BANK SUPERVISION DIVISION

MICROFINANCE SECTOR REPORT

FOR

QUARTER ENDED 30 JUNE 2018

JUNE 2018

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1. EXECUTIVE SUMMARY

1.1. The microfinance sector continues to play an important role in the financial inclusion agenda through provision of access to finance to the marginalized segments of the economy.

1.2. During the quarter ended 30 June 2018, total microfinance loans and advances increased by 9% from $272.95 million as at 31 March 2018, to $297.52 as at 30 June 2018. Total assets for the sector grew by 14.38% from $360.46 million in March to $412.30 million as at 30 June 2018.

1.3. Portfolio quality for the sector, however, deteriorated over the quarter as reflected by the average industry portfolio at risk (PaR) ratio which deteriorated from 9.55% as at 31 March 2018, to 10.15% as at 30 June 2018.

1.4. The Deposit-taking microfinance (DTMFI) sub-sector registered a 29.59% increase in deposits from $11.84 million as at 31 March 2018, to $15.34 million as at 30 June 2018.

1.5. The sector's net profitability remained relatively stable over the period ended 30 June 2018, compared to the corresponding period ended 30 June 2017, as reflected by a marginal decrease in after tax profit from $13.98 million for the half-year ending 30 June 2017, to $13.67 million for the half year ending 30 June 2018. The decline is largely attributed to unsustainably high cost structures at some of the microfinanciers and the increased provisions for the non-performing loans at a number of microfinanciers.

1.6. During the period under review, the microfinance sector remained operationally viable with an average Operational Self-Sufficiency (OSS) ratio[1] of 154.76% as at 30 June 2018 up from 150.49% as at 30 June 2017.

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[1] The **OSS** ratio is computed as the MFI's operating revenues divided by its operating expenses including the financial costs and impairment losses on loans.

2. ARCHITECTURE OF THE MICROFINANCE SECTOR

2.1. As at 30 June 2018, the microfinance sector had 196 registered microfinanciers up from 190 institutions as at 31 March 2018 as shown in the table below.

Table 1: Architecture of the Microfinance Sector

Type of Institution	31 March 2018	30 June 2018
Credit-only Microfinance institutions	185	190
Deposit-taking Microfinance institutions	5	6
Total	**190**	**196**

2.2. Empower Bank Limited was registered as a deposit-taking microfinance institution on 31 May 2018, bringing the total number of DTMFIs to six (6). The main mandate of Empower Bank is to provide access to finance to young entrepreneurs with the view to facilitating entrepreneurship among the youth.

