BANK SUPERVISION DIVISION

MICROFINANCE SECTOR REPORT

FOR

QUARTER ENDED 31 MARCH 2018

MARCH 2018

Table of Contents

1. EXECUTIVE SUMMARY

1.1. During the quarter ended 31 March 2018, the microfinance sector registered modest growth in loan portfolio and continued to contribute towards access to finance and economic empowerment of the low income households, as well as the micro, small and medium enterprises (MSMEs).

1.2. As at 31 March 2018, total assets of the microfinance sector amounted to $360.46 million, representing a growth of 8.16% from $333.27 million as at 31 December 2017.

1.3. Total microfinance loans and advances increased by 7.44% from $254.04 million as at 31 December 2017 to $272.95 million as at 31 March 2018.

1.4. Credit risk within the microfinance sector, however remained an area of concern as the sector's portfolio at risk (PaR) ratio deteriorated from 7.34% as at 31 December 2017, to 9.55% as at 31 March 2018.

1.5. Total deposits mobilized by the four operating deposit-taking microfinance institutions increased by 84.62% from $6.41 million as at 31 December 2017, to $11.84 million as at 31 March 2018, on the back of aggressive deposit mobilization.

1.6. Aggregate profit for the sector increased by 49.18% to $9.08 million for quarter ended 31 March 2018, up from $6.08 million reported for the corresponding period in 2017.

1.7. The microfinance sector registered an average Operational Self-Sufficiency (OSS)[1] of 143.24% which is an improvement from 140.41% as at 31 March 2017.

[1] The **OSS** is defined as the ratio of an MFI's operating revenues to it operating expenses including the financial costs and impairment losses on loans.

2. ARCHITECTURE OF THE MICROFINANCE SECTOR

2.1. As at 31 March 2018, there were 190 registered microfinance institutions compared to 180 as at 31 March 2017. The distribution of the licences issued by the Registrar of Microfinanciers during the quarter ended 31 March 2018 is shown in the table below.

Table 1: Architecture of the Microfinance

Type of Institution	31 December 2017	31 March 2018
Credit-only Microfinance institutions	176	185
Deposit-taking Microfinance institutions	4	5
Total	**180**	**190**

