BANK SUPERVISION DIVISION

MICROFINANCE SECTOR REPORT

FOR

QUARTER ENDED 30 SEPTEMBER 2018

NOVEMBER 2018

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1. EXECUTIVE SUMMARY

1.1. Over the nine (9) months ended 30 September 2018, the microfinance sector continued to reinforce its importance in the financial inclusion agenda through provision of financial services to the unbanked and marginalised sections of the population.

1.2. Over the review period, deposit-taking microfinance institutions (DTMFIs) made significant inroads with respect to deposit mobilisation with the sub-sector registering a 36.81% increase in deposits over the quarter from $15.35 million as at 30 June 2018, to $21.00 million as at 30 September 2018.

1.3. The sector’s total loan portfolio as at 30 September 2018 was $351.39 million representing an 18.11% increase from $297.52 million as at 30 June 2018. The total sector loans accounted for 75.80% of the sector’s total assets of $463.56 million as at 30 September 2018.

1.4. The microfinance sector, however, registered a deterioration in asset quality as reflected by the PaR>30 days of **15.51%** as at 30 September 2018, up from 10.15% as at 30 June 2018.

1.5. The deterioration in the portfolio quality impacted negatively on the sector’s profitability, with the sector recording a net profit of $9.98 million for period ended 30 September 2018, which represented a **31.69%** decline over the year from $14.61 million for the period ended 30 September 2017.

1.6. The sector registered a decline in the average Operational Self-Sufficiency (OSS)[1] over the review period, from 123.95% as at 30 September 2017, to 114.45% as at 30 September 2018. The decline in the OSS ratio was attributed to an upsurge in operational costs on the back of general price increase for both services and products, including overheads such as rentals. The OSS remains

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

sustainable at above 100% level.

2. ARCHITECTURE OF THE MICROFINANCE SECTOR

2.1. The microfinance sector had 200 registered microfinanciers as at 30 September 2018, up from 196 institutions as at 30 June 2018. The architecture of the microfinance sector as at 30 September 2018 is indicated in the table below.

Table 1: Architecture of the Microfinance Sector

Type of Institution	30 June 2018	30 September 2018
Credit-only Microfinance Institutions	190	194
Deposit-taking Microfinance Institutions	6	6
Total	**196**	**200**

2.2. One deposit-taking microfinance institution, EmpowerBank Limited, was authorized to commence deposit-taking microfinance business on 5 July 2018, bring the total number of operating deposit-taking microfinance institutions (DTMFIs) to six (6).

3. PERFORMANCE OF THE MICROFINANCE SECTOR

3.1. The microfinance sector continued on a growth trajectory during the period under review. Positive growth was recorded in loan portfolio size, equity funding, deposit mobilisation and outreach. A summary of the key performance indicators is shown in Table 2 below.

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

Indicator	Sept -17	Mar-18	June-18	Sept-18
Number of Licensed Institutions	189	190	196	200
Total Loans (US$m)	238.60	272.95	297.52	351.39
Total Assets (US$m)	341.17	360.46	412.29	463.56
Total Equity (US$m)	135.66	142.94	138.15	187.87
Net Profit (US$m)	14.61	9.08	13.67	9.98
Average Operational Self-Sufficiency (OSS)	140.19%	142.92%	154.76%	114.45%
Total Deposits (DTMFIs) (US$m)	5.65	11.84	15.35	21.00
Number of Savings Accounts (DTMFIs)	2,848	8,668	10,196	24,386
Portfolio at Risk (PaR>30 days)	7.68	9.55%	10.15%	15.51%
Number of Active Loan Clients	254,094	282,024	276,660	288,858
Number of Outstanding Loans	295,547	296,544	297,843	323,129
Number of Branches	681	676	660	781

