MICROFINANCE QUARTERLY REPORT

31 MARCH 2017

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1 EXECUTIVE SUMMARY

1.1. The microfinance sector registered a 20.25% growth in total assets over the one year period from $242.55 million as at 31 March 2016 to $291.66 million as at 31 March 2017.

1.2. Total loans which constituted 73.74% of the sector's total assets, increased by 14.80% from $187.49 million as at 31 March 2016 to $218.38 million as at 31 March 2017.

1.3. The sector maintained its support to the productive sectors of the economy with loans to the productive sector constituting 64.13% of total sector loans, largely driven by the increased value-chain financing activities by some microfinance institutions.

1.4. Industry portfolio at risk (PaR) ratio has continued to improve on the back of improved credit administration from a peak of 25.2% in 2012 to 7.52% as at 31 March 2017.

ARCHITECTURE OF THE MICROFINANCE INDUSTRY

1.5. As at 31 March 2017, there were 180 registered microfinanciers comprising 176 credit-only and money lending institutions and four (4) deposit-taking microfinance institutions (DTMFIs).

1.6. Table 1 indicates the licenses issued by the Registrar of Microfinanciers during quarter ended 31 March 2017.

Table 1: Summary of Licences Issued As At 31 March 2017

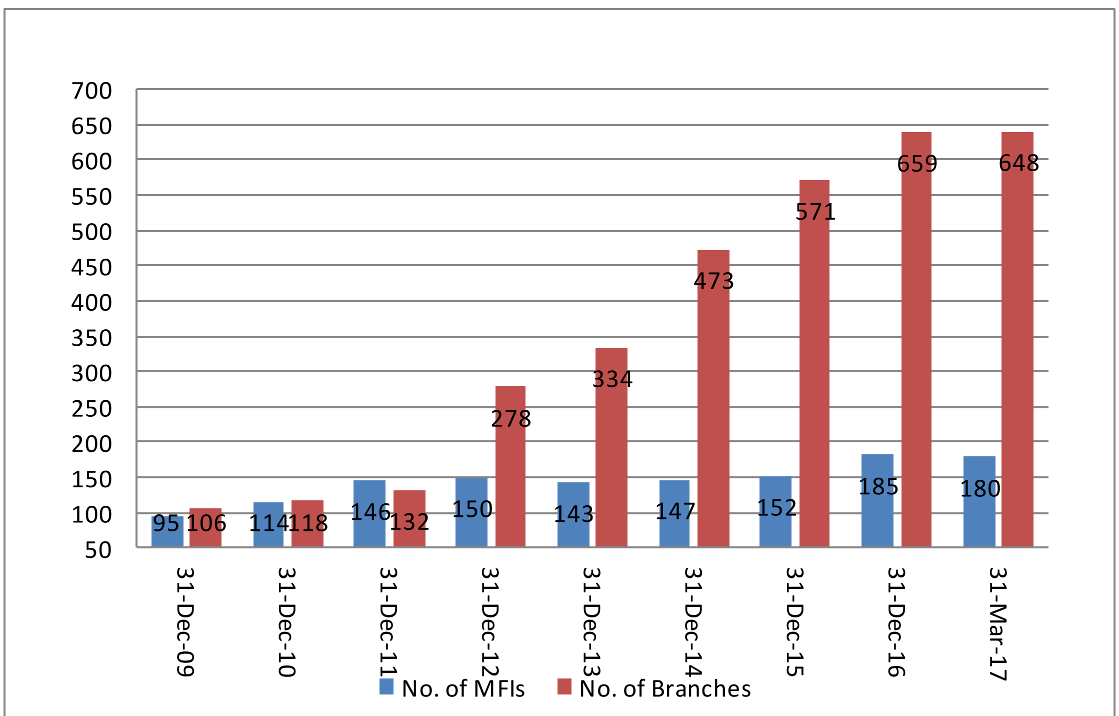
Type of Licence	Number
New Moneylenders' Licence	2
New Credit-only Microfinance Licence	3
Renewal of Moneylenders' Licence	35
Renewal of Credit-only Microfinance Licence	17
Renewal of Deposit-taking Microfinance Licence	1

Branch Network and Outreach…

1.7. The size of the sector's branch network declined as reflected by the decrease in the number of branches over the quarter from 659 as at 31 December 2016 to 648 as at 31 March 2017 as some institutions failed to renew their licences, while others streamlined their branch network due to high operational cost.

1.8. While the sector registered a marginal decline in number of branches during the period under review, the number of branches over the past 7 years has been on an upward trajectory as indicated in Figure 1.

