



Zimbabwe Association of Microfinance Institutions
"creating sustainable microfinance"

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 30 JUNE 2020

MICROFINANCE ZAMFI MEMBERS ONLY

Foreword

The Zimbabwe Association of Microfinance Institutions (ZAMFI) produces a quarterly report from its members. The reports delve on a number of indicators and should produce, at a minimum, a state of affairs of the sector. The Association is fully aware that the Central Bank collects some indicators as well and questions have been raised as to why there has been this duplication.

The reasons vary but we collect similar and at some stages different indicators. The use of the indicators is also different in line with our mandates as institutions. The Central Bank could use their information for corrective measure letters and fines etc. whilst ZAMFI uses its indicators to understand where the sector is going and pain points. At times we have swiftly moved in with some training courses to arrest these pain points. Massive attendances in such courses confirm that indeed we would be addressing pain points.

The good observation is that where read in tandem with the Monetary Policy Statement, some of the indicators are very close for instance under the current period under review, ZAMFI announces a PAR < 30 days at 19,50% whilst the RBZ records a 16,97%.The difference just lies in the practitioners submitting data. Total convergence could be attained as we progress. Submission to ZAMFI is through membership obligation whilst to the RBZ it is mandatory hence we are treating different population. But also, assuming for some stroke of very bad luck the RBZ does not publish information for a certain period (s), then the sector is totally devoid of information, tantamount to a ZETDC blackout.

The Association therefore requests all practitioners to submit information since what is published is just consolidated data and the rest is archived.

The April – June performance report is going to be slightly different from the other reports because as it is covering the period under the harshest brunt of the Covid 19 period, it will dwell on some of the identified impact of the pandemic.

Submissions under Covid 19

The following are some of the effects:

- Some members failing to submit their figures to the association
- No meaningful business to report
- Massive scale down and closing of branches and offices
- Some not operating because perpetual licenses applications are still with the regulator

When reading the report below it must be observed that the sector met the same disruptions/fate which every other business met ranging from:

- No or limited access to offices due to movement restrictions
- Failure to get essential services status (despite the Secretariat requesting twice)
- Some offices being temporarily closed by covid restriction enforcers (and some were fined under nefarious and unwarranted “offences”)
- Failure to physically interface with clients thereby perpetuating a higher level of delinquency
- Failure to underwrite meaningful new business
- Disruptive (but maybe necessary) impact from regulations implemented by Central Bank on mobile money operations

This report therefore can be read in tandem with the **“ZAMFI Survey report of Covid 19 impact** which can be found on the ZAMFI website.

Overleaf is the report :

MICROFINANCE FINANCIAL INDICATORS PERFORMANCE HIGHLIGHTS

Table 1.0: Financial Indicators

Financial Indicator	Dec 2019	March 2020	June 2020	International Benchmarks	*Level of Performance
Portfolio Quality					
PAR> 30 days	13.38%	13.93%	19.50%	5%	Weak & deteriorating
Risk Coverage Ratio	25.59%	25.85%	31.54%	80% -100%	Weak
Efficiency					
Efficiency ratio	29.0%	14.0%	25.0%	20%	Acceptable
Portfolio Yield	37.5%	20.1%	56.4%	20%-30%	Acceptable
Financial Management					
Loan Portfolio/Assets	75%	75%	63%	80%	Acceptable with caution
Debt/Equity(Leverage)	3.7	2.7	1.4	3.2	Strong
Cost of Funds	5.4%	5.6%	7.5%	n/a	Acceptable
Sustainability					
OSS	118.8%	102.4%	147.8%	100%	Strong
Return on Asset	2.9%	0.3%	10.6%	1%-2%	Strong
Return on Equity	15.4%	1.5%	30.3%	5%-7%	Strong

CREDIT OUTREACH AND MARKET SHARE

Credit Only Microfinance Loan Book Growth

The loan book for the credit only microfinance sector amounted to ZW\$565.5 million as at 30 June 2020, an increase from ZWL\$469.2 million as at 30 March 2020. This translated to an increase by 21% during the quarter under review compared to the reported increase of 24% during the January to March 2020 quarterly period, reflecting the slowdown in credit business during the peak period of Covid-19 pandemic and lockdown period.

In a bid to fully reflect the true value of the microfinance sector's balance sheet value in an operating environment characterized by high inflation and depreciating local currency, the sector responded by revaluing its fixed assets portfolio. This resulted in a surge of the fixed assets figures from ZW\$83.6 million as at March 2020 to ZW\$247.2 million.

As indicated below on table 2.0, the fixed assets to total asset ratio therefore increased from 13.3% as at 31 March 2020 to 27.7% as at 30 June 2020.

Table 2.0: Asset Allocation

Period	Loan Book	Fixed Assets	Total Assets	Loan/Total Asset	Fixed /Total Asset
Mar2020	ZW\$469.2m	ZW\$83.6m	ZW\$621.8m	75.5%	13.3%
June 2020	ZWL\$565.5m	ZW\$247.2m	ZW\$891.6m	63.4%	27.7%

Deposit Taking Microfinance Sector [ZAMFI Members Only]

ZAMFI membership is open to deposit taking microfinance institutions, currently numbering eight (8) registered institutions by the central bank. However as at the time of reporting, only five (5) were noted to be active and in the business of accepting deposits and lending. It is pleasing to note that out of these five (5) active institutions, four (4) are now members of ZAMFI and have started to make preparations to submit financial figures to the association.

