BANK SUPERVISION DIVISION

MICROFINANCE QUARTERLY INDUSTRY REPORT

AS AT

31 MARCH 2021

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1. EXECUTIVE SUMMARY

1.1. The microfinance industry's performance during the first quarter of 2021 remained resilient in terms of capitalization, profitability and outreach, notwithstanding the negative impact of the Covid-19 lockdown restrictions imposed at the beginning of the year.

1.2. The sector had 199 operating microfinance institutions comprising 191 credit-only microfinance institutions and eight (8) deposit-taking microfinance institutions.

1.3. The microfinance sector recorded a 46% increase in aggregate equity from $1.80 billion as at 31 December 2020, to $2.64 billion as at 31 March 2021. The increase was attributed to fresh capital injections as well as capitalisation of retained earnings by some microfinance institutions.

1.4. The microfinance industry recorded an aggregate net profit of $596.71 million for the period ended 31 March 2021 compared to $13.03 million for the period ended 31 March 2020. The increase was largely attributed to gains from revaluation of foreign currency denominated assets.

1.5. During the period under review, total loan portfolio increased by 48.33% from $2.09 billion, as at 31 December 2020, to $3.10 billion. However, portfolio quality deteriorated during the quarter under review as reflected by the portfolio-at-risk (>30 days) (PaR) ratio of 10.63% as at 31 March 2021. up from 7.76% as at 31 December 2020, against the international benchmark of 5%.

1.6. Total deposits in the DTMFI sub-sector increased by 46.38%, from $239.11 million as at 31 December 2020, to $350.02 million as at 31 March 2021. Two (2) DTMFIs in the sub-sector accounted for 89.31% of total sub-sector deposits, as at 31 March 2021.

1.7. Following the end of term of the National Financial Inclusion I (NFIS I) on 31 December 2020, a limited end-term desk-top review of the progress in the implementation of NFIS I was conducted and summarized in the in the National Financial Inclusion Journey Report which was published on the Reserve Bank website. The Zimbabwe National Financial Inclusion Strategy Journey Report, was circulated to key stakeholders for their comments in preparation for the stakeholders' workshop scheduled for the second quarter of 2021. The comments and feedback received will inform the development of NFIS II (2021-2025) which is now underway.

1.8. The NFIS II will seek to address the challenges and gaps noted in NFIS 1, with more focus on usage, quality and sustainability of financial services, fintech & product innovation, and financial inclusion data disaggregation in line with the National Development Strategy 1.

2. ARCHITECTURE OF THE MICROFINANCE INDUSTRY

2.1 The microfinance industry had 199 microfinance institutions as at 31 March 2021, as shown in Table 1 below.

Table 1: Architecture of the Microfinance Industry

Type of Institution	31 Dec 19	31 Mar 20	30 Sept 20	31 Dec 20	31 Mar 21
Credit-only Microfinance Institutions	222	212	198	190	191
Deposit-taking Microfinance Institutions	7	8	8	8	8*
Total	**229**	**220**	**206**	**198**	**199**

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

2.2 Two newly licensed DTMFIs, Ndoro Microfinance Bank and CashBox Financial Services Microfinance Bank had not commenced operations. Ndoro Microfinance Bank was going through the licence renewal process, while Cashbox Financial Services was putting in place the necessary infrastructure for commencement of deposit-taking microfinance business.

3. PERFORMANCE OF THE MICROFINANCE INDUSTRY

3.1 The microfinance sector recorded growth in profitability, total assets, loan portfolio size, aggregate equity and outreach as at 31 March 2021. However, portfolio quality deteriorated during the period under review.

3.2 The sector's key performance indicators are summarized in Table 2 below.

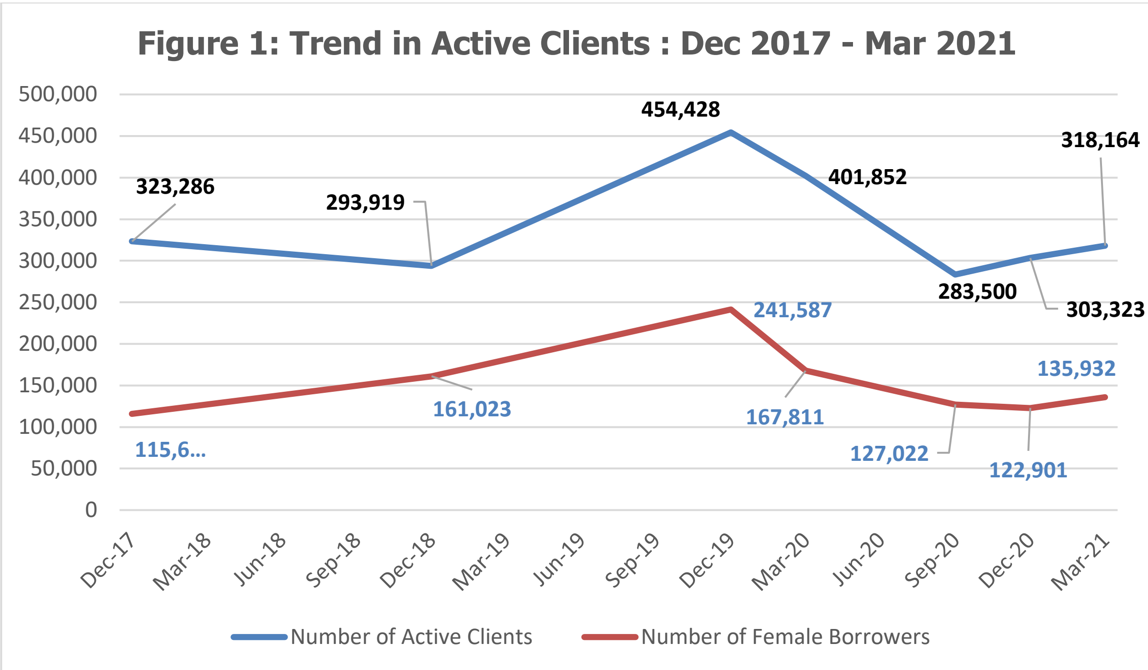
Table 2: Microfinance Industry, Key Performance Indicators

