527	100,644
Number of Women with Bank Accounts	769,883	935,994	1,612,820	1,528,704	1,736,285
Value of Loans to Women	$277.30m	$310.78m	$360.68m	$384.55m	$432.36m
Number of Loans to Youth	38,400	61,529	68,756	74,165	69,421
Value of Loans to Youth	$58.41m	$138.93 m	$126.64m	$146.79m	$104.43m
Total number of Bank Accounts	1.49m	3.07m	5.58m	5.81m	6.73m
Number of Low Cost Accounts	1.20m	3.02m	3.56m	3.31m	4.67m

3.21. The sector continues to record significant growth in the total number of bank accounts on the back of various initiatives being pursued by the Reserve Bank of Zimbabwe to promote financial inclusion.

3.22. Total number of bank accounts increased by 119.22% from 3.07 million as at 31 December 2017 to 6.73 million as at 31 December 2018 as both banking institutions and microfinance institutions continue to heed calls by the Reserve

Bank of Zimbabwe to increase focus on previously financially excluded segments of the population. Number of low cost accounts and women with bank accounts increased by 54.63% and 85.67% from 3.02 million and 0.94 million as at 31 December 2017, to 4.67 million and 1.74 million as at 31 December 2018, respectively.

Financial Inclusion Empowerment Facilities

3.23. Access to funding is a critical component of financial inclusivity. The Reserve Bank of Zimbabwe continues to avail funding targeted at various priority groups under the National Financial Inclusion Strategy through Revolving Empowerment Facilities amounting to $501.1 million as at 31 December 2018.

3.24. Although disbursements have increased from $122 million as at the end of 2017 to $277.16 million as at end of 2018, uptake has remained low at 55% as summarized in the table below:

Table 4: Utilisation of Empowerment Funds as at 31 December 2018

Loan Facility	**Facility Limit ($)**	**Total Utilisation as at 31 Dec 18 ($)**	**Utilization Level %**
Business Linkages	10m	11.64m	**116.39**
Export Finance	70m	76.45m	**109.29**
Educational Loan	50m	2.18m	**4.36**
Horticulture Promotion	10m	4.66m	**46.57**
FPR Gold Support	150m	137.40m	**91.60**
Women Empowerment	15m	3.01m	**20.09**
Tobacco Facility (TIMB)	70m	24.32m	**34.74**
Construction Finance	50m	-	-

Loan Facility	Facility Limit ($)	Total Utilisation as at 31 Dec 18 ($)	Utilization Level %
Soya Beans Facility	21.51m	15.64m	**72.74**
Persons With Disability	5m	0.235m	**4.70**
Zimbabwe Micro Finance	10m	1.5m	**15.00**
Youth Empowerment	10m	0.33m	**3.35**
Tourism Facility	15m	0.03m	**0.20**
Total	**501.51m**	**277.16m**	**55.27**

3.25. The low uptake of empowerment facilities is largely attributed to the following:

i. Reluctance by some financial institutions to participate in the disbursement of the facilities due to perceived credit risk of the target beneficiaries; and

ii. Failure by some of the lending institutions to meet the set requirements to access the facilities.

Lending and Portfolio Quality…

3.26. The microfinance sector registered a 10.39% increase in total loans over the quarter from $351.39 million as at 30 September 2018, to $387.87 million as at 31 December 2018. The growth was attributed to increased demand by micro-small-to-medium enterprises as well as low-income households seeking to supplement their disposable incomes.

3.27. As at 31 December 2018, the microfinance industry loans of $387.87 million constituted 9.19% of the total banking sector loans of $4.22 billion for the same period.

