Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

ANNUAL PERFORMANCE REPORT FOR THE MICROFINANCE SECTOR

as at 31 December 2016

ZAMFI MEMBERS ONLY

INTRODUCTION

The Zimbabwe Association of Microfinance Institutions (ZAMFI) is a membership based institution operating in Zimbabwe. Although membership is voluntary the Association strives to ensure that a large proportion if not all practitioners are members of the Association. As at December 2016 there were about 171MFIs operating in the country and about 72.3% were members of ZAMFI. The others were not members whilst others were still at various stages of regularising their membership with the Association.

The Association has been collecting performance indicators from its members and those interested from as early as 2002 and the results have been encouraging. Whilst the results have been predominantly for the use of the members, as a service to the wider industry ZAMFI has decided to put the results on its website. The Reserve Bank of Zimbabwe also does its survey and whilst in some cases the results might be identical it is the end use which determines what is collected.

PERFORMANCE OF ZAMFI MICROFINANCE MEMBERS

The ZAMFI Secretariat is pleased to report on performance of the microfinance sector for the period ending 31 December 2016. The report analyses the performance of the sector, focusing on key trends with respect to outreach, financial structure, profitability and operational sustainability, portfolio quality and efficiency. New sector developments that were announced during the year 2016 are also included in the report. These are highlighted as follows:

1. National Financial inclusion Strategy
2. Credit Reference System
3. Collateral Registry and Secured Transactions
4. Microfinance interest rates caps
5. Promotion of cashless payment systems in Microfinance Sector
6. Resuscitation of the credit guarantee scheme

Performance Highlights – A Snapshot

The performance of the sector during 2016 reflected an industry which significantly improved in key areas of lending outreach, portfolio quality, profitability and financial sustainability. The notable challenge is with respect to operational efficiency and productivity which is still a matter of grave concern to the association as was the case last year in 2015. Below is a snapshot performance of the sector in terms of key ratios:

Table 1.0: Key Highlights

Performance Indicator	31 December 2015	31 December 2016	Movement
Outreach			
Total loan portfolio	$75.1million	$83.3 million	**Improved**
Total Annual loans disbursed	$131.4million	$166.0 million	**Improved**
Profitability			
Operational Self Sufficiency	141.9%	156.7%	**Improved**
Cost to Income ratio	70.4%	63.9%	**Improved**
Return on Equity	35.2%	49.6%	**Improved**
Portfolio Quality			
Portfolio At Risk	16.7%	10.3%	**Improved**
Credit Risk Coverage Ratio	67.0%	65.0%	**Deteriorated**
Efficiency and Productivity			
Operational Expense Ratio	38%	44.6%	**Deteriorated**
Cost per Borrower	$264.10	$221.94	**Improved**

LENDING ACTIVITIES AND OUTREACH

The reporting members that are affiliated to ZAMFI as members reported a cumulative value of loans disbursed in 2016 amounting to $166.0 million, up from $131.4million reported for the previous year 2015. The figure represented an increase of 26.3%. In aggregate terms, the sector disbursed loans amounting to $366.4 million over the three year period of analysis.

In terms of outreach, the sector is reaching out to nearly 154 617 borrowers with the value of the outstanding loan book standing at $83.3 million as of December 2016. This shows a positive growth rate of 10.9%, from $75.1 million reported as at December 2015.

Table 2.0: Microfinance Lending Activities

Indicator	Dec 2014	Dec 2015	Dec 2016
Cumulative Loans Disbursed	$69.5m	$131.4m	$166.0 m
% increase		***89.1%***	***26.3%***
Value of Loans Outstanding	$44.9m	$75.1m	$83.3m
% increase		***67.2%***	***10.9%***

