Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

ANNUAL PERFORMANCEREPORT OF THE MICROFINANCE SECTOR

as at 31 December 2017

ZAMFI CREDIT ONLY MFI MEMBERS

PERFORMANCE HIGHLIGHTS: A SNAPSHOT

Below is a snapshot annual performance of the sector in terms of key ratios:

Table 1.0: Key Highlights

Performance Indicator	December 2015	December 2016	December 2017	Annual comparison (2016 -2017)
Outreach				
Total loan portfolio	**$75.1million**	**$83.3 million**	**$98.7 million**	**Improved**
Total loans disbursed	**$131.4million**	**$166.0 million**	**$197.2 million**	**Improved**
Profitability				
Operational Self Sufficiency	**141.9%**	**156.7%**	**151.6%**	**Decreased but stable**
Cost to Income ratio	**70.4%**	**63.9%**	**65.9%**	**Decreased but stable**
Return on Equity	**35.2%**	**49.6%**	**41.9%**	**Decreased but stable**
Portfolio Quality				
Portfolio At Risk	**16.7%**	**10.3%**	**7.9%**	**Marked Improvement**
Efficiency and Productivity				
Operational Expense Ratio	**38%**	**44.6%**	**28.5%**	**Marked Improvement**
Cost per Borrower	**$264.10**	**$221.94**	**$162.40**	**Recommended trend**

MICROFINANCE OUTREACH AND MARKET COMPETITIVE ANALYSIS

Outreach

2017 results with respect to outreach reflects a sector largely on a rebound with total disbursed loans for the year amounting to $197.2 million compared with $166.0 million in 2016, an increase by $31.2 million or 18.7%. This is inspite of the year 2017 being the period when interest ceiling of 10% interest rates by the Central Bank was introduced effective January 2017. Instead of scaling down lending, MFIs have largely responded by investing more funds into the business to meet the ever increasing demand for loans by both individuals and small business. As at 30 December 2017, the value of outstanding loans (from credit only MFIs) circulating largely in the informal sector stood at $98.7million, up from $83.3 million reported in 2016.

Table 2.0: Loan Outreach

MFIs Loans	December 2016	December 2017	Annual Increase (2016- 2017)
Value of loans outstanding	$83.3 million	$98.7 million	$15.4 million (18.4%)
Annual loan disbursements	$166.0 million	$197.2 million	$31.2million (18.7%)

TOP 20 Outreach *Analyses*

The 20 largest MFIs among ZAMFI members are as indicated in table 3.0 below as at 31 December 2017:

Table 3.0: Top 20 MFIs

MFI RANK	Value of Loan Book ($)	Market Share *
1	$28.7 million	12.0%
2	$21.1 million	8.8%
3	$6.7 million	2.8%
4	$4.4 million	1.8%
5	$3.8 million	1.6%
6	$3.8 million	1.6%
7	$3.3 million	1.4%
8	$3.2 million	1.3%
9	$2.9 million	1.2%
10	$2.9 million	1.2%
11	$2.2 million	0.9%
12	$1.8 million	0.7%
13	$1.7 million	0.7%
14	$1.1 million	0.4%
15	$1.1 million	0.4%
16	$1.1 million	0.4%
17	$0.9 million	0.3%
18	$0.6 million	0.2%
19	$0.5 million	0.2%
20	$0.5 million	0.2%

Total Microfinance Loans as at 31 September 2017 from RBZ Monetary policy is $238.6 million

PROFITABILITY AND FINANCIAL SUSTAINABILITY

The credit-only microfinance sector reported an aggregate net profit of $20.5 million for the year ended 31 December 2017 , up from $13.2 million reported for the same period in 2016. This represented an increase of 55.3%.In addition the sector achieved an OperationalSelf sufficiency ratio of 151.6% which is both above 100% and also the international benchmark of 120%.

This largely indicates that the majority of MFIs in the industry are being able to cover their costs through revenue generated from operations, thereby safeguarding their capital from unexpected losses.

Table 4.0: Trend of OSS

Indicator	Dec 2015	June 2016	Dec 2016	Dec 2017
OSS	**141.9%**	143.8%	156.7%	**151.6%**

PORTFOLIO QUALITY

As at 31 December 2016, the sector's portfolio quality stood at 7.9%, a substantial improvement in comparison to 10.3% and 16.7% reported for 2016 and 2015 respectively as shown below :

Table 5.0: PAR > 30days

Indicator	Dec 2015	Dec 2016	Dec 2017
PAR >30 DAYS	16.7%	10.3%	**7.9%**

The MFIs with notable PAR ratios above the industry average of 7.9% are encouraged to adopt some of the strategies articulated below in reducing their portfolio at risk ratios:

1. Adopt a holistic approach to assessing and monitoring credit risk, in a way that ensures that credit risk management is part of an integrated approach to the management of all financial risks.