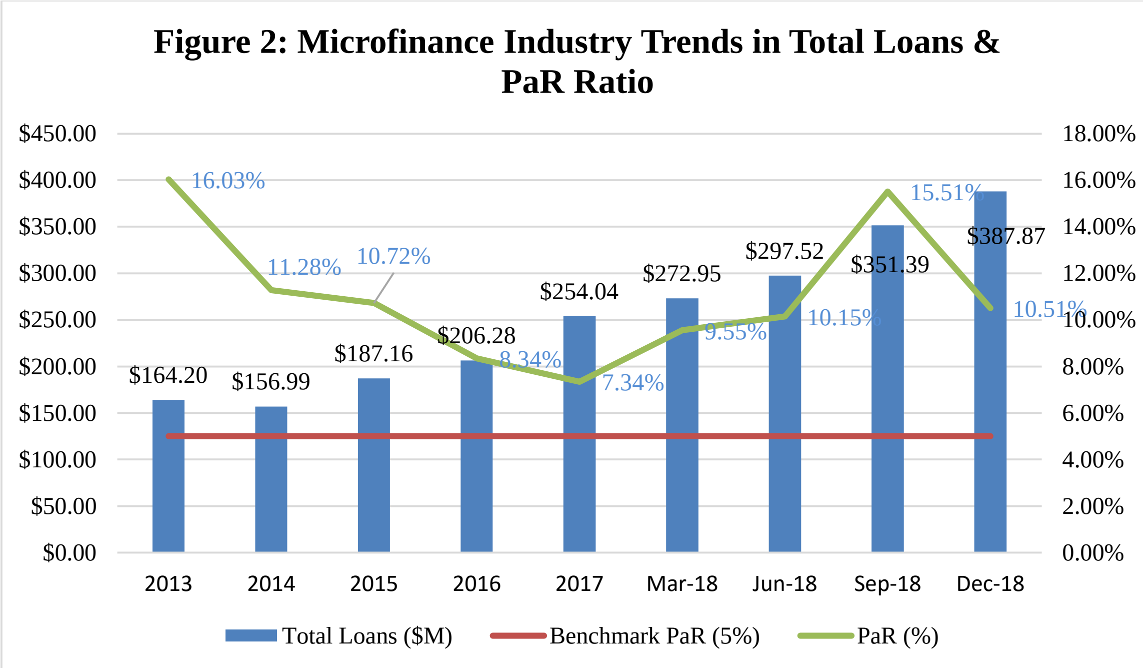
3.28. The microfinance industry continued to be dominated by a few institutions, with the top 20 microfinance institutions out of the total 205 institutions, commanding a market share of 85.50% of the sector's aggregate loan portfolio of $387.87 million as at 31 December 2018.

3.29. The deposit-taking microfinance subsector held total loans of $84.40 million, representing 21.76% market share of the total microfinance industry loan portfolio of $387.87 million as at 31 December 2018, compared to the credit-only microfinance institutions with 78.24% of total industry loans for the same period under review.

3.30. The asset quality for the microfinance industry improved over the quarter as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 10.51% as at 31 December 2018, compared to 15.51% as at 30 September 2018, against the international benchmark of 5%.

3.31. The deposit-taking microfinance subsector, however, experienced a deterioration in asset quality with a PaR ratio of 13.05% as at 31 December 2018 compared to 10.70% as at 30 September 2018, largely driven by delayed repayments in the corporate portfolio of one of the large DTMFIs.

