



BANK SUPERVISION DIVISION

**MICROFINANCE INDUSTRY REPORT
FOR
QUARTER ENDED 31 DECEMBER 2017**

MARCH 2018

1. EXECUTIVE SUMMARY

- 1.1. The microfinance sector plays a critical role in the drive for financial inclusion and economic empowerment of the marginalized and low income groups, and the micro, small and medium enterprises (MSMEs), which have largely been excluded from mainstream financial services.
- 1.2. The microfinance industry registered a 6.47% growth in total loans from \$238.60 million as at 30 September 2017, to \$254.04 million as at 31 December 2017.
- 1.3. Microfinance institutions continue to target the marginalised groups including women and the micro, small and medium enterprises, and outreach to these marginalised groups is expected to increase as microfinance institutions access the various empowerment facilities availed by the Reserve Bank of Zimbabwe.
- 1.4. For the year ended 31 December 2017, the microfinance industry had an average Operational Self-Sufficiency (OSS)¹ ratio of 135.80%, which was above the break-even point of 100%.
- 1.5. While on average the industry remains operationally self-sufficient, the number of microfinance institutions which were not operationally self-sufficient increased to 49 as at 31 December 2017, up from 38 institutions as at 31 December 2016.
- 1.6. The microfinance industry registered a 2.31% decline in total assets from \$341.16 million as at 30 September 2017 to \$333.27 million as at 31 December 2017.

¹ OSS is the ratio of an MFI's operating revenue to its operating expenses including financial costs and impairment losses to loans.

- 1.7. The sector witnessed an improvement in portfolio quality with the sector registering a portfolio at risk (PaR) ratio of 7.34% as at 31 December 2017, down from 11.61% as at 30 September 2017.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

- 2.1. As at 31 December 2017, the sector had 183 registered microfinanciers, down from 189 microfinanciers as at 30 September 2017. Nine institutions did not renew their applications, due to various operating challenges, whilst three new licenses were issued during the quarter under review. The registered microfinanciers comprised 178 credit-only and moneylending institutions, and five (5) deposit-taking microfinance institutions (DTMFIs).
- 2.2. As at 31 December 2017, four (4) DTMFIs were operating following the commencement of deposit-taking operations by Lion Microfinance Bank on 1 February 2017. The fifth deposit-taking microfinance institution, Zimbabwe Women’s Microfinance Bank, which was licensed on 14 September 2017, had not yet commenced operations as at 31 December 2017, as the institution was still putting up the requisite infrastructure to commence DTMFI operations.
- 2.3. During the quarter under review, one of the DTMFIs submitted an application to convert from a deposit-taking microfinance institution to a commercial banking institution.
- 2.4. The distribution of the licences issued by the Registrar of Microfinanciers during the quarter ended 31 December 2017 is shown in the table below.

Table 1: Licences Issued During the Quarter Ended 31 December 2017

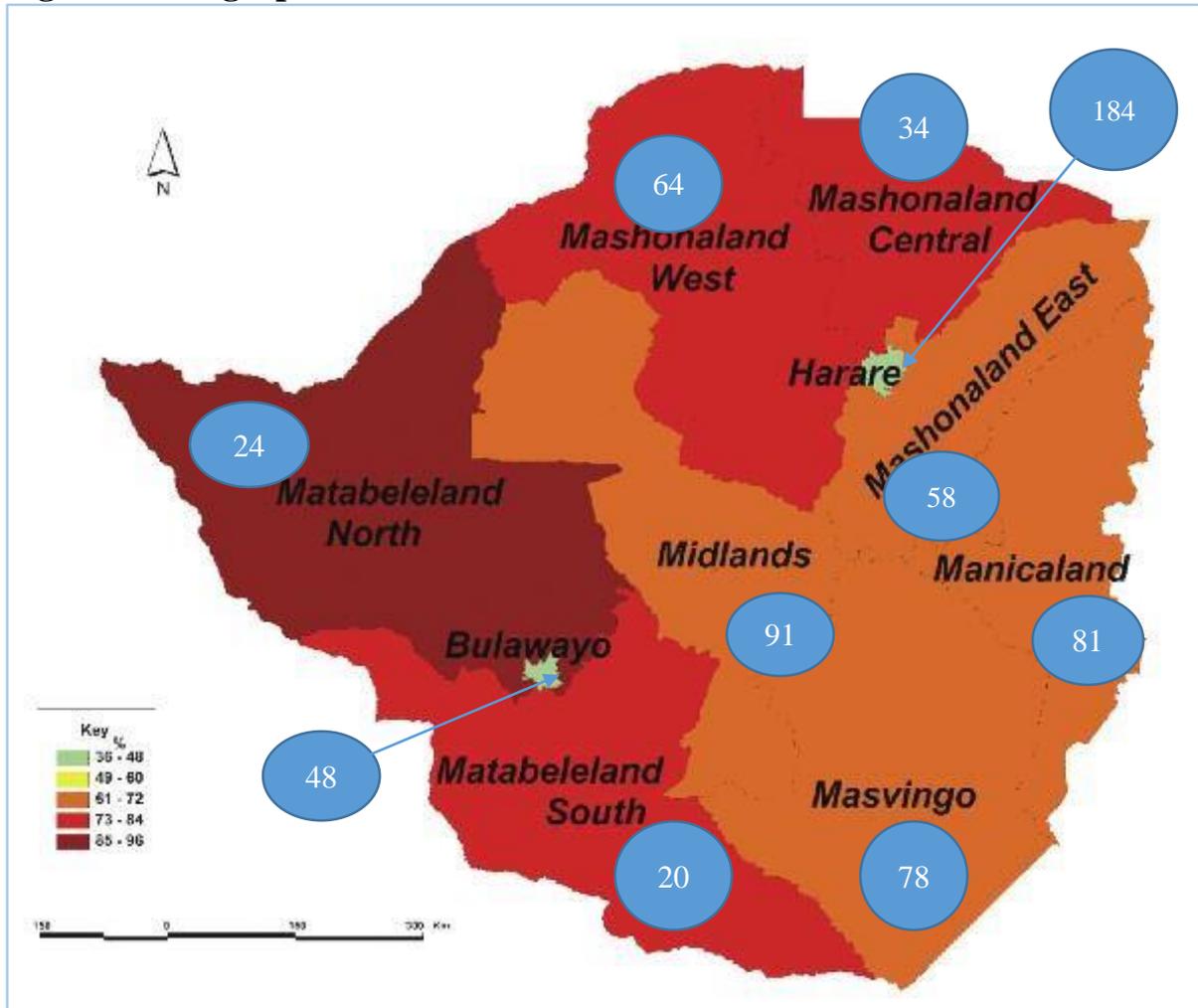
Type of Licence	Number
New Moneylenders' Licence	3
Renewal of Moneylenders' Licence	15
Renewal of Credit-only Microfinance Licence	11

