Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

QUARTERLY PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 March 2017

ZAMFI CREDIT ONLY MFI MEMBERS

PERFORMANCE HIGHLIGHTS: A SNAPSHOT

The performance of the sector during this quarter reflects an industry that is doing well in terms of outreach and profitability while facing a key challenge with respect to portfolio quality. Below is a snapshot performance of the sector in terms of key ratios:

Table 1.0: Key Highlights

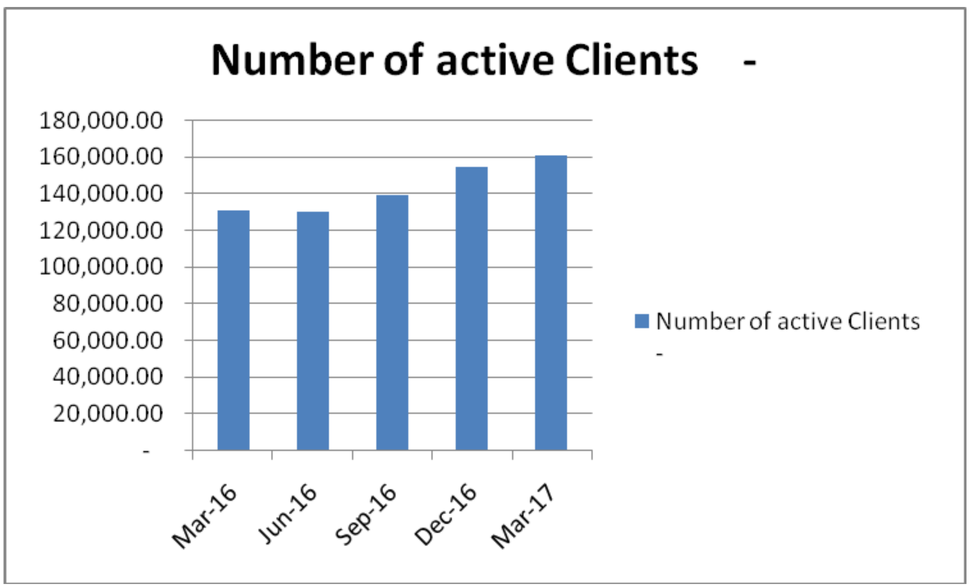
Performance Indicator	31 March 2016	December 2016	31 March 2017	Movement
Outreach				
Total loan portfolio	$71.3 million	$83.3 million	$96.2 million	**Improved**
Total loans disbursed	$34.9 million	$51.3 million	$44.2 million	**Deteriorated**
Profitability				
Net Profit	$1.7 million	$13.2 million	$5.5 million	**Improved**
Operational Self Sufficiency	115.2%	156.7%	137.7%	**Deteriorated but stable**
Cost to Income ratio	86.7%	63.9%	72.6%	**Deteriorated but stable**
Portfolio Quality				
Portfolio At Risk	21.7%	10.3%	9.5%	**Improved**
Credit Risk Coverage Ratio	49.9%	65.0%	68.6%	**Improved**

MICROFINANCE OUTREACH AND PRODUCT DIVERSITY

Client Outreach

As at 31 March 2017, the total number of clients receiving financial services from MFIs affiliated to ZAMFI increased to 161 089 active clients, up from 154 617 reported in December 2016, a marginal increase by 6 472 clients (4.2%). As indicated below the number of active microfinance clients has remained within the range of 120 000 to 160 000 active clients for the past four quarters from March 2016 to March 2017.

Figure 1.0: Number of Clients



It should be noted that according to figures relased by the Central Bank as at 31 March 2017, the number of all active microfinance clients i.e ZAMFI and non-ZAMFI Members amounted to 257 707 clients. This reflects that 62.6% of all clients are being provided their services by ZAMFI affiated MFIs.

Table2.0 : Active Clients- ZAMFI and Non-ZAMFI Members

Total Microfinance Active Clients as at 31 March 2017	ZAMFI Members- Active Clients as at 31 March 2017	NON- ZAMFI Members - Active Clients as at 31 March 2017
257 707	161 089	96 618
%	***62.6%***	***37.4%***

The above analysis is an indication of the influence and recognition of ZAMFI as a leading microfinance network assocation in the country to which all legally registered MFIs including deposit taking MFIs should continue to be encouaged to join the assocation and contribute their financial data every quarter.

