ZIMBABWE ASSOCIATION OF MICROFINANCE INSTITUTIONS

ZAMFI mini survey report on the impact of the pandemic on the microfinance sector for the period 30 March 2020 to 31 July 2020

Foreword by ZAMFI Chairperson, Mrs. Virginia Sibanda

It has been palpably clear during the past 6 months period beginning March 2020 that Covid-19 has had a devastating impact on economies and the health of individuals causing a lot of anxiety due to the uncertainty. Initial reactions to the pandemic was fear driven as nobody understood what we were dealing with and lockdown was felt as the best way to contain the spread of the virus. The effects of the lockdown approach was felt right across all countries. In our context as Zimbabwe, the closure of formal businesses, informal businesses, schools churches to name the most obvious, had a devastating effect given that the bulk of the business operations in Zimbabwe depended on human contact and moreso the informal sector which depends on individuals leaving their homes daily to earn a living. Overnight this was no longer possible. With limited social safety nets for most individuals daily survival was at risk for most people. The Zimbabwe Association of Microfinance Institutions (ZAMFI) has been involved in improving livelihoods of Zimbabweans who are economically active and most of these are in the informal sector.

It was against this background that as a sector we sought to better understand the effects of Covid19 on ZAMFI members and their clients. To this end, a mini survey study was undertaken at the end of July 2020.

This will be one of many more surveys that will be undertaken by the sector. Although only 47 out of the 152 MFIs translating to 31% of the potential respondents, we feel that the result can provide some insights regarding the pain points of the industry in the first stages of Covid19.

The report therefore provides an evidence-based practical knowledge and analysis from data and information collected that could prove to be of vital importance to stakeholders in the microfinance sector that have unwavering commitment and passion to the rebuilding of the sector in Zimbabwe. The report translates emotional thinking into validated facts from the field. Microfinance remains as one of the pillars of financial inclusion which in turn streamlines the informal sector activities into the main economy. It is the hope and aspiration of my board that this initial report will assist in influencing the decisions at policy making level as to how the sector can be incorporated into the conversations around the resuscitation of the economy as the sector plays a big role in financing micro and small businesses that suffered the brunt of the Covid19 pandemic.

1.0 Introduction

The overriding objective of the mini survey study was to assess the impact of the Covid-19 pandemic and the subsequent lockdown rules that were implemented by the government of Zimbabwe on the operations and sustainability of the microfinance sector. The targeted population for this study were microfinance institutions currently registered with the Zimbabwe Association of Microfinance Institutions [ZAMFI] and licensed by Reserve Bank of Zimbabwe as at 31st March 2020. The association team of researchers used a well designed questionnaire to collect data which was then analyzed used basic descriptive statistical analysis, largely made up of graphs and charts. Based on the findings, the survey went on to propose recommendations worth of consideration by different stakeholders to the microfinance sector.

2.0 Background of the Survey

The period of January to March 2020 is a time when most SADC countries were beginning to implement lockdown rules in a bid to curb the spread of Covid-19 pandemic. In Zimbabwe, the government instituted a lockdown period which commenced on 30 March 2020 and was mandated to run initially for a period of three weeks, but was then subsequently extended by two more weeks. It should be noted that prior to the outbreak of the corona virus the microfinance sector was already grappling under the weight of macroeconomic challenges related to inadequate funding, hyper inflation, currency volatility, cash shortages and high operational costs. The effects then of corona virus and its associated negative effects on performance of the sector could only be fully known and be evident after undertaking a diagnostic mini survey study on the sector. To this end ZAMFI deployed a very comprehensive questionnaire with well crafted questions designed to fully capture the impact of the pandemic situation on microfinance institutions in Zimbabwe.

3.0 The purpose of the Survey and Key Objectives

The following were identified as the survey objectives in support of the main overriding objective:

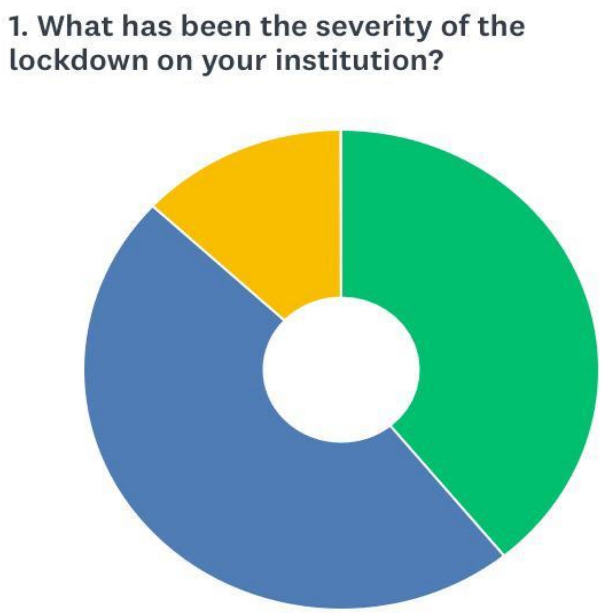
i. To identify the main issues of concern related to the impact of cononavirus lockdown rules on operations of MFIs
ii. To explore the trend of portfolio quality after the MFIs began to operate under corona virus situation
iii. To identify and explain any changes in accessing funding from shareholders including banks and investors
iv. To indentify strategies that have been put in place by MFIs to reduce and mitigate the impact of lockdown situation in the country
v. To assess the new human capital requirements of MFIs staff aimed at improving efficiency and productivity under the new "normal" environment
vi. To suggest or give recommendations for possible solutions to new challenges facing MFIs in Zimbabwe.

4.0 Survey Findings and Discussion

5.1 Response Rate

The response rate of the survey questionnaire is broadly defined as a measure of how many people responded out of the number actually approached. In general it is assumed that the higher the response rate, the more likely the results are representative of the population. The survey questionnaire was distributed using the Monkey Survey System to 152 Chief Executive Officers [CEOs] of MFIs who are members of ZAMFI [currently under the ZAMFI MFI CEOs Group platform]. The overall response rate was 47 out of 152 respondents which translated to 30.9%. The general view of the association is that the response rate was adequate for analysis and reporting of the results in the light of the limited time the questionnaire was distributed. In addition the opinion and know-how expressed by those that responded was excellent and considered to represent the collective thinking of the majority of CEOs in the sector.

5.2 Severity of lockdown on MFI operations



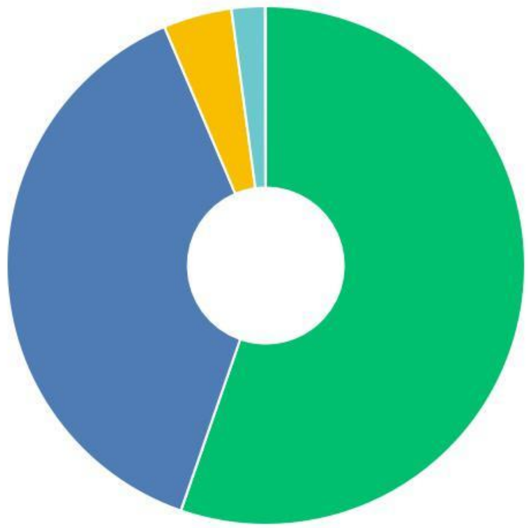
Extreme	39.13%	18
severe	47.83%	22
manageable	13.04%	6
not severe can't quantify	0%	0

Comments: The survey revealed that 39.13% of the respondents were of the opinion that the lockdown period was extremely severe to their operations while 47.83% indicated that it was generally severe. This represented a collective opinion of 86.96% of the respondents. These survey results were largely expected bearing in mind that most MFIs operations are still in transition from high-touch low-tech to high-tech low touch systems of operations especially with regard to credit and accounting transactions system. The lockdown rules placed tremendous strict rules related to limited human to human interaction, social distancing, total ban on urban transport and intercity travelling, closure of cross border trading and many other restrictions too many to mention. The overall next effect of such strict lockdown rules was to yield a severe blow on collections and disbursement of loans by MFIs leading to loss of revenue and profit. The following are some of the top issues of concern cited by respondents that were of negative impact to the MFIs during the lockdown period:

i. Client incapacitation
ii. Inability to disburse loans
iii. Cash flow constraints
iv. Loss of revenue due to reduced lending
v. Non-repayment of loans
vi. Lack of physical access to office due to prohibition order and rules
vii. Outreach challenges especially rural areas
viii. Reduced demand for loans
ix. Prolonged lockdown on informal sector and markets
x. Loss of clients and markets
xi. High operating costs due to new requirements related to safety and health of workers

