BANK SUPERVISION DIVISION

MICROFINANCE QUARTERLY INDUSTRY REPORT

AS AT

31 DECEMBER 2019

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

1.1. During the quarter ended 31 December 2019, the microfinance industry registered growth in outreach, loan portfolio size, and aggregate equity as the sector continued to facilitate financial inclusion of the marginalized and low-income groups.

1.2. As at 31 December 2019, the sector had a total of 229 licensed microfinance institutions comprising of 222 credit-only microfinance institutions and seven (7) deposit-taking microfinance institutions (DTMFIs). Out of the seven (7) DTMFIs, one (1) DTMFI was under curatorship while the other one was in the process of setting up the requisite infrastructure to commence operations.

1.3. The sector registered a 30.01% increase in the number of active clients during the period under review from 349,859 as at 30 September 2019, to 454,428 as at 31 December 2019.

1.4. The microfinance industry had total outstanding loans of $632.67 million for the quarter ended 31 December 2019, representing a marginal increase of 1.09% from $625.85 million recorded in the previous quarter. Productive sector loans constituted 67.43% of the total microfinance industry loans as at 31 December 2019.

1.5. Portfolio quality improved as reflected by the PaR(>30 days) ratio of 10.96% as at 31 December 2019, compared to 15.90% recorded in the previous quarter, against the international benchmark of 5%.

1.6. The industry registered a 40.16% increase in aggregate equity over the quarter from $276.98 million as at 30 September 2019, to $388.22 million as at 31 December 2019. The increase was largely attributed to revaluation gains emanating from the revaluation of assets by some microfinance institutions.

1.7. Total deposits mobilized by the DTMFIs increased by 28.99% from $27.87 million as at 30 September 2019, to $35.95 million as at 31 December 2019.

1.8. The microfinance industry registered a 116.55% increase in profitability from

$16.62 million for the year ended 31 December 2018, to $35.99 million for the year ended 31 December 2019, mainly attributable to revaluation gains.

1.9. The sector remained operationally self-sufficient during the quarter under review as reflected by the average Operational Self-Sufficiency (OSS)[1] ratio of 140.69% as at 31 December 2019, which however, is decline of 17.94 percentage point decline from 158.63% as at 30 September 2019. The decline is partly attributed to the prevailing challenging and inflationary economic environment.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1 A total of 229 microfinance institutions were registered as at 31 December 2019, as shown in Table 1 below.

Table 1: Architecture of the Microfinance Industry

Type of Institution	31 December 2018	31 September 2019	31 December 2019
Credit-only Microfinance Institutions	199	223	222
Deposit-taking Microfinance Institutions	6	6	7
Total	**205**	**229**	**229**

2.2 One deposit-taking microfinance institution (Lion Microfinance Limited) was placed under curatorship, while Ndoro Microfinance Bank was still putting in place the requisite infrastructure to commence operations.

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

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1 During the quarter under review, the microfinance industry registered growth in loan portfolio size, total assets, deposits, profitability, aggregate equity, and outreach.

3.2 A summary of the key performance indicators for the microfinance industry is indicated in the table below.

Table 2: Microfinance Sector, Key Performance Indicators

Indicator	Dec-18	Mar-19	June-19	Sept-19	Dec-19
Total Loans ($m)	387.87	443.12	554.21	625.85	632.67
Total Assets ($m)	490.22	533.05	721.99	1.088.23	1,041.88
Total Equity ($m)	197.85	200.38	220.89	276.98	388.22
Net Profit ($m)	16.62	4.98	20.08	36.88	35.99
Average Operational Self-Sufficiency (OSS)	153.11%	142.29%	164.56%	158.63%	140.69%
Total Deposits (DTMFIs) ($m)	23.85	25.65	15.29	27.87	35.95
Portfolio at Risk (PaR>30 days)	10.51%	8.02%	9.90%	15.90%	10.96%
Number of Active Loan Clients	349,341	402,295	396,388	349,859	454,428
Number of Female Borrowers	161,023	160,074	166,444	147,699	241,587
Number of Outstanding Loans	393,219	440,032	425,288	532,944	567,980
Number of Branches	750	807	796	844	1,017

Microfinance Outreach…

3.3 During the quarter, the microfinance industry recorded an increase in the branch network from 844 branches as at 30 September 2019, to 1,017 branches as at 31