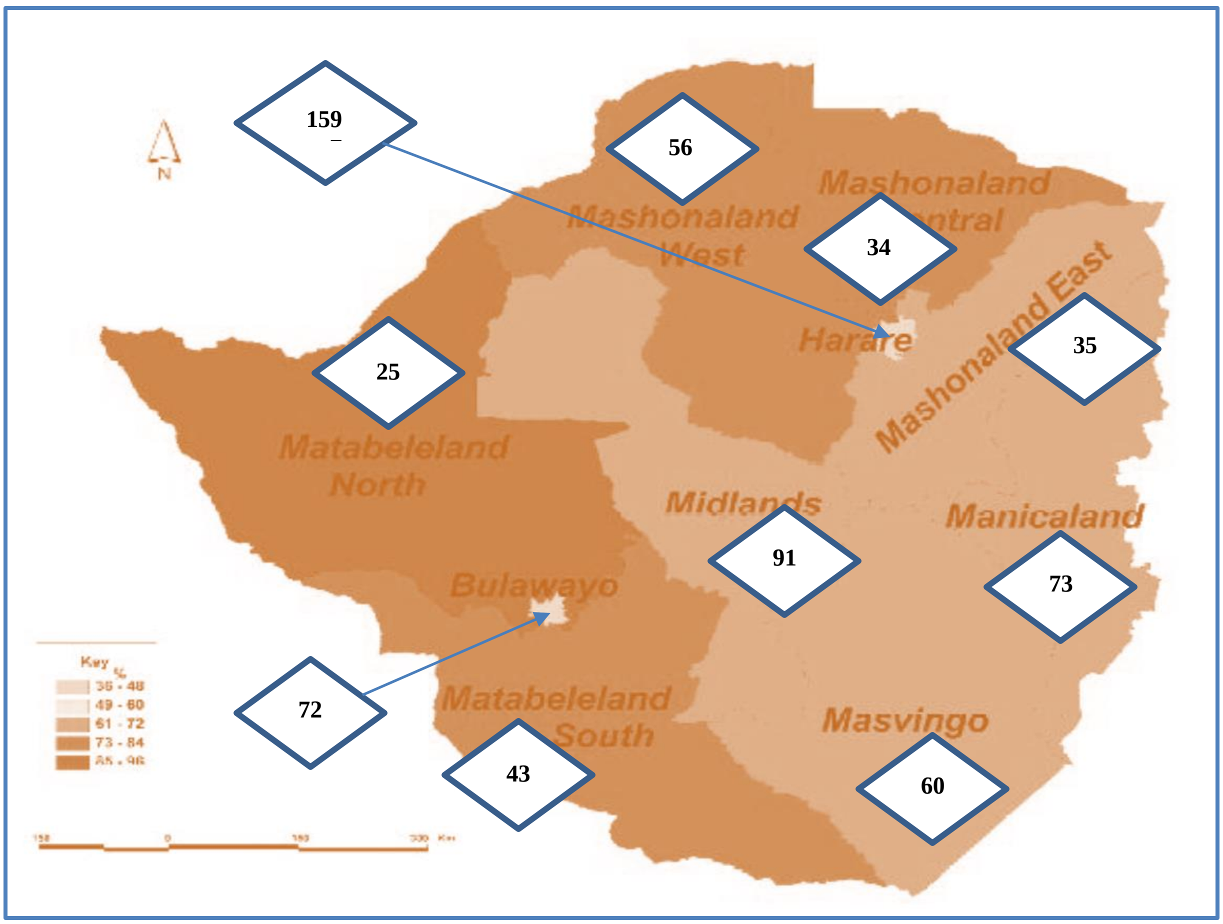
Figure 1: Trend in Number of MFI's and Branches



1.9. The sector's geographical footprints against the poverty prevalence map is depicted Figure 2, which shows the regional distribution of the MFIs' branches against the poverty prevalence map of Zimbabwe.

1.10. 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 159 and 91 branches respectively, as at 31 March 2017. In addition, there was also improvement in Matabeleland North and South whose MFIs increased their branches from 19 and 34 branches as at 31 March 2016 to 25 and 43 branches as at 31 March 2017.

Figure 2: Geographical Distribution of Branch Network as at 31 March 2017



1.11. Microfinance branches are concentrated in low and medium poverty prevalent regions such as Harare, Bulawayo, Midlands, Manicaland, Mashonaland East and Masvingo which had 75.62% of the total branches, while high poverty prevalent regions such as Matabeleland North & South, Mashonaland West & Central accounted for 24.38% of the total microfinance branch network.

