



BANK SUPERVISION

MICROFINANCE INDUSTRY REPORT

FOR

QUARTER ENDED 31 DECEMBER 2016

JANUARY 2017

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1. Executive Summary

- 1.1. Over the year, the microfinance sector continued to grow and to contribute towards the financial emancipation and sustainable economic empowerment of the vulnerable and low income, as well as the micro, small and medium enterprises.
- 1.2. Deposit-taking and credit-only microfinance institutions have largely shifted their focus from consumption lending (26.61%) to productive lending (73.39%) with some microfinance institutions expanding their product offering through agency banking and value chain financing.
- 1.3. Total loans increased by 10.22% from \$187.16 million as at 31 December 2015 to \$206.28 million as at 31 December 2016.
- 1.4. The average industry portfolio at risk (PaR) has gradually improved over the years from a peak of 25.2% in 2012 to 8.34% as at 31 December 2016.
- 1.5. Net profit in the sector improved from \$12.88 million for the year ended 31 December 2015 to \$19.31 million for the year ended 31 December 2016.
- 1.6. Microfinance institutions were considered sustainable as reflected by the average Operating Self Sufficiency (OSS) ratio¹ of 146.22% for the year ended 31 December 2016.

2. Architecture of the Microfinance Industry

- 2.1. As at 31 December 2016, registered microfinance institutions increased marginally from 169 as at 30 September 2016, to 185 as at 31 December 2016, inclusive of four (4) deposit-taking microfinance institutions. Table 1 indicates the licences issued by the Registrar of Microfinanciers during quarter ended 31 December 2016.

¹ OSS is the ratio of an MFI's operating revenues to its operating expenses including financial costs and impairment losses on loans. A ratio of less than 100% indicates that the MFI may not survive or continue operations without external assistance.

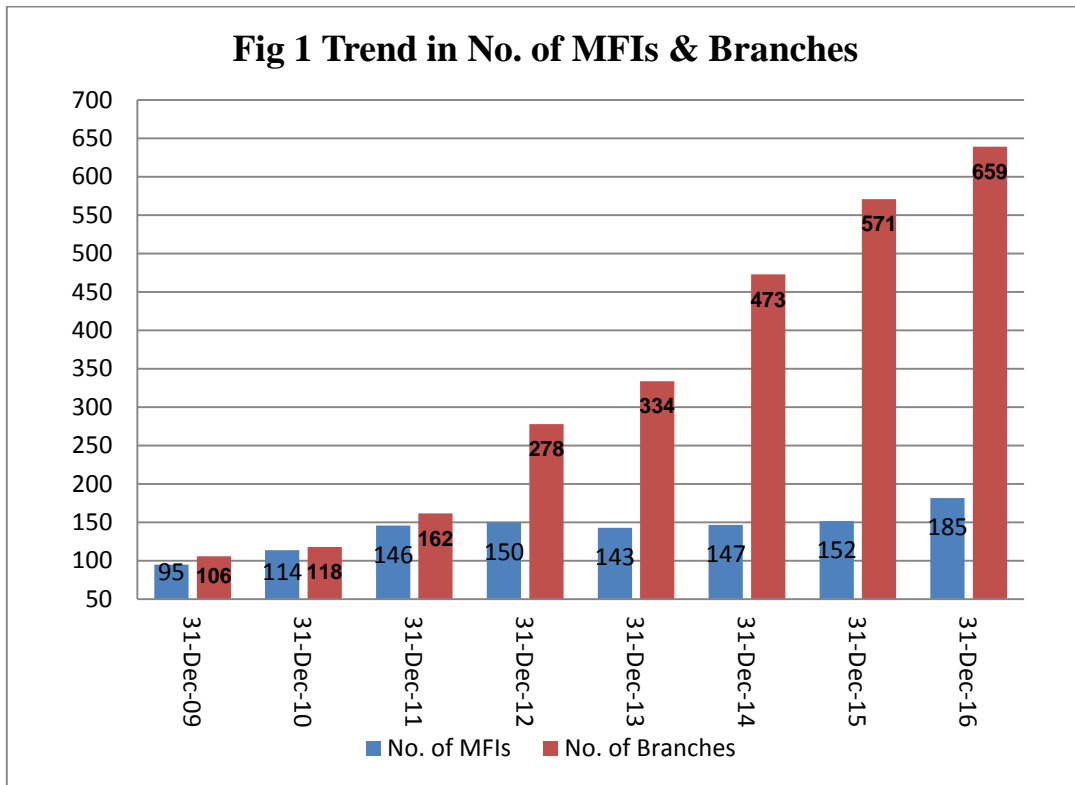
Table 1: Microfinance Licences Issued in Quarter ended 31 December 2016

