



**ENHANCING THE MICROFINANCE LANDSCAPE & FINANCIAL  
INFRASTRUCTURE TO PROMOTE GROWTH AND  
DEVELOPMENT**

**Presented**

**by**

**R.S. MUSHOSHO**

**Deputy Director, Bank Supervision**

**Reserve Bank of Zimbabwe**

# PRESENTATION OUTLINE

- Important Role of the Microfinance Sector
- The Microfinance Landscape
- Initiatives by the Reserve Bank
- Opportunities for the Microfinance Sector
- High Level Recommendations

# INTRODUCTION

- The **Microfinance Winter School** has become very important **platform for interaction and sharing of ideas** among microfinance service providers.
- The 2017 edition of the Microfinance Winter School has an **exciting theme, “*Traversing the Microfinance Landscape*”**, given the current composition, features and the ever shifting environment in which microfinance institutions operate.
- At the Reserve Bank we have recognised **microfinance as one of the four pillars of the *National Financial Inclusion Strategy*** which was launched in March 2016.

# IMPORTANT ROLE OF MICROFINANCE SECTOR

- Considering that 10.7 percent of the global population or 767 million people, live below the international poverty line of \$1.90 per person per day (World Bank (2016)) microfinance is a vital solution.
- In Zimbabwe 16.2% of the population is considered extremely poor and living below the food poverty line of \$32.70 per month
- The microfinance sector in Zimbabwe can be a powerful *multi-faceted approach* to sustainable development and growth, in line with the *National Financial Inclusion Strategy*. The microfinance sector is expected to:
  - Promote access to credit in sustainable manner & break the cycle of poverty,
  - Design lending strategies which target vulnerable groups (Women, SMEs etc.) with viable projects in order to promote sustainable development,
  - Become a economic inclusion tool by lending to projects with high impact and which can create employment opportunities.

# IMPORTANT ROLE OF MICROFINANCE SECTOR

- While microfinance has become an integral part of the Zimbabwe financial system, contributing to financial inclusion, employment creation, and poverty reduction, evidence on the ground indicates that the impact of microfinance on the low income groups is still insignificant, both in terms of:
  - *Outreach* – number of active microfinance clients; and
  - *Diversity* of microfinance product offering.
- There is significant scope for microfinance institutions to **provide tailored client-specific financial services,**