Indicator	Dec-19	Mar-20	Sept-20	Dec-20	Mar-21
Total Loans ($m)	632.67	805.88	1,439.17	2,092.25	3,100.00
Total Assets ($m)	1,041.88	1,364.09	3,341.69	4,209.34	5,542.91
Total Equity ($m)	388.22	566.69	1,545.79	1,799.03	2,647.00
Net Profit ($m)	35.99	13.03	536.50	439.39	596.71
Average Operational Self-Sufficiency (OSS)	140.69%	142.60%	104.35%	111.86%	146.07%
Total Deposits (DTMFIs) ($m)	35.95	68.02	144.56	239.11	349.98
Portfolio at Risk (PaR>30 days)	10.96%	12.78%	12.04%	7.76%	10.63%
Number of Active Loan Clients	454,428	401,852	283,500	303,323	318,864
Number of Female Borrowers	241,587	167,811	127,022	122,901	135,932
Value of Loans to Women ($m)	250.00	228.22	257.13	509.57	1,188.40
Number of Outstanding Loans	567,980	386,039	446,782	356,738	343,199
Number of Branches, Agencies & Satellite Offices	1,017	820	947	916	704

Microfinance Outreach…

3.3 The sector registered a 23.14% decrease in the branch network from 916 branches as at 31 December 2020, to 704 as at 31 March 2021, in response to restricted movement during the Covid-19 pandemic.

3.4 During the period under review the number of active clients marginally increased over the quarter from 303,323 as at 30 December 2020, to 318,164. Figure 1 below shows the trend in active loan clients since December 2017.



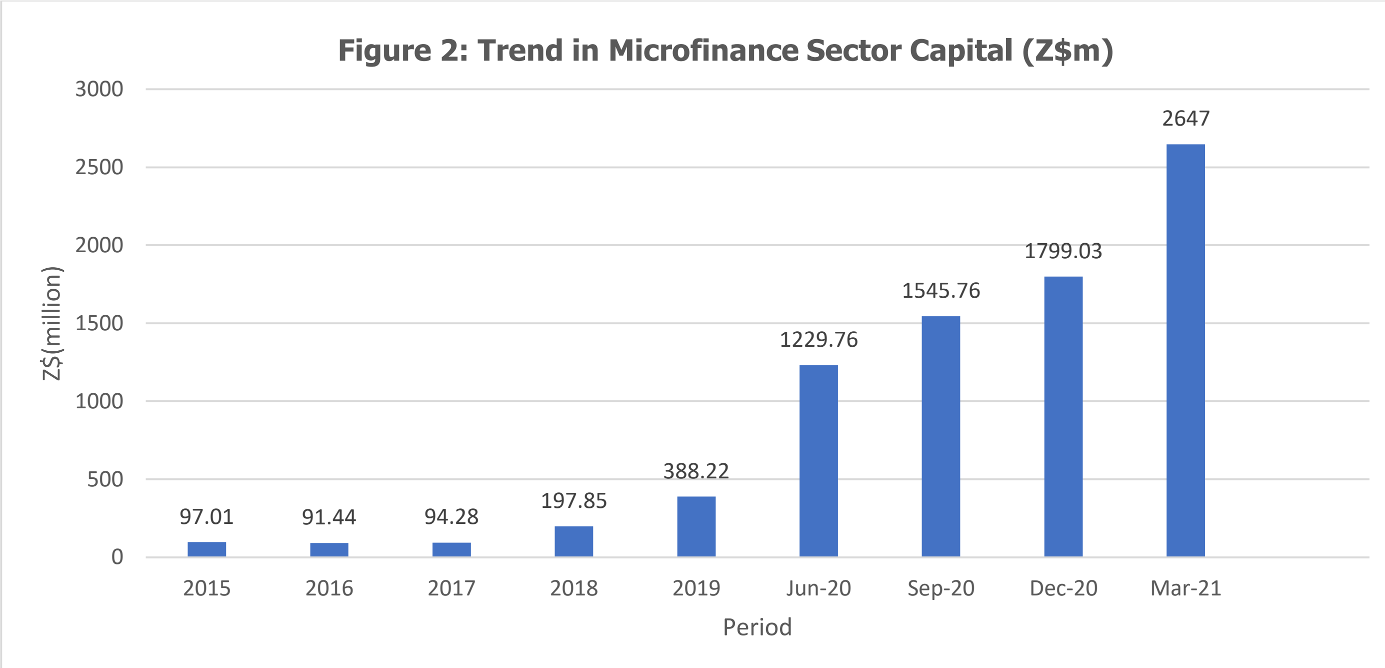
3.5 The sector registered an increase in the number of women accessing loans from the microfinance industry during the quarter under review from 122,901 to 135,932 as the economy opened up following relaxation of some of the Covid-19 induced restrictions. As a result, the value of loans to female borrowers increased by 133.21% during the quarter under review to $1,188.40 million up from $509.57 million.