Type of Licence	Number
New Moneylenders' Licence	6
New Credit-only Microfinance Licence	5
Renewal of Moneylenders' Licence	20
Renewal of Credit-only Licence	15

- 2.2. The Reserve Bank conducted pre-opening inspections on Success Microfinance Bank (formerly Collarhedge Finance (Private) Limited), and Lion Microfinance Bank in September and December 2016, respectively, after which both institutions were authorised to commence deposit-taking microfinance activities on 27 September 2016 and 29 December 2016 respectively.

Branch Network...

- 2.3. The sector's geographical footprint expanded as reflected by the increase in the number of branches over the quarter from 595 as at 30 September 2016 to 659 as at 31 December 2016. Harare and Bulawayo provinces continued to dominate in terms of number of branches, with 131 and 18 branches, respectively.
- 2.4. Figure 1 shows the trend in the number of microfinance institutions and their branch network.



3. Performance of the Microfinance Sector

- 3.1. This section provides an analysis of the performance of the microfinance sector in terms of deposits (for DTMFIs only), lending activities, profitability and sustainability.
- 3.2. Table 2 indicates the key performance indicators for the microfinance sector.

Table 2: Key Performance Indicators

	Sep 15	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16
Number of Licensed Institutions	155	152	162	168	169	185
Total Loans	\$173.31 million	\$187.16 million	\$187.49 million	\$183.40 million	\$200.80 million	\$206.28 million
Total Assets	\$207.74 million	\$225.13 million	\$242.55 million	\$250.97 million	\$255.32 million	\$275.04 million
Total Deposits (DTMFIs)	--	--	\$0.442 million	\$1.603 million	\$2.10 million	\$4.19 million
Number of Savings Accounts (DTMFIs)	--	--	243	522	1,060	1,411
Portfolio at Risk (PaR>30 days)*	9.05%	10.72%	11.40%	9.81%	6.11%	8.34%
Number of Active Clients	198,371	205,940	196,377	251,553	263,806	290,552
Number of Outstanding Loans	224,055	262,627	221,712	285,466	279,148	352,225
Number of Branches	475	571	611	600	595	659

* 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.

Deposits (DTMFI Sub-sector)...

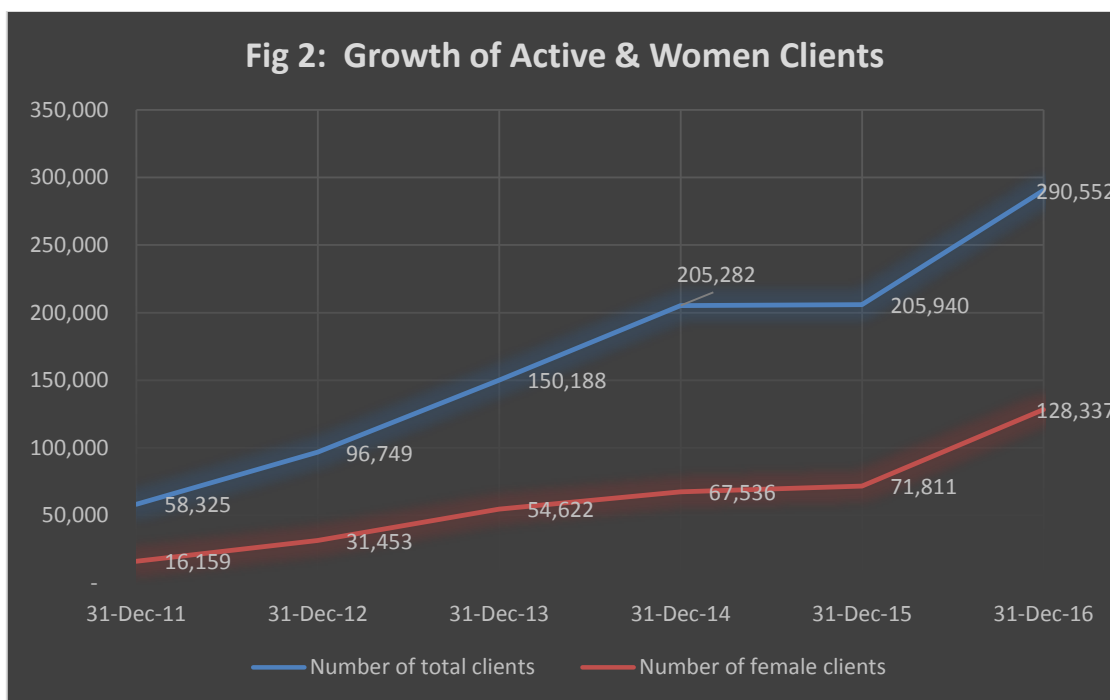
- 3.3. As at 31 December 2016, the three operating DTMFIs had mobilised deposits amounting to \$4.19 million compared to \$2.1 million as at 30 September 2016. The sub-sector witnessed a 33.13% increase in the total number of savings accounts opened from 1,060 as at 30 September 2016, to 1,411 as at 31 December 2016.