Loan Outreach

In terms of loan outreach, MFIs disbursed loans amounting to $44, 2million during the first quarter of the year compared with $51.3 for fourth quarter and $34.9 million during the first quarter 2016. The figures below illustrate quarterly loan disbursements by MFIs since March 2016:

Table 3.0: Loan Outreach

MFIs Loans	March 2016	June 2016	Sept 2016	December 2016	March 2017
Quarterly loan disbursements	**$34.9m**	$35.2m	$44.6m	$51.3m	**$44.2m**
Value of loans outstanding	**$71.3 m**	$72.1m	$88.0m	$83.3m	**$96.2m**

Branch Network and Loan Officers

The total branches amounted to 350 and loan officers 717, an increase from 331 and 680 reported for December 2016. This is indicative of the network capacity, which ZAMFI members have in terms of reaching out to members of the public in need of financial services countrywide as well as the employment contribution of the sector.

However, the introduction of interest caps effective from 1 January 2017 is likely to affect the revenue capacity for many MFIs, leading to MFIs strategically responding by closing some of their branches in rural and urban areas, perceived to be of high operational costs and low economic activity. This trend will be monitored closely.

Microfinance Product Offering

The product offering by the sector is now remarkably shifting towards lending to the productive sector of the economy. According to reported figures by the Central Bank, the sector's loans to the productive sector amounted to $143.65 million as at 31 March 2017, representing 66.75% of the sector's total loans of $251.21 million. Many MFIs are now offering products such as agricultural finance, SMEs working capital loans and micro-leasing, products which have a direct impact on economic growth and poverty alleviation in the country.

TOP 20 Outreach *Analysis*

The 20 largest MFIs among ZAMFI members commanded a market share of 41.6% of the total loan book of $215.21 million for all MFIs including deposit taking. As shown below the largest MFI has a loan book of $21.7 million and represent a market share of 10.1% while the top 5 total market share is 29.9%.

Table 4.0: Top 20 MFIs by outreach as at 31 March 2017

MFI RANK	Value of Loan Book	Market Share
1	$21.7m	10.1%
2	**$18.8m**	**8.7%**
3	**$11.5m**	**5.3%**
4	**$6.6 m**	**3.1%**
5	**$5.8m**	**2.7%**
6	**$3.9m**	**1.8%**
7	**$3.7m**	**1.7%**
8	**$3.2m**	**1.5%**
9	**$3.1m**	**1.4%**
10	**$2.3m**	**1.1%**
11	**$2.2m**	**1.0%**
12	$1.7m	0.7%
13	**$1.3m**	**0.6%**
14	$1.1m	0.5%
15	**$0.9m**	**0.4%**
16	$0.8m	0.3%
17	$0.6m	0.2%
18	**$0.5m**	**0.2%**
19	$0.5m	0.2%
20	$0.3m	0.1%

NB Total loan book for all MFIs including deposit taking is $215.21 according to RBZ reports. This has been used to generate respective market shares

PROFITABILITY AND FINANCIAL SUSTAINABILITY

In spite of the current harsh economic conditions, the sector has recorded impressive financial results during the first quarter. The net profit for the sector during the three month period was $5.5 million compared with $1.7 million recorded during the same period last year (March 2016). Operating revenue increased by 60.4% from $12.4 million to $19.9 million while operating costs increased by 34.5% to $14.4million, up from $10.7 million. This has led to an improved cost to income ratio and Operational Self-Sufficiency (OSS) of 72.6% and 137.7 % respectively. The March 2016 ratios were 86.7% (cost to income) and 115.2% (OSS). The international benchmark is 120% for OSS. We are slightly behind the required standard.

The state of the results are a function of MFIs increasing their outreach to earn more revenues as well as a strategic decision by many MFIs to migrate to digital and computerized operational models as a way to cut down on operational costs, improve productivity and efficiency.