Capital and Funding*…*

3.6 The microfinance industry recorded a 46% increase in aggregate equity from $1.80 billion as at 31 December 2020, to $2.64 billion as at 31 March 2021.

3.7 The growth in the industry's capitalization was largely attributed to new capital injections and organic growth.

3.8 Figure 2 shows the trend in the aggregate capital position of the microfinance industry for the period December 2015 to March 2021.



3.9 All microfinance institutions were required to submit their capitalization plans by 31 March 2021 and provide updates on progress in complying with the new minimum capital requirements of local currency equivalent of USD5 million and USD25,000 for deposit-taking and credit-only microfinance institution, respectively, effective 30 December 2021.

3.10 As at 31 March 2021, ninety-four (94) microfinance institutions had submitted their capitalization plans, comprising eighty-eight (88) credit-only microfinance institutions and six (6) DMFIs.

Capital and Funding for Credit-Only Microfinance Institutions (COMFIs)

3.11 Total equity for the sub-sector increased from $976.32 million as at 31 December 2020 to $1.52 billion as at 31 March 2021 as shown in the key performance indicators on **Annexure 1**.

3.12 As at 31 March 2021, five (5) credit-only microfinance institutions were undercapitalized, whilst sixty-two (62) were already compliant with the new minimum capital requirements of local currency equivalent to USD25,000 effective 31 December 2021.

3.13 The undercapitalized institutions are currently in the process of regularizing their capital positions in order to comply with the minimum required capital.

Capital and Funding for Deposit-Taking Microfinance Institutions (DTMFIs)

3.14 During the quarter ended 31 March 2021, the aggregate core capital for the DTMFIs sub-sector increased significantly due to organic capital growth and fresh capital injections by some DTMFIs, from \$596.01 million as at 31 December 2020 to \$836.20 million, representing a 40.30% increase over the quarter.

3.15 Although aggregate core capital levels increased during the quarter, the current capitalisation levels when measured against the target new minimum capital requirements of the ZW\$ equivalent of USD5 million by 31 December 2021, were considered relatively low.

3.16 The market leader in terms of total capital, had core capital equivalent to US\$ 3.99 million (representing 79.85% of the USD5 million), using the foreign currency auction rate of USD1:ZW\$84.4001 as at 31 March 20 21.

Profitability…

3.17 The microfinance industry recorded an aggregate net profit of \$596.71 million for the period ended 31 March 2021, up from \$13.03 million achieved in the corresponding period in the previous year.

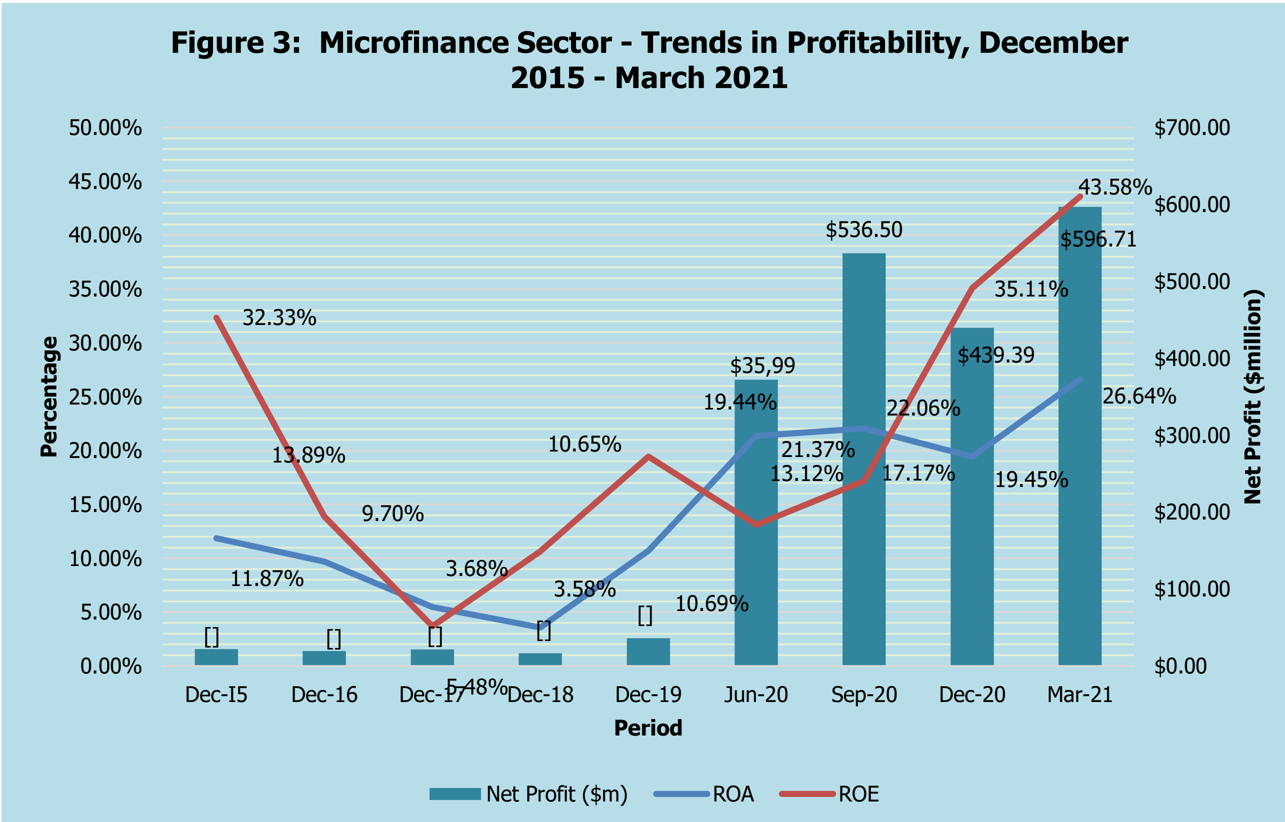
3.18 The increase was mainly attributable to revaluation gains on foreign currency denominated assets, which contributed significantly to the growth in earnings for the sector.

