BANK SUPERVISION DIVISION

MICROFINANCE SECTOR REPORT

FOR

THE QUARTER ENDED 31 MARCH 2019

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1. EXECUTIVE SUMMARY

1.1. The microfinance sector recorded positive growth in terms of outreach, loan portfolio size, funding, and deposit mobilization.

1.2. Total loans outstanding amounted to $443.12 million as at 31 March 2019, up from $387.87 million as at 31 December 2018. The sector registered a 15.16% increase in the number of active clients from 349,341 as at 31 December 2018, to 402,295 as at 31 March 2019.

1.3. Loans to women declined marginally over the review period from $112.92 million as at 31 December 2018, to $111.54 million as at 31 March 2019. The number of female borrowers also declined over the review period from 161,023 as at 31 December 2018 to 160,074 as at 31 March 2019.

1.4. The deposit-taking microfinance institutions (DTMFI) sub-sector registered a 7.55% increase in deposits over the review period from $23.85 million as at 31 December 2018, to $25.65 million as at 31 March 2019. The increase was largely due to improved outreach as represented by an increase of 27.69% in savings accounts opened from 57,371 to 73,258 over the same period.

1.5. The microfinance sector registered an improvement in the portfolio quality as reflected by an improvement in the portfolio at risk (PaR>30 days) ratio from 10.51% as at 31 December 2018, to 8.02% as at 31 March 2019. However, the PaR ratio compared negatively against the international benchmark of 5%.

1.6. Aggregate equity for the sector registered a marginal increase over the review period from $197.79 million as at 31 December 2018, to $200.30 million as at 31 March 2019. The increase was largely attributed to capitalisation by some microfinance institutions through organic growth.

1.7. Aggregate net profit for the sector declined by 45.10% from $9.08 million for period ended 31 March 2018, to $4.98 million as at 31 March 2019, largely due to losses recorded by some institutions over the same period.

1.8. As at 31 March 2019, the average Operational Self-Sufficiency (OSS)[1] ratio for the sector was 142.29% down from 153.11% as at 31 December 2018 reflecting sustainability of the sector over the comparative quarter. The average OSS ratio remained largely stable over the year with the sector recording an OSS ratio of 142.92% as at 31 March 2018.

2. ARCHITECTURE OF THE MICROFINANCE SECTOR

2.1. As at 31 March 2019, a total of 210 microfinance institutions were operational as indicated in the table below:

Table 1: Architecture of the Microfinance sector

Type of Institution	31 December 2018	31 March 2019
Credit-only Microfinance Institutions	199	204
Deposit-taking Microfinance Institutions	6	6
Total	**205**	**210**

3. PERFORMANCE OF THE MICROFINANCE SECTOR

3.1. During the period under review, the microfinance sector continued to play an important role in the financial inclusion space as reflected by positive growth in outreach, loan portfolio size, equity funding, and deposit mobilization.

3.2. A summary of the key performance indicators for the microfinance sector is indicated in Table 2 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 2: Microfinance Sector, Key Performance Indicators

Indicator	Mar-18	June-18	Sep -18	Dec-18	Mar-19
Number of Licensed Institutions	190	196	200	205	210
Total Loans ($m)	272.95	297.52	351.39	387.87	443.12
Total Assets ($m)	360.46	412.29	463.56	490.22	533.05
Total Equity ($m)	142.94	138.15	187.87	197.85	200.38
Net Profit ($m)	9.08	13.67	9.98	16.62	4.98
Average Operational Self-Sufficiency (OSS)	142.92%	154.76%	114.45%	153.11%	142.29%
Total Deposits (DTMFIs) ($m)	11.84	15.35	21.00	23.85	25.65
Number of Savings Accounts (DTMFIs)	8,668	10,196	24,386	68,258	73,258
Portfolio at Risk (PaR>30 days)	9.55%	10.15%	15.51%	10.51%	8.02%
Number of Active Loan Clients	282,024	276,660	288,858	349,341	402,295
Number of Female Borrowers	107,226	107,566	153,980	161,023	160,074
Number of Outstanding Loans	296,544	297,843	323,129	393,219	440,032
Number of Branches	676	660	781	750	807

