



Zimbabwe Association of Microfinance Institutions
"creating sustainable microfinance"

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 30 June 2019

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE FINANCIAL INDICATORS PERFORMANCE HIGHLIGHTS

Below is a dashboard summary of selected key indicators of financial performance as at 31 March 2019 and 30 June 2019.

Table 1.0: Financial Indicators

Financial Indicator	March 2019	June 2019	International Benchmarks	*Level of Performance
Portfolio Quality				
PAR> 30 days	11.01%	14.58%	5%	Weak
Risk Coverage Ratio	56.97%	33.25%	80% -100%	Weak
Efficiency				
Efficiency ratio	32%	12%	20%	Strong
Financial Management				
Loan Portfolio/Assets	90%	80%	80%	Acceptable
Debt/Equity(Leverage)	1.8	4.0	3.2	Acceptable
Cost of Funds	3.0%	2.9%	n/a	Acceptable
Profitability				
Portfolio Yield	14.0%	19.9%	20%-30%	Acceptable
OSS	117.0%	114.7%	100%	Acceptable
Return on Asset	1.8 %	1.9 %	1%-2%	Acceptable
Return on Equity	6.2%	10.4%	5%-7%	Strong

*Level of performance is rated: *Strong, Acceptable, Weak*

CREDIT ONLY MICROFINANCE SECTOR MARKET SHARE ANALYSIS

The credit only microfinance sector total loan book significantly increased from \$250.1 million as at 31 March 2019 to \$316.3 million as at 30 June 2019, constituting an increase by \$66.2 million [26.4%]. The previous quarterly increase [January to March period] was \$18.5 million, indicating that the sector is increasing its lending. As indicated below the sector that received most of the funds from MFIs is agriculture [35%] and the productive sector [29%] representing a total of 64% of the loan book.

Table 2.0: Distribution of Loans by Sectors

Economic Sector	% of Lending
Agriculture Loans	35%
Productive/Business Loans	29%
Consumption Loans	24%
Other Loans	12%

This is a significant shift of the microfinance business away from the traditional consumption loans, generally regarded as less productive and inflationary. The support of the productive sectors of the economy by the MFIs resonates very well with current government efforts to increase the production of goods and services.

Below is the market share analysis for the sector as at 30 June 2019, indicating the largest MFI with total loan book of \$162.6 representing 51.2% of the market share.

Table 3.0: Market Share Rankings

MFI Ranking June 2019	Value of Loan Book (\$)	MFI Ranking March 2019	Value of Loan Book (\$)
1	\$162.6 m	1	\$74.6 m
2	\$44.3 m	2	\$47.9 m
3	\$31.2m	3	\$27.5m
4	\$16.2 m	4	\$12.9 m
5	\$9.6 m	5	\$8.5 m
6	\$6.7 m	6	\$6.9 m
7	\$5.9m	7	\$5.3 m
8	\$5.2 m	8	\$5.2 m
9	\$3.5 m	9	\$2.9 m
10	\$3.4 m	10	\$2.9 m
11	\$2.7 m	11	\$2.8 m
12	\$2.6 m	12	\$2.6 m
13	\$2.1 m	13	\$2.5 m
14	\$1.8m	14	\$2.4 m
15	\$1.7 m	15	\$2.0 m
16	\$1.6 m	16	\$2.0 m
17	\$1.5 m	17	\$2.0 m
18	\$1.0 m	18	\$1.7 m
19	\$0.9 m	19	\$1.5 m
20	\$0.7 m	20	\$1.2 m

PORTFOLIO QUALITY

Below are the summary indicators of the portfolio ratios, including provision expense ratio and write off ratio:

Table 4.0: Portfolio Quality Ratios

Ratio Indicator	March 2019	June 2019	Benchmark
Portfolio at Risk > 30 days	11.01%	14.58%	5%
Risk Coverage Ratio	56.97%	33.25%	80% -100%
Provision Expense Ratio	1.88%	1.74%	2%
Write Off Ratio	0.24%	0.26%	1%

Portfolio at Risk.....