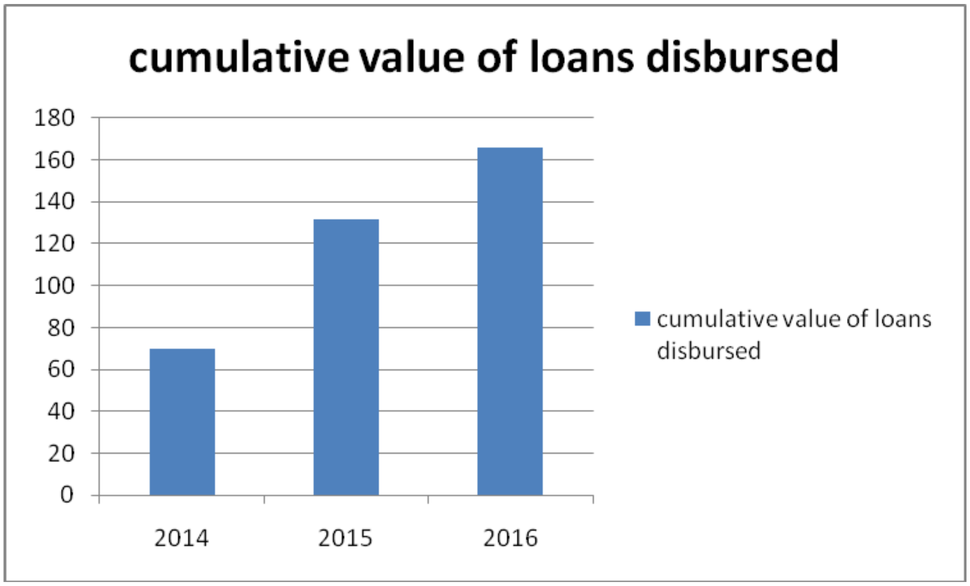

Figure 1.0 : Value of Loans Disbursed

The sector remains dominated by 5 large credit- only MFIs with a combined loan portfolio of $58.8 million which constituted 70.8% of the outstanding loans as at 31 December 2016.

Going forward competition is likely to increase as new MFIs enter the market, with capacity to on-lend huge amounts of capital. The appetite for new loans remains high and strong among MFI clients. The reduction in interest rates recently announced by the monetary authorities is likely to increase demand of loans by both individuals and small business from the microfinance sector.

MFIs are therefore urged to negotiate new lines of credit with local and international banks in anticipation of the increased demand. This should be interpreted positively in line with current efforts to increase financial inclusion through microfinance.

Table 3.0: Top 20 MFIs

MFI Rank	No. of Clients	MFI Rank	Value of Loans outstanding
1	**35 841**	**1**	**$19.7m**
2	**17 699**	**2**	**$17.7m**
3	**12 813**	**3**	**$10.2m**
4	**8 883**	**4**	**$5.8m**
5	**8 063**	**5**	**$5.4m**
6	6998	**6**	$3.9m
7	6881	**7**	$3.8m
8	6555	**8**	$3.1m
9	4319	**9**	$2.6m
10	4051	**10**	$1.8m
11	3854	**11**	$1.6m
12	3827	**12**	$1.5m
13	3245	**13**	$1.2m
14	3237	**14**	$0.91m
15	3058	**15**	$0.61m
16	2889	**16**	$0.57m
17	2746	**17**	$0.53m
18	1700	**18**	$0.32m
19	1584	**19**	$0.21m
20	1397	**20**	$0.20m

PORTFOLIO QUALITY

As at 31 December 2016, the sector's portfolio quality remains fair as indicated by the portfolio at risk above 30 days (PAR30) of 10.3%, a significant decrease from last year's figure of 16.7% and 13.1% in 2014 as shown below :