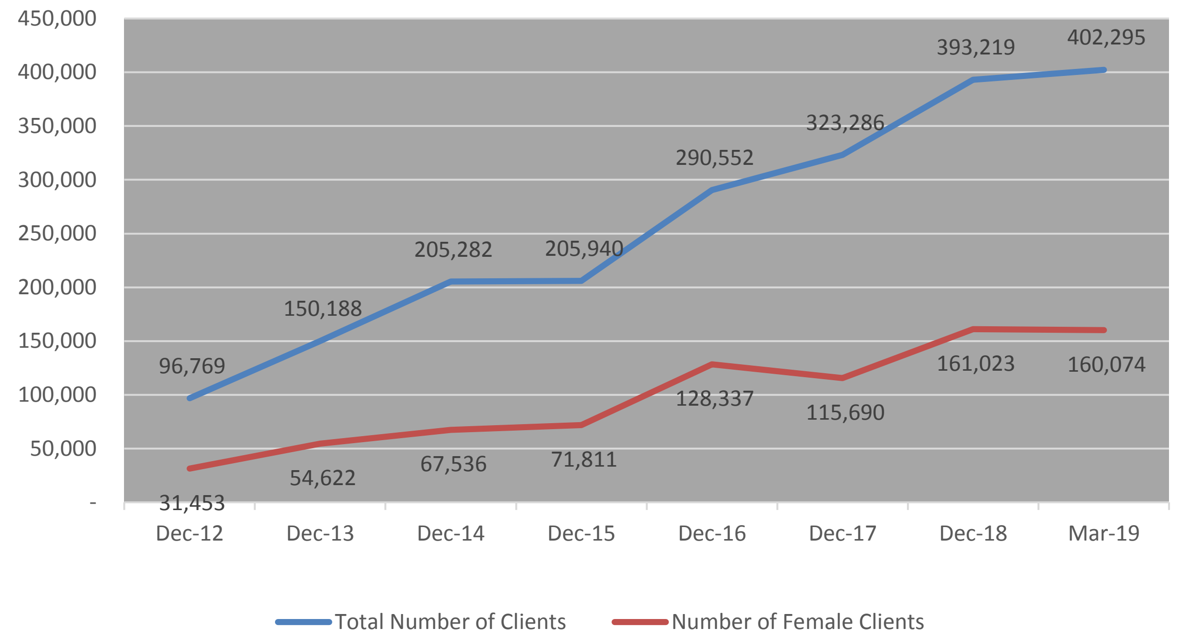
Microfinance Outreach…

3.3. Over the review period, the sector registered a 7.74% increase in branch network largely attributed to entry of newly licensed institutions into the sector. A total of twelve (12) institutions had twenty (20) or more branches each.

3.4. The sector registered a 15.16% increase in the number of active clients over the quarter from 349,341 as 31 December 2018, to 402,295 as at 31 March 2019.

3.5. 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 ActiveClients



3.6. The sector registered a marginal decline in female borrowers over the review period from 161,023 as at 31 December 2018, to 160,074 as at 31 March 2019.

3.7. As at 31 March 2019, women borrowers accounted for 39.79% of the total number of active clients, and accessed 25.17% ($111.54 million) of the total microfinance sector portfolio of $443.12 million.