3.19 A total of 20 microfinance institutions, including four (4) DTMFIs, posted an aggregate loss of \$157.57 million, largely attributed to low business volumes emanating from the Covid-19 pandemic restrictions which impacted negatively on the ability of the institutions to conduct meaningful business.

3.20 The sector’s average operationally self-sufficiency (OSS) ratio improved to 146.07% as at 31 March 2021, up from 142.60% as at 31 March 2020 indicating that the industry is operationally sustainable.

3.21 The trend in profitability indicators for the microfinance industry is indicated in the Figure 3 below.

3.22 Return on Assets (ROA) ratio for the industry increased to 26.64% for the period ended 31 March 2021, up from 19.45% as at 31 December 2020.



3.23 Return on equity (ROE) ratio significantly improved from 35.11% as at 31 December 2020 to 43.58% as at 31 March 2021, reflecting the effects of the relaxation of COVID-19 related restrictions on movement which facilitated commencement of microfinance business.

Profitability for Credit-Only Microfinance Sub-Sector

3.24 The credit-only microfinance sub-sector recorded an increase in aggregate net profit to $647.1 million, up from $12.86 million for the year ended 31 March 2020.

3.25 The credit-only microfinance institutions subsector was considered operationally sustainable with an average operational self-sufficiency (OSS) ratio of 142.29% as at 31 March 2021, up from 127.91%, for the corresponding period in 2020, reflecting the positive effects of the relaxation of some of the Covid-19 induced restrictions.

Profitability of the Deposit-taking Microfinance Institutions

3.26 The DTMFI sub-sector recorded an aggregate loss of $51.29 million for the quarter ended 31 March 2021, down from $0.17 million reported for the corresponding period in 2020.

3.27 The deterioration in earnings performance during the quarter ended 31 March 2021, as evidenced by the negative return on equity and asset ratios was largely driven by the effects of the COVID-19 pandemic lockdown instituted in the quarter, as well as low critical mass levels for revenue generation.

3.28 The performance indicators deteriorated for the quarter ended 31 March 2021, with an operational self-sufficiency ratio and return on equity ratio of 72.27% and -6.7% against 97.96% and -0.49% respectively achieved in the corresponding period of 2020.