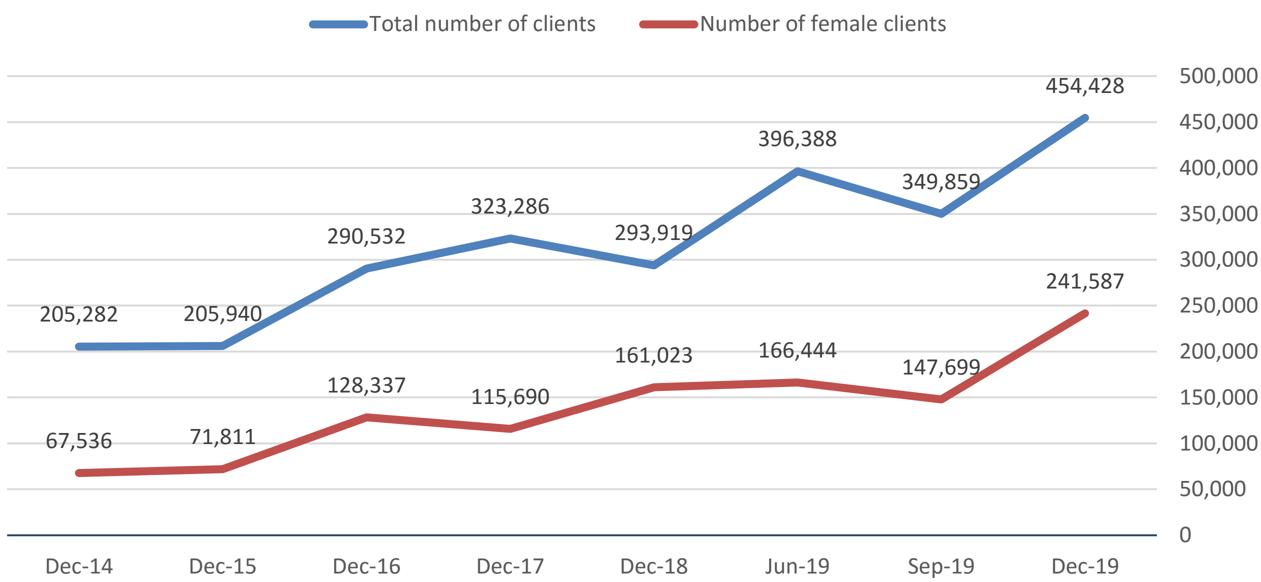
December 2019. The increase in branch network was attributed to the increase in the number of registered microfinance institutions and expansion of branch networks by some institutions.

3.4 A total of twenty-three institutions had twenty (20) or more branches each, representing 69.03% of total sector branches.

3.5 The sector registered a 30.01% increase in the number of active clients from 349,859 as at 30 September 2019, to 454,428 as at 31 December 2019.

