Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 March 2020

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE FINANCIAL INDICATORS PERFORMANCE HIGHLIGHTS

Below is a dashboard summary of selected key indicators of financial performance for the quarter ending March 2020.

Table 1.0: Financial Indicators

Financial Indicator	March 2019	December 2019	March 2020	International Benchmarks	*Level of Performance
Portfolio Quality					
PAR> 30 days	11.01%	13.38%	13.93%	**5%**	**Deteriorating & Weak**
Risk Coverage Ratio	56.97%	25.59%	25.85%	**80% -100%**	**Weak**
Efficiency					
Efficiency ratio	32%	29%	14%	**20%**	**Acceptable**
Financial Management					
Loan Portfolio/Assets	90%	75%	75%	**80%**	**Acceptable**
Debt/Equity(Leverage)	1.8	3.7	2.7	**3.2**	**Acceptable**
Profitability					
Portfolio Yield	14.0%	37.5%	20.1%	**20%-30%**	**Acceptable**
OSS	117.0%	118.8%	102.4%	**100%**	**Deteriorating & Weak**
Return on Asset	1.8 %	2.9%	0.3%	**1%-2%**	**Weak**
Return on Equity	6.2%	15.4%	1.5%	**5%-7%**	**Weak**

CREDIT OUTREACH AND MARKET SHARE

Credit Only Microfinance Loan Book Growth

The quarterly period of January to March 2020 is a time when most SADC countries were beginning to implement lockdown rules in a bid to curb the spread of the Covid-19 pandemic. In Zimbabwe, the government instituted a lockdown period which commenced on 30 March 2020 for a three week period and was subsequently extended by two more weeks. The quarterly performance figures for the quarter ending March 2020 are therefore less reflective of the Covid-19 induced negative effects. Instead the surge in total loan book of the credit only microfinance sector, from ZW$379.3 million as at 31 December 2019 to ZW$469.2 as at 31 March 2020 was primarily driven by borrowing to meet expenditure obligations such as school fees, household food requirements and working capital to finance income generating projects.

The effects then of coronavirus and its associated negative effects on quantitative performance figures for the sector shall only be fully known and be evident in next quarterly figures of June 2020. However it should be noted that the pandemic effects cannot be told only in figurative terms, but require also the qualitative side of analysis. To this end ZAMFI has planned during the quarter to deploy research instruments such as interviews and questionnaire to carry out a mini survey on the sector which will give a detailed picture of the impact of Zimbabwe lockdown period on clients and industry overally.

Below is the market share analysis of the top 20 large credit only MFIs as at 31 March 2020:

Table 1.0: Market Share Rankings

MFI RANK March 2020	Total Loan Book	MFI RANK Dec 2019	Total Loan Book
1	$223.4 m	1	$195.0 m
2	$45.9 m	2	$42.8 m
3	$44.2 m	3	$37.5 m
4	$23.9 m	4	$20.7 m
5	$22.5 m	5	$11.8 m
6	$15.9 m	6	$9.3 m
7	$11.8m	7	$7.0m
8	$11.2m	8	$6.7 m
9	$9.2m	9	$5.7 m
10	$8.0m	10	$4.2 m
11	$7.6 m	11	$4.0 m
12	$4.3 m	12	$3.4 m
13	$4.2 m	13	$2.7m
14	$3.7m	14	$2.4m
15	$3.4m	15	$2.0m
16	$3.1m	16	$1.7 m
17	$2.4m	17	$1.0 m
18	$2.0m	18	$1.0 m
19	$1.5 m	19	$0.9m
20	$1.2m	20	$0.8m

PORTFOLIO QUALITY

In spite on the sectors' loan portfolio remaining stable for the period up to March 2020 as indicated by the reported portfolio at risk (PAR) (>30) of 13.93% as at 31 March against 13.38 % of 31 December 2019, it should be noted that the post lockdown period that fully commenced on 30 March 2020 put tremendous and undue pressure on microfinance credit systems of disbursements and repayments, especially on MFIs that had lagged behind in the implementation of ICT systems. The impact however was generally of minimal disruption to MFIs which prior to lockdown had migrated successfully to cloud based systems, equipped already with latest digital payment and communication systems that rely less on person human interaction.

During the lockdown period, the central bank on its part including ZAMFI, issued a series of advisory guidance notes to the sector meant to protect individual MFIs from Covid-19 pandemic. These took the form of measures on credit relief and loan restructuring in a bid to manage the credit risk and defaults within the respective portfolios of MFIs.

PROFITABILITY AND SUSTAINABILITY

Due to factors primarily linked to economic recessions such as inflation and volatile exchange rate which existed prior to the Covid-19 pandemic outbreak, the first quarter results were negatively affected, resulting in the reporting of lower than expected low level of profit for the 3 months period. The microfinance credit only total financial income amounted to ZW$85.4 million against operating revenue of ZW$83.4million which then translated to a net profit of ZW$2.0 million and Operational Self Sufficiency ratio[OSS] of 102% which is far much lower than the international benchmark of 120%. The return of assets and equity were 0.3% and 1.5% respectively. The same results for last year quarterly period of March 2019, were net profit of ZW$4.5 million, OSS [117%], Return on asset [1.8%] and Return on equity [6.2%].

These results, in real terms could be far worse if hyperinflation accounting is applied, which takes into account both inflation and foreign exchange losses on assets and liabilities driven by devaluation of the Zimbabwe dollar against the United States dollar.

The upcoming figures for the six months period under the negative effects then of coronavirus and lockdown rules paints to a gloomy outlook on profitability and sustainability of the sector which can only be arrested if individual MFIs take bold and honest decision to restrategise, recapitalize and remodel their business lending activities in line with the new " normal' operating environment.

To this end and to help MFIs reboot themselves anew, ZAMFI shall be offering a one day course during the quarter period tilted : ***Microfinance Business Operations Experience and Risk Management under Covid -19.".*** The course shall be targeted primarily at CEOs, Chief Finance Officers, Seniors Managers and Risk Managers of the respective MFIs with the sole aim of investing anew in human capacity levels that will make MFIs to weather the operational storms brought about by the Covid-19 pandemic and economic recession.

WORLDWIDE IMPACT OF COVID-19 PANDEMIC 0N BUSINESS

In conclusion, it is now common knowledge that the worldwide impact of the Covid-19 and its subsequent implemented lockdown rules has created the following, though not exhaustive, negative general effects on business:

Table 2.0: General Effect of Covid -19 Pandemic

Stagnation of transport system and business
Stagnation of importation of goods and raw material leading to domestic production of most essential goods and services
Closure of industries during lockdown period except mining and manufacturing
Closure of informal retail industries including township tuck shops, flea markets and cross border trading
Rising of unemployment to historic low levels
Rising of extreme poverty levels thereby threatening to end decades of progress out of poverty for many households and communities within a short period of time
Low consumption levels especially on non essential foods and services
Lowering of interest rates by central banks in a bid to instill economic recovery
Weakening and depreciation of local currencies due to general lack of confidence in future economic and business outlook.

It is then without doubt that the microfinance sector, like any other industry is facing its hardest period in existence and as such shall require robust intervention instruments ranging from institutional human capacity, financial bailouts, new deployment of technology, new business strategies in addition to a renewed spirit of perseverance, persistence and prevailing among those entrusted with leadership of MFIs to ride through this new dynamic operating environment.