Report on the Performance of Microfinance Institutions (MFIs) for the Period Under Review.

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Introduction

Microfinance was pioneered in the developing world as the lending of small amounts of money to entrepreneurs who lacked the kinds of credentials and collateral demanded by banks. Microfinance as known today is defined as provision of financial services to low-income clients including the self employed.

The financial services include savings and credit, but some Microfinance Institutions (MFIs) have started to provide insurance, and money transfers as part of financial intermediation. In addition to financial services, many MFIs offer social services such as group formation, training in basic investment skills and group management. Microfinance provides banking opportunities to the ***"otherwise unbankable".*** It is a friendly system to the local communities because it is based on the traditional systems and are more effective and efficient than some formal financial institutions.
Microfinance institutions provide financial services typically credit and savings to poor communities that are otherwise cut off from financial services. They distinguish themselves from standard banking institutions by their physical proximity to clients and regular face-face contact with clients.

These unique characteristics of microfinance make MFIs a high potential vehicle for reaching and organizing poor communities:

- MFIs serve difficult-to-reach clients with whom they maintain regular contact, a relationship which is essential for interacting with vulnerable populations;
- High quality MFIs develop a trust-based relationship with clients, which increases the MFIs ability to discuss difficult topics;
- Because MFIs often work with organized groups of clients, information and services can be delivered on a leveraged basis.

MFI clients access loan through ***two*** distinct sources: either from the MFI (usually a larger amount on terms decided by the MFI) or from group funds (these are member savings which are rotated within the group in smaller amounts on terms decided by the group).

Key Characteristics of Microfinance

- Small loans
- Substitute securities
- Basic loan appraisal
- Repeat loans
- Savings component
- Client participation

Microfinance for Housing

By and large, low/moderate-income households have access to few resources for settlement and building but a concerted, well-funded effort of donors, governments, financial NGOs, and financial institutions could be key to mainstreaming microfinance of housing.

Microfinance can potentially offer a way to help the low and moderate-income households to meet their shelter requirements. The features of microfinance such as; small incremental loans, short repayment periods, market rates and innovative forms of collateral such as peer group lending and alternative forms of titles of land present challenges to the provision of housing finance for low/ moderate-income households.
With this in mind, this paper therefore aims:

a. To report on the overall performance of Microfinance sector both at national and international level using some common benchmarks, and
b. To report on trends in the low-income housing sector in South Africa with special reference to the role of microfinance.

Performance of the Microfinance Institutions (MFIs) Worldwide

Table 1 below shows the annualized performance of the MFI sector worldwide. The performance highlights are based on the data from 147 MFIs which represents 53 developing countries worldwide. The regions include Africa, Asia, Latin America and Europe.

TABLE 1: Performance Between November 2001 and November 2002

Indicators	November 2001	November 2002	Change %
Loans outstanding %GNP per capita	46.0%	45.3%	0.7%
Adjusted Return on Assets (AROA)	-3.7%	-2.7%	1%
Operating Self Sufficiency	89.9%	92.5%	2. 6%
Portfolio Yield [in nominal term]	38.1%	36.6%	-1. 5 %

Operating Expenses	30.4%	27. 4%	-3 %
Portfolio at Risk over ninety days	2.1%	2.7%	0. 6%
Active Borrowers per personnel	114	128	12.3 %

Over a period of a year between [1]November 2001 and [2]November 2002, the Operating Self Sufficiency ratio has increased by 2.6%. For the same period the Operating Expense has decreased by 3%, this is suggestive of an improvement in efficiency with growth in profit. The number of active borrowers per personnel has increased significantly by 12.3% which implies an increase in productivity by the industry. Overall performance at the global level reflects an increase in efficiency, productivity and profitability.

Performance of the Microfinance Institutions in Africa

Table 2 below shows the annual performance of the MFI sector in Africa. The performance highlights are based on the data from 25 MFIs from Africa.

TABLE 2: Performance Between November 2001 and November 2002

Indicators	**November 2001**	**November 2002**	**Change %**
Loans outstanding %GNP per capita	51.7%	55.3%	3.6%
Adjusted Return on Assets (AROA)	-9. 8%	-7. 9%	1.9%
Operating Self efficiency	88.8%	89.1%	0.3%
Portfolio Yield [in nominal term]	45.6%	50%	4.4 %
Operating Expenses	57.5%	55.9%	- 1. 6 %
Portfolio at Risk over ninety days	2	3. 2%	1.2%
Active Borrowers per personnel	154	198	28. 6%

Over a period of a year between November 2001 and November 2002, the Loans outstanding as a percentage of Gross National Product per capita has increased by 3.6% which indicates that outreach is deepening. Portfolio Yield has increased by 4.4 %, while the Portfolio at Risk has increased by 1.2% for the period under review.