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

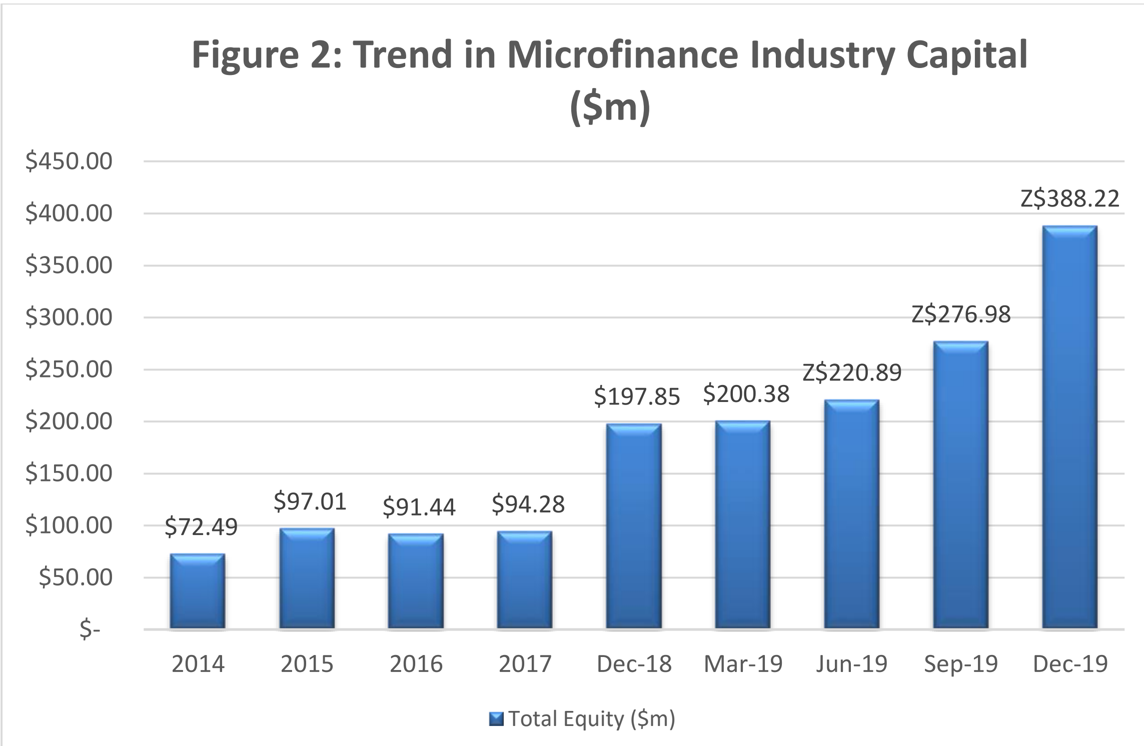
Figure 1 Trend in Active Clients



3.7 Over the quarter under review, female borrowers increased by 63.57% from 147,699 as at 30 September 2019 to 241,587 as at 31 December 2019 and accounted for 53.16% of the total number of active clients during the quarter under review. The value of loans to women amounting to $250.00 million, accounted for 39.52% of total sector loans of $632.67 million as at 31 December 2019.

Capital…

3.8 The sector registered a 40.16% increase in aggregate equity over the quarter from \$276.98 million as at 30 September 2019, to \$388.22 million as at 31 December 2019. The increase was largely attributed to capitalisation of net profit over the same period. Over the year, the sector registered a 96.21% growth in aggregate equity from \$197.85 million as at 31 December 2018. Figure 2 shows the trend in the aggregate capital position of the microfinance sector.



Capital for Credit-Only Microfinance Institutions

3.9 The credit-only microfinance sub-sector, registered a 55.25% increase in aggregate equity from \$162.72 million as at 30 September 2019, to \$252.63 million as at 31 December 2019 as shown in the key performance indicators on **Annexure 1 – Key performance indicators for credit-only microfinance institutions**.

3.10 As at 31 December 2019, eleven (11) credit-only microfinance institutions were undercapitalized, compared to twelve (12) in the previous quarter. The undercapitalized institutions are required regularize their capital positions in order to comply with the minimum capital requirement for credit-only microfinance institutions.

3.11 The Reserve Bank reviewed the minimum capital requirements for the microfinance sector to an amount in local currency equivalent to USD25,000 for credit-only microfinance institutions and an amount in local currency equivalent to USD5,000,000 for deposit-taking microfinance institutions effective 31 December 2020.

3.12 Operating microfinance institutions, including the twelve that were undercapitalized as at 31 December 2019, were given up to 30 June 2020, to submit recapitalization plans clearly indicating how they intend to meet the new minimum capital requirements.

Capital and Funding for Deposit-Taking Microfinance Institutions

3.13 As at 31 December 2019, the aggregate core capital for the DTMFI sub-sector had increased by 92.92%, from $104.41 million the previous quarter to $128.34 million. The increase was largely attributed to fresh capital injections in two Government-owned DTMFIs ($25 million), namely Zimbabwe Women's Microfinance Bank and Empower Bank, as well as organic growth of some institutions.