3. BRANCH NETWORK AND OUTREACH

Branch Network...

- 3.1. The number of branches for the operating microfinance institutions increased to 682 as at 31 December 2017 up from 681 as at 30 September 2017.
- 3.2. The microfinance institutions' geographical footprint against the poverty prevalence map is depicted in Figure 1 below.

Figure 1: Geographical Distribution of Branches as at 31 December 2017.



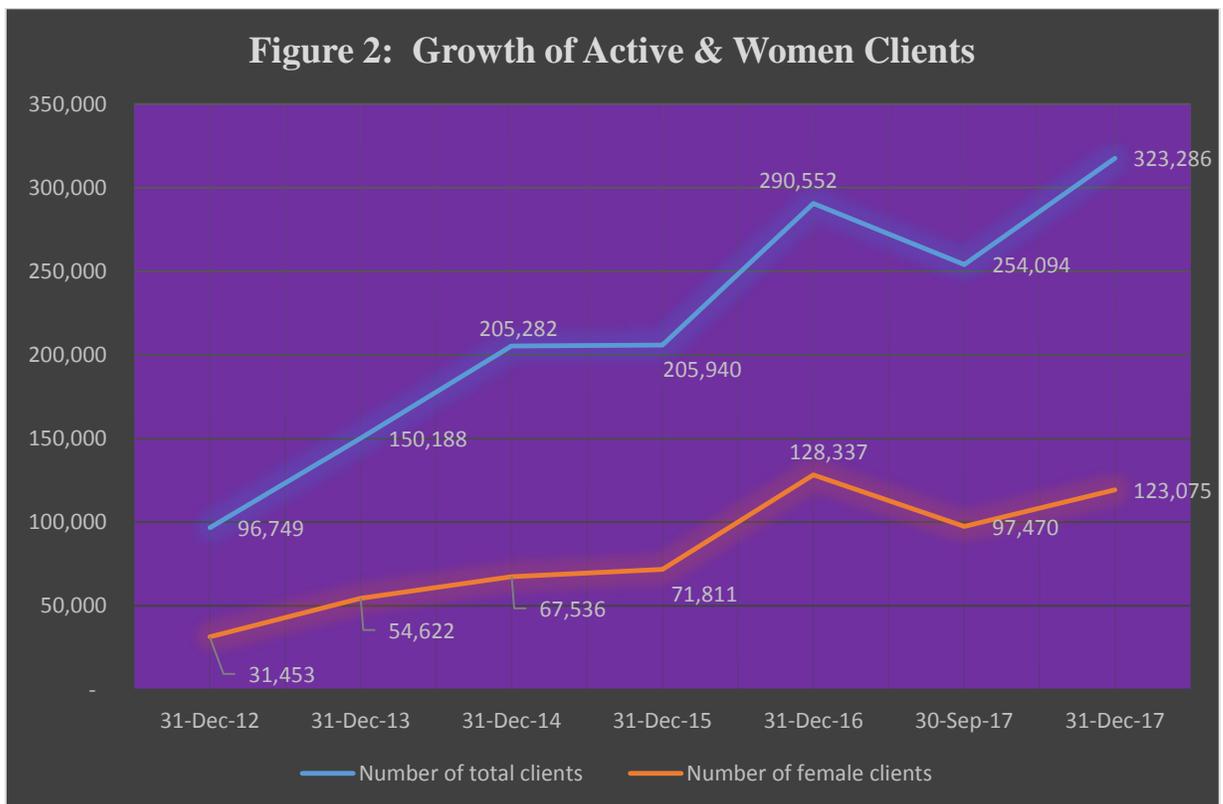
Source: Zimstat (2017)

- 3.3. During the quarter ended 31 December 2017, Harare and Midlands provinces continued to dominate in terms of the number of branches, with 184 and 91 branches respectively.
- 3.4. The poverty² prevalence map indicates that high poverty prevalent regions such as Matabeleland North and South, Mashonaland West and Central accounted for only 20.82% of the total microfinance branch network.