Although the industry has improved in covering costs, there is an increasing portion of the portfolio that would be written-off. The active borrowers per personnel have increased significantly by 28.6% reflecting an increase in productivity by the industry.

[1] Micro Banking Bulletin, Issue No. 7, November 2001. The report was based on 148 MFIs from 53 developing countries worldwide.
[2] Micro Banking Bulletin, Issue No. 8, November 2002. The average age of the MFIs was eight years.

The overall performance at a continental level reflects a maturing and productive industry, which is adapting to process and procedures to making credit easily and readily accessible. Both global and continental trends indicate an increase in productivity, efficiency in terms of covering costs and growth in profit.

Market Segmentation of the regulated Microfinance in South Africa

This section is based on the findings of the quarterly assessment of registered members conducted by Micro Finance Regulatory Council (MFRC) in SA.

As of 31 May 2002[3], the MFRC had a total of 1304 registered lenders. The total consist of 9 Banks, 202 Private Companies, 989 Close Corporations, 80 Truss, 19 Section 21 Companies and one Co-operative. The industry showed a decline in the number of members registered with the council, from 1354 in quarter ending Feb 2002 to 1304 in quarter ending May 2002.The reasons for the decrease of the members include but not limited to the following:

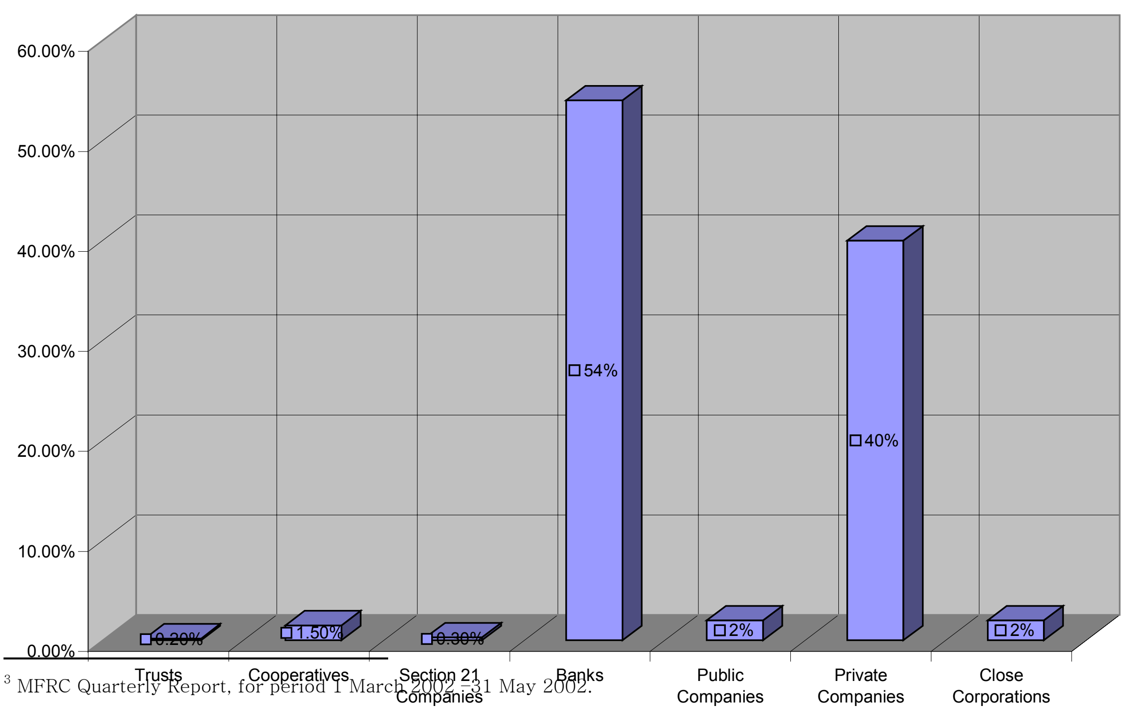
(i) lenders leaving the sector for other niches,

(ii) no longer providing loans according to the Usury Act Exemption Notice and

(iii) lender failed to fulfill conditions of the registration as set out by the council.