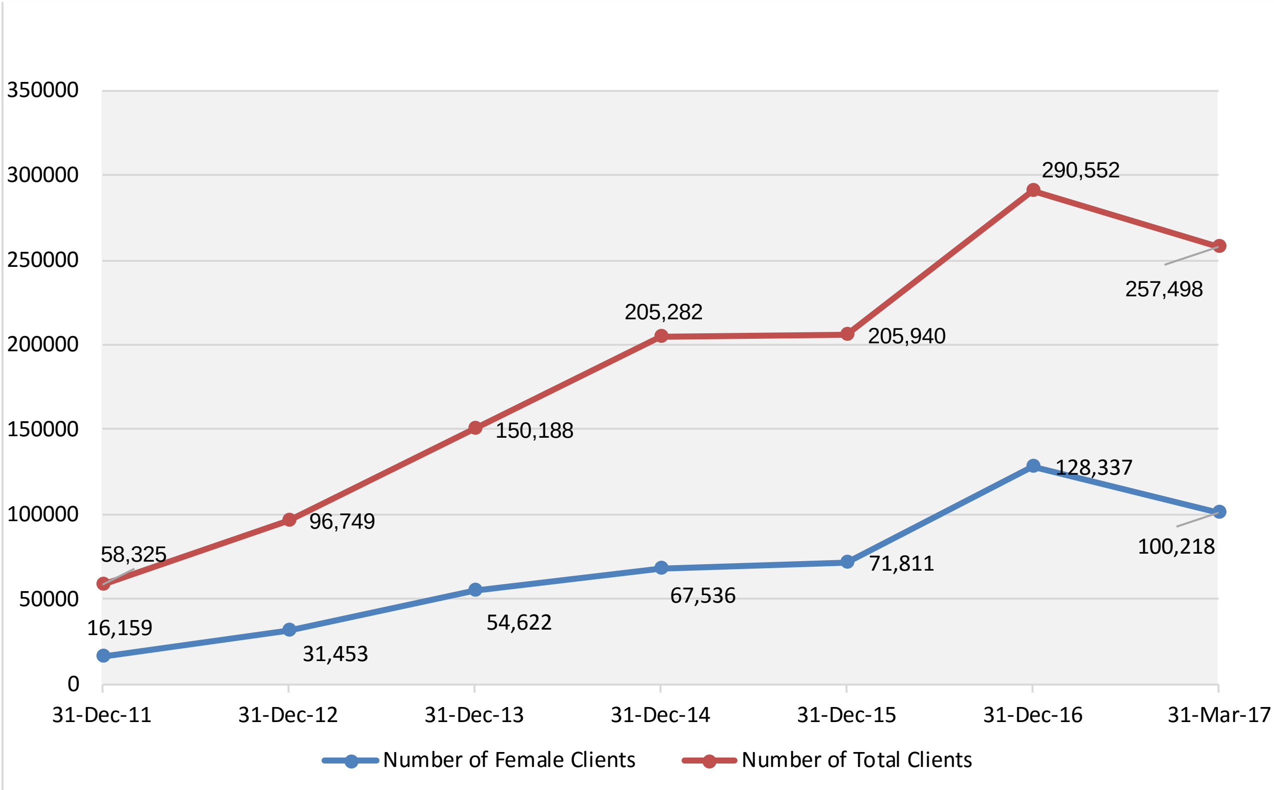
Microfinance Active Clients…

1.12. Microfinance outreach in terms of the number of active clients remains low, with the total sector of 180 microfinance institutions registering only **257,498 active clients,** down from 290,552 as at 31 December 2016.

1.13. The number of active women clients has generally been on an upward trend since December 2011 and as at 31 March 2017, loans to women borrowers accounted for **38.92%** of the total sector loans of $215.24 million.

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

Figure 3: Growth of Active and Women Clients



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

2 PERFORMANCE OF THE MICROFINANCE SECTOR

Product Offering…

1.16. 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.

1.17. The majority of microfinance institution 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.

1.18. The Reserve Bank continues to encourage microfinance institutions to provide a wider array of micro-financial 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.

DTMFIs Deposits and Savings

1.19. Over the review period, the four operating DTMFIs registered an 18.2% increase in deposits from $4.19 million as at 31 December 2016 to $5.12 million as at 31 March 2017. The DTMFI subsector witnessed a 22.20% increase in the total number of savings accounts from 1,411 as at 31 December 2016, to 1,993 as at 31 March 2017.

Lending and Portfolio Quality …

1.20. The sector registered a marginal increase of 5.87% in total loans from $**206.28 million** as at 31 December 2016 to **$218.38 million** as at 31 March 2017.

1.21. As at 31 March 2017, the microfinance sector's total loans of $218.38 million, constituted 5.73% of total banking sector loans of **$3.81 billion** as at the same date.