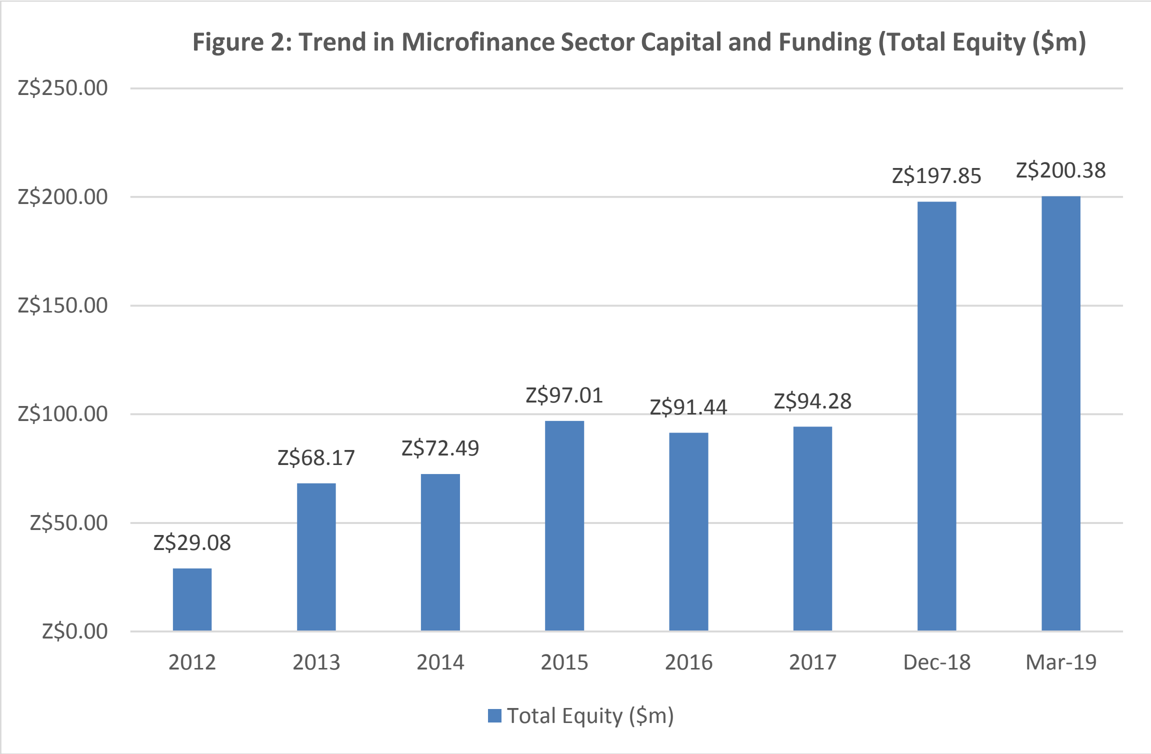
3.8. As at 31 March 2019, the credit-only microfinance sub-sector with 780 branches, accounted for 96.65% of the total sector branch network of 807, and 86.18% (346,680) of total sector active clients.

3.9. Over the review period, the DTMFI sub-sector continued to make significant inroads in terms of outreach as shown by a 7.33% increase in number of savings accounts from 68,258 as at 31 December 2018, to 73,258 as at 31 March 2019.

Capital & Funding…

3.10. The microfinance sector registered a marginal increase in equity from $197.85 million as at 31 December 2018, to $200.30 million as at 31 March 2019, largely due to capitalisation of retained earnings by some microfinance institutions.

3.11. The trend in the capital position of the microfinance sector is indicated in Figure 2 below.



3.12. Deposits mobilization remains a challenge in the DTMFI sub-sector as reflected by the low level of deposits mobilized by deposit-taking microfinance institutions. Deposits marginally increased by 7.51% from $23.85 million as at 31 December 2018 to $25.65 million as at 31 March 2019, reflecting underlying structural challenges in the economy.

3.13. Deposit mobilization was largely dominated by one deposit-taking microfinance institution which commanded 48.40% of the sub-sector's total deposits as at 31 March 2019.

Capital for Credit-Only Microfinance Institutions

3.14. Over the quarter, the credit-only microfinance sub-sector registered a marginal increase in equity from $134.17 million as at 31 December 2018, to $135.91 million as at 31 March 2019 as reflected in the key performance indicators on **Annex 1**.

3.15. Growth of the credit-only microfinance sub-sector has largely been constrained by lack of strong institutional anchor investors, with the majority of the credit-only microfinance institutions relying on limited owner funds.

