Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

QUARTERLY PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 30 June 2017

ZAMFI CREDIT ONLY MFI MEMBERS

PERFORMANCE HIGHLIGHTS: A SNAPSHOT

The half yearly performance of the sector has recorded significant gains with respect to outreach and portfolio quality when compared to the same period last year while operational sustainability is still a cause for concern though stable and within manageable levels. Below is a snapshot performance of the sector in terms of key ratios:

Table 1.0: Key Highlights

Performance Indicator	30 June 2016	31 March 2017	30 June 2017	Movement
Outreach				
Total loan portfolio	**$72.1 million**	$96.2 million	**$99.4million**	**Improved**
Total loans disbursed	**$35.2 million**	$44.2 million	**$45.8million**	**Improved**
Profitability				
Net Profit	**$7.9 million**	$5.5 million	**$8.8 million**	**Improved**
Operational Self Sufficiency	**143.8%**	137.7%	**139.3%**	**Deteriorated but stable**
Cost to Income ratio	**69.5%**	72.6%	**71.7%**	**Deteriorated but stable**
Portfolio Quality				
Portfolio At Risk	**16.3%**	9.5%	**8.2%**	**Commendable Improvement**

MICROFINANCE OUTREACH AND MARKET COMPETITIVE ANALYSIS

Outreach

The microfinance sector, especially as it relates to outreach, for the quarter-to-quarter comparison may now be feeling the negative effects of the harsh economic environment, as evidenced by the subdued outreach indicators for the quarter ending 30 June 2017. The credit -only MFIs' total loans outstanding at the end of 2nd quarter only increased by 3.3% to $99.4 million from $96.2million reported as at 31 March 2017.Total disbursed loans for the quarter amounted to $45.8 million, a slight increase of $1.6m (3.6%) from March 2017 figures.

Table 1.0: Loan Outreach

MFIs Loans	June 2016	Sept 2016	Dec 2016	Mar 2017	June 2017	Quarterly Increase
Quarterly loan disbursements	$35.2m	$44.6m	$51.3m	$44.2m	$45.8 m	**$1.6m (3.6%)**
Value of loans outstanding	$72.1m	$88.0m	$83.3m	$96.2m	$99.4m	**$3.2m (3.3%)**

In terms of total number of clients receiving financial services from MFIs affiliated to ZAMFI, the latest reported figures are 169 113, up from 161 089. This represents an increase by 8 024 clients which is a 4.9% increase.

Table2.0 : Active Clients- ZAMFI Members

ZAMFI Members- Active Clients as at 31 March 2017	ZAMFI Members - Active Clients as at 30 June 2017	Quartely Increase
161 089	169 113	**8024(4.9%)**

Given the above background, microfinance institutions may need to adjust and respond to the current trends by areas of cooperation and collaboration with new players such as banks which are now offering similar microfinance services.

The existing MFIs may need to adapt to the changing trends in the market by adopting robust ICTs system so as to compete at the same level with emerging players in the financial inclusion space such as banks and mobile operators. In addition, where an opportunity arises for mergers and acquisitions by other players, this should be naturally accepted, especially when the newly created entity will be able to do more with a huge capital base and a new leadership and governance structure with capacity to drive the financial inclusion agenda of the company.

MFI Competitive Value Analysis

The comparative advantage for individual MFIs appears to be shifting away from pricing of MFIs lending products (since the capping of interest rates) to product quality and customer service as indicated in figure 1 with a ***Value Option Triangle.***

