BANK SUPERVISION DIVISION

MICROFINANCE SECTOR REPORT

FOR

THE QUARTER ENDED 30 SEPTEMBER 2019

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

1.1. During the quarter ended 30 September 2019, the microfinance sector continued on a growth trajectory supported by the increase in total loan portfolio size, breadth of outreach, and improved profitability.

1.2. Total loans for the quarter increased by 12.93% to $625.85 million as at 30 September 2019. Loans to the productive sector accounted for 73.21% of the total microfinance sector loans of $625.85 million.

1.3. The sector's aggregate equity increased by 25.39% to $276.98 million during the quarter under review, largely attributed to organic growth.

1.4. Net profit for the microfinance industry was $36.88 million for the quarter ended 30 September 2019, against $9.98 million for the comparative period in 2018.

1.5. Industry portfolio quality as measured by the Portfolio at Risk (PaR > 30) ratio deteriorated to 15.90% as at 30 September 2019, from 9.90% as at 30 June 2019, against the international benchmark of 5% largely due to squeezed borrowers' disposable income resulting in loan repayment challenges.

1.6. The sector remained operationally self-sustainable with an operational self-sufficiency (OSS) ratio of 158.63% for the period ended 30 September 2019, against 164.56% recorded in the previous quarter.

2. ARCHITECTURE OF THE MICROFINANCE SECTOR

2.1 As at 30 September 2019, a total of 223 microfinance institutions were operational as indicated in Table 1 below.

Table 1: Architecture of the Microfinance sector

Type of Institution	30 June 2019	31 September 2019
Credit-only Microfinance Institutions	212	217
Deposit-taking Microfinance Institutions	6	6
Total	**218**	**223**

3. PERFORMANCE OF THE MICROFINANCE SECTOR

3.1 The microfinance sector recorded growth in the major key performance indicators including total loan portfolio size, total assets, aggregate equity, net profit, and branch network.

3.2 A summary of the key performance indicators for the microfinance sector is indicated in the table below.

Table 2: Microfinance Sector, Key Performance Indicators

Indicator	Sep -18	Dec-18	Mar-19	June-19	Sep-19
Number of Licensed Institutions	200	205	210	218	223
Total Loans ($)	351.39m	387.87m	443.12m	554.21m	625.85m
Total Assets ($)	463.56m	490.22m	533.05m	721.99m	1.09bn
Total Equity ($)	187.87m	197.85m	200.38m	220.89m	276.98m
Net Profit ($)	9.98m	16.62m	4.98m	20.08m	36.88m
Average Operational Self-Sufficiency (OSS)	114.45%	153.11%	142.29%	164.56%	158.63%
Total Deposits (DTMFIs) ($)	21.00m	23.85m	25.65m	15.29m	27.87m
Number of Savings Accounts (DTMFIs)	24,386	68,258	73,258	92,306	98,277
Portfolio at Risk (PaR>30 days)	15.51%	10.51%	8.02%	9.90%	15.90%
Number of Active Loan Clients	288,858	349,341	402,295	396,388	349,859
Number of Female Borrowers	153,980	161,023	160,074	166,444	147,699
Number of Outstanding Loans	323,129	393,219	440,032	425,288	532,944
Number of Branches	781	750	807	796	844