# **MICROFINANCE ARCHITECTURE & LANDSCAPE IN ZIMBABWE**

# MICROFINANCE LANDSCAPE

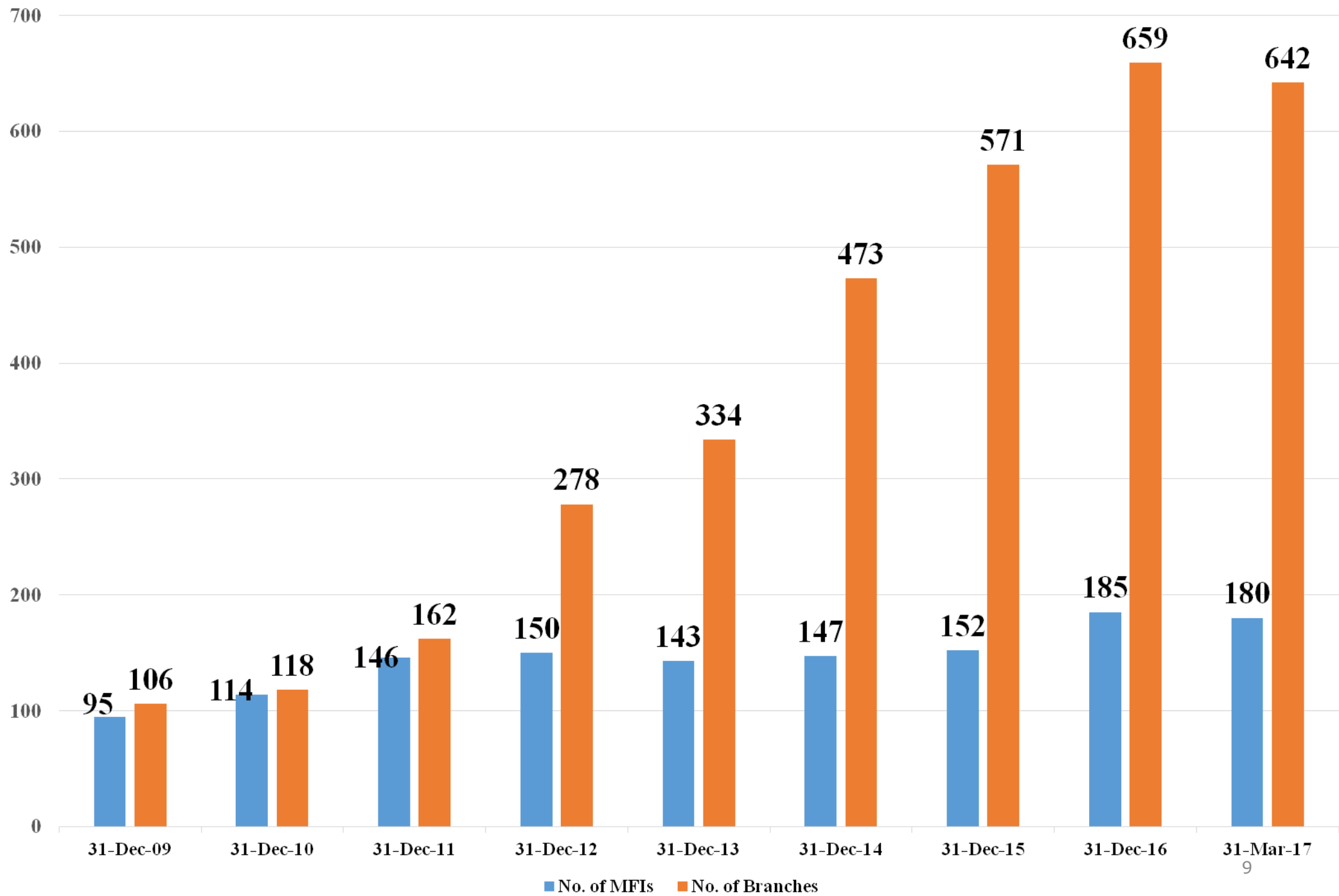
	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17
<b>Number of Licensed Institutions</b>	152	162	168	169	185	180
<b>Total Loans</b>	\$187.16m	\$187.49 m	\$183.40m	\$200.80m	\$206.28m	\$215.21m
<b>Total Assets</b>	\$225.13m	\$242.55m	\$250.97m	\$255.32m	\$275.04m	\$291.60m
<b>Total Deposits (DTMFIs)</b>	--	\$0.442m	\$1.60m	\$2.10m	\$4.19m	\$5.12m
<b>Number of Savings Accounts (DTMFIs)</b>	--	243	522	1,060	1,411	1,993
<b>Portfolio at Risk (PaR&gt;30 days)*</b>	10.72%	11.40%	9.81%	6.11%	8.34%	12.35%
<b>Number of Active Clients</b>	202,242	196,377	251,553	263,806	290,552	257,707
<b>Number of Outstanding Loans</b>	262,627	221,712	285,466	279,148	352,225	621,267
<b>Number of Branches</b>	571	611	600	595	659	642

# LANDSCAPE OF THE MICROFINANCE SECTOR - OUTREACH

- As at 31 March 2017, the sector had registered a total of **176** licensed *credit-only microfinance institutions* and **four (4)** *deposit-taking microfinance institutions*, with a branch network of number of 642.
- The total number of active clients for period ended 31 March 2017 was **247,707**, against **23%** of the Zimbabwean population that are *financially excluded*.
- Given the potential impact and catalytic role that microfinance plays among the low income and marginalised groups in poverty alleviation and improved income, *at individual, household and enterprise level*, the *static trend* in the number of active clients for the sector over the year is indeed disturbing.
- The sector has *not been able to go beyond 300,000 active clients* in the last two to three years.

