Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 30 June 2018

MICROFINANCE OPERATING ENVIRONMENT AND CHALLENGES

ZAMFI notes that the first half of the year has been a difficult period for the microfinance sector on account of many challenges bedeviling the sector which could potentially spillover into the second half. The top five challenges of great concern to the sector included high cost of funding, shortage of cash & foreign currency, a general rise in cost of operations, limited product development and the perceived high country risk.

Funding Supply to MFIs

While greater stability in the supply of funding from commercial sources has been achieved during the period under review, of concern is the cost of funding which has remained high. This may well continue in the short term period of up to 18 months and will negatively affect the viability of both the MFIs and the clients they serve. The major clients of MFIs are predominantly civil servants and small business. High cost of funding generally affects the liquidity and profitability of these clients leading to viability challenges. There is need therefore for the relevant authorities on matters of funding to take a decisive solution towards bringing the cost of funding down. Currently the interest rates for borrowing funds from commercial banks are within the range of 12 -18% per annum excluding fees related to administration and processing .

Cash and foreign currency shortage

MFIs by virtue of their distinct feature and role that they play in the economy operate largely on cash disbursements. Though the digital electronic channels are a welcome technological development to alleviate the cash crisis, there still exist many clients that would prefer the alternative of cash for genuine business and commercial reasons which ought to be respected and be guaranteed. Lack of freedom of choice with respect to client receiving their loans as either in cash or bank/mobile money transfer is a matter which must resolved with speed and resoluteness by the monetary authorities.

Rising cost of operations

Like other sectors in the country, the microfinance sector is being affected by the multiple exchange rate system (RTGS, bond notes, USD, ecocash) which both government and the monetary authorities have allowed to exist. This system negatively distorts the pricing system of both goods and services including credit facilities. In addition the value of the underlying balances on financial accounts which are used to monitor the financial performance of the respective MFIs is again distorted. This is a matter of grave concern not only to the local investors but to international investors with keen interest to invest in the country. A prudent and cautious investor would require a guarantee of the safety of his investment and an existence of robust financial reporting system that reflects the true and fair performance of his investment over time. The longer it takes to deal with this matter of multiple exchange system, the great the financial risk that

MFIs are exposed to. Ultimately no significant international investment funds will be brought into the country by the investors.

Limited product development

The majority of MFIs are offering more of the same credit facilities to clients who in general are predominantly salaried clients. This scenario obviously leads to concentration risk and likelihood of failure should an unexpected event occur related to salaried clients. It is now time for MFIs to be innovative in coming up with new products for all client including those without salaries but are economically engaged in small business that generate regular cash flows. While the knowledge and skills may be outside the management of most MFIs on how to conduct new product development sessions, the expertise is however in abundance within local consultants and trainers. MFIs are therefore urged to engage such providers in coming up with innovative new products.

International investor's perceptions on the economic direction of the country

The country is now out of the election mode and issues around disputes and legitimacy have been finally decided by the highest courts. However it should be noted the election period created mixed perceptions in the eyes and minds of investors desperately needed to revive the economy. The situation now requires a well thought process that is inclusive of all stakeholders in nature to promote an enabling environment that is conducive to the promotion of business for all players.

MICROFINANCE PERFORMANCE HIGHLIGHTS: A SNAPSHOT

It is in the light of the above challenges that the reported results below have been achieved for the first half of the period with respect to outreach, profitability, portfolio quality and efficiency and productivity.

Table 1.0: Key Highlights

Performance Indicator	December 2017	March 2018	June 2018	Quarterly comparison (Mar 2018 –June 2018)
Outreach				
Total loan portfolio	**$98.7 million**	**$115.6 million**	**$137.1 million**	**Improved**
Total loans disbursed	**$56.00 million**	**$59.4 million**	**$87.3 million**	**Improved**
Profitability				
Operational Self Sufficiency	**151.6%**	**113%**	**116%**	**Improved though still a cause of concern**
Cost to Income ratio	**65.9%**	**88%**	**85%**	**Decreased & stable**
Return on Equity	**41.9%**	**5%**	**8%**	**Improved the trend**
Portfolio Quality				
Portfolio At Risk	**7.9%**	**8.7%**	**7.4%**	**Improved and stable**
Efficiency and Productivity				
Operational Expense Ratio	**28.5%**	**15%**	**14%**	**Marked Improvement**
Cost per Borrower	**$162.40**	**$123.00**	**$132.3**	**Recommended trend**