Microfinance Outreach…

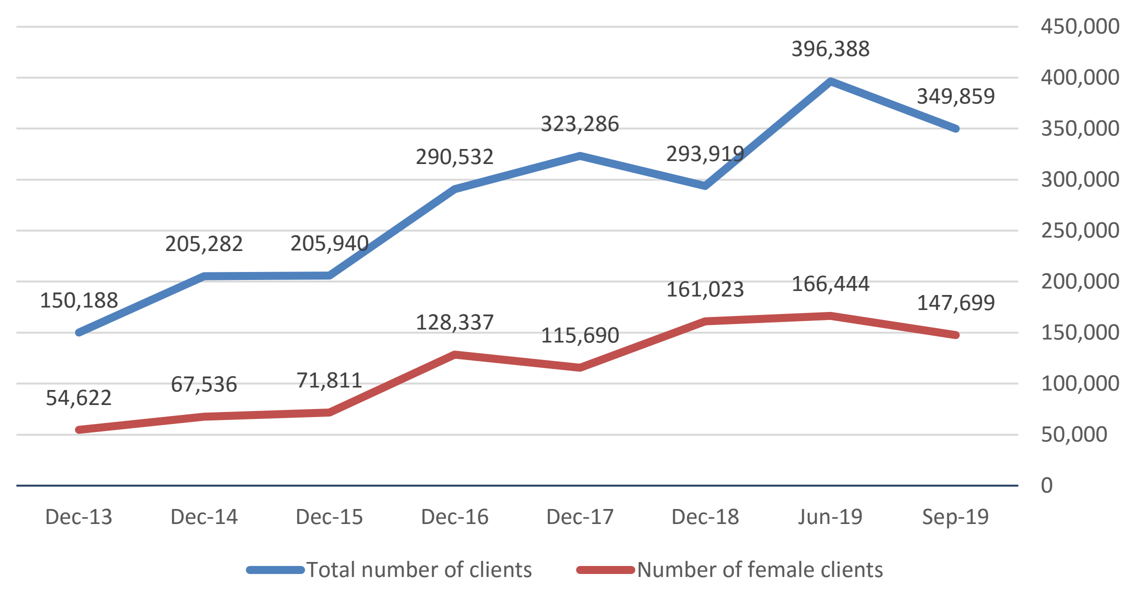
3.3 The number of branches for the microfinance industry increased from 796 branches as at 30 June 2019, to 844 branches as at 30 September 2019.

3.4 A total of eleven institutions had twenty or more branches each, representing 39.45% of total sector branches.

3.5 Active clients in the sector declined by 11.74% from 396,388 during the quarter under review.

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.

Figure 1 Trend in Active Clients



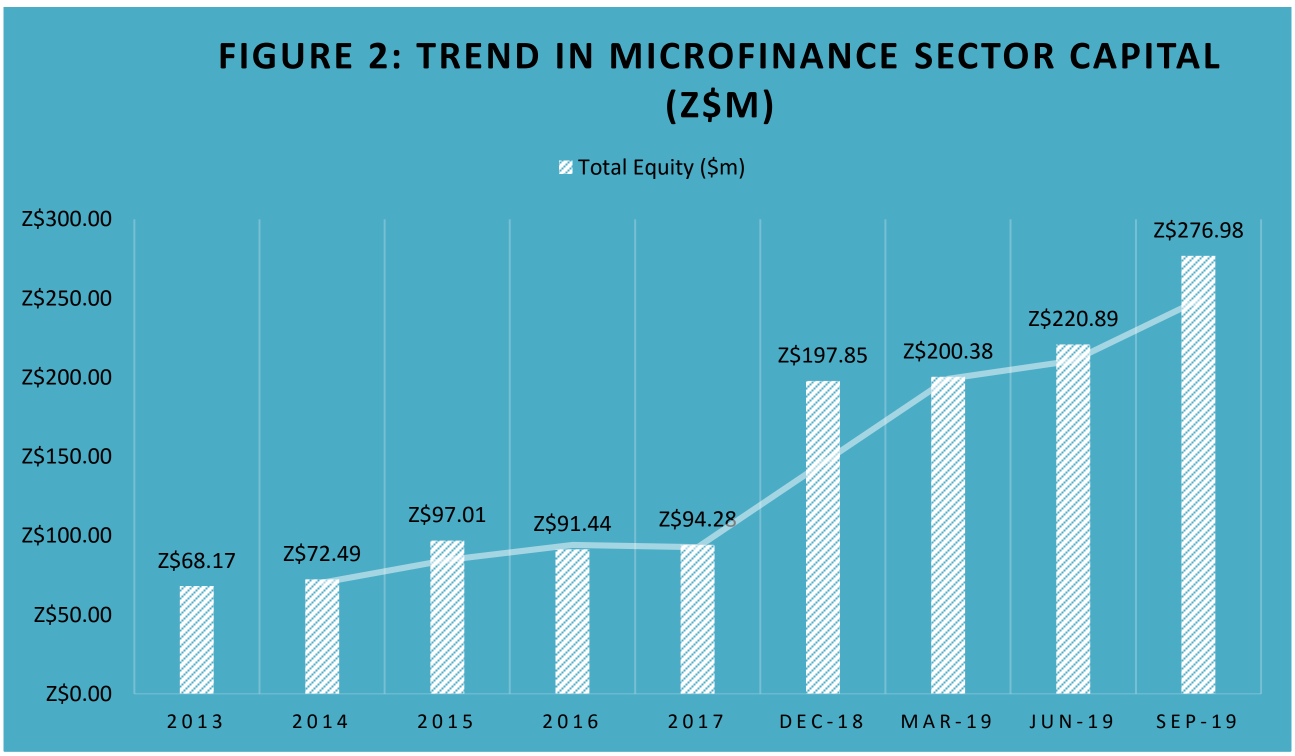
3.7 As at 30 September 2019, the number of female borrowers declined from 166,444 to 147,699 and accounted for 42.22% of the total number of active clients compared to 41.99% in the last quarter. Despite the decrease in the number of women borrowers, the total loans they accessed from the microfinance sector increased to $221.70 million (35.42%) of the total microfinance sector loans of $625.85 million compared to $134.35 million (24.24%) in the last quarter.

