MICROFINANCE QUARTERLY REPORT

30 JUNE 2017

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1 EXECUTIVE SUMMARY

1.1. During the quarter ended 30 June 2017, the microfinance sector continued to provide access to financial services to the low income and marginalized communities, in line with its mandate as a pillar of the National Financial Inclusion Strategy (NFIS),

1.2. The total assets for the year increased by 18.60% to $297.65 million as at 30 June 2017 from $250.97 million recorded in the comparative period in 2016.

1.3. The sector's total assets were dominated by loans which constituted 77.06% of the total sector assets. Year on year total loans increased by 25.07% from $183.40 million as at 30 June 2016 to $229.38 million as at 30 June 2017.

1.4. Lending to the productive sectors of the economy of $167.84 million as at 30 June 2017, constituted 73.17% of total sector's loans up from $140.03 million as at 31 March 2017, reflecting increased support to the productive sector over the review period. Growth in productive sector lending has largely been driven by the increased focus on closed value-chain financing activities by a number of microfinance institutions.

1.5. Industry portfolio quality as measured by the Portfolio at Risk (PaR > 30) ratio has significantly improved over the years from a peak of 25.2% in 2012 to 6.60% as at 30 June 2017.

2 ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1. As at 30 June 2017, a total of 187 registered microfinanciers were operational, comprising 183 credit-only microfinance institutions and four (4) deposit-taking microfinance institutions (DTMFIs).

2.2. Table 1 indicates the licenses issued by the Registrar of Microfinanciers during quarter ended 30 June 2017.

Table 1: Summary of Licences issued

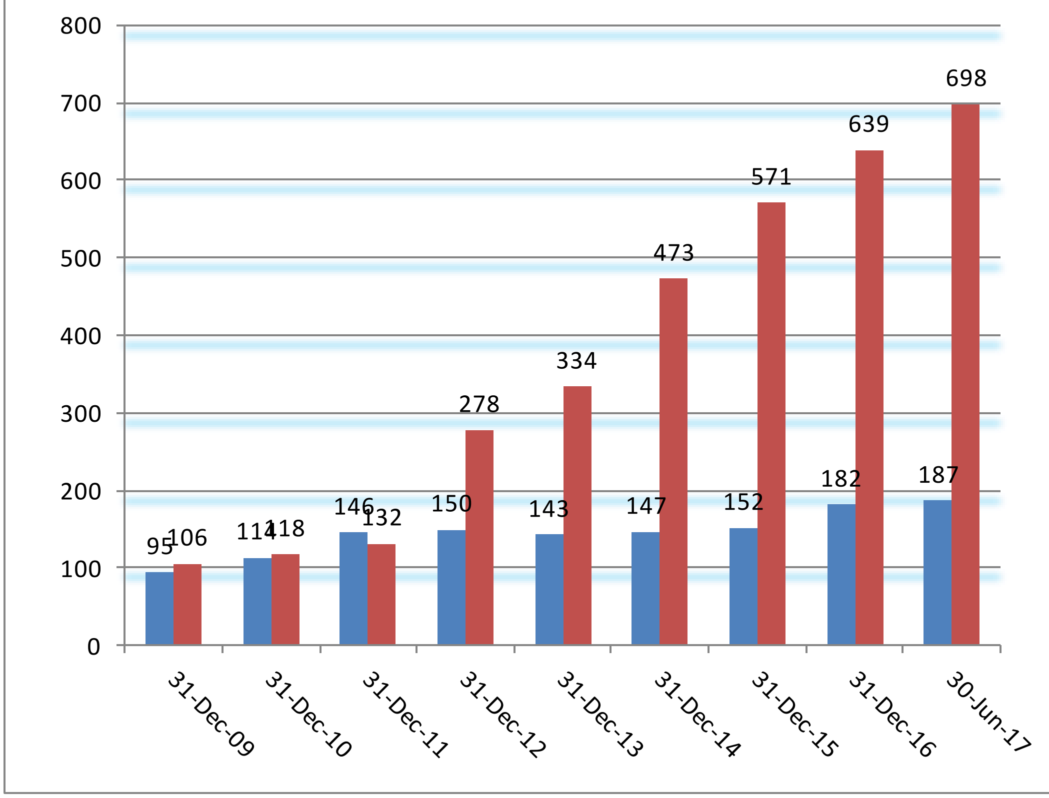
Description of Licence	Number
New Moneylenders' Licence	3
New Credit-only Microfinance Licence	5
Renewal of Moneylenders' Licence	16
Renewal of Credit-only Microfinance Licence	8
Renewal of Deposit-taking Microfinance Licence	1

Branch Network and Outreach…

2.3. The sector registered a 9.06% increase in the branch network over the quarter from 648 as at 31 March 2017, to 698 as at 30 June 2017 on the back of new institutions coming on board and a few existing players increasing their branch network.

