MICROFINANCE QUARTERLY REPORT

30 June 2016

BANK SUPERVISION DIVISION

1. Executive Summary

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

1.2. The microfinance sector registered a 20.22% growth in total assets over the year from $208.76 million as at 30 June 2015 to $ 250.97 million as at 30 June 2016.

1.3. The sector witnessed a significant shift of the lending portfolio as most institutions are moving away from consumptive lending to productive lending. This is largely attributed to the terms and conditions of the available funding from development institutions which is earmarked for productive purposes.

1.4. 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 9.81% as at 30 June 2016. The ratio, however, remains 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 June 2016, there were 164 licensed credit-only microfinance institutions and 4 deposit-taking microfinance institutions (DTMFIs).

2.2. During the quarter ended 30 June 2016, the Reserve Bank issued four (4) new moneylending licences, renewed seven (7) credit-only microfinance institution's licences and thirteen moneylending licences.

2.3. In addition, the Reserve Bank licensed one (1) deposit-taking microfinance institution, Lion Microfinance Limited, on 31 May 2016.

2.4. As at 30 June 2016, Collarhedge Financial Services (Private) Limited, which was licensed on 17 November 2015, was still in the process of putting in place appropriate infrastructure and ICT systems in preparation for commencement of deposit-taking microfinance business.

Branch Network…

2.5. The sector registered a decline in the number of branches over the quarter from 611 as at 31 March 2016 to 600 as at 30 June 2016. Harare, Midlands, Manicaland 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. A number of microfinance institutions have embraced value-chain financing in agriculture particularly horticulture, cattle fattening, dairy farming and irrigation farming.

3.2. As at 30 June 2016 the two operating DTMFIs had mobilised deposits amounting to $1.603 million compared to $0.443 million as at 31 March 2016, and the total number of savings accounts opened had increased by 114.8% to 522 from 243 as at 31 March 2016.

Lending Activities…

3.3. Total loans for the sector marginally declined by 2.29% from $187.49 million as at 31 March 2016 to $183.40 million as at 30 June 2016.

3.4. As at 30 June 2016 the microfinance sector's total loans of **$183.40 million**, constituted **4.69%** of total financial sector loans of **$3.91 billion** as at the same date.

3.5. Microfinance outreach market share remains significantly low with 168 microfinance institutions registering only **251,553 active clients**.

3.6. The sector's lending reflects high concentration, with 20 microfinance institutions accounting for 86.87% of the sector's total loans of $183.40 million. The remaining 148 microfinance institutions accounted for only 13.13% of the market's total loans. One DTMFI institution with a loan book of over $30 million, commanded a market share of 16.72% as at 30 June 2016.

3.7. Total loans for the two (2) operating DTMFIs amounted to $41.11 million representing a market share of 22.42% of the loan portfolio in the sector as at 30 June 2016.

3.8. The sector's lending capability is being constrained by funding challenges, and the sector is exploring a number of funding options to finance their various projects, including value chain financing.