3.8 Savings accounts for the DTMFI sub-sector increased from 92,306 as at 30 June 2019, to 98,277 as at 30 September 2019, as institutions capitalized on the mobile banking platforms to increase low cost accounts.

Capital…

3.9 The sector's aggregate equity for the quarter ended 30 September 2019 was $276.98 million, representing a 25.39% increase, from $220.89 million. The growth is partly attributed to injection of capital into the sector by shareholders of newly registered microfinance institutions and capitalization of profits by some microfinance institutions.

3.10 The aggregate capital position of the microfinance sector from 2013 to September 2019 is shown Figure 2 below.



3.11 Following the increase in minimum capital requirements of the ZW$ equivalent of USD5, 000,000 for deposit taking microfinance institutions and ZW$ equivalent of USD25,000 for credit-only microfinance institutions, effective 31

December 2020, the institutions are required to submit re-capitalization plans by 30 June 2020.

3.12 The increased capital requirement is expected to facilitate underwriting of more business in line with the financial inclusion agenda, and the national vision on sustainable growth.

3.13 The issuance of perpetual licences provided for by the Microfinance Amendment Act [Chapter 24:30] Number 6, 2019 is expected to improve confidence in the microfinance sector and to facilitate attraction of long-term funding from potential investors, as well as external lines of credit to augment the sector's underwriting capacity.

3.14 Total deposits in the DTMFI subsector increased by 82.22% to $27.87 million as at 30 September 2019, up from $15.29 million as at 30 June 2019. The increase was reflective of high uptake of electronic transactions by the low-income earners and small to medium sized enterprises as opposed to hard cash transactions.

3.15 One deposit-taking microfinance institution dominated the sub-sector's total deposits with a 53.53% market share as at 30 September 2019.

Capital for Credit-Only Microfinance Institutions

3.16 During the period under review, the credit-only microfinance sub-sector registered a 19.08% increase in aggregate equity from $136.65 million to $162.72 million during the quarter ended 30 September 2019, as indicated in **Annex 1**: The key performance indicators for the credit-only microfinance subsector.

3.17 As at 30 September 2019 twelve (12) credit-only microfinance institutions were undercapitalized, compared to nine (9) as at 30 June 2019. At the end of the review period, the undercapitalized institutions were in the process of regularizing their capital positions to comply with the minimum capital threshold.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.18 Aggregate net capital base for the DTMFIs sub-sector registered a 30.19% increase from $86.10 million as at 30 June 2019, to $112.09 million as at 30 September 2019. **Annex 2** shows the selected performance indicators for the DTMFIs subsector. The increase in the capital levels was largely attributed to organic growth.