The level and amount of the loan portfolio of the microfinance industry is regarded as the main source of both revenue and risk. The tracking of its performance is therefore of paramount interest and importance to all stakeholders. As at 30 June 2019, the loan portfolio for the credit-only microfinance sector amounted to \$315.84 million while the total for non-performing loans (value of loans in arrears by more than 30 days) was \$46.05 million. This constitutes 14.58% the total loan portfolio and as such represents a deterioration of the quality of the loan portfolio compared with 11.01% reported in March 2019. The international benchmark of PAR ratio is 5% .

The main reason for the high delinquency level is the adverse external macroeconomic environment characterized by high inflation and sudden deterioration in income levels of the majority of clients for the MFIs. Major policy changes such as introduction of the new currency [Zimbabwe Dollar], interbank market for foreign currency trading, slow adjustment of workers' salaries by many employers has left many clients highly exposed to over indebtedness.

The only alternative solution is a significant increase in wages and salaries by both the public and private sector. This will go a long way to restore living standards, create customer demand and give clients the capacity to repay their outstanding debts. It is a well known economic fact that when prices were justifiably adjusted upwards by the new exchange rate factor, after introduction of interbank market, the wages and salaries were not evenly adjusted upwards hence the clarion call for a upward review of wages and salaries by labor unions in the country. If this review is not done expeditiously by both the public and private sector, the economy may risk sliding into an economic recession characterized by low aggregate demand to purchase goods and services in the market. The latest midterm budget has already projected a negative GDP growth of up to -2% in 2019 while the global economic growth for 2019 is projected to slow down to 3.2%, a decline from initial projection of 3.5%. This is due to current trade wars between US and China, Brexit uncertainty, negative effects of climate change and low investment confidence across all countries in the world.

A shift by all governments in the world, including Zimbabwe from austerity measures to stimulus packages meant to increase aggregate demand for goods

and services may remain the only alternative option and solution under the current economic crisis.

Risk Coverage Ratio.....

As is largely expected and predicted in a normal economy, when PAR ratio deteriorates, MFIs are expected to increase their level of loan losses reserves so as to fully protect their capital against erosion from non-performing loans. As at 30 June 2019, the level of loan losses reserve for the sector amounted to \$15.35 million against non-performing loans of \$46.05 million leading to a risk coverage ratio of 33.25%. This compares unfavorably with the previous quarterly ratio of 56.97% and is well below the international benchmark of 80% - 100% for the risk coverage ratio. Reaching a minimum level of 80% risk coverage ratio requires an extra provisioning of +/- \$26.84 million for the sector.

The current low level of loan losses reserve is therefore a cause of concern and alarm to all industry players in the microfinance sector. Going forward, ZAMFI would like to urge its members to review their loan portfolios and set aside enough provisions to guard against unexpected losses from non-performing loans.

EFFICIENCY AND PRODUCTIVITY

The efficiency ratio is the best indicator of the overall efficiency of the industry. The industry reported an efficiency ratio of 12% [cost \$12 to lend \$100] compared with 32% for the previous quarter. This was largely fueled by the significant

increase in loan portfolio during the period, slow adjustment of costs related to wages and salaries and adoption of technology to reduce operational cost & risk. The average loan size which represent the arithmetic mean of the total loans granted during the period amounted to \$1511.00, up from \$1096.00 reported in March 2019. The rapid increase is due to inflation which was last reported as 35% for the month to month inflation in June 2019.