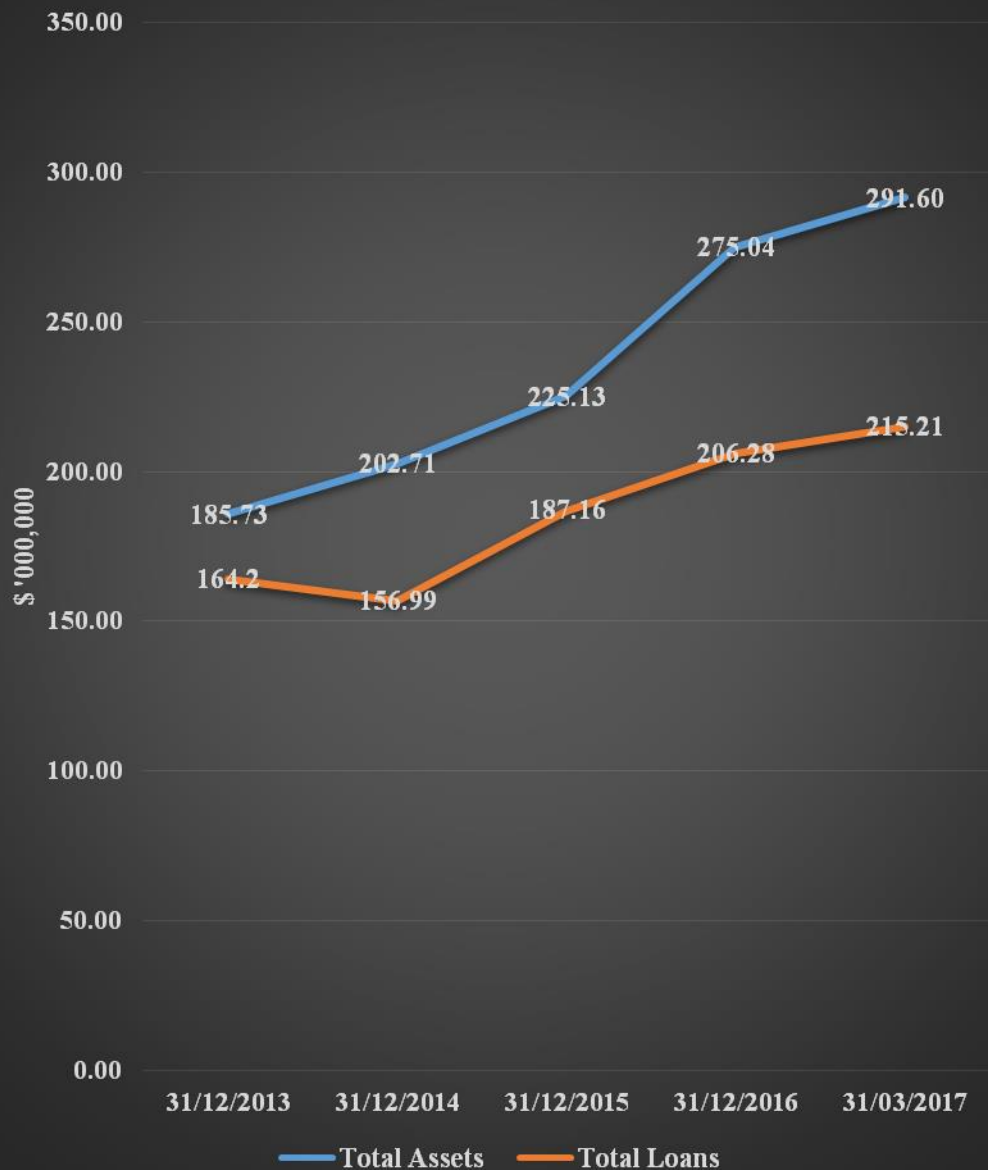


# Number of MFIs & MFI Branches



# MICROFINANCE SECTOR LANDSCAPE – PRODUCTS

**Fig 3: Growth in Total Microfinance Sector Assets and Loans**

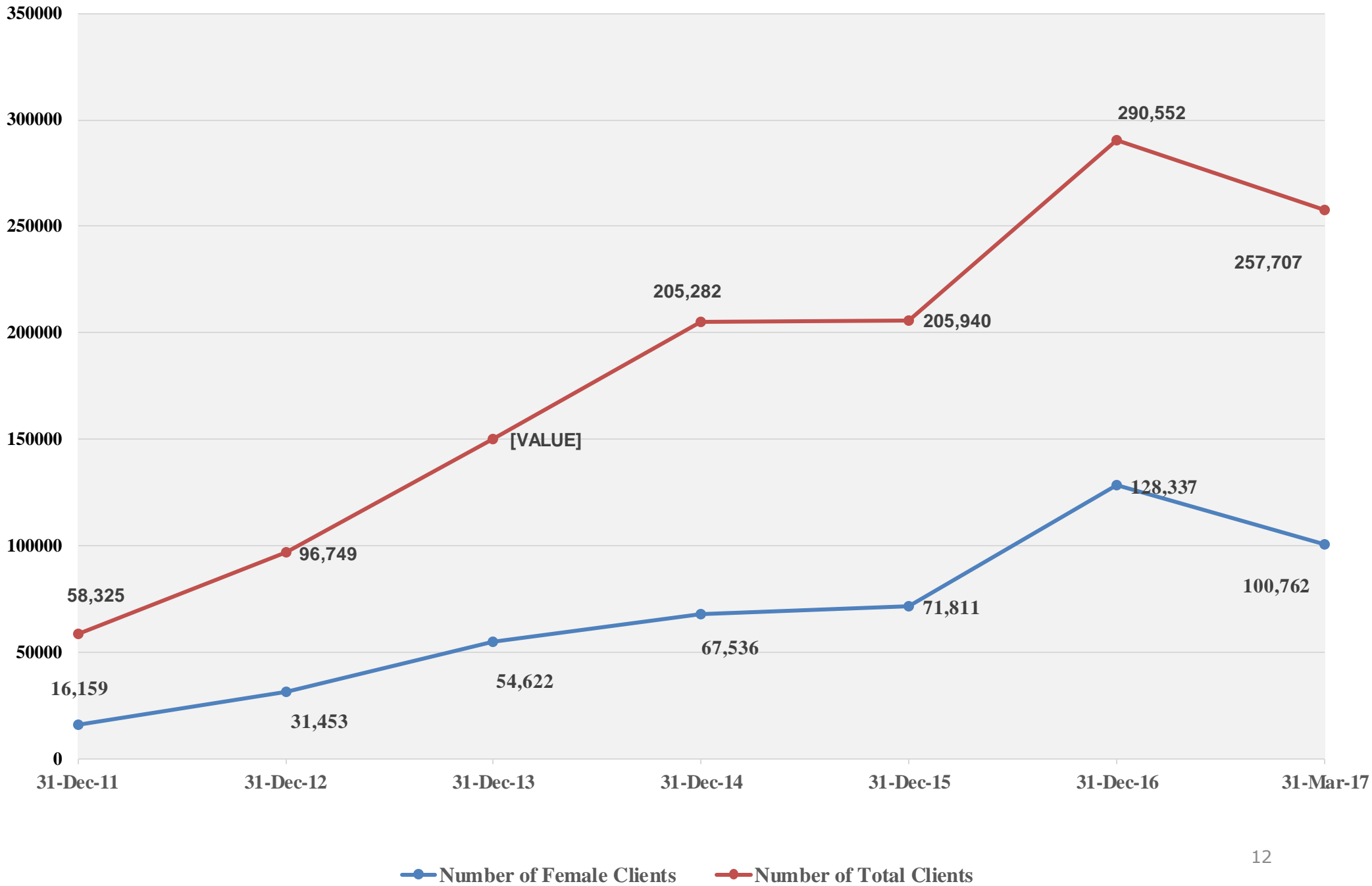


- The product offering by the sector has remained limited and largely dominated by micro loans, which constitute a significant portion of the microfinance institutions' balance sheets.
- Financial inclusion for sustainable economic growth requires that the poor and low income have access to a wider array of micro-financial services including:
  - micro housing;
  - micro-leasing; and
  - micro-insurance among others.

# MICROFINANCE SECTOR LANDSCAPE– LOANS

- The sector is largely dominated by the top 20 microfinance institutions which account for **84.92%** of *the total sector loans of \$215.21 million*, with the rest of the institutions accounting for only **15%** of the total market share.
- The majority of the microfinance institutions have loan portfolios of less than **\$1million**.
- In the majority of cases, the loan book sizes have *remained static* over the year pointing to stunted growth in terms of loan size and number of active clients.
- The percentage of female borrowers declined over the quarter from 44.06% of total sector loans as at 31 December 2016 to **39.10%** as at 31 March 2017.