Going into the future, profitability and sustainability of the sector may be affected during the subsequent quarters owing to interest rate caps that were introduced by monetary authorities, with effect from 1 January 2017. MFIs should therefore continue to be on the lookout for new revenue streams, explore innovative strategies around reducing administrative costs as well as enter into smart partnership and collaboration with NGOs and MNOs to deliver financial services.

PORTFOLIO QUALITY

Portfolio at risk over 30 day (PAR >30days) marginally increased from $8.6million as at December 2016 to $9.1 million as at March 2017, translating into 9.5% of the total loan book of $96.3 million for MFIs that reported their data to the association. The previous ratio was 10.3%.

Table 5.0: PAR > 30days

Indicator	March 2016	June 2016	Sept 2016	Dec 2016	March 2017
PAR >30 DAYS	21.7%	16.3 %	13.3%	10.3%	9.5%

As indicated below in Table 5, above 40% of the total arrears are within the 91 to 120 days period and this constitutes 5% of the total loan book. This is cause of concern which reflects the high level of credit risk within the sector, taking into consideration that the majority of the loans are of short term nature (30 days).

Table 6.0: Value of Loans in Arrears Analysis

Days in Arrears	Value of Loans in Arrears	% of Total Arrears	% of Total Loan Book
1 to 30 days	$4.2 m	34%	4%
31 to 60 days	$1.8m	15%	2%
61 to 90 days	$1.3m	11%	1%
91 to 120 days	**$5.0m**	**40%**	**5%**
Total	**$12.3**	**100%**	**12%**

In addition the credit risk coverage has marginally improved from 65.0% in December 2016 to 68.6% as at 31 March 2017. This means that should all the 30 day plus portfolio at risk be rendered uncollectable, the current provisions for bad debts will be able to cover 68.6% of the unexpected losses.

Table7.0: Credit Risk Coverage Ratio

	September 2016	**December 2016**	**March 2017**
Provisions for bad debts	$5.7 million	$5.6 million	$6.2million
Credit risk coverage	**49.3%**	**65.0%**	**68.6%**

While the current cash shortages may be indirectly affecting the repayment of loans, MFIs are advised to rapidly educate their clients to pay using the available electronic digital payment instruments such as point of sale (POS) machines, Online Internet banking, Real Time Gross Settlement (RTGS) and Mobile (phones) platforms. According to statistics released recently by ***Digital Frontier Institute in South Africa,*** only 8 percent of the world's money exists as physical cash, the rest is in the form of (digital) bank deposits and money on mobile phones. In addition paper money has been noted worldwide by many governments to be expensive. In United States of America, printing a one-dollar bill costs the US Federal Bank 4.9 cents - almost 5% of the bill´s value. This could be more for developing countries. It therefore becomes a strong business case for MFIs with deep insight into the future to strive towards a cash-less microfinance business model, driven primarily by digital payments instrument and channels.

RISK PERCEPTIONS AND EXPECTATIONS

Below is a Top 10 Risk Ranking for the sector during the past three quarters ending March 2017. This is from the perspective of the Association as it was interacting with MFIs during the quarter period.

Table 6: Top 10 Risk Rankings in Microfinance Sector by the Association

Risk Ranking	September 2016	December 2016	March 2017
1	Regulation	Regulation	Credit Risk
2	Strategy	Macroeconomic	Regulation
3	Credit Risk	Credit Risk	Macroeconomic
4	Macroeconomic	Risk Management	Risk Management
5	Risk Management	Governance	Technology
6	Technology	Strategy	Strategy
7	Governance	Technology	Governance
8	Management	Management	Funding
9	Financial Capability/Literacy	Financial Capability/Literacy	Management
10	Funding	Funding	Financial Capability/Literacy

According to the table below, the three main risks that have gone up during the quarter are ***Credit risk, Technology and Funding***.

Risk Ranking Analysis	Credit Risk	Technology	Funding
Ranking in Dec 2016	**No. 3**	**No.7**	**No.10**
Ranking in March 2017	**No. 1**	**No.5**	**No.8**

Going forward into the future, the level of **credit risk** is expected to significantly reduce due to the recent announcement by the Central Bank that the credit reference system in now operational. **Technology**, which is defined as the MFI's lack of financial resources to invest in new loan management and accounting system is likely to remain a challenge for the small-to-medium sized MFIs. In response to such a challenge, ZAMFI has managed to enter into a smart partnership arrangement with three IT service providers on the market, Musoni, Escrow Systems and Payserv. Members are being advised to make their preferred choice with respect to their size and financial resources.

