BANK SUPERVISION DIVISION

MICROFINANCE INDUSTRY REPORT

FOR

QUARTER ENDED 30 SEPTEMBER 2016

1. Executive Summary

1.1. The microfinance sector continued to positively contribute towards financial inclusion and economic development of the country through increased provision of credit to the low income households and the micro, small and medium enterprises.

1.2. The microfinance sector registered a 22.90% growth in total assets over the year from $207.74 million as at 30 September 2015, to $255.32 million as at 30 September 2016.

1.3. Portfolio at risk in the industry has gradually improved over the years as evidenced by the decline of the portfolio at risk ratio (PaR) from a peak of 25.2% in 2012, to 6.11% as at 30 September 2016 due to enhancement of credit risk management systems by microfinance institutions. The ratio, however, remains marginally above the international benchmark of 5% largely reflecting the negative impact of adverse macroeconomic conditions on borrowers' ability to repay the loans.

2. Architecture of the Microfinance Industry

2.1. As at 30 September 2016, there were 169 licensed credit-only microfinance institutions and four (4) deposit-taking microfinance institutions (DTMFIs).

2.2. Following a pre-opening inspection from 18 August 2016 to 2 September 2016 to assess preparedness for commencement of deposit-taking microfinance activities, Reserve Bank authorized Success Microfinance Bank Limited (formerly Collarhedge Finance (Private) Limited to commence deposit-taking microfinance business.

2.3. As at 30 September 2016, Lion Microfinance (Private) Limited which was licenced on 17 November 2016, was still in the process of putting in place appropriate ICT systems and other infrastructure in preparation for the conduct of a pre-opening inspection by the Reserve Bank of Zimbabwe. Before every newly registered deposit-taking microfinance institution can commence deposit-taking microfinance activities, the Reserve Bank of Zimbabwe is required to satisfy itself, through the conduct of a pre-opening inspection, that the DTMFI is ready.

2.4. During the quarter ended 30 September 2016, the Reserve Bank issued three new moneylending licences and seven credit-only microfinance institution licences. In addition, the Reserve Bank renewed one deposit-taking microfinance licence, seven credit-only microfinance licences and thirteen moneylending licences. The annual renewal of microfinanciers' licences is required in terms of the Microfinance Act *[Chapter 24:29]*.

Branch Network…

2.5. The sector registered a marginal decrease in the number of branches over the quarter from 600 as at 30 June 2016, to 595 as at 30 September 2016 due to rationalization of branches by some of the microfinance institutions. Harare and Bulawayo provinces continued to dominate in terms of the number of microfinance institutions' branches.

3. Performance of the Microfinance Sector

Microfinance Products…

3.1. As at 30 September 2016, the operating DTMFIs had mobilised deposits amounting to $2.103 million, up from $1.60 million as at 30 June 2016, and the total number of savings accounts opened had increased by 103.07% to 1060, up from 522 as at 30 June 2016.

Lending Activities…

3.2. Total loans for the sector increased by 9.48%, from $183.40 million as at 30 June 2016 to $200.80 million as at 30 September 2016. The sector recorded a total of 264,193 active clients during the same period. The microfinance sector's total loans of $200.80 million, were equivalent to 5.50% of total banking sector loans of $3.65 billion as at the same date.

3.3. The sector's lending reflects high concentration, with 20 credit-only microfinance institutions accounting for 85.48% of the sector's total loans of $200.80 million. The remaining 149 credit-only microfinance institutions accounted for only 14.52% of the market's total loans. One DTMFI with a loan book of $29.210 million, commanded a market share of 14.55% as at 30 September 2016.

3.4. Total loans for the three (3) operating DTMFIs amounted to $46.253 million, representing a market share of 23.03% of the total microfinance loan portfolio as at 30 September 2016.