3.32. Figure 2 below depicts the trend in the aggregate loans and portfolio quality between 2013 and 2018.

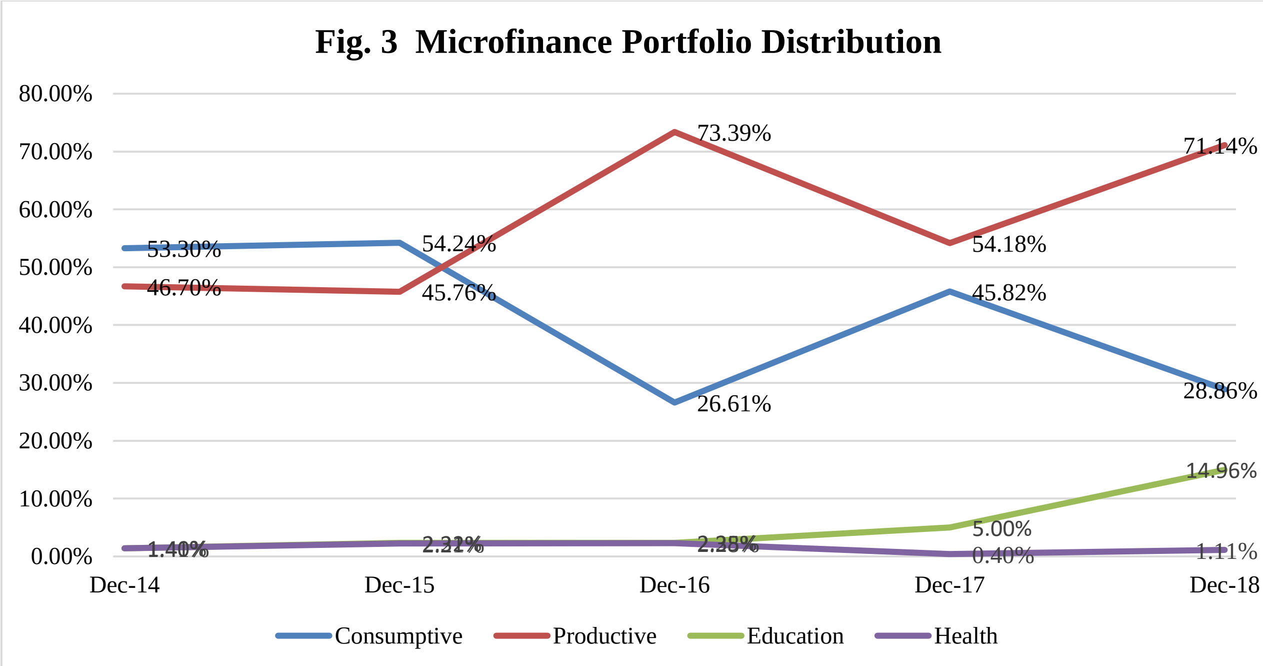


3.33. The improvement in asset quality for the microfinance industry was partly attributed to increased utilization of the Reserve Bank credit registry system by microfinance institutions, in line with the requirement to check the creditworthiness of their borrowers prior to issuance of loans.

3.34. Effectiveness of the Credit Registry system as a risk management tool is expected to improve once microfinance institutions commence submission of both positive and negative information to the credit registry, in line with the second phase of the implementation of the system.

Distribution of Loans…

3.35. Over the year, loans to the productive sectors of the economy have been on an upward trend as reflected in the diagram below.



3.36. The loans to the productive sector of $275.95 million as at 31 December 2018, accounted for 71.14% of the total sector loans of $387.87 million, up from 54.18% of industry loans of $254.04 million as at 31 December 2017.

3.37. Funding for educational purposes continued to improve over the quarter, with the loans for education purposes constituting 14.96% of the aggregate loan portfolio of $387.87 million as at 31 December 2018, up from 12.41% as at 30 September 2018. Funding for health purposes crossed the 1% mark, registering 1.11% of the total microfinance industry loans of $387.87 million.

Profitability…

3.38. The microfinance industry recorded a net profit of **$16.62 million** for the year ended 31 December 2018, representing a **23.34% decline** from $21.64 million recorded for the year ended 31 December 2017.