2. Effectively make use of credit checks as a way of screening borrowers for creditworthiness and over indebtedness

3. Put in place comprehensive credit risk management systems appropriate to its type, scope, sophistication and scale of operations. These systems should enable the MFI to identify, quantify, monitor and control credit risk

and ensure that adequate capital resources are available to cover the risk assumed.

4. Deploy active oversight by senior management on delinquency risk management, which should at all timesbe well understood on its impact on earnings and capital if allowed to spread rapidly within the microfinance lending operations.

EFFICIENCY AND PRODUCTIVITY

The operational expense ratio reflects what is spentor incurred by the MFIs in the industry in terms of administrative expense for every dollar disbursed.

As shown below the industry operational expense ratio improved substantially from $44.00 to $28.5 per $100 loan disbursed. The improvement is largely a result of costs being reduced through effective use of technology and cash-lite digital operational systems which have become the alternative means of payment to cash in the industry.

Table 6.0: Trend of Operating Expense Ratio

Indicator	**Dec 2016**	**Dec 2016**
Operating Expense Ratio	$44 per $100 disbursed	**$28 per $100 disbursed**

CHALLENGES IN MICROFINANCE SECTOR

Based on the interactions with its members as well as policy announcements from various stakeholders ZAMFI has been able toidentifyat least five(5) main challenges that are posing a negative impact on the sustainable success of microfinance business in the country. These have been coined ***" 5 Cs of Challenges for the Microfinance Sector",*** *representing :*

1. **C**onfidence (business confidence)
2. **C**apital
3. **C**ost(high transaction costs
4. **C**apacity
5. **C**ash shortages

Below is a detailed analysis of each of the ***" 5 Cs of Challenges for the Microfinance Sector"***

Confidence (Business Confidence)

The confidence and optimism of MFIs business leaders regarding the economy is still a challenge inspite of the new administration assuming the reigns of government since November 2017. While investors' confidence in the country has certainly improved, a lot of work is still undone with respect to finding a lasting solution to cash and liquidity crisis, huge and unsustainable budgets deficits and current account deficit. This represents a "perfect storm" which unless addressed in the short to medium term, may affect thefinancial sector through reduced investment inflows and other unexpected negative effects.

Capital

If the sector is to register significant growth in outreach in terms of loans both for production and consumption activities, then a huge amount of capital should be attracted into the sector. Theoretically capital plays a huge transformative role in all sectors of the economy, with the resultant effects being increased production of goods and services. While traditionally MFIs were structured as not-for-profit entities, this in modern time has lost relevance and become less attractive to investors looking for a return on their investment in a corporate entity. Going forward, MFIs may need to be model themselves along a profit-driven operating model, so as to attract the kind of investment capital for on-lending to their captive clients within the informal sector.

Cost (High transaction cost)

Microfinance the world over is known for huge transactions costs which pose a threat to profitability and operational self sufficiency. Unless MFIs adopt technology and ICT-driven operational models, there is no way they can overcome the major constraint of high costs of doing business. Of late the regulators and ZAMFI have been urging MFIs to do their best in acquiring the latest computerized systems which can easily integrate with other systems such as credit reference, collateral registry, digital payments and mobile money systems.

Capacity

Whatever operational delivery model adopted by an MFI, it must be able to have capacity to do more with less resources so as to achieve tremendous gains with respect to productivity and efficiency in doing business. A standardized operational model which is customer-centric to drive growth of business, maintain excellent customer service and loyalty, remains the ultimate solution to improving capacity of MFIs to do more with less in terms of resources and administrative costs.

Cash Shortages

Whilst the dollarization of the Zimbabwean economy has managed to contain inflation and stabilize the economy, it has created a new set of problems for the country. In a dollarized currency regime, the major source of liquidity is export-led growth which acts as a stimulus for new money to create economic equilibrium. However statistics suggest that in Zimbabwe imports of largely consumptive goods have grown faster than exports, widening the current account deficit which has manifested into a liquidity trap. This implies that the cash level in the economy is not sufficient enough to meet the transactional needs of the economy. The limited number of bills in circulation are old and tattered while the surrogate currency introduced by the monetary authorities in the form of bond notes and coins has done very little to contain the liquidity crisis. At its worst it has resulted in multiple pricing of goods and services. These challenges are now affecting all sectors including themicrofinance sector. A liquidity and currency solution alternative to the bond surrogate currency may need to be found to arrest the situation and return normalcy to stability of price for both goods and services.