BANK SUPERVISION DIVISION

MICROFINANCE INDUSTRY REPORT

FOR

QUARTER ENDED 30 SEPTEMBER 2017

1. Executive Summary

1.1. The microfinance sector continues to contribute towards the financial emancipation and sustainable economic empowerment of the vulnerable and low income, as well as the micro, small and medium enterprises.

1.2. The microfinance sector registered a 33.68% growth in total assets over the year from $255.21 million as at 30 September 2016 to $341.17 million as at 30 September 2017.

1.3. Year on year total loans increased by 18.88% from $200.70 million as at 30 September 2016 to $238.60 million as at 30 September 2017.

1.4. Loan portfolio quality, as measured by the industry's Portfolio at Risk (PaR) ratio has improved over the years from a peak of 25.2% in 2012 to 7.68% as at 30 September 2017.

1.5. The Reserve Bank of Zimbabwe's $10 million Microfinance Revolving Loan Facility augmented by other funding sources from developmental partners is expected to go a long way in improving the geographical footprints of the microfinance sector, largely to the unbanked areas of the rural communities.

1.6. The credit registry and the collateral registry are also envisaged to improve viability in the sector through general enhancements in portfolio quality.

2. Architecture of the Microfinance Industry

2.1. As at 30 September 2017, there were 189 registered microfinanciers comprising 184 credit-only and moneylending institutions, and five (5) deposit-taking microfinance institutions (DTMFIs).

2.2. On 14 September 2017, the Zimbabwe Women's Microfinance Bank Limited was registered as a deposit-taking microfinance institution. The microfinance bank is currently putting in place the relevant processes, systems and infrastructure in preparation for a pre-opening inspection by the Reserve Bank of Zimbabwe before the institution opens its doors to the public.

2.3. Table 1, summaries the licences issued by the Registrar of Microfinanciers during the quarter ended 30 September 2017.

Table 1: Licences Issued during the quarter ended 30 September 2017.

Type of Licence	Number
New Moneylenders’ Licence	5
New Credit-only Microfinance Licence	1
New Deposit- taking Microfinance Licence	1
Renewal of Moneylenders’ Licence	21
Renewal of Credit-only Microfinance Licence	8
Renewal of Deposit-taking Microfinance Licence	1