3.16. However, twelve credit-only microfinance institutions were undercapitalized down from nine (9) as at 31 December 2018. The undercapitalized institutions are currently in the process of regularizing their capital position in order to comply with the minimum capital threshold.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.17. The DTMFIs sub-sector registered an improvement in the levels of capitalisation over the review period with a net capital of $70.23 million as at 31 March 2019 up from $60.10 million as at 31 December 2018 as shown in **Annex 2**. The increase in the capital levels was largely attributed to an capitalisation of retained earnings by some DTMFIs during the period under review.

3.18. Five (5) out of the six (6) DTMFIs were compliant with the minimum regulatory capital requirement of $5 million. The non-compliant DTMFI was in the process of regularizing its capital position.

Microfinance Sector Lending and Portfolio Quality…

3.19. Total sector loans increased by 14.24% over the quarter from $387.87 million as at 31 December 2018, to $443.12 million as at 31 March 2019. The total microfinance sector loans of $443.12 million as at 31 March 2019 accounted for

9.08% of total banking sector loans of $4.88[2] billion for the same period.

3.20. The growth in the microfinance loan portfolio continues to be constrained by inadequate funding within the sector, on the back of a challenging operating environment.

3.21. As at 31 March 2019, twenty microfinance institutions with total loans of $369.63 million, accounted for 83.42% of the total microfinance loans of $443.12 million, while the remaining 190 institutions accounted for 16.58% of the total sector loans.

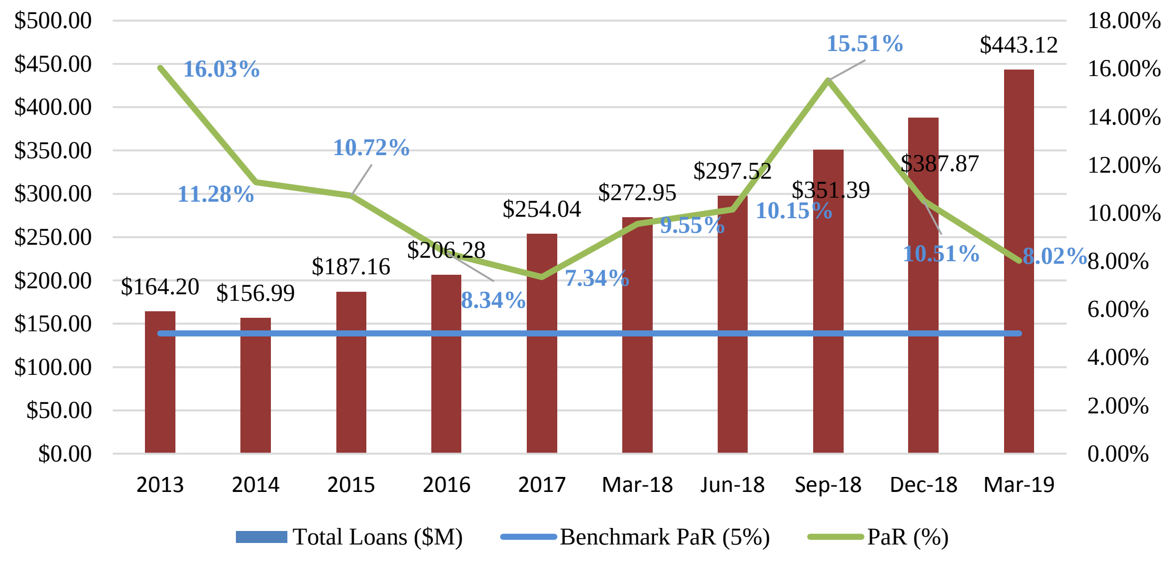
3.22. As at 31 March 2019, credit-only microfinance institutions with total loans of $350.45 million, accounted for 79.09% of the total sector loans, while the deposit-taking microfinance subsector with total loans of $92.67 million accounted for 20.91% of the total sector loans of $443.12 million.