5.3 Portfolio Quality under corona virus environment

3. So far, overall, has the portfolio quality of your MFI changed since the coronavirus [lockdown]?



Answered: 47 Skipped: 0

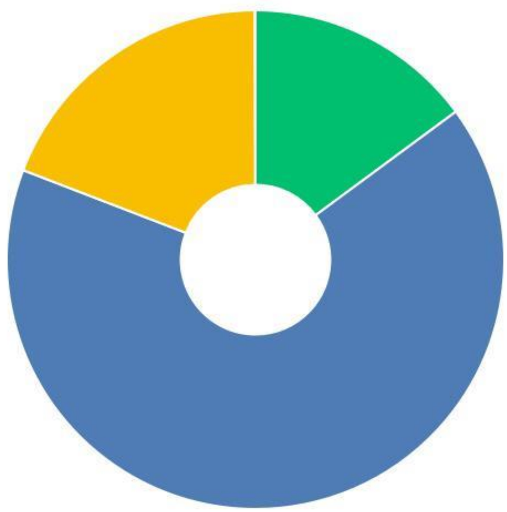
Answered: 47 Skipped: 0

Got much worse	55.32%	26
Got a little worse	38.3%	18
stayed the same	4.26%	2
improved a little	2.13%	1
improved a lot	0%	0
Other (please specify)		0

Comments: A combined record of 93.62% of the respondents reported that portfolio quality became worse while a negligible figure of 4.26 % indicated that it stayed the same in spite of the corona virus pandemic. It should be noted that the portfolio quality is a key metric measure of the performance of the sector which is directly linked to revenue generation, liquidity and solvency of an MFI. It was then not surprising that as soon lockdown rules were relaxed, the majority of MFIs quickly switched their focus on improving the quality of their loan book through aggressive collections methods.

5.4 Current Access to Funding

5. Are you currently able to access funding? ie, getting it from shareholders, banks, development partners, etc



Answered: 47 Skipped: 0

Answered: 47 Skipped: 0

No different from lockdown	14.89%	7
A lot harder now	65.96%	31
slightly harder	19.15%	9
A little easier	0%	0
A lot easier	0%	0

Comments: The survey confirmed that it is now a lot harder for MFIs to access funding from shareholders, bank and investors. This was indicated to be the case by 65.96% of the respondents while 14.89% noted that it is no different from the period before the lockdown. The following were the cited as reasons related to why it this has changed:

1. Inflation and currency deprecation is eroding the little working capital on the balance sheets of MFIs, leading to a wait and see attitude among investors to inject new money into the businesses.

2. The risk factor of the business, especially on portfolio quality has increased to a point where investors are now less optimistic of prospects of profitability hence being very prudent and cautious with the microfinance business.

3. Banks were reported to be very slow in approval of credit facilities to MFIs, if any.

4. Central Bank being slow to granting of perpetual license. To date less that 10 out of 209 MFIs have been granted perpetual licenses in line with new Microfinance Amendment Act.

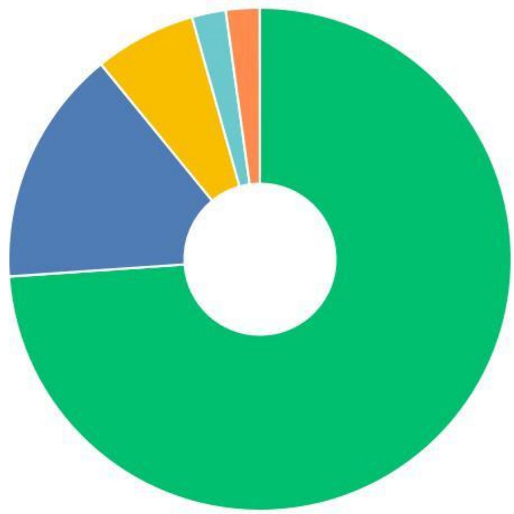
5. The operating environment is now unpredictable under the corona virus situation with unknown predictions as to when the world shall overcome this pandemic with readily available drugs and vaccines accessible to citizens of every country.

6. Majority of MFIs lack of collateral to secure loans from banks

7. Shareholder citing negative returns from the business due to inflation hence some have lost investment appetite for the industry.

5.5 Future Profitability and Sustainability of the Microfinance Sector

7. To what extent do you agree or disagree with this statement: I am worried about the future profitability and sustainability of the microfinance sector in Zimbabwe?