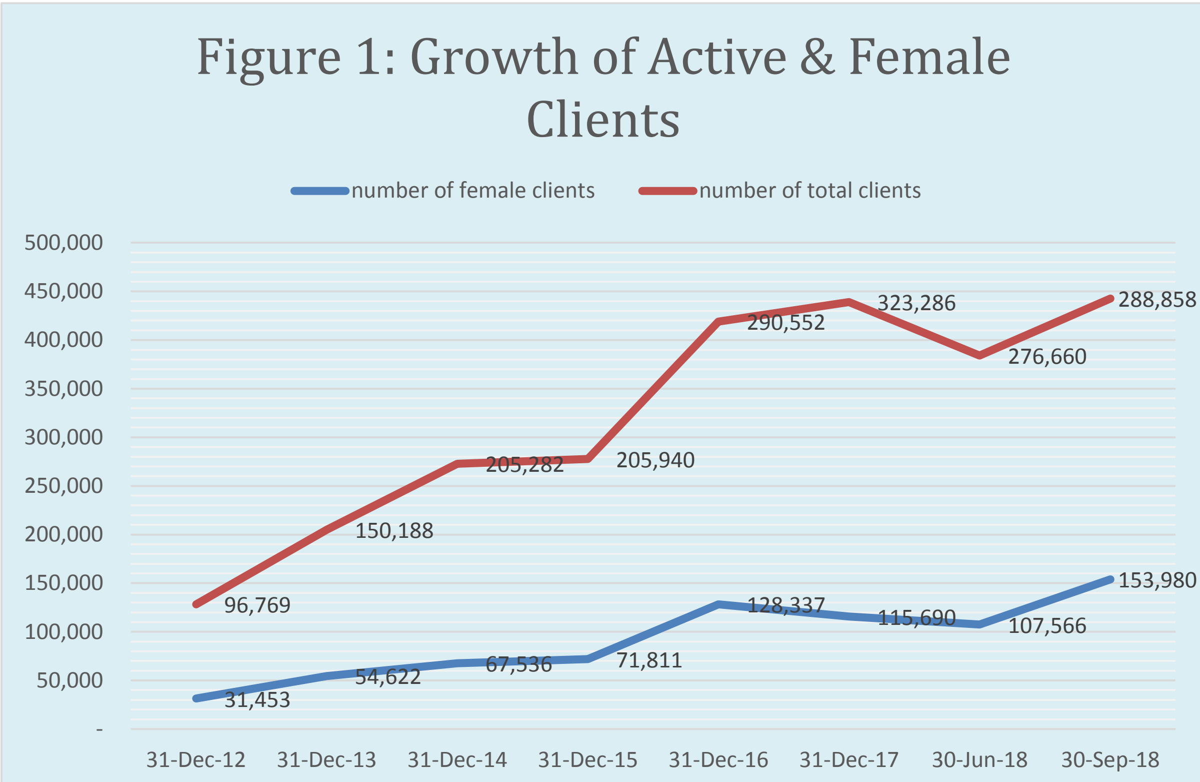
Microfinance Outreach…

3.2. The sector registered an increase of 18.33% in the number of branches from 660 as at 30 June 2018, to 781 branches as at 30 September 2018. The increase was attributed to new branches that were opened during the quarter under review as well as a number of newly licensed microfinance institutions during the same period.

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

3.4. Active clients increased marginally by 4.41% from 276,660 active clients as at 30 June 2018 to 288,858 as at 30 September 2018.

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.



3.6. The number of women borrowers increased by 43.15% over the quarter from 107,566 as at 30 June 2018, to 153,980 as at 30 September 2018, as more women accessed empowerment facilities earmarked for women entrepreneurs such as the Women Empowerment Facility. The women borrowers accounted for 53.31% of the total active clients of the microfinance industry as at 30 September 2018.

Deposit Mobilization…

3.7. The deposit-taking microfinance institutions sub-sector continued to make significant inroads in terms of deposit mobilization, with the sub-sector registering a **36.81% increase** in total deposits over the review period from $15.35 million as at 30 June 2018, to $21.00 million as at 30 September 2018.

3.8. The sub-sector also registered a **139.17% increase** in the number of savings accounts from 10,196 as at 30 June 2018, to 24,386 as at 30 September 2018.

3.9. Both the level of deposits and number of accounts are envisaged to increase as the deposit-taking microfinance institutions implement strategies to scale up their operations.

Capital & Funding…

3.10. The microfinance sector registered a **35.99% increase** in aggregate equity over the review period from $138.15 million as at 30 June 2018, to $187.87 million as at 30 September 2018.

3.11. The growth in the aggregate industry equity was largely attributed to capital from in the newly licensed credit-only microfinance institutions including capitalisation of two (2) deposit-taking microfinance institutions which commenced operations during the same quarter.