3.14 All the five (5) operating DTMFIs were compliant with the minimum regulatory capital requirement of $5 million as shown in the table below:

Table 3: DTMFI Sub-Sector Capitalization ($million)*

Institution	Core Capital as at 30 September 2019 ($m)	Core Capital as at 31 Dec 2019 ($m)
GetBucks Microfinance Bank	47.31	50.69
EmpowerBank Limited	8.20	25.65
African Century Limited	21.72	21.85

Institution	Core Capital as at 30 September 2019 ($m)	Core Capital as at 31 Dec 2019 ($m)
Zimbabwe Women's Microfinance Bank	19.02	21.68
Success Microfinance Bank	8.16	8.20
Total	**104.41**	**128.34**

**Excluding Lion Microfinance Bank which is under curatorship.*

3.15 All the DTMFIs are yet to comply with the new minimum capital requirements of an amount in local currency equivalent of USD5 million which will become effective by 31 December 2020.

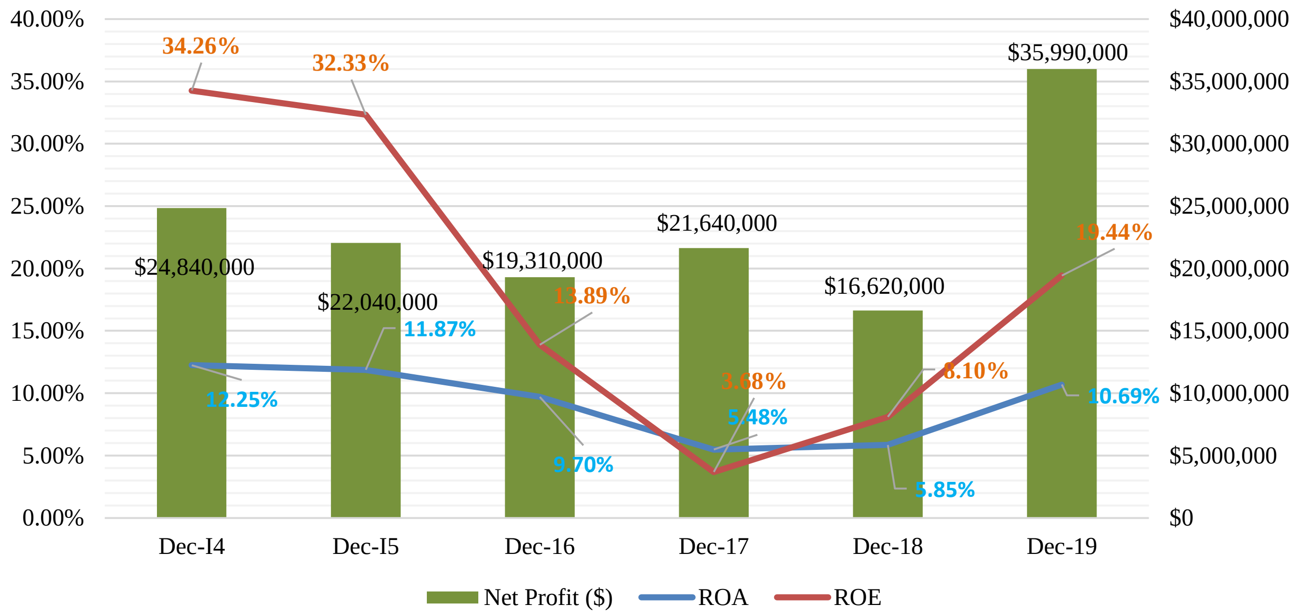
Profitability…

3.16 Net profit for the microfinance industry increased by 116.55% from $16.62 million for period ended 31 December 2018, to $35.99 million for the year ended 31 December 2019. The increase was mainly attributable to revaluation gains which contributed significantly to the growth in the industry earnings.

3.17 A total of 31 microfinance institutions, including two (2) DTMFIs posted losses for the year ended 31 December 2019, due to lack of critical mass to generate sustainable income on the back of increased operational costs occasioned by the inflationary environment.

3.18 The sector remained operationally self-sustainable during the quarter under review as reflected by the operational self-sufficiency (OSS) ratio of 140.69% as at 31 December 2019, down from 158.63% at 31 December 2018. While the sector remains operationally self-sustainable, the downward trend of the OSS ratio points to potential threat to the sustainability of the sector given the persistent challenges in the operating environment. The trend in the profitability of the microfinance sector is indicated in the figure below.

Figure 3: Microfinance Sector - Trends in Profitability, 2014 - 2019



3.19 The microfinance industry registered an improvement in the return on assets (ROA) ratio from 7.17% for period ended 31 December 2018, to 10.69% for the period ended 31 December 2019. Return on equity (ROE) ratio improved from 14.19% for period ended 31 December 2018, to 19.44% for period ended 31 December 2019.

