Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 30 September 2018

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE FINANCIAL AND SOCIAL PERFORMANCE HIGHLIGHTS

Below is a dashboard summary of selected key indicators for both financial and social performance indicators as at 30 June and 30 September 2018:

Table 1.0: Financial and Social Indicators

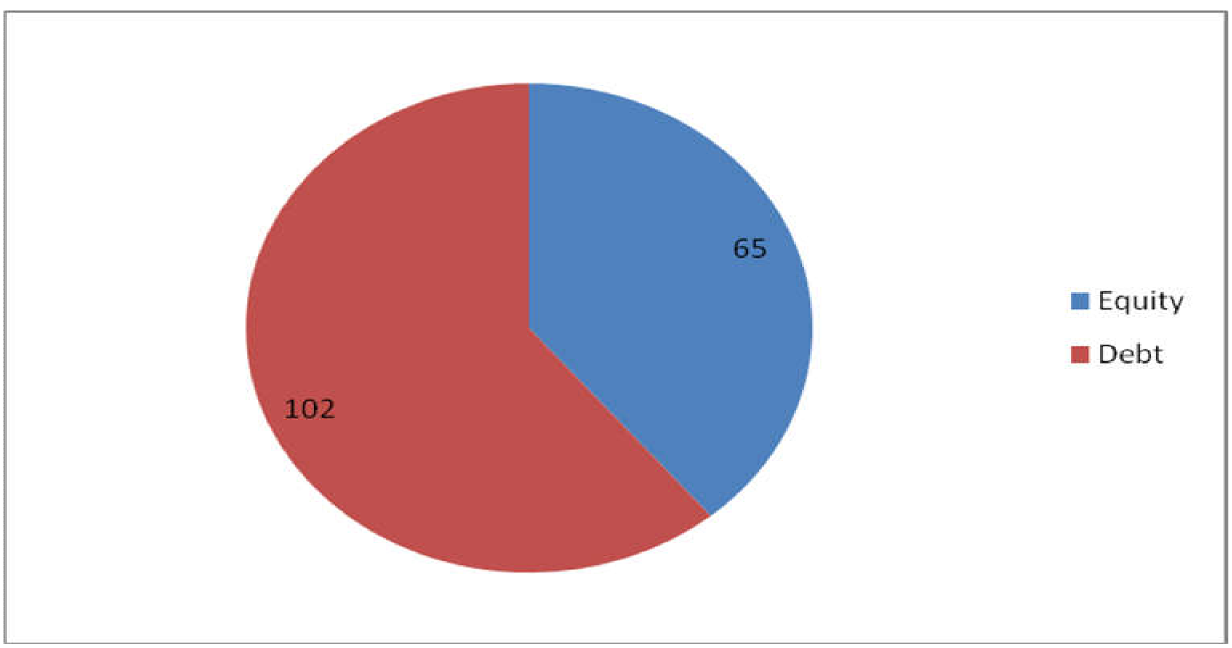
Performance Indicator	June 2018	September 2018
Financial Performance Indicators		
Total Assets	n/a	$206.3 million
Total Equity	$58.7 million	$65.8million
Total Debt	$103.8 million	$102.3million
Total loan portfolio	$137.1 million	$176.5 million
Portfolio At Risk	7.4%	6.0%
Operational Self Sufficiency	116%	124%
Return on Equity	8%	15%
Return on Assets	n/a	5%
Operational Expenses Ratio	14%	16%
Social Performance Indicators		
Consumption Loans {%)	n/a	29%
Productive/Business Loans {%)	n/a	26%
Agriculture Loans {%)	n/a	23%
Group Lending {%}	n/a	3%
Individual Lending {%}	n/a	97%
Female Clients {% }	n/a	45%
Rural Clients {%)	n/a	29%
Rural Branches {%}	n/a	35%
Female Mgt{%}	n/a	36%
Female Staff {%}	n/a	41%

FINANCIAL STRUCTURE

The total assets for the microfinance credit only sector amounted to $206.3 million as at 30 September 2018. These sector's total assets were dominated by loans which constituted 87.0% of the total sector assets while fixed assets which represented non-interest earning assets amounted to 4% of the total sector assets.

Aggregated equity and debt capital for the sector was reported to be $168.1 million as at 30 September 2018, with debt capital being the largest share of capital amounting to $102million or 60.7% of total capital. This aggregate level of capital represents the amount of liquidity available within the sector for on-lending to various economic sectors such as productive, agriculture and retailing sectors.

Table 2.0: Equity and Debt Capital



PROFITABILITY AND SUSTAINABILITY

For the 9 months ending 30 September 2018, the microfinance credit only sector posted strong financial performance under an extremely challenging operating environment. The sector reported a net profit before tax of $9.8 million, an increase by $5.57 million from $4.23 million registered for the six month period up to June 2018. Total Income for the period under review amounted to $50.3 million against total operating expenses of $40.5 million. This translated to an operational self sufficiency of 124%, up from 116% reported in June 2018. This is marginally above the international benchmark of 120% expected for the sector. Return on assets and equity for the sector was 5% and 15%. During the previous quarter the return on equity was 8%.