2.2. As at 31 March 2018 the fifth deposit-taking microfinance institution was yet to commence operations.

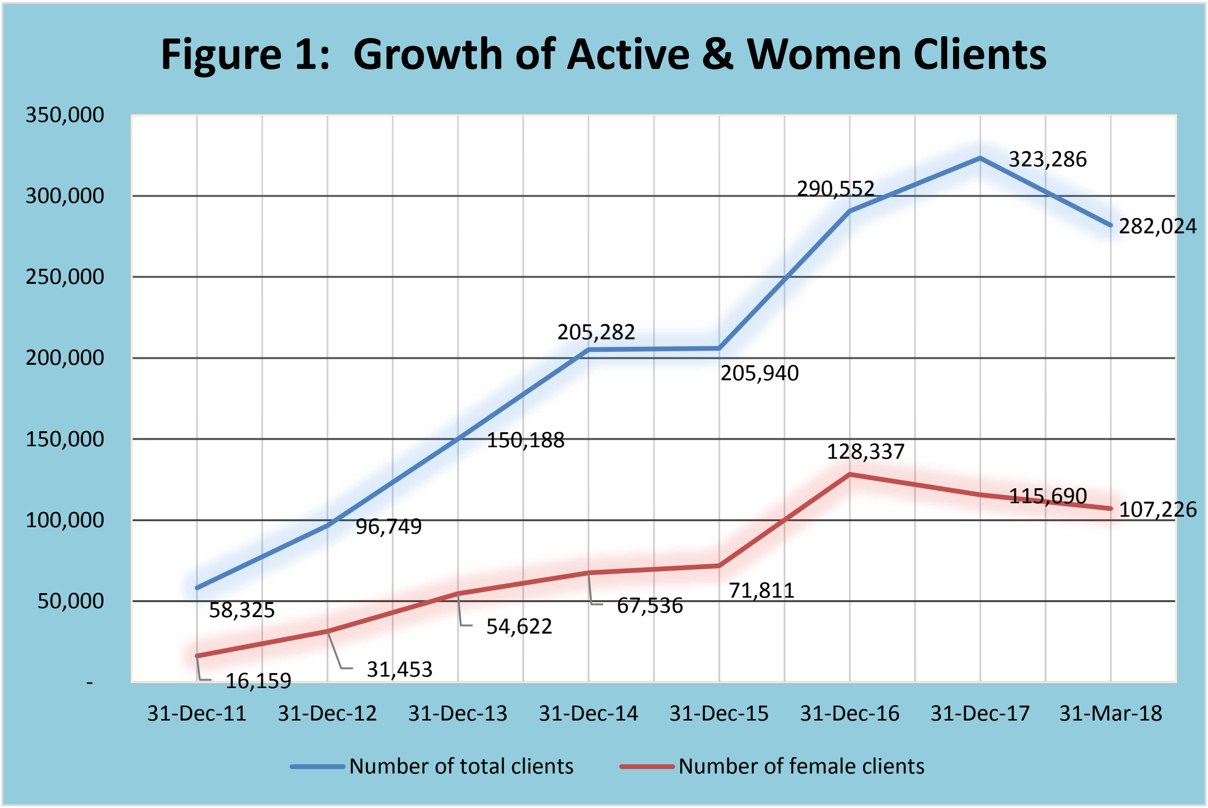
3. MICROFINANCE OUTREACH

3.1. The number of microfinance institutions' branches decreased by six (6) from 682 as at 31 December 2017, to 676 as at 31 March 2018 due to downsizing of operations by some of the microfinance institutions during the period under review.

3.2. As at 31 March 2018, seven (7) microfinance institutions had more than 20 branches each, while one deposit-taking institution had over 3600 microfinance access points/agencies indicating the institution's strategic thrust on increasing access to finance through agency banking.

3.3. Then sector registered a 12.76% decline in number of active clients over the quarter from 323,286 clients as at 31 December 2017, to 282,024 active clients as at 31 March 2018.

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



3.5. Female microfinance borrowers registered a 38.02% decline over the quarter from 115,690 female borrowers as at 31 December 2017, to 107,226 female borrowers as at 31 March 2018.

3.6. The number of active women borrowers is expected to increase as more microfinance institution 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 equity loan portfolio size, profitability, and sustainability.

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

Table 2: Key Performance Indicators, Dec 2016 to March 2018

Indicator	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17	Mar 18
Number of Licensed Institutions	185	180	187	189	183	190
Total Loans (US$m)	206.28	215.24	229.44	238.60	254.04	272.95
Total Assets (US$m)	275.04	291.89	297.85	341.17	333.27	360.46
Total Equity (US$m)	127.53	123.31	130.25	135.66	130.22	142.94
Net Profit (US$m)	19.31	6.08	13.98	14.61	21.64	9.08
Average OSS (%)	146.22	145.38	150.49	123.95	135.80	142.92
Total Deposits (DTMFIs) (US$m)	4.19	5.12	6.62	5.65	6.41	11.84
Number of Savings Accounts (DTMFIs)	1,411	1,993	2,265	2,848	7,226	8,668
Portfolio at Risk (PaR>30 days)* (%)	8.34	7.52	6.46	7.68	7.34	9.55
Number of Active Clients	290,552	257,498	322,728	254,094	323,286	282,024
Number of Outstanding Loans	352,225	620,728	372,837	295,547	415,979	296,544
Number of Branches	659	648	698	681	682	676

Deposit Mobilization…

The deposit-taking microfinance institutions (DTMFI) subsector registered an 84.62% increase in total deposits over the review period from $6.41 million recorded as at 31 December 2017 to $11.84 million as at 31 March 2018.

4.3. The growth in total deposits in the DTMFI subsector over the quarter was largely attributed to aggressive deposit mobilisation by some of the DTMFIs, which have attracted wholesale funds through competitive interest rates.

4.4. Further, as a result of the various initiatives implemented by some of the DTMFIs, the subsector has witnessed a 19.96% increase in the number of savings accounts from 7,226 savings accounts during period ended 31 December 2017, to 8,668 as at 31 March 2018.

4.5. Time deposits have also registered a significant increase over the review period from $3.80 million as at 31 December 2017, to $8.32 million as at 31 March 2018. Time deposits constituted 70.25% of total DTMFIs deposits as at 31 March 2018.

4.6. In a bid to widen their funding sources and enhance their underwriting capacity, DTMFIs have also been targeted small and medium enterprises for deposit mobilisation.