Lending and Portfolio Quality...

- 3.4. The sector recorded a marginal increase of 2.73% in total loans from \$200.80 million as at 30 September 2016 to **\$206.28 million** as at 31 December 2016.
- 3.5. As at 31 December 2016 the microfinance sector's total loans of \$206.28 million, constituted 5.30% of total banking sector loans of **\$3.89 billion** as at the same date.
- 3.6. The sector's lending reflects high concentration, with 20 microfinance

institutions accounting for 84.86% of the sector’s total loans of \$206.28 million. The remaining 165 microfinance institutions accounted for only 15.14% of the market’s total loans. One DTMFI with a loan book of \$29.44 million, commanded a market share of 14.27% as at 31 December 2016.

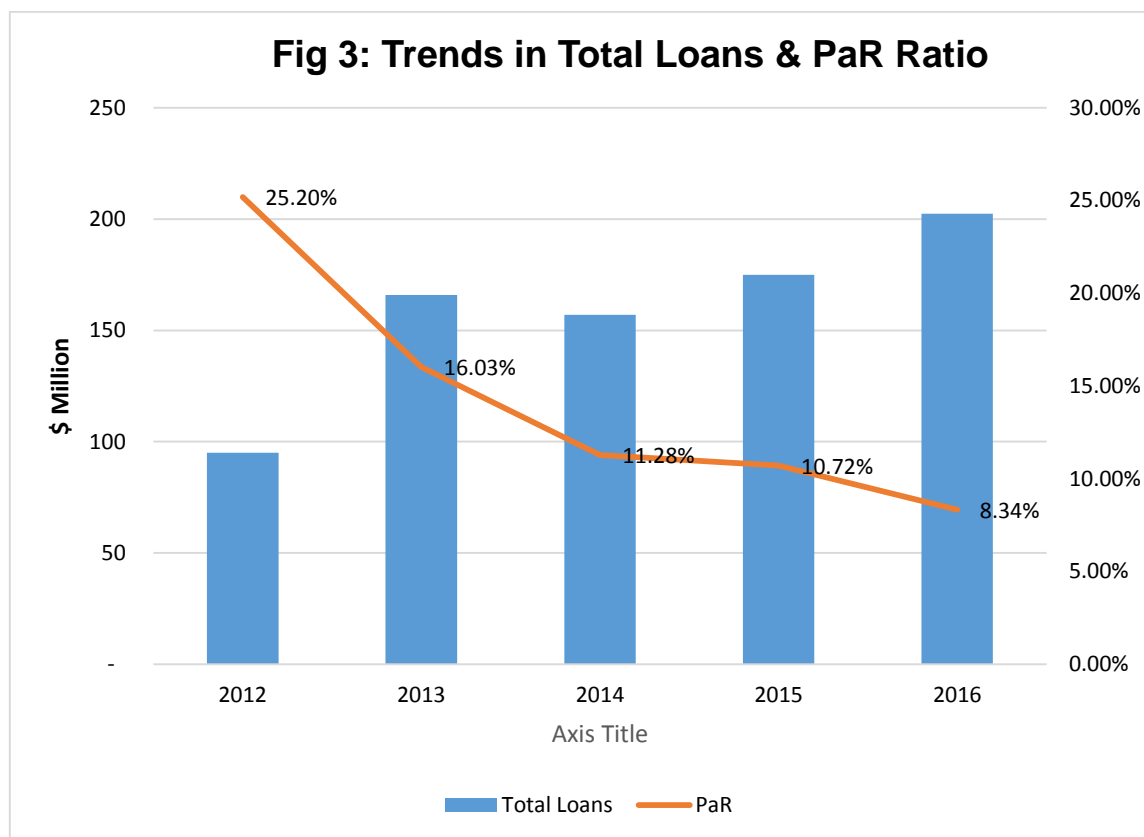
- 3.7. Microfinance outreach in terms of number of active clients remained low, with the sector recording 290,552 active clients as at 31 December 2016, up from 205,940 as at 31 December 2015. Loans to women accounted for 44.06% of the total sector loan book, on the back of increased funding targeted at women.
- 3.8. The trend in the number of active clients is indicated in Figure 2.