3.19 As at 30 September 2019, five out of the six DTMFIs were compliant with the minimum regulatory capital requirement of $5 million as shown in the table below:

Table 3: DTMFI Sub-Sector Capitalization ($million)

Institution	**Core Capital as at 30 June 2019 ($m)**	**Core Capital as at 30 September 2019 ($m)**
GetBucks Microfinance Bank	32.69	47.31
African Century Limited	17.92	21.72
Zimbabwe Women's Microfinance Bank	14.83	19.02
EmpowerBank Limited	9.49	8.20
Success Microfinance Bank	8.84	8.16
Lion Finance *(under curatorship)*	2.33	1.98
Total	**86.10**	**106.39**

3.20 Lion Microfinance Limited was placed under curatorship by the Reserve Bank of Zimbabwe on 26 July 2019, following a determination that the institution was undercapitalized and had weak corporate governance structures. The weak capital position is largely due to perennial losses since its inception in January 2017.

3.21 The Deposit Protection Corporation was appointed Curator of the institution for a period of three months.

Microfinance Sector Lending and Portfolio Quality…

3.22 The microfinance sector recorded a 12.93% increase in total loans from $554.21 million as at 30 June 2019, to $625.85 million as at 30 September 2019.

3.23 The total microfinance sector loans accounted for 9.02% of total banking sector loans of $6.14[1] billion as at the same date.

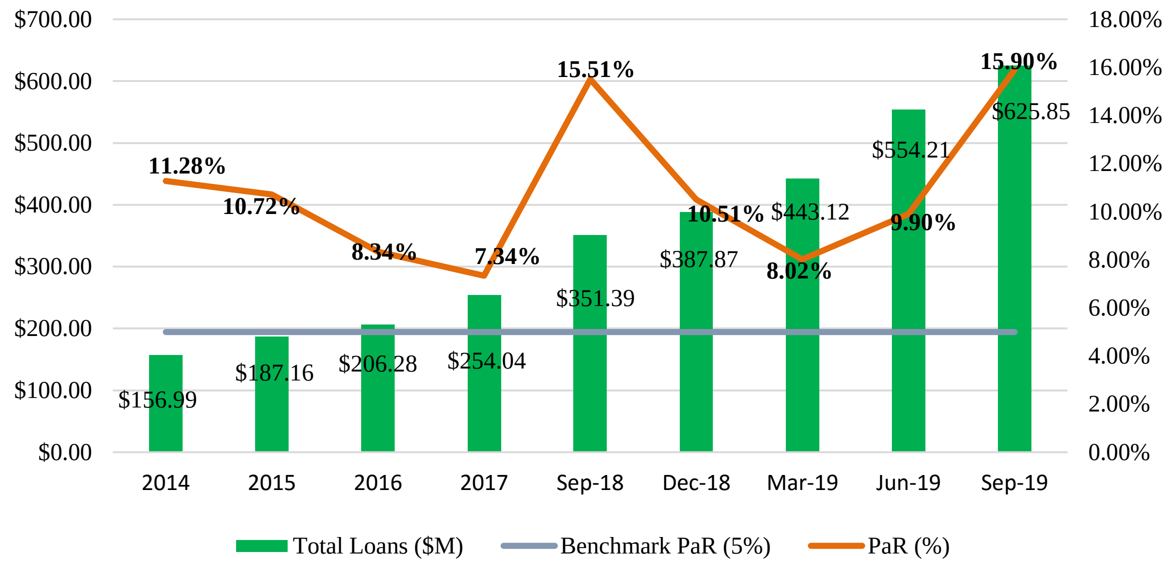
3.24 The microfinance industry continued to be dominated by a few institutions, with the top 20 microfinance institutions out of a total 223 institutions, commanding a market share of 87.65% of the sector's aggregate loan portfolio of $625.85 million as at 30 September 2019.

3.25 Total loans for the deposit-taking microfinance subsector of $88.80 million constituted 15.57% of the total microfinance industry loan portfolio of $625.85 million as at 30 September 2019, while loans for the credit-only microfinance institutions of $$537.06 million, accounted for 84.43% of total industry loans over the same period.

