



Zimbabwe Association of Microfinance Institutions
"creating sustainable microfinance"

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 DECEMBER 2020

MICROFINANCE ZAMFI MEMBERS ONLY

EXECUTIVE SUMMARY

1. The main purpose of this ZAMFI microfinance industry report is to track changes in the sector and analyses the core financial performance indicators such as outreach, portfolio quality, profitability and sustainability while also indentifying common challenges affecting the sector including proposed solutions.
2. This is an annual report for 2020 and there is no denying among microfinance practitioners, policymakers, regulators and all other stakeholders that 2020, was the most difficult and dynamic year in the history of microfinance and the world at large.
3. While prospects for growth and profitability for many MFIs, in particular small and medium sized MFIs has been sluggish and farfetched, those that quickly adapted to the operating environment by adopting digital systems and solutions in support of the business operations and clients outreach, faired very well and reaped the rewards of increased profitability and sustainability.
4. They managed to turn the “operational curse”, exerted by the lockdown into a blessing of operational excellence through innovation and digitalization of their microfinance business.
5. ZAMFI would like then to stress that this annual microfinance report would not have possible without the collaboration of 41 responding MFIs, including 3 deposit taking MFIs.
6. We give special thanks to such MFIs and hope the analysis captured and articulated in this report will help to further improve the operations of the MFIs and other key stakeholders in the microfinance industry.

DASHBOARD SUMMARY OF FINANCIAL INDICATORS

7. Below is the quick dashboard summary of the results for the credit only microfinance sector :

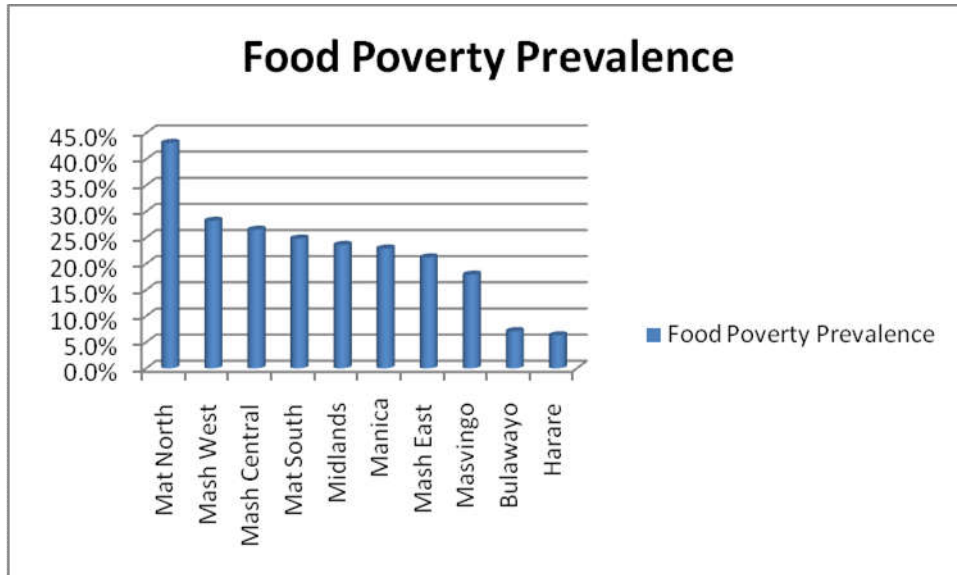
Table 1.0: Financial Indicators

Financial Indicator	Mar 2020	June 2020	Sept 2020	Dec 2020
Total Assets	621.8m	891.6m	1208.5m	1854.0m
Total Loans	469.2m	564.7m	665.1m	1225.0m
Core Capital	140.4m	312.0m	420.0m	778.6m
PAR> 30 days	13.93%	19.50%	15.36%	9.35%
Risk Coverage Ratio	25.85%	31.54%	40.68 %	54.30%
Portfolio Yield	20.1%	56.4%	79.0%	88.0%
Loan Portfolio/Asset	75%	63%	54%	66%
Debt/Equity	2.7	1.4	1.3	0.7
Cost of Funds	5.6%	7.5%	9.5%	11.8%
OSS	102.4%	147.8%	142.2%	176.3%
Return on Asset	1.5%	10.6%	10.9%	17.4%
Return on Equity	0.3%	30.3%	31.3%	41.9%