- 3.9. The Collateral Registry is expected to further increase the number of low income households and SMEs accessing loans on the back of their moveable assets.
- 3.10. The portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) ratio has improved, since December 2012 from a peak of 25.20% to 8.34% as at 31 December 2016.
- 3.11. PaR ratios for deposit-taking microfinance institutions sub-sector and credit-

only microfinance institutions sub-sector were 4.62% and 12.06% as at 31 December 2016, respectively.

3.12. The trend in the average PaR ratio for the sector is shown in Fig 3.



3.13. The Credit Registry is poised to improve the portfolio quality in the microfinance sector as the system is expected to enhance credit risk management for the individual microfinance institutions and the sector as a whole. Credit Registry will be instrumental in minimizing information asymmetry thereby curbing incidents of over indebtedness.

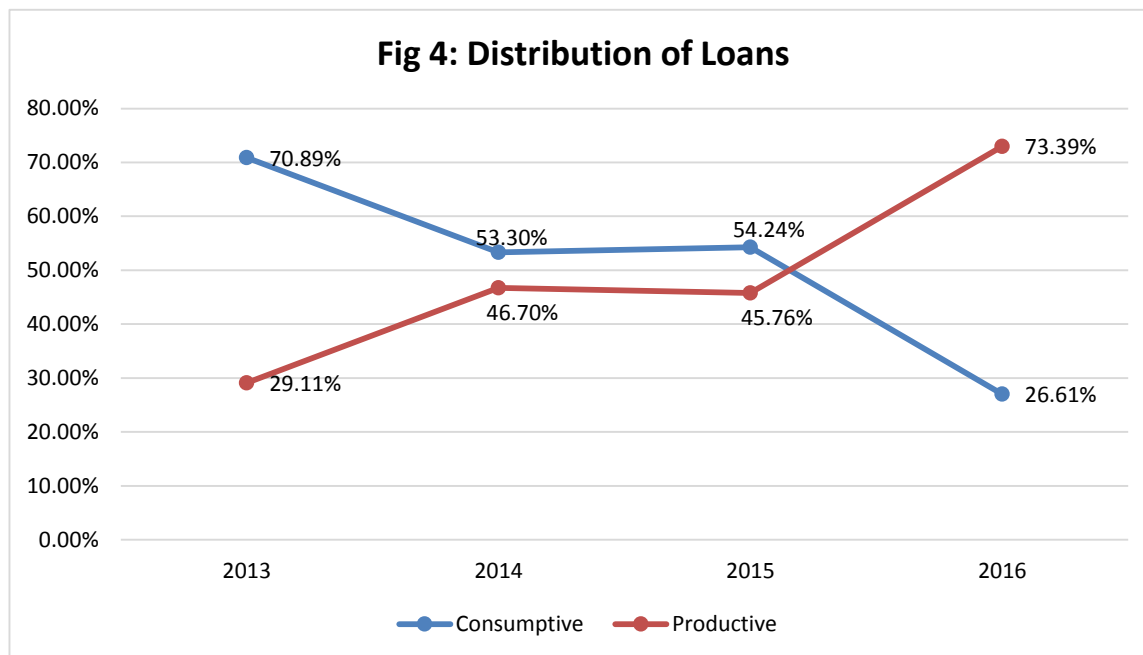
3.14. The level of PaR is expected to continue improving on the back of various initiatives by the Reserve Bank aimed at strengthening the credit infrastructure.