3. MICROFINANCE OUTREACH

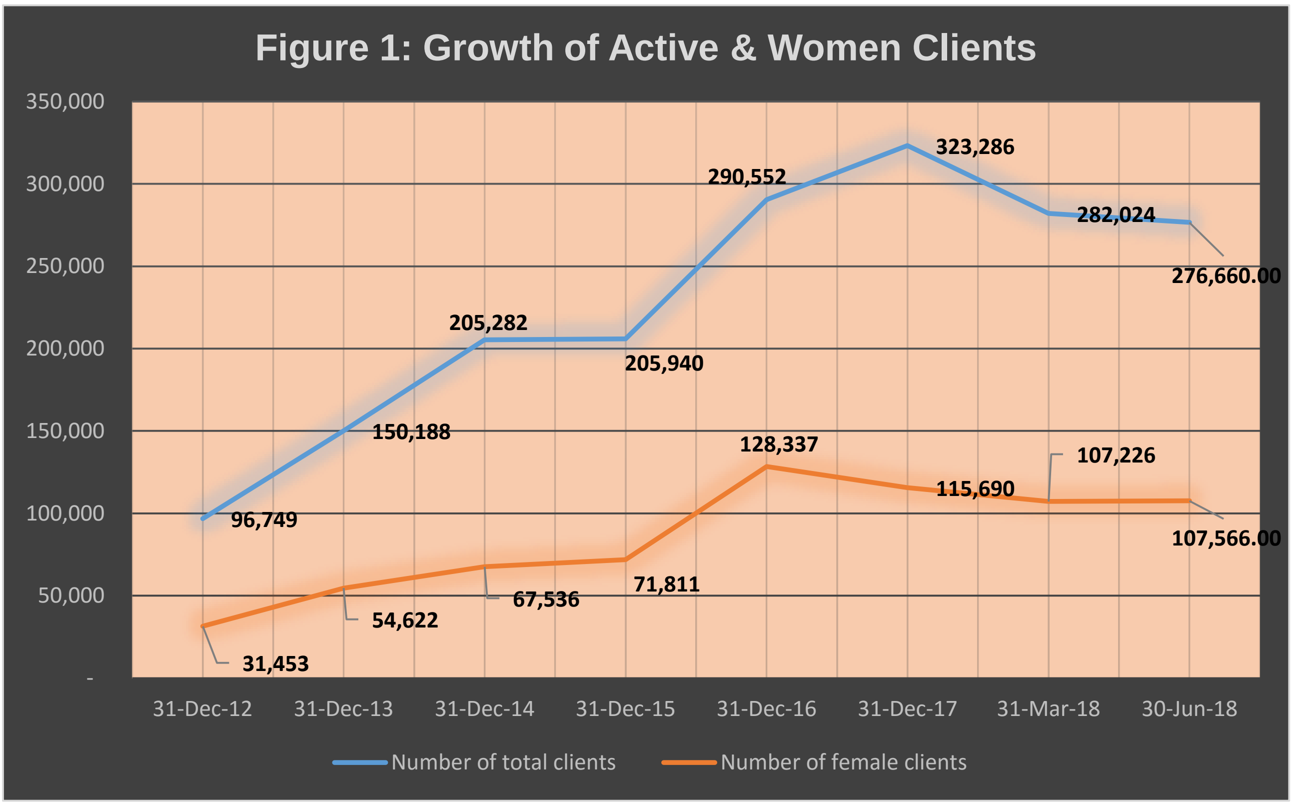
3.1. Over the quarter, the sector registered a marginal decline of 2.37% in the number of branches from 676 as at 31 March 2018, to 660 as at 30 June 2018. This was largely attributed to downsizing of operations by some credit-only microfinance institutions following adoption of mobile banking.

3.2. A total of eight (8) institutions had more than 20 branches each, while one deposit-taking institution had over 3,600 microfinance access points/agencies in line with the institution's strategic thrust on increasing access to finance through agency banking.

3.3. Five (5) credit-only microfinance institutions have surrendered their microfinance operating licenses citing high operational costs and a challenging macro-economic environment.

3.4. The sector registered a significant decline of 19.02% in the number of active clients over the quarter from 282,024 clients as at 31 March 2018, to 276,660 active clients as at 30 June 2018.

3.5. The trend in the number of active clients and female borrowers over the past seven (7) years is shown in Figure 1 below.



3.6. The number of women borrowers increased marginally over the quarter from 107,226 as at 31 March 2018, to 107,565 as at 30 June 2018.

3.7. The number of active women borrowers is expected to continue on the upward trajectory as the Zimbabwe Women Microfinance Bank increases its outreach to marginalized women and as deposit-taking and credit-only microfinance institutions increase their uptake of the Empowerment Facilities put in place by the Reserve Bank.

4. PERFORMANCE OF THE MICROFINANCE SECTOR

4.1. During the period under review, the microfinance sector registered an improvement in terms of total assets, loan portfolio size, profitability, and sustainability. The sector's total equity and number of active clients declined over the same period.