MICROFINANCE INSTITUTIONAL CHARACTERISTICS

8. In terms of institutional characteristics of the 41 reporting MFIs, the majority are credit only MFIs (38 MFIs), employing approximately 513 loan officers. The countrywide branches as at 30 December 2020 was 357, out of which 111 or 31% are in rural areas, an indication of progress being made in extending services to the rural markets and people.
9. The total number of active borrowers for credit only MFIs amounted to 157 941 with clients in rural areas amounting to approximately 30 000 or 18.9%.
10. According to government official reports, 67% of the country's population is domiciled in rural areas and as such the rural populace remains the untapped and unexploited market for lending business both by the microfinance institutions and banks.
11. In addition, the latest Zimstat Food Poverty Atlas, indicate that extreme poverty levels are found in rural areas, with the most prevalent being Matabeleland North Province [43.1%] and followed by Mashonaland West with 28.2%.
12. The Figure 1.0 overleaf indicates the extreme level for the provinces in 2011/12:

Figure 1.0: Poverty Levels



13. With the current world wide induced economic recession, chiefly emanating for the Covid-19 health pandemic, a large portion of many people, especially the previously classified people as middle class in the urban areas, have suddenly shifted into the category or class of extreme high poverty levels.

14. Lending by microfinance institutions including banks is therefore one among other tools for poverty alleviation that is desperately in need of an enabling operating environment characterised by price stability, true and market reflective exchange rate determination, cash availability, low country risk to attract foreign investments/funding and policy consistence and credibility by policymakers and regulators .

15. Of notable institutional characteristic and development that became a reality in 2020/21 is the awarding of perpetual licences by the regulators to many of the credit only MFIs, of which is likely to cement the image of MFIs in the eyes of

investors and government as credible players in the business of lending in Zimbabwe.

OVERVIEW OF OUTREACH PERFORMANCE

Loans and Advances

16. The credit only MFI portfolio recorded a remarkable growing trend during the quarterly period of September to December 2020. As at 31 December 2020, the outstanding loans amounted to ZW\$1.225 billion compared with ZW\$651.1 million as at 30 September 2020 and ZW\$567.7 million reported in June 2020.
17. This is the first time the sector to hit a "billion" lending mark and as such represent a strong comeback of the sector in a period when the country is slowly but sure coming out of the woods on economic recession and the health pandemic.
18. A large percentage of the portfolio is made up of consumption and business loans amounting to ZW\$464.2 million (38%) and ZW\$385.3 million (31%) respectively.
19. The bulk of the consumption loans during the period are reflective of the family needs for basic requirements.

RANKING STATUS OF CREDIT ONLY MICROFINANCE

20. Below is the market ranking of the top 20 large credit only MFIs for the past three quarters:

Table 2.0: Market Rankings for Credit Only MFIS

MFI RANK	Dec 2020 Total Loan Book	Sept 2020- Total Loan Book	June 2020- Total Loan Book	Mar 2020- Total Loan Book
1	\$286.5m	\$211.6m	\$247.3m	\$223.4 m
2	\$262.5m	\$112.5m	\$47.4m	\$45.9 m
3	\$168.4m	\$55.2m	\$46.9m	\$44.2 m
4	\$110.1m	\$38.5m	\$38.2m	\$23.9 m
5	\$79.2m	\$34.3m	\$28.2m	\$22.5 m
6	\$53.4m	\$25.6m	\$25.4m	\$15.9 m
7	\$29.3m	\$20.6m	\$18.5m	\$11.8m
8	\$29.1m	\$19.9m	\$15.9m	\$11.2 m
9	\$22.8m	\$18.7m	\$12.4 m	\$9.2m
10	\$16.8m	\$16.7m	\$9.4 m	\$8.0m
11	\$17.6m	\$11.7m	\$8.0m	\$7.6 m
12	\$15.4m	\$7.5m	\$7.3m	\$6.5m
13	\$13.8m	\$6.9m	\$5.8m	\$4.3 m
14	\$11.7m	\$6.2m	\$4.6m	\$4.2 m
15	\$11.2m	\$5.7m	\$3.2m	\$3.7m
16	\$9.2m	\$5.5m	\$2.8m	\$3.4m
17	\$7.9m	\$4.6m	\$2.7m	\$3.1m
18	\$7.3m	\$4.5m	\$2.6m	\$2.4m
19	\$6.5m	\$3.6m	\$2.4m	\$2.0m
20	\$6.2m	\$3.5m	\$2.2m	\$1.5 m