Capital & Funding…

4.7. The sector continues to face funding challenges as evidenced by the size of the loan book for the entire sector which has largely remained subdued.

4.8. As at 31 March 2018, a total of 174 out of 185 credit-only microfinance institutions were compliant with the minimum capital requirements of $20,000, while three (3) out of four (4) operational DTMFIs were compliant with the regulatory capital requirement of $5 million.

4.9. As at 31 March 2018, the sector's aggregate equity amounted to $143.53 million, representing a 10.22% increase from $130.22 million as at 31 December 2017. The improvement in the industry equity was largely attributed to improvements in profitability by some of the microfinance institutions.

4.10. Credit-only microfinance institutions accounted for 74.93% of total industry equity, while DTMFIs with total equity of $35.98 million, accounted for 25.07% of the total industry equity.

Credit-Only Microfinance Institutions

4.11. The credit-only microfinance subsector recorded a 14.08% increase in the aggregate capital from $94.28 million as at 31 December 2017 to $107.55 million as at 31 March 2018, largely due to operating profits reported by most institutions during the period under review. A total of 90 credit-only microfinance institutions had capital positions that surpassed the minimum capital requirements of $50,000, effective 2020.

4.12. As at 31 March 2018, however, a total of eleven (11) credit-only microfinance institutions had capital positions below the minimum capital requirements of $20,000 as a result of reported losses. The Reserve Bank has engaged the respective institutions to regularize their capital positions to ensure compliance with the regulatory requirements.

Deposit-Taking Microfinance Institutions

4.13. Four (4) operating DTMFIs had an aggregate core capital of $35.98 million as at 31 March 2018, representing a 0.64% marginal increase from $35.75 million as at 31 December 2017. The increase in capital is largely attributed to an increase in profitability by some DTMFIs with the subsector recording a profit of $3.01 million during the period ended 31 March 2018. Two of the DTMFIs had capital positions that surpassed the $7.5 million capital requirement effective 2020.

4.14. One deposit-taking microfinance institution was not compliant with the minimum capital requirement of $5 million for DTMFIs. This was largely attributed to losses during the same period under review, emanating largely from high operating costs. The institution has since initiated various measures to regularise its capital position following engagements by the Reserve Bank.

4.15. The Reserve Bank continues to monitor the institution's progress towards ensuring compliance with the minimum capital requirement.

Empowerment Facilities

4.16. In line with the financial inclusion drive, the Reserve Bank of Zimbabwe has increased Empowerment Facilities from $381.51 million as at 31 December 2017 to $451.51 million as at 31 March 2018, following increases in the limits for the Gold Facility from $80 million to $150 million and the Tobacco Facility from $28.5 million to $70 million.

4.17. The Empowerment Facilities are availed through banks and microfinance institutions for on-lending to the productive sector. Microfinance institutions are expected to increase their outreach and grow their loan portfolios as they increase their uptake of the cheaper and more affordable funding through the Empowerment facilities.

4.18. The Reserve Bank of Zimbabwe availed the following facilities targeting the productive s of the economy:

Figure 2: The Empowerment Facilities

4.19. The increase in the level of financial support through the Empowerment Facilities has been driven by the need to support key productive sectors of the economy, boost exports and ensure that the previously financially excluded groups actively participate in economic activities.

Lending and Portfolio Quality…

4.20. As at 31 March 2018, total loans for the microfinance sector amounted to $272.95 million, which represented a 7.44% increase from $254.04 million as at 31 December 2017.