2.4. Figure 1 indicates the growth trends in the number of microfinance institutions and their branch networks.

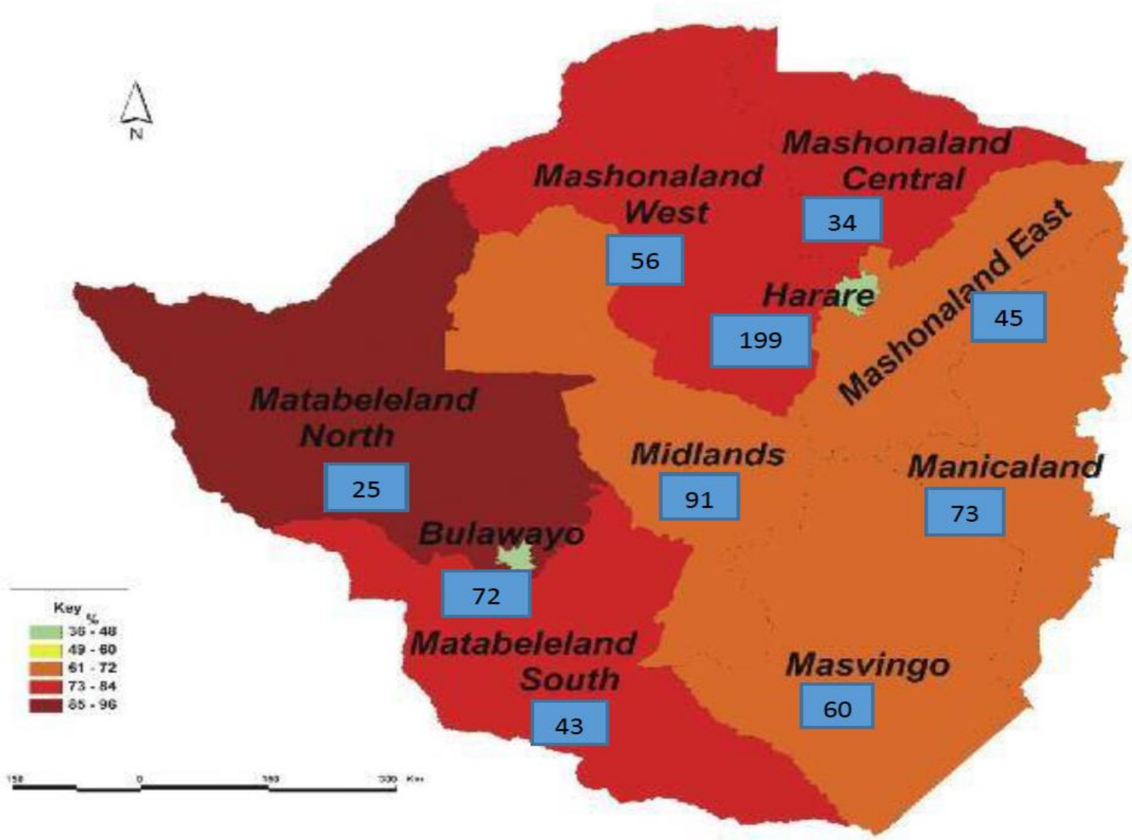
Figure 1: Growth of MFIs since 2009



2.5. Over the review period, Harare and Midlands provinces dominated in terms of the number of branches, which increased from 143 and 87 branches as at 31 March 2016, to 199 and 91 branches as at 30 June 2017, respectively.

2.6. The microfinance branch network has been mapped onto the poverty prevalence map of Zimbabwe in Figure 2 below.

Figure 1: Geographical Distribution of Branch Network as at 30 June 2017



Source: ZIMSTATS Poverty Prevalence Map 2015

2.7. Microfinance branches are concentrated in Harare, Bulawayo, Midlands, Manicaland, Mashonaland West and Masvingo which had 77.36% of the total branches. Microfinance branches are fewer in high poverty prevalent regions such as Matabeleland North & South, Mashonaland West & Central which are also sparsely populated, accounting for 22.64% of the total microfinance branch network.