Distribution of Loans...

3.15. Over the review period, microfinance institutions continued to re-align their lending activities towards the productive sector. Loans to the productive sector

amounting to \$151.38 million represented 73.39% of the sector's total loans as at 31 December 2016.

3.16. Figure 4 shows the trend in the distribution of loans from 2013 to 2016.



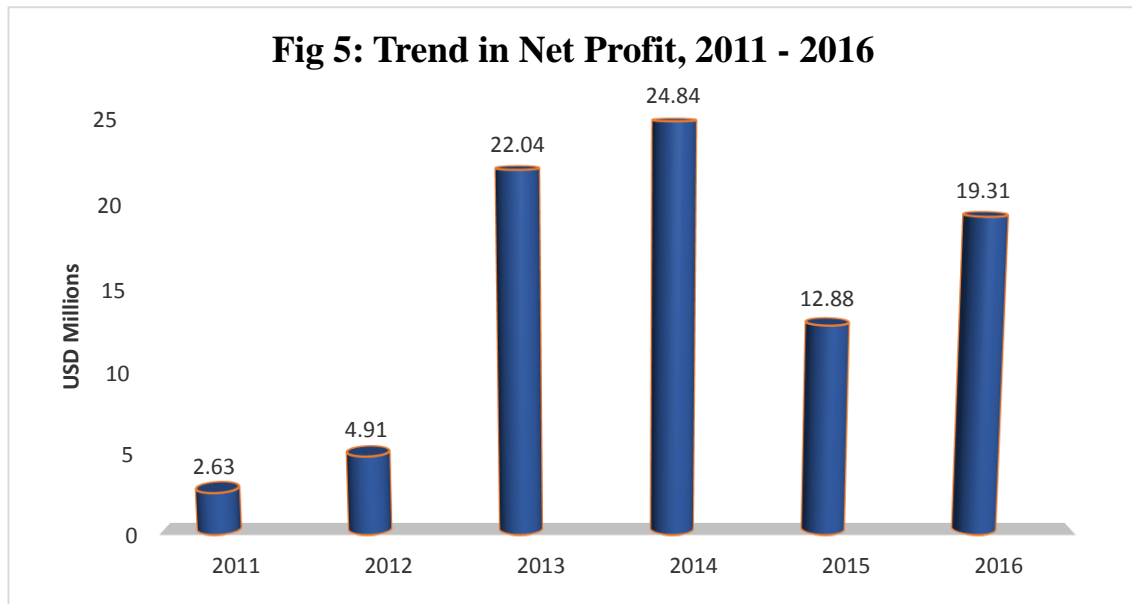
3.17. The dominance of the productive loans portfolio over consumptive lending portfolio is largely attributed to improvement in data reporting and positive response by microfinance institutions to the Reserve Bank call to re-orient their lending portfolios towards productive lending.

3.18. Some of the microfinance institutions continue to have access to cheaper and affordable funding for on-lending from developmental institutions such as Zimbabwe Microfinance Fund (ZMF) which disbursed a total of \$9.9 million to microfinance institutions for on lending in 2016.

3.19. The Reserve Bank continues to urge microfinance institutions to focus their lending activities on the productive sectors of the economy so that microfinance can be instrumental to economic prosperity.