4.2. A summary of the key performance indicators is shown in Table 2 below.

Table 2: Key Performance Indicators, June 2017 to June 2018

Indicator	Jun 17	Dec 17	Mar 18	June 18
Number of Licensed Institutions	187	183	190	196
Total Loans (US$m)	229.44	254.04	272.95	297.52
Total Assets (US$m)	297.85	333.27	360.46	412.29
Total Equity (US$m)	130.25	130.22	142.94	138.15
Net Profit (US$m)	13.98	21.64	9.08	13.67
Average Operational Self-Sufficiency (OSS)	150.49%	135.80%	142.92%	154.76%
Total Deposits (DTMFIs) (US$m)	6.62	6.41	11.84	15.34
Number of Savings Accounts (DTMFIs)	2,265	7,226	8,668	10,202
Portfolio at Risk (PaR>30 days)	6.46%	7.34%	9.55%	10.15%
Number of Active Loan Clients	322,728	323,286	282,024	276,660
Number of Outstanding Loans	372,837	415,979	296,544	297,843
Number of Branches	698	682	676	660

Deposit Mobilization…

4.3. Over the review period, total deposits for the deposit-taking microfinance institutions (DTMFI) subsector increased by 29.59% from $11.84 million as at 31 March 2018, to $15.34 million as at 30 June 2018.

4.4. Growth in total deposits was largely due to aggressive deposit mobilisation by some deposit-taking microfinance institutions. Time deposits constituted

75.20% of total DTMFIs deposits of $15.34 million as at 30 June 2018.

4.5. The subsector recorded a 17.62% increase in the number of savings accounts from 8,668 as at 31 March 2018, to 10,202 as at 30 June 2018.

Capital & Funding…

4.6. The limited funding base continues to militate against the microfinance sector's ability to underwrite more meaningful business as evidenced by the size of the sector's loan book, which has remained suboptimal over the years.

4.7. The sector's aggregate equity decreased by 3.75% from $143.53 million as at 31 March 2018, to $138.15 million as at 30 June 2018. The decline in the industry equity was largely attributed to losses recorded by some microfinanciers, and failure by other microfinanciers to attract meaningful investment into the sector.

4.8. As at 30 June 2018, a total of 183 institutions out of 190 credit-only microfinance institutions, were compliant with the minimum capital requirement of $20,000, while five out of six (6) DTMFIs were compliant with the regulatory capital requirement of $5 million.

4.9. Seven (7) credit-only microfinance institutions had capital levels below the prescribed minimum capital of $20,000 largely due to losses recorded during the review period. The undercapitalized institutions are instituting measures to regularize their capital positions including injection of additional capital or conversion of shareholders' loans into equity.

4.10. Credit-only microfinance institutions accounted for 70.87% of the total industry equity of $138.15 million, while DTMFIs accounted for 29.13%.

Credit-Only Microfinance Institutions

4.11. As at 30 June 2018, aggregate capital for the credit-only microfinance subsector decreased by 8.99% from $107.55 million as at 31 March 2018, to $97.88 million as at 30 June 2018, largely due to losses reported by some institutions during the period under review.

4.12. A total of 103 credit-only microfinance institutions had capital positions that surpassed the minimum capital requirement of ***$50,000***, ***effective 2020***.

Deposit-Taking Microfinance Institutions

4.13. Aggregate core capital for the four (4) operating DTMFIs amounted to $40.25 million as at 30 June 2018, representing an 11.86% increase from $35.98 million as at 31 March 2018.

4.14. The increase in capital is largely attributed to an increase in profitability by three (3) institutions whose total profit amounted to $4.32 million during the period ended 30 June 2018. Two of the DTMFIs had capital positions that surpassed the ***$7.5 million capital*** requirement, ***effective 2020***.

4.15. One deposit-taking microfinance institution was not compliant with the minimum capital requirement of $5 million for DTMFIs. The institution’s low capital level is attributed to persistent losses emanating from high operating expenses, against a low revenue base.

4.16. The shareholders of the institution have undertaken to recapitalize the institution and the Reserve Bank is monitoring the recapitalisation efforts to ensure compliance.

