BANK SUPERVISION DIVISION

MICROFINANCE QUARTERLY INDUSTRY REPORT

AS AT

30 JUNE 2021

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1. EXECUTIVE SUMMARY

1.1. The microfinance industry continued to be resilient and register significant growth in key performance indicators in spite of the negative impact of covid-19 restrictions on the economy which has resulted in subdued business volumes. However, the sector also witnessed a decline in the number of operating microfinance institutions from 199 as at 31 March 2021 to 184 as at 30 June 2021, as some institutions closed business due to the impact on the Covid-19 pandemic induced lockdowns.

1.2. The aggregate capitalization for the microfinance industry increased to $3.33 billion as at 30 June 2021, up from $2.64 billion as at 31 March 2021, reflecting a 25.89% growth. The increase was largely driven by organic growth and fresh capital injection at some of the microfinance institutions.

1.3. The microfinance sector achieved aggregated retained earnings of $1.03 billion for six months ended 30 June 2021 which represented a 177.66% increase over the comparative period in 2020. The increase was largely attributed to cost containment measures adopted by some of the microfinance institutions as evidenced by the improvement in the average operational self-sufficiency (OSS) ratio from 142% to 187.22% over the same period.

1.4. The industry continued on a growth trajectory in total loans as evidenced by a 27.99% increase from $3.10 billion as at 31 March 2021, to $3.97 billion as at 30 June 2021. The growth was largely driven by the increased demand for loans by low-income households seeking to supplement their disposable incomes and cushion themselves against the effects of the Covid-19 pandemic.

1.5. During the period under review asset quality improved as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 8.57%, compared to 10.63% reported as at 31 March 2021, against the international benchmark of 5%.

1.6. Total deposits in the Deposit-taking microfinance sub-sector increased by 26.56%, from $350.02 million as at 31 March 2021, to $442.98 million as at 30 June 2021, with two institutions accounting for the bulk of the deposits. The level of deposits, however, remains low and this in turn continues to hamper sustainability of DTMFIs business.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1. During the quarter ended 30 June 2021, the sector had 184 registered microfinance institutions comprising 176 credit-only microfinance institutions and 8 deposit-taking microfinance institutions (DTMFIs). The number of licensed credit-only microfinance institutions decreased to 176 as at 30 June 2021 from 191 in the previous quarter, as Covid-19 impact continues to weigh on the operations of institutions in the sector.

Table 1: Number of Registered Microfinance Institutions: June 2020-2021

Type of Institution	30 June 2020	30 Sept 2020	31 Dec 2020	31 Mar 2021	30 June 2021
Credit-only Microfinance Institutions	212	201	190	191	176
Deposit-taking Microfinance Institutions (DTMFIs)	8	8	8	8	8
Total	**220**	**209**	**198**	**199**	**184**

2.2. Out of the eight licensed DTMFIs, two 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 to be conducted 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 the key performance indicators over the review period indicating the resilience of the sector in the face of the Covid-19 pandemic, with the exception of branch network, number of clients and number of female borrowers where the sector registered substantial deterioration.

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 Key Performance Indicators

Indicator	June 2020	Sept-20	Dec-20	Mar-21	June 21
Total Loans ($m)	1,223.30	1,439.17	2,011.69	3,100.56	3,968.57
Total Assets ($m)	2,755.67	3,341.69	3,752.39	5,542.91	6,810.38
Total Equity ($m)	1,229.15	1,545.79	1,677.82	2,647.01	3,332.30
Net Profit ($m)	372.32	536.50	384.77	596.71	1,033.77
Average Operational Self-Sufficiency (OSS)	142.00%	104.35%	111.86%	146.07%	187.22%
Total Deposits (DTMFIs) ($m)	83.09	144.56	239.11	350.02	442.98
Portfolio at Risk (PaR>30 days)*	15.28%	12.04%	8.34%	10.63%	8.57%
Number of Outstanding Loans	446,782	356,738	279,909	343,199	319,843
Number of Active Loan Clients	332,103	283,500	288,561	318,864	268,136
Number of Female Borrowers	140,425	127,022	116,043	135,932	117,275
Loans to Female Borrowers ($m)	257.13	509.57	673.22	1,188.41	1,664.38
Number of Branches	845	916	697	694	724

