Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 March 2019

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE SECTOR PERFORMANCE HIGHLIGHTS

Below is a summary of selected key performance indicators as at 31 December 2018 and 31 March 2019.

Table 1.0: Performance Indicators

Performance Indicator	Dec 2018	March 2019	Quarterly Comparison
Total Assets	$233.5 million	$250.1 million	Improved
Total Equity	$70.2 million	$73.2 million	Improved
Total Debt	$119.8 million	$136.3 million	Improved
Total loan portfolio	$207.3 million	$225.8 million	Improved
Portfolio At Risk	7.0%	11%	Deteriorated & cause for concern
Risk Coverage Ratio	106%	57%	Declined & cause for concern
Operational Self Sufficiency	118%	117%	Declined & but stable
Return on Equity	16%	24%	Improved
Return on Assets	5%	8%	Improved
Operational Expenses Ratio	24%	32%	Increased & cause for concern

MARKET SHARE AND CREDIT OUTREACH

The credit only microfinance sector total loans increased by $18.5 million, from $207, 3 million as at 31 December 2018 to $225.8 million as at 31 March 2019. At the prevailing interbank rate of USD: RTGS$5.5 as at 6 June 2019, this translates to USD$41.0 million. This compares unfavorably to the microfinance loan book of USD$75.1 million reported in December 2015, before the country adopted the surrogate bond note currency pegged as 1: 1 with USD dollar in 2016.

The pressure to grow is now inevitable as microfinance is traditionally a high-growth industry. Exponential growth in outreach is a key factor in achieving sustainability, viability and significant market share by MFIs.

However, the money and capital markets in Zimbabwe is currently starved of capital hence many MFIs, especially small MFIs are finding it hard and difficult to keep pace with the need to increase outreach to significant levels.

As shown below the top 5 MFIs accounted for 76.1% of the total loans, while the largest MFI, with total loan book of $74.6 million had a market share of 33.2%.

MFI RANK March 2019		Value of Loan Book ($)	MFI RANK December 2018		Value of Loan Book ($)
1		$74.6 m	**1**		$67.6 m
2		$47.9 m	**2**		$44.3 m
3		$27.5m	**3**		$26.6 m
4		$12.9 m	**4**		$11.7 m
5		$8.5 m	**5**		$7.1m
6		$6.9 m	**6**		$7.0m
7		$5.3 m	**7**		$5.2 m
8		$5.2 m	**8**		$4.3 m
9		$2.9 m	**9**		$2.8 m
10		$2.9 m	**10**		$2.7 m
11		$2.8 m	**11**		$2.6m
12		$2.6 m	**12**		$2.6 m
13		$2.5 m	**13**		$2.6 m
14		$2.4 m	**14**		$2.5m
15		$2.0 m	**15**		$1.8 m
16		$2.0 m	**16**		$1.7 m
17		$2.0 m	**17**		$1.2 m
18		$1.7 m	**18**		$1.0 m
19		$1.5 m	**19**		$0.78 m
20		$1.2 m	**20**		$0.69 m

PROFITABILITY AND SUSTAINABILITY

The credit-only microfinance sector registered an aggregate net profit of $4.5 million for the three months period, compared with $2.7 million recorded the previous year during the same period. Total income from interest and fees amounted to $30.2 million against total cost of $25.6 million leading to an operational self-sufficiency ratio of 117% as a 31 March 2019. Return on equity and assets improved significantly to 24% and8% respectively compared with 16% and 5% as at 31 December 2018.

During the quarter under review, a number of policy measures were undertaken by government which in the short to medium term period are expected to be a catalyst for the profitability of the sector. The main policy measure among a host of them and relevant to the financial sector has been the creation of an active interbank market for foreign currencies. The policy was crafted with the intended goal of seeking to attract foreign exchange balances into the formal banking market both from local and international sources. According to government official reports, the funds in the private nostro accounts have since increased from USD$200 million to USD$800.00 within a short period of time. In addition, the Central Bank announced a USD$500 million facility to oil the interbank foreign exchange market.

Therefore, MFIs with sound risk management and governance systems may soon be able to tap into such funds and on-lend them in foreign currency to SME clients, largely involved in import and export business.

PORTFOLIO QUALITY

Credit risk as expressed by the ratio of portfolio at risk (PAR >30DAYS) in the microfinance sector has significantly deteriorated from 7% in December 2018 to 11% as at 31 March 2019. This is way above the 5% benchmark and as such poses a threat to commercial viability of many MFIs in the sector.

