BANK SUPERVISION DIVISION

MICROFINANCE QUARTERLY INDUSTRY REPORT

AS AT

30 SEPTEMBER 2020

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1. EXECUTIVE SUMMARY

1.1. The performance of the microfinance sector has remained positive despite the negative impact of the Covid-19 pandemic on microfinance business and the economy in general. While total assets, loans & advances, aggregate equity and total deposits experienced growth, this was below the growth recorded in the previous quarter.

1.2. Outreach indicators for the sector were subdued as the number of MFIs and branches, number of active loan clients and women borrowers declined during the quarter ended 30 September 2020.

1.3. As at 30 September 2020 total assets for the microfinance sector amounted to $3.34 billion, representing a 21.27% increase from the previous quarter level. The main contribution was a 17.65% increase in total loan portfolio which reached $1.44 billion during the period.

1.4. As at 30 September 2020 the deposit-taking microfinance institutions had mobilized total deposits of $144.56 million representing a 73.98% increase from the previous quarter levels, reflecting growing confidence in the subsector.

1.5. The microfinance sector achieved an aggregate net profit of $536.50 million representing a growth of more than 14 times from the corresponding period in 2019. The growth in profitability had impacted positively on aggregate equity for the sector which increased by 25.76% to reach $1.55 billion as at 30 September 2020.

1.6. The number of registered microfinance institutions declined further from 217 as at 30 June 2020, to 206 comprising 198 credit-only microfinance institutions (COMFIs) and eight (8) deposit-taking microfinance institutions. The branch network also experienced a corresponding decrease from 947 branches to 916 branches over the same period as a few MFIs wound up operations while others rationalized their branch network in response to Covid-19 pandemic related challenges.

1.7. In tandem with the reduction in branch network, the number of clients accessing microfinance loans and women borrowers also decreased by 14.63% to 283,500 and 9.54% to 127,022 respectively over the quarter under review. However, the average loan per active borrower and per female borrower increased from \$3,683.50 to \$5,076.44, and \$1,831.08 to \$4,011.67 respectively over the same period.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1 The number of registered microfinance institutions has maintained a downward trend from 229 MFIs as at 31 December 2019 to 206 as at 30 September 2020 as shown in Table 1 below.

Table 1: Architecture of the Microfinance Industry

Type of Institution	31 December 2019	31 March 2020	30 June 2020	30 September 2020
Credit-only Microfinance Institutions	222	212	209	198
Deposit-taking Microfinance Institutions	7	8	8	8*
Total	**229**	**220**	**217**	**206**

*****Includes Ndoro Microfinance and Cashbox Financial Services which are yet to commence operations.*

2.2 The microfinance institutions continue to face challenges navigating through the Covid-19 induced lockdown restrictions in order to maintain viable operations. As a result, some of the microfinance institutions have ceased operations.

2.3 The curatorship on Lion Microfinance Bank was uplifted on 30 September 2020 following resolution of shareholder wrangles and injection of additional capital.

2.4 Ndoro Microfinance Bank and Cashbox Financial Services were still putting in place the requisite infrastructure to commence operations.

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1 The Covid-19 pandemic and its attendant lockdown protocols dampened the performance of the microfinance sector during the quarter ended 30 September 2020, as the pandemic continued impact on every aspect of the economy. Most performance indicators recorded lower growth rates during the quarter under review in comparison to the previous quarter as reflected in Table 2 below.