3.5. The table below shows key performance indicators for the sector as at 30 September 2016.

Table 1: Key Performance Indicators

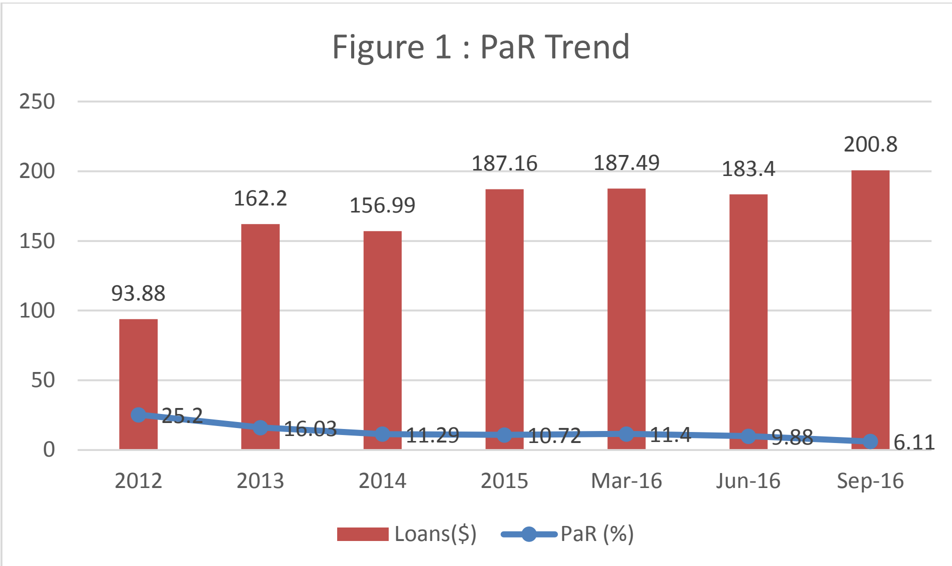
	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16
Number of Licensed Institutions	155	152	162	168	169
Total Loans	$173.31 million	$187.16 million	$187.49 million	$183.40 million	$200.80 million
Total Assets	$207.74 million	$225.13 million	$242.55 million	$250.97 Million	$255.32 million
Number of DTMFI				3	4
Total Deposits (DTMFIs)	--	--	$0.442 million	$1.603 million	$2.103 million
Number of Savings Accounts (DTMFIs)	--	--	243	522	1060
Average Net Income	$60,107.29	$88,827.76	$54.467.00	$103,240.40	$103,002.09
Portfolio at Risk (PaR>30 days)*	9.05%	10.72%	11.40%	9.81%	6.11%
Number of Active Clients	198,371	202,242	196,377	251,553	263,806
Number of Outstanding Loans	224,055	262,627	221,712	285,466	279,148
Number of Branches	475	571	611	600	595

*** 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.**

Portfolio Quality…

3.6. The portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) has improved, since December 2012. Year on year PaR significantly improved from 9.05% recorded in 30 September 2015, to 6.11% as at 30 September 2016. However, the ratio still remains above the internationally accepted benchmark of 5%.

3.7. The trend in the PaR ratio is shown in Fig 1 below.



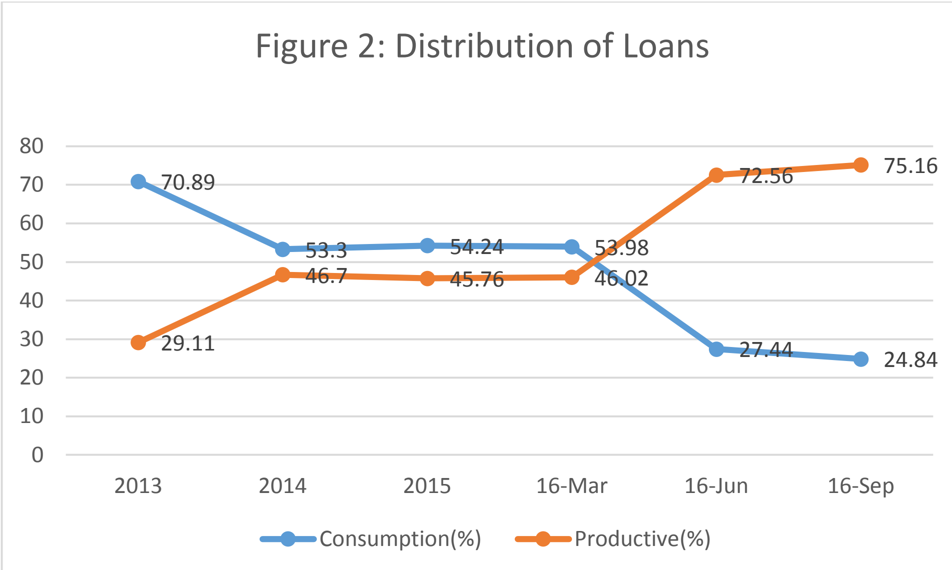
3.8. The Reserve Bank of Zimbabwe is now at an advanced stage in the setting up of a credit reference system, which is expected to improve credit appraisal in the microfinance sector, and reduce the industry PaR, as MFIs become more informed on the creditworthiness of prospective borrowers.