Profitability for Credit-Only Microfinance Institutions Sub-Sector

3.20 The credit-only microfinance sub-sector recorded a 2.74% increase in aggregate net profit from $16.65 million for period ended 31 December 2018, to $17.12 million for year ended 31 December 2019.

3.21 The subsector's profits of $17.12 million for period ended 31 December 2019, accounted for 47.57% of the total sector profit of $35.99 million for year under review.

Profitability of the Deposit-taking Microfinance Institutions

3.22 The sub-sector's earnings performance over the year ended December 2019 improved, as evidenced by improvement in operational self-sufficiency ratio, as well as the return on assets and return on equity ratios.

3.23 Aggregate net profit for the sub-sector improved over the review period, from a negative $0.029 million for the previous year to $17.39 million for 2019, largely driven by high interest income in two DTMFIs on the back of an inflationary environment Two out of the five operating DTMFIs recorded losses largely due to the fact that these are relatively new institutions that are still in the process of building the required critical mass to generate sustainable income.

3.24 Average return on assets and return on equity ratios improved significantly from (6.80%) and (3.45%) in 2018, to (0.23%) and 7.94% for year ended 31 December 2019, respectively, excluding Lion Microfinance which was under curatorship.

3.25 The subsector's operational sustainability improved sustainability over the year under review as reflected by an average OSS ratio of 122.57% as at 31 December 2019, up from 96.23% as at 31 December in 2018. The OSS ratio excludes Lion Microfinance which was under curatorship.

Microfinance Industry Lending and Portfolio Quality…

3.26 Total loans for the microfinance sector marginally increased over the quarter from $625.85 million, to $632.67 million as at 31 December 2019. The total sector loans accounted for 5.01% of total banking sector loans of $13.26 billion[2] as at the same date.

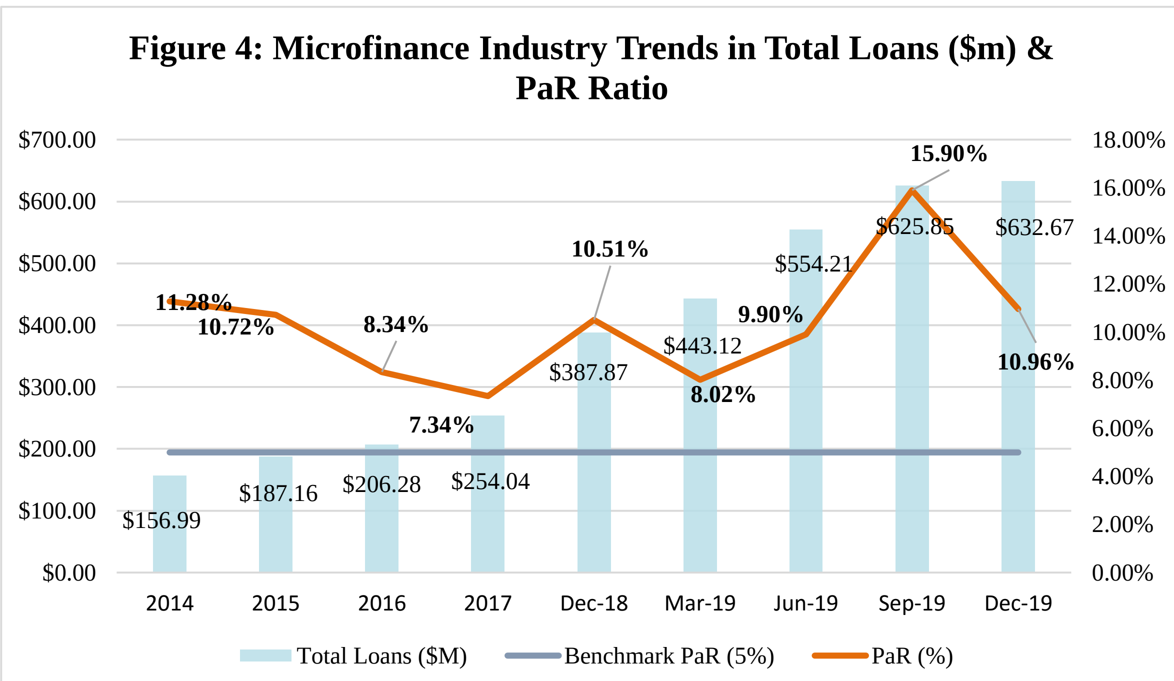
3.27 The microfinance industry remains highly concentrated as the top 20 microfinance institutions out of the total 229 institutions, accounted for 85.49% of the total loan portfolio for the sector of $632.67 million.