² According to Zimstat, poverty means not having an income or consumption sufficient to support specific normative functioning, loosely defined as being poor, whilst prevalence of poverty represents the total population whose consumption expenditures fall below the poverty line as a proportion of the total population.

Microfinance Outreach...

- 3.5. During the quarter under review, the sector registered an 27.23% increase in the number of active clients over the quarter from 254,094 as at 30 September 2017, to 323,286 as at 31 December 2017.
- 3.6. The number of female borrowers increased by 26.27% over the quarter from 97,470 as at 30 September 2017 to 123,075 as at 31 December 2017, as female borrowers and their enterprises continue to benefit from the Empowerment Facilities that have been put in place to cater for the marginalized groups.
- 3.7. The trend in the number of active clients and female borrowers over the past five (5) years is shown in Figure 2 below.



- 3.8. The number of active clients and female borrowers is expected to continue trending upwards as the uptake of the Reserve Bank Empowerment Facilities

increases.

- 3.9. The introduction of the Collateral Registry is further expected to improve access to finance by women, the youth, and the micro, small and medium enterprises, which have largely been excluded from mainstream financial services due to lack of requisite collateral.
- 3.10. The Collateral Registry will enable the low income households to use moveable assets as collateral to access finance from financial institutions.

4. PERFORMANCE OF THE MICROFINANCE INDUSTRY

- 4.1. The microfinance sector continued to register improvement in terms of capitalization, portfolio quality, profitability, and sustainability. The Deposit-taking microfinance subsector registered an improvement in deposit mobilization over the review period.
- 4.2. A summary of the key performance indicators for the sector is shown in Appendix 1.

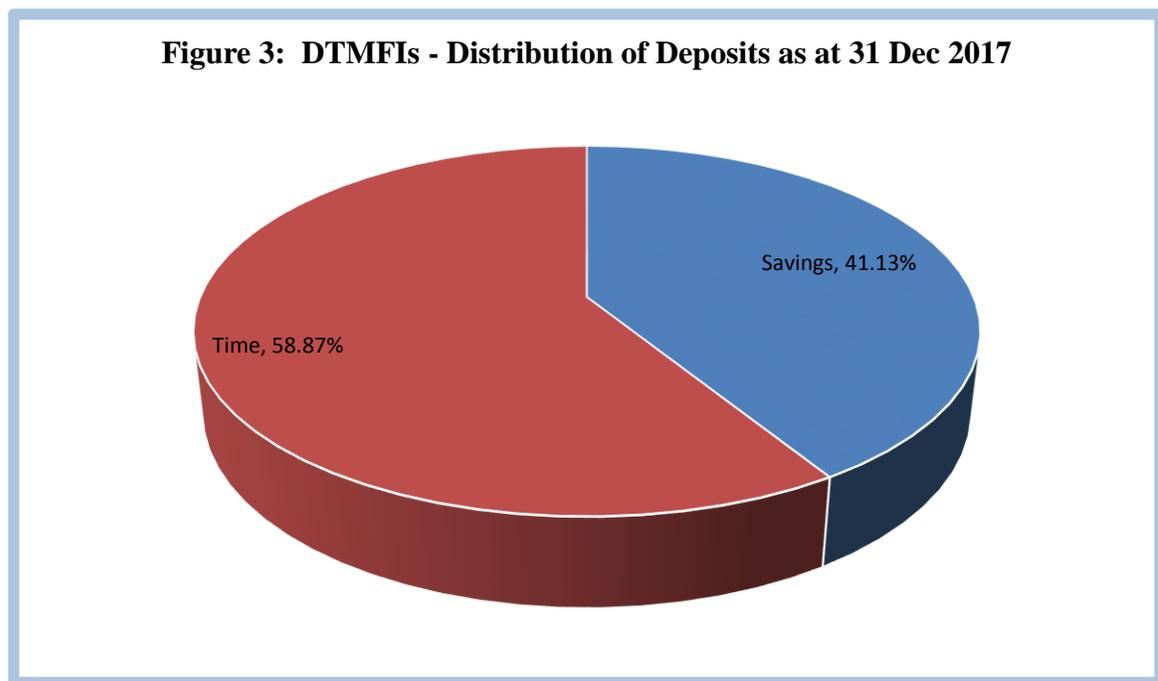
Product Offering...

- 4.3. Over the review period, the sector continued to be dominated by salary-based loans as the majority of microfinance institutions resorted to salaries as security for loans advanced. The inclination towards salary-based loans has limited the sector's capacity to contribute more meaningfully to the economic development agenda, and has also contributed to over-indebtedness of some microfinance clients.
- 4.4. A few microfinance institutions continued to partner with insurance companies in offering micro-insurance products to their clients. Value-chain financing by some institutions failed to yield expected results as the funded clients resorted

to side-marketing.

Deposit Mobilization...

- 4.5. As at 31 December 2017, the DTMFI sub-sector registered a 13.45% increase in deposits from \$5.65 million as at 30 September 2017, to \$6.41 million as at 31 December 2017, on the back of aggressive deposit mobilisation drive by the DTMFIs with the view to tapping into affordable local sources of funding.
- 4.6. The distribution of deposits as at 31 December 2017 is shown in the Figure 3 below.



