Zimbabwe Association of Microfinance Institutions

''creating sustainable microfinance''

PERFORMANCE REPORT OF THE MICROFINANCE SECTOR

as at 31 December 2018

MICROFINANCE CREDIT ONLY SECTOR

MICROFINANCE FINANCIAL INDICATORS PERFORMANCE HIGHLIGHTS

Below is a dashboard summary of selected key indicators of financial performance indicators as at 30 September and 31 December 2018:

Table 1.0: Financial Indicators

Performance Indicator	September 2018	December 2018	Quarterly Comparison
Financial Performance Indicators			
Total Assets	$206.3 million	$233.5 million	Improved
Total Equity	$65.8million	$70.2 million	Improved-slightly
Total Debt	$102.3million	$119.8 million	Improved
Total loan portfolio	$176.5 million	$207.3 million	Improved
Portfolio At Risk	6.0%	7.0%	Declined but stable
Operational Self Sufficiency	124%	118%	Declined & cause for concern
Return on Equity	15%	16%	Improved- slightly
Return on Assets	5%	5%	Unchanged
Operational Expenses Ratio	16%	24%	Declined & cause for concern
Cost Per Active Client	$147.00	$250.00	Declined & cause for concern

MARKET SHARE AND CREDIT OUTREACH

The credit only microfinance sector total assets increased by 13.1%, from $206.3 million as at 30 September 2018 to $233.5 million as at 31 December 2018. The asset growth was driven mainly by total loans which constituted 90% of the total assets. Investments in fixed assets has remained low, representing 5% of the total assets

The sector in terms of credit outreach continues to be dominated by top five credit only microfinance institutions with an aggregate loan portfolio of $157.3 million against total loans for the sector amounting to $207.3 million as at 30 December 2018.

As shown below the top 5 MFIs accounted for 75.8% of the total loans, while the largest MFI, with total loan book of $67.6 million had a market share of 32.6%.

MFI RANK Dec 2018		Value of Loan Book ($)	MFI RANK Sep 2018		Value of Loan Book ($)
1		$67.6 m	1		$44.0 m
2		$44.3 m	2		$43.9 m
3		$26.6 m	3		$26.6 m
4		$11.7 m	4		$10.5 m
5		$7.1m	5		$7.0 m
6		$7.0m	6		$5.7 m
7		$5.2 m	7		$4.4 m
8		$4.3 m	8		$4.1 m
9		$2.8 m	9		$3.1 m
10		$2.7 m	10		$2.8 m
11		$2.6m	11		$2.7 m
12		$2.6 m	12		$2.7 m
13		$2.6 m	13		$2.6 m
14		$2.5m	14		$2.3 m
15		$1.8 m	15		$1.8 m
16		$1.7 m	16		$1.4 m
17		$1.2 m	17		$1.0 m
18		$1.0 m	18		$0.76 m
19		$0.78 m	19		$0.68 m
20		$0.69 m	20		$0.62 m

PROFITABILITY AND SUSTAINABILITY

The credit only microfinance sector remained generally profitable but under threat of unsustainability due to deterioration in macroeconomic conditions during the last quarter of 2018. A number of domestic's developments such as 2% money transfer tax; unstable market value of the local currency (RTGS balances and bond note) and social and political tensions have negatively affected the enabling environment of microfinance.

Due to these negative developments the sector reported reduced level of profitability as demonstrated by an aggregate net profit of $11.13 million as at 30 December 2018, compared with $20.5 million in December 2017.

The negative effect is more pronounced with respect to the fall of Operational self sufficiency ratio to 118.5 % as a 31 December 2018, compared with 151.6% for December 2017 and 124% for September 2018. Return on equity deteriorated to 16% compared with 41.9% in December 2017.

Going forward the sector may need to come with revenue enhancement initiatives and cost containment measures such as adoption of technology, streamlined operational process and agency banking for remote rural areas.