Table 4.0: PAR > 30days

Indicator	Dec 2014	Dec 2015	Dec 2016
PAR >30 DAYS	13.1%	16.7%	10.3%

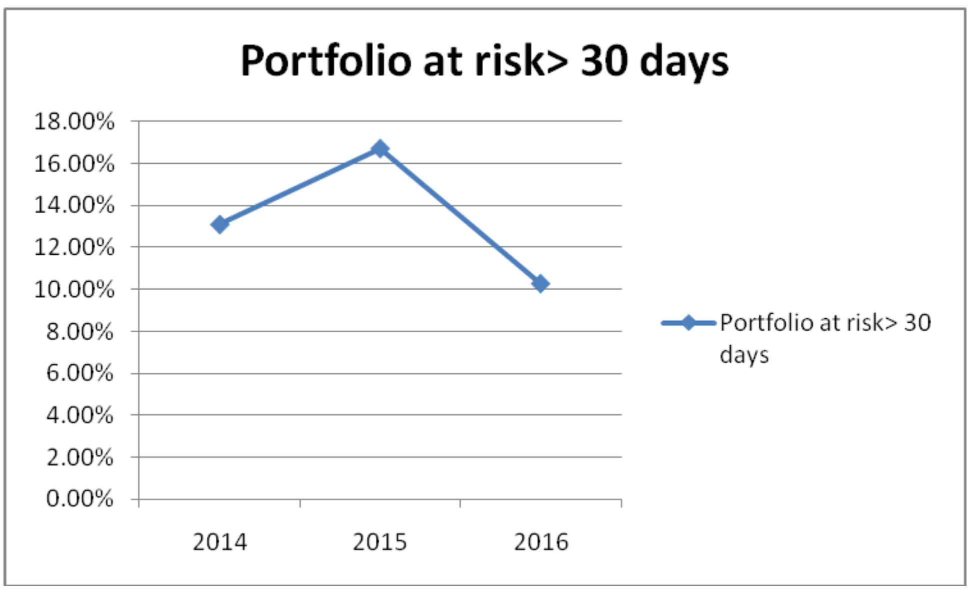

Figure 2.0: PAR>30 days

The positive trend was attributed to timely receipt of repayments deducted from civil servants via SSB code. This constitutes the bulk of lending by MFIs.

In addition many MFIs have adapted well and rapidly to the use of electronic digital systems such as point of sale (POS) machines, Real Time Gross Settlement (RTGS) and Mobile (phones) platforms in requesting clients to repay their loans. This arrangement has proved to be transparent and cost effective in recovering loans from MFIs clients.

It should be noted that 2016 witnessed a significant shift towards digitization of microfinance lending operations, with tremendous benefits to both parties. For customers, the real value for electronic transfers has been the swift and rapid transfer of their cash loans into either their bank accounts or mobile phones, allowing then to make payments for their various needs and wants. The other obvious benefits are improved security that comes from not carrying large sums of cash and the convenience that comes from reduced travel and wait times to collect payments. To MFIs, the costs associated with cash handling and paper work has been eliminated, leading to cost savings in operations.

PROFITABILITY AND FINANCIAL SUSTAINABILITY

The credit-only microfinance sector reported an aggregate net profit of $13.2 million for the year ended 31 December 2016, which represents an increase of 84.6% from $7.15million reported for the same period in 2015. Consequently the Return on Equity improved significantly from 35.2% as at 31 December 2015 to 49.6% for year ended 31 December 2016, reflecting a potential high profitability of the sector.

The level of financial sustainability remained high with the Operational Self-Sufficiency (OSS) improving to 156.7%, compared with 141.9% recorded the previous year. The trend is significantly above the international benchmark of 120% for the OSS. A number of MFIs adopted cost containment measures during the year while at the same time implementing new revenue enhancement initiatives.

Table 5.0: Trend of OSS

Indicator	Dec 2015	Mar 2016	June 2016	Sept 2016	Dec 2016
OSS	**141.9%**	115.2%	143.8%	124.3%	**156.7%**

EFFICIENCY AND PRODUCTIVITY

The operational expense ratio reflects the level of efficiency in the microfinance sector. In general the lower the ratio, the higher the efficiency, meaning an efficient industry will spend less in terms of administrative expense for every dollar disbursed.

As shown below our industry operational expense ratio deteriorated from $38.00 to $44 per $100 loan disbursed and is well below the latest Africa region ratio of $23.1 as reported by Micro rate. The trend reflects an industry which needs to do more to catch up with other regional players in cutting down on costs of delivering financial services to the poor. The recommended way to deflate cost is to adopt, where possible technology and streamlined processes that cut down on wasteful expenses.