- 4.7. The sector recorded a total of 7,226 savings accounts as at 31 December 2017, representing 153.72% increase from 2,848 savings accounts recorded as at 30 September 2017. The increase in savings accounts was due to a deliberate account opening drive by one of the DTMFIs in the rural areas. The time deposits were largely mobilised from small and medium enterprises.
- 4.8. The time deposits were largely mobilised from small and medium enterprises.

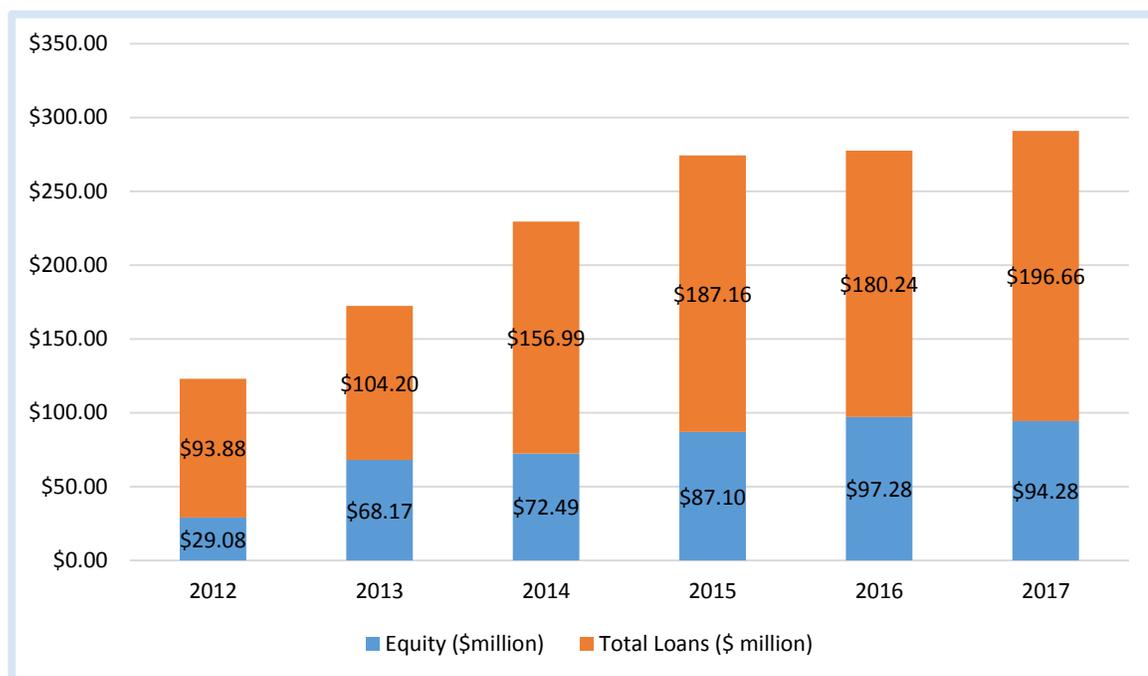
Capital & Funding...

- 4.9. The industry's aggregate equity has largely remained subdued over the review period, with the industry recording a 4.01% decrease in total equity to \$130.22 million as at 31 December 2017 from \$135.66 million as at 30 September 2017. The decrease was largely due to loss making by some microfinance institutions during the period under review.

Credit-Only Microfinance Subsector (COMFIs)

- 4.10. The aggregate capital for the subsector decreased by 3.08% from \$97.28 million as at 30 September 2017 to \$94.28 million as at 31 December 2017, as a result of operating losses.
- 4.11. A total of eight (8) credit-only microfinance institutions had capital positions below the minimum capital requirement of \$20,000 largely due to losses. The non-compliant institutions have been directed to regularize their capital positions.
- 4.12. As at 31 December 2017, a total of 96 credit-only microfinance institutions had capital positions that surpassed the minimum capital requirement of \$50,000, effective in 2020.
- 4.13. The trend in capital position for the credit-only microfinance institutions is shown in the figure below.

Figure 4: Credit-only MFIs Trend in Equity Position & Total Loans (\$ million) 2012 - 2017



4.14. There has not been significant investment in terms of additional equity into the subsector over the years. The sector’s growth has been hamstrung by lack of strong institutional anchor investors, leaving the sector to rely on the limited owner funds and other sources of funding to grow the loan portfolios.

4.15. The other sources of funding included borrowings from banking institutions, foreign lines of credit, and funding from wholesale facilities and development partners, including Zimbabwe Microfinance Fund, Zimbabwe Agricultural Development Trust (ZADT), and Food Aid Organisation (FAO), among others.