3.29 Out of six (6) operational DTMFIs in the sub-sector, four (4) reported losses.

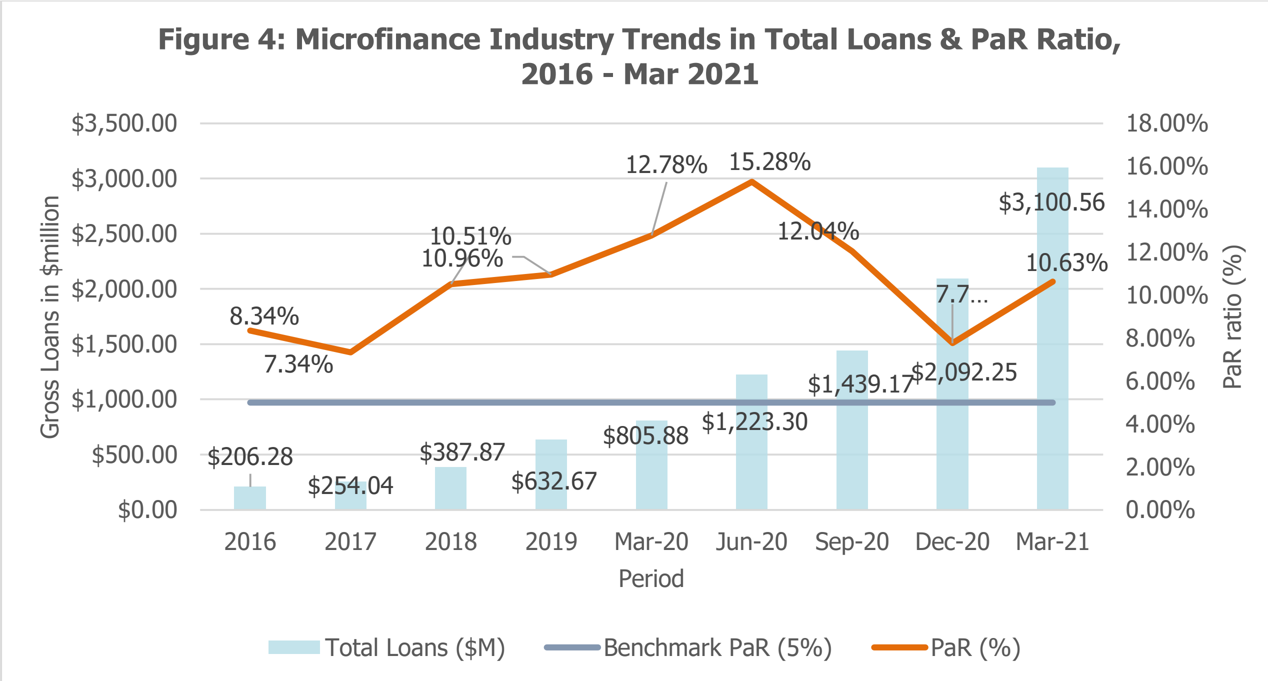
Microfinance Industry Lending and Portfolio Quality…

3.30 Total loans for the microfinance sector increased to $3.10 billion as at 31 March 2021, up from $2.09 billion as at 31 December 2020, representing a 43.33% increase over the review period.

3.31 The average loan size per borrower increased by 41.70% from $6,861.99 as at 31 December 2020 to $9,723.76 during the period under review, reflective of high inflation in the economy.

3.32 Top 20 microfinance institutions out of the total 199 institutions, accounted for 82.21% of the total sector loan portfolio of $2.55 billion as at 31 March 2021.

3.33 Figure 4 below illustrates the trend in the total sector loans and portfolio-at-risk ratio for the period December 2016 to 31 March 2021.



3.34 The sector's portfolio quality deteriorated during the quarter under review with portfolio-at-risk (>30 days) (PaR) ratio of 10.63% as at 31 March 2021, up from 7.76% recorded as at 31 December 2020, against the international benchmark of 5%. The deterioration was largely due to inability of microfinance institutions to effectively carry out debt recovery measures on the backdrop of Covid-19 restrictions.

Credit-Only Microfinance Sub-Sector Lending and Portfolio Quality

3.35 Total loans in the credit-only microfinance sub-sector amounted to $2.65 billion as at 31 March 2021, a 49.72% increase from $1.77 billion in the previous quarter. The loans are highly concentrated within top twenty credit-only microfinance institutions, which accounts for 81.13% of the total sub-sector loans as at 31 March 2021, a decrease from 90.10% reported as at 31 December 2020.

3.36 The average loan size per borrower was $11,284.22 as at 31 March 2021 compared to $7,919.29 as at 31 December 2021 mainly attributed to high inflation in the economy.

3.37 The credit-only microfinance sub-sector continues to face high credit risk as indicated by PaR (>30 days) ratio of 10.57% as at 31 March 2021 which significantly increased from 7.60% as at 31 December 2020 against a benchmark of 5%.

Deposit-taking Microfinance Sub-Sector Lending and Portfolio Quality

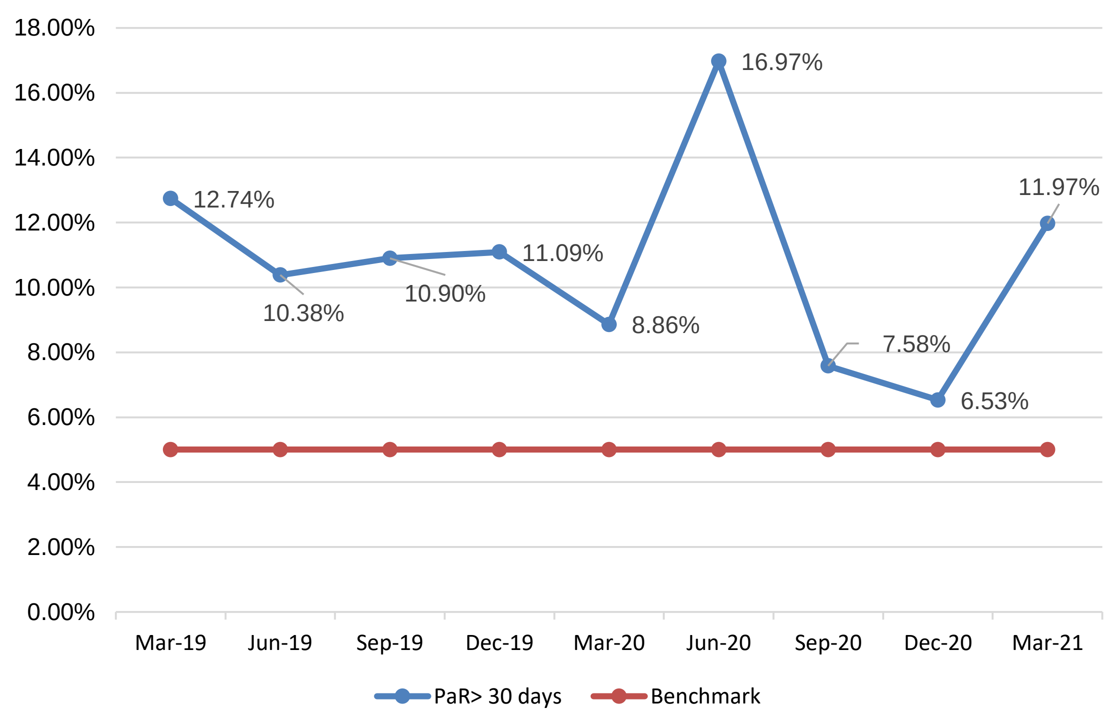
3.38 The DTMFI sub-sector reported a 41.00% increase in total loans from $320.87 million as at 31 December 2020, to $452.42 million as at 31 March 2021.