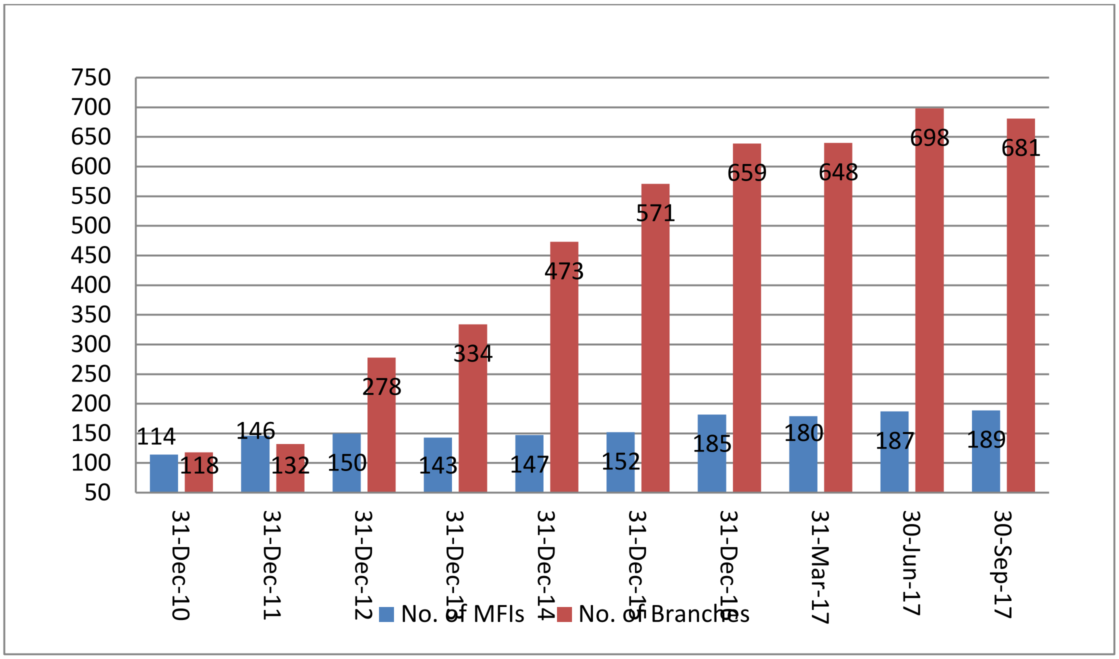
3. BRANCH NETWORK AND OUTREACH

Branch Network...

3.1. The number of branches over the past 7 years has generally been on an upward trajectory as indicated in Figure 1.

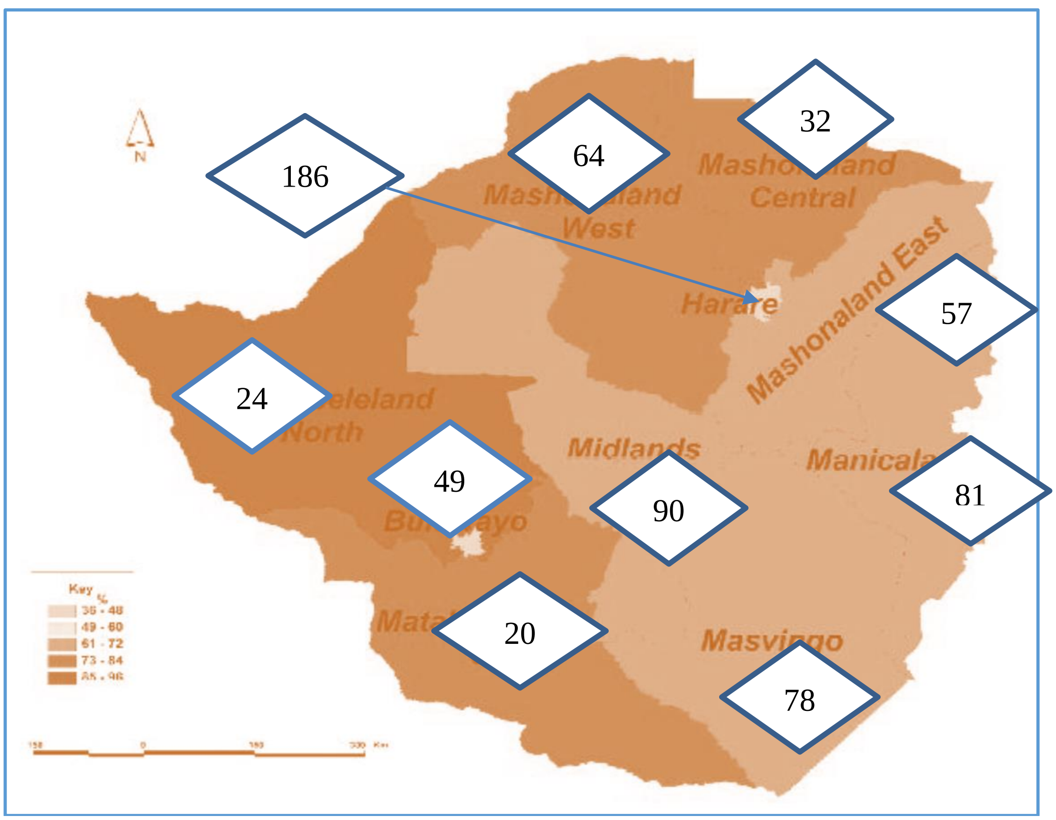
3.2. However, the sector’s branch network declined over the quarter from 698 branches as at 30 June 2017 to 681 branches as at 30 September 2017, as some institutions streamlined their branch network due to high operational costs.