3.39. The decline in profits was largely attributed to losses reported by three deposit-taking microfinance institutions which recorded aggregate losses of

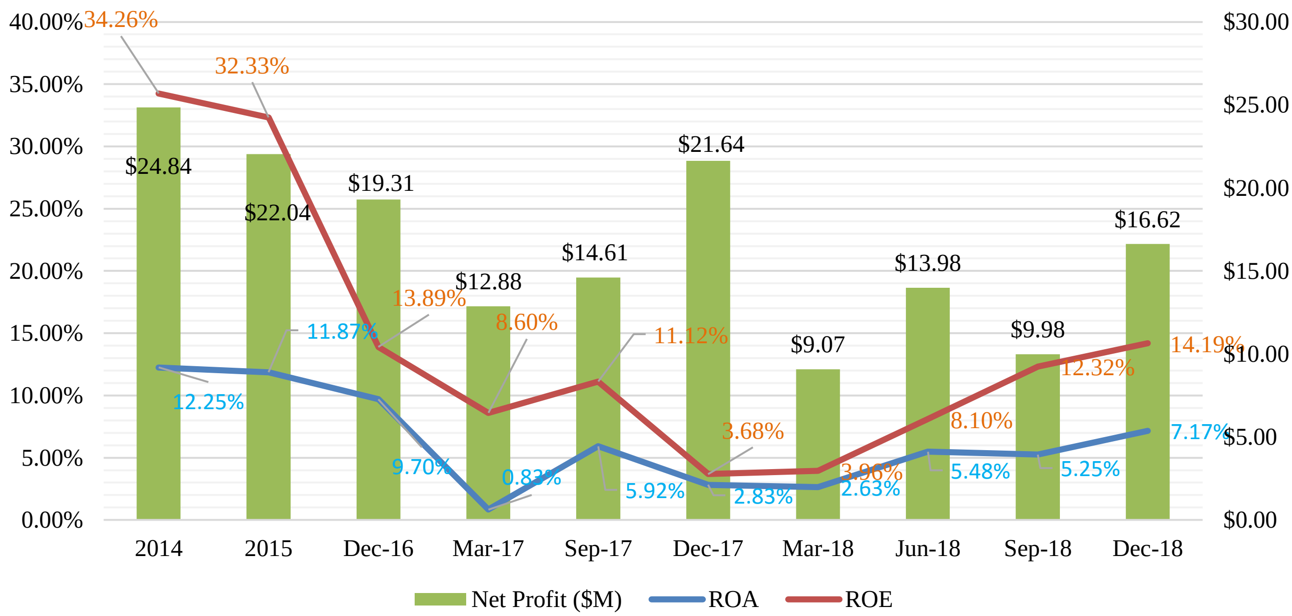
$5.15million.

3.40. A total of 35 microfinanciers, including three (3) DTMFIs posted losses for the period ended 31 December 2018 due to high operational cost structures on the back of a challenging operating environment.

3.41. Average operational self-sufficiency ratio (OSS), however, improved from 135.91% as at 30 September 2018 to 152.81% as at 31 December 2018, indicating that the industry is operationally sustainable.

3.42. The trend in the profitability of the microfinance industry is indicated in Figure 4 below.

Figure 4: Microfinance industry- Trends in Profitability, 2014 - 2018



3.43. Despite the decline in net profit over the year, the return on assets (ROA) for the industry increased to 7.17% as at 31 December 2018 from 2.83% for period ended 31 December 2017. The sector also registered a 10.51 percentage point increase in the return on equity (ROE) ratio from 3.68% for period ended 31 December 2017, to 14.19% for period ended 31 December 2018.

Credit-Only Microfinance Institutions

3.44. The number of credit-only microfinance institutions which recorded losses improved from 51 institutions as at 31 December 2017 to 31 institutions as at 31 December 2018. The losses largely emanated from high operational costs such as staff costs and rentals in some institutions coupled with the absence of critical mass in terms of microfinance business, to generate sufficient income to cover operational costs.

3.45. On average, however, the credit-only microfinance sub-sector was considered operationally sustainable with an average OSS ratio of 154.09% as at 31 December 2018, up from 136.92%, for the corresponding period in 2017.