ANALYSIS OF PROFITABILITY COMPETITIVE ANALYSIS

The credit-only microfinance sector achieved a profit of $4.23 million, on total operating income of $34.7 million and a return on equity of 8% in the first half of 2018. The profitability represented a decrease from $8.8 million reported during the same period last year, though an increase from $2.7 million in March 2018. Operating self-sufficiency (OSS) improved marginally from 113% to 116% in a quarter –quarter comparison. This is well below the international benchmark of 120% expected of a sector that is sustainable and viable. Hope for a strong profitability performance during the last half of 2018 is now pinned on the incoming government pursuing economic recovery initiatives that stimulate the economy as well as attract investment across all sectors.

MICROFINANCE CREDIT AND OUTREACH SUSTAINABILITY

Microfinance credit disbursed during the quarter amounted to $87.3 million compared with $59.4 million in March 2018, an increase by 47.4%. Outstanding loans as at the end of June 2018 were $137.1 million, up from $115.6 million as at 31 March 2018. Outreach in terms of clients improved significantly to 210 591 clients from 165 450.

Below is the table on the top 20 MFIs in the microfinance sector, which reflects heightened competition among leading MFIs in the industry:

MFI RANK June 2018	**Value of Loan Book ($)**	**MFI RANK March 2018**	**Value of Loan Book ($)**
1	$30.6million	**1**	$28.2million
2	$26.7million	**2**	$23.6 million
3	$24.6million	**3**	$15.1 million
4	$6.6 million	**4**	$6.6 million
5	$6.6 million	**5**	$5.8 million
6	$4.6 million	**6**	$5.2 million
7	$4.1 million	**7**	$3.5 million
8	$3.1 million	**8**	$3.0 million
9	$3.0 million	**9**	$2.7 million
10	$2.8 million	**10**	$2.2 million
11	$2.7 million	**11**	$2.1 million
12	$2.2 million	**12**	$2.0 million
13	$1.8 million	**13**	$1.1 million
14	$1.7 million	**14**	$1.0 million
15	$1.5 million	**15**	$1.0 million
16	$1.2 million	**16**	$0.92million
17	$1.1 million	**17**	$0.65 million
18	$1.0 million	**18**	$0.63 million
19	$0.7 million	**19**	$0.58 million
20	$0.6 million	**20**	$0.41 million

PORTFOLIO QUALITY

Portfolio at risk over 30 day (PAR >30days) improved from 8.72% in March 2018 to 7.4% as at June 2018. However more work still needs to be done so that the industry average of the PAR ratio is less than 5%.

EFFICIENCY AND PRODUCTIVITY

The operational expense ratio of 16%, up from 15% represent what is incurred by the MFIs in the industry in terms of administrative expense for every dollar disbursed. Cost per client of $142.00, indicating how much the MFIs are spending in operating expenses to maintain a single client is generally high and reflect problems related to inefficiency and high cost of doing business in the microfinance sector.

Reporting on Social Performance Indicators (Next Quarter)

During the quarter ZAMFI successfully managed to secure 100% funding from Social Performance Task Force (SPTF) for the training of local microfinance practitioners on Social Performance Management (SPM) including Client Protection Principles. The training was conducted during a three day period- 17-20 July 2018 and was attended by 30 participants. Being an introductory course on SPM, the sector benefited immensely from the course, mainly in terms of catching up with the international perspectives on SPM. Against this background the association is now in position to request financial data related to SPM and analyze it for the benefit of all members. BY definition SPM refers to the implementation of management practices that translate the institution's social mission into practice. At a minimum the following social performance indicators will need to be tracked by both individual MFIs and the association:

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
6. Ratios of staff and borrowers/client retention.

It is the hope of the association to introduce a new ZAMFI MFI return which includes the above social performance data beginning with the reporting of figures for the quarter ending September 2018.