FINANCIAL MANAGEMENT

Below are the key financial management ratios for the sector as at 30 June 2019:

Table 6.0: Financial Management Ratios

Indicator	March 2019	June 2019	Benchmark
Loan Portfolio/Assets	90%	80%	80%
Debt/Equity(Leverage)	1.8	4.0	3.2
Funding Expense Ratio	1.9%	3.0 %	n/a
Cost of Funds	3.0%	2.9%	n/a

The sector is allocating most its assets to the profitable loan portfolio as reflected by the portfolio to asset ratio of 80% which however is a decrease from 90% reported in March 2019. As indicated by the leverage ratio of 4.0, the funding of the loan portfolio is being sourced largely from debt capital which significantly increased during quarter, from \$136.3 million as at March 2019 to \$278.2 million

as at 30 June 2019. While the cost of these funds has remained flat, at 3%, there is potential for funding risks in the near future if interest rates in the market are to be adjusted upwards in line with inflation.

PROFITABILITY AND SUSTAINABILITY

As indicated below, the sector is evidently showing signs of remaining profitable and sustainable on a quarter-to- quarter comparison:

Table 7.0: Profitability Ratios

Indicator	March 2019	June 2019	Benchmark
Total Revenue	\$30.2m	\$53.7m	n/a
Total Cost	\$25.7m	\$46.8m	n/a
Net Profit before tax	\$4.5 m	\$6.9m	n/a
Portfolio Yield	14.0%	19.9%	20%-30%
Operational Self Sufficient	117.0%	114.7%	100%
Return on Asset	1.8 %	1.9 %	1%-2%
Return on Equity	6.2%	10.4%	5%-7%

The sector reported total income for 6 months amounting to \$53.7 million and a portfolio to yield ratio of 19.9%, up from 14% reported in March 2019. This represents the amount the sector has received from clients in terms of interest and fees. The benchmark for portfolio to yield is generally 20-30%. Net profit increased from \$4.5 million in March 2019 to \$6.9 million in June 2019 leading to return to equity of 10.4% for the shareholders. This is well above the benchmark of 5%-7% expected for the industry.

Overall, the level of sustainability as reflected by the Operational self sufficiency ratio of 114.7 % had remained stable, indicating that the sector is able to cover its expenses from operating revenues.

REPORTING ON SOCIAL PERFORMANCE INDICATORS

Table 8.0: Social Indicators

Performance Indicator	March 2019	June 2019	Quarterly Comparison
Social Performance Indicators			
Consumption Loans {%	31%	24%	Decreased
Productive/Business Loans {%	39%	29%	Decreased
Agriculture Loans {%	13%	35%	Increased
Other Loans	17%	12%	Decreased
Group Lending {%	1%	3%	Increased
Individual Lending {%	99%	97%	Decreased
Female Clients { % }	43%	45%	Increased
Male Clients { % }	57%	55%	Decreased
Urban Clients {%	84%	81%	Decreased
Rural Clients {%	16%	19%	Increased
Urban Branches {%	66%	68%	Increased
Rural Branches {%	34%	32%	Decreased
Female Mgt{%	36%	40%	Increased
Male Mgt{%	64%	60%	Decreased
Female Staff {%	43%	43%	Unchanged
Male staff {%	57%	57%	Unchanged

Social Performance Analysis

Loans to Agriculture Sector Vs Poverty Alleviation

Alleviating poverty through microfinance is the social mission of the microfinance sector in Zimbabwe. As at 30 June 2019, microfinance loan portfolio was made up of 35% for agriculture sector, a significant increase from 13% reported in March 2019. According to an insightful observation made by the respectable former UN Secretary General, Koffin Annan, agriculture is the only sector among a few in Africa that holds the key to defeating poverty in Africa. Many research scholars have noted that growth in agriculture is 11 times more effective in reducing poverty than growth in any other sector. Zimbabwe being an agro-based country has 80% of the population depending on agriculture for a livelihood and the majority of the farmers are women. In addition agriculture is the major employer of the country's labor force, accounting for 65% of the rural population while manufacturing sector derives most of its inputs from agriculture. It therefore makes economic sense to see the microfinance sector increasing its footprint in the sector in line with its noble objective - ***eradicating poverty through microfinance***. This is a commendable effort by the MFIs in the country at a time government has pinned the growth of the economy [GDP] on revival of the agriculture sector in addition to mining and tourism.