MICROFINANCE CREDIT AND OUTREACH

Microfinance credit disbursed during the quarter amounted to $116.5 million, a significant increase from $87.3 million disbursed during the quarter ending 30 June 2018. Outstanding loans as at the end of September 2018 were $176.4 million, up from $137.1 million, as at 30 June 2018. The strong outreach performance is a reflection of increased demand for microloans by both individuals and small business engaging in productive sectors of the economy. The momentum is most likely to be maintained during the last quarter of the year in view of the sudden surge in prices which will most likely increase the amount of loans required by borrowers.

Below is the table on top 20 MFIs in the microfinance sector, indicating increased loan book, especially by the top 5 performers.

Table 3.0: Top 20 MFI Analysis

MFI RANK Sept 2018	Value of Loan Book ($)	MFI RANK June 2018	Value of Loan Book ($)
1	**$44.0 million**	**1**	**$30.6million**
2	**$43.9 million**	**2**	**$26.7million**
3	**$26.6 million**	**3**	**$24.6million**
4	**$10.5 million**	**4**	**$6.6 million**
5	**$7.0 million**	**5**	**$6.6 million**
6	$5.7 million	**6**	$4.6 million
7	$4.4 million	**7**	$4.1 million
8	$4.1 million	**8**	$3.1 million
9	$3.1 million	**9**	$3.0 million
10	$2.8 million	**10**	$2.8 million
11	$2.7 million	**11**	$2.7 million
12	$2.7 million	**12**	$2.2 million
13	$2.6 million	**13**	$1.8 million
14	$2.3 million	**14**	$1.7 million
15	$1.8 million	**15**	$1.5 million
16	$1.4 million	**16**	$1.2 million
17	$1.0 million	**17**	$1.1 million
18	$0.76 million	**18**	$1.0 million
19	$0.68 million	**19**	$0.7 million
20	$0.62 million	**20**	$0.6 million

PORTFOLIO QUALITY

The sector has managed to reduce its portfolio at risk (PAR >30days) to 6% in the period under review, from 7.4% reported during the previous quarter. This is quite a remarkable achievement under the current tight liquidity conditions and inflationary pressures negatively affecting the disposable income of most of the borrowers.

As reported below under social performance indicators analysis, lending for developmental purpose (business loans + agriculture) amounted to $86.3 million, representing 48% of the total loans.

Close to 15 MFIs were identified with more than 50% of their loan book constituting developmental loans. The average PAR ratio for these institutions stood at 7%.

However of concern are the high individual PAR ratios for the top 10 of these institutions as shown in Table 4.0. The highest PAR ratio is 100% and lowest 5% with an average PAR ratio for these top 10 developmental MFI being 23.2%. While it should be noted these MFI are indeed doing a great work in support of developmental lending, their current high PAR ratios may pose a high credit risk to their operations which may ultimately affect negatively, their earnings, capital and going concern. A short term mitigating strategy going forward could be to diversify their portfolio and put in place appropriate risk concentration limits.

Table 4.0: PARs for developmental lending MFIs

Developmental MFI Rank in term of highest PAR	PAR Ratio
1	**100%**
2	**27%**
3	**25%**
4	**20%**
5	**15%**
6	**14%**
7	**12%**
8	**8%**
9	**6%**
10	**5%**
Average PAR	**23.2%**

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EFFICIENCY AND PRODUCTIVITY

The best indicator of the overall efficiency of the microfinance sector is the operational expenses ratio, which has remained within the range of 14 % to 16% for the three conservative quarters of March, June and September 2018. The ratio measurers the cost of delivering loan services. Though there is no international benchmark for the ratio, however the lower the ratio, the higher the efficiency.

Below are the other ratio indicators for efficiency and productivity for the sector at 30 September 2018:

Efficiency and Productivity Ratios	**September 2018**
Operational Expenses ratio	16.0%
Cost per Active Client	$147.00
Case Load	268 clients
Average Outstanding Loan Size	$782.00
Credit Staff % of Staff	47%

REPORTING ON SOCIAL PERFORMANCE INDICATORS

During the quarter, a new ZAMFI MFI return, which incorporates social performance indicators, was approved by ZAMFI members and has been used to collect figures for this quarter. At a minimum the following social performance indicators are now being tracked by the association as proxies for social performance analysis:

1. Distribution of loans by sectors e.g. consumer, productive, agriculture
2. Distribution of loans by lending methodology i.e. individual lending vs. group lending
3. Profile of clients by urban/rural
4. Profile of branches by urban/rural
5. Profile of management and staff by gender

Below is the analysis of the consolidated social performance data as reported for the quarter ending September 2018.

Distribution of Products and Services

A sectorial analysis of the loans in Table 5.0 indicates the extent to which the microfinance sector is lending to sectors directly related to poverty alleviation.