3.12. However, the sector's equity was under threat from the declining profitability on the back of increased portfolio at risk and high operational costs.

Capital and Funding for Credit-Only Microfinance Institutions

3.13. As at 30 September 2018, the credit-only microfinance subsector recorded an aggregate capital of $126.04 million representing a **28.77% increase** from $97.88 million as at 30 June 2018. The increase in aggregate equity was largely attributed to increased capital from newly licensed microfinance institutions during the same quarter as well as the profitability registered during the same period.

3.14. 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 institutions are instituting measures to bolster their capital levels and ensure compliance with the minimum capital requirements including injection of additional capital and containment of operational costs.

3.15. As at 30 September 2018 a total of 110 credit-only microfinance institutions were already meeting the minimum capital requirements of $50,000, which become effective in 2020.

3.16. While the majority of microfinance institutions are meeting the minimum capital requirement of $20,000, the sector continues to face challenges in terms of underwriting more meaningful business as the current minimum capital requirement does not provide for the creation of critical mass in terms of underwriting microfinance business to guarantee sustainability of the sector.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.17. The DTMFI sub-sector registered a **55% increase** in aggregate core capital from $40.25 million as at 30 June 2018, to $62.22 million as at 30 September 2018.

3.18. Five (5) out of the six (6) operating DTMFIs were compliant with the minimum capital requirement for DTMFIs of $5 million with four (4) of the institutions having surpassed the $7.5 million capital requirement, effective 2020.

3.19. One deposit-taking microfinance institution was not compliant with the minimum capital requirement of $5 million for DTMFIs. The institution's capital continues to be eroded by persistent losses occasioned by high operating expenses against a low revenue base.

Empowerment Facilities…

3.20. The uptake of production and empowerment facilities increased by **3.58%** from $238.30 million as at 30 June 2018 to **$246.84 million** as at 31 October 2018.

3.21. Access to financial resources under the empowerment facilities by targeted beneficiaries is expected to have significant impact on the livelihood of the low income and the marginalized communities.

3.22. The table below shows utilization levels for the production and empowerment facilities.

Loan Facility	**Total Utilisation as at 31 Oct 18 ($)**	**Facility Limit ($)**	**Utilization Level %**
Business Linkages	11.36m	10m	**113.63**
Export Finance	75.25m	70m	**107.49**
Educational Loan	1.39m	50m	**2.78**
Horticulture Promotion	4.57m	10m	**45.66**
FPR Gold Support	108.70m	150m	**72.47**
Women Empowerment	2.92m	15m	**19.50**
Tobacco Facility (TIMB)	24.27m	70m	**34.67**
Construction Finance	-	50m	-
Soya Beans Facility	15.64m	21.51m	**72.74**
Persons With Disability	23,500	5m	**0.47**
Microfinance Revolving Fund	1.0m	10m	**10.00**
Youth Empowerment	0.33m	10m	**3.35**
Tourism Facility	0.03m	15m	**0.20**
Total	**246.84m**	**501.51m**	**49.25**

3.23. A number of micro, small and medium enterprises including smallholder farmers, have benefitted from the empowerment facilities. The funds have also contributed significantly to the development of various value chains particularly in agriculture, mining, manufacturing and tourism.

Lending and Portfolio Quality…

3.24. The microfinance industry registered an increase of **18.11%** in total loans over the quarter from $297.52 million as at 30 June 2018, to $351.39 million as at 30 September 2018, on the back of increased demand for micro-credit from both emerging micro and small enterprises as well as individuals.