While **funding** was ranked No.10 in December 2016, it is once again emerging as a new challenge to many MFIs due to deteriorating macroeconomic conditions s and reduced interest rate margins as MFIs adjust their interest rates in line with the monetary authorities' directive. MFIs are advised to consider equity funding through opening up their shareholding to investors locally and abroad with capacity to inject additional capital in the form of shareholders loans, hybrid debt/equity and subordinated debt instruments.

2017 ZAMFI CEO PROFESSIONAL WINTER SCHOOL

During the 2nd quarter, ZAMFI hosted a very successful and well attended Winter School on 18-20 May 2017 at Caribbea Bay Hotel, Kariba. Close to +/- 80 microfinance practitioners attended the event which was co-hosted by the Zimbabwe Microfinance Fund. Presenters from across various financial fields such as microfinance, banking, insurance, digital technology, ICT, academic and financial consultants presented very lively and insightful presentations. The event was generally meant to assist MFIs in deciding their next course of action in taking their microfinance business models to the next level of sustainable growth and profitability, which is vey key in driving the agenda of financial inclusion in the country. The following are some of the resolutions that came out of this event:

1. Adoption of robust ICT Systems to automate operations and delivery processes both at MFI and ZAMFI level
2. Continued focus by MFIs on productive lending so as to contribute positively to economic growth and development
3. Tracking of social impact of microfinance through adoption of social performance indicators
4. MFIs to consider entering into smart partnership and collaboration with NGOs, MNOs, ICT companies to deliver financial services
5. MFIs to pay close attention to consumer protection principles and smart campaign certifications and corporate social responsibility

6. ZAMFI to consider associate membership to increase outreach to small MFIs not yet members of ZAMFI.

7. MFIs to document their success stories through media, bulletins and academic research

8. Enhancement culture of compliance by MFIs

9. Recognition of achievers in certain categories – e.g. rural finance, MSME etc. (awards, including for new markets)

MFIs are encouraged to adopt and where possible implement some of the above resolutions with a view to ensure a positive contribution of the sector to economic development as well as guarantee its recognition as an effective tool of poverty alleviation and financial inclusion in the country.

Appendix

Detailed Financial Data Report as at 31 March 2017

	March 2016	**June 2016**	**September 2016**	**December 2016**	**March 2017**
OUTREACH INDICATORS					
Total loans disbursed	$34.9million	$35.2 million	$44.6 million	$51.3million	$44.1 million
Total Loans Outstanding	$71.3million	$72.1 million	$88.0 million	$83.3 million	$96.2 million
Total clients	130 980	130 745	139 763	154 617	161089
Total Male clients	78 789	79 235	84 794	91 131	92491
Total Female Clients	52 556	51 509	54 968	63 486	68597

% of female clients to total clients	40.0%	39.2%	38.8%	40.9%	42.2%
PORTFOLIO INDICATORS					
Portfolio at Risk > 30 days	21.7%	16.3%	13.3%	11.2%	9.5%
Risk (credit) Coverage Ratio	49.9%	50.5%	49.3%	65.0%	68.6%
SUSTAINABILITY INDICATORS					
Operating Self Sufficiency Ratio	115.2%	143.8%	124.4%	156.7	137.7%
Cost to Income Ratio	86.7%	69.5%	80.3%	63.8%	72.6%
EFFICIENCY INDICATORS					
Operating Expense Ratio	$30.8 per $100 disbursed	$51.1 per $100 disbursed	$33.3 per $100 disbursed	$44.0 per $100 disbursed	$15.00 per $100 disbursed
Cost per Active Client	$82.2	$137.00	$210.5	221.94	$89.70
FINANCIAL MANAGEMENT INDICATORS					
Total Equity	$31.7 million	$26.9 million	$29.9 million	$26.6million	$34.8 million
Total Debt	$23.5 million	$24.6 million	$21.7million	$23.5 million	$25.4 million
Debt to Equity	0.74	0.91	0.72	0.88	0.72