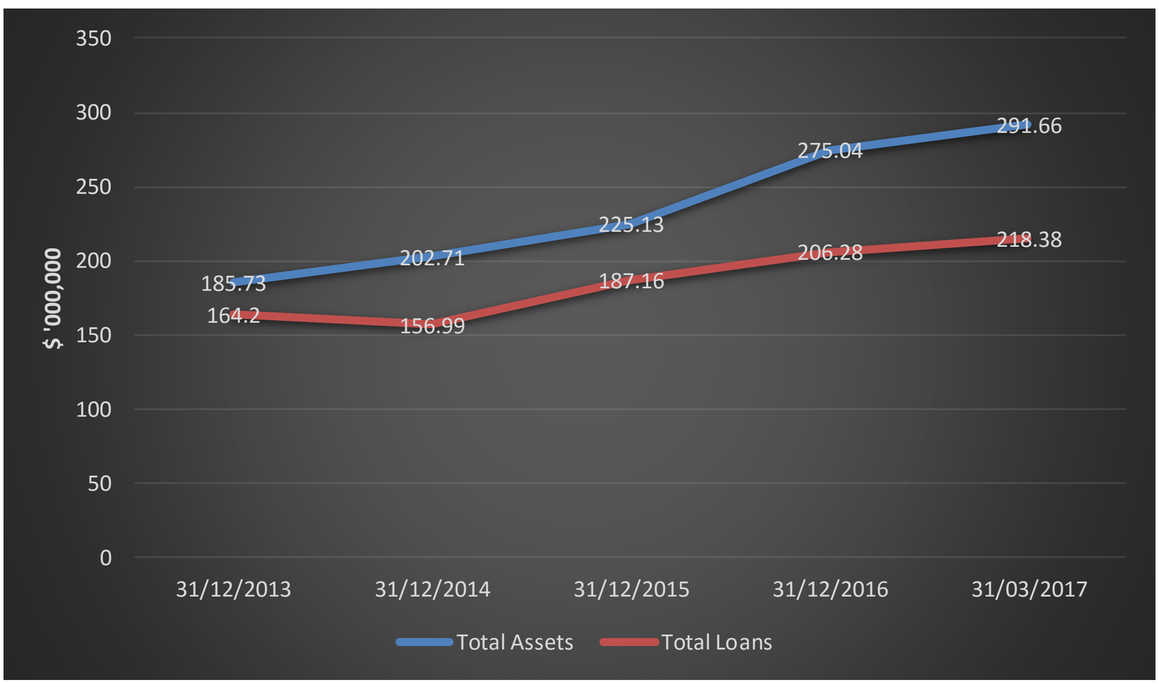
1.22. The sector's lending continues to reflect high concentration, with 20 microfinance institutions accounting for 84.85% of total sector loans of $218.38 million. The rest of the 160 microfinance institutions account for 15.15% of total sector loans.

1.23. As at 31 March 2017, total loans for the four (4) operating DTMFIs amounted to $48.97 million representing a market share of 22.75% of the total loan portfolio in the industry. One DTMFI with a loan book of $30.62 million, commanded a market share of 14.22% of the total microfinance sector as at 31 March 2017.

1.24. The microfinance sector registered a 20.25% growth in total assets over the year from $242.55 million as at 31 March 2016 to $291.66 million as at 31 March 2017. Total sector loans constituted 74.87% of the sector's total assets.