[2] Total banking sector loans represents the sum of aggregate loans from the banking and microfinance institutions

3.28 Total loans of $88.83 million for the deposit-taking microfinance subsector accounted for 14.04% of total sector loans of $625.67 million as at 31 December 2019, while loans for the credit-only microfinance subsector of $523.08 million accounted for 85.96% of total sector loans for the same period under review.

3.29 Portfolio quality improved during the quarter with portfolio-at-risk (>30 days) (PaR) ratio of 10.96% as at 31 December 2019, down from 15.90% in the previous quarter, against the international benchmark of 5%. The improvement is attributed to strengthening of risk management systems within microfinance institutions, including the use of the Credit Reference System to evaluate credit-worthiness of potential clients.

3.30 Figure 4 below shows the trend in the total sector loans and portfolio quality from 31 December 2014 to 31 December 2019.



3.31 Microfinance institutions are urged to continue strengthening their risk management strategies to mitigate high credit risk.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.32 Over the quarter, the credit-only microfinance sub-sector recorded a 2.60% decrease in total loans from $537.06 million to $523.08 million as at 31 December 2019 on the back of inflationary environment.

3.33 Portfolio quality improved as reflected by the PaR (>30 days) ratio of 10.20% as at 31 December 2019, compared to 14.51% achieved in September 2019. Most institutions have tightened credit risk management strategies in view of inflationary environment.

Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

3.34 Total loans for the sub-sector remained unchanged at $88.83 million compared to $88.80 million as at 30 September 2019 as institutions took a cautious approach to lending.

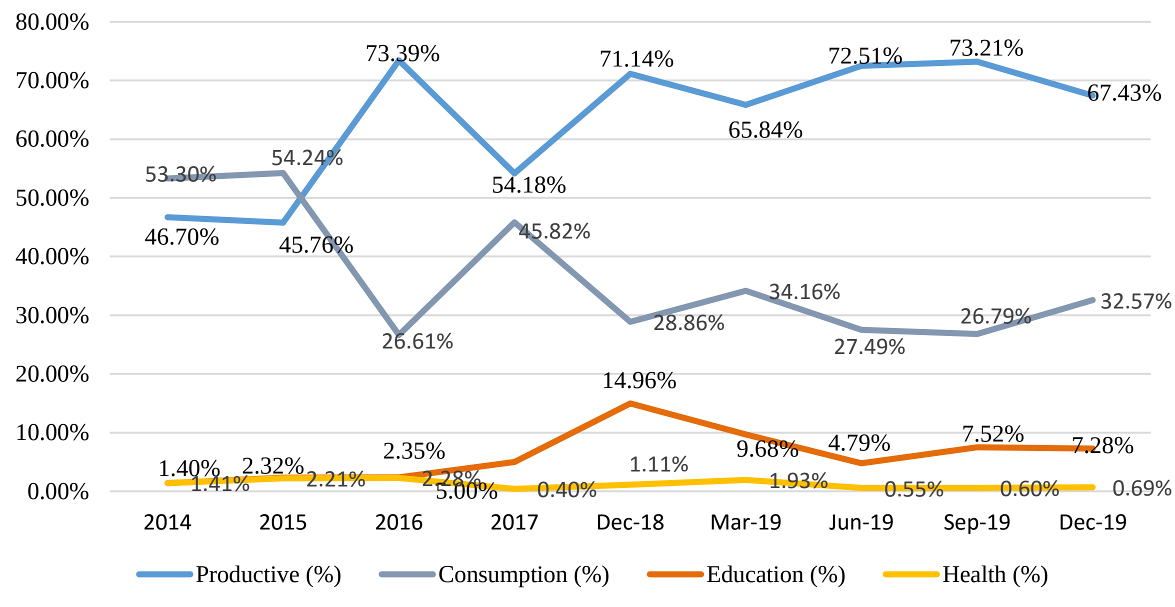
3.35 Asset quality in the sub-sector marginally deteriorated, as reflected by the Portfolio at Risk (>30 days) ratio of 11.02% as at 31 December 2019, compared to 10.90% in the previous quarter.

