

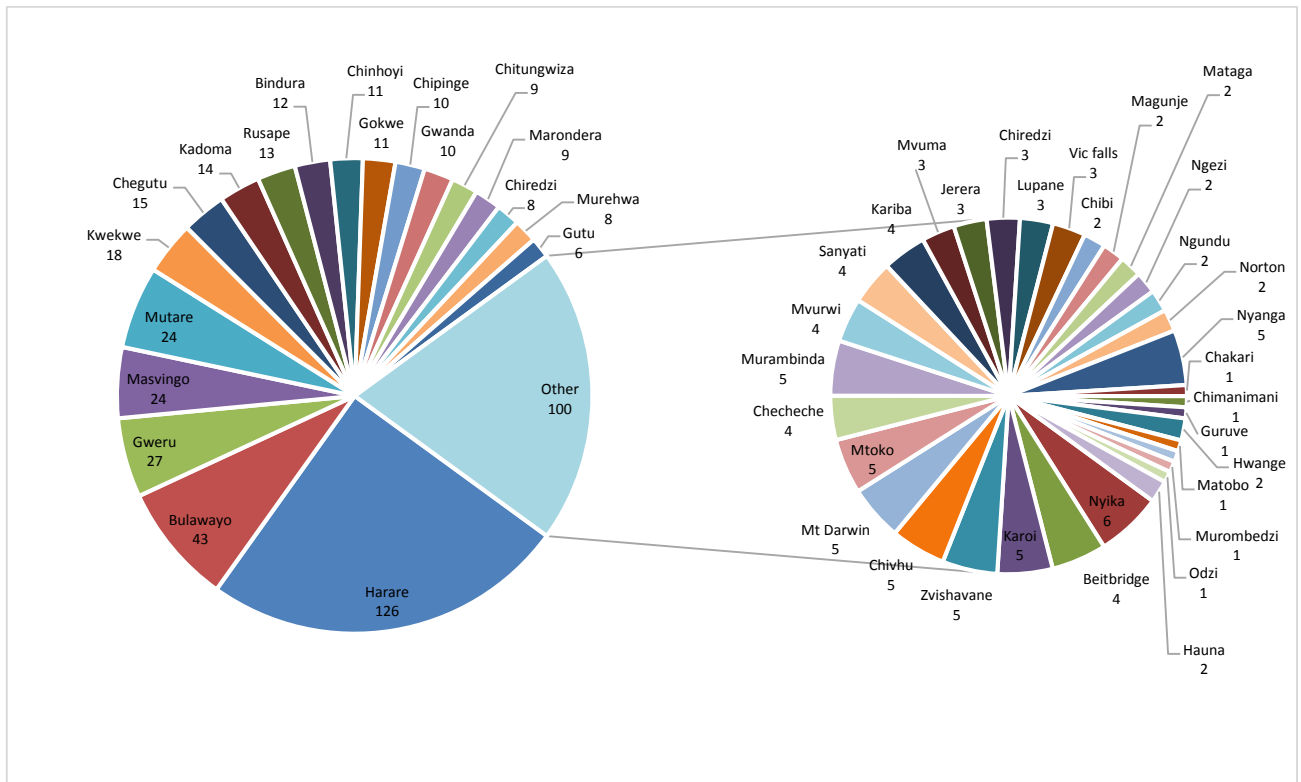


MICROFINANCE INDUSTRY REPORT FOR THE QUARTER ENDED 30 JUNE 2015



1. Architecture of the Microfinance Industry

- 1.1. The number of registered microfinance institutions (MFIs) increased from 143 as at 31 March 2015 to 147 as at 30 June 2015 serving 224,300 clients through 495 branches throughout the country. The Reserve Bank has to date issued two deposit taking microfinance institution licences.
- 1.2. Although a number of MFIs have expanded their operations into remote areas, two major urban centres, Harare and Bulawayo continue to dominate in terms branch network.
- 1.3. The pie chart below depicts the distribution of MFI branches as at 30 June 2015:



2. Performance of the Microfinance Sector

- 2.1. The sector recorded a marginal decrease in total loans from \$163.51 million as at 31 March 2015 to \$162.20 million. The sector's total loans of \$162.20

million constituted 4.41% of total banking sector loans of \$3.98 billion as at 30 June 2015.

