



QUARTERLY MICROFINANCE INDUSTRY REPORT

AS AT 31 MARCH 2014

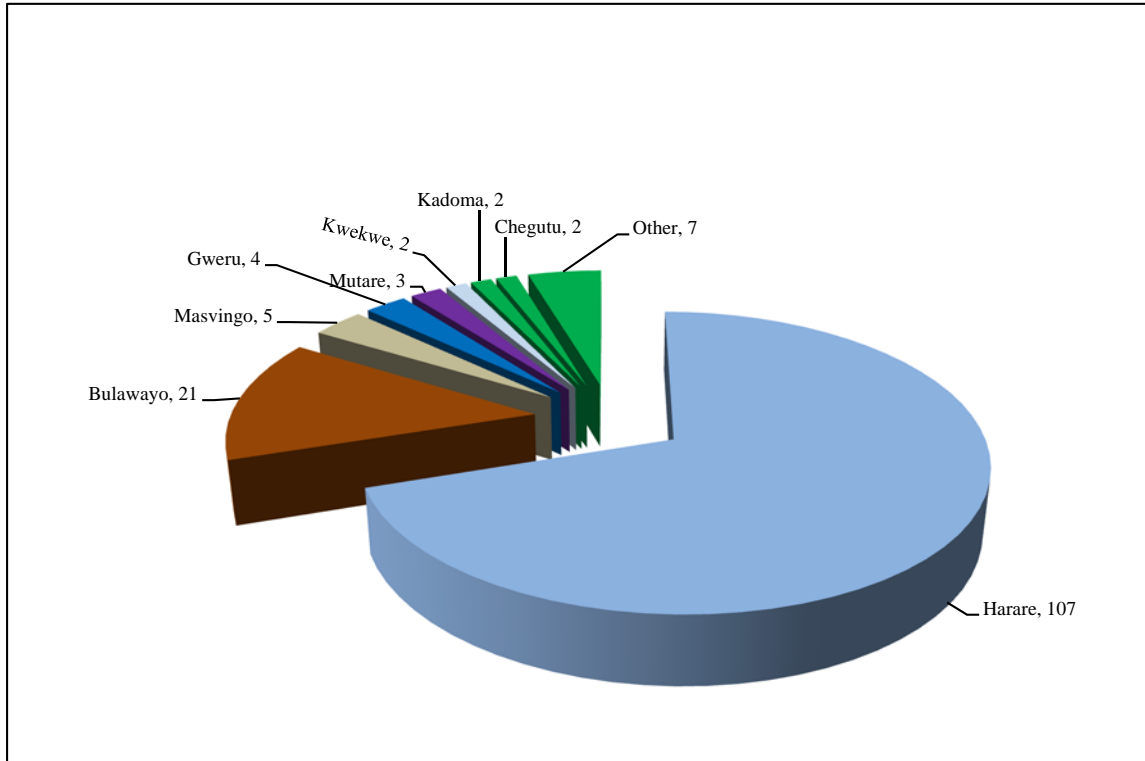
1. Overview

- 1.1. Microfinance plays a critical role in the process of building inclusive financial systems for inclusive growth and development.
- 1.2. Prior to August 2013, microfinance institutions under the Reserve Bank purview were registered and supervised in terms of the Moneylending and Rates of Interest Act [*Chapter 14:14*]. In August 2013, the new Microfinance Act [*Chapter 24:29*] was gazetted. The New Act provides for the regulation and supervision of **credit-only** and **deposit-taking microfinance institutions**.
- 1.3. The new Microfinance Act has strengthened the consumer protection framework for microfinance clients through among other requirements, mandatory full disclosure by microfinance institutions of the terms and conditions of their services, adequate pre-lending assessment to avoid over-indebtedness of clients, and ethical business conduct. The Act also incorporates a Code of Conduct for microfinance institutions.