3.26 The sector, however, registered a deterioration in portfolio quality over the quarter with portfolio-at-risk (>30 days) (PaR) ratio of 15.90% as at 30 September 2019, up from 9.90% as at 30 June 2019, against the international benchmark of 5%. The trend in the total sector loans and portfolio quality is indicated in the figure below.

[1] Total banking loans represent the sum of aggregate loans from banking and microfinance institutions.

Figure 3: Microfinance Sector Trends in Total Loans ($M) & PaR Ratio



3.27 The deterioration in the asset quality for the microfinance sector is reflective of high credit risk because of declining disposable income levels on the backdrop of an inflationary environment.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.28 Total loans for the credit-only microfinance sub-sector increased by 17.58% from $456.77 million as at 30 June 2019, to $537.06 million as at 30 September 2019.

3.29 The credit-only microfinance sub-sector recorded a deterioration in portfolio quality as reflected by the PaR (>30 days) ratio of 14.51% as at 30 September 2019, up from 9.46% as at 30 June 2019.

3.30 Credit risk has been heightened by high inflation and shrinking disposable income levels on the back of a challenging operating environment. The Reserve Bank continues to urge the sub-sector to implement robust risk management systems including utilization of the credit reference system.

Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

3.31 During the quarter ended 31 September 2019, the DTMFI sub-sector registered an 8.83% decrease in total loans from $97.44 million as at 30 June 2019, to $88.80 million as at 30 September 2019.

3.32 The decline in the loan portfolio size is largely attributed to the adoption of a conservative approach to lending, in light of the obtaining operating environment, characterized by diminishing disposable incomes, particularly for the microfinance target group, coupled with declining demand for loans.

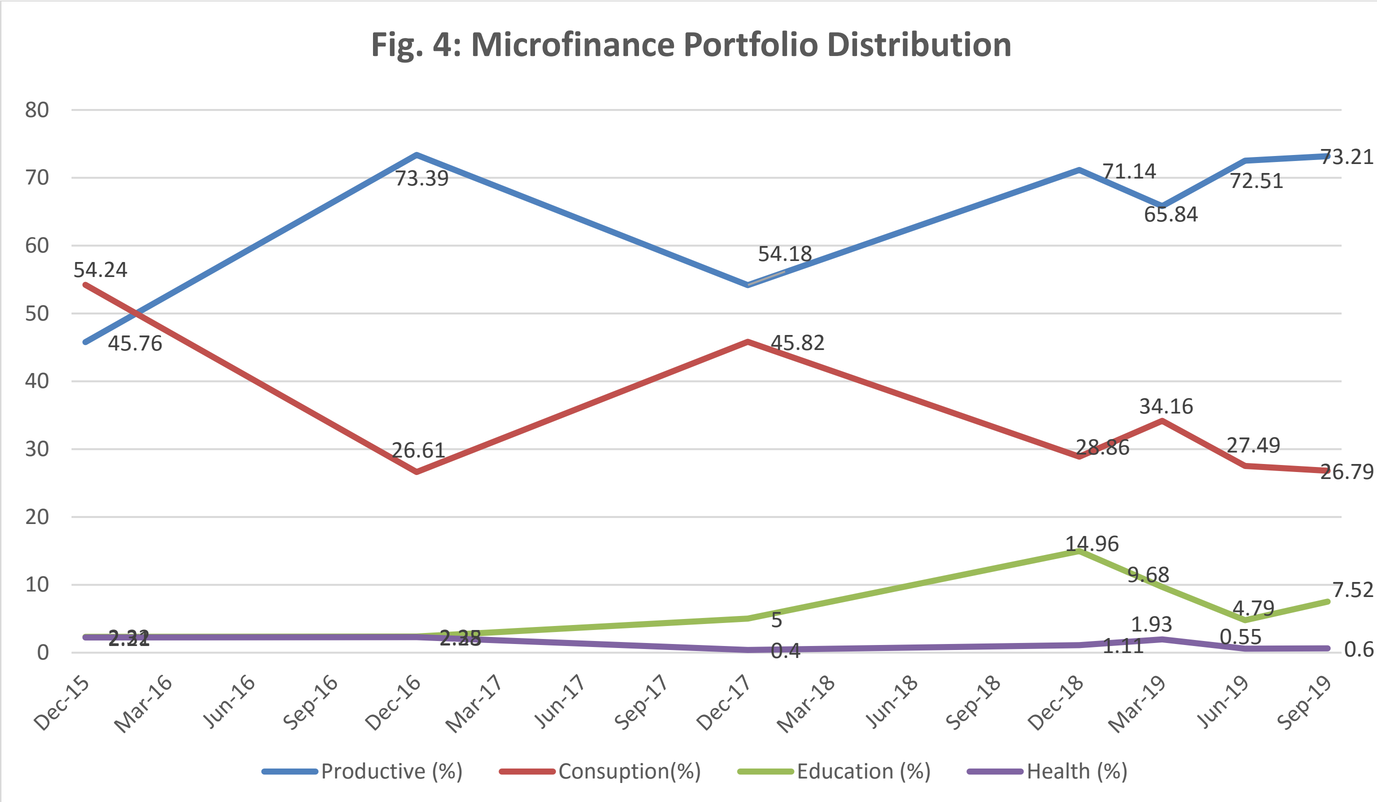
3.33 Portfolio quality for the sub-sector marginally deteriorated during the quarter with an average PaR (> 30 days) ratio of 10.90% as at 30 September 2019, compared to 10.34% as at 30 June 2019. Two institutions had PaR (> 30 days) ratios that were within the international best practice of 5%.