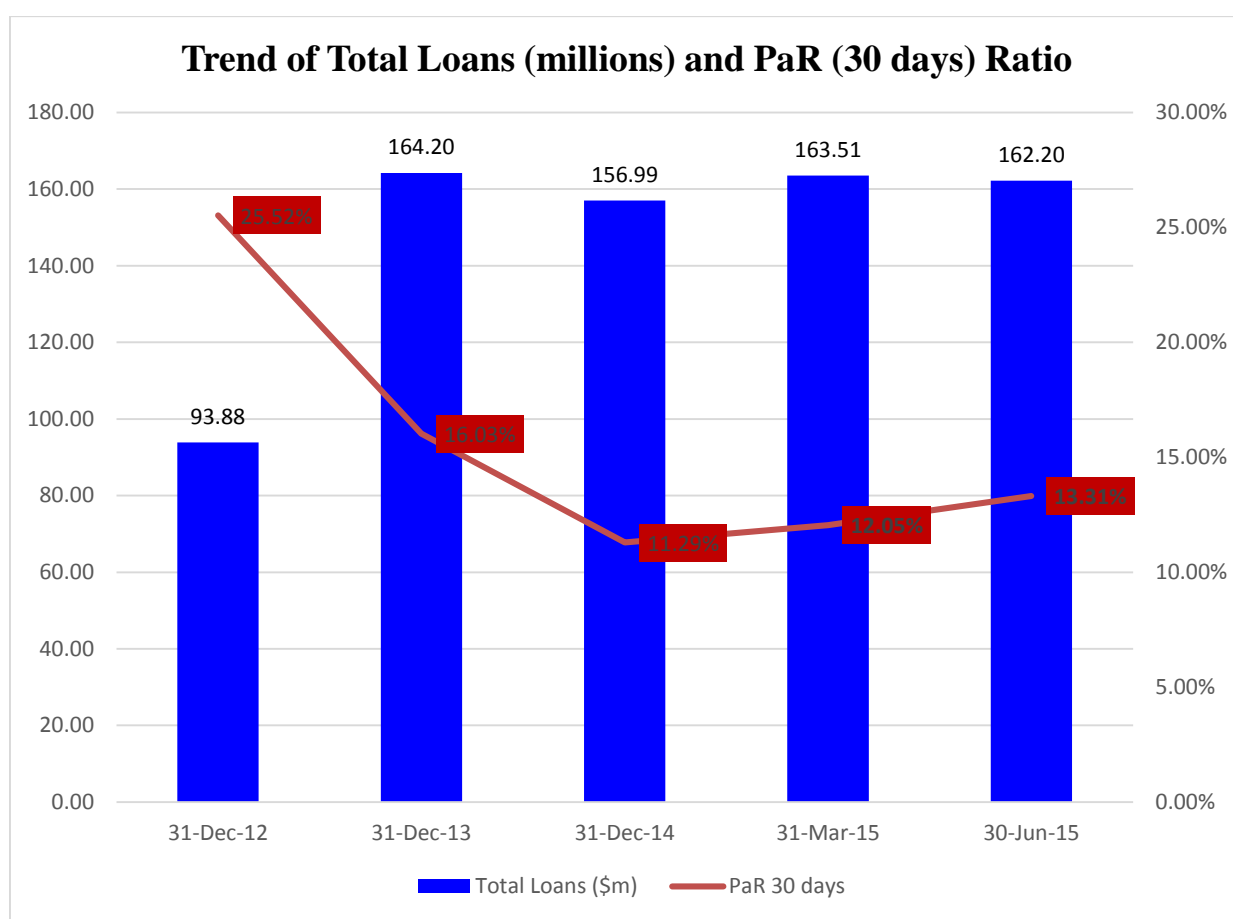
- 2.2. The marginal decline in the level of total loans is largely attributed to a cautious lending approach adopted by some microfinance institutions. In addition, the growth of the microfinance sector continues to be hampered by funding challenges largely attributed to the general market illiquidity and high cost of funding.
- 2.3. A total of 19 microfinance institutions with a loan book of at least \$1 million controlled 86.43% of the microfinance sector in terms of total loans. The largest microfinance institution with a loan book of \$30.11 million, commanded a market share of 18.57% as at 30 June 2015.
- 2.4. The table below shows key performance indicators for the microfinance institutions.

Key Performance Indicators

	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Mar 2015	30 Jun 2015
No. of Licensed Institutions	150	143	147	143	147
Total Loans	\$93.88 million	\$164.20 million	\$156.99 million	\$163.53 million	\$162.20 million
Total Assets	\$116.03 million	\$185.73 million	\$202.71 million	\$202.58 million	\$208.76 million
Portfolio at Risk (PaR> 30 days)*	25.52%	16.03%	11.29%	12.05%	13.31%
No. of Clients	96,749	150,188	205,282	189,028	224,300
No. of Loan Accounts	245,847	162,221	257,542	195,641	281,547
No. of Branches	281	334	473	499	495

* 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.