2. Architecture of the Microfinance Industry

- 2.1. As at 31 March 2014, there were 153 registered microfinance institutions (MFIs) under the supervision of the Reserve Bank. During the quarter four (4) new microfinance licences were issued and 27 microfinance institutions renewed their licences.
- 2.2. Microfinance institutions continue to be concentrated in the urban centres as shown in the pie chart below:

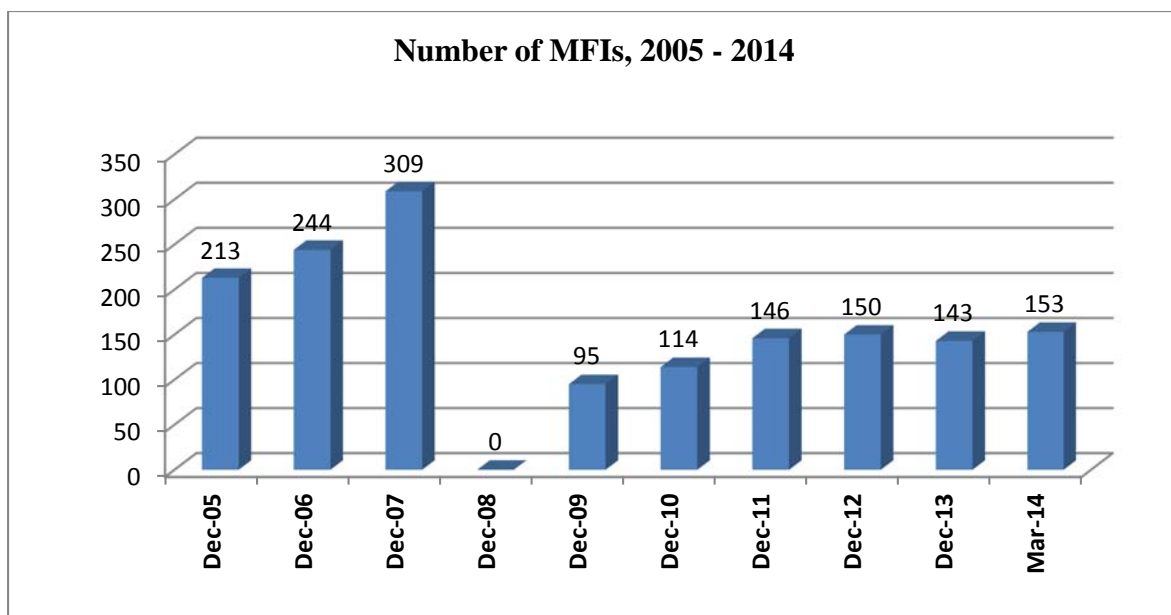
Geographical Distribution of Microfinance Institutions as at 31 March 2014



2.3. However, some of the institutions have opened offices and branches in rural and peri-urban centres such as Gokwe, Matobo, Beitbridge, Rusape and Checheche.

Trend in the Number of Licensed MFIs...

2.4. The number of licensed microfinance institutions grew from 213 in 2005 to 309 in 2007. In 2008, the number of operating MFIs plunged to near zero as the hyperinflation decimated the institutions' balance sheets. The number of operating MFIs has been gradually increasing following the adoption of the multicurrency as shown in the table below:



3. Performance of the Microfinance Industry

3.1. The table below shows key performance indicators for the microfinance institutions under the supervision of the Reserve Bank.

Key Performance Indicators for Microfinance Sector

	31 Mar 2014	31 Dec 2013	30 Sep 2013	30 Jun 2013
No. of Licensed Institutions	153	146	156	172
No. of MFIs which submitted Returns	101	106	105	90
Total Loans	\$170.00 million	\$164.20 million	\$164.51 million	\$97.01 million
Total Assets	\$193.87 million	\$185.73 million	\$206.79 million	\$131.96 million
Portfolio at Risk (PAR > 30)	27.14%	16.03%	21.60%	33.78%
No. of Clients	188,990	150,188	157,512	118,515
No. of Loan Accounts	208,168	162,221	166,899	130,747
No. of Branches	405	334	347	334