PORTFOLIO QUALITY

The ratio of portfolio at risk (PAR >30DAYS) was 7% as at 31 December 2018, down from 7.9% as at 31 December 2017. However average PAR ratio for top 10 developmental MFIs which may be used as a proxy of credit risk for the subsector was reported at 24.9%, a slight deterioration from 23.2% reported in September 2018 as shown below:

Table 2.0: PARs for developmental lending MFIs

Developmental MFI Rank in term of highest PAR	PAR Ratio at 30 Sept 2018	PAR Ratio at 30 Dec 2018
1	**100%**	**95%**
2	**27%**	**31%**
3	**25%**	**27%**
4	**20%**	**20%**
5	**15%**	**17%**
6	**14%**	**15%**
7	**12%**	**15%**
8	**8%**	**15%**
9	**6%**	**10%**
10	**5%**	**4%**
Average PAR	**23.2%**	**24.9%**

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EFFICIENCY AND PRODUCTIVITY

The institutional cost of delivering loan services by MFIs as measured by the operating expenses ratio (efficiency ratio) has significantly gone up during the last quarter of Sept-December 2018. The ratio increased from 16% to 24%, indicating that it now costs $24.00 to disburse a $100 loan. In addition the cost of maintaining (1) active borrower is now $250.00, up from $147 reported in September 2018.

Reflecting the shift towards disbursement of loans of a larger value, the average outstanding loan has increased to $1032.00 compared with $782.00.

The deterioration in all the above indicators of efficiency and productivity is highly correlated to the 2% money transfer tax and significant increase in inflation recorded since September 2018. Inflation has increased from single-digit of less that 10% in September 2018, to the latest figure of 52% as at end of February 2019. The recent introduction of a new currency, RTGS$ by the Central Bank trading at USD : 2.5 RTGS$,well before the USD: 3.5 RTGS$ in the alternative foreign exchange markets is not expected to be the solution to the current hyperinflation period, at least in the short to medium term period.

Below are the other ratio indicators for efficiency and productivity for the sector at 30 December 2018.

Table 3.0: Efficiency Ratios

Efficiency and Productivity Ratios	September 2018	December 2018
Operational Expenses ratio	16.0%	24%
Cost per Active Client	$147.00	$250.00
Case Load	268 clients	251 clients
Average Outstanding Loan Size	$782.00	$1032.00
Credit Staff % of Staff	47%	46%

REPORTING ON SOCIAL PERFORMANCE INDICATORS

Table 4.0: Social Indicators

Performance Indicator	September 2018	December 2018	Quarterly Comparison
Social Performance Indicators			
Consumption Loans {%)	29%	32%	
Productive/Business Loans {%)	26%	40%	Improved
Agriculture Loans {%)	23%	14%	Declined
Group Lending {%}	3%	4%	Improved
Individual Lending {%}	97%	96%	Declined
Female Clients {% }	45%	40%	Declined
Rural Clients {%)	29%	15%	Declined
Rural Branches {%}	35%	34%	Declined
Female Mgt{%}	36%	38%	Improved
Female Staff {%}	41%	42%	Improved

Distribution of Products and Services

Agriculture Lending Vs Business Loans ………

Loans to the more productive sector of agriculture declined from 23% to 14% during the period under review. This is in line with perceived risk in agriculture sector for the 2018-19 season which was predicted by the Meteorological Services Department (MSD) report released on 28 August 2018. The report showed that October to December 2018 and January to March 2019 period would be characterized by erratic rainfall patterns, thereby affecting both crop and livestock production in the country. The prediction presented funding challenges for MFIs which responded by shifting their funding to the other sectors, notably business loans and consumption loans. This explains the increase of loan to business sector from 26% to 40% while consumption loans, slightly increased from 29% to 32%. It should be noted that supporting the business sector with loans by the MFIs is very rewarding to the economy as it increases local production of goods and services, in addition to creation of jobs that are more rewarding to the workers.

MFIs that are keen to continue supporting agriculture sector, in spite of the perceived high risk, may be advised to support farmers around areas with irrigation systems in rural district areas around the country. This is in addition to supporting farmers in production of small grains which tend to thrive under harsh conditions.

One of the ZAMFI members recently entered into a partnership with women farmers for the production of castor bean production. Under the partnership, the

MFI is disbursing loans to women with a minimum of one hectare, to acquire farming inputs such as seed, fertilizers and chemicals. According to experts in agriculture, the castor bean production is proving to be a viable project for women empowerment and increased household income. The farmers are being paid in 100% foreign exchange, a critical factor which adds more value to their income and improved standards of living. Value addition related to the castor beans is also being explored such as the stock of the castor beans plant being used for bio-diesel, the leaves for agro-chemicals and fertilizers and the roots for pharmaceuticals.