# GROWTH OF ACTIVE AND WOMEN CLIENTS



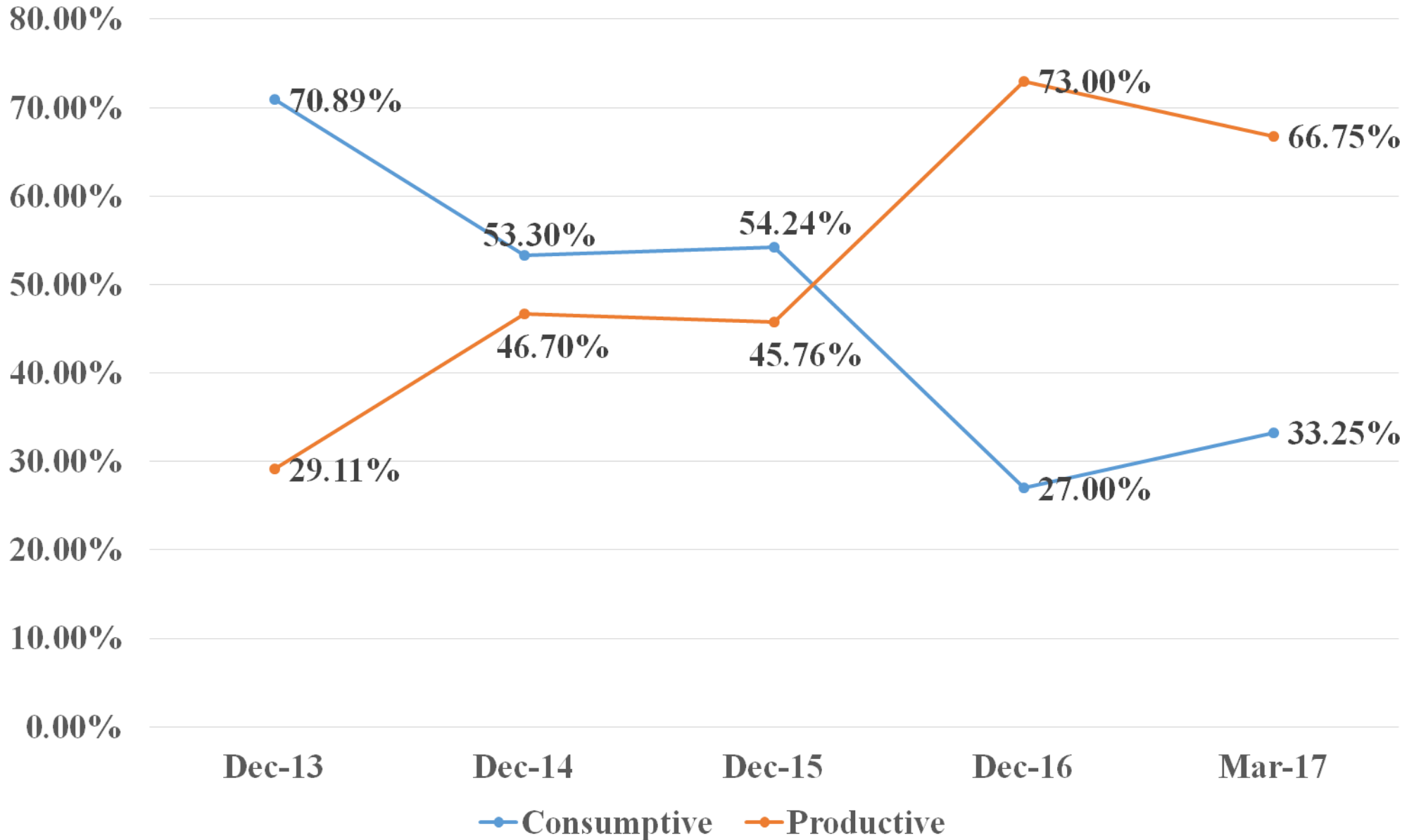
# MICROFINANCE SECTOR LANDSCAPE– LOANS TO THE PRODUCTIVE SECTOR

- The majority of people living in developing countries make a living through small-scale, self-employment, micro and small enterprises.
- Globally, formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies.
- Zimbabwe's economy is largely driven by these MSMEs, and according to the FinScope MSME Survey of 2012, SMEs employ approximately 5.7 million people in Zimbabwe, comprising of 2.8 million business owners and 2.9 million employees.
- However, access to finance by the productive sector and these emerging MSMEs has militated against their full potential and contribution to sustainable economic growth.