Table 2: Microfinance Sector, Key Performance Indicators

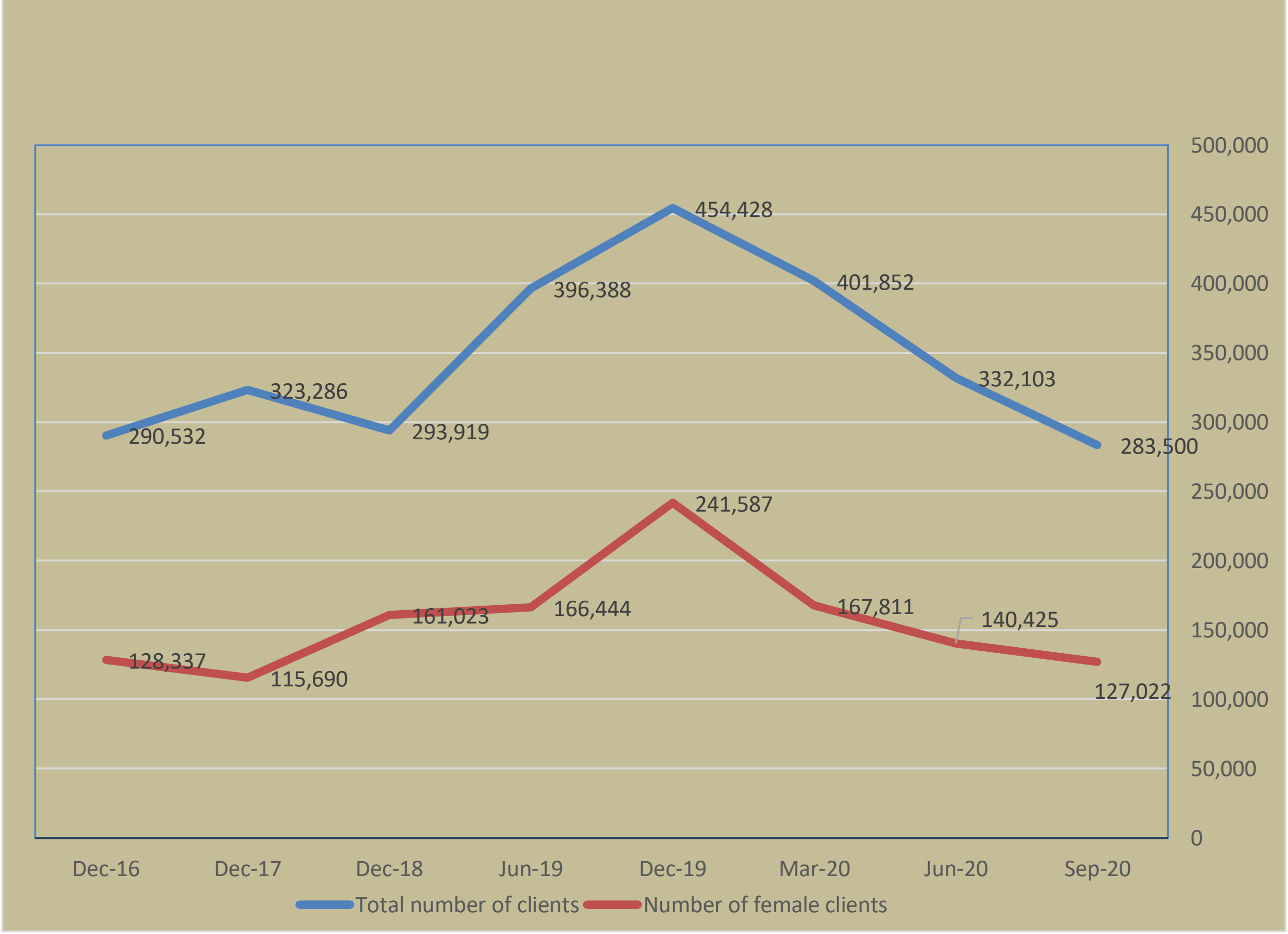
Indicator	Sept-19	Dec-19	Mar-20	June 20	Sept 20
Total Loans ($m)	625.85	632.67	805.88	1,223.30	1,439.17
Total Assets ($m)	1.088.23	1,041.88	1,364.09	2,755.67	3,341.69
Total Equity ($m)	276.98	388.22	566.69	1,229.15	1,545.79
Net Profit ($m)	36.88	35.99	13.03	372.32	536.50
Average Operational Self-Sufficiency (OSS)	158.63%	140.69%	142.60%	142.00%	104.35%
Total Deposits (DTMFIs) ($m)	27.87	35.95	68.02	83.09	144.56
Portfolio at Risk (PaR>30 days)	15.90%	10.96%	12.78%	12.38%	12.04%
Number of Active Loan Clients	349,859	454,428	401,852	332,103	283,500
Number of Female Borrowers	147,699	241,587	167,811	140,425	127,022
Value of Loans to Women ($m)	221.70	250.00	228.22	257.13	509.57
Number of Outstanding Loans	532,944	567,980	386,039	446,782	356,738
Number of Branches, Agencies & Satellite Offices	844	1,017	820	947	916

Microfinance Outreach…

3.2 Microfinance outreach marginally contracted during the quarter, as branch network declined from 1,017 as at 31 December 2019, to 947 as at 30 June 2020, and further down to 916 as at 30 September 2020 largely due to low business generation in the wake of the Covid-19 pandemic.

3.3 The number of active clients has been on a downward trend over the year in tandem with the contraction of microfinance business due to the Covid-19 related restrictions, with the sector registering a total of 283,500 active clients for period under review, down from 332,102 as at 30 June 2020, and 454,428 as at 31 December 2019, as shown in Figure 1 below