1.25. The trend in the sector's assets and loans is indicated below.

Figure 4: Growth in Total Microfinance Sector Assets and Loans

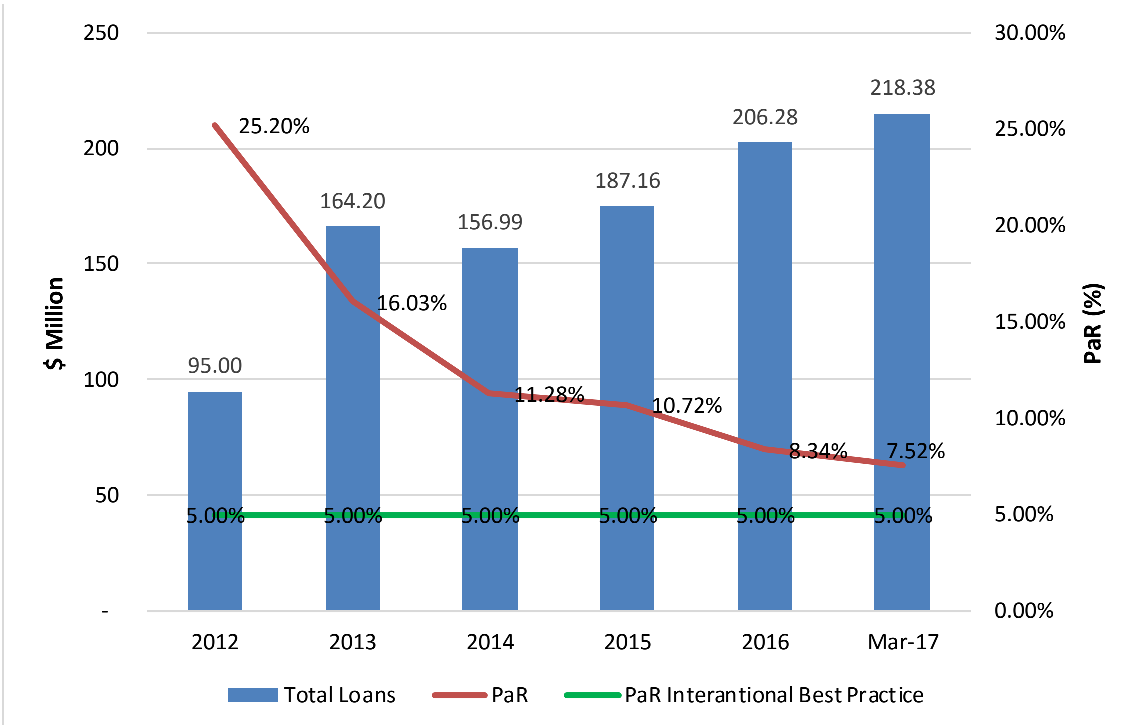


1.26. While the sector still faces high credit risk, the portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) ratio for the industry has improved, since December 2012 from a peak of 25.20%, to 7.52% as at 31 March 2017.

1.27. As at 31 March 2017, PaR ratios for the deposit-taking microfinance institutions subsector and the credit-only microfinance institutions subsector, were 4.87% and 7.59%, respectively.

1.28. The trend in the average PaR ratio for the microfinance industry is shown in Fig 5 below.

Figure 5: Trends in Total Loan and PaR



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

1.30. 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 improvement of the microfinance loan portfolio and establishment of good credit culture.

1.31. The Credit Registry will be instrumental in minimizing information asymmetry thereby curbing incidents of over indebtedness.

1.32. These initiatives by the Reserve Bank will go a long way in improving and aligning the portfolio at risk ratio to the international benchmark of 5%.

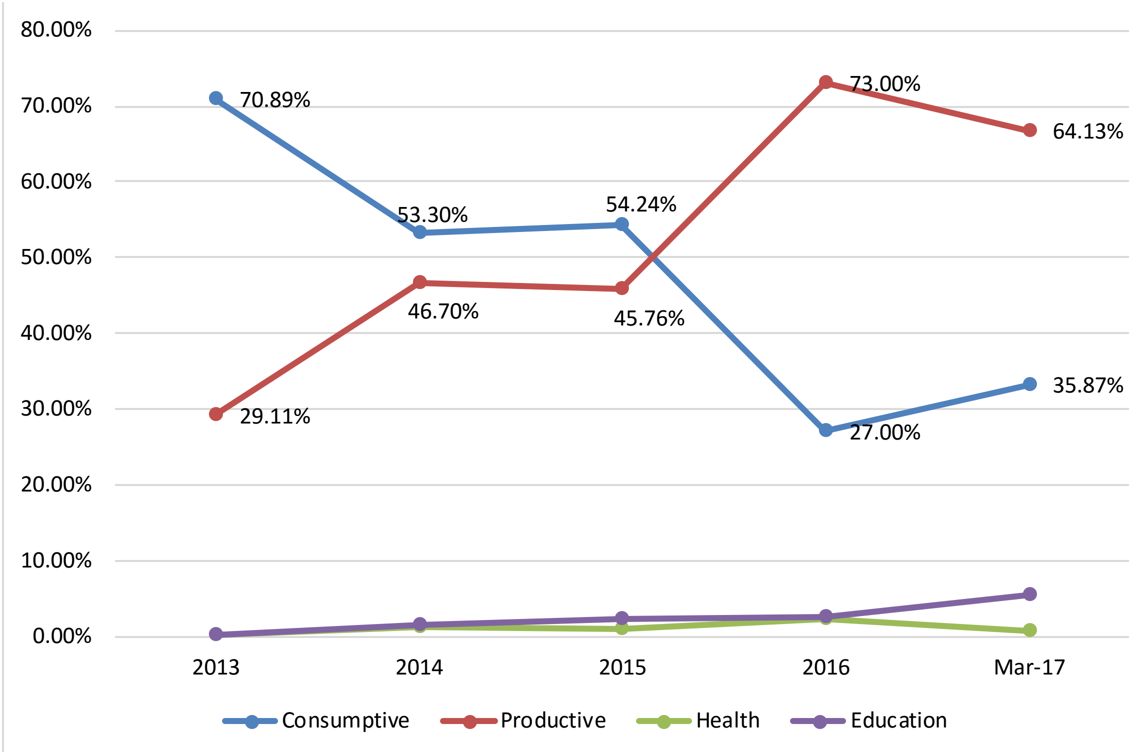
Distribution of Loans

1.33. Microfinance remains a strong pillar of the National Financial Inclusion Strategy given the potential impact and catalytic role that microfinance plays among the low income and marginalised groups in poverty alleviation and improvement of income, at individual, household and enterprise level.