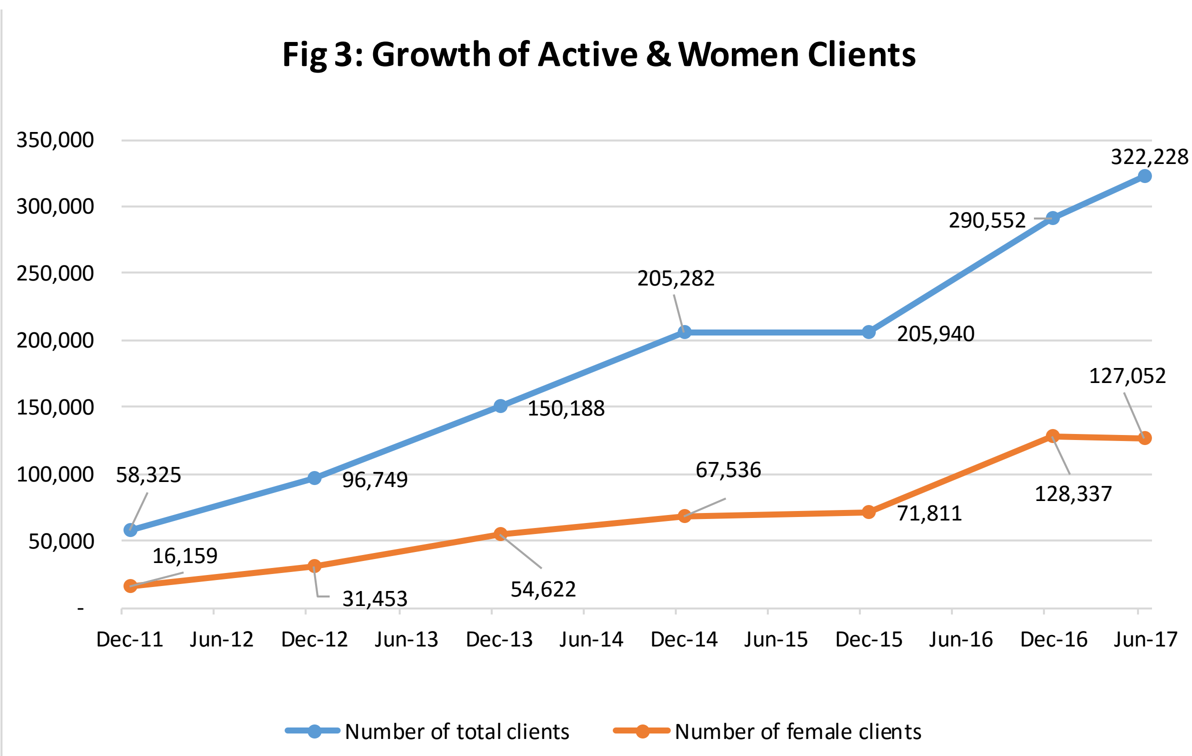
Microfinance Outreach…

2.8. Microfinance outreach in terms of the number of active clients remains low, with the total sector of 187 microfinance institutions registering only **322,228** active clients, up from 257,498 as at 31 March 2017, against financial exclusion 23% of the population who are financially excluded.

2.9. The improved credit infrastructure, including establishment of the Collateral Registry and Credit Guarantee Scheme, is expected facilitate increased microfinance outreach as more and more marginalized groups access finance through use of moveable assets as well as the guarantee scheme.

2.10. The number of active women clients has been on an upward trend since December 2011 and as at 30 June 2017, loans to women borrowers accounted for **39.60%** of the total sector loans of $229.38 million, up from **39.12%** as at 31 March 2017. The growth in the proportion of women borrowers has largely been attributed to increased funding targeting women.

2.11. Figure 3 indicates the trend in microfinance women borrowers against total number of active clients since December 2011.



3 PERFORMANCE OF THE MICROFINANCE SECTOR

Product Offering…

3.1 The product offering by the microfinance sector remained limited and largely dominated by micro loans, which constitute a significant portion of the microfinance institutions' balance sheets.

3.2 The majority of microfinance institutions offer payroll-based loans mostly to the same market segment resulting in over-indebtedness on the part of the microfinance clients, and high levels of non-performing loans in individual microfinance institutions.

3.3 The Reserve Bank continues to encourage microfinance institutions to partner with other financial service providers such as banking institutions and insurance companies in order to provide a wider array of microfinance services to the low income and marginalised groups in line with the National Financial Inclusion Strategy. These products include:

a) micro housing;

b) micro-leasing; and

c) micro-insurance, among others.

3.4 Further, microfinance institutions are encouraged to leverage on technology in order to provide more innovative financial products more conveniently and efficiently.

DTMFIs Deposits and Savings…

3.5 Over the review period, the four operating DTMFIs registered a 29.29% increase in deposits from $5.12 million as at 31 March 2017 to $6.62 million as at 30 June 2017.

3.6 The DTMFI subsector witnessed a 106.62% increase in the total number of savings accounts from 1,993 as at 31 March 2017, to 4,118 as at 30 June 2017.

Lending and Portfolio Quality …

3.7 The sector registered a marginal increase of 5.04% in total loans from $218.38 million as at 31 March 2017 to $229.38 million as at 30 June 2017.

3.8 As at 30 June 2017, the microfinance sector's total loans of $229.38 million, constituted 6.31% of total banking sector loans of $3.64 billion as at the same date.