Fig. 1: Trend in Active Clients: Dec 2016 – Sept 2020



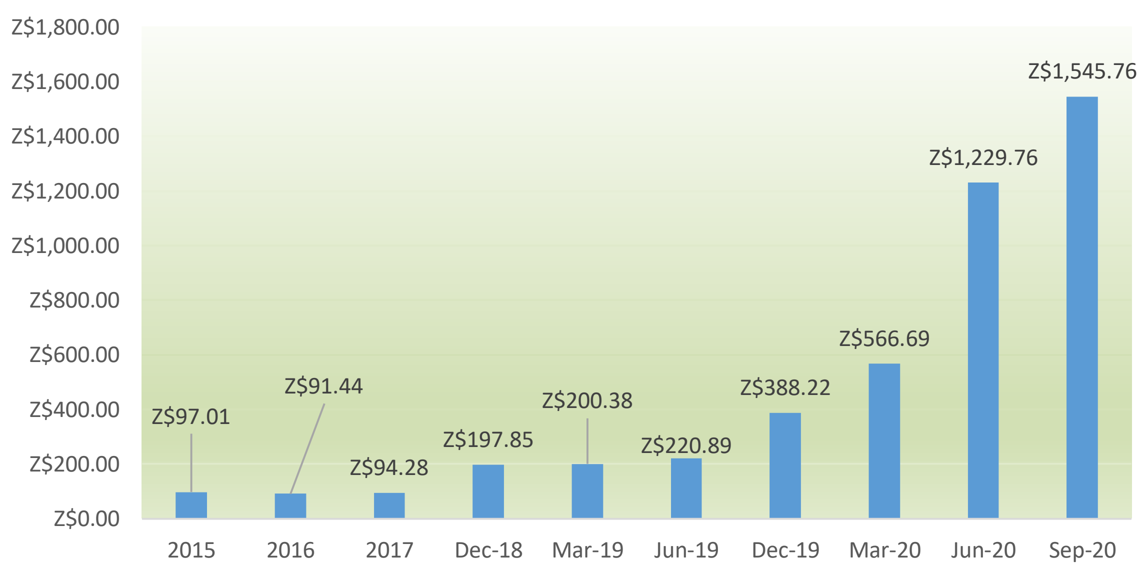
3.4 The value of loans to female borrowers increased by 98.18% during the quarter under review to $509.57 million.

Capital…

3.5 Aggregate capitalization for the microfinance sector increased to $1,545.79 million as at 30 September 2020, up from $1,229.15 million in the previous quarter reflecting a 25.76% growth.

3.6 The increase was largely attributed to additional capital injection, organic growth and gains from revaluation of assets. Figure 2 shows the trend in the aggregate capital position of the microfinance industry for the period 2015 to September 2020.

Fig 2: Trend in Microfinance Sector Capital (Z$m)



3.7 In the Monetary Policy Statement of August 2020, the Bank reviewed the date for compliance with the revised minimum capital requirements for deposit-taking and credit-only microfinance institutions to 31 December 2021. The applicable minimum capital requirements were set as the ZW$ equivalent of USD5 million and USD25,000 respectively.

3.8 All microfinance institutions were required to submit their capitalization plans by 31 December 2020 and provide updates on progress in complying with the regulatory requirements by 30 June 2021.

Capital for Credit-Only Microfinance Institutions (COMFIs)

3.9 The credit-only microfinance sub-sector registered a 19.37% increase in aggregate equity from $735.35 million as at 30 June 2020, to $877.82 million as at 30 September 2020 as shown in **Annexure 1 –** Key performance indicators for credit-only microfinance institutions.

3.10 As at 30 September 2020, four (4) COMFIs were not adequately capitalized, compared to three (3) which were undercapitalized in the previous quarter. The non-compliant institutions are working towards regularizing their respective capital positions through additional capital injections and attracting new investors.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.11 The aggregate core capitalisation levels for the DTMFIs sub-sector increased by 64.28% from $300.98 million as at 30 June 2020 to $494.45 million as at 30 September 2020. The increase was largely attributed to organic capital growth coupled with fresh capital injections by the two government-owned DTMFIs.

3.12 DTMFIs are working towards complying with the new minimum capital requirement of the ZW$ equivalent of USD5 million by 31 December 2021.

Profitability…

3.13 The microfinance sector registered a significant increase in aggregate net profit from $36.88 million for the period ended 30 September 2019, to $536.50 million for period ended 30 September 2020. The growth was largely driven by revaluation reserves following the re-statement of foreign currency denominated assets to local currency.