Distribution of Loans…

3.9. As at 30 September 2016, lending was skewed towards productive lending at $150.85 million, which constituted 75.16% of the sector's total loans. There is a significant shift in the lending dynamics with the majority of microfinance institutions paying heed to the Reserve Bank call to lend to the productive sectors in order to spur economic growth.

3.10. Developmental institutions such as Zimbabwe Agriculture Development Trust (ZADT) and the Zimbabwe Microfinance Fund (ZMF) have been active in promoting lending to the productive sector through provision of concessionary funds.

3.11. Figure 2 shows the trend in the distribution of loans from 2013 to September 2016.



3.12. Microfinance has been identified as one of the pillars of the National Financial Inclusion Strategy, and the Reserve Bank continues to urge microfinance institutions to focus their lending activities on the productive sectors of the economy and in particular the marginalized segments such as the micro, small and medium enterprises.

4. Delivery Channels for Microfinance Services

4.1. Following the cash challenges in Zimbabwe since June 2016, a number of microfinance institutions have been facing challenges with the majority of clients failing to meet their obligations due to the scarcity of cash in the market.

4.2. Some MFIs have developed innovative financial products which assist clients in meeting their obligations in a convenient manner. MFIs have adopted mobile banking services through mobile money transfer platforms thereby facilitating clients' access to loans and payment products in the comfort of their homes and business premises.

4.3. The Reserve Bank encourages microfinance institutions to promote the use of plastic money through partnering with banking institutions and adopting swipe machines to enable easy movement of funds between the borrowers and the lenders. Use of plastic money brings greater convenience and security to the borrower.

Compliance with Regulatory Requirements and Best Practices…

4.4. As at 30 September 2016, six institutions had capital levels below the prescribed minimum capital of $20,000 due to losses reported during the quarter. The institutions were in the process of regularizing their capital positions through injection of fresh capital.

Compliance with Core Client Protection Principles

4.5. The Reserve Bank continues to encourage microfinance institutions to embrace the microfinance Core Client Protection Principles (CCPPs) in line with the provisions of the **Microfinance Act *[Chapter 24:29]*.** The Reserve Bank, monitors MFIs' compliance with CCPPs on a continuous basis through its robust off-site surveillance and targeted surprise checks.

4.6. A total of ten (10) complaints were received by the Reserve Bank during the quarter ended 30 September 2016, which was the same number of complaints received in the previous quarter.

4.7. The majority of the complaints received from microfinance customers were in relation to over-deduction on loan repayments by MFIs, over-indebtedness, and lack of understanding of the terms and conditions of the loan contracts.

4.8. The Financial Literacy Framework and Consumer Protection Prudential Standards which will be finalised in 2017, are expected to minimize the number of complaints through fostering greater transparency and enhancing consumer protection.

4.9. The Reserve Bank and the Zimbabwe Association of the Microfinance Institutions are collaborating in ensuring that microfinance lending rates do not negate the importance of the microfinance sector in the financial inclusion agenda. In this regard, microfinance effective lending rates have been reduced to a maximum of 10% per month.

END OF REPORT