Distribution of Loans…

3.36 Total microfinance loans to the productive sector decreased by 6.90% to $426.59 million as at 31 December 2019, and accounted for 67.43% of the microfinance industry loans down from 73.21% in the previous quarter. The decrease is a reflection of increased demand for loans for consumptive purposes.

3.37 The trend in the distribution of loans from 31 December 2014 to 31 December 2019 is shown below.

Fig 6: Microfinance Portfolio Distribution



3.38 Total loans for education purposes marginally decreased from $47.04 million as at 30 September 2019, to $46.06 million as at 31 December 2019, while credit advanced for health purposes increased by 42.62% to $4.35 million up from to $3.05 million in the previous quarter.

Deposits Mobilisation…

3.39 The deposit-taking microfinance sub-sector recorded a 28.99% increase in total deposits during the quarter under review from $27.87 million to $35.95 million as at 31 December 2019. However, average deposits to assets ratio for the subsector over the same quarter marginally increased to 13.90% from 12.29%, a reflection that the sub-sector continues to largely depend on financing sources such as capital and lines of credit.

4. COMPLIANCE WITH REGULATORY REQUIREMENTS

4.1. The Reserve Bank continued to inculcate a culture of compliance within the sector, including compliance with regulatory requirements and other directives from the Reserve Bank. It was, however, noted that some microfinance institutions were still facing challenges with regards to complying with provisions of the Microfinance Act [*Chapter24:30*] in respect of the following:

Late and Non-Submission of Quarterly MFI Returns …

4.2. During the quarter under review, six (6) microfinance institutions were penalized for late submission of quarterly MFI returns, whilst one (1) institution was penalized for non-compliance with the Microfinance Act [Chapter 24:30] with respect to information which should be displayed on the institutions' letterhead and other official stationery.

Failure to Meet Minimum Capital Requirements…

4.3. As at 31 December 2019, eleven (11) credit-only microfinance institutions were non-compliant with the minimum capital requirements of $20,000 for credit-only microfinance institutions. The credit-only microfinance institutions were requested to regularize their capital levels.

4.4. All the five (5) operating DTMFIs were compliant with the minimum regulatory capital requirement of $5 million.

Compliance with Core Client Protection Principles…

4.5. The Reserve Bank continues to urge microfinance institutions to put in place robust complaints handling procedures in line with the Core Client Protection Principles.

4.6. The complaints reporting system has also been enhanced as microfinance institutions will, with effect from third quarter of 2020, be required to submit data on complaints received to the Reserve Bank through the Bank Supervision Application (BSA) platform.

5. DEVELOPMENTS IN THE MICROFINANCE INDUSTRY

Capacity Building Workshops for Microfinance Institutions…

5.1. Two (2) capacity building workshops were held on 2 October 2019 and 7 November 2019, at the Reserve Bank for all operating microfinance institutions and newly registered institutions respectively.

5.2. The microfinance institutions were trained on the use of the Bank Supervision Application System (BSA) which enables the interaction between the institutions and Reserve Bank in a live environment.

5.3. Sixty-one (61) participants from newly registered microfinance institutions attended an induction workshop at the Reserve Bank of Zimbabwe, where emphasis was placed on compliance with the Microfinance Act [Chapter 24:30] and the important role of microfinance, as one of the pillars of the National Financial Inclusion Strategy.

The Microfinance Amendment Act, 2019 …

5.4. The Microfinance Amendment Act, 2019 which came into effect on 19 November 2019, provides for only two classes of microfinance business namely, the credit-only microfinance business and deposit-taking microfinance business. The registration of moneylending business is no-longer considered.

5.5. New minimum capital requirements were set, of an amount in local currency, equivalent to USD $25,000 and USD $5,000,000 for credit-only microfinance and deposit-taking microfinance institutions, respectively, effective 31 December 2020. In this regard, microfinance institutions are required to submit recapitalization plans by 30 June 2020, indicating how they will meet the new minimum capital requirements.