Deposit-Taking Microfinance Subsector

4.16. As at 31 December 2017, four (4) operating DTMFIs had aggregate core capital of \$35.75 million, representing a 6.15% increase from \$33.68 million as at 30 September 2017. All DTMFIs, except one, were compliant with the minimum capital requirements of \$5 million for DTMFIs. The deterioration in the non-

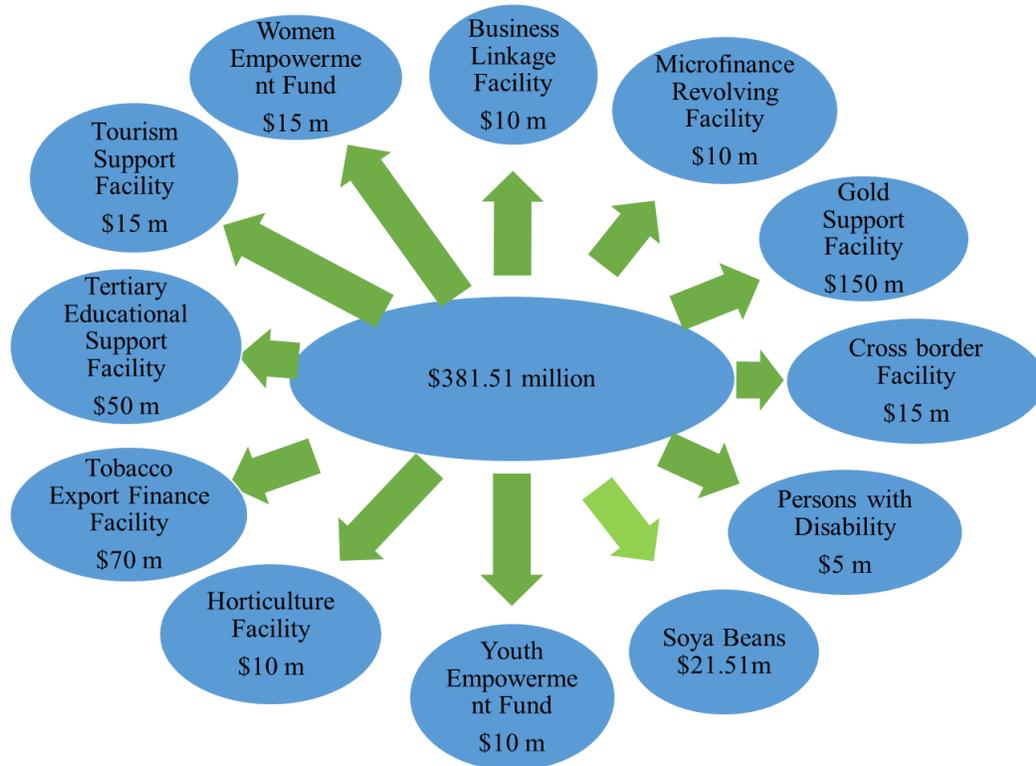
compliant institution's capital position was largely attributed to losses emanating from high operating costs incurred in the year ended 31 December 2017. The institution was directed to institute measures to regularise its capitalization position.

- 4.17. Two of the DTMFIs had capital positions that already surpassed the \$7.5 million capital requirement, effective 2020. The increase in capital is largely attributed to organic growth as retained earnings accounted for 68.73% of the subsector's core capital as at 31 December 2017.

Funding Sources for the Sector

- 4.18. Going forward, microfinance institutions are expected to increase their outreach and grow their loan portfolios as they access Reserve Bank of Zimbabwe empowerment facilities, for on-lending to the productive sectors.
- 4.19. As at 31 December 2017, the Reserve Bank of Zimbabwe had availed the following facilities targeting the productive sectors of the economy:

Figure 5: The Empowerment Facilities



Lending and Portfolio Quality...

4.20. During the review period, the microfinance industry recorded a 6.47% increase in total loans from \$238.60 million as at 30 September 2017, to \$254.04 million as at 31 December 2017. The loans of \$254.04 million as at 31 December 2017, accounted for 6.70% of the total banking sector loans of \$3.79 billion as at 31 December 2017.

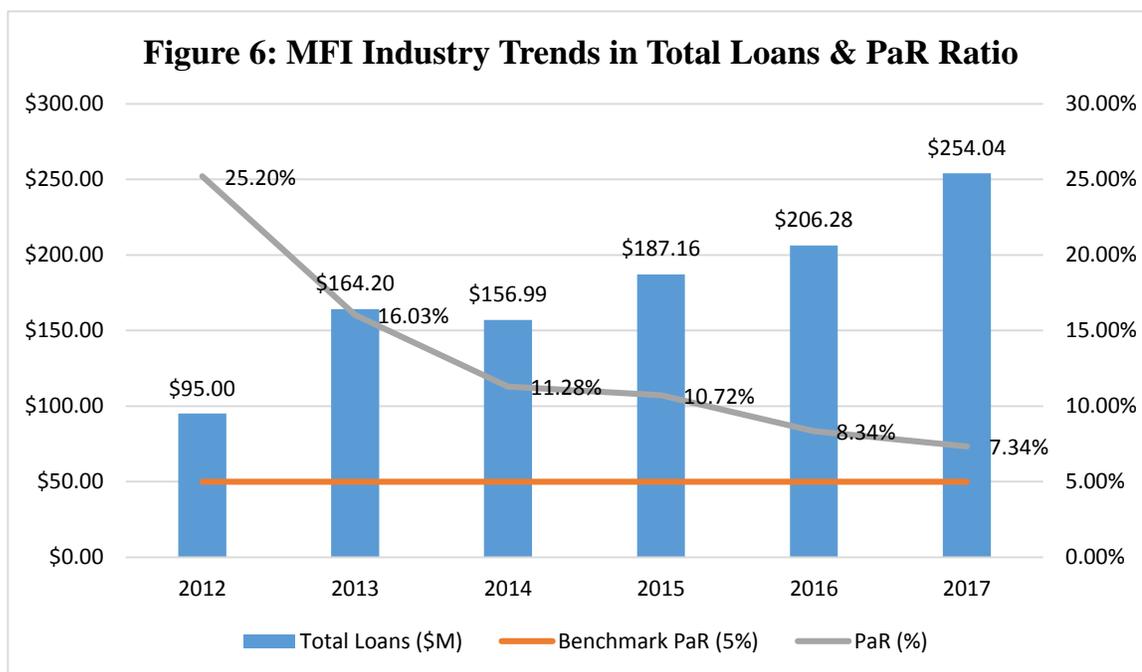
4.21. The sector’s lending remains concentrated in a few microfinance institutions, as the top 20 microfinance institutions with a total loan portfolio of \$215.79 million accounted for 84.94% of the total sector loans of \$254.04 million as at 31 December 2017. This is attributable to increased funding at a few institutions in the sector.