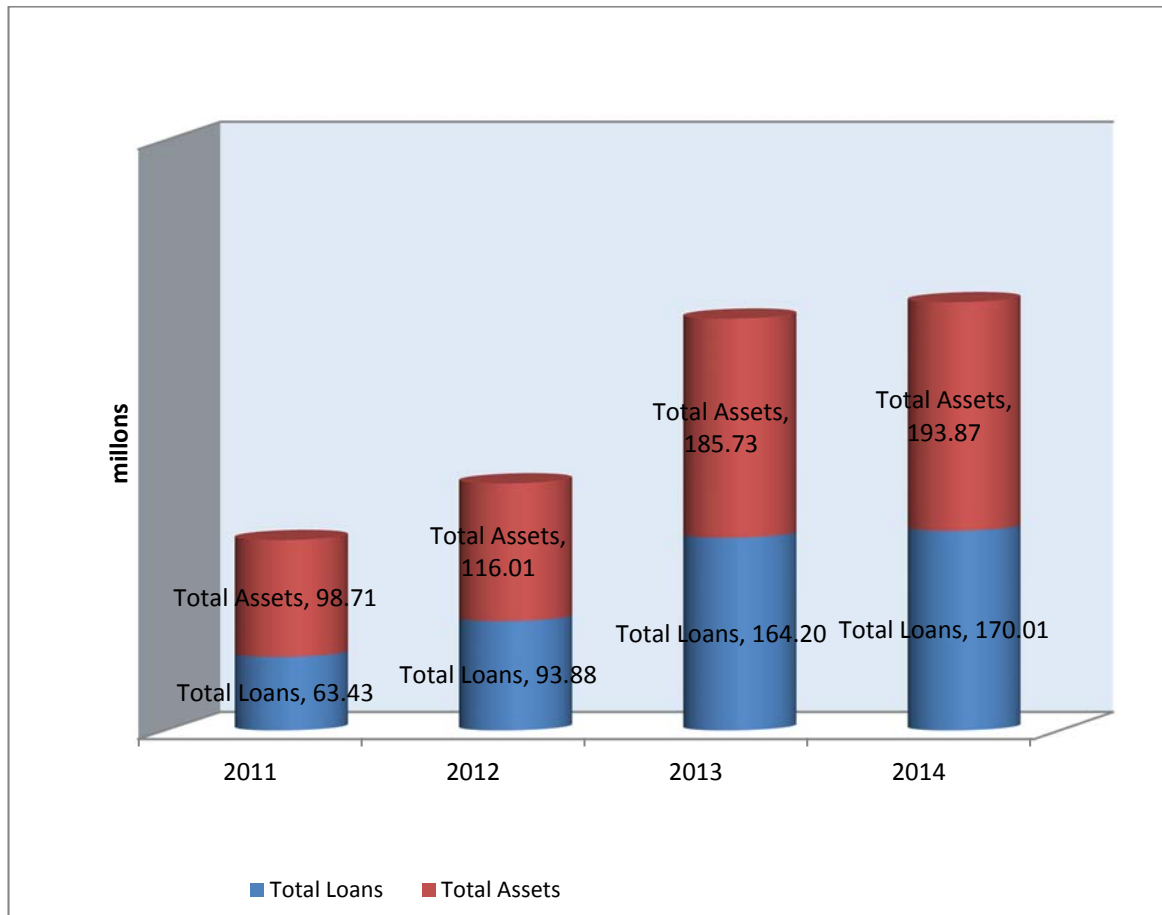
3.2. The sector has remained largely dominated by ten microfinance institutions which controlled 83.76% of the market share in terms of total loans as at 31 March 2014. The largest microfinance institution had a total loan book of \$54.01 million and total assets of \$52.20 million as at 31 March 2014.

4. Challenges in the Microfinance Sector...

4.1. The microfinance sector continues to face funding constraints largely attributable to general liquidity constraints in the economy and limited availability of wholesale funds. High interest rates charged by the MFIs have precipitated a high level of indebtedness among the microfinance clients which has the undesirable effect of negating the financial inclusion objective of microfinance.

4.2. Notwithstanding these challenges, the microfinance sector continues to play a significant role in the financial inclusion agenda as depicted by the graph below.

Microfinance Sector Total Loans & Assets



- 4.3. Other institutional challenges faced by MFIs include corporate governance and weak risk management systems.
- 4.4. Further, the lending activities of the majority of the operating MFIs are skewed towards salary based loans for consumption purposes at the expense of support to micro, small and medium enterprises as reflected in the table below.

Microfinance Institutions' Lending Activities		
TYPE OF LENDING	MARCH 2014	DECEMBER 2013
Consumption	\$121.08m (71.22%)	\$116.40 (70.89%)
Productive	\$48.92m (28.98%)	\$47.80 (29.11%)
No. of MFIs submitting Returns	101	106
TOTAL LENDING	\$170.00m	\$164.20m

4.5. Delinquency levels in the microfinance sector have remained high as reflected by the level of Portfolio at Risk (PaR > 30) ratio of 27.14% as at 31 March 2014. The high PaR ratio is largely attributed to multiple borrowings on the background of high interest rates.