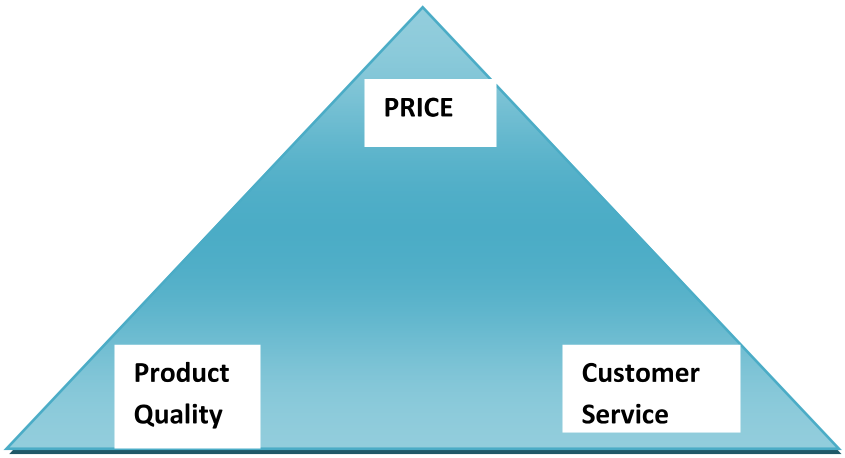

Figure 1.0 Value Option Triangle

Each respective MFI may need to differentiate itself from its competitor by making a trade off and strike a balance on the best price, the highest quality and the best service.

TOP 20 Outreach *Analyses*

The 20 largest MFIs among ZAMFI members are as indicated in table 3.0 below as at 30 June 2017:

Table 3.0: Top 20 MFIs by outreach as at 30 June 2017

MFI RANK	Value of Loan Book	*Market Share
1	$25.9m	26.1%
2	$19.9m	20.0%
3	$12.4m	12.4%
4	$5.6 m	5.6%
5	$4.0m	4.0%
6	$3.8m	3.8%
7	$3.7m	3.7%
8	$3.2m	3.2%
9	$2.9m	2.9%
10	$2.9m	2.9%
11	$1.8m	1.8%
12	$1.8m	1.8%
13	$1.7m	1.7%
14	$1.4m	1.4%
15	$0.9m	0.9%
16	$0.8m	0.8%
17	$0.8m	0.8%
18	$0.6m	0.6%
19	$0.5m	0.5%
20	$0.5m	0.5%

***NB In the absence of RBZ figures for all loans of MFIs including deposit taking, the market shares % have been worked out using only total loans for Credit-Only MFIs which amounted to $99.4 million as at 30 June 2017.**

PROFITABILITY AND FINANCIAL SUSTAINABILITY

In the period under review, the sector recorded a net profit of $8.8 million for the half year ended June 30 2017 compared with $ 7.9 million reported in June 2016. This represents a marginal increase in profits by $900 000.00. This development is a reflection of reduced interest margins in spite of the increased lending business, even by the 20 largest microfinance institutions. As a block their outstanding loans amounted to $95.1 million as at June 2017, compared with $67.8 million during the same period last year.

In addition, other causes related to subdued financial performance may be stiff competition now in the microfinance sector. Downscaling by commercial banks is increasing in the sector focusing largely on payroll and SME lending. However, rural areas are still underserved and competition remains limited.

Institutional inefficiency (indicated by high operating costs, high administrative and personnel expenses) is still a cause of concern as reflected by the deterioration in Operational Self-Sufficiency (OSS) from 143.8% as at 30 June 2016 to 139.3%, June 2017. The international benchmark is 120% for OSS.

PORTFOLIO QUALITY

The microfinance sector's assets quality, measured in terms of Portfolio at risk (PAR >30days) has been improving since June 2016, where it was 16.3% and reaching 8.2% as at June 2017. A lot of effort has been put by practitioners to reduce this ratio to this level and this is commendable.