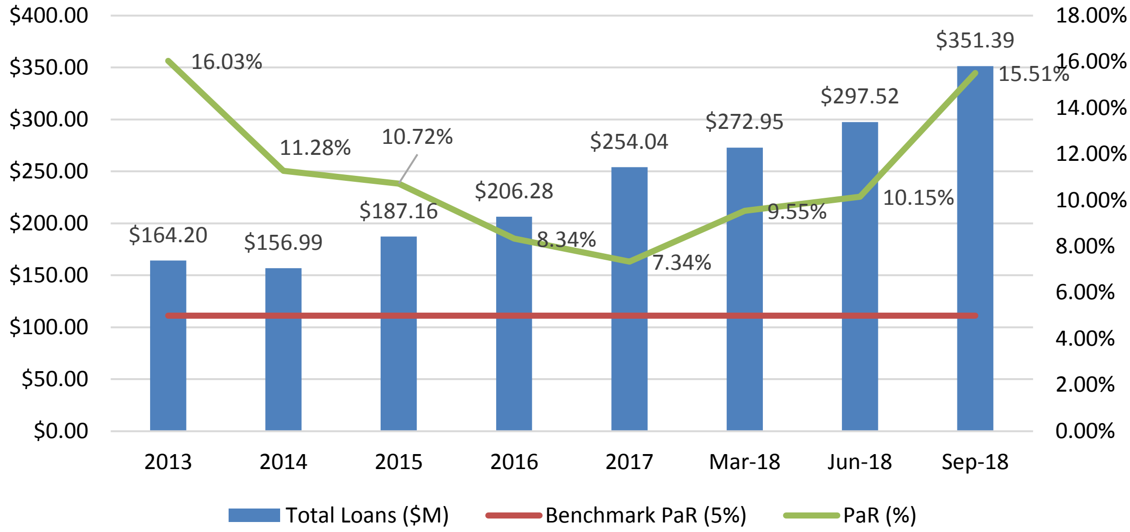
3.25. The sector's total loans of $351.39 million accounted for 8.76% of total banking sector loans of $4,01 billion as at 30 September 2018.

3.26. The microfinance industry remained highly concentrated as few institutions continued to dominate the industry. The top 20 microfinance institutions with total loans of $297.87 million accounted for **84.77%** of the total industry loans as at 30 September 2018.

3.27. Total loans for the DTMFI subsector of $79.26 million accounted for **22.56%** of the total microfinance sector loans of $351.39 million as at 30 September 2018. One DTMFI with a loan book of $42.95 million commanded a market share of **54.19%** of the total deposit-taking microfinance institutions' total loans of $79.26 million.

3.28. The industry, however, registered a deterioration in portfolio quality over the quarter and the year with portfolio-at-risk (>30 days) **(PaR) ratio of 15.51%** as at 30 September 2018, up from 10.15% as at 30 June 2018, and 6.46% as at 30 September 2017, against the international benchmark of 5%. The trend in the total sector loans and portfolio quality is indicated in the figure below.

Figure 2: Microfinance Industry Trends in Total Loans & PaR Ratio



3.29. The deterioration in the asset quality for the microfinance sector continue to be driven by increased incidences of over-indebtedness and multi-borrowing among microfinance borrowers against declining disposal income, as the majority of microfinance institutions target the same segment of salaried employees.

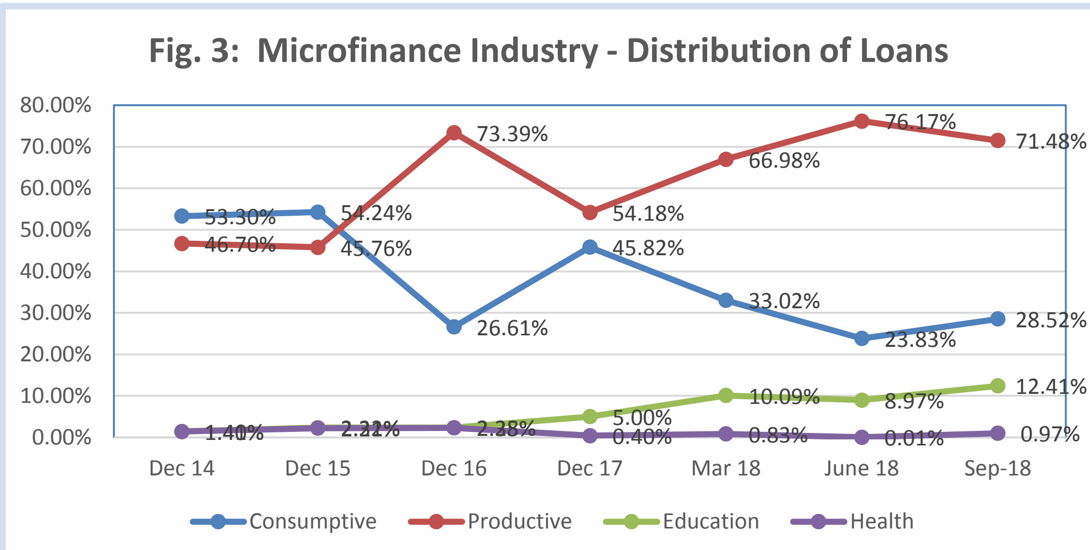
3.30. Portfolio at risk in the DTMFIs subsector improved during the quarter. As at 30 September 2018 the average PaR ratio (PaR>30) for the DTMFI subsector was **10.70%** compared to 16.54% as at 30 June 2018.