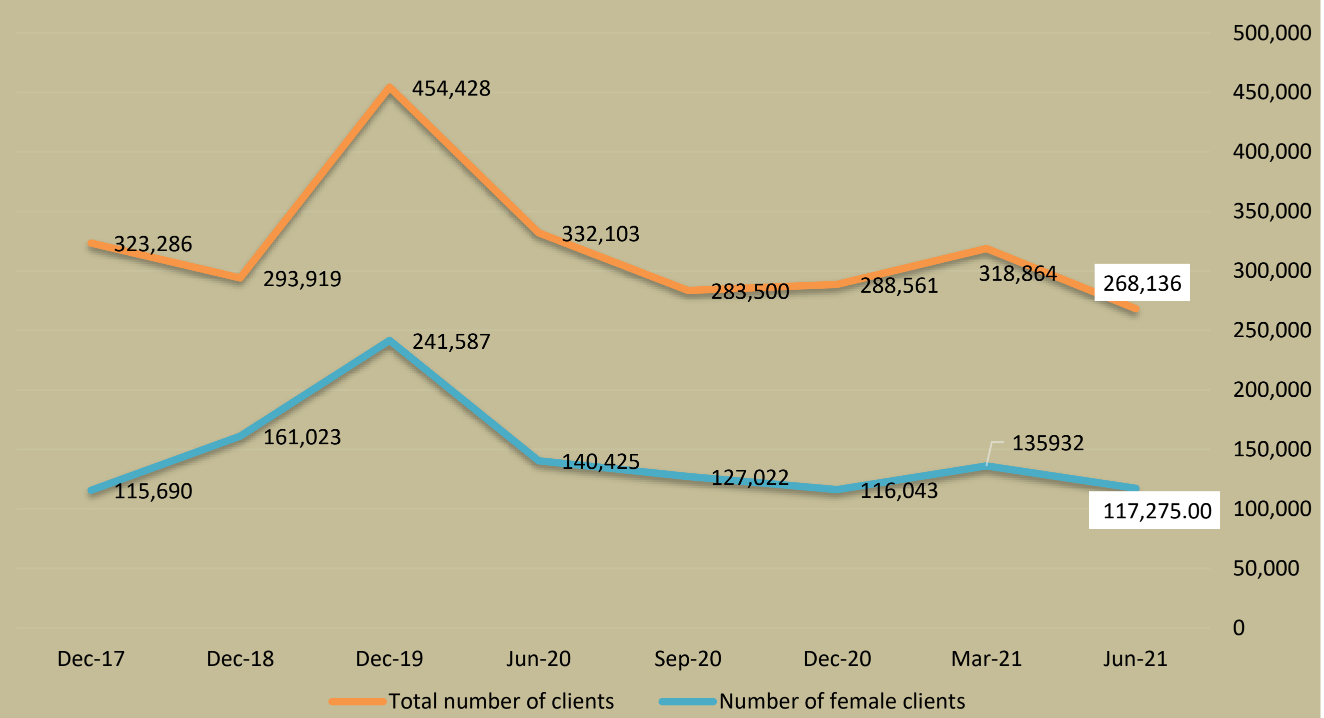
* **Portfolio at Risk [30] days-** *The value of all loans outstanding that have one or more instalments of principal past due more than [30] days. This includes the entire unpaid principal balance, including both the past due and future instalments, but not accrued interest. It also includes loans that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

Microfinance Outreach…

3.3. During the quarter under review, the sector registered a 15.91% decrease in the number of active clients, from 318,864, to 268,136 as at 30 June 2021.

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

Fig. 1: Trend in Active Clients: Dec 2017 – June 2021



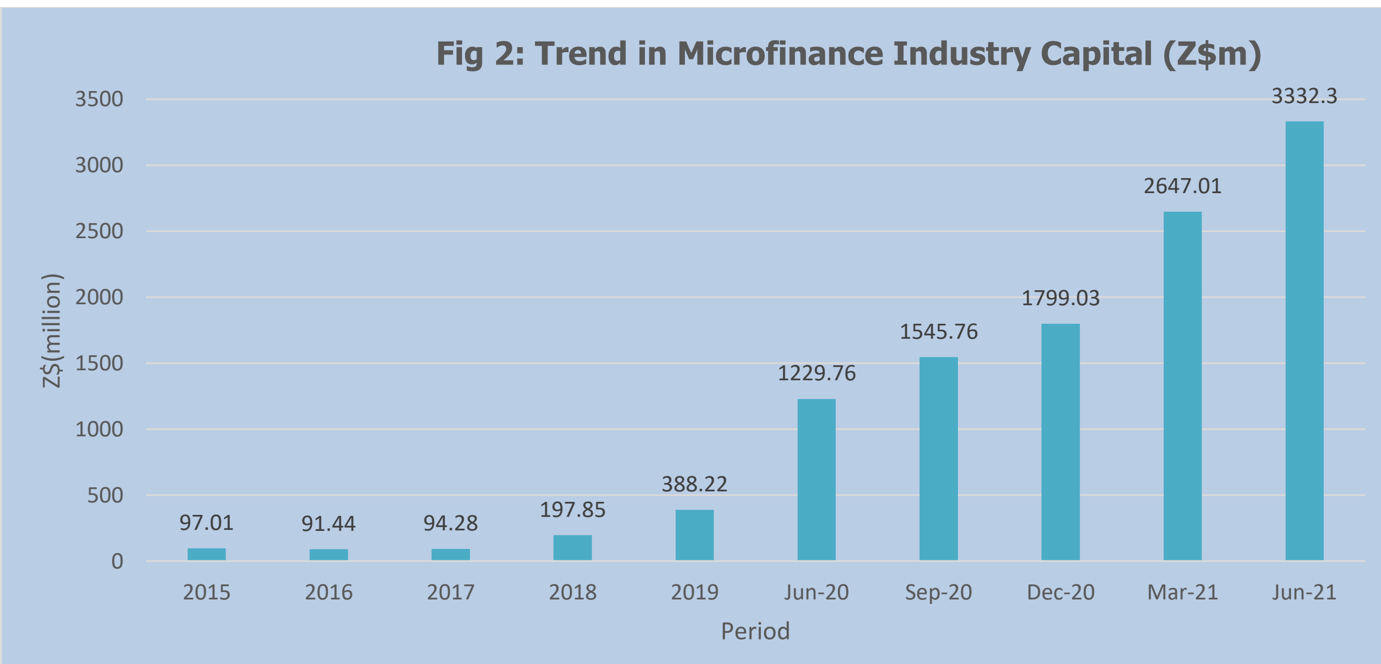
3.5. The industry recorded a decline in the number of women accessing loans during the quarter from 135,932 to 117,275 as at 30 June 2021. The value of loans to female borrowers, however, increased by 40% during the quarter under review to $1.66 billion, up from $1.19 billion.

