Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 December 2019

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE FINANCIAL INDICATORS PERFORMANCE HIGHLIGHTS

Below is a dashboard summary of selected key indicators of financial performance for the past three quarters [June/September/December 2019].

Table 1.0: Financial Indicators

Financial Indicator	**June 2019**	**September 2019**	**December 2019**	**International Benchmarks**	***Level of Performance**
Portfolio Quality					
PAR> 30 days	14.58%	13.61%	13.38%	**5%**	**Weak but stable**
Risk Coverage Ratio	33.25%	25.63%	25.59%	**80% -100%**	**Weak**
Efficiency					
Efficiency ratio	12%	19%	29%	**20%**	
Financial Management					
Loan Portfolio/Assets	80%	74%	75%	**80%**	**Acceptable**
Debt/Equity(Leverage)	4.0	4.0	3.7	**3.2**	**Acceptable**
Cost of Funds	2.9%	1.1%	5.4%	**n/a**	**Acceptable**
Profitability					
Portfolio Yield	19.9%	27.2%	37.5%	**20%-30%**	**Strong**
OSS	114.7%	117.8%	118.8%	**100%**	**Acceptable**
Return on Asset	1.9 %	2.5%	2.9%	**1%-2%**	**Strong**
Return on Equity	10.4%	14.2%	15.4%	**5%-7%**	**Strong**

CREDIT OUTREACH AND MARKET SHARE

Breadth of Outreach

The breadth of outreach which refers to the number of people served by the credit only microfinance institutions indicates a total of 197 343 clients as at 31 December 2019 compared with 198 456 the previous year, an indication of a very slow (0.56%) growth of the sector. Globally according to a report by Microfinance Barometer in 2018, it is estimated that nearly 140 million borrowers worldwide are receiving funding from microfinance institution. The global microfinance market is reported to be achieving a 9 % annual growth rate, which is significantly higher compared to other industries such as mining and agriculture.

The downside risk weighing heavily against a significant increase in more people being served by microfinance sector are high inflation and unstable exchange currently prevailing in the country. These twin challenges have created an environment of uncertainty among individuals and companies leading to low capital investment across all sectors of the economy including microfinance. The current policy efforts by the monetary authorities to reduced volatility and wild swings in the exchange rate and inflation are at best expected to bear fruit in the next 12-18 months.

Credit Only Microfinance Loan Book Growth

The growth of the credit only microfinance sector in terms of total loan book indicates a sluggish growth trend during the past three quarters since introduction of the interbank foreign exchange market on 22 February 2019. As at 31 December 2019, the total loan book amounted to $379.3 million, a marginal increase by $27.1 million, compared with $35.9 million and $66.2million for the respective quarters of March –June and June - September 2019.

Table 2.0: Loan Outreach

	March.19	June.19	Sep.19	Dec.19
Total Loan Book	ZW$225.8m	ZW$316.3m	ZW$352.2m	ZW$379.3m
Quarterly increase	n/a	ZW$66.2m	ZW$35.9m	ZW$27.1m

This worrying trend is in spite of the significant reduction in overnight rate from 70% to 35% by the Reserve Bank of Zimbabwe Monetary Policy Committee [MPC], which was meant to stimulate lending by financial institutions including microfinance. However on the positive side, it has helped to stabilize credit risk which tends to increase in an environment of high overnight lending rates. Going forward, it is projected that the loan book of many MFIs is set to increase in the light of new minimum capital levels announced by the monetary authorities of USD$25 000.00 for credit only MFIs effective 31 December 2020. This minimum capital translates to ZW$400 000.00 at the current interbank rate of USD$: ZW18.00 as at 20 February 2019.

Market Share Analysis

Below are the current loan book levels of the top 20 large credit only MFIs as at 31 December 2019 and their respective capital levels:

Table 3.0: Market Share Rankings

MFI RANK Dec 2019	Total Loan Book	Value of Equity Capital[including retained earnings] ($)
1	**$195.0 m**	**$16.9 m**
2	**$42.8 m**	**$10.9 m**
3	**$37.5 m**	**$10.9 m**
4	**$20.7 m**	**$2.5 m**
5	**$11.8 m**	**$0.9m**
6	$9.3 m	$6.0 m
7	$7.0m	$6.1m
8	$6.7 m	$3.1 m
9	$5.7 m	$1.9 m
10	$4.2 m	$2.4 m
11	$4.0 m	$8.8m
12	$3.4 m	$1.7m
13	$2.7m	$1.3m
14	$2.4m	$0.6m
15	$2.0m	$0.5m
16	$1.7 m	$1.6 m
17	$1.0 m	$3.1 m
18	$1.0 m	$1.1 m
19	$0.9m	$1.0 m
20	$0.8m	$0.5m