Distribution of Loans…

3.34 The loan portfolio remained skewed towards the productive sector in line with the financial inclusion agenda and the call by Reserve Bank for microfinance institutions to orient their portfolios towards the productive sector. Loans to the productive sector accounted for 73.21% of the total microfinance sector loans of $625.85 million as at 30 September 2019.

3.35 The sector witnessed a 14.02% increase in loans to the productive sector from $401.86 million to $458.20 million during the quarter ended 30 September 2019. Consumptive loans increased by 10.30% from $152.35 million to $167.65 million during the same period.

3.36 The trend in the distribution of loans from 2015 to September 2019 is shown below.



3.37 Loans for educational purposes have been on an upward trend, with the sector registering a 77.04% increase in loans from $26.57 million as at 30 June 2019, to $47.04 million as at 30 September 2019 in tandem with the general increase in tuition fees.

3.38 During the review period, funding for the health related purposes recorded a marginal decline from $3.76 million as at 30 June 2019, to $3.05 million as at 30 September 2019.

Profitability…

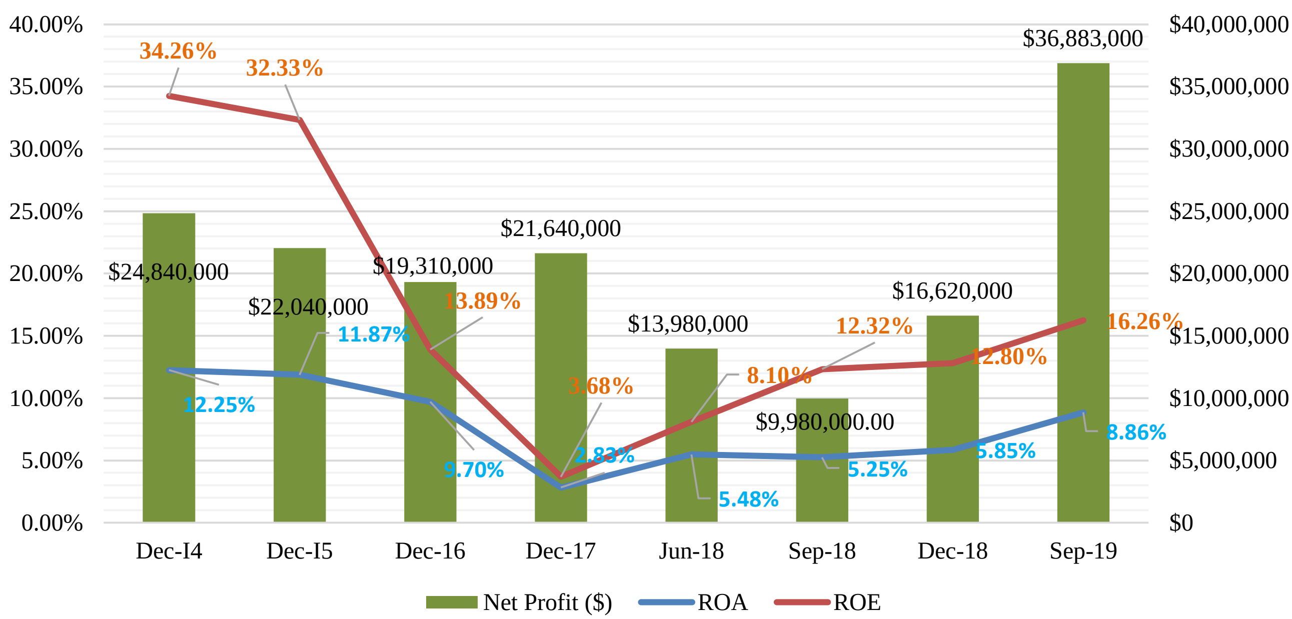
3.39 The aggregate net profit for the microfinance industry of $36.88 million for the nine (9) month period ended 30 September 2019, represented a 269.54% increase over $9.98 million recorded for the corresponding period in 2018.