21. The deposit taking MFIs, who are members of ZAMFI, reported a total loan book of ZW\$155.5 million and average PAR30 ratio of 7.53% as at 31 December 2020. Below is the ranking of their loan portfolio:

Table 3.0: Rankings for 3 Deposit Taking MFIs

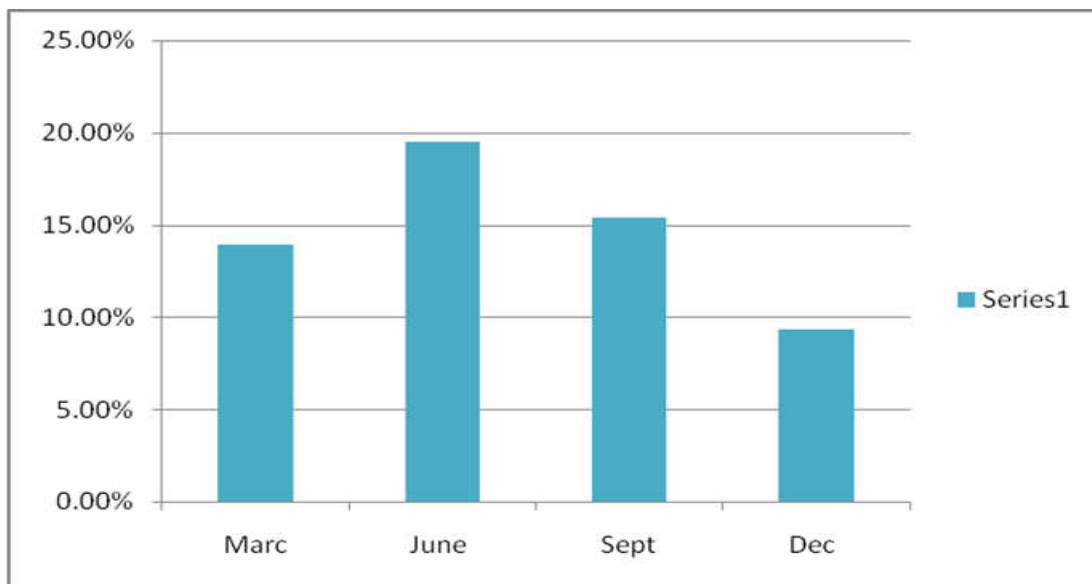
Deposit Taking MFI RANK	December 2020- Total Loan Book
1	\$77.8m
2	\$55.9m
3	\$21.8m

QUALITY OF PORTFOLIO

Portfolio Quality

22. The quality of the loan portfolio for credit only MFIs has continued to show a downward trend with the Portfolio at Risk ratio of 9.35 % being reported as at 31 December 2020 against 15.36% and 19.5% recorded in September 2020 and June 2020 , respectively.

Figure 2.0: Trend in PAR Ratio



23.As indicated below in Table 3.0, 12 MFIs reported the healthiest portfolio of a PAR30 ratio of less than 5%, followed by 10 MFIs with PAR30 ratio within the 5-10% PAR30 category. A total of 9 MFIs reported the worst portfolio quality represented by PAR30 above 30%.

Table 3.0: PAR30 CATEGORIES OF CREDIT ONLY MFIs

Credit Only MFIs	<5% PAR30	5-10%PAR30	10-30%PAR30	>30%PAR30
No. of MFIs	12	10	7	9
%	31.5%	26.3%	18.4%	23.8%

FINANCIAL MANAGEMENT

24.The asset and liability management generally reflect the microfinance ability to maximize revenue and profit from its most productive asset. This is measured by the portfolio to asset ratio and debt to equity ratio

25.The majority of the MFIs are dedicating the greater portion of their assets to microlending portfolio as represented by an industry average of 66. %, up from 54% reported in September 2021.