3.23. Over the review period, the microfinance sector registered an improvement in the portfolio quality as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 8.02% as at 31 March 2019, down from 10.51% as at 31 December 2018.

3.24. The trend in the sector loan portfolio growth and portfolio at risk ratio is illustrated in the figure below.

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

Figure 3: Microfinance Sector Trends in Total Loans & PaR Ratio



Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.25. Over the quarter, the credit-only microfinance subsector registered a 15.48% increase in total loans from $303.47 million as at 31 December 2018, to $350.45 million as at 31 March 2019.

3.26. Portfolio quality for the credit-only microfinance instututions sub-sector improved significantly as reflected by the PaR (PaR>30 days) ratio of 7.97% as at 31 March 2019, down from 10.69% as at 31 December 2018. The sub-sector portfolio quality is expected to continue improving as the sub-sector implements robust risk management systems including utilization of the credit reference system.

Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

3.27. Over the review period, the (DTMFI) sub-sector registered a 9.80% increase in the size of the loan portfolio from $84.40 million as at 31 December 2018 to $92.67 million as at 31 March 2019.

3.28. Over the year, the subsector's loan portfolio grew by 52.49% from $60.77 million as at 31 March 2018, to $92.67 million as at 31 March 2019. The increase in the loan portfolio is partly attributed to an increase in total loans from one deposit-taking microfinance institution.

3.29. Portfolio quality for the sub-sector marginally improved over the quarter as reflected by the PaR ratio of 12.74% as at 31 March 2019 down from 13.05% as at 31 December 2018.

Distribution of Loans…

3.30. As at 31 March 2019, loans to the productive sector amounted to $290.36 million accounting for 65.53% of the total microfinance sector loans of $443.12 million. Although the proportion of productive loans to total sector loans declined over the quarter from 71.14% as at 31 December 2018, to 65.53% of total loans as at 31 March 2019, the value of loans to the productive sector increased over the same quarter by 5.22% from $275.95 as at 31 December 2018.

3.31. Consumptive loans of $152.77 million as at 31 March 2019 accounted for 34.47% of the total sector loans, up from $111.92 which accounted for 28.86% as at 31 December 2018.