1.34. The Reserve Bank together with various stakeholders continues to urge microfinance institutions to focus their lending activities on the productive sectors of the economy in order to spur economic growth.

1.35. Over the review period, microfinance institutions continued to re-align their lending activities towards the productive sector. Loans to the productive sector amounting to $140.03 million represented 64.13% of the sector's total loans as at 31 March 2017 as depicted in Fig 6 below.

Figure 6: Distribution of Loans



1.36. The proportion of loans to the productive sector declined from 73% of total loans as at 31 December 2016 to 64.13% of total loans as at 31 March 2017, which could be transitory and attributed to increased demand for loans to supplement school fees.

1.37. While the trend since December 2015 indicated dominance of the productive loans portfolio over consumptive lending portfolio, the statistics indicated that microfinance institutions are reverting back to salary-based lending as they are considered less risky than productive loans, given the current operating environment.

1.38. Loans to the education sub-sector have also registered a marginal increase over the quarter from 0.24% the total loan portfolio in 2013 to 5.49% of the total loan portfolio as at 31 March 2017. This shift is also reflective of the low level of disposable income among the households and general increases in school fees resulting in parents failing to meet the fees from their disposable income.

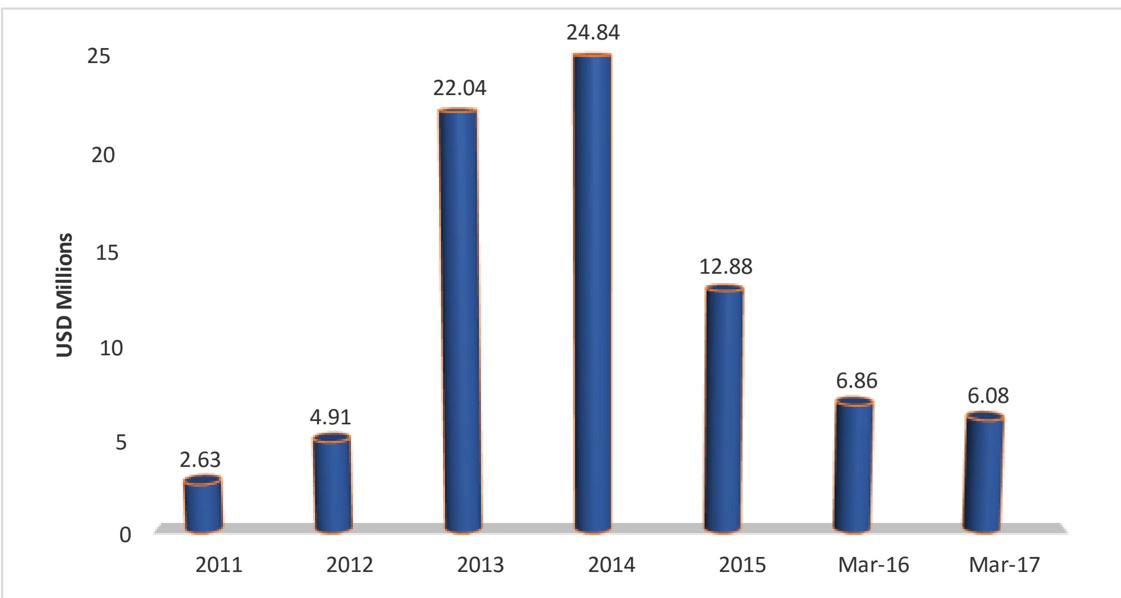
1.39. The Zimbabwe Microfinance Fund (ZMF) continues to provide wholesale funding to the sector. However, demand for loans by microfinance institutions continues to exceed available funds. As at 31 March 2017, total disbursed funds amounted to $18.84 million and there were pipeline loan requirements of $7.55 million.

Profitability

1.40. For the quarter ended 31 March 2017, the industry recorded aggregate earnings of $6.08 million, a marginal decline from the $6.86 million recorded for the quarter ended 31 March 2016.