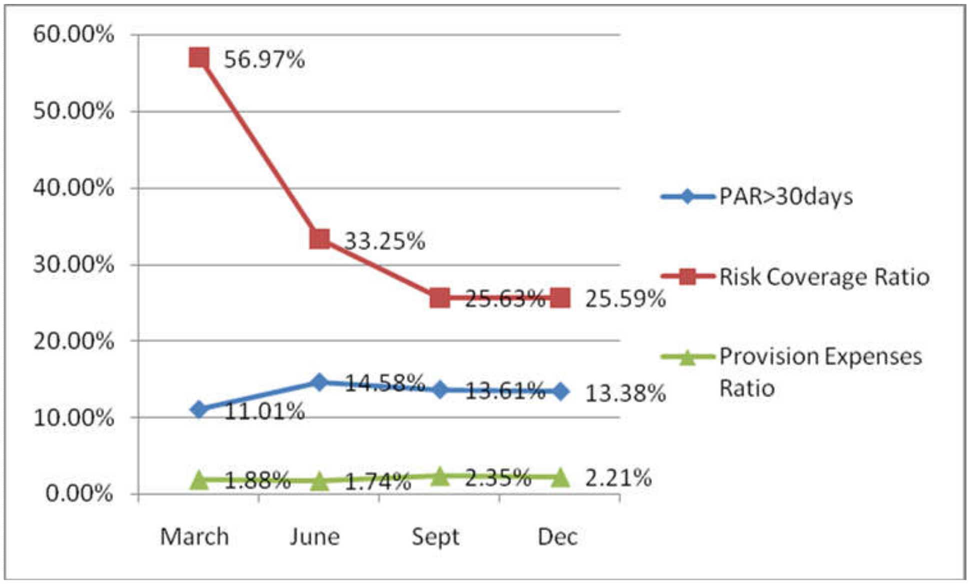
PORTFOLIO QUALITY

Portfolio quality as shown in Figure 1.0, has remained stable for the past three quarters as reflected by the portfolio at risk (PAR) (>30) of 13.38% as at 31 December 2019 against 13.61% and 14.58% in September and June 2019 respectively. The stability was largely attributed to proactive risk management approaches being adopted by most MFIs such as short loan terms and frequent repayments periods which are necessary in the current environment of inflationary pressures and declining disposable incomes.

However of notable concern is the risk coverage ratio which has remained very low for the past three quarters, an indication of inadequate provisions for bad debts being set aside by the MFI players. It was reported as 33.25% in March 2019 and respectively as 25.63% in June and 25.59% in December 2019. The international benchmark for the ratio is 80% -100% hence our current sector ratios are well below the standard level.

In a bid to ensure that adequate provisions are calculated by the respective MFIs, a Loan Monitoring, Classification and Provisioning Course has since been scheduled for the quarter on 17 March 2020, both for the Harare and Bulawayo MFIs.

Figure 1.0: Portfolio Quality



FINANCIAL MANAGEMENT

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

Table 4.0: Financial Management Ratios

Indicator	March 2019	June 2019	Sept 2019	Dec 2019
Loan Portfolio/Assets	90%	80%	74%	**75%**
Debt/Equity(Leverage)	1.8	4.0	4.0	**3.7**

The sector is depending heavily on debt financing to continue its lending expansion. This in the short to medium term period does not present any significant financial risk as the general expectations in the market is that lending rates shall continue to fall in line with the objectives of the monetary authorities to stimulate aggregate demand and output in the economy. Going forward, the MFIs that shall remain well-managed at corporate level and profitable shall continue to have greater access to debt financing and be able to extend their services to more clients and borrowers.