3.40 A total of 37 microfinance institutions, including three (3) DTMFIs posted losses for period ended 30 September 2019. The losses largely emanated from a more than proportional growth in operational costs compared to income on the backdrop of the challenging operating environment.

3.41 The sector remained operationally self-sustainable with an OSS ratio of 158.63% as at 30 September 2019, which was a deterioration from 164.56% as at 30 June 2019.

3.42 The trend in the profitability of the microfinance sector is indicated in the figure below.

Figure 5: Microfinance Sector - Trends in Profitability, 2014 - 2019



3.43 The performance of the sector as measured by Return on assets (ROA) ratio improved from 5.25% as at 30 September 2018 to 8.86% as at 30 September 2019. The return on equity (ROE) ratio also improved from 12.32% as at 30 September 2018 to 16.26% as at 30 September 2019.

Profitability for Credit-Only Microfinance Institutions Sub-Sector

3.44 The credit-only microfinance subsector registered a 37.31% increase in aggregate net profit, from $11.23 million to $15.42 million during the year ended 30 September 2019.

Profitability of the Deposit-taking Microfinance Institutions

3.45 Profitability in the DTMFI sub-sector during the nine-month period ended 30 September 2019 improved as evidenced by increases in return on assets, return on equity and operational self-sufficiency ratios.

3.46 Aggregate net profit for the sub-sector during the nine month period to 30 September 2019 amounted to $21.47 million compared to a net loss of $0.82 million for the corresponding period in 2018.

3.47 Of the three DTMFIs that posted losses, two have been operating for less than two years, while the other has been placed under curatorship (Lion Microfinance).

3.48 The sub-sector cost to income ratio, however, deteriorated from 113.50% in 2018 to 143.04% in 2019, largely driven by the prevailing inflationary pressures.

3.49 Return on assets, return on equity and operational self-sufficiency ratios improved from -6.16%, -5.64% and 82.81% for the nine months ended 30 September 2018 to 0.37%, 7.37% and 171.90%.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

4.1. During the period under review, the Reserve Bank, in an effort to enforce market discipline, promote fairness and transparency in the microfinance industry, continued to monitor compliance with regulatory requirements. Further, the Reserve Bank continued with capacity building programms for both existing and newly licensed microfinance institutions.

4.2. The following were noted to be areas of concern:

Late Submission of MFI Returns…

4.3. Some microfinance institutions were experiencing challenges during the process of transitioning from manual submission of MFI Returns to electronic submission through the Bank Supervision Application to, which resulted in late submission of the returns.

4.4. .

4.5. Challenges included failure to correctly upload the return onto the platform, unsuccessful validation of uploaded returns and system congestion when institutions tried to submit before the cut off time. The situation was worsened by the fact that some of the microfinance institutions' staff either forgot their login credentials, or forgot the procedures of uploading the returns.