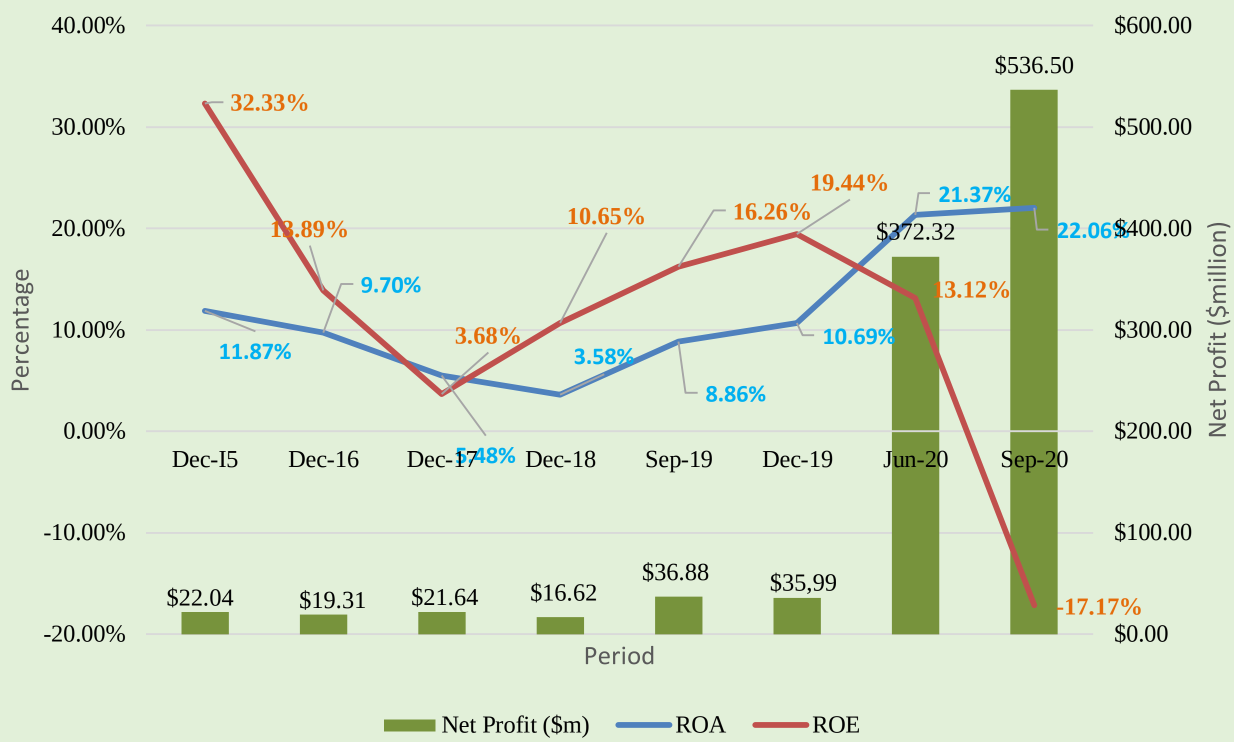
3.14 A total of 19 microfinance institutions, including three (3) DTMFIs reported losses with aggregate loss of $121.60 million for the 9 months ended 30 September 2020, compared to 41 institutions, including three (3) DTMFIs which posted an aggregate loss of $18.74 million for the same period in 2019. The major contributors to the aggregate loss were five (5) MFIs accounting for 59.98% of the total loss.

3.15 The loss-making institutions were mainly affected by subdued business on the back of the COVID-19 pandemic induced national lockdown, against increased operational expenses. Efforts are however underway to enhance the revenue generating capacity of the respective institutions.

3.16 The industry remained operationally self-sustainable as reflected by a stable average operational self-sufficiency (OSS) ratio of 104.35% as at 30 September 2020, however, having decreased from 158.12% as at 30 September 2019.

3.17 The trend in profitability indicators for the microfinance industry is indicated in the figure below.

Figure 3: Microfinance Sector - Trends in Profitability, 2015 - June 2020



3.18 The microfinance industry registered a significant increase in the average return on assets (ROA) ratio over the year from 8.87% to 22.06% as at 30 September 2020. Return on equity (ROE) ratio however, deteriorated over the same period, from 13.12% to -17.17% as at 30 September 2020 due to the downturn in demand for microfinance services as a result of the covid-19 protocols.

Profitability for Credit-Only Microfinance Sub-Sector

3.19 The credit-only microfinance sub-sector registered an aggregate net profit of $394.07 million over the year, up from $15.42 million for the corresponding period ended 30 September 2019.

3.20 The sub-sector's profits of $394.07 million for period ended 30 September 2020, accounted for 73.45% of the total industry's aggregate net profit of $536.50 million for period under review.

3.21 A total of 16 credit-only microfinance institutions posted an aggregate loss of $70.47 million for period ended 30 September 2020, compared to 38 institutions with an aggregate loss of $13.76 million for same period in 2019.

3.22 The credit-only microfinance institutions subsector was considered operationally unsustainable with an average operational self-sufficiency (OSS) ratio of 76.37% for period ended 30 September 2020, against international benchmark of 100%. The OSS was depressed due to low level of income generating capacity at a time when fixed operational costs continued to be accrued despite subdued revenue due to the COIVD-19 induced national lockdown.

Profitability of the Deposit-taking Microfinance Institutions

3.23 The sub-sector's earnings performance for the nine months ended 30 September 2020 improved, as evidenced by the improvement in operational self-sufficiency ratio, return on assets and return on equity ratios.

3.24 Aggregate DTMFI sector profits for the period ended 30 September 2020 amounted to $193.36 million, representing an almost tenfold increase from $21.47 million reported for the corresponding period in 2019. The growth was largely driven by revaluation of investment properties. Three (3) out of the five operating institutions reported losses.