Answered: 46 Skipped: 1

Strongly agree	73.91%	34
Agree	15.22%	7
Neither agree nor disagree	6.52%	3
Disagree	2.17%	1
Strongly disagree	2.17%	1

Comments: The survey noted that 73.91% of the respondents are strongly worried about the future profitability and sustainability of the microfinance sector. Only 4.28% are still optimistic about the sector. This is a very worrying outcome, bearing in mind that prior to the corona virus outbreak, microfinance had been recognized by government to be one of the key pillars in the financial inclusion agenda and strategy for the country.

The following are some of the key strategies that MFIs are currently thinking about putting in place to reduce and mitigate the impact of corona virus situation on their operations

1. Adopting digitalization of operation especially in accepting online loan applications to avoid human contact with clients
2. Strict (er) assessment of clients before loan approval
3. Closure of branches to cut on cost as well as retrench some of the staff
4. Introducing working shifts to reduce number of staff in offices
5. Reducing loan tenure to manage repayment risk
6. Reducing lending and only focus on disbursement to repeat clients
7. Suspending penalty on loans in the loan management system so as to assist clients

5.7 Training Capacity Needs [TNA] for MFIs under new 'normal' environment

The conduct of the survey included also an identification of the new courses that could be relevant in the new "normal" environment for MFIs operations. The respondents indicated the following course, not necessarily in the order of importance:

1. Digital marketing
2. Information technology
3. Risk management and loan recovery process
4. Change management

5. Self Health care
6. Management of agent distribution network
7. Delinquency management during crisis periods
8. Online business

5.0 Conclusion and Recommendations

It is undoubted that the survey revealed evidence based findings on the overall impact of the corona virus situation and the accompanied lockdown rules that were then put in place by the governing authorities in a bid to contain the pandemic which at the time of writing this report [21 July 2020], the country had recorded 2 034 infections countrywide and 28 lives lost.

Despite the short notice period for the gathering of the responses, interesting findings and observations were made leading to the following proposed recommendations for consideration by different stakeholders groups in the next 6 -12 months period:

Microfinance Institutions: It was quite evident from the survey findings that the old model of brick and mortar in terms of branch network is no more relevant and worth investing in for the majority of MFIs especially those still keen to remain viable and profitable in the lending business. The only lucrative and viable option is to embrace digital services platforms associated with costs reduction, limited human to human interaction, efficiency in service delivery and high productivity. Establishment of agent networking systems especially for rural population could be a game changer for some MFIs willing to support developmental lending among them small holder farmers. The Covid-pandemic situation is most likely to be with us for a very long period of time until a real breakthrough in vaccines and drugs for its treatment is found. Therefore the protection of health for frontline staff at workplace involved largely in collection of outstanding loans, including senior management tasked with strategic leadership of the company shall remain a top priority. Portfolio quality is likely to remain a challenge and as such MFIs should be willing to be flexible in rescheduling existing loans while at the same time structuring new loan agreements in a manner that helps clients to easily repay their loans.

Microfinance Association: Now is the time for cooperation among players in the industry through membership to the microfinance association which in turn should be able to coordinate efforts of lobbying and advocacy for issues of common interest and aspirations for the whole sector. A clear example that was made evident by the survey is issue around funding of the sector. There is need, going forward for new and innovative ways outside of traditional finance structures to be explored with urgency and vitality. A direct link of the association with private equity investors could be one among many available options to be pursued by the association. The association could expand its services to include investors matching services on behalf of the MFIs. The option of seeking funding from either central bank or government through budgetary allocations should not be regarded as ‘the alpha and omega’ of the MFIs only finding avenue, hence the association and its members is now more that ever challenged to seek alternative private sector funding options.

Regulator: Continuous engagement with the central bank in areas of mutual interest and benefit for both parties should be kept at top priority level and cultivated especially in key areas of swift granting of perpetual licenses within a reasonable time period after submission of all registration papers.

Government: It was once again evident from the survey that macroeconomic instability especially at it relates to high inflation and volatile exchange rate has contributed negatively to massive reduction of MFIs values of equity and profitability. The onus and tasks remains then on the shoulders of government to fully restore stability on economic indicators. This can only be done through using its full weight of wisdom and leadership in coming up with credible policies and practical measures that have capacity to produce well intended and good positive outcomes on the sector and economy at large.