# MICROFINANCE SECTOR LANDSCAPE – LOANS TO THE PRODUCTIVE SECTOR

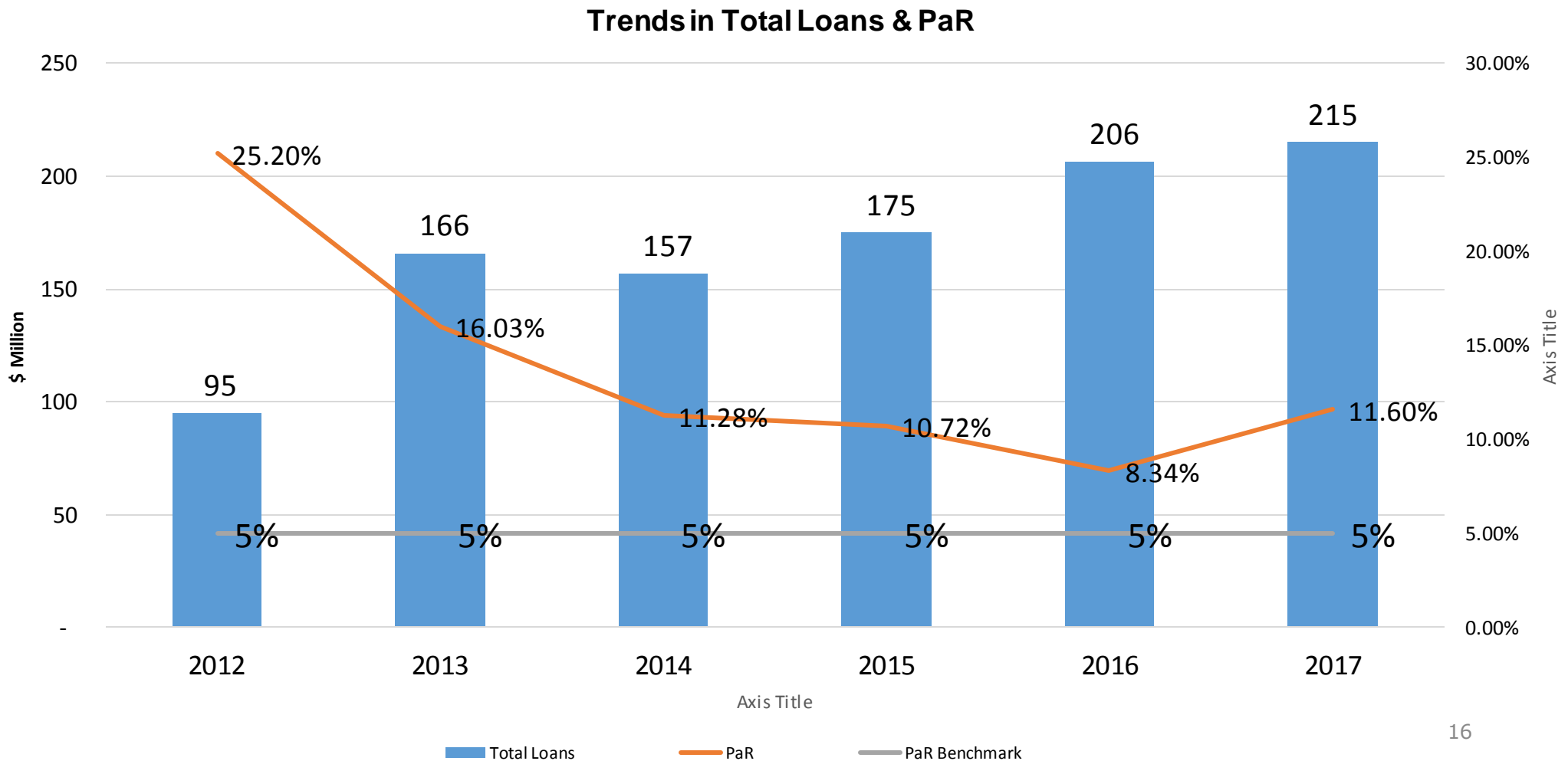
- The sector's loans to the productive sector of *\$143.65 million* as at 31 March 2017, representing *66.75%* of the sector's total loans of *\$251.21 million*, was largely driven by *strategic decisions by some MFIs* to focus on agricultural value-chain financing as well as *support from some developmental partners* such as ZADT, FAO, Zimbabwe Microfinance Fund (ZMF).
- The shift towards the productive sector is also a response by some microfinance institutions to the Reserve Bank call for microfinance institutions to focus more on productive lending in order to stimulate growth and development among the marginalised.