Capital and Funding…

3.6. The aggregate capitalization for the microfinance industry increased by 25.28% for the period under review to $3.33 billion as at 30 June 2021, up from $2.65 billion as at 31 March 2021.

3.7. The increase in the sector's capitalization was largely attributed to organic growth as well as additional capital injections by some microfinance institutions, in line 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 from 31 December 2021.

3.8. Figure 2 shows the 6-year trend in the aggregate capital position of the microfinance industry for the period December 2015 to June 2021.



3.9. All microfinance institutions were directed to submit their capitalization plans and provide updates on progress towards compliance with the regulatory requirements by 30 June 2021. As at 30 June 2021, all DTMFIs and the majority of credit-only microfinance institutions had submitted their capitalization plans. Institutions that failed to submit their re-capitalisation plans were directed to comply failure of which supervisory action would be taken against the institutions, including daily penalties for each day of non-compliance.

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

3.10. The subsector registered a 41.29% increase in capitalization from $1,52 billion as at 31 March 2021 to $2,15 billion as at 30 June 2021 as shown in **Annexure 1 – Key performance indicators for credit-only microfinance institutions.**

3.11. As at 30 June 2021 two (2) COMFIs were in breach of the minimum capital requirements of $20,000, while seventy (70) were already compliant with the new minimum capital requirements of ZW$ equivalent to USD25,000 effective 31 December 2021.

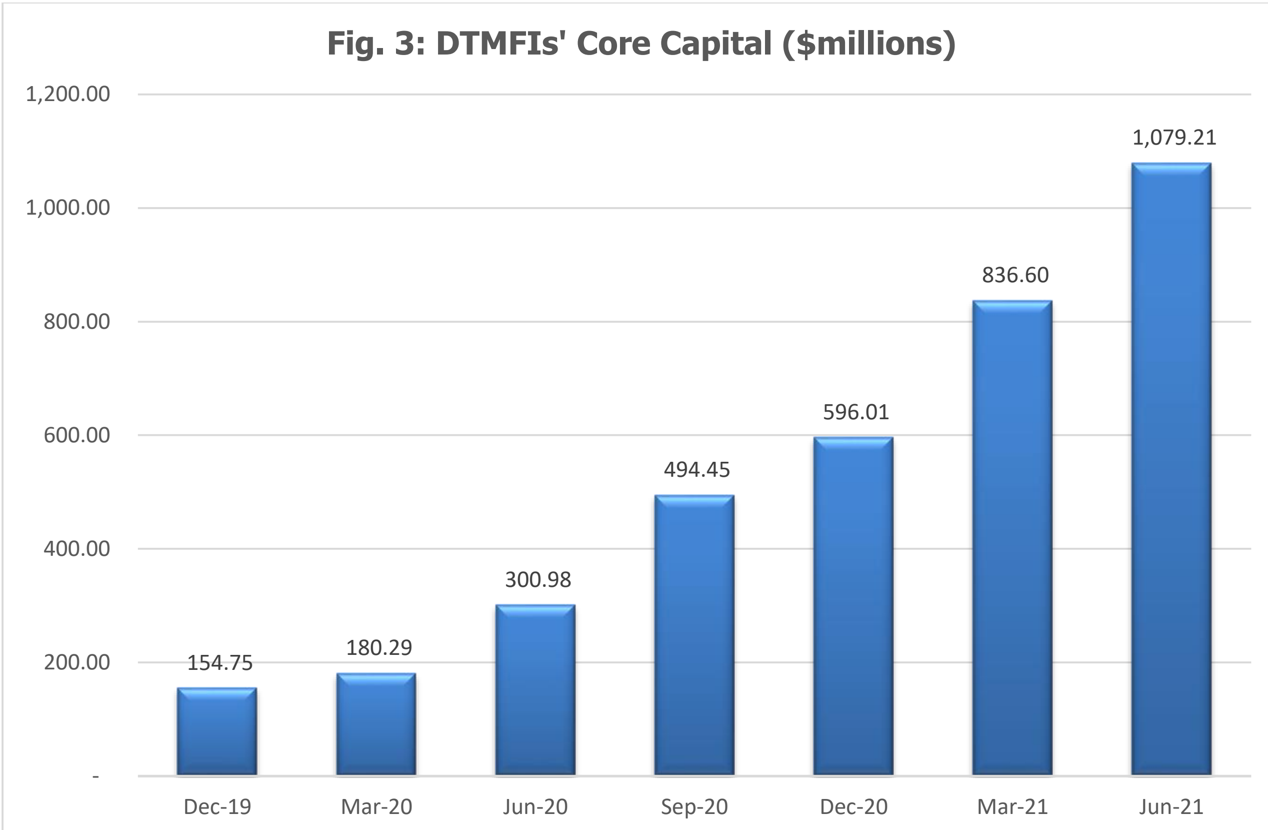
3.12. The non-compliant institutions were directed to regularize their respective capital positions, while appropriate supervisory action was instituted in line with the regulatory framework.