4.22. As at 31 December 2017 the total loans of \$62.02 million for the DTMFIs, constituted 24.41% of total microfinance industry loans of \$254.04 million as at the same date.

4.23. The DTMFI subsector’s lending reflected high concentration, as one DTMFI with a loan book of \$34.55 million commanded a market share of 55.72% of the total sub-sector total loans of \$62.02 million.

4.24. The remaining 166 microfinance institutions accounted for 15.06% of the total sector loans. One deposit-taking microfinance institution with a total loan book of \$34.55 million accounted for 13.60% of the total sector loans for the same period.

4.25. The trend in the total industry loans and portfolio quality is indicated in the figure below.



4.26. In the credit-only microfinance institutions subsector, lending was also concentrated in the top 20 credit-only microfinance institutions with a loan book

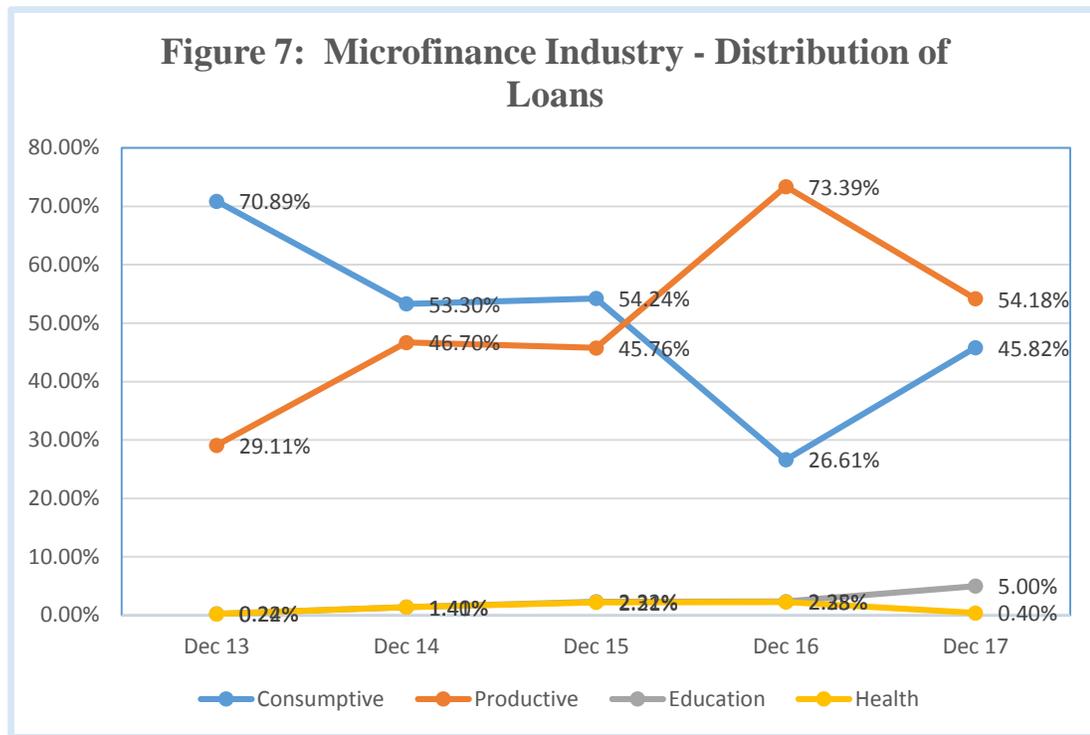
of \$172.16 million, which accounted for 87.54% of the subsector's total loans of \$196.66 million.

Portfolio Quality

- 4.27. The loan portfolio quality for the entire microfinance industry has been improving over the years as reflected by the improvement in the Portfolio at Risk (>30 days) (PaR) ratio from a peak of 25.20% in December 2012 to 7.34% as at 31 December 2017. Over the quarter, the PaR (>30 days) ratio improved marginally from 7.68% to 7.34%, against the international benchmark of 5%.
- 4.28. Over the quarter, PaR ratio for the credit-only subsector improved from 11.71% as at 30 September 2017, to 6.79% as at 31 December 2017, which is largely reflective of improved risk management within the sector and over-reliance on salary-based loans.
- 4.29. The average PaR ratio (PaR>30) for the DTMFI subsector deteriorated from 9.21% as 30 September 2017 to 11.30% as at 31 December 2017.
- 4.30. The coming on board of more microfinance institutions, both as users and providers of information to the Credit Registry, is expected to enhance portfolio quality within the entire microfinance sector.