- While productive sector lending has been on the upward trend, the quantum is still insignificant compared to the demand for such loans.
- Figure below shows the trend in the distribution of loans from Dec 2013 to March 2017.

# DISTRIBUTION OF LOANS



# MICROFINANCE SECTOR LANDSCAPE - Cont'd

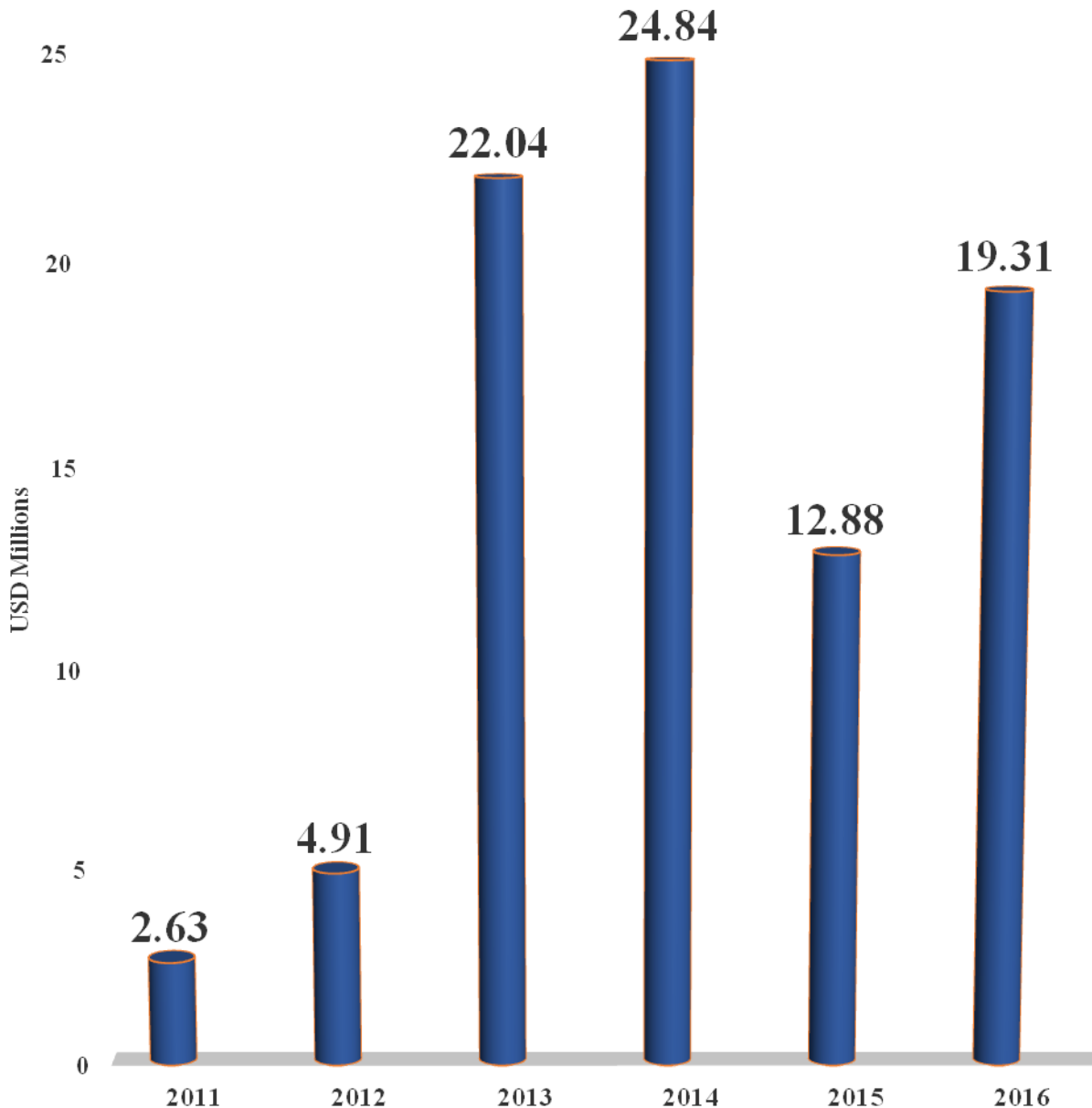
The sector registered a slight deterioration in the quality of the loan book as measured by the Portfolio at Risk (PaR) ratio which deteriorated over the quarter from to 8.34% as at 31 December 2016, to **12.35%** as at 31 March 2017, against the international benchmark of 5%.