TABLE 4.0: FINANCIAL MANAGEMENT RATIOS

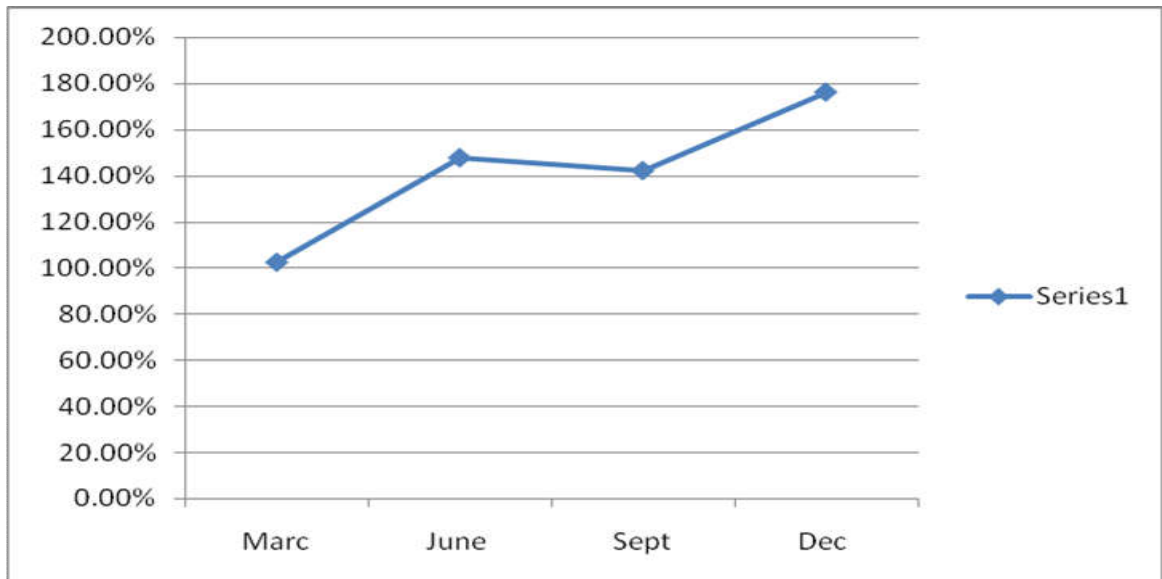
Financial Indicator	Mar 2020	June 2020	Sept 2020	Dec 2020
Loan Portfolio/Asset	75%	63%	54%	66%
Debt/Equity	2.7	1.4	1.3	0.7

26. Of notable improvement is the decrease in debt to equity ratio from 1.3 to 0.7, an indication that MFIs are relying more of their own equity instead of debt to fund their operations.
27. Core capital for credit only MFIs, largely made up of equity and retained earnings, recorded an impressive increase from ZW\$420.0 million, to ZW\$778.6, reflecting the MFIs capital injection in preparation for compliance with new minimum capital levels of USD\$25000 or approximately ZW\$2.0million at current prevailing auction foreign exchange rate

PROFITABILITY AND SUSTAINABILITY PERFORMANCE

28. The credit only MFI sector for the 12 months period reported total financial income amounting to ZWL\$745.7 million against operational expenses of ZWL\$422.5 million, leading to a net profit of ZWL\$323.2 million and Operation Self Sufficiency (OSS) ratio of 176.3%.
29. This is a remarkable achievement for the sector in comparison with the international benchmark of 120% for the OSS.

Figure 3.0: Trend in Operational Self Sufficiency Ratio



30. A total of 15 MFIs reported OSS below 100% an indication of net loss position while 12 MFIs reported OSS above 120% as shown in Table 5.0 below :

Table 4.0: OSS CATEGORIES OF CREDIT ONLY MFIs

Credit Only MFIs	<100% OSS	100%-120%OSS	>120%OSS
No. of MFIs	15	11	12
%	39.5%	28.9%	31.6%

Conclusion

31. In conclusion, discussion with MFIs generally reflects that most have adapted to the new normal environment through embracing digital solutions for their operations.
32. While the impact of lockdowns during the year 2020, was severe at the beginning because of its suddenness and quick interference with normal business operations, many MFIs were quick to adopt strategic business options aimed at ensuring business survival and continuity.
33. The social and economic outlook for 2021 is therefore generally expected to be far much better than 2020, due to highly expected good harvest season from agriculture as a result of good rains, uninterrupted supply of electricity energy to business, quick recovery of economic growth for the majority of countries in the world and an optimistic mindset related to an end to the pandemic period and its associated health risks.