3.25 The considerable increase in net income during the period under review resulted in an improvement in the operational self-sufficiency ratio, return on equity and return on assets from 171.90%, 7.37% and 0.37% as at 30 September 2019 to 221.82%, 21.32% and 9.79% as at 30 September 2020 respectively

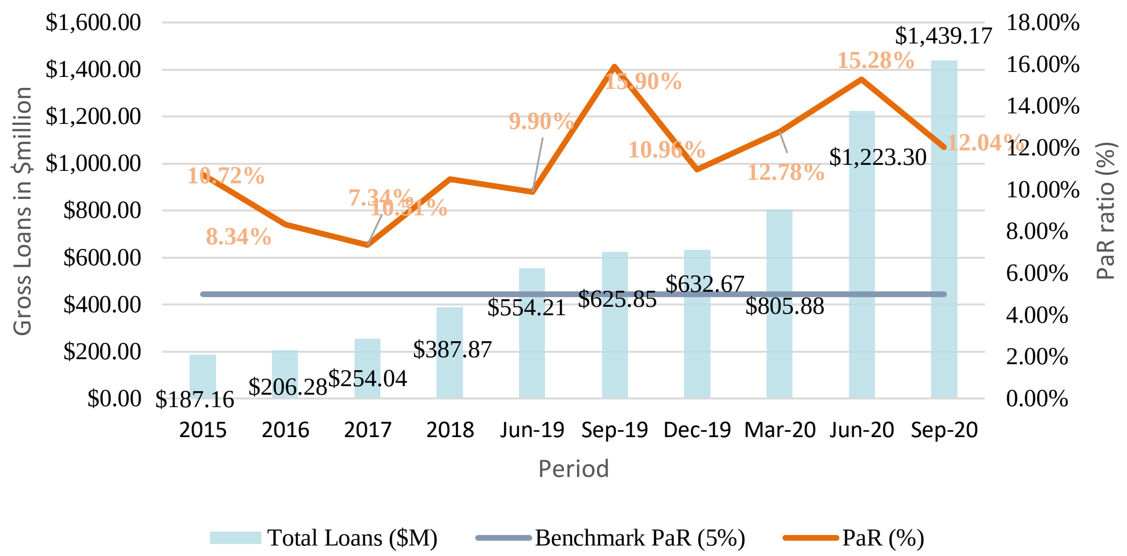
Microfinance Industry Lending and Portfolio Quality…

3.26 As at 30 September 2020, total sector loans increased by 14.68% from $1.22 billion as at 30 June 2020 to $1.44 billion as at 30 September 2020 due to increase in value of loans demanded by clients as part of the negative copping strategies by microfinance clients cushion themselves against inflationary environment and to recover from effects of COVID-19 pandemic induced national lockdown. The average loan size per borrower as at 30 September 2020, increased by 27.43% from $3,683.51, to $5,076.44.

3.27 During the period under review, top 20 microfinance institutions contributed 84.04% ($1.21 billion) of the total industry loan portfolio.

3.28 The trend in the portfolio at risk ratio from December 2015 to 30 September 2020 is shown in Figure 4 below.

Fig.4: Microfinance Industry Trends in Total Loans & PaR Ratio, 2015 - Sept 2020



3.29 A total of $231.64 million of the sector's total loans was contributed by five (5) DTMFIs, accounting for 57.96% of total loans from 10.03% as at 30 June 2020.

3.30 As at 30 September 2020, the quality of credit risk marginally improved as indicated by the portfolio-at-risk (>30 days) (PaR) ratio of 12.04% as at 30 September 2020, from 15.28% as at 30 June 2020. Collection of outstanding loans was affected as institutions failed to reach out to clients who were affected by the Covid-19 pandemic due to restrictions in movement. The restrictions also affected income generation capacity of microfinance clients resulting in their failure to service loans.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

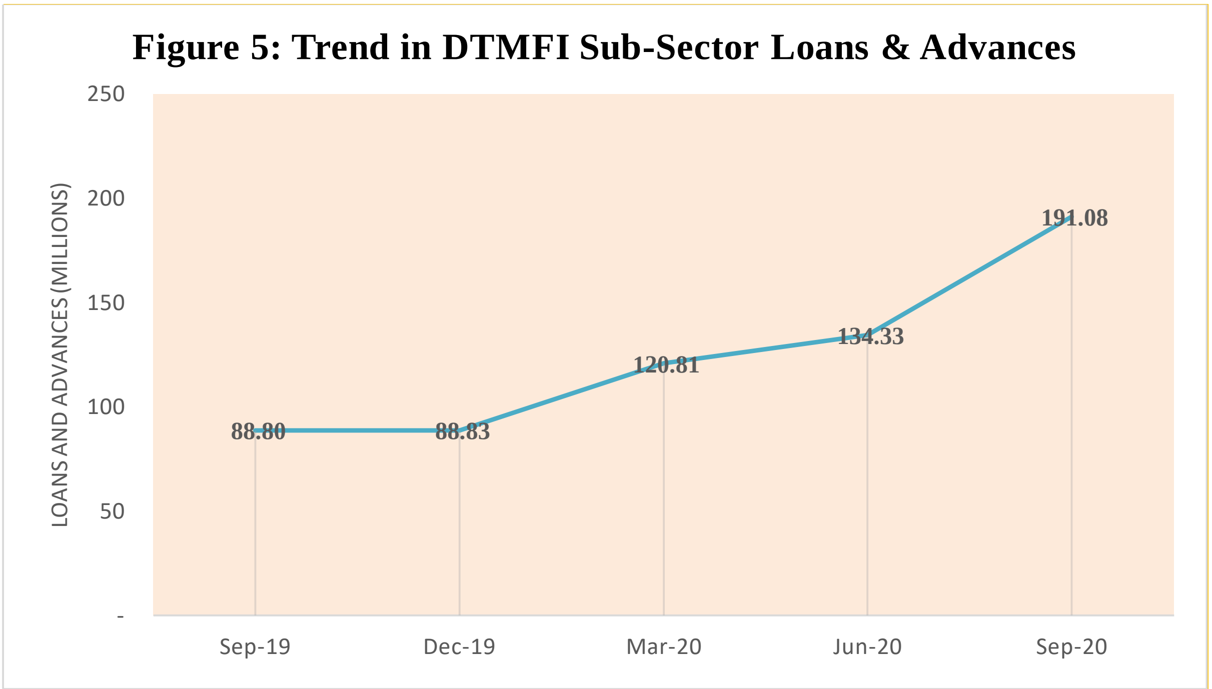
3.31 As at 30 September 2020, credit-only microfinance sub-sector's total loans increased by 11.93% from $1.09 billion to $1.22 billion. During the period under review, top twenty credit-only microfinance institutions contributed 82.24% of the total sub-sector loans.