3.9. Table 1 shows key performance indicators for the sector.

Table 1: Key Performance Indicators

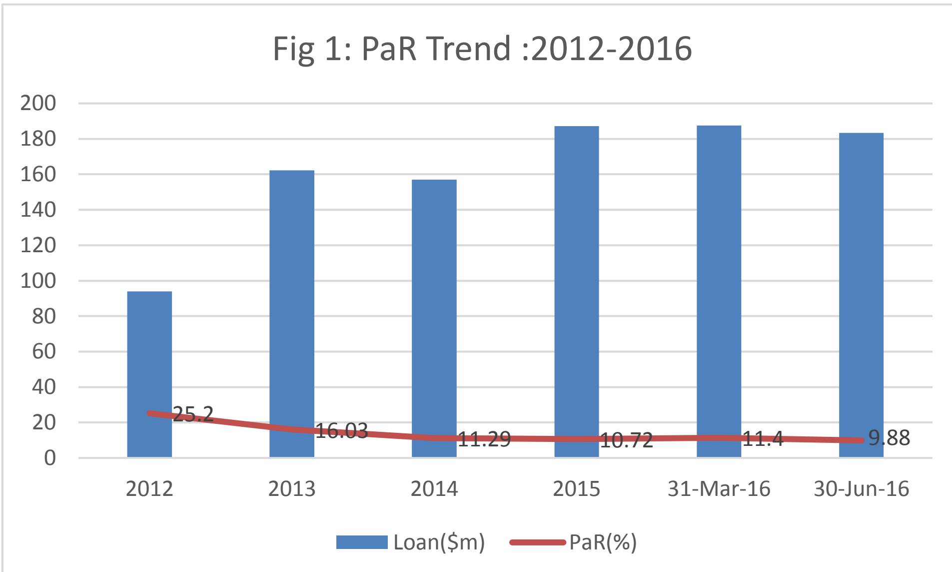
	Jun 15	**Sep 15**	**Dec 15**	**Mar 16**	**Jun 16**
Number of Licensed Institutions	147	155	152	162	168
Total Loans	$162.20 million	$173.31 million	$187.16 million	$187.49 million	$183.40 million
Total Assets	$208.76 million	$207.74 million	$225.13 million	$242.55 million	$250.97 million
Total Deposits (DTMFIs)	--	--	--	$0.442 million	$1.603 million
Number of Savings Accounts (DTMFIs)	--	--	--	243	522
Average Net Income	$123,100.96	$60,107.29	$88,827.76	$54.467.00	$103,240.40
Portfolio at Risk (PaR>30 days)*	13.31%	9.05%	10.72%	11.40%	9.81%
Number of Active Clients	224,300	198,371	202,242	196,377	251,553
Number of Outstanding Loans	281,547	224,055	262,627	221,712	285,466
Number of Branches	495	475	571	611	600

*** 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…

3.10. The portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) has improved, since December 2012. However, the ratio still remains above the internationally accepted benchmark of 5%.

3.11. Year on year PaR significantly improved from 13.31% recorded in 30 June 2015 to 9.81%% as at 30 June 2016. The trend in the PaR ratio is shown in Fig 1 below.



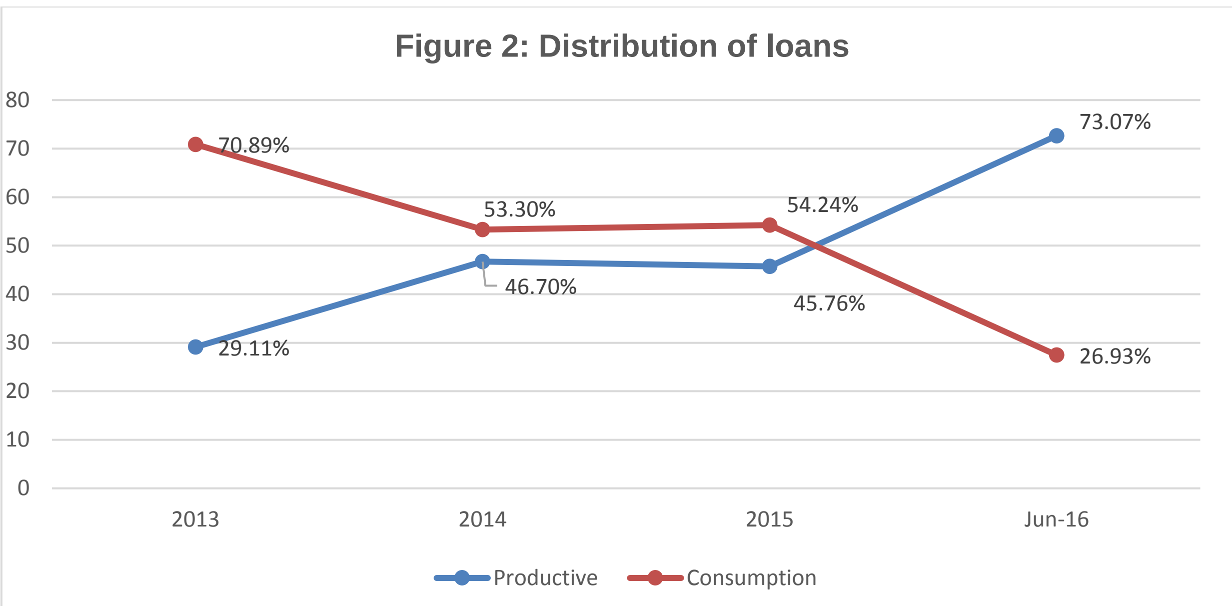
3.12. The Reserve Bank has been working on various initiatives aimed at reducing the level of credit risk in the microfinance sector. These initiatives include various capacity building programs in the microfinance sector and the setting up of both the credit reference system and the collateral registry which were at advanced stages as at 30 June 2016.