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



3.3. The sector's geographical footprints against the poverty prevalence map is depicted in Figure 2.

Figure 2: Geographical Distribution of Branch Network as at 30 September 2017



3.4. During the quarter, Harare and Midlands provinces continued to dominate in terms of the number of branches with 186 and 90, respectively, a marginal decline from 199 and 91 branches respectively, in the second quarter.

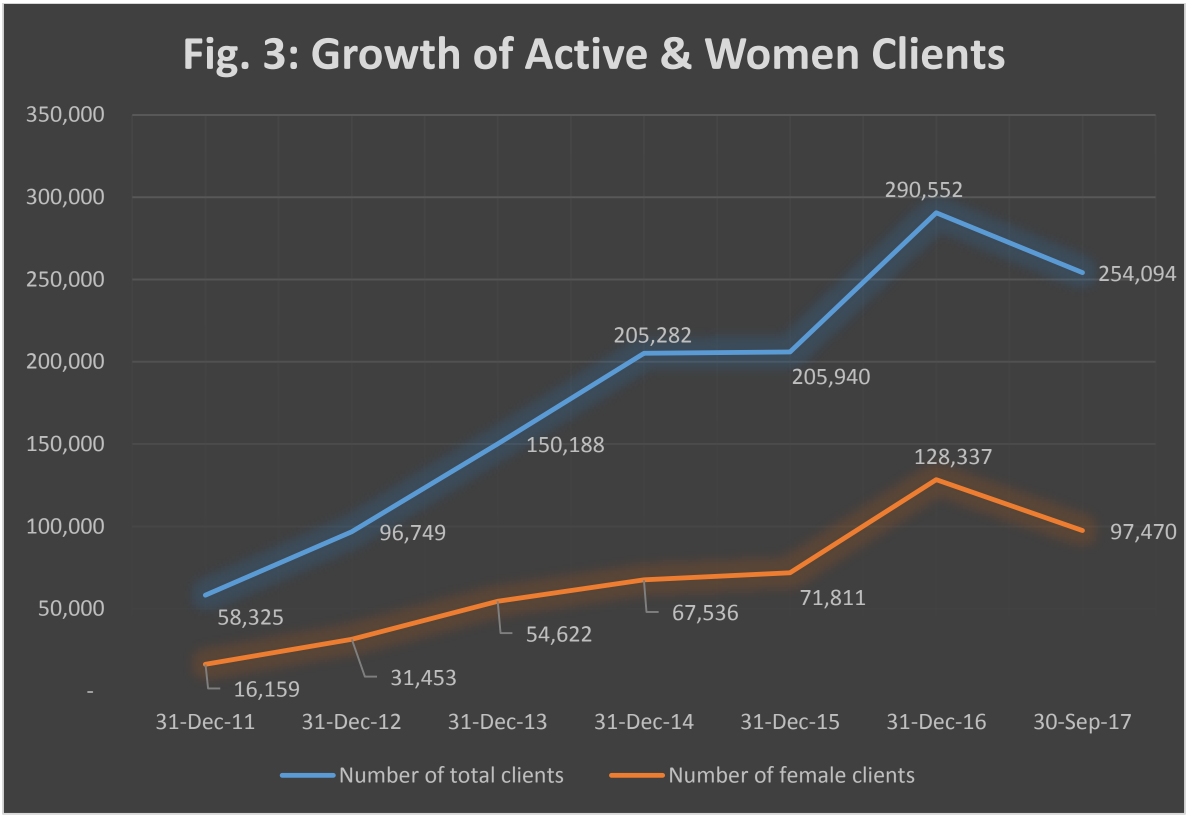
3.5. Bulawayo and Matabeleland South also experienced a decline in the number of microfinance branches from 72 and 43 respectively, as at 30 June 2017 to 49 and 20 branches respectively as at 30 September 2017.