Development Partners

One critical area that partners can play is an active role especially those from the European Union is to strategically link the sector with private investors in their respective countries. ZAMFI as the apex body for microfinance institutions is prepared to be the link to such efforts. Covid-19 pandemic in our view requires financial relief in the form of both grants and loans hence such support from our European partners is very much welcome, anticipated and awaited. ZAMFI is of the belief that the Central Bank has put enough supervisory issues in place for Zimbabwe to become a good destination for microfinance investment.

Coordinated approach

The report exposes some weaknesses/deficiencies which have been known for some time and might need some resolution viz:

Membership

This has been mentioned for some time and should be expedited. The National Microfinance Policy statement puts in place relationship and obligations of an apex body. Whilst the response rate of this survey at 30,9% is still representative, a higher figure could have been attained if all practitioners felt mandated to be guided at times by the Association.

An Association is not an authority and at times it needs delegated authority and endorsement in doing certain duties especially in times of calamities and pandemics where turf identification and protection becomes irrelevant. Role duplication should be identified and eradicated. All MFIs should become a member of an association for ease of communication and deployment. The results of non-coordination are not pleasant to imagine.

Critical importance of the sector

Although this can be dialogued at other fora, the sector is perplexed that whilst the sector was very sure that funding bailout was necessary, there was no direct allocation or response to May Day distress signals. Athletes, footballers, singers, informal sectors, tourism were identified as key sectors and got bailed out. The MFI sector is yet to be remembered. Political pursuit on an empty stomach at times is the beginning of suicide.

6.0 Appendix : Survey Questionnaire

ZAMFI mini survey on the impact of the pandemic on the microfinance sector

Dear member

This questionnaire is being distributed for the purposes of gathering data relating to the impact of Covid-19 and lockdown rules on the operation of microfinance institutions in Zimbabwe. The data gathered will be analyzed and its findings shared with stakeholders in the microfinance sector including an attempt to suggest/give recommendations for possible solutions to challenges being faced by microfinance institutions. The research is being carried out by ZAMFI as the umbrella body representing the majority of MFIs in the country. Kindly answer the questions in the spaces provided as objectively and as openly as you can.

Should you be interested in adding further comments, please feel free to do so. Your responses will be treated with the strictest confidence that it deserves. You are not obliged to disclose your name or write it anywhere on this questionnaire. Your cooperation in completing this questionnaire is greatly appreciated.

Q1.0

What has been the severity of the lockdown on your institution	Extreme	Severe	Manageable	Not severe	Can't quantify
Tick column					

Q2.0 What are the top 5 concerns that have impacted you due to the coronavirus lockdown?

A.………………………………………………………………………………………

B.………………………………………………………………………………………

C.………………………………………………………………………………………

D.………………………………………………………………………………………

E.………………………………………………………………………………………

Q3.0

So far, overall, has the portfolio quality of your MFI changed since the coronavirus [lockdown]	Got much worse	Got a little worse	Stayed the same	Improved a little	Improved a lot
Tick column					

Kindly elaborate

1………………………………………………………………………………………….
.
2…………………………………………………………………………………….

3………………………………………………………………………………………

4……………………………………………………………………………………….

Q4.0

Are you currently able to access funding? i.e., getting it from shareholders, banks, development partners etc	No different from before lockdown	A lot harder now	Slightly harder	A little easier	A lot easier
Tick column					

Could you explain why this has changed?

……………………………………………………………………………………………

……………………………………………………………………………………………

…………………………………………………………………………………………

……………………………………………………………………………………………

…………………………………………………………………………………………

Q5.0

To what extent do you agree or disagree with this statement: I am worried about the future profitability and sustainability of the microfinance sector in Zimbabwe?	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Tick column					

Q6.0 As a way to cope with the corona virus situation, what key strategies have you put in place to reduce and mitigate its impact on your MFI operations

………………………………………………………………………………………………

………………………………………………………………………………………………

……………………………………………………………………………………………

………………………………………………………………………………………………

Q7.0 Indicate 3 main courses related to improvement in human capital that you think your staff may need to be trained in line with the new 'normal' environment

1………………………………………………………………………………

2……………………………………………………………………………….

3………………………………………………………………………………

Q8. To what extent (current and future) will the pandemic likely re configure your urban rural offerings

1...

....

2.
....

....

THE END –THANK YOU