Distribution of Loans…

3.13. As at 30 June 2016, lending was skewed towards productive lending at $134.01 million, which constituted 73.07 % of the sector's total loans. There is a notable shift in lending dynamics as most institutions are switching to project based lending and group lending, in response to the Reserve Bank call to re-orient their lending portfolios towards productive lending. Various women's groups have benefited from this loan reorientation exercise.

3.14. The increase in lending to productive sector has been propelled by the active involvement of developmental institutions including Zimbabwe Agriculture Development Trust (ZADT) and the Zimbabwe Microfinance Fund (ZMF) that are offering relatively cheaper funding to microfinance institutions for on-lending to developmental projects. As at 30 June 2016 the two institutions had cumulatively disbursed $62.09 million which is a 10.73% increase from $56.07 million they had disbursed as at 31 March 2016.

3.15. Figure 2 shows the trend in the distribution of loans from 2013 to June 2016.



3.16. The Reserve Bank continues to urge microfinance institutions to focus their lending activities on the productive sectors of the economy such as small holder farmers, MSMEs and small scale mining activities.

4. Delivery Channels for Microfinance Services

4.1. The sector has witnessed increased product innovation as a number of microfinance institutions embrace technology in loan administration and disbursement, a move that has proved to be a competitive advantage to the microfinance institutions that have embraced technology.

4.2. A number of microfinance institutions have also partnered with banking institutions in agency banking.

4.3. The Reserve Bank has developed an Agency Banking Guideline, which provides a framework for partnership of microfinance institutions and banking institutions; where microfinance institutions can act as agents of banking institutions to facilitate access to financial products and services.

4.4. Following the launch of the National Financial Inclusion Strategy on 11 March 2016, the Reserve Bank has constituted eight thematic working groups amongst them are the thematic groups on microfinance. A number of the microfinance institutions are also participating as members of the Microfinance and Digital Finance Working Groups.

Compliance with Regulatory Requirements and Best Practices…

4.5. As at 30 June 2016, seven 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

4.6. As at 30 June 2016, seven (7) institutions had capital levels below the prescribed minimum of $20,000 largely attributed to losses reported during the quarter. The institutions were in the process of regularizing their capital positions through injection of fresh capital.

4.7. The Reserve Bank continues to receive complaints against some microfinance institutions, with a total of ten (10) complaints being received during the quarter ended 30 June 2016. The nature of complaints received from microfinance customers range from violation of *in-duplum* rule, over-deductions by microfinance institutions, inadequate disclosure of terms and conditions and predatory lending practices.

4.8. The Reserve Bank continues to urge microfinance institutions to observe the Microfinance Code of Conduct and the microfinance Core Client Protection Principles (CCPPs) in order to improve service delivery and customer satisfaction in the sector.

4.9. In its endeavour to avoid condemning borrowers into debt traps, the Reserve Bank continues to monitor interest rates and other charges by microfinance institutions. The Bank is also advocating for the decrease in interest rates and other charges to a maximum of 10% per month.

END OF REPORT