Table 4.0: PAR > 30days

Indicator	June 2016	Sept 2016	Dec 2016	March 2017	June 2017
PAR >30 DAYS	**16.3 %**	13.3%	10.3%	9.5%	**8.2%**

The above trend is a positive development which is being achieved on the back of measures such as strengthening of credit granting, debt recovery and debt management strategies. Figure 2.0 is illustrative of a number of delinquency management strategies being implemented by many MFIs in reducing portfolio at risk:

Microfinance Delinquency Management Strategies

1. Zero tolerance on arrears and immediate follows up on all late payments
2. Awarding staff incentives related to collections of loans
3. Awarding clients incentives to those in good repayment standing e.g. lower interests rates & faster loan approval
4. Enforcement of delinquency penalties for late payments
5. Loan rescheduling for borrowers willing to pay but unable to repay
6. Granting of loans only to small business who have been in business for more than 6 months
7. Giving training prior to granting of a loan

Figure 2.0 : Delinquency management strategies

CORRECTIVE MEASURES TO IMPROVE PERFORMANCE

Based on the performance analysis as outlined above, ZAMFI has been able to draw a picture of the microfinance sector that highlights the current virtues and shortcomings being experienced by the microfinance institutions. The following, neither exhaustive nor prescriptive are a few of the suggested possible corrective measures intended to improve the microfinance sector as a whole.

Portfolio Quality

One of the main challenges currently being faced by most MFIs is still portfolio quality which is below the international benchmark of 5% for PAR>30 days

Recommendation 1*: MFI facing high PAR ratios are urged to do more in investigating the specific reasons behind the bad portfolio performance at an early stage before the crisis escalates to impact badly on profitability and available capital funds. First line of defence should always be the tightening of the loan appraisal and monitoring while strengthening the delinquency management system.*

***Stiff Competition and Risk of* Over-indebtedness**

With the increasing number of competitors in the market ranging from commercial banks downscaling to mobile money operators entering the space for lending out small loans, the exposure to the risk of over-indebtedness is set to increase significantly if not monitored and restrained.

Recommendation 2: *MFIs management should raise awareness at all levels including to clients and loan officers, about the increasing risk of over-indebtedness and the legal requirement of the Microfinance Act-section 26 which places a compliance burden on every MFI on issues related to over-indebtedness. In addition, the management may strengthen and deepen its internal policies and procedures to prevent the risk. These may include the following operational risk mitigation measures:*

1. *establish clear parameters and threshold for the client's indebtedness level taking into consideration all the minimum expected monthly household expenses and other loans outstanding,*
2. *set a maximum number of loans per client,*
3. *perform regular visits to the client business and household,*
4. *check with the Reserve Bank Credit Reference system for client's liabilities before issuing each loan.*

Stiff Competition BUT Plenty of Unmet Demand

While new players are entering the market, the existing players are most likely to feel threatened especially when the new players have no funding constraints and are mostly likely to offer credit products at a far much lower interest rates than the current minimum of 10%.

Recommendation 3*: There is still a huge chunk of unmet demand for financial services especially when financial exclusion indicators reveal that 23% of the Zimbabwean population are financially excluded. In addition, globally, 10.7% of the world population or 767 million people are living below the international poverty of $1.90 per person per day, while in Zimbabwe 16.2% of the population is living below the poverty line of $32.70 per month. Against such overwhelming financial inclusion indicators, more players into the sector should be regarded as a positive development. There is enough business for every MFI irrespective of its unique circumstances related to its size of operations and funding sources.*

Product Design

One of the reasons behind poor repayments rate in some institutions may be related to poor product design.

Recommendation 4: *MFIs may need to regularly monitor the quality of their services through internal mechanism such as customer's satisfaction survey and client's complaint resolution mechanisms. These may be done to better understand if the products being offered are well designed to meet their clients' needs. The competitive advantage is rapidly shifting away from pricing of credit products to good customers' service and well designed products that give clients a long lasting customer experience.*

Strategic Marketing of Microfinance Services

The environment in which financial services are being marketed is becoming increasingly competitive such that marketing concepts around understanding customer behavior, segmentation & target marketing, marketing mix decision, brand loyalty as well as service excellence are becoming a key ingredient to the success of microfinance institutions

Recommendation 5: *MFIs to attend r a one day course both for Harare and Bulawayo on Strategic Marketing of Microfinance Services during the month of September 2017. This is meant to be a refresher course for staff members directly involved in crafting the marketing strategy for the respective MFIs as well as the front office staff with a direct interface with clients on daily basis.*