3.6. The Poverty Prevalence map indicates that 80.46% of microfinance branches are located in low and medium poverty prevalent regions such as Harare, Bulawayo, Midlands, Manicaland, Mashonaland West and Masvingo, while high poverty prevalent regions such as Matabeleland North & South, Mashonaland West & Central accounted for 19.54% of the total microfinance branch network.

Microfinance Outreach…

3.7. Microfinance outreach has largely remained subdued as the majority of microfinance institutions focuses on the same target market with salary-based loans. The sector registered a total of 254,094 active clients as at 30 September 2017, down from 322,728 as at 30 June 2017.

3.8. The number of women borrowers also declined over the quarter from 127,602 as at 30 June 2017 to 97,470 as at 30 September 2017. Women continue to benefit from facilities that are targeted at the marginalized and low income, with loans to the women accounting for 38.36% of the total sector loan book.



3.9. The introduction of the Collateral Registry is expected to increase the number of active clients as more and more marginalized and low income groups use moveable assets to access financial services from financial institutions.

4. PERFORMANCE OF THE MICROFINANCE SECTOR

4.1. Over the review period, the sector recorded an improvement in terms of portfolio quality, profitability and sustainability. The deposit-taking microfinance sub-sector also recorded an improvement in savings and deposit mobilisation over the review period. A summary of the key performance indicators of the sector is shown in Appendix 1.

Product Offering…

4.2. Product offering over the quarter remained limited and largely dominated by micro loans, in particular, salary-based loans. Over reliance on salary-based loans has stifled innovation, limited product offering and heightened over-indebtedness of the target group particularly civil servants, the majority of whom are multi-borrowed.

4.3. A few microfinance institutions have partnered with insurance companies to offer micro insurance to the low income and marginalised group.

4.4. Further, over the quarter, some microfinance institutions introduced micro-housing loans for purchasing land for development, or refurbishment of existing structures.

Deposit-taking Microfinance Institutions Sub-sector

4.5. Deposit-taking microfinance institutions (DTMFIs) continue to offer both micro loans and micro savings products.

4.6. As at 30 September 2017, the four operating DTMFIs had mobilised deposits amounting to $5.65 million compared to $6.62 million as at 30 June 2017.

4.7. Over the quarter, the sector witnessed a 25.74% increase in the number of savings accounts opened from 2,265 as at 30 June 2017, to 2,848 as at 30 September 2017, as the sub-sector continues to make inroads in terms of inculcating a savings culture among the low income and marginalised groups.

Lending and Portfolio Quality …

4.8. The sector recorded a marginal increase of 4.02% in total loans from $229.38 million as at 30 June 2017 to **$238.60 million** as at 30 September 2017.

4.9. As at 30 September 2017, the microfinance sector's total loans of $238.60 million, constituted 6.01% of total banking sector loans of $3.97 billion as at the same date.

4.10. The sector's lending continues to reflect high concentration, with 20 microfinance institutions accounting for 88.19% of the sector's total loans of $238.60 million. The remaining 169 microfinance institutions accounted for only 11.81% of the market's total loans. One deposit-taking microfinance institution with a loan book of $36.49 million, commanded a market share of 15.29% as at 30 September 2017.

4.11. Total loans for the four (4) operational DTMFIs amounted to $60.42 million representing a market share of 25.32% of the loan portfolio in the sector as at 30 September 2017.