Empowerment Facilities

4.17. As at 16 August 2018, a total of $238.30 million had been disbursed under the Reserve Bank production and empowerment facilities amounting to **$451.51 million.**

4.18. Despite the high demand, uptake of some facilities such as Persons With Disabilities, Youth Fund and Tourism Support, has remained low as shown in Table 3 below:

Table 3: Utilization of Empowerment Facilities

Loan Facility	Total Utilisation ($)	Facility Limit ($)	Utilization Level %
Business Linkages	11.36m	10m	**113.63**
Export Finance	75.15m	70m	**107.36**
Educational Loan	1.17m	50m	**2.34**
Horticulture Promotion	4.36m	10m	**43.56**
FPR Gold Support	107.15m	150m	**71.71**
Women Empowerment	2.84m	15m	**18.96**
Tobacco (TIMB)	19.27m	70m	**27.53**
Soya Beans Facility	15.64m	21.51m	**72.74**
Persons With Disability	0	5m	**0**
Zimbabwe Micro Finance	1.0m	10m	**10.00**
Youth Empowerment	0.33m	10m	**3.35**
Tourism Facility	0.03m	15m	**0.20**
Total	**238.3m**	**451,51m**	**52.78**

4.19. In view of the lower than expected uptake of some empowerment facilities since their introduction in 2017, the Reserve Bank has engaged various stakeholders, including lending institutions to identify the cause for the low uptake and map a way forward.

Lending and Portfolio Quality…

4.20. The microfinance industry registered a 9.01% increase in total loans over the quarter from $272.95 million as at 31 March 2018, to $297.52 million as at 30

June 2018, on the back of increased demand for micro-credit loans for productive purposes.

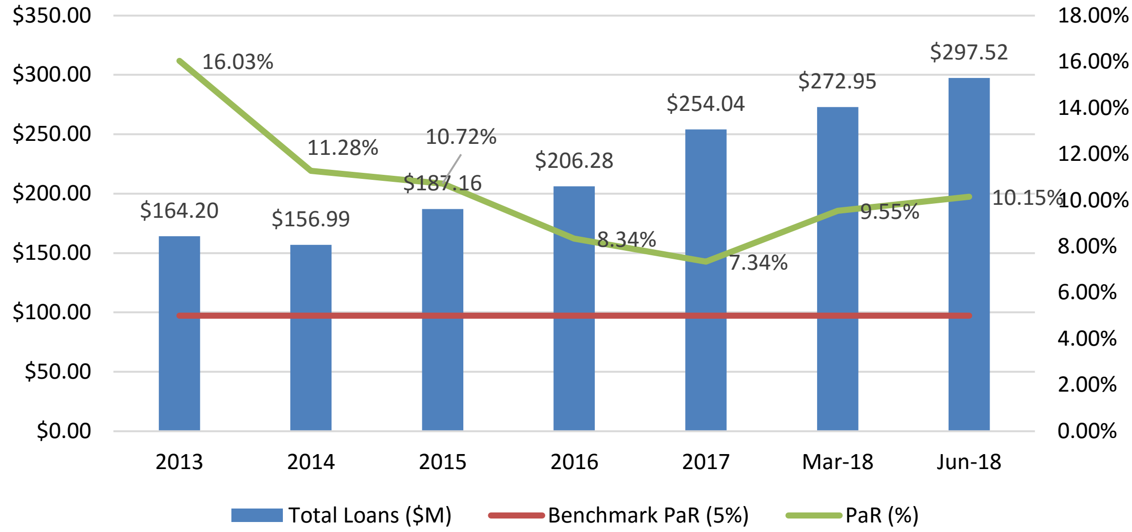
4.21. As at 30 June 2018, the microfinance industry's total loans of $297.52 million, however, constituted 6.01% of the total banking sector loans of $3.97 billion as at the same date.