# MICROFINANCE SECTOR LANDSCAPE – PROFITABILITY

**Fig 5: Trend in Net Profit, 2011 - 2016**



➤ Profitability for the sector has remained generally subdued.

➤ This is largely attributed to lack of diversified income streams with the majority relying on salary-based income on the backdrop of high operational costs.



**MEASURES TO ENHANCE FINANCIAL  
INFRASTRUCTURE & OPERATING ENVIRONMENT**

# RBZ INITIATIVES TO PROMOTE MICROFINANCE

## National Financial Inclusion Strategy

- The National Financial Inclusion Strategy (NFIS) is anchored on four pillars, namely, innovation, financial literacy, financial consumer protection and **microfinance**
- The NFIS seeks to bring to the fore, *the importance of microfinance* in the financial inclusion and economic development agenda.

## Credit Guarantee Facility

- The Reserve Bank has established the Credit Guarantee Scheme to facilitate partial transfer of credit risk stemming from loans with inadequate collateral.
- MFIs are expected to capitalise on the credit guarantee scheme in order to provide finance to economically active poor with viable projects, which in turn is expected to stimulate economic growth and development.

# RBZ INITIATIVES TO PROMOTE MICROFINANCE

## Credit Reference System

- Credit information asymmetry has resulted in *unsustainably high interest rates* which have culminated in high levels of non-performing loans.
- The newly deployed credit reference system will reduce the problem of information asymmetry between borrowers and lenders. Clearance of borrowers prior to approval is mandatory.
- The Reserve is in the process of *registering some MFIs as subscribers* to facilitate them accessing credit information on prospective borrowers.
- A robust ICT systems is mandatory.

## Collateral Registry

- This is expected to facilitate the use of movable assets as collateral substitutes for credit which is expected to benefit the marginalised who do not have collateral.
- The establishment of a collateral registry is expected to enhance access to microfinance services by the low income groups using movable property as collateral.

# RBZ INITIATIVES TO PROMOTE MICROFINANCE

## Funding Sources for the Sector

- The Reserve Bank is establishing a \$15 million *Business Linkage Facility* for financing value chain linkages for farmers to manufacturing entities to enhance value addition and a \$10 million *Women Empowerment Fund* for lending to women projects.
- The facilities will be disbursed through MFIs and other financial institutions.
- A robust MIS and risk management framework is a re-requisite

## Agent Banking

- RBZ has approved the agency banking model to enhance outreach of financial services and more than 4,000 access points have been established.
- Financial services providers including *MFIs should partner* with mobile network operators, and banking institutions to offer mobile financial services such as payments, micro-insurance and micro-credit, as well *as widen their income streams*.
- Robust ICT systems and risk management frameworks are a pre-requisite.

# RBZ INITIATIVES TO PROMOTE MICROFINANCE

## Financial Consumer Protection Framework

- The Reserve Bank is developing a Financial Consumer Protection Framework to enhance public confidence in the financial system including MFI sector as they access financial services.