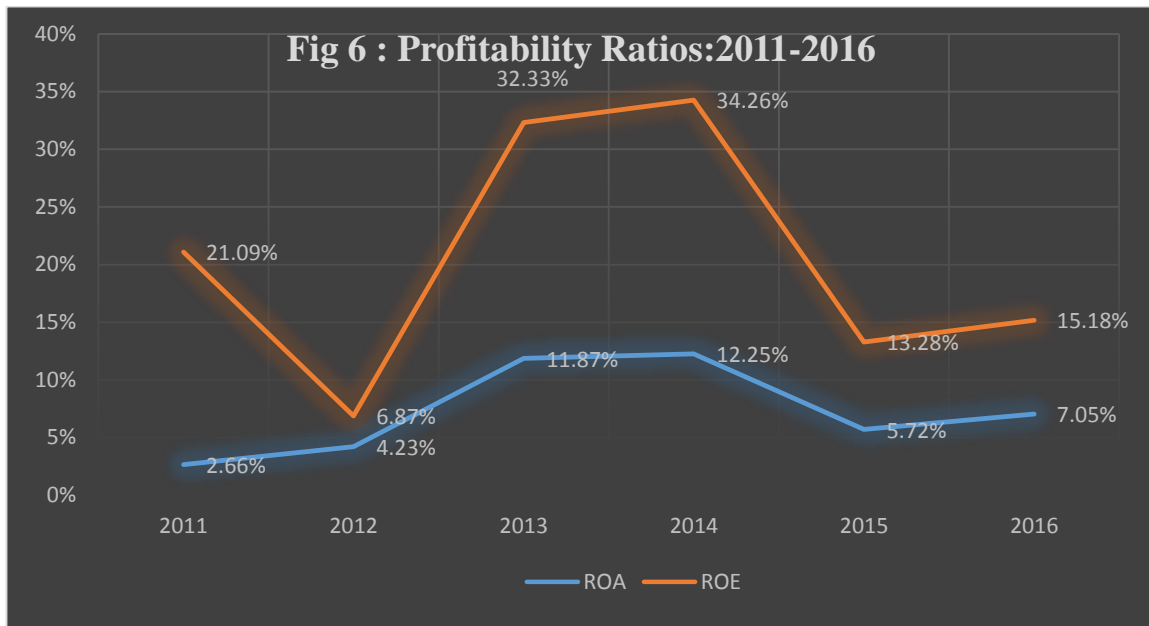
Profitability...

3.20. Net profit in the sector improved from \$12.88 million for the year ended 31 December 2015 to \$19.31 million for the year ended 31 December 2016 as indicated in Fig 5.



3.21. The increase is largely attributed to improved earnings performance by the majority of the medium to large microfinance institutions. The total net profit for the three deposit-taking microfinance institutions amounted to \$3.47 million constituting 17.97% of net income for the entire microfinance sector.

3.22. Profitability ratios (return on assets and return on equity) improved in 2016 in tandem with improved earnings in the sector as shown in Figure 6.



3.23. For the year ended 31 December 2016, a total of nine (9) institutions recorded net profit in excess of \$1 million each, giving a total of \$15.27 million and constituting 79.08% of total net income for the microfinance sector. A total of 36 institutions reported losses amounting to \$3.52 million, largely attributed to unsustainable high operating costs due to lack of critical mass.

3.24. The microfinance sector was considered sustainable as indicated by the average operational self-sufficiency² (OSS) ratio of 146.22% as at 31 December 2016, 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.

4. Delivery Channels for Microfinance Services

4.1. The sector witnessed notable improvement in the provision of financial services and distribution channels as microfinance institutions leveraged on mobile technology in order to provide their clients with a wider array of financial

² OSS is the ratio of an MFI's operating revenues to its operating expenses including financial costs and impairment losses on loans.

products through agent banking and mobile banking.

- 4.2. In response to the Reserve Bank call for cashless economy, some microfinance institutions have partnered with banking institutions and provide financial products to their clients through plastic money and the use of swipe machines.
- 4.3. This development has not only engendered financial inclusion of the marginalized and vulnerable groups, but has also brought convenience and security to microfinance clients.

5. Compliance with Regulatory Requirements and Best Practices...

- 5.1. As at 31 December 2016, eleven (11) institutions had capital levels below the prescribed minimum capital of \$20,000 due to losses reported during the year. The institutions were in the process of regularizing their capital positions through injection of fresh capital.
- 5.2. A total of 18 institutions were penalized by the Reserve Bank, with seven (7) institutions being penalized for failure or late submission of the Quarterly Microfinance Return, while 11 microfinance institutions were penalized for non-compliance with the Microfinance Act [*Chapter 24:29*] for failure to indicate, on their letterheads, that they were registered microfinanciers.

Compliance with Core Client Protection Principles...

- 5.3. A total of three (3) complaints were received during the quarter ended 31 December 2016, compared to ten complaints received in the previous quarter. This brought the total number of client complaints received during 2016 to 31 compared to 30 complaints received during 2015.
- 5.4. The complaints received from microfinance customers are in relations 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 24:29]** on an ongoing basis by the Reserve Bank.

- 5.6. Microfinance institution are required, in terms of Circular No. 02-2017/BSD, to align all their lending rates to ensure that the effective interest rate does not exceed 10% per month.

END OF REPORT