4.22. Reflective of high concentration, the **top 20 microfinance institutions** with total loans of $254.35 million accounted for **86.48%** of the total industry loans as at 30 June 2018, up from $234.08 million (85.76%) as at 31 March 2018.

4.23. Total loans for the five (5) operational DTMFIs amounted to $66.94 million representing a market share of 22.56% of the total sector loans of $297.52 million as at 30 June 2018. One DTMFI with a loan book of $38.40 million commanded a market share of 57.37% of the total sub- total loans of $66.94 million.

4.24. The industry, however, registered a deterioration in portfolio quality over the quarter and the year with portfolio-at-risk (PaR) ratio of 10.15% as at 30 June 2018 up from 9.55% as at 31 March 2018, and 6.46% as at 30 June 2017. The trend in the total loans for the sector and portfolio quality is indicated in the figure below.

Figure 2: Microfinance Sector Trends in Total Loans & PaR Ratio



4.25. The deterioration in the asset quality for the microfinance sector against the international benchmark of 5%, continue to be driven by incidences of over-indebtedness of microfinance borrowers on the backdrop of a challenging operating environment characterized by the general high cost of production and declining disposable income. The high cost of production has witnessed the annual inflation accelerating to 4.3% in July 2018, up from 2.91% in June 2018, driven by both food and non-food items.

4.26. Resultantly, an increased number of microfinance borrowers have been failing to meet their loan obligations with microfinance institutions.

4.27. During the quarter ended 30 June 2018, the average PaR ratio (PaR>30) for the DTMFI subsector deteriorated from 11.24% as at 31 March 2018 to 16.54% largely due the challenging operating environment, which is affecting the borrowers' capacity to service debts.

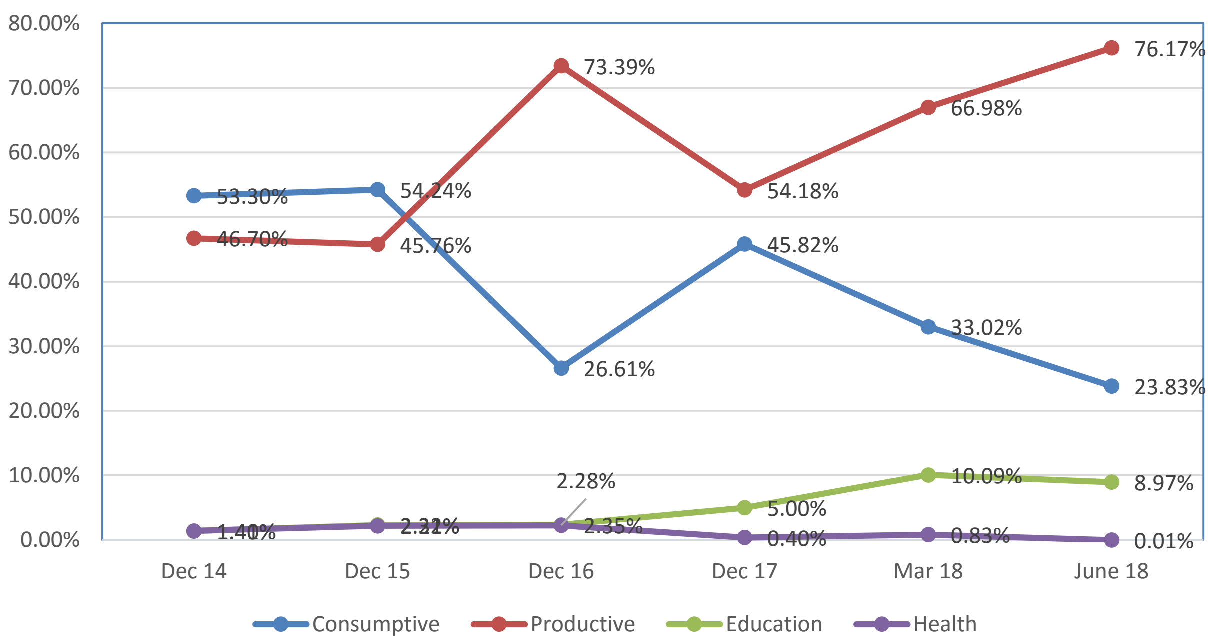
4.28. Going forward, it is expected that increased utilization of the of the credit registry and the credit guarantee scheme, and the operationalization of the collateral registry, is expected to enhance portfolio quality within the entire microfinance sector.