Portfolio Quality

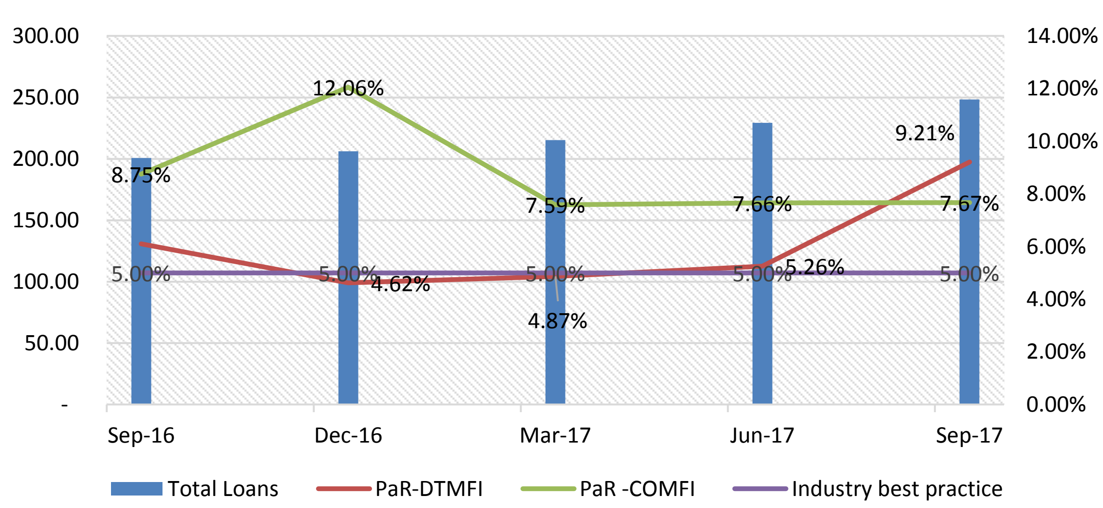
4.12. The portfolio quality, as measured by the Portfolio at Risk (PaR>30 days) ratio has improved from 25.20% recorded in December 2012 to 7.68% as at 30 September 2017.

4.13. Over the quarter, PaR ration deteriorated from 6,60% as at 30 June 2017, to 7.68% as at 30 September 2017, which is largely reflective of the level of over-indebtedness in the sector on the back of a challenging operating environment.

4.14. PaR ratios for deposit-taking microfinance institutions and credit-only microfinance institutions were 9.21% and 7.67% as at 30 September 2017, respectively.

4.15. The trend in the average PaR ratio for deposit-taking microfinance institutions and credit-only microfinance institutions is shown in Figure 4 below.

Fig 4:Trend in Total Loans and PaR Ratio



4.16. The recently introduced Credit Registry is expected to enhance portfolio quality as information asymmetry is minimized thereby curbing incidents of over indebtedness within the sector.