Deposit-taking Microfinance Institutions

3.46. Profitability in the DTMFI subsector remained subdued during the year. The earnings performance was largely weighed down by losses posted by newly established deposit-taking microfinance institutions which are still building their portfolios in order to attain sustainable critical mass.

3.47. The DTMFI subsector recorded an aggregate net loss of $29,488.44 for the period ended 31 December 2018 compared to a loss of $0.56 million for the period ended 31 December 2017. A total of three (3) institutions out of the six (6) operating DTMFIs posted losses during the quarter under review.

3.48. Losses posted by two (2) of the three (3) DTMFIs, which commenced operations during the year, were largely attributed to start-up costs.

3.49. Resultantly, the sub-sector recorded an average OSS ratio of 89.27% as at 31 December 2018, which was a deterioration from 126.30% for the year ended 31 December 2017. The decline in the operational self-sufficiency ratio is reflective of the increase in costs associated with the start-up institutions.

3.50. As a result of the losses the subsector reported negative return on assets and return on equity of 9.16% and 8.40% for quarter ended 31 December 2018. Operating expenses ratio for the subsector (OER) at 217.45% was a deterioration from 43.37% for the period ended 31 December 2017.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

4.1 The Reserve Bank continued to monitor compliance with applicable laws, rules and regulations, as well as the Core Client Protection Principles in an effort to preserve the integrity and reputation of the microfinance industry.

Late Submission of MFI Returns…

4.2 For the quarter ended 31 December 2018, three (3) credit-only microfinance institutions were penalized for the non-submission of quarterly MFI returns.

Failure to Meet Minimum Capital Requirements…

4.3 As at 31 December 2018, nine (9) credit-only microfinance institutions failed to meet the minimum capital requirement of $20,000 and the institutions have been directed to regularise their capital position.

Compliance with Core Client Protection Principles…

4.4 For the quarter ended 31 December 2018, the microfinance industry recorded two (2) complaints, compared to six (6) complaints received during the quarter ended 30 September 2018. The complaints related to unauthorized taking of deposits by two microfinance institutions and high penalty charges levied on a client by a microfinance institution.

4.5 The Reserve Bank noted a re-surfacing of credit-only microfinance institutions that are illegally taking deposits from members of the public in the form of debentures. The Reserve Bank has since taken supervisory action on the institutions involved.

5. DEVELOPMENTS IN THE SECTOR

5.1. As part of skills development strategy for the sector, Reserve Bank in collaboration with the World Bank held a Second Annual Microfinance Conference and the Agricultural Value Chain Finance training workshop in November and October 2018, respectively.

5.2. The **Annual Microfinance Conference** which ran under the theme "*Unlocking the Microfinance Potential and Contribution to Sustainable Economic Development"* explored ideas and exchanged experiences on how to increase the microfinance industry's contribution to economic development of Zimbabwe.

5.3. The **Agricultural Value Chain Finance training workshop** was a capacity building initiative aimed sharing ideas and experiences on how microfinance institutions can adopt value chain financing model to drive agricultural growth and increase agricultural export earnings. A major resolution of the workshop was for government to work with all value chain participants and develop an appropriate regulatory and legal framework that facilitate agricultural value chain financing transactions.

Risk Management and IT Systems…

5.4. As part of measures to enhance credit risk management by the microfinance institutions, the Reserve Bank embarked on the phase of on-boarding microfinance institutions to have access to the Credit Registry System.

5.5. Access to credit information through the Credit Registry System has enabled microfinance institutions to address the challenges of information asymmetry, incidences of multi-borrowed, over-indebtedness and non-performing loans.

5.6. As at 31 December 2018, microfinance institutions had made 2,074 enquiries on the Credit Registry System, compared to 1,828 made in 2017.

5.7. The Reserve Bank continues to urge microfinance institutions to put in place robust ICT systems that will enable them to have uninterrupted connectivity with the Credit Registry System and efficiently manage their business risks.

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