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

3.13. Over the quarter under review, the DTMFI sub-sector registered a 29.06% increase in aggregate core capital from $836.20 million, to $1.08 billion as at 30 June 2021. The increase in aggregate core capital was mainly driven by organic capital growth coupled with fresh capital injections in one of the Government owned DTMFIs.

3.14. Capitalization plans submitted in June 2020 indicated that most DTMFIs are expecting to meet the new minimum capital requirement of ZW$ equivalent of USD5 million by 31 December 2021 through a combination of both fresh capital injections and organic growth.

3.15. The trend in the DTMFI sub-sector core capital levels for the period December 2019 to June 2021 is shown in the graph below:



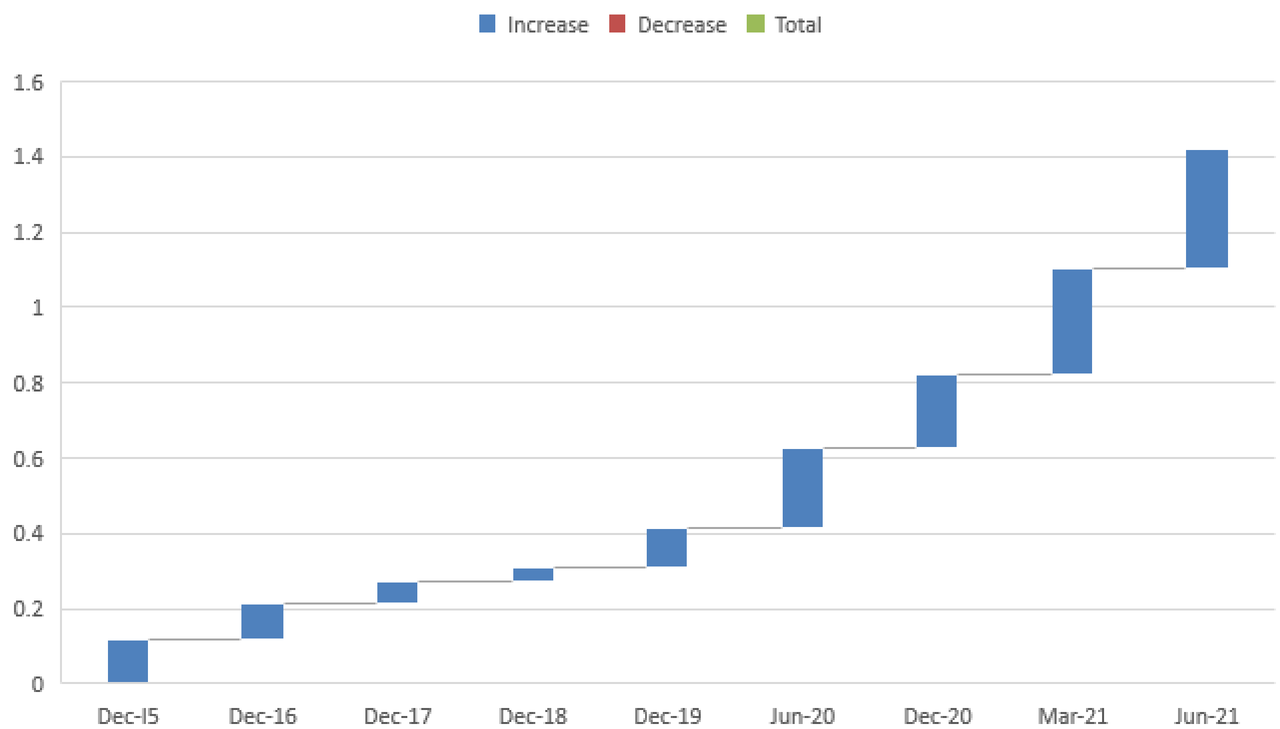
Profitability…

3.16. The microfinance industry recorded improved retained earnings with an aggregate profit of $1.03 billion for the period ended 30 June 2021, compared to $372.32 million for the corresponding period in 2020. The increase was largely attributed to cost containment measures adopted by some of the microfinance institutions as evidenced by the improvement in the average operational self-sufficiency ratio from 142.00% as at June 2020, to 187.22% for period ended 30 June 2021, against the international benchmark of 100%.