Microfinance Industry Distribution of Loans...

- 4.31. As at 31 December 2017, loans to the productive sectors amounted to \$137.64 million, representing 54.18% of the industry's total loans of \$254.04 million. The proportion of loans to the productive sector declined over the quarter from 62.62% of total sector loans as at 30 September 2017, to 54.18% as at 31 December 2017.
- 4.32. The figure below shows the trend in the distribution of loans from 2013 to 2017.



4.33. During the year 2017, there was an increase in lending for consumptive purposes, as the low income households sought to smoothen consumption in the wake of rising prices of basic commodities and a challenging operating environment. Further, there was a notable shift in lending patterns over the year as institutions moved from productive lending in preference for salary based, which are perceived to be less risky.

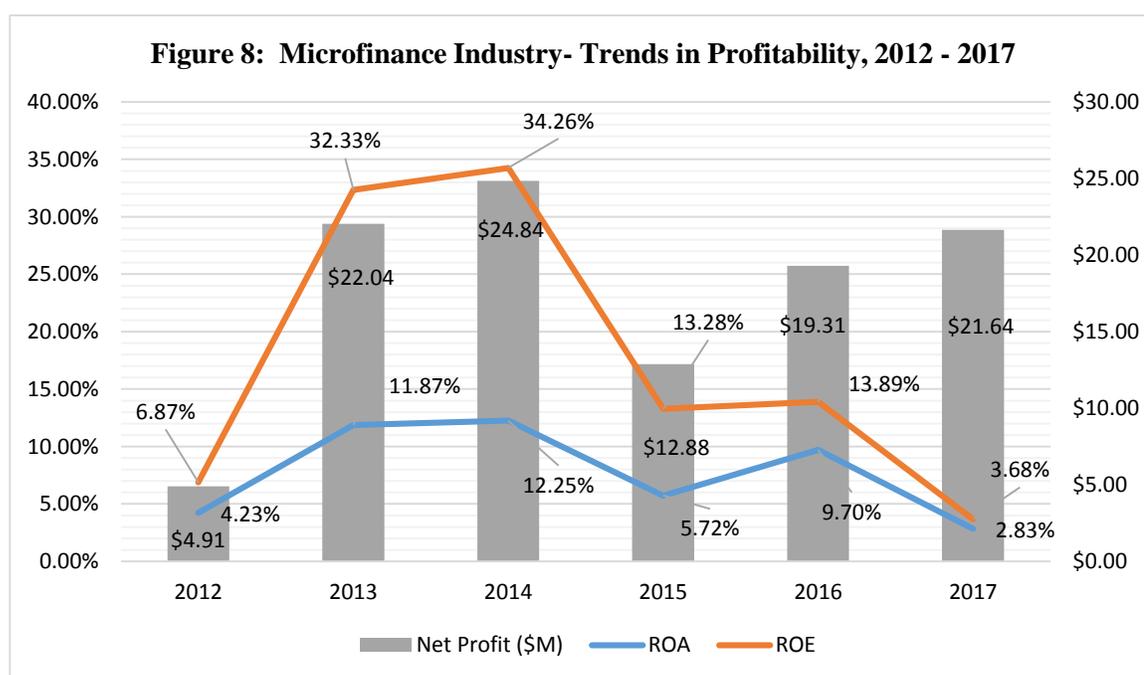
4.34. Over the review period, loans for educational purposes remained low, accounting for 5% of total sector loans of \$254.04 million as at 31 December 2017, while loans earmarked for health purposes remained insignificant at 0.40% of total microfinance sector loans for the same period.

4.35. Loans for educational purposes are expected to increase as uptake of the Tertiary Educational Facility increases.

Profitability...

4.36. The microfinance industry registered a net profit of \$21.64 million for the year ended 31 December 2017. The sector registered an average Operational Self-Sufficiency (OSS) of 135.80%, down from 146.22% as at 31 December 2016. The OSS ratio of 135.80% as at 31 December 2017 was above the break-even point of 100%, indicating that the sector is still operationally sustainable. An OSS ratio of less than 100% indicates that the sector may not survive or continue operations without external assistance or donor support.

4.37. The trend in the profitability of the microfinance sector is indicated in Figure 8.



4.38. Return on assets (ROA) and return on equity (ROE) ratios for the industry declined over the year from 18.22% and 7.11% as at 31 December 2016 to 3.68% and 2.83%, respectively, as at 31 December 2017.

4.39. Over the review period, credit-only microfinance institutions remained operationally sustainable with an average OSS ratio of 123.57% for the period ended 31 December 2017, down from 146.34% as at 31 December 2016.