- 2.5. The Reserve Bank and other stakeholders recognise the importance of microfinance in expanding financial inclusion. In this regard there are continuous efforts to implement initiatives that promote the development of the microfinance industry in Zimbabwe.
- 2.6. Portfolio quality, as measured by the Portfolio at Risk (PaR) (30 days) has been on an upward trend from December 2014, reflecting high credit risk in the microfinance sector.
- 2.7. The trend in the level of PaR is indicated below.



- 2.8. The decline in the portfolio quality is attributable to general macroeconomic conditions characterized by downsizing of companies and salary cuts. The situation has been exacerbated by inadequate credit assessments and high lending rates charged by some microfinance institutions resulting in over-

indebtedness by some microfinance customers leading to inability to service loans. High level of indebtedness among the microfinance clients has the undesirable effect of negating the financial inclusion objective of microfinance.

- 2.9. The microfinance sector continues to face funding constraints largely attributable to general liquidity constraints in the economy and limited availability of wholesale funds.
- 2.10. The absence of an appropriate and affordable information communication technology platform capable of driving down operating costs and achieve economies of scale has been an impediment to reduction of microfinance lending rates.

3. Distribution of Loans as at 30 June 2015...

- 3.1. Consumption lending constituted 55.36% of total loans as at 30 June 2015 as indicated in the table below.

Type of Lending	Dec 2013	Jun 2014	Dec 2014	Mar 2015	Jun 2015
Consumption (% of total lending)	\$116.40m (70.89%)	\$119.09m (67.99%)	\$83.55m (53.30%)	\$88.10m (53.88%)	\$89.39m (55.36%)
Productive (% of total lending)	\$47.80m (29.11%)	\$58.65m (33.00%)	\$73.44m (46.70%)	\$75.41m (46.12%)	\$72.09m (44.64%)
Total	\$164.20m	\$177.76m	\$156.99m	\$163.51m	\$162.20m

- 3.2. Growing support from international funding and capacity building organisations such as Germany Technical Co-operation (GTZ), International Labour Organisation (ILO), DANIDA and Food and Agriculture Organisation (FAO) is expected to result in a reorientation of portfolios to productive lending.

Scope for growth of the Microfinance Sector

- 3.3. The Reserve Bank in collaboration with other stakeholders, has been conducting capacity building programmes for microfinance institutions to facilitate strengthening of their corporate governance and risk management systems, and integrity of financial records. The initiatives are expected to enhance the capacity of MFIs to attract concessional funding from funders.

Initiatives to address ICT Challenges in the sector

- 3.4. In an effort to address the ICT challenges noted in the microfinance sector, the Zimbabwe Association of the Microfinance Institutions (ZAMFI) in collaboration with co-operating partners initiated the development of an affordable generic management information system (MIS) for microfinance players in the sector. The system known as Musoni is a product of Musoni B.V, a Netherlands based company.
- 3.5. The Musoni System is a cloud-based core banking system used by over 30 MFIs across Africa. The system's functionalities include individual, groups, savings, loans, accounting and reporting. The system is also integrated with multiple mobile money transfer providers including Ecocash in Zimbabwe enabling clients to send and receive funds over their mobile phones. The system includes its own SMS module used to send automatic payment reminders to clients, and comes with a tablet application used to capture data in the field.
- 3.6. The implementation of the new technology is expected to improve efficiency of microfinance institutions and expand their outreach into rural areas where the majority of the unbanked are domiciled. Out of 29 000 registered mobile banking agents as at 30 June 2015, only 4 MFIs were delivering loan products through mobile phones.
- 3.7. The new system, Musoni, has already been implemented by 10 microfinance

institutions.

Compliance with Regulatory Requirements and Best Practices

- 3.8. There has been a notable improvement in the level of MFIs' compliance with regulatory requirements, including compliance with capital requirements and submission of regulatory returns.
- 3.9. The Reserve Bank, however, continues to receive complaints from members of the public relating to inadequate disclosure of terms and conditions of loans granted by some MFIs and high interest rates and charges.
- 3.10. A total of 20 complaints were received from January to 30 June 2015, and 14 of these were resolved and closed. Complaints from microfinance customers continue to reveal inadequate pre-lending assessments by some MFIs resulting in incidences of over-indebtedness.
- 3.11. MFIs are required to comply with regulatory requirements and acceptable business conduct standards on an on-going basis, failing which appropriate supervisory action will be imposed.
- 3.12. A total of 127 microfinance institutions submitted MFI Returns for the quarter ended 30 June 2015. In an effort to improve the level of compliance with the submission of returns, the Reserve Bank has levied monetary penalties on non-complying institutions.