Distribution of Loans…

4.29. As at 30 June 2018, loans to the productive sector of $226.61 million accounted for 76.16% of the total sector loans of $297.52 million, up from 66.98% as at 31 March 2018.

4.30. The figure below shows the trend in the distribution of loans from 2014 to June 2018.

Figure 3: Microfinance Industry - Distribution of Loans



4.31. As at 30 June 2018, loans for educational and health purposes remained subdued, accounting for 8.97% and 0.01% of the total microfinance sector loans of $297.52 million, respectively. The microfinance sector continues to make progress, in supporting the education and health sectors, albeit at a slow pace.

4.32. A total of 107,565 women borrowers with loans amounting to $80.74 million accounted for 38.88% of total number of active borrowers as at 30 June 2018. Loans to women borrowers of $80.79 million accounted for 27.14% of the total industry loan book of $297.52 million for the period under review. The increase in the total loans is partly attributed to increased access to the Empowerment facilities targeted at women clients.

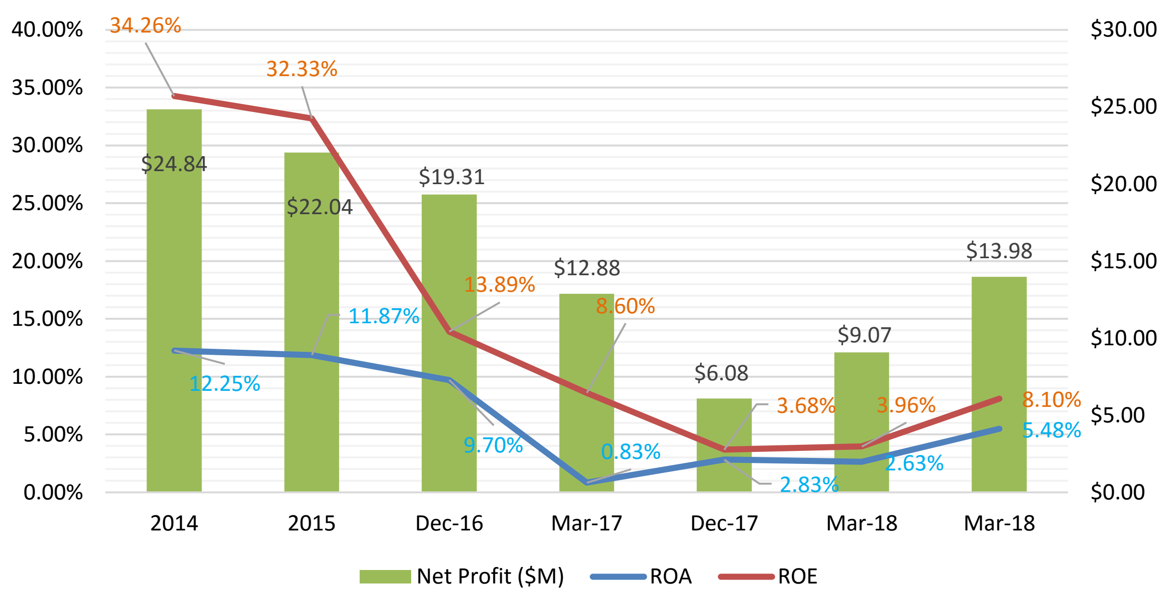
Profitability…

4.33. The microfinance industry registered a 1.65% marginal decrease in net profit over the year from $13.98 million for six months period ended 30 June 2017, to $13.67 million for the period ended 30 June 2018.