3.39 The deposit-taking microfinance subsector's total loan portfolio of $452.42 million, accounted for 14.59% of the total microfinance sector loans portfolio.

3.40 The subsector recorded a deterioration in portfolio quality as reflected by the increase in PaR (>30 days) ratio, to 11.97% as at 31 March 2021, up from 6.53% recorded as at 31 December 2020. Deterioration in the portfolio quality was mainly as a result of the negative impact of the Covid 19 Pandamic on economic activities.

3.41 The graph below shows the trend in the Portfolio at Risk (>30 days) ratio for the DTMFI sub-sector:

Figure 5:Trend in the DTMFIs Portfolio at Risk Ratio



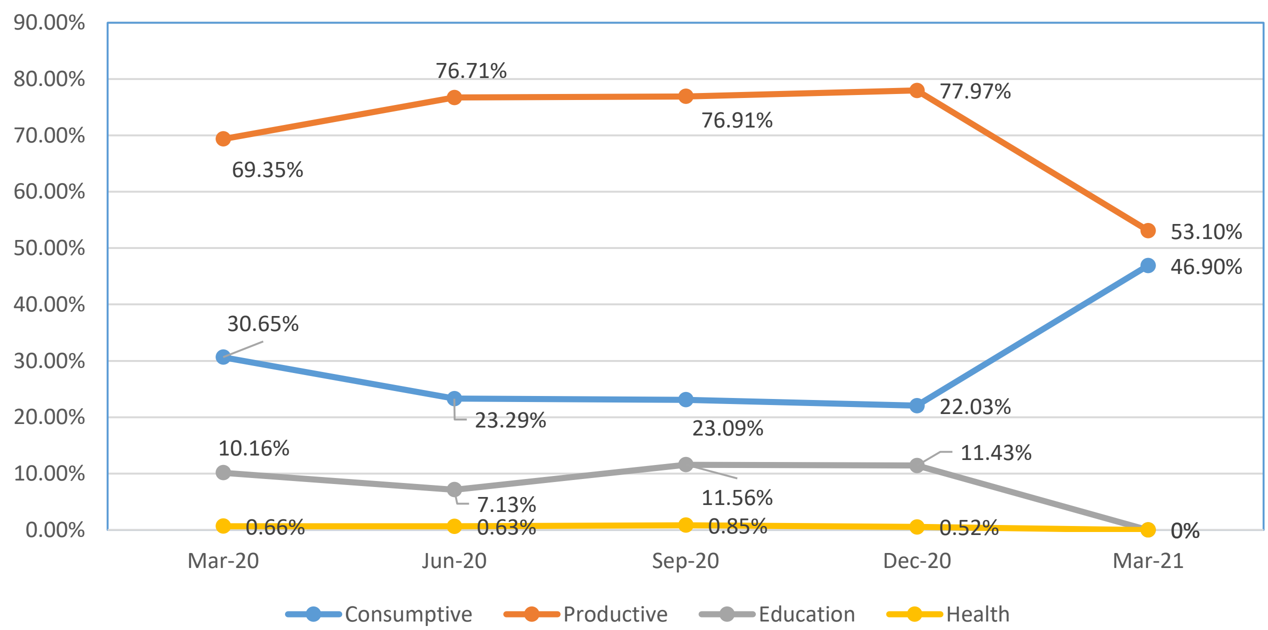
3.42 Non-performing loans increased to $44.59 million for the review quarter, up from $19.31 million in the previous quarter. Deterioration in portfolio quality was as a result of the negative effects of the Covid-19 Pandemic on economic activities especially on individuals and small to medium enterprises who constitute the majority of the sub-sector's clientele base.

Distribution of Loans & Advances…

3.43 Lending to the productive sector of $240.25 million accounted for 53.10% of total sector loans, a decline from 77,97% of total sector loans in the pervious quarter as the economy opened up.