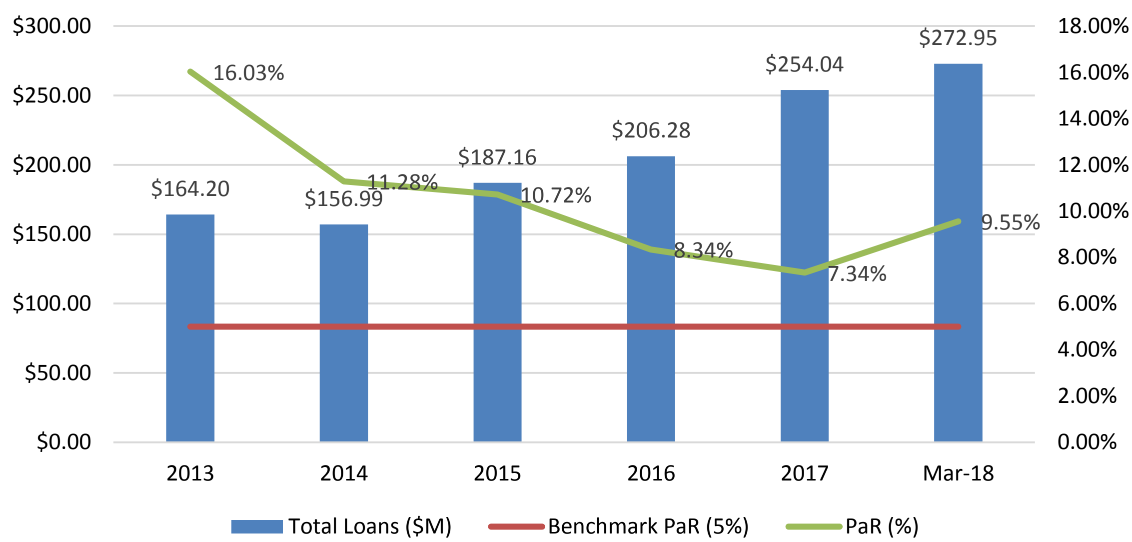
4.21. As at 31 March 2018, the industry's total loan portfolio was dominated by the top 20 microfinance institutions with total loans of $234.08 million accounting for 85.76% of the total industry loans of $272.95 million.

4.22. The DTMFIs subsector's total loans of $61.80 million, constituted 22.64% of total microfinance industry loans of $272.95 million as at 31 March 2018.

4.23. The DTMFI subsector's lending continued to reflect high concentration, as one DTMFI with a loan book of $33.96 million commanded a market share of 54.95% of the total sub- total loans of $61.80 million.

4.24. The trend in the total loans for the sector and portfolio quality is indicated in the figure below.

Figure 3: Microfinance Sector Trends in Total Loans & PaR Ratio



4.25. During the quarter ended 31 March 2018, the asset quality for the microfinance sector as reflected by the Portfolio at Risk (>30 days) (PaR) ratio, deteriorated to 9.55% from 7.34% and 7.52% as at 31 December 2017 and 31 March 2017 respectively, against the international benchmark of 5%.

4.26. The deterioration in asset quality was largely due to over-indebtedness of microfinance borrowers on the back of increased inflationary pressures which have witnessed an average 0.12% increase in general prices of basic commodities without a corresponding increase in disposable income for the majority of microfinance borrowers. As a result, an increased number of microfinance borrowers have been failing to meet their loan obligations with microfinance institutions.

4.27. The average PaR ratio (PaR>30) for the DTMFI subsector marginally improved from 11.30% as at 31 December 2017 to 11.24% as at 31 March 2018.

4.28. The operationalization of the Credit Registry System is expected to enhance portfolio quality within the entire microfinance sector.