4.34. The average Operational Self-sufficiency ratio (OSS) improved to 154.76% as at 30 June 2018 up from 150.49% as at 30 June 2017. The OSS ratio of 154.76% was above the break-even point of 100%, indicating the industry's operational sustainability.

4.35. The trend in the profitability of the microfinance sector is indicated in Figure 4.

Figure 4: Microfinance Sector- Trends in Profitability, 2014 - 2018



4.36. For the half-year ended 30 June 2018 the industry's return on assets (ROA) improved to 5.48% from 3.17% for the same period in 2017. The return on equity (ROE) ratio generally remained stable at 8.10% over the review period.

Credit-Only Microfinance Institutions

4.37. For the half-year ended 30 June 2018, credit-only microfinance institutions were considered operationally sustainable with an average OSS ratio of 134.15%, which represent a 36.22 percentage-point decline from an OSS ratio of 170.37% for the period ended 30 June 2017. Top 20 credit-only microfinance institutions recorded an average OSS ratio of 145.10% for the review period compared to 183.59% in the comparative period in 2017.

4.38. A total of twenty-three credit-only microfinance institutions recorded losses during the quarter ended 30 June 2018, largely due to operational inefficiencies and high levels of provisions for loan losses in some institutions. This number of loss-making institutions was, however, an improvement from forty-four institutions as at 30 June 2017.

Deposit-taking Microfinance Institutions

4.39. For the half-year ended 30 June 2018, the DTMFI subsector recorded an aggregate net profit of $3.86 million, with only one out of the four operating DTMFIs recording a loss. The net profit figure was 5.12% lower than $4.07 million recorded in June 2017.

4.40. The decline in net profit experienced during the review period is attributable to an increase in impairment charges due to the increasing credit risk within the sector.

4.41. The DTMF subsector's ROA and ROE of 1.27% and 3.20% for the review period compared adversely to 2.40% and 5.93%, respectively, recorded for the comparative period ended 30 June 2017.

4.42. Despite the decline in the aggregate net profit figure, the DTMF subsector remained operationally sustainable with an average OSS ratio of 122.06% as at 30 June 2018 down from 128.93% as at 30 June 2017. The decline in the operational self-sufficiency ratio is in line with the decline in the sector's aggregate profitability.

5. COMPLIANCE WITH REGULATORY REQUIREMENTS

5.1 Compliance with regulatory requirements within the microfinance sector has improved significantly over the years as the Reserve Bank continues to monitor compliance in the microfinance sector.

Compliance with Minimum Capital Requirements

5.2 As at 30 June 2018, a total of seven (7) credit-only microfinance institutions and one (1) deposit-taking microfinance institution failed to meet the prescribed minimum capital requirements of $20,000 and $5 million, respectively. This was largely attributed to recorded losses during the review period.

5.3 The institutions have been directed to regularize their capitalization levels in line with the requirements of the Microfinance Act [Chapter 24:29], and are in the process of regularizing their capital positions.

Late Submission of MFI Returns

5.4 During the quarter ended 30 June 2018, a total of seven (7) credit-only microfinance institutions were penalized for the late and non-submissions of quarterly MFI returns. Three (3) institutions were penalized for non-submissions while four (4) institutions were penalized for late submissions of the MFI returns.

Compliance with Core Client Protection Principles

5.5 The microfinance sector recorded four (4) complaints during the quarter ended 30 June 2018, which was a marginal decrease from six (6) complaints recorded in the previous quarter. Two of the complaints were for disputed deduction amounts on loans issued and the other two were for unauthorized amounts deducted against fully paid loans.

5.6 In an effort to foster and promote consumer protection culture of adherence to the Core Client Protection Principles by the microfinance sector, the Reserve Bank continues to engage the microfinance sector on consumer protection issues, and to monitor the operations of all microfinance institutions.

END OF REPORT