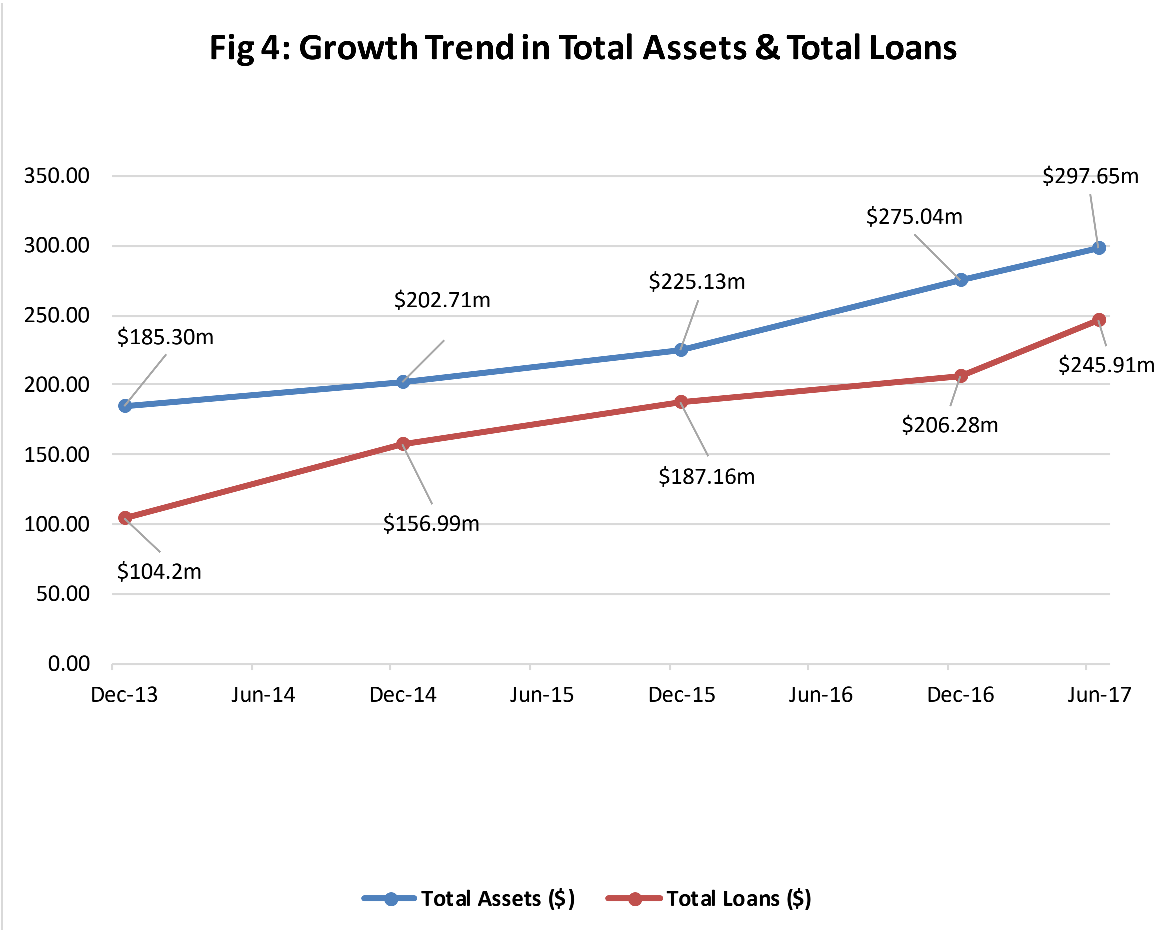
3.9 The sector's lending continues to reflect high concentration, with 20 microfinance institutions accounting for 84.11% of total sector loans of $229.38 million. The rest of the 167 microfinance institutions account for 15.89% of total sector loans.

3.10 As at 30 June 2017, total loans for the four (4) operating DTMFIs amounted to $53.97 million representing a market share of 23.53% of the total loan portfolio in the industry. One DTMFI with a loan book of $33.42 million, commanded a market share of 14.57% of the total microfinance sector as at 30 June 2017.

3.11 The microfinance sector registered a 2.05% growth in total assets over the quarter from $291.66 million as at 31 March 2017 to $297.65 million as at 30

June 2017. Total sector loans constituted 77.06% of the sector's total assets as at 30 June 2017.

3.12 The trend in the sector's assets and loans is indicated in Figure 4.



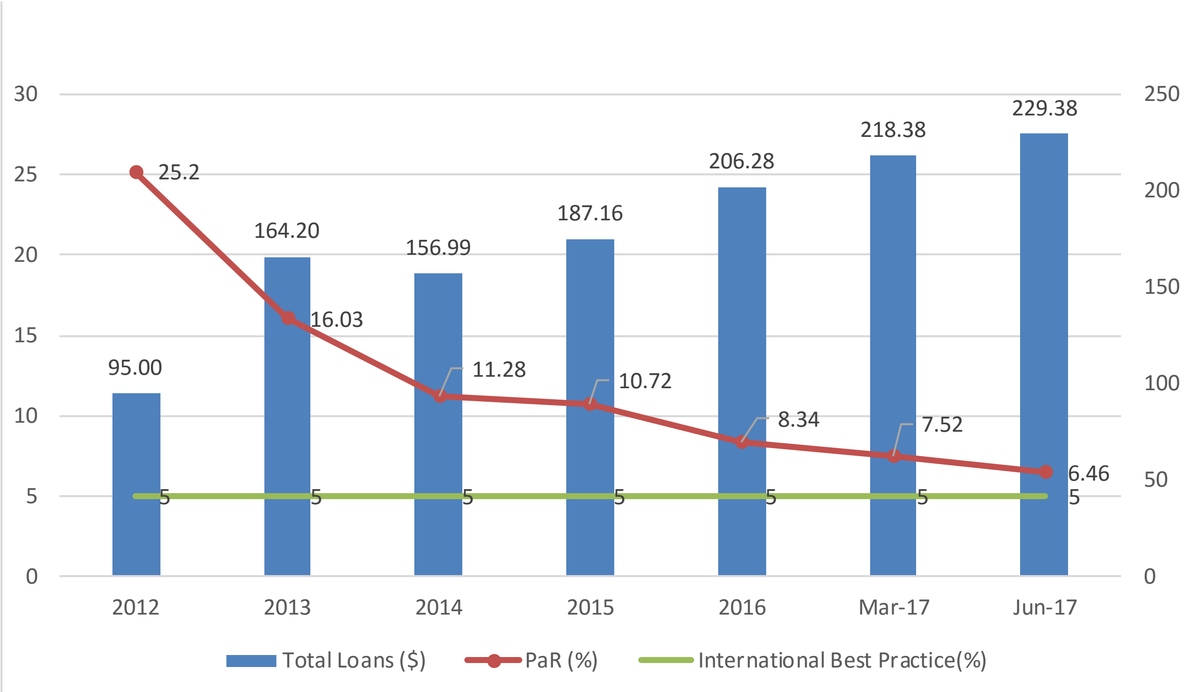
3.13 The sector's, portfolio quality continued to improve over the review period, with a Portfolio at Risk (PaR>30 days) of 6.46% as at 30 June 2017, up from a peak of 25.20% as at 31 December 2012, and 7.52% as at 31 March 2017, against the international benchmark of 5%.