TABLE 5.0 : Sectorial Analysis of loans

Distribution of Loans By Sectors	**US$**	**%**
Consumption Loans	50,567,560	29%
Productive/Business Loans	46,309,716	26%
Agriculture Loans	40,549,543	23%
Other Loans	39,078,877	22%
Total Loans	**176,505,696**	**100%**

Loans to business and agriculture sector are 26% and 23% of the total loans of $176.5 million. The aggregate % of the two main sectors which are a proxy of productive sector is 49% against 29,8% for the consumption sector and 24% for other loans. It should be noted that lending by microfinance sector to the agriculture sector, at 23% is indeed quite an outstanding achievement as this is the sector directly related to food security and quick poverty alleviation among small holder farmers. This sector is also difficult as farmers need to identify lucrative value chains, concentrate in areas where there are irrigation schemes and appropriate and timely technical back up service.

Distribution of lending by methodology indicates that 97% is being advanced as individual lending while group lending constitute 3%, a clear sign that the majority of the MFIs are yet to embrace group lending methodology, if ever they will move definitively in that direction..

Distribution by Lending Methodology	**US$**	**%**
Individual lending	171,824,022	97%
Group Lending	4,681,674	3%

Outreach to Women and Rural Markets

Microfinance is generally regarded as being pro-female and pro-rural in its bid to close the gap of financial exclusion among women and rural areas.

Table 6.0. indicates the outreach statistics with respect to women and rural areas.

Table 6.0: Profile of Clients

Profile of Clients	Figures	%
Male	104,558	55%
Female	84768	45%
Total	**189 326**	**100%**

As at 30 September 2018, female clients constituted 45% of the total clients amounting to 189 236 while male clients were 55%. Clients in rural areas amounted to 55 604 clients, constituting 29% of the total client while their urban counterparts had the lion share of 71%. As expected, the rural branches were 112 against 205 for urban areas at shown in Table 7.0.

Table 7.0 : Outreach in Rural and Urban areas

Profile of Clients	Figures	%
Urban Clients	133,722	71%
Rural Client	55,604	29%
Urban Branches	205	65%
Rural Branches	112	35%

Women staff empowerment and leadership

The microfinance sector is an equal employer for female staff and is alive to the need to promote female leadership. The results in Table 8.0 is a clear testimony of this social goal, which as at 30 September 2018, indicates 41% as female staff and 59% male staff. However it should be noted that female management is currently represented as 36% against male management of 64% , a sign that the sector is male dominated in terms of leadership.

Table 8.0 : Profile of staff and Management by Gender

Profile of staff and Management by Gender	Figures	%
Female Staff	617	41%
Male staff	897	59%
Total Staff	**1514**	**100%**
Female Management	65	36%
Male Management	118	64%
Total Management	**183**	**100%**

CONTRIBUTION BY MICROFINANCE SECTOR TO 2019 NATIONAL BUDGET

ZAMFI being an umbrella body of close to 109 out of 189 registered microfinance institutions was requested by the Ministry of Finance and Economic Development to submit an overview of main challenges affecting the sector and any proposed solutions to the same.

Below is a summary of the paper prepared by ZAMFI with input from members collected during the month of October 2018 :

In a brief the three main challenges were identified as:

1. Rising cost of operations due to multiple exchange rate system
2. High money transfer tax on RTGS, mobile phones and the internet transaction
3. Restrictive microfinance one year license tenure

Rising cost of operations due to Multiple Exchange Rate System

The current multiple system(RTGS, bond notes, USD) especially after the announcement of the new monetary and fiscal measures on 1 October 2018 has negatively resulted in massive distortion of the pricing system of both goods and services including credit facilities. Price stability which is the cornerstone for the smooth running of the economy seems to be under serious siege.

Money transfer tax on RTGS, mobile phones and the internet Transaction

On 1 October 2018, as part of fiscal measures in support of monetary policy, the Minister of Finance announced a tax that applies to transaction conducted via RTGS, mobile phones and the internet. This means for every $100.00 transaction done via the above digital transactions, there is now an extra $2.00 to be collected for tax compared to the previous fixed 5c per transaction. This translates to an increase of cost of doing business from 5c to $2.00 which is highly punitive. Alternately a quick calculation on an average monthly loan disbursement by an MFI of $1m per month will translate to a tax to government of up to $20,000 per month against monthly income of $100 000.00 (using interest rate of 10% per month). It should be noted that the negative impact of this tax cuts across all industry players apart from the microfinance sector to also include B2B(business to business) , B2P(business to people) and P2P(people to people) transactions.

Microfinance Licence Tenure

The licence tenure for microfinance institutions is currently limited to one year while it is perpetual for the banking and insurance sector including asset management companies. The impact of this is reduced investment into the sector. Considering the fact that the minimum capital levels is $5 million for deposit taking MFIs while the next layer of financial institutions, which is commercial banks require $100 million, it make sense then to promote the creation of privately owned deposit taking MFIs and Credit MFI only. It goes without saying that it is the privately owned financial institutions that have the capacity to attract investments and technology from international players as opposed to government owned financial institutions. The Association can however report that there are very lively updates from both the Ministry of Finance and the Central Bank and can report that there is indeed some movement which can be a proxy for progress.