3.17. The improvement in the OSS ratio indicates the impact of cost cutting measures which include reduction in branch network, and an improvement in the income generation capacity of the microfinance institutions in the wake of relaxation of the national COVID-19 lockdown restrictions.

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

Figure 3: Microfinance Sector - Trends in Profitability, December 2015 - June 2021



3.19. The Return on Assets (ROA) ratio for the industry increased from 21.37% during the half-year ended 30 June 2020, to 30.87% for the period under review.

3.20. Return on equity (ROE) ratio significantly improved from 23.12%, to 47.82% as at 30 June 2021, despite the effects of the COVID-19 induced restrictions on movement which negatively affected business operations.

Profitability for Credit-Only Microfinance Sub-Sector

3.21. The credit-only microfinance sub-sector recorded an increase in aggregate net profit from $252.33 million for the half year ended 30 June 2020, to $1,11 billion for period ended 30 June 2021.

3.22. The credit-only microfinance institutions subsector was considered operationally sustainable with an average OSS ratio of 195.68% for period ended 30 June 2021, up from 137.16% recorded in the comparative period in 2020, against the international benchmark of 100%.

Profitability of the Deposit-taking Microfinance Institutions

3.23. The DTMFI subsector reported an aggregate loss of $69.72 million for the period ended 30 June 2021, compared to a profit of $119.78 million during the comparative period in 2020. Only three institutions reported profits for the period ended 30 June 2021. The losses emanated from the other three institutions which are still struggling to mobilise critical mass, while operating costs continue to increase. The OSS ratio significantly dropped to 86.52% as at 30 June 2021, down from 241.80% as at 30 June 2020.

3.24. Out of the six operating DTMFIs, two institutions are yet to break even since inception in 2018, whilst one institution resumed operations in November 2020, following upliftment of curatorship on 30 September 2020. The losses are largely driven by lack of critical mass in generating meanigful business, which has also been worsened by the negative impact of the Covid-19 pandemic on the institution's business operations.

3.25. The deteriorating earnings performance translated to an average return on assets and return on equity ratios of -4.77% and -5.63% as at 30 June 2021, compared to 14.21% and 7.04% as at 30 June 2020 to respectively.

Microfinance Industry Lending and Portfolio Quality…

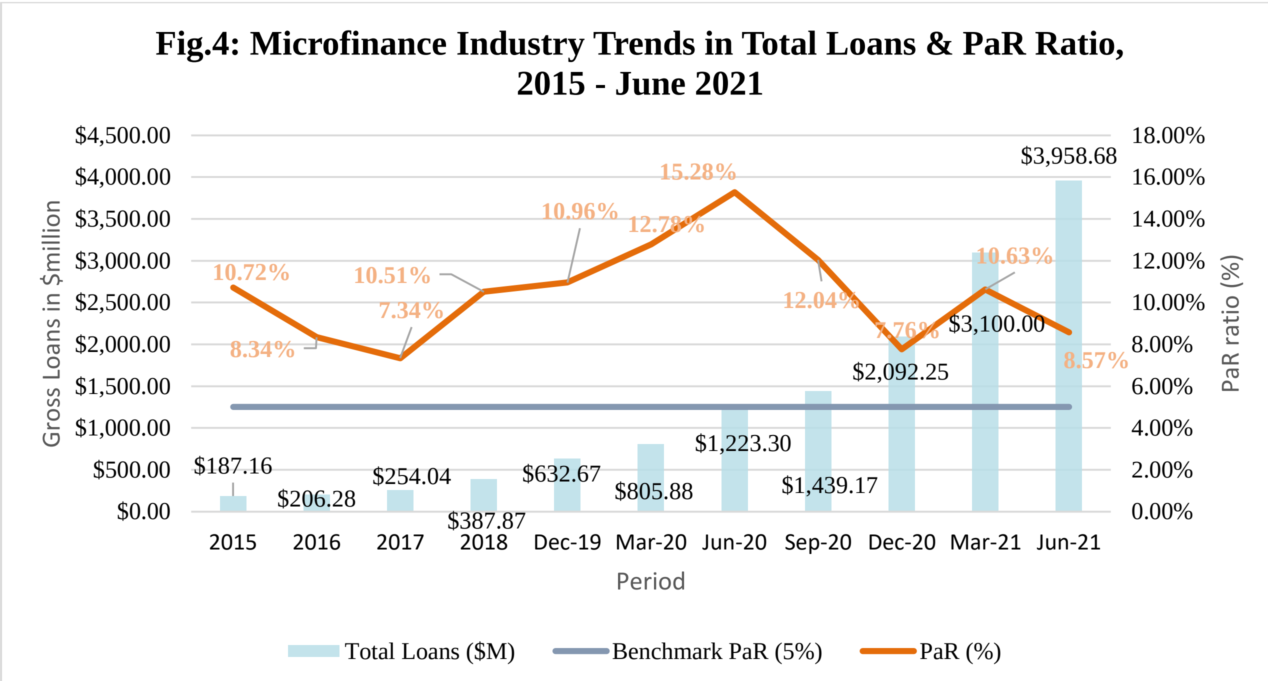
3.26. The microfinance sector recorded a significant increase in total loans from $3.10 billion as at 31 March 2021, to $3.97 billion as at 30 June 2021 representing a growth of 28.06%. The growth was attributed to increased demand for loans by low-income households seeking to supplement their disposable incomes and cushion themselves against the effects of the Covid-19 pandemic induced national lockdown.