Distribution of Loans…

3.31. The loans to the productive sector of $251.17 million as at 30 September 2018, accounted for **71.48%** of the total sector loans of $351.39 million, down from 76.17% as at 30 June 2018.

3.32. In an effort to encourage the microfinance sector to diversify and introduce innovative products, the Reserve Bank with support from the World Bank Group held a Training Workshop on Agricultural Value Chain Financing from 15 to 17 October 2018. The main objective of the training workshop was to demystify value chain finance as a financial product and encourage the sector to consider the numerous opportunities to fund the productive sector through value-chain financing products, particularly in the agricultural sector.

3.33. The figure below shows the trend in the distribution of loans from 2014 to September 2018.



3.34. Loans for educational purposes improved over the quarter to 12.41% of the total industry portfolio of $351.39 million, from 8.79% as at 30 June 2018. However, lending for health purposes remained subdued, at below 1% of the total microfinance sector loans of $351.39 million.

3.35. The number of women accessing finance through microfinance institutions increased by 42.33% from 107,566 as at 30 June 2018 to 153,094 representing 53% of total number of active borrowers as at 30 September 2018. While the number of female borrowers increased by 42.33% over the quarter, the value of loans to female borrowers declined from $80.74 million (27.14% of total sector loans) as at 30 June 2018 to $76.07 million which accounted for 21.65% of the total industry loan of $351.39 million as at 30 September 2018.