## National Financial Literacy Framework

- RBZ developing a National Financial Literacy Framework to facilitate awareness of financial service and responsible access.
- Microfinance institution will benefit immensely as their clients are among the most illiterate.

# OPPORTUNITIES FOR THE MICROFINANCE SECTOR



# VALUE-CHAIN FINANCING

- The Reserve Bank has out in place the *Business Linkage Facility* and the *Women Empowerment Fund*, aimed at ensuring access to finance by the low income and marginalised groups and their enterprises.
- These funds, has taken cognisant of the *funding constraints* of microfinance institutions, are being disbursed through *banking institutions and selected microfinance institutions*.
- Microfinance institutions *should take advantage* of facilities available at concessionary rates to provide value-chain financing projects across the country.
- Some of the activities that can be supported include banana plantations in Honde Valley, Manicaland; Irrigation Projects such as Redwood Irrigation Scheme in Bulawayo peri-urban; Small Scale Dairy projects in Chipinge; cross border traders and vendors in various parts of the country.

# MICRO-INSURANCE

- Insurance and Pensions Commission (IPEC) is developing a *Micro-Insurance Regulatory framework*, to facilitate provision of micro insurance products by microfinance institutions.
- IPEC is also developing a *consumer education program* to create awareness on importance of micro-insurance to the low income groups.
- Microfinance institutions should take advantage of these developments and *partner with some of the insurance companies* in order to offer micro insurance products to the low income and marginalised groups.

## MICRO LEASING PRODUCTS

- Micro leasing is based on the business philosophy that profits are earned through use rather than ownership of production equipment or business asset.
- Through micro leasing, low income people with limited capital can *acquire new production techniques* through use of equipment they otherwise would not have.
- Currently the microfinance sector has a few players who offer micro-leasing products – good for re-industrialisation of the economy.

# DELIVERY CHANNELS

- A number of players in the sector has embraced mobile banking, plastic money and agency banking as a delivery channels.
- In addition to increasing and diversifying income, these new technology based channels have the potential to increase MFI outreach to clients in both urban and remote rural areas.

# HOUSING LOANS

- The majority of the low income and marginalised groups have faced challenges in terms of securing mortgage loans from the conventional building societies.
- Access to micro-housing loans can facilitate the poor and marginalised to improve their homes or extend their houses to suit their growing needs.
- MFIs can increase income through this untapped market by offering micro-housing loans to assist low income earners complete houses that have already been built, acquire stands, and purchase new properties.

# GREEN MICROFINANCE

- Green microfinance is a financial service product aimed at providing the marginalised with microfinance funding that encourages them to use more sustainable environmental-friendly practices.
- The Zimbabwe Microfinance Fund (ZMF) has set aside *\$3 million* for “green financing” to Micro Finance Institutions (MFIs), a move that is expected to lower loss risks for the financial service providers and save the environment.
- This is still an untapped markets which requires microfinance institutions that are innovative and forward-looking.

# CAPACITY BUILDING

- Inadequate skills has been identified as one of the challenges militating against the development of the microfinance sector in Zimbabwe.
- The Reserve Bank and the World Bank have partnered with some institutions of higher learning such as the Harare Institute of Technology, University of Zimbabwe, and the Ezekiel Guti University in offering diplomas and ultimately degrees in the field of microfinance.
- Microfinance institutions should take advantage of these facilities to invest in capacity building which is critical for future growth.
- In addition, microfinance institutions should incorporate capacity building in their loan products including business management and financial skills, to enable MSMEs owners grow more sustainable businesses.

# HIGH LEVEL RECOMMENDATIONS



# RECOMMENDATIONS

- It is very clear that microfinance remains the most viable poverty reduction strategy for sustainable economic growth.
- In this regard, it is imperative that the microfinance institutions *think strategically* with regards to their role as a pillar for financial inclusion and sustainable economic development. MFIs should have *strategic retreats* where they can develop *strategic plans* for growing the business.
- *Focus on the emerging MSME sector is a strategic option* that microfinance institutions should consider in order to build sustainable institutions and diversify their income streams.
- Microfinance institutions should continue to *prime up their risk management and corporate governance* in order to building sustainable microfinance institutions which are supportive of inclusive economic growth.

# RECOMMENDATIONS

- MFIs should embrace technology as the key driver to their sustainability and for reaching scale.
- It is imperative that microfinance institutions put in place *robust ICT management information systems* that can assist MFIs to better manage their credit risk and to access concessional funding availed by the Reserve Bank.
- Credibility of the sector is of prime importance to both the target clientele and to other microfinance stakeholders. In this regard, microfinance institutions should continue to inculcate a *culture of compliance to the Client Core Protection Principles and the regulations governing their operations.*



**THANK YOU**