3.32 As at 30 September 2020, loan size per borrower in the credit-only microfinance sub-sector increased from $4,192.99 to $5,696.99, reflective of the general increase in price levels.

3.33 Portfolio quality for the credit-only microfinance sub-sector improved marginally as reflected by the PaR (PaR>30 days) ratio of 12.26% as at 30 September 2020, compared to 15.20% as at 30 June 2020.

Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

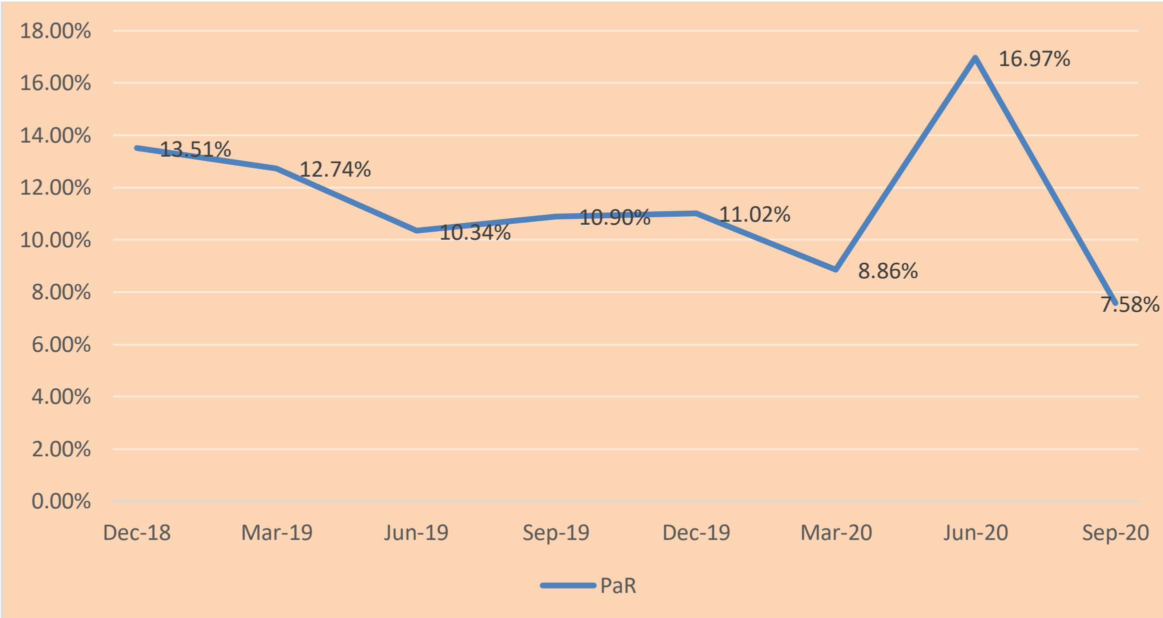
3.34 The DTMFI sub-sector's reported loans of $191.08 million as at 30 September 2020 reflect a 42.25% increase from $134 million as at 30 June 2020 largely driven by one institution whose loan book more than doubled during the quarter under review.



3.35 Portfolio quality improved as reflected by decline in the Portfolio at Risk (>30 days) ratio, from 16.97% as at 30 June 2020 to 7.58% as at September 2020, against international benchmark of 5%. The improvement in portfolio quality was mainly driven by loan restructuring and rescheduling in the face of the Covid-19 pandemic. The stock of non-performing loans declined from $21.92 million as at 30 June 2020 to $12.49 million as at 30 September 2020.