3.32. The figure below shows the trend in the distribution of loans from 2014 to March 2019.

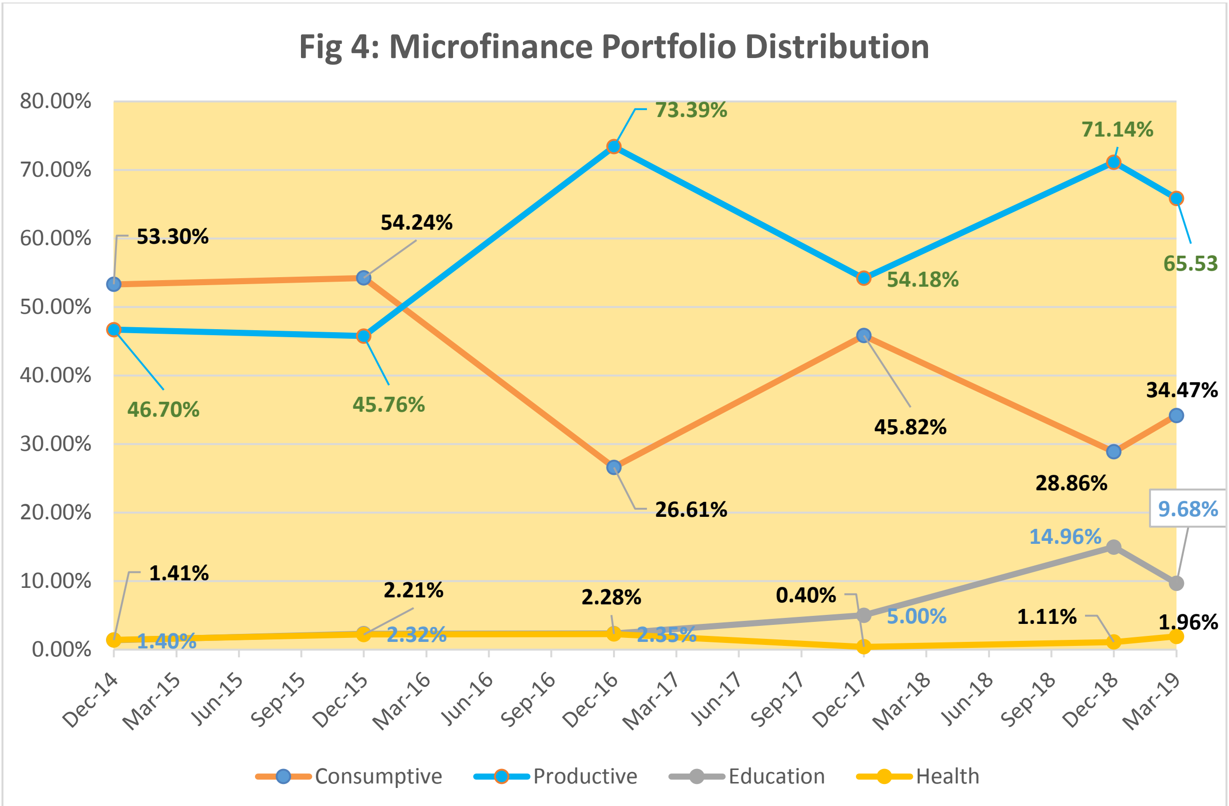


Fig 4: Microfinance Portfolio Distribution

3.33. The loans for educational purposes amounting to $42.87 million as at 31 March 2019, accounted for 9.67% of total sector loans of $443.12 million, down from 14.14% of total loans as at 31 December 2018.

3.34. The funding for health purposes of $8.67 million as at 31 March 2019 was an improvement from $4.30 million as at 31 December 2018.

Profitability…

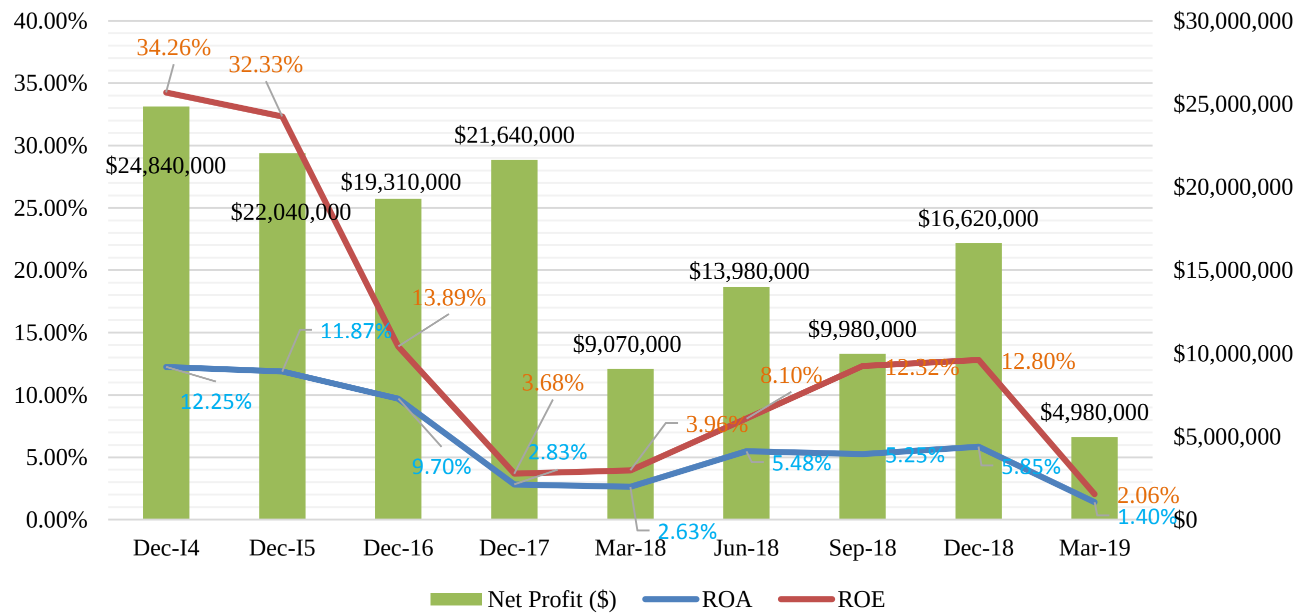
3.35. The microfinance sector recorded an aggregate net profit of $4.98 million, for the quarter ended 31 March 2019 representing a 54.85% decline from $9.08 million recorded for the period ended 31 March 2018.