PROFITABILITY AND SUSTAINABILITY

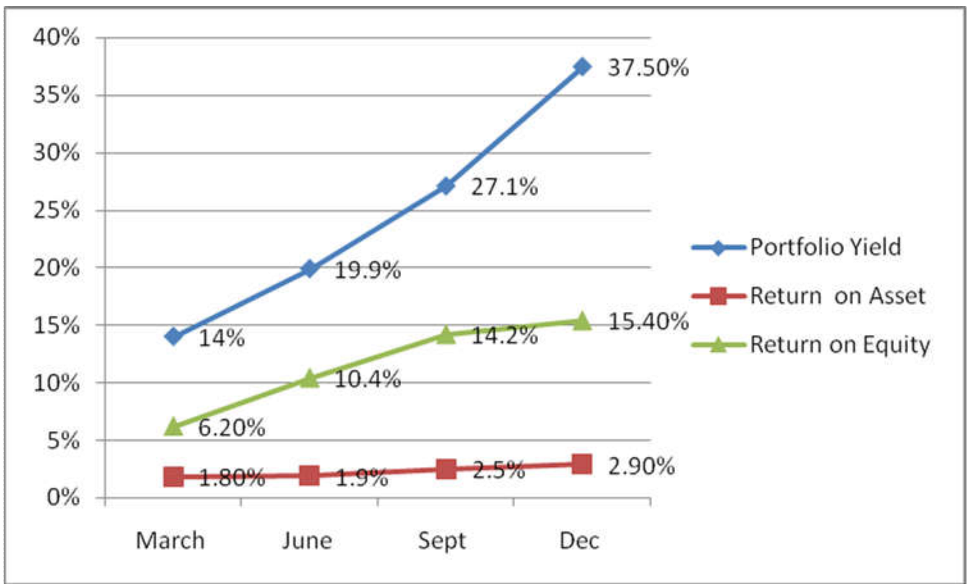
Table 5.0 shows profitability and sustainability indicators for the four quarters during the year 2019:

Table5.0: Profitability Ratios

Indicator	**March 2019**	**June 2019**	**Sept 2019**	**Dec 2019**
Total Revenue	\$30.2m	\$53.7m	\$78.2m	**\$137.2m**
Total Cost	\$25.7m	\$46.8m	\$66.3m	**\$115.4m**
Net Profit before tax	**\$4.5 m**	**\$6.9m**	**\$11.9m**	**\$21.8m**
Portfolio Yield	14.0%	19.9%	**27.1%**	**37.5%**
Operational Self Sufficiency	**117.0%**	**114.7%**	**117.8%**	**118.8%**
Return on Asset	1.8 %	1.9 %	**2.5%**	**2.9%**
Return on Equity	**6.2%**	**10.4%**	**14.2%**	**15.4%**

The credit only sector reported profits of $21.8 million for the year ending 31 December 2019 and achieved an operational self sufficiency ratio of 118.8 % and portfolio yield of 37.5%. Positive returns on assets and equity have been recorded, with an impressive achievement of 15.4% on return on equity. This is a clear indicator of the good prospects for profitability being enjoyed by shareholders that have invested in the sector. Below is the trend analysis report for the profitability ratios:

Figure 2.0: Profitability Ratios



It should be noted that the above trend shall only be maintained in 2020 if a stable macroeconomic environment, in particular with respect to exchange rate stability and inflation is fully maintained and guaranteed by the government and monetary authorities. If the country is to experience a financial crisis in 2020, akin to the 2006-8 period, the sector then may not have the capacity to weather the storms of reduced aggregate demand, loss of investments confidence both by local and international investors and reduced purchasing power of household incomes and wages.

LEGAL DEVELOMENTS IN THE MICROFINANCE SECTOR

The Microfinance Amendment Act of 2019 was enacted into law in November 2019 and as such the Act is now fully recognized as the law governing the operations of microfinance business. The following are some of its salient and new legal provisions:

Perpetual License: The period of registration for all microfinance institutions is now perpetual, subject to cancellation in terms of the provisions of the Act. There is no longer a requirement for renewal of licenses.

Shareholding Limits: In line with section 34(1) of the Act, no person shall hold more than 25% in shares in a microfinance institution. Representations for more lenient provisions have been forwarded to the regulator following 2 meetings in Harare and Bulawayo on unpacking the Act amendments.

Principal Officers: The microfinance cannot appoint a principal officer who holds more than 5% shareholding without the Registrar's prior approval in line with section 31(2).

Auditor : In line with provision of the section 40 to 44 of the Banking Act, which now apply to microfinance institutions, there is need to appoint an auditor who is ultimately approved the Registrar.

Corporate Governance: The Microfinance Amendment Act has enhanced corporate governance requirements for microfinance institutions, including clearly defined roles and responsibilities for the board members.