3.27. The average loan size per borrower increased by 26.02% from $9,723.76 as at 31 March 2021 to $12,8407.88 as at 30 June 2021 in line with inflationary pressures in the economy.

3.28. As at 30 June 2021, the microfinance industry continued to be dominated by a few institutions with top 20 microfinance institutions accounting for 81.25% ($3.22

billion) of the total industry loans.

3.29. The trend in the portfolio at risk ratio from December 2015 to 30 June 2021 is shown in Figure 4 below.



3.30. The microfinance industry portfolio quality improved over the review quarter as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 8.57% as at 30 June 2021, down from 10.63%, against the benchmark of 5%. As institutions adapted to the Covid-19 lockdown restrictions by leveraging on technology, microfinance institutions were able to collect some of the outstanding loans, as clients are beginning to embrace alternative digital payment channels resulting in improved loan repayments.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.31. During the quarter under review, the credit-only microfinance sub-sector recorded a 45.08% increase in total loans from $2.65 billion as at 31 March 2021, to $3.37 billion. Twenty credit-only microfinance institutions accounted for 78.78% of the total sub-sector loans of $3.37 billion as at 30 June 2021.

3.32. During the period under review, loan size per borrower in the credit-only microfinance sub-sector increased from $11,284.24 to $14,761.29, reflective of the inflationary environment.

3.33. The portfolio quality for the credit-only microfinance sub-sector significantly improved as reflected by the PaR (>30 days) ratio of 8.47% as at 30 June 2021, compared to 10.57% as at 31 March 2021.

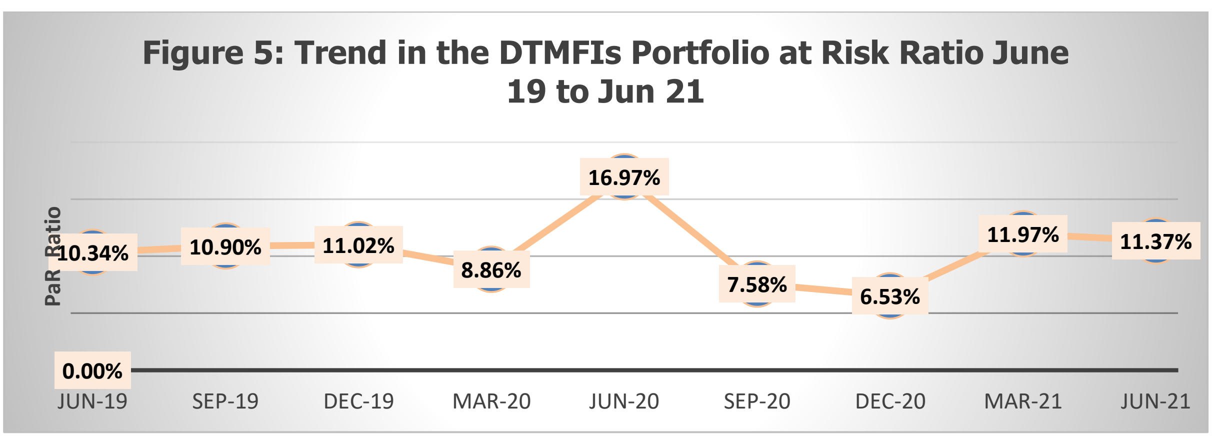
Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

3.34. The DTMFI sub-sector reported a 47.62% increase in loan portfolio from $452.42 million as at 31 March 2021, to $667.86 million as at 30 June 2021. The increase was largely driven by increased business from micro, small and medium enterprises as well as individuals, following relaxation of the Cocid-19 lockdown restrictions.

3.35. The deposit-taking microfinance subsector's total loan portfolio of $667.86 million accounted for 19.84% of the total microfinance sector loan portfolio $3.96 billion as at 30 June 2021.

3.36. Exposure to credit risk remained high as reflected by a PaR ratio (>30 days) of 11.37% as at 30 June 2021, representing a slight improvement from 11.97% as at 31 March 2021, against the international benchmark of 5%.