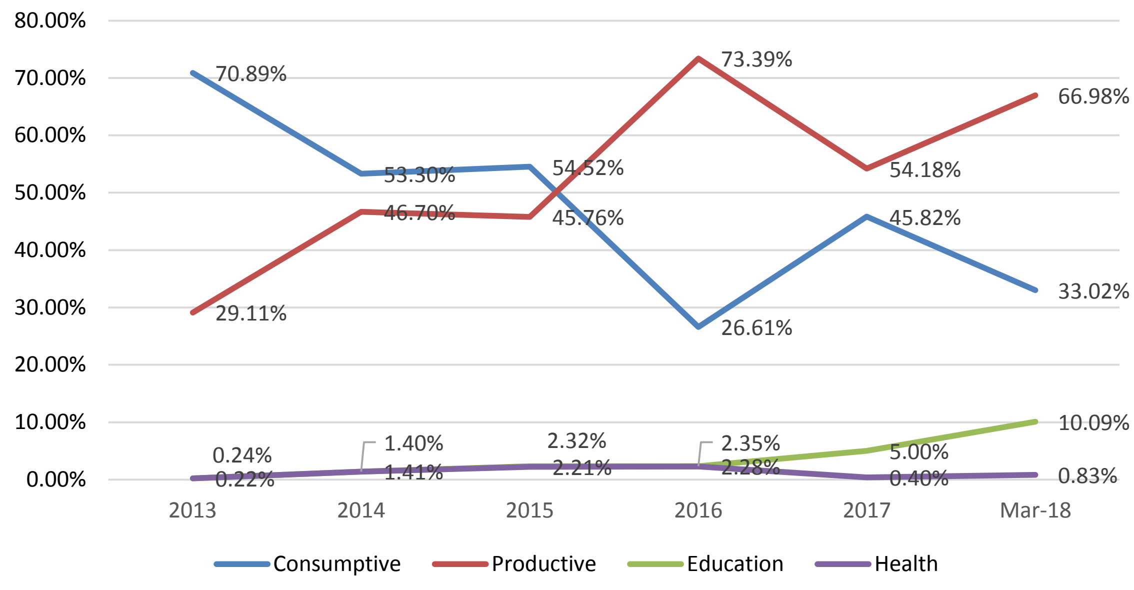
Distribution of Loans…

4.29. During the quarter under review, lending to the productive registered a 32.82% increase from $137.64 million as at 31 December 2017, to $182.81 million as at 31 March 2018. The total loans to the productive of $182.81 million represented 66.98% of the total microfinance sector loan portfolio of $272.95 million as at 31 March 2018.

4.30. Microfinance loans to the educational sector doubled over the review period from 5% as at 31 December 2017, to 10.09% as 31 March 2018 as most clients, sought financial assistance for school and university fees, on the back of declining disposable income. In addition, more university students accessed the $50 million Tertiary Educational Facility from the Reserve Bank through approved microfinance institutions.

4.31. The figure below shows the trend in the distribution of loans from 31 December 2013 to 31 March 2018.

Figure 4: Microfinance Sector - Loan Distribution



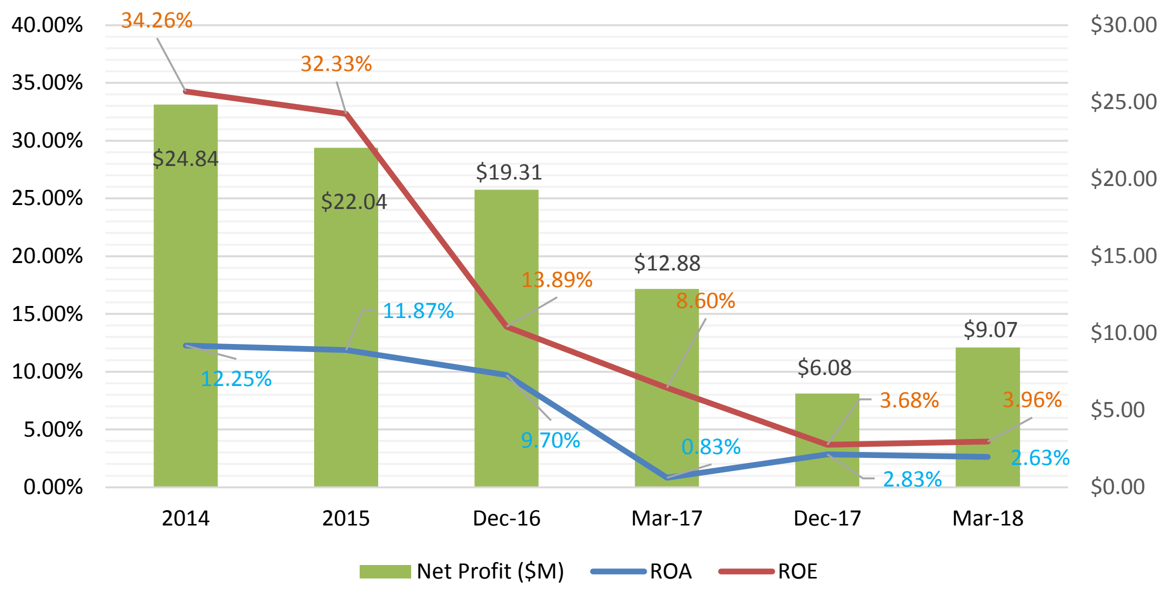
Profitability…

4.32. For the quarter ended 31 March 2018, the microfinance sector registered an aggregate net profit of $9.07 million compared to $6.08 million recorded in comparative period ended 31 March 2017.

4.33. The OSS ratio of 143.24% as at 31 March 2018 was above the break-even point of 100% indicating that the majority of the microfinance institutions are managing to contain their operational costs.