- 4.40. The decline in the sustainability ratio for the credit-only subsector is largely attributed unsustainable cost structures, and high portfolio at risk at some credit-only microfinance institutions during the period under review. A total of 49 credit-only microfinance institutions posted losses for the period ended 31 December 2017, up from 38 credit-only microfinance institutions for period ended 31 December 2016.
- 4.41. The average return on assets and return on equity for the credit-only microfinance sub-sector declined from 9.70% and 13.89% as at 31 December 2016, to 3.68% and 5.23% respectively for the year ended 31 December 2017.
- 4.42. The DTMFI subsector registered a 35.16% decline in aggregate net profit over the year from \$3.47 million for the year ended 31 December 2016 to \$2.25 million for the year ended 31 December 2017. The decline was largely attributed to a net loss reported by one of the DTMFIs.
- 4.43. The DTMFI subsector, however, remained operationally sustainable with an average OSS ratio of 126.30% as at 31 December 2017 down from 139.73% as at 31 December 2016. The decline in the operational self-sufficiency ratio was largely influenced by the loss-making DTMFI.
- 4.44. The return on assets and return on equity ratios for the DTMFI subsector deteriorated to (4.63%) and (3.61%) respectively as at 31 December 2017, down from 6.08% and 23.52% as at 31 December 2016.

5. COMPLIANCE WITH REGULATORY REQUIREMENTS

- 5.1. The Reserve Bank continues to enforce compliance with the legal and regulatory requirements as well as international best practices in the operations of the microfinance industry.

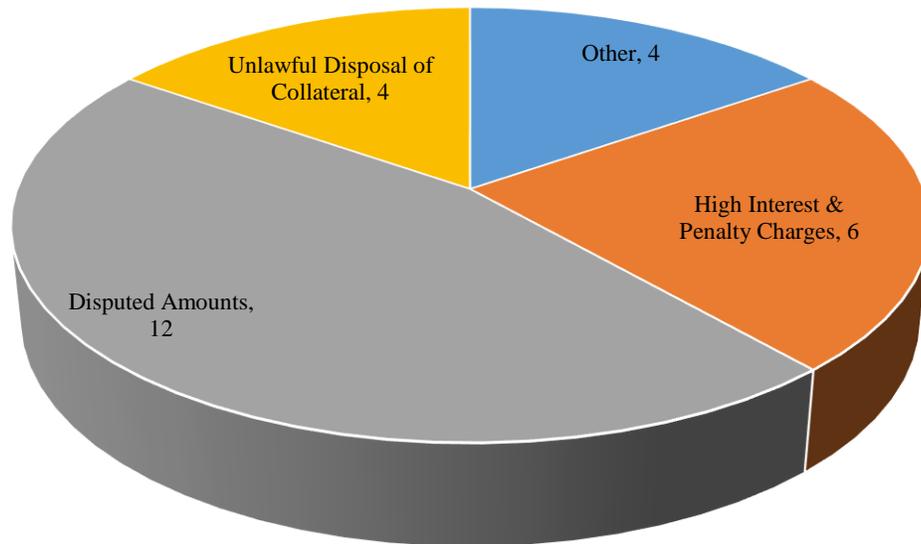
Compliance with Regulatory Requirements and Best Practice...

- 5.2. As at 31 December 2017, eight (8) credit-only microfinance institutions and one (1) deposit-taking microfinance institution had capital levels below the prescribed minimum capital requirements of \$20,000 and \$5 million respectively, largely due to losses. The institutions have been directed regularize their capital positions.
- 5.3. During the period under review, a total of four (4) institutions were penalized for late submission of the MFI returns for quarter ended 31 December 2017.

Complaints...

- 5.4. During the quarter ended 31 December 2017, a total of six (6) complaints were received from microfinance clients, bringing the cumulative complaints received for the year ended 31 December 2017 to a total of 24 compared to 31 received in 2016.
- 5.5. The distribution of the nature of complaints is shown in the pie chart below.

Figure 9: Nature of Microfinance Complaints Received in 2017



- 5.6. Some of the complaints related to disputed amounts emanating from clients who opted for longer repayment periods, or those that had defaulted and were being charged high penalty rates. Incidences were noted wherein microfinance clients opt for longer repayment periods, which had significant impact on the total amount repaid as it translated to more than double the original value of the loans.
- 5.7. The Reserve Bank of Zimbabwe also dealt with incidences of multi-borrowed and over-indebted microfinance clients, who continued to use their pay-slips to access more and more micro loans from several microfinance institutions. Mandatory utilization of the Credit Registry is expected to reduce incidences of default and multi-borrowing within the sector.
- 5.8. The Reserve Bank continues to require microfinance institutions to desist from predatory lending tendencies, which negatively impact on confidence in the microfinance sector as well as the entire banking sector.

5.9. The Reserve Bank of Zimbabwe continues to monitor compliance with the Microfinance Act [Chapter 24:29], the Microfinanciers' Code of Conduct and the Core Client Protection Principles.

END OF REPORT

Appendix 1: Microfinance Industry Key Past Performance Indicators

Indicator	Dec 16	Mar 17	Jun 17	Sep 17	Dec 17
Number of Licensed Institutions	185	180	187	189	183
Total Loans (US\$m)	206.28	215.24	229.44	238.60	254.04
Total Assets (US\$m)	275.04	291.89	297.85	341.17	333.27
Total Deposits (DTMFIs) (US\$m)	4.19	5.12	6.62	5.65	6.41
Number of Savings Accounts (DTMFIs)	1,411	1,993	2,265	2,848	7,226
Portfolio at Risk (PaR>30 days)* (%)	8.34	7.52	6.46	7.68	7.34
Number of Active Clients	290,552	257,498	322,728	254,094	323,286
Number of Outstanding Loans	352,225	620,728	372,837	295,547	415,979
Number of Branches	659	648	698	681	682