Outreach to Women and Rural Markets

Outreach of loans to women was reported as 40%, down from 45% in September 2018, a scenario which may be a cause of concern to the financial inclusion advocates for women empowerment. The reason for the decline could be due to fewer women taking up loans from the microfinance sector, preferring to source their funds from the alternative informal credit markets such credit clubs (marounds).

A worrying trend is the fall in both rural clients from 29% to 15% during the period under review, an indication that MFIs now prefer to serve clients in urban areas. This may be due to high cost of operations which suddenly increased due to inflation and the 2% money transfer tax.

Outreach to rural areas has been largely achieved using mobile delivery platforms hence to the 2% money transfer tax has negatively affected such efforts by MFIs.

It is the wish of ZAMFI and its members amounting to 131 MFIs to see the tax being either reduced or exempted for Business to people (B2P) transactions, People to Business (P2B) transactions and Business to Business (B2B) transactions. This exemption will truly make microfinance open for business leading to increased economic activity. The tax however may remain unchanged for People to People (P2P), transactions largely operating in the informal sector, which may then act as an incentive to formalize their operations into business so as to enjoy the exemption of the 2% money transfer tax.

Women staff empowerment and leadership

The microfinance sector is alive to the need to promote female leadership and as a result the social indicators for the relevant metric all went up during the quarter. Female staff increased from 36% to 38% while female management was 42% compared with 41% the previous period.

IMPACT OF MONETARY POLICY ON BUSINESS AND MICROFINANCE SECTOR

Like any other policy there is always two sides of the same coin, the upside and downside risk scenario. Below is the analysis of both the positive (upside potential) and negative outcomes (downside risks) of the recent monetary policy.

Upside Potential……..

Adoption of a Managed-Float Exchange Rate System

The fixed exchange rate system of 1: 1 between RTGS and USD was eventually ended by the adoption of a market determined and driven exchange rate system, a clear sign of the country moving towards free market principles. It was common cause that the old system had given birth to multiple-pricing and exchange rate system leading to price distortions, speculative arbitrages and uncertainly in general conduct of business in the financial sector. The floating of the exchange rate system which in essence amounted to “formal devaluation” of the currency is generally expected to make local goods/services cheaper in foreign currency terms leading to an increase in demand for exports. On the import side, it translates into an increase in import prices which will reduce imports, largely of luxuries and what can be obtained locally. Both outcomes on the import and export side are theoretically expected to lead to an increase in domestic production of goods and services and ultimately jobs creation. Microfinance institutions already supporting productive lending are most likely to experience an increase in demand for loans from small business and SMEs.

Currency Liquidity

While the policy may not translate into a sudden increase in foreign currency in the market, the surrender and retention thresholds of various economic actors (mining, manufacturing and tobacco farmers) is designed to provide a source of foreign currency for the banking sector once the 30 day window of retention has lapsed. Banks using own funds can purchase the foreign currency for these actors for sale to those in demand of foreign currency. Microfinance institutions like any other local economic player can purchase the same foreign currency made available in the banking sector using their RTGS Dollars.

Risk Management and Better Planning

The relative certainty which is likely to prevail in knowing the current and future exchange between the RTGS Dollar and USD shall allow for better planning and risk management on the part of all the market participants including banks and microfinance institutions.

Downside Risks……

Devaluation in value terms of current stock of monetary assets

The immediate downside effect of the new managed floating exchange system is more pronounced on the current stock of monetary assets, which effectively have reduced their value in USD terms by more than 300% to 400%. These monetary assets include stocks, bonds, treasury bills and loans with financial institutions. The same economic logic applies to salaries and wages prior to the official devaluation. In addition the purchasing power of the RTGS Dollars to purchase goods and services both locally and abroad has been reduced effectively. The situation would have been different if the monetary authorities had sourced a bailout in USD to legally refund the RTGS balances holders with their foreign currency at par with the USD. This is a scenario which had been legally protected in 2016 when the fixed exchange rate system was first introduced with a back up guarantee agreement with an international financial system.

On the borrower side, especially those with outstanding loans, the reduction in value of loans may translate into fewer burdens for loan repayments if there is corresponding increase in salaries in RTGS Dollars.