4.34. The trend in the profitability of the microfinance sector is indicated in Figure 5.

Figure 5: Microfinance Sector- Trends in Profitability, 2014 - 2018



4.35. The sector's return on assets (ROA) ratio improved from 0.83% as 31 March 2017 to 2.63% as at 31 March 2018, while the return on equity (ROE) ratio deteriorated from 8.60% as at 31 March 2017 to 3.96% as at 31 March 2018.

Credit-Only Microfinance Institutions

4.36. Over the review period, credit-only microfinance institutions remained operationally sustainable with an average OSS ratio of 129.25% for the period ended 31 March 2018, which, however, represents an 11.63 percentage point decline from 140.88% for the comparative period in 2017.

4.37. The decline in the sustainability ratio for the credit-only microfinance subsector was largely attributed to operating losses on the back of low critical mass in terms of the loan portfolio, which was not sufficient to generate increased income for the sector. A total of 38 credit-only microfinance institutions posted losses for period ended 31 March 2018, down from 45 credit-only microfinance institutions for period ended 31 March 2017. The losses were attributable to unsustainable cost structures, and high levels of non-performing loans in some institutions.

Deposit-taking Microfinance Institutions

4.38. During the quarter under review the DTMFI sub recorded aggregate net profit of $3.01 million as at 31 March 2018, which represents a 17.58% increase from $2.56 million as at 31 March 2017. The profitability of the subsector is attributed to cost containment measures by the players as well as access to affordable credit from developmental partners and the Reserve Bank of Zimbabwe empowerment facilities.

4.39. The DTMF subsector remained operationally sustainable with an average OSS ratio of 143.17% as at 31 March 2018 up from 139.94% as at 31 March 2017. The increase in the operational self-sufficiency ratio was influenced by the increase in profitability of the subsector.

4.40. The DTMF subsector's ROA and ROE deteriorated from 9.59% and 21.14% as at 31 March 2017 to 7.73% and 14.48% for the quarter ended 31 March 2018 respectively.

5. COMPLIANCE WITH REGULATORY REQUIREMENTS

5.1 The Reserve Bank continues to monitor consumer protection practices as well as compliance with the legal and regulatory requirements by players in the microfinance sector.

Compliance with Minimum Capital Requirements

5.2 The number of credit-only microfinance institutions which failed to meet the prescribed minimum capital requirements of $20,000 increased from eight (8) as at 31 December 2017, to eleven (11) as at 31 March 2018. One (1) deposit-taking microfinance institution failed to meet the prescribed minimum capital of $5 million. The capital erosion was due to losses recorded by the affected institutions during the quarter ended 31 March 2018.

5.3 The affected institutions were in the process of regularizing their capital positions.

Late Submission of MFI Returns

5.4 Nine (9) institutions were penalized for late and non-submission of the MFI returns for quarter ended 31 March 2018 as compared to four (4) institutions during the quarter ended 31 December 2017.

Failure to Commence Operations After Licensing

5.5 Two (2) institutions failed to comply with the terms and conditions of registration as they did not commence operations within the stipulated timeframe of 180 days from the date of licence issuance in violation of section 12 (f) of the Microfinance Act [Chapter 24:29]. The Reserve Bank has directed the institutions to surrender the licences.

Compliance with Core Client Protection Principles

5.6 During the quarter ended 31 March 2018, a total of six (6) complaints were received from microfinance clients compared to seven (7) during the quarter ended 31 December 2017. Five (5) complaints relate to high interest rate charges, which were not in line with Circular to Moneylending, Credit-Only and Deposit-Taking Microfinance Institutions, No. 02/2017: BSD, while one (1) complaint related to disputed amounts emanating from a forged signature on a loan agreement from.

5.7 The Reserve Bank has noted a general adherence to the Core Client Protection Principles by the microfinance sector and improved financial literacy levels among microfinance clients.

5.8 The Reserve Bank of Zimbabwe continues to promote consumer protection within the microfinance sector and to urge microfinance institutions to observe the Core Client Protection Principles.

5.9 In this regard, the Reserve Bank conducted an induction workshop during the quarter under review for newly licensed microfinance institutions, which covered compliance with the Core Client Protection Principles, and the Microfinance Act [Chapter 24: 29], among other issues.

END OF REPORT