3.44 Figure 6 below indicates the distribution of loans in the microfinance sector as at 31 March 2021.

Figure 6: Distribution of Loans

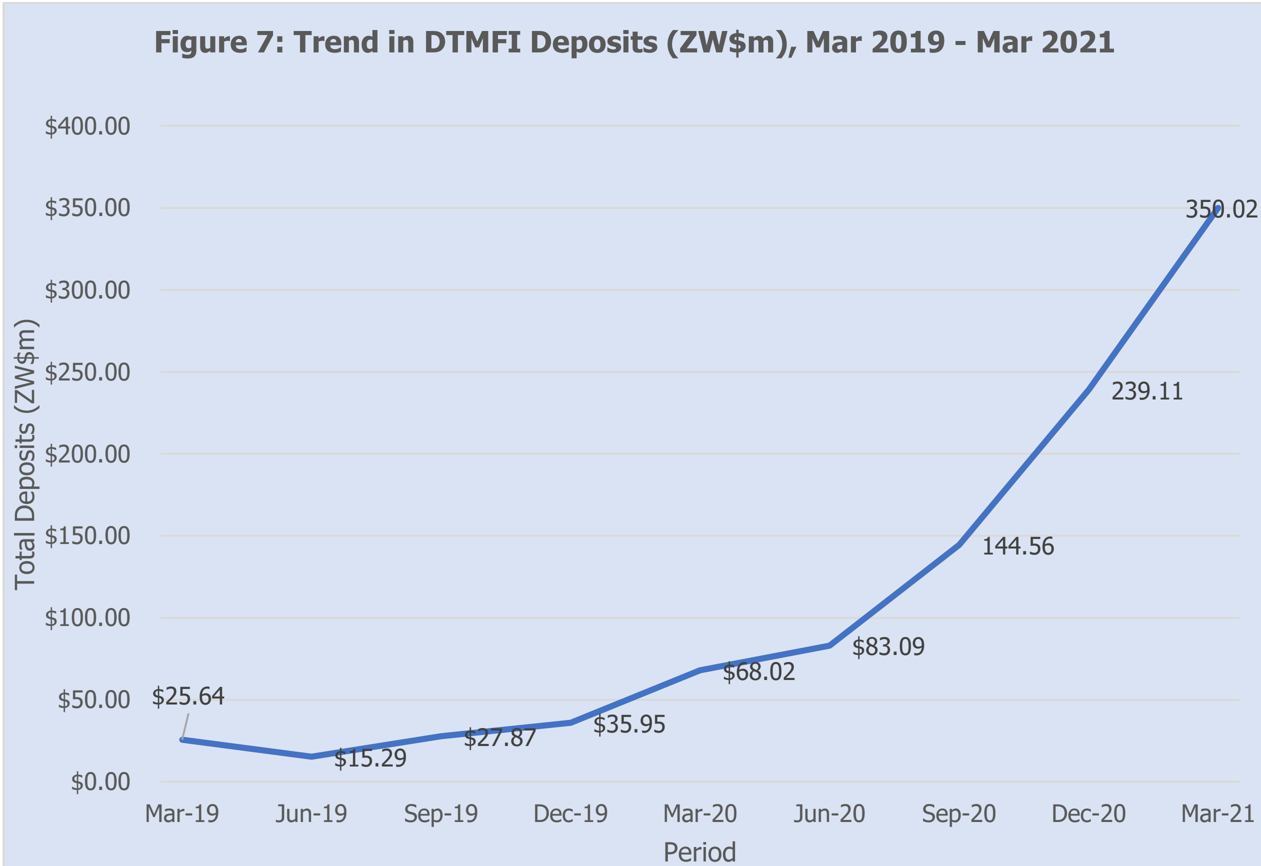


3.45 The proportion of the productive sector declined as most businesses were affected by the lockdown related to the containment of the Covid-19 pandemic.

Deposits Mobilisation…

3.46 As at 31 March 2021, total deposits in the DTMFI sub-sector increased by 46.38%, from $239.11 million as at 31 December 2020 to $350.02 million as at 31 March 2021. The deposits are highly concentrated in two institutions within the sub-sector, which accounted for 89.31% of total deposits, as at 31 December 2021.

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



3.48 Although deposits in the subsector continue to increase, they remain too low to enable DTMFIs sub-sector to underwrite sustainable business.

3.49 The average prudential liquidity ratio increased significantly from 91.73% as at 31 December 2020 to 194.27% as at 31 March 2021 and remained well above the prudential requirement of 30%. The level of the prudential liquidity ratio reflects a conservative approach to lending being exercised by deposit-taking microfinance institutions on the backdrop of Covid-19 related risks.

4. FINANCIAL INCLUSION

4.1. The Zimbabwe National Financial Inclusion Strategy Journey Report, which provides a limited desk-top review of the first phase of the National Financial Inclusion Strategy (NFIS I), was circulated to key stakeholders for their comments. The comments and feedback received will inform the development of NFIS II.

4.2. Engagements with other stakeholders and development partners are underway, to facilitate both Consumer and the Micro, Small and Medium Enterprises FinScope (MSMEs) surveys expected to commence in the second half of 2021.

4.3. The development of the National Financial Inclusion Strategy Phase II (2021-2025) is now underway and a series of stakeholders' workshops to deliberate on the development of NFIS II are scheduled for June 2021.

4.4. The NFIS II will seek to address the challenges and gaps noted in NFIS 1, with more focus on usage, quality of financial services, fintech & product innovation, financial inclusion data disaggregation and sustainability.