1.41. Figure 7 below indicates the trend in the net profitability from 2011 to March 2017.

Figure 7: Trend in Net Profit, 2011 – March 2017

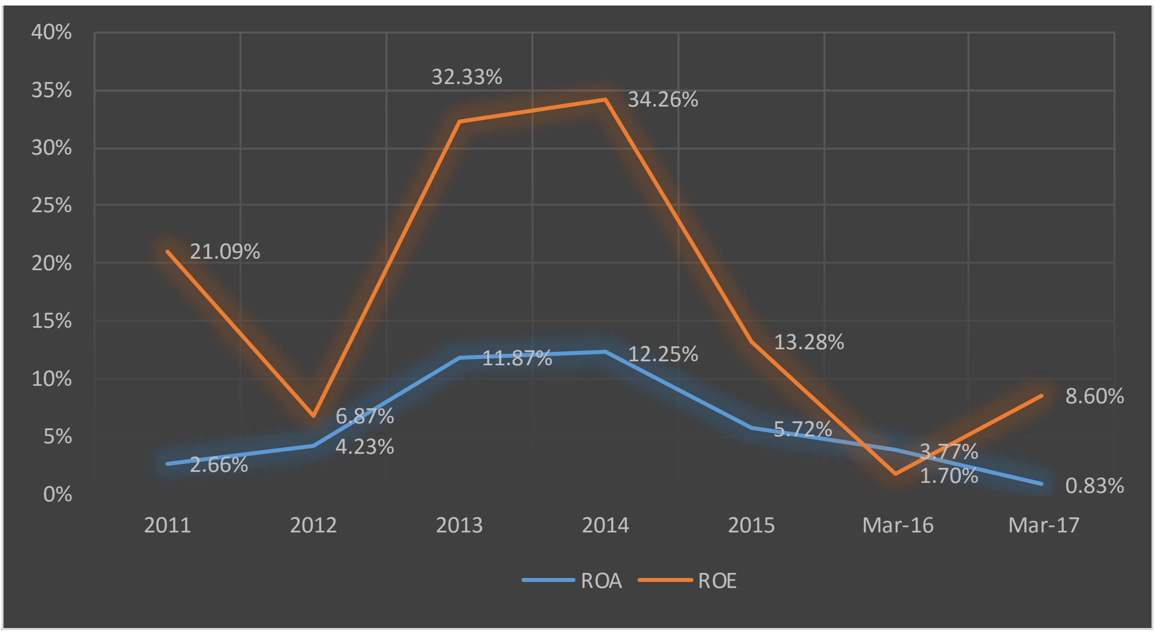


1.42. The sector recorded a marginal decline in profitability during the quarter. Three operating Deposit-taking microfinance institutions recorded profits, while one DTMFI posted a loss. A total of forty six credit-only microfinance institutions recorded losses for the three months ended 31 March 2017 largely attributed to provision for loan losses and write offs, start-up costs and operational inefficiencies.

1.43. As at 31 March 2017, the sector recorded return on equity of 8.71% compared to 1.70% recorded in the quarter ended 31 March 2016.

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

Figure 8: Profitability Ratios 2011 - 2017



1.45. Return on asset for the quarter ended 31 March 2017 was 0.86% compared to 3.77% recorded in the comparative period in 2016.

1.46. The average operational self-sufficiency (OSS) ratio for the microfinance sector was 140.41% 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.

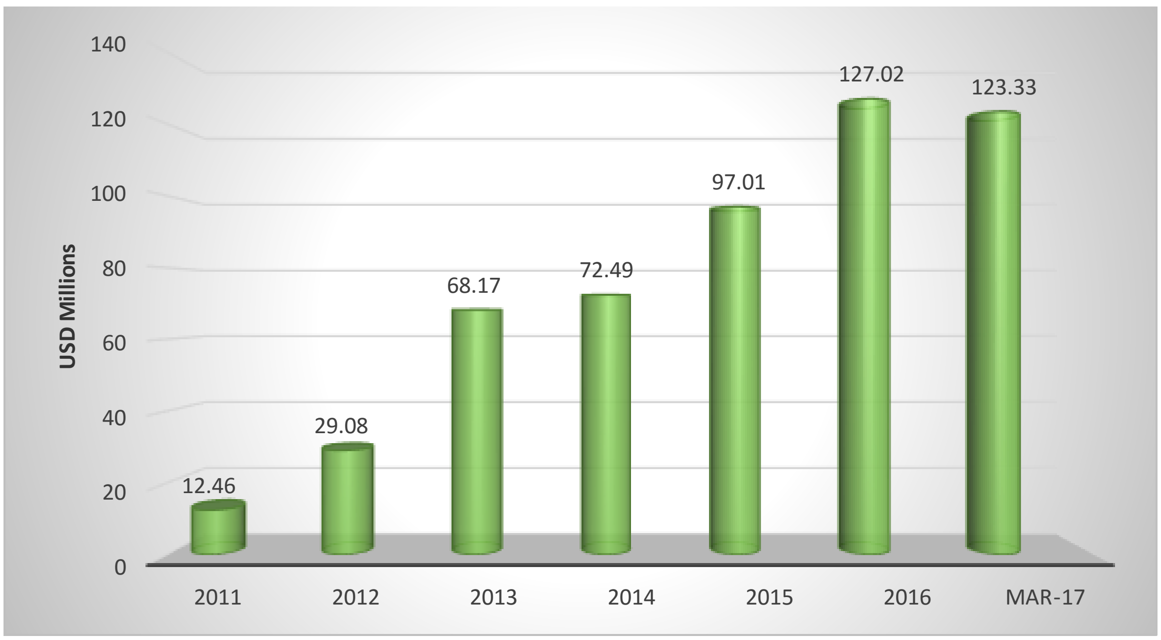
1.47. All the four operating deposit-taking microfinance institutions are considered sustainable as reflected by the average OSS ratio of 139.94% for the quarter ended 31 March 2017.