Table 6.0: Trend of Operating Expense Ratio

Indicator	Dec 2015	Dec 2016	Africa Average Ratio
Operating Expense Ratio	$38 per $100 disbursed	$44 per $100 disbursed	**$23.1 per $100**
Region			**Operating Expense Ratio**
Asia			$11.00 per $100
Europe			$13.00 per $100
Latin America			$15.00 per $100
Middle East			$19.00 per $100

FINANCIAL STRUCTURE

Credit only-MFIs finance their operations from equity and debt. As at 31 December 2016, the total funding from the two main sources amounted to $50.19 million up from $39.3 million reported in 2015. A total amount of $10.5 million was injected into the sector as shown below:

Table 7.0: Debt vs. Equity

Sources of Funding	December 2015	December 2016	Capital Increase
Equity	20 336 884.00	26 636 484.00	6 026 600.00
Debt	19 046 716.00	23 558 820.00	4 512 104.00
Total	**39 383 600.00**	**50 195 304.00**	**10 538 704.00**

OUTLOOK ON RISK PERCEPTIONS AND EXPECTATIONS FOR 2017

The outlook of risk perception for 2017 is based on ZAMFI assessment through its interaction with members during the last quarter. Below is a Top 10 Risk Ranking for the year 2017 which the Association would impress upon members to pay attention to:

Table 8.0: Top 10 Risk Rankings in the microfinance sector by the Association

Risk Ranking	Risk	Key Strategy to Mitigate Risk
1	Regulation	Engage Government and Regulators
2	Macroeconomic	Diversify risk and Lend in Multiple currencies e.g. Rand
3	Credit Risk/Repayment Capacity	Lend to multiple sectors and clients. Tighten pre-lending assessments
4	Risk Management	Attend short term courses on risk management
5	Governance	Attend short term courses on governance
6	Strategy	Engage in strategic planning sessions
7	Technology	Adopt robust ICT systems
8	Management	Hire skilled, experienced and competent staff
9	Financial Capability/Literacy	Train clients on financial education
10	Funding	Seek new funding partners/investors

Regulation is the risk that the intervention by regulators will negatively harm the sector and distort the credit market**.** The introduction of interest rate ceilings of 10% per month in the sector has brought with it anxiety and high uncertainties as regards the future direction, sustainability, profitability and solvency of the sector. **Macroeconomic risk** is second placed as a risk that MFIs and their clients may be damaged by economic trends such as the deterioration in terms of value of the bond notes which were introduced last year to alleviate cash and liquidity challenges. If the currency/bond note fails to maintain its parity value with the US dollars as is enshrined in the law, then credit markets across the country may be negatively affected. **Credit risk/Repayment Capacity** was noted to be the third highest concern in a market where the bulk of lending is to civil servants who seem to have less restrain in borrowing beyond their limits, leading to high incidences of over-borrowing. **Risk Management and Governance** skills among directors and management of many MFIs is still a worrisome issue both for the association and regulators hence capacity building training during the year 2017 has already been lined up to address this fundamental weakness.

NEW SECTOR DEVELOPMENTS DURING THE YEAR 2016

During the year 2016, a number of positive sector developments were announced which were meant to gear the sector towards playing its main role of alleviating poverty and increasing financial services to the previously neglected and forgotten segment of our society. These were:

National Financial inclusion Strategy: The Reserve Bank launched a National Financial inclusion Strategy on 11 March 2016. The strategy underpinned by four pillars of microfinance, financial consumer education, financial literacy and financial innovation is positively targeted at influencing financial inclusion in the country. It is generally expected to dramatically change the economic and social lives of the many people in the country especially vulnerable groups such as small business owners, women and youth with respect to access to financial services

Credit Reference System: The Banking Act was amended to empower the Reserve Bank to establish a credit registry, license and supervise private credit bureaus with effect from 13 May 2016. The amendment also went on to allow the credit registry to collect credit information from participating institutions including microfinance institutions, non-regulated credit providers and utility bodies.

This was a bold legal and policy action on the part of the Central Bank which was welcomed by all stakeholders in the sector. It is set to make it more efficient on the part of credit providers to vet their potential clients for credit and do away with challenges on information asymmetry and multiple lending.

Collateral Registry and Secured Transactions: The Reserve Bank in collaboration with the Ministry of Finance & Economic Development and the World Bank announced to the market its intention to introduce a framework for collateral registry in the country. The registry was mooted as a way to assist members of the public with limited access to credit due to lack of immovable security. The framework once operational will allow for legal registration of movable items as collateral in credit agreements with bank and microfinance institutions.