4.5. Notwithstanding the negative impact of the Covid-19 pandemic which threatened to reverse the financial inclusion gains to date, financial institutions continued to provide access to finance to the low income and marginalised.

4.6. Access and usage of financial services and products during the period under review continued on an upward trajectory, largely driven by the increased adoption of digital financial services platforms, on the back of high mobile penetration rate in the country.

4.7. The number of active mobile money subscribers increased from 5.2 million to 6.4 million active subscribers while point of sale devices increased to 128,803 from 125,277 during the period under review, underpinned by the Reserve Bank efforts to promote electronic payments and a cash lite society.

4.8. As at 31 March 2021, the value of loans availed to MSMEs, women and the youth by banks and deposit-taking microfinance institutions increased from $3.01 billion, $3.28 billion and $1.94 billion as at 31 December 2020, to $3.96 billion, $5.03 billion and $2.71 billion as at 31 March 2021, respectively.

4.9. The table below indicates the trend in the financial inclusion indicators.

Table 3: Financial Inclusion Indicators December 2016 – March 2021

Indicator	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Mar 2020	Jun 2020	Sept 2020	Dec 2020	Mar 2021
Value of loans to MSMEs (ZW$ Million)	131.69	146.22	169.96	462.98	1,457.47	1,321.34	2,032.41	3,013.85	3,967
Average loans to MSMEs as % of total bank loans	3.57	3.75	3.94	3.92	4.66	3.49	3.57	3.66	3.79
Number of MSMEs with bank accounts	71,730	76,524	111,498	116,467	121,945	121,872	145,237	139,902	152,504
Number of Women with Bank Accounts	769,883	935,994	1,736,285	2,152,185	2,251,300	2,536,558	2,506,671	2,570,835	2,758,922
Value of Loans to Women (ZW$ Million)	277.30	310.78	432.36	586.74	841.19	1,183.16	2,450.56	3,280.61	5,039
Average loans to women as a % of total bank loans	7.52	7.96	10.57	15.59	4.25	2.93	4.31	3.98	4.82
Number of Loans to Youth	38,400	61,529	69,421	189,658	144,676	126,002	77,697	71,832	68,452
Value of Loans to Youth (ZW$ Million)	58.41	138.93	104.43	188.71	669.51	964.86	1,725.16	1,947.52	2,719
Average loans to the youth as a % of total bank loans	1.58	3.56	2.55	6.09	3.38	2.32	3.03	2.36	2.60
Total number of Active Bank Accounts (Million)	1.49	3.07	6.73	7.62	8.46	8.63	8.32	8.64	9.06
Number of Low Cost Bank Accounts (Million)	1.20	3.02	4.67	4.97	5.17	5.30	5.05	5.85	5.82

4.10. Total active bank accounts increased from 8.64 million as at 31 December 2020, to 9.06 million as at 31 March 2021, while low cost accounts marginally declined from 5.85 million as at 31 December 2020, to 5.82 million as at 31 March 2021.

4.11. The number of women with bank accounts increased from 2,570,835 as at 31 December 2020 to 2,758,922 as at 31 March 2021.

4.12. As at 31 March 2021, there were 13 institutions with women's desks while 19 institutions had MSME units. The numbers remained unchanged from the previous quarter.

END OF REPORT

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

Indicator	March -20	Sept 2020	Dec 2020	March 2021
Number of Licensed Institutions	212	198	209	182
Total Loans ($m)	685.06	1,218.81	1,766.16	2,648.14
Total Assets ($m)	960.69	2,217.20	2,649.47	3,540.33
Total Equity ($m)	348.44	877.82	976.32	1,519.75
Net Profit ($m)	12.86	394.07	316.15	647.1
Average Operational Self-Sufficiency (OSS)	127.91%	76.37%	120.02%	142.29%
Portfolio at Risk (PaR>30 days)* (%)	12.98%	12.60%	7.60%	10.57%
Number of Active Loan Clients	275,734	217,708	223,020	234,676
Number of Outstanding Loans	329,343	280,649	274,153	259,612
Number of Branches	800	781	661	985
Number of Women Clients	114,514	98,048	89,584	100,910
Value of Loans to Women ($m)	228.22	417.58	580.21	1,136.27

***** 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

Key Indicators	March-20	June-20	Sept- 20	Dec – 20	March - 21
Total Assets ($m)	403.40	843.04	1,154.26	1,515.19	2,002.58
Total Loans & Advances ($m)	120.81	134.33	191.08	320.87	452.42
Core Capital ($m)	178.81	300.98	494.45	596.01	836.20
Net Capital Base ($m)	218.25	482.98	683.95	783.57	1,098.96
Total Deposits ($m)	68.02	83.09	144.56	239.11	350.02
Net Profit ($m)	0.17	119.79	125.11	140.48	(51.29)
Average OSS ratio	97.66%	241.80%	171.10%	128.11%	72.27%
Average Return on Assets	0.04%	14.21%	16.75%	9.27%	-4.78%
Average Return on Equity	-0.49%	7.04%	7.98%	9.74%	-6.70%
Average Prudential Liquidity Ratio	191.37%	134.06%	92.56%	91.73%	194.27%
Portfolio at risk Ratio (> 30 days)	8.86%	16.97%	7.58%	6.53%	11.97%