3.36 The graph below shows the trend in the Portfolio at Risk (>30 days) ratio:

Figure 6: Trend in the DTMFIs Portfolio at Risk Ratio

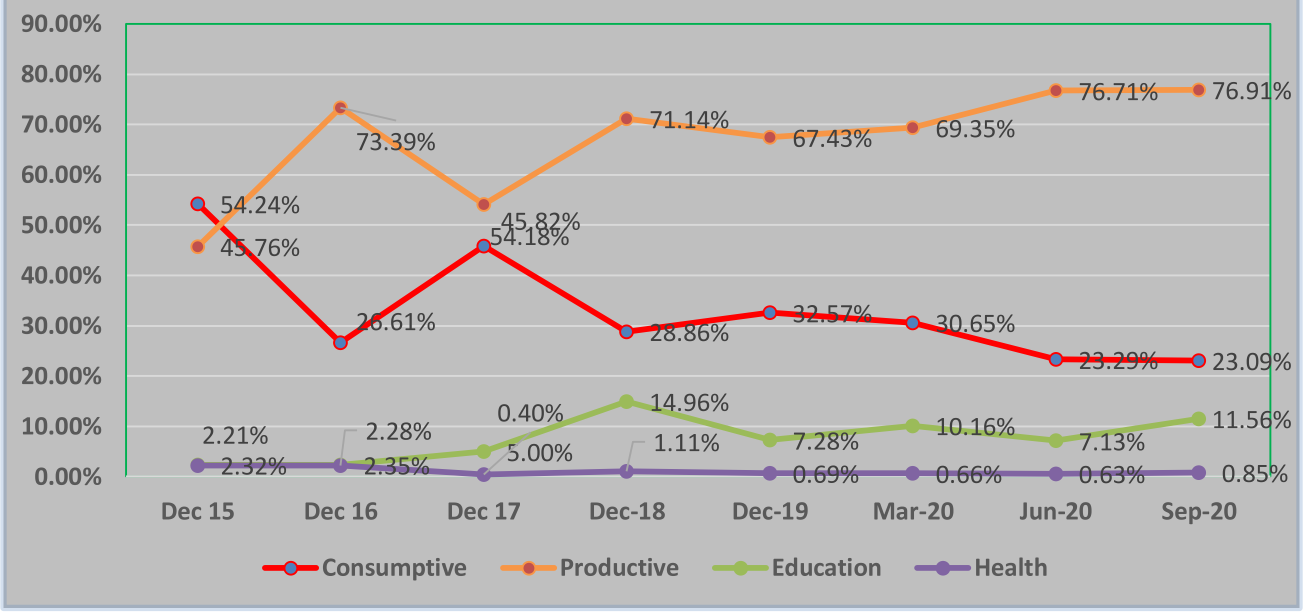


3.37 All the five operating DTMFIs recorded an improvement in asset quality as their PaR ratios decreased despite the challenging operating environment.

Distribution of Loans & Advances…

3.38 There was a steady flow of funding towards the productive sector, as most households are engaging in micro projects to sustain their families during the Covid-19 pandemic.