3.14 As at 30 June 2017, average PaR ratios for deposit-taking microfinance institutions and credit-only microfinance institutions, were 5.26% and 7.66% respectively.

3.15 The trend in the average PaR ratio for the microfinance industry is shown in Fig

5 below.

Figure 2: Trends in Total Loans and PaR



3.16 The general improvement in microfinance loan portfolio quality is largely attributed to improved credit risk management by some microfinance institutions, on the back of training and capacity building initiatives by the Zimbabwe Association of Microfinance Institutions (ZAMFI) in collaboration with the Reserve Bank and other stakeholders.

3.17 Reserve Bank's initiatives to establish a robust credit infrastructure including the Credit Registry and the Credit Guarantee Scheme are expected to contribute significantly to establishment of a good credit culture and improved credit risk management within the microfinance sector resulting from minimisation of information asymmetry.

3.18 The Credit Registry will also be instrumental in reducing over-indebtedness among microfinance clients.

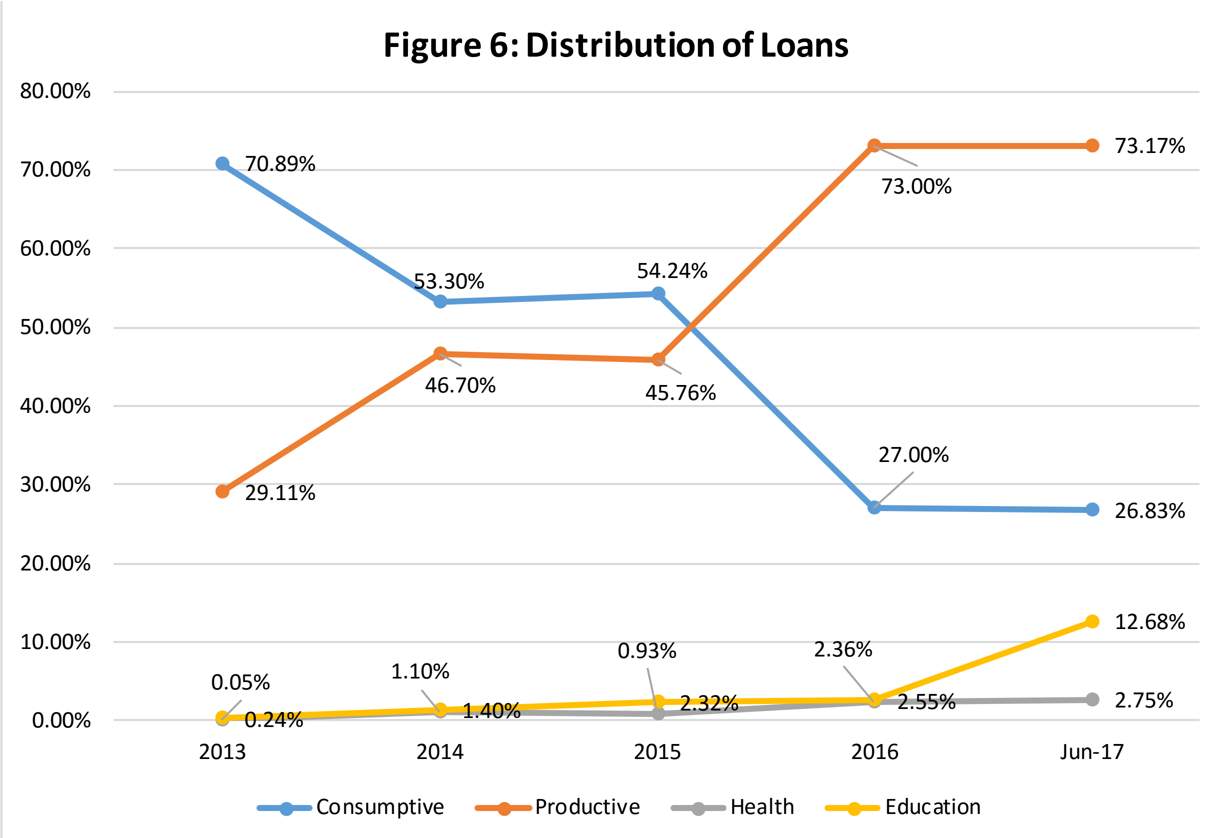
3.19 These initiatives by the Reserve Bank will contribute towards the improvement and alignment of the portfolio at risk ratio to the international benchmark of 5%.

Distribution of Loans…

3.20 Microfinance remains one of the practical strategies for poverty reduction, employment creation, and sustainable economic development.

3.21 In this regard, the Reserve Bank continues to urge microfinance institutions to focus their lending activities on the productive sectors of the economy in order to spur economic growth.

3.22 Over the review period, microfinance institutions continued to re-align their lending activities towards the productive sector. Loans to the productive sector amounting to $167.84 million represented 73.15% of the sector's total loans as at 30 June 2017 as depicted in Fig 6 below.



3.23 There was a 20% increase in productive sector loans from $140.03 million as at 31 March 2017 to $167.84 million as at 30 June 2017 which is reflective of gradual re-orientation by the sector from consumptive to productive lending.