Distribution of Loans…

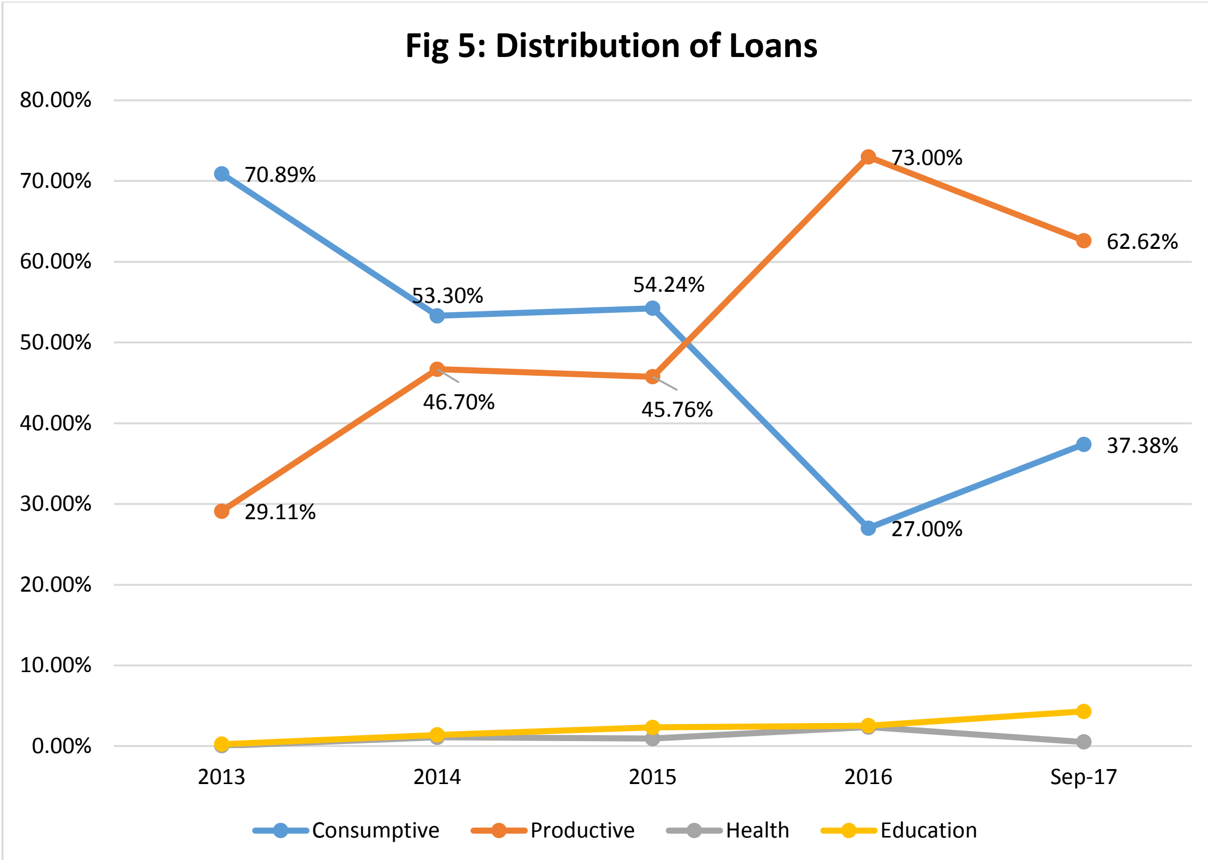
4.17. Over the review period microfinance has proved to be a vital pillar to the financial inclusion agenda, and improvement of livelihoods of the vulnerable and marginalized groups.

4.18. Microfinance institutions continued to re-align their lending activities towards the productive sector. Loans to the productive sector amounting to $149.42 million represented 62.62% of the sector's total loans as at 30 September 2017.

4.19. Maximum benefits from project financing are however, being hampered by weak contractual relations between off-takers and microfinance institutions. There were reported incidences where off-takers reneged against agreements between them and microfinance institutions and went on to pay smallholder farmers the full proceeds from sale of produce, instead of paying direct to the financing microfinance institution. As a result, the microfinance institution, which will not be secured with any collateral, is exposed as smallholder farmers do not honour up and settle their debts. Another noted hindrance to project financing is the increases in incidents of side marketing by smallholder farmers.

4.20. Some of the microfinance institutions continue to have access to cheaper and affordable funding for on-lending from developmental institutions such as Zimbabwe Microfinance Fund (ZMF) and Zimbabwe Development Trust. Reserve Bank of Zimbabwe set up a Microfinance Revolving Loan Facility of $10 million for the sector, which will be managed by ZMF. These funds are ear marked for developmental projects.

4.21. Figure 5 shows the trend in the distribution of loans from 2013 to 2017.



Profitability…

4.22. The average OSS[1] ratio for the microfinance sector was 123.95% 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.

4.23. Deposit-taking microfinance sector was considered sustainable as reflected by the average Operating Self Sufficiency (OSS) ratio of 127.60% for the nine months ended 30 September 2017. However, one new entrant posted losses for period ended 30 September 2017, largely due to the absorption of start-up costs.

4.24. Credit-only microfinance institutions were considered sustainable as reflected

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

by the average Operating Self Sufficiency (OSS) ratio of 123.85% for the nine months ended 30 September 2017. A total of forty-six credit-only microfinance institutions posted losses which are attributable to unsustainable cost structures, high portfolio at risk as a result of economic hardships.

4.25. Top 20 credit-only microfinance institutions had an OSS ratio of 140.19% for the review period.

4.26. The introduction of the credit registry is expected to have a positive impact in terms of enhancement of profitability as the information asymmetry gap will be narrowed down thereby discouraging the current trend of over indebtedness which has adversely affected the portfolio quality and revenue streams.