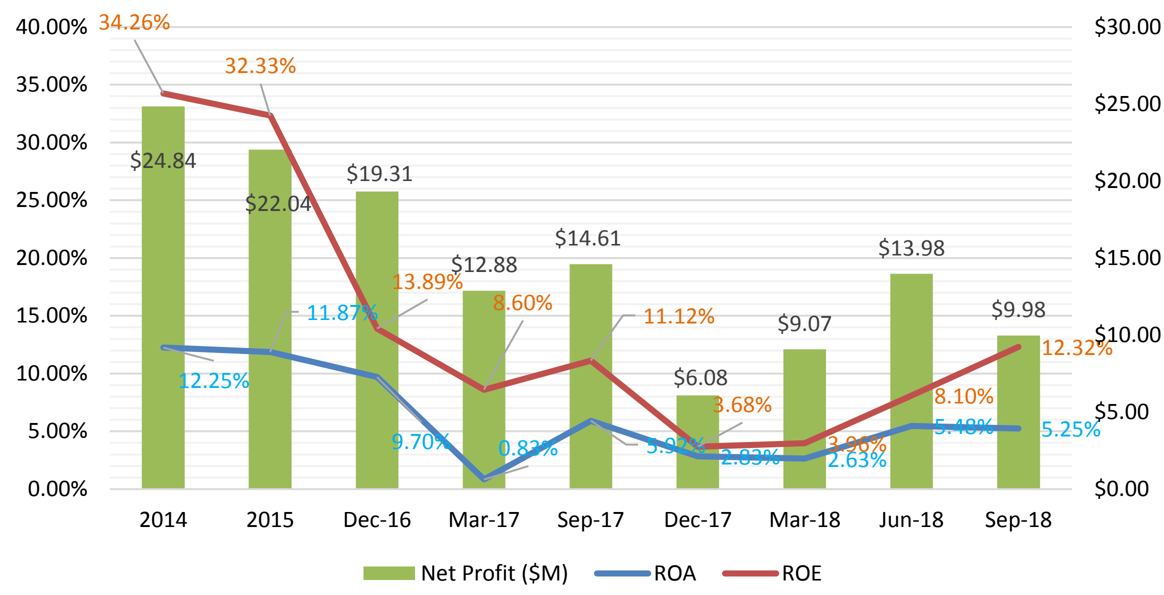
Profitability…

3.36. The microfinance industry registered a **31.69% decline** in net profit over the year from $14.61 million for period ended 30 September 2017, to $9.98 million for the period ended 30 September 2018. The decline in profitability is largely attributed to significant losses recorded by three deposit-taking microfinance institutions whose aggregate losses of **$3.98 million** accounted for 59.40% of the total sector losses of $6.7 million for the nine months ended 30 September 2018. A total of 37 microfinanciers, including three (3) DTMFIs posted losses for period ended 30 September 2018. The losses are largely emanating from high operational cost structures on the backdrop of a challenging macroeconomic environment.

3.37. The average operational self-sufficiency ratio (OSS) deteriorated to 114.45% as at 30 September 2018, down from 123.95% as at 30 September 2017. The OSS ratio of 114.45% was above the break-even point of 100%, indicating that the industry is still operationally sustainable.

3.38. The trend in the profitability of the microfinance sector is indicated in Figure 4.

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



3.39. During the year ended 30 September 2018 the return on assets (ROA) for the industry marginally decreased to 5.25%% from 5.92% for period ended September 2017. The sector registered a marginal improvement in the return on equity (ROE) ratio from 11.12% for period ended 30 September 2017, to 12.32% for period ended 30 September 2018.

Credit-Only Microfinance Institutions

3.40. For the nine-months ended 30 September 2018, the credit-only microfinance institutions were considered operationally sustainable with an average OSS ratio of 114.80%, which represents a 7.91 percentage-point decline from an OSS ratio of 123.95% for the corresponding period in 2017. Top 20 credit-only microfinance institutions recorded an average OSS ratio of 125.69% for the review period compared to 140.19% in the comparative period in 2017.

3.41. A total of 34 credit-only microfinance institutions recorded losses during the quarter ended 30 September 2018 compared to a total of 23 institutions that recorded losses for the corresponding period in 2017. The losses were largely due to operational inefficiencies and high levels of provisions for non-performing loans in some institutions.

Deposit-taking Microfinance Institutions

3.42. The DTMFI subsector recorded an aggregate net profit of $0.94 million for the nine months ended 30 September 2018 up from $0.66 million recorded in September 2017. A total of three (3) institutions out of the six (6) operating DTMFIs posted losses during the quarter.

3.43. Losses posted by two (2) of the three (3) DTMFIs, which commenced operations in the quarter ended 30 June 2018, were largely attributed to start-up costs. The DTMFI subsector's average OSS ratio of 100.13% as at 30 September 2018 was a deterioration from 127.60% as at 30 September 2017. The decline in the operational self-sufficiency ratio is in line with the decline in the sector's aggregate profitability.

3.44. As at 30 September 2018, the DTMFIs subsector registered an improvement in ROA from 2.40% for period ended 30 September 2017 to 6.23% for period ended 30 September 2018. The subsector's ROE marginally declined over the same period from 5.93% for period ended 30 September 2017 to 5.18% for period ended 30 September 2018.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

5.1 A significant improvement in compliance with regulatory requirements was noted within the microfinance sector during the period under review as the Reserve Bank continued to engage the microfinance sector through training workshops and other related fora in an effort to inculcate a culture of compliance.

5.2 Adherence to the Core Client Protection Principles and the introduction of Social

Performance Management in the microfinance sector is expected to play a significant role in building a culture of compliance within the sector.

Late Submission of MFI Returns…

5.3 As at 30 September 2018, two (2) credit-only microfinance institutions were penalized for the non-submissions of quarterly MFI returns.

Failure to Renew Microfinance Licensing…

5.4 Two (2) moneylending institutions failed to renew their moneylending operating licences as at 30 September 2018, citing the challenging operating environment. The institutions were directed to cease all moneylending business.

Compliance with Core Client Protection Principles…

5.5 As at 30 September 2018, the microfinance sector recorded six (6) complaints during the period under review, which was a marginal increase from four (4) complaints received during the quarter ended 30 June 2018. The complaints related to unauthorized deductions of funds through the Salary Service Bureau, disposal of collateral without a court order, and high interest rate charges by microfinance institutions.

END OF REPORT