3.36. The decline in the sector's aggregate profit was mainly attributed to losses reported by 52 microfinance institutions including three (3) DTMFIs which recorded aggregate losses of $8.69 million. The losses were largely driven by high operational costs on the backdrop of a challenging macroeconomic environment.

3.37. Despite the decline in profitability the sector remained sustainable with an OSS ratio of 142.29% as at 31 March 2019.

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

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



3.39. Return on assets (ROA) ratio deteriorated from 5.85% as at 31 March 2018 to 1.40% as at 31 March 2019. The return on equity (ROE) ratio also declined from 12.80% as at 31 March 2018 to 2.06% as at 31 March 2019.

Profitability for Credit-Only Microfinance Institutions Sub-Sector

3.40. The credit-only microfinance subsector recorded a profit of $0.66 million for period ended 31 March 2019 which represents a 92.72% decline in profit from $9.07 million as at 31 March 2018. A total of 49 credit-only microfinance institutions recorded losses for period ended 31 March 2019 compared to 38 institutions as at 31 March 2018.

3.41. The sub-sector continues to face challenges emanating from high operational costs on the backdrop of a challenging operating environment.

3.42. The sub-sector was considered operationally sustainable with an average OSS ratio of 143.97% as at 31 March 2019, which represents a 10.12 percentage-point decline from 154.09% recorded for period ended 31 March 2018.

Profitability of the Deposit-taking Microfinance Institutions

3.43. During the quarter under review, the DTMFI sub-sector recorded an aggregate net profit of $4.33 million as at 31 March 2019, which represents a 42.43% increase from $3.04 million as at 31 March 2018. The profitability of the subsector is attributed to cost containment measures by some of the players as well as access to affordable credit from developmental partners and the Reserve Bank of Zimbabwe empowerment facilities.

3.44. The DTMFIs subsector registered an improvement in the operational sustainability as reflected by the average OSS ratio of 104.15% as at 31 March 2019 down from 125.23% for period ended 31 March 2018.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

4.1. Although the culture of compliance with regulatory requirements within the microfinance sector has been improving over the years, it is noted that some microfinance institutions still facing challenges in complying with provisions of the Microfinance Act [Chapter24:29].

Late Submission of MFI Returns…

4.2. For the quarter ended 31 March 2019, one (1) institution was penalized for late submission of the MFI Return, while three (3) institutions were penalized for non-submission of quarterly MFI returns.

4.3. The Reserve Bank continues to inculcate a culture of compliance in the sector through capacity building workshops and other fora.

Failure to Meet Minimum Capital Requirements…

4.4. As at 31 March 2019, seven (7) credit-only microfinance institutions failed to meet the minimum capital requirements of $20,000 an improvement from nine (9) as at 31 December 2018. One DTMFI was non-compliant with the minimum capital requirements for DTMFIs of $5 million. The institutions have been directed to regularize their capital positions.

Non-Compliance with Board Composition Requirements…

4.5. One of the DTMFIs was non-compliant with the requirements of section 20 of the Microfinance Act [Chapter 24:29] which requires that the board of a microfinance institution be composed of at least five (5) members, following expiry of tenure of some of the board members. The institution is in the process of identifying new directors.