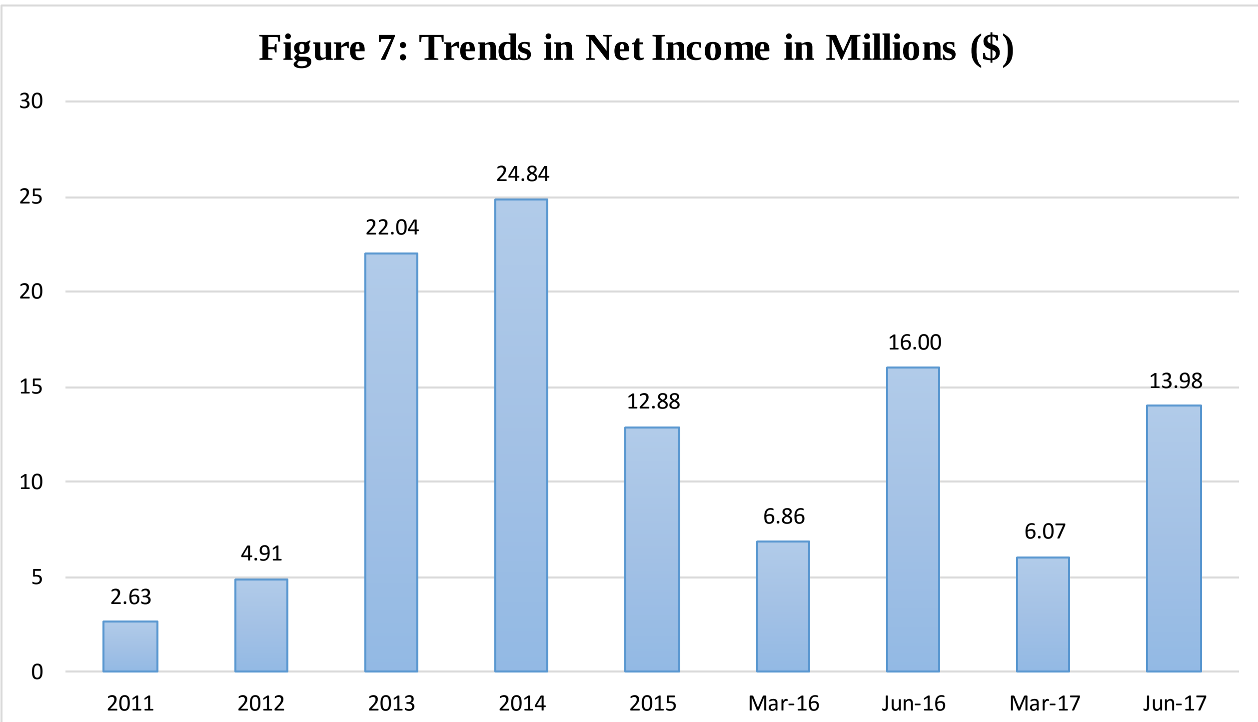
3.24 However, consumptive lending continues to play a significant role in low income households as individuals access loans to supplement low disposal income on the backdrop of a challenging operating environment. In other instances, the loans accessed as consumptive are utilised to engage in small business activities.

3.25 Loans to the education sub-sector also registered a significant increase from 0.24% of the total loan portfolio in 2013 to 12.68% of the total loan portfolio as at 30 June 2017. This shift is also reflective of the low level of disposable income among the households, as the low income households resort to microfinance loans to fund their children's education.

Profitability…

3.26 The sector registered a 12.63% decline in profitability over the year from $16.00 million as at 30 June 2016, to $13.98 million as at 30 June 2017.