Microfinance interest rates caps: The monetary authorities announced in the policy statement of September 2016, an intention to urge MFIs to reduce their effective lending rates to a maximum of 10% per month effective, 1 October 2016. The policy directive was met with mixed reactions from many MFIs, with strong arguments being that it was impossible within that short period of time for MFIs to adjust their funding and cost structures. A series of meetings were held between the network association and the Central Bank, which ultimately led to the extension of the deadline to 1 January 2017. In addition it was agreed to commission an independent study to interrogate the cost structure of MFIs so that future adjustments of the rates could be guided by the results of such a study. The general feeling among many stakeholders was that the sector is exposed to high cost, partly as a reflection of the high cost of funds and the high transaction cost associated with high volumes of small and low-value loans.

Promotion of cashless payment systems in Microfinance Sector: Due to cash challenges that became a new phenomenon in 2016, MFIs positively responded by migrating most of their delivery of financial services to digital payment systems such as point of sale (POS) machines, Pay-net, RTGS, mobile system and other electronic transfer systems**.** The uptake of these electronic payment systems significantly increased during the year. According to a central bank report, total electronic payments increased from US$4.1 billion in January 2016 to US$5.5 billion in July 2016. This digital revolution made possible by the cash shortages has made it easier for MFIs to collect as well as disburse funds to clients in cheaper and most convenient way to both parties.

Resuscitation of the credit guarantee scheme: The Reserve Bank announced that it would resuscitate a Credit Guarantee Scheme under the Export Credit Guarantee Company (ECGC) to support SMEs to increase production with effect from 1st October 2016.The credit guarantee scheme which shall also be open to MFIs was set up to address the challenge of lack of adequate and acceptable collateral, which is among the major challenges faced by marginalized groups including SMEs, women, youth, small holder farmers and rural population in accessing bank credit. MFIs with an inclination to support developmental lending shall be able to tap into the system in supporting productive lending, which will then ultimately lead to stimulation of economic growth and poverty reduction in the country.

CONCLUSION

The year 2016 overall reflected notable gains with respect to portfolio quality, outreach and financial sustainability. The main challenge remains with operational efficiency which members in 2017 would need to pay attention to. Administrative cost remains high in comparison to Zimbabwe's regional peers hence more effort ought to be done to deflate costs of doing business. The coming into effect of the new policy to reduce interest to 10% per month is likely to pose a new threat to future investments, sustainability, viability and profitability of the sector. .

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Appendix

Detailed Financial Data Report as at 31 December 2016

OUTREACH INDICATORS					
Total loans disbursed	$41.0million	$34.9million	$35.2 million	$44.6 million	$51.3million
Total Loans Outstanding	$75.0million	$71.3million	$72.1 million	$88.0 million	$83.3 million
Total clients	111 395	130 980	130 745	139 763	154 617
Total Male clients	64 615	78 789	79 235	84 794	91 131
Total Female Clients	46 779	52 556	51 509	54 968	63 486
% of female clients to total clients	41.4%	40.0%	39.2%	38.8%	40.9%
PORTFOLIO INDICATORS					
Portfolio at Risk > 30 days	16.7%	21.7%	16.3%	13.3%	11.2%
Risk (credit) Coverage Ratio	67.0%	49.9%	50.5%	49.3%	65.0%
SUSTAINABILITY INDICATORS					
Operating Self Sufficiency Ratio	141.9%	115.2%	143.8%	124.4%	156.7
Cost to Income Ratio	70.4%	86.7%	69.5%	80.3%	63.8%

EFFICIENCY INDICATORS					
Operating Expense Ratio	$38.0 per $100 disbursed	$30.8 per $100 disbursed	$51.1 per $100 disbursed	$33.3 per $100 disbursed	$44.0 per $100 disbursed
Cost per Active Client	$264.0	$82.2	$137.00	$210.5	221.94
FINANCIAL MANAGEMENT INDICATORS					
Total Equity	$20.3 million	$31.7 million	$26.9 million	$29.9 million	$26.6million
Total Debt	$19.0 million	$23.5 million	$24.6 million	$21.7million	$23.5 million
Debt to Equity	0.93	0.74	0.91	0.72	0.88