The market share of the industry is illustrated below in Figure 1:

Figure 1: Market Segmentation of the Regulated Microfinance in South Africa



3 MFRC Quarterly Report, for period 1 March 2002 -31 May 2002.

Despite the demise of Unifer and Saambou, the total number of loans disbursed increased from 2.44m for quarter ending February 2002 to 2.73m quarter ending May 2002, but the amount of disbursement has dropped from R3.15bn to R3.04bn. The seventy seven percent of the number of loans disbursed were made from the Private Companies (R1.4bn) and Banks (R902m) combined.

This indicates a caution by lenders that the market has become more risky. Therefore, the trend has shifted from providing bigger loans to providing small loans to the clients.

Table 3: The Average Loan Size Change between February 2002 and May 2002 Industry

	February 2002	**May 2002**
Banks	R1 642	R 1 366
Public Companies	R 900	R 959
Private Companies	R1 768	R 1 463
Close Corporations	R 621	R 576
Trusts	R 540	R 601
Cooperatives	R 2 554	R 2 494
Section 21 Companies	R 1 491	R1 591

Table 3 illustrates the average loan size by institution for quarter ending February 2002 and quarter ending May 2002. The figures indicate an overall decline of average loan size by institution except the Public Companies and Trusts, both increasing by R60 or more. The average loan size for the industry fell by R223 from R1 335 in the quarter ending February 2002 to R1 112 quarter ending May 2002.

The figures have shown the status, contraction in terms of amount of the disbursement and difficult period for the industry. However, the micro lenders managed to grow the total portfolio from R14.9bn to R15.2bn showing an increase of 2%. The worldwide and continental trends illustrate a growth and sustainability in terms of performance, outreach and impact within the industry.

Performance of Housing Microfinance Institutions in South Africa

Table 4 illustrates the [4]statistics for period ending March 2001.

Table 4: Performance Indicators for period ending March 2001

Indicators	**March 2001**
Loans per MFI employee	46
Capital Adequacy	49.3%
Operating Cost to Average Book	26.7%
Arrears Ratio	6. 92%
Loan Loss Ratio	0.76%
Operational Sustainability	129. 66%

While the figures for 2002 period are not available, the housing microfinance institutions still appear to be at an infant stage with respect to their international counterparts. Some of the trends are visible in the South African market include the following:

Consolidation of Small Lenders

During 2001 and 2002 the industry experienced a difficult period with respect to competition and ability to access capital. Consolidation has brought about some relief to smaller institutions. Consolidation could bring the benefits such as increased market share, improved/diversify products; improve scale, efficiency and financial stability in the long term.

Through amalgamation of different resources such as management skills and systems, the lenders could begin to access greater capacity through networks, increase outreach and impact, save on administrative costs. Therefore, the housing MFIs would increase the debtors' book, become profitable; attract and secure funding.

The ultimate expectation is to fulfill the vision of becoming bigger and better positioned MFI in the market and provision of financial services.

At a national level, the sources of capital to housing lenders are limited and those lenders are in the most part reliant on the primary sources of funding. Most institutions are not able to leverage their balance sheet because of their poor capital adequacy ratio. The level of equity in the business is low and does not help in securing secondary funds.

[4] NHFC Risk Review

Default Rate

Stats SA[5] report released in January 2003, shows that debt increased at an alarming rate with an average of 90 000 people per month issued with summons for non-payment of debt. The long term trend comparison of January 2003 and January 1994 indicates that there were 56% more summonses for debt than in January 1994.

The reasons behind this alarming default rate include but are not limited to the following:

- Lenders still at infant stage with regard to the collection methodologies after the cancellations of Persal deductions.
- Exposure of MFIs to the LSM4 to LSM 6 and the high level of indebtedness in these categories.
- Impact of HIV/AIDS
- Culture of non-payment inherited from the 'past.'

Conclusion

Microfinance remains primarily a credit-based industry. This is due to institutional difficulties of transforming weak-credit only NGOs into well functioning, regulated financial institutions capable of managing savings, insurance or remittances services other than just micro loans. A significant shift in South Africa occurred when the industry ceased to operate on an unregulated basis. In spite of this, a number of unregistered MFIs are mushrooming.

On performance trends, the international and continental level reflects sustained growth with regard to deepening outreach (by venturing into uncharted territories), and a maturing industry with an increase in credit risk.
There still exists a gap between the performances of MFIs at international and national level in terms of sustainability, efficiency, productivity, capacity development, and levels of outreach. At national level, MFIs are still at embryonic phase hence loan methodologies still need to be improved.

[5] Statistics of civil case for debt, Statistics South Africa, January 2003

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