3.27 Figure 7 below indicates the trend in the net profit from 2011 to June 2017.

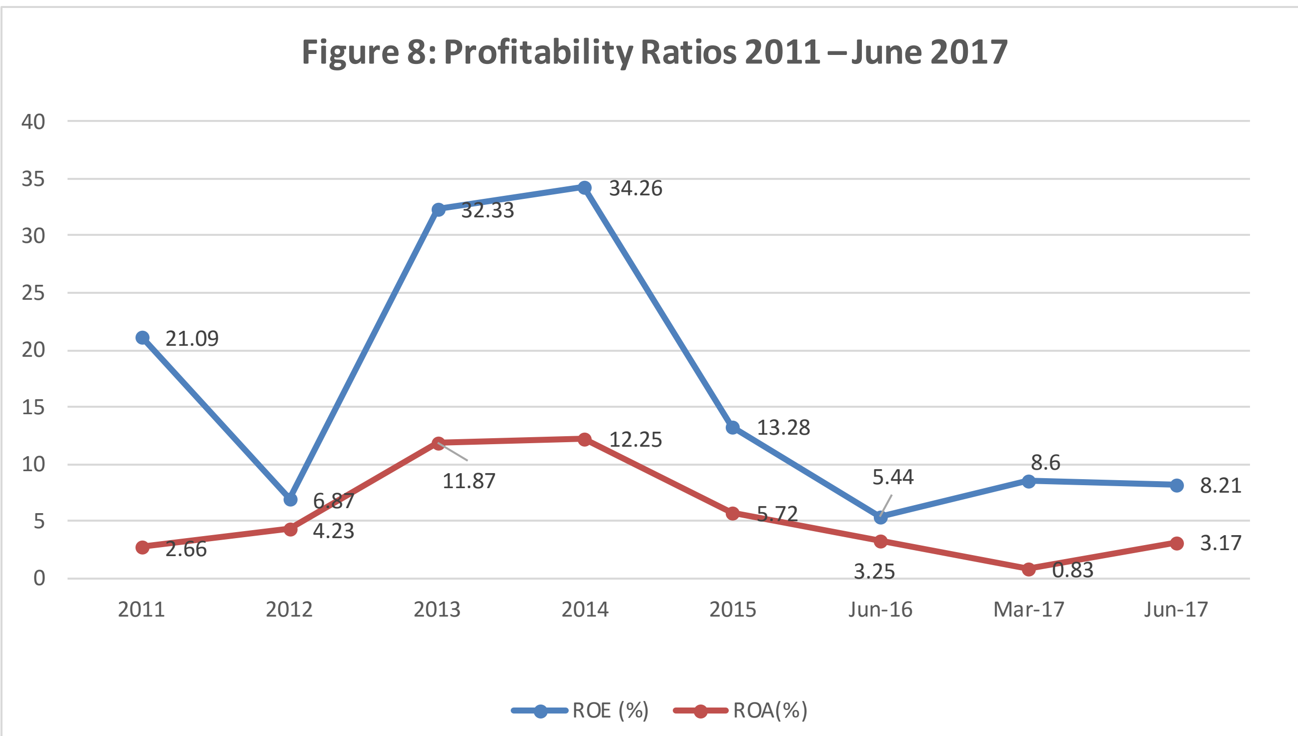


3.28 In the deposit-taking microfinance sub-sector, three deposit-taking microfinance institutions recorded a net profit of $4.07 million, over the review period, while one deposit-taking microfinance institution recorded a loss of $0.52 million during the same period. The loss making institution commenced operations in February 2017 and is expected to break even in the next financial year.

3.29 A total of forty-four credit-only microfinance institutions recorded losses during the quarter ended 30 June 2017, largely due to operational inefficiencies and high levels of provisions for loan losses.

3.30 The sector's return on equity registered a 2.77 percentage points increase over the year from 5.44% as at 30 June 2016 to 8.21% as at 30 June 2017.

3.31 Profitability ratios (return on assets and return on equity) trend is indicated in Figure 8.



3.32 Return on assets for the quarter ended 30 June 2017 was 3.17% as compared to 3.15% recorded in the comparative period in 2016.

3.33 The average operational self-sufficiency (OSS) ratio for the microfinance sector was 150.49% which was above the break-even point of 100%. A ratio of less than 100% indicates that the MFI may not survive or continue operations without external assistance or donor support.

3.34 The average OSS ratio of 128.93% as at 30 June 2017 recorded by the four operating deposit-taking microfinance institutions reflects that the institutions are largely sustainable.

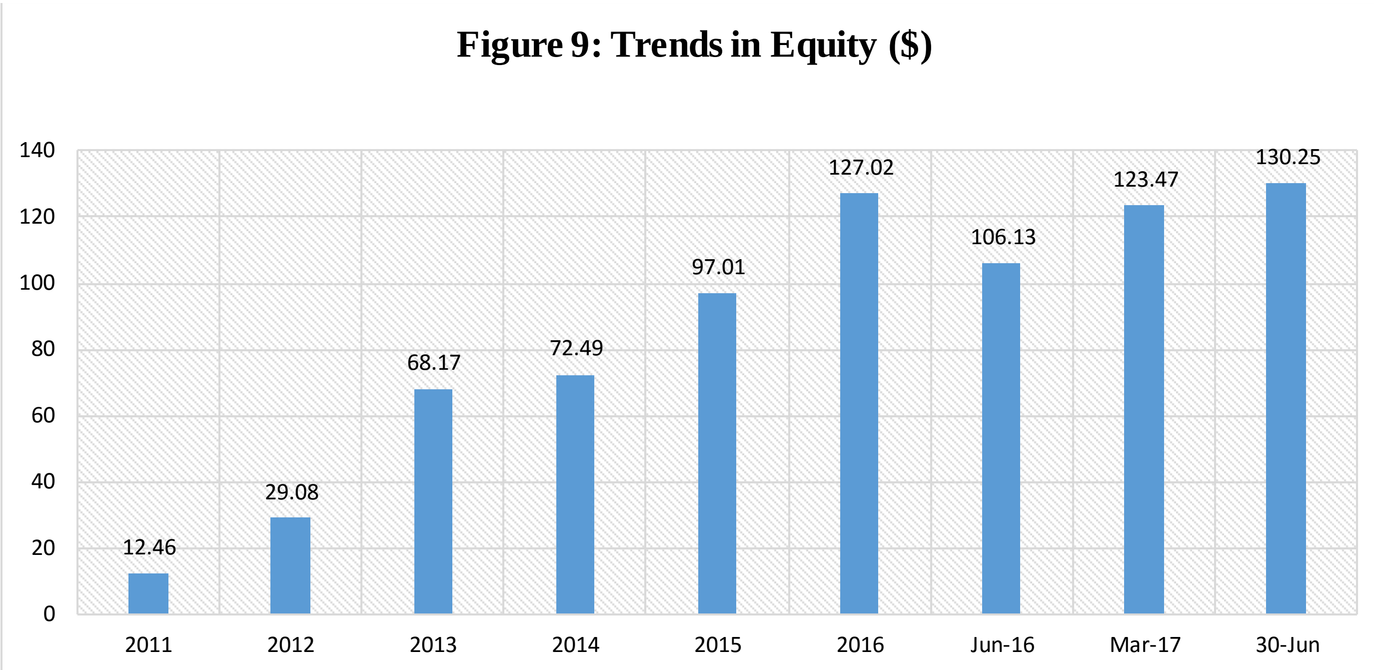
3.35 Credit-only microfinance institutions were considered sustainable as reflected by the average Operating Self Sufficiency (OSS) ratio of 170.37% for the quarter ended 30 June 2017. Top 20 credit-only microfinance institutions had an average OSS ratio of 183.59% for the review period.