5.6. The institutions whose applications for a moneylending licence were under consideration were advised to align their licence applications with the

Microfinance Amendment Act, 2019.

Microfinance Thematic Working Group Meeting…

5.7. A meeting of the Microfinance Thematic Working Group was held on 19 November 2019. The objective of the meeting was to plan and create a roadmap for the next phase of the National Financial Inclusion Strategy (NFIS) as the first tenure ends in March 2020.

5.8. The other objective was to evaluate the financial inclusion initiatives undertaken by the microfinance industry, as a pillar of the NFIS, including the financial inclusion activities of individual thematic group member institutions since the launch of the National Financial Inclusion Strategy.

Second Annual Microfinance Conference…

5.9. The Reserve Bank in collaboration with The World Bank Group held the Annual Microfinance Conference from 28 – 29 November 2019. The conference was attended by a total of 225 participants. The theme was *"Laying the Foundation for a Dynamic and Responsive Microfinance Sector in support of Inclusive and Sustainable Growth and Development in Zimbabwe*".

5.10. The theme resonated with the major thrust of the conference which was the need for microfinance institutions to embrace technology and social performance management to ensure sustainability of the individual institutions by aligning their mission statement with social goals.

5.11. In order to enhance the level of participation and understanding of topics discussed the hosts used various aids including presentations, lectures and focus group discussions.

5.12. Resource persons included microfinance and digital finance experts from the region, in particular, Zambia and Kenya

5.13. The conference's highlights and takeaways included the need to:

a) align the business model following the Microfinance Amendment Act, 2019 which brought about perpetual licensing;

b) actively participate in the financial inclusion drive for the economic growth of Zimbabwe; and

c) adoption of robust ICT systems and digital platforms that facilitate innovation and sustainability of microfinance business.

END OF REPORT

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

Indicator	Dec-18	Mar-19	June-19	Sept -19	Dec -19
Number of Licensed Institutions	203	204	212	223	229
Total Loans ($m)	303.47	350.45	456.77	537.06	523.08
Total Assets ($m)	352.06	386.26	563.65	861.41	758.82
Total Equity ($m)	134.17	135.91	136.65	162.72	252.63
Net Profit ($m)	16.65	0.66	9.75	15.42	17.12
Average Operational Self-Sufficiency (OSS)	154.09%	143.97%	166.24%	160.81%	141.44%
Portfolio at Risk (PaR>30 days)* (%)	10.69%	7.97%	9.46%	14.51%	10.20%
Number of Active Loan Clients	302,284	346,680	368,012	331,041	314,730
Number of Outstanding Loans	345,916	383,435	394,922	513,963	482,796
Number of Branches	721	780	771	817	924
Number of Women Clients	123,504	136,014	152,722	138,640	133,900
Value of Loans to Women ($m)	80.01	102.01	114.33	188.27	222.54

* 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	Dec-18	Mar-19	June-19	Sept-19	Dec 19
Number of Operating DTMFIs	6	6	6	6	5
Total Loans ($m)	84.40	92.67	97.44	88.80m	88.83
Out of which Consumption loans (%)	*28.25%*	*25.42%*	22%	32.70%	34.74%
Out of which Productive loans (%)	*71.75%*	*74.58%*	78%	67.30%	65.26%
Total Assets ($m)	138.16	146.79	158.35	226.82	258.63
Total Net Capital Base (Sm)	60.10	70.23	86.10	112.09	133.48
Total Core Capital (Sm)	62.26	68.83	84.78	104.39	128.34
Net Profit ($m)	(0.029)	4.33	10.32	21.47	17.39
Average Operational Self-Sufficiency (OSS)	89.27%	104.15%	115.51%	171.90%	122.57%
Operating Expenses Ratio (OER)	217.45%	24.02%	38.78%	45.42%	75.14%
Total Deposits ($m)	23.85	25.65	15.29	$27.87m	35.95
Portfolio at Risk (PaR>30 days)	13.05%	12.74%	10.34%	10.90%	11.02%
Number of Active borrowers	37,804	56,597	28,376	124,855	124,000
Number of Female Borrowers	10,693	30,749	12,208	31,852	72,664
Number of Branches	26	28	25	27	30