Fig, 6 Distribution of Microfinance Loans, Dec 15 -Sept 2020

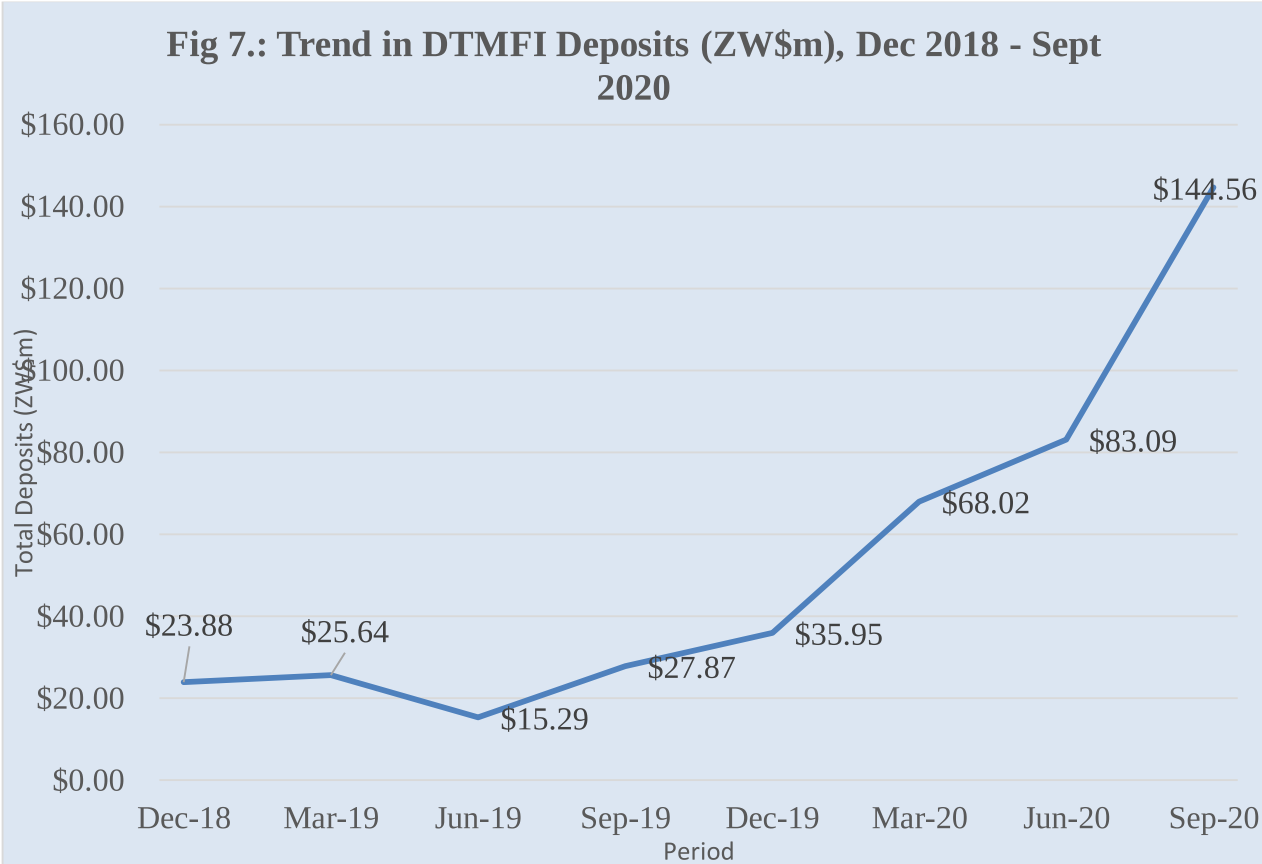


3.39 Funding towards education also increased as most private schools opened in the third term and households accessed loans for their children's school fees.

Deposits Mobilisation…

3.40 Total DTMFIs sub-sector deposits increased by 73.98%, from $83.09 million as at 30 June 2020 to $144.56 million as at 30 September 2020.

3.41 The graph below shows trend in the sub-sector's deposits:



3.42 Although deposits in the subsector continued to increase they remain too low to enable DTMFIs to underwrite sustainable business.

3.43 The average prudential liquidity ratio of 92.56% as at 30 September 2020 was above the minimum regulatory threshold of 30% and all DTMFIs were compliant with the minimum requirement. The high prudential liquidity ratio is reflective of the cautious lending approach adopted by some DTMFIs whose loan books have remained largely the same in 2020.

END OF REPORT

Annexure 1: Credit-Only Microfinance Institutions, Key Performance Indicators

Indicator	Sept -19	Dec -19	March -20	June 2020	Sept 2020
Number of Licensed Institutions	223	229	212	212	198
Total Loans ($m)	537.06	523.08	685.06	1,088.97	1,218.81
Total Assets ($m)	861.41	758.82	960.69	1,912.62	2,217.20
Total Equity ($m)	162.72	252.63	348.44	735.35	877.82
Net Profit ($m)	15.42	17.12	12.86	252.53	394.07
Average Operational Self-Sufficiency (OSS)	160.81%	141.44%	127.91%	137.16%	76.37%
Portfolio at Risk (PaR>30 days)* (%)	14.51%	10.20%	12.98%	15.20%	12.60%
Number of Active Loan Clients	331,041	314,730	275,734	259,712	217,708
Number of Outstanding Loans	513,963	482,796	329,343	373,341	280,649
Number of Branches	817	924	800	799	781
Number of Women Clients	138,640	133,900	114,514	110,694	98,048
Value of Loans to Women ($m)	188.27	222.54	228.22	208.70	417.58

***** 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.*

ANNEXURE 2: Deposit-Taking Microfinance Institutions, Key Performance Indicators

Indicator	**Sept-19**	**Dec 19***	**Mar-20***	**June 20***	**Sept 20***
Number of Operating DTMFIs	6	5	5	5	5
Total Loans and Advances ($m)	88.80	88.83	120.81	134.33	191.08
Out of which Consumption loans (%)	32.70%	34.74%	37.15%	35.16%	37.98%
Out of which Productive loans (%)	67.30%	65.26%	62.85%	64.84%	62.02%
Total Assets ($m)	226.82	258.63	403.40	843.04	1,154.26
Core Capital ($m)	104.39	128.34	178.81	300.98	494.45
Total Net Capital Base ($m)	112.09	145.54	218.25	482.98	683.95
Net Profit ($m)	21.47	17.39	0.17	119.79	193.36
Total Deposits ($m)	$27.87	35.95	68.02	83.09	144.56
Average Operational Self-Sufficiency (OSS)	171.90%	122.57%	97.66%	241.80%	221.82%
Operating Expenses Ratio (OER)	45.42%	75.14%	44.91%	86.27%	145.66%
Average Return on Assets	0.37%	-0.27%	-1.87%	0.96%	9.79%
Average Return on Equity	7.37%	9.53%	-0.49%	7.04%	21.32%
Portfolio at Risk (PaR>30 days)	10.90%	11.02%	8.86%	16.97%	7.58%
Number of Active borrowers	124,855	124,000	126,118	72,391	65,792
Number of Female Borrowers	31,852	72,664	50,738	28,663	28,974
Number of Branches, Agencies & Satellite Offices	27	30	20	148	135

****figures exclude Lion Microfinance which is under curatorship.***