Capital and Funding…

3.36 The sector's limited funding base continues to impact negatively on the ability of the sector to underwrite more meaningful business as evidenced by the size of the sector's loan book which has remained small over the years.

3.37 While the sector recorded an increase in aggregated capital to $130.25 million as at 30 June 2017 from $106.13 million as at 30 June 2016, the funding base remains marginal and insignificant, given the level of financial exclusion and growth in micro, small and medium enterprises.

3.38 The marginal increase in capital was largely attributable to new entrants, organic growth and additional capital injections by some of the existing players. The trend in capital position is shown in Figure 9 below.



3.39 All the four operating DTMFIs were compliant with the minimum capital requirement of $5 million. A total of eight (8) microfinance institutions had capital levels below the prescribed minimum capital of $20,000 due to losses recorded during the review period.

3.40 The undercapitalized institutions were in the process of regularizing their capital positions through injection of additional capital or conversion of shareholders' loans into equity.

3.41 In line with the financial inclusion thrust and cognisant of the funding challenges faced by many microfinance institutions, the Reserve Bank established the Women Empowerment Fund, the Business Linkage Facility and the Microfinance Revolving Facility, with the view to facilitating access to finance by the low income households and their enterprises.

3.42 In addition, the Zimbabwe Microfinance Fund (ZMF) continues to provide wholesale funding to the sector. However, demand for loans by microfinance institutions continues to exceed available funds at ZMF. The total funds disbursed as at 30 June 2017 amounted to $1,88 million against pipeline loan requirements of $3,91 million.

4. MICROFINANCE DELIVERY CHANNELS

4.1 Microfinance institutions have taken advantage of technological developments in order to provide innovative microfinance services and products through alternative delivery channels.

4.2 The sector is responding well to the Reserve Bank's call for a cashless economy. Some microfinance institutions have partnered with banking institutions and provide financial products to their clients through plastic money, mobile money and the use of swipe machines. This development has brought convenience and security in financial services provision to microfinance clients.

5. COMPLIANCE WITH REGULATORY REQUIREMENTS AND BEST PRACTICES…

5.1 For the three months ended 30 June 2017, a total of eleven (11) institutions were penalized by the Reserve Bank. Three (3) institutions were penalized by the Reserve Bank for late submission while eight (8) were penalized for failure to submit the June 2017 Quarterly Return.

Compliance with Core Client Protection Principles…

5.2 A total of sixteen (16) complaints were received during the quarter ended 30 June 2017, compared to four complaints received in the quarter ended 31 March 2017.

5.3 The complaints related to issues of over deductions, over indebtedness and disposal of pledged collateral procedurally.

5.4 The complaints received from microfinance customers are in relation to over-deductions by MFIs, over indebtedness, and lack of understanding of the terms and conditions of the loan contracts.

5.5 The Reserve Bank continues to monitor compliance with the Core Client Protection Principles (CCPPs) and the Microfinance Act [*Chapter 24:30*] on an ongoing basis by the Reserve Bank.

6. MICROFINANCE BLITZ

6.1 The Reserve Bank conducted on-site visits on all microfinance institutions during the period June - July 2017.

6.2 The objectives of the targeted examinations included:

a. Evaluating the adequacy of corporate governance structures;

b. Reviewing microfinance institutions' lending activities and business conditions;

c. Evaluating compliance with applicable laws and regulations including statutory reporting, compliance with provisions of *Circular to Moneylending, Credit-only Microfinance and Deposit-taking Microfinance Institutions No.02-2017/BSD* which requires microfinance institutions to align their lending rates not to exceed 10% per month;

d. Assessing compliance with Core Client Protection Principles'; and

e. Evaluating funding sources and challenges thereto.

6.3 The blitz observed noted operational ***inefficiencies among most of the microfinance institutions driven by poor corporate governance practices, high operational costs, weak or absence of ICT infrastructure,*** and difficulties in effecting external payments for ICT system licensing fees and repayment of offshore loans.

END OF REPORT

Appendix 1: Key Performance Indicators, Jun 2016 – Jun 2017

	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17
Number of Licensed Institutions	168	169	185	180	187
Total Loans (US$m)	183.40	200.80	206.28	218.38	229.38
Total Assets (US$m)	250.97	255.32	275.04	291.66	297.65
Total Deposits (DTMFIs) (US$m)	1.60	2.10	4.19	5.12	6.62
Number of Savings Accounts (DTMFIs)	522	1,060	1,411	1,993	4,118
Portfolio at Risk (PaR>30 days)* (%)	9.81	6.11	8.34	7.52	6.46
Number of Active Clients	251,553	263,806	290,552	257,498	322,728
Number of Outstanding Loans	285,466	279,148	352,225	620,728	372,837
Number of Branches	600	595	659	648	698

*** 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.**