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

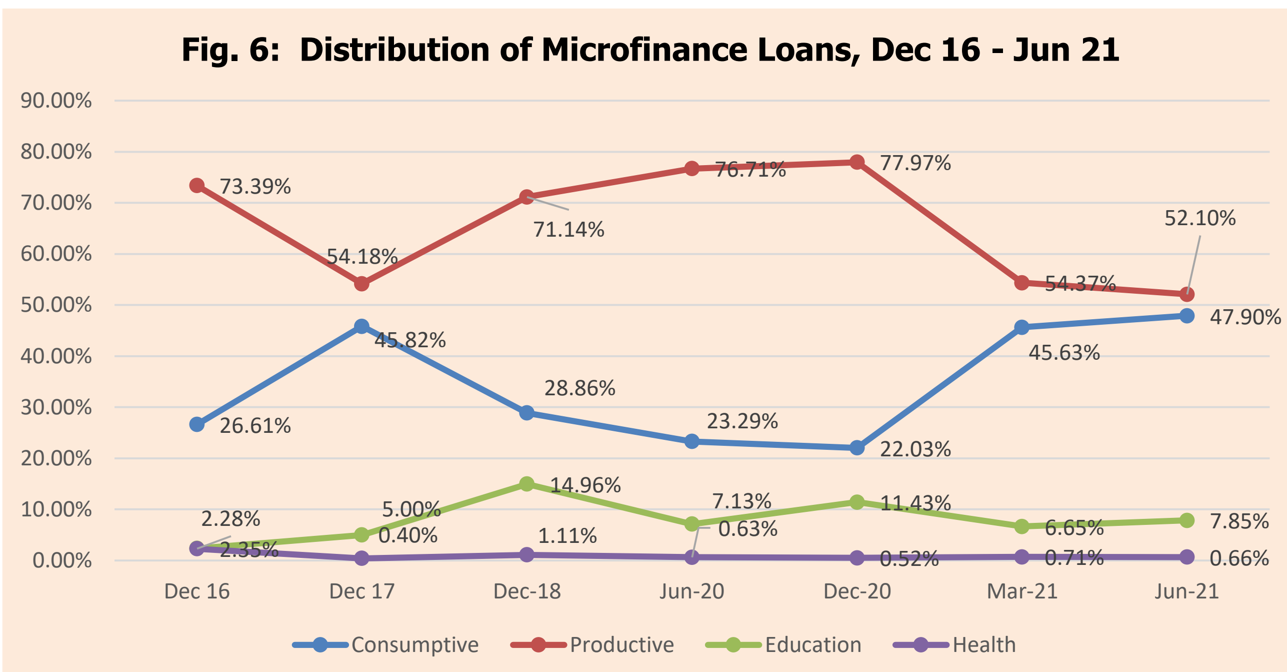


3.38. The high PaR ratio is attributed to challenges emanating from national lockdown restrictions, which impacted negatively on the clients' capacity to repay loans and the institutions' capacity to make collections.

Distribution of Loans & Advances…

3.39. The microfinance sector's lending portfolio was skewed towards the productive sector, with loans to the productive sector accounting for 52.10% of the loans.

3.40. Loans for consumptive purposes accounted for 47.90% of the loan book. Figure 6 below indicates the distribution of loans in the microfinance sector as at 30 June 2021. The merging of the productive and consumer loan requirements is reflective of low business during the Covid-19 pandemic lockdowns, and increased demand for consumer loans to supplement disposable income, against inflationary pressures prevailing in the economy.



3.41. The proportion of educational loans increased from 6.65% as at 31 March 2021 to 7.85% as at 30 June 2021, while total funding for educational purposes increased by 43.68% to $311.53 million, up from $206.36 million in the previous quarter. The increase was largely due to increased demand for school fees and additional requirements as institutions resorted to both physical and online learning methods due to the impact of covid-19 lockdown measures.

Deposits Mobilisation…

3.42. Total DTMFIs sub-sector deposits increased by 26.56%, from \$350.02 million as at 31 March 2021 to \$442.98 million as at 30 June 2021. The prudential liquidity ratio declined from 194.27% as at 31 March 2021, to 174.57% as at 30 June 2021 and remained well above the prudential requirement of 30%.

3.43. Despite the sustained increase in the subsector's deposits, the deposit volumes remain insufficiently low to facilitate underwriting of more meaningful and sustainable business for the DTMFI sub-sector.

4. FINANCIAL INCLUSION

4.1. Drafting of the National Financial Inclusion Strategy II 2021-202 (NFIS II) has commenced following the end of term of NFIS I on 31 December 2020. NFIS II will build on the achievements of NFIS I and will seek to integrate financial inclusion with economic development and human development in line with the National Development Strategy I and attainment of Vision 2030 of an "**Upper Middle Income Society by 2030**".

4.2. Under the NFIS II, the nine thematic working groups namely: Women Finance Development; Youth Finance Development; Insurance, Pensions & Capital Markets Development; Digital Financial Services; Financial Literacy & Consumer Protection; Agriculture & Rural Finance Development; SME Finance & Development; People with Disabilities (PWD); and Microfinance will remain in place.

4.3. Cognisant of the importance of Entrepreneurship development as a pillar of the National Financial Inclusion Strategy, an additional thematic working group on Entrepreneurship Development has now been incorporated.