Failure to Appoint a Principal Officer

4.6. One of the DTMFI was in breach of section 31 of the Microfinance Act, which makes the appointment of a Chief Executive Officer mandatory.

4.7. The institution has been operating with an acting Chief Executive Officer since authorization to commence operations on 5 July 2018. The institution was penalized for failure to comply with the provisions of the Act and is currently in the process of recruiting a substantive Chief Executive Officer.

Conducting of non- permissible activities

4.8. It was noted that two credit-only microfinance institutions were conducting non-permissible activities by soliciting for deposits from the public in contravention of section 25 of the Microfinance Act. Appropriate supervisory action was instituted against the non-compliant institutions.

Compliance with Core Client Protection Principles

4.9. The Reserve Bank continues to require microfinance institutions to put in place robust complaints handling procedures in line with the Core Client Protection Principles.

5. DEVELOPMENTS IN THE MICROFINANCE SECTOR

Induction of Newly-licensed Microfinance Institutions…

5.1. An induction course for 22 newly-licensed credit-only and moneylending institutions was conducted on 25 February 2019 at the Reserve Bank of Zimbabwe. The workshop covered the following areas:

a. Compliance with regulatory framework and directives;
b. Completion and submission of MFI quarterly returns;
c. Information and Communication Technologies systems;
d. Record keeping;
e. Licence renewal requirements; and
f. Operational modalities of the Reserve Bank Credit Registry System.

Capacity Building Workshops for Microfinance Institutions…

5.2. The Reserve Bank of Zimbabwe conducted capacity building workshops for all registered microfinance institutions in Bulawayo, Harare and Masvingo.

5.3. A total of 242 participants, representing 187 MFIs attended the workshops which covered the following aspects:

a) Regulatory framework and compliance issues;
b) ZIMRA expectations for MFIs;
c) Importance of adopting digital technology;
d) Banking Supervision Application (BSA) and completion of Microfinance Quarterly Return; and
e) Update on implementation of National Financial Inclusion Strategy.

END OF REPORT

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

Indicator	Dec-18	Mar-19
Number of Licensed Institutions	203	204
Total Loans ($m)	303.47	350.45
Total Assets ($m)	352.06	386.26
Total Equity ($m)	134.17	135.91
Net Profit ($m)	16.65	0.66
Average Operational Self-Sufficiency (OSS)	154.09%	143.97%
Portfolio at Risk (PaR>30 days)* (%)	10.69%	7.97%
Number of Active Loan Clients	302,284	346,680
Number of Outstanding Loans	345,916	383,435
Number of Branches	721	780
Number of Women Clients	123,504	136,014
Value of Loans to Women ($m)	80.01	102.01

***** 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	Mar-18	June-18	Sep -18	Dec-18	Mar-19
Number of Licensed DTMFIs	4	6	6	6	6
Total Loans ($m)	60.77	68.80	78.45	84.40	92.67
Out of which Consumption loans (%)	18.46%	15.96%	28.68%	28.25%	25.42%
Out of Productive loans (%)	81.54%	84.04%	71.32%	71.75%	74.58%
Total Assets ($m)	90.61	100.28	129.29	138.16	146.79
Total Net Capital Base (Sm)	36.84	39.28	66.35	60.10	70.23
Total Core Capital (Sm)	35.98	37.90	61.80	62.26	68.83
Net Profit ($m)	3.04	3.86	(0.82)	(0.029)	4.33
Average Operational Self-Sufficiency (OSS)	125.23%	122.06%	82.81%	89.27%	104.15%
Operating Expenses Ratio (OER)	14.48%	23.18%	330.92%	217.45%	24.02%
Total Deposits ($m)	11.84	15.35	19.07	23.85	25.65
Portfolio at Risk (PaR>30 days)	16.04%	16.49%	9.56%	13.05%	12.74%
Number of Active borrowers	30,153	31,036	31,449	37,804	56,597
Number of Female Borrowers	4,629	11,536	5,851	10,693	30,749
Number of Branches	22	24	26	26	28