The Association should be able, in the very near future begin to fully publish information on DTMFIs.

Ranking status of the Credit Only Microfinance Sector

Below is the market ranking of the top 20 large credit only MFIs as at 30 June 2020:

Table 1.0: Market Rankings

MFI Ranking June 2020	Total Loan Book	MFI Ranking March 2020	Total Loan Book
1	\$247.3m	1	\$223.4 m
2	\$47.4m	2	\$45.9 m
3	\$46.9m	3	\$44.2 m
4	\$38.2m	4	\$23.9 m
5	\$28.2m	5	\$22.5 m
6	\$25.4m	6	\$15.9 m
7	\$18.5m	7	\$11.8m
8	\$15.9m	8	\$11.2 m
9	\$12.4m	9	\$9.2m
10	\$9.4 m	10	\$8.0m
11	\$8.0m	11	\$7.6 m
12	\$7.3m	12	\$4.3 m
13	\$5.8m	13	\$4.2 m
14	\$4.6m	14	\$3.7m
15	\$3.2m	15	\$3.4m
16	\$2.8m	16	\$3.1m
17	\$2.7m	17	\$2.4m
18	\$2.6m	18	\$2.0m
19	\$2.4m	19	\$1.5 m
20	\$2.2m	20	\$1.2m

PORTFOLIO QUALITY

As was largely expected, due to Covid-19 pandemic and lockdown rules implemented during the quarter period of March to June 2020, the quality of the loan portfolio for the sector deteriorated sharply to 19.5 % as at 30 June 2020 against 13.38 % reported on 31 March 2020. The ZAMFI mini survey study on the sector undertaken during the period reflected a very comprehensive and detailed picture of the impact of the pandemic and lockdown rules on the microfinance industry. However it is pleasing to note that the majority of MFIs interviewed during the mini study confirmed that there are already implementing the following risk mitigation and survival strategies for their respective microfinance business:

1. Adopting digitalization of operations especially in accepting online loan applications to avoid human contact with clients
2. Strict (er) assessment of clients before loan approval
3. Closure of some branches to cut on cost as well as retrench some staff
4. Reducing loan tenure to manage repayment risk
5. Reducing lending and only focusing on disbursement to repeat clients
6. Suspending penalty on loans in the loan management system so as to assist clients

PROFITABILITY AND SUSTAINABILITY

The sector reported a significant increase in net profit from ZW\$2.0 million as at 31 March 2020 to \$94.5 million as at 30 June 2020. This was observed to be due to a majority of the MFIs posting huge positive net profits from other sources outside the core lending business such as investment income, revaluations of assets and advisory services. However a record of 12 MFIs posted net losses which cumulatively amounted to ZW\$41.3 million as at 30 June 2020 largely due to negative effects of Covid-19 pandemic operating environment, high operational costs, high inflation and depreciating local currency.

The sector overall remains generally stable and sustainable as reflected by the following profitability indicators:

Table 1.0: Profitability Indicators

Indicator	March 2020	June 2020	International Benchmarks	*Level of Performance
Operational Self Sufficiency	102.4%	147.8%	100%	Strong
Return on Asset	0.3%	10.6%	1%-2%	Strong
Return on Equity	1.5%	30.3%	5%-7%	Strong
Portfolio Yield	20.1%	56.4%	20%-30%	Acceptable
Operating Expense ratio	14.0%	25.0%	20%	Acceptable
Net Operating Margin	6.1%	31.4%	n/a	Acceptable

In cross referencing though, the ZAMFI survey reports the following on future profitability and sustainability of the microfinance sector:

Strongly worried	73, 91%
Worried	15, 22%
Neutral	6, 52%
Not worried	2, 17%
Strongly not worried	2.17%

Covid response mechanism interventions

It is of benefit to mention from those who might not have been privileged to note that whilst the initial covid vagaries was panning out the sector did not wait for the pandemic to subside at its will, neither did the government and regulators.

Intervention	Action	Results
Ministry of Social Welfare bailout package	Submitted the required particulars through Ministry of SMEs and Women’s Affairs as requested	No coherent response from Ministry of Labor
MoF ZWL18billion Bailout Fund	Wrote the Ministry. Officially responded to by Permanent Secretary Referred to SMEDCO	SMEDCO responded that they had been allocated only ZWL25million for 10 provinces and therefore

		were themselves under resourced.
Emergency Rescue Liquidity Plan submission to RBZ	Paper acknowledged	Was verbally informed to also try our luck with the MoF ZWL18billion. Pole to post

Immediate issues going forward

1. Further digitalization of processes

As it is unrefuted that covid has forced a “new normal”, face to face interaction will remain fearsome and should be limited. The sector needs to fully digitalize. The Association therefore should be called upon to engage current and new systems which are affordable by all practitioners. This should reduce costs and possible loss of human life

2. Funding

The sector still needs affordable funding

Conclusion

In conclusion, both the June 2020 quarterly microfinance performance report and the ZAMFI mini survey study managed to reflect respectively, the quantitative and qualitative condition of the sector from which key learnings and recommendations could be derived from by all stakeholders, including the microfinance practitioners, developmental partners, investors and regulatory authorities. It should be noted that microfinance still remains the strongest pillar for the achievement of financial inclusion agenda in the country. As such it deserves support both in technical and financial terms from those who hold dear the aspirations of poverty alleviation and financial prosperity for the betterment of the marginalized communities in our county. The microfinance sector stands ready with the continuation of the journey against alleviation and eradication of poverty.