Financial Inclusion Indicators…

4.4. Notwithstanding the negative impact of the Covid-19 pandemic on the financial inclusion of the marginalised and vulnerable groups, significant progress has been recorded in improving access to financial services by target segments through digital financial services, introduction of new products, financial literacy and consumer protection, establishment of low cost bank accounts, and establishment of women desks and SME units in most of the banking institutions.

4.5. However, the financial inclusion indicators indicate the target groups under the NFIS I, mainly, the women, the youth and the MSMEs, remain largely financially excluded as summarised in the table below.

TABLE 3: Financial Inclusion Indicators

Indicator	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Mar 2021	Jun 2021
Value of loans to MSMEs (ZW$ Million)	131.69	146.22	169.96	462.98	3,013.85	3,967	14,686.97
Average loans to MSMEs as % of total bank loans	3.57	3.75	3.94	3.92	3.66	3.79	10.26
Number of MSMEs with bank accounts	71,730	76,524	111,498	116,467	139,902	152,504	162,742
Number of Women with Bank Accounts	769,883	935,994	1,736,285	2,152,185	2,570,835	2,758,922	2,159,470
Value of Loans to Women (ZW$ Million)	277.30	310.78	432.36	586.74	3,280.61	5,039	6,716.62
Average loans to women as a % of total bank loans	7.52	7.96	10.57	15.59	3.98	4.82	4.69
Number of Loans to Youth	38,400	61,529	69,421	189,658	71,832	68,452	72,924
Value of Loans to Youth (ZW$ Million)	58.41	138.93	104.43	188.71	1,947.52	2,719	3,825.46
Average loans to the youth as a % of total bank loans	1.58	3.56	2.55	6.09	2.36	2.60	2.67
Total number of Active Bank Accounts (Million)	1.49	3.07	6.73	7.62	8.64	9.06	7.17
Number of Low Cost Bank Accounts (Million)	1.20	3.02	4.67	4.97	5.85	5.82	4.41

4.6. The number of active accounts registered a 20.86% decline over the quarter from 9.06 million as at 31 March 2021, to 7.17 million. While the value of loans to women of ZW$6.72 billion as at 30 June 2021 represents a 34.13% increase over the quarter from ZW$5.01, loans to women still remain very low accounting for only 4.69% of the total banking sector loans. Average loans to youth accounted for only 2.26% of the total banking sector loans.

4.7. Loans to the micro, small and medium enterprises accounted for 10.26% of total banking sector loans, up from 3.57% in 2016, and 3.79% as at 31 March 2021. The increase is largely attributed to resumption of business by the majority of MSMEs following the relaxation of some of the Covid-19 restrictions and availability of the MSME Medium Term Accommodation facility rolled out through banks and microfinance institutions.

END OF REPORT

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

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

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

Key Indicators	June-20	Sept- 20	Dec – 20	March -21	June-21
Total Assets ($m)	843.04	1,154.26	1,515.19	2,002.58	2,445.61
Total Loans & Advances ($m)	134.33	191.08	320.87	452.42	667.86
Core Capital ($m)	300.98	494.45	596.01	836.20	1,079.21
Net Capital Base ($m)	482.98	683.95	783.57	1,098.96	1,369.58
Total Deposits ($m)	83.09	144.56	239.11	350.02	442.98
Net Profit ($m)	119.79	125.11	140.48	(51.29)	(69.72)
Average OSS ratio	241.80%	171.10%	128.11%	72.27%	86.52%
Average Return on Assets	14.21%	16.75%	9.27%	-4.78%	-4.77%
Average Return on Equity	7.04%	7.98%	9.74%	-6.70%	-5.63%
Average Prudential Liquidity Ratio	134.06%	92.56%	91.73%	194.27%	174.57%
Portfolio at risk Ratio (> 30 days)	16.97%	7.58%	6.53%	11.97%	11.37%

Annexure 3: Access Points and Devices: 2015-2019, Zimbabwe

	2015	2016	2017	2018	2019
ATMs	556	569	561	551	542
Standard POS	16,363	32,629	59,939	99,935	121,413
Bank Agents	1,723	4,059	4,865	4,815	4,840
Mobile Banking Agents	38,745	40,590	47,838	50,740	59,219
MPOS				21,248	29,991
Debit Cards	2,365,160	3,127,153	4,281,683	4,734,299	5,625,031
Credit Cards	10,854	16,030	17,411	17,204	18,089
Prepaid Cards	30,125	43,288	63,987	88,406	99,278
Total Number of Cards	**2,406,139**	**3,186,471**	**4,363,081**	**4,839,909**	**5,742,398**
Active Mobile Banking Subscriptions	4,683,959 9	3,303,188	4,706,778	6,352,552	7,334,639
Active Internet Banking Subscribers	108,662	168,339	277,674	353,103	415,901
Total Registered Mobile subscribers	8,430,888	8,928,214	10,801,013 6	13,722,394	15,567,046
Bank Accounts (including Ecocash save	3,540,988	3,995,959	4,422,435	4,969,262	7,138,016
Ecocash Save Accounts	1,359,990	1,429,018	1,507,312	1,620,127	1,717,821