4.6. The Reserve Bank continues to train microfinance institutions on the use of the BSA systems through capacity building workshops which are on-going.

Failure to Meet Minimum Capital Requirements…

4.7. As at 30 September 2019, twelve (12) credit-only microfinance institutions were non-compliant with the minimum capital requirement of $20,000 for credit-only microfinance institutions, compared to nine (9) as at 30 June 2019. One (1) DTMFIs is under curatorship for, among other weaknesses, failing to meet the minimum capital requirements. The credit-only microfinance institutions were required to regularize their capital levels to meet the minimum capital requirement of $20,000.

Compliance with Core Client Protection Principles

4.8. The Reserve Bank's continued training of microfinance institutions in the need to treat clients fairly are producing positive results. As at 30 September 2019, the Reserve Bank did not receive any client complaints against microfinance institutions compared to three (3) complaints received in the last.

4.9. The core client protection principles encourage market disciple, financial deepening and operational efficiency in the sector.

5. DEVELOPMENTS IN THE MICROFINANCE SECTOR

Capacity Building Workshops for Microfinance Institutions…

5.1. The Reserve Bank continued to conduct capacity-building programs for the sector on an on-going basis.

5.2. Several training workshops on the BSA were conducted during the quarter to facilitate submission of the Microfinance Returns electronically through the platform.

5.3. Further, the Reserve Bank conducted induction workshops for newly registered microfinance institutions covering issues of compliance to the Microfinance Act [Chapter 24:30] and other regulations, as well as issues of risk management. A total of 61 participants from 30 newly licensed credit-only microfinance institutions were taken through the induction.

END OF REPORT

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

Indicator	Dec-18	Mar-19	June-19	Sept -19
Number of Licensed Institutions	203	204	212	223
Total Loans ($m)	303.47	350.45	456.77	537.06m
Total Assets ($m)	352.06	386.26	563.65	861.41m
Total Equity ($m)	134.17	135.91	136.65	162.72m
Net Profit ($m)	16.65	0.66	9.75	15.42m
Average Operational Self-Sufficiency (OSS)	154.09%	143.97%	166.24%	160.81%
Portfolio at Risk (PaR>30 days)* (%)	10.69%	7.97%	9.46%	14.51%
Number of Active Loan Clients	302,284	346,680	368,012	331,041
Number of Outstanding Loans	345,916	383,435	394,922	513,963
Number of Branches	721	780	771	817
Number of Women Clients	123,504	136,014	152,722	138,640
Value of Loans to Women ($m)	80.01	102.01	114.33	188,266

***** 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.*

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

Indicator	**Sep -18**	**Dec-18**	**Mar-19**	**June-19**	**Sept 19**
Number of Licensed DTMFIs	6	6	6	6	6
Total Loans ($m)	78.45	84.40	92.67	97.44	88.80m
Out of which Consumption loans (%)	*28.68%*	*28.25%*	*25.42%*	22%	32.70%
Out of which Productive loans (%)	*71.32%*	*71.75%*	*74.58%*	78%	67.30%
Total Assets ($m)	129.29	138.16	146.79	158.35	226.82
Total Net Capital Base (Sm)	66.35	60.10	70.23	86.10	112.09
Total Core Capital (Sm)	61.80	62.26	68.83	84.78	106.39
Net Profit ($m)	(0.82)	(0.029)	4.33	10.32	21.47
Average Operational Self-Sufficiency (OSS)	82.81%	89.27%	104.15%	115.51%	171.90%
Operating Expenses Ratio (OER)	330.92%	217.45%	24.02%	38.78%	45.42%
Total Deposits ($m)	19.07	23.85	25.65	15.29	$27.87m
Portfolio at Risk (PaR>30 days)	9.56%	13.05%	12.74%	10.34%	10.90%
Number of Active borrowers	31,449	37,804	56,597	118,847	124,855
Number of Female Borrowers	5,851	10,693	30,749	32,646	31,852
Number of Branches	26	26	28	25	27