1.48. Credit-only microfinance institutions were considered sustainable as reflected by the average Operating Self Sufficiency (OSS) ratio of 140.88% for the quarter ended 31 March 2017. Top 20 credit-only microfinance institutions had an OSS ratio of 148.53% for the review period.

Capital and Funding

1.49. As at 31 March 2017, the sector had aggregate capital of $123.33 million as compared to a capital position of $127.02 as at 31 December 2016. The trend in capital position is shown in Figure 9 below.

Figure 9: Microfinance Funding Levels: 2011 – March 2017



1.50. The capital position as at 31 March 2017 declined marginally due to funding challenges and losses posted by some microfinance institutions during the period under review.

1.51. All the four operating DTMFIs were compliant with the minimum capital requirement of $5 million, and eighteen (18) microfinance institutions had capital levels below the prescribed minimum capital of $20,000 due to losses.

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

1.53. In line with the financial inclusion thrust and to assist in funding challenges faced by many MFIs, the Reserve Bank has established the Women Empowerment fund and the Business linkage facility fund, to encourage MFIs to lend to the productive sector and to women.

Delivery Channels for Microfinance Services

1.54. The cash shortages in the economy propelled notable innovation in the sector terms of financial products and services as well as the delivery channels.

1.55. Several delivery channels are now being used to help clients access better quality service. Amongst them are agency banking, mobile banking, e-channels, internet banking, POS, ZIPIT, Ecocash and card transactions.

1.56. 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 and the use of swipe machines. This development has brought convenience and security to microfinance clients.

Compliance with Regulatory Requirements and Best Practices…

1.57. A total of six institutions were penalized by the Reserve Bank. Four institutions were penalized by the Reserve Bank for failure or late submission of the March 2017 Quarterly Return while two (2) 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

1.58. A total of four (4) complaints were received during the quarter ended 31 March 2017, compared to eight complaints received in the quarter ended 31 March 2016.

1.59. 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.

1.60. 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.

1.61. In the spirit of building inclusive financial systems and sustainable economic development, the Reserve Bank issued a Circular to Moneylending, Credit-only and Deposit-taking Microfinance Institutions No: 02-2017/BSD, requiring microfinance institutions to align their lending rates to ensure that the effective lending rate, inclusive of all administrative charges, does not exceed 10% per month. The Circular also required microfinance institutions to set up robust information technology systems to facilitate integrity of records, accuracy of information and facilitate smooth participation in the Credit Registry, MSME Credit Guarantee Scheme and the Collateral Registry.

END OF REPORT

Appendix 1: Key Performance Indicators, Dec 2015 – Mar 2017

	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17
Number of Licensed Institutions	152	162	168	169	185	180
Total Loans	$187.16 million	$187.49 million	$183.40 million	$200.80 million	$206.28 million	$218.38 million
Total Assets	$225.13 million	$242.55 million	$250.97 million	$255.32 million	$275.04 million	$291.66 million
Total Deposits (DTMFIs)	--	$0.442 million	$1.603 million	$2.10 million	$4.19 million	$5.12 million
Number of Savings Accounts (DTMFIs)	--	243	522	1,060	1,411	1,993
Portfolio at Risk (PaR>30 days)*	10.72%	11.40%	9.81%	6.11%	8.34%	7.52%
Number of Active Clients	202,242	196,377	251,553	263,806	290,552	257,498
Number of Outstanding Loans	262,627	221,712	285,466	279,148	352,225	620,728
Number of Branches	571	611	600	595	659	648

*** 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.**