5. DELIVERY CHANNELS AND COMPLIANCE

5.1. The success of microfinance institutions in Zimbabwe is hinged on adopting reliable and sustainable ICT in delivering better innovative products to its clients.

5.2. The Reserve Bank of Zimbabwe is currently lobbying for the automation of the microfinance sector to enable transmission of the regulatory returns through the Bank Supervision Application (BSA) system.

5.3. Automation of systems are also expected to improve decision making, efficiency, reduction in operational cost and enhancing customer satisfaction as products are delivered to clients in a more efficient and reliable way.

5.4. The Reserve Bank of Zimbabwe commends the sector's financial innovation in adopting plastic money and mobile banking for the delivery of microfinance products and services.

6. DEVELOPMENTS IN THE SECTOR

6.1. A total of 125 microfinance institutions were trained on the use of the Credit Registry System as an aid to credit decision making. The objective is to limit information asymmetry and avoid multi lending in the sector. Training has been conducted within the quarter and is ongoing.

6.2. The microfinance sector has also witnessed a number of innovations such as the introduction of debit cards for the convenience of clients who can access their funds via POS machines.

7. MICROFINANCE CONFERENCE

7.1. The Reserve Bank of Zimbabwe in partnership with the World Bank, Zimbabwe Reconstruction Fund (ZIMREF) and the Zimbabwe Association of Microfinance Institutions (ZAMFI) hosted a two-day Zimbabwe Microfinance Conference from 7 to 8 September 2017 in Harare. The conference was held under the theme *"Transforming the Microfinance Landscape for Economic Growth Through Innovation and Inclusion"*.

7.2. The main purpose of the conference was to explore ways to strengthen the microfinance sector's contribution to economic development of Zimbabwe through technology.

7.3. At the conference all microfinance institutions were urgued to develop innovative product dictribution strategies to reach out to the marginalised. The microfinance institutions were implored to transform themselves and reorient lending to the productive sector.

7.4. The sector was also encouraged to seek services of external credit rating agencies for the purposes of accessing long term offshore lines of credit.

7.5. Microfinance institutions were encouraged to enhance corporate govenance and risk management systems to improve operational efficiency.

8. Compliance with Regulatory Requirements and Best Practices…

8.1. Compliance with the Microfinance Act [Chapter 24:29] remains one of the major challenges in the microfinance sector especially the submission of quarterly returns.

8.2. A total number of five (5) microfinance institutions were penalized for nonsubmission and late submissions of MFI returns for the quarter ending September 2017.

8.3. A total of twenty (20) complaints were received during the quarter ended 30 September 2017, compared to ten complaints received in the previous quarter.

8.4. The complaints received from microfinance customers were in relation to over-deductions by MFIs, unprocedural disposal of pledged assets, and over indebtedness.

8.5. Microfinance institutions have taken heed to Circular to Moneylending, Credit-only and Deposit-taking Microfinance Institutions to charge an effective interest rate not exceeding 10% per month.

8.6. 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.

END OF REPORT

Appendix 1: Key Performance Indicators, Sep 2016 – Sep 2017

Indicator	Sep 16	Dec 16	Mar 17	Jun 17	Sep 17
Number of Licensed Institutions	169	185	180	187	189
Total Loans (US$m)	200.80	206.28	215.24	229.44	238.60
Total Assets (US$m)	255.32	275.04	291.89	297.85	341.17
Total Deposits (DTMFIs) (US$m)	2.10	4.19	5.12	6.62	5.65
Number of Savings Accounts (DTMFIs)	1,060	1,411	1,993	2,265	2,848
Portfolio at Risk (PaR>30 days)* (%)	6.11	8.34	7.52	6.46	7.68
Number of Active Clients	263,806	290,552	257,498	322,728	254,094
Number of Outstanding Loans	279,148	352,225	620,728	372,837	295,547
Number of Branches	595	659	648	698	681

***** 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.**