Since most loans in the sector are unsecured, their delinquency levels unless attended to swiftly and decisively may have a contagious effect of affecting both the profitability and capital levels of some MFIs.

The short to medium term solutions lie then in controlling the level of credit risk through adoption of preventive credit risk mitigation measures such as redesigning of loan products that meet client needs, tightening client screening systems as well enhancing the role and technical capacity of loan officers and committees engaged in approving credits before disbursements.

EFFICIENCY AND PRODUCTIVITY

The operational expenses ratio significantly increased from 24% to 32% largely fueled by annual inflation which reached a peak of 75.86 % (the highest since dollarization in 2009). The rise in annual inflation is predominantly being influenced by depreciation of the RTGS dollar to the US dollar. Rising inflation in the absence of corresponding significant increase in loan books of MFIs in RTGS$ terms may pose a threat to efficiency and productivity of MFIs in the short term period.

To protect their business against rising inflation, the MFIs may consider offering a diversified pool of loans products both in local RTGS dollar as well USD dollar. Some few MFIs in the market with access to USD dollars are already offering such products and as such are bound to reap the benefits of sustained credit operations in spite of operating in a fragile and uncertain economic environment.

Going forward improvements in both efficiency and productivity shall largely remain within the reach of MFIs through adoption of technology.

Notable forms of technology such as smart cards, Point-of-sale (POS) devices, mobile banking and access to internet have the capacity to speed up services, increase outreach, reduce operation cost & risk and ultimately broaden access to financial services by both clients in urban and rural areas.

REPORTING ON SOCIAL PERFORMANCE INDICATORS

Table 4.0: Social Indicators

Performance Indicator	December 2018	March 2019	Quarterly Comparison
Consumption Loans {%)	32%	31%	Decreased
Productive/Business Loans {%)	40%	39%	Decreased
Agriculture Loans {%)	14%	13%	Decreased
Other Loans	14%	17%	Increased
Group Lending {%}	4%	1%	Decreased
Individual Lending {%}	96%	99%	Increased
Female Clients {% }	40%	43%	Increased
Male Clients { %}	60%	57%	Decreased
Urban Clients {%}	85%	84%	Decreased
Rural Clients {%)	15%	16%	Increased
Urban Branches {%}	66%	66%	Unchanged
Rural Branches {%}	34%	34%	Unchanged
Female Mgt{%}	38%	36%	Decreased
Male Mgt{%}	62%	64%	Increased
Female Staff {%}	42%	43%	Increased
Male staff {%}	58%	57%	Decreased

Social Performance Analysis

Group Lending Vs Individual Lending ………

As at 31 March 2019, individual lending constituted 99% of all lending compared with 1% channeled towards group lending. During the 1990s, many MFIs in the industry followed the Grameen group model with zeal and remarkable success as the majority of them were largely owned by NGOs, hence could absorb the costs associated with the model. The model was a very innovative risk mitigation instrument meant to deal with issues related to asymmetric information as well as lack of collateral on the part of borrowers.

However with the current shift of MFIs into being more commercial and profit driven, the individual lending model has therefore assumed more prominence as compared to group lending due to clients preferences in our market.

Group lending largely requires that a borrower find other borrowers in order to be eligible for a loan as well as bear 100% of the risk if other borrowers default. This has proved not to work in the current Zimbabwe economic environment which is unstable and fragile in the short and medium term period.

Outreach to Rural Vs Urban Clients ……

Outreach to rural areas in terms of both clients and branches constitute 16% and 34% respectively indicating a high concentration of access to financial services to clients in urban areas. Any meaningful strides towards financial inclusion will be incomplete without a deliberate policy by all stakeholders to serve the rural areas with affordable financial services, including micro insurance services.

The large component of loans required by the rural folks is agribusiness loans, which have tremendous impact in uplifting them from poverty and low income levels. With the adoption of a weaker and softer currency in the form of RTGS$ during the quarter, food imports are now expensive hence the need to fill-in the void created of demand for locally produced goods through financial support of local agribusiness and value chains actors. Such kinds of businesses are largely predominant in the rural areas, which again in the long term with government policy of economic devolution are expected to be the new and emerging engines of robust economic growth.

Going forward MFIs should remain in support of lending to agriculture which worldwide is perceived as catalyst for rapid economic growth that has the potential to stimulate exports, alleviate poverty, create jobs and improve people's general living standards.